Economy - General

1985

OCTOBER — DECEMBER

Cash payment demands on South Africa worry chamber

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Mercury 2/10/85

Finance Editor

TRADITIONAL lines of commercial credit of long-established trading partners have been terminated and demands made for cash in advance, Mr Alex Hamilton, the president of the Natal Chamber of Industries, said yesterday.

This disturbing new development lent all the more urgency to the question of reform and the chamber's continued involvement in this process, he said.

A joint committee of the Afrikaanse Sakekamer, the Sugar Association and the Durban Metropolitan Chamber of Commerce had started intensive moves in January this year.

This began with a meeting with Mr Chris Heunis, Minister of Constitutional Development, followed by talks with other Cabinet ministers, the Natal Administrator, the Natal Provincial Executive Committee and several meetings with the Chief Minister of KwaZulu and his Cabinet.

The move into the political field was 'not taken lightly,' he noted.

Image

The financial actions, arising from the close of the stock and foreign exchanges, had seriously impacted on South Africa's image of creditworthiness — 'a matter of great concern and regret' the annual report which Mr Hamilton tabled said.

Wrong interpretations of the financial embargoes and a 'general inference that South African companies could no longer meet their financial obligations' had led to a situation where even irrevocable letters of credit had been rejected.

Polecat

'Moreover, the polecat profile has given rise to summary cancellation of foreign orders for South African goods.'

Reasonably sound economic fundamentals no longer impress an outside world bent on pressurising government into rapid political reform.

The chamber found itself obliged to examine the areas in which it could use its influence to facilitate the appropriate kind of reform — specifically with respect to Natal-KwaZulu.

On the economic front the chamber says that there should be no restimulation until inflation reaches an acceptable level (perhaps 10 percent). However, a year after the August 1984 package of measures to bring down inflation, the rate (15,9 percent in July 1985) is virtually the same as July 1984.

Needs

If the Government does examine the trade-off between unemployment and inflation and a 'policy decision favours mild restimulation it will have to be accomplished in the face of poor business sentiment.'

The chamber sees the need for:

- a clear indication from the Government as to where and how far it is going in political reform;
- immediate alleviation of the serious unemployment problem; and
- realisation that phasing out influx control will lead to a new and powerful urbanisation 'pivotal to future economic growth and development'.

'Urbanisation will be the new generator of demand through the whole spectrum of infrastructural requirements to sophisticated consumer goods.'

Bond rates due to go down again soon

(49) STAR 3/10/85

By Frank Jeans

Another bond rate reduction, probably to 18 percent for the lower category of borrowers, is expected soon.

A building society source says that a mortgage rate cut can be expected "within a couple of weeks", with bonds up to R20 000 carrying a rate of 18 percent and R20 000 to R40 000 at 18,5 percent.

The major building societies reduced the bond rate recently following a cut in the share rate and further mortgage reductions to help the over-burdened homeowner are widely expected.

Mr Bob Tucker, managing director of the SA Permanent, says: "We are considering and will definitely announce a further bond rate cut. The amount and the timing of the cut will be announced in the very near future."

The Perm MD believes, however, that tax relief is a much bigger stimulant to an economy than falling interest rates which he sees as "still staggeringly high".

Speaking at a meeting of the University of Cape Town Graduate School of Business Association in Johannesburg yesterday, Mr Tucker said: "We are very worried about the present level of the 'brain drain' which is certainly affecting the luxury sector of the housing market by way of significantly depressed prices.

"All building societies, too, are suffering from a high level of arrears and properties in possession, and we all know that the moment you start moving these properties into a depressed market this in turn has a depressing effect on the housing market itself."

Looking at future housing needs, Mr Tucker said the real issue facing society was how to satisfy the black market and that on today's projections and at today's prices, South Africa will have to provide homes with a total value of R100 billion by the turn of the century.

Bob Tucker . . .worried about the brain drain.

ROLE OF BUSINESS

"This should be seen against the fact that the total building society market today is R16 billion," he said.

Referring to the Perm's stance as a mutual society in the light of the new era of equity freedom for building societies, Mr Tucker said the role of business should be wealth maximisation for the entire community as distinct from profit maximisation.

"This might very well result in a high level of profit in the narrowly based First World economy but no facility at all for the development of the Third World economy as a result of capital starvation," he said.

"We regard ourselves as trustees of an asset worth just under R400 million without any equity shareholders.

"We are in a trust capacity and are responsible for delivering that asset to the community at large."

Mr Tucker also said his society was not turning away the small savers, despite the fact that anyone in the banking field knows that the small depositor "only costs you".

"We are continuing to accept the salary schemes for the same reason that we are in a position of trustees of valuable assets, albeit that the result is a measure of catastrophe in our branch network," said Mr Tucker.

Emphasising his society's commitment to a stable lending policy across the whole spectrum of homeowners, the Perm MD, said his competitors pushed huge sums out into white goods, overseas travel, etc.

"They actually address their liquidity on a variable loan back-off. We have already said, we actually owe it to the housing market not to aggravate home prices," he said.

Bank promises further cut

Barclays, which introduced lower home loan rates last month, is to drop them further on October 24.

A rate of 19,75 percent will apply from that date to all home loans irrespective of the amount.

This represents a reduction of 1,75 percent from the 21,5 percent which Barclays brought into effect on all its home loans on September 24.

Barclays' latest move follows recent announcements by the major building societies of reductions in their mortgage rates, some of which are to drop this month to 19,75 percent in the over R60 000 category.

Investor confidence must be restored

(49)

STAR 3/10/85

Financial Staff

The necessity to strive for political reform should not deter the country from giving urgent attention to the economic and financial aspects vital to keep South Africa attractive to foreign investors, Dr Fred du Plessis, chairman of Trust Bank said in the annual report.

"It is a very unfortunate set of circumstances which has caused South Africa to lose so much of its economic and financial attraction for international investment at this particular time when the international political situation is so tense," he said.

Dr du Plessis said reinstating South Africa as a sought after country in which to invest could be an important counterweight against negative political trends.

Discussing factors which discouraged financial investment and involvement, Dr du Plessis said: "The South African tax structure has become totally unattractive."

PROTECTION

No international investor is inspired with confidence by the inflation rate and our industrial protection policy holds no attraction for international industrialists.

"Numerous restrictions in respect of the establishment of industries, the transport system, as well as certain aspects of bureaucratic and unnecessary administrative hindrances need to be corrected with energy and resolution."

Dr du Plessis said the disciplines of sound national financial housekeeping must be practised uncomprisingly.

"International businessmen interpret untimely relaxation of monetary and fiscal measures as danger signals; this discourages financial involvement and investment".

Economic recovery now top priority

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4/10/85 Mercury

Mercury Correspondent

JOHANNESBURG—The Government has officially announced that pushing down the rate of inflation is no longer economic policy priority number 1. Priority has shifted to promoting economic recovery.

In a wide-ranging interview in the *Financial Mail*, Reserve Bank Governor Gerhard de Kock says that economic priorities have shifted 'from curbing inflation to promoting economic recovery.'

But, he adds, 'without the monetary and fiscal policies of the past year, inflation could easily have been 30-40 percent.'

Economists agreed that the switch in emphasis is timely. Says Volkskas's At Engelbrecht: 'It is very necessary to stop the downward trend of the economy — it has reached a dangerously low level.'

Employment

Another adds that the political costs of further unemployment are too high. White, coloured and Indian unemployed increased by 131 percent between July 1984 and July 1985.

It is thought to have worsened in the past couple of months. No reliable figures exist for the level of black unemployment.

And while the prospects of an appreciably lower rate of inflation may have diminished, there appears to be considerable scope for stimulating the economy without adding to inflationary spiral.

Imports

Economists argue that an increase in demand flowing from stimulatory policies will lead to increased utilisation of existing capacity in local industry which is currently at a low level.

Engelbrecht says that this will result in a *lowering* of unit costs and there should be no upward pressure on the rate of inflation from this source.

However, the inflationary danger of an upswing is the potential increased demand for exports.

Government has tried to pre-empt any precipitous upturn in imports by the recent introduction of the 10 percent import surcharge.

There does not seem to be any immediate fears of the inflation rate shooting up over the 20 percent mark for any sustained period, according to one economist.

'Enough has been done to contain the inflation rate,' he says. 'If we hadn't had the tough August '84 measures and the tough budget we could have been in real trouble.'

But there are still some shocks to be absorbed because of the lower rand of recent weeks, the recent petrol price hike, administered price rises and the 10 percent import surcharge.

Barclays economist Johan Cloete believes the latter could add a full percentage point to the inflation rate.

Stals details foreign debt repayments

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CAPE TIMES 5/10/85

PRETORIA. — Dr Chris Stals, chairman of the Standstill Co-ordinating Committee regarding the repayment of South Africa's foreign debt, yesterday spelt out amendments to the standstill arrangements.

He said that from the experience gained in the past month in the implementation of the arrangements, certain problems and uncertainties had been identified.

Amendments to the proclamation governing these arrangements were published in a Government Notice on Thursday.

Dr Stals said in a statement released here yesterday that the amendments related to the repayment of certain foreign loans where some discrimination in favour of repayment by the public sector had now been eliminated, and to import-related payments where those payments which were not subject to the standstill restrictions had been more clearly defined.

Remittance

"Regarding the repayment of loans, it has now been decided to allow the remittance of capital on maturing bearer-bonds and bearer-notes, irrespective of whether the borrower is a public or private sector institution, and provided such bonds or notes were listed on any stock exchange on August 28 1985," he said.

In the case of non-listed bonds or notes, special permission would have to be obtained from the Standstill Co-ordinating Committee before any repayment of capital could be made.

"It is the intention of the committee to allow such repayments in those cases where such bonds or notes were generally taken up and are still held by members of the [illegible]

[illegible] payments for goods or services received in South Africa on or after January 1 this year, and where payment was to be made directly to the foreign supplier or to any collecting banker on his behalf.

Settlement

Dr Stals said payment for goods and services received on or after Jauary 1 this year would also be allowed without restriction if settlement was to be made in terms of a documentary letter of credit or of a documentary bill accepted by the importer or by a banker on his behalf.

"This should help to remove all remaining doubts in the minds of foreign exporters and bankers that payment in the normal course for South Africa's imports or goods and services is not affected by the present standstill arrangements and may be freely made and transmitted as in the past subject only to the usual exchange control requirements," he said.

Dr Stals said the Minister of Finance has now designated the Standstill Co-ordinating Committee to exercise the powers vested in the minister and the Treasury in terms of the proclamation.

Directives

In terms of new exchange control directives issued on September 30 to supplement existing controls foreign-controlled South African subsidiaries could now only transfer dividends to their foreign parent companies if they were declared from profits or income earned after [illegible] Dr Stals said.

Authorized dealers had been given further instructions about the transfer of foreign loan funds to the special restricted accounts with the Reserve Bank established on September 1.

"South African borrowers of foreign funds are only required to make payments into this account at the date of the final maturity of their foreign loan commitments in cases where no extension for the repayment of the loan is desired, or where an extension cannot be negotiated with the foreign lender," Dr Stals said.

Questionnaires

The Reserve Bank would, in the course of next week, through the branches of the commercial banks and the governments of the independent national states, make questionnaires available to the public, including companies, public corporations and other public bodies. The questionnaires should be returned to the Reserve Bank not later than October 25.

"In cases where the Reserve Bank is in possession of the addresses of persons or bodies with foreign liabilities the questionnares will be sent directly to them for completion.

"The onus to obtain copies of the required report forms, however, remains on the person or body liable for the completion thereof," he said, adding that all information disclosed would be treated as confidential.

"An appeal is made to all members of the public with outstanding foreign liabilities to co[illegible] negotiations with the country's overseas creditors," he said. — Sapa

Skilled jobs available despite recession

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STAR 7/10/85

Thousands of job vacancies for engineers, artisans, nurses and other skilled occupations still exist despite the economic recession, according to a Department of Manpower survey.

However, many companies are reluctant to fill vacant posts because of the recession.

The survey, which examined the position of vacancies in various occupations in September 1984, showed the following shortages:

- A total of 203 174 vacancies in all occupations (4 percent vacancy rate).
- About 23 507 vacancies for artisans (7 percent vacancy rate).
- Vacancies for 41 646 people in the professional, semi-professional and technical category (8 percent vacancy rate).
- About 9 663 vacancies for nurses (12 percent vacancy rate).
- A total of 20 905 clerical vacancies (4 percent vacancy rate).
- About 3 636 vacancies in the sales and related category (1 percent vacancy rate).

According to the Federation of Societies of Professional Engineers, the total number of vacant posts was 1 816 in the engineering and technical job category.

"We have been saying for several years that the demand for technically qualified people is significantly higher than the supply," said the President of the Federation, Mr Douglas Mills.

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Dramatic rise in debt judgments to R247m

Credit checks tighten as unemployment and insolvency figures rise

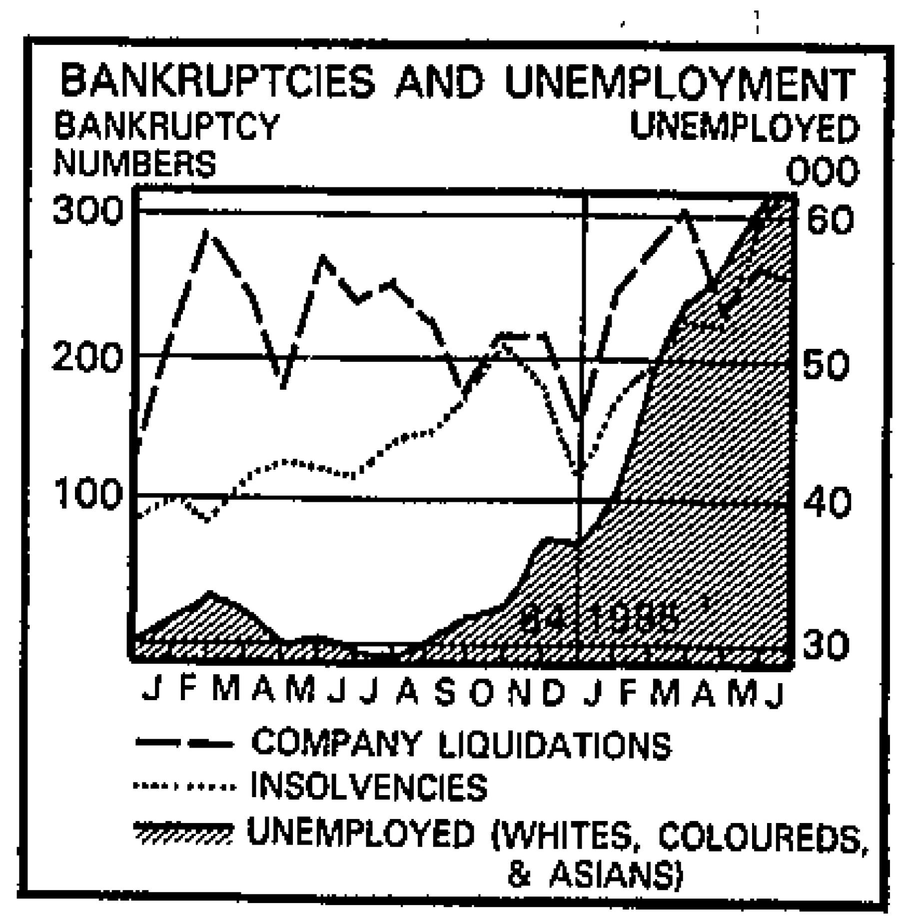
Business Day Reporter

MORE stringent credit checks are being made on new and particularly on existing credit customers as insolvency and unemployment figures reach new heights, says Graham Miller, a director of Dunn & Bradstreet.

He says since last December insolvencies have increased every month except April, pushing the total up 105% to 1 123 for the first five months of this year compared with the same period last year.

Similarly, white, coloured and Asian unemployment has doubled, climbing from 30 000, which was still "normal" until August 1984, to 60 691 in June this year.

Company liquidations were up by only 10,4% to 1 581 in the first six months of this year, but this figure represents an increase of 27% over the liquidations figure for the last six months of 1985.



The concern being shown by credit managers about these trends is reflected in the increasing number of inquiries by banks, finance houses and retailers rechecking existing customer's accounts or registering them for constant monitoring.

"On our commercial file, containing more than 170 000 full business records, about 60% of all inquiries are now on existing customers, with the remainder being split between new accounts and marketing information services.

"The doubling in the value of debt judgments to R247m for the first five months of 1985 over the same period last year tends to indicate that the forecast 424 000 judgments for 1985 will have a value of more than R700m.

"The reason for the dramatic escalation is that many more 'big ticket' debt items such as motor vehicles, furniture and even rent are becoming the subject of legal action.

"However, although the figures paint a gloomy picture, companies and individuals are realising what it means to preserve their credit records.

"Top business managers are also depending on professional credit management in the generation of cash flows and the protection of what is often their largest single asset, the accounts receivable."

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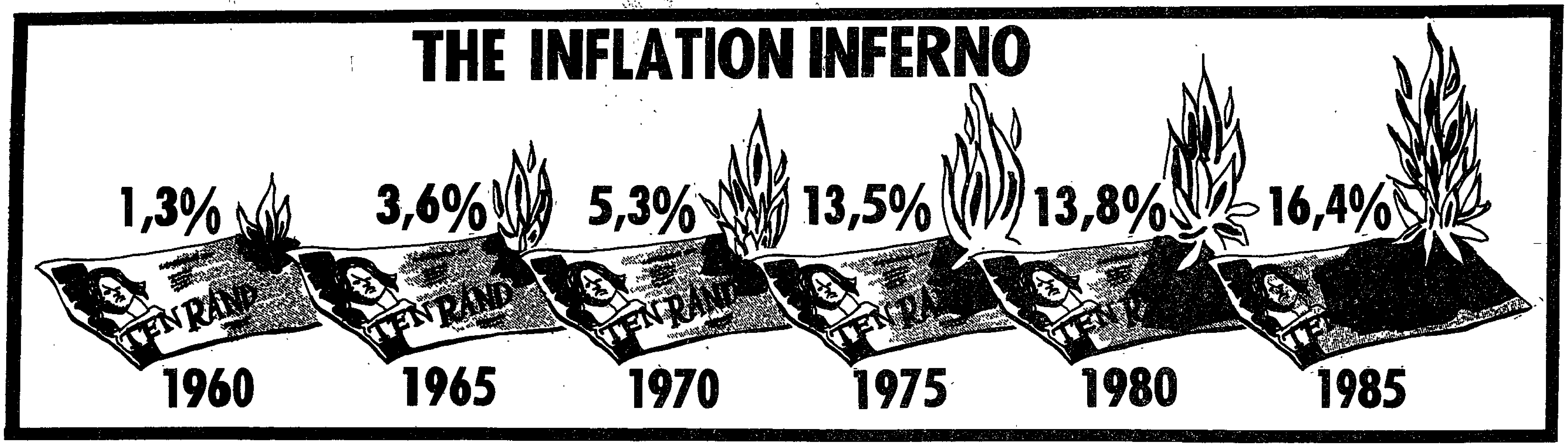
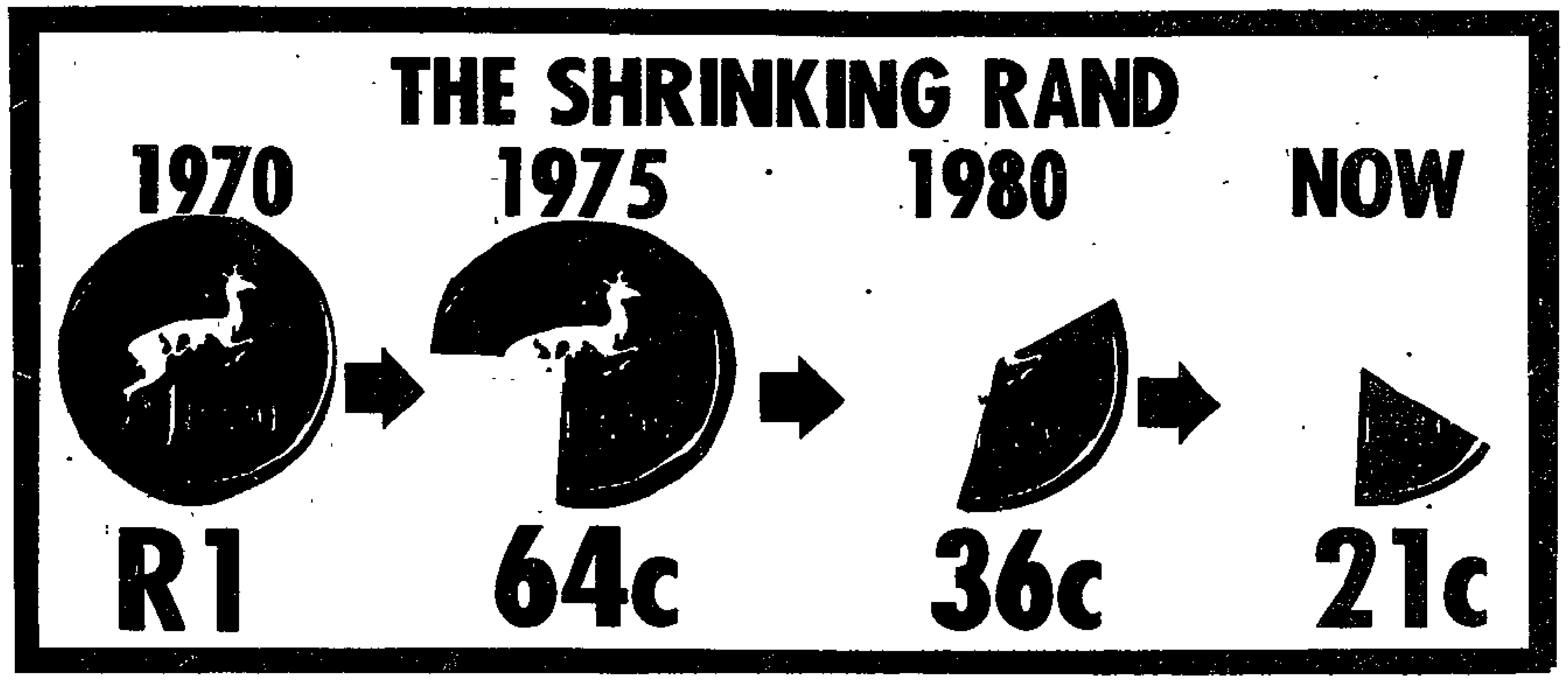
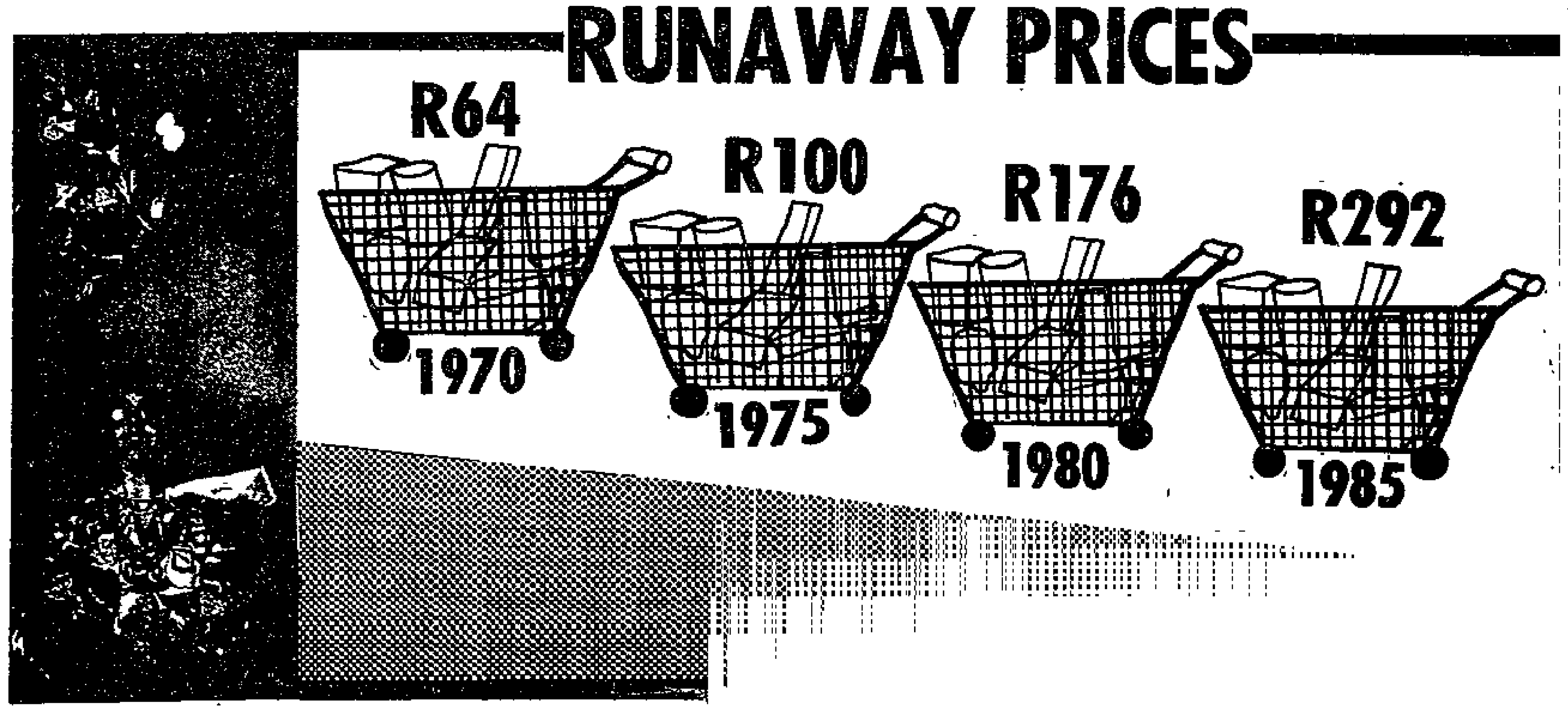
'The Shrinking Rand' — a horror story in annual instalments

By Michael Chester







Inflation has shrunk the buying power of the rand to less than 21 c over the past 15 years.

A mixed basket of consumer items that cost only R64 in 1970 now carries a price tag of R292 or more.

The slide has been tracked by the Bureau for Economic Research at Stellenbosch University amid growing alarm that the prices spiral seems likely to worsen.

The overall cost of living is now almost double what it was only five years ago and there is a growing list of items — from breakfast cereals to medical bills — that already show increases of more than 100 percent since 1980.

The impact of inflation on the changing profile of South Africa has been underlined by a bundle of new supplementary notes that Central Statistical Services has issued with its latest bulletin on the consumer price index.

FACELIFT

The notes are largely devoted to an explanation of the dramatic facelift the department has given to the various income brackets it uses to work out the average rate of inflation from the huge differences in spending patterns between richer and poorer families.

The upheavals in prices and wages over the past decade have made nonsense of the definitions used by the CSS when it compiled the basis of the inflation index in 1975.

- "Lower incomes" which, 10 years ago, were regarded as under R2 000 a year, have been redefined as R7 000 or below.
- "Middle incomes" have been moved from between R2 000 and R5 999 a year to between R7 000 and R20 999.
- "Higher incomes", which embraced families with annual earnings above R6 000 in 1975, now cover earnings of more than R21 000.

The definitions are more than academic. They have enormous impact on the ultimate analysis of the 250 000 price quotations gathered by the department on 600 different items and services.

For example, the lower income group forks out no less than 60 percent of earnings on such basics as food, clothing, footwear, house rent and public transport. The mixture means that the group's annual rate of inflation is currently running well below the average at 13,9 percent.

In contrast, the higher income group — which spends less than a third of earnings on such basics and a hefty 34 percent on luxury items — is shouldering an inflation rate of 17 percent at the moment.

It underscores how widely inflation differs according to living styles.

Food prices increased only 12,5 percent over the past year and clothing prices by an even slower 12 percent.

Running a home — paying bonds or rent, rates and so on where the bills get higher as the standard of living improves — now costs nearly 20 percent more than a year ago. Running a car costs 25 percent more.

Central Statistical Services has changed more than its title (it used to be called the Department of Statistics) in recent years. It has also twice altered the date it uses as the base from which to measure inflation.

The base used to be 1970. Next it was bounced to 1975. As the figures looked more and more alarming, the base date was more recently shifted to 1980.

But a lot of digging can still track the disastrous course of inflation — from 1,3 percent in 1960 to 5,3 percent in 1970, 13,8 percent five years ago and now 16,4 percent.

It looks all the more like a horror story when compared with the successes of most overseas trading partners in bringing inflation to heel — to under 4 percent in the United States, Canada and Australia, less than 2,5 percent in West Germany, and well below 2 percent in Japan.

Pushing the base date of the consumer price index forward still fails to camouflage the havoc. When all 600 items in the CPI basket are counted, one shudders to discover that the cost of living has climbed by no less than 95,6 percent since 1980 and is poised to show a doubling in less than six years.

Alhough food prices as a whole have risen at a slower pace, grain products have shot up by 127 percent. Coffee and tea are also more than twice as expensive.

Medical bills have more than doubled. So have cold drinks. Housing is 125 percent dearer.

True, wages and salaries have rocketed along with prices.

The national average, as worked out by the Bureau for Economic Research at Stellenbosch University, has increased more than five-fold since 1970.

In cash terms, the average earnings of white workers in the non-agricultural sectors jumped from R3 252 a year to R16 836 in 1984. But the focus alters when inflation is taken into account.

In real terms, white incomes actually shrank between 1975 and 1980 and again in 1983 and, last year, stayed only 3 percent ahead of the prices spiral.

Black workers fared relatively better with their average wages climbing more than 800 percent in [illegible] 15 years — twic[illegible] white pay pack[illegible]

But despite the improvements, average black wages last year were still no higher than R363 a month.

The only comfort was that they have stayed ahead of inflation in every single year since 1970. Even reduced to real terms they rose by more than 10 percent a year in the mid-1970s when they made their best gains.

The pace slackened after that, down to a meagre 1,2 percent in 1978 and only 1,8 percent in 1983. But, last year, they outpaced inflation by 6,2 percent.

But the rands in everyone's pockets have suffered alarming losses in actual purchasing power. The R1 note of 1970 shrunk to only 36c by 1980. Today it is worth no more than a miserable 21c.

Govt bid to stimulate economy slated

B. Day

Mini-boom may spell trouble for SA — Kuun

7/10/85

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Business Day Reporter

GOVERNMENT steps to stimulate the economy could plunge the country into even greater trouble, leading to an inflation rate of up to 25% in 1987, Afrikaanse Handelsinstituut's vice-president Christie Kuun has warned.

Kuun, who is also senior general manager of Saambou National Building Society, strongly criticised government's economic moves saying a mini-revival was the very last thing SA needed now.

Addressing the Western Transvaal AHI regional conference in Lichtenburg, he said government steps might lead to lower interest rates but an aritificial revival would be too short to activate employment in a constructive way.

In addition it would lead to the decline of the surplus on the current account — something which should be jealously safeguarded.

"Political expediency rather than sound economic considerations appear to have led to the announcement of the steps," he said.

"This type of action indicates a lack of positive economic strategy."

Kuun said it was important that government should exercise the greatest judgment and care in doing the right thing at the right time, rather than allow day-to-day political and economic panic action with any indication of a constructive economic plan.

SA was in its deepest crisis since the Second World War and the business sector would rather see normal economic forces of supply and demand run their course so that sound foundations could be established on which growth could take place through the investment cycle.

Money outflow from SA continues, De Kock says

Argus Foreign Service

LONDON. — South Africa has suffered continuing outflow of "several hundred millions of dollars" over the past six weeks, according to the Governor of the Reserve Bank, Dr Gerhard de Kock.

This had taken place in spite of the moratorium on capital repayments designed to stem South Africa's outflow of foreign currency.

This outflow, caused by the maturing of South African securities issued in London and outside the August standstill, had meant that South Africa had been unable to rebuild her reserves, in spite of the continuing current account surplus.

These outflows would continue for some months, though at a decreasing rate, making it even more pressing for South Africa to reach an early accord with its bankers.

Dr de Kock is in Seoul for the annual meeting of the International Monetary Fund and World Bank.

It was loans between banks, including loans by international banks to the South African affiliate of both Standard Chartered and Barclays which Dr de Kock described as "our achilles heel".

These loans amounted to $6,5 billion, out of a total debt of $24 billion. Of this $24 billion, $14 billion would mature within the next 12 months.

Next year, the South African economy was expected to grow by 3 percent and produce a current account surplus of about $2 billion. But this situation could not be sustained. If South Africa was to continue to grow it would again have to become a capital importer.

Dr de Kock said he believed South Africa would be able to continue to borrow to finance imports.

"But this would not be enough," he said. He argued that the whole Southern African region would face economic hardship if South Africa could no longer borrow abroad.

While the economic sanctions imposed by the United States, France and other countries had had little direct economic effect, they had been a psychological blow. This spread to the international financial market.

Dr de Kock said he realised how serious the country's financial position had become when the US sanctiones deal passed Congress and he was told by Mr Jake Butcher, chairman of the large New York bank, Chase Manhatten, that he country was being dropped because it was an "international pariah".

Dr de Kock was concerned that South Africa might slip into a siege economy if sanctions were toughened or if Swiss banker Dr Fritz LLeutweiller — who is to call a meeting of the 29 main creditor banks in London this month to try to get them to review their credit lines — was unable to reach agreeement before the end of this year when the present moratorium on capital repayment expired.

A siege economy might allow strong growth in the short term as in Rhodesia after UDI, but it could not be sustained.

● Meanwhile,the Reserve Bank has appealed to the public of South Africa, SWA/Namibia and the independent homelands to submit information on their foreign liabilities to the bank by October 25, Sapa reports.

In a statement the bank said the information would enable it to assess the need for planning South Africa's foreign debt repayment programme.

In terms of the exchange control regulations the relevant forms had to be completed by all residents who had foreign liabiliies as at August 31 this year. Copies of the forms are available at all branches of the commercial banks and at the government offices of the independent national states.

Sanctions and capital

49 B-Day 8/10/85

DR R W BETHLEHEM

A NUMBER of economic analysts, including official spokesmen, have made the point that economic sanctions are going to force South Africa into being a net exporter of capital over the next five years. The consequences of that for economic growth will be very serious.

Growth requires capital formation, and capital formation requires financing. Developing countries, like SA, do not normally generate a volume of domestic saving sufficient to provide the capital formation necessary for internal development, and so it is natural that they import needed funds.

John Tilston's table in *Business Day* of September 11, summarised the relationships. What the table did not show, however, was:

1) the extent of the deterioration in the growth of the South African economy since the late Sixties;

2) the increase in our dependence on imported capital after 1980;

3) the secular decline that is evident in the real return on capital in SA; and

4) the likely consequences for growth, inflation and investment returns of any extended capital outflow during the period between now and 1988.

The tables and graphs given here illustrate these points. As can be seen from Figure 1, real GDP growth averaged only 1,2% in the 1980-4 period. This compared with an average growth rate of nearly 3,7% in the period 1976-1980, but both these figures are significantly below the 5% pa considered to be the potential growth rate for real GDP (on a sustained basis) in the last published Economic Development Programme.

Of particular significance in the decline of domestic saving and consequent increase in dependence on foreign capital is the virtual collapse of personal saving and saving by the government sector during the 1976-80 period. During the period since 1980, their contribution has been barely 12%.

Had it not been for an average annual capital inflow of R953m since 1980, the increase in real GDP of 1,2% would certainly not have been realised. One is driven to the conclusion that any return to a net capital outflow in present circumstances will quickly force real GDP growth into negative territory.

During 1976-80 there was an annual average net capital outflow of R1 211m but, despite this, some recovery in the net reserves was achieved. That is shown in Figure 3.

What is disturbing about the prospect for growth is that we start out at the beginning of the 1984-88 period with net reserves that are negative, and so no longer have the reserve cushion with which to finance part of our future investment requirements.

The poor performance of growth during the 1980-4 period is the more remarkable because it occurred when the gold price (in dollars as well as in rand per ounce — see Figure 2) was the highest it had ever previously been, even adjusting for inflation.

(It should be noted that the definition of net reserves used here is not strictly comparable to that used by the Reserve Bank in its calculations, but the difference is not material and in no way affects the conclusions indicated).

Figure 4 makes clear that the return on capital in SA is in clear secular decline. During the period 1968-76, the ratio of average real GDP to the average of the real fixed capital stock was approximately 43,4%.

During 1976-84 it fell to 35,5%, but within this period further decline is again evident. Thus the ratio was 36,9% in the 1976-80 period, but it averaged only 34,7% during 1980-4. With the continuing rise in our domestic cost structure and the decline which is taking place in the rate of growth of real GDP, there is little prospect of this major trend being reversed in the foreseeable future.

This is a problem of some importance to the capital outflow that is now being imposed on us. We need no gratuitous help from misguided or opportunistic politicians! Capital inflows are a function of risk and return.

Aggravation

The return aspect of trade-off is deteriorating and its effect on capital flows would be compounded by any further aggravation of the risk aspect. What the situation calls for is all the rational ingenuity and stolid forebearance we can muster. Wild responses have no place in the present challenging situation.

What might happen is suggested by the projections in Figures 1 and 4 for the 1984-8 period. This provides for an average annual capital outflow in current rands of nearly R4 000m, which looks large but is not really much bigger than the average annual outflow recorded in 1976-80 when adjustment is made for inflation.

In such circumstances, our level of gross domestic investment (fixed investment plus inventory investment) would be only 88% of our gross domestic savings and real GDP growth would decline to well under 1% pa. In per capita terms, that would imply a decline of about 1,5% pa because population growth is, itself, around 2,5% each year.

For living standards, but especially for the living standards of groups already close to the poverty datum line, this would amount to a big deterioration. When real incomes on average decline by 1,5%, the incomes of many can be expected to decline by more than 10% because some incomes (linked to still-expanding industries) will actually increase. In short, for great numbers of people the decline in income will mean they will eat less than they did previously.

Now let us impose on this heavy putting down of social unrest — as has been suggested by Conservative Party leader Dr Andries Treurnicht and others. The results are not hard to imagine. Not only would our immediate financing difficulties be dramatically worsened but the threat to our export receivables would be immediate.

Indeed, as these words are being written, that threat has increased alarmingly (without Treunicht's help), and in a number of critical areas business is beginning to be diverted away from SA, either because of threats of overseas trade union action or because of precautionary moves by foreign users of our metals and minerals worried about their current dependence on us, and about the future cost and continuity of their supplies.

Speaking plainly, they are distancing from trouble for pragmatic reasons and who can doubt that they would distance themselves more were a Treurnicht-type of policy to compound international outrage.

The point, finally, would be reached where decent people overseas, who previously we had counted among our friends and who had been prepared, even during very discouraging circumstances, to be understanding of our complex problems, would turn away finally in disgust and revulsion.

(It is an irony we have to learn to live with in the post-Holocaust era, that genocide has ceased to be a policy option for all Europeans. What non-Europeans do to one another is one thing. How Europeans behave both with respect to themselves and to others, is another).

And whites in SA, in terms of their own assertions of affilliation, are European and Western. The double standards lament loses value viewed in this light and exposes the fallacy of the call to oppose Third World unrest with Third World-type repression.

To accept that would be either to reject what being European and Western is supposed to mean, or to foster the perpetuation of a moral schizophrenia that permits one category of official response to persons of one's own race and a different category of official response to persons of another.

Presently, the one thing we have going for us economically is a BoP current account surplus of about R6 000m a year (nearly $2 500m at $0,40). This needs to be contrasted with the total of our overseas debt of about R60 000m ($24 000m), well over 50% of nominal GDP.

It takes no great computational ability to estimate an amortisation period in excess of 10 years, but it would be quite wrong to take the current acount surplus for granted.

Firstly, there is a problem of cyclical variation. The surplus is a result of both favourable conditions in export markets and recession at home. Both these will change in time.

Secondly, the buoyancy of our exports is also the product of a finely balanced demand for primary materials of which we are often large but by no means monopolistic suppliers. Any cutting off of export revenues necessitates an immediate resort to a siege economy with all that that would imply for coercive controls and a generalised sacrifice of civil liberties.

It should be realised, too, that without the export sector sustenance of domestic economic activity would fall back heavily on public sector spending. But with Exchequer revenues in collapse, this could only be achieved by resort to massive deficit financing.

To prevent long-term interest rates from rising excessively, financial institutions would have to be coerced into holding still higher levels of public sector fixed income securities, but this would be insufficient as a means of checking monetary explosion and, ultimately (although not necessarily initially) aggravated inflation.

Long-term interest rates (but not short-term interest rates) would rise, the capital value of fixed income savings would be smashed and the value of the rand, both domestically and in exchange markets, would fall sharply away from even its presently excessively depressed level. That, truly, would be a scenario too ghastly to contemplate.

(Statistical sources: South African Reserve Bank, Central Statistical Services)

Dr Bethlehem is the group economics consultant of a leading mining finance house. This article, the first of three, is an expression of his personal views and not those of his company.

Figure 1 — Growth and the financing of investment

	8 Year Periods		4 Year Periods		
	1968	1976-84	1976-80	1980-84	1984-88*
Per Cent — Per Annum					
Real GDP Growth	4,11	2,44	3,66	1,23	0,73
Current Prices — Rm					
Gross Domestic Saving	4,619	16,798	13 328	21 340	33 786
Gross Domestic Investment	5 373	17,042	12 174	22 368	29 934
Shortfall (=BoP Curr.Acc.Deficit)	(754)	(244)	1 154	(1 028)	3 852
Financed as Follows:					
Net Capital inflow (Outflow)	722	111	(1 211)	953	(3 852)
Change in Reserves+	32	133	57	75	—
Percentage of Total					
Personal Saving	25	14	21	11	15
Corporate Saving	15	30	27	33	30
Saving of General Gov.	13	3	8	1	8
Prov. for Depreciation	47	53	44	55	47
Gross Domestic Saving	100	100	100	100	100
Ratios — %					
GDS/GDI	86,0	98,6	109,5	95,4	112,9
GDS/GDP	24,7	27,1	31,2	26,3	25,0

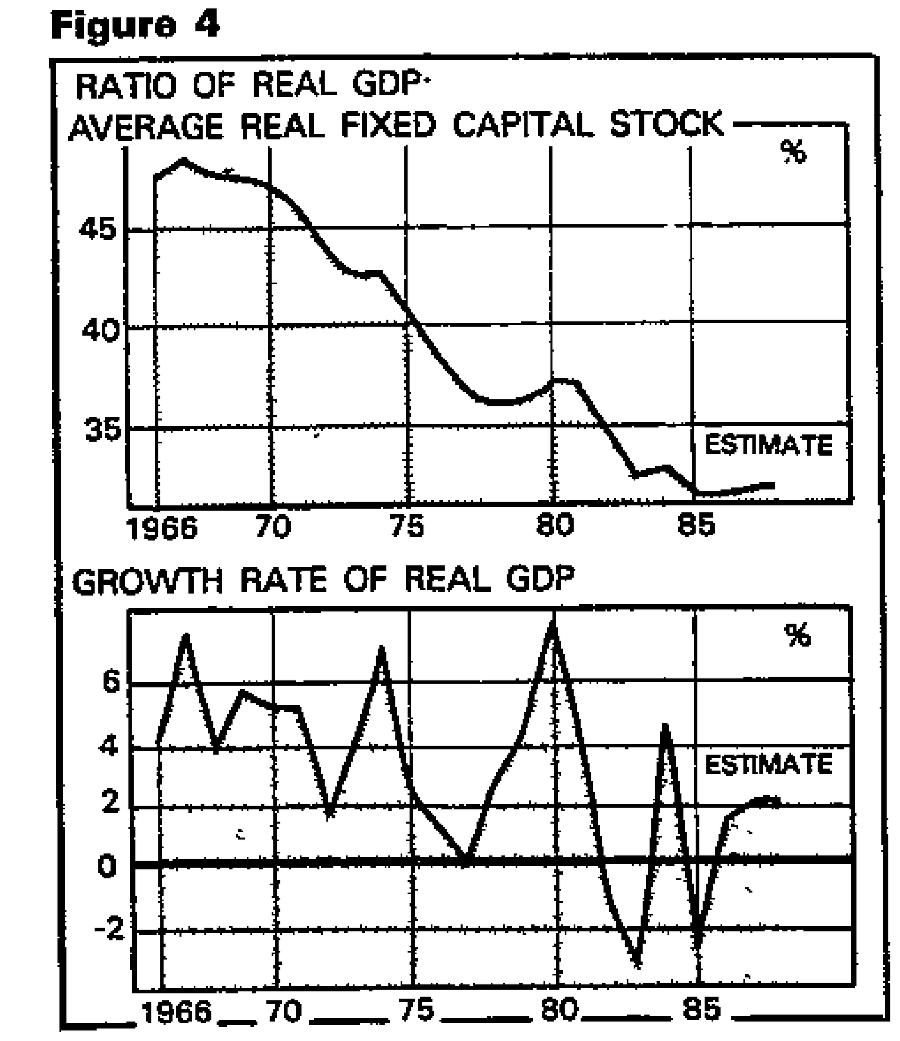
Figure 2 — Gold price

	8 Year Periods		4 Year Periods	
	1968-76	1976-84	1976-80	1980-84
Dollars/oz				
Actual	84,11	346,70	277,14	469,50
Real*	57,74	132,62	123,99	162,62
Rand/oz				
Actual	62,05	322,59	227,85	488,17
Real*	38,71	86,29	79,93	103,80
Rand-Dollar Exchange Rate	1,3556	1,0747	1,2163	1,0476

Figure 3 — Net reserve position

Position at end Period Rm	Dec. 1976	Dec. 1980	Dec. 1983	Dec. 1984	June 1985
Reserve Bank Gold 000s/oz	12 690	12 153	7 790	7 365	6 512
Gold	1 476	4 854	3 250	4 047	3 637
Forex	359	413	915	342	856
Total	1 835	5 267	4 165	4 389	4 493
Rest of Banking Sector	142	387	720	842	521
Central Government	2	139	83	93	137
Hidden Reserve	1 119	486	347	454	438
Grand Total — Gross	3 098	6 279	5 315	5 778	5 589
Less Short-term Liab.	(1 732)	(873)	(4 458)	(6 093)	(5 615)
Net Reserves	1 366	5 406	857	(316)	(26)
Monthly Import Rate (MIR)	536	1 192	1 882	1 640	1 757
Gross Reserves/MIR	3,7	5,3	2,8	3,5	3,1
Net Reserves/MIR	2,5	4,5	0,5	0,2	—
Gold Price:					
Dollars — per oz	133,70	598,50	379,52	308,30	316,00
Rand — per oz	116,30	450,10	461,70	611,10	619,47
r-$ Exchange Rate	1,1500	1,3294	0,8220	0,5045	0,5085
$m					
Gross Total	2 694	4 723	4 389	2 914	2 842
Less S/T Foreign Debt	(1 506)	(657)	(3 664)	(3 074)	(2 855)
Net Total	1 188	4 066	705	(159)	(13)

Figure 4



'Political reform will be severely limited if economy is harmed'

(49) STAR

BONN — The South African Minister of Trade and Industry, Dr Dawie de Villiers, said yesterday that chances for further political reforms would be severely limited if the country's economy were hit by a withdrawal of foreign investment.

He told a news conference the continued presence in South Africa of foreign-owned firms helped contribute to the wellbeing of blacks and others and made easier further reform of the country's apartheid system of racial segregation

"But if the South African economy should be seriously harmed or forced to the point of collapse, then chances for reform will be severely limited," he said.

Anti-apartheid groups in many countries have urged multinational companies to pull out of South Africa to pressure the Pretoria government into speeding up racial reforms started by the State President, Mr P W Botha

Most Western countries argue that doing so would hit South Africa's black community hardest. So far France has been the only major nation to put a ban on new investment

NO PULL OUT

Dr de Villiers, ending a week-long round of meetings with businessmen and trade representatives in Britain, Switzerland and West Germany, said he had received no indication that firms in those countries intended to pull out

Dr de Villiers said his trip, aimed at promoting South African exports, had produced a generally positive response.

Dr Dawie de Villiers

In September, Pretoria suspended foreign loan repayments until the end of the year after US banks withdrew short-term credit lines, sparking a financial crisis.

TIME NEEDED

Dr de Villiers said South Africa needed time to repay the loans but would meet its commitments under a rescheduling agreement with creditor banks due to be mediated in the coming weeks by Mr Fritz Leutwiler, a former president of the Basle-based Bank for International Settlements.

Pretoria could carry on without new foreign loans if necessary, he said, but economic growth would be one or two per cent lower without them, limiting the government's ability to meet many of its goals in the social field

Dr de Villiers forecast the economy would start recovering gradually from its present deep recession early next year — Sapa-Reuter

Deflation and higher unemployment not viable

De Kock predicts three percent growth next year

49

11/10/85 STAR

SEOUL — The economy is set to swing from a negative growth rate of around one percent this year to a positive three percent next year says Reserve Bank governor, Dr Gerhard de Kock.

Speaking in Seoul, where he has been attending the annual meetings of the IMF and World Bank, Dr de Kock said he based this prediction on the current state of the economy and the adjustment policies taken over the past 18 months.

He said while it was not a case of "Prepare to meet thy boom", it certainly should be a case of businessmen being prepared to meet their recovery.

Dr de Kock said the exchange rate was boosting exports and interest rates had fallen 6,5 percentage points since May.

It might be argued that rates had fallen too fast, but the strong slowdown in the economy had dictated the fall and at some stage this year investment expenditure could be expected to begin to rise again.

Despite the standstill situation he expected the balance of payments next year to be of the order of R3-R4 million, based on an average gold price around present levels of $325 an ounce.

The Star's Finance Editor, Trevor Walker, interviewed Reserve Bank governor Dr Gerhard de Kock in Seoul this week.

In this exclusive interview Dr De Kock spells out the scenario for South Africa on the economic front following the standstill on debt repayments.

He added that this was what the authorities were going for at the moment. Unfortunately it was unlikely the inflation rate would fall under these circumstances.

While this was not an ideal solution, at this particular harrowing time in the country's overall development, deflation and even higher unemployment was not a viable alternative.

Dr de Kock said the standstill had still not been operative long enough for the various negative factors to work through the pipeline. But, eventually the move would begin to allow the Reserve Bank to accumulate dollars.

He said the rand's current market level was based entirely on political factors.

The series of political developments that had occurred since the latter part of July had forced the rand to unrealistic low levels and ultimately the strandstill. He emphasised though that calls within SA for a return to a pegged rand rate were unrealistic.

If the rand were pegged to the dollar, the only feasible currency, it would still lead to frequent adjustments, the pegging of which being dependent on the performance of the dollar in the international exchange market.

Both IMF MD Mr de Larosiere and former Bank of England governor Sir Jeremy Morse said during the course of the week that at present there was no feasible alternative and the world just had to live with the present system of fluctuating exchange rates.

De Larosiere, in fact, went out of the way in his address to stress the need for stable financial policies which ultimately provided the environment for higher growth in the private sector.

Yet it is ironic that his final summing up runs so counter to the recent experience SA encountered with certain US banks.

He said: "The international economic system has reached the point of no return. There is no alternative to closer cooperation and leadership.

"If each country, to the best of its ability, tackles its own problems and makes its contribution, in a spirit of shared responsibility, to a resolution of the problems facing the world economy, then the hard-won progress of recent years will be preserved and economic growth will be consolidated and extended for the benefit of all countries."

De Kock predicts huge turnaround for SA economy

W/t ARGUS 12/10/85 (49)

TREVOR WALKER
Special Correspondent

SEOUL. — The South African economy is set to swing from a negative growth rate of around 1 percent this year to a positive 3 percent next year.

In an interview in Seoul, South Korea, this week where he was attending the annual meetings of the IMF and World Bank, Reserve Bank Governor Dr Gerhard de Kock said he based this prediction on the current state of the economy and the adjustment policies taken over the past 18 months.

He said while it was not a case of prepare to meet thy boom, it certainly should be a case of businessmen being prepared to meet their recovery.

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Gold price

It might be argued that rates had fallen too fast, but the strong slowdown in the economy had dictated the fall and at some stage this year investment expenditure could be expected to begin to rise again.

In spite of the standstill situation he expected the balance of payments next year to be of the order of three to four billion rand, based on an average gold price around present levels of $325 an ounce.

He added that this was what the authorities were going for at the moment.

Unfortunately it was unlikely that the inflation rate would fall under these circumstances.

Harrowing time

While this was not an ideal solution, at this particular harrowing time in the country's overall development, deflation and even higher unemployment was not a viable alternative.

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Pegged rand

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Yet it is ironic that his final summing up runs so counter to the recent experience South Africa has encountered with certain US banks. He said "the international economic system has reached the point of no return. There is no alternative to closer co-operation and leadership. If each country, to the best of its ability, tackles its own problems and makes its contribution, in a spirit of shared responsibility, to a resolution of the problems facing the world economy, then the hard-won progress of recent years will be preserved and economic growth will be consolidated and extended for the benefit of all countries".

Reform to

Standard and Barclays are more optimistic on economic prospects

(49) STAR 14/10/85

Financial Staff

Two major banks, Standard and Barclays, are far more optimistic about prospects for the economy in their October economic reviews than they have been for some time.

However, neither bank is sanguine about prospects for next year, and both highlight the many difficulties still standing in the way of a renewed upturn in economic activity.

In its review Standard says that domestic economic activity in South Africa has probably bottomed out, but growth inhibiting factors are likely to remain present during the year ahead.

The improvement in domestic activity is likely to be reinforced by the combination of strong export earnings and a shift in fiscal and monetary policies towards overt stimulation.

"The many positive forces now present in the economy — a booming export sector, large and growing trade surpluses, improved personal savings, low inventory levels throughout the economy, low capacity utilisation and a willingness to work harder for less reward — should by now have already radically altered the economy's internal performance, for the better."

GROWTH POTENTIAL

Previously held expectations of a substantial reduction in inflation have given way to the anticipation of major inflationary pressures in the years ahead.

"That combination of negative forces may well cost the economy about one percent growth in GDP terms this year, and it is bound to reduce next year's growth potential by some two percent," Standard says.

"Any realistic assessment of the country's growth potential in the year ahead must allow for the unpalatable fact that foreign political and financial pressures have assumed a momentum of their own and that even fairly significant domestic reform is unlikely to soon be able to halt or reverse these trends.

"Equally, even though pragmatism and a move towards negotiation of domestic political issues are likely to reduce internal conflict, it is improbable that fundamental problems can be eliminated in the short-term.

BROADENING FRONT

"Growth inhibiting factors are thus likely to remain present during the year ahead. However, despite the presence of these negative elements, the fundamental improvements within the economy, which have flowed from both the consistent application of demand restricting measures over the past year and the strength of the export sector, appear to have already stabilised the economy.

"Therefore some recovery trends are likely to become more noticeable during the latter months of this year. For 1986 an expansion over a broadening front is in prospect, in spite of an array of growth-inhibiting factors."

Barclays says that average wages and salaries will increase by between 10 and 12 percent next year, while inflation will average about 13 percent.

Short-term interest rates will continue dropping, and the bank foresees that the prime overdraft rate will reach the 13 to 14 percent level by the end of 1986.

Private consumption spending is likely to be sluggish in gathering momentum next year, not only because of uncertainty in the minds of consumers, but also, and perhaps more fundamentally, because real salaries and wages are likely to fall.

"This poor performance in private consumption demand will in turn impact on fixed investment spending, particularly private investment spending.

"The manufacturing sector is at present operating substantially below full capacity, and this factor, plus widespread uncertainty and lack of confidence in the business community, indicates another decline in investment spending in 1986," it says.

Barclays predicts an increase in real private consumption spending of only one percent for 1986, while it expects fixed investment spending to decline by 5,5 percent.

For a number of reasons the outlook for fixed investment spending next year was bleak.

"Firstly, the restrictive monetary and fiscal policy of the past year or so has impacted so severely on domestic demand that production capacity in the manufacturing sector had fallen to an average of 84,4 percent by the second quarter of the year.

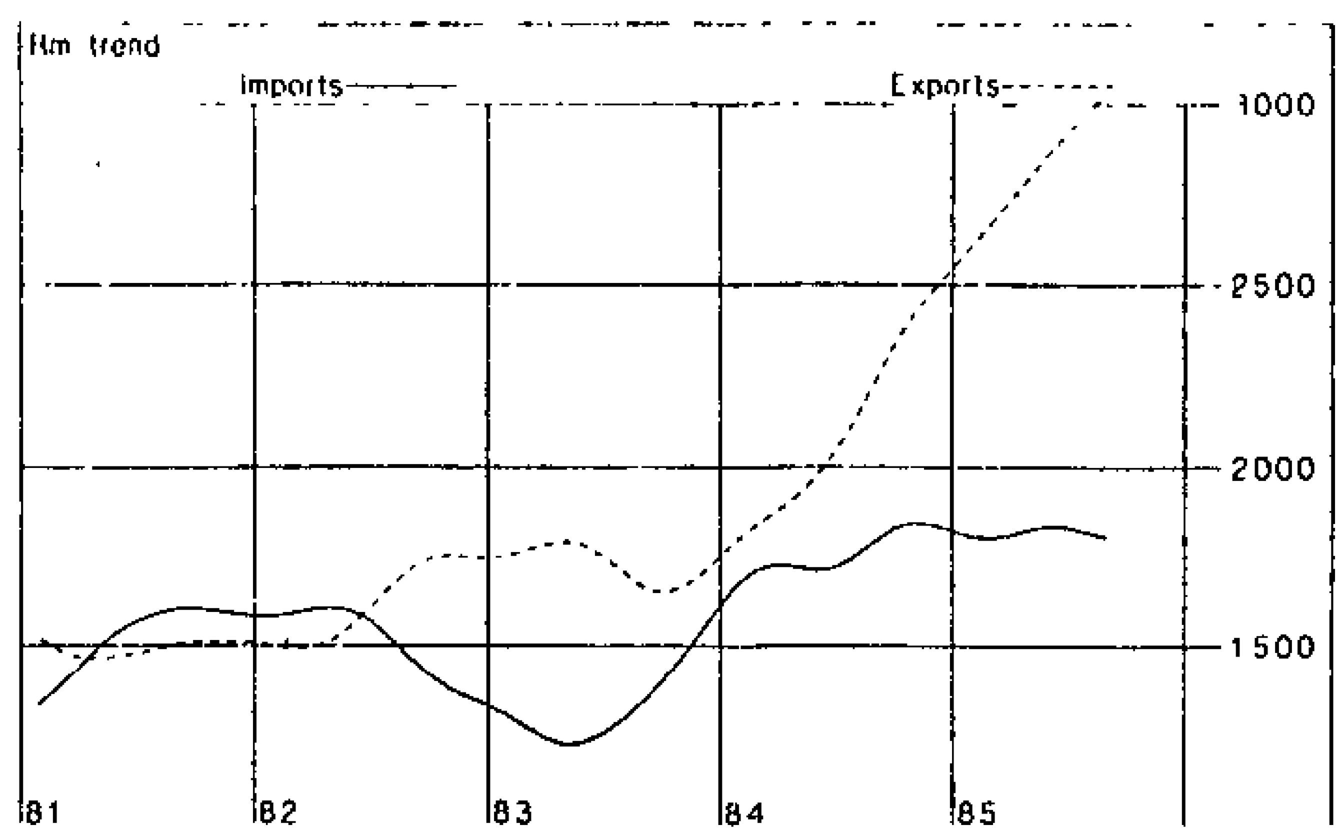
CONFIDENCE SHAKEN

"As long as this spare capacity exists, there is little need for new fixed investment, and since consumption demand is likely to increase only moderately next year, this spare capacity is unlikely to be exhausted at a rapid rate.

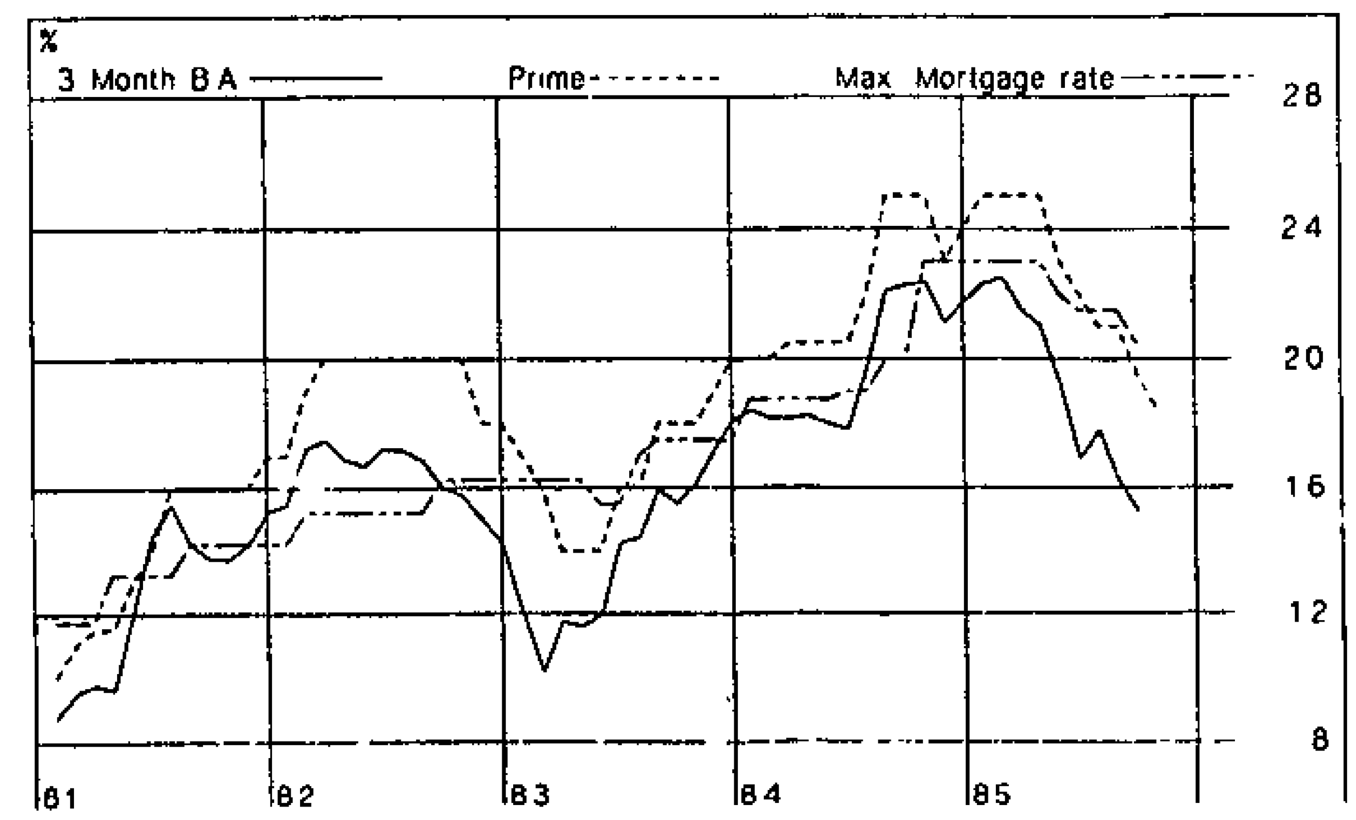
"Secondly, business confidence which is so vital to the outlay of large sums of money on fixed investment has, like consumer confidence, been badly shaken by the events of the past eighteen months, and this factor is likely to offset any stimulus to investment spending that might result from the lower interest rates expected next year.

"Thirdly, much of fixed investment spending involves the importation of machinery and equipment. The costs of importation have risen steeply as the exchange rate has weakened and a much greater return on investment spending is now required to justify the costs involved.

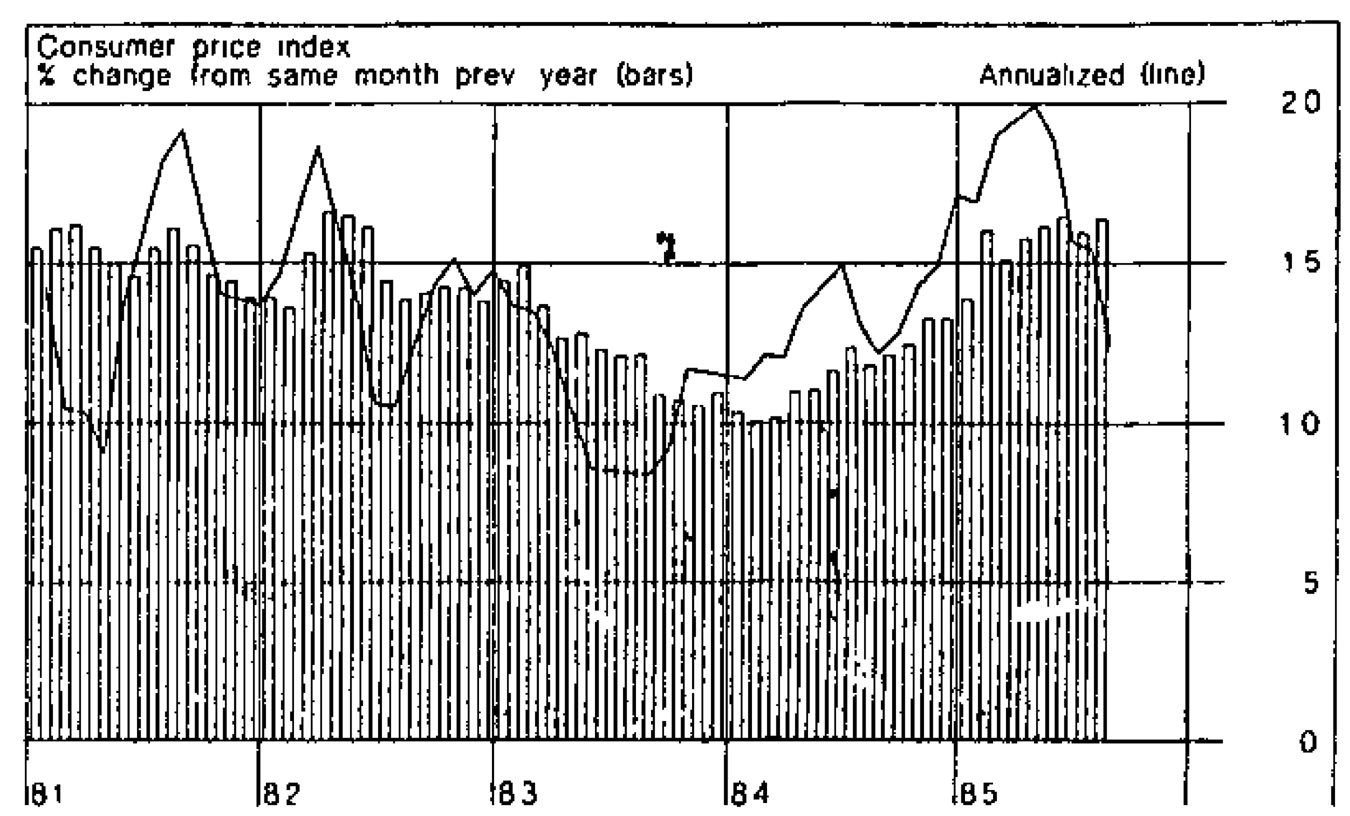
"With the business community at present so uncertain about the future, the increased costs involved in this regard will significantly dampen investment demand."



SA merchandise trade — a huge surplus builds up.



Interest rates — very substantial declines.



Inflation remains high but drops at the margin

Continued hard times hit all sections of the community

Recession forces massive increase in insolvencies

235 49

STAR 15/10/85

By Sue Leeman, Pretoria Bureau

The recession continues to hit businesses and private individuals alike and the number of insolvencies between May and July this year is 127 percent up on the same period in 1984.

Estimates released by Central Statistical Services show almost 900 insolvencies from May to July 1985 compared with 380 in the corresponding three months last year.

By July this year, the number of insolvencies for 1985 was almost 1 700 — already higher than the total for 1984, when there were 1 637 insolvencies, and 41 percent up on the total for 1983, when there were 1 201.

But, although these figures are alarming, CSS points out that they do not reveal the full extent of the problem.

While the number of individuals and partnerships placed under final sequestration is reflected, each partnership is counted as one insolvency and therefore the figures do not indicate the total number of people actually going bankrupt.

CSS figures also show a marked increase in civil debt cases during May to July this year. The number of debt summonses was 22 percent up on the same period last year.

Almost 260 000 summonses were issued between May and July this year in contrast to the 210 000 in the corresponding period last year.

In July 1985 alone there were civil judgments for debt totalling more than R73,5 million — more than double the figure for July last year.

The area in which the largest number of people defaulted on payment was loans, and civil judgements involving almost R20 million in outstanding loans were handed down.

Auctioneers, liquidators and trustee companies, who have noted a marked increase in business in recent months, say that insolvency and debt are no longer the preserve of the poor.

And economists have warned that national savings — usually a hedge ... prot

(49)

Change in SA essential — top economist

DEREK TOMMEY
Finance Editor

SOUTH Africa must develop a political system which is accepted overseas, one of South Africa's top economists, Professor J A Lombard of the University of Pretoria, told the annual congress of the Association of Chambers of Commerce in Cape Town today.

He said there was insufficient recognition in South Africa that a national economy which is so open to the international economy could not be governed by a system which is not considered legitimate internationally.

"This is not a question of political value judgments or ideology. It is not a view one can oppose or support. It simply seems to be a rule one has to live with."

South Africa's progress towards a new political identity was a matter of concern not only for South Africans but for those with which it had important relationships.

South Africa had the economic growth potential for rapid social transformation, he said.

Devastating

If the economy were allowed to to grow at an average annual rate of 4,5 percent for the last two decades of the century, the gaps between white and non-white standards could be narrowed to a surprising extent.

But the economy would require a growth strategy based on the social emancipation of the black people.

South Africa had been forced into a dilemma by her international trade and financial partners.

"By stultifying South Africa's productive participation in international trade and finance, the rate of economic growth is being forced down to levels which make political reform much more difficult."

If South Africa's link with the international banking system were seriously disrupted, the effect on the economics and politics of South Africa would be devastating.

Professor Lombard said South Africa had the economic strength and domestic savings potential to reduce her foreign debts. But this would be at the cost of domestic economic growth and reform.

"The irony of the situation is that the withdrawal of capital from this country is often justified on the grounds that the process of reform is not proceeding fast enough."

● See Page 7.

CAPE TIMES 16/10/85 49

SA 'needs to expand exports'

PRETORIA. — South Africa's ability to meet its international financial commitments in the immediate future would largely depend on it being able to continue expanding its exports, the South African Minister of Finance told the International Monetary Fund meeting in Seoul yesterday.

A copy of his prepared speech was released in Pretoria.

Mr Barend du Plessis said that South Africa, as a country with a firm belief in the virtues of the free market system, unreservedly endorsed the call for resistance to protectionist measures. Without this resistance, prospects for sustainable recovery in the world economy would be undermined and the management of the external position of heavily indebted countries would be severely complicated.

Clouds gathering

"I particularly welcome the firm determination expressed by members of the Interim Committee that their governments will preserve an open trading system in which all countries will have effective access to world markets," Mr Du Plessis said.

The Minister said it was clear the world economic situation had improved during the past year in certain important respects, but that "clouds were now gathering on the horizon".

"Primary commodity prices have recently been declining and, coupled with the slowing down of economic activity in the United States, the export earnings of the developing countries and hence their growth prospects are weakening.

"Unless there is accelerated economic expansion in the other major industrial countries, overall industrial growth might well slow down in the year ahead — at a time when unemployment in developing countries is a serious problem.

Fragile system

"Add to this the growing calls for protectionism and the reluctance of banks to extend new loans in Third World countries, and we have the makings of a new international debt crisis," Mr Du Plessis said.

Recent developments in the South African balance of payments situation had provided further evidence of the vulnerability of, and the threat to, the integrity of the present fragile international financial system.

However, events that had led up to the forced declaration of a standstill period for the repayment of foreign debt were in many respects "different" from those that had created repayment problems for other lands.

Sudden withdrawal

South Africa had been applying relatively strict monetary and fiscal policy measures, resulting in sharply decreased gross domestic expenditure, a decline in imports and enhanced exports, with the current account surplus equalling some four percent of the gross domestic product.

Moreover, the Republic had not experienced any difficulty in meeting both its interest and capital redemption commitments on long-term loans, and neither had the government or public sector experienced an outflow of short-term capital.

The country had been forced into the credit standstill arrangement by a sudden withdrawal by some foreign banks of short-term credit facilities previously extended to domestic banks and other business enterprises.

Achilles' heel

The repayment of capital had been temporarily suspended but current payments such as interest and trade settlements had not been affected.

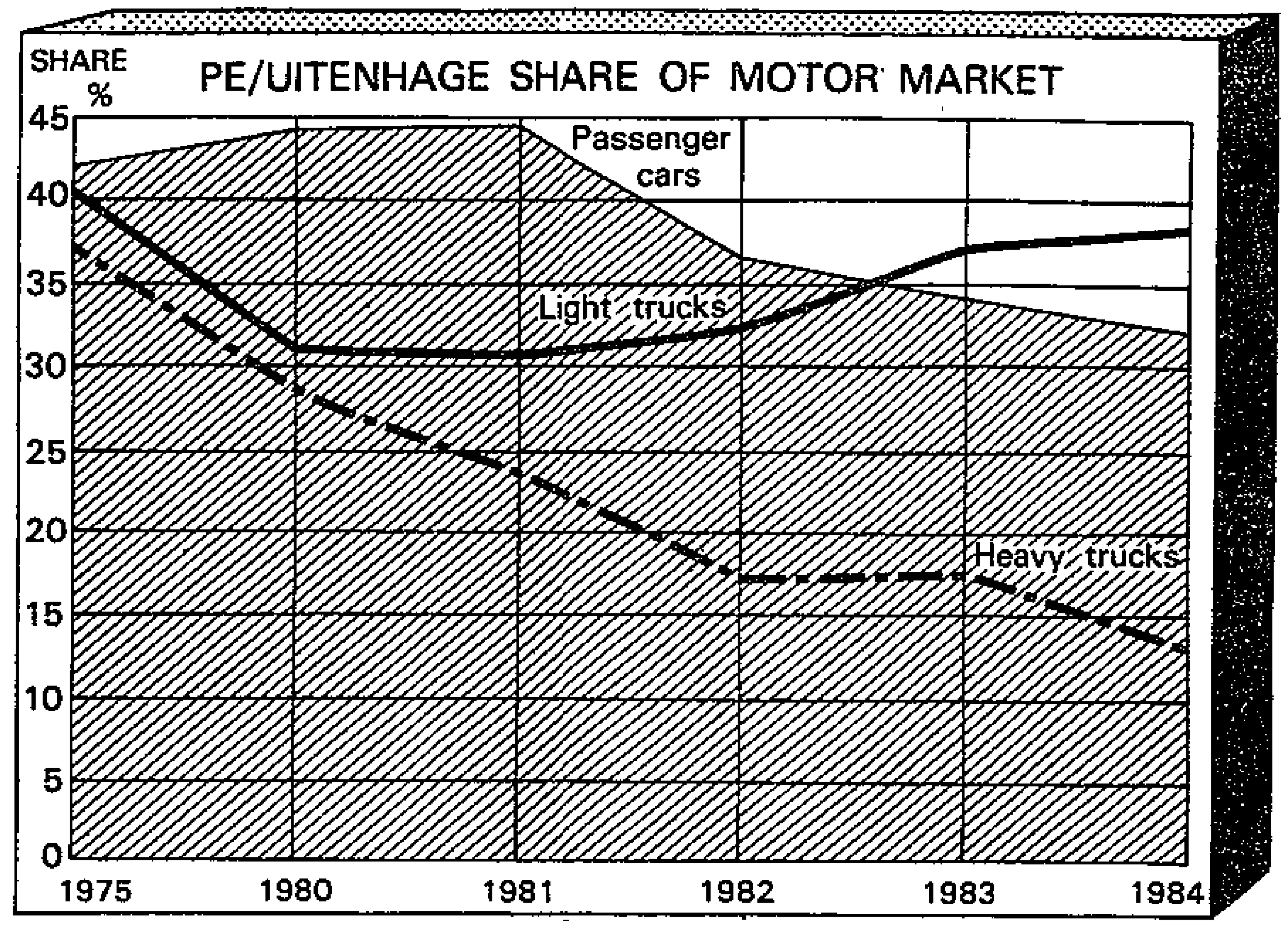
In press interviews in Seoul, the Reserve Bank Governor, Dr Gerhard de Kock, said capital outflows from South Africa would continue for some months despite the debt moratorium, but would decrease.

South Africa's Achilles' heel was the international interbank market where loans to South African banks amounted to $6,5-billion (R16,5-billion). Out of a total foreign debt of $24-billion (R60-billion), short term debts of $14-billion (R35-billion) had to be repaid within a year. The huge debt overhang explained the weakness of the rand. — Sapa and Own Correspondent

How PE's economy nosedived

49 B-Day 16/10/85

In this article, our special correspondent highlights how the present unrest has added to the decline of the PE/Uitenhage area



THE BOYCOTT by black consumers of non-black retailers in Port Elizabeth's CBD is now three months old. The impact has been devastating, with turnovers slashed by 80% and more, and scores of business — notably fast food outlets — now facing bankruptcy.

The boycott committee come out of hiding after eight weeks to announce that it proposed extending the September 15 deadline until its demands had been met. Among them: the withdrawal of the SADF from the townships, an end to "mysterious disappearances" of township residents, that a ban on meetings be lifted and that the Black Local Authorities Act be scrapped.

Thus for those PE businesses catering principally for black consumers there is no immediate relief in sight, whereas business will continue booming for black retailers in the townships.

The boycott will undoubtedly further depress indicators measuring economic activities in the PE/Uitenhage complex.

In its latest *Trends* bulletin the University of Stellenbosch's Bereau for Economic Research shows that, for the period January 1984 to April this year, economic activity in PE/Uitenhage plunged by a job-sapping 26%.

By contrast the countrywide decline (in an indexed level of activity derived from consolidating seven major economic indicators) was 14,6%.

Massive neglect

Such stark contrasts underlining the poor performance of the PE/Uitenhage economy are plentiful — despite the best efforts of National Party apologists during a November by-election last year to deny a massive neglect of the country's fifth metropolitan complex.

Gross taxable incomes earned by individuals in PE rose from R333,6m in 1976 to R529,6m in 1981 — an increase in the area's wage economy of 9,7% per annum over the five-year period.

By contrast, countrywide aggregate taxable incomes rose 10% per year over the same period, from R10 615m to R17 098m. Compared to PE's wage economy (boosted to R663,2m in 1981 if Uitenhage is also taken into account), the wage economies generated in each of the country's remaining metropolitan areas in 1981 was: Johannesburg — R2 528,6m; Cape Town — R1 409,3m; and Bloemfontein R292,5m.

Of deeper underlying significance, however, is the declining relative share of the cake enjoyed by wage earners in PE. Despite its categorisation as a metropolitan area, PE's wage structure is losing ground not only against that of the Reef but in relation to the entire country (See Table 1).

Another perspective of the PE/Uitenhage economy is provided by contrasting the value of retail sales generated in the area with countrywide sales. Once again — "metropolitan" magnet notwithstanding — less than 4% of the country's retail bills were rung up to PE/Uitenhage shopkeepers' accounts.

This performance must be gauged against the magnitude of the population of the hinterland served by the complex. In the broader "Region D" (roughly synonymous with the Eastern Cape, Border, southern Transkei and Ciskei), the population was measured in the 1980 census at four-million, or 16% of the total RSA population. PE/Uitenhage's 727 580 urban dwellers represented 3% of the population.

An analysis by Central Statistical Services in Pretoria of SA's manufacturing sector showed the number of establishments throughout SA rose from 12 761 in 1972 to 17 126 in 1979. Asset growth averaged around 15,5% per annum, raising gross value of asset from R3 232,7m to R8 638,6m.

Once again PE's performance lagged that of the country by a wide margin. The number of establishments in PE/Uitenhage rose from 451 in 1972 to 541 in 1979 (annual average increase of 2,6%), raising the gross investments in assets by 9,7% per annum, from R167,6m to R320,5m (See Table 2).

Profits generated by the manufacturing sector in the PE/Uitenhage complex rose from an estimated R69,5m in 1972 to R208,7m in 1979.

A perspective of the contribution made by the motor industry in the area to the government's tax revenues (prior to the phased exit currently underway by Ford, which has now merged with MMI, previously Amcar, in Anglo-controlled Samcor), is provided by the graph.

Perhaps the most sobering economic indicators from the area are those contained in Table 4, which shows the comparative contribution by the PE magisterial district to GPD. This shows overall share of GDP declining from 4% in 1970 to 3,9% in 1972, and 3,6% in 1975.

Stark picture

Since these somewhat dated figures were produced by Central Statistical Services, a summary of the 1978 results was issued (in February this year), which showed that PE's overall share of the country's economic cake had declined further, to 3,4%.

Add to this the findings of University of PE economist Dr Charles Wait on building industry activities during the Seventies and a stark picture of a stagnating — perhaps even regressing — economy emerges.

Commissioned by building trade bodies in the area to report on the industry's performance and prospects, Wait painted a depressing picture of the PE/Uitenhage economy:

☐ Reflecting this downturn, employment of skilled tradesmen in the area nosedived. Total employment in the building industry in 1981 was down to 74% of the 1971 figure, while job levels among journeymen had declined to 73,1% of 1971 levels, among general employees to 72,4% and among apprentices and learners to 54,3%.

☐ Real earnings earned by employees in the building industry in 1981 was down to 74% of their earnings in 1973.

☐ The sale of building materials over the decade declined by 27%, with demand for bricks in 1980 at a poor 63,4% of that experienced in 1973, though concrete and quarry products and cement sales were marginally ahead.

Wait forecast that the area would attract only 1,4% of industrial property investment in the country between 1982 and 1987, and was highly critical of government's regional development strategy. "The manufacturing industry in PE/Uitenhage is more likely to suffer than to gain from the regional economic development scheme," commented Wait at the time of the report's release. That was in September 1983, and subsequent events have done little to alter his views, he says.

The decline in the local economy, argue industrialists and city councillors in PE, may be directly attributed to deliberate government policy.

TABLE 1
AVERAGE TAXABLE INCOMES (R/m)

Year	PE	Uit	PE as a % of Jhb	PE as a % of RSA
1977	423	396	76,8	83,3
1978	432	417	62,9	82,4
1979	468	457	64,6	83,0
1980	516	503	63,9	82,2
1981	595	599	63,6	80,2

TABLE 2
PE/Uit MANUFACTURING SECTOR

	'72	'76	'79
Establishments	451	544	541
Employment	68 441	75 524	69 574
Salaries (R000's)	114 381	206 729	265 204
Output/gross (do)	643 943	1 278 398	1 675 204
Output/net (do)	234 184	446 994	570 036
Value (do)	167 620	238 591	320 547

TABLE 3
PE/Uit % SHARE OF RSA

	'72	'76	'79
Establishments	3,6	3,5	3,2
Employment	6,1	5,6	5,2
Salaries/wages	6,5	5,7	5,4
Output value/gross	7,0	6,3	5,6
Output value/net	6,2	5,7	5,1
Value of assets	5,2	3,8	3,7

TABLE 4
CONTRIBUTION TO NAT GDP PE MAGISTERIAL DISTRICT

1970	4,0%
1972	3,9%
1975	3,6%
1978	3,4%

UBS chief says SA must put its house in order

(49)

Mercury 17/10/85

Property Editor

IT was high time for South Africa to put its house in order financially, the chief executive of the United Building Society, Mr Piet Badenhorst, said yesterday.

He told delegates to the Property Owners' Association (Sapoa) annual convention in Durban that the country was badly caught in the classical liquidity trap resulting from borrowing short and lending long.

'No doubt in the immediate future we shall have to face a difficult period financially, but this crisis will in my opinion subside in due course and in the somewhat longer term I am not too pessimistic,' Mr Badenhorst said in his paper, which was presented as the annual Andries van Riet lecture.

The withdrawal of credit facilities was probably the most serious financial problem at the moment — as evident from the moratorium on foreign debt.

'In this respect we have to make painful adjustments in a very short time,' he said.

Inflation

Mr Badenhorst also warned on the problem of inflation which was likely to increase and would continue eating away at the economy.

He forecast that the present economic recession would probably become known in years to come as the Great Stagflation — a period of stagnation in output, coupled with rising inflation.

Mr Badenhorst felt that privatisation, the current 'catchword' for Government withdrawal from the production sector was a problem that migh not be easily solved.

He listed in his pape various industries sucl as Armscor which coul not really be privatised.

Unions

He found it ironic that South Africa was experimenting with increased trade union power when internationally, the power of trade unions was on the decline because of new technology, governmental refusal to interfere in wage disputes and the basing of monetary policy on money growth targets.

Unions would have to think twice about excessive wage demands in this type of financial environment.

'Unemployment insurance schemes of many countries are virtually bankrupt, because of the huge unemployment payouts. Should these insurance schemes be handed over to the trade unions to run, they will also have to scale down their demands in this respect.

Civil Service

'I think we should take note of these developments as labour problems are likely to be among the most acute problems in South Africa for many years to come. With a bit of luck and much wisdom, we could defuse this bomb of inflationary wage demands, to the benefit of all South Africans.'

He claimed that the Civil Service was now seeking the best of both worlds. At one time it had been accepted that the job security compensated for a lower salary — now civil servants wanted the same security, subsidies as well as parity in salaries with the private sector.

Considering the possibility of boycotts, Mr Badenhorst said if he were an anti-South Africa campaigner, he would not be too confident that a trade boycott aimed at bringing South Africa to its knees would really work in the long run.

He said that gold, for instance, some 50 percent of our exports, would be extremely difficult, if not impossible, to export.

ARGUS 18/10/85 (49) CAPE

Half South Africa's hotels 'are doomed'

Tygerberg Bureau

ABOUT half of South Africa's hotels, hard-hit by rock-bottom international tourism and competing with grocery stores selling wine and beer, will be forced to close within the next two years.

This warning was issued yesterday by the managing director of the Aroma Group of liquor outlets and hotels. Mr Mike Kovensky.

Speaking at the Tygerberg Chamber of Commerce monthly luncheon in Parow, Mr Kovensky said about 500 to 600 of South Africa's 1 175 hotels, the majority one-star, were experiencing one of the most difficult periods in their history.

He said: "It is indeed a battle for survival, particularly in view of the fact that local tourism and business travel has been severely hit by the recession.

"And with international tourism at its lowest ebb, occupancies have taken a severe hammering."

Mr Kovensky said that to save these mostly platteland hotels, which have traditionally relied on liquor sales but have lately been improved considerably, they should not be required to compete with grocery stores for liquor sales.

He supported the stand by the hotel association, Fedhasa, which promoted the moderate use of alcoholic beverages to be sold in the controlled environment of a liquor store.

"I fully support the call for more people to drink less and cannot support the sale of wine in groceries," he said.

Liquor sales should not be viewed as a normal retail commodity because overseas studies had shown very clearly that the free availability of alcohol in grocery stores had led to an increase in alcohol abuse by women and children, he said.

The advocates of a totally free, competitive market place should realise their claim that the market was the true arbiter of fair play and fair practice was "a hopeless over-simplification of reality".

W/E ARGUS 19/10/85 (49)

Moment of truth looms for buoyant JSE

PETER FARLEY
Weekend Argus Correspondent

JOHANNESBURG. — The industrial sector of the Johannesburg Stock Exchange is bracing itself for a major onslaught, following the announcement this week of three rights issues totalling almost R200 million and with the prospect looming of a string of terrible results from blue chip groups Barlow Rand and SA Breweries.

Contrary to virtually every other economic indicator the stock market has been booming this year — primarily because of the currency-inspired strength of the mining sector.

More surprisingly, the industrial market has also ignored a multitude of reversals in corporate fortunes and has held pretty close to the record peak established in July.

Interest rates

But there are increasing signs of nervousness in the broking community that the dark clouds looming on the horizon could soon force a major downside correction in the price of industrial scrip.

Although interest rates have been heading lower — with prime at 18,5 percent some 6,5 points down on its recent peak — there is a growing belief that the bottom may not be far away and that a sharp reversal back towards peak levels could shortly be on the cards.

This scenario was further bolstered by the announcements this week from Premier Group, Fedfood and Pioneer Property who are to raise R100 million, R40 million and R55 million respectively by way of rights issues.

These are not the sort of rights issues we have seen from the Tedelexes and Kanhyms — where refinancing was badly needed — but rather a recognition that equity is going to be cheaper to service than debt in the months ahead.

If this proves to be the case — and there is every likelihood it will be, given the emergence of heavy parastatal borrowing on local markets with offshore doors now closed — the recent respite enjoyed by a generaly overgeared corporate sector is going to end with a fierce jolt.

Artificial stimulation

Sentiment on the stock market is also likely to be severely impaired in the coming weeks as results start flowing through from SAB (interims) and the Barlow group (finals).

SAB is right at the sharp end of the current downturn with its weighty exposure to fluctuations in consumer spending. A couple of its group companies could easily be in the red at the interim stage, while some of the others will see earnings halved at least.

And, though Barlow Rand — with its cushion from Middelburg and the mining side — will not be as severely affected, there is also bound to be the odd hiccup in that stable.

The weak rand is also going to impact negatively on the country's secondary and tertiary industries and, more fundamentally, is likely to fuel inflation back towards peak levels in the second half of next year.

The artifical stimulation of the economy which the monetary and fiscal authorities are trying to concoct — in an effort to give business a shot in the arm during this prolonged recession — could therefore come severely unstuck.

Mini-boom

The mini-boom pattern of mid-1984, which petered out with alarming speed once the August clampdown took all the remaining steam out of the economy, could well be repeated in the months ahead.

Certainly, the more conservative corporate planners are not looking for any revival in either consumer demand or any substantial economic growth in the next 18 months.

It is not a pleasant scenario, but many of the realists are rebattening down the hatches after coming up for air and not liking what they see. And the beginnings of what could be a series of rights issues from the more heavily borrowed companies only serves to back up this conjecture.

Reserve Bank cuts bank rate to 14%

CAPE TIMES 22/10/85

49

JOHANNESBURG. — The further reduction in the bank rate and rediscount rates announced by the Reserve Bank yesterday is likely to be the last relief offered to consumers and businesses this year.

This is the view of the chief economist of the Nedbank group, Mr Rudolf Gouws, who said yesterday: "From now on I think the authorities will be very circumspect about offering further relief, at least until South Africa's debt obligations have been satisfactorily sorted out."

At present the danger of further declines in interest rates leading to a resurgence in consumer spending was minimal he said.

The reductions would bring further relief to household finances as well as to companies which were otherwise in danger of going insolvent.

"They are not likely to lead to a turnaround in credit-borne consumer spending" he said.

The Reserve Bank has announced that the bank rate will be reduced from 15 percent to 14 percent from today.

Rediscount rates will similarly go down by one percent.

Reduction

The commercial banks are expected to respond today by announcing a further reduction in their prime overdraft rate from its current level of 18,5 percent to 17,5 percent.

At a later stage, building societies are likely to reduce their mortgage bond rates further, thus bringing more relief to consumers who are struggling under heavy interest burdens.

Barclays Bank's group economist elect Mr Cees Bruggemans, said the reduction in the bank rate was aimed at further reducing the "still considerable" interest burden on consumers and businesses.

It was monetary policy to manage interest rates down in order to create the conditions on which economic growth could be resumed, but further periodic reductions in rates would be necessary for this goal to be achieved, he said.

Trust Bank of Africa Ltd, Barclays National Bank Ltd and Volkskas Ltd, all said they had as yet taken no decision on whether to cut prime rates, currently at 18,5 percent, in line with the bank rate cut.

No comment was immediately available from Nedbank Ltd and Standard Bank Ltd. — Sapa-Reuter

(49)

1985 ... Bus Times ...

SA may take longer to pay — bankers

From NEIL BEHRMANN

LONDON. — London bankers believe that South Africa's foreign debt moratorium is likely to be extended into the New Year

The first round of negotiations between South Africa and its creditor banks begins today, but bankers contend that mainly technical details will be discussed.

A spokesman for Dr Fritz Leutwiler, the former president of the Bank of International Settlements, said that a South African delegation would meet with 29 creditor banks

Schedule

"This is what we have on our schedule, but there could be even more banks," said the spokesman.

He said Dr Leutwiler hoped for "concrete" results before the end of the year, but London bankers believed that the South African authorities would have no option but to extend the moratorium.

"They are well aware that new money is not forthcoming, so they can take their time to repay."

The spokesman pointed out that South Africa was in the unusual position of a debtor who could dictate terms to the creditors

Mexico and other debtor nations had to bow to bank creditors because they received aid from international organizations, he said

"So with little more to lose it can negotiate a rescheduling agreement on its own terms."

The Reserve Bank Governor, Dr Gerhard de Kock, has disclosed total foreign debts of $24 billion and of that amount $14 billion must be repaid within 12 months.

Total debt

Bankers here contend that the total debt could be even higher, especially since the South African authorities have steadily upgraded their estimates in the past few months.

One American bank has estimated total debt at $30 billion.

Swiss bankers also believe that it will be very difficult in South Africa's current political climate to reach a settlement before the present debt moratorium expires at the end of the year

Following the refusal of American banks to roll over their credits and the announcement of the debt moratorium, London, Swiss and German banks are reluctant to increase their exposure to South Africa

Japanese bankers who will also attend the meeting will also be reluctant to help.

Mediator

Bankers said that Dr Leutwiler as mediator would improve the lines of communication between disgruntled creditor banks and South Africa

Dr Leutwiler's spokesman said that the creditor banks would first have a meeting with Dr Leutwiler Then it was likely that they would be introduced to Dr Chris Stals and his six-man delegation

The meeting has been arranged by Price Waterhouse

The magazine Euromoney comments that South Africa was vulnerable because "it — and its banks — borrowed without building up balances with the banks it had borrowed from

Deposits

"The latest figures from the Bank For International Settlements show that South Africa had deposits worth only 18 percent of its borrowings with banks from the BIS area

"By contrast the Soviet Union keeps deposits worth almost 70 percent of its borrowings with banks. That is the chief reason why banks would hesitate to cut off credit to the Soviet Union."

CAPE TIMES 23/10/85

49

Bankers meet to clarify SA's debt

By SHARON FULLER

PRETORIA. — The Reserve Bank Governor, Dr Gerhard de Kock, said today's meeting in London with leading creditors on restructuring South Africa's $24 billion of foreign debt is a technical one.

He told Reuters in an interview that the parties aim to clarify details including what debts will fall into the freeze net and what will escape the standstill.

"We have been very liberal in leaving debt repayments out of the net," he said, adding that most debt fell outside it.

The meeting, chaired by the former Swiss National Bank president, Dr Fritz Leutwiler, is between a delegation of technical experts, headed by South Africa's Director-General of Finance, Dr Chris Stals and 29 major overseas bankers.

Dr De Kock said the meeting would probably be followed by another in November.

"We are very different from other countries ... we are not overborrowed. We have no problem in meeting interest rate payments."

Dr De Kock said South Africa's $24 billion foreign debt was not excessive for the country's size and level of development but the short-term portion of the borrowing of some $14 billion was "on the high side".

He explained: "This is why we have changed the Bank Act and we now have better supervision over banks' foreign activities, including off balance sheet requirements.

"Banking supervision was not what it should have been."

Dr De Kock did not believe the bank was over-defending the rand by selling dollars in the local foreign exchange market.

The Reserve Bank was maintaining its policy of merely ironing out the peaks and valleys in the market.

"The rand is undervalued when one looks at the economic fundamentals," he said, citing the surplus on the country's current account of between $2 billion and $3 billion this year.

The rand had not appreciated as was hoped when the standstill was imposed because of political uncertainty, paying interest on debt and leakages.

"There are leakages in the system that is for sure ... over-invoicing, under-invoicing, but that is to be expected in an economy as sophisticated as South Africa's."

This reaffirmed his belief that exchange controls were limited in their effectiveness.

"Exchange control does not work very well when you most need it."

But he said the rand should appreciate later this year as the country's foreign reserves built up.

One compensation of the lower rand was that it prevented some investors pulling out funds, because they lost too much doing so.

"Investors are not transferring as much money as they might if the rate was higher."

It also encouraged foreign investment as gold shares on the Johannesburg Stock Exchange were bargains if bought with foreign currency, he added.

"I am going for growth now," Dr De Kock said.

Dr De Kock said he expected growth after eliminating the effects of inflation to be around three percent in 1986 compared with an expected negative one percent this year.

This would help the economy recover, attempt to slow the recent spate of insolvencies and help firms being forced to retrench staff, many of them black.

Reformş

Dr De Kock said international bankers had told him reforms were needed to assist them extend debt to a country internationally condemned for its race policies.

He said negative perceptions were exaggerated, but would not be drawn further on South Africa's political situation.

● **Foreign bankers' view of talks, page 12.**

Dr Gerhard de Kock meeting in London with leading creditors on restructuring South Africa's $24 billion of foreign debt.

Standard Bank cuts prime rate

JOHANNESBURG. — Standard Bank yesterday announced that it will reduce its prime overdraft rate by one percent to 17,5 percent on November 4.

This follows the Reserve Bank's decision to drop the bank rate and rediscount rates by one percent effective yesterday.

The other major banks have not yet made a decision concerning prime and all appear to be holding back in the hope that the building societies will move first.

Confirming this, the general manager of the general banking division at Barclays, Mr Norman Axten, said that if the Reserve Bank was serious about bringing rates down as it appeared to be, it would use its influence to induce the building societies to reduce their deposit rates.

Asset earner

He said that in the past six months the prime rate, which was the banks' chief asset earner, had been brought down 6,5 percent from its peak of 25 percent, whereas bond rates, the chief asset earner of the building societies, had been reduced by only one to two percent over the same period.

"We are not taking a decision about prime at present, but will wait and see what happens," he said.

Generally the pattern of deposit rates in the building societies was higher than that of the banks, thus putting the banks at a disadvantage in attracting public savings and deposits, he said. — Sapa

Mr Mel Anderson has been appointed regional manager, Cape Province, of General Accident Insurance Co.

Crucial talks on SA finances

ARGUS 23/10/85 Financial Editor 49

TALKS crucial to South Africa's future begin in London this afternoon when a team of South African financial officials led by Dr Chris Stals, the Director-General of Finance, begins negotiating the rescheduling of the country's short-term debts.

The negotiations, which have been arranged by Dr Fritz Leutwiler, former president of the Swiss National Bank, are with representatives of 29 major creditor banks.

South Africa's short-term debt is estimated to amount to about $14 000-million dollars — equal to R36,800-million at the present exchange rate. The total debt is R60 000-million.

The negotiations follow the declaration by South Africa in September of a three-month standstill on the payment of these debts.

This was taken after an American bank called in its South African loans — which led to other American banks also calling in loans. This in turn triggered a run on the rand, causing its foreign exchange rate to fall 30 percent.

VITAL TASK FOR SA TEAM

Forced repayment would be extremely harmful to the country's economic prospects and to the living standards of its rapidly-growing population.

This means that the South African negotiating team has the vital task of persuading the American banks not to demand repayment of their loans immediately — and even to try to get them to extend more loans to South Africa.

While at first sight this may appear an impossible task, the prospects of it happening are not as far-fetched as it may seem.

South Africa can point to the fact that it has not over-borrowed, it has no problem meeting interest rate payments and that the balance of payments position is extremely healthy.

● SA finances in good shape — Page 31.

Cape Times 23/10/85

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Botha: SA doesn't need the West

From RICHARD WALKER

NEW YORK. — South Africa can survive without the West, President PW Botha has told the American business community on the eve of the Republic's debt re-negotiations in London.

But he also predicted that the debt problem would soon be gone as the banks became convinced of the country's stability.

Mr Botha maintained: "The only trouble we have is debt" — and he dismissed this as a temporary condition brought about by a misreading of the situation by "some international interests" who had feared South Africa becoming a second Iran and ending up in chaos.

"This is not going to happen," he said twice for emphasis.

Calling economic sanctions and disinvestment "a march of folly", he maintained in an interview with the Wall Street Journal that the West needed South Africa more than South Africa needed the West.

"South Africa needs capital from outside, but it can go without it," he said.

Blaming the unrest on a worsening economy and a few communist agitators, he defended the use of the army in the situation as "a tradition in South Africa".

He told the newspaper he hoped to lift the emergency regulations "as soon as possible", but added: "I won't hesitate to apply them in other parts if terrorists try to create problems."

The interviewers reported that Mr Botha gave no indication he would accelerate his timetable for change to ease the anxiety of the country's creditors.

"I never considered my political actions to be influenced by what other people say or do, especially by what other countries say or do," he responded.

The National Party had "always been a party of reform," he maintained, and as an example he observed that ten million blacks now had the vote.

Asked if his pledge to grant blacks "full participation at the highest levels" could lead to a black South African foreign minister or defence minister in the coming decade, he replied that they already existed — "just go to the Transkei," he advised.

Mr Botha said that sanctions would not change South Africa's policies, but were only "playing into the hands of Moscow".

Asserting that the United States could not do without South Africa's minerals, he "expressed dismay at American pressure on him", the Wall Street Journal reported.

He complained to the newspaper: "The US calls itself the fortress of freedom and liberty. I can't understand why they co-operate with countries where freedom is destroyed by dictatorships and attack a country where we are working for freedom and liberty."

Throughout the interview Mr Botha "was smiling and soft-spoken".

Cape

Hopes fade for early debt accord

24/10/85

49 STAR

The Star Bureau and Financial Times

London

South Africa is to meet its main bank creditors again in London on November 26, but there appears to be little hope of a formal rescheduling agreement that could allow the present repayment standstill to be lifted.

A first meeting between the two sides yesterday, chaired by Dr Fritz Leutwiler, the Swiss mediator, concentrated on developments in South Africa's economy and technical aspects of the debt standstill.

A statement issued after the meeting said the South Africans spelt out arrangements for the $24 billion debt and reviewed the country's present economic and financial situation

A spokesman for Dr Leutwiler said the South African officials conceded South Africa had a liquidity problem and had sought to distinguish its desire for a debt rescheduling from that of other debt-ridden nations with difficulty raising cash.

Bankers attending the talks said political issues were not discussed but there was now a growing awareness that the time was not ripe for a formal rescheduling agreement.

One banker, blaming "lousy marketing" of its political reform effort by the South African Government, said public opinion against apartheid in many countries was too strong for banks to justify signing a formal debt restructuring agreement

Efforts will be made to make the two-month-old standstill work better, with changes expected by next month to facilitate equal treatment of creditors. These could include clarification of technical aspects such as the treatment of negotiable bankers acceptances and certificates of deposit issued by South African banks which are held by non-bank investors.

Lack of censensus

One main difficulty in predicting the future course of events after yesterday's meeting was a lack of consensus in the international banking community over the precise political reforms South Africa would need to introduce before a rescheduling became feasible.

The political background to South Africa's problems again became apparent when none of the 30 banks at the meeting moved to form a negotiating committee to work out a rescheduling — as has been the case with other countries facing debt difficulties.

Figures delivered to the meeting by Dr Chris Stals, Director-General of Finance, show that South Africa s total debt is $23,9 billion.

An economic analysis presented by Dr Stals also warned of difficulties ahead if South Africa was forced to run a current account balance-of-payments surplus over the medium term for want of fresh credit.

Extension of SA debt standstill seen

CAPE TIMES 25/10/85

From MARGUERITE NUGENT

LONDON. — An extension of a standstill agreement covering the repayment of South Africa's foreign debt has become even more likely following a meeting on Wednesday between bankers and representatives of the South African Government which was mediated by Dr Fritz Leutwiler, bankers said.

Although no request for an extension was made, bankers said that they think it unlikely that any agreement on a rescheduling could be reached by December 31, when the current standstill expires.

They noted that the next meeting will not take place until November 26, when all sides will reconvene here.

In a telephone interview from Zurich yesterday, a spokesman for Dr Leutwiler said that the former president of the Swiss National Bank was hopeful that the talks will produce "some results by the end of the year".

He would not say how Dr Leutwiler would describe Wednesday's talks, nor would he clarify what type of results Dr Leutwiler expected to emerge.

In a statement released after the meeting, Dr Leutwiler said that before the next meeting he will be holding further discussions with the banks and the South African authorities and will be writing to all the country's known creditor banks.

Bankers expect that the most that can be expected before the end of the year is some further clarification about what is to be included in the rescheduling and how the negotiation process might proceed

They noted that Dr Chris Stals, South Africa's Director-General of Finance, who represented the government at the meeting, told bankers the country's total foreign debt stood at $23,9 billion, of which $10,3 billion was exempt from the standstill.

Equal treatment

Although many banks at the meeting pushed for equal treatment of all creditors, several bankers noted that there was an argument for maintaining some of the exemptions.

They noted that of the $10.3 billion of debt that was exempt were loans owed by the Reserve Bank of South Africa to the International Monetary Fund (IMF) of about $800m and about $1,5 billion in short-term trade credits.

The figure also included several billion dollars of bonds and private placements.

One banker noted that the South Africans made it clear that they hope to return to the capital markets to raise funds.

Bankers also noted that the inclusion of credits owed to export credit agencies would involve obligations to governments, which could force the South Africans to the Paris Club of Western creditor governments.

The bankers said that any rescheduling by the Paris Club would be even more difficult than the negotiations with the commercial banks because of the tensions surrounding the apartheid regime in South Africa

In addition to the figures, Dr Stals also discussed South Africa's current financial and economic situation, telling the bankers the country expects to have a current account surplus for at least the next two to three years.

Because of domestic political pressures none of the representatives of the 30 creditor banks, which attended the meeting, is willing to take the lead to form the type of negotiating committee that exists for dealing with most of the Latin American debtor countries.

This is the major reason Dr Leutwiler has been brought in to mediate the talks

Cape Times 28/10/85

Everyone getting poorer — bank

(49)

PRETORIA. — South Africa is saddled with a stagflation dilemma, with a stagnating real economic growth rate and a relatively high inflation rate, says Volkskas in its latest Economic Spotlight.

"To make matters worse, the balance of payments position must also be taken into account, in particular the limitations which the foreign debt burden and everything associated with it place on the balance of payments," it says.

"This in turn inevitably limits freedom of movement in the economic policy strategy."

Sluggish economic growth led to a decline in the national product or income per capita, increased unemployment, lower company profits and more bankruptcies.

"In short, everyone or almost everyone is becoming poorer. Moreover, the danger is that the economic recession can feed on itself.

"Sluggish growth leads to poor consumption and investment which in turn can further depress the growth rate — thus, a vicious circle that could lead to a highly dangerous state of affairs," says Volkskas.

How far the government's domestic stimulation package would go was not yet clear.

"However, keeping in mind the recent course of events, it seems as if a real economic growth rate of from three percent to four percent can be expected in 1986.

"Compared with this year, the inflation rate should be a percentage point or two lower in 1986, while the current account of the balance of payments could continue to show a surplus. — Sapa

ARGUS 29/10/85 (4)

'Ominous, depressing picture of SA economy'

Political Staff

DURBAN. — An ominous and depressing picture of the prospects of the South African economy strangled by international capital and trade sanctions was painted at the Federated Chamber of Industries' annual conference today.

Leading policy-makers and economic advisors created the backdrop to the conference which has been characterised by its heavy accent on politics and constitutional reform.

According to the preliminary papers and speeches, South Africa can afford only modest economic growth over the next few years if it is to be in a position to repay its $24 000-million (about R60 000-million) foreign debts.

This meant that the country was impaled on the horns of a dilemma, desperately needing growth to solve many of its problems while also needing to conserve its resources so as to repay its massive debts.

Dr Chris Stals, Director General of Finance, told the conference that South Africa had not achieved its recent success in reducing expenditure, in building a surplus on its trade balance, giving it an ability to repay its debts, without making a heavy sacrifice in terms of economic growth.

Dr Joop de Loor, the immediate past Director General of Finance, said that economic policy was currently like pushing a piece of string because the international political perception of South Africa was so negative.

Foreign debts

If South Africa became a capital exporting country over the next few years (as banks continue to call in their loans and new capital cannot be raised) then the country would have to continue generating a surplus on its trade balance until its foreign debts were repaid.

This could mean low or no growth for five or six years.

Dr Robin Gidlow, an advisor to the Reserve Bank, said that the world's recent capital sanctions on South Africa was but the latest in a series of massive shocks to the economy.

He said that there were grounds to believe that, if national expenditure increased, the economy could grow by about three percent in 1986 and early 1987 (after remaining static, if not declining in 1985).

The general conclusion was that the scope of growth would be limited while capital sanctions remained in force.

If in addition, trade boycotts gathered momentum, there might be no alternative but to resort to a siege economy which would be tantamount to becoming engaged in economic warfare with the outside world, Dr Gidlow said.

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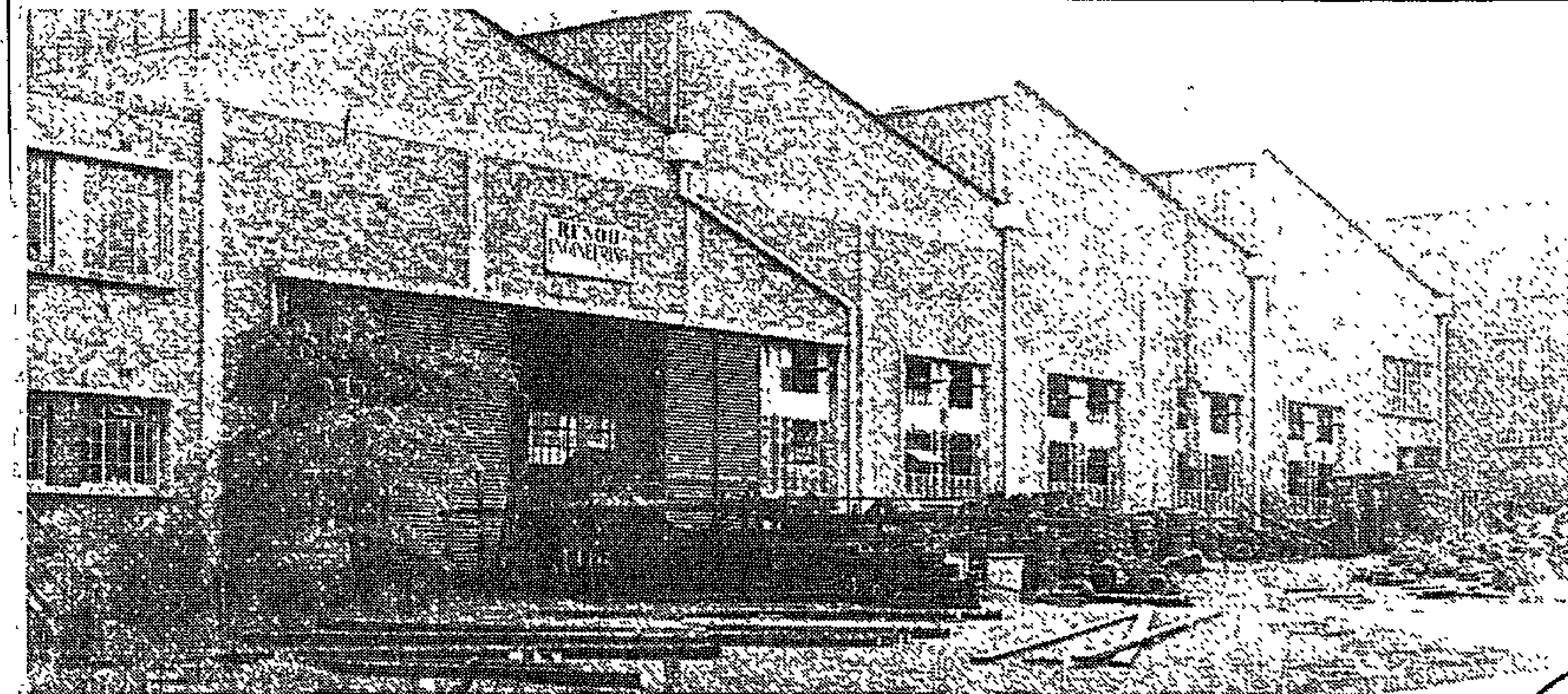
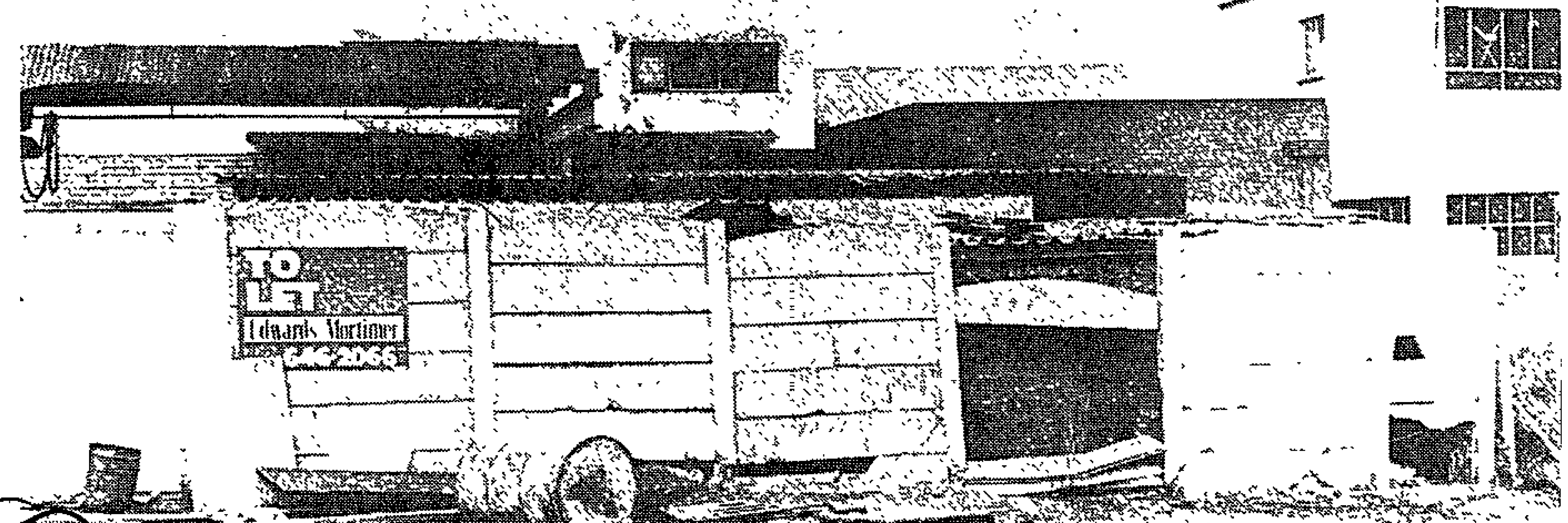


A former engineering plant stands neglected in Steeledale, Johannesburg — a victim of the recession.



Another deserted industrial plant on the Witwatersrand — letting agents say that there is no demand for such premises.

STAR (49) 29/10/85

Recession brings 'ghost towns' to the Witwatersrand

Vacant industrial buildings are becoming the rule rather than the exception in the present economic climate and places on the Witwatersrand such as Alrode and Wadeville are becoming virtual "ghost towns".

Letting agents contacted by *The Star* have agreed that the situation is bad. Vacancies are high, rents low and inquiries are almost non-existent.

The position was bad enough in areas close to the central business district, such as Selby and Booysens, they said. But areas further out of town and on the West Rand were really depressed.

"Alrode is basically a ghost town at the moment," said Mr Paul Farry, industrial negotiator for Richard Ellis.

And, he added, in the south of Johannesburg, he was dealing with vacancy factors of 20 percent.

Mr Jannie van Gemert, industrial broker for Divaris Real Estate, said: "There are many more vacancies in areas such as Selby than in the past. But, at least, there is still a certain amount of interest in the centre of town.

"Further out, in Alrode and Wadeville, just about half the properties are for sale and half for letting. There is hardly a block without two or three buildings to let or for sale."

Mr Rick Currie of Donald and Richard Currie, said that letting agents had a large backlog of vacancies that had to be be taken before rents could show any improvement.

"And premises in the heavy engineering field are unlettable," he said.

Some letting agents indicated a very slight increase in the number and quality of inquiries they had received in the past month but added that this was not evident in most industrial and office accommodation.

Others hoped that business would improve during December which was a "convenient time to relocate". But most added that they expected inquiries to tail off from January.

One of the most unfortunate aspects of the situation was that "severe structural damage" had been done to the economy, said Mr Currie. "Companies with useful skills and services have disappeared."

Other companies had consolidated or moved to smaller premises, making larger premises particularly difficult to let, said Miss P Fuller of Estate Management.

According to Mr Currie, the position in Pretoria was far worse than in the previous recession of 1977-1978 when the large institutional investors had not involved themselves in industrial development and the volume of vacancies was much smaller.

"This time, there has been big investment by large companies who are the biggest culprits in creating a serious oversupply and a bad imbalance in the property market.

"But they don't feel the pain. It's the private property owners who are sweating it out, taking the brunt of the low rentals," Mr Currie said.

NESS TODAY

Time for mild reflation in SA, De Loor says

ARGUS 30/10/85

(49)

DURBAN — South Africa could now afford to relax the sharp disciplinary constraints on the economy and shift the priority towards moderate growth, Dr Joop de Loor, Auditor General and until recently Director General of Finance, told the Federated Chamber of Industries congress here.

He said careful moves were needed to gradually stimulate the economy. About R500 million was being pumped into the economy to solve the problem of unemployment and vocational training, which was one of the most pressing problems facing the country.

Another serious problem was the export of capital. Internationally there was a "very negative political perception" of the South African economy which was leading to an outward movement of funds.

South Africa was not in a position to solve its debt reduction problems without a negative effect on the economy. Even if it were possible to generate a surplus of $2.5 billion (about R6 billion) a year on the current account on the balance of payments, it would take three to six years to pay off the country's borrowings.

SANCTIONS

Sanctions against South Africa would also influence the country's ability to service its international debt repayment problems.

Dr Chris Stals, Director General of Finance, speaking at the same meeting, said South Africa's foreign debt problem was a "liquidity" rather than a "solvency" problem.

He said the standstill arrangements on South Africa's foreign debt had been precipitated by an unexpectedly large scale withdrawal of short term inter-bank loans and trade finance facilities.

IMPORTS

Technically conditions in the economy had been improving prior to the standstill because:

- The volume of imports declined by 14 percent in the preceeding 12 months.
- Non-gold exports grew in volume by 22 percent.
- The balance of payments had switched from a deficit of $2,3 billion to a surplus of $2,7 billion between the first quarter of 1984 and the second quarter of 1985 with a net inflow of long-term capital of $2.3 billion in the 12 months to June 1985; and
- South Africa's short-term "foreign indebtness" had been reduced by $2.5 billion in the past year.

HEAVY SACRIFICE

Dr Stals said the first discussions between South Africa and the 28 major creditor banks in London last week had gone "extremely well." A further meeting was to be held on November 26.

While the first meeting had concentrated more on the nature of the problem and on procedural arrangements, the second would move to the more difficult phase of seeking a solution to the problem, he said.

Pointing out the need to consolidate the country's foreign exchange position, he said that without a positive inflow of finance and a normalisation of trade finance there would be a "heavy sacrifice" in terms of domestic growth and high cost in terms of lost employment opportunities — Sapa.

ARGUS 30/10/85 (49)

Role of commerce under attack by two black leaders

Political Staff

DURBAN. — Soweto civic leader Dr Nthatho Motlana has delivered a stinging attack on the business sector for failing to speak out and act timeously on behalf of the country's blacks.

Addressing the annual executive council meeting of the Federated Chamber of Industries, Dr Motlana also suggested that big business start up and support new businesses owned by blacks to make the economic pie bigger.

And last night Chief Mangosuthu Buthelezi warned that fundamental reforms were required immediately or blacks and whites would become involved in "scorched-earth policies" that would destroy the economy and tear society apart.

Dr Motlana told the delegates: "You should be aware of how blacks perceive big business.

SOME STARVING

"You retrench people and there are many, many thousands of people who are idle in the townships. Yet in some cases the managing director somehow manages to get himself a new Mercedes. Or we see directors going off to company game farms or on overseas trips.

"Some companies embark on crazy sponsoring and spending when some people are starving."

Dr Motlana asked the businessmen to secure orders from black manufacturers.

"What we are suggesting is that we try and build bridges together. Let us optimise our resources."

Chief Buthelezi, speaking at the chamber's annual banquet last night, said that business would have to play a far greater role in bringing about fundamental change.

"Business will ever increasingly be caught up in a maelstrom of events which are going to propel our country into an entirely new political dispensation."

OPPOSING VIEWS

There were two fundamentally opposed views among blacks about the future role of business in South Africa, he said. One was the view he held and the other was that of the ANC which would nationalise businesses.

"We in South Africa should by now know that Western industrial democracies are totally dependent on stable parliamentary systems of government."

He pointed out that in the past 75 years progressively greater powers have been used to maintain white domination and the point was being rapidly reached where only "scorched earth policies" on the part of the Government could prolong white minority rule.

"The ANC and those committed to bringing about the downfall of the Government through violence have already adopted a scorched-earth policy."

Economic upturn unlikely 'before political reform'

01/11/85 MERCURY (49)

Property Editor

GEORGE-It is highly unlikely that there will be any upturn in the economy before the political reform process has got under way, says the new president of the Building Industries Federation, Bob Zylstra.

In a speech marking his election at the annual congress here yesterday Mr Zylstra said the parlous state of the economy, coupled with political disturbances, township unrest and vast unemployment has had a disruptive effect on the economy and the building industry

'Confidence in South Africa must be restored, internally and externally, before investment capital will be available to the building community for the many developments that need to be undertaken,' he said.

He picked out three key issues for the coming Bifsa year:

- The Competition Board investigation into all facets of professional and business activity;
- The structure and operation of the Industrial Council system and the implications this holds for the building industry, and
- The introduction and practical implementation of competency-based training for learners and apprentices indentured into the building sector.

Mr Zylstra said: 'This year is likely to mark a significant turning point for the building industry. We are currently examining every aspect of our operation in an attempt to meet the challenge.'

There was a need for the organised building industry to remain critically aware of the many diverse problems faced by many of its members and non-members.

At some time, for instance, the emerging informal sector must be included

On training, he said Bifsa was spending R16 million a year on training people of all race groups. This had to be continued if the demand for skills was to be met during the next economic upturn.

ARGUS 5/11/85

BUSINESS TODAY

(49) (~~285~~)

70 000 jobs down the drain

DEREK TOMMEY
Financial Editor

THE economic recession resulted in nearly 70 000 jobs disappearing in South Africa in the 12 months ended June, an analysis of figures issued by Central Statistical Services shows.

The figures show there were 4 946 446 people in employment at June 30. This is a drop of 69 625 from a year earlier. However, it was only 8 609 less than two years ago, showing how sharply the economy peaked and slumped 1983 and 1985.

The largest drop in employment was in the manufacturing sector. Here the number of jobs contracted by 48 400 in the 12 months ended June to 1 351 000.

Employment in the construction and civil engineering industry fell by 14 500 in the same 12-month period to 400 500. The number of jobs lost in this sector in the past two years is 20 200.

The economic recession appers to have only just started hitting the retailing, wholesaling, hotel and catering sector.

This sector was still taking on staff in the fourth quarter of last year and its employment figure reached a two-year peak of 768 991 at the end of last December.

But its employment figures fell 4 212 in the first quarter of this year and a by a further 9 167 in the second quarter to a total of 755 612 — the lowest figure for several years.

The figures for the mining industry are more cheerful. The number employed here in the 12 months to June rose by 13 076 to 724 587, bringing the increase in the past two years to 23 686.

The sharp increase in the earnings of non-whites in many fields is highlighted by the figures.

They show that the average salary of blacks employed in the financial sector has risen 20,8 percent in the past 12 months while the average salaries of coloured people in construction and civil engineering have risen 20,9 percent. The salaries of Asians employed in the public service have increased 17,5 percent.

These figures suggest that the average salary figures for these population groups is now increasingly reflecting the growing number of qualified, trained and therefore better paid blacks, coloureds and Asians entering the labour market.

Economist urges cut in Govt spending

49 Mercury 06/11/85

Finance Editor

THERE are vast pressures for increased Government spending, which has already reached a high level, Old Mutual economic analyst Mr Rian le Roux says in the group's Economic Monitor.

He said that increased demands for some firm of welfare state seemed likely and the demand for funds for education and defence (including prison and police services) was likely to increase sharply as it had done since the early seventies.

Spending on these services rose from 18,2 percent in 1972/3 to 26 percent in 1984/5 of the total Government budget spending.

A long-term strategy was needed to reduce the growth of the Government's share of spending in the economy.

Targets

A six-point strategy should include:

- Publicly announced and high priority targets should be set for Government spending as a percentage of gross domestic product (GDP) — a welcome start had been in the last budget.
- Acknowledgement that Government should concentrate on absolutely essential services.
- Services should be privatised and this should be accompanied by de-regulation. This would mean a new source for tax and a cut in the costs of administering the regulations.
- Standards offered by the Government, often at a very high cost to the taxpayer, at the level of fully industrialised countries should be examined. The different standards relating to a developing nation should be applied.
- Income from windfalls — such as an abnormal gold price — should be saved for future capital projects and not be spent so that tax increases would be forced on the public.
- Tax rates should be indexed to inflation. This would provide an automatic restraint to Government spending. At present the progressive tax system and inflation combine to provide increased revenues even though tax rates are unchanged.

Mr Le Roux said that present levels of Government spending measured against gross domestic product showed that the country was in line with other industrialised countries (U K, Australia and USA) except that social security payments comprised a heavy portion of spending elsewhere but such payments were virtually non-existent in South Africa.

If off-budget items and a comprehensive social security system were established in South Africa the budget percentage of GDP would far exceed 1984s 25,3 percent.

The size of the tax burden was that tax measured against GDP rose from below 14 percent in 1961 to an estimated 24 percent in 1985.

This tax increase led to evasion and avoidance and to reductions in individual productivity and emigration of skilled people.

Backlogs

Mr Le Roux pointed out that Government current spending had increased its share of the total from about 75 percent in 1972 to 87 percent by 1984. Capital spending had been cut, to reduce total spending, and huge backlogs were built up.

Current Government spending had exceeded the rise in the consumer price index in every year since 1960 and by 1983 the Government had turned to borrowing to meet these bills because tax revenues did not meet spending levels.

Interest rates and subsidies have risen from 1976 (13,3 percent) to 24 percent in 1984 in line with rising interest rates and increased Government borrowings.

In 1973, total Government debt was R8,7 billion (interest cost R300m at an effective 3,4 percent) and this had risen to R39,2 billion by 1984 where interest accounted for R4 billion at 10,2 percent.

Political solution needed for economic growth—economist

CAPE TIMES 6/11/85

(49) (econ)

By AUDREY D'ANGELO

A POLITICAL solution to South Africa's present problems, which would make it possible to borrow overseas again, is the only way to achieve a higher growth rate and lower taxes in the opinion of the Old Mutual's chief economist, Mr R L Lee.

Otherwise he believes the inflation rate will reach between 20 percent and 25 percent by 1987, and he thinks government spending will be too high for any significant tax cuts in the next Budget.

But, he said yesterday, there will still be opportunities for people in this country to make money through import replacement, exports, and investing in companies which do well in inflationary times or have a rand hedge overseas.

Pressure

At a press conference to launch the latest issue of the Economic Monitor prepared by the Old Mutual's economic research unit, Mr Lee said political pressure was not the major reason why United States banks had cut off further credit to South Africa and demanded immediate repayment of short-term debt.

They had done so partly because, without first-hand knowledge of what was actually happening in the country, they had the impression that the government had lost control and there was a danger that they might not be repaid unless they got their money out quickly.

Another reason for their action was that they perceived that the economy was being mismanaged.

No other country had such a volatile "stop-go" economy, and South Africa's short-term debt was too large in relation to its total exports.

In this situation, several United States banks tried at the same time to be the first to get their money out of this country "hence the resulting fiasco".

Mr Lee said that, on the positive side, there was a reasonable prospect that the current negotiations on the rescheduling of South Africa's foreign debt would produce some kind of agreement.

Prospect

"But I don't think there is any realistic prospect of obtaining what we really need — a conversion of our short-term debt into long-term loans repayable over 10 years."

He thought the best that could be hoped for was for repayments to be spread over two or three years, "which will impose constraints on us".

Mr Lee said he expected the inflation rate to rise to between 20 percent and 25 percent at some time in 1987, which meant that the strategy the government was following at present to reflate the economy could only be short-term.

The dollar price for gold would have to rise to between \$600 and \$700 an ounce to solve South Africa's problems.

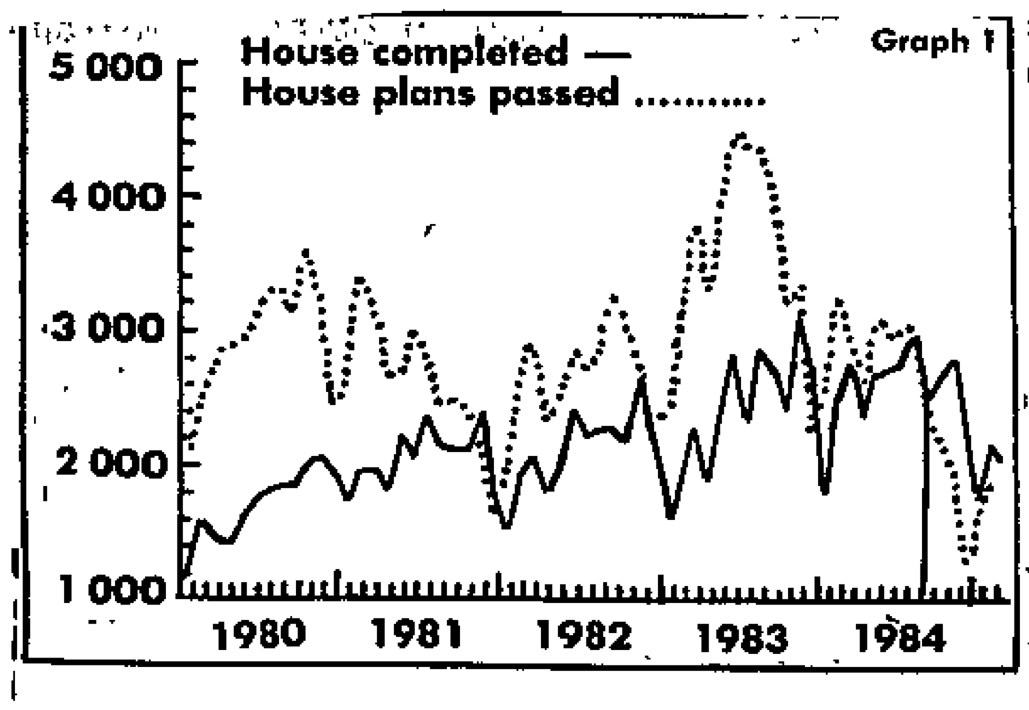
"Otherwise the political situation will have to change to encourage people to lend us money."

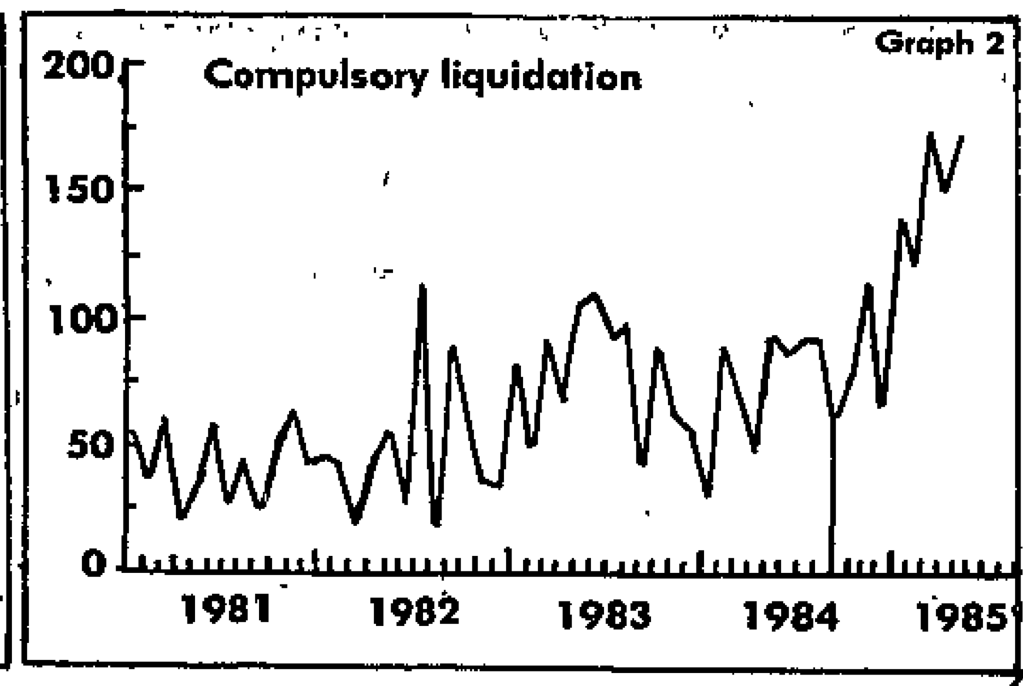
If neither of these things happened the prospects two years ahead were "not very appealing".

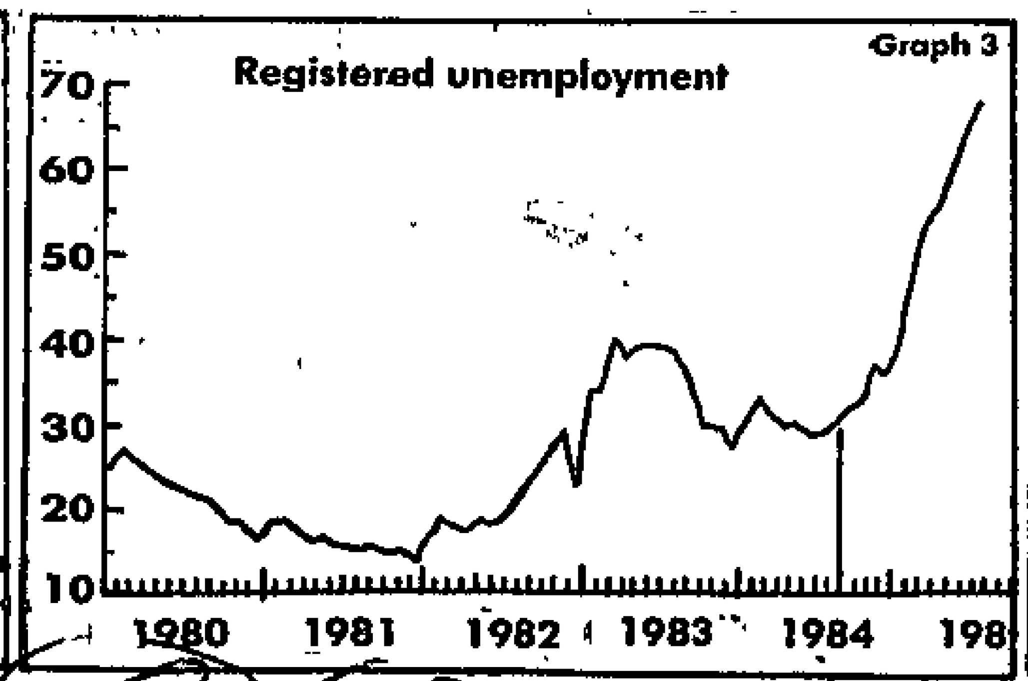
A siege economy would develop and more controls would have to be imposed.

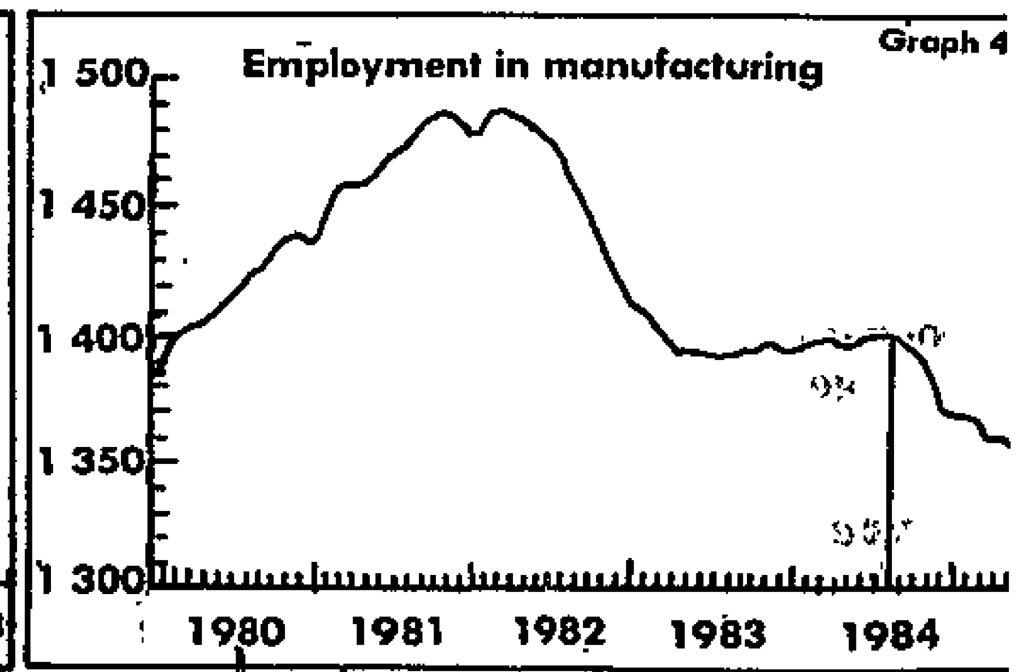
Discussing government expenditure, Mr Lee said he estimated that it would be 20 percent higher this year than last.

Mr Lee pointed out that direct and indirect taxation had been growing steadily since 1960.









(49) Star 13/11/85

We are faced with an economic crisis of unusual magnitude

225

It is beginning to be generally recognised that South Africa is experiencing an economic crisis of unusual magnitude and severity. President Botha's Durban speech accelerated the downturn, but it was by no means the only cause of our problems.

Our fortunes took a turn for the worse when the Reserve Bank in August 1984 announced measures aimed at controlling aggregate spending. These soon proved to have been too drastic.

On that day the Bank and the Government made hire-purchase conditions more stringent (they had to be relaxed at the beginning of 1985). The interest rate on bank overdrafts rose to 25 percent or higher.The interest on HP credit soared to 32 percent. These kinds of rates are a sure sign that something drastic is wrong in a country. It represents the actions of a monetary authority that has lost its grip on the economy.

Let us look at the question as a whole, under a series of headings, starting with —

Interest Rate Policy

The Reserve Bank raised interest rates to those levels in the hope that aggregate borrowing and increases in the money supply would be reduced. Anyone with a knowledge of monetary

The crash of the rand is the single most catastrophic event in the economic history of South Africa.

economics knows that that could be a forlorn hope. An increase in interest rates has many effects. Whether it will reduce borrowing depends on the importance of interest as a factor of cost to the borrower.

Interest is not generally an important factor of cost to the large firm with cash resources of its own, which may be in a position to pass cost increases on to the consumer. The opposite is true for the small firm, the low

PROFESSOR D J J BOTHA, head of Wits University's Department of Economics, who was among the first academics to spot the policy errors made by former Finance Minister Owen Horwood, now questions the route taken by the South African Reserve Bank in tackling current economic problems.

to middle bondholder and farmers.

Levels and Margins

All *borrowers* are interested in the level of interest rates. Again, to some borrowers a rise in interest is a more serious matter than it is to others. However, not all *lenders* are primarily interested in the level of interest rates. Some are concerned with margins only, not levels — the margins between their borrowing and lending rates. If a financial institution can survive on, say, a five percent margin between its borrowing and lending rates, it is largely immaterial whether this is at 10 percent borrowing and 15 percent lending rates, or 15 and 20 percent, and so on.

Banks and the money market find themselves in this situation. They are not primarily interested in levels, for they have to pay interest on their deposits, and what they pay for these funds is also determined by what they can earn from investing them. They are mainly interested in margins.

The same is not true for large institutions on the capital market such as insurance companies and pension funds. These institutions have substan-

This makes the Reserve Bank the one institution most responsible for the economic miseries we have to endure.

tial sums of money available for investment daily on behalf of policy holders and contributors to pension funds. To them the level of interest is of crucial importance.

There are, therefore, three possible kinds of answers to the question whether the high rates of interest decreed in August 1984 were good or bad for the country.

1. The overwhelming majority of borrowers would condemn it outright.

2. Banks and the money market would react unpredictably: some may regard it as bad for various reasons, while others may welcome it, if only to show publicly that they support the views of the Reserve Bank.

3. Most of the institutions on the capital market could be expected to be generally in favour of high interest rates, and the views of their spokesmen — usually well-known financiers — would normally dominate the financial Press.

High rates: the effects

The high levels of interest have had disastrous consequences to three categories of people. Thousands of bondholders have been struggling to meet their commitments, with many being forced to sell their homes. The Press has regularly reported pathetic cases of deprivation, which the Reserve Bank has no doubt interpreted as a sure sign that its interest rate policy was bearing fruit. It worked.

The effect on the housing sector can be clearly seen from the graph which shows the unprecedented drop in the number of house plans passed after August 1984.

The second category is the small entrepreneur. He was forced against the wall. Compulsory liquidations shot up disastrously (**Graph 2**). This left its mark on employment. The number of registered unemployment increased correspondingly (**Graph 3**). What the effect on total unemployment was is a matter of guesswork. More accurate figures are available for employment in manufacturing industries. The fourth graph shows a distinct kink at August 1984. The high rates had an almost immediate impact in the climate prevailing at the time.

The third category is the farming community. The severely strained conditions in agriculture as a result of the prolonged countrywide drought were unnecessarily aggravated by high

The severely strained conditions in agriculture as a result of the drought were unnecessarily aggravated by high Land Bank rates.

Land Bank rates. The result has been catastrophic.

One could add a fourth category. The high levels of interest at home prompted some of the banks to borrow heavily in overseas centres at lower rates. In the process they burnt their fingers — but, of course, no one could have foreseen the liquidity crisis at the time.

The crashed rand

The Reserve Bank is firmly committed to private enterprise and free markets. It abhors controls of any kind, even in times of crisis. Its highest ideal in the market is to be led by "realistic market-related" rates of interest — an ideal which it put aside when it artificially increased rates above market levels in 1984. In the process it dealt a nasty blow to private enterprise and the economic well-being of the small man.

Its respect for free markets is more fundamental than it is for private enterprise. It believes that markets will always arrive at a realistic price, whatever that may mean. Even disastrous prices caused by panic buying or selling should be regarded as realistic and indicative of true values. The need sometimes for protecting a market against itself does not suit its pattern of thinking. Markets cannot err.

That is why the Reserve Bank allowed the rand to crash. For to have pegged it at a higher rate would have meant instituting controls, as in the past. That would not only have made life difficult for firms wanting to take funds out of the country; it would also have been against the spirit of the Carlton and Good Hope conferences.

In the meantime the country is winding down to lower levels of activity in a process that had been started by the Reserve Bank during 1984. This makes the Bank the one institution most responsible for the economic miseries that we have to endure.

The time for economic policy based upon ideology is past. We are faced by a unique concatenation of circumstances which calls for united action and a realisation that objective criticism may point the way to improvement and reform. South Africa had been a free enterprise country long before ideologies forced the Government to say so publicly. When markets become distorted as a result of extraneous forces, ideology should make way for realism even if that should call for temporary intervention. Under present circumstances inaction of the kind preferred by the Reserve Bank is little short of being a recipe for national decline.

The crash of the rand is the single most catastrophic event in the economic history of South Africa. It will take some time before this realisation has filtered through to the ordinary consumer and to some of our policy makers.

(49) W. Mail

14/11/85

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Superce

AREA A:

Bang went the boom. (You may not have noticed it)

AREA B: Simonsi Sasolb Germist Nigel, Springs

The mini-boom of early 1984, which passed so quickly few people noticed it, left in its wake such ills as rising interest rates, high inflation and a massive deficit. DUNCAN INNES continues his assessment of recent government economic policy

Footnote

1. Over

IT is just over a year since the government introduced its tough austerity package, which was intended, ultimately, to produce a healthier, stronger economy.

But how was this to be achieved? What were the main aims of the package? And, most important, how successful has it been?

To answer these questions one needs, briefly, to comment on the state of the economy just prior to the austerity package of August, 1984.

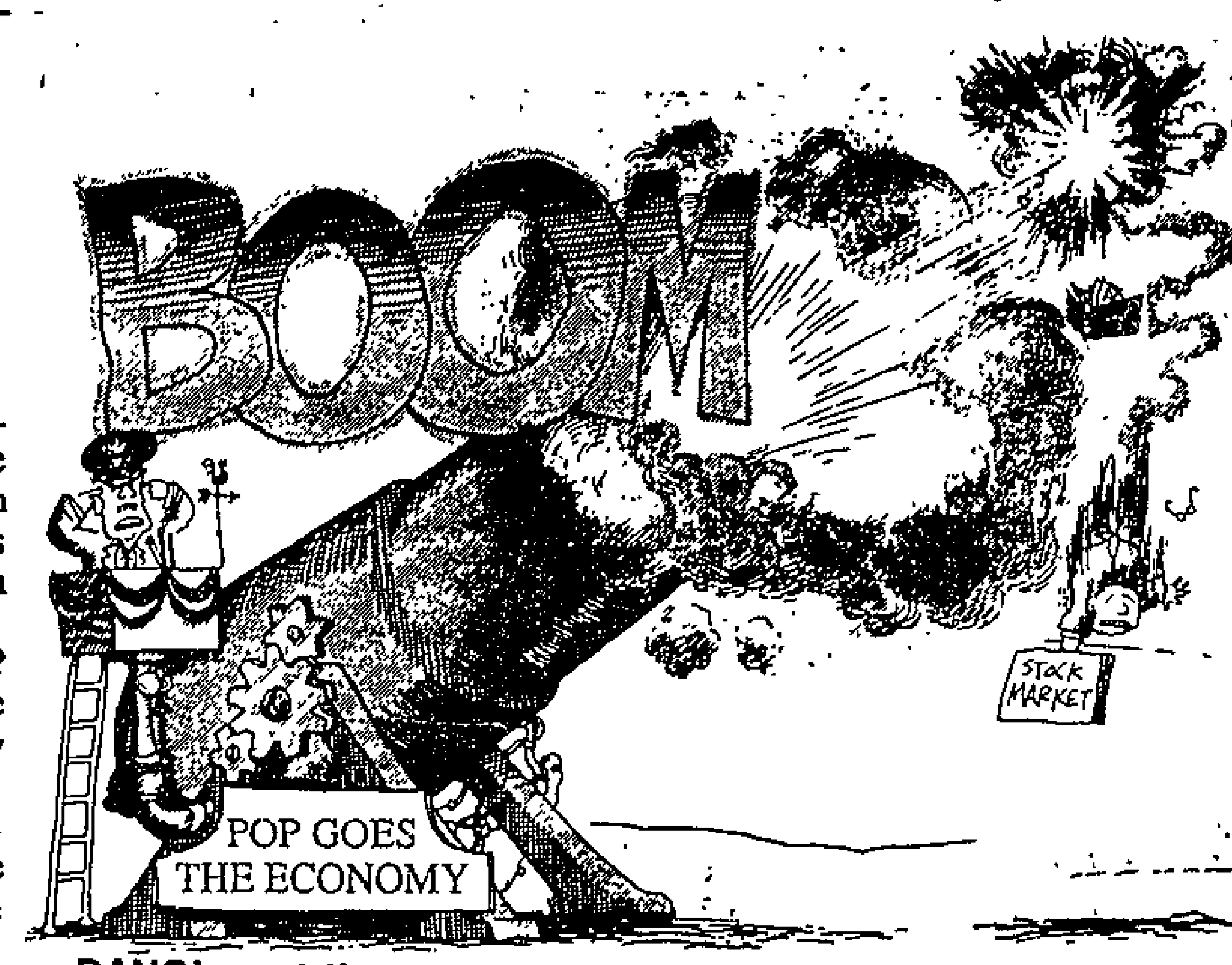
Although not many people were aware of it, there was a mini-boom in early 1984. However, so ineffectual was it that it was gone before most of us knew it had arrived.

But it left us with all the residue of a normal boom: high inflation (running at 13 to 14 percent); a massive deficit on the current account of the balance of payments (R2 860-million in the first quarter of 1984); and rising interest rates (the prime rate was running at around 14 percent). However, as I pointed out last week, unemployment, particularly among blacks, was still extraordinarily high — estimated by some at 20 percent of the economically active population.

Faced with this situation, and in accordance with established monetarist wisdom, the government chose to deflate the economy. Their argument was that inflation, not unemployment, was the primary problem and that to bring inflation down it was necessary to cut spending and reduce the money supply. This they did by driving up interest rates: the prime rate rocketed to 25 percent, the bond rate in one case hit 26 percent and the rate of interest on HP agreements soared to 32 percent. At the same time the government stopped supporting the rand on international currency markets.

The aim of all this was as follows:

Raising interest rates to record levels would immediately curb borrowing, thereby cutting spending. Coupled with stricter control of the money supply, this would help bring down the rate of inflation (the intention was to get it down below 10 percent as a first step). Because spending was cut, imports would also be reduced, thereby easing one of the pressures on the balance of payments. At the same time, without support, the rand would fall against other currencies, thereby cheapening our exports and enabling us to sell more abroad. In this way a surplus would build up on the current account of the balance of payments.



BANG! went the mini-boom — then disappeared in a puff of smoke before most people were aware it had arrived.

After a while, interest rates would begin to fall and, fuelled by the now burgeoning surplus, the economy would set off merrily on yet another white South African miracle boom. Well, that's the theory, anyway.

But what happened in practice?

At first sight things don't look too bad. The austerity package certainly succeeded in curbing spending and, partly as a result, the deficit on the current account of the balance of payments immediately began to fall. In fact, for most of this year the current account has been running at an average surplus of R400 million a month. This has helped ease the pressure on the money supply, whose growth rate has fallen consistently since it peaked in December last year.

Furthermore, the reduction in borrowing has led to a gradual decline in interest rates: the prime rate has fallen by six percent to 18 percent and other rates have also declined.

All in all, then, things look quite promising. Or do they? What about inflation, I hear you ask? Yes, well, unfortunately that didn't quite go according to plan. In fact, it is currently gaining at around 17 percent, some three to four percent higher than it was before the government decided to bring it down!

Now, how on earth did this happen? Part of the problem is the rand, which clearly fell a good deal further than it was supposed to. While this decline certainly does make our exports cheaper, it also makes our imports considerably more expensive — which is, of course, inflationary. (Remember the 40 percent petrol price rise?)

And then there is the little matter of government expenditure. Although there are signs that the government has been seeking to control spending, in the first four months of this financial year fiscal spending was R850-million over budget. Furthermore, in July and August this year, spending was respectively 38 percent and 21 percent higher than in the preceding July and August.

This kind of fiscal over-spending — derived in part from a commitment to such noble enterprises as saving UNITA from the MPLA, supporting Renamo against Frelimo, holding on to Namibia, promoting Bantu education and declaring the State of Emergency — is, of course, massively inflationary.

Thus, in the one area which the government itself designated as a priority — inflation — its policy can be seen to have failed hopelessly.

But what about the other positive features I have already mentioned?

As far as the surplus of the current account of the balance of payments is concerned, in the first half of this year most of that surplus was used in foreign debt repayments. At the end of last year our foreign debt was equivalent to 94 percent of the value of our exports. So we are not in fact building up a large surplus to finance future growth, as we are supposed to be doing. And, in fact, given the large size of the debt — some $24 000 million — we are unlikely to do so for some time.

In addition, we should remember that the surplus was a consequence both of deflationary policies, which reduced our imports, and a falling rand, which boosted our earnings especially on dollar-denominated mineral exports. The surplus was not achieved, therefore, through any improvement in the competitiveness of our export industries. As the State President himself pointed out only this week, over the past 16 years there has been no relative growth in the exports of SA's secondary industrial products.

Under these circumstances, reflation will rapidly produce a surge in imports which, if accompanied by a rising rand, will lead to a corresponding decline in export earnings. In other words, we will soon revert to a deficit situation on the balance of payments.

And then there is the 6,5 percent fall in the prime interest rate, which represents a drop of 26 percent. In most situations such a large drop should stimulate a recovery. However, given that the prime rate, even after such a large drop, still stands at 18,5 percent, this is unlikely to occur.

At best, this cut in interest rates will release some of the pressure on those with existing loans to finance, but interest rates are still far too high to encourage new investment on any significant scale. Bearing in mind, too, the foreign debt crisis, which is likely to prevent us from borrowing overseas in the foreseeable future, local interest rates are likely to come under upward pressure if reflation is attempted.

Thus, with rising inflation which shows no sign of easing, a huge foreign debt which is consuming most of our foreign trade surplus, a currency that is in tatters and interest rates still far too high, there can be little doubt that the South African economy today is considerably worse off than it was in August, 1984 when the government set out to save it. The government has failed — even in terms of the goals it set itself.

***Dr Duncan Innes is a senior lecturer at the University of the Witwatersrand and author of "Anglo: Anglo-American and the Rise of Modern South Africa". Next week he looks at the recent shift in government economic policy.**

Cautious PE reaction to concessions

(49) E-Post 19/11/85

By LOUIS BECKERLING
Business Editor

SPOKESMEN for industry and commerce in Port Elizabeth today welcomed the economic relief package unveiled by the State President, Mr P W Botha, in Johannesburg last night.

However, a number of critics cautioned that the impact of the package might be marginal, while others pointed out that the announcement treated the symptoms of economic malaise rather than the cause.

"There's no doubt that by giving back to South Africans what belongs to them — their loan levies — the Government will reflate the economy," said Mr Tony Gilson, director of the PE Chamber of Commerce.

"But I would suggest that the Government is not getting to the root of the problem, which is that the economy must be given back to the private sector," Mr Gilson said.

Mr Frank Wightman, president of the PE Chamber of Commerce, said the early repayment of loan levies "will probably help our December sales — but we're not talking about big amounts of money".

At 50% the maximum rate of tax "remained too high". And there remained the serious concern about where Government was going to find money to finance the proposed regional service councils.

Mr Bill Oddy, president of the Midland Chamber of Industries, said any reduction in tax was "fantastic. But this was only private tax, not company tax. The reduction in the nominal interest rate assumed for calculating perks tax was "in line with declining interest rates".

Mr Nico Vermeulen, director of the National Association of Automobile Manufacturers of SA (Naamsa), said the latest relief package, combined with previously-implemented measures, would increase spending on durable goods, including motor vehicles.

"Naamsa is accordingly optimistic that average monthly sales of vehicles will improve to higher levels durig the first half of 1986."

● For details of the package see Page 17

Christmas cheer for taxpayers . . .

ARGUS 19/11/85

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Argus Correspondent

JOHANNESBURG. — President Botha's R648-million Christmas bonanza was given a rousing welcome by all sectors today.

December 14

About 1,5-million taxpayers can expect the postman to deliver cheques from the Department of Inland Revenue by December 14.

● The loan levy repayments will range from around R60 to more than R1·000, depending on 1979 incomes, The Argus Financial Editor writes.

Mr David Clegg, of the accounting firm Arthur Young, estimates the approximate repayments, excluding interest, for the different 1979 income groups will be: R5 000 — R40; R8 000 — R90; R13 000 — R220; R20 000 — R450; R25 000 — R700; and R30 000 — R1 000.

● See Page 15.

The repayment of the 1979 loan levy has been brought forward from next February to next month, meaning the early pay-out of R216-million to individual taxpayers and R432-million to companies.

The 7 percent tax levy will be axed on March 1, leaving about R500-million more cash in the pockets of taxpayers in the 1986/87 tax year and bringing the top marginal rate back to 50 percent.

The official interest rate peg that determines the level of perks tax will be lowered from 18 percent to 15 percent from December 1, chopping the tax rate on fringe benefits.

Economists, business leaders, consumers and even political opponents say last night's promises of tax pay-outs and cuts are badly needed to breathe some life back into the economy and to give the country a psychological boost.

If the economic relief is coupled with tangible progress on the political reform front, the opinion is that South Africa's overall position could show dramatic improvement in 1986.

Right thing to do

Mr Rudolf Gouws, senior economist at Nedbank, said he was glad about the announcement. "It is the right thing to do at this moment, although it does make it even more imperative that the Government contain its expenditure. If we couple the announcement with positive political news then I think it could help to turn the national mood," he said.

Mr Andre Hamersma of Standard Bank said that while the measures did not amount to much it was nice to hear a positive announcement for a change. The package increased the risk of high inflation, but it also gave the country a much-needed psychological boost.

Mr Chris Ball, managing director of Barclays National Bank, said: "The tax measures will certainly help to relieve the financial pressures on many families. They should also help to restore confidence, which is low. Now we need to see action to tackle our problems with the rand exchange rate and high inflation."

Needs shot in the arm

Mr Conrad Strauss, managing director of Standard Bank, said: "The economy needs a shot in the arm, and this will help provide it."

Mr Harry Schwarz, Progressive Federal Party spokesman on finance, said the tax surcharge concession was obviously being announced now in an attempt to create a more optimistic attitude among businessmen for next year.

Mr Botha announced the package when he addressed business leaders from both the private and public sectors at a special reception given by the Commission for Administration.

THE ECONOMY

ARGUS 19/11/85 49

Botha's tax relief package

The State President has announced a series of measures to bring relief to the economy. Sapa reports from Johannesburg

THE State President, Mr P W Botha, has announced a package of financial measures to bring relief to the economy.

They include:

- The scrapping of the seven percent levy on income tax from March 1 and the lowering of the maximum income tax rate to 50 percent;
- Reduction of the interest rate at which fringe benefit taxation is calculated on certain loans received from employers, and on certain other benefits, from 18 percent to 15 percent;
- An early repayment of the 1979 loan levy.

Addressing the Commission for Administration, Mr Botha said the 1979 loan levy would be repaid in December this year, instead of February 1986.

This would involve a cash injection of R648 million into the economy.

He said the repayment consisted of R216 million in interest and capital to individuals and R432 million to companies.

He said the adjustment of the interest rate for calculation of fringe benefits would benefit homeowners and participants in schemes aimed at encouraging investment in shares.

Mr Botha said the reduction was in line with undertakings the government had made when it had imposed fringe benefit tax. The step had been taken in the light of the fall in interest rates.

The State President said the seven percent levy on income tax would be scrapped from March 1 next year, involving a loss in income of R500 million for the government in the next tax year.

This would have the effect of bringing the maximum income tax rate down to 50 percent. Mr Botha said this step had also been taken in terms of a government undertaking.

"We are now reaping the fruits of sacrifices in the economic and financial terrain," Mr Botha said.

He gave assurances that the government keeps a diligent eye on financial developments.

"We are especially taking care to prevent a repeat of excessive demand with its resulting negative influence on inflation," the President said.

Mr Botha said the government was aware of the heavy taxation burden on the public.

The Margo commission on tax structure had made good progress and the government was continually investigating ways of introducing taxation relief within the limits of economic change.

"It is already known that the government, on reaching certain monetary and fiscal goals at the end of July this year, adopted a course of moderate stimulation of the economy.

"Because fiscal measures can only be adopted with the approval of Parliament, the government's room for manouevre is limited.

"Against this background, however, I am pleased to announce that my colleague, the Minister of Finance, is considering certain steps that will bring a measure of relief," Mr Botha said

He went on to announce the package of taxation relief measures

Earlier, Mr Botha countered criticism of "unrealistic" bureaucratic growth and statements that the low rand exchange rate resulted mainly from socio-political developments.

The State President said employment in central government and provincial administrations had grown by 1,6 percent over the 21 months since June 1983.

The figures included a 14 percent growth in the number of black teachers as well as a 9,5 percent and a 6,4 percent increase in the numbers of coloured and Indian teachers respectively.

"Against this background, it is clear that the accusations of a growing bureaucracy do not match up to the facts

"Where there has been growth, it has taken place in key services providing development services to South Africa"

On the exchange rate, Mr Botha said it was well known that, over a number of years, adverse local and international circumstances had inhibited the growth potential of the economy.

This had resulted in, among other developments, the steep fall in the rand's value, and a vulnerable" position in foreign reserves and in the current account of the balance of payments

The rand had fallen from a peak of 1,36 dollars in January 1981 to 42 cents in January this year

"This was a gradual depreciation of 94 American cents over a period of four years. To day, the value of the rand fluctuates between 37 and 38 American cents which is only marginally less than the 42 American cents of January this year

"I therefore trust that the often emotional debate about the rand/dollar exchange rate will henceforth be conducted on the basis of all relevant facts and in their true perspective

I am confident that like so often in history, times of economic hardship will provide the opportunity for initiative and creativity," Mr Botha said

Too many people were suffering from a "bad attack of economic pessimism," he added

This was a mistaken interpretation of the present economic situation and was unhealthy" for an economic revival.

'What we all now need instead is a healthy dose of realistic expectations in view of the undeniable strength and the potential of our economy, he said

Economic 'relief' package

CAPE TIMES 19/11/85

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JOHANNESBURG. — The State President, Mr P W Botha, yesterday announced a package of financial measures aimed at bringing relief to the economy.

These include:

- The scrapping of the 7 percent levy on income tax from March 1 and the lowering of the maximum income tax rate to 50 percent.
- Reduction of the interest rate at which fringe-benefit taxation is calculated on certain loans received from employers, and on certain other benefits, from 18 to 15 percent.
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He added that the adjustment of the interest rate for calculation of fringe benefits would benefit homeowners and participants in schemes aimed at encouraging investment in shares.

Loss of R500m in government income

Mr Botha said the reduction was in line with undertakings the government had made when it imposed fringe-benefit tax. The step had been taken in the light of the fall in interest rates.

He said the 7 percent levy on income tax would be scrapped from March 1 next year, involving a loss in income of R500 million for the government in the next tax year.

This would have the effect of bringing the maximum income tax rate down to 50 percent. This step had also been taken in terms of a government undertaking.

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Steep fall in rand's value

"Where there has been growth, it has taken place in key services providing development services to South Africa."

On the exchange rate, Mr Botha said it was well known that, over a number of years, adverse local and international circumstances had inhibited the growth potential of the economy.

This had resulted in, among other developments, the steep fall in the rand's value, and a "vulnerable" position in foreign reserves and in the current account of the balance of payments.

The rand had fallen from a peak of $1,36 in January 1981 to 42 cents in January this year.

"This was a gradual depreciation of 94 American cents over a period of four years. Today, the value of the rand fluctuates between 37 and 39 American cents, which is only marginally less than the 42 American cents of January this year.

"I therefore trust that the often emotional debate about the rand/dollar exchange rate will henceforth be conducted on the basis of all relevant facts and in their true perspective.

"What we all now need ... is a healthy dose of realistic expectations in view of the undeniable strength and the potential of our economy." — Sapa

ARGUS 20/11/85

'Moderate financial assistance'

Political Staff

MODERATE financial assistance for small business was required to overcome the serious effect of the recent high interest rates, the economic committee of the President's Council has recommended.

The committee found that high interest rates and taxes were making it difficult for small businesses to survive.

The committee made no recommendations on the tax structures but referred evidence dealing with the issue to the Margo commission of inquiry.

The committee said it accepted that capital was scarce in South Africa and that abnormally low interest rates were not in the best interests of the country.

However the recent high rates had a "serious discriminatory effect on the small business sector and have therefore damaged the long-term growth potential of the country."

To counter this the committee recommended moderate government financial assistance.

Small business also faced the problem that it did not have access to the capital market.

To overcome this the committee recommended that the Small Business Development Corporation issue bonds and that it provide credit guarantees.

AK64C 20/11/85 (49)

PC urges equal business opportunites for all races

Political Staff

THE President's Council has recommended the scrapping or adjustment of a number of important apartheid laws, including the Group Areas Act, to create equal business opportunities for all race groups.

In a report tabled in the President's Council today, the council's economic committee has called for the appointment of a technical committee by the Department of Constitutional Development to investigate urgently legislation and required ammendments affecting racially discriminatory business practices.

The committee could not reach total agreement on the future of the Group Areas Act and has left the problem to the constitutional committee of the council.

The committee has however recommended that the recent amendments to the Group Areas Act be extended to open all business areas to all race groups wherever they are

The committee's report says some of the members were outspoken in their criticism of the act and pointed out that it restricted the opportunities of Asian, black and coloured businessmen and was in conflict with the principles of a free market economy.

Other members said the act had advantages as it had provided opportunities that would not have existed if only market forces were the determining factors

The committee said procedures in opening up business districts should be constantly reviewed "so that delays in obtaining proclamations can be minimised and access to business premises expedited."

The economic committee agreed with the recent report of the council's constitutional committee that the influx control regulations in the Blacks (Urban Areas) Consolidation Act should go

This act and the Black Administration Act should be "critically examined and amended to bring about a situation where black businessmen are governed by measures which are equivalent to the provincial, local government and other provisions applicable to whites."

The committee calls for the introduction of full land ownership rights for blacks but without the abolition of existing rights such as 99-year leasehold which were cheaper forms of land tenure.

'Everyone must benefit from private enterprise system'

20/11/85 Mercury (49)

THERE was a clear necessity for a strategy to develop business activity to make it easy for people to participate, said the chairman of the President's Council Committee for Economic Affairs, Dr F P Jacobsz.

'While recognising that a lot is being done in this regard, one gets the impression that much of the effort is being dissipated because it is unco-ordinated and taking place in an over-regulated system,' he said.

Job creation was one of the country's priorities and no effort should be spared investigating all possibilities and options to bring greater numbers of the South African population into the economy.

'They must be brought into the economy in such a way that they can participate freely and fully, unhampered by cumbersome regulation, or unrealistic standards, or unnecessary discriminatory practices.

'If the majority of the South African population are to accept the principles of an economy based on private enterprise and effective competition, then it is essential that they enjoy the fruits of the system and not just be spectators standing on the sidelines observing the economic benefits being enjoyed by those participating in the system.

'It will be seen as the system of the privileged and be unacceptable to them.

'It is in the interests of the country and its total population to encourage, motivate, stimulate and to develop acceptance of our economic system because if we fail in this the chances of our succeeding with political and constitutional reform will suffer a severe setback, if not fail,' Dr Jacobsz said.

It was quite evident, therefore, that considerable attention would have to be given to correcting the wrong perceptions of the private enterprise system which were prevalent in the black, coloured and Asian communities.

If South Africa was to embark upon a policy which was consistently focussed on small business then it should ensure that it had an institutional framework which would enable this to be done.

'It is noteworthy that in an advanced economy such as the U S, a specific Government department has been created for this purpose.'

No measures of success could be gained from sporadic, unco-ordinated actions.

'For this reason we have recommended that a council for small business be formed to advise the Government on small business development policy in the broadest sense of the word, and to co-ordinate the implementation of such policy, at the same time propagating the free market system. — (Sapa)

ARGUS 20/11/85 (49)

Trade unionists glum over 'relief'

Labour Reporter

TRADE unionists are less than euphoric about the economic relief package announced by President P W Botha this week.

None of the measures would have any significance for workers at the lower end of the economic scale who were already the hardest pressed by inflation and the depressed state of the economy, they said.

Repayment of the loan levy would not affect blacks as they had not paid it, the scrapping of the seven percent levy on income tax next year would benefit only those paying significant taxes and the watering-down of fringe benefits tax helped only those receiving fringe benefits.

Hardest hit

"It seems the steps have been taken to placate businessmen but do not take into account the needs of the workers who have been hardest hit by the recession," said Mr Jan Theron, general secretary of the Food and Canning Workers' Union.

Mrs Dulcie Hartwell, general secretary of the National Union of Distributive Workers, said the loan levy repayments were of little value to lower-paid workers.

"What they will get back, even with interest, will be worth less than what they gave in 1979 and because they are so badly paid their repayments will be minuscule anyway," she said.

"The only benefit they'll get is that the repayments will be worth more now than they would have been in February next year."

Mrs Florence de Villiers, of the Domestic Workers' Association, said she hoped employers would not be selfish with what they received and remembered the plight of people who worked in their homes and helped maintain their standard of living.

"Inflation hits the lowest-paid workers most and they have also been hit with increased transport costs, rents and school fees.

"We would welcome it if employers passed some of these benefits on to their employees," she said.

Buying power

A Labour and Development Research Unit spokesman said he could see nothing of benefit for workers in the relief package.

"Workers' buying power has been falling quite dramatically in past months and this will do nothing to help them. Apart from the mineworkers, I don't know of one wage settlement in the past five months which has kept pace with the rate of inflation," he said.

The Argus, Wednesday Nov

ARGUS 20/11/85

INDUSTRY

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Manufacturers' profits slashed

DEREK TOMMEY
Financial Editor

PROFITS of manufacturing companies in the June quarter were 26,5 percent lower than in the same quarter last year, figures issued by Central Statistical Services show.

Net profits were R1 176 million which compares with R1 178 million in the March quarter and R1 603 million in the June quarter last year.

But in spite of the poor results in the June quarter shareholders did comparatively better than a year ago. Dividend payments were raised 54,9 percent from R164,1 million to R254,4 million.

The Receiver of Revenue did not do so well. Tax payments dropped 17,6 percent from R446,9 million to R368,2 million.

Interest payments by the manufacturing sector in the June quarter, amounted to R861,2 million which was R110 million more than in the same quarter last year.

But interest payments should now fall following the 34 percent reduction in the prime overdraft rate since May.

Expenditure on assets in the June quarter totalled R1 221,8 million. This was more than the R1 078,9 million in the March quarter and also more than the R1 041,6 million spent in the June quarter last year.

The lion's share went on plant machinery, furniture, fittings and other equipment. The outlay here was R942,3 million against R822,6 million in the March quarter and R797,4 million in June 1984.

Expenditure on vehicles was down slightly to R101,9 million from R102,9 million in the March quarter and R103,9 million in the June quarter last year.

Meanwhile, the latest manufacturing output figures show that since the June quarter production has started increasing.

The index of of physical output for the September quarter was 124,6 which was 4,0 percent higher than in the June quarter index of 119,7.

However, this recovery is starting from a low base. The September index was 5,4 percent below the year ago figure and 15,1 percent below the peak index figure of 140,3 reached in mid-1981.

An analysis of the production figures for September shows some sectors are producing more than a year ago. These include the manufacturers of rubber products (+8,5 percent); basic iron and steel (+4,9 percent); textiles (+2,2 percent); and foodstuffs (+2,1 percent).

But on the other side of the coin production in a number of sectors was down sharply on a year ago.

ARGUS, 20/11/85

'Drastic new planning of black areas needed'

Political Staff

DRASTIC replanning of black urban areas was needed to encourage black business development, according to a report of the economic committee of the President's Council.

The committee has called for urgent amendments to legislation dealing with the establishment and town planning schemes for blacks.

The committee said it had been struck by the restrictive effect of the physical layout of residential areas on the business development of Asian, black and coloured communities.

The problem had been created because Asian, black and coloured areas had been primarily developed as satellite residential areas witrh commercial activities centred on the white areas.

The committee recommended that in reviewing township layouts specific attention should be given to:

- The creation of centrally situated core business areas;
- The establishment of administrative, cultural and social services in the core areas to encourage spontaneous gravitation to the areas;
- The introduction of urban renewal measures to create opportunities;
- The design of hierarchic street patterns to enhance the core concept;

The committee also recommended that in higher order streets mixed land use should be permitted to enable small businessmen to carry on selected commercial or manufacturing activities on the sites where they live.

'Repeal discriminatory laws'

Political Correspondent FOS WENTZEL examines the report of the President's Council's economic committee on a strategy for small business development and deregulation

THE repeal of discriminating legislation applicable to Asian, black and coloured businessmen has been recommended by the President's Council's economic committee in a report on a strategy for small business development and deregulation

It found that, generally speaking, regulatory measures applying to businessmen proceeded from a negative premise.

It recommends that the following guidelines should be adopted in respect of business deregulation generally:

"Legislative measures describing standards and entry qualifications in respect of economic activities should be limited to the statement of minimum standards only; and they should emphasise control of business activity after the businessman has entered into that activity, rather than emphasise his meeting certain requirements before being allowed to enter into that activity."

Existing laws

Evidence presented to the committee clearly illustrated the need to examine critically all existing laws, regulations and administrative practices which unnecessarily hampered economic development and especially small business development.

The principle of equal opportunities for all communities in business was accepted, but there could be differentiation based on local wishes and requirements.

In the case of small businesses the deregulation process should commence immediately through the specific repeal or amendment of a number of legislative measures.

Among the committee's recommendations are:

- The standardisation of licensing procedures in all the provinces along with pamphlets "in understandable language" to explain the requirements to applicants;
- The review of the requirements of the various authorities especially as regards the requirements concerning premises and health standards;
- Differentiation in respect of zoning and other requirements applying to business premises to be occupied by informal and small business enterprises;
- The specific removal from the requirements that applicants should be able to speak, read or write one of the official languages and should keep comprehensive records on matters not directly essential for compliance with the conditions of the licence;
- The issuing of licences on the basis of the minimum of preconditions allowing the prospective licensee to commence operating without necessarily having satisfied all the local authority requirements such as building and health requirements.

The report also recommends the scrutiny of requirements in legislation dealing with machinery and occupation safety, workmen's compensation, unemployment, health and professional and trade restrictions.

Many of the standards required were not appropriate to the circumstances of the small industrialist.

The report also recommends that the Competition Board should be entrusted with the task of co-ordinating the implementation of an ongoing process of deregulation.

PC finds a 'jungle' of rules

Cape Times 21/11/85 49

By BARRY STREEK

AN investigation by the President's Council has concluded that there is "a veritable jungle" of regulations and legal requirements stifling new businesses in South Africa.

The economics committee of the President's Council said in its report on regulations governing small businesses that many of the regulations applied only to specific population groups, particularly black people.

The results of case studies indicated that "Asian, black and coloured businessmen are often subject to additional regulation provisions besides those facing the white businessman".

In their report, which was released yesterday, the committee said it was "generally acknowledged that the South African economy has come to be regulated to a point where regulations and procedures for their implementation are restricting private initiative and economic development".

It recommended that "discriminating legislation applicable to businessmen of the Asian, black and coloured population groups be repealed or amended insofar as may be necessary to achieve a situation where all businessmen in South Africa operate their businesses in terms of procedures and subject to standards which are in all respects equivalent; providing that existing alternative standards which are less costly and more simple should be retained without distinction on the basis of race to take into acccount the needs of developing communities in South Africa".

The committee urged the acceptance of the principle of equivalence for all businessmen.

It called for the appointment of a technical committee with private sector representation to conduct a detailed investigation of the required amendments of legislation to promote equivalence as a matter of urgency.

It said the Competitions Board should be entrusted with the task of co-ordinating an ongoing process of deregulation.

The committee concluded that most of the deregulatory measures could be carried out through the suspension or repeal of the applicable legislation.

'Flexibility'

However, "to ensure that deregulation of this nature is speedily implemented", the committee recommended that the State President should be given special powers which will enable him to suspend the operation of legislation pending the next session of Parliament.

"The committee sees as the major advantage of such a system the fact that legislation would not necessarily be repealed, and could be reintroduced or reapplied in part or to certain categories of business or activities.

"Greater flexibility would be the result."

Stockmarket booms ahead of recovery

CAPE TIMES 21/11/85

By PAUL DOLD
Financial Editor

THE stockmarket is booming ahead of a reasonably strong economic recovery next year and better than expected Christmas spending.

With the government injecting an estimated R2 billion into the economy to stimulate growth, institutional investors are buying shares which will benefit from increased consumer spending.

Amid renewed confidence in the economy, pension funds and insurance groups are pouring millions of rands into the share market and are triggering one of the biggest stockmarket advances in years.

Industrial shares are leading the market higher and prices soared yesterday with many investors showing gains of up to 22 percent.

The small investor, attracted by the heavy profits, is entering the market too and adding to the weight of funds.

Aggressive buying yesterday sent trading figures soaring and the total value of shares traded was R49 394 937 against Tuesday's R26 844 911.

The Industrial Index thrust through the 1 000 barrier with a 30 point rise to close at 1 001,5 and the Gold Index rose nearly 31 points to 1 224.7.

Already industrials are within sight of recouping most of the losses which followed the declaration of the State of Emergency and could soon test the all-time peak of some 1 040.

Heavy buying by institutions was seen yesterday with more than R3,5m trading in diamond share Anamint.

There was some R1m trade in gold shares Beatrix and Vaal Reefs and glass manufacturer Plate Glass — which has extensive overseas interests.

The abrupt surge in the market has taken many analysts by surprise.

Depressed industrials are suddenly taking note of positive news such as stimulation of the economy and lower interest rates and ignoring unrest in black areas.

With more than R2 billion of tax cuts and interest rates diving, the authorities are showing their determination to improve consumer confidence and raise the growth rate.

While this will lead to a fall in unemployment, coupled with improved economic growth, it may push the inflation rate sharply higher particularly when the full impact of the rand's recent steep fall is felt.

The stockmarket is advancing across a broad front but it is notable that the buying has been concentrated on institutional favourites such as Vaal Reefs, Sasol, Wooltru, Murray & Roberts, Amgold, Barlows, Randfontein, Barclays and Anglo's.

De Beers — a bellwether stock — rose to R15 yesterday.

The largest price gain of the day was furniture manufacture Afcol's 22,5 percent but double figure gains were widespread. Industrial leader Barlows gained 65c.

Banking shares were in demand as they stand to gain from the rise in consumer spending as the government cuts taxes and gives the consumer more take-home pay.

Nedbank, Barclays, Volkskas, Standard, Trust, Bankorp and Hill Samuel spurted.

Pick 'n Pay rose 250c, while Sasol added 35c.

Computer software group SPL, which was listed for the first time yesterday, closed at 200c giving investors a heavy profit over the 75c paid for the shares.

NEW HIGHS

	PRICE	PREV
ANAMINT	16600	16500
CARRIGS	135	100
ERGO	1460	1440
ERGO CD	1525	1500
RANDFONTN	25400	24800
WAVERLEY	245	240
HARTIES	1300	1250
SOUTHVAAL	10600	10100
STILFTN	2300	2250
VAAL REEF	22000	21300
ZANDPAN	227	215
BEATRIX	920	905
HARMONY	3300	3240
LORAINE	1360	1300
ST HELENA	4500	4400
DEELKRL	650	635
DRIES	5625	5600
WSTN DEEP	11000	10400
WSTN DP O	5900	5000
RUSPLAT	2575	2550
ANGLO AM	3765	3710
GFSA	3900	3775
GFSA 5C C	4650	4600
JOHNNIES	26250	26000
AMGOLD	20650	20500
COR SYND	190	180
GENBEL	3000	2975
BARCLY PO	2200	2175
LIBERTY	9200	9100
IND SELEC	850	830
ANCHUSA N	220	175
A V I	1550	1500
BARLOWS	1335	1280
CURFIN	490	470
M & R NPL	400	275
PROTEA NP	20	10
PROTEA 13	95	93
SINCLAIR	130	128
AECI	930	875
SASOL	880	870
TREK	1325	1250
SPL	200	170
ABERCOM	198	195
CEMENCO	350	330
ED L BATE	1950	1850
OCFISH	875	850
TIGR OATS	6950	6900
SCORE	920	870
TEGKOR	2775	2750

NEW LOWS

	PRICE	PREV
HUDACO	210	215
BRADLOWS	300	500
ELLERINE	500	580
HORTORS	115	120
KIRSH CP	180	185

PC: Scrap group areas for all businesses

Cape Times 3/11/85

(49)

Political Staff

ALL racial restrictions on businessmen — including the Group Areas Act — should be scrapped, the Economics Committee of the President's Council has recommended.

In its report, which was released yesterday, it emphasized that it "supports the principle of full and free participation in economic activities by all population groups".

The committee said the aim should be that Section 19 of the Group Areas Act — which removes racial restrictions on businesses — should be applicable to all business and industrial premises.

Its report said: "Access to markets is a fundamental precondition for participation in economic activity. Any restriction on access would represent an overriding inhibition on the development of small business.

"For Asians, blacks and coloureds the Group Areas Act, 1966, is a fundamental problem because it restricts their right to establish and operate business concerns in the economically-dominant areas of the country.

"The Act is in direct conflict with the objective of increasing the participation of economically less-developed communities and of improving their perception of the merits of the free market system.

"Privileged access for white businessmen to economic activity cannot be reconciled with the true nature of the market, which recognizes only the ability to pay and the ability to supply."

The committee also warned against the 'local option' inherent in the implementation of Section 19, which enables all races to trade in open business districts, because of the role local authorities had to play as the applicants for the establishment of free trade areas.

'Local option' warning

"This 'local option', as it exists in practice although not on the statute book, could work against the economic participation of Asian, black and coloured business communities in those towns and cities where attitudes are not sympathetic to the accommodation in business of these communities.

"The committee wishes to point out that in a economically-integrated society the economy is indivisible and group restrictions on access to business can hardly be regarded as being in the best interests of society as a whole and of the developing communities in particular."

It also noted the presence of "an awareness of the negative effect of racial prejudice on the development of entrepreneurs in particular communities".

Cape Times 21/11/85

Hawker's problem

B6 49

Political Staff

A LEGAL hawker in the Transvaal has to apply for permission from five government departments — and in some cases pay R150 — every year

This was cited by the Economics Committee of the President's Council as an example of the official restrictions placed on informal business.

To obtain a hawker's licence in the Transvaal. "an applicant must place an advertisement in the press in both official languages. he must pay an application fee of R10, his application must go to the police, the health authorities, the town engineer, the traffic authorities and the fire department and, if the licence is awarded, he must pay a licensing fee which may vary from R20 to R50 depending on the type of licence"

In the Cape Peninsula, a hawker selling fruit "must have at his disposal a building with the necessary air-conditioning before he will be issued with a licence"

Boom pushes shares to new heights

Argus 22/11/83

DEREK TOMMEY,
Finance Editor

THE boom on the Johannesburg Stock Exchange is continuing, with the turnover in shares remaining above R40-million for the second day running and the all-share index again rising to a new high.

However, dealers point out that the nature of the boom has changed in the past day or two with investors beginning to show greater interest in industrial shares.

Investors have been concentrating their buying on three categories of industrial shares.

One of the categories is food shares, where the price index rose 3,7 percent yesterday. Store shares rose 4,4 percent overall yesterday.

OPTIMISM

Brokers say the increased demand for industrials reflects growing optimism about the country's economic prospects next year.

A Cape Town broker dismissed as "nonsense" comments that there were no sound economic reasons for the share boom and that it was being caused by small investors who would "burn their fingers".

He said that much of the demand was coming from institutions and that the so-called small investors were in many instances businessmen who knew fully what was happening in the economy.

World hostility threat to upturn — Sanlam

CAPE TIMES 25/11/85 49

HOSTILE world opinion could limit and shorten the expected upswing in the South African economy, says Sanlam in its latest economic survey.

"At this stage it is difficult to predict the exent to which South Africa's imports and exports will be affected by hostile action from abroad.

"For purposes of forecasting, we have assumed there will be no large-scale interference with our foreign goods traffic in 1986.

"It is nevertheless becoming increasingly apparent that South African importers and exporters will have to be more imaginative in future if we are to keep our overseas trading channels open."

The report says it accepts that the process of political reform will be maintained and may even be stepped up, but that social and political tension will nevertheless continue.

"The lack of business and consumer confidence is strengthened by the fact that labour remuneration will rise only slightly next year, that the inflation rate will remain high and that the consumer's spending power will be curtailed further by the higher tax burden."

In the light of these factors, the recently-announced tax relief package, even though limited in extent, is "most welcome."

The report says it foresees only a small rise in consumer spending after the sharp decline in 1985, a moderate increase in the current expenses of the general government, a further drop in total fixed capital spending and a steady depletion in inventories during the first half of 1986, followed by a small rise in the last few months of the year.

"All in all we expect real gross domestic expenditure to rise by approximately three percent in 1986 as against an estimated decrease of almost eight percent this year."

The report estimates that the average remuneration per worker in the non-agricultural sectors of the economy will rise by about 10 percent in 1986 compared with increases of about 12 percent in 1985 and 15,8 percent in 1984.

"Economic considerations will simply force businesses and institutions to continue placing drastic limitations on salary adjustments."

This together with an anticipated rise in the consumer price index of about 14,5 percent and the heavy demands of the exchequer would result in a considerable drop in the consumer's real disposable income.

The anticipated strengthening in the external value of the rand following the temporary freezing of South Africa's foreign debt had not materialized, and in 1986 the weaker rand would have a "substantial" influence on the inflation rate.

Factors that would help check inflation would be a slow growth trend in the national economy, lower interest rates, moderate wage and salary increases, controlled adjustments in the prices of administered goods and services, only mildly expansionary fiscal and monetary policy measures and an expected good agricultural season.

The report says its seems that the current account of the balance of payments could still show a considerable surplus — of the order of R4 700m — next year.

Further import restrictions could not be ruled out.

Commercial and industrial companies could not expect markedly more favourable business conditions before the second half of 1986, and then only limited improvements were foreseen.

Undertakings in certain sectors of the economy would have to do "all they possibly can in their struggle to keep going." — Sapa

Apartheid and the economy

CAPE TIMES 25/11/85

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By DAVID WELSH

Professor of Southern African Studies at UCT

ONE of the most crucial debates among scholars has concerned the relationship between capitalism and segregation/apartheid/separate development.

The two poles of the debate are

(a) The argument that capitalism and apartheid are antagonistic and, indeed, that the logic of capitalist development erodes apartheid structures,

(b) The argument that capitalism either generated segregation or, at least, has been its willing accomplice.

In between these polar positions come a variety of more nuanced stances.

Merle Lipton's book "Capitalism and Apartheid"* is a major contribution to this debate. With the unprecedented entry of business into the political arena in recent times it should evoke more than mere academic interest.

The strategy of the book is to comb the historical evidence regarding each economic segment of the white oligarchy's attitude to apartheid. The detailed analysis that follows is much the strongest part of the book.

The evidence shows quite wide inter-sectoral variations: (white) agriculture and mining historically supported major components of apartheid especially those concerning labour.

Lipton shows however the neo-Marxist arguments which seek to blame the mining industry for the job colour bar are contradicted by the historical evidence. Thus, in 1893 the Chamber of Mines opposed the first statutory colour bar.

Manufacturing and commerce have a less equivocal record: neither needed most apartheid policies and accordingly opposed them. Lipton is careful to say that this opposition was not because these employers were liberals (although some were); rather it stemmed from the rigidities of apartheid labour policies which conflicted with their interests.

Lipton's conclusions about white labour's support for apartheid are bound to provoke debate. Some recent "revisionist" history has sought to exculpate white labour from direct complicity in racism and instead to suggest that this was contrived by capital.

The evidence, however, compellingly suggests that the racism of white labour had its own, independent roots that could not be attributed to the machinations of capital.

Another critical issue raised by the book is the relationship between apartheid and economic growth. Mrs Lipton's evidence suggests that it had been a significant constraint but her conclusion is cautious:

"Apartheid had both costs and benefits and the net effect on economic growth is not clear. The argument that apartheid restrictions 'had depressed living standards and limited economic opportunities' was heard repeatedly this century. At the least, it is likely that apartheid was neither a necessary nor a sufficient condition for South Africa's impressive growth record."

The chapters concerned with politics are solid, informative and provocative. A central theme of these sections is the argument that political power cannot be reduced to, or conflated with capital or capitalist interests.

Much of the book is devoted to demonstrating how little political clout has actually been wielded by mining, manufacturing and commerce while white agriculture and labour have, historically at any rate, possessed a solid electoral base that gave them until recent times substantial political influence.

While this book is essential reading for anyone seriously concerned with South African issues it is not without its flaws. There are some straightforward errors of fact. Sanlam has never owned Nasionale Pers. Vorster was not a Greyshirt, and the Cottesloe conference was not organized by the Dutch Reformed Churches as Mrs Lipton seems to imply.

More serious is her failure to analyse in detail business's behaviour during the 1983 constitutional referendum. Much of "big business" ignored the arguments that the new constitution was a recipe for confrontation and voted "yes". No doubt their intentions were genuinely reformist, but in with hindsight it seems to have been a colossal miscalculation.

Also debatable are some of the conclusions on the relationship between ethnicity and class among Afrikaners. These will no doubt be extensively debated in the academic journals, but I would note here that her (apparent) attempt to explain splits in the National Party in the 1930s and in the 1970s in terms of class is insufficient. In both cases the fault-lines in the Afrikaner alliance were far more complex than that.

***Capitalism and Apartheid. South Africa 1910-1984.** By Merle Lipton (Gower)

ARGUS 27/11/85 BUSINESS

ECONOMY

'SA debts freeze a blessing in disguise'

Financial Staff

THE current moratorium on debt repayments can be viewed as a blessing in disguise, a senior executive in the life assurance industry has said in Cape Town.

Speaking at a Press conference, Mr Louis Fourie, investment manager of National Mutual, said the moratorium was forcing South Africans to change their economic thinking.

"The need for change is always less visible in prosperous times, but now, as the availability of finance starts to influence Government thinking, world bankers are seemingly forcing us to make changes.

"The lower rand — and therefore the lower living standards — presents the ideal opportunity to get the engine of growth going again."

Commenting on investment prospects, Mr Fourie said the year ahead would not be easy.

"We will have to adjust to a much less certain environment in which markets will continue to be volatile and with little long term direction. Inflation-hedge investments like property and shares will however be in demand."

Mr Fourie said that during the past year National Mutual had started looking at investment opportunities other than the ones in which institutions traditionally invested.

"These included forming partnerships on property projects.

"National Mutual has in fact had a very successful year — with a 20 percent return based on the market value of our total assets, while our investment income increased by 30 percent.

"Our success can be attributed to our flexible and aggressive investment philosophy, which meant that our investment strategy kept pace with the dramatic changes in investment conditions.

Another feature of National Mutual's best-ever year was the growth in broker sales.

New premium income from broker business increased by 70 percent. In October and November, the first two months of the company's new financial year, individual premium income from broker sales had run at double last year's monthly average.

Mr Fourie said that although the future of South Africa looked uncertain and proponents of the "domino theory" expected the country to follow in Rhodesia's footsteps, one should not forget that South Africa had an above-average growth potential.

"If the current situation can result in the necessary political and economic changes, there is no reason why this country cannot grow at a rate of more than 6 percent a year over the next decade — especially as the level of labour and managment skills will be rising significantly."

He believed the country had to get rid of its dogmatic thinking on certain political issues such as influx control before it could start growing at a rate closer to its potential.

"Although a change in attitude has become visible, we believe that the acceleration of economic reform is critical. And by this, I mean deregulation, privatisation and a reduced State role in our economic lives.

"It is understandable that if we leave the deregulation and privatisation drive in the hands of the bureaucrats, the process could be slow.

"However, as the implications of current political thinking become more of a reality, the perceptions of State and semi-State employees about job security might change and they could then favour privatisation in order to safeguard their jobs."

Mr Hadden Steer of Cape Town has been appointed a member of the Government's Estate Agents Board. He is a director of Steer and Co and is a former chairman of the Cape Town and Western Cape branch of the Institute of Estate Agents. His three-year term begins on January 1. The appointment doubles the Cape's representation on the board. Mr Ben van der Ross is already a member.

Miss Elise Wreford has been appointed resident investment consultant at the Natal Building Society's Claremont branch.

usiness Report

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49 Cape Times 28/11/85

Recovery must mean higher inflation — Kantor

By AUDREY D'ANGELO

Prof Brian Kantor

THE strong recovery of prices on the Johannesburg Stock Exchange and of the financial rand are signs that confidence in the long-term future of the economy is returning, Professor Brian Kantor of the University of Cape Town said yesterday.

Speaking to the Cape Town South African-German Chamber of Commerce and Industry, he said that although the economy was very weak it was unlikely to weaken further.

"It is very important to understand that the higher rates of inflation to which the economy will be subject over the next two years will be the effect of the weak rand.

"The economy will recover as wages and salaries catch up with prices.

"It will be quite wrong to regard the increases in wages and salaries that will accompany recovery as the cause of inflation.

"Over the next two years they will be the effect of the recovery of the economy, which is to be welcomed and encouraged."

Professor Kantor said the problem in South Africa now was "too little spending rather than too much, too much saving rather than too much investment.

"What needs to be done for the economy right now is to get spending up, without permanently increasing government's share of the economy."

He said the authorities had correctly decided to give priority to the recovery of the economy rather than "attempt to squeeze any more of an export surplus.

"Any such attempts would have been surely counter-productive in that they would have meant a still weaker economy and one more vulnerable to unrest and withdrawals of capital and skills."

But in order to keep South Africa's trade and financial links with the outside world there must also be "a process of political reform that removes, in the first instance, racial discrimination and secondly, that allows blacks to participate much more closely in the process of government.

"This means a lot less than one man, one vote but a lot more participation and a lot more sympathetic government."

The South African Government was clearly seeking black participation but finding it difficult to achieve on its own terms.

"In encouraging effective participation, perhaps something can be learnt from recent developments in labour relations."

The emergent black trade unions had been regarded as a threat because they were highly radical. But this radicalism had been disciplined by economic self-interest.

"Economic realities have imposed themselves, while at the same time channels of communication between workers and firms have been kept open.

Pointing out that the participation of blacks in local and regional government could bring great benefits to the governed — particularly if the powers of local authorities were extended to education — Profesor Kantor said: "The problem, of course, is to encourage credible black participation."

iday, November 29, 1985 49

South Africans urged to change economic thinking

THE current moratorium on debt repayments can be viewed as a blessing in disguise, a senior executive in the life assurance industry said this week.

Mr Louis Fourie, investment manager of National Mutual, said that the moratorium was forcing South Africans to change their economic thinking.

"The need for change is always less visible in prosperous times, but now, as the availability of finance starts to influence government thinking, world bankers are seemingly forcing us to make changes," Mr Fourie said.

"The lower rand — and therefore the lower living standards — presents the ideal opportunity to get the engine of growth going again."

Commenting on investment prospects, Mr Fourie said that the year ahead would not be easy.

"We will have to adjust to a much less certain environment in which markets will continue to be volatile and with little long term direction. Inflation-hedge investments like property and shares will however be in demand."

Mr Fourie said that in the past year National Mutual had started looking at investment opportunities other than the ones in which institutions traditionally invested.

"These included forming partnerships on property projects.

"National Mutual has in fact had a very successful year — with a 20 percent return based on the market value of our total assets, while our investment income increased by 30 percent.

"Our success can be attributed to our flexible and aggressive investment philosophy, which meant that our investment strategy kept pace with the dramatic changes in investment conditions," Mr Fourie said.

Another feature of National Mutual's best-ever year was the growth in broker sales.

New premium income from broker business increased by 70 percent.

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Mr Fourie said that although the future of South Africa looked uncertain and proponents of the Domino theory expect the country to follow in Rhodesia's footsteps, one should not forget that South Africa has an above-average growth potential.

"If the current situation can result in the necessary political and economic changes, there is no reason why this country cannot grow at a rate of more than six percent a year over the next decade — especially as the level of labour and management skills will be rising significantly."

Mr Fourie believes that the country has to get rid of its dogmatic thinking on certain political issues such as influx control before it could start growing at a rate closer to its potential.

"However, as the implications of current political thinking become more of a reality, the perceptions of State and semi-State employees about job security might change and they could then favour privatization in order to safeguard their jobs," Mr Fourie said.

Cape Times 30/11/85

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5-star hotels faring worst in recession

Staff Reporter

FIVE-STAR hotels are having the toughest time resisting the economic recession while two-star hotels are having the greatest relative success.

This applies to both room and bed occupancy as well as to total real income, according to a survey of monthly hotel occupation ratios for September.

Conducted by the Bureau of Financial Analysis of the University of Pretoria, the survey reveals that the downward tendency in trading results which started in November 1981, is still continuing throughout the country.

Two-star hotels fared best with a decline in room occupancy of 6,1 percent while five-star hotels fared the worst with a drop of 19,9 percent in September in comparison with the same month last year.

In bed occupancy two-star hotels dropped 2,6 percent while, for five-star hotels the decline was 23,5 percent.

The real income of five-star hotels dropped 28,5 percent in September this year in comparison with the corresponding month last year. The drop in real income for the other grades ranged between 22,3 percent for three-star hotel and 16,5 percent for two-star hotels.

The real income of City hotels declined by 28,1 percent, room occupancy by 24 percent, off-sales by 32,6 percent and the second biggest decline in bed occupancy of 22,6 percent.

The Natal South Coast increased its room occupancy while the Witwatersrand and Vaal Triangle fared the worst after Cape Town.

1985 (49) Cape Times 3/12/85

Stagflation biggest danger — Assocom

JOHANNESBURG. — South Africa's major economic danger in 1986 is stagflation, "a stagnant, viscous economy with prices constantly on the rise", the Association of Chambers of Commerce (Assocom) says in its quarterly review.

The review explained the problem was not high demand but high input costs, and called for the privatization of state bodies and a cutting back of regulations.

"We have to take a calculated risk on inflation," it said. "Most manufacturing enterprises are working below full productive capacity. We can withstand a considerable increase in demand before buying power forces up prices."

The review said it was important to restore the world's faith in South Africa and get the economy rolling again, to increase employment and make the rand appreciate. "Then let us have a fresh look at our inflation problems."

It was clear that the root of South Africa's problems was its political philosophies, the review continued, calling for black participation at all levels of government and an end to apartheid restrictions on the movement of labour.

Meanwhile, Assocom's business confidence index (1983-100) rose to 80.6 points in November from 78.0 in October. No figure is available for November last year.

Assocom attributed the rise to the Government's plans to develop offshore gas near Mossel Bay, recent tax concessions, the reduction of prime rate to its current 16.5 percent, and the sharp upswing of the all market index on the Johannesburg Stock Exchange.

Assocom added however that business confidence remained at relatively low levels with the numbers of insolvencies still on the increase, unemployment high and inflation at nearly 17 percent.

"In addition to this the real purchasing power of the consumer is still declining and, in the present situation of low rates of utilization of production capacity in manufacturing industry, expenditure on capital investment is remaining low."

The BCI reached its lowest level in April when it was 76,1 points — Sapa-Reuter.

Bus DAY 49 4/12/85

Lower factory utilisation mirrors SA economy

JOHN TILSTON

THE economy's poor performance is underlined by the latest statistics on the utilisation of factories' capacity.

The figures, released by Central Statistical Services, are based on regularly-conducted surveys and show that not only has utilisation decreased, but that the reasons for the fall have moved increasingly away from shortages of inputs to lack of demand.

At the end of 1982 the manufacturing sector was operating at 87,6% of its capacity. This 12,4% under-utilisation was accounted for by a 1% shortage of raw materials and 1,6% shortage of labour.

Only 9,1% of the shortfall was attributed to "insufficient demand".

By August this year utilisation had slipped to 83,8%, with 14,3% of this attributed to insufficient demand.

Worst-hit industries included the motor industry (at 74,2% capacity), transport equipment (74,8%), electrical machinery (78,8%) and metal products (79,9%).

The picture has deteriorated since August. The motor industry, for example, is now reported to be operating at only 50% of capacity.

The manufacturing sector will be looking to a build-up in inventories to boost production levels. But few economists believe that stock levels will be increased next year. Most, in fact, are predicting a further decline in inventories by between R200m and R700m.

Economists just cannot see reasons for the businessman to increase stock levels in the current circumstances.

Indeed there are fears developing that the immediate post-Christmas period could provide a number of shocks.

Retailers have kept stock and staff levels artificially high, given the continuing decline in the level of real retail sales, in expectation of Christmas spending.

Once the festive season is over, further de-stocking and staff redundancies can be expected.

BUS DAY 4/12/85

Bad times boost lapses

49

LESLEY LAMBERT

THE rate at which life assurance policies lapse or are surrendered depends on perceptions of economic conditions a year or two in advance, says the GM of Bankfa (broking arm of Bankorp).

"In view of the poor state of the economy in 1985, it is encouraging that lapses increased by only 5% in 1984. On the other hand, it is disquieting that surrenders increased by 35%," U le Roux says in *Saiba News*.

When the real increase in new premiums for 1980 was 28% higher than in 1979, and GDP was 7,8% higher, the annual figure for lapses decreased by 12% in real terms in 1979.

This was probably because of expectations of an improved economy in 1980.

In 1981, expectations of a weaker economy led to a 19% increase in lapses and a 33% rise in 1982.

Surrenders show the same tendency as lapses. In 1979, the annual figure for surrenders fell by 26% in real terms, with a further decrease of 16% in 1980. However, an increase of 14% was reflected in both 1982 and 1983.

BUSDAY 5/12/85

"Capitalism seen to have failed"

Let blacks enjoy free-market system — Nafcoc chief

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ANDRE VAN ZYL

THE free-enterprise system, if honestly applied, was the only system which would transform SA into a great economic power in Africa, Dr Sam Motsuenyani, president of the National African Federated Chambers of Commerce, said yesterday.

'But first we must get rid of the undesirable elements of exploitation, injustice and racial discrimination which makes it unpopular and totally unacceptable to the vast majority of people in the country," he said.

Accepting the 1985 Free Market award at a Johannesburg luncheon for his contribution to furthering free enterprise, he said socialism held tremendous attractions for many blacks because capitalism was seen to have failed.

"I also maintain that capitalism has failed, but only for the reason that it has never been honestly applied and practised," he said.

The continued development and survival of the free-market system in SA was dependent on greater involvement of blacks.

"For too long we have spoken to blacks about the wonderful virtues and benefits of the free-market system without seriously attempting to make them a part of it," Motsuenyani said.

Since the mid-70s, there had been some movement towards the gradual removal of legal barriers which had inhibited black economic advancement.

"This movement must be rapidly accelerated to keep pace with legitimate black demands and aspirations.

"SA must move fast towards becoming a country where human worth will not be determined in terms of skin colour," he said.

"The free enterprise spirit will thrive only in a climate of greater freedom where individuals, irrespective of their race or colour differences, enjoy certain fundamental rights — including freedom of movement, ownership of private property, equal citizeship rights, freedom of choice of enterprise and equal protection under the law.

"The existing turbulance and strife in our country is directed mainly against these very inequalities and injustices which presently characterise our society."

Embattled retailers pin hopes on Christmas bonanza

W/G ARGUS 7/12/85

(49)

STEPHEN ROBINSON

LOCAL retailers who have battled through one of the worst periods in memory are pinning their hopes on brisk Christmas sales this year, and early indications suggest December trade might not be as bad as once feared.

However, many retailers, and particularly those who deal with a high volumes of imported goods, fear prospects in the New Year could be dismal.

Clicks gambled on a good Christmas and ordered a full range of gift lines, says managing director Mrs June Kritzinger.

"Early indications suggest this Christmas period might be good, and certainly not as bad as it looked before."

"This year we have placed even more emphasis than usual on low price goods, and on slightly more practical things which we feel will appear more to people in the present difficult times."

The December month is always crucial for retailers, particularly if turnover has been badly depressed during the rest of the year. A company like Clicks expects to produce at least double the average monthly turnover during the Christmas period.

Mr Michael Boyes, general manager of Garlicks, is looking forward to a "reasonable Christmas", provided political unrest does not break out again in the shopping areas.

But he did not expect turnover to increase in real terms beyond the rate of inflation.

"Like many retailers, we are benefiting from sales prompted by fears of substantial price increases in the New Year, he said."

He said the prices of Garlicks wide range of imported lines would rocket in the New Year.

In the liquor sector, which also banks heavily on doing well at Christmas time, profit margins have been savaged by a ruthless price war, which has seen prices of spirits, wines and beer drop dramatically.

In this way turnover appears to have been maintained, although profit margins have come under intense pressure.

"Although the liquor rand has definitely shrunk this year, and we have had a difficult year overall, our turnover at the moment is probably up on the same period last year," said Rebel's Western Cape chairman, Mr Isaac Sacks.

"But, while the public might be winning with the cheaper prices, it will certainly hit all the bottle stores's bottom lines."

High Street Jewellers have had a particularly torrid time in the past year, and most were unwilling to talk about prospects for Christmas.

But Mr Melvin Greenstein of Wolf Brothers Jewellers said he was personally confident about Christmas prospects.

"Customers are buying strongly, partly because they believe that prices will be higher next year."

He said most of the sales were either for cash or on credit card.

"If the current level of business continues I think we are going to have a better Christmas than last year."

In the food retailing sector, which is naturally more resilient to the ravages of the recession, the big chains expect to cash in on the annual flood of holidaymakers to the coast.

"We in the Western Cape always do well in December-January at the expense of inland stores, and we can boost our turnover by up to 50 percent during the holiday period," said John Barry, of Pick 'n Pay."

The usual Christmas momentum was already building up, and he said the frantic Christmas rush would begin in earnest next week when factory workers received their Christmas payouts.

Mr Colin Abel, amanaging director of Victrix, said he was expecting a bonanza Christmas, although "it will be for all the wrong reasons".

"We are facing truly horrendous increases next year, even on locally assembled goods which carry a high proportion of imported components."

"I am very concerned that at some stage in the New Year we are going to hit very strong consumer resistance, and the manufacturers are going to have to come up with some major new marketing techniques to overcome this."

BUS DAY 9/12/85

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Increase in third quarter GDP

Mining, farming and the utilities lifting economy

JOHN TILSTON
Economics Editor

THE MINING industry, farmers and the utilities are dragging the economy out of its recession. But the process will be long and arduous, and the resultant growth will at best be only moderate.

That is the message in the latest Reserve Bank *Quarterly Bulletin* released on Friday.

Real gross domestic product (GDP) increased moderately in the third quarter, after four quarters of appreciable declines. But the increase resulted from narrowly-based growth in real output, which was largely confined to the primary sectors of the economy.

Gold mining output, depressed by labour strikes in the second quarter, rose sharply in the third quarter. Other sectors which performed well were agriculture (boosted by a good maize crop), the export oriented non-gold mining industry, and the sector supplying electricity, gas and water.

The bulletin said industrial output directly related to essential consumer demand, such as food processing and clothing manufacturing, as well as the real value added by the motor trade, increased sharply in the third quarter.

The fall in retail trading slowed markedly. But output by the manufacturing industry as a whole, the overall trade sector, the construction industry, and the transport sector continued to slide.

The overall level of profits increased in the third quarter because of the huge rand profits being made by gold mining companies. Other sectors did not fare so well. The manufacturing and construction sectors in particular were still under severe pressure.

Real *per capita* earnings declined further across just about every sector.

The private sector's real investment in machinery and other equipment, financed by leases, increased appreciably in the third quarter, spurred by the lower cost of borrowing. The bulletin recorded "noteworthy" increases in real capital expenditure by government.

Inventory levels also increased marginally in the third quarter, after substantial depletions in the first six months of the year. But the interruption to the downward trend was largely the result of increases to agricultural and diamond stocks. Expressed as a ratio of real non-agricultural GDP, real commercial and industrial inventories fell from 22,9% at the end of 1984 to 21,8% at the end of September this year.

The overall level of savings increased in the third quarter. As a percentage of GDP it approximated the long-term trend of about 30%. The bulletin said: "The improved savings performance was all the more remarkable if it is taken into account that as recently as the second quarter of 1984 the savings ration amounted to only 20,5%. Gross domestic saving actually exceeded gross domestic investment so that excess funds were available for reducing the country's foreign indebtedness."

9/12/85 BUS DAY

1986 to be standstill year in the Cape . . .

49

CHRIS CAIRNCROSS in Cape Town

MORE AND more people face the threat of losing their jobs come January. As business battens down the hatches to prepare for a 1986 economy, forecasters are predicting it will be a standstill year.

Businesses most likely to continue reflecting the strains are those in the durable and semi-durable sectors, which have already been hard hit by the slump in consumer spending.

Retailers generally are pessimistic of enjoying even a temporary respite in the traditional run-up to Christmas — and are, therefore, preparing to run much leaner ships in the new year.

Wooltru's chairman David Susman, for example, believes the damage done to consumer confidence by the unrest and state of emergency is going to have a negative impact on the next three weeks trading.

And, unless the group experiences a "dramatic" improvement in consumer spending — considered a most unlikely event — Wooltru shareholders can expect a further profit slump.

Foschini's Hugh Mathew paints an equally dismal picture of trading prospects. He confirms that the group is in the process of restructuring some of its operations to prepare "for a hard year ahead" and confesses some people will be laid off as a result.

Foschini is finely tuning stock levels for a volume off-take in 1986 that is only expected to match the very low sales base experienced this year.

Edgars is adopting much the same approach. The group's chief executive Vic Hammond said that he could not see any big spending taking place over December and was forecasting a standstill in 1986 — or even a decline of 2% to 3% in volume terms if inflation rises to around 20%.

Garlicks' Jack Garlick said that though the retail trade was experiencing a rough time, a marginal improvement in sales had been experienced by his group in October and November, leading him to hope December will continue the upward trend.

The threatened boycott by consumers, in the Transvaal particularly, could quickly turn that around, he added. "Come January and it is difficult to know what to expect," Garlick said.

The chain store group is, however, keeping budget planning down to a six months horizon. "We have yet to plan our January to June budget. We are obviously having to live a hand-to-mouth existence," Garlick observed.

He added that the group had been endeavouring to trim inventories down to the minimum since 1982. "But you can keep inventories down to just so much before it has an effect on your customers," Garlick concluded.

It is apparent, however, that stock cutbacks will continue to set the pattern early in 1986. Observes Old Mutual economist Rob Lee: "Although present inventory levels are very low by historical standards, the destocking process may still continue in coming months."

This is going to have serious, ongoing negative consequences for those companies — the clothing manufacturers particularly — who have been struggling to keep afloat over the past 18 months.

In terms of total demand, conditions are going to be bad for the clothing industry, Attie de Vries, of Stellenbosch University's Bureau for Economic Research, remarked at a recent industry convention. He forecast unemployment in the sector would continue to mount over much of 1986.

Over the past year retrenchments in the Western Cape clothing industry jumped by 10%, the total workforce declining from 60 000 to 53 000.

With lean order books still on the cards, a further 3 000 workers are destined to leave the industry before matters stabilise, estimates Colin McCarthy, director of the Cape Chamber of Industries.

He foresees that conditions are likely to cause major structural changes to occur within the industry. Retailers are less prone to add to the unemployment queues when the going gets tough.

Garlick observes that staff turnover is naturally high within the sector in normal circumstances, and his group has relied on natural attrition to cut back on the labour force.

Edgars has also taken the line of relying on natural attrition. But the group, which also has a large manufacturing operation, has taken the view that no more actual retrenching will take place while it is still able to make a profit, claims Hammond.

"Everybody is suffering, and this is our particular way of helping to alleviate the unemployment problem in SA. We have not retrenched anybody in the last six months," he concluded.

'It would provide State income' BUS DAY 10/12/85 49

Privatisation's 'time has come'

Business Day Reporter

THE Standard Bank calls for an acceleration in the process of privatisation in the December issue of *The Standard Bank Review*.

The bank's economists argue that privatisation is a concept that has developed the aura of an "idea whose time has come".

In practical terms, while not without difficulties, it offers a number of potential benefits to SA. It could yield a sizeable increase in government income, which could enable the government to go ahead with urgently needed social projects such as reducing the housing backlog, without raising taxes or borrowing.

The negative aspects of privatisation range from irritation in the civil service (a not inconsiderable political worry), through unemployment in some cases to a reduction in certain services, and the necessity of subsidising directly or openly what was formerly subsidised indirectly and covertly.

The disadvantages are outweighed by the benefits, the bank argues.

The *Review* points to the successes achieved in privatisation in a wide range of economic systems — from the UK to West Germany and Denmark

It argues that deregulation should precede privatisation so that employment-generating enterprises are encouraged

One of the key benefits would be the income provided by privatisation.

At current rates of population growth, government spending would have to grow at about 8% a year in real terms over the next 15 to 20 years if the State were to finance the demand for services like housing, education and health care.

State spending has been growing at rate of between 3% and 5% in real terms in recent years and this is already proving a massive burden on the country.

Bus. Day

COMPANIES

Dec. 1985

(49)

Little cause for optimism

STEPHEN ROGERS

BECAUSE of the current low level of capital expenditure in the economy, there is little to be optimistic about in the current year, says Reunert chairman Derek Cooper in his annual review.

The Barlow Rand's electronics and electrical engineering subsidiary has been hard hit by the recession and the consequential fall-off in both public and private capital expenditure.

During the year the electronics and telecommunications division proved to be the most profitable, contributing 48% of group turnover and 69% of operating profit.

Divisional turnover was increased, however, only at the expense of declining margins and the use of additional funds.

Investments in Computer Aided Instruction and Automated Storage and Retrieval markets made losses, unquantified, because of lack of funds in the Department of Education and Training and the delay of a number of major projects in the private sector.

The electrical engineering division suffered from cutbacks by Escom and Sats and a depressed housing market and although its contribution to group turnover rose from 37% to 39%, at the operating level it fell to 23% (38%).

The decline in the value of the rand raised the cost of imported components, which could not be passed on to the consumer.

The sale of the group's interest in Barlows Engineering Holdings and Barlow Railway & Engineering Products to Dorbyl was largely responsible for the fall in turnover contribution by the mechanical division from 26% to 13%.

The disposal of these interests resulted in a capital loss of R7,6m and the group has provided for additional losses of R1,7m.

Further disposals and closures of other businesses (undisclosed) have also resulted in losses of R5,3m.

In all an extraordinary loss of R32m in the last two years reflects the price of reorganising and restructuring the group.

The balance sheet has weakened with the debt:equity ratio rising from 67% to 88%, occasioning a 12% increase in finance charges and, combined with falling profits, reducing finance cover from 2,9 to a critical 1,7 times.

Liquidity has been eroded with the current ratio down from 1,34:1 to 1,1:1 and the quick ratio falling to 0,47:1 (0,64:1). Short-term loans and overdrafts have escalated by 75% from R71,6m to R125,5m, presumably because the group has switched from long-term to short-term financing.

Profitability has been reduced by about two-thirds with the return on capital dropping from 14% to 5%.

The share price fell from its year's high of 1400c to just over 1100c in September, before slumping to a 12-month low of 850c after publication of the year-end results.

Since then the share has recovered to its present 1020c to yield 3,3% on earnings and a dividend yield of 1,7%.

With the group's fortunes dependent on a resumption in capital expenditure, the share should appeal to long-term investors only.

SA debt repayment freeze extended

Cape Times 11/12/85

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From WINNIE GRAHAM

JOHANNESBURG — The freeze on the repayment of South Africa's foreign debt has been extended for a further three months to March 31 next year.

The measures introduced by the government on September 1 to stop the run on the rand are to continue to "to allow sufficient time for the parties involved to come to an acceptable arrangement for the gradual withdrawal of restrictions".

Announcing this in Pretoria yesterday, Dr Chris Stals, director-general of finance and chairman of the Standstill Co-ordinating Committee (SCC), said the present standstill restrictions would be "more or less" retained for the extended period.

Foreign creditors

Special attention, however, was being given to accommodating "at least some" of the requests for concessions submitted recently by various parties.

Dr Fritz Leutwiler, the international Swiss banker appointed to mediate in negotiations with South Africa's foreign creditors, had agreed to circulate a proposal for a "longer-term arrangement" for the debt repayment.

"South Africa believes the proposal provides a realistic basis for further constructive discussion with its foreign creditors, and it is hoped that all the creditor banks now approached by Dr Leutwiler will react positively to his request."

In Geneva and European financial capitals it was speculated yesterday that Dr Leutwiler would travel to South Africa soon to deliver a blunt political message.

This follows the leaking of the confidential rescheduling proposals in terms of which South Africa will delay paying $14-billion (R35-bn) of its frozen debts until 1990.

Invitation

Dr Leutwiler is expected to tell the South African Government that he requires "positive and concrete signals" that South Africa was prepared to move away from apartheid before he would be prepared to discuss a basis for rescheduling foreign debts.

However, Dr Leutwiler's spokesman said he would visit South Africa only at the invitation of President P W Botha and his government.

Well-placed financial sources indicated that if President Botha did not find a formula to meet the banker's political demands by March next year, Dr Leutwiler was almost certain to resign his mediator role.

It was unlikely that any other banker of similar stature would be prepared to take on the role.

The Financial Times reported yesterday that South Africa would not start repaying some of its R35-bn debt until 1990, which proposal it said was contained in the confidential rescheduling proposals circulated to the 29 biggest creditors at the end of last week.

At their core is a suggestion that South Africa needs a period of four years and four months' leeway from the moment the standstill took effect on September 1. Only after that would phased repayment begin.

Bankers who have seen the proposals say that many aspects of them are likely to prove unpalatable to creditors. They regard them as an initial shot in a lengthy negotiating process.

Many bankers had been hoping that South Africa's current account balance of payments surplus would allow repayments to begin much sooner.

However, the continuing weakness of the rand and worries about the effect of anti-apartheid opinion on South Africa's export performance have apparently prompted the SCC to seek to conserve as much foreign exchange as possible.

Refusal

As details of the proposals began to emerge yesterday, the speed with which the debt would be repaid after 1990 was still unclear, as was the interest rate South Africa will pay.

The South African Government's refusal to respond to demands for reform, as spelled out by the creditors, is causing concern in Geneva.

The creditors had been expecting confirmation of rumours that President Botha would announce a new reform plan at the opening of Parliament in January.

The spokesman added that the date for the next round of talks between South Africa and its creditors, scheduled for the end of January or early February, largely depended on what President Botha would announce.

● **Standstill extension until end of March, page 15**

ARGUS 11/12/85

Worst of recession could be over — report

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Financial Staff

THE recession is beginning ~~to bottom~~ out and fewer manufacturers are reporting declines in output and sales, says the latest survey by the Stellenbosch Bureau for Economic Research.

Although the attitude remains pessimistic, there are at least indications that the worst could be over and the continued decline in business confidence has at least been arrested.

The bureau questioned more than 1 300 factories on conditions for the last quarter of this year and the first quarter of 1986.

It found that industry had performed better across the board than had been predicted in a previous survey, and that the future was less sombre.

Fewer industrialists reported declines in sales and more reported higher capacity use. Stockholdings had also been reduced and employment increased.

However, many more industrialists also reported higher costs, particularly of labour and materials.

The full impact of the recent increases in the price of fuel would be felt only in the first quarter of next year, the bureau says.

12/12/85 BUS DAY

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Policies aren't working — Stuart

Govt blamed for low business confidence

Business Day Reporter

GOVERNMENT behaviour on both the political and economic fronts must be blamed for much of the uncertainty and deterioration of business confidence in SA, says Ockie Stuart, of Stellenbosch University's Bureau for Economic Research.

And he criticises claims by fiscal and monetary authorities that the balance of payment surplus is proof of the success of their August 1984 policy package.

"This is, in my opinion, an extremely one-sided evaluation," he says.

Reviewing the confidence factor and its impact on economic growth, Stuart notes that the severe economic recession first impacted on import volumes.

At the same time, a lack of foreign confidence and other factors led to a substantial decline in the value of the rand, thus pushing up the rand-price of exports.

"Surely the authorities cannot regard the fall in the rand's value as a success story?" says Stuart.

He notes that South Africans, while being told by government officials that policies are working, have experienced:

- Rising inflation and unemployment;
- More firms dissolving;
- Soaring prices of imported goods; and
- Over-spending by the State.

What people are perceiving is a very different message from that being put out by some government and quasi-government officials, he says.

"This must have led to distrust, confused expectations and a deterioration in confidence."

Stuart also blames obfuscation by politicians for adding to the confusion, unrest and irritation he says usually characterise periods of reform.

"By not spelling out the path of reform clearly, the scene was set for speculation and rising expectations — the one feeding the other.

"When expectations were shattered a part of the population lost their patience and organised violence became a way of life."

Stuart says he believes it is not too late to put matters to rights.

"All that is needed is clear guidance as to what the ultimate goals are, and how they are to be reached.

"By doing this, confidence will probably improve — overseas in particular — and the economy will get a fair chance to recover."

Stuart says economic ills can be traced to low confidence levels and shattered expectations.

"Clear signs exist of dissatisfaction with the government's political and economic performance."

One need look no further than to the extent of overseas dissatisfaction, as reflected by the low exchange rate of the rand, he says.

Internally, the fact that most South Africans live in a partial state of emergency speaks for itself.

"It is up to the politicians and economic policy-makers to rectify matters, in particular to boost confidence both here and abroad."

94 Main Street, Johannesburg 2001.

Date: 12 December 1985

US banks reject SA foreign debt proposal

ARGUS 13/12/85

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NEW YORK. — United States banks looking for political reforms in South Africa have rejected a new proposal by the Government to restructure its foreign debt, bankers said today.

The proposal included the extension of a South African freeze on most of its foreign debt repayments until 1990. Other details of the restructuring plan were unavailable.

South Africa last September declared a unilateral moratorium on repayments of about $13,6-billion (about R34-billion) of its $23,9-billion (about R59,75- billion) debt after leading US banks withdrew short-term lines of credit because of fears about continuing racial unrest in the white-minority-ruled country.

MEDIATOR

Top US bankers informed Swiss mediator Mr Fritz Leutwiler of their decision to reject the South African proposal yesterday in meetings in New York. "The message was very short and simple — we reject the proposal," said one banker.

Another banker, who was not at the meeting but is close to the talks, said: "We still need some significant change in the political environment before we'll normalise the situation".

The banks have said that new credits would be forthcoming only if South Africa initiated genuine political reforms. No further meetings are expected until February. — Sapa-Reuter.

● Mr Harry Schwarz, MP, the Opposition's chief spokesman on finance, said today the report from the United States did not surprise him as the South African offer appeared to be the first in a bargaining process.

The political pressure on the banks, particularly in America, was such that demands for political reform as part of the price for rescheduling were to be expected. — Sapa-AP and Political Correspondent.

Loan levy cheques and fear of price rises cause shopping scramble

Buying spree

W/C ARGUS 14/12/85

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Weekend Argus Reporters

FLOODGATES opened today to release torrents of rands into the tills of Peninsula shops, much of it the proceeds of loan levy cheques which taxpayers have been receiving since Thursday.

Christmas shopping took a sharp upswing with thousands of people crowding into shopping centres, sweeping temporarily under the carpet the recession blues which have plagued the country all year.

Most centres jubilantly reported the busiest day this season, which has not so far given shopkeepers much to smile about.

Tyger Valley, one of the newest and most lavish shopping centres set in the affluent northern areas, reported an "exceptionally busy period" with thousands pouring through the centre.

"Tremendous sales"

Shops at Cavendish Square in Claremont were having "tremendous Christmas sales".

A spokesman for the Hyperama said that "they were quite busy", and that people were mostly buying food.

At Garlicks, Cape Town, a spokesman said "sales are normal for Christmas time. We are not doing any better or worse than last year."

Our Johannesburg correspondent reports that shoppers are scrambling to beat price increases early next year.

Though personal savings have been whittled away by inflation, the last few weeks have been a boom time for "big ticket" items such as televison sets, fridges, microwave ovens and video recorders.

And although this market is attracting the buyers for all the wrong reasons — inflation fears, import surcharges and the unfavourable rand exchange rate — everything is going right for the major trading groups dealing in household appliances and entertainment products.

Dramatic price increases

"Slowly the consumer is being conditioned to the fact that prices are increasing and will increase even more dramatically in the new year," says Mr Arthur Solomon, general manager of furniture and appliances for OK Bazaars.

Buying on the strength of the early repayment of the 1979 loan levy is probably also contributing to the buoyancy in sales.

There is no doubt, however, that the main reason for the sales rush is consumer awareness of price rises to come.

Mr Solomon estimates that hi-fi equipment will go up by 25 to 35 percent and television sets and video machines by 40 to 50 percent.

Furniture and other household items such as fridges and washing machines, he believes, will cost 20 to 30 percent more.

Dollar ARGUS 14/12/85 48

-llar drought

About 300 people — including many families who had brought dressing-gowned children along — gathered in Greenmarket Square last night to watch a pageant depicting the birth of Christ and to join in singing carols by candlelight. The pageant and singing will be repeated tonight.

From TREVOR WALKER
Weekend Argus Correspondent

JOHANNESBURG. — It is now clear that little United States loan money can be expected to be made available to South Africa.

This is the opinion of bankers after the rejection of new South African debt repayment proposals.

The reaction to these proposals, which include an extension of the freeze by South Africa of its foreign debt repayments until 1990, is that this country's banking ties with American banks have been fundamentally altered. For the first time, the banks have demanded political change in South Africa.

"Significant change needed"

Reuter reports that top American bankers told Swiss mediator Mr Fritz Leutwiler of their decision to reject the South African proposal.

A banker, who was not at the meeting but is close to the talks, said: "We still need some significant change in the political environment before we'll normalise the situation. "

Another banker said: "We are in a standoff. The banks will not move until they see some progress on the political issue, which is the crucial issue."

The banks have said new credits will be forthcoming only if the Government initiates genuine political reforms. No further meetings are expected until February.

The manner and timing shown by Chase Manhattan have caused bitterness, and the latest political demands can be expected to lead eventually to a fundamental shift in South Africa's banking business with the United States.

"We must try again"

Miss Lauretta Gell, senior financial economist at Barclays, said the rejection of the proposals had been "pretty much expected".

She added: "The proposals were of a financial nature only with no real political content, so it wasn't a suprise to us. Financial markets were expecting the rejection and it's had no impact on trading at all."

Mr Adam Jacobs, economist at Volkskas, said he sincerely hoped this would not mean the end of negotiations.

"We must try again and we must find out why the proposals were unacceptable. There is a lot of politics involved, which complicates things, but perhaps the US response was part of a bargaining strategy — you don't accept the first offer you get."

finance minist...

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November State spending surges

JOHN TILSTON

STATE spending in November was 15,6% above the level last year for the same month.

It spent R2,7bn last month, the highest monthly amount since July, to bring cumulative expenditure since April to R21,4bn (R17,9bn).

The second half of the year traditionally makes lower demands on the Treasury, and the increased spending reflects government's switch to a policy of economic stimulation.

The decision to increase State spending was implemented last month and the full impact has yet to work its way through to expenditure figures.

Estimates are that when the Treasury closes its books at the end of March next year, expenditure could be considerably more than R1bn higher than revised budget estimates of R31,45bn.

Last month, government dismissed suggestions that the tax rate should be cut to stimulate the economy on the grounds that the multiplier effect (the extent to which increased spending causes ripples through the economy) of State spending was greater and more immediate than any tax cut.

For State spending to achieve the target set in the revised budget — 13,6% above the level of fiscus 1984/85 — increases over last year's levels would need to be contained to 8% in the second half of this financial year. That clearly will no longer be achieved.

Government has pledged, however, to limit the deficit before borrowing to 3% of gross domestic product, which would be about R3,5bn.

By the end of September, after six months of this fiscal year, the deficit had reached R2,05bn.

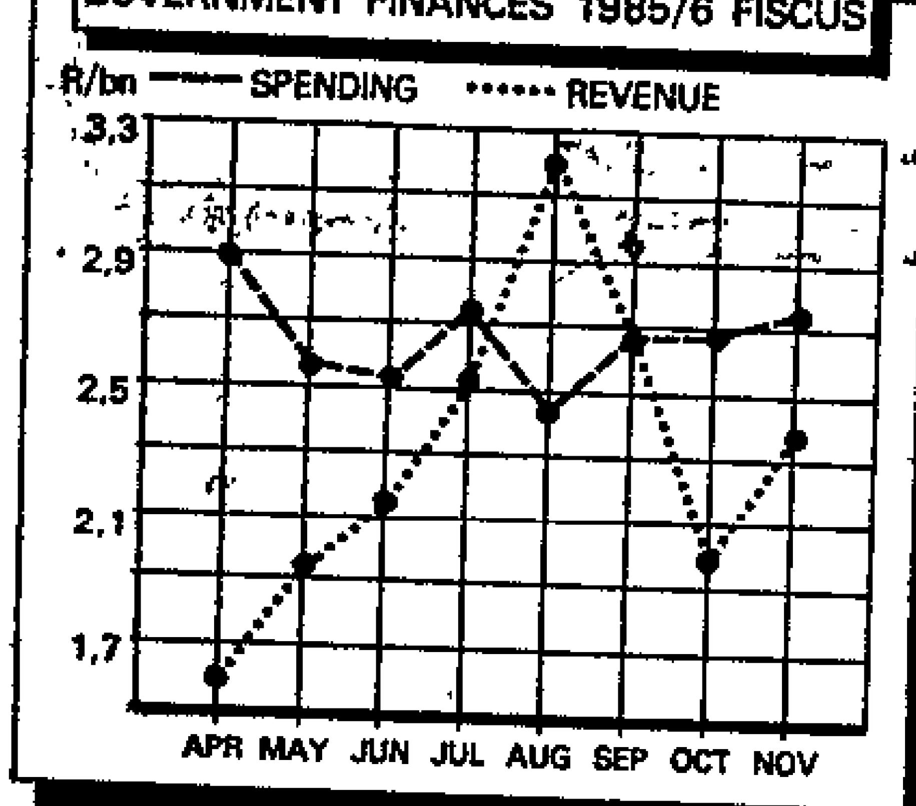
Taking burgeoning revenue into account, this suggests that government could spend an additional R1,7bn over and above budgetted levels in the ramining four months of the financial year.

Revenue for the year so far is 25% ahead of last year's levels. The budget estimated receipts would be 18,8% higher.

In November, Exchequer receipts were R2,3bn (R1,9bn), bringing total revenue collected this financial year to R18,5bn (R14,8bn).

According to the Reserve Bank, in the first half of fiscus 85/86 income tax payments by non-mining companies and by gold mines rose by 53% and 55% respectively against budget estimates of 10% and 21%.

GOVERNMENT FINANCES 1985/6 FISCUS



R&M coup as govt leases Lifekor offices

JANE STRACHAN

RAPP & Maister Real Estate, property arm of Liberty Life, has concluded one of the largest single, fee-leasing deals this year.

The entire Lifekor building, being completed on the corner of De Beer and De Korte Streets in Braamfontein, has been let to the Department of Mineral and Energy Affairs.

The building comprises about 13 300m² of office space over eight floors, with 211 on-site parking bays. Occupation is from February.

'The class struggle for Azania'

STAR 18/12/85 49

By Michael Tissong

The "struggle in Namibia and Azania (South Africa) is not simply for national liberation from apartheid colonialist rule, but it is also a class struggle between the two antagonistic forces of capitalism and socialism," a visiting Namibian politician said in Durban.

Mr Vekuii Rukoro, the general secretary of the South West African National Union (Swanu), added that the "collapse of the apartheid oligarchy will not in itself bring about a socialist revolution".

Mr Rukoro was the guest speaker at the Azanian People's Organisation (Azapo) congress.

He said the liberation struggle would be "consummated in Azania when the transfer of political power to the working class is carried out".

In Azania, he said, this would mean addressing oneself to forced removals and bantustanisation; the ownership of capital which today vests in multinationals and local capitalists; and, thirdly, the workers' ownership of the means of production.

BUS DAY 19/12/85 (49)

Debt set to soar to record levels

Govt likely to go R5,5bn into red

JOHN TILSTON

THE government is likely to go R5,5bn into the red next year to keep the country running — and will push government debt to record levels in the process.

Predictions of the deficit before borrowing in next year's Budget have been revised upwards as a result of recent economic developments.

Volkskas economists are expecting a sustained, relatively high level of government spending, and some moderate reduction in personal taxation in addition to the abolition of the surcharge announced by President Botha last month. Government policy is now squarely committed to stimulation.

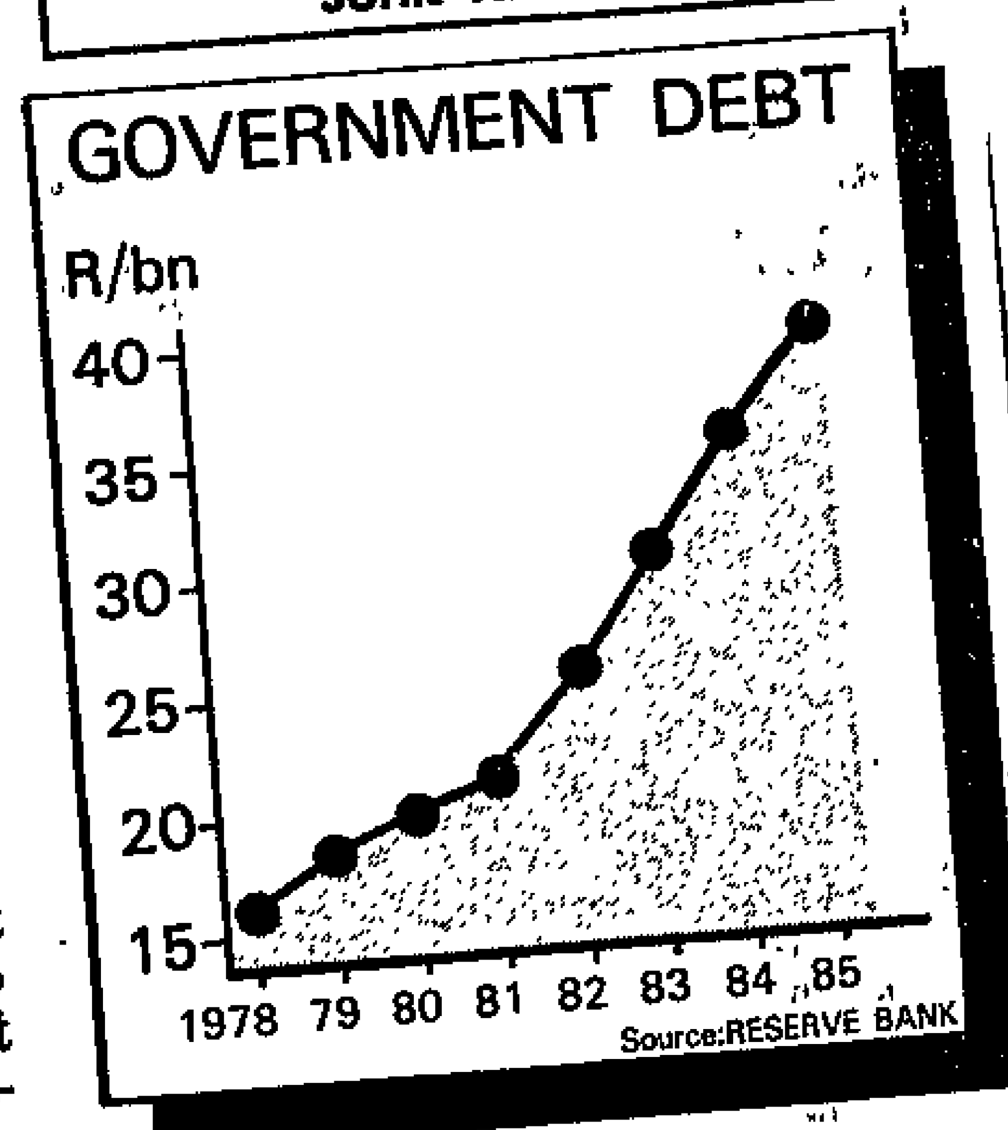
Overall they are forecasting a deficit before borrowing of about R5bn, 68% higher than this year's budgeted amount of R2,57bn. This year's figure represented 2,5% of Gross Domestic Product.

Economist Louis Geldenhuys of stockbrokers George Huysamer and Co, a top government finance analyst, is forecasting government spending of R36,99bn, 14% higher than this year's budgeted amount.

He expects revenue, assuming the gold price stays roughly where it is, of R32,58bn. This means the shortfall will be around R4,4bn, 44% higher than this year's budget.

Added to this amount must be the redemption of government stock next year.

Official statistics show the state will have to repay a relatively modest R1,02bn (1985/86 fiscus R1,7bn). This will push the deficit to R5,5bn.



The manner in which the deficit is financed will have a dramatic effect on the economy.

The Public Investment Commissioners will probably take up R2,5bn of the deficit, as they did last year. Foreign loans are out of the question, so the government could be looking for about R3bn from the institutions.

This would, as Volkskas economists point out, place capital market interest rates under immense pressure.

In addition, total government debt would soar to record levels in nominal terms. At the end of the third quarter, it stood at R39,1bn, 33% of GDP. It could rise to 34% next year.

Bus Day 19/12/85

Lift-off for the deregulation of SAA?

FRED STIGLINGH

THE AVIATION industry is anxious to get its fair share of SA's airways, but the process of deregulation is bound to be a slow one.

Most industry observers see the gradual process as the best way, since existing private carriers would be unable to handle the burden should deregulation happen overnight.

That privatisation and deregulation are on the cards should not be doubted, as the concepts have been in the air frequently over the past few years.

Milestones include:

- The inquiry into civil aviation, headed by Judge Cecil Margo;
- The commissioning of Wim de Villiers to study the management of SA Transport Services (Sats);
- Statements by Transport Minister Hendrik Schoeman which appear to open the door for independent passenger airlines;
- A research paper on competition and aviation by Jackie Walters, of the Department of Transport Economics at RAU.

Says Brian Kantor, Professor of Economics at UCT: "There is no case for monopoly, and the argument for competition is as good as with any other industry — there is nothing special about airways."

Efficiency

SAA, he says, would not necessarily be against privatisation, but would certainly be against competition. Competition, he says, would make the airline less profitable, yet private ownership would result in greater efficiency.

"A board of directors and shareholders have a disciplining influence on managers," says Kantor. "They are conscious of replacing management when it's needed."

He says a strong cashflow, such as experienced by the airline (R112m for 1984) would be of value to potential shareholders. The same year saw R66m ordinary depreciation and R37m replacement cost. The airline, not being taxable, cannot use ordinary depreciation as a tax liability.

Comair MD Piet van Hoven —

Dr WIM DE VILLIERS

also head of the Airlines Association of SA — says the industry has not formally adopted a position on privatisation, as it is not recognised by government as regards SAA.

"If SAA had to privatise," he says, "clearly the profit objective becomes more significant." At the same time, the industry is "not pushing government to deregulate and open up SAA routes and services," he says.

The consensus seems to be a slow process of deregulation involving carriers complementing rather than competing with the national carrier.

Van Hoven would like to see certain regional routes (outside SA geographical confines) and low-density routes within SA given to private enterprise. "It will benefit all parties, including SAA," he says.

SAA, says Van Hoven, is operating uneconomically on low density routes with jet equipment. These could be economically exploited with smaller aircraft operating more frequently.

He points out government holds licence rights on certain regional routes where SAA is not operating, yet private carriers are excluded. These are: JHB to Gaberones (Botswana); JHB to Maseru (Lesotho); JHB to Matsapa (Swaziland); and JHB to Umtata (Transkei).

"It is possible SAA may, at its discretion, enter into arrangements with private carriers to operate these routes on its behalf," he says.

That the quality of service on low density routes could be improved is stressed by RAU's Jackie Walters in his paper "Competition and international trends in aviation — implications for SA."

"As long ago as 1973," he says, "it was proved in the US that operators using smaller equipment could offer roughly twice the number of daily flights compared to certified carriers."

He suggests local policy should be based on the deregulated airline policies of Canada, Australia and the US, which allow competition between national and private sector airlines.

Walters recommends SA adopts a two-airline policy as an interim measure to operate — with suitable aircraft — on low density national and regional routes served by SAA. The carrier will initially not be in competition with SAA "but complementary to its present services".

"This will promote a more effective and efficient air transport industry whilst preparing the way to economic deregulation," he says.

But, he adds, deregulation should be phased in progressively, as the secondary aviation industry would not be able to cope "with all the ramifications" through to lack of exposure due to the regulatory policy.

Few operators have any costing data and many lack knowledge of handling large numbers of people, reservation systems, sophisticated equipment, national operation, competition strategies and marketing services.

During 1983/4 private operators transported only 10% of all domestic passengers and 2,6% of air freight.

Limitations

Elements of control include entry to the industry, data required when applying for a licence, criteria to be taken into account when considering the application, limitations which could be imposed and protection of operators offering a satisfactory service.

As a result of this, aircraft used by the private sector are on average more than 12 years old and in more than 65% of cases bought as used equipment. Walters says this is largely a result of capital accumulation difficulties due to low density routes operated.

Another problem is lack of growth potential on a national and regional basis. Growth possibilities do exist, he says, but aviation legislation does not permit exploitation. "The general concensus among operators is that present legislation does not promote commercial aviation but has an inhibiting effect on the industry."

Controlled competition is also the keyword in the Margo Commission's report, which recommends state aid for private operators.

He insists the time for full-blown competition is not now, as traffic patterns are so thin that a certain measure of protection is required to build them up. A free-for-all would result in fewer people venturing capital.

Experience shows an operator venturing capital on domestic air services will sustain losses while he builds the service up to an economic level. If another operator comes in they both lose cash and go to the wall and the service collapses.

The commission's report recommends the scrapping of present regulations barring private operators on grounds of economic viability. Safety and technical controls would remain. It also provides for greater competition — where the market can stand it — in the areas of pilot training and charter operations.

Industrialist Wim de Villiers' Sats study will, among other aspects, investigate the merits of handing over Sats-owned services to private control.

If he recommends SAA goes to private enterprise, the form of privatisation could involve contracting some of the services or selling shares to the public, as Sasol has done.

Recent statements by Minister Hendrik Schoeman appear to open the door for independents to negotiate with SAA to operate scheduled services to neighbouring countries.

SAA would remain the government-designated carrier, but where it did not serve certain routes it could use another airline to act in its place, he said.

Political solutions a prerequisite

BUS DAY 24/12/85

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Few pointers to economic recovery in '86

ANDRE VAN ZYL

MOST economic regions appear to be in limbo, with few indications of recovery.

The mood, however, is resolute rather than desperate, with most heads of organised business looking for political solutions to their problems.

The index of physical volume of production has levelled off, the latest figures released by the Central Statistical Services show (see top graph).

The index for July to September dropped 5,9% to 125 points from the figure for the same period last year. This represents a fall of 0,9% to a figure of 117,8 in seasonally adjusted terms. The base year for the index (100) is 1975.

Although the bottom graph shows a steady rise in the value of goods sold, the rise is due largely to the declining buying power of the rand.

A graph showing the increase in real terms would be a great deal flatter.

After a year which made a mockery of economic predictions, few businessmen are venturing forecasts. These are some general indications from the various economic regions:

☐ Transvaal industry is still going through its worst crisis in memory, says Transvaal Chamber of Industries president Tony Ewer.

Turnovers in his chamber's region, which accounts for 65% of SA's industrial activity, have dropped 20% to 40% and virtually every industry has had to lay off workers, some as much as 30%.

He says many companies are battling to survive and some may not re-open their doors after the festive season.

However, Ewer believes the Transvaal is doing better than most other regions. Among industries doing reasonably well are specialised steel, mining supplies and building finishing.

He believes too much blame is attached to government policies and not enough to companies' own failings.

He says few took note of the warning signs of economic difficulty, companies were not financially trim enough and, when the crunch came, it was deeper and more serious than expected.

It is time for business and government to put their heads together to find solutions to inter-related political and economic problems, he says.

☐ Northern Transvaal Chamber of Industries executive director John Toerien is loath to assess next year's economic potential.

A good summer maize crop, the determination of political and economic priorities, and a programme to achieve these objectives would contribute materially to attaining a growth rate of 3%, albeit from a low base, he says.

He agrees that constitutional developments will play a major role in stabilising the economic and business situation.

☐ Natal — Slightly improved conditions were experienced in several sectors of manufacturing industry during the last quarter, says Natal Chamber of Industries executive director Roland Freakes.

He says there has been considerable rationalisation in many sections of the region's industry and that considerable retrenchment of workers is continuing.

Exceptions to the general pattern of depressed conditions are a few export-oriented industries which are enjoying reasonably buoyant conditions, assisted partly by the low value of the rand.

Generally, the manufacturing sector is not optimistic about prospects for the first part of 1986. Forecasts are coloured heavily by political imponderables.

Says Freakes: "On the positive side, the recent submission to Constitutional and Development Minister Chris Heunis of important proposals for co-operation and joint decision-making for 'KwaNatal' on a number of issues of common interest has given rise to an air of expectation and hope that a new vista will be opened up which will include the development of power-sharing.

"We hope the 'KwaNatal' example will provide inspiration to other regions seeking appropriate local solutions in their own areas."

☐ Free State companies have reported a slight increase in activity, and there are expectations of further growth.

Unemployment figures are below the national average, largely due to the importance of the informal sector, industry leaders say.

Bloemfontein and outlying areas are experiencing encouraging consumer spending because of factors such as good rainfall, loan levy cheques, railway bonus-payouts and local buy-aid bonus cheques, says Bloemfontein Chamber of Commerce president Ron von Klonowski.

This surge has come too late to achieve results planned in the retail sector, but farmers are more confident.

He says that without improved consumer spending, 1986 could be a tough year which could see numbers of commercial and industrial enterprises falling by the wayside.

☐ Western Cape industrial activity seems to be picking up, and some industrialists think the economic situation has bottomed out.

However, Cape Town Chamber of Commerce president Andrew Peile says if 1985 has been a demanding year, 1986 is likely to be even more so.

The drastic devaluation of the rand and the import surcharge have caused major problems for importers, but could, in the medium to long term, be seen as opportunities for import substitution in certain areas, says Peile

He says the region's businessmen are apprehensive about the effect of the proposed regional services councils, which he believes are likely to increase tension, bureaucracy and the tax burden

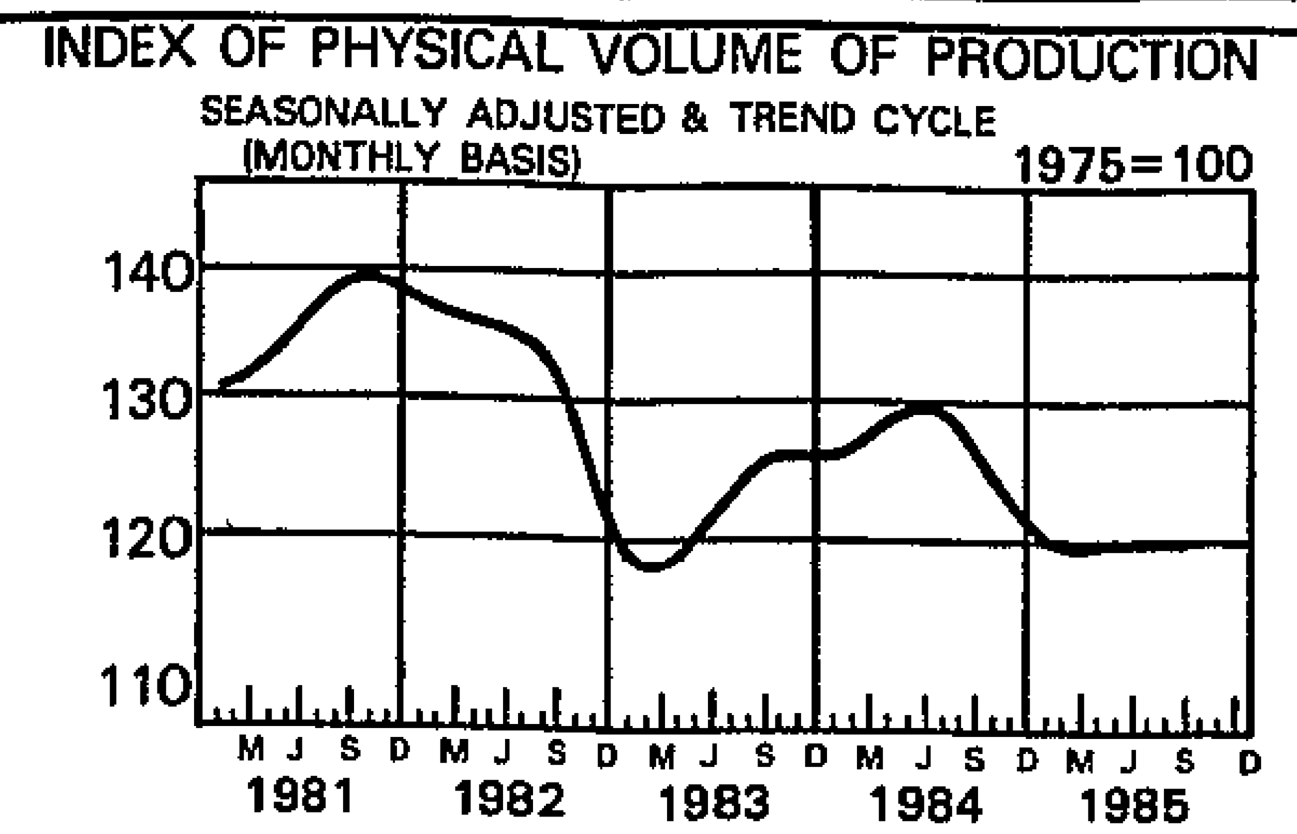
☐ Eastern Cape — Port Elizabeth Chamber of Commerce president Frank Wightman says unemployment in the area, particularly around PE, is inordinately high.

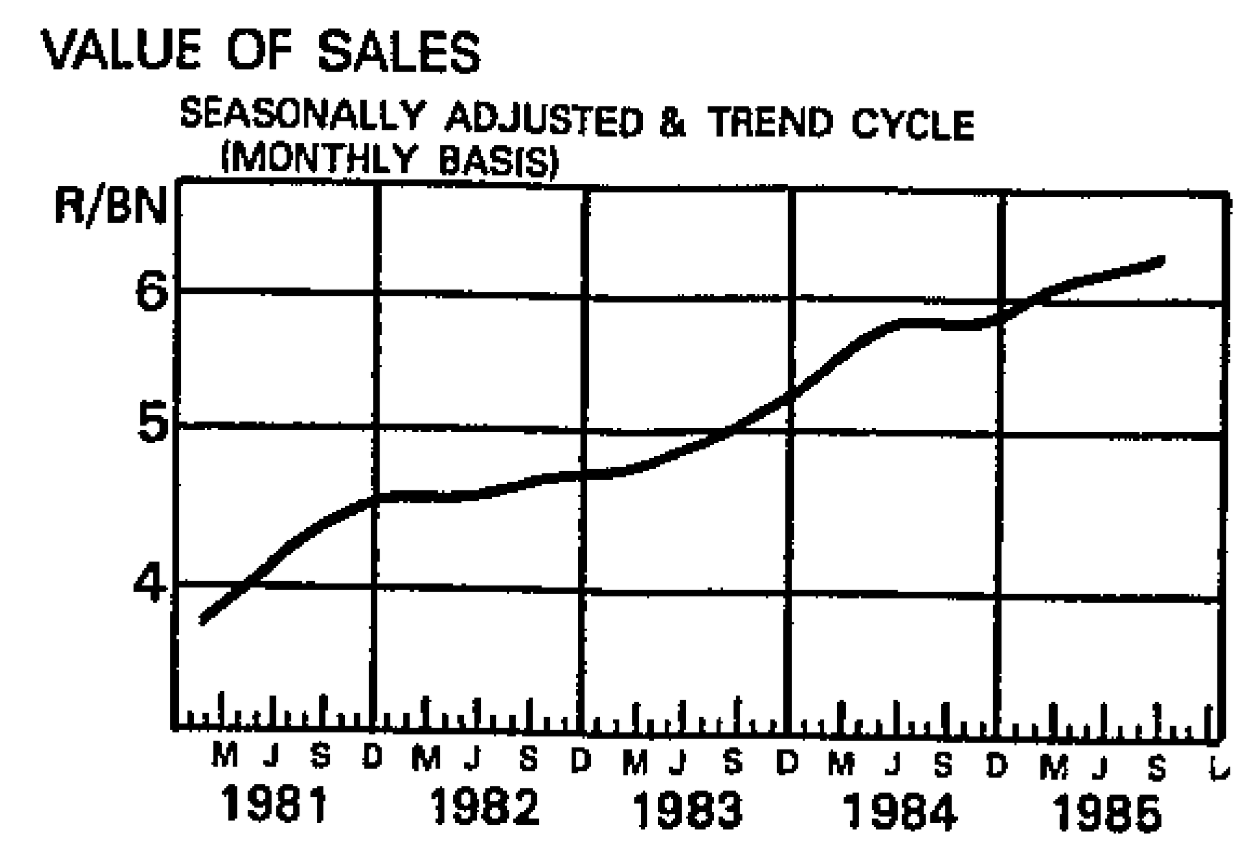
Specifically, there is continued speculation in the motor industry over further manufacturer rationalisation, retrenchments and unemployment.

However, Wightman believes there is an air of optimism in PE as local organisations strive to attract industry and commerce.

Retail sales are running above last year's in real terms, helping traders affected by the economic downturn, and giving them a stronger base for next year.

Says Wightman: "What is essential in 1986 is to create employment, particularly among black people in the area With greater employment, more funds are circulated and more opportunities are created And, as the saying goes, activity breeds activity."





SEMI-LOGARITHMIC SCALE

Source:CENTRAL STATISTICAL SERVICES

SA economy moves into uncertain period

BUS DAY 30/12/85

49

De Kock is optimistic about 1986, but others are hedging their bets

LESLEY LAMBERT

MOST economic forecasters are having to hedge their bets with a big *if* as the economy moves into one of its most uncertain periods.

While Reserve Bank Governor Gerhard de Kock has said that, despite the 1985 upheavals, 1986 should be a year of economic upswing, moderate growth and increased employment, other economists are being far more cautious in their prognoses.

Sanlam, for example, bases its forecast on the assumption that the unrest will not get out of hand and that SA will succeed in rescheduling its foreign-loans repayment satisfactorily.

It also assumes that government's economic policy next year will continue promoting growth rather than curbing inflation, but in such a way that the current account of the balance of payments will still show a considerable surplus.

Barclays says: "With the long-awaited relief from recessionary conditions so far failing to materialise, and with the exchange-rate crisis having depressed sentiment still further, it is with some trepidation and a considerable lack of confidence that South Africa stands on the threshold of 1986."

Moderate recovery

Most short-term business-cycle indicators show that the decline in economic activity is slowly starting to level off and there will soon be a moderate recovery phase.

Unfortunately, say Volkskas economists, we can only speculate about the duration of the upswing. The way things look now, the momentum is not expected to continue into 1987.

"Business planning should therefore take place with the greatest circumspection, and the strengthening of reserves of the individual enterprise and household must be given top priority," they warn.

De Kock has said the upswing would be accompanied by a smaller but sustained surplus on the current account of the balance of payments and only slight demand pressure on prices.

Developments in the economy during 1986, says Volkskas, will also be determined by events in the economies of the country's trading partners and the type of domestic economic measures to be followed.

Dictate events

The freedom afforded by the balance of payments for economic growth will dictate the course of events in the economy for 1986 and the years to come. Matters will have to be handled and managed in such a way that imports do not show such abnormally high increases as to cause deficits on the current account of the balance of payments.

A large surplus of about R5bn-R6bn is forecast on the current account of the balance of payments for 1985. Despite this, expectations are that net gold and other foreign exchange reserves will drop as a result of a large net outflow of funds on the capital account.

Economists also foresee a surplus on the current account of the balance of payments in 1986, although it may be smaller than that of 1985. A lower rate of growth in real exports, a marginal acceleration in real imports, an ever-growing services deficit and a moderate improvement in the dollar price of gold support the prediction.

Although the need to maintain a substantial current account surplus to enable debt repayment would restrict economic growth, meaning fewer goods available in SA for public and private investment, De Kock says:

- For the time being there is enough surplus capacity and unemployment to permit a marked economic recovery without undue pressure on imports, especially if the depreciated exchange rate of the rand is taken into account;
- Even if SA's longer-term economic development were constrained by the need to maintain a large current account surplus, there would still be cyclical upwards and downwards phases in the economy.

A continued net outflow of funds will occur but will be smaller than in 1985 because a rise in imports would tend to be financed to some extent by overseas suppliers' credits or other credits.

This could mean that the exchange rate of the rand may strengthen, in particular against the dollar. It may also rise partly as a result of the expected weakening of the dollar against other major currencies.

Although it is difficult to forecast the 1986 rand exchange rate, as political perceptions continue to hammer it, Louis Geldenhuys, of brokers George Huysamer & Partners, makes the following observations:

- As a short-term prospect, the rand will remain very weak, particularly on a weighted basis;
- The recovery potential for the rand is limited for as long as basic confidence in SA is suspect and foreign loans have to be repaid.

Forced exporter

"One can hardly envisage a strong currency for a country that has become a forced exporter of capital and which has placed limitations on the repayment of loans," he says.

Volkskas foresees the average dollar/rand exchange rate to be in the region of $0,43 in 1986.

An economic growth rate of 3% to 4% is expected in 1986. This relatively favourable growth achievement must be seen against a weak performance in 1985; higher export volumes, which may give rise to a measure of multiplier effects; a halt to the decline in inventory levels, some import replacement as a result of the weak exchange rate of the rand; and a deliberate and sustained economic policy aimed at stimulating domestic demand.

As for the price of gold, a weaker dollar and the apparent strong interest in the commodity at about $300 an ounce provide an element of support. But as the oil price is under downwards pressure — and this will have a deflationary effect — the gold price could experience a severe setback.

The most crucial test for gold will probably be in the first quarter of 1986 when a markedly easier oil price is expected.

Based on these considerations, the average gold price in dollar terms may be only marginally higher in 1986 than in 1985.

Real gross domestic expenditure, which stopped declining during the third quarter this year, is expected to rise by about 4% next year, according to the Reserve Bank.

Moderate increases in both private and government-consumption expenditure, with some build-up of inventories, are expected to contribute to this rise.

Growth in private-consumption expenditure will be prompted by the growth-supporting monetary policy and selective tax reductions, together with expectations of a sustained high inflation rate.

However, salary and wage increases will not keep pace with inflation and this will keep the growth in real private-consumption expenditure modest.

Employment figures are not expected to show a marked increase in 1986 and, as a result, unemployment will continue to increase.

Real government expenditure will accelerate, given the declared policy of economic stimulation.

Fixed investments

This also applies to a lesser extent to fixed investments by general government institutions, according to Volkskas. The regional services councils are expected to begin operating in 1986, and increased expenditure can also be expected from these quarters, leading to greater fixed investment.

Government's deficit before borrowings will probably amount to about R5bn in the 1986-87 financial year, about 3,5% of expected GDP. Although this does not appear so excessive in relation to GDP, the problem is that considerable demands will be made on the capital market in 1986.

If, in addition to this, government were to borrow the full amount of the deficit on its account locally, capital-market interest rates would be placed under immense upwards pressure. On the other hand, any attempt by government to finance a portion of the deficit by means of money creation will spur on the inflation rate.

Inflation has yet to be conquered. While some economists have predicted a substantially higher rate of inflation next year as the effect of the weak rand filters into the economy and as monetary policy shifts towards stimulating growth, De Kock has dismissed fears that inflation could reach 20%-30% as totally unfounded.

Check inflation

Sanlam believes the following factors will help check inflation to a certain extent in 1986:

- A slow growth trend in the national economy;
- Lower interest rates;
- Moderate wage and salary increases;
- Controlled adjustments in the prices of administered goods and services;
- Only mildly expansionary fiscal and monetary-policy measures; and
- An expected good agricultural season.

Import volumes could increase as a result of the 4% growth in gross domestic expenditure. In contrast, the growth in exports is expected to lose momentum due to the sluggish growth in international trade and the sporadic boycotts of SA products in certain parts of the world.

BALANCE OF PAYMENTS (Rm)

	1985	Expected 1986
Merchandise exports	18 915	20 000
	48,9%	5,7%
Net gold output	15 269	17 500
	30,7%	14,6%
Service receipts	6 565	6 735
	26,0%	3,0%
Merchandise imports	−22 985	−26 400
	7,6%	14,9%
Payments for services	−11 769	−13 000
	26,8%	10,5%
Total goods and services	4 995	3 835
Transfers (net)	373	400
Balance on current account	5 368	4 235
Long-term capital movements	Outflow	Outflow
Short-term capital movements	Outflow	Outflow
Change in net gold and other foreign exchange reserves	−	+

Source Volkskas

BARCLAYS FORECAST

Growth	% Estimated 1985	Forecast 1986
Real GDE	−7,5	2,0
Real GDP	−2,0	3,2
Agriculture	12 0	6,3
Mining	6,2	4,2
Manufacturing	−8,1	1,3
Wholesale and Retail	−10,0	2,7
Building and Construction	−16,0	−4 2
REAL CONSUMER SPENDING		
Total	−3,4	1,0
Durables	−21,3	−2,1
Semi-durables	−7,2	1,0
Non-durables	0,6	2,0
Services	0,4	0,5
REAL FIXED INVESTMENT		
Total	−6,5	−3,0
Public Corporations	2,2	1,0
Public Authorities	3,0	1,0
Private Sector	−11,9	−6,6
Average inflation rate	15,5	13,0

According to Barclays, prospects for exports in 1986 depend on economic growth overseas, and the effect of the lower exchange rate this year in stimulating demand.

Expectations overseas point generally to a continuation into 1986 of the 1984-85 slowdown in growth in the industrialised world.

Growth in the US is expected to fall to around 2% next year, after the 2%-3% rise estimated for 1985, while the OECD countries as a whole are expected to experience a slowdown from a 3% increase this year to a 2% rise in 1986.

Miners' strike

Growth in the UK, which seems at present to be rebounding from the effects of the 1984 miners' strike, is expected to fall from 3,5% to 1% in 1986, while those rates in Japan and in West Germany are forecast to decline to 3,5% and 2,5% respectively, after estimated rates of 4,5% and 3% during 1985.

Barclays believes the decline in interest rates, which began earlier this year, and which has been allowed to continue despite the drastic further fall in the exchange rate since August, will continue well into 1986.

"The monetary authorities, in deciding to lead the decline in interest rates in the face of the exchange rate crisis, have obviously recognised the severely depressed state of the economy and the relief which it so desperately needs.

"Also for political reasons, some kind of stimulus needs to be given to the economy to generate employment and also to try to alleviate the social unrest which has been prevalent for so many months. It is therefore likely that the Reserve Bank will continue to push rates down further."

Peak year for JSE as share prices beat inflation

STAR – 31/12/85

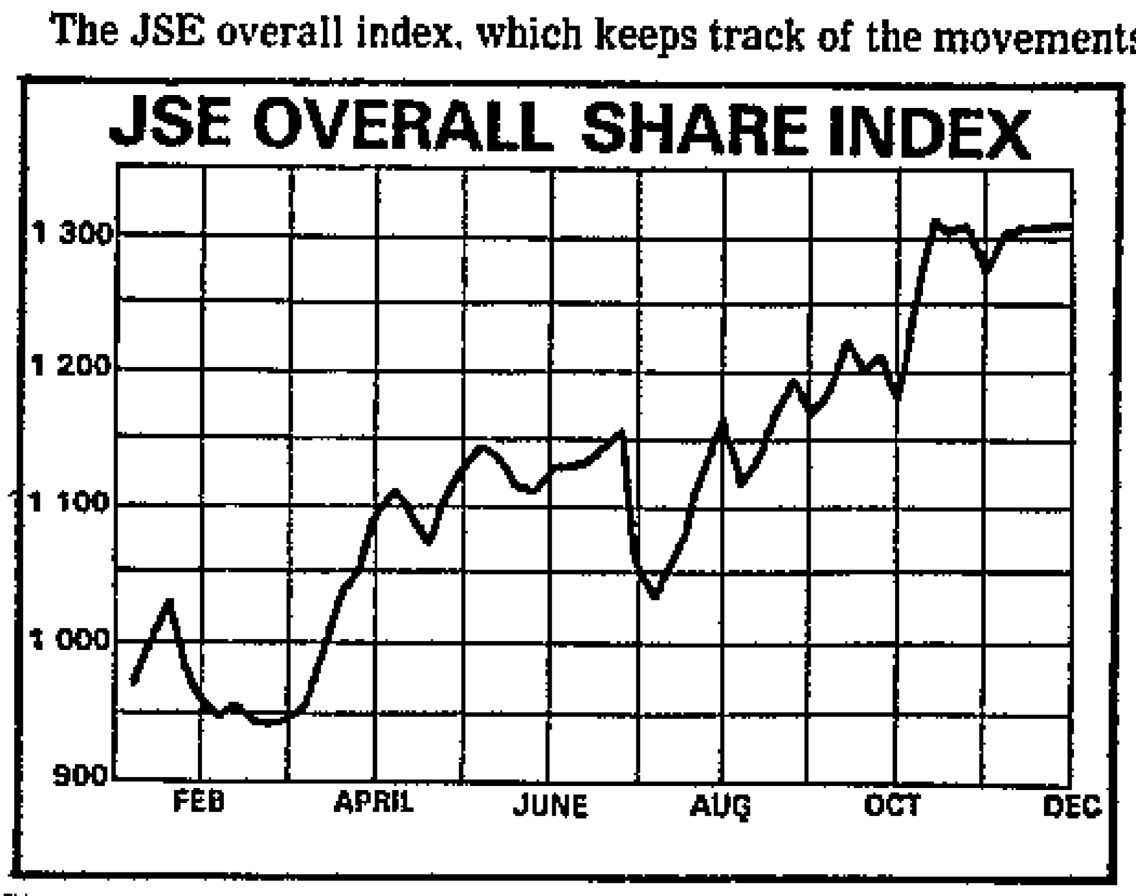
49

By Michael Chester

Investors on the Johannesburg Stock Exchange shared in a boost worth R35 000 million as share prices soared to new peaks in 1985.

As stockbrokers closed the 1985 session today, share prices — on average — had spiralled at almost twice the inflation rate.

The JSE overall index, which keeps track of the movements of all 500 companies quoted on the exchange, showed gains of 33 percent.



Even the state of emergency caused no more than a pause in the investor rush to find a refuge from worsening inflation.

"Records were skittled like bowling pins," said JSE President Mr Tony Norton.

"The big institutions such as insurance companies and pension funds had more cash than ever to invest — and the small investors came in droves, primarily trying to beat inflation with their savings," he said.

Many share prices also benefited from the weakness of the rand exchange rate, which served to boost the rand income of the gold mines and export companies.

Mr Peter Polson, president of the Association of Unit Trusts, said the 13 trusts had had their most successful year in more than a decade.

Caution

Most brokers were cautious about predicting the outcome for 1986. Many were fearful that the market had become overheated and was perhaps over-optimistic about the prospects of an economic recovery that could be sustained.

As 1985 trading drew to a close today, the picture showed:

- The JSE overall index had climbed since the start of the year from under 1 000 to more than 1 300, boosting the aggregate value of equities from below R112 000 million to above R147 000 million.
- Gold shares were standing 22 percent higher.
- Shares in the giant mining houses were up 57 percent.
- Industrial shares were 25 percent higher.
- Diamond shares, repolished to their old glory, showed an average advance of 100 percent

Inflation, recession, hit retailers

By AUDREY D'ANGELO

INFLATION and the recession combined to make this a disappointing Christmas for many city retailers. But a few said they had done better than they expected.

Some reported higher sales in rand terms — although in unit terms they were mostly down or unchanged from last year.

Boycott

And, although at least one supermarket chain had been hit by the boycott of white-owned stores, a spokesman for the Western Cape Traders Association, whose members are in business in the coloured townships, said they had not felt the benefit.

"Members of our association have not had a very good Christmas," said Mr A Gafoor.

"This could be due partly to the suggestion that there should be no celebration this year, but I think it was mainly due to the recession.

"There is a lot of unemployment, money is tight and people could not afford to buy anything but essentials.

"With unemployment rising I see little hope of an improvement in the new year."

The senior buyer for Pick 'n Pay, Mr Alan Baxter, said that customers had tended to be "more specific about what they bought, and to buy a small size rather than a big one, reinforcing the impression that money was tight".

But, although imported turkeys had cost 40 percent more this year, as many had been sold as last year.

The advertising manager of Shoprite, Mr Brian Weyers, said his chain had benefited from the fact that some people were trading down rather than going to stores catering for the upmarket customer.

"We had a very good Christmas. Gross takings from the stores already in existence last Christmas and not counting those opened this year were more than 20 percent up.

"Even allowing for inflation, we were up in real terms."

The chairman of Clicks, Mr Harry Goldin, said that sales between December 1 and Christmas Eve were 10,5 percent higher in rand terms than in the same period last year.

Improved results

The manager of Stuttafords' Adderley Street store, Mr Frank Wehmeyer, said a last-minute rush, in the final two days, had improved results.

"Generally speaking, between the two stores, we are happy with our Christmas sales, although results from the Claremont store were better than those from the City centre."

He thought that, apart from the recession, retailers in the City centre had been hit by competition from the larger number of suburban centres.

"There is no doubt that we are over-traded in the Western Cape," he said.

ECONOMY _ 1986

JANUARY — MARCH.

Commercial rand rises against US dollar

3/1/86

49

Mercury

Mercury Correspondent

JOHANNESBURG—The commercial rand began the new year on a positive note yesterday, continuing its four-day recovery against the dollar to close at $0,3935, up from Tuesday's close of $0,3900.

Dealers said the currency was modestly supported by the Reserve Bank in a very thin market. It also gained some support from a weakening US dollar which fell to 2,4370 deutschemarks from 2,46 on Tuesday. By late yesterday it had recovered to 2,4510.

The gain made by the rand represents a leap of 5 percent — 2 US cents — since last Friday and showed commendable progress for a currency which has been struggling to make any headway over the past few weeks.

It also suggests that sentiment in official circles that the currency will be under less strain in the first few months of the year could be correct.

Trading

Yesterday's trading was thin, consisting mainly of small deals — about $1 000 000 a time — and there was scant export or import demand.

The financial rand was unchanged at $0,2750.

The commercial rand has also recovered against sterling. It takes only R3,6823 to buy one pound as against R4 a few weeks ago. But it is worth only 0,9617 deutschemarks and 78,42 yen.

If international markets remain bearish on the dollar, demand will switch away from the dollar to the rand and the latter currency will firm. If the dollar strengthens, at best, the rand will remain around its present level.

But international sentiment now suggests the dollar will decline further. Yesterday it hit a five-and-a-half-year low against the yen before recovering slightly to 199,20 yen.

Expectations of sluggish US growth and a real desire on the part of the Americans to reduce their burgeoning trade deficit are behind the bearish sentiment.

Gold showed little reaction to the weaker dollar, hovering around the $326/$327 mark all day. It closed at $326.70.

Stock prices

JOHANNESBURG—The Stock Exchange has announced that from now onwards the market report and closing prices will be broadcast direct from the JSE from Monday to Friday at 6.15 p m. — (Sapa)

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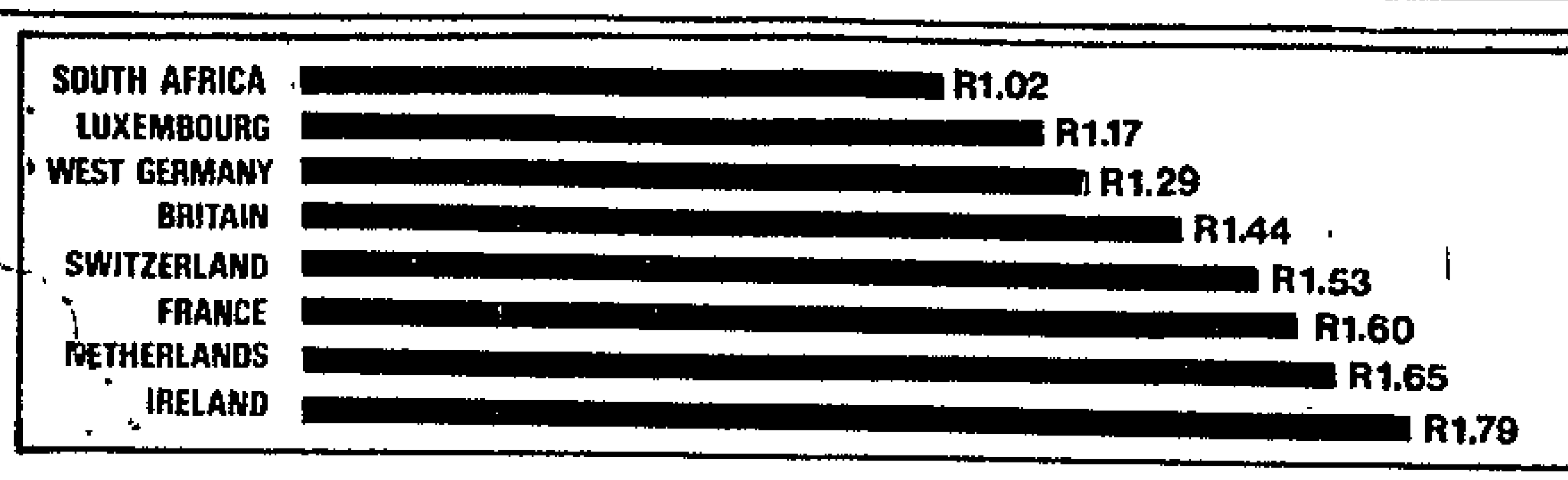


Fuel price in rands 'cheap'

4/1/86 STAR 49

Staff Reporter and The Star Bureau

The rand price of South African petrol still rates among the cheapest in the world despite the poor exchange rate of the rand against the dollar and major European currencies.

In South Africa the poor exchange rate is the main reason for the recent spate of petrol price increases as all bulk fuel sale transactions are conducted in US dollars. This includes petrol produced locally by Sasol.

In rand terms Ireland has the most expensive petrol in Europe at R1,79 a litre followed by Italy (R1,75), the Netherlands (R1,65), France (R1,60) and Norway (R1,57).

The cheapest petrol in rand terms in Europe is to be found in the socialist state of Yugoslavia where it costs R1,08 a litre.

The prices are for one litre of high grade (four star) petrol and are based on figures supplied by the AA.

● The Department of Mineral and Energy Affairs and the South African Transport Services (SATS) yesterday released the following joint statement to Sapa:

"The recent increase in the fuel price is linked to the following factors:

Transport cost

"(1) The increase in transport cost as determined by SATS and as announced previously on November 26 1985 by the Minister concerned.

"(2) Additional sales tax on the above increase as determined by Treasury.

"(3) An up or down adjustment at the pump with a view to the unavoidable temporary rounding off of the price and where such adjustments flow to or from an effective savings fund (slate) which belongs to the consumer.

● There was an urgent need for an inquiry into the latest fuel price increases and the country now needed a Consumer Affairs Minister, the Progressive Federal Party spokesman on consumer affairs, Mr Harry Schwarz, MP for Yeoville, said yesterday.

Broker predicts tax cuts, less fiscal control

4/1/85 STAR 49

The South African economy will be stimulated by tax cuts in March and a further relaxation of Reserve Bank monetary and fiscal controls, forecasts Mr Max Borkum, a leading stockbroker on the Johannesburg Stock Exchange.

Mr Borkum told *The Star* yesterday he was optimistic and expected the present upward trend in the share market over the past six months — where share prices have spiralled to almost twice the inflation rate — to continue.

Although Mr Borkum does not see an easing in the inflationary trend, he predicts a further lowering in the interest rates and a resultant increase in the money supply. "The lower dollar and the drop in US interest rates should improve the income for the gold mines and there should be improved prospects for some industrial companies and improved profits generally on the market," he said.

The overall exchange index rose by 33 percent last year.

● The rand has started 1986 on a firm note and is testing the 40c US mark. The latest rand-dollar rate on the JSE was 39,5c US, the gold price on the London Stock Exchange was $326 and the JSE industrial overall index reached a new high of 1 069,5.

Boycott puts spotlight on Rand Monetary Area

STAR 6/1/86 (49)

Cutting ties with rand could hurt neighbours

The international capital boycott of South Africa has had a serious impact on neighbouring countries, and in this article DR ROGER GIDLOW discusses some of the implications of these strictures.

The future of the Rand Monetary Area, has been placed in the spotlight by the recent decision of Swaziland to enter into negotiations with other members of the area with a view to unlinking its currency from the South African currency.

For many years Botswana, Lesotho and Swaziland used another national currency as their domestic circulating medium of exchange and legal tender despite the absence of any formal agreement to underwrite such an arrangement.

These countries were, in effect, part of a wider de facto monetary area which used the rand.

In 1974, these informal arrangements were replaced by the creation of an officially recognised Rand Monetary Area.

Botswana did not join this area, but all three nations have, nevertheless, maintained, to varying degrees,close economic integration with the monetary system of South Africa.

Within the Rand Monetary Area the exchange rates between the three currencies, namely, the maloti of Lesothi, the emalangeni of Swaziland and the rand of South Africa are maintained at unity with no margin for fluctuations.

Close integration

While floating exchange rates have been adopted for the major currencies after the demise of the Bretton Woods arrangements in the early 1970s, the fixed exchange rate features of the Rand Monetary Area agreement have remained intact.

In view of the close economic integration between the member states, and the limited potential for conflict arising from the dominance of South Africa, it has been difficult to visualise the Rand Monetary Area agreement disintegrating.

Instead, it is generally assumed that the smaller states might at some stage seek a revision of the agreement in the form of compensation for any perceived costs which are imposed on them.

The possible withdrawal of Swaziland has created a new situation. The exit of a member from a monetary union is not exceptional. Mali turned its back on the West African Monetary Union in 1961 and rejoined in 1984.

Nevertheless, some analysts emphasise that the political will to integrate in a monetary union is an essential ingredient for the success of such an organisation.

Of course, it's not inconceivable that increasing world hostility towards South Africa may have prompted the Swazis to try and distance themselves from this country.

At present, the monetary authority of Swaziland (as a consequence of its commitment to maintain 100 percent rand backing for the emalangeni and to keep its value at par with the rand) does not have the usual money-creating attributes of a central bank. This could change if it withdraws from the agreement.

Policy mutation

The country, however, would probably not possess extensive latitude for conducting independent monetary policies in view of its close dependence on South Africa for foreign trade and capital.

Roughly a third of Swaziland's exports are destined for South Africa, while about 80 percent of its imports originate from the Republic.

Many commentators will assume that any abandonment of the rand as a monetary standard by Swaziland will most probably be followed by a mutations in its exchange rate policies.

A floating exchange rate system between the rand and the emalangeni would appear to be ruled out at this stage by the lack of the necessary institutional banking facilities in Swaziland.

The most obvious alternative would be for the Swazis to peg their currency against the rand on a variable peg basis.

In theory, at least, this could provide an additional element of flexibility for dealing with balance of payments disequilibria.

A study covering 1974 to 1981 revealed that the global balance of payments of South Africa and Swaziland typically did not move in phase.

In other words, the usual situation has been such that a basic balance of payments surplus in South Africa was mirrored by a deficit on the basic balance of Swaziland and vice versa.

On this basis it can be argued that since the exchange rate policy of South Africa is geared to direct its own balance of payments position, this policy is likely to be inconsistent with Swaziland's requirements as Swaziland has no independent policy.

Balance of payments disequilibria in that country are, arguably, made more difficult to overcome.

This sort of analysis, however, ignores the possible impact of short-term capital flows on the Swaziland balance of payments if it adopted a variable pegging arrangement for its currency against the rand.

The Swaziland authorities might find that their managment of the currency is complicated by leads and lags influences.

The heavy dependence of the Swaziland on foreign trade with South Africa could encourage large speculative movements of funds out of the emalangeni if the currency is pegged at above par against the rand.

Conversely, large amounts of funds could be attracted into the cuurency if it was pegged below parity with the rand.

If Swaziland does withdraw from the Monetary Area it is bound to have a major impact on its economy.

In contrast, the consequences for South Africa would be slight. This is because of the huge disparities in the sizes of the respective economies — with the gross domestic product of Swaziland less than one percent of the comparable figure for South Africa.

Metlife seeks JSE listing

Metropolitan Life, one of the top 10 life insurance companies in the country, is seeking a listing on the Johannesburg Stock Exchange.

The listing is to be accompanied by a public offer of shares in Metpol, as the company will be known on the stock market.

The prospectus, setting out full financial information, is expected to be published this month.

Metropolitan is a wholly-owned subsidiary of Sankorp/Sanlam.— Sapa.

1986 a year of opportunity, challenge

FCI chief in plea for political reform

STAR 7/1/86

(49)

By Stan Kennedy

South Africa's critical situation cannot be remedied without a convincing plan for economic reconstruction, backed by credible political reforms, says Mr John Wilson, president of the Federated Chamber of Industries (FCI).

An integrated economic and political strategy for change would serve as a rallying point for South Africans and a framework for conditional support to be given for black advancement by the international community, he told *The Star*.

Without this, warns Mr Wilson, the country could well become locked into a regime of low growth, high inflation, continuing balance of payments difficulties and stagnating employment opportunities.

The FCI firmly believes in South Africa's potential to regain political stability and realise its development potential by following these strategies.

But it is essential that all South Africans identify in a common loyalty to share in a more equitable and just society, with the government, business and labour finding a common basis for achieving the objectives.

Mr Wilson says the FCI has asked the government to address the structural problems which lie behind the poor growth performance of the economy. At the same time, it has urged government to implement programmes for privatisation and deregulation and to come up with a positive urbanisation strategy as new motivators for growth and development.

Despite the past difficult year, Mr Wilson says the business community is looking to 1986 as a year of opportunities as well as challenges.

"Most companies have introduced positive strategies for adjustment which will put them in a strong position to survive and respond rapidly to the upturn awaiting the economy.

"The country has come through a year of political uncertainties, township unrest, internal boycotts and external sanctions pressures.

"To the business community, 1985 will be remembered as the year in which the country lost its international credit standing and experienced plummetting rand values."

In the year just ended, harsh fiscal and monetary measures were introduced to curb over-spending and to finance government expenditure in a less inflationary way.

As a result, there was a substantial increase in the tax burden at precisely the time when most companies were experiencing a cash crunch and liquidity problems.

He says: "The increase in the tax burden is extremely worrying because of the depressing effect it will have on entrepreneurship and productive efficiency.

"It is imperative that South Africa regains its growth momentum, which has flagged in the 1980s.

"Private investment, which has stagnated for five years, must be re-ignited and productivity performance must be turned around.

"Most importantly, employment in manufacturing must rise to reverse the declining trend so that the sector can make a positive contribution to solving the structural unemployment problem of the economy."

ARGUS 8/1/86 (49)

1985 — when SA bust the record for 'bang' businesses

The Argus Correspondent

PRETORIA. — Last year was a record year for insolvencies and liquidations in South Africa — even on the basis of figures for only the first 10 months of the year.

In those months, compulsory liquidations more than doubled from 742 in 1984 to 1 541 in 1985. And compared to the first 10 months of 1981 compulsory liquidations have increased by more than 273 percent, according to Central Statistical Services.

The numbers dropped substantially in October, to 93 from September's 160 — probably a "technical" drop caused, according to CSS, by the Registrar of Companies and Closed Corporations exercising greater control over the accuracy of the names of the companies liquidated by court order.

Total number

These liquidations will be shown when the revised court order has been received.

The total number of liquidations increased by only six percent in the 10-month period between January and October last year compared to the same period in 1984, to give an average of 244 liquidations a month.

But the total number of liquidations in this period has increased by 116,2 percent compared to 1980.

Weak rand helps boost mineral receipts by 31 %

49

STAR 9/1/86

By Stan Kennedy

While the total value of South Africa's mineral sales last year is expected to be well over R25 billion — some 31 percent higher than in 1984 — the real performance of the industry is obscured by the effects of the declining rand.

Most of the country's mineral production is destined for export, with prices received determined, primarily, on outside markets in US dollars.

The effect, therefore, of the declining rand has been to boost local earnings without, necessarily, any real increase in foreign currency receipts or in export volume.

Only when final production and export figures become available later this year will it be possible to comment on the industry's real performance, Mr David Kennedy, Chamber of Mines' economist, told *The Star*.

TOTAL PRODUCTION

Even with the gold price falling from an average of $362 in 1984 to $317 in the first nine months of 1985, the SA gold mining industry recorded its highest rand revenues of more than R15 billion last year.

Total gold production is expected to be marginally down from 681 tons in 1984 to 678 tons in 1985.

This is despite continuing expansion in milling capacity, which was up two million tons to 103 million tons.

The real reason for the drop was because of the average grade milled which fell from 6,44 g/t in 1984 to an expected 6,14 g/t in 1985.

Mr Kennedy says the higher rand revenues encourage the mines to develop the sectors containing low grade ores, which were previously uneconomic to mine.

"While it is clear that the increased gold earnings were mainly a fortuitous result of a declining rand, our second most important mineral, coal, continued its established role as the mining industry's star performer.

COAL EXPORTS

"Provisional estimates suggest that total production will be more than 172 million tons, with a record 42 million tons exported."

Coal exports earned the country R2,8 billion in foreign exchange — a massive R1,1 billion, or 64 percent, more than in the previous year.

While the greater part of the increase is attributed to the low rand, it was also due to increased volumes and firmer dollar prices.

"Of the remaining export minerals, the platinum group, benefiting from hardening demand and firmer prices — especially for the minor platinum group metals — recorded a good year as did manganese and ferro-chrome, while the base metal sector remained depressed."

On this year's prospects, Mr Kennedy says that since international demand for minerals is a function of the economic well-being of industrialised nations, predicting the fortunes of the SA mining industry is difficult.

SA ECONOMY

The industry relies heavily on accurate economic forecasting on a global scale. As if this was not enough, the future scenario is clouded by sanctions and the threat of further sanctions.

Because of its importance to the SA economy it is the gold price that arouses the most interest and comment when future prospects are examined, he says.

"Despite the volume of analyses and comment, the gold price continues to defy the predictions of pundits.

"The price weakening in recent years has been generally attributed to the rampant dollar and high real US interest rates. Yet the recent 20 percent fall in the value of the dollar, vis-a-vis the currencies of industrialised nations, and expectations of an acceleration in US inflation, have done little to increase the gold price.

GOLD PRICE

"The main effect of the dollar slide during the second half of 1985 has been to lower the gold price, in non-dollar currencies, to levels lower than any since 1982."

The gold price, he says, thrives on inflationary expectations and economic uncertainty. Since most industrialised nations have achieved a measure of economic stability, largely by adopting and pursuing strict financial disciplines, the immediate future does not seem conducive to an increase in the gold price.

However, he sees the growing imbalance in the US trade balance and the Federal budget causing concern despite current attitudes which seem content to ignore the problem.

This imbalance appears set to worsen. US domestic savings are only 1,9 percent of gross domestic product — the lowest for decades — and the absence of savings to pay for investment and the budget deficit means that capital will have to be imported.

"As the resulting flow of funds must be matched by a flow of goods, there is every likelihood that the US trade deficit will continue to grow.

This will add to pressures already weakening the dollar and could provide an improved scenario for gold."

STAR 10/1/86

PW's year of anniversaries

49

On Sunday President Botha turns 70 — the first of a series of significant anniversaries for him in 1986.

Later in the year there will be the 50th anniversary of his entry to political life (he was appointed as an organiser for the National Party in the Caledon district on May 1 1936), and, by the time this year's annual congress season comes round, usually in September, he will have served 20 terms as his party's Cape leader.

These events, persistent rumours of his failing health (always strongly denied by those close to him) and his known wish to spend his twilight years with his grandchildren tempt many a commentator to speculate that this will be Mr Botha's last year in high office.

There is, of course, nothing unusual about having a septuagenarian at the helm of a nation's affairs. Ronald Reagan is well into his 70s, and most of Russia's recent leaders were of similar age.

But the South African President is said to be keen to step down if he can be sure that he leaves the country and his successor a heritage of peace and stability, and that the bold new direction that he has taken his party along can be seen to be the correct one.

DAVID BRAUN, *The Star's* Political Correspondent, reports from Cape Town on the important year that lies ahead for the State President, Mr P W Botha. Part Two of this series appears in *The Sunrise Star* tomorrow.

Challenges

At 70 he realises that the remaining challenges are numerous, and the years, if not months, left to him are preciously few.

Mr Botha is a man with a sense of history and destiny and if he is unable to show progress towards his goals in 1986, he may feel obliged to stay on indefinitely.

In that case, like any politician with a fixed term of office, Mr Botha runs the risk of having to go at a time not of his choosing.

If he does decide to retire this year, the most likely date of his announcement is just before this year's National Party provincial congresses, so that he can say goodbye.

By then the parliamentary session will be behind him and there will have been a chance to make some progress on the economic and political fronts.

Mr Botha would like to see the economy in a phase of recovery, with people back at work and international investors finding confidence. He would like to see his political reforms bearing fruit, and the long-awaited negotiations on black political participation under way.

All this will add urgency to his speech at the opening of Parliament on January 31, when he may be expected to outline his agenda for the year.

That political stability and economic prosperity are interdependent is axiomatic, so Mr Botha will strive to create the right climate for both.

A development in this regard would be an announcement that the Government has firmly decided to abolish influx control and the pass laws immediately, and that the positive and orderly urbanisation it seeks in their place includes the elimination of bureaucratic obstructions in township and housing development.

Excellent political concessions, which if sold in the correct spirit of generosity an good faith will have a major psychological impact at home and abroad, would be the unconditional release of all long-term security prisoners and the unbanning and release from detention of political opponents.

The unbanning of the ANC could be coupled with an invitation to start talks immediately with the leaders of all the sections of the population.

Mr Botha could perhaps try to secure the public support of the West for such announcements as sufficient basis for talks.

Organisations and individuals continuing to support or perpetrate violence under these circumstances would have to be isolated and excluded from the negotiations.

What is needed, in short, is a dramatic gesture on the part of a statesman president, to make this last, crucial period the crowning point of a thus-far successful career.

Failure to make such a gesture may have sad consequences for the country and the man.

It is said that every career in politics ends in sadness or tragedy.

In their book on President Botha, "PW", Dirk and Johanna de Villiers said that the leaders of South Africa have almost all died in tears — "Paul Kruger banished in exile, Louis Botha on a downhill, Jan Smuts rejected, Hertzog lonely, Malan in isolation, Strijdom unfulfilled and sickly, Verwoerd in blood and Vorster in unhappiness".

Will P W Botha grasp his remaining opportunities to reverse the trend as he enters his eighth decade?

Leutwiler's visit will see progress on debt standstill

STAR 11/1/86 (88) (359) (49)

By Trevor Walker
Finance Editor

The South African monetary authorities and commercial bankers were confident today that the three-day visit to this country by former Swiss Central Banker, Dr Fritz Leutwiler, would have a positive impact on South Africa's debt rescheduling negotiations.

The crisis was largely the result of a downward credit rerating of this country by certain US banks and Chase Manhattan in particular.

However, while the resultant debt standstill catapulted South Africa's poor political standing abroad into the forefront of the crisis, there appears to have been something of a mellowing in banking attitudes lately.

US banks introduced the political factor and in many respects their stance is now no longer dictated by banking practices, but by public opinion and politically motivated board members.

It is a powerful lobby and one that has been responsible for much of the uncertainty that has surrounded the talks between the Standstill Co-ordinating Committee and foreign banks in London.

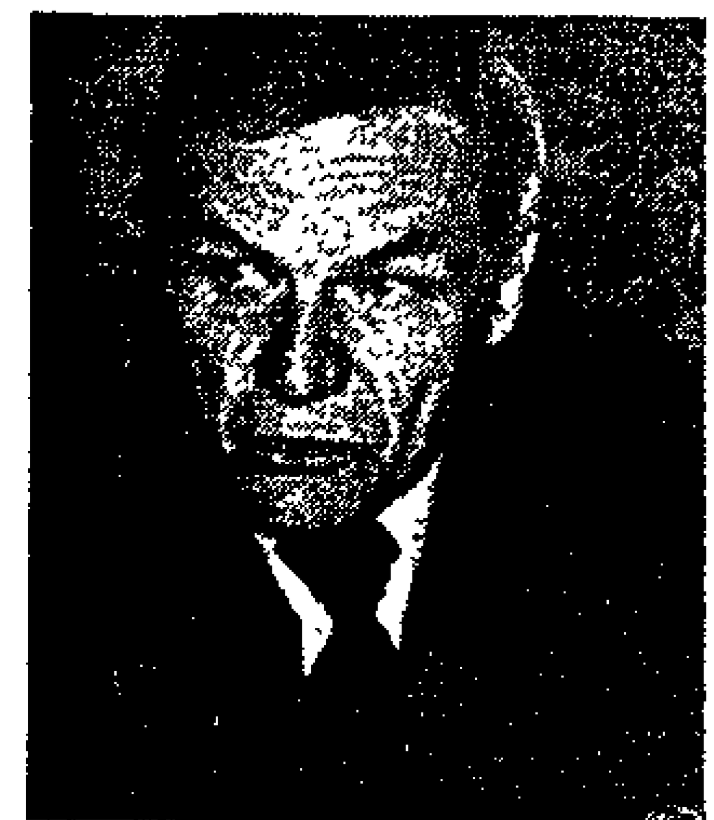
Having had no previous experience of debt standstills the authorities had initially to operate largely in the dark and this in turn led to some confusion.

Most of this has now been sorted out, although there are still some technical matters to be resolved.

It is expected that certain queries that the foreign banks still have will be discussed during Leutwiler's visit and that the meeting next month between the Co-ordinating Committee and the Banks in London will be able to make some solid progress.

According to banking sources here the debt reschduling process has become very fluid and if the latest proposals of the foreign banks and some positive factors emerge from Leutwiler's discussions with PW Botha, then matters could begin to gell.

There is little doubt that the demand by some banks that debt repayment or future credit be coupled with overt political change remains a stumbling block.



Dr Leutwiler.

If Mr PW Botha is prepared to be open with Leutwiler and indicates, as from the opening of Parliament this year, what sort of reform programme he will be attempting then bankers are confident that the political aspects of the problem could be reduced.

However, if some US banks find it impossible to shift their position, virtually irrespective of what the State President might indicate he has in mind for 1986, then the situation will be wide open once again.

It is no small secret that a number of senior government officials want the hardline American banks placed at the end of the repayment queue.

The Reserve Bank is firmly against this, but the line will be difficult to hold if these banks attempt to dictate to the government on what it should be doing and when it should be doing it.

Nevertheless, according to one senior commercial banker, the break-dancing is over, various options are now open, and hopefully it will be possible to firm up the repayment schedule next month.

Leutwiler, on his arrival yesterday at Jan Smuts airport, declined to make any Press statement at all.

It was still not clear last night whether he would be prepared to talk to the Press after his discussions with Mr Botha in George today.

A Finance Department spokesman said that at this stage all that was scheduled was for Leutwiler to issue a statement prior to his departure on Sunday evening. He said it was unlikely the Press would be allowed to question him.

Cape Times 11/1/86

Debt crisis man 'hopeful'

49

From JOHN TILSTON

JOHANNESBURG — Dr Fritz Leutwiler, South Africa's foreign debt crisis mediator, expressed the hope after a one-hour working lunch with Foreign Minister Pik Botha yesterday that he would be able to "come up with a realistic and constructive proposal and solution of the debt problem".

Other South African officials at the lunch were the Finance Minister, Mr Barend du Plessis, the Director-General of Finance, Mr Chris Stals, and the Reserve Bank Governor, Dr Gerhard de Kock.

In the afternoon, Dr Leutwiler held talks with the Standstill Co-ordinating Committee, which presumably involved technical details of the rescheduling operation.

However, the main item on Dr Leutwiler's agenda is today's meeting with President P W Botha in George, in which the emphasis will shift firmly back to purely political matters.

Task become overtly political

The task of rescheduling the repayment of the blocked \$13,4 billion (about R33,5 billion) foreign debt has become overtly political.

The pressures faced by the foreign banks within their own communities are such that it would be impossible for them even to see Dr Leutwiler if the political dimension was missing from talks.

Therefore, if he is to represent the views of the foreign creditor banks, he will be obliged to deliver a blunt message on the necessity of reform for the debt-rescheduling task to make progress.

South Africa suspended repayments on \$13,4-b of its \$24-b (about R60-b) foreign debt until the end of 1985, then extended repayment for another three months. United States banks have rejected the government's proposal of a five-year rescheduling.

Cape Times . 11/4/86

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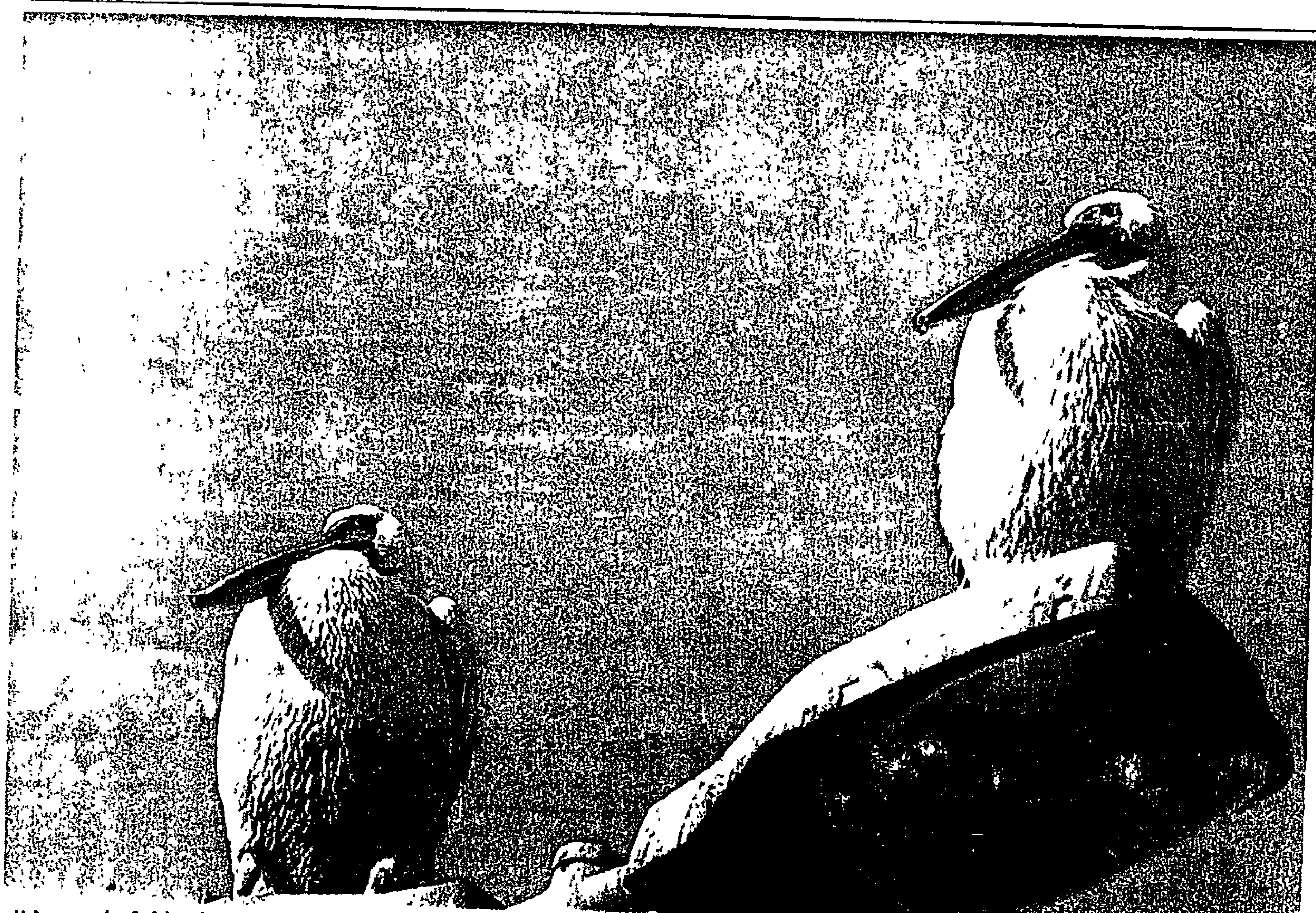
Gold price soars to give economy a boost

STAR 11/1/86 49



"A wonderful bird is the pelican,/ His beak can hold more than his belican./ He can take in his beak,/ Enough food for a week,/ But I'm damned if I know how the helican." These two solitary specimens perched on top of a lamp post in a Swakopmund street almost fooled *The Star* photographer Karen Sandison into believing they were plastic models put up as some kind of tourist attraction, but they soon flew off, probably to test the truth of Dixon Lanier Merritt's rhyme.

By Trevor Walker

The economy this week gave South Africans some of their best news in months AND gold reached its highest dollar price since President Botha's Rubicon speech.

On the strength of gold, the rand held firm above 40 US cents, touching 42 yesterday.

Also up is the price of platinum to almost US$365 an ounce; De Beers announced record diamond sales rose last year by 75 percent to US$4 billion; and prices on the Johannesburg Stock Exchange rocketed.

To top it all, hopes of resolving the overseas debt crisis have brightened significantly.

Yesterday afternoon gold was fixed at US$340,45 an ounce in London, the highest since August last year and, in morning trading in New York, deals were being struck above the US$340 level.

Earlier in the week gold traded as high as US$344 and bullion dealers expect the price to continue to rise next week in the face of the unresolved Libyan-US sanctions crisis.

South Africa's debt troubleshooter, former governor of the Swiss Central Bank Dr Fritz Leutwiler, said on his arrival yesterday: "I am very hopeful that we will be able to come up with realistic, constructive proposals for a solution of South Africa's debt problems."

Dr Leutwiler is mediatiating between South Africa and its foreign creditor banks on rescheduling about US$14 billion of frozen debt.

Yesterday the good news continued with the tender price for Treasury Bills auctioned weekly by the Reserve Bank falling 70 points to 12 03 percent.

The prices of government and Escom stock were also tending lower, supporting speculation that a further fall in interest rates led by a cut in Bank Rate was possible in the very near future.

The stock market experienced an exceptionally busy week and practically all sectors gained strongly.

The overall market index rose 75,7 points to 1 388,1 while the gold index was 78,9 up at 1 235,7 and industrials 54,4 to 1 112,3.

Economy could be on the mend

49 BUS DAY 17/1/86.

JOHN TILSTON/Economics Editor

THERE IS a growing body of opinion, some of it very reputable, which holds that the economic upswing has started. This spreading confidence in the economy is a very welcome and necessary part of the upswing, but it must be tempered with realism lest we fall further than we have so far gingerly risen.

A number of economic indicators are suddenly looking very positive and add weight to those few that have been favourable for some time. The rand is at last strengthening, gold is on the move and there has been enough rain to offer hope of a successful agricultural season.

Other variables — such as declining short-term interest rates, a very healthy surplus on the current account of the balance of payments and money supply firmly under control — suggest that the SA economy could be on the mend.

In addition, foreign debt mediator Fritz Leutwiler has been making statements in the last few days which indicate a short-term solution to the debt crisis is possible.

Judging by recent performances of the stock market, there is a measure of confidence in the economy's ability to turn around in the short-term and for SA companies to return to profitability.

Few of these positive factors have yet to be felt by businessmen (except, of course, miners and exporters) and consumers.

As Standard Bank economists recently put it: "In many businessmen's opinions, the emergence of recovery trends still exists in the minds of economists and politicians." Indeed, these positive factors are so fragile that they need to be treated with great circumspection.

A spread of the political foot-in-the-mouth desease common in SA and/or a significantly stronger dollar, or a collapse in the gold price, could destroy any hope of the upturn. Little further rain would also harm prospects.

There are also other, more tangible, dangers in the wings. SA's gold and foreign exchange reserves are dangerously low — at a third of the level they were at in 1980 — and insufficient to support the rand should there be a collapse in confidence or a determined run against it.

Some analysts believe the authorities have such a tight grip on the currency that a decline is now unlikely. But the newly-found control has still only been in position for three weeks or so.

Gold has yet to show that its recent rally can be sustained. It has failed to respond to many of the stimuli that have triggered an upward spiral in the past. Analysts hope that the recent surge may at worst establish a new lower resistence level.

Inflation is now at record levels, and debate on whether it reaches 20% is largely dominated by statistical matters. Increases in the early months of 1985 were so great as to reduce the year-on-year measurement of increases in the first half of 1986.

No one is now forecasting a significant reduction in the real rate of inflation this year. Unemployment will remain high. Companies that have learnt to manage on leaner staff compliments will not easily hire more workers, especially when the duration of this upswing is uncertain.

Gross domestic expenditure, now in the doldrums, will be slow to recover. High unemployment, lower disposable incomes — as a result of salary increases at less than the rate of inflation — and fiscal drag will mitigate against significant real increases.

Companies will be reluctant to spend more, concentrating rather on rebuilding their capital bases.

The optimism in financial circles that a short-term resolution to the foreign debt crisis could also ironically dampen growth prospects. Leutwiler believes the SA economy is basically sound, though he is worried about the rate of inflation. He believes that there will be a healthy surplus on the current account of the balance of payments this year.

He is also on record as saying that — only half in jest — the task of a mediator is to make both parties equally unhappy. Given this view, it is possible that the terms he settles for will include significant repayment of capital and higher interest payments after March 31, when the standstill expires.

This would eat into the trade surplus and mean that some resources that would otherwise be used to generate growth will have to be used to repay debt.

For this reason, Barclays economist Cees Bruggermans hopes "SA will succeed in minimising the net annual reduction of its foreign debt". But even with minimal debt repayment, he sees problems ahead.

Foreign debt increased by 30% between mid-1981 and late last year, but real GDP did not grow at all. "The need for foreign borrowing, and the consequent external constraint on real GDP growth, is very much a reflection of an extremely poor export performance."

Even with the positive forces outstaying the negative ones, we cannot expect strong growth from this infant upswing. International growth will be sluggish and provide little scope for increases in exports of primary commodities.

And while there may have been an upsurge in confidence in prospects for the near future, very few people are talking about the medium-term in positive terms. If there is to be hope for the future economic well-being of this part of the world, fixed investment must be dragged out of its five-year decline.

US bankers now see some 'better signs' in the offing

STAR 14/1/86 (42) (49)

By Ramsay Milne
The Star Bureau

NEW YORK —US bankers took a close interest in Swiss mediator Dr Fritz Leutwiler's recent visit to South Africa and say they see "some better signs in the offing.

It was the US banks which precipitated the rand crisis by calling up \$24 million owed by South African interests and have since refused to renew credit lines while the present unrest continues.

A senior executive at Chase Manhattan said at the weekend: "US banks have never taken a political position as such, though most are aware of the moral and political pressures.

"Our judgment has been, given the disruptive effect of the violence and the steep sagging of the South African economy, that capital risks have begun to appear that were never there before. We are simply acting as prudent bankers facing up to unpleasant facts."

Similar views were expressed by Citibank which with Chase is thought to have underwritten most of the South African loans.

But of more immediate interest to investors is the after effects of a tumultuous week on Wall Street in which theDow Jones index hit both a record high and suffered the biggest single day's loss in history.

Yet the New York investment community remains surprisingly upbeat, with most investors holding constructive views about continued market growth in 1986.

Others remain convinced that the recent decline in the dollar on world markets is a temporary phenomenon.

"Don't look for a dollar decline in 1986," said one Wall street currency adviser. "Signs are the US will remain the world's best investment bet in the foreseeable future, and the huge sums of foreign money pouring into the country will not only not abate, but may also increase. That can only keep the dollar flying high, whatever other factors may be working to bring it down."

Fluctuations

The dramatic fluctuations of the Dow Jones will be remembered for a long time. On Tuesday it rose 18,12 points to a record close of 1 565,71.

But on Wednesday, concern that interest rates would no longer decline caused a 39,10-point drop in the Dow, a record decline. Interest rates became the market's theme for the next two days, and contributed to a 4,70-point decline in the Dow on Friday, to 1 513,53.

For the week the Dow dropped 35,65 points, the worst performance since a 35,78-point drop in the week ended September 21, 1984. Elaine Garzarelli, a market analyst for Shearson Lehman Brothers says that despite the three percent drop in the Dow most professionals were calm.

"This has happened before," she added. But she conceded that others, particularly the army of small investors, were troubled.

All week, professionals, in the course of regular arbitrage activity, had been selling select blue-chip stocks and purchasing relatively cheap stock futures. This caused wild swings in stock prices that unnerved many smaller investors, who joined the stampede to sell equities.

Mr Gerald Simmons, who analyzes the market for Smith Barney, said that for the average investor these arbitrage programmes "are very scary".

But, he added, "if you are a professional money manager, it's a little less disconcerting".

Wednesday's alarming descent was sparked when investors smelled weakness in the bond market, and decided that interest rates were going to reverse their recent decline. This caused a decline in stock prices. That in turn spilled over into the stock index futures market.

However, the one assessment most Wall Street experts hesitate to make with any conviction is how deeply the psychological effects of last week's experience has bitten into the investment community.

While unable to measure it, most agree that the record-setting free fall had a profound effect on individual and institutional investors, at least so far as the violent volatility inherent in stock index futures programmes is concerned.

Third World scenario not far off

Primary goods remain SA's trade lifeline

BUS DAY 14/1/86 49

ANDRE VAN ZYL

SOUTH AFRICA'S terms of trade, which have shown a downtrend over the past decade, continued to improve marginally after it levelled in 1982, largely due to the stabilisation of world commodity prices.

The picture is still not very far from the typical Third World scenario — reliance on a few primary products and deteriorating terms of trade.

A country's terms of trade, which is a ratio of the index of export prices divided by the index of import prices, shows how a country is placed vis-a-vis world markets.

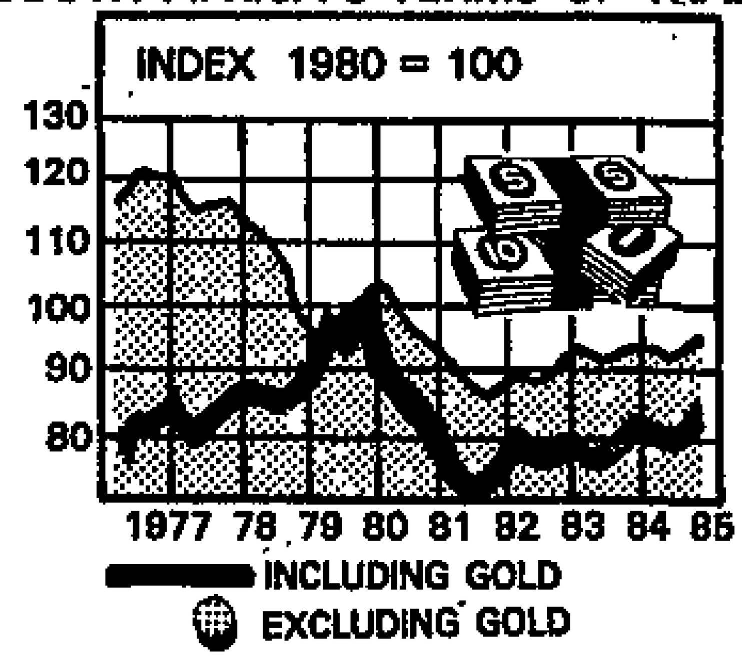
It deteriorates if the price of imports rises more than the price of exports because relatively more local goods have to be sold to pay for the same amount of foreign goods.

The graph showing the country's terms of trade, including and excluding gold, illustrates SA's dependence on the export of primary products. These have shown a downtrend in recent years.

As Standard Bank economists point out, the overall deterioration in SA's terms of trade have left the country with a badly balanced economy.

"Significant changes in technology in the Western industrialised world have substantially altered the previously stable relationship between the rate of growth in world industry, and the rate of change of consumption of primary commodities," the bank says.

SOUTH AFRICA'S TERMS OF TRADE



Source: BARCLAYS BANK

The result is that the international economy could remain unhelpful to SA's longer-term growth.

Indeed, argues the bank, the SA economy has long relied on the mining sector as a major growth generator and as an initiator of domestic expansions, but now the benefits felt are substantially less than during past growth periods.

What SA needs is to restructure its economy. It needs to sell more manufactured goods on world markets. When primary products fetched high prices this structural problem was masked and removed the urgency of developing a manufacturing sector capable of penetrating overseas markets.

BUS DAY 15/1/86 (49)

Third World orientation advised

Business Day Reporter

SOUTH AFRICAN business must produce more basic goods and services, orientated towards a Third World environment, says Peter Brews, a lecturer in law, economics and finance at the Wits Business School. Writing in Nedfin Bank's client magazine, *Of Interest* Brews said research revealed the most common cause of business failure recorded in the United States was management incompetence and lack of experience: accounting for 93% of failures.

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15/1/86 BUS DAY

Could engineered management buy-outs beef up SA business?

Martin Rafferty is an international business consultant currently lecturing on international finance at the UCT Graduate School of Business

CHRIS CAIRNCROSS in Cape Town

☐ MARTIN RAFFERTY

DUBLIN-BASED international business consultant Martin Rafferty has become well known among SA's business community. Intimately involved with industry, banking and insurance, he has been a regular visitor to this country since the late Sixties, providing a course on international finance at the University of Cape Town's Graduate School of Business.

About 3 000 professional managers have attended his sessions in that time.

Newly-arrived in Cape Town for another round of lecturing, Rafferty provides a dispassionate view of how an independent, informed outsider responds to SA's recent debt problems and conditions within the domestic economy.

Measuring every word, he observes what we all finally have to accept: that the international banking community's perspective of the "SA problem" and prospects is clearly demonstrated by their hardline reaction to the rescheduling of the country's foreign debt.

'At this stage of the game, the banking community is viewing matters through political rather than banking eyes, and have voted with their feet," remarks Rafferty.

"The realities of a situation out of phase with the rest of the world now have to be faced, and are expressed by the present low value of the rand on international markets."

And, he reckons, there will be no change of heart from the banks until major political reforms are set in motion.

"SA has a different type of risk situation to all the other debtor nations, such as Mexico, Brazil and the Argentine. I don't think that just talking about future actions will be enough," Rafferty adds.

He suggests that the sort of steps taken by the foreign banks was not unexpected and had been in the pipeline for some time.

"I don't think I would be out of step in saying there has been a growing sense of unease about SA within the international banking community for at least the last two to three years," Rafferty observes.

He waxes critical at the numbers of SA companies, parastatals — and even municipalities — which have been caught short with large, uncovered foreign exchange losses.

"This situation is pretty unique in world business. One of the fundamental rules of financing is that one has to match borrowings with denominated assets.

"It is not very often that you find so many large businesses in one country disregarding this fundamental."

That many of these forex victims now have a penchant for blaming their indiscretion on the advice given by their bankers gets no sympathetic response from Rafferty.

"In the final analysis, they can ask for advice, but it is their ultimate responsibility to make the executive decision," he observes.

The reasons for so many SA companies taking these forex risks?

Rafferty is scathing: "I suggest that it is a combination of avarice, greed, a lack of knowledge of international currency movements and inadequate financial management skills."

He does not support suggestions that part of the blame should be laid at the door of the Reserve Bank, which should, perhaps, have acted sooner to check "irresponsible" foreign exchange dealings.

Rafferty makes one exception, however. "In as much that a predominance of such foreign borrowings by the parastatals was allowed, then I agree there was a responsibility on the part of those outside the business field to have reacted."

On the domestic scene, Rafferty remarks on the high and growing levels of business concentrations within the economy, particularly at a time when the country is going into its third recessionary year.

"Companies must now be looking hard at the profitability of their individual parts. But there is no sign yet of a major move towards divestment by the large conglomerates," Rafferty observes.

Nevertheless, he believes the SA economy may be on the verge — already a confirmed pattern in the US and Britain — of a "massive series of rationalisations and realignments of industrial portfolios".

Says Rafferty: "Whatever the exact figure, it is a racing certainty that a small number of companies control more than 50% of the Johannesburg Stock Exchange. This, by standards of most other developed countries, is high.

"Whether it leads to a restriction of competition, the use and abuse of muscle or the pursuit and silencing of those outside the club is not apparent.

"What is worth considering is whether the time is not now opportune for a major process of rationalisation."

Using the overseas model to expand his thesis, Rafferty notes that the last decade has seen the corporate graveyards littered with the bodies of those whose motto seemed to have been growth for growth's sake, and a belief that bigger size was the insurance premium that guaranteed greater bottom-line profits.

During the recessionary years of 1979-82 in Europe, many of the bigger conglomerates had to look inwards and reappraise their strategy, Rafferty recalls.

"There comes a point when it is reasonable to ask whether individual managerial leaders, or teams of managers, can develop a constantly-improving track record of profitability, irrespective of specialised product knowledge or the market segments frequented," Rafferty surmised.

He noted that the recession in Europe brought with it a rewriting of the rules for corporate success. Some of these developments included:

☐ A total re-appraisal of the portfolio concept for strategic diversification;

☐ Large companies — particularly conglomerates — started asking whether it made continued sense to try and feed a dozen horses simultaneously, or whether it might not be an appropriate time to re-examine their operations and allow a greater amount of financial food and scarce managerial time for fewer horses;

☐ Large diversified firms were forced to try and make their assets sweat — this being achieved by a combination of rationalisation, closure and divestment;

☐ As divestment grew, a new feature was the development in the US — latterly in the UK — of the leveraged or management buy-out.

As part of this pattern, some financial institutions began to specialise in the provision of financial packages, which enabled managers to buy companies and divisions from their employers.

Rafferty suggested that this latter development is one which had considerable potential for the SA situation.

Given the difficulty of mobilising institutional funds for generating any sort of venture capital market in this country, a series of engineered management buy-outs could be one way of getting the ball rolling.

It would dovetail with corporations wishing to rationalise their operations. It would keep experienced managers with entrepreneurial spirit in the business — and reduce or even eliminate the need for institutional involvement in the actual running of the operation, which has been a major disincentive to the investment community up to now.

"I have an inkling there are many bits and pieces of big business that can be hived off in this manner," concluded Rafferty, estimating that the value of management buy-outs in the UK now totals almost R2bn.

JSE boom: Flash in the pan or the real thing?

W/E Argus 18/1/86

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From DAVID CANNING
Weekend Argus
Correspondent

DURBAN. — Many stock market observers have felt for some time now that shares simply are over-bought and prices in many instances are unrealistic.

There have been dire warnings of a crash to come and of many burned fingers — yet prices are near record levels and sentiment still very bullish.

Why do share prices continue to go up? Are prophets of doom crying "wolf" falsely? Is the market dip of the past two days a technical correction or the beginning of a slide?

In order to begin to answer those questions one has to see just how high the market is, in historical terms.

Over the past five years (since early 1981) share prices on average have risen by 87,5 percent (with only minor variation in growth rates between the gold and industrial index) virtually matching inflation's march of roughly 90 percent.

However, company profits and dividends have not kept pace with this rise in capital values. On industrial shares, for example, the average earnings yield has declined from 13,2 percent to 8,8 percent — meaning that, relative to the share price they pay, shareholders are prepared to accept about a third less in earnings.

When it comes to dividends, shareholders are today content with an average dividend yield of 4 percent compared with 5,2 percent five years ago — about 23 percent less.

The reasons they accept lower yields, of course, is because shares offer protection against taxation and (hopefully) inflation. These "bogeys" play havoc with any efforts to save, and part of their effect has been a "multiplier-type" boost to the stock exchange.

Individuals' savings are not only coming on to the Johannesburg Stock Exchange in first-stage transactions but, in vast amounts, from insurance and other institutions whose cash resources also have been bolstered because of tax and inflation fears.

While there are risks of a stock market crash reminiscent of 1969, portfolio managers are in a difficult position.

They point out that there are really only two viable investment avenues which present a possible hedge against inflation — property and shares.

In these circumstances most do not believe a crash is pending, even though there are some similarities (but also a number of differences) with 1969.

"The traditional idea of risk has been turned on its head," one manager said.

Traditionally low-risk institutions like building societies paid lower interest rates than yields on quoted shares, for example.

However, because the biggest risk to your savings today is from inflation, shares are priced at yields far lower than fixed interest institutions. The reverse yield gap, as this is known, is large.

Even the most conservative "little old lady-type" of investor is prepared to be persuaded to buy shares — or at least unit trusts.

There are dangerous signs of growing public euphoria — with an increased number of "experts" knocking on doors to offer share investment services. This kind of over-heated activity generally precedes a fall.

However, market watchers stress, dividend yields may be the lowest since 1969, but they still are some way from the 1 to 2 percent levels seen then.

Other plus factors cited are that the mining sector remains solidly underpinned. If gold strengthens, so should the rand. On the other hand, a renewed weakening of gold should produce a similar effect on the rand.

Either way a fairly healthy rand gold price seems assured and, as this is the revenue of the mines, shareholders have a built-in protection.

Assuming that the rand averages 45 cents for 1986, the rand gold price will be a record R780 — 12 percent above the average 1985 price. Costs may be rising but very few industries can boast margins of 70 percent between expenses and revenue.

Moreover, on the JSE the gold board generally gives a lead to the other sectors.

Another reason for thinking the crash is not here yet is that an upturn will continue to be stage-managed by the authorities — perhaps creating a false of security and prosperity.

'Quotas hit fishing'

UNCERTAINTY about fishing quotas was a major source of worry to the fishing industry as fishing companies could not plan more than a year ahead, Mr C L Walton, chairman of Oceana Fishing Group, said at the company's annual meeting in Cape Town tis week.

He said the quotas for 1986 had not yet been announced and the company could be at risk if these quotas were reduced.

Herman Fourie

ARGUS 16/1/86

Stuttafords city store hit by hard times, changing habits

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Staff Reporter

THE recession and the movement of shoppers to suburban shopping centres in the last few years have forced Stuttafords to close the basement and second floor of its Adderley Street branch — the food and houseware departments — at the end of February.

This is the second time the famous 128-year old store has been forced to abandon part of its space. It will now concentrate on fashions, fashion accessories and "CBD convenience goods" — books, sweets and so on for city workers, on the ground and first floors.

The popular Bird Cage cafe restaurant in the basement would also close though the Crumbs restaurant on the first floor would stay open.

FUTURE

A store spokesman, who did not want to be named, said the future of the employees who would be affected was an internal matter.

Several smaller businesses leasing space on the two floors, including a butcher, a Malay kitchen, a toy shop and a furniture shop, would have to find new premises.

He did not know how the space would be used and could not confirm reports that the basement would be converted to a parking garage and the second floor taken over by the post office.

There was no question of the store itself closing, and the Cavendish Square branch was doing well, he said.

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SA Reserve Bank cuts bank rate

PRETORIA. — The South African Reserve Bank has reduced the bank rate from 13 to 12 percent from today.

In a statement on monetary policy, the Governor of the South African Reserve Bank, Dr Gerhard de Kock, said yesterday:

"With effect from Friday, January 17, 1986, the Reserve Bank will reduce its bank rate from 13 to 12 percent. This is the rate at which it is prepared to rediscount Treasury Bills for discount houses.

"Corresponding decreases will be effected in the bank's other discount rates and in its interest rates on overnight loans to discount houses and banks.

Lending rates

"As in the past, each bank will remain free to determine its own overdraft and other lending rates.

"However, given the recent downward tendency in money market rates generally, it is anticipated that the reduction of the bank rate will lead to a further decline in the prime overdraft rate of the commercial banks from its present level of 16,5 percent to 15,5 percent.

"Other overdraft and lending rates, including rates charged to smaller business enterprises and farmers and on personal loans, are also expected to decline.

"The South African economy appears to have moved in to the early stages of an export-led cyclical upswing in the fourth quarter of 1985.

"Moreover, in recent weeks there have been several new favourable developments, inculding a rise in the dollar price of gold and an improvement in agricultural prospects.

"Earlier predictions of a three percent growth rate in real gross domestic product in 1986 appear to be well founded.

"However, the new upswing is starting from a low base, and spending, output, sales, imports and most other economic indicators are still at relatively low levels.

"For the time being, substantial surplus capacity continues to exist, unemployment remains high and real fixed investment in plant, construction and equipment has at yet shown little sign of recovery.

"Following the elimination of excess demand early in 1985, the money supply has remained under effective control.

"Indeed, measured over a period of 12 months, the rate of increase of the broad money supply (M-3) declined from 24,7 percent in November 1984 to 9,7 percent in November 1985.

Surplus

"This is well below the increase of 16,9 percent in the consumer price index between November 1984 and November 1985.

"The balance of payments on current account, which showed a large surplus of R6,9 billion (seasonally adjusted annual rate) in the third quarter of 1985, has improved even further in the fourth quarter to a figure provisionally estimated R7 billion and R8 billion.

"For 1985 as a whole, the final figure for the surplus is now likely to exceed R6 billion, which is equivalent to about five percent of gross domestic product.

Dr Gerhard de Kock

"It is expected that the current account will again show a large surplus in 1986. Even if real growth rate rises to three percent.

"Against this background it remains official policy to encourage investment and consumer spending with a view to utilizing the existing surplus capacity and raising production, employment and the rate of real economic growth.

"It is to this end that the Reserve Bank is now promoting a further decline in interest rates by reducing bank rates from 13 to 12 percent.

Inflation

"This expansionary step in no way implies a weakening of the resolve of the monetary authorities to curb inflation.

"In the Reserve Bank's view, the rate of inflation, which is bound to accelerate further before it declines again, is being held at its current unacceptably high level mainly by the cost-push effects of the depreciation of the rand after the third week of July 1985, and this depreciation, in turn, was not, as often in the past, caused by excess money creation and spending but largely by the withdrawal that followed the deterioration of overseas perceptions of South Africa's political and economic prospects after late July 1985.

"In these circumstances it is not deemed appropriate to curb inflation by raising interest rates or tightening monetary policy in any other way.

"At poresent, the rates of increase of the money supply and total spending are too low rather than too high.

Assistance

"Nor would a tightening of monetary policy at this stage be of any material assistance in dealing with the critical problems of capital outflow, foreign debt and currency depreciation.

"These problems have their own special causes and are therefore being given remedial treatment outside the scope of normal monetary policy.

"Nevertheless, the curbing of inflation remains a high policy priority.

"To this end every effort will be made to ensure that while the rate of increase of the broad money supply will be adequate to permit the desired increase in spending, output and employment, it will not be so large as to contribute to the new inflationary pressure." — Sapa

Liberty Life expects 3% growth rate

BUS DAY 17/1/86.

(49)

Business Day Reporter

THE economy is in the process of bottoming out and is set for a measure of growth in 1986, says Liberty Life's *Economic Review.*

However, it says that until there is an improvement in the political climate, it is unrealistic to expect a sustainable economic upturn.

The *Economic Review* warns that inflation will have to be contained by a sound monetary and fiscal policy and any excess stimulation of the economy must be guarded against.

Although it expects a growth rate of 3% this year, it expects the consumer sector to remain under pressure, as it is inevitable that personal disposable incomes will again decline in real terms.

In its review of the last quarter of 1985, Liberty Life commends the mildly stimulatory policies of the authorities, such as the cutting of the prime overdraft rate from 18,5% to 16,5%.

It says the long-term capital market performed badly because of:

☐ Expectations of rising inflation caused by the sharp decline in the rand;

☐ Unwillingness on the part of many investors to commit themselves to long-term stocks because of economic and political uncertainties;

☐ The belief that there will be a substantial demand for long-term funds during 1986, as both the state and parastatals will have to switch from foreign to local sources for future funds.

More economic growth and work in 1986 predicted

STAR 22/1/86 (49)

By Sue Leeman,
Pretoria Bureau

South Africa should see moderate economic growth in 1986, according to the head of the Reserve Bank's economic department, Dr C J de-Swart.

Addressing an agricultural conference at the University of Pretoria yesterday, Dr de-Swart said this should go hand-in-hand with a somewhat higher level of employment and utilisation of production capital.

The current account of the balance of payments was expected to show a healthy surplus, he said.

Inflation, however, would probably remain high until the effects of the recent depreciation of the rand had subsided. But if the rand remained where it was or improved its performance, this could moderate the inflation rate.

According to Dr de-Swart, things do not look too favourable at this point as far as South Africa's foreign debt is concerned. However, the country should get over this problem after a period of consolidation.

On agriculture, Dr de-Swart said 1986 would probably see a slower rise in farmers' input costs.

However, the continued high inflation rate, which was well in excess of that of South Africa's main trading partners, coupled with improvements in the rand, would somewhat erode the international competitiveness of exported South African produce.

Trade sanctions could influence agricultural exports to some countries but goods could always be rerouted to other destinations, so the effect of boycotts would be marginal.

Dr de-Swart emphasised that good rains were needed this summer to bring agricultural output closer to its long-term average.

Lower bills for exports, imports (49)

BUSDAY 23/1/86

Recovery of the rand a boon to economy

• ADCOCK

JOHN TILSTON

THE economy should benefit from the strengthening rand as importers and exporters face lower bills.

The rand has strengthened by 20% against the dollar since its last low on December 5.

Reserve Bank chief economist Chris de Swardt expects exports to be only marginally less competitive than they were. There may be some price reductions as imports cheapen in rand terms. The overall level of imports should not increase too much. Imports, he says, are very dependent on domestic demand, which has yet to recover.

Toyota MD Colin Adcock says the price increases in the motor industry up to the first week of this year have probably recovered costs on a rand of about $0,44.

Though non-committal on the direction of the rand, he believes it could go to $0,50 or $0,55 before exporters become uncompetitive. But at that level a great deal of pressure on importers will ease, he says.

Some manufacturers in other industries, who have held down prices in the face of the depreciating rand, should be able to avoid increases. Computer firm ICL confirms this is the case with their larger equipment.

Smaller ICL equipment is now locally manufactured — a switch made six months ago because of the threat of disinvestment and the then-ailing rand.

De Swardt says the stronger rand will assist the full range of imports. However, the time lag before local prices reflect the change is usually about six months, assuming companies pass on the savings. Furthermore, higher local inflation could prevent any drop in prices.

'What with the lower dollar price of oil on spot markets, the higher rand and the R5bn in the Central Energy Fund, the authorities will have a very hard time justifying another petrol price increase.

Over R10bn has been wiped off SA's foreign debt, which has effectively been "reduced" to about R53bn from about R65bn when the rand was at its nadir.

Though this has no effect on foreign reserves or the amount of dollars needed, it means that SA debtors have to find fewer rands to repay foreign-currency-denominated loans.

Foreign firms should make greater contributions to their parent companies abroad.

Mapping out the future

THE South African Federated Chamber of Industries this week issued a charter of social, economic and political rights. They also issued an Action Programme, which is viewed as more important than the charter, as the charter reiterates basic democratic principles in the best Western traditions. Its performance will also be judged against the Action Programme that will determine whether the business community is DOING something. The following is the FCI's Action Programme:

Dr VAN ZYL, FCI's CHIEF.

FOCUS 49 SOWETAN 23\11\86

SOUTH Africa is clearly facing very serious problems if not a crisis situation. Its society is rifted by conflict and an escalating pattern of violence and repression.

Despite the significant political reforms introduced by the government there is growing black frustration and agitation for political rights as reflected in rising protest and increased determination to secure fundamental change. Domestic unrest, consumer boycotts and external sanctions and pressures have all taken their toll on the economy, and in particular have seriously undermined local and international investment and business confidence.

As a result of these factors South Africa is facing a foreign financing crisis.

What is now needed to restore credibility and confidence in South Africa is a realistic and visible programme both of political reform and economic reconstruction as a rallying point to address internal unity as well as the international community.

Reform

Concrete results must be produced urgently.

The unacceptable alternative is the negative reaction of retreating into growing economic and political isolationism and a drift into a repressive siege society, necessitating greater government intervention and direct control over foreign exchange, imports, prices and wages.

Nevertheless, it has to be recognised that in many circles this option is not only attractive but appears to be gaining ground.

Business is aware of the practical constraints under which it operates and has no wish to promise what it cannot deliver. Its interest is to act as a positive agent of change and to play a catalytic role in support of and to facilitate the reform process while at the same time making it clear where it stands in terms of fundamental democratic values and human rights as set out in the Business Charter.

During the past year or so business has outlined in public the reform objectives it regards as essential and urgent for South Africa. These are:

- The removal of statutory racial discrimination from all the affairs of state;
- Negotiating a dispensation of genuine political power sharing by all South Africans right up to the highest level on the basis of an open-ended agenda and participation by all accepted leaders;
- Effective implementation of the maximum devolution of power to local levels of government with full participation by all local constituents;
- Full and equal citizenship for all South Africans;
- Full participation in a private enterprise economy by all in South Africa regardless of race, colour, sex or creed;
- The further development of a strong , free and independent trade union movement; and
- Equality of opportunity in the provision of education to all population groups as a matter of national priority.

The South African Government has already committed itself to most of these objectives. Business in turn has pledged its full support and assistance in effecting rapid imlementation in these crucial areas.

Negotiation

The organisation firmly believes that the Government is sincere in its desire to enter into negotiations with black leaders. Nevertheless, its own experience in the industrial relations field indicates that the process of political roundtable bargaining cannot and will not start until all parties are convinced that government is genuinely willing to negotiate a new constitutional dispensation based on power sharing up to the highest level.

In brief, there are important credibility gaps which render effective negotiation at present very difficult if not impossible.

A fundamental requirement therefore is to create urgently and rapidly a climate for negotiation and a generally accepted framework within which such negotiation can occur. It is in this sphere that business hopes to play an important catalytic role.

Such a role is essentially one of mediation, conciliation and confidence building; of employing shuttle diplomacy to bring the various parties closer together in terms of essential pre-conditions for effective negotiation about power sharing.

Essentially the mediation problems which arise relate to obtaining agreement on the basic pre-conditions and principles required to underpin the real negotiation process about the constitutional future of the country as well as the issue of which parties should sit around the negotiating table. Pre-conditions to be discussed and negotiated could well include:

- An undertaking by government to abolish statutory race discrimination in all legislation;
- The restoration of a common South African citizenship;
- Power sharing at central level in a single institution;
- The abolition of specific laws such as influx control and the Group Areas Act;
- Lifting the state of emergency;
- A return to the basic norms of the South African common law thus re-affirming the rule of law; and
- The release of political prisoners from detention.

A major prerequisite for effective business mediation is for government to increase substantially its currently low domestic and international credibility. Government has indeed committed itself publicly to many of the possible pre-conditions mentioned above But for a number of reasons not enough of this commitment has borne visible fruit. In consequence rapid implementation and concrete results are now urgently needed.

Among the most significant short-term steps that need to be taken are in the essential fields of housing, employ-

● Turn to Page 6

FCI's vision

● From Page 4

ment, creation and education. These are:

- Making available affordable, serviced housing sites for urban blacks on a substantial scale;
- Facilitating the development of affordable informal housing;
- Implementing freehold title for blacks on an immediate basis;
- Complete elimination of forced removals;
- Lifting the legal barriers to informal sector activity;
- Rapidly opening up central business districts to all races;
- Progressing towards a system of education acceptable to all population groups.

As regards constitution-making, business can assume the role of promoter and propagator of those constitutional models which in the Western democratic tradition of open, free enterprise societies have proved to provide the most solid guarantees for individual rights and freedoms and protection against State authoritarianism.

Growth

Political initiatives apart, South Africa must also find urgent solutions to a number of complex economic issues which over the last few years have caused retarded growth, higher inflation and a failure to meet employment targets. What is essentially required, is a national economic strategy which would provide greater clarity and direction about the future pattern of economic development, the principles and methods to be employed, the relevant guidelines for policy-makers, and the process of monitoring and evaluating results.

Rapid

A clear and explicit policy framework would do much to stimulate business confidence and new investment in the country.

The major priority issues to be addressed in such a strategy are:

- The future pattern of industrial and economic development;
- Creation of employment;
- Inflation; and
- Economic opportunity and living standards of all the population groups, that is the poverty and redistribution issue.

Such a more inward looking development strategy is in greater alignment with the realities and resources of the country and could provide the key via rapid growth to resolving the other critical issues mentioned above.

It is essential that the South African economy is effectively open to all population groups.

Trade surplus soars 266% to R13,48-bn

STAR 25/1/86 (49)

PRETORIA — South Africa's trade surplus soared to a record high of R13,48 billion in 1985, up 266 percent from the previous year, the government said yesterday.

Trade and Industry Minister Dawie de Villiers said the figures were outstanding, saying that recent falls in the value of the rand had curbed increasingly expensive imports and made exports more competitive.

"It is gratifying to see that our exporters have grasped this golden opportunity to increase their sales to foreign countries, and I trust that this achievement is the beginning of a sustained export drive," he said in a statement.

The visible trade figures, which exclude services, showed that exports of textiles, machinery, prepared foodstuffs and vegetable products improved appreciably, although metals and minerals such as gold remain the mainstay of the economy.

"Europe still remains the most important buyer of South African products, and 25,3 percent of our exports were shipped there in 1985," said de Villiers. — Reuter.

Aircraft could be impounded

New threats to seize SA foreign assets

SPAR

(49)

27/1/86

By David Braun,
Political Correspondent

Cape Town

South Africa's foreign assets, including trade goods and aircraft, are under threat of being seized as international banks spurn the Government's proposed schedule to repay the country's debts.

Although Minister of Finance Mr Barend du Plessis could not be reached for comment early today, it is understood from other sources that at least one major bank has rejected outright South Africa's proposal that repayment of its multibillion-dollar debts be frozen for a short period to allow the country's economy to recover from the current recession.

It is understood that this bank has threatened to attach South Africa's overseas assets if repayments are not made on due dates.

According to weekend Press reports, several foreign banks have threatened to attach South Africa's assets, including gold deliveries and SAA aircraft, unless the Government revises substantially its current proposals to start repaying the capital portion of the country's debts only in 1990.

The list of foreign assets which could be seized would also include any other export goods and money held abroad.

Senior Department of Finance officials are at present overseas pleading for leniency to allow the country more time to concentrate on generating economic growth and restoring political stability before it resumes exporting capital to pay the $14 000 million (about R32 000 million) owing.

It is understood that South Africa is prepared to start repaying the capital portion of its debts somewhat before 1990, but would prefer to delay repayments for at least a year or two.

Gold sales

Interest on the debts has been, and will continue, to be paid in any circumstances.

Minister of Transport Affairs, Mr Hendrik Schoeman, said today that he was aware of threats against SAA aircraft (which would be worth in the region of R200 million apiece), but at the moment he did not consider them to be serious.

Professor Jan Lombard, Deputy Governor of the Reserve Bank, in charge of bullion sales, said the bank "naturally takes all steps necessary to safeguard its assets abroad".

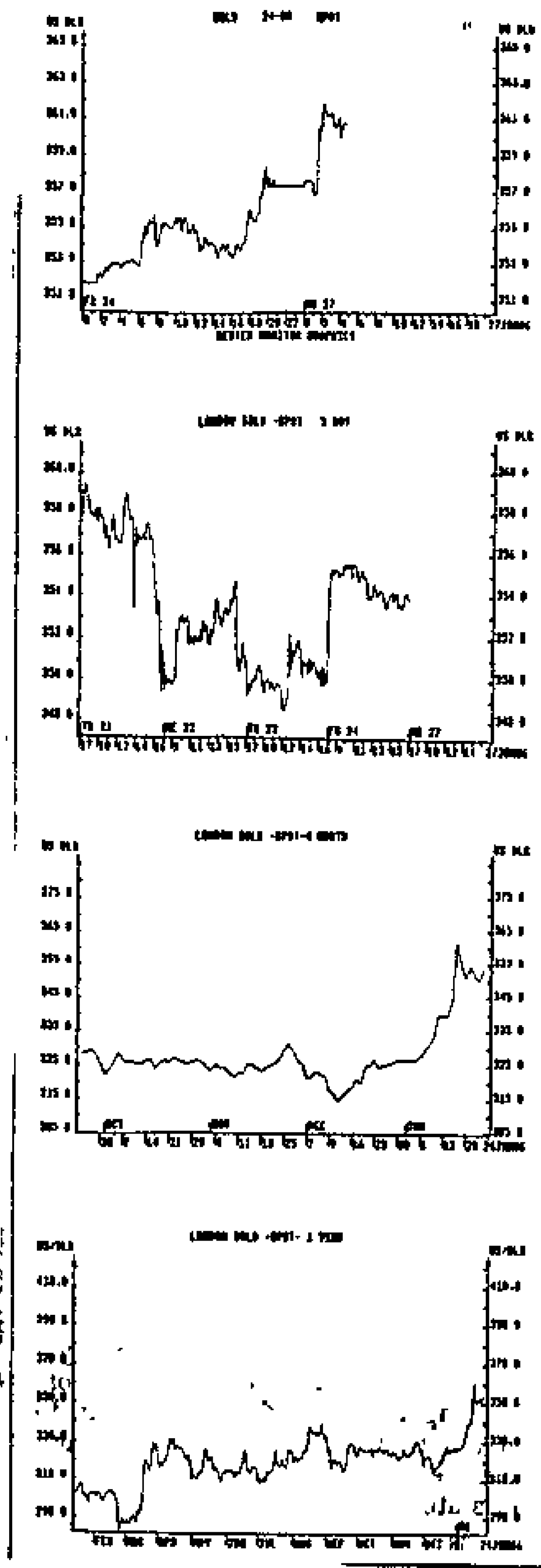
The bank sold into many markets, including Switzerland, Britain, the United States, Germany and Hong Kong, and did have holdings of gold abroad from time to time.

South Africa in recent years has tended to sell its entire gold production abroad, which means shipping between 10 and 15 tons a week.

SA debt standstill may prompt others to take unilateral actio[n]

Are Third World debt fears behind rise in gold price?

STAR 27/1/86 (49)



By Dr Roger Gidlow

The anticipatory powers of the gold market can never be ignored, and in time it may become apparent that a factor behind the sudden rise in the dollar price of gold has been disquiet in the international debt area

In recent months, Third World debtor nations have increasingly come to feel they can service their foreign debts only if they have sufficient foreign exchange income

In line with this, various countries have resorted to unilateral reschedulings They have in effect set a limit on the amount of export incomes allocated to the servicing of their foreign debts

In 1984 Bolivia declared a moratorium on foreign debt payments, and in early 1985 Ecuador set a limit of 30 percent of its export income which would be used to service its foreign liabilities

In July 1985 Peru fixed a limit of 10 percent, and at the beginning of this year Nigeria adopted a ceiling of 30 percent

The actions of these nations have been complemented by an increasing reluctance to seek financial assistance from the IMF Debtor nations are starting to seize the initiative from the IMF and the creditor banks.

UNILATERAL RESCHEDULING

In other words, the balance of power in the foreign debt struggle is beginning to tilt in favour of the debtors.

Until recently, foreign debt negotiations were based on the principle that existing loan agreements were inviolable except when creditirs decided to grant reschedulings or concessions to the debtors

Debtor nations were obliged to adjust their economies to ensure that their foreign debts were serviced. This principle has clearly been impaired by the recent unilateral reschedulings of countries such as Peru and Nigeria.

Several factors have contributed to an increasingly recalcitrant posture on the part of debtors Apart from increasing disillusionment with policies the IMF prescribes, there are signs that South Africa's foreign debt standstill last year may have exerted a demonstrable effect

South Africa has traditionally enjoyed a high international credit status, has adhered to the policy prescriptions of the IMF in recent years, and is recording substantial surpluses on its current account

If South Africa can resort to a standstill, some other debtor nations may well feel inclined to opt for forms of unilateral action

Such an attitude may be further strengthened by the apparent refusal of Western governments (West Germany, Holland and France) to accept any responsibilities for the debts contracted on their behalf by the International Tin Council

This has highlighted difficulties faced by banks in forcing sovereign debtors to abide by loan agreements Obstacles in the way of suing debtor nations are becoming more visible

UNFOUNDED OPTIMISM

There are now strong demands for arguing that other countries will follow the lead set by Peru and Nigeria The implications of any such moves will depend partly on the level of the ceilings adopted for debt servicing Assuming no capital is repaid, ceilings which are in line with existing debt service ratios would serve little purpose since they would provide no relief for debtor countries

It is only realistic to assume that the limits would be lower The lower the ceilings the larger the reductions in the burdens of debt servicing.

Some commenators say such developments need not necessarily precipitate an international banking crisis They argue that interest payments not met by debtor countries can be rolled over into new foreign loans. Although the total foreign debt of such countries would therefore increase, there may still be an improvement over time in the debt to export ratio as export proceeds rise at a faster rate than debt obligations

One can, however, view such optimism as unfounded. Such a favourable outcome would not be possible if the debt ceilings on export proceeds, which are employed to service interest payments are pitched below certain levels

What is more, unilateral reschedulings entail particular difficulties for US banks Such reschedulings mean that interest arrears to US banks on certain foreign loans would go beyond the 180-day limit which bank regulators use in that country as a guideline in declaring a nation's loans value impaired.

Any downgrading of foreign loans by the US regulators would mean that banks would have to write off part of their loan portfolios. If this practice develops, confidence in the stability of the US banking system could be progressively undermined

On top of this, any limits on debt servicing payments which are unilaterally imposed on banks may be interpreted in some quarters as a prelude to an abandonment of any pretence to service foreign debts In this context, it is important to appreciate that in one respect debtor countries could well be tempted to repudiate their foreign debts

Virtually all commentators agree that in the next few years at least debtor nations will tend to be forced to make debt servicing payments are far in excess of any new foreign capital they receive.

CONCERTED ACTION

In these circumstances, the danger arises that some debtors will conclude that their overall balance of payments positions will improve if they cancel their foreign debts

Recent speculation about the possibility of the major Western nations taking concerted action to bring down interest rates should be judged in the light of the dangers posed by Third World debt

Any fall in such rates would help reduce the servicing costs of this debt and stimulate economic growth in the world at large, thereby aiding exports of developing countries.

Failure to bring interest rates down will not necessarily be negative for gold since the strains in the international banking ... may yet become even more visible

Real manufacturing output improved as a result of export demand and a levelling off of the decline in domestic demand. The gain in commerce was largely caused by improved conditions in the motor trade as interest and HP rates eased. ■

THIRD PARTY INSURANCE

Figuring it out

Now that the major controversies surrounding the new Third Party insurance system have been resolved — not necessarily to everyone's satisfaction — a few points of contention remain.

One is the question whether the 13 insurers in the consortium will simply provide a service for clients, or will benefit handsomely from the R450 a claim they are to be paid.

"The figure was arrived at after negotiation between insurers and the Motor Vehicle Assurance Fund," says deputy Director General for Transport, Ronnie Meyer. "The companies made a calculation based on previous claims. We compared this with our experience handling hit-and-run and uninsured claims and decided it was reasonable."

The figure is "comfortable," admits an insurer who declined to be named. "It's in excess of what it cost us in 1984-1985, and even if you escalate by 20% it's still more." But it's not *too* much, he insists.

"The main problem," says Cusaf assistant GM Ove Bertrand, "is that we pay upfront and only get reimbursed later. We are partly financing the scheme."

And the outlay this year is considerable as tokens have to be issued by insurers free. Says Cornelius Oosthuizen, MD of Santam, which has 22% of the market: "We have something like 1m tokens to get out to clients. There's the cost of preparing tokens, of envelopes, of putting them into envelopes, and of postage. And you have to keep records of tokens you issue.

"Then let's look at the claims side: you have to provide forms, record details of accidents and file information. You may have to wait two years for a claim for injury. Only then will you get your R450."

Moreover, companies have to wait 14 days after paying out damage awards for reimbursement from the fund.

Says Oosthuizen: "My feeling is that those with less than 10% market share will have difficulty breaking even. Those with only 2% or 3% may come out with a loss." ■

BANKING

First step up

An element of the Budget which could prove a future milch cow is the levy on debit transactions. Following the example of gst, which started at a low base, debit levies were doubled from 5c to 10c, from July.

With an estimated 300m debit transactions a year at present, including cheques, current account debits and credit cards, Finance Minister Barend du Plessis may garner R30m in a full year. Credit card transactions alone are running at a million a week and are expected to grow considerably.

Services affected include standing orders, payment by a bank of insurance premiums, electronic/magnetic tape operations, municipal debits, and promissory notes. Peet Strydom, Senbank economist, believes there is every likelihood that the Minister will raise the levy in future budgets. As financial transactions are part of our everyday lives, there is little option but to cough up. As a result, he says, "people will make more effective use of debit transactions, thus lowering volumes."

General banking reaction was one of resigned acceptance. A spokesman for the Bank of Lisbon tells *FM* that it will have little impact on the volume of turnover, but customer resistance is possible if the levy is increased much more.

Bill Mansfield, GM personnel services at Standard Bank, believes there will be a slight hiccup in the early stages before the normal trend is resumed. Nedbank's executive assistant for domestic banking, Tom Bangert, considers the levy a "necessary evil."

The industry average is that an individual writes between 20-30 cheques a month. Thus, one can expect to pay R2-R3 a month to the exchequer on cheque usage alone from July.

The equity of this tax is indisputable. It applies only to the extent that one uses banking or allied services. ■

INFLATION

Down but not out

As expected, the year-on-year inflation rate for February was considerably below the previous month's record. At 18,05%, cpi may give the distinct impression it's on its way

THE BLUE CHIP CLOCK

That cliché, "the minutes seem to pass like hours", is an apt description of the South African economy right now. While we wait for an upswing that drags its feet, the *FM Blue Chip* forecast clock needs a little clarity.

Reproduced here is the "Typical business cycle" clock from the *Forecast* for March 1986, but with the minute hand removed.

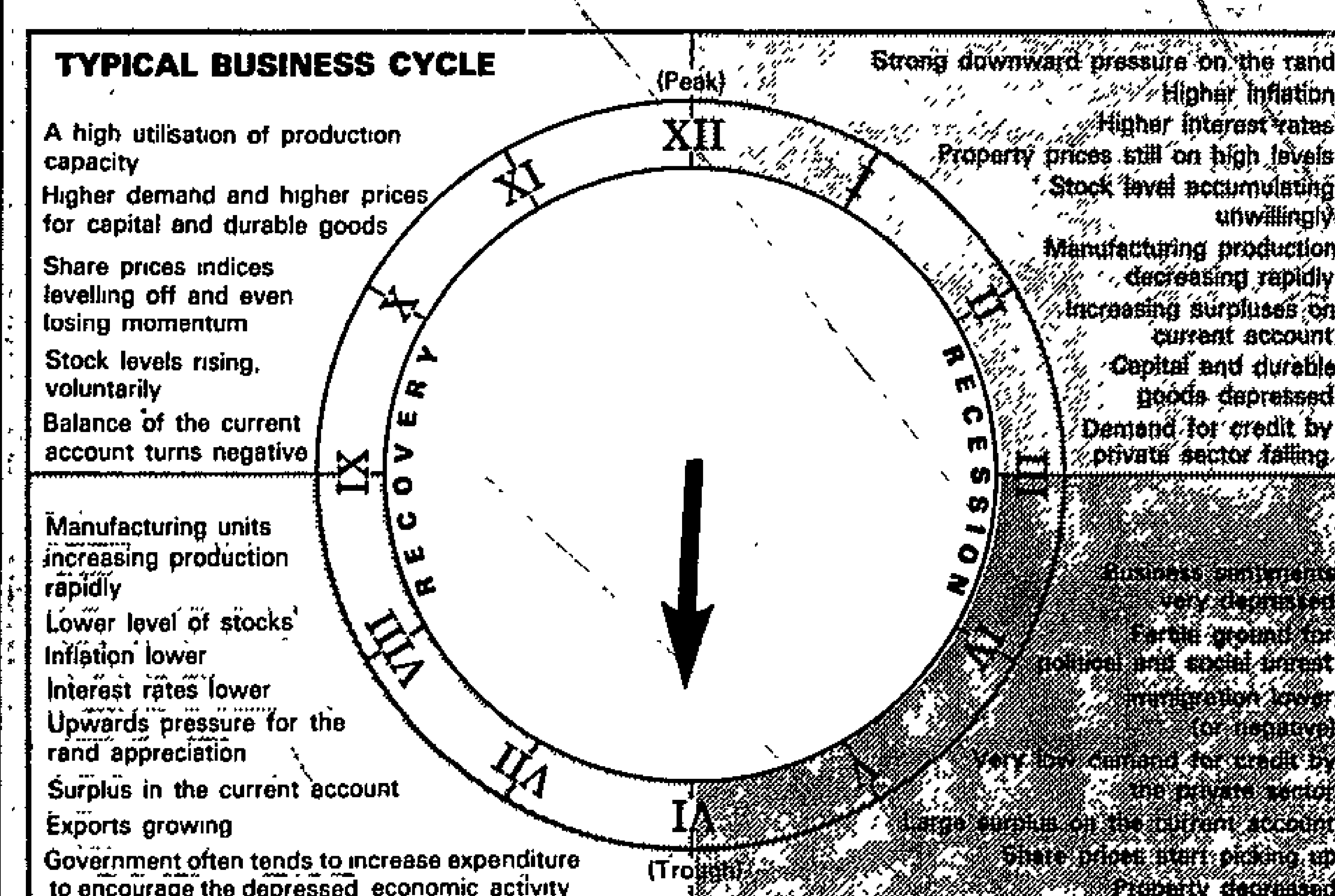
This will be the future format, with the hour hand alone indicating the course of the business cycle.

Next month may see a move out of the trough. At last, pressure on individuals and companies, says the report, while still high, is abating. The trend for new companies registered continues upwards and total production in the manufacturing sector shows gains.

Also, retail sales appear to have responded to stimulatory measures by the monetary authorities.

In November, the number of new companies registered recovered from the October reversal, rising to 478 — 29% lower than the same period in 1984, adds the report.

The main bugbear for the first phase of the recovery is inflation, of course; whether this will ease during the rest of 1986 is an open question. As discussed in this section, a number of contrary forces are at work.



Change by evolution 'the only sane path'

STAR 27/1/86.

49

John D'Oliveira
Editor of The Star's Africa News Service

All-out armed internal conflict in South Africa would lead to Marxist-Leninist dictatorship, not only in South Africa but throughout the region — and well beyond, says Dr Erich Leistner, director of the Africa Institute of South Africa.

Dr Leistner made the point at a weekend seminar on Africa at Taiwan's Tamkang University, Taipei.

He said it was widely assumed that it was "merely a question of time and degree of violence" until a fully democratic government came into power in South Africa.

"But it seems most probable that all-out, armed internal conflict would, for an indefinite period of time, destroy the eco nomic and political preconditions for democracy and lead to Marxist-Leninist dictatorship, not only in South Africa but in the region and, presumely, well beyond."

Dr Leistner said government based on the broad consent of all South Africans was more likely to emerge from an evolutionary process than from increased violence.

"The evolutionary path calls for more wisdom than has so far been demonstrated by the Government of South Africa or by countries involving themselves in South African and Southern African affairs."

ONLY SANE PATH

He said the evolutionary path was the only sane path.

Looking at the region as a whole, he said the dilemma facing South Africa's neighbours was obvious.

While crucially interwoven with South Africa economically, the country's domestic policies were anathema to them.

By actively participating in international sanctions, they would expose their own populations to grave danger.

But, if they remained inactive, they felt they were failing in their duty.

So far, most of them had refused to have normal diplomatic relations with South Africa but, at the same time, they continued to trade with her.

"An intensification of the international sanctions campaign would clearly highlight the dilemma of principle opposing national interest more starkly than ever".

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Zimbabwean Christians challenged on socialism

STAR 27/1/86

(49)

The Star's Africa News Service

HARARE — Why do Christians raise their hands in horror at the mention of socialism?

This was the question asked by the President of Zimbabwe, the Reverend Canaan Banana, the head of a state which espouses socialism based on Marxist-Leninist principles.

President Banana, the 49-year-old Ndebele Methodist minister who loves soccer (State House has its own team) and poetry, is strong on the subject of the church and its place in society.

In a recent address to churchmen in Harare, President Banana said the Christian Church had a much longer history of socialism than the five or so years of Zimbabwe's independence.

He quoted the text from Acts 2 : 44 — 46:

"All the believers were together and had everything in common. Selling their possessions and goods, they gave to anyone as he had need. They broke bread in their homes and ate together with glad and sincere hearts."

"Show me a more practical example of fellowship and common solidarity than this," he said.

CONTAMINATED

It was socialism at its best, people living as a collective, sustained by collective efforts.

Mr Banana said Christian traditions had become contaminated by western cultural values of individualism and the sanctity of private property.

"African theologians have a duty and a responsibility to cleanse Christianity of the garbage of out-moded dogmas that have polluted it.

"Our own African way of life, our traditions and our cultural values have always emphasised our inter-dependence, co-operation and mutual solidarity. The tendency towards individualism and cut-throat competition is foreign to us.

"We are by upbringing averse to individual advancement at the expense of of other people in the collective," he said.

The President said he hoped and believed Christian churches in Zimbabwe had gone past feeling frightened and horrified at the mention of socialism.

ARGUS 28/1/86 49

New round of talks in bid to resolve SA debt crisis

ZURICH. — A new round of talks aimed at resolving South Africa's debt crisis has been scheduled for February 20 in London, a spokesman for debt mediator Dr Fritz Leutwiler said today.

Spokesman Mr Erich Heini said Dr Leutwiler, a former Swiss National Bank president, would meet representatives of South Africa's major creditor banks and a delegation from Pretoria.

Offering

They would discuss Dr Leutwiler's compromise proposals for restructuring South Africa's debts after banks rejected a South African plan to delay payments on about R31-billion of its R54-billion foreign debt until 1990.

Mr Heini said Dr Leutwiler was offering his proposal on a "take-it-or-leave-it" basis, which meant he did not intend deliberations to be drawn out.

He declined to comment on the suggestion that Dr Leutwiler might step down as mediator if his plan were not accepted.

Dr Leutwiler, who has criticised South Africa's apartheid race laws, had dissociated himself from the earlier South African proposal and said his own plan would be less far-reaching.

Dr Fritz Leutwiler

Mr Heini said he could not confirm reports that some creditor banks had threatened South Africa with seizure of its overseas assets unless it began repaying debts before 1990.

However, he said he could imagine that Dr Leutwiler might have spoken of this as a possibility when he visited South Africa earlier this month.

South Africa imposed a moratorium on its debt repayments in September after leading American banks withdrew short-term lines of credit because of fears about continuing unrest.

Prominent

Dr Leutwiler chaired a first meeting between Pretoria and its creditor banks the following month.

● The Argus Political Staff report that Minister of Finance, Mr Barend du Plessis, said today there was no real threat of attachment of South African assets abroad.

He said: "The very purpose of appointing a leader bank or, as in South Africa's case, a prominent individual to mediate between creditors and a debtor country, is to reach an equitable agreement in substitution of previous contracts which obviates the need of attachment actions."

Leutwiler has 'take-it-or-leave-it plan ready

Bankers hope PW will open way to $14-bn rescheduling

STAR 29/1/86

49

The Star Bureau

LONDON — Bankers hope that President Botha's speech when he opens Parliament on Friday will provide an opportunity for the re-scheduling of about $14-billion in foreign debts caught up in the payments standstill since the end of August.

But the fear is that the speech will not provide such an opportunity, says Peter Montagnon in today's *Financial Times.*

Rarely has politics intruded so brusquely into the business of practical banking as over South Africa, he says.

"By comparison with the South African negotiations, the task of re-scheduling Argentina's debts after the Falklands crisis or those of Poland after the military takeover, pale into insignificance."

The difference this time is the pervasive influence of public opinion. Banks, particularly those in the United States, have come under great pressure from customers and shareholders not to lend to South Africa.

The result is that the fate of South Africa's debt hinges less on what reforms Mr Botha actually proposes in his Friday speech than on public reaction in creditor countries to those reforms.

Only if this reaction is positive will the modest debt restructuring now envisaged be possible.

But Montagnon says few bankers can list exactly what reforms would be acceptable. Many shrink from the suggestion of Dr Fritz Leutwiler, the Swiss mediator between Pretoria and the bank creditors, that any re-scheduling agreement should contain a political preamble or annexe setting out their basic demands.

Shortly after Mr Botha's speech, Dr Leutwiler is expected to circulate new debt restructuring proposals to main creditor banks. This will be followed by a meeting of bank creditors in London on February 20.

This time the proposals are expected to be much more in line with bankers' thinking than the earlier ones, which were rejected.

Dr Leutwiler has indicated that he is looking initially at a short-term package which would give the creditors the opportunity of looking at the country's after a few years.

The idea also is that the proposals would be presented on a take-it-or-leave-it basis in the form of an agreed minute which both Pretoria and the creditors could initial but which does not have the value of a full re-scheduling contract.

That might get around the political objections of some lenders to dealing with South Africa, but it could also pose legal and accounting problems, says Montagnon.

In any case the consensus of bankers at present is not very hopeful even for this type of watered-down re-structuring.

Few regard Dr Leutwiler's hopes of a settlement being in place by the time the present standstill expires at the end of March as anything other than wildly optimistic.

CAPE TIMES 30/1/86 49

Hopes and fears about SA debts

By PETER MONTAGNON
of The Financial Times

LONDON. — The hope among bankers with loans outstanding to South Africa is that President P W Botha's speech at the opening of Parliament tomorrow will provide an opportunity for the rescheduling of some $14-billion (R31,8b) in foreign debt caught up in the payments standstill since the end of August. The fear is that it will not.

Rarely has politics intruded so brusquely into the business of practical banking. By comparison with the South African negotiations, the task of rescheduling Argentina's debts after the Falklands War or those of Poland after the military take-over pale into insignificance.

Pressure not to lend

The difference this time is the pervasive influence of public opinion. Banks, particularly those in the United States, have come under great pressure not to lend to South Africa. Last year, for example, US local authorities, including New York City, withdrew deposits from banks with South African connections.

The result is that the fate of South Africa's debt hinges less heavily on what reforms Mr Botha actually proposes in tomorrow's speech than on public reaction in creditor countries to those proposals. Only if this is positive will the modest debt restructuring now envisaged be feasible.

But bankers are novices at the political game. Few indeed are those who can list exactly the reforms South Africa would need to impose for a rescheduling to become acceptable. Many shrink from the suggestion of Dr Fritz Leutwiler, the Swiss mediator between Pretoria and bank creditors, that any rescheduling agreement contain a political preamble or annex setting out their basic demands.

Soon after Mr Botha's speech, Dr Leutwiler is expected to circulate debt restructuring proposals to main creditor banks. This will be followed by a meeting of bank creditors in London on February 20. Dr Leutwiler has already said that the new proposals will be much less ambitious than those circulated by Pretoria late last year and which were resoundingly rejected by creditor banks.

Quite apart from their political objections, bankers found these proposals unacceptable in financial terms. The proposals called, among other things, for no principal to be repaid before 1990 and for all debt maturities to be shifted forward by five years thereafter. But one result of Pretoria putting them out at all was that it opened for the first time a real debate on what the banks wanted in concrete terms.

This time the proposals are expected to be much more in line with bankers' thinking. Dr Leutwiler has indicated that he is looking initially at a short-term package which would give creditors the opportunity of looking again at the country's problems after, say, a couple of years.

The idea also is that the proposals would be presented on a take-it-or-leave-it basis in the form of an agreed minute which both Pretoria and creditors could initial but which did not have the value of a full rescheduling contract.

Wildly optimistic

That might get around the political objections of some lenders to dealing with South Africa, but it could also pose legal and accounting problems in some individual countries as banks came under pressure to make loss provisions against debt which is no longer being serviced under a proper contract.

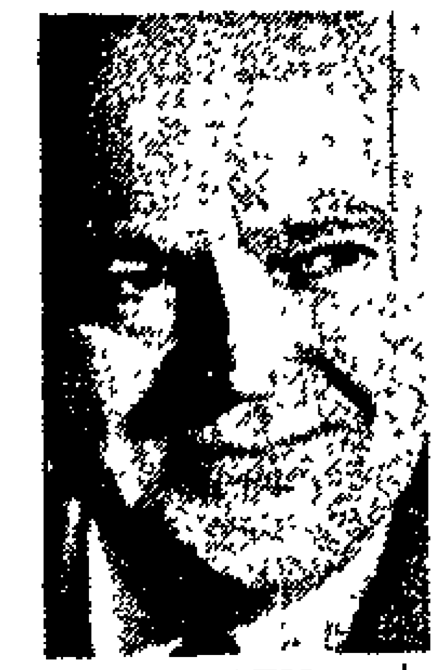
In any case, the consensus of bankers at present is not very hopeful even for this type of watered-down restructuring. Few regard hopes of a settlement by the end of March as anything other than wildly optimistic.

49

BUS DAY 3/2/86

Feasibility studies being stepped up

Import substitution takes on urgency



● KLEU

ALAN PEAT

GOVERNMENT and private enterprise are stepping up efforts to devise a programme for wide-scale import replacement.

Government stated its view last year in a White Paper on industrial development strategy which said:

"While manufacturing industry, in terms of the total economic structure, has become the largest contributor to the national product, it is trailing behind the primary sectors in terms of productivity, in the use of resources and in its contribution to the balance of payments.

"South Africa will in future have to rely more and more on the manufacturing industry as the leading development sector."

The White Paper was government's reply to a report on industrial development strategy presented to Parliament in 1983 by Basie Kleu, then chairman of the Board of Trade and Industries. He outlined four strategies — economic growth, employment generation, export promotion and import replacement.

With the rand now seemingly moored in the $0,40/50 band, many believe the climate is such that priority must be given to the last of these.

If successful, it will of itself contribute towards the other three.

Government has ordered an investigation into the production of capital goods bought by public authorities and still imported in quantity.

While government studies are designed to reduce public spending, an independent survey is being conducted on behalf of the private sector.

The Group for Techno-Economic Services (GTES) at the CSIR has been examining import substitution for nine years, mostly on behalf of individual industries.

Project leader Johann Reinhardt says the survey has studied the feasibility of import replacement of 25 products a year for the last nine years.

He says that when looking at import replacement, the most important questions are size of local market; availability and cost of raw materials; economy of scale; whether it is a specialised product; technological requirements; market needs; package deal system; access to international know-how; capital and specialised manpower requirements.

Manpower chief pessimistic

BUS DAY 3/2/86

10 more bad years for SA workseekers

49

● VAN DER MERWE

DAVID FURLONGER
Industrial Editor

Manpower Director-General Piet van der Merwe warns that in 10 years the number of South Africans out of work is unlikely to be any less in aggregate than the heights unemployment has reached now.

And he says that even with urgent action to reduce the country's burgeoning birth rate, the present huge overcrowding of the jobs market will continue well into the next century.

Van der Merwe says present high levels of unemployment are such that, combined with the growing numbers of job-seekers joining the market each year, it will take several years for unemployment to diminish.

"We already have such a stock of unemployed, I think any real improvement in the situation is at least five to 10 years ahead."

Latest government estimates put the jobless total at about 8% of the workforce. Many observers, however, feel the real figure is much higher. They say there is considerable "disguised" unemployment and also point out that official figures do not include the independent homelands.

Van der Merwe agrees. "Some people would say it is much more because of hidden and disguised unemployment. That's probably true."

Last month, a further 200 000 to 500 000 new job-seekers — government and independent estimates vary — arrived on the jobs market.

Observers say unemployment has been pinpointed as one of the main causes of unrest. Without massive job creation, they say, that unrest will grow.

Leading businessmen are pessimistic. Barlow Rand CE Warren Clewlow believes many jobs lost in the last year or two "are lost forever", as industries contract and reduce their workforces to more realistic levels.

Van der Merwe also believes such a trend is inevitable.

"There are structural changes from

● To Page 2

Unemployment here to stay

3/2/86 BUS DAY 49

● From page 1

primary industries to the service sector. There is a decline in agriculture and manufacturing. Jobs in the manufacturing sector are being lost because of new technologies and mechanisation.

"We must look to small business and the informal sector to create employment. That is the trend all over the world."

He says the causes of unemployment are twofold:

"Partly it is cyclical, like the economy itself. But it is largely structural unemployment. There is a lack of qualifications and skills. The jobs are there but not the skills.

"It comes down to training — and then more training."

4/2/86 · BUS DAY

49

Rand expected to resume climb

JOHN TILSTON
Economics Editor

THE rand is likely to continue its upward trend now that President P W Botha's speech has been made and end-of-month importer demand for dollars has been met.

An analyst suggests it is time to re-focus attention on economic fundamentals and their impact on the rand.

For example, the already healthy balance-of-payments surplus — Botha estimated the 1985 current-account surplus was R7bn — is almost certain to be boosted this year by a good farming season.

But the rand is not out of the woods yet, despite the paternal guidance of the Reserve Bank.

Barclays' senior financial economist Loretta Gell says that while local reaction to Botha's speech has been largely positive, it is foreign reaction, in particular that of foreign creditor banks, that will be a major determinant of the rand's direction.

This reaction, she says, may be slow to materialise and may only become evident as the February 20 meeting on foreign-debt rescheduling nears.

Standard Bank economists forecast a $0,4300-$0,4500 range for the rand this week, but they also see the rescheduling meeting as crucial.

The meeting will cause the market to adopt a more cautious attitude to the rand than might otherwise have been the case.

The hesitant gold price, which dipped below $350 yesterday, does not appear to be a major element in the rand's immediate future unless there is a fall-back to pre-Christmas levels.

Such a decline would dent the fragile confidence that has been slowly building — with Reserve Bank help — since Christmas.

Standard forecasts a gold price range of $345 to $360 this week.

One needs to remember that with the rand measured against the declining dollar, it in fact eased against all major currencies last week.

Standard advises importers with dollar payables due in the short term to stay out of the forward market as a marginal rand-firming seems plausible.

Gell says: "Until foreign reaction becomes evident, clients are advised to adopt a cautious stance."

She suggests importers cover forward 50% of dollar payments due this month.

For exporters who have yet to ship their goods abroad, whether they grant credit or sell on a cash basis, Standard advises forward cover for short-term dollar receivables.

PARLIAMENT BUS DAY 5/2/86.

'Poor policies undermine reform' (49)

Schwarz slams 'finance mess'

● SCHWARZ

ORMANDE POLLOK

HARRY SCHWARZ, Progressive Federal Party finance spokesman, yesterday invited Minister of Finance Barend du Plessis to commit *hara kiri* because of the mess the SA economy was in.

Speaking in the no-confidence debate in Parliament, Schwarz said the tragedy for SA was that economic failure was completely undermining the reform programme.

"Many, if not most of the economic ills have been caused by a combination of economic mismanagement and the application of philosophies inappropriate to South African conditions," Schwarz said.

If it had happened in Germany, the government would have been voted out.

If it had happened in Britain, the government would have resigned.

If it had happened in Japan, the government might have considered "something more serious".

Considering the state of the economy, perhaps Du Plessis should consider this option, Schwarz said.

It could not be argued that the pressure for change was due entirely to recessionary conditions, Schwarz said, but added:

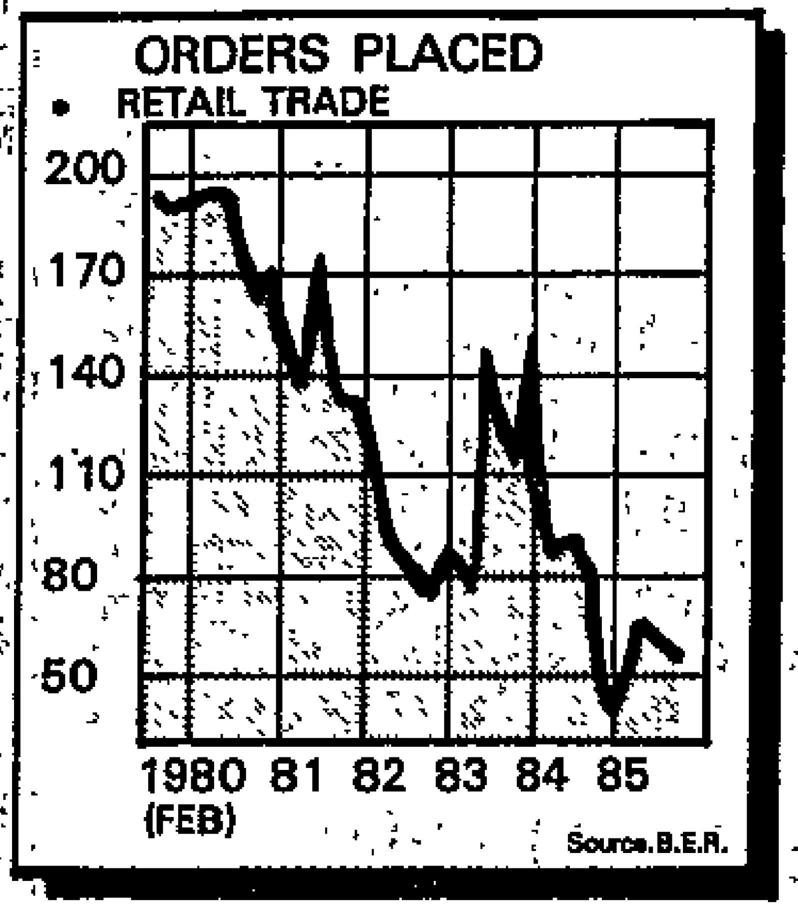
"Anyone who has studied revolutionary history must know that an unacceptable political system combined with poverty and unemployment lead to instability and unrest, and if their causes are not removed, to violence and revolution".

The question was whether the political leadership really understood and appreciated the impact of economics on the society.

The economic policy-makers appeared to have knowingly or unknowingly had utter disregard for the political consequences of their action and, perhaps, they should consider the Japanese option.

(49) BUS DAY 6/2/86.

Prospects for 1986 gloomy, says Research Bureau



• VALUE ABOVE 100 REFLECTS AN INCREASE
VALUE BELOW 100 REFLECTS A DECREASE

IT IS too early to judge the effect on the economy of President P W Botha's speech last week.

Latest survey results from Stellenbosch University's Bureau for Economic Research — published in its February issue of *Trade and Commerce* — reflect a deepening gloom among consumers.

The data were collected, however, before the opening of Parliament and Botha's speech might have changed economic perceptions for the better, as Reserve Bank Governor Gerhard de Kock believes.

The survey reports that consumer spending is likely to remain sluggish in the near future. Most consumers have neither the ability nor the willingness to buy goods.

JOHN TILSTON

Confidence and remuneration will have to improve substantially for private-consumption spending to show high and sustainable growth.

Consumers' overall financial situations have deteriorated at a fairly steady rate since the third quarter of last year.

The report speculates that discretionary spending by whites will be on a par with last year's and that blacks might be responsible for whatever growth is recorded this year.

Wholesalers surveyed were still having sluggish trading but expected this to improve. Confidence was low but higher than a year ago.

The report concludes: "In all, 1986 could bring some, but not much, relief to those businesses suffering slack demand".

On a sectoral basis, durables will suffer most, in particular the "recreational and entertainment goods" sub-sector.

Sales of furniture, household appliances and passenger vehicles will continue to decline. A levelling out in the decline is projected for the latter half of the year.

Perhaps the President's speech has advanced the improvement in sales. But it is equally plausible that further contretemps in the Parliamentary restaurant, and verkrampte statements of the retention of Group Areas legislation will further delay any upturn in consumer spending.

A year of hope and headaches — Volkskas

Economy has chance to reach great heights

STAR 12/2/86

49

By Stan Kennedy

The poor economic climate has resulted in the average South African being in a weaker financial position than a few years ago and unemployment continuing to increase.

For some, the burden is heavier to bear than for others, particularly those who are having difficulty keeping within their budgets and those who have lost their jobs.

Volkskas, in its February *Economic Spotlight*, says if the issues facing the country receive attention and are successful the economy, with its inherent riches, can reach great heights.

On the other hand, if the basic economic principles are not addressed and directed in the right manner, the economy will continue to suffer, regardless of the country's wealth.

Local and international events in the first few weeks of this year have caused many to feel optimistic. Unfortunately, announcements have been made about economic prospects that emphasise the contrary.

In reviewing the prospects, Volkskas says that 1986 will be a year of hope and headaches.

Events so far this year, which have given cause for greater optimism, include signals that leading industrial countries intend to maintain a steady economic growth rate.

With South Africa's four major trading partners planning for a three percent growth rate, the volume of exports should show a marginal improvement.

Tied up with this is the rise in the gold price and more promising agricultural conditions in the summer cereal producing areas of South Africa.

Good harvests contribute to economic growth. However, the indirect contribution is of even greater importance in that the forward, backward and sideways linkage promotes growth in sectors outside of agriculture, as well as increased exports.

Improved profits

"It would appear that the business cycle is following an upward course, and that it is being supported by improved exports, a higher gold price and more promising agricultural prospects.

"Moreover, economic policy is aimed at supporting economic growth, which should be up on last year.

"Given lower interest rates, reduced growth in the money supply, the sizeable surplus on the current account of the balance of payments, the stronger rand and pros pects of improved company profits in several sectors, it is not surprising that a greater degree of optimism can be detected."

Unfortunately, says Volkskas, not everything about the economy is rosy.

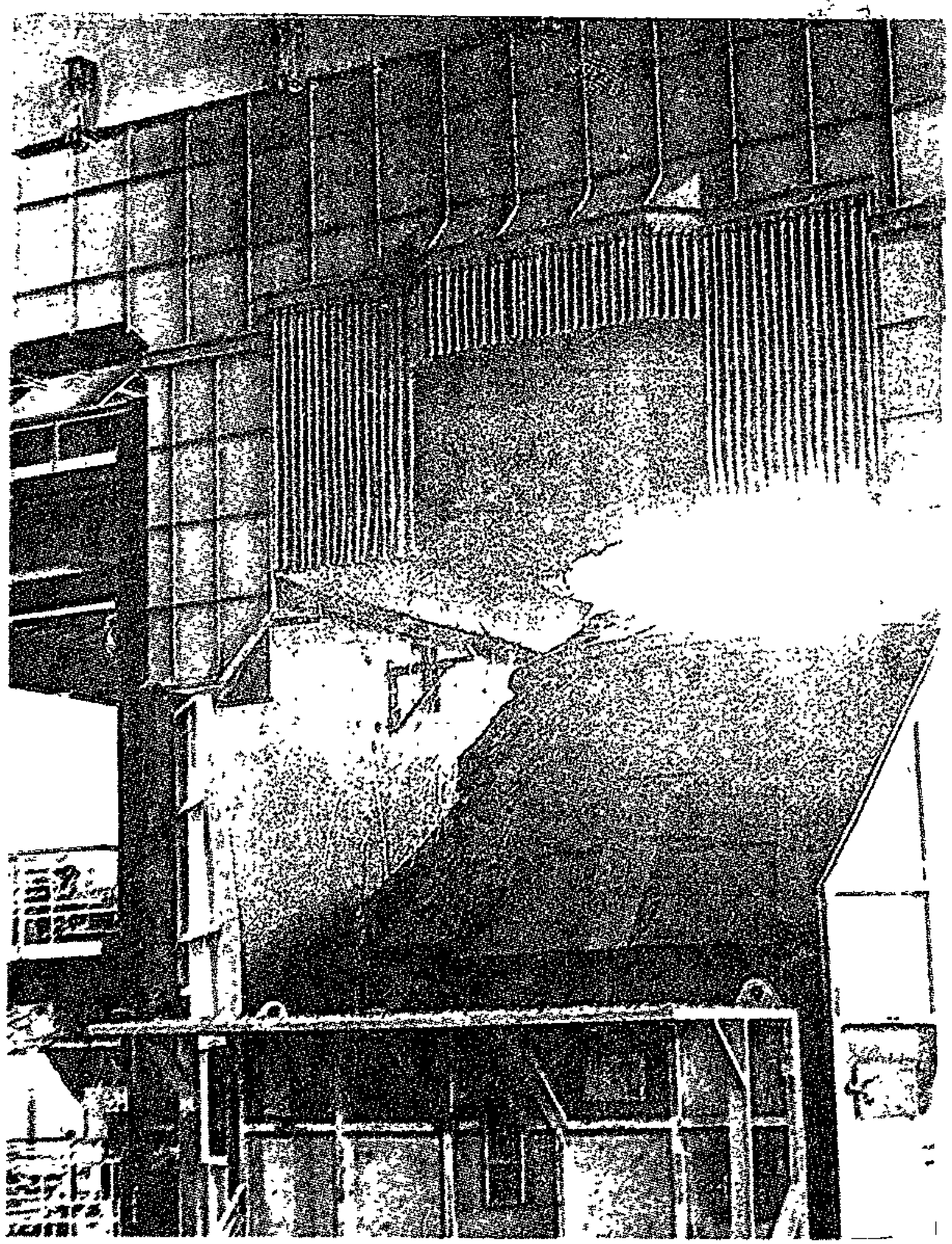
Sometimes the implications of the non-availability of foreign loans are not really understood or are not taken seriously. If this is the case, it spells danger.

South Africa has a developing economy, and as a rule domestic savings are insufficient to finance the level of investment for supporting a satisfactory growth rate.

Negotiations on South Africa's foreign debt are extremely important as the outcome of the negotiations and the actions of the international community will have an influence on economic growth and the general welfare of the population in the years ahead.

"Finding a solution to the unemployment problem continues to present one of the greatest challenges," says Volkskas.

"Another headache is the high and rising inflation rate, which is more dangerous and dire than ever."



One of three basic oxygen furnaces at Iscor's Vanderbijlpark (South) works which are being upgraded by EMS Industrial, a member of the Murray & Roberts group, at a cost of R3,2 million. The project entails the replacement of computerised mass measurement and control systems.

Cape Times 13/2/86

Optimism over SA debt proposals

49

THE new proposals for the repayment of South Africa's estimated $24 billion (R52-b) foreign debt were greeted with cautious optimism in local and overseas banking circles yesterday.

Aspects of proposals, leaked by banking sources in London and Geneva and which will form the basis of discussions in London next Thursday, were sent to 30 creditor bankers by South Africa's debt mediator, Dr Fritz Leutwiler, on Tuesday.

According to the sources he has proposed a further one-year delay in repayment of South Africa's debts.

It was also disclosed that, while stressing the need for South Africa to begin repayments of principal, he requested that five percent of the debt covered by the moratorium declared last August be repaid in four quarterly instalments starting in April.

His compromise proposal follows creditor banks' rejection of the unilateral moratorium imposed by South Africa on $13,6 billion (R29-b) of its $24-billion foreign debt last August. Pretoria later proposed to hold back its payments until 1990.

While Dr Leutwiler was not prepared to comment, his spokesman said that the compromise had been offered on a "take-it-or-leave-it" basis.

Initial reaction from bankers in Geneva yesterday was that Dr Leutwiler had taken account of their continuing concern over apartheid reform.

The changes proposed by President P W Botha in his speech to Parliament on January 31 were insufficient to permit a permanent rescheduling of the country's debt, they said.

Instead, Dr Leuwtiler has called for a comprehensive review of South Africa's economic and financial situation in February next year.

Realistic

Bankers stressed that the proposals still required the endorsement of the South African authorities and banks.

Reuter reports from London that bankers said the proposals appear realistic and workable.

There was no indication last night on how US banks have reacted.

Local bankers, who said they had not yet seen the proposals, were optimistic that an accommodation would be reached.

Nedbank's general manager, Mr Merton Dagut, told Reuter it "looked like a route out has been found".

Mr Chris Ball, managing director of Barclays National Bank, said that if the new proposals included a short-term delay, it was more likely to be accepted by South Africa's foreign creditors.

South African Government sources declined to comment yesterday.

A spokesman for South Africa's standstill co-ordinating committee, set up after the unilateral freeze, said the proposals had been received, but would not comment. — Own Correspondent, Sapa and UPI

Insolvency rate is misleading

BUS DAY. 14/2/86 (49)

HOUSE OF ASSEMBLY — The insolvency rate could not be used as an accurate gauge of the country's economy, Finance Minister Barend du Plessis said yesterday.

Replying to the mini-Budget debate, he pointed out there had been a sudden fall in the number of voluntary insolvencies at the beginning of last year.

"The fact is that we changed the Companies Act, and these insolvencies were held over in anticipation and caused a bunching-up which gave the liquidation rate a warped reflection of the real economic state."

"We have killed demand inflation," Du Plessis added. "We now have cost-push inflation, which includes people being paid too much for their level of productivity." — Sapa.

Top priority for economic growth

(49)

Red tape to be slashed for business

BUS DAY 14/2/86

GOVERNMENT is giving top priority to legislation empowering President P W Botha to slash red tape hampering economic development, especially grassroots enterprise, and to foster competition.

In an interview yesterday, Trade and Industries Minister Dawie de Villiers identified this as the most important piece of legislation likely to come from his department this session.

Government was serious about deregulating the economy, said De Villiers. Other plans for the year included:

- ☐ Putting teeth into the Competitions Board by enhancing its status and giving it wider investigative powers;
- ☐ Introducing a more flexible system of incentives to boost export performance;
- ☐ Establishing a special section within

CHRIS CAIRNCROSS

the department to concentrate on barter-/counter trade deals.

Legislation empowering the President to bypass Parliament and suspend measures restricting entrepreneurial activity was first mooted by President P W Botha last year.

It was confirmed in his speech at the opening of Parliament last month.

De Villiers said the task of drafting the legislation was in the hands of Eli Louw, Minister for the Commission for Administration.

The Bill is to be brought before Parliament as a matter of some urgency so that an executive start can be made in cutting

● To Page 2

Govt moves to cut red tape

BUS DAY (49) 14/2/86

● From Page 1

through bureaucratic red tape to foster progress, competition and job creation.

Another important piece of legislation was that affecting the status of the Competition Board, said De Villiers.

Almost through its second reading in Parliament, the Maintenance and Promotion of Competition Bill seeks to enhance the status of the board and strengthen its investigative powers.

The board's role in promoting competition and dismantling unhealthy power concentrations will be closely linked to deregulation efforts.

De Villiers reaffirmed government's resolve to provide the private sector with greater encouragement to improve on export performance.

Board of Trade and Industries former chairman Basie Kleu has been given responsibility for reviewing export incentives.

He is to report his findings and recommendations before the end of the year.

De Villiers said he hoped the report would offer suggestions for providing a more flexible system of incentives, the better to suit sectoral and commodity needs.

"The existing incentives are, perhaps, too even-handed and not as cost-effective as they could be."

Efforts in the international trading arena are likely to focus more closely on establishing bilateral agreements, though still within the parameters of the General Agreement on Tariffs and Trade (Gatt).

"In the light of SA's international liquidity problems and those of some of its neighbours, more attention is to be given to developing more counter- trade situations.

"We would obviously prefer to maintain our traditional trading patterns, but it is equally important to recognise that counter-trade operations do have specific attractions, particularly in our Southern African situation," De Villiers said.

Govt 'deadly serious' over plans to deregulate economy

Mercury 14/2/86 (49)

Mercury Correspondent

JOHANNESBURG—The Government is deadly serious over its stated plans for deregulating the economy, confirms Trade and Industries Minister, Mr Dawie de Villiers.

Dr De Villiers believes that potentially the most important new legislation likely to impact on the business community this year is that which is to empower the State President to bypass Parliament and summarily suspend all those unnecessary restrictive measures impeding entrepreneurial effort and economic development.

The task of drafting the necessary enabling legislation is in the hands of Mr Eli Louw, Minister for the Commission for Administration.

Red tape

It is understood that top priority is being given to bringing the Bill before Parliament as soon as possible so that an executive start can be made in cutting through the jungle of bureaucratic red tape currently hampering economic progress, competition and the creation of job opportunities.

Another important piece of legislation going hand-in-hand with the proposed deregulation process is that affecting the status of the Competition Board (CB), according to Dr De Villiers.

Almost through its second reading in Parliament, the Maintenance and Promotion of Competition Bill is aimed at enhancing the status of the CB and strengthening its investigative powers.

The CB's role in promoting competition and dismantling 'unhealthy' power concentrations will be closely linked to deregulation efforts, and the structural changes that could result from this, particularly with regard to the informal sector.

Dr De Villiers reaffirmed the Government's resolve to provide the private sector with greater encouragement to improve its export performance.

There is going to be more extensive involvement from the public sector, he promised.

Former chairman of the Board of Trade and Industries (BTI) Mr Basie Kleu has been vested with the responsibility of reviewing all existing export incentives and is due to report his findings and recommendations before the end of the year.

Dr De Villiers said he hoped the report would offer suggestions for providing a more adjustable and flexible system of incentives to better suit sectoral and commodity needs.

Incentives

'The existing incentives are, perhaps, too even-handed and not as cost-effective as they could be,' he added.

Efforts in the international trading arena are also likely to focus more closely on establishing bilateral agreements with other countries — though still within the parameters of the General Agreement on Trade and Tariffs (GATT).

And, in the light of S A's international liquidity problems and those of some of its neighbours, more attention is also to be given to developing more counter trade situations.

'We would obviously prefer to maintain our traditional trading patterns, but it is equally important to recognise that counter trade operations do have specific attractions, particularly in our Southern African situation,' Dr De Villiers observed.

He said a special section is being set up within his department to 'concentrate on barter/counter trade deals.'

Morale goes into orbit, but reform's grounded

WEEKLY MAIL 14/2/86 (49)

Will the economic upswing match the euphoria upswing? Will the reformists do more than tinker? DUNCAN INNES reports

MANY South Africans, it seems, have short memories. Or at least that is what sections of the media would have us believe.

A few short months ago the doom and gloom merchants dominated the headlines. Now it is a different story: "Soaring exports bring promise of plenty" and (would you believe?) "Boom, boom after gloom".

But one can't just blame the newspapers for the recent bout of economic euphoria. In Rubicon Mark 11 PW Botha told us that "a new growth phase is now beginning". Last week Kent Durr, the Deputy Minister of Finance, had us all chugging off "into a new era to yet higher standards".

Even the normally staid Gerhard de Kock said recently that: "The time for another 'prepare to meet thy boom' statement may not be far off."

This concerted propaganda offensive seems to be achieving its initial aim, which is psychological lift-off. Whether we get actual economic lift-off and, if so, how much is, of course, a very different question.

It would, however, be churlish not to admit that there is a good deal of cheery economic news about at the moment.

It's been raining recently so the outlook for agriculture is less pessimistic than before; the rand has been battling its way up against other currencies and seems set to hit 50 US cents in the near future; the gold price in dollar terms is looking promising; interest rates are down; our balance of payments is in surplus; stodgy old Fritz Leutwiler seems to be doing his thing on the mediation front; and the oil price has collapsed.

Add to this the fact that PW Botha didn't goof up his speech this time round and that there is a lull of sorts on the unrest front and you have a recipe for economic recovery.

Ok, I'll go along with all this so far. But, unfortunately, whether or not we get recovery is not really the question. The real question is: how much of a recovery will we get?

Why is this so important? Because as Gavin Relly of Anglo American puts it: "We cannot have reform without growth, but we cannot have growth without significant reform." (I've been saying the same thing for the past year but somehow he puts it better.)

The question, then, is: will the economic upswing we are about to enter be sufficient to enable the state to embark upon significant reforms in education, housing, unemployment, etc? On this point I remain sceptical.

One of the crucial factors to look at here is the balance of payments. Usually our upswings get knocked on the head because we run up huge deficits on the current account of the balance of payments. What are the prospects this time around?

According to De Kock, the current account of the balance of payments showed an annualised surplus of R11-billion in the fourth quarter last year. How was this achieved?

Largely by the fall of the rand, which meant a dramatic improvement in our rand earnings from exports, and by the recession which, equally dramatically, curbed spending on imports. Other facts, such as the improvement in the dollar price of gold, platinum and other metals, played a subsidiary role. So presumably did the fall in the oil price.

(I say "presumably" because we don't know to what extent South Africa has benefited from the fall. Certainly consumers have not benefited: while world oil prices fell by 37 percent or $10 a barrel over a year, the South African consumer was hit first by a 40 percent price hike and then by a further six percent.)

The problem here is that the present balance of payments surplus is not derived from any substantial improvement in manufacturing capacity — which needs to be our main growth point. There is so far no significant expansion in existing factory production nor, for that matter, has there been any new production. Which is why, despite all the talk, unemployment levels remain at record highs.

Furthermore, during the recent recession many companies were forced to sell off capital assets, such as equipment and machinery, to raise cash to pay off debts. Such sales mainly to overseas buyers (involving heavy equipment such as graders, earthmovers, machine tools and even aircraft) could cost as much as six times their present value to replace.

Thus part of our improved export performance has in fact come from running down our own industries through physical asset-stripping.

What, then, is the scenario for the future?

As the rand recovers, some of the windfall earnings on our exports will evaporate. And then there is the little matter of the $24-billion foreign debt, repayment of which should trim the surplus back a bit.

But the real problem will come from imports. As the consumer-led upswing commences, imports of both consumer and capital goods will take off. Initially this will mean an increase in government revenue, expecially following the most recent surcharge on imports, but inevitably it will push the current account of the balance of payments back into deficit.

The fall in the value of the rand over the last year means that the value of imports is likely to rise much more rapidly than on previous occasions and therefore the deficit is likely to occur sooner rather than later.

When the deficit gets too high that will be the end of our boom, boom and it will be back to gloom, gloom.

It is a depressing scenario but, unfortunately, not an unlikely one. (Which is what makes it so depressing.) But it is also a familiar scenario in that our growth phases have tended to follow this pattern for some time now.

The problem is that this time it is occurring after a devastating recession which has left us with massive unemployment and an inflation rate pushing 20 percent. If all we manage in 1986 is a brief mini-boom, such as occurred in early 1984, then when we go into the inevitable downswing next year it's going to be an awfully long drop. Last year's recession will look like a picnic by comparison.

Of course, our economic planners are only too aware of this danger. So why are they still following the same old prescription? One can answer that question in one word: gold.

They are banking on the hope that the long bear trend in gold is at an end and that gold is entering a bull market. Should gold, for instance, rise just $60 to the $400 mark and stay there, it would add $1,2-billion annually to our exports.

Naturally, if the planners are correct and gold is set for a bull run, it will keep our balance of payments in surplus for a much longer period, thereby prolonging the boom.

But, quite frankly, even if they are right, it seems a helluva way to run an economy by basing one's growth strategy on what remains no more than a possibility. Especially when people's jobs, homes, and even in some cases lives, depend on it.

Anyone for the horses?

49 Bus Day 17/2/86

SA 'ready for recovery'

Business Day Reporter

THE economy is ready for a fairly strong recovery, but the strength of the recovery will depend on the actions of companies and consumers, says Barclays Bank in its latest *Business Brief*.

The bank says this readiness is as much a reflection of the extent to which spending and output has been reduced in the past year as of the improved external environment.

The contraction in domestic spending in the past 18 months has hit particularly hard in the domestic-orientated sectors of the manufacturing and retail trades.

Nearly half the manufacturing industry is at present operating at levels of about 25% below its 1981 peak production, which has been a major contributor to the rise in unemployment.

The extent of the deterioration in the so-called "misery" indicators is the main reason for believing that relief cannot be far off.

The overkill of the past year has led to an unprecedented increase in personal insolvencies, company liquidations and debt summonses.

Both the low level of activity in domestic-orientated sectors and the widespread financial stress are a mirror-image of the macro-economic achievements of government.

The decision to contract domestic spending has contributed largely to the material improvement on the current account of the balance of payments — an annualised surplus of R11bn in the fourth quarter of last year.

The same success can be seen in the money supply figures, where growth in M-3 (the broadest measure of money supply) has dropped from a 30% rate of increase early last year to 12,7% by year-end.

Unfortunately, the inflation rate has continued to rise sharply under the impact of the free-floating rand regime of last year.

The 18,5% CPI increase in December last year is, therefore, very much a supply-side phenomenon at present, with at least one-third of the rate due to the impact of the rand.

For this reason, real spending in the economy should not be contracted further in the hope of reducing the inflation rate materially.

The present forex policy of taking the rand closer to $0,50, while reducing volatility, will in time allow the imported inflation contribution to be eroded.

Unfortunately, other inflationary forces may cause renewed pressure on prices into 1987.

BUSINESS

(49)

Optimism on SA debt talks

DISPATCH 20/2/86

LONDON — Representatives of South Africa's main creditor banks meet Reserve Bank and Treasury officials in London today to discuss the compromise proposals for foreign debt rescheduling already outlined to both sides by Dr Fritz Leutwiler, the independent Swiss mediator.

Although the South African Ministry of Finance has stressed that the proposals are not final, and the 30 banks involved have not committed themselves to the new plan, cautious optimism that real progress can be achieved is being reported here and in the United States.

Dr Leutwiler's plan proposes repayment of some of the $14 billion (about R29 billion) debt — about five per cent of it — before the 1990 expiry of the freeze originally laid down by the South African authorities, with the situation to be reviewed, probably in March next year.

The freeze was imposed on the short-term debt last September, when American banks, concerned by unrest in South Africa and anti-apartheid pressure at home, refused to roll over their loans and Pretoria was forced to call a stand-still.

The New York Times reported yesterday that for the first time the two sides were dealing with proposals "that strike a middle ground between what Pretoria wants and what the banks may accept."

The paper quoted one banker as saying: "To expect some breakthrough would be a bit naive, but now we do seem to be moving in the right direction at last."

The report said the most that could emerge from the meeting, according to bankers, was a broad tentative agreement between South Africa and the banks.

In London, the Financial Times said in an editorial that Dr Leutwiler was aiming at "little more than a formal acceptance by both sides, for a year, of what would otherwise have happened in any case."

The paper added that an end to the impasse on bank debt could not be decided between South Africa and its bankers — "it will be achieved only when the US banking public feels satisfied with, or loses interest in, the South African political situation."

Of the $14 billion debt, British banks hold about 5,5 billion (about R11,2 billion), American banks 4,5 billion (about R9,2 billion) and West German, Swiss and French banks four billion (about R8,2 billion).

The pace of reform in South Africa, and the government's intentions about the future of apartheid, are a key issue with the bankers — particularly regarding the country's eventual return to the international loan market.

The two issues — the repayment of outstanding debt and future loans to South Africa — are quite separate, and the New York Times said American bankers were emphasising the distinction.

"The outstanding debt must be repaid, regardless of the South African government's political actions, bankers insist," said the report.

"But for a return to the market, as one banker puts it, the banks want to see South Africa set on a course that clearly leads to the end of the apartheid system."

The South African delegation at today's meeting will be led by Dr Chris Stals, Director-General of the Treasury. He is scheduled to hold a press conference after the discussions, and Dr Leutwiler may do the same. — Sapa

NATIO

ARGUS 20/2/86 49

SA's debt: Bankers 'have to accept plan'

The Argus Foreign Service

LONDON. — South Africa's creditor banks are expected to reluctantly agree on mediator Dr Fritz Leutwiler's proposals to resolve the country's debt problems.

A London banker said the 30 bank creditors had to accept Dr Leutwiler's plans whether they liked it or not. Their money is tied up in South Africa and they have to agree to Dr Leutwiler's interim arrangement so they can get their money back.

Bankers rejected the South African proposals last December that there should be a debt moratorium on the debt until 1990.

Dr Leutwiler's terms are much more stringent. South Africa's total foreign debt of $24 000-million must be divided into two parts. The first portion is the $14 000-million of debts which are frozen in the unilateral moratorium.

Dr Leutwiler proposes that this debt remain frozen until March 1987 when there will be another round of negotiations. He asks that $700-million be repaid in four quarterly instalments beginning in March this year.

The second element is the $10 000-million portion of the $24 000-million total debt which is unfrozen.

Paper - Numsoo

(49) Bus DAY 20/2/86.

Brand sees a better year if stability is regained

Economics Reporter

● BRAND

THIS could be a year of better economic performance with an appreciable rise in real gross domestic product and spending, says Development Bank of Southern Africa CE Simon Brand.

He was speaking at yesterday's opening of the SA Industrial Development and Business to Business exhibition at Johannesburg's Ellis Park.

The show is on today and tomorrow.

Brand said an extended period of positive growth was possible, provided the external financial and economic scene were favourable and there was orderly internal reform.

The industrial sector would have to play a significant role, as it was already the origin of 22,4% of GDP and 20,2% of employment in the economy, Brand said.

He said relaxation of labour market rigidities and an enhanced upward mobility of black labour should lead to a shift in income distribution towards the middle and lower groups.

This redistribution would favour the agricultural, manufacturing, commerce and transport sectors, Brand said.

He advised regional development corporations to be selective in their recruitment efforts so as to keep down costs and ensure long-term viability.

Brand also said industrialists should not be lured simply by the short-term advantages to be gained from the incentives, but should study locational factors.

The exhibition hosts stalls from national states such as Transkei and Ciskei, as well as from Atlantis, Bloemfontein, Maritzburg, Richards Bay, Port Elizabeth and East London.

A total of 77 486 jobs and an investment of R1,177bn in regional development areas resulted from 1 216 applications approved by the Board of Decentralisation of Industry during 1984/5.

Agreement on SA's repayments expected to boost the rand

ARGUS 21/2/86 49

LOANS PACT

FOREIGN exchange dealers in Johannesburg expect the rand to firm slightly in the next few weeks following the agreement reached in London on the repayment of South Africa's debts.

A dealer said yesterday's agreement was highly positive for South Africa and should take pressure off the rand and the balance of payments.

However, another warned that no "fireworks" should be expected. This year South Africa would have to repay \$500-million of the previously frozen debts and a further \$1,5-billion to \$2-billion of the other debts.

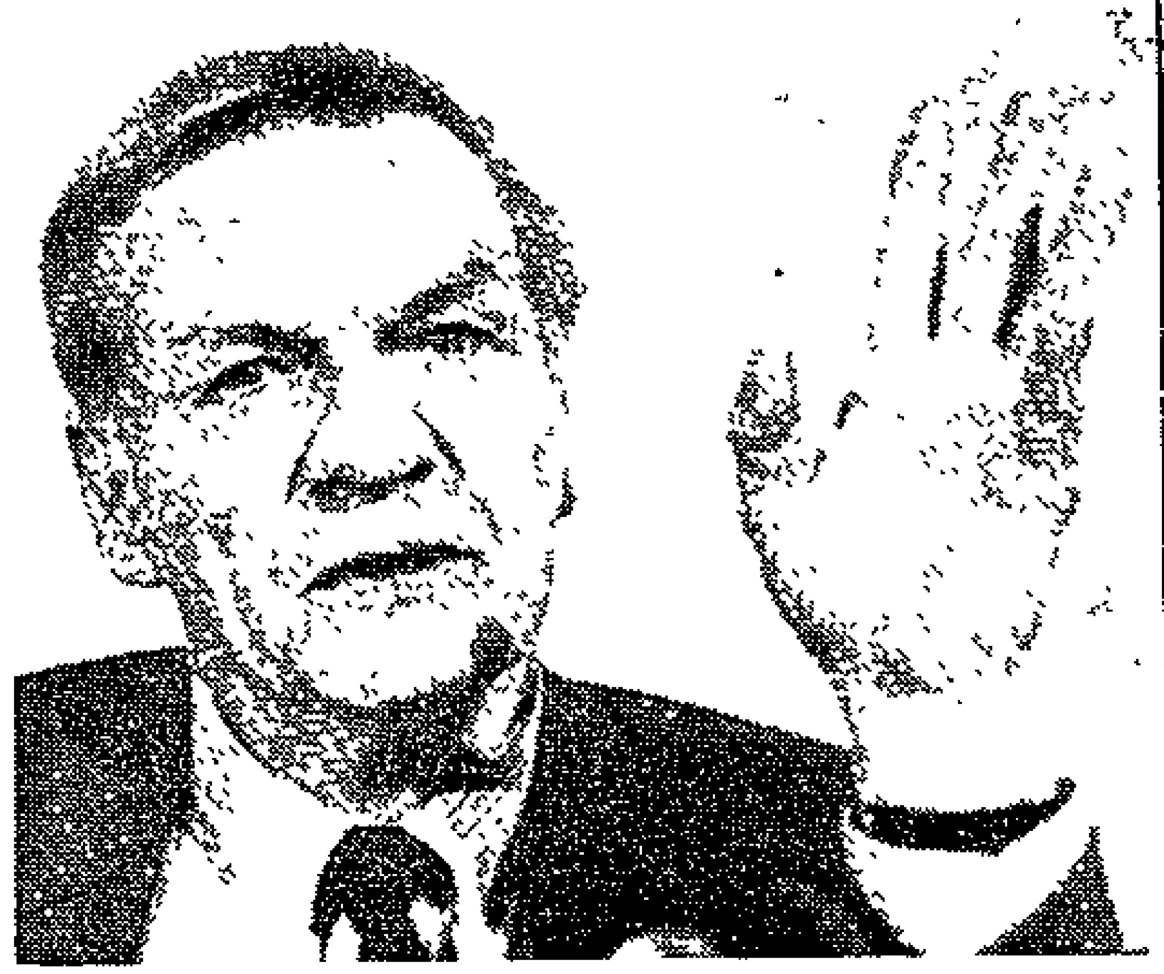
As the country is expected to have a payments surplus of only \$2,3-billion there could still be pressure on the balance of payments and the rand.

Nonetheless, some dealers expected the rand to reach 52 or 53 US cents in the next few weeks.

Moratorium

Dr Fritz Leutwiler, who served as mediator in the debt talks, said after yesterday's meeting that South Africa and its creditors had reached broad consensus in a compromise deal on the \$14-billion in debts owing to foreign banks.

He said South Africa would begin lifting a moratorium on debt repayment to major European and American banks from



Dr Fritz Leutwiler

Rand rises to \$49,55

Financial Staff

THE rand rose today to 49,55 US cents in spite of the dollar perking up on foreign exchange markets.

The currency closed at 49,40c last night and today maintained its value against other major currencies, quoted at R2,91 to the British pound, R1,15 to the German mark and 95c to the Swiss franc.

A foreign exchange banker said: "Details of the debt rescheduling talks are positive and we expect the rand to stabilise at about 50c."

Gold rose \$3 to \$340,75 an ounce in early trading in London today.

Under the proposed compromise South Africa will pay five percent of maturing debts next year.

The banks cut off credit lines to the South African Government at a time of rising black unrest and economic problems.

Compromise

Pretoria retaliated by freezing repayments on \$14-billion of its \$24-billion foreign debt.

Dr Leutwiler said the compromise agreement was a major step towards restoring economic normality in South Africa.

He said: "Not a single creditor bank has objected to today's propasals."

South Africa was determined to press on with political reforms. There would also be a major review of the economy in South Africa before February next year, he said.

"Sabotage"

Meanwhile the Minister of Finance Mr Barend du Plessis said today the loan repayment agreement created the opportunity for South Africa to work hard at the restoration of its international financial relations.

It would give the country the opportunity to return its capital account to normal as quickly as possible.

Mr du Plessis also reacted sharply to the actions of three South African church leaders — Bishop Desmond Tutu, Dr Beyers Naude and Dr Alan Boesak — who told Dr Leutwiler the banks should reject the rescheduling of South Africa's debt and that South Africa's overseas assets should be impounded.

He said this bordered on economic sabotage.

Mr du Plessis said the negotiations in London had been tough. It had been difficult to reach consensus in such a large group of people, each representing his own interests. A fair basis for the debt agreement had been achieved.

In spite of intense pressure, the matter had been approached in a sensible manner. — Finance Staff, Political Staff, Sapa-Reuter.

Banks, SA reach broad agreement

Cape Times 21/2/86

(49)

From JOHN BATTERSBY

LONDON. — South Africa and its 30 major international creditor banks have reached broad agreement to resolve the immediate foreign debt crisis.

But creditor banks have suspended judgment of South Africa's credit-worthiness pending internal developments during the next 12 months.

This was announced here last night by the Director-General of the Treasury, Dr Chris Stals, and the Swiss mediator, Dr Fritz Leutwiler, at separate press conferences following all-day discussions.

Dr Fritz Leutwiler announces the acceptance of his compromise proposals on South Africa's foreign debt repayment at a press conference in London yesterday.

Dr Stals said South Africa had entered the agreement "reluctantly" but "with a lot of re-assurance, understanding and goodwill from the banks".

In terms of the agreement the South African six-month standstill on \$14-billion (about R28-b) of short-term debt will end on March 31 and banks would enter into individual arrangements for the repayment of not more than five percent of the debt — amounting to about \$500 million (R1-b).

Dr Leutwiler said "In my personal view five percent was the maximum South Africa could afford — to go beyond it would be irresponsible."

Dr Leutwiler said the interest margins would be up to one percent higher than during the standstill.

Dr Stals said the \$500 million would be an "additional burden" on South Africa's balance-of-payments. It would be added to a further \$1,5-billion (R3,06-b) of debt to be repaid outside the standstill.

Reserve Bank projections, he said, were that it should be possible to get a current account surplus of \$2,3-billion (R4,7-b).

Dr Leutwiler said there would be a major review in February 1987 "to determine the next step in the light of developments in South Africa".

In a major breakthrough the 30 banks will enter into direct negotiations today with Pretoria's Standstill Co-ordinating Committee (SCC) in a newly-constituted technical committee, the first contact between them since the government declared a moratorium freezing \$14-billion of short-term debt in August last year.

Dr Leutwiler stressed that the "broad consensus" did not represent a rescheduling agreement.

He said the remaining 230 smaller creditor banks — who did not attend yesterday's meeting — would convey their reaction to the agreement through him and not direct to Pretoria.

He expected positive declarations from them by "early March".

Dr Leutwiler also had a stern warning against any move to extend the standstill before March 31.

He pointed out, however, that the five percent down payment would not apply to all creditor banks as "some are happy to continue doing business with South Africa".

Dr Leutwiler said that there had been no "political discussion" at the meeting but added that it was "clear to all that the political situation played a role in the background to the discussions".

However, he said, "Whoever is against apartheid cannot pull the rug out from under South Africa's feet."

Side-stepped

It was hypocritical to argue that the regime would be hardest hit by sanctions.

"They would hit hardest at those one claims to be helping," he said.

But he added that "social stability is part of the perception of credit-worthiness" and he side-stepped questions to assess Pretoria's credit-worthiness.

"That is a question you must ask the banks. South Africa knows that there is no question of asking for fresh money at this stage."

Commenting on the mood of the meeting Dr Leutwiler said:

"There was a better understanding this morning that it is in everybody's interest that confidence in the South Africa economy is restored."

It was vital that South Africa should remain a net importer of capital if the momentum of reform was to be maintained.

● Sapa reports that Assocom last night said that the consensus reached yesterday was good for business, but its success would greatly depend upon economic and political developments in the country.

Mr Raymond Parsons, chief executive of the Association of Chambers of Commerce of South Africa, said: "The outcome of the meeting between South Africa and its creditors ought to re-inforce the current strengthening of the rand and enable the Reserve Bank to keep the rand at higher levels."

BUSINESS BRIEF

Gold (close)	\$337,75
Rand	\$0,4930/40
FT Index (close)	1233,20
BD 100	1223,80

Govt is 'concerned' about East Cape economy — Wiley

(49) E.1081 22/2/86

Mr JOHN WILEY
... protest

By JACK DEWES

THE Government was "deeply concerned about the economic position in the Eastern Cape" and was "doing what it could to promote industrial growth there", the Minister of Environment Affairs, Mr John Wiley, said yesterday.

Mr Wiley telephoned the Evening Post from Parliament yesterday to protest against the claim by a Port Elizabeth businessman, Mr Johan Stander, that the Government was compounding the "unemployment miseries" of the Eastern Cape.

Mr Stander said in a report in the Evening Post on Thursday that Mr Wiley failed to help him establish a fishing and fish-processing company here by granting him a quota.

Mr Wiley said:

"Mr Stander alleges that the Government is favouring 'the big boys, the wealthy companies' in Cape Town with quotas in the Port Elizabeth area.

"This is not correct. I telephoned Mr Stander on Thursday to tell him that all applications for quotas, including his own, are referred as a matter of course to our fisheries scientists, then to the advisory committee, which in turn makes recommendations to me.

"Those are the procedures followed.

"All the main fish resources, such as hake, are subject to a quota. Only when the quota is increased are the claims of new applications considered

"New resources, such as the recent 'find' of large quantities of squid (or chokka) in the Eastern Cape are being monitored by our scientists and after their investigations are complete resource quota will be imposed.

"Nothing prevents Port Elizabeth fishermen from obtaining licences to catch this resource, and they will certainly be considered for participation in the future quota.

"I also explained to Mr Stander that I am not able to grant new licences or quotas at present as the Diemont Commission appointed by me is considering the basis on which all licences and quotas will be granted in future. The report will be available by the middle of the year.

"I wish to give the absolute assurance that the Government is deeply concerned about the economic position in the Eastern Cape and is doing what it can to promote industrial growth there.

"When I am in the position to grant licences and quotas local fishermen will undoubtedly be given careful consideration, since many of our important marine resources are caught in Eastern Cape waters."

Schwarz cautions over debt agreement

CAPE TIMES 22/2/86

49

By ANTHONY JOHNSON
Political Correspondent

THE terms of the foreign-debt agreement concluded between South Africa and its major international creditor banks would not solve long-term financial or social problems confronting the country, the Progressive Federal Party warned yesterday.

The PFP spokesman on finance, Mr Harry Schwarz, said yesterday that while there might be a degree of relief at the "broad agreement" reached this week with the Republic's 30 major creditor banks, numerous problems remained unresolved.

He cautioned that optimism over the agreement could well be premature because it might very well place the balance of payments in a "dangerous situation" because the country's debt service commitments over the next year would wipe out virtually the entire anticipated current account surplus.

In addition, South Africa would apparently still be deprived of vitally needed new foreign capital necessary to stimulate the economy and "deal with new job-seekers, let alone the massive existing unemployment".

Record high

The note of caution sounded by Mr Schwarz came against positive reaction to the debt deal yesterday on the Johannesburg Stock Market where share prices rose and the industrial index hit a record high.

Earlier, the agreement was also given an optimistic assessment by the Director-General of the Treasury, Dr Chris Stals, who spoke in London of the debt situation "returning to normality" and of "new negotiations for new loans".

Initial reaction from the business community was also positive, with Assocom chief Mr Raymond Parsons describing the deal as "good for business" and likely to lead to a strengthening of the rand.

Business leaders have warned, however, that the final outcome of the interim agreement would depend greatly on political reforms and economic developments within South Africa.

Foreign-exchange dealers have also been cautiously optimistic and see the agreement as taking pressure off the rand and the balance of payments.

However, Mr Schwarz yesterday described the deal as "inadequate" and said that much of the optimism surrounding it could be misplaced.

First, it was really only an interim settlement subject to periodic review and appeared to require considerable further negotiation, Mr Schwarz said.

Second, the statement by debt mediator Dr Fritz Leutwiler that "South Africans know themselves that there is no question of asking for fresh money at this time" made it clear that the real problems facing South Africa are being shelved.

Housing

"South Africa needs foreign capital in order to achieve the kind of growth required to make any meaningful impact on the need to create more employment opportunities."

Domestic savings and capital formation were "quite simply inadequate" to deal with this massive problem and the burning need to equalize social services and housing as rapidly as possible.

Mr Schwarz said it was "bad news" if over the next year about 700-million dollars was to be repaid — in addition to the 1,5-billion to two-billion dollars of other debts outside the standstill — without new capital coming into the country.

He said that this would mean that the debt repayment would swallow up virtually the entire estimated current account "and South Africa would then be living dangerously as far as its balance of payments is concerned".

Mr Schwarz said he feared that if anything "goes wrong" regarding the estimated balance of payments situation, the government would then be forced to adopt more stringent economic measures which would have a negative impact on local businesses and unemployment.

Mr Schwarz said that if there was to be any form of meaningful upswing in the economy, an increase in imports would be expected and that this in turn would exercise pressure on the current account.

The payment of one-percent extra interest on the matured and not the repaid debt, while understandable, would consume more valuable foreign exchange.

"All that can relieve this situation is a renegotiation with individual banks for rollovers or other perhaps long-term facilities.

"In any event there is no formal rescheduling agreement, there are apparently still many loose ends, and while the major banks were involved in the discussions, there are still many other banks to be dealt with."

CAPE TIMES 22/2/86

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President to be given wider powers

Political Staff

THE State President, Mr P W Botha, is to be given wider powers enabling him to by-pass Parliament to suspend laws and cut through red tape impacting on business and impeding economic development in South Africa.

In terms of the Temporary Removal of Restrictions on Economic Activities Bill tabled in the House of Assembly on Thursday, Mr Botha will, by proclamation, be able to suspend any legislation which in his opinion impedes economic progress or competition in commerce.

These extraordinary powers are to be granted for three years, but may be extended by an Act of Parliament if the need exists.

The primary purpose of the new draft legislation is to facilitate and speed up the participation of the small entrepreneur and the informal sector in the economy.

Areas over which Mr Botha may exercise this executive power include:

- Requirements for the registration and licensing of businesses, undertakings, industries, trades and occupations, and the employment and use of land and premises.
- Registration of employees.
- Payment of contributions to the Unemployment Insurance Fund and the Workmen's Compensation Fund.
- Registration of and control over factories.
- Regulations of conditions of service and working hours and the days on which and times when business may be done.
- Supervision of and use of machines.
- Protection of the health and safety of employees.
- Health requirements for premises and buildings where activities are carried out.
- The prohibition, or regulation of, or restriction on, the erection of dwellings, buildings and other structures.
- The conveyance of persons and goods within, from and to a specific area.
- The establishment of towns and town planning.

By nationalising Anglo American, Barlow Rand and Sanlam, the ANC could gain control of 75% of the economy . . .

To the ANC, 'big capital' in SA is part of the 'enemy forces'

BUS DAY 23/11/86 (47)

THE AIR is filled with talk — despite the efforts of Law and Order Minister Louis le Grange to suppress it — of an "alliance" to be led by the African National Congress. So we might as well try to ascertain what it means.

Le Grange, having permitted some reporting of Oliver Tambo's recent statements, now says that he didn't intend to approve more than one South African Press Association report, and he has warned that further disclosures of the truth will be punishable.

This hampers debate, but does not kill it.

One can safely say that the ANC has indeed addressed itself to a variety of groups, among them the trade unions and the mineworkers, the white business community, white conscripts and all white opponents of apartheid.

One can say, too, that the tone of its comments was ingratiating. Tambo's words on this subject can no longer be quoted. But, fortunately, we have available from an expert on the inner workings of the ANC an explanation of what the organisation is trying to achieve by wooing non-ANC members.

The expert is Howard Barrell, whose views have been reported in an excellent publication called "Work in Progress".

Since Le Grange will not let the ANC speak for itself, let me say that Barrell's account of ANC thinking accords precisely with my own understanding of Tambo's recent comments.

Barrell says five principles underlie the ANC's overtures to various potential partners in an "alliance".

KEN OWEN

The first is "the need to build maximum unity between all sections and formations of the oppressed, other democrats and progressives and, quite literally, to bring these forces, equipped and prepared as well as possible, 'to the battle-front'."

The second is to win over to its basic outlook as many whites as possible and thereby "to isolate politically the die-hard defenders of what it sees as a racist and exploitative state power".

The third principle stated by Barrell is that a revolutionary organisation does not go to war in order to hold talks; but the fourth principle is that it must always be willing to talk in order to reduce the suffering of the people in achieving state power.

Underlying this fourth principle, says Barrell, is the insistence that "talks of any kind should never be allowed to demobilise the liberation movement's forces" unless an explicit cease-fire occurs.

The fifth principle is that the ANC will not allow talks with the government to remain secret from its members — including, presumably, all the people whom the ANC claims as supporters within SA.

In the light of these principles, Barrell puts on the meetings between the ANC and the SA business community an interpretation quite different from those usually heard in SA.

The ANC, he says, has determined that "big capital" (like most of the Left, he takes an anthropomorphic view of capital) is part of the "enemy forces".

He speculates that the ANC could, by nationalising the Anglo American Corporation, Barlow Rand and Sanlam, gain control of 75% of the economy, and that it would allow smaller businesses to continue in a mixed economy beneath these "commanding heights".

He observes, however, that the SA Communist Party (which provides about half the ANC executive) has a more ambitious programme of nationalisation.

Referring to the recent ANC meeting with a business delegation led by Gavin Relly, of the Anglo American Corporation, Barrell says:

"These relatively enlightened sections of the business community appear to recognise that SA is moving towards a scale and kind of struggle which could result in a successful quasi-Bolshevik insurrection, rather than a traditional black nationalist takeover.

"It is sensible to conclude that one of capital's intentions at the meeting was to establish the potential for, in one or other sense, 'buying out' some portion of the ANC leadership or exercising the 'Lonrho option'.

"The latter is a political insurance policy, paid for by favours to the liberation movement or selected members of its leadership during the period of struggle . . .

"Capital's prospects of succeeding with this tactic in the case of the ANC look very dim indeed."

Barrell says the nature of the talks between SA business and the ANC in Zambia indicated a "deep concern that (President P W) Botha is incapable of delivering timeous options that can safeguard capital".

For the ANC, says Barrell, the issue is the transfer of power to the people, to smash or dismantle apartheid totally. "The issue is not a national convention."

The talks with big business leaders or other non-governmental elements "from the white bloc" are part of the "thrust to isolate politically the Botha government".

The struggle is between "Botha and the ANC," Barrell writes, quoting an unnamed ANC source as saying: "There is no middle road."

Those are almost precisely the words used by another expert on the ANC, Tom Lodge, who told an audience at Wits late last year: "There is no middle ground."

The prospect for negotiations between the ANC and the government are, understandably, even bleaker. Barrell says a whole range of preconditions apply.

The only subject on the agenda would be the "modality for the transfer of power" and this transfer would demand a change (unspecified) in the character of the army and the police.

The ANC would not discuss reform. "The central precondition is that such talks must be premised on an agreement among participants that the objective of the talks is to totally dismantle apartheid and to arrive at a modality for a united, democratic and non-racial country."

For reforms, whether to the Separate Amenities Act or the Group Areas Act or the pass laws, the ANC has only scorn.

It is hard to avoid the conclusion that the ANC opposes any amelioration of apartheid that might reduce the ferocity of the revolutionary struggle into which it is now trying to draw prospective allies.

None of this implies that nobody should talk to the ANC; but it is as well to recognise what the ANC wants to talk about.

The middle ground offers no place to hide.

Argus 24/2/86

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Rand over 50 US cents — highest in 7 months

Finance Editor

THE RAND rose above the 50 US cent mark today for the first time in almost seven months.

It opened at 50,10 US cents but soon rose to 50,30 US cents. The rand was previously above 50 US cents on July 25 last year.

The rand closed on Friday at 49,85 US cents.

Dealers attribute the firmer rand to the favourable reaction to the Leutwiler rescheduling talks and also to the firmer gold price.

Gold rose $3,90 to $342,65 at the opening of trading in London today as concern mounted over the situation in the Philippines, dealers said.

The rand has now recovered 39 percent against the dollar since its "low" of 36,05 US cents on December 6 last year. In the same period it has also recovered 40 percent against the British pound rising from R4,10 to the pound to R2,9105 to the pound.

The rand has taken roughly two weeks to rise from 45 US cents to 50 US cents. If it can maintain this rate of appreciation it could reach 55 US cents by the middle of March — a rate last seen in October, 1984.

However, while a further 10 percent appreciation against the dollar will bring the rand back to where it was 16 months ago, it will need a further 38 percent appreciation to catch up with the British pound.

In October 1984 South Africans could buy a pound for R2,18.

Financial markets boom as gold, platinum price soars

Rand expected to stay above 50 US cents, say economists

25/2/86 · STAR

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By Duncan Collings
Deputy Finance Editor

After moving positively through the important psychological 50 US cent barrier yesterday, the rand continued firm this morning and gold is once again around the $350 mark, while platinum continues bouyant on world bullion markets.

The rand at midday today was quoted at 50,70c with the Reserve Bank playing its customary smoothing role. It closed yesterday at 50,25c.

Mainly following the unrest in the Philippines, but also helped by the bouyancy of platinum and the weak dollar, gold rose sharply in US trading gaining nearly $8 to around $349, but this morning in the Far East and Europe has moved to around $350 again.

And also affected by the increasing mood of euphoria sweeping the financial markets, the stock exchange is advancing virtually across the board, but many dealers both on the financial and stock markets are beginning to warn that things are getting overheated and that the mood of confidence is somewhat overdone given the many problems, both political and economic, still facing the country.

However, they say there is steam left yet in the rand and it could move slightly higher before stabilising.

"But the big unknown remains gold," said one dealer, who added: "If the gold price does continue to move ahead the psychological boost as always will be enormous."

"It would take quite a lot to turn around (the rand's recovery)," senior bank economist Lauretta Gell said.

She and another senior economist told Reuter that they see the rand staying around the 50c mark, with the Reserve Bank holding down its rise.

But the authorities do not want the rand to rise much.

Firstly, the stronger rand slashes the rand income of gold mines which contribute essential tax revenue to the government.

Second, the authorities do not want to encourage a new wave of cheaper luxury imports which would undermine the trade surplus and make it harder for South Africa to offer to pay back more of its debts next year, the economists said.

The country still faces a major problem with inflation, which soared over 20 percent in December, a 66-year record. "This was a shock to all economists," said one.

Economists believe inflation could remain a major stumbling block in sustaining the economic recovery which they now expect the strife-torn country to enjoy.

Fortunately it appears as if the dollar gold price is stabilising above the $338 level. It could, however, still be vulnerable in the light of the weaker oil price, says the Trust Bank Economics Dept.

"But as long as sentiments remain positive, the rand is likely to appreciate further against the dollar in coming weeks,".

However, some bankers warn that a rising rand might incline the economy to become over stimulated and "start running away with itself".

The fact that the gold price is also rising, is no cause for celebrations:

"It is merely a currency story," said a merchant bank. "The gold is rising against a dramatically dropping dollar, but is doing nothing much against the Swiss Franc, the German mark - and is, in fact, dropping against the rising yen."

The American dollar moved broadly lower against other major currencies in moderate trading yesterday.

Analysts said the currency markets generally continued to expect further declines in the dollar as the US government attempted to reduce its massive trade deficit.

Strong demand in Europe for platinum

By Neil Behrmann

LONDON — Heavy European investment and speculative demand pushed platinum prices above $400 yesterday, the highest level in almost two years.

Such was the demand for platinum that it traded at a premium of $60 to $70 over the gold price

Last July it was priced at a discount of $63 to gold. After reaching a peak of $412 an ounce yesterday the metal reacted slightly to close at $405 compared with last Friday's close of $399.

"Investors and speculators are perceiving that platinum is not only a precious metal, "said Alan Austin, manager platinum marketing division at Johnson Matthey.

He said that automobile makers and other industrial users were buying more platinum on expectations that the international economy would improve.

Falling oil prices and booming stockmarkets indicated that there would be an improvement in growth, he said.

Rising industrial consumption would benefit platinum.

In the short run , however, Mr Austin said, the price increase was "overdone".

SPECULATIVE

Widespread investor and speculative purchases, especially in Europe pushed prices higher, said Brian Nathan, managing director of Ayrton Metals Ltd, platinum merchants.

Dealers are also concerned that labour disturbances at Impala Platinum will sharply reduce supplies of platinum.

"Even Impala admits that production was seriously affected by the disruption; there could be an enormous squeeze in the platinum market over the next six months", said Richard Harris, a mining analyst at L Messel and Co., Stockbrokers.

"We now believe that in a worst-case scenario, Impala could lose as much as 300 000 ounces of platinum output this year, " said Mr Harris.

"This is nearly a third of its output."

"With world supply and demand for platinum in the region of 2,9 million ounces in 1985, "some 10 percent of world supply could disappear in 1986."

"A large proportion of platinum supplies are sold under long-term contracts and a shortage of this magnitude could have a dramatic affect on a thin market, sending prices sharply higher."

Mr Harris also contends that " difficult mining conditions are also being experienced in reopening some underground stopes."

Entrepreneurs need a lead

STAR. 49 26/2/86.

Santamtrust believes that the Budget, despite all financial constraints, could make a major contribution to the restoration of a healthier economic base in South African.

But only if the Government deliberately adopts the only meaningful policy that will fundamentally improve the economy: that is, creating a favourable dispensation for the entrepreneur.

Santamtrust points out that creating the right climate for an economic recovery would require a drastic reduction, firstly in the company tax rate and secondly in the top marginal tax scale applicable to individuals.

"Such a policy would obviously be impossible to implement in full in any single year, especially not in fiscal 1986/87," according to Santamtrust's February issue of *Market Opinion*.

"We would, nonetheless, like to see that such an approach be commenced this year," writes the portfolio management company.

"A clear official statement of intent will do much to foster confidence in the business sphere, even if the initial steps regarding the restructuring of the tax base amount to little more than gestures.

"It is of the utmost importance that entrepreneurs be stimulated during the coming years. Such a strategy should greatly benefit economic growth, job creation, foreign investment sentiment, inflation and, eventually, even state revenue."

Santamtrust emphasises that fiscal policy and the economy at large, will remain on an unhealthy footing as long as current government expenditure continues to grow at a high rate:

"At present we have the situation that large amounts are withdrawn or withheld from entrepreneurs in order to finance comparatively large consumption outlays by the government.

"The imbalance that has developed in current and capital expenditure in the public sector in recent years needs re-examining.

"SA's infra-structural and capital base is being eroded in favour of government-planned consumption expenditure."— Sapa.

WEDNESDAY, 26 FEBRUARY 1986

†Indicates translated version.

For written reply:

General Affairs:

Reference books/influx control

HANSARD

51. Mrs H SUZMAN asked the Minister of Constitutional Development and Planning: 26/2/86 Q COL227

(1) How many (a) males and (b) females were arrested for offences relating to reference books and influx control in each of the main urban centres of the Republic in 1985 by officers of development boards;

(2) what was the total number of such arrests in the Republic in that year?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) Arrested by officers of Development Boards:

	(a) Male	(b) Female
Bloemfontein	287	285
Durban	3	—
Johannesburg	2 075	1 249
East Rand	9 659	2 062
West Rand (excluding Johannesburg)	639	447
Cape Peninsula	797	452
East London	171	141
Port Elizabeth	522	166
Pretoria	—	—

(2) Total number of such arrests in the Republic: 33 427.

Advertisements

HANSARD 49

115. Mr D J DALLING asked the Minister of Finance: 26/2/86 Q. COL227

(1) What was the total amount spent by his Department in 1985 on placing advertisements for any purpose in newspapers in the Republic;

(2) what amount was paid to each specified newspaper in the above regard in that year?

The MINISTER OF FINANCE:

(1) R114,00.

(2) Payment was made to contractors to place advertisements. It is therefore not possible to identify individual newspapers.

International sporting associations

188. Mr D J DALLING asked the Minister of National Education:

(1) Whether South Africa was excluded or suspended from any international sporting associations in 1985; if so, from which associations;

(2) whether South Africa was in that year admitted to any such association from which it had formerly been excluded or suspended; if so, to which associations;

(3) whether in 1985 any countries or associations barred participation by South Africans or withdrew invitations to participate in sporting events; if so, (a) which countries and/or associations and (b) what were the events (i) from which South Africa was barred or (ii) for which invitations were withdrawn?

The MINISTER OF NATIONAL EDUCATION:

(1) Yes.

International Federation of Sports Acrobatics: Acrogymnastics;

International Stoke Mandeville Sport Federation: Sport for Physically Disabled.

(2) No.

(3) Yes.

Country/Association	Event	(i)/(ii)
England/International Billiard and Snooker Federation	World Championships	(i)
Korea/International Archery Federation	World Championships	(i)
UK, France/International Triathlon Federation	London to Paris Competition	(i)
Canada/International BMX Federation	World Championships	(i)
America/International Weight Lifting Federation	World Invitation Team vs South Africa	(i)
Canada/International Angling Confederation (Inland Casting)	World Championships	(i)
Scotland/European Sea Anglers Federation	World Championships	(ii)
Italy/International Angling Confederation (Fresh Water)	World Championships	(i)
Argentine/International Hockey Federation	Intercontinental Competition	(i)
Austria/International Power Boat Union	Class OC World Championships	(i)
West Germany/International Power Boat Union	Class OE World Championships	(i)
Belgium/International Power Boat Union	Leg of Formula 1 world Championships	(i)
Australia/International Women's Cricket Board	World Championships	(i)
France/International Aerosport Federation (Microlight)	World Championships	(i)
Australia/International Aerosport Federation (Radio Flyers)	F3B Championships	(ii)
Holland/International Aerosport Federation (Radio Flyers)	F3A Aerobatic Championships	(ii)
Australia, Jugoslavia/International Parachuting Committee	World Championships	(i)
Italy/World Association of Veteran Athletes	World Championships	(i)
Italy/International Model Power Boat Union	World Championships	(ii)
Holland/International Motorsport Federation	All motorsport events	(i)
Egypt/International Squash Rackets Federation (Men)	World Open Championships	(i)
Ireland/International Squash Rackets Federation (Women)	World Championships	(i)
England/International Federation of Netball Associations	World Games	(i)
Japan/International Radio Drivers Federation	World Championships	(i)

Country/Association	Event	(i)/(ii)
England/International Rowing Federation	Royal Regatta	(i)
Australia/International Women's Bowling Board	World Championships	(ii)
Italy/International Roller Skating Federation	World Championships	(i)
Sweden/International Cruising Union	¾ Ton Championships	(i)
Sweden/International Yacht Racing Union	Finn World Championships	(i)
Sweden/International Yacht Racing Union	Laser World Championships	(i)
USA/International Sport for the Deaf Committee	World Games	(i)
Hungary/International Amateur Wrestling Federation	World Championships	(i)
USA/World Life Saving	WLS Interclub Championships	(i)
Japan/International Tennis Federation	Federation Cup/Davis Cup Series	(i)
Germany/International Tug-of-War Federation	International Event	(i)
Taiwan/Football (Women)	International Event	(i)
England/International Water Safety Federation	Non-Olympic Life Saving Championships	(i)
Czechoslovakia/International Ice Hockey Federation	International Games	(i)

26/2/86 Q COL 231.

HANSARD

Geldenhuys Committee: report

310. Mr P A MYBURGH asked the Minister of Defence:

(1) Whether he has received the report of the Geldenhuys Committee; if not, when is it anticipated that he will receive this report; if so, when;

(2) whether he intends laying this report upon the Table of the House; if not, why not; if so, when;

(3) whether he intends having the findings of the report debated in Parliament; if not, why not; if so, when?

The MINISTER OF DEFENCE:

(1) Yes. 29 November 1985.

(2) No. It is a classified document that contains information which cannot be made public. Certain unclassified findings and recommendations on which decisions have already been reached, will be published in this year's White Paper on Defence.

(3) Yes, only the findings which are published in the White Paper. During the Defence Vote.

Geldenhuys Committee: evidence

311. Mr P A MYBURGH asked the Minister of Defence:

(1) Whether any evidence presented to the Geldenhuys Committee has been brought to his notice; if so,

(2) whether he intends effecting any changes to legislation affecting religious objectors as a result of such evidence; if not, why not; if so, (a) what is the nature of the proposed changes and (b) when is it anticipated that legislation enacting such changes will be introduced in Parliament?

The MINISTER OF DEFENCE:

(1) Yes.

(2) No. The Committee found that the *status quo* should be maintained. On the grounds of the evidence on the matter, I endorse the findings of the Committee.

THURSDAY, 27 FEBRUARY 1986

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†Indicates translated version.

For written reply:

General Affairs:

Removals/resettlements

HANSARD 27/2/86.

23. Mr R A F SWART asked the Minister of Constitutional Development and Planning:

Q COL 233.

(1) (a) How many Black communities or townships remain to be removed or resettled in each province, (b) what is the (i) name, (ii) location, (iii) nature and (iv) total population of each such community or township and (c) in respect of what date is this information furnished;

(2) (a)(i) where and (ii) when will the inhabitants of each such township or community be resettled and (b) what is the total estimated cost of resettling these communities;

(3) whether a decision has been reached regarding the review of scheduled removals; if so, what is the nature of this decision with regard to each community or township other than those referred to in the reply of the Minister of Co-operation, Development and Education to Question No 34 on 26 February 1985; if not, (a) why not, (b) who is responsible for taking this decision, (c) when is it anticipated that a decision will be reached and (d) what factors are being taken into account in the review of each community or township;

(4) whether he will make a statement on the matter?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) The revision of previous decisions is a continuous process aimed at development. As soon as decisions on a certain town or group of towns have been taken, they are made known. The total investigation has not been completed and a definite reply cannot be furnished at this stage. Rest of question falls away.

(2) In view of the reply to question (1) above, no definite reply to this question can be furnished at this stage.

(3) Yes, in so far as certain towns are concerned. Decisions to retain a considerable number of Black towns which were scheduled for removal, were taken on an *ad hoc* basis over many years. An investigation to determine which towns and by whom the decisions were taken, will be expensive and time consuming and is therefore not considered warranted. Since replying to Question No 34 on 26 February 1985, it has, however, been decided to retain the Black towns at Amsterdam, Colenso, Dundee, Glencoe, Jan Kempdorp, Krugersdorp (Munsieville), Ladysmith, Messina, Naboomspruit, Nylstroom, Swartruggens, Vryheid and Zeerust. Since that date it has also been decided to retain the Black towns at Louis Trichardt, Soekmekaar, Duiwelskloof and Roedtan for single accommodation and that it be negotiated with the other residents to resettle on a voluntary basis. It has also been decided that all the residents of the Black town at Brits may be resettled

Figure put at close to R6bn

Higher BoP surplus seen

BUSDAY 27/2/86 (30) 49 (58)

JOHN TILSTON
Economics Editor

SOUTH AFRICA could post a Balance of Payments (BoP) surplus this year that, despite the net outflow of capital, should be large enough to contribute to the general economic upswing.

While no reputable economist will go on record to forecast numbers this early in the year, there appears to be general consensus that the Reserve Bank's estimate of R4,6bn for the current account surplus, given to foreign bankers in London last week, is conservative.

One economist suggests the figure could be as much as 30% too low. He has projected a current account surplus of about R6bn, based on a rand worth \$0,48 and an average gold price of \$335. With the rand rising, he estimates the surplus could be slightly less than R6bn.

That is lower than last year's R7bn, mostly because of the anticipated stronger rand. But the import bill is likely to rise slightly as domestic demand improves and imported goods become cheaper on the back of the stronger rand.

Exports are expected to grow, but not at the same rate as last year. The recent fall in the dollar and the oil price should impart renewed vigour to world economic activity, boosting demand for exports.

The January trade surplus was 75% higher than 12 months previously, which augurs well for the year.

A senior government official says the estimate given to the foreign banks is being carefully scrutinised by their respective economics departments and that at this stage it would be inappropriate to comment on the assumptions underlying the figures.

There are a number of imponderables that could affect the final figure dramatically: rain, the price of gold, the cost of oil and the exchange rates of the rand and the dollar are all crucial.

The end of the year, when the final reckoning of the Balance of Payments takes place, is still 10 months away. If events move as quickly as they did last year, medium-range forecasting will become meaningless. However, an overall Balance-of-Payments surplus — after repayment of foreign debt of about R4bn — is likely, provided the following assumptions are realistic:

☐ The average gold price in dollars this year is higher than last year. So far it has averaged just over \$340. The Hard Asset Exchange says that last year the average price at the London afternoon fix was \$316. It has fluctuated this year between \$326 and \$363. A weaker dollar should ensure a higher average level this year;

☐ Current crop estimates are that about 9,5-million tons of maize will be produced this season, if there is sufficient rain. If the rains fail, then more than 1-million tons will be trimmed from the projected harvest. Fortunately, that will still be sufficient to meet domestic demand — usually about 7-million tons — and save im-

1986, certain parent bodies do not enjoy official recognition; if so, (a) which bodies do enjoy such recognition and (b) what criteria are used in granting recognition;

(2) whether any applications by parent bodies for recognition have been refused by his Department or any provincial education departments; if so, (a) which parent bodies are involved and (b)(i) when and (ii) for what reasons were their applications refused;

(3) whether he has granted interviews to any parent bodies not enjoying official recognition; if so, (a) to which bodies and (b) when;

(4) whether he will make a statement on the matter?

†The MINISTER OF EDUCATION AND CULTURE:

(1) Yes, the ordinance of the Transvaal Education Department already makes provision for the recognition of parent bodies and official recognition has been given to the Transvaalse Afrikaanse Ouervereniging. The request for recognition recently received from the Transvaal English Parents' Association is under consideration. The Department of Education and Culture has not yet given official recognition to parents' associations and has accordingly not yet formulated criteria. If necessary the co-ordination of criteria for the provinces will be considered at a later stage;

(2) no, all the provincial education departments are already considering the recognition of parents' associations and consultation is under way with a view to final resolutions when the legislative basis for such recognition has been established;

(3) yes;

(a) the English Speaking Parents' Association and OFS Afrikaanse Ouervereniging;

(b) on 17 February 1986 and 6 August 1985 respectively; and

(4) no, the matter will be further dealt with if Act 39 of 1967 is amended appropriately.

Mr R M BURROWS: Mr Speaker, arising from the hon the Minister's reply, the hon the Minister will be aware of the fact that there are contradictory provisions being applied by the various directors of education in the different provinces as far as the recognition or non-recognition of parents' associations is concerned. I should like to ask the hon the Minister whether he does not consider now to be the time when he should set up express guidelines for the provinces for the recognition of parents' associations.

†The MINISTER: Mr Speaker, the hon member is aware of the fact that until 1 April the recognition of parents' associations depends on the discretion of the different education departments. It is possible that the different education departments have set different strandards for the recognition of such parents' associations, and I am aware of this. However, after 1 April the situation will change. I agree with the hon member that it is absolutely essential that we investigate the question of the recognition of parents' associations because according to the Government's White Paper and also pursuant to the De Lange Report it is important that we do give the necessary recognition to parents' associations so that they can achieve the necessary participation. As I also indicated in the reply to the hon member's question, we will give attention to this at a more convenient time.

Mr R M BURROWS: Mr Speaker, arising further from the hon the Minister's reply, I should like to point out that both Act 39 of 1967 and the Government's White Paper on education give express recognition to a parental function in advising on changes in the educational structure in South Africa. The hon the Minister will be aware of the fact that all four provinces are at the moment concerned with changes in the structure of

education, particularly pertaining to the education council. How is it then possible that a parents' body can advise if it has not been recognised? The hon the Minister seems to be suggesting that parents' associations will only be recognised after 1 April.

†The MINISTER: Mr Speaker, the members of the parents' associations have the opportunity to put their case, either at the education departments concerned or to me. They could have had an interview with me, as my reply very clearly indicated. Some parents' associations which up to now have not had recognition have applied for an interview with me, which I have granted. We have listened to these people.

For written reply:

General Affairs:

4/3/86 -

Small Business Development Corporation

HANSARD GCOL 317

13. Dr W J SNYMAN asked the Minister of Trade and Industry:†

(1) Whether his Department (a) has received any representations on and/or (b) has been informed of irregularities which have allegedly occurred in the vicinity of Amanzimtoti in connection with the claim for removal costs of the Small Business Development Corporation; if so, what is the nature of the alleged irregularities;

(2) whether his Department intends taking any steps in this connection; if not, why not; if so, what steps?

The MINISTER OF TRADE AND INDUSTRY:

(1) (a) and (b) No. The Small Business Development Corporation has not effected any removals in the vicinity of Amanzimtoti and is also not aware of any irregularities regarding alleged removals or claims.

(2) Falls away.

HANSARD GCOL 318

National Liquor Board

4/3/86

163. Mr D J N MALCOMESS asked the Minister of Trade and Industry:

What was the cost of operating the National Liquor Board in the latest specified year for which figures are available?

The MINISTER OF TRADE AND INDUSTRY:

R756 700 during the 1984/85 financial year.

Labour Relations Act

HANS. G.COL 318

168. Mr D J N MALCOMESS asked the Minister of Manpower:

4/3/86

(1) How many (a) strikes as defined in section 65 of the Labour Relations Act, No 28 of 1956, and (b) discontinuances of work reportable in terms of section 65A of the said Act took place in 1985;

(2) how many (a) prosecutions were instituted and (b) convictions were obtained in that year in respect of contraventions in terms of section 65 of the above-mentioned Act;

(3) how many (a)(i) recognition and (ii) other agreements have been filed with his Department in terms of section 31A of this Act since 1 September 1984 and (b) *status quo* orders in terms of section 43 of the Act were (i) granted and (ii) refused by the Industrial Court in 1984 and 1985, respectively?

The MINISTER OF MANPOWER:

(1) (a) 346.

(b) 390 [including the figure specified under (a)].

(2) (a) and (b) The Labour Relations Act, 1956, does not require that the Department of Manpower must be informed of prosecutions in terms of section 65

Rand jumps to new high ahead of PW speech

ARGUS 4/3/86

THE rand jumped to 50,60 US cents today, its highest value since last July, as leaks of a speech by President P W Botha reached financial markets in Johannesburg.

Although bankers believe Mr Botha is to unveil reform plans, political sources said it was likely that the State President would speak about SWA/Namibia.

JOINT SESSION

President Botha is to make the special statement at a joint session of the three Houses of Parliament in the Assembly chamber this afternoon.

The rand, up from 50,35 cents last night, was also helped by the Reserve Bank putting in a considerable amount of dollars before the foreign exchange market opened in anticipation of the speech, reported currency dealers.

OIL PRICES

Sterling was hit by falling North Sea oil prices and today it cost about R2,87 to buy £1, an improvement of 28 percent on the R4 to the £1 rate of a few months ago.

Gold traded at $338,50 an ounce today in Hong Kong, up from $336 at yesterday's London close. — Financial Staff and Political Correspondent.

49

Bankruptcies and debts soar

SMK 4/3/86

49

By Estelle Trengove

As the economic recession continues to take its toll, South Africans chalked up bad debts of more than R628 million in 11 months — and an average of nine people and eight businesses went insovlent every day.

Banks report that even their respected customers are going bankrupt.

Civil judgments totalling R628 358 000 were issued from January to November last year against individuals and businesses unable to pay their debts, according to the Central Statistical Services in Pretoria.

The credit information bureau, Dun and Bradstreet, reports that 3 007 people went insolvent in the same period, an 83 percent increase on the number of insolvencies during the whole of 1984.

Businesses collapsed at a rate of eight a day, with 2 673 going into liquidation last year.

Main factors

The chief economist of Volkskas, Mr At Engelbrecht, said the massive debt incurred by individuals was due mainly to three factors:

- Incomes had not kept pace with the inflation.
- There had been a sharp rise in interest rates.
- People were determined to maintain their standard of living.

"My impression is that individuals have no fear of a greater burden of debt," he said.

Many people planned their finances poorly and were then forced to borrow money. This became a vicious circle in which they were forced to borrow more and more just to come out even, he said.

The general manager of Barclays Bank, Mr Norman Axton, said that small businessmen had been especially hard hit.

"More people are going insolvent than we have ever seen before — it's extremely sad," Mr Axton said.

He said insolvencies and liquidations had a "domino effect". A person with a reasonably successful business would be crippled when his debtors were unable to pay him.

He hoped 1986 would be better than last year. "The lower interest rates will be a help," Mr Axton said.

49 BUS DAY 4/3/86

SA resources 'under-used'

ROY BENNETTS

SOUTH AFRICA'S resources are considerably under-used and the authorities will probably continue their policy of gradual stimulation of the economy by a substantial level of government spending and a relatively low level of short-term interest rates.

In the Barclays National annual report for the year ended December 1985, chairman Basil Hersov and MD Chris Ball forecast that this was likely to translate into at least a 3% GDP growth rate, achieved from a strongly depressed base. A strong agricultural performance could improve this figure.

Inflation should be sustained at an average rate of 16%.

Official policies of the past four years have led to a material reduction in real fixed investment and in consumption spending. While these policies produced the current account surplus, they were accompanied by serious financial deterioration reflected in increased insolvencies, company liquidations, unemployment and inflation.

A more positive economic strategy for the years ahead is necessary, with a more active industrial policy promoting exports and fixed investment.

On the political front, Hersov and Ball urge the authorities to speed up changes designed to move South Africa away from institutionalised discrimination.

Divaris hits at economic state control

49

Bus Day 4/3/86

Economics Reporter

SA steadfastly remains a nation of statistists and interventionists, according to tax consultant Costa Divaris writing in the latest issue of *Businessman's Law.*

Divaris said that he could discern no difference between the present national economic policies and those proposed either by the old or the present official Opposition, as the principal feature was always control.

He described government priorities as:

- Making sure the bureaucracy had access to the economic jugular;
- Keeping labour cheap for mining and farming;
- Keeping the petrol price high enough to justify Sasol and Mossel Bay;
- Keeping the price of transport high enough to maintain state monopoly and private-sector oligopoly;
- Keeping the price of agricultural products high;
- Undervaluing the rand to punish importers and consumers;
- Creating enough rules of land use to ensure sufficient opportunities for corruption and privilege;
- Milking all opportunities of profit and privilege in communications through a high-cost state/private sector cartel;
- Replacing cheap imports with expensive local "alternatives".

Bread subsidy could hit R300m

6/3/86 B-DAY 149

GERALD REILLY

FINANCE MINISTER Barend du Plessis will have to set aside more than R300m in his March 17 Budget if the price of bread is to be held for the rest of the year.

Pretoria sources added yesterday that the R200m allocated to subsidise the price in last year's Budget ran out at the end of October.

This was supplemented by another R45m from the milling and baking industries, Wheat Board and Treasury.

This contribution will be exhausted by the end of this month.

If the Cabinet decides to stop the subsidy the price would rise by more than 20c a loaf.

The most likely course, sources said, was a subsidy of less than R300m and an increase in the price of 5c-6c a loaf.

Against a background of rising unemployment, and the likelihood of an increase in the maize price from May, a bread price rise would trigger angry consumer reaction.

The Davin Commission recommendation to abolish bread subsidies from October was certain to be rejected by government, the sources said.

PFP finance spokesman Harry Schwarz said money spent on a bread subsidy was well spent because a price increase would contribute to unrest and instability.

"People are going hungry, we have an inflation rate in excess of 20% and it's going higher. It is vitally important the prices of staple foods be kept to a minimum."

Huge SA debts

ARGUS 6/2/86

49

Up by 16 percent, says Auditor-General

Political Staff

SOUTH AFRICA'S total public debts soared by more than 16 percent to R35 000-million last year — more than R1 000 for every man, woman and child in the country.

According to the 1984-85 report of the Auditor-General, released in Parliament yesterday, total State debt (incurred by the Government and its agencies) at March 31 last year increased by nearly R5 000-million in the preceding 12 months.

The interest alone paid on the new total in the year under review amounted to R3 800-million — more than four times the amount spent on black education last year.

Public debts have nothing to do with those owed by the private sector, and only a small portion of them (about six percent) are related to the many billions owed by the country as a whole overseas.

Total State debts as of March last year were 77,5 percent up on the R19 759-million owed four years earlier, at the beginning of the '80s, and more than five times Government debts at the start of the '70s.

The Progressive Federal Party's spokesman on finance, Mr Harry Schwarz, said last night that the interest burden on the country's public debts was becoming very serious as it was taking a big share of the Government's resources.

"The rising public indebtedness and interest burden on it will become an increasing budgetary problem, especially if the country cannot raise more funds overseas.

Lack of control

"It could mean greater demands on the internal capital market or an increasing portion of tax revenue will have to be diverted to it," he warned.

The report shows that two vital funds are spending more than they are receiving.

The Motor Vehicle Assurance Fund (third party) was R353-million in the red and the Unemployment Insurance Fund has been running with a deficit for two consecutive years.

The report also spotlights a serious lack of control on the country's books.

The South African Defence Force once again fills a major spot in the report, with losses amounting to R32-million and numerous cases of lack of control being reported.

Mr Schwarz said that with the slump in the economy during the past financial year unemployment had risen and the position of the unemployment fund could be expected to worsen.

Of particular concern had been the inability of the Auditor-General to carry out proper checks on the country's spending.

Gorrie goes gory. See Needling the Haystack — Page 15.

BUSINESS

(49) DISPATCH 6/3/86.

Tax cuts could boost economy

CAPE TOWN — The strength of the economy is dependent on consumers' willingness to spend, and it will therefore not recover fully until wages and salaries increase to cover rising costs, Professor Brian Kantor, of the University of Cape Town, said here.

Stressing that "a revival of the economy is absolutely critical for the future of South Africa," he said the government should think in the short term and cut taxes so that consumers would have more disposable income.

"In the budget to come, I would hope that the authorities would borrow more and cut taxes.

"One way and another, one would be looking for cuts in personal tax."

He thought it would be helpful to the economy if the government were to spend 15 percent more than last year, and borrow more to pay for this.

Professor Kantor was speaking to the Western Cape branch of the Federation of Furniture Manufacturers of South Africa.

He said he expected the inflation rate to fall to 12 per cent by this time next year, provided the rand remained at its present level.

But he expected the inflation rate to remain at about 17 per cent of the next 10 months.

He thought the economy would recover this year, but from low levels, and growth was unlikely to be more than five per cent.

Professor Kantor said although deregulation would help the growth of small businesses, it would not mean much without deregulation of the labour market.

Industrial councils inhibited competition in the labour market. He would like to see more bargaining at plant level.

He thought there should be no government interference in wage rates, conditions of work or decisions about "who does what."

Professor Kantor said the recent behaviour of trade unions, which now enjoyed greater freedom, had been one of the big success stories of South Africa.

The trade union movement had provided credible and responsible black leadership. Although these leaders were radical, economic factors had forced them to behave responsibly in the interests of their members.

"To govern South Africa effectively, radicals have to be in the government system and their behaviour has to be constrained by the economic interests of their supporters." — DDC.

6/3/86. 3-DAY

49

Businessmen wait for the Budget

Lower rates tempting handful of borrowers

JOHN TILSTON

THE lowest short-term interest rates in three years have yet to encourage significantly more borrowing.

Most commercial bankers report a very gradual increase in borrowing so far this year, but they say it is too early to indicate a trend has been established. One says lending has been more or less static.

Volkskas MD Danie Cronje says corporations are awaiting the March 17 Budget before embarking on business plans that might call for further financing.

He adds: "Confidence is the crux of the matter. I think a measure of confidence will return after the Budget."

Trust Bank GM Kobus Roetz says the moderate increase in lending is well spread and it is difficult to point to specific reasons for the increase.

Nedbank GM Chris Liebenberg points out that the first months of the year are, traditionally, relatively liquid times for many companies. Stock levels are reduced after Christmas spending and the need for working capital finance is correspondingly lower.

He says that, thanks to the stronger rand, some corporate borrowers have seen their overall level of borrowings decline. Offshore foreign-currency denominated loans, held by companies that were not covered forward, have declined in value in rand terms this year as the rand has gained 40% on the dollar since early December.

The fact that most of these loans are caught in the standstill net has no effect on their size.

Despite wild rumours to the contrary, Cronje says banks are maintaining their share of the market.

nothing happened. I'm not happy with the way it's going," he adds, "but if you do development work you have to regard it as risk money."

Hall tells the *FM* he simply lost faith in the project although he thought the apparatus worked. "It was a classic case of mismanaging a good idea," he maintains. Sniff. ■

CRODKERY

21/3/86

Flying saucers

An application for hefty increases in import tariffs on crockery could result in duties on some consignments increasing by up to 300%.

The application by SA's crockery giant, Continental China, has come under fire from importers who charge that they are forced to import because local suppliers cannot meet home demand in terms of lead times, product range and packaging.

Importers also complain that higher tariffs will not deter imports but will only make the product more expensive for the consumer. Some claim that the tariffs are being used to protect the inefficiencies of local producers.

The application, published in the *Government Gazette* on February 7, calls for increases in the duties on earthenware and porcelain cups, saucers and plates. Objections to the increases had to be made to the Board of Trade by March 21.

If the application is granted, the new tariffs will result in huge increases in the landed costs of crockery, says Checkers executive director of home and ware merchandise Randal Coburn.

"It will place severe cost pressures on inexpensive crockery," says Coburn. He charges that local manufacturers do not have the range of products, the packaging or the lead times to meet local demands.

"Continental China has the lion's share of the local market but it has problems meeting our needs. We wouldn't import if our requirements could be met locally."

One of the main reasons behind the application, says Continental China's Bill Paverd, is dumping of crockery products, particularly from Red China. "The Chinese are using crockery as an exchange earner. They are selling at lower than my energy costs.

"We are asking for increases on cheaper dumped goods, and this is how the tariffs have been structured. They won't affect the more expensive, quality merchandise."

Paverd admits there have been problems in delivery times, packaging and product range, but says these have been largely solved. "In the last 18 months we have done a tremendous amount and I think we have already made the turnaround."

"We have cut staff levels by half, reduced the number of shapes we produce, increased the number of designs and improved packaging. There is no doubt we can now supply most of the market requirements."

These arguments fail to appease importers. On the face of it, the increases do not appear too heavy, says import/export consultant Bill Ugo — but there's a sting in the tail, he adds.

"If one assumes a porcelain plate weighs about 500 g and costs about R1, importers will have to pay a duty of R2,50 a plate. That is an exhorbitant increase from the 47,5c which currently applies.

"A client of mine imported a shipment of plates recently, on which he paid 25% duty. The suggested tariffs mean he would have to pay 132% duty." Other importers could wind up paying at least 300% more, says Ugo.

Coburn says Checkers will continue to import but in smaller quantities because sales will be hit by higher prices. "A dinner set selling now at R49,95 will probably have to go up by R20-R30."

Imports in 1985 declined because of reduced buying and higher exchange rates, say observers.

In the first nine months of 1985, imports of the affected lines fell to R7,5m against R9,8m in the same period of 1984.

The market itself is also smaller. In 1983 sales were 65,2m units, in 1984 they fell to 63,5m units, and in the year from October 1984 to September 1985 the market fell to 53,9m units. ■

Confidence in currency needed to counter leads and lags

Stronger rand could help in the battle against inflation

7/3/86 STAR

By Roger Gidlow

The rand's dramatic improvement against other currencies since about mid-December has been a welcome development in some ways. It could help to moderate imported inflationary pressures and in due course could serve to initiate a meaningful decline in inflation.

The extent of the rand's rise has been surprising, but the reversal in the downward trend of the currency should not have been a surprise since the monetary authorities had consistently argued that the rand should start to improve around the beginning of this year.

One comment on the rand's recent performance is that the improvement can be mainly ascribed to the tightening in the exchange control measures which were introduced last December. But such a conclusion is entirely wrong.

The proximate cause of the resort to a partial standstill on foreign debt repayments by the authorities last year was the downward pressure on the rand which was being exerted by large capital outflows.

Leads and lags

One short-term aim of the standstill was to relieve these pressures.

Indeed, it was widely expected that the value of the rand would rise in terms of other currencies in the wake of the standstill arrangements.

This did not happen chiefly because of the incidence of leads and lags.

Far from reversing the adverse leading and lagging by importers and exporters which had been present, the debt standstill arrangements made matter worse in the sense that foreign credit facilities became even more restricted.

As a result, many importers were called on to pay cash to foreign suppliers.

At the same time the flow of dollars into the spot market were reported to have remained somewhat limited. This could partly have reflected the practice by some exporters of keeping their dollars offshore by means of an extension of credit terms.

The authorities repeatedly emphasised that these negative leads and leags influences should have worked themselves out of the system by early 1986, and in the process remove a major source of downward pressure on the rand.

That's exactly what happened with the improved sentiment in the market also aided by a substantial decline in the value of the dollar against other currencies, a higher dollar price of gold, and signs of improved conditions in the agricultural sector, and therefore higher exports of maize.

Exchange control measures introduced in December 1985 were designed partly to furnish a demonstration effect on the foreign exchange market.

Against a background of vague but persistent insinuations concerning malpractices by certain foreign exchange dealers, the Reserve Bank wished to make it clear that it was determined to ensure, as far as possible, that the existing exchange controls were fully complied with by the foreign exchange dealers and their clients.

The new measures were also designed to emphasise the concern of the Reserve Bank with the relatively low value of the rand at that time.

Restore confidence

It was recognised that the new exchange control measures by themselves would exert a very limited impact on the market. Any benefits which could be derived from such measures, apart from being marginal, would most probably prove to be temporary if the root problems surrounding the rand remained unchanged.

The only way adverse leads and lags can be completely countered is by restoring confidence in the currency, a task rendered onerous as the rand's predicament is largely a political phenomenon.

Any reversal in adverse leads and lags which helps the rand could quickly be negated by new adverse influences.

Among measures enacted the restrictions on position taking by foreign banks were largely symbolic since these banks had in any case considerably scaled down their involvement in the local foreign exchange market in the aftermath of the debt standstill.

The decision to pay the mining houses in rands rather than in dollars for gold bullion exports made no difference at all to the total supply of dollars which emanated from that source.

The decision to compel exporters, who conduct business on a credit basis, to sell their future foreign currency proceeds in the forward rand-dollar market within seven days of shipment of the goods has exerted some influence.

It has accentuated the upward movement in the rand, but it can be argued that new distortions have been introduced into the market since importers are under no compulsion to buy dollars in the forward market.

Nevertheless, even the control measures affecting exporters have limited applicability since the bulk of the country's exports are sold on a spot basis, and the foreign currency proceeds therefore sold in the spot rand-dollar market.

49 FIN MAIL 7/3/86

THE RAND, OIL AND SHARES

Doubtful growth prospects

The higher rand and lower world oil prices must bring about a reappraisal of many JSE stocks, particularly the rand-sensitive shares that have attracted investors for nearly a year.

Gold shares have been relatively weak for some weeks. Already the JSE All Gold index has slipped to 1 203,3 from the peak in January of 1 307,9. But some analysts believe shares will weaken further unless the dollar gold price fulfills promises of a sharp recovery.

For several weeks the rand gold price has been around R700/oz, some 22% down on the peak price of more than R900/oz attained late last year. It's now roughly in line with the 1985 average of R705. At this price, gold mines are paying dividends which are good by historic standards, but until the rand price shows a sustained recovery, dividend growth potential will be limited.

For several reasons, nobody is forecasting a dramatic slide in gold shares. As long as there is a large differential between SA's inflation rate and those of our major trading partners, the medium- to long-term trend in the rand remains downwards. Hence, the rand gold price probably won't fall much lower and should recover later. Institutional investors invest for the long term, so are unlikely to dump their mining shares.

Secondly, gold mines generally have the potential to increase their recovery grades to compensate for a decline in the rand gold price. A number of mines reported markedly lower grades over the past few quarters. Some of those which can mine flexibly could be showing higher grades later this year.

A third factor is that for investors who already hold gold shares, or bought when prices were lower, present dividends offer perfectly acceptable returns by historic standards. Golds should still be seen as yield sweeteners in a portfolio. The firmer financial rand has made gold shares significantly more attractive for overseas investors. But concerns about possible labour unrest — the potential cost of this has been shown at Impala, Randfontein and Vaal Reefs — will increase the risk profile as mid-year wage talks approach.

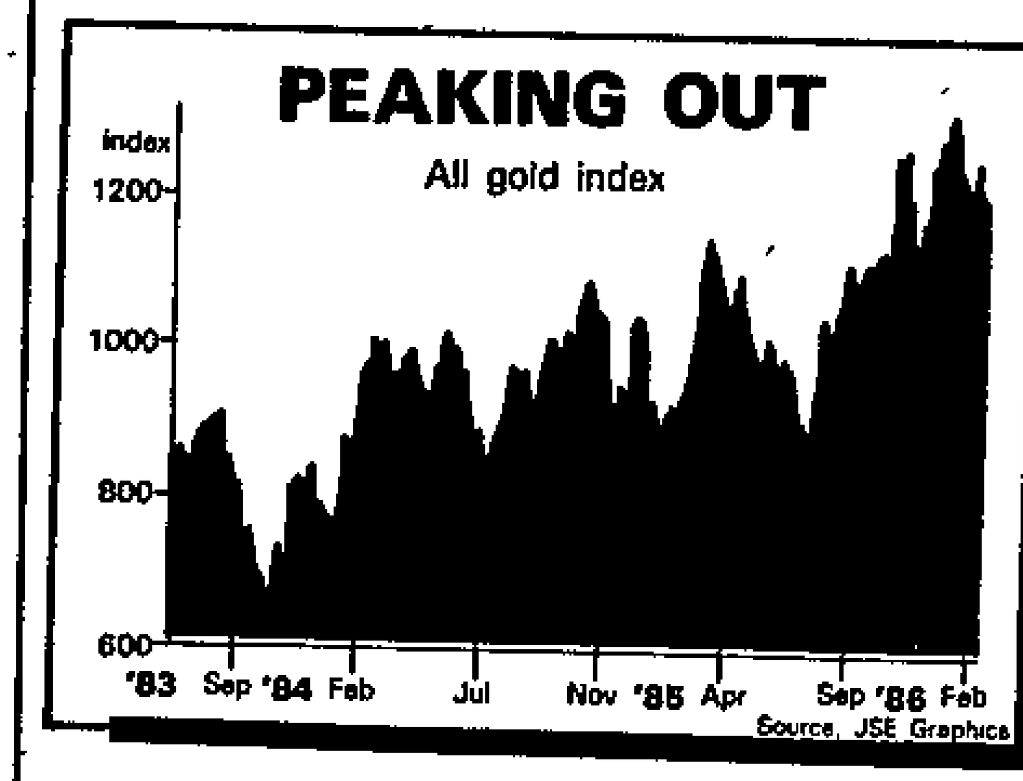
What it all adds up to is that we probably won't see much aggressive accumulation of gold shares for a while; some buying may continue, at a price. But otherwise the most likely investment strategy may be to hold and wait. If so, the shares may drift downwards on light volumes. Overall, it's difficult to think enthusiastically about buying gold shares now.

This would change abruptly if the dollar gold price takes off, as many investors expect; but these forecasts are bedevilled by such factors as minimal inflation in western economies and the threat of more Soviet gold sales.

Not all mining shares have weakened since the rand firmed. Quite the opposite applies to platinum shares. There are physical shortages of the metal in world markets, and demand could be boosted by stimulation of overseas economies expected to result from lower oil prices.

In dollar terms the platinum price has climbed sharply since year-end, and is quoted around $400 in New York. Despite its estimated R45m loss of production caused by labour problems, Impala has held relatively firm at 2 725c, and Rustenburg is near a 12-month high of 3 025c.

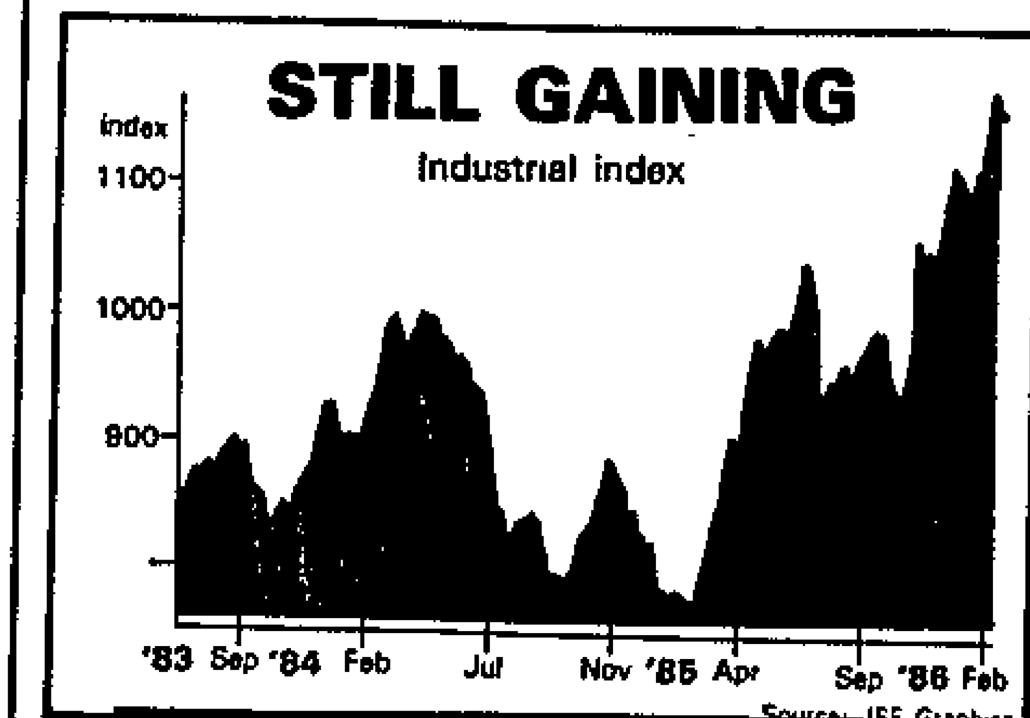
Diamond share De Beers should also be favourably placed. De Beers is seen as a rand-sensitive share; when the results for the 1985 year are announced next week, they will show the benefits of the currency factor. However, there are additional reasons for the share's climb to a R20 high last Friday. Many analysts believe the diamond market shows signs of fundamental recovery, and here, too, sales of diamonds will benefit if cheaper oil heralds a stronger world economy.



Prospects for coal shares remain clouded by the adverse sentiment that currently overhangs energy markets, concerns about lower export prices, the higher rand, adjustments to Escom's capital programme, and even worries of more labour disruption.

Industrials that have been high-flying currency stocks are also being reappraised. It's been emphasised that Sasol has built fat into its accounts in case of a downturn in oil markets, so earnings and dividend growth should be maintained in the short-term (*FM* February 7). But another, less rosy school of thought is emerging.

In the year to end-June 1985, the rand averaged US57c and the oil price was about $27/barrel. A few weeks back, the rand in the low US40c range looked capable of compensating for any foreseeable drop in the oil price. Now that spot oil prices have dropped to below $17, and the rand has returned to 50c, that may not apply. In the past, major swings in the oil price have tended to be long-lasting. If the present currency and oil price combination continues for long, Sasol's rand oil price would drop 30% so margins could shrink dramatically.



That may outweigh all the fat, such as Sasol 3's nine times covered dividend, and the de-bottlenecking programme. Earnings could deteriorate from, say, 1987. This possibility — and it's probably no more than that yet — would justify the drop in Sasol's share price from 910c to 745c.

Trek is another share suffering from adverse sentiment since the rand strengthened and the petrol price was lowered. The share soared from a low of 550c a year ago to 1 850c in November but stands at 1 050c. Here, too, margins could be cut, particularly if the petrol price falls again. But what might support the share is that Trek has been mooted as a possible participant in Mossel Bay.

All these uncertainties now surrounding currency stocks could keep industrial equities strong for a while. Investors are being forced to look elsewhere than mining shares for growth. And that must be one reason for the recent strength of many industrials whose earnings and dividend prospects are still far from assured.

Andrew McNulty

SENTRACHEM

Rubber burden

Sentrachem's interim results show that the group is once again making a profit, but Afprene is a continuing haemorrhage. It has cost Sentrachem R650m to date, including post-commissioning interest. The final cost is likely to exceed R800m, also including interest; and the group will be no better off if it dumps the plant.

FRASERS

FIN MAIL 7/3/86 (49)

Strength in diversity

Share prices of the black-orientated retailer Frasers and its pyramid Frascon have been racing ahead. This seems to be based on bullish forecasts for earnings and dividends — as well as talk of takeover prospects.

What was Diagonal Street saying when the prices of Score, Jazz, Frasers and pyramid Frascon — all black-orientated consumer shares — spiralled recently to dizzy levels? The JSE has long been considered a shrewd predictor of business events. Perhaps the market was simply confirming what many have argued all along: that the road to economic recovery, and long-term growth, lies largely in black consumer spending.

In a business sense, we are approaching a point where white privilege meets black influence. As the former fades, the latter grows. And an inexorable force pushes black earnings towards white levels, giving this market explosive potential.

Of all companies serving black markets, few seem better placed to benefit than Frasers. It may never enjoy the exceptional ratings of Score or Jazz: unlike them, it doesn't trade only in the relatively safe food markets. But because it is among the most diversified of black-orientated groups, with significant operating interests in clothing, food, and furniture, earnings could grow faster than at its low-margin food competitors.

In trading mix, Frasers resembles an amalgam of Score, Jazz and Ellerine — a factor that makes life difficult for analysts trying to rate the company. Should its share offer yields near the minuscule returns of a food wholesaler like Score, or a food retailer like Jazz, or does it deserve the more conservative rating of a furniture company like Ellerine?

Frasers does not make it any easier for analysts, either. It steadfastly refuses to give a detailed breakdown of activities, although this policy, chairman Donald Campbell tells me, may be changed. The group lists nine operating divisions, the main ones being: mine stores; retail clothing stores; wholesalers; cash and carry outlets; supermarkets; furnishers; and general dealers. Its businesses are spread widely throughout SA and the neighbouring black states, including Lesotho and Botswana.

What Campbell does say is that "food accounts for about half our turnover, once you combine the sales of our cash and carry, supermarket and general dealer stores." Clothing is another large trading area, particularly since Frasers last year bought the Top Centre chain to boost its clothing retail outlets to over 100.

Frasers' shares, after languishing for a long time, sprang to life after August 1985, virtually doubling to 510c. There are various reasons, but I believe that the fundamental outlook alone justifies Frasers' price and 2,9% historic dividend yield.

Following setbacks in 1981 and 1982, Frasers managed to lift earnings through the next three recessionary years. Analysts are making ecstatic forecasts for 1986, earnings growth estimates varying between 25% and 60%. Campbell concedes that, on recent performance, the advance should be "somewhere in that range." Considering that we are still in recession, these are astonishing forecasts.

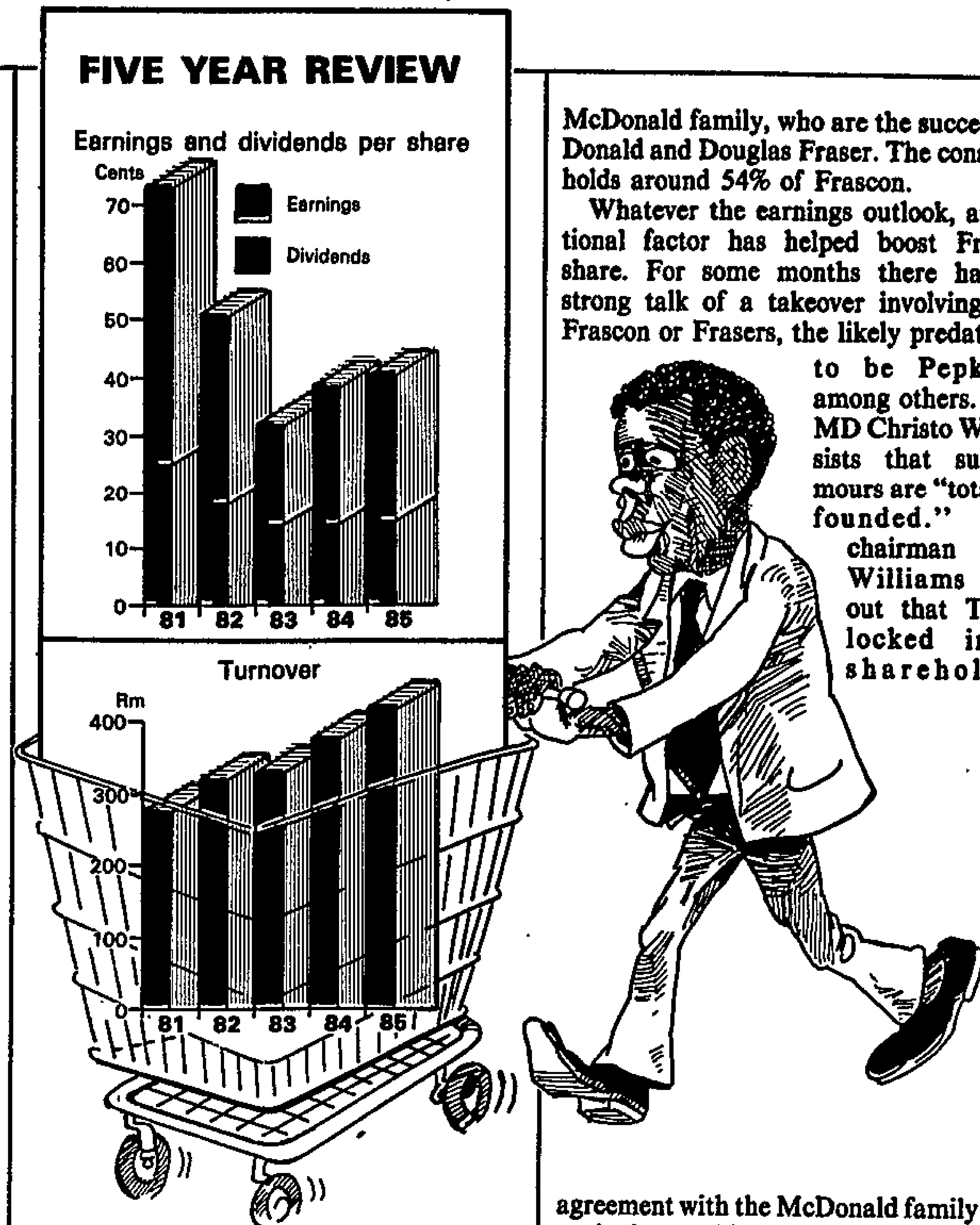
Frasers' turnaround, Campbell explains, is based largely on the same factors that caused it to crash in 1981: "At that time we were hit simultaneously with drought in our black trading areas, soaring interest rates which hammered our heavily-geared furniture division, and deepening recession elsewhere."

The outlook for the current year, Campbell says, is for interest rates lower than at any time since 1981, with considerable finance savings for the group. Frasers currently supports interest-bearing debt of around R38m. Also, rains in many trading areas may at last have broken the drought cycle that retarded growth. The recent drop in fuel prices, he says, will translate into substantial savings for the far-flung group, which operates more than 1 000 vehicles.

But perhaps the most positive sign is that sales are increasing in all divisions. In the financial quarter to end-December, according to Campbell, group turnover was up 27% on the same time in 1984, with the furniture division most notably reviving after government dropped the deposit rate on hire purchase sales.

To Campbell, Frasers' only remaining problem area is its mine stores, which can still be hurt by mine strikes and consumer boycotts. While Frasers intends expanding all divisions, Campbell says the cash-and-carry division has particularly been earmarked for growth. "It's a great business producing strong cash inflow, while involving low capital output," he says. This market

Donald Campbell ... mine stores the only problem



is not easy, though, and "competitive blood flows in the streets."

Frasers was founded in Lesotho in 1877 by two brothers, Donald and Douglas Fraser. For a few years the business consisted of a handful of black trading stores. But the trading base soon expanded considerably, after the British issued a proclamation aimed at disarming all Lesotho citizens, and civil disturbances ensued. The wily Fraser brothers snapped up the businesses of fleeing white traders.

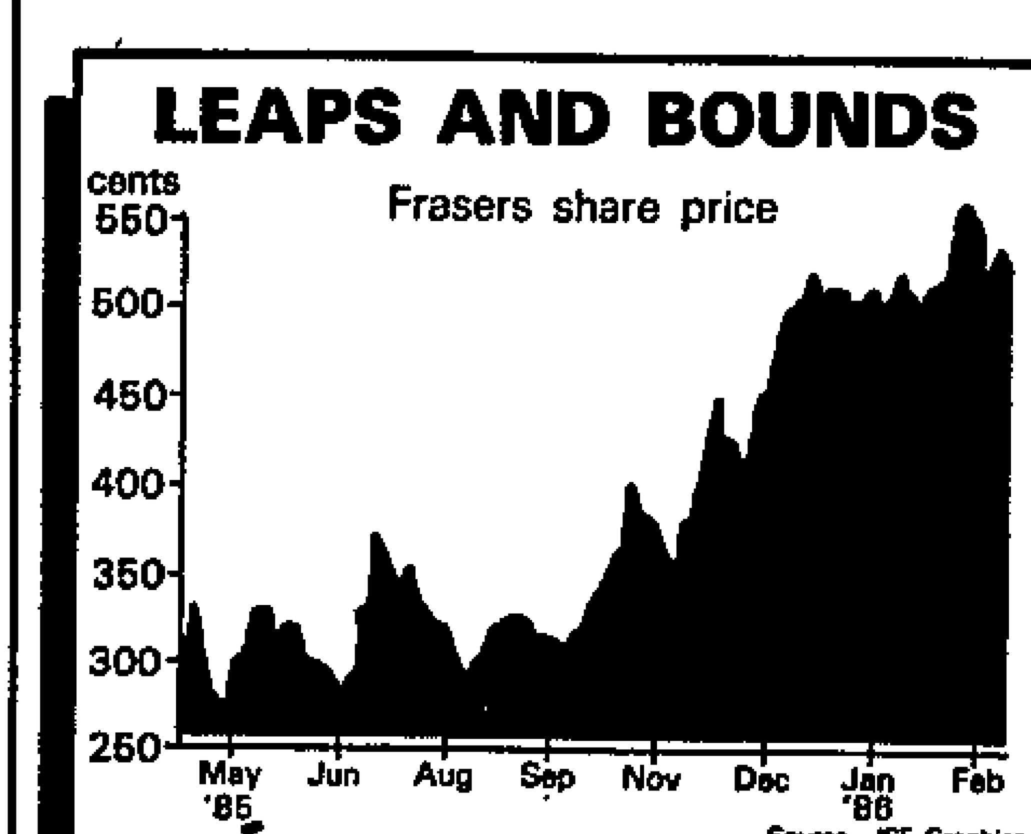
When the South African mines began recruiting Lesotho labourers, Frasers followed them here, and set up concession stores on the mines. Growth was sluggish until the late Seventies, when concerted expansionary moves began under the direction of Campbell, then MD. Earnings grew rapidly from 1979 to peak in 1981 at 73,1c, then crashed over the next two years to 32,2c, before starting the long climb back.

At least one analyst believes that, on the operating level at least, the recession has been an important factor enabling Frasers "to get its act together." In the area of stock control, in particular, management has greatly improved efficiencies.

Frasers, the operating company, is 50%-held by pyramid Frascon, with Southern Life holding another 28%. Frascon is controlled by a consortium of Tiger Oats and the McDonald family, who are the successors of Donald and Douglas Fraser. The consortium holds around 54% of Frascon.

Whatever the earnings outlook, an additional factor has helped boost Frascon's share. For some months there has been strong talk of a takeover involving either Frascon or Frasers, the likely predator said to be Pepkor — among others. Pepkor MD Christo Wiese insists that such rumours are "totally unfounded." Tiger chairman Robbie Williams points out that Tiger is locked into a shareholders' agreement with the McDonald family so "we can't do anything until 1988." Southern's shareholding has also remained unchanged, according to Southern GM Des Bradford.

Nonetheless, heavy volumes of Frasers have recently changed hands, fuelling market talk that a mystery buyer is accumulating the shares. This may or may not suggest that a strategic stake is being built up ahead of a deal. Interestingly, Frascon should technically trade at exactly half of Frasers,



which suggests its present price should be 255c, instead of the actual 300c. This tends to support the theory that Frascon would be the beneficiary of a takeover.

Frasers, in my opinion, still offers good value on fundamental criteria. Any windfall that may arise from a takeover is merely the cherry on the top. *Neville Glaser*

PARLIAMENT

Govt urged to check loans to neighbours

3. DAY 13/3/86 (49) (44) (2)

GOVERNMENT should set strict conditions on SA loans to neighbouring states, Peter Gastrow (PFP Durban Central) said yesterday.

He said in the House of Assembly that some of the projects tackled by neighbouring states were "extravagance of the worst sort and showed a frightening lack of reality".

Speaking on the second reading debate of the Economic Co-operation Promotion Loan Fund Amendment Bill, he said there was growing public concern about the way independent states spent funds made available to them.

He cited as examples of extravagance the Venda President's purchase of a R120 000 bullet-proof car with its own oxygen supply and public address system and Ciskei's construction of a R1m presidential home and a R25m airport.

Gastrow said he had no evidence that SA loans were being spent on these projects, but government had a right to address the states if it were granting money for other projects.

The Progressive Federal Party supported the Bill, which will simplify the procedure for granting loans to the Transkei, Bophuthatswana, Venda and Ciskei.

But the Conservative Party and the Herstigte Nasionale Party opposed the Bill.

Police to investigate Tuesday's shootings

PETER WALLINGTON and BARRY STREEK

POLICE are to investigate the shooting incident at Kabokweni, near White River, in which at least one person was killed and 80 injured.

A senior police spokesman said yesterday it was normal police policy to have an inquest and an investigation when a person was killed during police action.

The police statement followed yesterday's call by Kangwane Chief Minister Enos Mabuza for a full investigation into Tuesday's shooting incident outside the Kabokweni Magistrates Court.

The Progressive Federal Party's director of special projects Peter Soal sent a party official to conduct an on-the-spot investigation yesterday. Soal said he expected to receive the report today.

A police spokesman in Middelburg said none of the injured pupils was under guard in hospital, as was previously reported. A spokesman at Nelspruit's Rob Ferreira hospital said one or two pupils were still being kept for observation. They had suffered birdshot wounds.

Mabuza said yesterday he had received information from five independent sources that hundreds of pupils converged at the Kabokweni Magistrate's office where a group pupils, who were involved in earlier incidents of unrest, were due to stand trial on Tuesday.

"The pupils, who are said to have been peaceful, requested to be allowed to hear the proceedings. Although the authorities closed the gate, the pupils made their way into the yard of the Magistrate's office and sang freedom songs."

He said it was not clear what "prompted one policeman to shoot, whereafter the other policemen started shooting at

● To Page 2

GDP has risen 1,1% in five years

GERALD REILLY

THE low level of economic activity since 1981 is reflected in an increase of only 1,1% in the real GDP in the five years to 1985, according to Central Statistical Services (CSS).

After decreases of 0,8% and 2,4% in 1982 and 1983 respectively, total real GDP increased by 1985.

A drop of 1,5% in the real production of the non-agricultural sector in 1985 was caused mainly by a decrease in domestic demand.

The largest decrease in production was recorded by manufacturing (-5,3%), construction (-3,8%) and trade, catering and accommodation services (-4,9%).

Mining production, on the other hand, showed a slight increase of 0,5%.

Agricultural production declined to a very low level in 1983, but then improved in 1984 and 1985.

The increase in 1985 was 14,9%.

Bold action needed — economist

LESLEY LAMBERT

BOLD action is needed to contain the inflationary pressures of the poor rand and widespread price and wage increases, Old Mutual economist David Mohr says in an assessment of what Monday's Budget should address.

He adds that failure to address inflation will materially damage the longer-term prospects for the South African economy.

The authorities should attempt to restrict the rise in overall government spending to below the annual guestimated 16%-17% rate of inflation, to allow more room for expansion of the private sector, Mohr says.

In attempting to restrict government spending, careful consideration should be given to the increase in the salary bill of the central government.

"While some rise in government wages seems inevitable with the current rate of inflation, the authorities must recognise the central role public-sector wage levels and pay rises play in the South African economy."

Rapid growth in government spending has been the main reason for the consistent budget-overshooting in past years, and has led to a rapid rise in the government's share of the economy over the past five years.

Mohr adds that longer term targets for the public sector's share of the economy must be reviewed.

While government fiddles, the economy burns . . .

BUS DAY (49) 13/2/86.

JOHN TILSTON/Economics Editor

THE SA government has, by default, adopted a policy of "muddling through" in economic affairs. There is no grand design or strategy to guide policy-makers. As a result there have been some radical, albeit often unintended, changes in the structure of the economy.

While the government fiddles, the economy burns. And its preoccupation with the present holds very real dangers for the future.

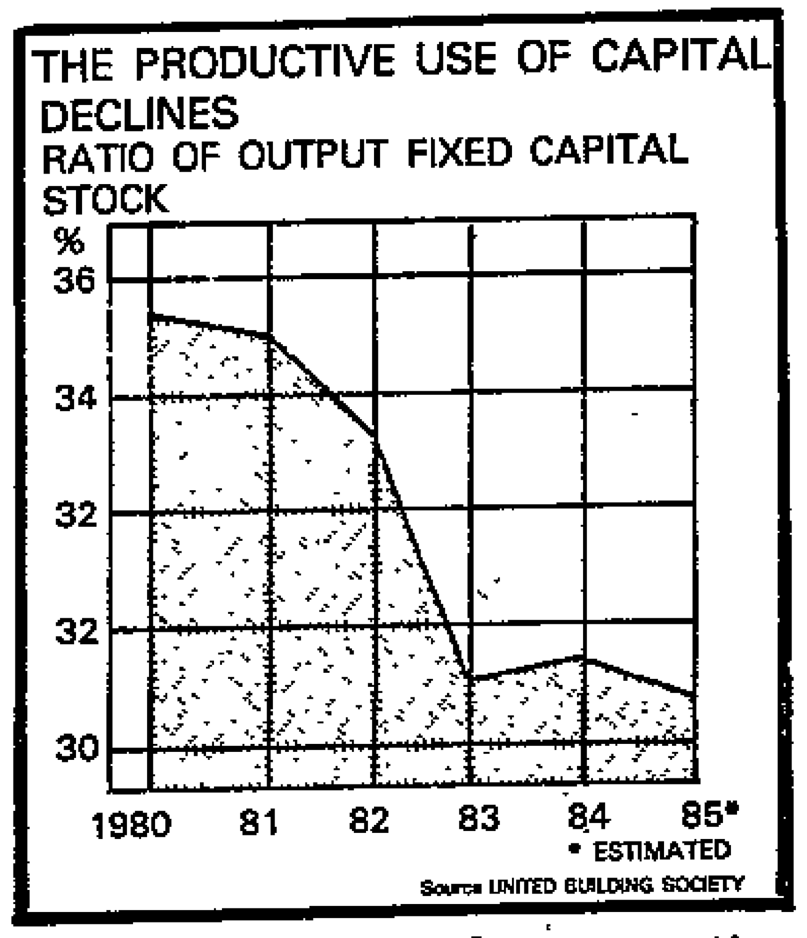
To provide for a better future, to create wealth and employment opportunities, some of today's consumption — by both the private and public sectors — needs to be forgone to allow resources to be diverted to fixed investment. And government, to quote Ronald Reagan, needs to get off people's backs.

The level of new investment in the economy has reached an abysmally low level. Real fixed investment dropped by more than 17% during the period 1981 to 1985.

According to research on ratios within the economy recently completed by United Building Society economist Dr Hans Falkena, most of the fixed investment that is taking place is related to the replacement of existing plant rather than the creation of additional production capacity so vital to the future.

In 1970, replacement of worn-out stock amounted to 37% of total investment (gross domestic investment: GDI). By last year this figure had increased to a worrying 61%. Very little new production capacity has been created since 1980.

In addition, Falkena says that the way in which GDI is financed has also deteriorated. Since 1982



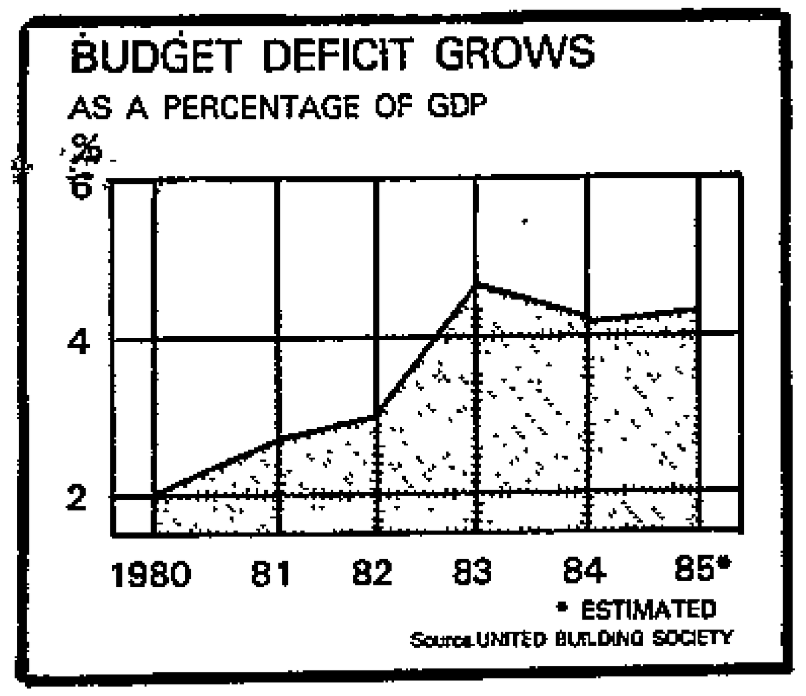
the State has made a negative contribution to the financing of GDI. Government saving totalled 12,2% of GDI in the early Seventies. In the last two years the State has been disaving (by -9,9% in 1984 and by -4,0% in 1985). Only corporate and personal savings, the latter mostly from the farming and professional communities, have significantly contributed to the country's GDI since 1980.

SA can forget about foreign finance for a while. So, argues Falkena, domestic savings can only be enhanced in the long run if the savings ratio of the government sector is substantially improved.

During the period 1981 to 1985, personal sector savings accounted for only 3% of total output (gross domestic product: GDP), compared with 6,6% in the Seventies. Higher tax and the drought have cut this ratio in half.

He reports that despite numerous economic setbacks the average South African tried to improve his savings ratio by, among other things, cutting his consumption spending from 60% of GDP in 1970 to 55% last year. The latter expenditure figure includes GST — unheard of in 1970 — so that it considerably understates the actual decline in consumption spending as a percentage of GDP.

The missing millions have passed through State coffers. Over the same period, personal taxes (i.e., excluding GST) as a percentage of GDP increased



from 4,9% to 8%.

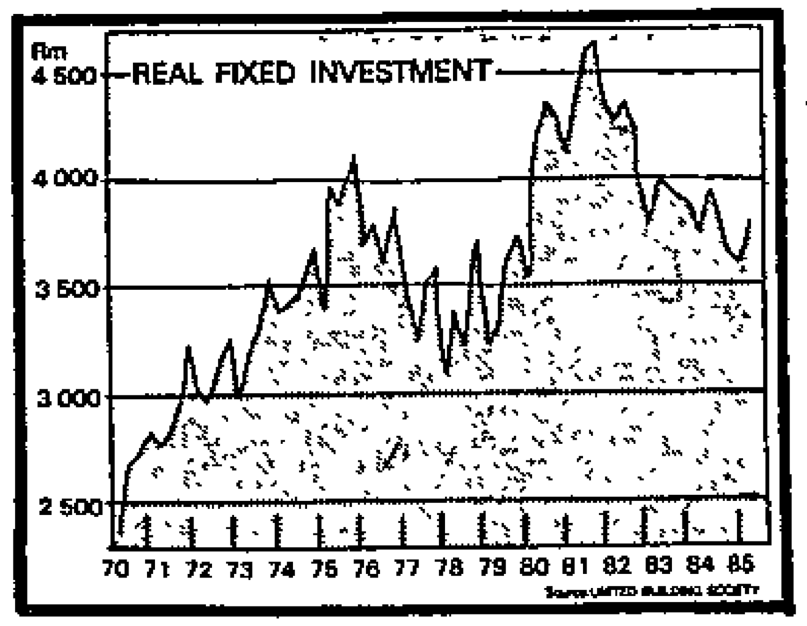
The corporate sector has been more leniently treated by the taxman. Direct taxes paid as a percentage of GDP have remained roughly constant over the 1970-1985 period at 6%.

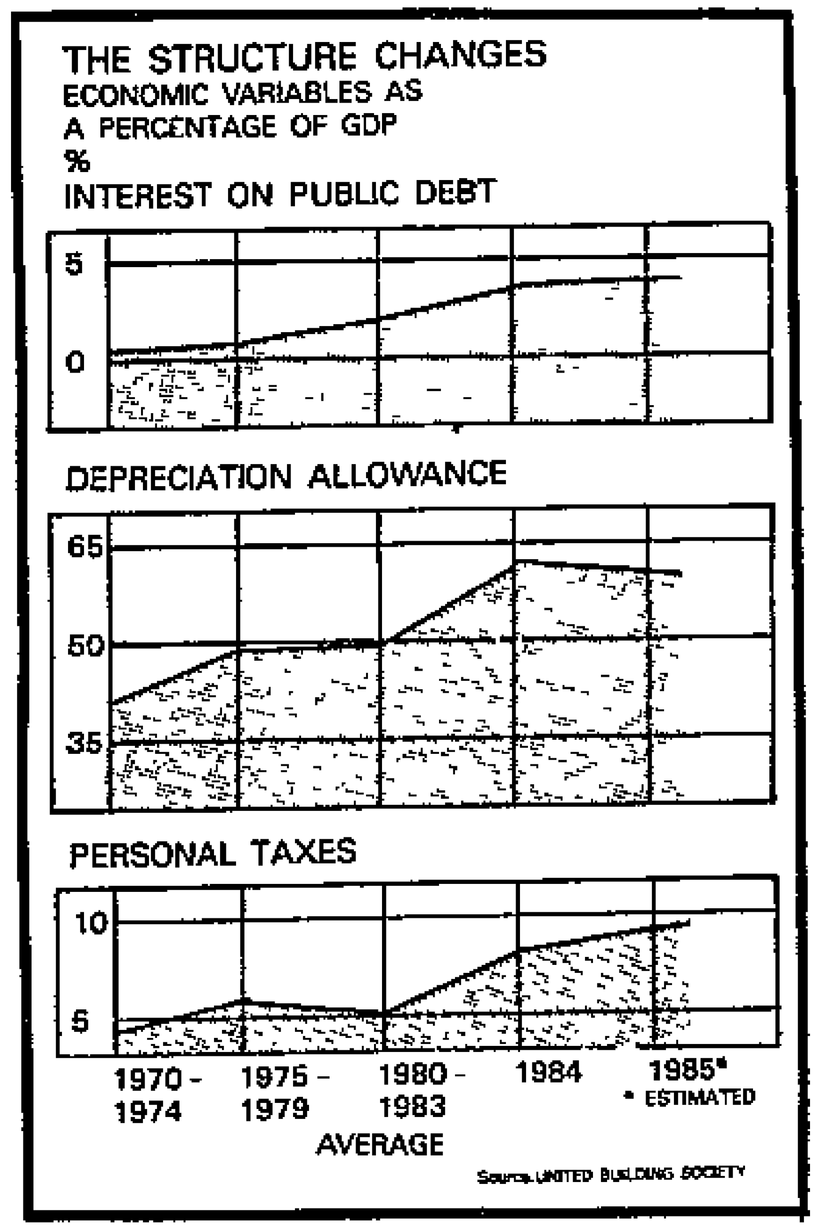
With the decline in new fixed investment, the corporate sector has become a net creditor rather than a debtor in the last three years. The surplus savings of the corporate sector have been mainly used by the government sector to finance its spending.

And how the government sector has grown! In 1970, total taxes accounted for 18,5% of GDP. By last year the level of taxation had reached 25%. In the US, Falkena notes by comparison, the level of taxation has never been over 18%.

Government spending has consistently exceeded this since the onset on the Eighties. It grew from 16,9% to 27% over the same period. The increase has been due mainly to a large increase in State consumption spending, with the two largest elements being military equipment and salaries — both arguably within government's control.

With the ever-widening budget deficit — from 2% of GDP in 1980





to 4,3% in 1985 — the interest burden on public debt has grown from 1,5% of GDP in 1970 to 4% last year (It is worth emphasising that Falkena's ratios are not affected by inflation. They reflect only the size of the cake accounted for).

Given government's inability to cut its spending and the counter-productive effect on enterprise that any further tax increases would have, the immediate future seems to hold only a larger deficit and increasing public debt.

Currently the government sector is able to absorb the corporate savings with no direct inflationary consequences. However, the moment the private sector starts to create new production capacity (assuming at some stage it does), the State will have to rapidly scale back its own consumption spending if it wants to avoid inflationary pressures.

It is extremely doubtful whether the State could do this. Therefore, concludes Falkena, dangerous inflationary forces remain an underlying threat to the economy.

One saving grace is the scope for improving productivity of existing capital resources. The productive use of capital stock (the ratio of output to fixed capital stock) has declined from 35,4 at the beginning of this decade to an estimated 31,0 last year.

Falkena rightly states that confidence is the first prerequisite for hope of an increase in investment. He goes no further. But it would also seem to be imperative for government to adopt a strategy that is a mix of fiscal and deregulatory measures designed to get investment going again.

More risk ventures and job creating enterprises are essential — Ironside

49 12/3/86 STAR

By Gareth Costa

The deployment of more of the available capital resources into risk ventures and job creating enterprises is essential to stimulate the economy and eventually replace traditional investment by overseas entrepreneurs, says Mr Ron Ironside, past president of the Federated Chamber of Industries.

Mr Ironside, speaking at the 1986 Manufacturing Management Convention in Sandton, said that as a developing country South Africa has some sophisticated sectors within its industrialised economy.

Until the onset of the recessionary conditions, the growth rate in the manufacturing sector for the period 1976-1986 was heading for a higher average level than that of the GDP, with indications that its contribution to GDP would be increasing.

He said that a matter of high priority was now to restore the sector's capability to expand its contribution from the present 25 percent to 33 percent of GDP.

This is the level in most industrialised countries.

The object of this is to move away from the country's reliance on mineral-based sources of revenue.

In order to do this more research must be done into three basic areas, namely the development of industrially orientated communities; an in-depth assessment of all natural and human resources available and the identification, transfer and adaption of selected technology most beneficial to SA's need for expansion of economic activity.

Addressing the first issue, MR Ironside said that a feature of industrialisation worldwide is the "evolution of communities, properly orientated towards providing industrial labour requirements as an acceptable manner of earning a living and making a contribution to wards the welfare and progress of the overall society of which they are a part."

He added that managers must open up relationships with employees in order to alleviate the "still negative" perceptions of workers regarding their employment and the workings of the free enterprise system.

PARTLY USED

"SA's latent industrial capability is being only partly used; the resources under-utilised and its domestic market only a fraction of what it might be," said Mr Ironside.

The solution to this problem is in the investment in "human capital", not only through academic education, but by upgrading national capability, increasing employment and enhancing the skills of SA's workforce.

Mr Ironside said that what is needed is an inventory of SA's national assets and a co-ordinated matching up of these in combinations which will improve the productivity of both capital and labour, and harness and direct the resources in the most effective patterns.

He added however, that any policy decided upon which failed to recognise the need to restore and maintain the balances within the economy which preserve industries, create jobs and permit exports, or minimises the vital role of the private sector will be totally unacceptable.

Also the national workforce will have to be convinced that the resultant improved productivity and competitiveness in both local and export markets are essential to survival and also that there will be benefits for them as well.

GDP has risen 1,1% in five years

B.DAY 13/3/86

GERALD REILLY

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19

BDAY 13/2/96

'SA must make use of industry'

19

Industrial Staff

SOUTH AFRICA's economic strength lies in its potential industrial capability, says Rod Ironside, past president of the Federated Chamber of Industries.

Speaking at the convention yesterday, he said SA must move away from the current heavy dependence on mineral-based sources of revenue.

More research was needed in:

- The development of industrially-orientated communities which acknowledge the role of business in creating national wealth;
- The in-depth assessment of resources available to determine the combination that will prove most effective in achieving the nation's objective;
- The identification, transfer and adaptation of selected technology beneficial to South Africa's need for economic expansion.

Weight of tax burden has reached limit — warning

49 STAR 14/3/86

By Michael Chester

The Minister of Finance, Mr Barend du Plessis, has been warned in the countdown to the 1986 Budget that further tax increases threaten to spark both a business exodus and a tax revolt among individual income tax payers.

The warning comes from Mr Andre Spire, executive director of the Syncom think-tank, amid intense speculation about possible new tax moves to be revealed in the Budget next week.

At a national management convention in Sandton, called by P-E Corporate Services to discuss how the industrial sector should tackle future strategies, Mr Spier said: "Patience with the taxation burden in South Africa has reached its limit.

"Taxation has reached levels where any further increases will lead to a tax revolt by individuals and either destroy business or else chase it out of the country," he added.

The only solution was a radical and sweeping privatisation programme to follow international leads, he argued. This would involve handing over more and more State services — from education to health care — to the private sector.

The programme should go hand in hand with moves to strip away the regulations that hindered free enterprise.

There was a strong case to be made out that Johannesburg and other major cities should be run like business corporations, holding and selling stocks and shares and contracting out a whole series of municipal services to entrepreneurs.

'HOGWASH'

Most of the arguments used in the protection of state monopolies — such as "in the public interest" and "strategic importance" — proved on examination to be "pure hogwash".

South Africa urgently needed to undertake a fundamental rethink of the future role and function of government at all levels.

Privatisation, he said, was now captivating the imagination of governments and politicians world-wide:

- Britain had already raised more than R55 000 million by government sales of State operations to the private sector, and planned to double the total over the next three years as it denationalised such vast businesses as British Airways and British Gas.
- Japan intended to sell off Government control of its national airline, national railways and even its national telephone system by 1990.
- Brazil was investigating the privatisation of more than 100 State-owned enterprises.
- Mexico had decided to liquidate or sell no fewer than 236 State companies and agencies.

"In South Africa," he said, "the dramatic rise in Government spending will force the hand of the politicians to find alternative economic solutions — and they know it."

The Finance Minister was likely to be able to find the funds for the 1986/87 Budget, estimated at R36 billion or higher. But the options open to him now — higher taxation, borrowing and resorting to the printing presses to create more money — were unlikely to stay open in the future.

Privatisation, properly managed, was the route out of the dilemma.

Govt urged to pool brainpower for future planning

STAR 14/3/86

MANUFACTURING THE WAY AHEAD

By Michael Chester

The Government has been urged to pool the top brainpower and best resources from both the public and private sectors to handle the management of economic affairs and future planning.

The advice was given by Mr Ron Ironside, former president of the Federated Chamber of Industries, when he told the national convention that whatever the outcome of political reform, there were vastly different national requirements in the pipeline.

Failure to recognise the realities of the development needs of tomorrow would be catastrophic.

"The tasks that lie immediately ahead are daunting, and solutions, crucial to starting a long journey back to respectability in the eyes of the international community, must be found," he said.

"To a greater extent than ever before, the private sector is involved in countering the growing threat of sanctions, loss of export markets and rumblings about trade boycotts.

YARDSTICK

"In the wake of the recent international debt settlement meetings, there are signs and sounds that cannot be ignored.

"Undertakings hinted at and commitments well publicised, have to be honoured in tangible form — a very public yardstick by which the South African Government is going to be judged, and judged harshly, should it renege or prevaricate over these issues.

"International private sector movements are devoting time and effort to findings ways and means to ease South Africa's task of changing direction via reform.

"But they are completely thrown at times by some of the actions of the authorities, which defy commonsense."

FIN MAIL 14/3/86 (49)

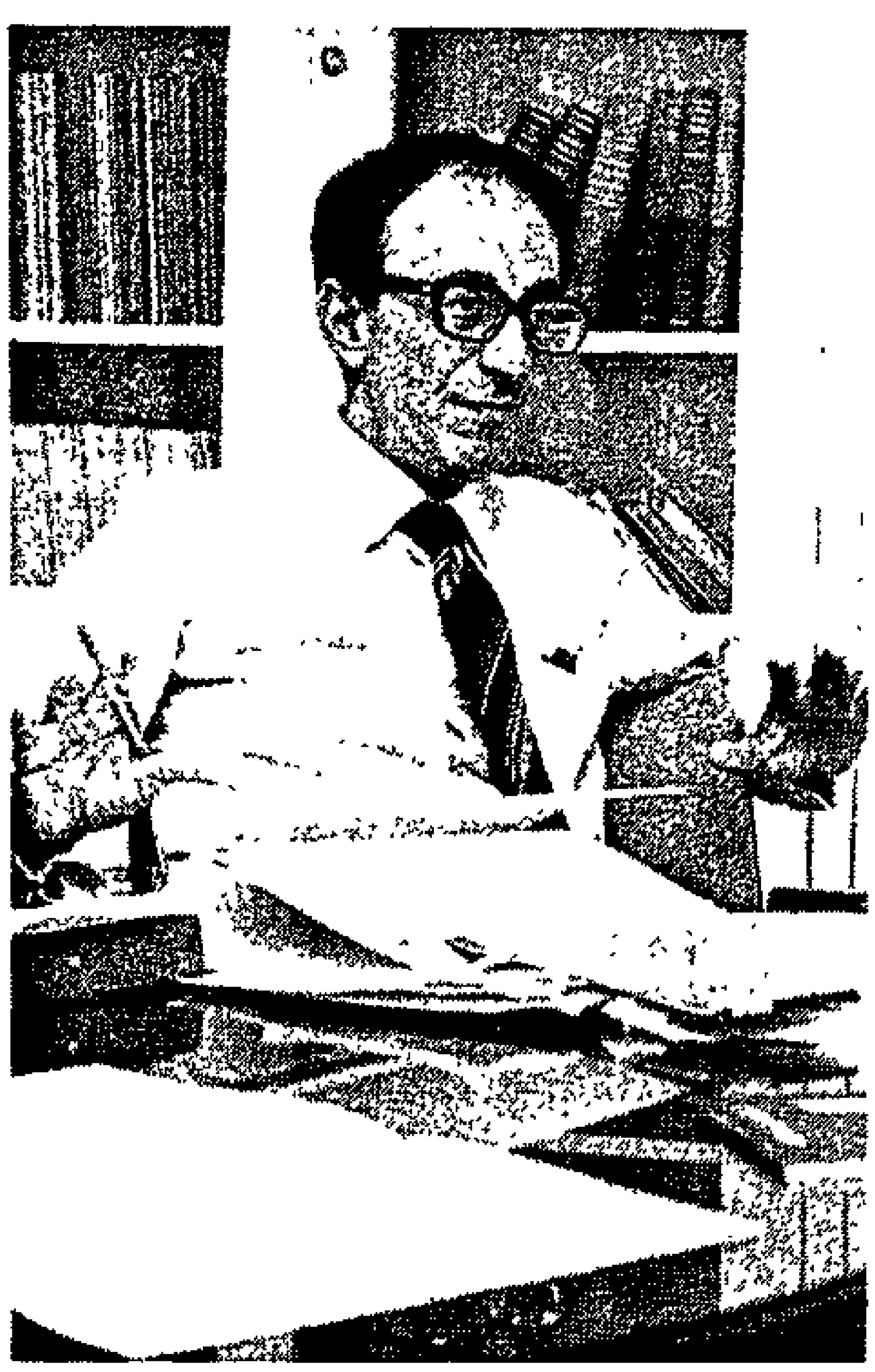
GOVERNMENT FINANCES

That extra billion

With eyes focused on Monday's Budget and debates raging as to what should be done after a year of unprecedented economic hardship, Senbank reveals that the Treasury's coffers have been swelled by borrowing R1,3 billion more than initially budgeted.

It is doubtful, however, whether Finance Minister Barend du Plessis will get much joy from this on Monday as he needs to finance a larger than budgeted foreign exchange loss and deficit before borrowing.

Senbank calculates that the Reserve Bank tapped R2,8 billion on the Treasury's behalf, against only R1,5 billion budgeted. Most of



Anglo's Dickman ... government destroying deposits

this borrowing was done before October, which explains why the Reserve Bank has been relatively inactive in the capital market since then.

Anglo American economist Aubrey Dickman agrees that government has borrowed much more than planned and suggests this is a major reason why money supply has been brought down. "Taking out more money than they spend destroys deposits. Money is sucked out of the system."

Senbank cautions that the Treasury is unlikely to use this surplus to finance the 1986-1987 Budget as some will repay part of the foreign exchange loss of 1984-1985. Such losses are normally indirectly financed from surpluses in the Stabilisation Account.

But there are no such surpluses at the end of 1985-1986.

The Treasury also borrowed short-term money in 1984-1985 which has to be repaid this year. Besides, Senbank notes, government policy is to satisfy loan requirements without dipping into available balances.

Economist Louis Geldenhuys says: "It is not as if there is cash lying around. With the deficit before borrowing larger than budgeted and Treasury, after budgeting to borrow a net R179m foreign loans, having repaid a similar amount, no money is available to reduce taxes." He notes that the Exchequer cash balance at the end of January was only R17m.

Rand Merchant Bank economist Rudolf Gouws (see page 51) estimates a R5 billion budget deficit — 3,6% of gdp and larger than the 3% long-term goal set last year.

Government expenditure in the 1985-1986 fiscal year to the end of January, excluding debt redemption, totalled R26,7 billion. With revenue totalling R23,5 billion, the deficit is R3,2 billion.

In January, the Treasury transferred R655m — borrowed by way of Treasury Bills (TBs) switched to long-term stock — to the Reserve Bank. This was used to repay the forex losses of 1983-1984. The transfer was in the form of Reserve Bank book entries from Exchequer Account to the Gold and Foreign Exchange Contingency Reserve Account.

Government switched

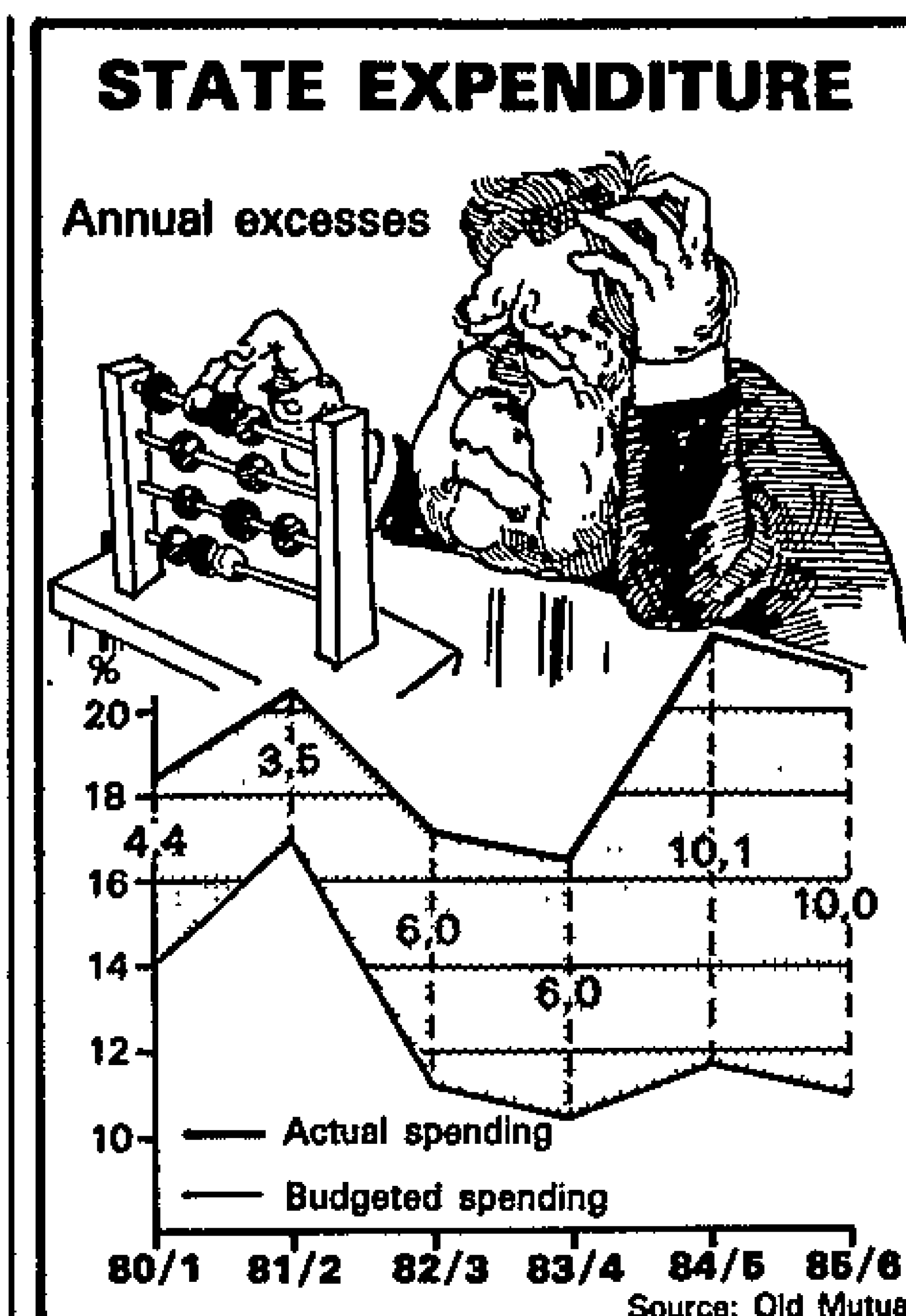
The R2 billion which Senbank estimates the Reserve Bank lost in 1984-1985 still has to be repaid. Senbank notes the TB account fell by R1 billion as government switched to long-term stock, which explains the small Exchequer cash balance.

Colin Dunn, chairman of Discount House of SA, says the opportunity was there for government to overborrow and is not a deliberate attempt to attract funds for foreign exchange payments. "Overfunding has been used as a monetary policy tool to control money supply," he adds.

Dickman agrees. "It is part and parcel of the monetary stabilisation policy to control liquidity."

The disadvantage to taxpayers, Dunn points out, is the increasing cost of borrowing. "Interest on borrowings has to be financed eventually. The cost of borrowings is becoming significant and an increasing burden on the Treasury."

Assuming the surplus is not utilised, Senbank estimates the Treasury will be looking for R2,2 billion new funds from the private non-banking sector to finance its 1986-1987



fiscal year. "This will not exert undue pressure on the capital market."

Outlining the grim situation facing the Minister, Old Mutual economist David Mohr says: "A mere glance at the positive and negative factors indicates the limited room for an expansionary fiscal policy in the short term, and also to bring about the structural changes necessary to improve longer-term growth prospects."

He says that, despite a huge current account surplus, a reasonable balance of payments position is necessary in the light of increasing domestic demand and foreign debt constraints.

In addition, Mohr notes that despite good rains, a strengthening rand and improving terms of trade, there is chronic unemployment after the third out of four years of negative growth, as well as demands for expenditure on education and welfare services, pressure to increase public salaries and record inflation. And this is besides the political crisis, which has influenced all the above factors and will continue to do so. ■

MONEY SUPPLY

Slowly does it

Growth in M1, which represents demand deposits and notes and coins in circulation, has declined steadily, year-on-year, since October. Figures released by the SA Reserve Bank this week show that it fell 12,7% in

Economic activity almost static since 1981

STAR 14/3/86

(49)

Pretoria Bureau

South African economic activity has seen only a 1,1 percent increase in the real gross domestic product (GDP) since 1981.

According to the latest figures released by the Central Statistical Services in Pretoria, the country experienced a negative growth rate for three out of the past four years.

In 1982, the real GDP decreased by 0,8 percent and in 1983, by 2,4 percent. After rising slightly in 1984 to 5,1 percent, it dropped again last year by 0,6 percent.

A decrease in domestic demand was responsible for a drop of 1,5 percent in the real production of the non-agricultural sector during 1985.

The manufacturing industry was the worst hit, with real production recording a 5,3 percent drop. The trade, catering and accommodation services showed a 4,9 percent decrease and the building and construction industry a 3,8 percent drop in real production.

However, the mining industry showed a slight increase of 0,5 percent.

49 BDM 14/3/86

Privatisation: should we sell off the family silver?

DAVID REES

David Rees is economics consultant to Mathison & Hollidge

"Frankly, I'd like to see the government get out of war altogether and leave the whole field to private industry."
JOSEPH HELLER: "Catch 22"

AN EXTREME point of view perhaps, but it cannot be denied that the argument for privatisation is attracting increasing support, both in SA and abroad. In his 1983 Budget speech, then Minister of Finance Owen Horwood raised the matter and government spokesmen continue to dabble with the idea.

If privatisation is indeed a sound idea, then the scope for it in SA is enormous, particularly in view of the size of the public sector. Painting the picture with a broad brush the facts, roughly, are as in CHART A.

In other words, in terms of employment, the state sector is very large relative to the size of the economy as a whole. The proportion of whites on the state payroll may run as high as 40%.

The notion of the public service as a sophisticated social security system for the lethargic or unproductive who trade off the hustle of the private sector for a more modest but secure income in state employment is not entirely borne out by the facts, however. Wages in the public sector compare favourably with the private sector (See CHART B).

Of course, broad averages such as this can be misleading. They tell us nothing about the quality of personnel involved nor anything about their qualifications.

These employment figures would not be particularly disturbing if one could be confident that these wages represented genuine productivity, defined as producing what the consumer wants and at the lowest possible price.

Regrettably, we cannot be confident of either of these objectives. Freed from the discipline of the market we cannot know — and nor can the manager of our public sector industries know either — what the consumer wants, nor whether the operation is efficient.

This is the advantage of the private sector which is often overlooked. If a firm in the private sector fails, it may be because the product is wrong, because the marketing is bad, because the production is inefficient, because the sales force is lazy or because the financial manager has his fingers in the till.

It doesn't matter, however. The signs of failure are unambiguous. The firm goes out of business and its resources are diverted to some more productive use.

Firms fail for reasons about which we may never know, although of course when things are going badly management will usually take steps to identify the cause of the problem.

The public sector, in contrast, offers none of these checks and balances. In the absence of competition even the most dedicated manager will find it difficult to identify what consumers want, and the incentive to discover it is likewise removed.

Just as in the private sector, it is often easier to attract customers by the application of restrictive regulations rather than by attempting to produce more efficiently. For the conscientious manager, the problems posed by the public sector are peculiarly complex.

Equally, large profits as well as losses expose the manager to criticism. The best strategy is, more or less, to break even. Naturally, this attitude does not encourage dynamic management.

However, suppose we concede this point and agree that the public sector is, in general, a model of efficiency. This does not torpedo the case for privatisation. Indeed, it strengthens it.

The attraction of privatisation rests in large measure on the argument that these public sector companies are indeed commercially viable (contrary to popular belief) and are indeed very profitable. Therefore, they can be sold off with advantage to the taxpayer.

What would they be worth if they were sold off? My colleague Professor Brian Kantor has published some rough estimates:

Escom	R8 600m
Iscor	R4 784m
SAA	R1 882m
Post Office	R3 060m
SA Railways	R7 000m

SOURCE: "What price high cash flows?" (*Financial Mail*, April 22, 1983).

These figures relate to 1983. They would be a good deal higher now, but in the spirit of enquiry let us base our calculations on 1983 valuations.

Selling off these operations would have allowed us to retire about 80% of the national debt immediately, thereby saving more than R2bn annually on interest payments.

This would have allowed us to cut the rate of GST to less than half and maintain this benefit in perpetuity.

Regrettably, the case for privatisation is not so cut-and-dried, however. One difficulty is that, precisely because so many voters are employed in the public sector and because their incomes are not at all unattractive, there is little obvious gain to them from a shift into the chilly waters of competitive markets.

The second difficulty is that the rough valuations of public sector corporations and their attractive price tags from the viewpoint of the ... with the US, where all these industries, with the exception of the postal department of the Post Office, are in private hands.

It is only to be expected, however, that there will be objections. One of the most common is that raised by Harold Macmillan in the House of Lords to the sale of British Telecomms. You are, he said, selling off the family silver.

A similar response is: how can you invite us to buy shares in these organisations — I thought we owned them already?

The point is, of course, that selling off the family silver makes a lot of sense if you have something better to do with the money. Many taxpayers will feel that this is indeed the case.

The only reason to keep the family silver is a sentimental concern related to veneration of the past — an understandable preoccupation for someone in Lord Macmillan's position.

Firstly, the priority is to privatise peripheral activities, instead of going for the jugular.

There are many alternative forms for dealing with privatisation. Contracting out certain municipal services is an example. There is now considerable evidence that this results in cheaper municipal services.

The fact that the suggestion of privatising the garbage service is met with scorn at City Hall is only a pale foretaste of the difficulty to be expected were the sale of SATS to be put on the agenda.

Secondly, there has to be something in it for the public servants as a means of buying, at the least, their tacit support. Guarantees are necessary because for many public sector employees the public sector offers a form of protection against low wage competition from blacks.

There is no objection to golden handshakes. It is part of the cost of getting from here to there.

Thirdly, it is probably important that when assets are sold off the price be determined very carefully. A bonanza for the shareholders may imply a backlash from the taxpayers.

Fourthly, the areas where privatisation may best be exploited may not be at all obvious. Selling off Escom has definite attractions.

Yet other areas, such as education, for example, offer intriguing scope for privatisation. The arguments for privatising education are essentially the same as those employed in any other sector of the economy.

Efficiency is increased, products are more carefully designed to suit the customer and the rewards for efficiency or otherwise are clearly delineated.

Education is one of the major flash-point areas in SA at present. The virtually unanimous call is for the establishment of one education department.

Why blacks should see any virtue in this is inexplicable.

There is only one Post Office, yet this does not prevent the telephone services being more accessible to whites than to blacks. There is only one police force, yet this does not mean whites receiving superior protection to that afforded blacks. Why should a monolithic education department be different?

CHART A

EMPLOYMENT ('000) (as at June 1985)

	Whites	Coloureds	Asians	Blacks	Total
Central government	150	70	17	142	379
Self-governing national states	—	—	—	120	120
Provincial administration	130	27	5	96	258
Local authorities	63	29	7	138	237
Electricity	26	4	—	36	66
Transport, posts, telecoms	169	41	10	202	422
Control boards	2	—	—	1	3
Sundry statutory bodies	17	1	—	12	30
TOTAL STATE EMPLOYMENT	557	172	39	747	1 515
TOTAL ECONOMY	1 403	588	183	2 767	4 940
State as % of total	39,7	29,3	21,3	27,0	30,7

CHART B

	Whites	Coloureds	Asians	Blacks	Total
Average monthly income.					
Public sector	1 686	534	869	416	961
Whole economy	1 534	538	748	397	749

ANC doesn't have to be communist

14/3/86 B.D.M

SIMON BARBER
W...

PRETORIA spends an inordinate amount of time and energy trying to persuade people that the ANC ... ous trove of documents captured during the 1983 US invasion.

The Reagan administration in-

... picture with a broad brush the facts, roughly, are as in CHART A.

In other words, in terms of employment, the state sector is very large relative to the size of the economy as a whole. The proportion of whites on the state payroll may run as high as 40%.

The notion of the public service as a sophisticated social security system for the lethargic or unproductive who trade off the hustle of the private sector for a more modest but secure income in state employment is not entirely borne out by the facts, however. Wages in the public sector compare favourably with the private sector (See CHART B).

[illegible]	130	27	5	[illegible]	[illegible]
Local authorities	63	29	7	138	[illegible]
Electricity	26	4	—	36	66
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Of course, broad averages such as this can be misleading. They tell us nothing about the quality of personnel involved nor anything about their qualifications.

These employment figures would not be particularly disturbing if one could be confident that these wages represented genuine productivity, defined as producing what the consumer wants and at the lowest possible price.

Regrettably, we cannot be confident of either of these objectives. Freed from the discipline of the market we cannot know — and nor can the manager of our public sector industries know either — what the consumer wants, nor whether the operation is efficient.

This is the advantage of the private sector which is often overlooked. If a firm in the private sector fails, it may be because the product is wrong, because the marketing is bad, because the production is inefficient, because the sales force is lazy or because the financial manager has his fingers in the till.

It doesn't matter, however. The signs of failure are unambiguous. The firm goes out of business and its resources are diverted to some more productive use.

Firms fail for reasons about which we may never know, although of course when things are going badly management will usually take steps to identify the cause of the problem.

The public sector, in contrast, offers none of these checks and balances. In the absence of competition even the most dedicated manager will find it difficult to identify what consumers want, and the incentive to discover it is likewise removed.

Just as in the private sector, it is often easier to attract customers by the application of restrictive regulations rather than by attempting to produce more efficiently. For the conscientious manager, the problems posed by the public sector are peculiarly complex.

Equally, large profits as well as losses expose the manager to criticism. The best strategy is, more or less, to break even. Naturally, this attitude does not encourage dynamic management.

However, suppose we concede this point and agree that the public sector is, in general, a model of efficiency. This does not torpedo the case for privatisation. Indeed, it strengthens it.

The attraction of privatisation rests in large measure on the argument that these public sector companies are indeed commercially viable (contrary to popular belief) and are indeed very profitable. Therefore, they can be sold off with advantage to the taxpayer.

What would they be worth if they were sold off? My colleague Professor Brian Kantor has published some rough estimates:

Escom	R8 600m
Iscor	R4 784m
SAA	R1 682m
Post Office	R3 060m
SA Railways	R7 000m

SOURCE: "What price high cash flows?" (Financial Mail, April 22, 1983).

These figures relate to 1983. They would be a good deal higher now, but in the spirit of enquiry let us base our calculations on 1983 valuations.

Selling off these operations would have allowed us to retire about 80% of the national debt immediately, thereby saving more than R2bn annually on interest payments.

This would have allowed us to cut the rate of GST to less than half and maintain this benefit in perpetuity.

Had we done this in 1983, the effect by now would have been even more beneficial, bearing in mind the recent steep increase in interest rates and the corresponding burden to the taxpayer from servicing the national debt.

Nor are these the only benefits. Privatisation would have put these organisations on the same basis as the private sector as far as tax liability is concerned. With this new source of revenue, tax rates on the private sector could have been relaxed further.

As it is, the SA taxpayer is, in principle, the shareholder in these enormous organisations but has yet to receive a dividend.

Such a sell-off of national assets might sound the stuff of fantasy, but it would only, more or less, bring our economy into line with the US, where all these industries, with the exception of the postal department of the Post Office, are in private hands.

It is only to be expected, however, that there will be objections. One of the most common is that raised by Harold Macmillan in the House of Lords to the sale of British Telecomms. You are, he said, selling off the family silver.

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The second difficulty is that the rough valuations of public sector corporations and their attractive price tags from the viewpoint of the taxpayer are based on the functioning of these companies as monopolies, as they are at present.

This can scarcely make privatisation attractive in their present form, for then we would simply be replacing a public sector monopoly with a private one.

However, if we were to sell off these public sector monopolies and at the same time remove their monopoly powers, their market values would be correspondingly reduced.

This would not matter in principle because more efficient firms would take their place, but it does suggest that the process of deregulation is not without its hazards.

All this suggests a few simple guidelines for privatisation.

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The issue of education highlights one further justification for privatisation at least as important as the efficiency arguments customarily used.

Government control inevitably implies politicisation. The result is bus boycotts, school boycotts and continuous conflict. Privatisation may help to dissolve areas of conflict in SA or it might at least enable us to sub-divide them into manageable compartments.

In too many areas in SA — education and housing, for example — we are geting into a "Catch-22" situation. Frankly, a lot of us believe it would be much better for government to get out of many areas of the economy and leave more scope for private industry.

ANC doesn't have to be communist

14/3/86 B.D.A.

SIMON BARBER
in Washington

PRETORIA spends an inordinate amount of time and energy trying to persuade people that the ANC is a communist organisation. ANC leader Oliver Tambo spends almost as much time denying it. The question, like virtually all ideological disputes, is spurious.

If current trends continue, it really won't matter an iota what kind of "-ist" the next SA government calls itself, because the substance will be the same anyway. Extremely unpleasant for the vast majority, regardless of colour, class or political affiliation.

Ideology is the servant of the will to power, particularly in Africa, where for a variety of reasons there are precious few popularly accepted structures through which the will to power can be channelled and contained, and where Western concepts of society, polity and nationhood are rather recent, and in many cases

The ANC wants its state, and is following the rules diligently. As P W Botha noticed in a recent interview with the conservative *Washington Times*, the pattern of unrest in SA's black townships, with the liquidation and intimidation of local authorities and other "stooges," closely mirrors the tactics of the Viet Cong.

The State President errs in claiming this as proof that the ANC is communist, however. It proves nothing of the sort. The only real communists, if there are still such people, are pathetic old romantics still able to convince themselves that despite the evidence of their eyes, Marx's pseudo-scientific verbiage means something.

Far from being addled, Uto-

ous trove of documents captured during the 1983 US invasion.

The Reagan administration insisted that Prime Minister Maurice Bishop was a Marxist backed by Cuba and the Soviet Union. In fact, he was a gangster who replaced another gangster, Sir Eric Geary, and cultivated different friends.

Had the administration concentrated on his thuggery per se, and not the ideology he used to justify it, the problem might have been sorted out a little sooner.

Instead, Reagan's critics were able to say, well, there he goes again, being beastly to poor little socialists. Bishop became the toast of liberal Washington — a hero trying to turn his besieged island into a genuine democratic paradise.

He was nothing of the sort, as the following quote from his now famous "line of march" speech makes rather clear:

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The existence and survival of unpleasant regimes like those of Mengistu in Ethiopia or Dos Santos in Angola cannot be entirely blamed on the Soviet Union or its Cuban allies.

Cohesion

The communist bloc may be providing the hardware and the intellectual software with which those leaders have been able to aquire their states and hang on to them, but it is not solely responsible for such states arising in the first place.

With or without Marxist-Leninist doctrine, the majority of African nations were bound to turn to dirigiste models the moment they achieved independence, and not merely, as some have held, because they naturally tended to mimic departing colonial administrations.

Successful democracy requires a certain sense of cohesion, common purpose and shared values — not to mention a broadly-shared economy — which simply did not obtain in most of the countries in question.

The way was open for any individual with a tribe or army at his back to seize control. It just so happened that Lenin and Co offered the best textbook on how to do it successfully and with some hope of permanence and international legitimacy.

No one has ever offered a better prescription. Even the Afrikaner Nationalists borrowed an idea or two on the road to 1948. The fact that nowadays the instructions come with free Kalaschnikovs is icing on the cake.

You, too, can have your own state to play with if you just follow these simple rules and bone up on the mumbo-jumbo. It's extraordinary how many of your future peons will think you're referring to them when you talk about the "people" and their "liberation" — and how many Western liberals will also take you at your word.

The ANC wants its state, and is following the rules diligently. As P W Botha noticed in a recent interview with the conservative *Washington Times*, the pattern of unrest in SA's black townships, with the liquidation and intimidation of local authorities and other "stooges," closely mirrors the tactics of the Viet Cong.

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Far from being addled Utopians, the ANC leadership proves by emulation of the Viet Cong that it knows exactly what it is doing. It is seizing power. Nothing more, nothing less.

And once it is in power, like almost everyone else on the continent, it is not going to give it up. There will be terror, on a multiracial basis, in the name of "class struggle" or some such slogan, but in fact to remove troublesome rivals.

There will be state control of the economy, because free enterprise means people other than the ruling oligarchy making decisions. Uncontrolled decisions are subversive, as are institutions, such as churches, that fall outside state purview. Genuine elections? Heaven forbid.

But again, this does not make the ANC communists. They will simply be doing what anyone with their will to power would do under the circumstances.

Ideology

And let's face it, the Nationalist government hasn't been doing things very differently in its efforts to perpetuate its hold over the country. Ideology has been just as much its tool as it will be the successor regime's.

In short, it doesn't make much sense quibbling over what the ANC is or is not in ideological terms. You could call it a blue party or a green party, and it would mean just about the same as calling it a communist-controlled party.

It is a group of people aiming to overthrow a government and replace it with themselves, and there is very little possibility that when they succeed will be fundamentally much different in their approach to staying put. They will simply use different slogans, and make different excuses for whatever brutality they find it necessary to commit.

Consider, by way of analogy, the late new jewel movement on Grenada, a thugocracy we know a lot about thanks to the enormous trove of documents captured during the 1983 US invasion.

The Reagan administration insisted that Prime Minister Maurice Bishop was a Marxist backed by Cuba and the Soviet Union. In fact, he was a gangster who replaced another gangster, Sir Eric Geary, and cultivated different friends.

Had the administration concentrated on his thuggery per se, and not the ideology he used to justify it, the problem might have been sorted out a little sooner.

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He was nothing of the sort, as the following quote from his now famous "line of march" speech makes rather clear:

"Consider how we detain people in this country. We don't go and call for no votes. You get detained when I sign an order after discussing it with the national security committee of the party or with a higher party body. Once I sign it, like it or don't like it, it's up the hill for them."

Blinded

So many people went "up the hill" that a brand new prison was built to accommodate them. But because of the ideology red herring, this went totally unnoticed.

The ideology debate similarly blinded the US from any consensus on the nastiness of the Sandinistas in Nicaragua when they ousted the equally nasty President Anastasio Somoza in July 1979.

You don't have to know — or even believe — that the authors were communists to see that they were up to no good. Yet the argument continues as the administration battles to convince Congress to help oppose the Sandinistas because they are Marxists.

What they call themselves is irrelevant. What they are — a tight-knit group of oligarchs determined to rule in perpetuity, and therefore to surround themselves with other like-minded tight-knit oligarchs — is what counts, and why they are dangerous.

The same thought applies in SA. Two ideologically opposite forces are fighting it out for an identical goal: total power. That, and not the idea that one is "communist" and the other "fascist" or "racist," is what matters — and why it is important to abandon the political myths and slogans, and for the centre to get its act together and hold.

But what am I saying? The centre, axiomatically, has no will to power. Since 1948, it has allowed itself to fall victim to thugs. And so it will until finally extinguished by the -ists.

Budget must aid jobless — PFP

STAR 49 15/3/86

By David Braun, Political Correspondent

CAPE TOWN — Monday's crucial Budget should be the beginning of a new long-term plan to put South Africa back on the road to economic and political recovery, the Progressive Federal Party urged this week.

Mr Harry Schwarz, PFP spokesman on finance, said the Minister of Finance, Mr Barend du Plessis, should use the Budget to restore incentives for people to work and create jobs.

"It should tackle unemployment in a dramatic way because the country's whole future is at stake if we do not get the unemployed off the streets and back on to the factory floors. Employment is vital to our security," he said.

Mr Schwarz said he was absolutely against any increase in general sales tax.

In these times of high inflation this would be the worst thing Mr du Plessis could do.

On the other hand, the Minister had also to deal with "bracket creep", in which inflation had pushed people into higher tax categories.

● **How will the Budget affect you?**

The Star on Monday will carry details of the Budget as soon as they become available. A Budget Special will be published after the usual Late Final edition, carrying full details of Mr du Plessis's proposals. On Tuesday *The Star* will publish a special 20-page Budget Supplement on "What the Budget means to you". It will analyse and interpret the Budget for everyone, from the business executive to the man in the street.

Pessimism over SA economy

SDAY (49)
14/3/86

ALAN SENDZUL

WHILE the rand is currently undervalued and has scope for some recovery, in the longer term the currency is likely to succumb to the pressures of high inflation, balance-of-payments difficulties and political uncertainty.

So says merchant banker Senbank in its March *Economic Opinion*.

The argument is based on the theory of purchasing-power parity which, in this case, is taken as the ratio of the wholesale price of SA's traded goods against those of the US. It also uses the concept of real effective exchange rates, which measure a currency's international competitiveness.

Both indicators reveal that the commercial rand is below its true value at present and could appreciate.

On a weighted basis, says *Economic Opinion* author Peet Strydom, the rand has had 51% of its value lopped off between September 1983-December 1985.

All this points to past economic mismanagement, reflected by swings in the the current account and the capital account. If foreign trade is to expand, declares the report, particular care

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Rand 'will succumb to pressure'

3 DAY 17/3/86 (49)

From Page 1

must be shown to create a stable climate in the forex market.

The rand's future health also depends on its breaking the grip of a deteriorating balance of payments. *Economic Opinion* figures show that the current account on the BoP has been bedevilled by a deficit from 1981-1984, with the exception of a small surplus of R305m in 1983.

This was a result of the 1983/1984 consumption-based recovery initiated by government. To add to the problems, drought necessitated maize imports.

Gold, SA's major export, fluctuated over the period between $385,98 in February 1984 to $299,47 in February 1985.

Not surprisingly, the rand has been in a down-trend since gold and foreign exchange reserves began falling in 1981.

Temporary relief in short-term capital flows was seen when the financial rand was abolished in 1983, but long-term capital continued to dwindle, slowing to a trickle in 1985.

The foreign debt situation, and the recent deal struck on repaying SA's creditors, will no doubt further strain the balance of payments and is likely to temper any short-term optimism.

Money supply target set

BDAY 18/3/86

By HAROLD FRIDJHON.

IN a move to curb inflation, a money supply target for 1986 has been set by the Reserve Bank for the newly-defined monetary aggregate, M3.

The target range is based on an increase in the money supply of between 16% and 20% from fourth quarter of 1985 and the fourth quarter of 1986.

This sets the lower limit of the new M3 this year at R82,6bn with a ceiling of R85,4bn.

Money supply target, recommended by the De Kock Commission, was formally accepted by Finance Minister Barend du Plessis in his Budget speech yesterday.

Reserve Bank Governor Gerhard de Kock said in a full explanatory statement that, although the fourth quarter of last year might be a relatively low base from which to start the exercise, it should be compared with the growth of money supply between the fourth quarter of 1984 and the target range set for the fourth quarter of 1986.

On this basis, it provides for a growth rate of 14% to 16% a year over the two-year period.

Targeting, which will have an influence on both interest rates and foreign exchange rates, will be applied with a measure of flexbility.

The monetary authorities will decide what combination of money supply, interest rates and exchange rates is suitable in any given set of circumstances.

In order to keep M3 growth within the target limits, monetary policy will involve public debt management, open-market operations, discount policy and intervention in the foreign exchange market.

These "tools" may be supplemented by varying the cash reserve requirements of the banks and the building societies.

The rationale for the introduction of monetary targeting is:

- To curb inflation by controlling an ex-

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Business Day

TUESDAY, MARCH 18 1986 "THE VITAL VIEWPOINT"

BUDGET '86

(49) B. Day 18/3/86.

Government to give top priority to work creation and upliftment

A Budget 'for the needs of all South Africans'

DU PLESSIS

INSIDE

INTRODUCTION

MORE than ever before, South Africa today demands a Budget aimed at the needs of the people of this country. A Budget that creates better prospects of peace, progress and prosperity for those who seek to realise their ideals in this country and who to that end are ready to work and to sacrifice.

Seldom if ever in our history have order and stability, and developments in the constitutional, economic and social fields been so intimately bound up together and their interaction so apparent as is the case today. The provision made in last year's Budget for these four fields has been amply vindicated by events.

It is fitting, by way of introduction, to say a few words on each of these fields.

Those who last year felt acutely the need for security are today in no doubt that our capacity to uphold peace and stability and to ensure the integrity of our borders needs to be intensified rather than merely maintained. The needs of our security services will thus again make heavy demands on the available funds.

In the constitutional field, government has set itself the task of bringing all reasonable people of all population groups in South Africa together in a constitutional dispensation that will both give expression to their aspirations and effectively protect minority groups.

The realisation of this ideal will contribute to the further unlocking of the enormous development potential of this country and all its people. It will also help to release for development and upgrading some of the premium that SA, as a result of boycott action, must now pay for essential supplies and technology.

Those subscribing to this constitutional ideal will surely give their support to an appropriation of funds adequate for constitutional development in its broad context.

As to the other two fields, all reasonable South Africans realise that imaginative social and economic development provides a sound foundation for constitutional reform aimed at accommodating developed and developing communities in a conflict-averting structure.

Full text of Minister's speech

Within the country's economic capabilities, this Budget is also in line with the undertaking given by State President P W Botha on January 31 this year during the opening of Parliament, namely when he said:

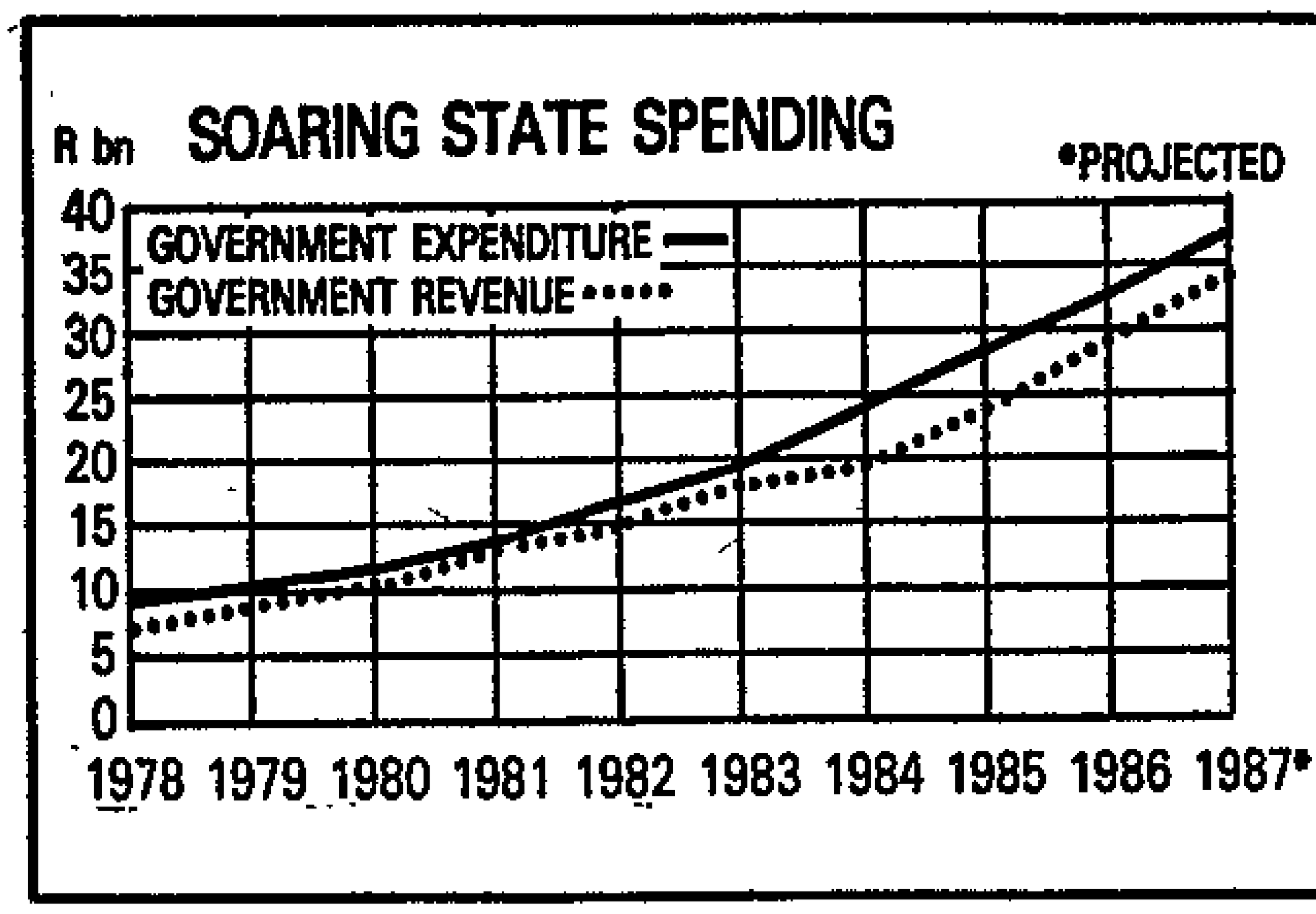
"I have given instructions that the highest possible priority must be given to the formulation of a socio-economic development plan for the less developed areas and communities. Such a plan, to be submitted to me, is being drawn up in consultation with the communities and government departments concerned."

Last year's claims on the social front were great. This year they are still greater. The medicine needed by the economy last year was a restrictive Budget, and State expenditure, on the four key fronts too, had therefore to be cut as far as possible, despite the need then already evident. But at that stage the economy could simply not carry larger expenditure.

But once the right stage had been reached, consequent upon the contribution made by our policies, for larger state expenditure, the highest priority was at once given to socially-orientated activity, including training, work creation and the supply of food parcels.

This year the economy needs moderate stimulation by the authorities — with the accent on moderate. The scope

To Page 2



BUDGET '86 New life

ESTATE DUTY PAYABLE

NET VALUE OF ESTATE	UNMARRIED		SURVIVING SPOUSE		SURVIVING SPOUSE AND 1 CHILD		SURVIVING SPOUSE AND 2 CHILDREN		SURVIVING SPOUSE AND 3 CHILDREN	
	PRESENT	PROPOSED	PRESENT	PROPOSED	PRESENT	PROPOSED	PRESENT	PROPOSED	PRESENT	PROPOSED
R	R	R	R	R	R	R	R	R	R	R
100 000	5 000	—	—	—	—	—	—	—	—	—
200 000	19 500	10 000	11 500	—	6 300	—	2 000	—	—	—
300 000	40 000	23 000	29 000	10 000	21 400	2 000	14 700	—	8 900	—
400 000	68 500	35 000	52 500	23 000	42 500	12 600	33 400	4 000	25 200	—
500 000	89 500	58 000	82 000	39 000	69 600	26 200	58 100	15 200	47 500	6 000
600 000	134 500	80 000	117 000	58 000	103 000	42 800	89 000	29 400	76 800	17 800
700 000	169 500	105 000	152 000	80 000	138 000	62 400	124 000	46 600	110 000	33 600
800 000	204 500	133 000	187 000	105 000	173 000	85 000	159 000	66 800	145 000	50 400
900 000	239 500	164 000	222 000	133 000	208 000	110 600	194 000	80 000	180 000	71 200
1 000 000	274 000	199 000	257 000	164 000	243 000	139 200	229 000	116 200	215 000	95 000
1 100 000	309 500	234 000	292 000	199 000	278 000	171 000	264 000	146 400	250 000	121 800
1 200 000	344 500	269 000	327 000	234 000	313 000	206 000	299 000	178 000	285 000	151 600
1 400 000	414 500	329 000	397 000	304 000	383 000	278 000	369 000	248 000	355 000	220 000
1 600 000	484 500	409 000	467 000	374 000	453 000	348 000	439 000	318 000	425 000	290 000
1 800 000	554 500	479 000	537 000	440 000	523 000	415 000	509 000	388 000	495 000	360 000
2 000 000	624 500	549 000	607 000	514 000	593 000	486 000	579 000	458 000	565 000	430 000

● From Page 1

created for us as a country by last year's sacrifices is, of course, constrained by our obligation to repay part of our foreign debt, without the prospect of significant further loans from that quarter; but even after this there is still some latitude for higher expenditure in the four key fields already mentioned.

Any remaining leeway can then be used where it will help to blow new life into the economy.

Against the background of just claims to social upliftment, of the need for upgrading of the security services so as to equip them to perform their protective and preventive functions, and of the moderate stimulation of the economy, government remains acutely aware of its responsibility to apply sound economic principles.

Development

Government adheres to the view that economic development in South Africa must be based on the principle of private property and private initiative and that this base needs to be broadened.

Markets should, through effective competition, play the leading role in this process. Government itself must, as far as possible, limit its direct role in total economic activity to those functions where the market mechanism is not able to deliver the results sought.

Inasmuch then as this Budget is aimed primarily at the needs of the people of South Africa it gains support from the following three considerations:

☐ It is right and just both to extend a helping hand to those finding the going hard and to seek to relieve those suffering the pain and humiliation of unemployment and poverty.

☐ Constitutional structures in developing communities cannot be established, or even meaningfully negotiated, without supportive social and economic upliftment.

☐ The ultimate choice between economic, social and most of all political systems is made on the grounds of the system's capability to spread its benefits as justly and widely as possible.

Government is acutely aware of, and has great understanding for, the disparities and backlogs that unfortunately are still found in various spheres in SA.

Although government's ability to satisfy the country's manifold needs is limited, appreciable progress in several fields has nonetheless been made over several decades.

One should simply look at where we stand today in comparison with only a few years ago. The economic growth required in order to meet these needs is greatly influenced, for better or worse, by internal and external factors alike.

Some little time will inevitably be needed to wipe out backlogs, particularly under such circumstances as rapid population growth.

Against that background I am particularly happy today to announce government's intention of awarding a high priority, over the next three years at least, to expenditure aimed at work creation and the upgrading of skills, work capability, and the quality of life of individuals and their communities. This project will also embrace the improvement of basic services in less-developed areas.

The Budget will therefore reinforce the programme envisaged by the State President at the opening of Parliament and will also give further substance to his undertaking last year to improve the infrastructure in underdeveloped villages and towns through expenditure of R1bn spread over five years.

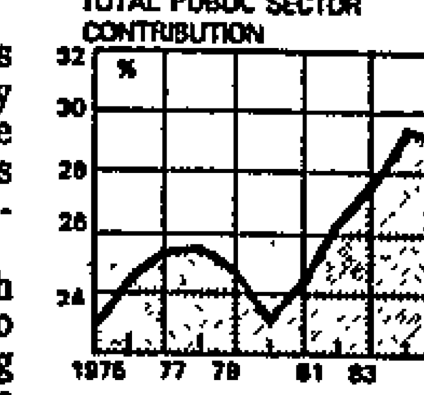
In a follow-up of the R100m of this sum already spent on this purpose last year, it is possible in this Budget to make available for this same purpose a special amount of R320m for the coming year. This should enable government to push the planned programme through within three years in place of five.

The Budget also makes other provision, direct and indirect, for programmes that contribute to the upliftment of black people.

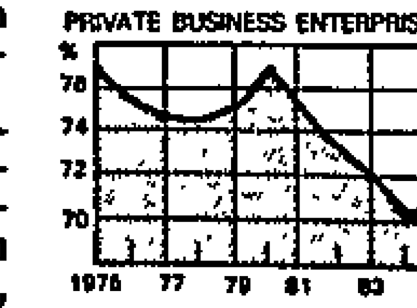
When to this is added the amounts made available in other ways for infrastructure creation, such as the R300m project

CONTRIBUTIONS TO GDP

TOTAL PUBLIC SECTOR CONTRIBUTION



PRIVATE BUSINESS ENTERPRISES



already under way in the Eastern Cape and which is financed from the Local Authorities Loans Fund, the scope of the upgrading activity becomes even more apparent. The sums spent on further social upliftment, such as education, must also be taken into account.

The amounts appropriated by way of this initiative are regarded as being the maximum possible in the present economic circumstances.

As the economy picks up, however, measures to this end are also proposed in today's Budget, and our privatisation initiative gathers momentum, government will be better placed to extend these programmes.

Upgrading

Our upgrading project is essentially a capital programme aimed at helping people help themselves. It should be clear that it is not a mere handout, but an investment in the people of SA — an investment in humans and physical capital that will ultimately ensure the human dignity and progress of South Africans. From it there should also grow an increasingly dynamic informal sector, while the establishment of representative structures on local and higher levels should be substantially advanced.

The following quotations from the State President's speech at the opening of Parliament this year bring into sharp focus the undertakings given by government in this regard.

"The untapped reserves of our country and our region have the potential to

● To Page 3

S.A. Associated Newspapers Ltd.

Memo from	*To*
JAMES MELVILLE	BUSINESS DAY READERS
ADVERTISEMENT MANAGER	ADVERTISERS AND ADVERTISING
BUSINESS DAY	AGENCIES
18th March, 1986	

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Month-by-Month Analysis/Maandelikse Ontleding

Month / Maand	1. Number of Publishing Days / 1. Aantal Verskyningsdae	2 Total Monthly Net Sales / 2 Totale maandelikse netto verkope (At recognised trade terms or Published prices) (Teen erkende handelsvoorwaardes of gepubliseerde pryse)	3. AVERAGE NET SALES Per Publishing Day / 3. GEMIDDELDE NETTO VERKOPE per verskyningsdag	
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Unlocking the potential

● From Page 2

... new life to the whole ... Southern Africa. We ... the natural resources and a strong economy. With the additional ... of our population we also have the ... to promote peace and progress in the region."

AND;

"Southern Africa — and the Republic of South Africa in particular — can play a key role in these last 15 years of the 20th century in unlocking the resources of Africa."

Skills

To unlock this potential the supply of the necessary skills deriving from suitable education and training, is an obvious prerequisite.

In the nature of things upliftment is not limited to blacks; and, so far as whites, coloureds and Asians are concerned, the appropriate information is included in the Own Affairs Budgets of the Houses concerned.

Along with upliftment operations for developing communities it is equally important that there be provision for the maintenance of the quality of existing facilities and standards in the highly developed sector.

PERSONAL INCOME, EXPENDITURE AND SAVING

(Rm)[1]

Item	1979	1985
Remuneration of employees[2]	14 352	61 506
Income from property by households[3]	3 825	13 296
Current transfers received from general government	687	3 499
Current transfers received from incorporated business enterprises	11	58
Transfers received from the rest of the world	142	349
Total current income	19 017	78 702
Less Direct taxes	1 499	9 232
Personal disposable income[4]	17 518	69 470
Less Private consumption expenditure	15 478	65 068
Less Current transfers to general government	56	189
Less Transfers to the rest of the world	78	165
Personal saving[4]	1 906	4 048

Source: South African Reserve Bank.
[1] All figures are at current prices.
[2] After adjustment for net remuneration paid to the rest of the world.
[3] Income from property by households consists of interest, dividend and rent receipts by households and the profits of non-corporate business enterprises after provision for depreciation and after inventory valuation adjustment.
[4] After provision for depreciation and after inventory valuation adjustment.

For example, highly-skilled manpower should be kept at such a level as to ensure the continued growth and development of the economy as a whole.

In the context of upliftment and development the following further quotation from the State President's speech is of the utmost importance in the consideration of these Budget proposals:

"I should like today to repeat government's commitment to equal provision of education for all population groups. The process of reform, aimed at achieving this, is in full progress in the education field."

AND

"Programmes aimed at active progress towards the goal of parity in the provision of education will be announced in the foreseeable future. This will exert substantial pressure on the Treasury in future."

Restrictions

The actuality is, nonetheless, that in various parts of the world even trained people sometimes battle to obtain work and may remain unemployed for long periods. But nothing need stand in anyone's way to employ himself!

The State President therefore announced on January 31 that legislation would be introduced this year to eliminate unnecessary restrictions on the development of entrepreneurship, particularly in the informal sector.

This brings one unavoidably to the question of the so-called redistribution of income. A morally and economically justified redistribution of income can be made only on the basis of achivement.

Achievement, in turn, is directly linked with opportunity — equal opportunity for education and for employment.

On January 31 the State President reaffirmed government's commitment to equal opportunity for all in SA.

This step by government necessarily means that its declared short-term objective of significantly reducing public sector expenditure as a percentage of the gross domestic product will be more difficult to realise, at any rate in the following few years.

It is therefore not unreasonable if it be at once asked how the State will finance this upgrading and upliftment project.

Everyone, and particularly those that must battle daily to keep body and soul together, knows the shattering effect of continual price increases.

To finance upgrading and upliftment in a manner that would play into inflation's hands and eventually lead to a new new series of price increases is therefore not only fatuous but could also deal the economy a crippling blow.

Sound principles of finance are therefore a prerequisite for the long-term success of the upgrading project.

Expenditure

It is necessary to bear in mind that any economy has a maximum potential, which fluctuates from time to time. A thorough grasp of this inescapable truth helps one to distinguish between realistic hope and false expectations.

As far as the definition of capital expenditure is concerned, it is ironic that it includes spending on such things as a road or a building.

Borrowing for such purposes is regarded as legitimate, inasmuch as posterity too will enjoy the benefit and should therefore help to bear the cost.

As against this, all current expenditure on education is by definition not classifiable as capital, although in actuality it is an investment in the future of not only the individual concerned, but also the country.

Indeed, in this case it is the succeeding generation that will enjoy the greatest benefits flowing from the inputs of better-trained citizens.

Government, then, proposes a programme of upliftment, covering at least the following three years, that will give people, communities and regions alike a chance to get going and keep going.

Investment

The exceptional success achieved by the special training programme since October of last year, and the perception of the livelihood offered by the informal sector to thousands of people in different areas throughout SA are striking testimony to the rewards of an investment in training and retraining.

To provide a broad and lasting basis for sustained economic growth in SA and to create permanent job opportunities for the growing population, large-scale investment in new undertakings and in the expansion of existing undertakings is necessary.

It is here where the economic partners between the public and the private sector must emerge more fully.

Government has already decided to follow in this regard a two-fold approach. Firstly, all capital expenditure by the public sector will be continually evaluated with a view to implementing, on a priority basis, economically justified cuts.

In this way the public sector's claims on the capital market can be reduced so as to leave more room for investment by the private sector, with a view also to privatisation.

It must, however, be clearly stated that, after other possible obstructions have also been removed, the private sector will be expected to make use of this greater scope for investment.

Long-term projects will have to be tackled that will advance the economic development of all communities and underdeveloped regions and the country as a whole.

Should this not materialise, government will be obliged to take up the slack and embark upon the task of development itself, to avoid a charge of standing idly by in the face of the under-utilisation of scarce resources.

Spending

In such a case critics would no longer be able to indict government for shackling private fixed investment through its own claims on the capital market.

The second leg of government's approach involves the reduction of current spending in the public sector.

Public sector expenditure is like a fruit tree that ever grows and bears more leaves. It would seem that what we have done recently to trim the tree was merely shaking the tree until the leaves fell. But leaves grow again

The tree must certainly be pruned so as to make it smaller, but it must be expertly pruned if its fruit potential is not to be damaged. It must also be pruned continually, since unwanted leaves and offshoots are appearing all the time.

Government is serious in its intention to optimise its own expenditure pro-

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BUDGET '86 Critical evaluation

● From Page 3

grammes.

With that in view, government at the end of last year approved the appointment of a small highly specialised task group to assist it in this matter. At the same time, the system of budgeting by objectives will be taken a step further.

In close conjunction with the top management of government departments, this task group will critically evaluate relevant aspects of current spending, in particular the various services that have been introduced over the years under the direction of the Executive Authority.

Privatisation

This evaluation will employ various financial approaches and techniques such as zero base budget systems. The task group will moreover be on the lookout for opportunities to introduce user-charging, deregulation and even privatisation.

We have been exceptionally fortunate in acquiring the services of well-known professional and business leaders, as well as people from other appropriate disciplines.

Their names will be announced once they have had the opportunity to orientate themselves with regard to this new type of assignment and to reconnoitre the ground.

I should like to thank them for their readiness and enthusiasm to assist us in this way, and I look forward to working with them.

I should also like to thank the Directors-General of the various departments in anticipation of their co-operation. There can be no doubt of the benefits for all the parties concerned that can emerge from constructive co-operation in this task.

ECONOMIC REVIEW

2.1 Domestic Economic Conditions

The SA economy is in the early stages of a new upward phase of the business cycle. This upswing began from a relatively low base in the fourth quarter of 1985, following a downswing from the middle of 1984 until the third quarter of 1985.

The new upswing is expected to gain momentum as the year progresses.

For 1985 as a whole, real gross domestic product showed a decline of about 1%, compared with an increase of 5% in 1984. But it began to rise moderately during the second half of 1985 and is expected to increase further by more than 3% in 1986.

Responding to a combination of tight monetary and fiscal policies and natural economic forces, real gross domestic expenditure declined during five of the six quarters between the middle of 1984 and the end of 1985. Following a rise of 7,5% in 1984 it declined by a similar magnitude in 1985.

Saving

A welcome development in 1985 was an increase in the ratio of gross domestic saving to gross domestic product, from 23% in 1984 to 26,5% in 1985. Personal saving made a significant contribution to this increase, rising from 3,5% to a 6% of personal disposable income.

I shall return to this welcome development and how it may be reinforced.

Unemployment increased substantially in 1985, but is expected to decline in 1986. The increase in nominal salaries and wages per employee slowed down from 16,4% in 1984 to 11,1% in 1985.

After allowing for inflation, real remuneration per employee increased by 4,2% in 1984, but then declined by 4,4% in 1985.

2.2 Balance of Payments and the Rand

The balance of payments on current account registered a substantial surplus of R7,1bn in 1985. This was equal to 6% of gross domestic product — an exceptionally high ratio by any standard.

Moreover, the surplus increased progressively during the course of the year and reached an annualised rate of R11,9bn during the fourth quarter of 1985.

Exports (excluding gold) increased in 1985 by 58% in rand value terms and by 22% in volume terms, while the rand value of the net gold output increased by 32%.

Imports, on the other hand, increased by only 6% in rand value terms and declined by 16% in volume terms.

Surplus

This improvement in the current account was mainly the result of two developments.

The first was the elimination of excess demand by means of restrictive fiscal and monetary policies. The second was the depreciation of the exchange rate of the rand, which discouraged imports and encouraged exports.

If, as expected, the domestic economic upswing gains momentum in the months ahead, imports are bound to rise, so that some reduction in the current account surplus during the course of 1986 is likely. Present indications are, however, that there will still be a current account surplus of between R4bn and R5bn in 1986.

On capital account there was a large net outflow of R10,4bn during 1985 as a whole. This took the form mainly of short-term capital movements, including leads and lags in foreign payments and receipts.

The outflow became exceptionally large in the third quarter of 1985 as certain foreign banks began to withdraw credits previously extended to SA banks and other enterprises.

This induced the authorities to declare a debt standstill, to which I shall return shortly, and to reintroduce exchange control over non-residents in the form of the financial rand system.

Credits

These steps were unavoidable and initially had some counter-productive effects. For example, certain South African debentures or notes issued abroad that might otherwise have been rolled over, had to be repaid.

In addition, as foreign credits for imports became difficult to obtain, many importers had to make cash payments "up front".

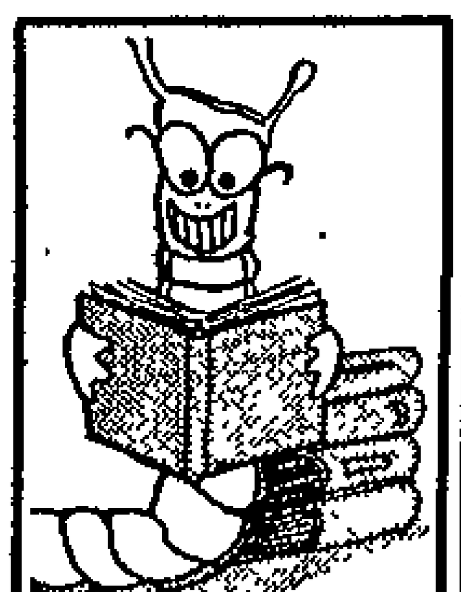
The general expectation that, in these circumstances the rand would depreciate, produced unfavourable leads and lags in payments. The result was that a net capital outflow of R3bn during the third quarter of 1985 was followed by an even larger net outflow of R5bn during the fourth quarter.

This outflow of capital more than neutralised the large current account surplus and placed downward pressure on the exchange rate of the rand.

After remaining relatively stable around $0,50 between January and July 1985, the rand declined sharply in August to below $0,36 and thereafter fluctuated between $0,36 and $0,38 for most of the period up to December 18 1985.

From that date the rand again started to appreciate.

● Undertaking to improve underdeveloped villages



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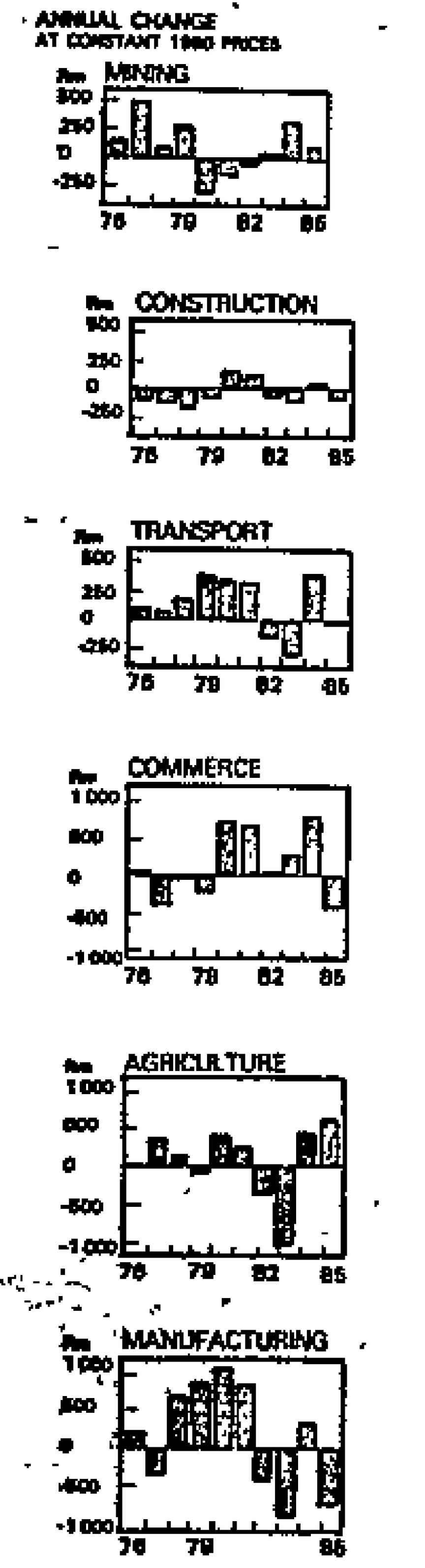
REAL ECONOMIC ACTIVITY IN CERTAIN SECTORS

ANNUAL CHANGE AT CONSTANT 1980 PRICES



Improvement

Various favourable developments since December contributed to the improvement in the exchange rate.

Firstly, the unfavourable leads and lags started to diminish. Secondly, the new measures introduced during December 1985 to increase the Reserve Bank's ability to influence the exchange rate, changed expectations in the foreign exchange markets.

Furthermore the dollar price of gold began to rise and the agricultural outlook improved as a result of good rains in many parts of the country.

The State President's speech at the opening of Parliament on January 31 contributed further to an improvement in overseas perceptions of SA's socio-political and economic prospects.

Lastly, the agreement reached on February 20 in London between SA and its 34 largest creditor banks on the handling of the foreign debt improved market sentiment.

The net effect was a reversal of the leads and lags and, together with the prevailing current account surplus, this improvement on the capital account resulted in a marked appreciation of the rand.

For example, between December 18 1985 and March 14 1986, the rand appreciated by 29,9% on average against other currencies and 36,1% against the US dollar.

2.3 The Foreign Debt Standstill

SA and all its peoples have paid a stiff pri[illegible] the far-reaching but [illegible]cessary economic [illegible]ments of the past [illegible]

As already ind[illegible] the gross domestic [illegible]uct has fallen, unemplo[illegible]ment has risen sharply and average real [illegible] and salaries have fallen. In the process many SA undertakings have [illegible] badly hit, and [illegible] smaller businesses [illegible] liquidated under the [illegible]sure of the deterio[illegible] economic conditions.

It is regrettable that precisely under these cir[illegible]cumstances of [illegible] downward adjustment certain foreign [illegible] saw fit to insist on [illegible]dier repayment of [illegible] short-term loans to [illegible] banking sector.

Nor could SA turn [illegible] the IMF for [illegible] Although [illegible] of that body to help [illegible] members having [illegible] of payments difficulties the restrictive [illegible] imposed by the US Congress on IMF loans to SA coupled with [illegible]

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Tight reign on spending

● From Page 4

pressure exercised by other governments on the executive board of the fund, made it difficult for SA to look for help in this quarter.

We are, in fact, currently engaged in making regular repayments on the loans we obtained from the IMF in 1982.

Debt

From the available balance of payments data it appears that during the seven quarters from the beginning of 1984 to the third quarter of 1985, when the debt crisis developed, SA repaid more than R8bn of short-term foreign debt.

Unfortunately, in the process the Reserve Bank did not have the opportunity of rebuilding its foreign reserves.

It is ironic that at a time when the SA population had been making great economic sacrifices in order to reduce the total debt of the country, foreign creditors made further demands.

In the circumstances, there was no choice but unilaterally to declare on September 1, 1985, a temporary standstill in the repayment of certain foreign debt.

In the light of the large surplus existing at that stage on the current account of the balance of payments it was possible for SA in those difficult circumstances to leave about 40% of its foreign debt commitments outside the restricted payments net, and also to continue to pay in full all interest on the foreign debt.

SA's foreign debt problem certainly did not arise from any so-called "bankruptcy", but rather from a temporary liquidity problem.

After difficult negotiations South Africa managed recently to come to an understanding with its largest creditors on the future treatment of the foreign debt.

As is known, this embraces the release during the next 12 months of 5% of the restricted debt, with further negotiations with the same group in February 1987 on the future handling of the debt situation.

Meanwhile, all other creditor banks have been asked to adhere to this arrangement.

Gratitude

SA owes Dr Fritz Leutwiler a debt of gratitude for his role in these negotiations. I thus take this opportunity to thank him warmly on behalf of government for his readiness to act on our request and that of our principal creditors as an independent mediator in the delicate negotiations.

We are not under-estimating the formidable problem of re-entry to the international money and capital markets.

In particular, we realise that the present situation calls for even more financial discipline from us all.

We shall be able to persuade the international bankers to return to SA only if we can convince them that we actually do not *need* them any more. To that end there must be a tight rein on our spending programmes and our domestic savings must be sufficient to finance our development projects, as indeed was often the case in recent years.

This great task forms part of the objectives of the Budget I submit to you today.

2.4 Retrospect of the Short-Term Strategy of 1985-1986

In last year's Budget Speech the nature and objectives of the official monetary and fiscal strategy for the year ahead were set out in some detail.

In doing so, emphasis was placed on the need to improve the *mix* of monetary and fiscal policy by laying more stress on the fiscal ingredient. It is gratifying to be able to report today that considerable progress has been made in the application of this strategy.

The first objective of the strategy was to eliminate excess demand or over-spending, and the second was to transform the deficit on the current account of the balance of payments into a surplus.

Both these objectives have been fully attained, and also sooner than expected.

The contribution made by fiscal policy to this satisfactory outcome will be evident from the detailed figures I shall present today.

The contribution made by monetary policy is well illustrated by the extent to which the growth of the money supply was curbed during 1985.

Measured over a period of 12 months, the growth rate of the broad money supply, M3, decelerated from a peak of 24,1% in November 1984 to 10,3% in January 1986.

As to interest rates, the Reserve Bank has since the beginning of May 1985 reduced its Bank rate in nine stages from 21,75% to its present level of 13%. This has helped to bring down the commercial banks' prime overdraft rate from 25% to 15,5%.

Control

That these interest rate declines have proved fully reconcilable with effective money supply control is evident from the monetary statistics to which I have already referred.

Even so, the Reserve Bank's decision to let interest rates fall to the extent they did was not taken lightly.

Full consideration was given to the existence during most of this period of a net capital outflow, a debt standstill, a relatively weak exchange rate and a high rate of inflation.

The official assessment was that this state of affairs was not the result of excess demand; indeed, the latter had been eliminated by the middle of 1985.

By September 1985 it had, however, become apparent that increasing levels of unemployment in all communities called for urgent action.

It was thus decided to stimulate the economy moderately, inter alia through increased government expenditure.

This change of emphasis in policy allowed progress to be made towards another important objective, namely a higher real rate of economic growth. As already mentioned, the upswing has begun and the real growth rate is rising.

A fourth policy objective was to reduce the rate of inflation.

As was emphasised at the time, this could only be expected to happen after the inflation rate had first increased further.

see p3

Such an acceleration was inevitable, as the depreciation of the rand against other currencies during the period from September 1983 until January 1985 had not yet exerted its full upward effect on domestic costs and prices.

Inflation

It was nevertheless hoped that the rate of increase of the consumer price index would peak before the end of 1985 and then begin to decline.

However, the new depreciation of the rand since the third quarter of 1985 represented a setback in the fight against inflation.

Unlike most exchange rate depreciations, this particular one was not caused by excess money creation, unduly low interest rates or an inordinately large budget deficit.

This depreciation was caused by an outflow of capital that occurred for totally separate reasons. In such abnormal circumstances the maintenance of interest rates at their peak levels of early 1985 would have contributed little to removing the underlying causes of the exchange rate depreciation and inflation, and would merely have delayed the domestic economic recovery.

● Programmes that contribute to upliftment of Blacks

This depreciation raised import prices in terms of rand and thereby exerted new upward pressure on the domestic price level.

The end result was that, measured over a 12-month period, the rate of increase of the consumer price index accelerated from 10% in February 1984 to 20,7% in January 1986.

In retrospect, therefore, it is evident that, apart from the serious setback suffered on the inflation front, the short-term strategy outlined in last year's Budget speech has, in fact, been implemented and has achieved the intended results.

NO

Excess demand has been eliminated, a larger than expected surplus has been achieved on the current account of the balance of payments, and the domestic downswing has been transformed into the initial phase of a new upswing.

BUDGET '86 Short-term strategy

● DU PLESSIS

FISCAL AND MONETARY STRATEGY FOR 1986-1987

3.1 Policy Implications

I turn now to a broad outline of government's short-term economic strategy for the year ahead.

The precise Budget figures that form a basic part of this strategy will be provided later in this address.

As the events of the past year unfolded and, in particular, as progress was made in reducing excess demand, the stance of both monetary and fiscal policy became progressively less restrictive.

Although the economy is in the early phase of a new upswing, the present more growth-orientated stance of monetary and fiscal policy does not in any way imply a weakening of the official resolve to curb inflation.

It is, however, probable that the rate of inflation will remain high in the months ahead.

yes

But now that the rand has not only ceased to depreciate but has, in fact, appreciated strongly against other currencies, the inflationary effects of the earlier depreciation should begin to diminish before too long.

The present short-term monetary and fiscal strategy can be described as moderately expansionary.

Growth Rate

It is a policy of encouraging investment and consumer spending in order to ensure that the new upswing gains enough momentum to produce a growth rate of 3% or more in real gross domestic product in 1986, with the attendant increases in income, output, employment and general economic activity.

At the same time, however, it is designed to prevent the re-emergence of excess demand or overspending.

The achievement of this objective is important not only to avoid new demand inflation, but also to ensure that another large surplus achieved in 1986 on current account of balance of payments, part and parcel of strategy for dealing the foreign debt [illegible]

A new element in strategy is the setting targets for the [illegible] supply, in line with [illegible]ommendations in the [illegible]port of the De Kock Com[illegible]mission, to which I now briefly refer.

3.2 Commission of Inquiry into Monetary Policy

The final report of the Commission of Inquiry into the Monetary System and Monetary Policy in SA was submitted to government in June 1985.

At government's request, the commission had earlier brought out two interim reports, one on exchange rates in November 1978 and one on building societies in November 1982.

The main recommendations of both these interim reports were accepted by government and have in most cases already been implemented.

New building society legislation incorporating the principles propounded by the commission is at present before Parliament.

The final report is unanimous and contains some 200 recommendations and findings regarding the South African monetary system and monetary policy.

Many of the report's detailed recommendations have already been accepted and implemented.

Markets

These include measures to improve the functioning of the various financial markets; the promotion of the role of discount houses in the money market and the replacement of the National Finance Corporation by the Corporation for Public Deposits; and amendments to the Banks Act to provide — among other things — for the abolition of statutory distinctions between *commercial, merchant* and *general* banks, new asset-based capital and reserve fund requirements for banks, and the extension of these requirements to the overseas business conducted by the banks' foreign branches and subsidiaries.

I am pleased to announce today the acceptance by government of another main recommendation of the commission, namely the proposal that the Reserve Bank should, with the approval of government, set specific target rates for one or more of the money supply aggregates.

Targets

Since the money supply, interest rates and exchange rates are interdependent, this naturally means that independent targets cannot also be set for interest rates or exchange rates.

As recommended by the commission, however, the official money supply target will be "low

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● From Page 6

profile" and flexible.

This means that there will be no rigid and overriding *money rule* that would imply leaving interest and exchange rates completely free to find their own levels at all times.

Within the broad constraints imposed by the money target, the monetary authorities will, as in the past, be able to exercise some discretionary judgment in their interest rate and exchange rate policies.

A major reason why it has been decided to introduce formal monetary targeting is to demonstrate that the monetary authorities are determined to prevent a recurrence of what they themselves have consistently identified as a vital element in the process of inflation, namely too rapid a rate of growth of the money supply.

In addition, the target setting should provide interested parties with greater certainty regarding the likely stance and direction of monetary policy.

This being our first attempt at setting a money target, we shall obviously have to tread carefully.

Discipline

We are fully confident that the built-in discipline of money supply targeting will contribute to a more effective financial policy in SA.

The details of the targets and targeting procedures laid down for 1986 are set out more fully in a separate statement that is being issued today by the Reserve Bank.

Government would like to express its special thanks to Dr Gerhard de Kock, his fellow commissioners and their associates for the precedent-setting task they have pursued with great dedication.

Their findings and recommendations represent the best available expertise and authority on monetary policy.

The fact that their recommendations were cleared with the respective business sectors renders the report exceptionally useful, and the government's reaction on the few outstanding subject will be announced as soon as possible.

3.3 Control of Expenditure

In last year's Budget speech it was announced that government departments would be requested to supply the Department of Finance with projections of their expected monthly drawings for the full financial year.

These figures would serve, firstly, as an early warning system for the Treasury of over-spending by departments; secondly, as a discipline for each department to keep its expenditure within the budgeted amount; and, thirdly, as a basis for the determination of the monthly Exchequer and the scheduling of the State's financing and borrowing programme.

Experience gained during the past year has shown both the benefits and the drawbacks of this system.

The co-operation of departments has meant that the new approach has nonetheless helped us significantly in our attempts to restrict the increase in state expenditure to really essential extensions and/or specific expenditure programmes.

The system will therefore be streamlined and continued in the coming financial year.

4. 1985-86 FINANCIAL YEAR

4.1 Revenue

The revised estimate of total revenue for the 1985-86 financial year is R29,730bn, which represents an increase of 26,9% above the 1984-85 collections and 5% above the printed budget estimate. Tax collections by Inland Revenue are estimated at R27,620bn, which is R1,307bn more than the original estimate of R26,313bn, while it is expected that Customs and Excise will yield R2,110bn, or R101m above the printed budget estimate of R2,009bn.

The increase in Inland Revenue can be attributed virtually exclusively to tax payments by the broad corporative sector. Gold mines are expected to contribute R3,055bn to the R1,210bn, R380m lower than the budgeted amount. On the other hand, the surcharge on imports that was introduced in September 1985 is estimated to yield R510m. The gross income from Customs and Excise has thus risen to R3,630bn from the budgeted figure of R3,559bn.

Payments to South Africa's Customs Union partners amounted to R1,220bn, slightly less than the R1,3bn budgeted, while it was decided during the financial year to increase the transfer to South West Africa to R300m, as against the budgeted R250m — a figure that had remained unchanged since 1982-83.

4.2 Expenditure

The estimated actual expenditure for the 1985-86 financial year amounts to R32,977bn as against the R31,460bn of the main Budget, representing an increase of 21,6% on final expenditure for 1984-85. Particulars of the increased expenditure of R1,517bn have already been given in the second reading speech for the Additional Estimates for 1985-86, but for the sake of perspective they will be briefly dealt with again.

4.2.1 Job Creation

Of the R600m earmarked for this purpose, R530m will have been spent during 1985-86 on job creation, food aid, the training of unemployed persons and the financing of bodies such as the Small Business Development Corporation and the Development Bank of Southern Africa, as well as on the Unemployment Insurance Fund. The allocation of the remaining R70m will be addressed in the supplementary expenditure proposals.

Up to the end of February 1986 some 460 000 people had been accommodated for various periods in the work creation projects, a figure that should rise to about half a million by the end of March 1986. At the end of February there were 276 000 people at work under the umbrella of the many projects, and the man-days worked were 20-million. The small business sector maintained or created work for 14 000 people. In addition to this, direct relief in the form of food was provided for some 1-million people.

A particularly successful aspect of the job creation project has been the training programme. This has not only brought immediate relief but has also equipped the trainees to fend for themselves. By March 31 1986 some 284 000 people will have received training preparing them better to obtain work. I am glad to say that there has been an upsurge of positive reaction to this operation: a large volume of letters has come from the former trainees, testifying to the skills they have acquired and to the better position in which this has placed them.

● DU PLESSIS

4.2.2. Statutory payments

These payments increased by over R654m, from R8,226bn to R8,880bn, chiefly by virtue of the servicing of the public debt. The most important reason for this was the exceptionally low exchange rate maintained by the rand for a significant portion of the year. Moreover, during 1985-86 the Exchequer in the process of sound monetary policy implementation, drew larger amounts from the market, and at an earlier stage than was anticipated at the time when the Budget was compiled. Interest rates were also on average higher during the year than allowed for in the Budget.

4.2.3 Other deviations

The purposeful spending on work creation and training projects and the additional cost of the public debt were the main items in the additional expenditure. Other important additions to the 1985-86 Budget arose from security services (R288m), local authority development (R94m), provincial subsidies (R103m), exchange rate losses (R60m) and housing aid for the black population (R100m).

4.2.4 Savings on personnel-related expenditure

In the Budget speech last year I alluded to mandatory savings of R500m on personnel-related expenditure, of which R417m would emerge from reductions to be effected by the Treasury in the voted amounts. The Government was however unable to see its way clear to enforce such cuts for certain key groups such as teachers and nursing personnel, nor for low-paid labourers, who have been relatively hard hit by economic conditions. Despite this it was possible, by the freezing of certain posts and the abolition of others, as well as through measures aimed at higher productivity to save R352m of the planned R417m.

4.3 Financing of the 1985-86 deficit

As already indicated, expenditure and revenue amount to R32,977bn and R29,730bn respectively, giving a deficit before borrowing of R3,247bn for 1985-86. This is 2,6% of the estimated gross domestic product and is comfortably below the 3% guideline laid down in last year's Budget speech as the maximum for the deficit before borrowing. Furthermore, capital expenditures for 1985-86 are estimated at R3,2bn: this is equal to the deficit before borrowing, meaning that the goal that loan funds should not be used for current expenditure, has also been reached.

Loan redemptions rise from R1,995bn to R2,506bn, largely by reason of appreciable increases in the redemption of foreign loans and of Treasury bills.

The financing requirement for the present financial year is thus R5,752bn, or 23,3% above the figure envisaged in the Budget (after supplementary expenditure). The State's financing programme was, however, once again highly suc-

● To Page 8

● SA's economy is in the early stages of an upswing

BUDGET '86 Present basis of taxation

● The rand takes a dive...

● From Page 7

cessful, yielding R6,075bn. The Public Investment Commissioners are expected to contribute R3bn, which is 20% above the original estimate, while the sale of government stock has risen by over 50% to R2,373bn.

This amount came virtually exclusively from the non-bank private sector — a fact that emphasises the success of Exchequer financing. If the usual assumption is made regarding the full reinvestment of maturing stock it is evident that the sale of new government stock, which forms an integral part of the State's monetary policy implementation, amounted to more than double the budgeted sum. This placed a higher interest burden on the Exchequer. The debt standstill naturally meant that a smaller amount only could be raised under foreign loans than had been expected.

The net outcome of this financing activity is that there may be a surplus of R323m for 1985-86. It is considered advisable to transfer this amount to the Special Defence Account.

5. 1986-87 FINANCIAL YEAR

5.1 Revenue

As is customary, the printed estimates of revenue to be tabled today reflects the present basis of taxation — that is, no account is taken of the changes proposed in this speech. The estimated revenue for the 1986-87 financial year is R34 430bn, or an increase of 15,8% above the revised estimate of R29 730bn for 1985-86. Inland Revenue's contribution is expected to increase by 15,4% to R31 880bn, while net income from Customs and Excise is estimated at R2 550bn, an increase of 20,9%.

inflation

Inland Revenue's revenue from gold mines is expected to fall by 7,7% R2,820bn, against the revised figure of R3 055bn for 1985-86. This can be attributed to an expected improvement in the average exchange rate of the rand in 1986, a rising cost structure, and continuing relatively high capital expensing by gold mines.

In contrast to this decline, a rise of 10,7% is expected in income tax payments by non-mining companies. In consequence of the further phasing-in of the taxation of fringe benefits and the additional revenue expected from this source, improved economic conditions, anticipated salary adjustments and the accompanying fiscal drag, an increase of 33,6% in net individual income tax to R11,4bn is expected.

This amount does not include the abolition of the 7% surcharge on individuals: this concession, which will be discussed later, is expected to amount to R500m. The expected increase of 16,2% in net revenue from general sales tax is also chiefly attributable to the expected economic improvement in 1986.

The anticipated moderate economic revival, coupled with the firming of the rand, should mean that imports will gradually increase. As a result, a moderate increase of 7,4% in customs collections is anticipated, to the level of R1,8bn, while a further R970m is expected from the 10% surcharge on imports. Transfer payments under the Customs Union Agreements are estimated at R1 320bn, and it has been decided that the transfer payment to South West Africa be increased by a further R50m to R350m. Taking these into account, net income from Customs and Excise is estimated at R2 550bn.

34 430
− 29 730
5,700 surplus revenue 85/6

5.2 Tax Matters

5.2.1 The Margo Commission

Wide interest is focused on the activities of the Commission of Inquiry into the Tax Structure of the Republic of SA, under the chairmanship of Mr Justice Margo, and in the light of the present socio-economic circumstances in SA it is manifest that the appointment of this Commission was both needful and timely.

It is imperative that SA has a tax structure that, with due regard to the universal norms for a good tax system, is capable of contributing significantly to the long-term socio-economic development of the South African community.

The commission has a wide-ranging brief that confronts it with exceptional demands. From the contact that I have from time to time with the chairman, I am aware of the commission's deep realisation of the weighty responsibility resting on its shoulders.

Changes

The commission has not hesitated to garner opinions — mostly divergent — over a wide area and from all interested parties; and I am therefore confident that when the final report is submitted later this year government will have the benefit of findings and recommendations that can be fully justified in the light of the realities of the SA of the 1980s.

Bearing in mind the commission's wide brief it would not be reasonable to expect unanimity on so controversial and emotive a matter as taxation.

Now that the commission is in the home stretch I should like to take this opportunity to thank the chairman and the commissioners for their dedicated work over the past 15 months, and to wish them the wisdom of Solomon in the formulation of their final proposals.

In the light of the advanced stage that the investigation has reached it would not be desirable to introduce far-reaching changes in the tax structure now, and I have thus sought as far as possible not to disturb the *status quo* with respect to that structure.

Ad hoc changes in one area can obviously hinder adjustments in other areas and mean that the objectives set by the commission are ultimately not achievable.

5.2.2 General Sales Tax, Excise Duty and Surcharge on Mines

It is therefore undesirable, despite the several requests for further exemptions from general sales tax, and particularly food items, to alter the present GST structure or rate.

Moreover, any increase in excise duties at present could be counterproductive, since it could in fact — on account of the potentially adverse effect on consumption — lead to a reduction in total revenue from this source.

It is also fitting that the *status quo* of the past year be maintained with regard to mining companies.

The profits of these companies have, generally speaking, not been badly hit by the unfavourable domestic economic climate of the past year: indeed, the profits of exporters, including mines, have risen in line with the fall in the rand.

Other companies and individuals are however still experiencing cash flow problems.

I propose, therefore, that the 25% surchage on gold and diamond mines and the 15% surcharge on other mining companies again be imposed in respect of financial years ending between April 1 1986 and March 31 1987.

As to non-mining companies it is proposed that the tax rate remain unchanged at 50%.

We live in rapidly changing times, and policy, including tax policy must take account of this.

Moreover, the first opportunity government will have of implementing any of the Margo Commission's recommendation will be during the 1987 session of Parliament.

Adjustments

It is therefore appropriate to announce today certain tax adjustments without in any way anticipating the Margo Commission's findings: the proposals are purely practical measures to address urgent problems or remedy existing anomalies.

5.2.3 Provisional Tax: Companies and Individuals

The Pay As You Earn system of tax collection (PAYE) was originally designed to ensure that a taxpayer's liability was met chiefly during the tax year concerned.

In conjunction with this, and for purposes of the provisional tax payable, estimates of taxable income are required from companies and individuals who receive business income or income from investments.

Over the years various adjustments have been made to the system to meet certain problems and changed circumstances.

The most recent change was in October 1985, when it was announced that persons older than 65 would in future be exempted from rendering provisional returns, provided their taxable income did not exceed R20 000 for the relative year of assessment and came only from investment income, salary and pension.

This, of course, does not mean that they are now exempt from income tax.

It is reasonable to expect taxpayers to make proper provision for the payment of tax shortly after the end of the tax year.

It is also desirable that the same rules should apply to all taxpayers including individuals in the

● To Page 9

● Many South African undertakings have been badly hit

Broad tax base

● From Page 8

higher income group. It is therefore proposed that:

(a) the total of the first, second and third payments of provisional tax by companies be increased from 90% to 100% of their actual tax liability, with the promise that if the payments amount to more than the full liability, interest on the surplus will be paid by the state at the prescribed rate. This applies to years of assessment ending on or after 28 February 1986; and,

(b) provisional taxpayers (other than companies) whose taxable income exceeds R50 000, also be liable for the third payment of provisional tax. As this will be in respect of years of assessment ending on or after 28 February 1987, the first additional payment will be due in August 1987.

The proposed measures do not affect the total or final liability for taxation: they are merely a method to ensure that the full tax account is settled earlier.

These earlier payments by companies should give the Treasury an advanced cash flow of R291m in 1986-'87. The proceeds from individuals will first appear in the 1987-'88 financial year.

5.2.4 Stamp Duty and Marketable Securities Tax

I propose that with effect from April 1 1986 the stamp duties relating to the transfer of marketable securities be raised from 10c to 15c per R10 or portion of the relevant consideration or value.

At the same time the rate of the marketable securities tax will be raised in conformity from 1% to 1,5%. The additional revenue is estimated at respectively R20m and R25m for 1986-87.

I further propose that the levy on debit entries be raised on July 1 1986 from 5c to 10c per entry, which should result in R15m additional revenue for 1986-87. Further details appear in the tax proposals to be tabled today.

Experience has shown that these particular taxes have no noticeable influence on the nature and magnitude of financial transactions.

The present tendencies in these areas, as compared with real activity elsewhere in the economy, are such that these increases in stamp duty and marketable securities tax are neither inappropriate nor unwarranted.

5.2.5 Import Surcharge

To generate revenue from which the special package for both unemployment relief and special training projects could be financed, a surcharge of 10% on certain imports was introduced on September 28 1985.

This tax also has the advantage of serving to discourage imports.

In view of the fact that the rand has appreciated considerably since the surcharge was imposed, thereby lowering the cost of imports, and since we should by virtue of debt repayment be prudent with our foreign exchange reserves, there is now even more reason to retain the surcharge as a possible import disincentive.

Moreover, the need for revenue remains.

It is necessary that the tax base be kept as broad as possible.

The surcharge on the importation of books, coupled with the still relatively-low exchange rate of the rand, does however create a special problem for educational institutions and libraries.

I believe a concession is justified in this case, and I therefore propose that the surchage on books be abolished. This will involve a loss of revenue in 1986-'87 of R10m.

This concession will not be able to serve as a precedent in the treatment of future requests for tax exemptions.

Government is in this way contributing towards the lower cost of books, and it calls on importers and booksellers to pass the reduction on to the buyer in full; it also looks to those who have so earnestly pleaded this matter to ensure that the reduction does in fact eventuate.

5.2.6 Customs Duty on Imported Motor Cars

In last year's Budget the customs duty on fully assembled imported motor cars was raised from 100% to 125%.

However, the subsequent sharp depreciation of the rand magnified the price-raising impact of this measure.

The decline in import volumes caused revenue from this source to fall sharply instead of rising. This particular market, with its allied service and maintenance industries, has come to a virtual standstill.

Although there is certainly no intention of encouraging imports in general, it is proposed in the circumstances that this duty revert to 100%, which still gives the local industry more than sufficient protection. No loss of revenue is expected.

Government notices to implement the reduction in customs duty on motor cars and the abolition of the surcharge on books will be published today.

This reduction and abolition will apply to goods that have not yet been cleared for domestic use.

5.2.7 Regional Levies

There is still some uncertainty regarding the implementation date and the precise basis and level of the levies imposed by the regional services council.

Since the business community in particular needs to plan ahead, it is appropriate to make a few brief remarks on the subject.

The regulations governing the regional services — and regional establishment levies are now in the final stage of preparation and will shortly appear in the *Government Gazette* for general information.

These rules, which prescribe the basis of taxation and the collection system, will apply uniformly to all regional services councils throughout the country.

The rate of the levy, however, may differ among the regions; furthermore, regions will be able to apply differentiated tariffs on certain categories of those subject to the levies.

The Council for the Coordination of Local Authority Matters and the Minister of Finance recently concurred that, where regional establishment levy should not exceed 0,1% of a business' turnover, while the regional services levy will be limited to a maximum of 0,25% of its total payroll.

As to the date on which these levies take effect, it should be remembered that a regional services council must first formally decide to introduce the levies.

Notice

It is therefore judged necessary that — by virtue *inter alia* of considerations of equity, administrative requirements and registration procedures — a notice period of three months will be needed before the collection can begin.

Since the Delimitation Board will naturally have to fix the boundaries of a regional services council area before the council concerned can be constituted, it is clear that decisions to introduce levies will not be forthcoming in the immediate future, as both these processes will necessarily take some time.

It is thus highly unlikely that levies will be widely collected before September 1986.

5.2.8 Tax Collections and Training

During the past year the Directorate: Inland Revenue continued with its intensified collection and audit procedures,

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● Commission of Inquiry into the monetary system

BUDGET '86 Increasing efficiency

STATE REVENUE ACCOUNT

		Revised figure 1985-86	Budget figure 1986-87	Percentage change
	Rm	Rm	Rm	%
Expenditure:				
Printed Estimate (R.P.2-86:				
First Print)			37 447	
LESS: 2% suspension			636	
			36 811	
PLUS: Supplementary appropriations in respect of:				
Employment	160,0			
Training of the unemployed	75,0			
Small Business Development Corporation	30,0			
Infrastructure for the Blacks	320,0			
Civil Pensions	1,4			
Military Pensions	3,9			
Social Pensions	170,0		760	
Total Expenditure		**32 977**	**37 571**	**13,9**
Revenue:				
Printed Estimate (R.P. 3 — '86:				
First Print:				
Customs and Excise at existing rates		2 550		
LESS: Tax proposals in respect of:				
Import Surcharge on books			10	
Customs duty on imported motor cars			—	
Total for Customs and Excise		**2 110**	**2 540**	**20,4**
Inland Revenue at existing rates			31 880	
PLUS: Tax proposals in respect of:				
Provisional tax	291,0			
Stamp duty on marketable securities	20,0			
Stamp duty on debits	15,0			
Marketable securities tax	25,0		351	
			32 231	
LESS: Tax proposals in respect of:				
7% surcharge on individuals	500,0			
Encouragement of savings	72,0			
Working couples	58,0			
5% rebate on personal income tax	494,0			
Estate duty	20,0		1 144	
Total for Inland Revenue		27 620	31 087	12,6
Total Revenue		**29 730**	**33 627**	**13,1**
DEFICIT: (before borrowing)		3 247	3 944	21,5
Loan Redemptions:				
Domestic loans:				
Stock	807	1 225		
Bonds	190	107		
Foreign loans		509	13	
Loan levy		481	217	
Treasury bills		516	—	
Other loan expenditure		—	2	
		2 [illegible]	**1 [illegible]**	**—37,8**
Financing requirement		**5 752**	**5 506**	**—4,2**
Financing:				
Domestic loans:				
Public Investment Commissioners		3 000	3 250	
Re-investment of maturing stock			1 225	
New stock		2 373	893	
Non-marketable securities				
Treasury Bonds	125,0			
National Defence Bonds	15,0	118	140	
Foreign loans		230	—	
Tax reserve Account balance		89	—	
Transfer from IMF Deposit Account		153	—	
Surplus carried forward from previous year		112	—	
Total Financing		**6 075**	**5 506**	**—9**
BALANCE		**323**	**NIL**	
Appropriation of balance:				
Transfer to Special Defence Account		323	—	
SURPLUS:		**NIL**	**NIL**	

Tax fraud!

1,16
138
10
970

● From Page 9

with results beyond all expectations.

On the income tax front 2,3-million tax returns were audited during the two years ended September 30 1985 and additional income of R1,16bn was subjected to tax.

During the 17 months to February 28 1986, the inspection teams assessed some R138-million additional sales tax and penalties.

More than 3 000 responses were received to the tax amnesty announced in last year's Budget speech and which expired on August 31 1985. The additional revenue collected was some R10m.

With a view to increasing efficiency still further the Directorate: Inland Revenue provides in-house training.

In the calendar year 1985 more than 2 000 officials attended courses in income tax, sales tax and other taxes.

About one third of all Inland Revenue officials were thus involved in 1985 in some kind of formal training. It is gratifying that this investment in the future has already begun to bear fruit.

Evasion

The authorities do not expect any taxpayer to pay more than he owes. Indeed, government itself helps him to reduce his tax liability, for instance by granting tax concessions on certain savings accounts and on life assurance policies.

Tax evasion, on the other hand, is a criminal offence.

The person failing to

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WHERE THE MONEY GOES

(1985/6 FIGURE IN BRACKETS)

	(In Rm)	
PUBLIC ORDER AND SECURITY		
Custody and administration of justice	R688 043	(R606 448)
Police	R1 129 113	(R992 878)
Defence	R5 257 031	(R4 408 862)
Other	R169	(R95)
	R7 243 187	**(R6 103 188)**
GENERAL GOVERNMENT SERVICES		
Foreign relations	R249 699	(R196 552)
Civil matters	R72 394	(R53 399)
Government establishments	R58 467	(R54 932)
Constitutional development	R2 912 271	(R2 324 728)
Other	R150 367	(R127 695)
	R3 443 198	**(R2 757 306)**
ECONOMIC SERVICES		
Labour regulation	R55 093	(R93 360)
Forestry	R27 877	(R30 791)
Energy and power	R780 663	(R529 465)
Trade promotion	R213 626	(R184 481)
Agriculture	R875 573	(R1 087 192)
Mining and minerals	R38 465	(R49 084)
Industrial services	R559 172	(R546 685)
Transport	R1 721 324	(R1 622 304)
Water supply	R325 048	(R227 104)
Other	R668 459	(R521 306)
SOCIAL SERVICES		
Housing	R650 962	(R518 756)
Area development	R58 092	(R50 886)
Health	R2 799 161	(R2 512 820)
Advancement of culture	R65 416	(R60 523)
Education	R6 082 467	(R5 099 244)
Sport and recreation	R9 118	(R9 090)
Welfare promotion	R1 933 362	(R1 780 663)
Other	R184 073	(R178 940)
	R11 782 285	**(R10 211 902)**
STATE DOMESTIC EXPENDITURE		
Administration	R12 905	R9 851)
Buildings, structures, etc	R584 994	(R436 844)
Personnel administration	R153 169	(R63 702)
Government motor transport	R24 997	(R19 707)
Other	R152 585	(R117 546)
	R928 650	**(R647 650)**
UNALLOCABLE		
Research	R468 203	(R405 900)
Civil pensions	R1 244 549	(R856 638)
State debt costs	R5 233	(R4 478 577)
Improvement of conditions of service	R1 077	(R235)
Other	R761 820	(R822 048)
	R8 784 572	**(R6 796 163)**
TOTAL ESTIMATED EXPENDITURE	**R37 447 182**	**(R31 369 861)**

BUDGET '86 Magnitude of services

● From Page 10

disclose income, or employing other practices to evade tax, does his honest fellow taxpayers an injustice, since he helps to raise tax rates to a level higher than they would be if everyone made the proper contribution.

This Budget reflects once again the great magnitude of the services in which everybody shares.

It is only right that everyone should contribute to the financing of these services according to their ability.

So it is no great feat or victory over the government of the day or the Receiver of Revenue to evade taxation — simply dishonesty and a crime.

5.3 Expenditure

The printed Estimate of Expenditures (R.R. 2) for 1986-'87 to be tabled today amounts to R37 447bn. This represents an increase of 19% on the 1985-'86 Budget and 13,6% on the revised figure of R32 977bn.

5.3.1 Constitutional Dispensation

The attention of honourable members is drawn to the fact that, on account of technical differences in the treatment of the transfers to the accounts for Own Affairs, the total appropriation for 1986-'87 cannot be compared with that for the previous year.

In 1985-'86 the main component in these transfers was statutory provisions under a formula prescribed in the Act for the Financing of the Revenue Accounts, 1984.

That Act was merely an interim measure for 1985-88, to be replaced in due course by a general law containing multi-year functional/normative formulas.

It is a complex matter and, while the Department of Finance has already made much headway in the negotiations on their introduction, finality has not yet been reached between the Department and the several Own Affairs Administrations.

Once these formulas have been finalised, a general law will be formulated and laid before Parliament in the usual way.

Until then the transfer to the Own Affairs budget accounts must take the form of appropriations.

These large shifts explain why a year-on-year comparison of total statutory provisions or appropriations is largely meaningless.

5.3.2 Public Service Remuneration

The announced 10% increase in salaries is estimated to cost R1bn.

Public servants have enjoyed no general salary adjustment over the past 27 months; in fact, with the reduction in the service bonus last year, their nominal income fell. The proposed adjustment reduces the backlog to an extent and simultaneously aims to ensure that the state's salary structure as a whole does not fall unacceptably behind that of the private sector.

A further amount of R227m is being made available so as to continue on a modest scale the program of job differentiation, which seeks to ensure that the State is also to retain the services of staff in key categories.

While it is accepted that in any large organisation in the private sector too, there is always room for savings and for rationalisation of services, it is appropriate to make a few remarks on a charge that is frequently heard, namely that the public service is too big and too unwieldy and is growing too fast, on top of which officials are overpaid.

State and provincial officials are found chiefly in those functions involving regulation, security and development.

The relationship between these functions is broadly as follows: regulation and administration (the archetypal "bureaucracy"), 10%; security (for example defence, police), 20%; and development (for example education, research and nursing), 70%.

Whereas the growth in employment in the public service over the 21 months to March 1985 was in total 1,6%, the growth in education personnel was 9,2%.

The rate of growth in black education was 14,1%, and in coloured and Indian education was also relatively high at 9,5% and 6,4% respectively.

Functions

These figures surely make it clear that the number of people involved in regulatory and administrative functions is not unduly high and that the growth in numbers is to be found in those functions that render an indispensable development service to the community.

Indeed, consequent upon government's initiatives on savings on staff expenditures and on productivity improvement, the number of posts in the public service at the end of 1985 was 1,1% less than at the end of 1984, while 47,7% of all vacant posts were abolished on April 1 1985.

An analysis of the notch distribution in payroll statistics shows that 71% of state employees earned less than R10 000 a year in 1985 and 94% under R20 000.

The labelling of officials as over-paid is therefore both misleading and unfair.

If these things are taken into account, the deal for public servants will surely be seen from a better perspective.

Government would like to take this opportunity to place on record its thanks to all State employees for their services and their special efforts to cut expenditure. Their personal sacrifices in this regard are greatly appreciated.

5.3.3 Housing

This is an Own Affair and will consequently be discussed in the respective Houses.

In the estimate of expenditures provision is made for expenditure of R650,6m on housing, which is an increase of ... of the 1985-'86 Main Budget figure.

The net addition to the capital of the National Housing Fund for all population groups in 1986-'87 is R239m, 28% higher than the comparable figure for 1985-'86.

Included in this figure is an amount of R65,6m for blacks — a general affair — representing an increase of 27,4% on the 1985-86 figure.

This amount, as well as a further sum of R72,7m in respect of the return flow of interest and capital from loans will be used to their benefit by being added to the capital of the National Housing Fund.

In addition to this R173m is provided under the vote Development Aid. The total provision for black housing is thus R311,3m.

5.3.4 Education

Just as in the case of housing, education (except black education) is an Own Affair.

The importance of this function warrants however a few comments.

Honourable members will notice that educational expenditure still form by far the largest expenditure item on the Budget, and the R6,082bn proposal for 1986-87 represents an increase of 19,3% above the budgeted figure for 1985-86.

Regarding black education as such, the increase in primary and secondary education outlays is R159m, or 27,8% above the budgeted amount for 1985-86.

It includes higher expenditure on personnel, the erection of new schools and classrooms to cater for the normal growth in pupil numbers, free provision of stationery and books to pupils, and an increase in the building programme to reduce backlogs.

5.3.5 Defence

As has frequently been stressed in the past, SA must be fully prepared in the military sphere in order to contain the forces threatening the country.

Although sporadic and limited, the onslaught both internally and on our borders demands the deployment of large numbers of troops and great quantities of equipment.

Continual stocking-up and the methodical replacement of major equipment naturally means heavy financial demands.

An amount of R5,123bn on this Vote is therefore now proposed, which represents 13,7% of the estimated expenditure for 1986-87.

This ratio is virtually the same as that for the previous financial year.

5.3.6 Atomic Energy Corporation (AEC)

A sum of R775,8m is provided for the Atomic Energy Corporation, or an increase of 47,5% over 1985-86.

This increase arises chiefly from the fact that the process is being continued of bringing back on to the Budget services previously financed by loans in the open market.

If the carry-over costs of expenditures that in 1985-86 were covered by loans of about R157m, and the redemption in 1986 of AEC loans of R52,5m, are left out of

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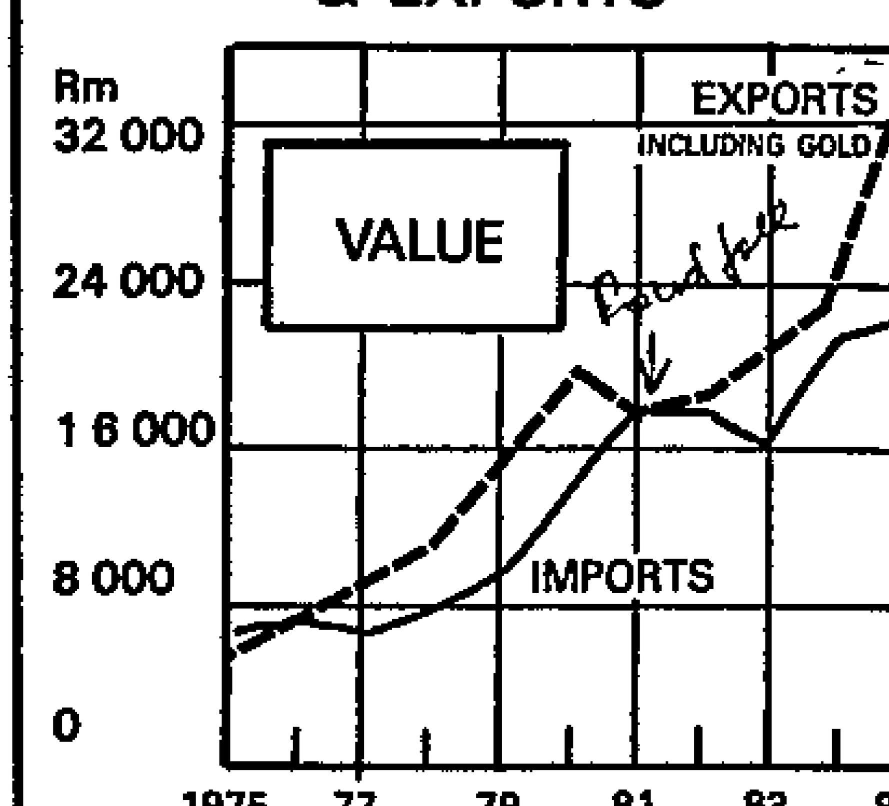
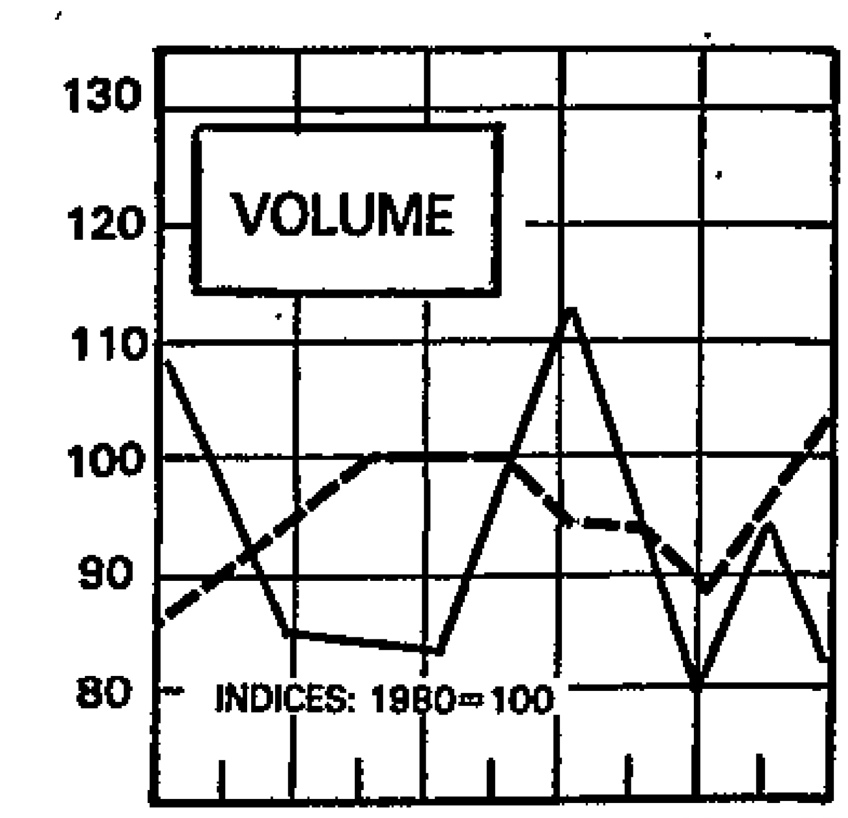




BUDGET '86 Transfers of responsibility

● From Page 13

account the increase for this service is only 7,6%.

5.3.7 Transfer of Technology

The development and transfer of technology is closely bound up with industrial development.

In the Kleu Report on an industrial strategy for SA the need is identified for a co-ordinated marketing to make industrialists more aware of improved technology.

Strategy

This is done by exposing them to the available technology, and by allowing own or applied technology to develop locally.

Thus can the efficiency of South African industry be improved and its competitiveness, domestic and international alike, be assured.

This marketing strategy can best be accomplished and co-ordinated by state initiatives.

Government has therefore, as part of its industrial development strategy, taken steps to provide a suitable mechanism to promote the development and transfer of technology, and has set aside R1,5m for this purpose in 1986-87.

5.3.8 South West Africa

The amount of R476,5m provided in the Budget is R169,5m (or 55% more than for 1985-86.

This sharp increase is not the outcome of large-scale extensions, but represents the transfer of the responsibility for the provision of certain services from the Republic to South West Africa.

For example, by agreement South West Africa had to make provision with effect from April 1 1985 for the compensation, on a phasing-in scale, of operating losses on railway and road transport services within the territory.

Loss

In 1985-86 the Territory had to bear 70% of the loss and SA Transport Services 30%, whereas from 1986-87 — the second year of the agreement — South West Africa must bear 80% and the South African Transport Services 20% of the estimated operating losses.

In addition, the Territory must bear the financing costs of certain assets.

The sum of R36,3m is required for this purpose.

From 1986-87 South West Africa also takes over services to the amount of R30,5m from the SA Police.

Loans

Finally, R60m in respect of foreign loans must be redeemed by South West Africa in 1986-87.

It is accepted that in the current circumstances these loans will not be rolled over, and the Estimate of Expenditure of the Republic therefore provides for this redemption.

Moreover, a reduction in the territory public debt is indicated.

If the above factors are left out of account, this service shows an increase of only 13,9% on the 1985-86 figure of R307m.

5.3.9 Marginal Gold Mines

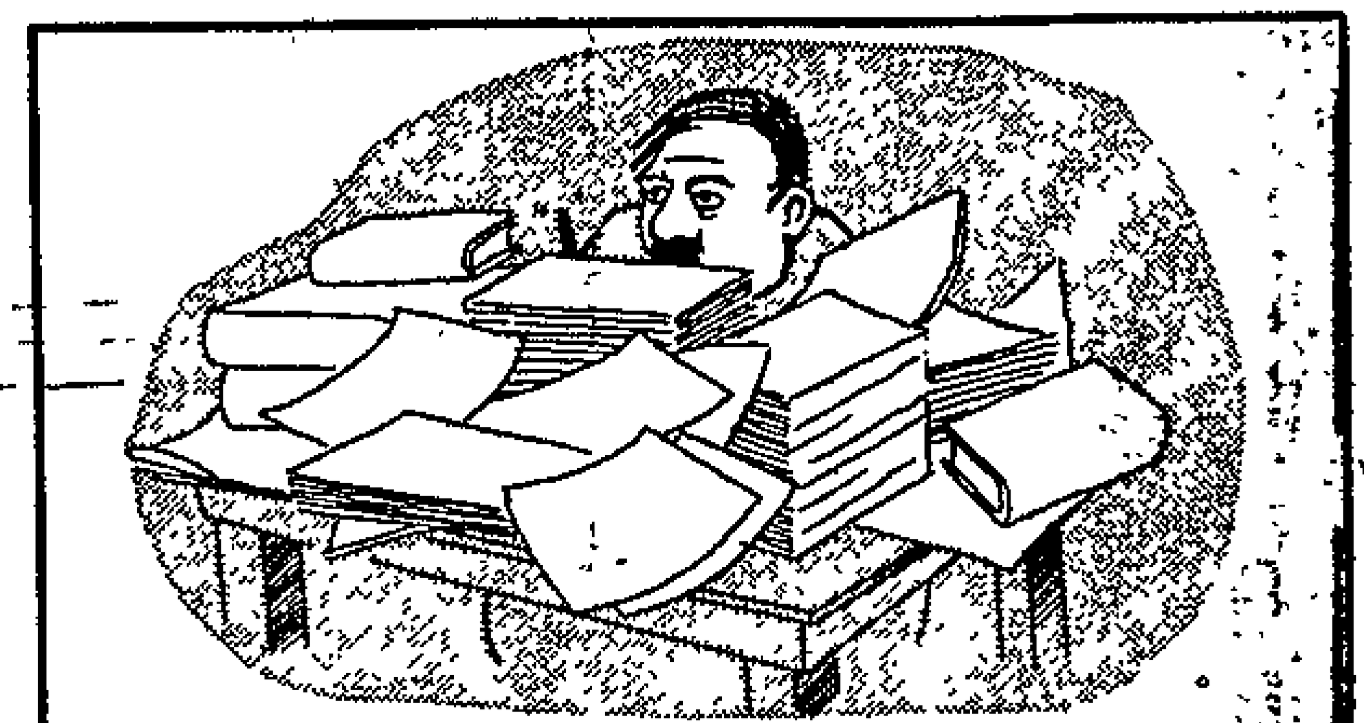
Certain mines (known as marginal gold mines) receive state aid under the Gold Mines Assistance Act, No 82 of 1968.

This stems from the time when the price of gold was not market-related, and it was intended as a bridging measure until the gold price rose.

Circumstances have since changed, however, and on grounds of pure macro-economic considerations this aid is no longer justified — a conclusion come to some years ago by the Franzsen Committee.

My colleague, the Minister of Mineral and Energy Affairs, agreed with me in November 1985 to end this scheme and to notify the mines concerned.

It will be replaced by an *ad hoc* scheme judging individual cases on merit — a scheme that can be applied in line with the ruling fiscal and economic objectives.



● Dedicated work over the past 15 months

5.3.10 Liabilities Concerning the Public Debt

The estimates make provision for R5,233bn for the servicing of public debt, of which R5,195bn is for interest.

This interest component is 11,9% above the revised 1985-86 figure and 18,1% above the budgeted figure.

The increase arises chiefly from the rise in the average rate of interest on government loans.

5.3.11. Bread Subsidy

Government has accepted the recommendation of the Commission of Inquiry into the Government's System of Bread Subsidies (the Davin Commission) that the subsidy be phased out.

The subsidy on bread, which amounted to R200m in 1985-86, will be reduced to R150m in 1986-87.

5.3.12 Suspension of Expenditures

The technical and timing contingencies surrounding the printing of the estimates are such as to preclude the incorporation at short notice of the effects of the latest economic or other developments.

The recent favourable changes in the economic parameters, and especially those originating in the firmer exchange rate and the lower fuel price, as well as the uncompleted savings effort in the sphere of staff-related costs, have led to a Cabinet decision that the sums included for appropriation in the estimates for 1986-87 totalling R31 806bn, be reduced by 2% throughout.

The Treasury will implement this by suspending appropriate amounts in terms of Section 8 of the Exchequer and Audit Act.

The sum involved will be R636m, which will bring total expenditure down from R37 447bn to R36 811bn.

5.3.13 The Year of Disabled People

The incidence of physical disability is calculated in developed countries at about 10% of the population.

Honorable members will thus appreciate that the number of the disabled in our country is large.

Government has therefore thought it appropriate to give the question special attention and has decided that 1986 will be known as the Year of Disabled People.

It has also been decided that a plan will be drawn up for the care of the disabled; the State President recently made a public announcement in this connection.

The normal expenditure on education for the disabled will be about R145m in 1986-87.

In addition to this and other services already being provided, an extra R10m has been included in the Budget, which will support the costs of special accommodation, appliances and so on.

Media

An extensive programme of media coverage of the subject of the physically disabled will also be launched.

The pinnacle of the programme will be reached in nation-wide sporting events for the disabled.

Furthermore, a special proof silver rand will be minted later this year to commemorate the Year of Disabled People; a portion of the proceeds from its sale will be channelled to disability care.

The responsibility of providing for the physically disabled does not rest with the state alone.

The interest and involvement that the private sector has already shown is gratefully acknowledged.

5.4 Supplementary Proposals: Expenditure

5.4.1 Job Creation

As announced during the debate on the Additional Appropriation, the R70m representing the remaining portion of the R600m allocated for job creation in 1985-86 will be made available for the continuation of this service in 1986-87.

Deserving

Since Government is fully convinced that this deserving project should be expanded, a further R90m is now being allocated, while R75m is also being provided for the continuation of training of the unemployed — thus R235m in all.

70
90
75
235m

The additional R75m will virtually double the training effort in 1986-87, which means that about 550 000 people will be able to receive training.

These programmes help to promote the skills and the human dignity of the unemployed, to enhance their value for the community, and to enhance their chance of contributing to the economic progress of our country.

5.4.2 Small Business Development Corporation (SBDC)

One component of the R600m programme for work creation and relief was a sum of R75m earmarked for work creation via the SBDC.

In view of the start-up time involved in launching such a programme, only R47m could be utilised in the present financial year.

The remaining R28m would originally have been reappropriated in the new financial year as part of the supplementary expenditure proposals.

Balance

In the meantime, however, the Department of Trade and Industry found it possible to find this amount via savings, and the R28m will now be paid over to the SBDC as a starting balance for further work creation programmes for 1986-87.

By virtue of the particularly high premium government places on the expansion of the small business sector, however, no corresponding cut will be made in the supplementary proposals for 1986-87.

On the contrary, a sum of R30m will now be invested in the SBDC as share capital.

Government trusts that the private sector, as partners in the SBDC, will follow this example and contribute an equivalent amount in share capital.

5.4.3 Upgrading of Infrastructure for Black People

On August 15 1985 the State President announced that R1bn would be spent over the next five years in upgrading the infrastructure of underdeveloped areas.

A sum of R100m had already been set aside in 1985-86 to launch this high-priority project.

As planning is far advanced the momentum

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4490

Progress of pensioners

From Page 14

will be greatly accelerated in 1986-87 by the allocation of R320m for this service.

This expenditure level is estimated to be the optimal one for 1986-'87.

This provision supplements that of R311m, to which I have already referred, and brings the total sum that will be made available in 1986-87 for this improvement of infrastructure and for black housing to R631m.

5.4.4 Pensions and Welfare

Government is fully aware of the financial problems of social and civil pensioners and has, just as in the case of all the other high-priority services, sought to give the utmost relief within its financial constraints.

Improvements

I am happy to announce the following improvements in penions and allowances.

5.4.4.1 Civil Pensions

The concession will apply from October 1 and will be applicable only to those who retired before April 1 1986.

It comprises an increase of 1% for each completed year after retirement up to 30 September 1986, with a minimum of 7,5% and a maximum of 15%.

The increase will require a sum of R30,9m for the six months in 1986-87.

Normally a large portion of the cost of the increase in civil pensions is borne by the Stabilisation Account for Civil Pensions; but that account is temporarily exhausted as a result of previous increases.

The Government Service Pension Fund will, as an interim measure, bear these additional expenditures in 1986-87.

INCOME TAX PAYABLE: 1986 and 1987
MARRIED UNDER 60

Income	No children			1 child			2 children			3 children		
	1986	1987	Reduction	1986	1987	Reduction	1986	1987	Reduction	1986	1987	Reduction
R	R	R	R	R	R	R	R	R	R	R	R	R
4 000	—	—	—	—	—	—	—	—	—	—	—	—
4 500	—	—	—	—	—	—	—	—	—	—	—	—
5 000	—	—	—	—	—	—	—	—	—	—	—	—
5 500	—	—	—	—	—	—	—	—	—	—	—	—
6 000	2	2	—	—	—	—	—	—	—	—	—	—
6 500	82	78	4	—	—	—	—	—	—	—	—	—
7 000	162	154	8	62	59	3	—	—	—	—	—	—
7 500	242	230	12	142	135	7	42	40	2	—	—	—
8 000	322	306	16	222	211	11	122	116	6	22	21	1
9 000	482	458	24	382	363	19	282	268	14	182	173	9
10 000	642	610	32	542	515	27	442	420	22	342	325	17
11 000	809	762	47	702	667	35	602	572	30	502	477	25
12 000	977	914	63	870	819	51	763	724	39	662	629	33
14 000	1 371	1 264	107	1 264	1 169	95	1 157	1 074	83	1 050	979	71
16 000	1 850	1 689	161	1 743	1 594	149	1 636	1 499	137	1 529	1 404	125
18 000	2 400	2 177	223	2 293	2 082	211	2 186	1 987	199	2 079	1 892	187
20 000	2 993	2 704	289	2 886	2 609	277	2 779	2 514	265	2 672	2 419	253
25 000	4 665	4 188	477	4 557	4 093	464	4 450	3 998	452	4 343	3 903	440
30 000	6 599	5 905	694	6 492	5 810	682	6 385	5 715	670	6 278	5 620	658
40 000	11 156	9 951	1 205	11 049	9 856	1 193	10 942	9 761	1 181	10 835	9 666	1 169
50 000	16 075	14 318	1 757	15 968	14 223	1 745	15 861	14 128	1 733	15 754	14 033	1 721
60 000	21 204	18 873	2 331	21 096	18 778	2 318	20 990	18 683	2 307	20 883	18 588	2 295
80 000	31 898	28 367	3 531	31 791	28 272	3 519	31 684	28 177	3 507	31 577	28 082	3 495
100 000	42 598	37 867	4 731	42 491	37 772	4 719	42 384	37 677	4 707	42 277	37 582	4 695

N.B. 1 The above amounts have been calculated on the basis that the taxpayer's wife has no income and that he has no other dependants.
2 Standard deductions for medical expenses and rebates for insurance premiums have been allowed.

The resulting deficit in the pension fund will have to be made up by the Exchequer in the financial years following.

The same increase in pensions applies to holders of policical office and to others whose pensions are paid direct from the State Revenue Fund.

The cost in 1986-87 is estimated at R1,4m.

5.4.4.2 Military Pensions

My colleague, the Minister of National Health and Population Development, has approved a revision of the benefit structure for this group, as from October 1, 1986.

The new structure will mean that parity between population groups is achieved in the benefit scale for military pensions.

Moreover, an additional benefit category is introduced, for graduated beneficiaries.

Uniform pensions of R600, R750 and R1 00 per month respectively will be payable in the revised categories.

My colleague has also approved a supplementary allowance, with a maximum of 25% of a member's pension, for certain people who have disability of 80% at least and who qualify for the allowance.

This supplementary allowance applies form October 1, 1986. The proposed improvements are estimated to cost R3,9m in 1986-'87.

5.4.4.3 Social Pensions

Social Welfare, just as Housing, is an Own Affair and will be dealt with in the three Houses.

It is a pleasure to announce that a total of R170m has been set aside for social pensions and allowances for all population groups.

My colleague, the Minister of National Health and Population Development, in conjunction with the functional Ministers responsible, has allocated this sum.

Particulars of the allocations and the resulting improvements in pensions and allowances will be announced by the Ministers as soon as possible.

5.4.4.4 War Veterans

In response to requests from various quarters it is also a pleasure to announce that government has decided that veterans — from all population groups — of the First World War, will no longer be subject to a means test to qualify for a war veteran's pension.

Those falling into this category are now able to make immediate application for such pension.

Without reliable data on the number likely to benefit from this, it is virtually impossible to make a meaningful estimate of the additional expenditure.

Honourable members may accept that it will be minimal by virtue of the small number of potential beneficiaries.

My colleagues will provide further details in due course.

5.4.5 Adjusted Expenditure Level

After the proposals involving expenditure cuts (R636m) and supplementary expenditure proposals (R760,3m) have been allowed for, total estimated expenditure for 1986-87 rises from R37 447bn to R37,571bn — and increase of only 13,9% on the revised figure for 1985-'86.

In view of the fact, however, that in the middle of 1985-86 a deliberate change in emphasis was made in the state's expenditure policy — something that is also reflected in today's expenditure proposals — it would probably be more meaningful to look at the average increase in the expenditure level for the 1985-'86 and 1986-'87 financial years, which is 17,7%.

Stimulating

In the light of the economic conditions now ruling, the necessity of stimulating the economy moderately, and the present level of inflation, honourable members will agree with me that these increases cannot be considered unduly high.

5.4.6 Additional Budget

In as much as any Budget is necessarily subject to a degree of uncertainty in consequence of the relatively unstable nature of the local an international financial and commodity markets, it is sometimes desirable to make provision of some kind against contingencies.

At the time of the submission of last year's Budget it was clear that certain additional expenditures, such as drought relief, would be unavoidable. The extent of these additional expenditures could however not be determined at that stage, and therefore a sum of R400m was earmarked in the Budget speech for the part-financing of those expenditures.

Specific Risk

The Treasury is not at present aware of any specific new risk or potential under-provision in the 1986-87 Budget, and it is therefore, as is customary, not considered necessary to provide in the Budget for any special expenditures.

If, however, unforeseen circumstances should demand increased expenditure, it will as far as possible be financed from realised savings by departments and/or from any increase in tax revenue that may occur during the course of the year.

This precautionary measure should provide reassurance not only that unavoidable Budget overruns will be financed in a sound manner — namely without money creation and/or additional pressure on the financial markets — but also that such amounts will be kept to the minimum.

5.5 Tax Concessions

As a result of the proposals regarding provisional tax, stamp duty and marketable securities tax and the import surcharge on books, the revenue for 1986-87 increases from the initial estimated total of R34,430bn to R34,771bn.

The deficit before borrowing is at this stage therefore R2,8bn, or merely 1,9% of the estimated gross domestic product — which, in the current economic circumstances, means much too restrictive a budget.

It is commonly accepted that a deficit of about 3% of gross domestic product can still be easily financed without putting an undue upward pressure on the pattern of interest rates. Furthermore, capital expenditure will be some R4,25bn during the next financial year.

A moderate stimulus of the economy via tax relief is therefore both warranted and desirable and the following tax concessions are thus proposed.

5.5.1 Personal Income Tax

5.5.1.1. Savings

The problems surrounding the inflow of new foreign capital, and the necessity of a still higher savings propensity in order to create a larger capital base for the financing of the required rate of economic growth, are well-known. Honourable members will also recall that the amount of interest income exempt from tax was raised last year from R100 to R250.

To reinforce our efforts to enlarge the savings pool it is now proposed that the exemption limit be doubled to R500 per year. At current interest rates this means that the interest on a taxable investment of about R4 000 at a financial institution will be exempt from tax.

A still higher concession would have been desirable, but our budget flexibility in this regard is unfortunately limited. This concession will naturally also be to the advantage of retired persons, who depend greatly on interest as a source of income. The loss of revenue arising from this concession alone will amount to R72m for the coming year and to R107m for a full year. -107

The higher interest exemption also comports with the view that sav-

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BUDGET '86 Valuation of fringe benefits

INCOME TAX PAYABLE ON ASSESSMENT: 1986

TWO-BREADWINNER FAMILY

INCOME		ASSESSMENT SHORTFALL		REDUCTION
HUSBAND	WIFE*	EXISTING	PROPOSED	
R	R	R	R	R
8 000	5 000	112	72	40
8 000	8 000	96	8	88
8 000	12 000	351	26	325
10 000	10 000	431	210	221
12 000	10 000	697	429	268
12 000	12 000	941	503	438
15 000	12 000	1 369	832	537
15 000	15 000	1 908	1 062	846
20 000	10 000	1 515	1 029	486
20 000	12 000	1 930	1 231	699
20 000	20 000	3 902	2 218	1 684
25 000	12 000	2 477	1 595	882
25 000	15 000	3 281	2 034	1 247
25 000	25 000	6 083	3 568	2 515
30 000	12 000	2 910	1 856	1 054
30 000	15 000	3 787	2 353	1 434
30 000	30 000	8 193	4 797	3 396
40 000	20 000	5 736	3 300	2 436
45 000	25 000	7 537	4 206	3 331
50 000	30 000	9 376	5 195	4 181
55 000	35 000	11 115	6 084	5 031
60 000	40 000	12 847	6 966	5 881

* Net taxable earnings

● From Page 16

ings in general, rather than with specific institutions or through particular instruments, should be encouraged. For that reason it is not now possible to react positively to the representations made for greater concessions with regard to pension and retirement annuity funds or premiums on life assurance policies.

WHERE THE MONEY COMES FROM

Estimate of revenue to be received on the State Revenue Account during the Financial Year ending 31 March 1987

R34 464 600 000

Sources from which Revenue is derived

HEAD OF REVENUE	Direct taxation	Indirect taxation	Repayment of loans	Other sources	Total
	R'000	R'000	R'000	R'000	R'000
PART I					
Inland revenue					
Income Tax	20 290 300				20 290 300
Sales tax					9 450 000
Other taxes	340 000	615 000		84 005	1 039 005
Mining leases and ownership				680 000	680 000
Interest and dividends				390 745	390 745
Levies		50 700			50 700
Recoveries of loans and advances			50 600		50 600
Departmental activities				353 950	353 950
	20 630 300	10 115 700	50 600	1 508 700	32 305 300
LESS:					
Payments to self-governing national states (act 21 of 1971)					
Persons and individuals (sec 6(2)(a)(A)	400 000				400 000
Companies (other than tax on mining) (sec 6(2)(a)(ii)	300				300
Sales tax (sec 6(2)(a)(iv)		25 000			25 000
TOTAL	20 230 000	10 090 700	50 600	1 508 700	31 880 000
Customs and Excise duties					
Customs duty		1 300 000			1 300 000
Surcharge		970 000			970 000
Excise duty		1 860 000			1 860 000
Miscellaneous		90 000			90 000
		4 220 000			4 220 000
LESS					
Amount to the credit of Central Revenue Fund (Sec 22(1) of Act 25 of 1969)		350 000			350 000
Payments in terms of Customs Union Agreements (Sec 51(2) of Act 91 of 1964)		1 320 000			1 320 000
TOTAL		2 550 000			2 550 000
Total Part I	20 230 000	12 640 700	50 600	1 508 700	34 430 000
PART II					
South African Development Trust Fund amount to be paid into the Fund in terms of (Sec 8 of Act 18 of 1936)				33 000	33 000
Sorghum Beer Research Fund amount payable in terms of (Sec 19*bis* of Act 63 of 1962)		1 600			1 600
Total Part II		1 600		33 000	34 600
GRAND TOTAL	20 230 000	12 642 300	50 600	1 541 700	34 464 600

5.5.1.2 Fringe Benefits

Legislation providing for the systematic valuation of fringe benefits came into force on March 1 1985, and things have so far proceeded smoothly, the problems having been identified and systematically solved.

Although it is difficult at this stage to estimate the precise proceeds that will come from this source, the increase in employees' tax collections indicates that it will be significant. This would seem to bear out the presumption that the practice of remunerating workers partly through fringe benefits was occurring on an even greater scale than originally thought.

A further stage of the phasing-in of tax on certain fringe benefits commenced on March 1 1986.

Utilised

The undertaking has been given in the past that the tax is not primarily directed at raising total State revenue but instead at the more equitable distribution of the tax burden; to adhere to this undertaking the additional revenue coming from this tax has previously been utilised, and now with the abolition of 7% surcharge will again be utilised, to lower the general level of personal taxation.

Over the past few months representations have again been made for the freezing of the phasing-in period for certain fringe benefits, on the ground that this would boost trade and industry.

Although one naturally has understanding for such representations, it should be borne in mind that an exceptionally long phasing-in period has been allowed, and furthermore that the taxable values are not unreasonably high.

Indeed, little if any phasing-in has been granted in other countries. We have sounded the Margo Commission on this and they fully support our approach. Longer phasing-in periods can therefore not be supported.

However, the abolition of the 7% surcharge and the further proposal now made with regard to tax rates should bring not inappreciable relief to those in the middle-and upper income groups, who are particularly affected by fringe benefits taxation.

5.5.1.3 Working Married Couples

There are various schemes whereby the problems that have built up around the tax burden of married couples can be eliminated. Each, however, suffers from the disadvantage that the accompanying loss of tax to the fiscus would be unacceptably high in the current economic climate. The search continues for an acceptable compromise between a theoretically-sound and an affordable solution, and this too is being thoroughly researched by the Margo Commission.

Proposals in this regard can therefore not be considered without the benefit of the Commission's perspective. In the meantime, the problem of the additional sum that married couples must find on receipt of their assessment has aroused further emotions.

The entry of married women into the professional and labour market is a world-wide phenomenon, and one that in South Africa with its great shortage of skilled labour power is of growing importance. The Government has a a close understanding of the position of the working wife, and to provide interim relief for the working married couple the following adjustments are proposed: the R1 600 of the wife's net earnings that is presently exempt from tax will in future be 20% of her earnings with a minimum of R1 800 exempted from tax. In practice it comes down to this: if the wife's salary is R20 000 per annum the deduction will be R4 000 as against the present R1 600. This generous concession is applicable to the tax year that ended on February 28 1986, and should bring tangible relief for working married couples. It involves a loss of revenue of no less than R116m for 1986-87.

It should be noted, however, that the large sums married couples stand to pay an assessment cannot be blamed on the present tax structure *per se* but spring rather from the fact that, in many cases, the tax-deducted tables applicable to working women frequently, and particularly in the upper-income group, do not provide for adequate deductions to meet the actual tax liability.

This is due mostly to historical factors but also to the fact that it is impossible, without making the system still more complex, to prescribe tables to meet all possible permutations of the spouses' incomes.

The Commissioner for Inland Revenue proposes, however, by virtue of the powers conferred on him in the Income Tax Act, to prescribe amended tables applicable to married women.

These will come into force on July 1 and will provide for deductions more in line with the wife's portion of the tax payable on the joint income.

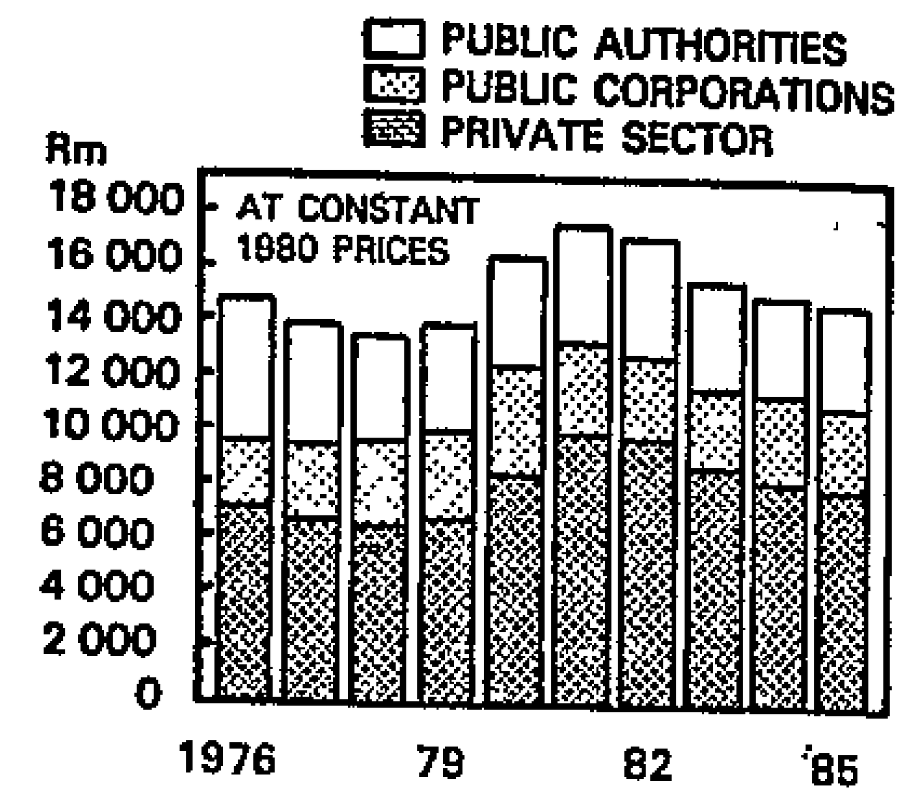
These more realistic deductions will appreciably reduce the balance payable on assessment.

From the point of the Exchequer, this advance in the collection of the tax due will generate a cash flow of R58m.

5.5.1.4: Rate Adjustments in Respect of Individuals

Honourable members will recall that the rates for normal tax payable by individuals were adjusted last year. This was done, firstly, to bring relief to those in the group with income below R12 000 by raising the thresholds substantially, and secondly, to lower the tax rates for income segments between R12 000 and R60 000 in the case of married persons, or R12 000 and

GROSS DOMESTIC FIXED INVESTMENT



R42 000 in the case of unmarried persons.

These rates apply to the tax year beginning March 1, 1985, and the downward adjustment of the rates coincided with the introduction of the fringe benefits provisions.

Due to technical reasons the lowering of the rates was more than the envisaged increases of revenue from tax on fringe benefits. In order to adjust for the difference more accurately and to increase it, was necessary to levy a 7% surcharge.

With a view to giving individuals relief and in line with the policy of moderate stimulation of the economy, the State President announced on November 18 that it would be recommended that the 7% surcharge be abolished with effect from the tax year beginning March 1 1986. New tax tables have been issued and employees are already enjoying lower tax deductions.

The loss of tax arising from the abolition of the surcharge is estimated at R500m for 1986-87 and R588m for a full year. This loss of tax is not reflected in the revenue estimates.

When this decision was taken, the fact that a further phasing-in on March 1 1986 was fully allowed for and, in terms of declared policy, the one was offset against the other.

Although the scope for further concession is very limited, it is nonetheless thought necessary that, in the present economic circumstances, the tax burden on individuals be further eased.

It is therefore proposed that a discount of 5% be granted to all income groups, with effect from March 1 1986 on the net normal tax payable, as determined after deduction of tax rebates.

The basic progressive rates introduced last year unfortunately remain unchanged, although the maximum marginal rate now reduces from 53,5% to 47,5%, that is by six percentage points.

The income notch at which the maximum rate is reached remains R60 00 for a married person and R42 000 for an unmarried person. The fact that the maximum marginal rate is now less than 50% illustrates the desire of government to give the necessary incentives to entrepreneurs and high-level manpower, which play a meaningful role in economic development and job-creation.

Fully to appreciate this concession one should look not only at the marginal but also at the effective tax rates. It will then be seen, for example, that the effective rates of a married person, without childen, earning R60 000 in 1986 was 35,3%. The new proposal reduces it to 31,5%

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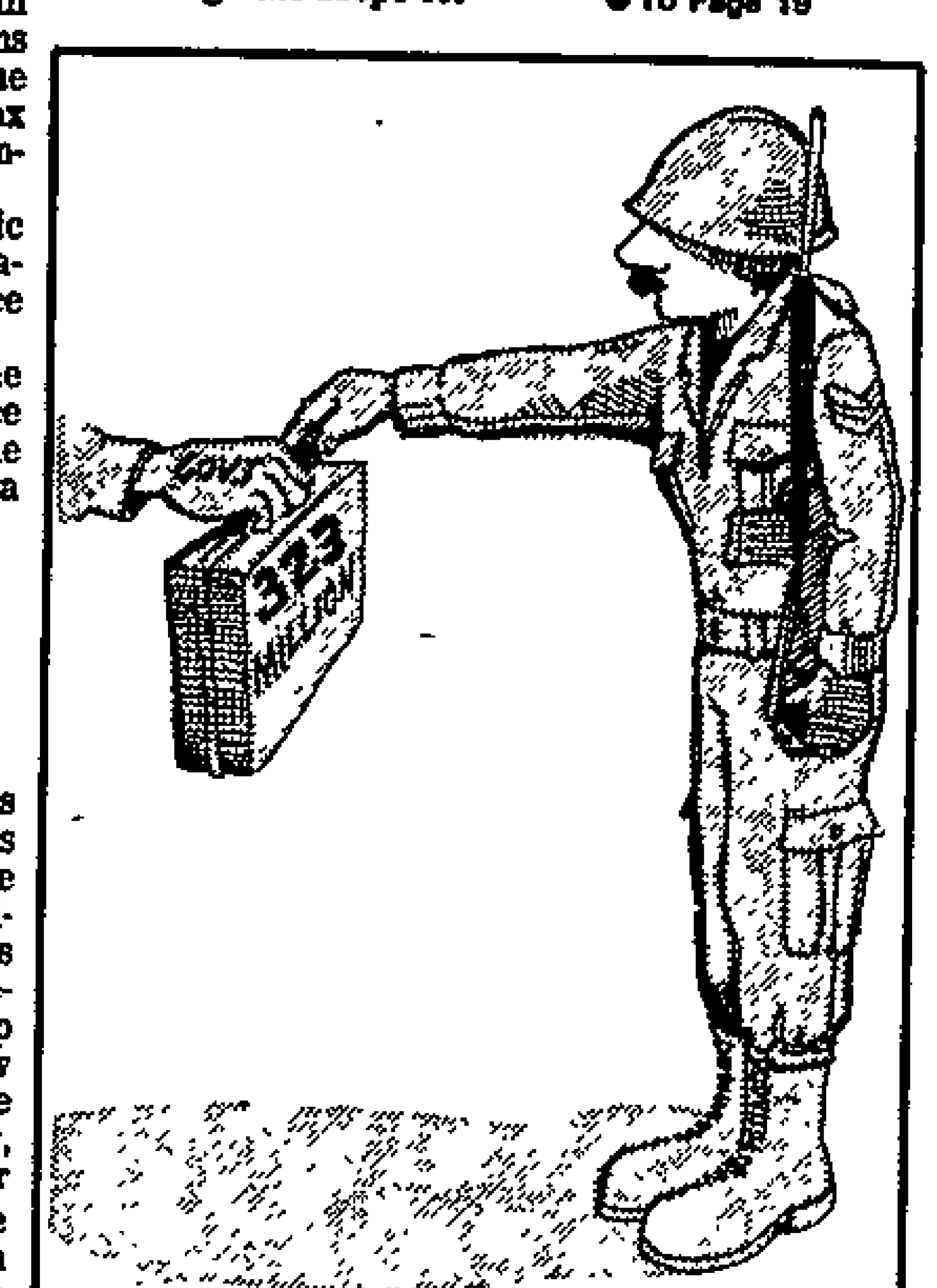


● Special Defence Account

DETAILS OF PART 1

HEAD OF REVENUE	1986/87	1985/86	Increase	Decrease
	R'000	R'000	R'000	R'000
Levies				
Diamond export duties	35 000	37 000		2 000
Mining lease rights and licences	2 700	2 311	389	
Licences	3 000	3 000		
Manufacturers of local synthetic fuels		70 000		70 000
Life insurers	10 000	77 000		67 000
Banking institutions		100 000		100 000
	50 700	289 311	389	239 000
Recovery of loans and advances				
Farming industry	1 100	1 000	100	
State land Settlements		20		20
Shipbuilding industry	4 200	4 860		660
Communications	10 200	9 490	710	
Housing		290		290
Sinking funds		4 500		4 500
Other	35 100	10 800	24 300	
	50 600	30 960	25 110	5 470
Departmental activities				
Sale of products				
Vaccine	350	200	150	
Wood and wood products	1 050	58 000	56 950	
Other	10 700	6 100	4 600	
Sale of capital equipment	23	20	3	
State property rights				
Leasing and property rights moneys	32 600	35 400		2 800
Sale of land, buildings and structures	5 000	5 700		700
Moneys prescribed by law				
Registration and inspection fees	6 400	6 200	200	
Fines and forfeitures	36 300	33 200	3 100	
Witness fees	27	20	7	
Pension contributions	1 800	1 700	100	
Other	42 500	59 600		17 100
Moneys not prescribed by law				
Leasing	500	500		
Domestic services	4 000	3 500	500	
Profits on trading accounts	43 200	57 500		14 300
Commissions	5 200	4 900	300	
Other	15 500	15 200	300	

DETAILS OF PART 1

HEAD OF REVENUE	1986/87	1985/86	Increase	Decrease
	R'000	R'000	R'000	R'000
Customs and excise duties				
Customs duty	1 300 000	1 590 000		290 000
Surcharge	970 000		970 000	
Excise duty	1 860 000	1 889 000		29 000
Miscellaneous	90 000	80 000	10 000	
Gross total for customs and excise duties	4 220 000	3 559 000	980 000	319 000
Less				
Amount to the credit of Central Revenue Fund (sec. 22 (i) of Act 25 of 1969)	350 000	250 000		100 000ø
Payments in terms of Customs Union Agreements (sec. 51 (2) of Act 91 of 1964)	1 320 000	1 300 000		20 000ø
Total for customs and excise duties	2 550 000	2 009 000	980 000	439 000
GRAND TOTAL	34 430 000	28 322 046	7 297 729	1 189 775
			Net increase	6 107 954

ø An increase in these directly diverted amounts causes a decrease in Exchequer Revenue

HEAD OF REVENUE	Direct taxation	Indirect taxation	Repayment of loans	Other sources	Total
	R'000	R'000	R'000	R'000	R'000
PART II					
South African Development Trust Fund amount to be paid into the Fund in terms of sec 8 of Act 18 of 1936				33 000	33 000
Sorghum Beer Research Fund amount payable in terms of sec 19*bis* of Act 63 of 1962		1 600			1 600
Total Part II		1 600		33 000	34 600
GRAND TOTAL	20 230 000	12 642 300	50 600	1 541 700	34 464 600

● From Page 18

in 1987 — a tax reduction of R2 331.

The additional loss of tax involved in the 5% discount is R494m for 1986-87 and R555m for a full year. The total loss of tax from the rate adjustments is thus R994m for 1986-87 and R1,143bn for a full year.

This generous concession, and the aforementioned concession in respect of wive's earnings, should afford appreciable relief to a very large body of taxpayers, including those with fringe benefits.

The following example indicates what a considerable benefit will be received by a married couple with two children where the husband earns R25 000 and the wife R15 000. Their joint taxation will decrease from R10 171 in the 1986 tax year to R8 491, a saving of no less than R1 680 or 16,5%.

Employee's Tax: Individuals

As already mentioned, adjusted tax tables applicable to working married women will come into force on July 1 1986. In the case of all other employees, the Commissioner for Inland Revenue will authorise employers immediately to subtract 5% form the employee's tax payable according to the employee's tax tables that came into force on March 1 1986.

It will thus not be necessary to issue new tables in this case, and the benefit will accrue to the taxpayer immediately. In effect, certain individuals will therefore receive a substantial rebate of more than 11% on their tax accounts as from March 1 1986.

Estate Duty

The phasing-out of estate duty in its present form is now being taken a step further in anticipation of final proposals that will probably be announced next year.

Both the deductins allowable in the determination of the taxable value of an estate and the tax rates themselves have — in contrast with those in

● To Page 20

DETAILS OF PART 1

HEAD OF REVENUE	1986/87	1985/86	Increase	Decrease
	R'000	R'000	R'000	R'000
Inland revenue				
Income tax				
Normal tax				
Gold mines	2 250 000	1 990 958	259 042	
Diamond mines	10 000	1 042	8 958	
Other mines	470 000	283 000	187 000	
Persons and individuals	11 800 000	8 967 000	2 833 000	
Companies (other than tax on mining)	5 700 300	4 250 000	1 450 300	
Interest on overdue tax	60 000	39 000	21 000	
	20 290 300	15 531 000	4 759 300	
Sales tax	9 450 000	8 320 000	1 130 000	
Other taxes				
Non-resident shareholders' tax	300 000	220 000	80 000	
Non-residents' tax on interest	35 000	35 000		
Undistributed profits tax	5 000	2 000	3 000	
Donations tax	4 000	4 000		
Estate duty	80 000	100 000		20 000
Marketable securities tax	60 000	30 000	30 000	
Stamp duties and fees	270 000	260 000	10 000	
Transfer duties	285 000	250 000	35 000	
Miscellaneous	5	5		
	1 039 005	901 005	158 000	20 000

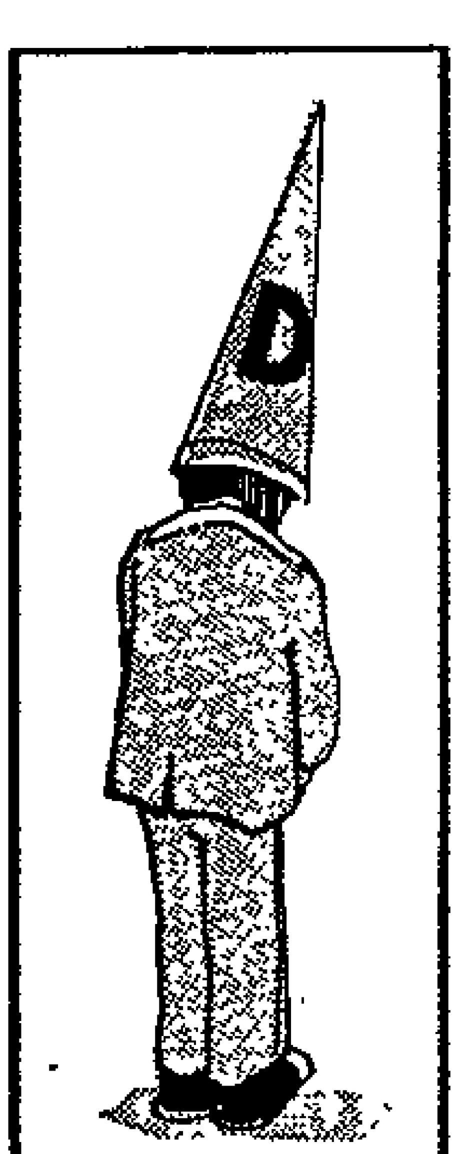
DETAILS OF PART 1

HEAD OF REVENUE	1986/87	1985/86	Increase	Decrease
	R'000	R'000	R'000	R'000
Mining leases and ownership				
Gold mines	570 000	450 000	120 000	
Diamond mines	60 000	8 000	52 000	
Other mines	50 000	10 000	40 000	
	680 000	468 000	212 000	
Interest and dividends Interest				
Border area development	3 000	3 970		970
Import and export promotion	4 800	3 000	1 800	
Broadcasting	1 500	1 250	250	
Petrochemical industry	500	2 000		1 500
Shipbuilding industry	1 500	1 900		400
Farming industry	6 030	10	6 020	
State land	1 100	1 300		200
Transportation	334 315	445 400		111 085
Communications	19 920	20 800		880
Local loans	80	200		120
Cash balances	200	200		
Other	15 500	19 200		3 700
Dividends				
Broadcasting	2 300	2 300		
Industrial shares		300		300
	390 745	501 830	8 070	119 155

DETAILS OF PART 1

HEAD OF REVENUE	1986/87	1985/86	Increase	Decrease
	R'000	R'000	R'000	R'000
Miscellaneous income				
Sasol stocks		195 000		195 000
Recoveries	8 800	8 200	600	
Reserve Bank profits	40 000	25 000	15 000	
Other	100 000	105 300		5 300
	353 305 300	26 663 346	6 317 729	675 150
Gross total for inland revenue	32 305 300	26 663 346	6 317 729	675 775
Less				
Payments to self-governing national states (Act 21 of 1971)				
Persons and individuals (sec 6(2)(a)(i)(A))	400 000	330 000		70 000ø
Companies (other than tax on mining) (sec 6(2)(a)(ii))	300	300		
Sales tax (sec. 6(2)(a)(iv))	25 000	20 000		5 000ø
Total for inland revenue	31 880 000	26 313 046	6 317 729	750 775

ø An increase in these directly diverted accounts causes a decrease in Exchequer Revenue



● Tax evasion . . .

BUDGET '86 Estate duty

● From Page 19

respect of individual income tax — remained unchanged for several years.

Inasmuch as the nominal value of an estate, just as the nominal income of an individual, has risen and is likewise subject to a progressive tax rate, it is desirable that relief be afforded.

I propose thus that all deductions of Section 4A of the Estate Duty Act be doubled.

At the same time the rates of estate duty will be changed so that the maximum rate of 35% is reached at R800 000 instead of the present R400 000.

These concessions will apply to the estates of persons dying on or after April 1 1986. That this proposal involves a substantial concession is evident from the fact that for a person with an estate of R450 000, leaving a spouse and two children, the estate duty liable is reduced from R45 000 to R9 000.

By reason of the time involved in winding up an estate, the estimated loss of revenue for 1986-87 will be only R20m.

Adjusted Total for Revenue

The estimated cost of the immediately preceding concessions is R644m. Add this to the R500m loss of revenue involved in the abolition of the 7% surcharge on individuals, which is not provided for in the printed estimate, and the previously-adjusted total for revenue falls by R1,144bn to R33,727bn.

Deficit Before Borrowing

The final deficit now becomes R3,944bn, which is approximately 2,7% of the estimated gross domestic product. This sum is substantially less than the capital component of the expenditure budget, which means that loan financing will not be necessary to cover current spending.

If the total loan redemptions for 1986-87 are added to the deficit the financing requirements for 1986-87 is R5,508bn.

Details of the redemptions are included in the summary statement.

Public Investment Commissioners

The enlarged payroll to be financed by the Exchequer, and the resulting higher pension fund contributions will naturally increase the cash flow of the Public Investment Commissioners substantially.

This will be supplemented by the high return being earned on the existing portfolio by virtue of the high interest rates of the past years. It is therefore anticipated that the Commissioners will invest R3,25bn in government stock in 1986-87, as against the revised estimate of R3bn for 1985-86 and the original estimate of R2,5bn.

Bonds

The concession regarding interest income is expected to have a favourable effect on the issue of

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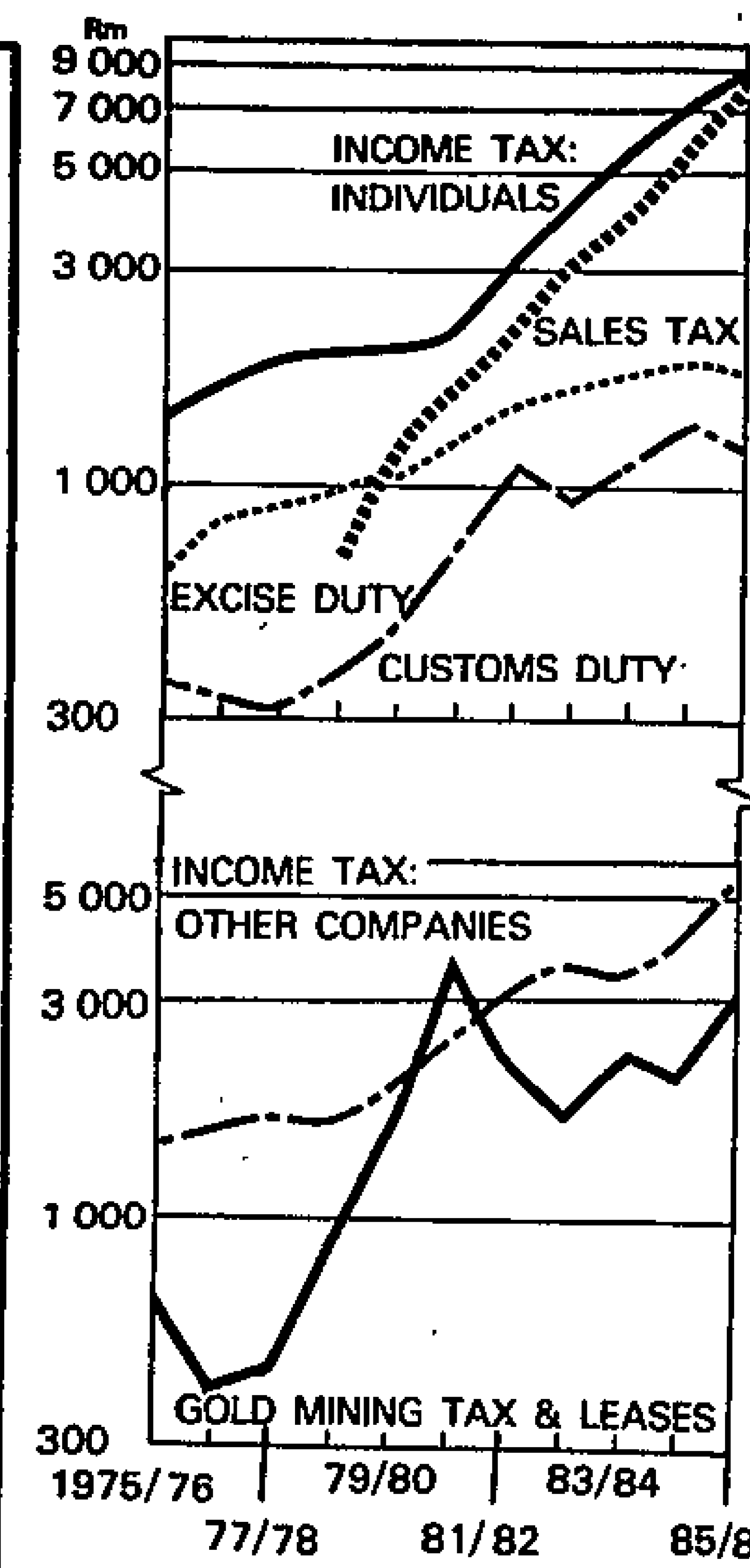
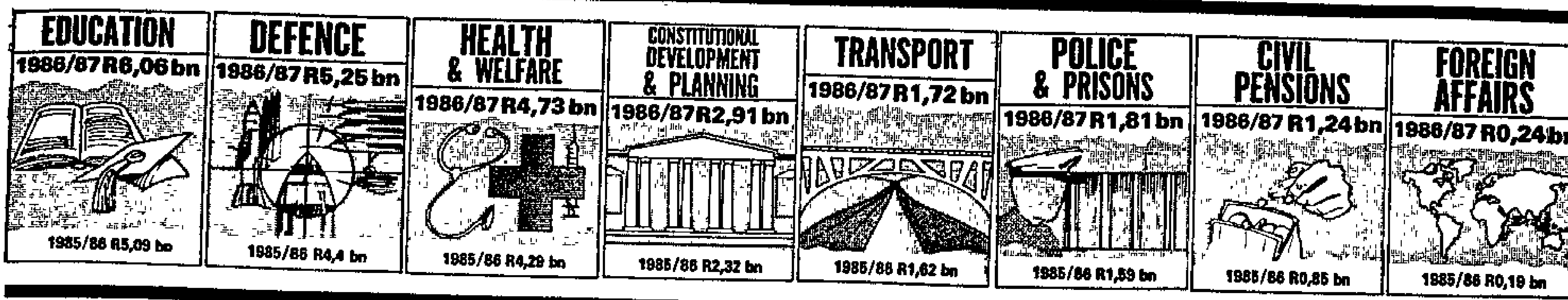
REVENUE COLLECTIONS MAIN SOURCES



BUDGET AT A GLANCE

(All figures in Rm)

Printed Estimate		37 447	
PLUS			
Job Creation	160		
Training Unemployed	75		
SBDC	30		
Black Infrastructure	320		
Civil Pensions	1,4		
Military Pensions	3,9		
Social Pensions	170	760	
LESS		38 207	
2% SUSPENSION		636	
TOTAL EXPENDITURE			37 571
REVENUE			
Customs and Excise		2 550	
Inland Revenue at existing rates		31 880	
		34 430	
PLUS			
Third provisional tax	291		
Stamp duty on shares	20		
MST	25		
Duty on bank debits	15	351	
		34 781	
LESS			
Books surcharge	10		
7% individual tax surcharge	500		
Saving allowance	72		
Working couples	68		
5% rebate Personal Tax	494		
Estate duty	20	1 154	33 627
DEFICIT: before borrowing			3 944
LOAN REDEMPTIONS			
Domestic	1 021		
Foreign	13		
Loan levy	217		
Other	313		1 564
Financing requirement			[illegible]
FINANCING			
PIC	3 250		
Re-investment	1 225		
New stock	893		
Treasury Bonds	140		
	[illegible]		[illegible]
SURPLUS/DEFICIT			NIL



● From Page 20

bonds by the State. New sales of R140m are expected, somewhat higher than the amount envisaged in the revised estimate for 1985-86.

Foreign Loans

In view of the standstill arrangements currently in force, no provision is made to take up new foreign loans in 1986-87.

Rollover of Government Stock

Government stock to the amount of R1,225bn matures in 1986-87. It is assumed, as usual, that the full amount will be reinvested in government stock.

Financing Required from Sale of New Government Stock

The available finance referred to above is R4,615bn, leaving a requirement of R893m of new funds, which it is proposed be raised by way of the issue of new government stock.

This sum appreciably smaller than the revised figure for sales of new stock, in 1985-86, namely R1,566bn. So modest an amount will definitely put no pressure on the money or capital market and will easily be financed from the non-bank private sector — that is, in a non-inflationary manner.

Gold and Foreign Exchange Contingency Reserve Account

No provision has been made for any transfer to the Reserve Bank to cover losses originating in the bank's transactions, on behalf of the Treasury, in gold and foreign exchange.

In the light of the present foreign debt situation it is important that the funds available in the domestic capital market be used for productive purposes: consequently, the Treasury will not borrow more in the market at this stage than is actually needed.

Meanwhile the Reserve Bank will continue to carry these losses as a claim against the Treasury on the gold and Foreign Exchange Contingency Reserve Account.

If during the course of the year it appears necessary as part of sound

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INCOME TAX PAYABLE: 1986 AND 1987

UNMARRIED

INCOME	UNDER 60			OVER 60 BUT UNDER 65			OVER 65		
	1986	1987	REDUCTION	1986	1987	REDUCTION	1986	1987	REDUCTION
R	R	R	R	R	R	R	R	R	R
4 000	—	—	—	—	—	—	—	—	—
4 500	43	41	2	—	—	—	—	—	—
5 000	123	117	6	3	3	—	—	—	—
5 500	203	193	10	83	79	4	—	—	—
6 000	283	269	14	163	155	8	—	—	—
6 500	363	345	18	243	231	12	—	—	—
7 000	443	421	22	323	307	16	—	—	—
7 500	523	497	26	403	383	20	23	22	
8 000	603	573	30	483	459	24	103	98	[illegible]
9 000	764	725	39	643	611	32	263	260	1
10 000	935	877	58	806	763	43	423	402	2
11 000	1 124	1 044	80	985	930	55	599	569	3
12 000	1 333	1 230	103	1 205	1 116	89	798	765	4
14 000	1 817	1 660	157	1 688	1 546	142	1 282	1 185	9
16 000	2 386	2 165	221	2 258	2 051	207	1 851	1 690	16
18 000	3 024	2 731	293	2 895	2 617	278	2 489	2 256	23
20 000	3 704	3 335	369	3 578	3 221	355	3 169	2 860	30
25 000	5 596	5 015	581	5 468	4 901	567	5 061	4 540	52
30 000	7 749	6 926	823	7 620	6 812	808	7 214	6 461	76
40 000	12 658	11 285	1 373	12 530	11 171	1 359	12 123	10 810	131
50 000	17 982	16 012	1 970	17 854	15 898	1 956	17 447	15 637	191
60 000	23 332	20 762	2 570	23 204	20 648	2 556	22 787	20 287	261
80 000	34 000	30 262	3 770	33 903	30 148	3 755	33 497	29 787	371
100 000	44 732	39 762	4 970	44 604	39 648	4 956	44 197	39 287	491

NB (1) The above amounts have been calculated on the basis that the taxpayer has no children or other dependents. (2) The standard deduction for medical expenses and rebates for insurance premiums have been allowe

● No more means test for pensioners

ESTATE DUTY

(1) The estate duty rates are adjusted in such a manner that the maximum of 35 per cent is reached only after the dutiable amount of the estate exceeds R800 000, instead of R400 000 as is the case at present. Examples illustrating the effect of this concession and that proposed in paragraph (2) are contained in Table F.

(2) It is proposed that the deductions be increased as follows:

	Existing R	Proposed R
(a) Primary deduction	50 000	100 000
(b) Surviving spouse	50 000	100 000
(c) Each child surviving the deceased — per child	40 000	80 000
(d) Each child predeceasing the deceased — per child	40 000	80 000

(3) The effect of these concessions is to increase the notches at which liability for estate duty commences as follows.

	Existing R	Proposed R
Where the deceased is not survived by a spouse or children	50 000	100 000
Where the deceased is survived by		
a spouse	100 000	200 000
a spouse and 1 child	140 000	280 000
a spouse and 2 children	180 000	360 000
a spouse and 3 children	220 000	440 000
a spouse and 4 children	260 000	520 000

(4) Where the estate of a deceased person includes R50 000 in respect of the proceeds of life insurance policies, the total value of the estate will not only be reduced by R50 000, but that amount will also be sufficient to cover the estate duty on estates having the following total values (including the amount of R50 000 in question):

	Total value of estate	
	Existing R	Proposed R
Where the deceased is not survived by a spouse or children	390 000	507 900
Where the deceased is survived by —		
a spouse	440 000	607 900
a spouse and 1 child	480 000	687 900
a spouse and 2 children	520 000	767 900
a spouse and 3 children	560 000	847 900
a spouse and 4 children	600 000	927 900
a spouse and 5 children	640 000	1 007 900

(5) The proposed deductions and adjusted rates will apply in respect of the estate of any person dying on or after 1 April 1986

BUDGET '86 High inflation

● From Page 21

monetary policy for the Reserve Bank to sell more stock than is needed by the Treasury, the proceeds from any additional sales will be used to reduce the balance on this account.

The elderly too have been kept in mind, with proposals for adjustments in military and social pensions.

The Budget has, however, also left room for certain concessions to every individual taxpayer. As a result of the abolition of the 7% surcharge on income tax, the concession for married couples, the 5% rebate of tax on individuals, and other smaller adjustments, a total concession of R1,144bn has been made.

But the Budget also takes fully into account the current economic conditions and the limitations they impose.

For example, we cannot afford to leave the unacceptably high inflation

● Married couples

rate out of account nor to ignore our obligations regarding the repayment of foreign debt.

It is therefore important that the increase in total proposed expenditure be kept within limits. Against this background the increase in total expenditures for 1986-87, which is 13,9% above the final level for 1985-86, can be considered reasonable.

It is much below the current rate of inflation.

The estimated deficit

● Food aid

before borrowing — which determines government's net norrowing requirement — is R3,944bn, or about 2,7% of the estimated gross domestic product. This is well within the guideline of 3% set in last year's Budget.

The upshot is that government's claim on the domestic capital market during the next 12 months will be only R893m. This should provide sufficient room for the rest of the public sector and for the private sector to satisfy their capital requirements on the local market at reasonable rates of interest.

As a further discipline government's total borrowing requirement has been kept below the total intended capital spending for 1986-87. No current expenditure will thus be financed by borrowing.

Provision has also been made for continuing investigations into improvements in the system of determining priorities in the public sector, involving both capital projects and current expenditures. These investigations supplement the work of the Margo Commission, which it is hoped will report during the course of the year.

South Africa is blessed in that is has in difficult circumstances been able to do as much in the material sphere for its people as this Budget does. For that we should be thankful.

Tribute

Finally, I wish to express my warm thanks to the State President for his constant encouragement and support; to my Cabinet colleagues for their understanding and co-operation; and to the Deputy Minister of Finance and of Trade and Industry, who has ably assisted me in the administration of my portfolio.

I should also like to pay tribute to the former Director-General of Finance, Dr Joop de Loor, who has so deservedly been elevated to the high office of Auditor-General.

His place is now filled by Dr Chris Stals, who comes to us from a distinguished career as Senior Deputy Governor of the South African Reserve Bank, and who in addition to his heavy departmental responsibilities has ably chaired the Standstill Co-ordinating Committee charged with renegotiating our foreign debt.

To him and his staff I express my sincere appreciation of not only the expertise and dedication behind today's Budget but also the splendid *esprit de corps* of our Department.

I should also lot to thank the Standing Committe on Finance for its valuable work, particularly that involving financial legislation.

BUDGET: REACTION

Opposition slams 'dangerous Budget'

ANTHONY JOHNSON
Political Correspondent

OPPOSITION party finance spokesmen last night slammed the Budget as "dangerous," "inflationary," and "lacking credibility".

They also said it failed to cater sufficiently for the needs of the unemployed and the impoverished.

Government's decision to increase the bread price and its failure to reduce general sales tax was severely criticised.

Despite these reservations, however, support was expressed for the increases in funding of education, housing, pensions, the removal of the surchage on books and the relief given to working wives.

Progressive Federal Party spokesman on finance Harry Schwarz described the Budget as "an *ad hoc* affair" that failed to cater "in any meaningful fashion" with the problems of lower income groups, the unemployed and the impoverished.

He said he had "great difficulty" in accepting the "unrealistic" expenditure figures since government historically under-budgeted "and the picture at the end of the year is likely to be quite different".

Schwarz said a "clear characteristic" of the Budget was "the almost total absence of measures designed to combat inflation.

"If there was money available for tax concessions, GST should have been reduced in the light of the rate of inflation and the plight of the lower income groups and the unemployed.

"In anay event, the tax concessions for individuals are illusionary as government intends to take, after the concessions, well over an extra R1bn from the pocket of the individual taxpayer by way of income tax compared to last year.

"To this must be added the increased GST of R1,3bn which government expects to collect this year," he said.

Schwarz said the Budget was "an *ad hoc* affair" with figures that lacked credibility.

"One sees nothing in this Budget which shows imagination and realism to deal with the major threats to stability and with the serious economic problems which threated our ever-increasing population and its legitimate expectations," he said.

The Conservative Party's finance spokesman Jan van Zyl described the budget as "unimaginative and dangerous".

He complained that inflation was not being curbed, the price of bread would increase considerably, no provision had been made for the emergency situation of farmers, and the Budget estimates were unreliable.

New Republic Party spokesman on finance Derrick Watterson said the Budget would not "generate the enthusiasm and confidence necessary for a real forward surge".

He welcomed the tax concessions announced by Du Plessis, but said he would have preferred to have seen "a direct attack on inflation by reducing the GST" which would have given the public more money to spend and would have assisted in generating trade and employment.

Mixed response from labour

CLAIRE PICKARD-CAMBRIDGE

THE Budget had a mixed response from organised labour.

The Trade Union Council of SA (Tucsa) welcomed further allocations to training and job-creation, but said massive unemployment problems could only be solved by measures inducing an upturn in the economy and dynamic growth.

In a joint statement, the Council of Unions of SA (Cusa) and the Azanian Confederation of Trade Unions (Azactu) said the coming year would be a "nightmare of price increases".

Both bodies believed the governing process — and Budget announcements — would remain a "meaningless charade" while blacks could not participate in Parliament.

The Congress of SA Trade Unions (Cosatu) is expected to respond to the Budget today.

Cape Times 18/3/86 (49)

BUDGET BUDGET '86

Modest slice for SAP

Crime Reporter

FOR the police this year it was a relatively modest budget slice increase of 12,2 percent, compared to last year's 20 percent increase.

Counter-insurgency training received the lion's share — a 62 percent increase — (from R1 832 million last year to R3 385 million this year).

The police bite of the total budget works out at just over 2,8 percent.

The latest 12,2 percent overall increase is seen as a holding action and will not make the stated intention of the Minister of Law and Order, Mr Louis le Grange, to increase the police force complement by 51 percent any easier to achieve.

Mr Le Grange has said he wants to boost membership of the force from 45 000 to 68 000 members. A detailed study of statistics has shown that at a constant recruitment rate it would take about 20 years to reach this target.

The largest amount allocated under the police budget, R720 million, was for the maintenance of law and order — in keeping with past years. This allocation increased from R629 million.

The total amount voted for police work was R1 071-million compared to R954 million last financial year (12,2 percent increase).

● Increases in defence and police expenditure convinced the Congress of South African Trade Unions, (Cosatu), that the government "has no commitment to finding a peaceful solution to the crisis they have created".

The main Black Consciousness grouping, the Azanian Peoples' Organization, Azapo, said in a statement issued by the president, Mr Saths Cooper:

"Repression and the security apparatus will receive among the highest allocations in the service of apartheid, and at the expense of the people."

Andrew: Increase inadequate

Education Reporter

WHILE government spending on black education looked "generous at first sight", the rate of inflation of more than 20 percent and the rapid increase in pupils rendered the increase inadequate, Mr Ken Andrew, the Progressive Federal Party's spokesman on black education, said yesterday.

He was commenting on the allocation of an additional R236,9-million over last year's R920,9-million to black education.

This means the 1986/7 expenditure under the Education and Training vote is R1 157,8-million.

'Largest Budget item'

The Minister of Finance, Mr Barend du Plessis, said in presenting the Budget to Parliament yesterday that all education "still forms by far the largest expenditure item on the Budget".

The R6 082-million proposal represented an increase of 19,3 percent over last year.

"Regarding black education as such, the increase in primary and secondary education outlays is R159-million, or 27,8 percent above the budgeted amount for 1985/6," Mr Du Plessis said.

This included higher expenditure on staff, the building of new schools and classrooms to cater for normal growth in pupil numbers, free provision of stationery and books, and an increase in the building programme to reduce backlogs.

Mr Andrew said the amount allocated represented a percentage decrease compared to last year.

'Gap increased by millions'

"The percentage increase is even less than it was last year when inflation was much lower. Furthermore, even with the larger percentage increase last year, the gap in education between white and black education increased by hundreds of millions of rands," he said.

Furthermore, per capita expenditure would show that "this is not a real increase".

"Invariably one finds that there is a distortion in the amount allocated for black education compared with that allocated for white education and once again there is no indication at all that the gap in standards and financing between black and white education is closing.

"The simple fact is that segregated education will continue to be unequal and inferior for as long as it is insisted upon by the government."

'Does not meet pupils' demands'

Mr Andrew said the Department of Education and Training vote excluded the homelands, Transkei, Bophuthatswana, Venda and Ciskei, which fell under the Department of Education and Development Aid.

In a statement issued by its general secretary, Mr Jay Naidoo, the Congress of South African Trade Unions said the amount set aside for black education made no start towards meeting the basic demands made by millions of black pupils.

"Cosatu, together with the entire democratic movement of our country has made it clear that nothing short of an alternative education system designed by all the people of South Africa will be accepted."

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From page 1

the government intends to take, after the concessions, well over an extra R1-billion from the pocket of the individual taxpayer by way of income tax compared to last year.

"To this must be added the increased GST of R1,3-billion which the government anticipates collecting this year," he said.

Mr Schwarz said the Budget was "an ad hoc affair" with figures that "lacked credibility".

"One sees nothing in this budget which shows imagination and realism to deal with the major threats to stability and with the serious economic problems which threated our ever-increasing population and its legitimate expectations," he said.

The Conservative Party's finance spokesman, Mr Jan van Zyl, described the budget as "unimaginative and dangerous".

He complained that inflation was not being curbed, the price of bread would incease considerably, no provision had been made for the emergency situation of farmers, and the budget estimates were unreliable.

The New Republic Party's spokesman on finance, Mr Derrick Watterson, said the Budget would not "generate the enthusiasm and confidence necessary for a real forward surge".

He welcomed the tax concessions announced but he said he would have preferred to have seen "a direct attack on inflation by reducing the GST" which would have given the public more money to spend and would have assisted in generating trade and employment.

The leader of the Labour Party, the Rev Allan Hendrickse, welcomed the scrapping in the surcharge on books, the additional expenditure set aside to finance jobs and increases in pensions grants.

However, he pointed out that the gap between coloured and white pensions was still R63 and he regretted that foodstuffs had not been exempted from GST.

Bread increase 'inevitable'

Own Correspondent

PRETORIA. — A bread price increase from April 1 is inevitable because of the slashing of the subsidy to R150m, PFP finance spokesman Mr Harry Schwarz said last night.

This would add greatly to the plight of the country's lower income groups and to the chronic unrest plaguing urban townships.

The Minister of Finance, Mr Barend du Plessis, announced yesterday that the government had accepted a recommendation of the Davin Commission to phase out the bread subsidy. It would be reduced from R200m to R150m.

The Minister of Agriculture, Mr Greyling Wentzel is expected to speak on the price issue this week.

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Less money for pass laws

Political Staff

GOVERNMENT spending on the administration of the pass laws is to drop drastically — by more than half — during the current financial year.

The provisions for black manpower, residential control and repatriation will go down to R4-million compared to R9,5-million during the 1985/6 financial year.

However, the budget for "community regulation" will remain about the same — R1,7-million compared to R1,6 million last year.

In the draft estimates of expenditure, which were tabled in Parliament yesterday, the estimates for "repatriation", now administered by the Department of Constitutional Development and Planning, have dropped from R4,7-million to R1,3-million.

"Residential control" has dropped from R2,4-million to R1,4-million and "black manpower", which regulates the recruitment of black labour and the provision of housing for black workers on mines and farms, is to drop from R2,4-million to R1,3-million.

Big increase in promotion of SA

By BARRY STREEK
Political Staff

THE government has budgeted for a total onslaught on the international world during the current financial year.

Increased expenditure on the promotion of South Africa in the outside world has been included in the budget for the Department of Foreign Affairs.

And cultural exchanges are to be promoted through the Department of National Education, trade relations are to be increased through the Department of Trade and Industry, more is to be spent on the promotion of tourism through the Department of Environment Affairs and Tourism, and increased international labour liaison is to take place through the Department of Manpower.

Spending

These amounts have been provided for in the draft estimates of expenditure, which were tabled in Parliament yesterday.

Altogether R230 million has been budgeted on promoting South Africa internationally — and for spending in all programmes aimed overseas.

Government spending on "foreign relations" through the Department of Foreign Affairs is to go up to R153 million from R97,5 million.

This programme is intended "to promote relations with foreign countries, seek acceptable solutions to international problems affecting the interests of the Republic of South Africa, participate in international initiatives aimed at promoting co-operation, peace and protect the rights, property and citizens of the RSA in foreign countries".

Expenditure on promoting relations with Africa is to go up R1 million to R5,6 million, on relations with overseas countries by R50 million, to R131 million and relations with international organizations by R4,1 million to R8 million.

The department has also budgeted a new item, R3,6 million for guests and visitors. This is described as "creating opportunities for prominent and influential opinion-makers abroad to obtain first-hand knowledge during visits to the RSA".

'Cultural'

The Department of National Education has budgeted R610 000 for international liaison in sport, compared to the R488 000 last year, and R954 000 on "cultural relations with foreign countries", compared to R734 000 last year. Much of the increase is to go to exchange programmes.

Under the Department of Manpower, spending on "international, interstate and related labour matters" is to go up by R200 000 to R848 000.

Trade relations spending under the Department of Trade and Industries is to cost R3,4 million (up R1,2 million) while export trade promotion is to cost R16,7 million compared to R13,7 million last year.

Included in the export trade promotion programme is an additional R3,2 million for the South African Foreign Trade Organization (Safto), whose grant will total R4,2 million.

And the promotion of tourism under the Department of Environment Affairs and Tourism is to go up by R19 million to R50,5 million.

Govt's information bureau to get R28,8m

Political Staff

THE GOVERNMENT'S new info wing, the Bureau of Information, is to cost R28,8 million during the current financial year — and most of its budget will go towards promoting "positive attitudes" inside South Africa.

An amount of R15,9 million has been set aside for "internal liaison services" intended "to enlighten the community on government policy, national achievements and problems with a view to fostering positive attitudes among all population groups".

And R14,4 million of this amount will be spent on regional representation which is to render "an effective internal liaison service to all population groups in South Africa".

In terms of the estimates of expenditure, tabled in Parliament yesterday, a further R969 000 has been provided for media liaison, whose aim is "to promote the image of South Africa via internal as well as foreign media representatives" and to act as "mouthpiece of the Bureau and primary channel along which all press liaison work is executed and press inquiries canalized".

The bureau will also spend R1,5 million on "special services" to "promote and co-ordinate effective communication on a national level".

The budget and official aims of the bureau indicate that many of the activities for the controversial former Department of Information have been resumed.

'Unfair to say public service is overpaid'

Political Correspondent

THE Minister of Finance, Mr Barend du Plessis, yesterday dismissed the "frequently heard" charge that the public service was too big, too unwieldy, growing too fast and that officials are overpaid.

Mr Du Plessis acknowledged that the announced 10 percent increase in public service salaries would cost about R1 billion and that a further amount of R227 million was being made available so as to continue on a modest scale the programme of "job differentiation".

However, an analysis of the notch distribution in payroll statistics showed that 71 percent of State employees earned less than R10 000 a year in 1985 and 94 percent under R20 000.

"The labelling of officials as over-paid is therefore both misleading and unfair," he said.

Mr Du Plessis said that whereas the growth in employment in the public service over the 21 months to March 1985 was in total 1,6 percent, the growth in education personnel was 9,2 percent.

Mr Du Plessis said that as a result of the government's initiatives on saving on staff expenditures and on productivity improvement, the number of posts in the public service at the end of 1985 was 1,1 percent less than at the end of 1984, while 47,7 percent of all vacant post were abolished on April 1 1984.

BUDGET BUDGET '86

in brief . . .

R18 a month more for pensioners

PENSIONERS of all races are to receive R18 a month more from October 1. This means that white pensions will increase from R180 a month to R198, while those of blacks will go up from R79 to R97 per month. Of the R170 million appropriated for improvement of social benefits, a total of R106,7 million will go to additional pensions and allowances for blacks and R26,6 million for whites.

Surcharge on imported books abolished

THE highly unpopular surcharge on imported books is to be abolished, the Minister of Finance, Mr Barend du Plessis, announced yesterday. While this would involve a loss of revenue in 1986/87 of R10 million, the concession was justified in view of the special problems encountered by educational institutions and libraries. "The government is in this way contributing towards the lower cost of books, and it calls on importers and booksellers to pass the reduction on to the buyer in full."

R24,8m for Population Register

THE Department of Home Affairs will spend R24,8 million on maintaining the Population Register during the 1986/7 financial year. This is more than R6 million in excess of last year's figure and reflects part of the cost of introducing the new common Identity Document which will come into existence in terms of legislation scheduled to be put before Parliament this year.

Transport subsidies up by R255,5m

GOVERNMENT spending on subsidies on commuter bus fares, losses on railway passenger services and compensation to bus companies is to rocket by R255,5 million, or 71 percent. In the draft estimates of expenditure for the 1986/7 financial year, which were tabled in Parliament yesterday, R615,1 million is to be spent on these subsidies compared to R359,5 million in the previous financial year.

Spending on conscientious objection

GOVERNMENT spending on conscientious objection will cost R3,1 million during the current financial year, compared to R206 000 last year. Most of the money, R2,9 million, will go for the "determination of service conditions, employment, payment of salaries and allowances, prosecutions, etc of religious objectors". In the draft estimates of expenditure, R6 000 was budgeted for the manpower board, R60 000 for exemption boards and R71 000 for the Board for Religious Objection. These amounts have been budgeted under the Department of Manpower.

BUDGET BUDGET '86

Constitutional planning more expensive

THE planning of the government's constitutional plans is getting more expensive. Not only have the administrative costs of the Department of Constitutional Development and Planning more than trebled to R19,6 million, but the amounts to be spent on "constitutional planning and co-ordination" and "spatial planning and co-ordination" have also increased substantially. Constitutional planning and co-ordination will cost over R3 million this year compared to R1,5 million last year and spatial planning and development will cost R4,1 million compared to R2,9 million.

460 000 employed in work-creation

A TOTAL of 460 000 people had been employed for various periods in work creation projects up to the end of February, Mr Du Plessis disclosed. And, he added, it was hoped that this figure would rise to about half-a-million by the end of March. In addition to the R70 million — the remaining portion of the R600 million allocated last year — a further R90 million was now being earmarked for work projects and R75 million for the continuation of training the unemployed. — Political Staff

Not enough for black housing

From SIPHO NGCOBO

JOHANNESBURG. — The additional R325 million injected into upgrading black housing will not get anywhere solving the acute housing backlog in black areas. This was the reaction of several organizations to yesterday's Budget speech.

The Urban Foundation's executive director, Mr Fred Stiglingh, said that although the foundation was thankful for the R325 million provided for black housing for the coming year, this was by no means going to solve the black housing backlog of 400 000.

The Black Sash, through its Transvaal chairwoman, Ms Sue Trathen, said: "We welcome the sum of money provided by the government for black housing, but I must say this will only alleviate the housing problem for blacks and not solve it."

SADF expenditure estimated at R5 123m

Defence Correspondent

IN spite of troop deployments in unrest areas and the ongoing border war, a ferocious SADF cost-cutting campaign and the freezing of various pet projects seems to have paid off, with 1986/7 defence expenditure estimated at R5 123m.

Counted in rands, this is an increase of about R849m, but in fact represents the same level as in 1984/5 and 1985/6.

The 1986/7 estimate will absorb 13,7 percent of the budget in terms of actual rands spent. According to Mr Barend du Plessis, much of this will go on deployment of "large numbers of troops and great quantities of equipment" at home and externally, and "the methodical replacement of major equipment".

This is 3,9 percent of the Gross Domestic Product, up by only 0,1 percent from last year and the year before and considerably less than the 1977 high-water mark of 4,8 percent, or 18,4 percent of State expenditure.

This places South Africa in the same general bracket as France (4,1 percent), West Germany and Portugal (both 3,3 percent) and well below top spenders like Israel (24,8 percent) and Egypt (10,6 percent).

As has been the case in previous years, landward defence has the largest single slice of the defence pie, with 40 percent, followed by aerial defence with 32 percent. Fifteen percent is earmarked for "general support", while maritime defence gets only eight percent and medical support three percent.

Direct comparison with the 1985/6 estimates is impossible, since a new programme structure has been introduced this year, but further analysis indicates that the proportion of item expenditure has not changed a great deal.

Spending on personnel, though, is down by two percent — no doubt the result of the virtual freeze on Permanent Force recruiting which has been in effect since the beginning of last year — which bodes ill for pay rises.

In cold cash, major expenditure is has been allocated as follows:

Landward defence ("to combat a landward threat to the RSA and SWA"): R2 007m.

Aerial defence ("to safeguard the RSA's and SWA's strategic airspace"): R1 687m.

Naval defence ("to counter a maritime threat against the RSA and SWA"): R421m.

Medical support ("to provide medical and associated services"): R178m.

General support (a grab-bag designation covering everything from the "departmental acquisition service" to small grants-in-aid to the Boy Scouts): R908m.

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Barend's bonus

● Working wives to get concessions

● GST the same, pensions to go up

● 5 pc discount for breadwinners

ORMANDE POLLOK
Political Correspondent

CAPE TOWN—Finance Minister Barend du Plessis introduced a family man's Budget yesterday, handing out hundreds of millions of rands in tax cuts to husbands and back-dated concessions to working wives.

All taxpayers get immediate relief either in the form of a 5 percent discount or, in the case of working wives, as a boosted tax-free concession.

The 7 percent surcharge on income tax is also scrapped while general sales tax and company tax remain untouched.

In addition Mr du Plessis announced Government plans to upgrade living conditions particularly for people in the less-developed areas and communities.

To this end he set aside R631 million for the improvement of infrastructure and housing for blacks.

Priority

The minister also said he would provide more than R6 billion for education of all population groups, an increase of 19,3 percent over last year.

Pensioners too learned that they could count on a slice of the Budget handout. Increased social pensions from October 1 would cost the exchequer more than R200 million and would give all races R18 a month more.

Civil servants on pension have been given an increase of 1 percent for each year of retirement with a maximum of 15 percent and a minimum of 7,5 percent, while military pensions are to be increased.

Defence spending will account for R5 billion, an increase of more than R600 million on last year.

Mr du Plessis emphasised that the Government intended, over the next three years, to give high priority to job creation.

He described his Budget as moderately expansionary and said it was aimed at boosting the economy, now in the early stages of a new upswing.

It put the nation's deficit before borrowing up by 33 percent on last year, but was designed to prevent new borrowings from exerting upward pressure on interest rates.

The Government remained determined to fight inflation although the minister expected no drop for a few more months. However, he did announce a plan to recruit a team of businessmen to help keep State spending within targets.

Although all opposition politicians readily criticised the Budget as inadequate and unimaginative, commerce and industry generally welcomed it as of benefit to 'the man in the street'.

The decision to continue phasing out the bread subsidy struck a discordant note and underlined the fact that a further reduction of R50 million to R150 million in the current year would almost certainly lead to bread price increases possibly as early as next month.

Tax tables

Mr Harry Schwarz, the PFP's chief finance spokesman, Mr Jan van Zyl, Conservative Party spokesman and Mr Derrick Watterson, the NRP spokesman, all felt Mr du Plessis should have made a more concerted attempt to curb rising inflation.

Married taxpayers more than any others will benefit from the Budget.

Husbands will get an immediate 5 percent cut in tax deductions and working wives will benefit from increased tax-free allowances which have been back-dated to the 1985-86 tax year.

While wives will find more PAYE deducted from their salary from July 1 as a result of new tax tables, they will benefit at the end of the year when their income is assessed with that of their husbands.

New PAYE tables have been designed to reduce the amount of tax payable at the end of a financial year and thereby remove the burden a couple has had to face in the past.

But instead of the previous tax-free limit of R1 600, a working wife will now be permitted to earn a minimum of R1 800 or 20 percent of her salary, whichever is the greater, before paying tax.

This means that a wife earning R20 000 a year would get a tax-free allowance of R4 000 compared with the present R1 600.

This concession will cost the State R116 million a year.

However, it will not apply to widows, divorcees or spinsters all of whom are assessable independently and as sole breadwinner receive the same benefits as men.

Mr du Plessis told Parliament that large sums which married couples had had to pay back on assessment could not be blamed on the present tax structure alone, but sprang from the fact that in many cases tax deduction tables applicable to working women frequently did not provide for adequate deductions.

This was accountable mainly to historical factors but also to the fact that it was impossible, without making the system still more complex, to prescribe tables to meet all possible permutations of joint income in a family.

Amended tables would provide for deductions more in line with the wife's portion of the tax payable on joint income.

'These more realistic deductions will appreciably reduce the balance payable on assessment,' said the minister.

● See table and further Budget reports, Pages 6, 7 and 18, and Editorial Opinion

Income Tax Payable: 1986 and 1987:
Two-breadwinner family

INCOME		1986	1986	1987	REDUCTION	REDUCTION	TOTAL TAX REDUCTION
Husband	*Wife	Present	Proposed	Proposed	A-B	B-C	D + E
R	R	R	R	R	R	R	R
2 000	8 000	306	354	336	32	18	50
5 000	8 000	874	834	792	40	42	82
8 000	12 000	2 513	2 188	2 078	325	110	435
10 000	12 000	3 114	2 734	2 597	380	137	517
12 000	10 000	3 114	2 846	2 703	260	143	411
15 000	10 000	4 101	3 754	3 566	347	188	535
20 000	12 000	6 763	6 064	5 760	699	304	1 003
25 000	12 000	8 981	8 099	7 694	882	405	1 287
30 000	12 000	11 349	10 295	9 780	1 054	515	1 569
35 000	12 000	13 810	12 588	11 958	1 222	630	1 852
40 000	15 000	17 814	16 026	15 224	1 788	802	2 590
45 000	15 000	20 382	18 426	17 504	1 956	922	2 878
50 000	15 000	23 016	20 860	19 817	2 156	1 043	3 199
55 000	15 000	25 691	23 360	22 192	2 331	1 160	3 499
60 000	20 000	31 041	27 860	26 467	3 181	1 393	4 574
80 000	20 000	41 741	37 860	35 967	3 881	1 893	5 774
8 000	8 000	1 458	1 370	1 301	88	69	157
10 000	10 000	2 513	2 292	2 177	221	115	336
15 000	15 000	5 948	5 102	4 846	846	256	1 102
20 000	10 000	5 948	5 462	5 188	486	274	760
25 000	15 000	10 385	9 139	8 681	1 247	457	1 704
30 000	30 000	20 382	16 986	16 136	3 396	850	4 246
45 000	25 000	25 691	22 360	21 242	3 331	1 118	4 449
45 000	45 000	36 391	30 360	28 842	6 031	1 518	7 549
60 000	40 000	41 741	35 860	34 067	5 881	1 793	7 674

*Net taxable earnings

Inflation to 'remain high'

By ANTHONY JOHNSON
Political Correspondent

THE inflation rate is likely to remain high in the coming months, according to the Minister of Finance, Mr Barend du Plessis.

However, the government had decided to introduce a new system of "monetary targeting" to assist the authorities in their policy of controlling the money supply with a view to curbing inflation.

Outlining the government's short-term economic strategy during his budget speech yesterday, Mr Du Plessis said that although the economy was in the early phase of a new upswing, "the present more growth-oriented stance of monetary and fiscal policy does not in any way imply a weakening of the official resolve to curb inflation".

He said: "It is, however, probable that the rate of inflation will remain high in months ahead.

"But now that the rand has not only ceased to depreciate but has, in fact, appreciated strongly against other currencies, the inflationary effects of the earlier depreciation should begin to diminish before too long."

Mr Du Plessis said his present short-term monetary and fiscal strategy was "moderately expansionary".

"It is a policy of encouraging investment and consumer spending in order to ensure that the new upswing gains enough momentum to produce a growth rate of 3 percent or more in the real gross domestic product in 1986, with the attendant increases in income, output, employment and general economic activity."

At the same time, however, the policy was designed to prevent the re-emergence of excess demand or overspending.

Mr Du Plessis said: "The achievement of this objective is important not only to avoid new demand-inflation but also to ensure that another large surplus is achieved in 1986 on the current account of the balance of payments, as part and parcel of our strategy for dealing with the foreign debt situation," he said.

Mr Du Plessis said a major objective of his department over the last year had been to reduce inflation.

However "this could only be expected to happen after the inflation rate had first increased further".

"Such an acceleration was inevitable as the depreciation of the rand against other currencies during the period from September 1983 until January 1985 had not yet exerted its full upward effect on domestic costs and prices," Mr Du Plessis said.

Fringe benefits tax: No phase-two delay

Political Staff

THE Minister of Finance, Mr Barend du Plessis, has rejected calls for a delay in implementing phase two of fringe benefits taxation.

And the minister's rejection is likely to be received with gloom by the motor industry, which was hoping for a delay.

Mr Du Plessis also announced that the duty on fully assembled imported vehicles would be dropped from 125 percent to 100 percent.

On fringe benefits tax Mr Du Plessis said while it was difficult to estimate revenue, the indication was that the increase in employees' tax collections would be significant.

The minister said that representations had been made for the freezing of the phasing-in period for certain fringe benefits on the grounds that this would boost trade and industry.

He said that while he understood such representations, it should be borne in mind that an exceptionally long phasing-in period had been allowed.

The Margo Commission, he said, did not support an extension and longer phasing-in periods could therefore not be supported.

The minister said, however, that the abolition of the seven percent surcharge and drop in personal taxation should bring relief to those particularly affected by fringe benefits taxation.

With regard to the lowering of the customs duty on fully assembled imported vehicles, the minister said that the sharp depreciation of the Rand had "magnified the price-raising impact of this measure".

A result of this, he added, was that there was a decline in import volumes which caused revenue from this source to fall sharply instead of rising.

The market, he said, with its allied service and maintenence industries, had virtually come to a standstill.

No RSC levy till September

Political Staff

IT WAS highly unlikely that regional service levies would be "widely collected" before September, the Minister of Finance, Mr Barend du Plessis, announced yesterday.

And, he added, during the current financial year the regional establishment levy should not exceed 0,1 percent of a business's turnover while the regional services levy would be limited to a maximum of 0,25 percent of its total payroll.

Mr Du Plessis said that the regulations governing the regional services and regional establishment levies would appear in the Government Gazette soon.

Destroying SA's wealth

By Hellouise Truswell

In the present climate, it is a moot point if the tax system can be improved to benefit SA society. Given the downward spiral of SA's economy and government's urgent need for increased revenues to finance socio-political modernisation programmes, it is apparent the forthcoming Budget can change nothing.

It can only reflect the outcome of the decisions we've taken in the past and the decisions we're currently taking. So says 41-year-old tax specialist Costa Divaris.

Can he suggest a blueprint of bold initiatives for urgent reforms? From the taxpayers' point of view, the present system is grossly inefficient. And it takes a terrible toll. Tax payments by individuals increased 40 per cent in the past 15 years. They now total close on 25 per cent of GDP; 10 years ago the figure was a relatively modest 18 per cent.

How can the present system be restructured to relieve the tax burden?

Mr Divaris doesn't spout forth conventional wisdom. "South Africans are thoroughly bored with people coming out with prescriptions of what we should be doing.

"We're getting to the situation where you get three South Africans together and what emerges is four reform proposals, whether it's for tax or politics. They're closely linked.

"What we need to realise is there are no options. That we have painted ourselves into a corner on both the tax front and politically. We have no room to manoeuvre.

"We have to consider what is politically possible. Not wonderful schemes. Not proposals. Not things that will change the face of society. And what is politically possible? I'm afraid, Mr and Mrs SA, that if you look carefully enough, very, very little is politically possible —both in tax and ordinary politics."

Mr Divaris sees the tax problem as one more dimension in an overall troubled scenario. Enmeshed in a cycle of escalating violence, South Africans appear to be in the middle of a muddle-through mood with little clear direction as to where they should be going.

Tax and politics are part of the same problem. "Because we run our tax system the same way we run the country — for the purpose of control and for preserving Afrikaner and National Party hegemony. We run it without any underlying philosophy. And we run it without faith.

"SA's biggest problem today is that it has no faith. We have no faith in ourselves, no faith in our people, no faith in what we can do and achieve."

Mr Divaris does not forsee any problem for government in balancing the forthcoming Budget. "For the moment it is sitting pretty. Its fiscal base is secure. It knows, even though it can't control its spending, that it has enough wealth left in the country to raid that wealth and make the Budget balance."

The crunch comes later, says Mr Divaris: "The question I'm asking is how are they going to balance the 1990 Budget when they are going to be looking for R60 billion to R87 billion?

"For some reason, politicians and businessmen have very short horizons. They're using up the easy sources of wealth. They are destroying that wealth because they have created a wonderful system for destroying wealth."

The system, he explains, is the bureaucracy. "It is going on like a doomed train rushing at 100-miles-an-hour down the track that leads to the bridge that's been blown up. They're enjoying that ride. As long as there's rail in front of them, they're stoking the fires. We can only hope we won't be around when they reach the bridge that isn't there."

Mr Barend du Plessis ... how will he or his successor balance the budget of 1990?

The bureaucracy, he points out, grows bigger at the rate of 20 per cent every year. "Most of our money gets thrown away on salaries of bureaucrats. The talk is that more than R1 billion rand a month is spent on salaries.

What is called for is a change in philosophical outlook, he notes. Until then, you can't change institutions. "Until that and our morality changes we are going to carry on as we are at the moment. I think it is leading to the path of destruction."

He believes the massive bureaucracy on the one hand and big business on the other are destroying the country. "Big business blatantly manipulates the tax system for its own benefit. You just have to look at the collections coming from big companies and the mines, for example. Their contribution on a proportionate basis is miniscule because they have used the system."

Instead, he believes, big business needs to examine its own behaviour.

"What it's doing at the moment is demeaning. Where was it all this time? Now it's jumping up and down when it sees the cost of the system from which it's been benefitting all these years. Now it's running around like a chicken with its head off.

"Let's hope the cost increases to such a point that big business sits down and thinks more deeply about what it can do to make the long-term changes needed."

As he says, he can't tell big business what to do. But he suggests they analyse their long-term interests. "Not just the next reporting date. You know, one of our faults in this country is our greed for unearned wealth."

Big business, he notes, might decide it would pay them in the long-term to stop asking for favours from government. "They might just perceive that the favours are destroying the economy — the individual favours that have short-term benefits but none in the long-term."

Tax concessions; import protection from overseas competition; monopoly powers granted by government; standards imposed to keep competition out; regulated prices; cartels maintained by government.

"All sorts of things that have a short-term effect to make the balance sheet look great. We are a country that is run on paper. The bureaucracy judges everything by what is said on paper. And business seems to judge everything by what is said on balance sheets."

One of the problems in SA, warns Divaris, is "we practice a statist philosophy. Government is consistently chosen in favour of the individual. We have the most incredible amount of government intervention, with dire results.

"For example, we have seen the utter destruction of the motor car industry, which is an outcome of our philosophical outlook. Does that stop us from carrying on?

"At the moment the blight is spreading to commerical vehicles. And we're doing this again with the computer industry; with textile machinery. We are doing it with the paper industry. We know these systems fail to produce moral or efficient results. Why do we do it? I believe there are two reasons.

"First and foremost is that we're under the power of a massive bureaucracy, and secondly we are under the power of big business. Between the two of them they are destroying us."

He points the finger at tax authorities. "Despite their professing to be unconcerned with economic realities, they believe they have the right and the duty to secure certain economic results through the tax system.

"For example, they'll destroy particular products for industry through the tax system without any compunction whatever. And they'll favour others. The most immoral propositions can be put to them by Parliament and they'll enforce them."

The policies which are framed, he says, are not necessarily made by any governing body as such. "They're made by vested interests that are seeping their influence into the system and controlling it at a thousand different points."

The same thing happens in tax, he believes. "Years ago, officials in the tax department began saying we must cut out tax concessions, tax expenditures, disguised ways of benefitting vested interests. Since then we have had more tax expenditures, not less."

What role can the Margo Commission on Tax Reform play in improving the tax structure? "It can make as many proposals as it likes. If they are not politically feasible in the context of our philosophy and our moral precepts, they will have no effect whatsoever."

He believes that radical changes that would have a positive effect would be defeated by vested interests. "We have had this before. We have had radical proposals where an immediate change is made. What happens is the old system carries on working as it has always worked. In the end, the radical change has been whittled away."

'Bureaucracy is going on like a doomed train rushing at 100 miles an hour down the track that leads to the bridge that's been blown up.'

DISPATCH (49)

As an example he quotes the introduction of GST. "We then made a significant decrease in income tax, because we had found a new source of revenue. The theory was that the tax burden would be distributed more equitably. It would be more efficient. People would be more productive because there were less taxes.

8/3/86

"That was the story line. It concealed the true facts that a new source of wealth had been created. A new source of revenue means that the man in the street is going to be robbed. That's exactly what happened, because after that income tax and sales tax both went up. So what is the use of making proposals that will be defeated and destroyed by institutional constraints..."

Prescriptions and reform programmes, he says, are simply going to be smashed in the system. "The same thing applies to tax. I see, with all due respect, the current commission of enquiry as being almost irrelevant. It is delaying tactics.

"Because it has no power it can not achieve fundamental change. It has in fact enabled gross abdication of responsibility of the authorities. In the past few years the authorities have simply abdicated from their responsibility of running a sound, reasonable, efficient and — above all — moral tax system because the commission is going to look at it all. It has been a device for not doing anything about the tax system."

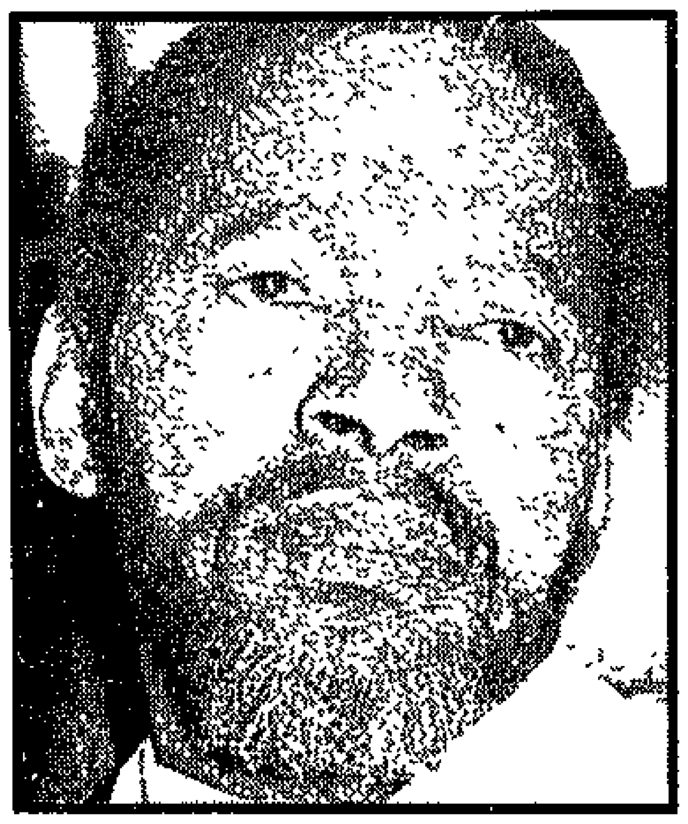
K DAY 17/3/86

What business wants to see in Du Plessis' Budget today . . .

17/3/86 (49) (49)

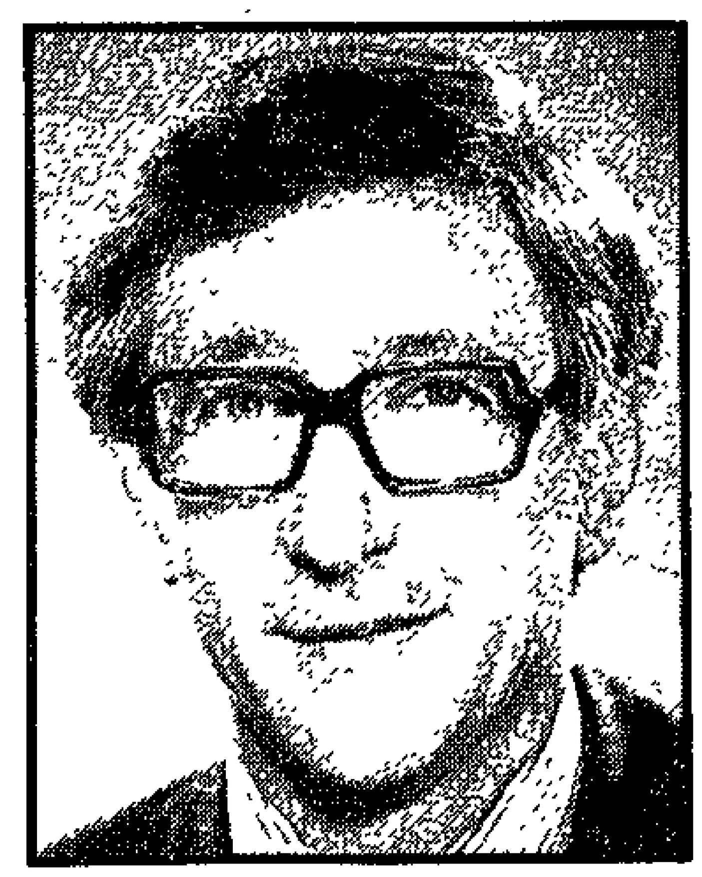
Business Day approached various business leaders and senior economists for their views on what Finance Minister Barend du Plessis *should* say in today's Budget speech

☐ RAYMOND ACKERMAN



☐ NTATHO MOTLANA

☐ BOB TUCKER



☐ NEAL CHAPMAN

☐ THEO SWART

fundamentals of the tax system.

☐ EVERT GROENEWEG: FINANCIAL DIRECTOR, BARLOW RAND:
WITHOUT a clearly-defined national economic strategy, including an export strategy, it is impossible for this Budget to achieve the principle economic objectives of capital formation, new investment and new job opportunities.

☐ LAWRIE KORSTEN: MD, VOLKSKAS MERCHANT BANK:
GOVERNMENT spending must not increase by more than 10%, as this will have the disastrous effect of further stimulating inflation. I would strongly recommend that Finance minister Barend du Plessis starts off with a management audit on his own department and cuts down on administrative staff.

He must be totally honest in disclosing everything about the state of the economy, as this is the only way to improve credibility. He must call for assistance from the private sector and, finally, I call on Du Plessis to forfeit his job if he does not manage to control government spending during 1986/87.

☐ BASIL LANDAU: EXECUTIVE DIRECTOR (INDUSTRIES), GENCOR:
ONE OF the major issues which today's Budget must address is the development and protection of local industry. The authorities should take a lead from Japan, which has developed its industry according to MITI — a government body which encourages the development of trade and industry, with emphasis on exports.

Secondly, Barend du Plessis should address the reinstatement of government assistance of training in the private sector. Finally, he should do something to prevent the drain of skilled young South Africans, who are leaving SA not only for political reasons but also because of prohibitive taxation. An obvious way of alleviating the tax burden would be to heavily tax luxury goods.

☐ DR NTATHO MOTLANA: CHAIRMAN, SOWETO CIVIC ASSOCIATION:
EVERYONE agrees that basically ours is a strong economy with the necessary raw materials, human resources and human potential and that the present chaos is primarily political. Therefore, it does not matter what poor Barend du Plessis proposes in the Budget if his party lacks the will to introduce political changes that must be introduced to pull SA out of the political quagmire in which it is floundering.

☐ TONY NORTON: PRESIDENT, JSE:
FROM THE Stock Exchange's point of view, we encourage any move to mobilise savings, because the current rate of capital formation is far too low. We also recommend Budget proposals to provide the incentive for greater mobility of capital.

☐ THEO SWART: MD, McCARTHY GROUP:
IT IS imperative that the Minister focuses on perks tax issues as far as motor cars are concerned — specifically the punitive formula of current calculations. Not only motor manufacturers but many allied industries would benefit if government provided relief on this issue. Besides perks tax, high levels of individual and company tax need to be reduced.

☐ BOB TUCKER: MD, SA PERM:
LACKING detailed information, I have limited my comment to broad principles. "Where there is not vision — the people perish" (*Proverbs*). I have a vision for utilising our country's natural and human resources to maximise wealth for all the people.

I have a vision for containing inflation and creating new jobs and for stimulating savings to establish the necessary infrastructural base. I have a vision for developing our domestic markets and expanding the private sector while limiting the public sector.

However, that vision cannot be achieved upon old premises. We have to change our framework of thinking and this Budget constitutes the first move towards that totally different dimension. I ask to be judged by reference to the vision and not by reference to any short-term political kudos.

☐ DR ALBERT WESSELS: CHAIRMAN, TOYOTA SA:
THE AUTHORITIES must aim at containing and reducing the rate of inflation, but at the same time the Budget must be sufficiently stimulatory to encourage growth and new job opportunities. Export policy and export incentives must be seen as one way of creating new jobs.

CHRIS CAIRNCROSS reports from Cape Town:

OLD MUTUAL'S VIEW:
DU PLESSIS delivers his second Budget with one of his main tasks being trying to restore credibility with the public, and the financial community in particular. But with the continued profligasy of his Cabinet colleagues, Du Plessis has been left little room for manoeuvre.

The accent is, however, likely to focus on promoting a mildly expansionary fiscal policy, largely limited to introducing tax cuts at individual level. It is probable the Budget will reflect an attempt to put a brake on government spending, restricting the overall rise for the fiscal year to below the rate of inflation — guestimated to be a probable 16% to 17% on a year-to-year basis.

ORGANISED COMMERCE:
IN FRAMING his revenue requirements, Du Plessis would be ill-advised to rely again on bloated export earnings — and therefore the tax receipts — of the hyper-taxed mining companies. The 1985 windfall from this quarter, arising from the depreciated rand, can not be relied upon.

Exporters, particularly of minerals, are running into difficulties. And as oil prices fall, other commodity prices, especially coal, are feeling the pinch and are being adjusted downward as well.

In the circumstances, it is believed Du Plessis has no option but to deliver a package that will characterise today's exercise as a "standstill Budget".

PARLIAMENTARY VIEWPOINT:
THE CONSENSUS in parliamentary circles is that today's Budget demands will top R40bn, giving Du Plessis little option but to adopt a fiscal policy leading to a reduction of direct taxes, some easing of indirect taxation and possibly a cut in the import surcharge.

It is believed certain structural changes will be introduced aimed at encouraging greater levels of domestic saving.

Increases in government expenditure are likely to be directed towards stimulating employment creation, education and housing. There seems to be little doubt, too, that allocations for defence spending will again rise sharply.

It is widely expected that the perks tax on motor vehicles and housing loans will be further postponed. In order to further finance State expenditure, there appears to be a possibility customs and excise duty on luxury items, cigarettes and liquor will be increased.

And in some quarters there are suggestions that GST may again be adjusted upwards, with Du Plessis giving advance warning that this tax may be restructured along value-added lines.

☐ BASIL LANDAU

☐ LAWRIE KORSTEN

☐ **RAYMOND ACKERMAN: MD, PICK 'N PAY:**

GOVERNMENT must have the courage to get the economy going in order to avoid further unrest. The Budget must be geared towards supply-side economic measures. It must not look to increased taxes to pay for government spending. It must reduce tax, and I would strongly recommend that GST be taken off basic foodstuffs.

☐ **NEAL CHAPMAN: CHIEF EXECUTIVE, SOUTHERN LIFE ASSOCIATION:**

THERE must be no more excuses for government overspending, otherwise the Budget will lose its meaning as a budgetary exercise and merely become one broad form of fiscal policy. Tax cuts would be effective as part of a stimulatory fiscal policy to support economic recovery in 1986, remembering the effectiveness of this action in the 1978/79 budget after the mid-Seventies recession. But this option has become increasingly unlikely.

Given the the need for heavy expenditure on public servants' wages and salaries, the security forces and the upgrading of services and housing, budgeted expenditure will not realistically be able to increase by less than 17% — the expected average rate of inflation.

☐ **AUBREY DICKMAN: SENIOR ECONOMIST, ANGLO AMERICAN:**

A VITAL aspect of this Budget will be to build up confidence for foreign investment, and this will require absolute honesty about the current state of the economy. I hope for bold and imaginative announcements in terms of privitisation and user charges to create some scope for tax alleviation within a relatively conservative approach.

☐ **PIERRE DU TOIT: HEAD, TAX DIVISION, ARTHUR ANDERSON:**

FIRSTLY, the pressure must be taken off individual taxpayers. The top marginal tax rate for individuals should be limited to 50% and should be reached at a higher income bracket. Secondly, instead of increasing GST, government should spend more judiciously and apply more efficient tax administration methods.

Lastly — from the Margo Commission — I would not like to see the usual crop of reactive, half-baked legislation on technical issues to stop perceived loopholes, which end up damaging some

☐ **ALBERT WESSELS**

Tax cuts bring relief

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BDAY 18/3/86

John Tilston
Economics Editor

FINANCE Minister Barend du Plessis confounded analysts yesterday by providing a mildly stimulatory Budget, while at the same time keeping the deficit before borrowing surprisingly low.

Du Plessis said the economy needed "moderate stimulation, with the accent on moderate". As Rand Merchant Bank's group economist Rudolf Gouws said: "It is a Budget that tackles the problem of stimulation through tax cuts, rather than spending increases, and avoids pressure on interest rates."

The Minister dished out R994m in tax savings this year. In a full tax year the savings will amount to R1,143bn. He kept a lid on projected government spending, projected at R37,57bn, but gave some of the biggest increases to education.

However, it was precisely the moderate increases in state spending that caused widespread scepticism over Du Plessis' ability to maintain the necessary discipline to meet the targets set.

But, except for a R50m cut in the bread subsidy, there was significant relief for taxpayers. A 5% discount on normal tax payable by all income groups will come into effect for this tax year. This effectively reduces the top marginal rate of tax to 47,5%. With the abolition of the 7% tax surcharge announced by President P W Botha late last year, the top marginal rate has now been effectively reduced by 6% from 53,5%.

BUDGET: REACTION AND ANALYSIS: Pages 5 & 6.

A married man with no children earning R60 000 a year will shave R2 331 off his annual bill. The cost to the Exchequer of this concession is R494m in this financial year.

While stopping short of introducing separate tax for married couples — for reasons of affordability and not pre-empting the Margo Commission — he raised the tax-free threshold for married women from R1 600 a year to 20% of her earnings, with a minimum of R1 800.

As an example of the measure's effect, Du Plessis quoted a wife earning R20 000 a year as now being entitled to a deduction of R4 000. This proposal applies to the tax year just ended. He estimated this concession would cost the state R116m this year.

A family will gain significantly from the new tax scheme. A married couple with two children where the husband earns R25 000 and the wife R15 000 will see their tax drop by 16,5% from R10 171 to R8 491.

Estate duty deductions were doubled and the rates altered so that the maximum rate of 35% is reached at R800 000, instead of R400 000. But the proposals will apply only to the estates of those dying on or after April 1 this year. An estate of R450 000 left to a spouse and two children will see its tax cut from R45 000 to R9 000.

THE full speech plus tables and graphs appears in a special pull-out tabloid supplement with today's *Business Day*.

Savings were encouraged by doubling the exempt limit on tax on interest to R500 a year. He granted no concession to contractual saving schemes.

However, contrary to expectations he did not delay the extension of fringe benefit tax, partly, no doubt, because tax collections from this source will be significant. But Du Plessis suggested the issue of tax equity was paramount.

He raised the stamp duty on the transfer of marketable securities from 10c to 15c per R10 and at the same time raised the marketable-securities tax from 1% to 1,5%. Both changes are effective from the beginning of next month.

He doubled the levy on debit entries

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Tax cuts bring relief

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for such items as cheques and credit cards from 5c to 10c from July 1.

He justified both increases on the grounds that they had no noticeable influence on the nature and size of the financial transactions invloved.

Pensioners, from October 1, will get 7,5% to 15% in increases, depending on how long they have been retired. Military pensioners will get a better deal. Parity among races is to be applied. First World War veterans will no longer be subjected to a means test.

Gold and diamond mining companies, with record profits from the high rand price of gold, saw the 25% surcharge — first introduced in last year's Budget — extended for the financial year to March 31 1987. Other mining companies are to continue paying a 15% surcharge.

Non-mining company tax was left unchanged at 50%. But companies must now pay 100% of their tax liability in the first, second and third tax payments; previously 90% of the tax liability had to be paid over that period. This has no effect on total liability, but will adversly affect cash flow. Du Plessis estimated it would net the Treasury an additional R291m.

Individual provisional taxpayers whose taxable income is more than R50 000 will now be liable for a third provisional tax payment, starting in August 1987.

To protect the balance of payments and to generate much-needed cash,

● From Page 1

the 10% import surcharge ~~has been~~ retained, except with the important exclusion of books.

In a surprise change, the duty on fully imported cars was reduced to 100% from the 125% imposed in last year's Budget. Last year's higher rate apparently caused revenue from this source to decline sharply, with ancillary services coming to a virtual standstill.

General Sales Tax remains unchanged ahead of the Margo Commission's findings. The first opportunity of implementing any of its recommendations will be in 1987. Excise duties remain unchanged.

Total revenue is projected at R33,627bn in the 1986/87 financial year, against this year's estimated R29,73bn.

State spending is budgeted at R37,571bn, 13,9% above this financial year's level of R32,977. This is well below the inflation rate of 20,7%. It would seem essential for inflation to moderate over the course of the year for Du Plessis to have any hope of meeting this target. But as Gouws said: "Even if he moderately overshoots this target it will still be healthy."

The final deficit before borrowing is expected to reach R3,944bn, or 2,7% of Gross Domestic Product, which is not excessive and should not put much upward pressure on interest rates.

Post Focus

No major change likely in 'neutral' Budget

A9

K/P.087
15/3/88

By DIRK VAN ZYL
Political Correspondent

CAPE TOWN — General forecasts and expectations among parliamentarians, economists and other observers are that the Budget on Monday will be "neutral", with no earth-shaking innovations or announcements.

This applies especially to any major tax structure changes, say the experts, because the Margo Commission looking into this aspect still has to report.

The report is expected later this year.

The Minister of Finance, Mr Barend du Plessis, will present his second Budget to a joint sitting of Parliament at 2.15pm on Monday, with the usual pressure on him to "deliver the goods" being exacerbated this year by particularly South Africa's foreign debt problem.

Then there is the factor of the worsened security situation in the country over the past year, which has necessitated significantly increased South African Police and Defence Force spending.

Mr Du Plessis is, however, expected to give the usual relief to social and civil service pensioners — and this should at least equal the 10% salary rises announced recently for civil servants.

The role of the Budget in the annual Government legislative programme was put succinctly this week by University of the Western Cape economist, Professor Wolfgang Thomas, in a newspaper article. He wrote:

"It has virtually the same status as the President's speech at the opening of Parliament. Thus we can regard the Budget speech as the Government's most important interpretation of the country's economic performance and how it could — and should — unfold.

"In this role, any Budget speech is difficult. The Minister, speaking on the Cabinet's behalf, has to review past performance and assess the economy's more immediate prospects.

"He has to comment on the extent to which the past Budget has been kept within the limits set a year ago. He also has to address major political issues like inflation, economic growth, the value of the rand, unemployment, decentralisation, poverty, business optimism, and so on."

Among the main obstacles Mr Du Plessis faces, other observers point out, are the need to finance urgent reform programmes like housing and education while honouring the foreign debt repayment agreement.

On tax cuts, there is doubt as to whether Mr Du Plessis — ahead of the Margo Report — can do much beyond revising the thresholds for non-taxable income and adjusting some other rates.

An aspect which will be watched with interest on Monday is whether the Minister makes new proposals regarding the taxation of working couples — or at least hints in this direction.

In last year's Budget speech he said he had hoped "to be able to address this problem" but was awaiting further recommendations from the Margo Commission.

A possible form of relief to the man in the street, say some sources, could be an increase in the allowable deductions for medical expenses, which have soared in the past year.

And, of course, Mr Du Plessis faces that perennial problem: to combat the inflation rate and curb rising Government expenditure.

In view of factors already mentioned, and of the need to create parity in social services among all race groups, the Minister will find the latter exceedingly difficult.

He will also have to address the challenge of stimulating the economy and of encouraging people to save money.

Among other forecasts for Monday are:

- A possible scrapping of surcharge tax.
- The possible scrapping of estate tax.
- More government money to combat unemployment.
- Aid for agriculture.
- Money for the improvement of the living standards of blacks.
- Increases in the excise duty on luxuries like tobacco products and alcohol. Such rises are "hardy annuals".
- A possible hint about the future of General Sales Tax (GST) and which products should be exempted from it or re-included in its ambit (Mr Du Plessis has received some representations that basic foodstuffs should again be subject to GST, with a lower overall rate).

In its review of this year's first quarter, the Association of Chambers of Commerce (Assocom) — South Africa's biggest employer organisation — says: "From all available indicators, the targets, fiscal and philosophical, which Mr Du Plessis set in his maiden Budget address last year, have not been reached.

"The economy is still depressed. Bankruptcies and business failures have resulted in every bank making extraordinary provisions against bad debts. The unemployment figures continue to rise. The inflation rate is at a terrifying peak. For most of the population standards of living have fallen sharply.

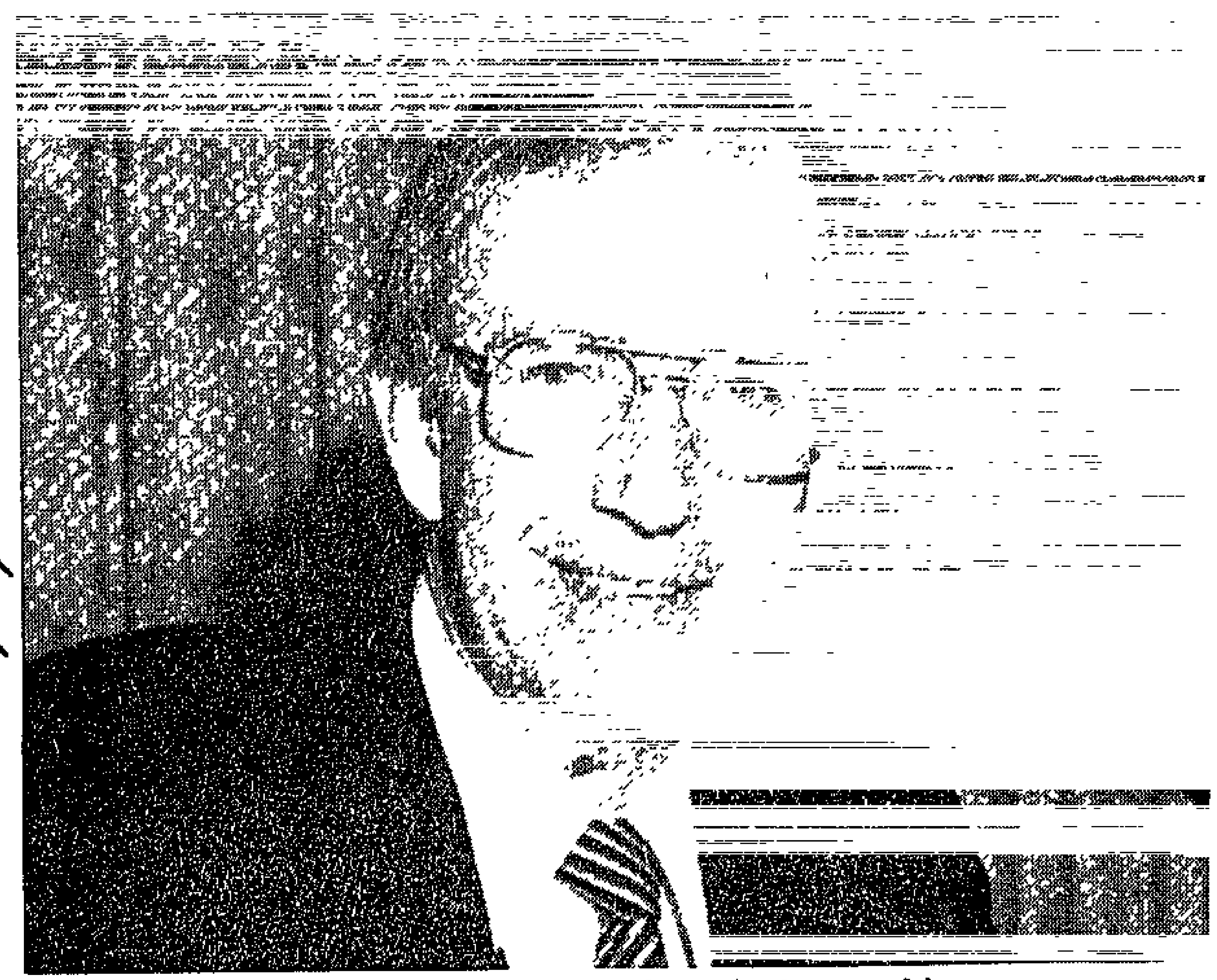
"And Government expenditure continues to mount, making unsustainable demands on the harassed productive sector."

The only target which has been met, says Assocom, is a buoyant balance of payments surplus "but that is more of a reflection of the sorry plight of the country than of any benign government action. Imports have slumped because of reduced demand while export receipts have soared in rand terms because of the sharp depreciation in the currency".

Assocom ends its Budget editorial in the review: "In short, instead of only words and well-meaning phrases in the Budget speech, let us have trigger-words leading to positive and constructive action."

In view of the sombre fiscal and economic picture sketched, one can indeed only echo these latter sentiments.

● The Evening Post will publish a special Budget edition on Monday afternoon.



Mr BARENД DU PLESSIS . . . facing problems.

18/3/86 49

The money supply targets for 1986 . . .

Statement by Dr Gerhard de Kock, Governor of the South African Reserve Bank

IN HIS Budget Speech, Minister of Finance Barend du Plessis announced that government has accepted the recommendation of the Commission of Inquiry into the Monetary System and Monetary Policy that the Reserve Bank should, with the concurrence of the Minister of Finance, set specific target rates of growth for one or more of the money supply aggregates.

The main reason for introducing monetary targeting is to assist the monetary authorities in their policy of controlling the money supply with a view to curbing inflation.

The targeting arrangements proposed by the Reserve Bank and accepted by government for 1986 are as follows:

☐ Following a comprehensive new statistical analysis of the relevant data as recommended by the Commission, the Reserve Bank has redefined the monetary aggregates M1, M2 and M3 and added a new concept M1 (A).

The new definitions are set out in detail in an appendix to this statement. While the money supply figures in the March issue of the Reserve Bank's Quarterly Bulletin will still be based on the old definitions, revised time series for all the monetary aggregates according to the new definitions will be published in the June issue, together with an explanatory article.

Seasonally adjusted month-end figures for all the newly-defined monetary aggregates will in future be released by the Reserve Bank each month.

☐ The money supply aggregate to be used for targeting purposes is the newly-defined M3.

This comprehensive aggregate consists of all bank notes and coins in circulation, plus *all* deposits (including building society "shares") of the domestic private sector with banking institutions, building societies and the Post Office Savings Bank.

☐ The target for 1986 is set in the form of a tolerance range for the rate of increase in M3 of between 16% and 20% between the fourth quarter of 1985 and the fourth quarter of 1986. Since the average amount of M3 during the fourth quarter of 1985 was R71,2bn, according to the new definition, the lower limit set for the average M3 during the fourth quarter of 1986 is R82,6bn and the upper limit R85,4bn.

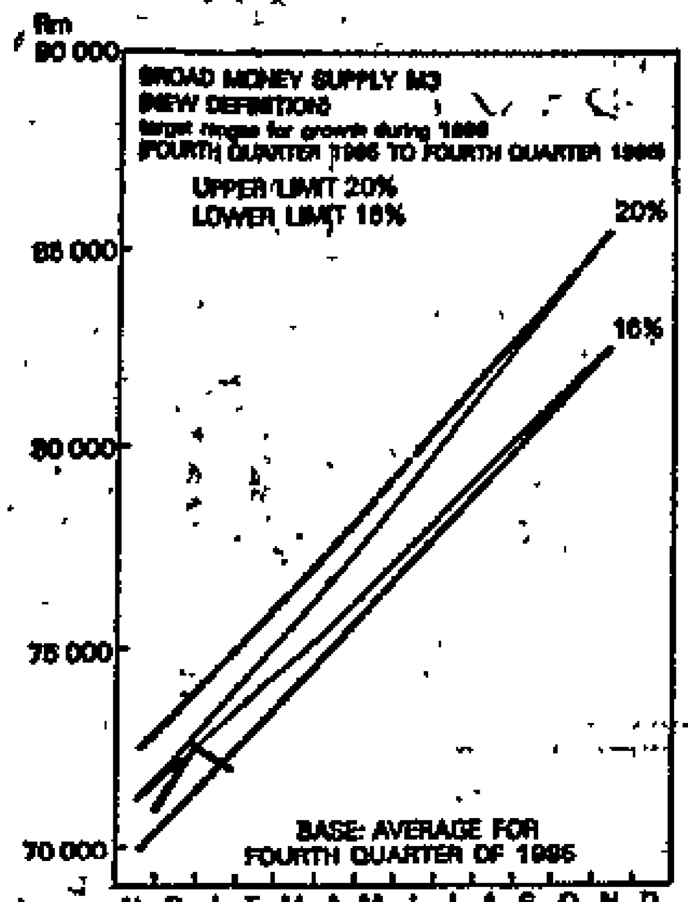
☐ In the prevailing circumstances, and taking into account the sharp decline during the course of 1985 in the rates of increase of all the monetary aggregates, the fourth quarter of 1985 may be judged to form a relatively low base from which to start a monetary targeting exercise.

It is therefore relevant in the present case also to compare the target range for the fourth quarter of 1986 with the average of M3 during the fourth quarter of 1984. On this basis, the target range set for the fourth quarter of 1986 provides for a growth rate for M3 of 14% to 16% per year over this two-year period.

☐ In the accompanying table and graph, the target range for M3 is translated into seasonally-adjusted upper and lower limits for each month-end during the targeting period in two forms — a "cone" and a "tunnel". This is in accordance with the practice employed in a number of other countries.

The adoption of a target for M3 naturally implies that interest and exchange rates must be reasonably flexible and able to adjust to changing circumstances. Interest rates and exchange rates cannot be determined independently of the money supply or of each other.

If, therefore, the demand for credit were to rise strongly as the present economic upswing gains momentum.



Instead, the monetary authorities will continue to exercise discretionary judgment in deciding what combination of money supply, interest rates and exchange rates to aim at in any given set of circumstances. But this discretion will naturally be constrained by the need to avoid changing or breaching the M3 target so often that it loses its meaning.

It must also be emphasised from the outset that in framing and applying monetary policy the monetary authorities will not be influenced unduly by individual month-end figures. This is not only because month-end money supply statistics are notoriously volatile for technical reasons, but also because of the non-rigid approach being adopted to the targeting exercise in general.

On the basis of past experience, it is highly likely that individual month-end M3 figures will from time-to-time fall outside the limits set by the "cone" and the "tunnel".

When this happens, the Reserve Bank will not necessarily feel constrained to tighten or ease its policy stance immediately. But, of course, if the monthly M3 figures *consistently* fall outside the target range, policy adjustments will have to be considered and/or the target range itself will have to be reviewed and possibly modified.

In accordance with the Commission's recommendations, the main instruments of monetary policy to be used in order to maintain M3 growth within the target limits will be public debt management (including public borrowing policy), open-market operations, discount policy and Reserve Bank "intervention" in the foreign exchange market. Use of these market-orientated policy instruments may at times be supplemented by variations of the cash reserve requirements for banks and building societies.

As in many other countries, the rationale for introducing monetary targeting in SA is basically three-fold:

☐ It will make clear that the monetary authorities are determined to get to grips with what they themselves have consistently indentified as a vital element in the process of inflation.

BROAD MONEY SUPPLY M3

(New Definition)

TARGET RANGES FOR GROWTH IN 1986 (4th Quarter 1985 to 4th Quarter 1986)

Calculation of values for upper and lower limits of M3 (seasonally adjusted)

	Cone: Upper limit 20%	Cone: Lower limit 16%	Tunnel: Upper limit	Tunnel: Lower limit
	Rm	Rm	Rm	Rm
Average 4th quarter 1985	71 174	71 174	72 380	69 968
End Nov 1985	71 717	71 615	72 679	70 456
Dec	72 816	72 507	73 890	71 434
Jan 1986	73 930	73 409	74 918	72 426
Feb	75 062	74 323	75 956	73 431
Mar	76 211	75 248	77 012	74 452
Apr	77 378	76 184	78 082	75 488
May	78 562	77 132	79 196	76 534
Jun	79 765	78 092	80 265	77 597
Jul	80 986	79 064	81 380	78 676
Aug	82 228	80 048	82 510	79 768
Sept	83 485	81 044	83 656	80 876
Oct	84 763	82 053	84 819	81 999
Average 4th quarter 1986	85 409	82 562	85 409	82 562
End Nov 1986	86 061	83 074	85 997	83 138
Dec	87 379	84 106	87 191	84 293

		R million
1985 IV	+ 20% =	85 409
	+ 16% =	82 562

APPENDIX

DEFINITIONS OF MONETARY AGGREGATES

Monetary aggregate	Existing definition	New definition
M1(A)	—	Coin and banknotes in circulation, and cheque transmission deposits with banking institutions[*], building societies and the Post Office Savings Bank.
M1	Coin and banknotes in circulation, and demand deposits with monetary banking institutions[*].	M1(A) Plus: Other demand deposits with banking institutions[*]
M2	M1 Plus: other short-term deposits, and all medium-term deposits (including savings deposits) with monetary banking institutions[*].	M1 Plus: Other short-term deposits, and all medium-term deposits (including savings deposits) with banking institutions[*]. Plus: Other short-term deposits, and all medium-term deposits (including savings deposits and certain "share" investments) with building societies Plus: Savings deposits with and savings bank certificates of the Post Office Savings Bank
M3	M2 Plus: All long-term deposits with monetary banking institutions[*]	M2 Plus: All long-term deposits with banking institutions[*] Plus: All long-term deposits and other "share" investments with building societies. Plus: Investments in national savings certificates issued by the Post Office Savings Bank

[1] Deposits included in these aggregates are those of the domestic private sector with the institutions concerned. Foreign deposits, government deposits and deposits of the institutions concerned with each other are excluded.

[2] The South African Reserve Bank, the Corporation for Public Deposits, discount houses, all other registered banking institutions and the short-term business of the Land Bank.

[3] The South African Reserve Bank, the commercial banks, merchant banks, the former National Finance Corporation, Corporation for Public Deposits, discount houses, the short-term business of the Land Bank, and other banking institutions of which the monthly average amount of demand deposit liabilities during the preceding calendar year amounted to at least R5 000 000 and of which the monthly average amount of short and medium-term deposit liabilities during the preceding calendar year collectively amounted to at least one-third of the total deposit liabilities of such an institution or at least R30 000 000.

16% to 20% would obviously have been preferable. But apart from the problem of a relatively low base period already mentioned, the targeting exercise is being introduced under conditions of low growth and high inflation, and in the short-term a balance has to be maintained between facilitating growth and curbing inflation.

In these circumstances a target range of between 16% and 20% was chosen for 1986 because it meets two conditions: firstly, it is high enough to

course of 1986.

If meaningful progress is made towards the latter end, the way will have been paved for the setting of a lower target range for M3 in 1987, as a prelude to a further reduction in the inflation rate.

ing building society "shares") of the domestic private sector with banking institutions, building societies and the Post Office Savings Bank.

☐ The target for 1986 is set in the form of a tolerance range for the rate of increase in M3 of between 16% and 20% between the fourth quarter of 1985 and the fourth quarter of 1986. Since the average amount of M3 during the fourth quarter of 1985 was R71,2bn, according to the new definition, the lower limit set for the average M3 during the fourth quarter of 1986 is R82,6bn and the upper limit R85,4bn.

☐ In the prevailing circumstances, and taking into account the sharp decline during the course of 1985 in the rates of increase of all the monetary aggregates, the fourth quarter of 1985 may be judged to form a relatively low base from which to start a monetary targeting exercise.

It is therefore relevant in the present case also to compare the target range for the fourth quarter of 1986 with the average of M3 during the fourth quarter of 1984. On this basis, the target range set for the fourth quarter of 1986 provides for a growth rate for M3 of 14% to 16% per year over this two-year period.

☐ In the accompanying table and graph, the target range for M3 is translated into seasonally-adjusted upper and lower limits for each month-end during the targeting period in two forms — a "cone" and a "tunnel". This is in accordance with the practice employed in a number of other countries.

The adoption of a target for M3 naturally implies that interest and exchange rates must be reasonably flexible and able to adjust to changing circumstances. Interest rates and exchange rates cannot be determined independently of the money supply or of each other.

If, therefore, the demand for credit were to rise strongly as the present economic upswing gains momentum, a rise in interest rates might well form an essential part of any package of monetary measures applied to prevent the money supply from "overshooting" the target. On the other hand, as the experience of the past 10 months has shown, declining interest rates can be fully reconcilable with effective money supply control during periods of low aggregate demand.

As recommended by the Commission, the targeting exercise now being embarked upon will be applied with a fair measure of flexibility and a "low profile". What this means is that there will be no *rigid* and *overriding* "money rule" that implies leaving interest rates and exchange rates *completely* free to find their own levels at all times.

... given set of circumstances. But this discretion will naturally be constrained by the need to avoid changing or breaching the M3 target so often that it loses its meaning.

It must also be emphasised from the outset that in framing and applying monetary policy the monetary authorities will not be influenced unduly by individual month-end figures. This is not only because month-end money supply statistics are notoriously volatile for technical reasons, but also because of the non-rigid approach being adopted to the targeting exercise in general.

On the basis of past experience, it is highly likely that individual month-end M3 figures will from time-to-time fall outside the limits set by the "cone" and the "tunnel".

When this happens, the Reserve Bank will not necessarily feel constrained to tighten or ease its policy stance immediately. But, of course, if the monthly M3 figures *consistently* fall outside the target range, policy adjustments will have to be considered and/or the target range itself will have to be reviewed and possibly modified.

In accordance with the Commission's recommendations, the main instruments of monetary policy to be used in order to maintain M3 growth within the target limits will be public debt management (including public borrowing policy), open-market operations, discount policy and Reserve Bank "intervention" in the foreign exchange market. Use of these market-orientated policy instruments may at times be supplemented by variations of the cash reserve requirements for banks and building societies.

As in many other countries, the rationale for introducing monetary targeting in SA is basically three-fold:

☐ It will make clear that the monetary authorities are determined to get to grips with what they themselves have consistently indentified as a vital element in the process of inflation, namely an excessive rate of increase of the money supply.

☐ It will provide advance notification of the likely stance of monetary policy.

This greater predictability should assist private sector enterprises in reaching business decisions and also be helpful to workers and employers in the formulation and negotiation of wage demands.

☐ It will provide a yardstick against which the actual performance of monetary policy may be judged. From the point of view of curbing inflation, a lower target range for the rate of increase in M3 in 1986 than 16% to 20% would obviously have been preferable. But apart from the problem of a relatively low base period already mentioned, the targeting exercise is being introduced under conditions of low growth and high inflation, and in the short-term a balance has to be maintained between facilitating growth and curbing inflation.

In these circumstances a target range of between 16% and 20% was chosen for 1986 because it meets two conditions: firstly, it is high enough to accommodate a projected increase in real gross domestic product of more than 4% between the fourth quarter of 1985 and the fourth quarter of 1986, which translates into an increase of about 3% between calendar 1985 and calendar 1986.

Secondly, it is low enough to ensure that the expected decline in the rate of inflation during the course of 1986 as a result of the recent appreciation of the exchange rate will not be aborted by the emergence of new demand inflationary pressure.

In other words, it is believed that attainment of the 16% to 20% M3 target would be consistent with the simultaneous achievement of a substantially high real growth rate in 1986 than in 1985, and a marked decline in the rate of inflation during the

aggregate	Existing definition	
M1(A)	—	Coin and ... building ... Bank.
M1	Coin and banknotes in circulation, and demand deposits with monetary banking institutions(3).	M1(A) Plus:
M2	M1 Plus: other short-term deposits, and all medium-term deposits (including savings deposits) with monetary banking institutions(3).	M1 Plus: ... Plus: ... Plus:
M3	M2 Plus: All long-term deposits with monetary banking institutions(3)	M2 Plus: ... Plus: ... Plus:

(1) Deposits included in these aggregates are those of the domestic private sector with the ... government deposits and deposits of the institutions concerned with each other are ...
(2) The South African Reserve Bank, the Corporation for Public Deposits, discount houses, ... short-term business of the Land Bank.
(3) The South African Reserve Bank, the commercial banks, merchant banks, the ... Public Deposits, discount houses, the short-term business of the Land Bank, and other ... average amount of demand deposit liabilities during the preceding calendar year ... monthly average amount of short and medium-term deposit liabilities during the ... least one-third of the total deposit liabilities of such an institution or at least ...

course of ...
If ... wards the have been ... lower target ... prelude to a inflation ...

BUSINESS DAY, Tuesday, March 18 1986

20% tax cuts for wives

TWENTY PERCENT, or a minimum of R1 800 of working wives' salaries, will in future be exempt from tax.

This was announced yesterday by Finance Minister Barend du Plessis when he delivered his Budget speech to Parliament.

This meant that a married woman who earned R20 000 a year would be able to deduct R4 000, as against the present R1 600.

"The entry of married women into the professional and labour market is a world-wide phenomenon, and one that in South Africa with its great shortage of skilled labour power is of growing importance," the minister said.

There were various schemes whereby the problems that had built up around the tax burden of married couples could be eliminated, but each suffered from the disadvantage of an unacceptably high loss of revenue to the fiscus.

"The search continues for an acceptable compromise between a theoretically sound and an affordable solution," Du Plessis said. It was being thoroughly researched by the Margo Commission.

"In the meantime the problem of the additional sum that married couples must find on receipt of their assessment has aroused further emotions," he said.

Government had a close understanding of the position of the working wife and the adjustments were proposed to provide interim relief.

They would apply to the tax year that ended on February 28, 1986.

He said it should be noted that the large sums married couples stood to pay on assessment could not be blamed on the tax structure as such, but rather on the fact that the PAYE tables for women often did not provide for adequate deductions to meet the actual tax liability.

The Commissioner for Inland Revenue was going to prescribe amended tables applicable to married women which would come into force from July 1, 1986, to provide for deductions more in line with the wife's proportion of the tax payable on the joint income. — Sapa.

Budget attacked from left and right

18/3/86
Argus
49

By DAVID BRAUN
Political Staff

What you gain

● All taxpayers will from this month pay five percent less income tax. Added to the simultaneous lifting of the seven percent surcharge on personal tax, this means some taxpayers will pay a total of 11 percent less tax from this month.

● Working wives will be able to deduct R1 800 or 20 percent of their earnings, whichever is the greater, before the remainder is added to the income of her husband to be jointly taxed. This applies retrospectively to 1985/86. Previously the amount deductable was R1 600. The concession means that if a wife earns R20 000, her tax deduction will be R4 000 instead of the present R1 600.

● The non-taxable part of interest on savings and building society dividends is increased from R250 to R500. This means that the interest on a saving of about R4 000 will be exempt from tax.

● Estate duties are being reduced so that the maximum taxation of 35 percent is reached when the estate is worth R800 000 or more, instead of the present R400 000.

● The 10 percent import surcharge on books is to be lifted.

● The surcharge on fully assembled imported cars is being reduced from 125 percent to 100 percent.

● Pensions are to be improved by R20-million.

● The stamp duty on marketable securities (10c for every R10 of the consideration) levied in respect of the registration of transfer of any marketable security is to be raised to 15c for every R10 from April 1.

● The one percent marketable securities tax levied for every purchase of marketable securities by a stockbroker on behalf of any person is to be raised to 1,5 percent.

Where you lose

● The price of brown bread could be increased by at least 6c a loaf because the State subsidy is being reduced by R50-million to R150-million.

● From July 1 stamp duty on debit entries in banking and credit card accounts will increase from 5c to 10c.

● There will be no extension of the phasing-in period for fringe benefit taxation.

● From next year high-income provisional taxpayers will have to pay the receiver in three instalments instead of two.

● Companies will have to pay 100 percent of their provisional tax by due dates, instead of 90 percent.

● The surcharges of 25 percent on gold and diamond-mining income and 15 percent on other mining income are to be reimposed.

THE Budget has been sharply attacked from both the left and the right on the grounds that it fails to address the country's political and economic crisis.

The Progressive Federal Party official opposition warned today that the Budget presented yesterday had lost an opportunity to restore stability and business, investment and consumer confidence.

The chief opposition spokesman on Finance, Mr Harry Schwarz, said today the Minister of Finance, Mr Barend du Plessis, had failed to draw up a crisis Budget to address the national political and economic crisis.

Mr Schwarz said: "Mr du Plessis should have cut GST and he should have provided encouragement to industries which are in a difficult, if not a bankruptcy situation.

A DIFFERENCE

"What a difference it would have made if people could have walked away from yesterday's Budget and said, 'I am going to start a new business now', or, 'I am going to be able to get a job now'."

It was also a pity that Mr du Plessis had missed the opportunity to eliminate discrimination in various social services, particularly social pensions.

"If only he had just started this process by announcing the closing of the gap over a period of years," Mr Schwarz said.

"The major factor remains that we do not have stability. The unrest continues and pressure continues from outside.

Conservative Party finance spokesman Mr Jan van Zyl believed the Government had not allocated sufficient resources to deal with the emergency conditions of the farmers. The Government had also further redistributed income in this Budget.

● More Budget reports and tax tables, Pages 16 and 17.

Beware of the 'wife tax' fiddle

Parliamentary Staff

IF anyone is thinking of a quick fiddle to make it appear that his wife is the main breadwinner — don't try. The Receiver of Revenue is watching.

But anyone who can convince his wife that she should go to work while he stays at home to take advantage of the new tax rebates for working wives is welcome to do so.

ADVANTAGES

In terms of the announcement by Mr du Plessis yesterday working wives will be able to knock 20 percent off their earnings for tax purposes.

When a wife earns a lot and her husband little there would be substantial tax advantages over another couple with the same total earnings but with the husband as the main breadwinner.

And the Receiver is aware that this substantial sum could prove attractive to a tax-dodger.

NEW MEASURES

A spokesman said there were "anti-avoidance provisions" which state that to qualify for the concession a woman must earn the money independently of her husband.

He conceded that attempts could be made to take advantage, but his department would watch closely and would consider new measures if necessary.

BDAY 18/3/86

BUDGET '86

Phasing-out of estate duty

FINAL proposals for the phasing-out of estate duty in its final form would probably be announced next year, Du Plessis said yesterday.

He proposed that all deductions in terms of Section 4A of the Estate Duty Act be doubled.

Du Plessis said the deductions allowable in the determination of the taxable value of an estate and the tax rates had, in contrast with those in respect of individual income tax, remained unchanged for several years.

"Inasmuch as the nominal value of an estate, just as the nominal income of an individual, has risen and is likewise subject to a progressive tax rate, it is desirable that relief be afforded."

Du Plessis also announced that the rates of estate duty would be changed so that the maximum rate of 35% was reached at R800 000 instead of the present R400 000.

These concessions would apply to the estates of persons dying on or after April 1, 1986.

"That this proposal involves a substantial concession is evident from the fact that for a person with an estate of R450 000 leaving a spouse and two children, the estate duty liable is reduced from R45 000 to R9 000."

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This meant that a married woman who earned R20 000 a year would be able to deduct R4 000, as against the present R1 600.

"The entry of married women into the professional and labour market is a world-wide phenomenon, and one that in South Africa with its great shortage of skilled labour power is of growing importance," the minister said.

There were various schemes whereby the problems that had built up around the tax burden of married couples could be eliminated, but each suffered from the disadvantage of an unacceptably high loss of revenue to the fiscus.

"The search continues for an acceptable compromise between a theoretically sound and an affordable solution," Du Plessis said. It was being thoroughly researched by the Margo Commission.

"In the meantime the problem of the additional sum that married couples must find on receipt of their assessment has aroused further emotions," he said.

Government had a close understanding of the position of the working wife and the adjustments were proposed to provide interim relief.

They would apply to the tax year that ended on February 28, 1986.

He said it should be noted that the large sums married couples stood to pay on assessment could not be blamed on the tax structure as such, but rather on the fact that the PAYE tables for women often did not provide for adequate deductions to meet the actual tax liability.

The Commissioner for Inland Revenue was going to prescribe amended tables applicable to married women which would come into force from July 1, 1986, to provide for deductions more in line with the wife's proportion of the tax payable on the joint income. — Sapa.

18/3/86 BDAY

More workers get 'fringe benefit' pay

THE practice of remuneration partly through fringe benefits was occurring on a greater scale than originally suspected, said Barend du Plessis.

He said government could not meet calls for the freezing of a phasing-in period for the taxing of certain fringe benefits.

Although it was difficult to estimate the precise proceeds from this tax, the increase in employee's tax collections indicated that it would be significant.

As the tax was not primarily aimed at raising the state revenue total, but rather at a more equitable distribution of the tax burden, it would be utilised to lower the general level of personal taxation.

The increase in tax collections seemed to bear out the presumption that the practice of remuneration of workers partly through fringe benefits was occurring on a greater scale than originally thought.

"Over the past few months representations have again been made for the freezing of the phasing-in period for certain fringe benefits on the grounds that this would boost trade and industry," Du Plessis said.

Although there was understanding for such representations, "it should be borne in mind that an exceptionally long phasing-in period has been allowed, and furthermore that taxable values are not very high."

The Margo Commission was sounded out and it agreed fully with government's approach.

"Longer phasing-in periods, therefore, cannot be supported," the Minister said.

WHERE THE MONEY GOES

(1985/6 FIGURE IN BRACKETS)

	(In Rand)	
PUBLIC ORDER AND SECURITY		
Custody and administration of justice	R638 043	(R606 449)
Police	R1 129 113	(R992 879)
Defence	R5 257 031	(R4 408 862)
Other	R169	(R95)
	R7 243 167	(R6 183 199)
GENERAL GOVERNMENT SERVICES		
Foreign relations	R249 699	(R196 652)
Civil matters	R72 394	(R53 399)
Government establishments	R58 467	(R54 932)
Constitutional development	R2 932 271	(R2 824 728)
Other	R160 367	(R127 699)
	R3 443 199	(R2 787 [illegible])
ECONOMIC SERVICES		
Labour regulation	R55 093	(R93 360)
Forestry	R27 877	(R30 791)
Energy and power	R780 663	(R529 465)
Trade promotion	R213 626	(R184 481)
Agriculture	R875 573	(R1 087 192)
Mining and minerals	R38 465	(R49 084)
Industrial services	R559 172	(R546 686)

BUSINESSMEN

Barend 'did not go far enough'

BDAY (49) 18/3/86

Business Day Reporters and Sapa

YESTERDAY's Budget has been widely welcomed by commerce and industry as benefiting the man in the street.

But it has been criticised for not addressing inflation fully and not going far enough to help lower-income groups and the unemployed.

Optimism for economic stimulation without political change was not high, and the issue of government spending was raised by various organisations.

PFP finance spokesman Harry Schwarz said the Budget was an ad hoc measure which gave little indication of any real assessment of priorities or long-term planning.

He said it contained few measures to combat inflation, in many respects further stimulating inflationary tendencies.

Money available for tax concessions should have been used to reduce sales tax, in the light of high inflation and the plight of lower-income groups, he added.

NRP finance spokesman Derrick Watterson said: "The limited concessions made to encourage internal savings are totally inadequate for the replacing of foreign capital."

United Democratic Front spokesman Murphy Morobe said the Budget continued the trend of forcing the poorer sections of the population to carry the major burden of apartheid. Phasing out the bread subsidy and the maintenance of GST continued "the assault on the already-eroded standard of living for blacks", he added.

Checkers MD Clive Weil said: "It is a rich man's Budget, for those who have jobs and are earning salaries."

Assocom president Rocky Ridgeway said organised commerce supported the urgent need for moderate stimulation of the economy.

The Consumer Council viewed the Budget as a "responsible and stimulating economic plan", but said publication of the Margo Commission findings could have provided more-significant tax concessions.

Pick 'n Pay chairman Raymond Ackerman saw the Budget as "positive under the circumstances", but added that the abolition of apartheid would save the country a lot of money. He would like to have seen GST and import surcharges abolished on all foodstuffs.

Barend's Budget is certain to make John Citizen pay more

STAR (49) 17/3/86

By David Braun,
Political Correspondent

CAPE TOWN — The man in the street is almost certainly going to be asked to pay more towards the running of the country when Minister of Finance Mr Barend du Plessis tables his Budget in Parliament this afternoon.

But the good news is that personal income tax levels, particularly for the higher-income bracket, are likely to be reduced in order to counter the ravages of inflation.

The Government will also be trying to stimulate the ecomomy. If this works, it can only benefit the public eventually in terms of economic growth and more job opportunities.

President Botha met his Cabinet in Cape Town this morning in an extraordinary session to give last-minute approval to the Budget.

Most observers expect that Mr du Plessis will not be announcing any major changes to the taxation system because the Government is still waiting for the Margo Commission to report. But the Minister is likely to increase the extent of rebates, particularly for the elderly.

He is also expected to make it more attractive for people to save, most probably by increasing the amount of interest which can be earned tax-free from R250 a year to R350 or more.

Increases in social pensions will also be announced, and for the second year running the Government is expected to announce equal increases for all the population groups. This means white pensioners will receive lower percentage increments than their coloured, Indian and black counterparts.

The Government is under enormous pressure to increase its social and security spending.

Education services, housing and welfare are likely to get above-inflationary boosts in what should amount to a total Budget of at least R36 000 million.

In order to pay for this, Mr du Plessis will be looking at precious few options. His ability to borrow abroad is almost nil, while if he takes up too much money from the domestic market, interests will be under sharp pressure to go up again.

Observers believe that the Minister will have no choice but to raise revenue from taxes, which means that he is likely to look at GST and duties on tobacco and alcohol, among others.

● Full details of Mr du Plessis' 83-page Budget speech will be carried in later editions of *The Star* today. Tomorrow *The Star* will publish a special 20-page Budget Supplement.

Don't expect much joy from Barend's budget

49

Mercury 17/3/86

ORMANDE POLLOK
Political Correspondent

CAPE TOWN—Tighten your belts. This is the message from political circles as the country prepares for Finance Minister Barend du Plessis's budget today.

Apart from a few cosmetic 'sweeteners' to detract from the realities, very little good news is expected for the man in the street in spite of a massive Government windfall in the form of income from gold.

The problem is that the Government's expenditure is running wildly over its estimates for the year and with the rising price of the rand it cannot expect the same income from gold next year.

With the country already deep in trouble with its foreign debts, the Government is unlikely to seek too much money abroad.

Mr du Plessis is going to have to find additional revenue from somewhere and is likely to be looking for some of it in those little pleasures enjoyed by the man in the street, such as beer and baccy.

Personal tax could also go up, but it is thought Mr du Plessis will be making a few adjustments to the levels at which tax is payable in order to deal with 'bracket creep'.

A few other 'sweeteners' are likely to be pension increases, social allowances and increased rebates for working wives.

Mr Harry Schwarz, chief Opposition finance spokesman, said: 'The trouble is, the minister has painted himself into a corner.'

He had not been able to control State expenditure, the Government had not identified its priorities, it had not decided what it could do without in the Government service, it did not know what to privatise and while it spoke about financial discipline, it was unable to apply it.

Inflation a major issue

'But I want to warn Mr du Plessis that if he intends increasing GST it will be a fatal mistake. The country's masses are already battling to feed themselves and 'anything could happen if they are put under more stress,' said Mr Schwarz.

Apart from this, he said, it would be highly inflationary with the country's inflation level standing at a record 20 percent already.

'Inflation is a major issue and how we deal with it is crucial.'

The big question was whether Mr du Plessis intended to deal with short-term problems or whether he would start laying the foundations for long-term solutions.

It was possible Mr du Plessis could also announce plans to reform taxation, such as doing away with GST and replacing it with a VAT system, and to introduce a capital transfer tax, but these could not be implemented immediately.

Mr Schwarz suggested the Government would be seeking more money for education, defence, security, housing and social services.

Little hope of relief in today's Budget

Cape Times 17/3/86

49

By GORDON KLING

TODAY'S national budget for the 1986/87 financial year will reflect a tragedy of circumstances which threatens to make most South Africans still poorer in years to come.

The inability to raise foreign loans, coupled with massive expenditure demands on government will prevent significant relief from one of the heaviest tax burdens in the West.

Effectively the public is being asked to contribute more to an economy that the world's financial community is backing away from as fast as negotiations by the country's international debt mediator, Dr Fritz Leutwiler, will allow.

Yet a resurgence in consumer confidence through greater spending power is desperately sought to create jobs and improve living standards by promoting faster real growth.

The Minister of Finance, Mr Barend du Plessis, has probably not had much more of a free hand with today's budget than he did with his first last year.

Horwood

Then his predecessor, Mr Owen Horwood, had set the scene. This time the implications of South Africa's deteriorating political outlook will be the overriding factor.

Like the Governor of the Reserve Bank, Dr Gerhard de Kock, who acknowledges that political influences now rule the economy, Mr Du Plessis can only work with traditional tools — fiscal (spending) and monetary (money management) policies — to make the best of a difficult situation.

Mr Du Plessis conceded to the Cape Times in an eve-of-the-budget interview that exogenous factors had again severely limited his options.

He declined to characterize the philosophy of the package he will unveil in the House of Assembly this afternoon as a happy budget.

"I've often seen things that were supposed to bring happiness portrayed by opinion-makers in another way," he said.

"In general ... we have suffered very severe economic setbacks and problems over the past few years.

"Many South Africans still feel that somehow or other there should be a quick fix for (our) economic ailments in order to better their own personal position. This is unfortunately not possible."

The minister said he intended to place considerable emphasis on the question of priorities in his introduction to the budget, which is traditionally largely historic in content.

He would not be drawn on specifics.

Economists game enough to speculate on budget content generally expect PAYE tax table adjustments to partly compensate for inflation-induced bracket creeping.

The Minister of Finance, Mr Barend du Plessis.

The Budget

A SPECIAL supplement to the Cape Times tomorrow will carry the full text of the Budget speech, with analyses by Syfrets experts on taxation, investment and other fields. There will also be full coverage of the Budget speech and reaction to it.

Increases less than the inflation rate are obviously anticipated for pensioners, there might be further relaxation of estate and other duties, and possibly a delay in the implementation of fringe benefits taxation on company cars.

It is considered imperative for Mr Du Plessis to put on a bold front in an attempt to get the economy moving, but economists doubt he will allow a borrowing requirement of more than R5-billion, taking total expenditure to somewhere in the vicinity of R38-billion or R39-billion (about 33-billion in 1985/86) after revenues of R33-billion to R34-billion.

Higher borrowings would allow greater tax concessions, but could also increase inflationary pressures and nudge interest rates upwards in the absence of new foreign capital.

A reasonable surplus in the balance of payments is expected to facilitate a smooth, if economically tragic, beginning to the repayment of South Africa's foreign debt.

Stone-dead

However, some economists, notably University of Cape Town Professor Brian Kantor, believe the economy is so stone-dead that increased borrowing could be accommodated without undesirable pressures.

Budget revenue last year was 23 percent higher than planned with a month to go until the end of the financial year on February 28, while expenditure for the same period was up 21,7 percent.

Professor Kantor argues that the state would do well to be less cautious this year by over-estimating revenue and under-estimating expenditure to give the economy a prod.

Those of more conservative persuasion want a heavier lid on government spending, arguing that tax receipts from battling companies and individuals could be lower in the coming year.

An improved tax contribution from the mines is regarded as a certainty since any fall in the gold price should mean a slump in the rand against the dollar and a corresponding increase in the rand value of the metal.

Privatization, the sale of state assets to the private sector, is heavily favoured as a means of raising additional capital. But government has paid lip-service to the principle for years without concrete action.

At the end of the day, Mr Du Plessis must be shooting for a popular morale booster.

The emphasis on the need for recovery from depression, both mentally and finacially, is likely to dictate a mildly stimulatory package in the flesh, being made to sound like something more in spirit.

Huge State spending rules out major cuts in taxation

SUN TIMES (BUS) (49)

Barend in a strait-jacket

16/3/86

DON'T expect major tax cuts in tomorrow's Budget, say economists.

Business Times Reporters

Because of the low rand and resulting fat tax collections from the mines, Government revenue soared above last year's Budget projections.

But South Africa's straitened political circumstances mean that State spending this year is likely to be much higher than income.

Finance Minister Barend du Plessis will have little room for manoeuvre when he presents the numbers in Parliament tomorrow afternoon.

Sins of past

He may tinker with GST or even with the top personal tax rate. He may extend the deadline on fringe benefits tax to help the motor industry and he may give relief on estate duty — but the amount of tax to be pumped out of the private sector will not decline.

Not that the numbers will mean much anyway. The Government's consistent overshooting of spending down the years leads economists to view this Budget as no more than the palest indication of what its real intentions may be.

Standard Bank economist Andre Hamersma warns: "What you hear in the Budget and what is likely to happen over time are two very different things."

But Mr Hamersma believes the Budget will herald a major redirection in the State's spending priorities, which must "as a matter of urgent necessity, reflect the changing socio-political and security considerations and correct sins of the past".

That means increases in State spending — and in its borrowing requirements.

Mr Hamersma's views are supported by economist Louis Geldenhuys of stockbroker George Huysamer.

Warning that budgetary demands have shifted radically from the 1970s and 1980s, Mr Geldenhuys says the Government should not be criticised out of hand for expected big spending increases.

Confident

"Spending priorities will have to be revised. This doesn't mean we can be permissive in our spending, but Mr du Plessis must restore confidence in the economy through a reasonably high growth rate."

Mr Geldenhuys believes the Government should raise its capital spending.

Given SA's urgent social needs, "it is a wrong impression for South Africans to think their tax burden can be eased significantly. All we can expect is a shift in the burden from the left foot to the right foot."

Shortfall

Economists think the State's spending for the 1986-87 financial year will top R39-billion. Revenue is likely to be R34 billion.

That would leave R5-billion to be raised by loans — 3,5% of expected gross domestic product. The big question is whether borrowing will accelerate inflation and lift interest rates.

Barclays economist Cees Bruggemans does not think the Budget will prevent short-term rates — including the overdraft rate — from falling further.

He foresees rates easing until mid-year. Neither does he foresee the Government's big spending needs having much affect on inflation.

"Economic activity is very low and demand is flat. The market will be able to live with the likely borrowing requirement".

The other unknown is how and where the State plans to raise the money outside of planned borrowings.

If the rand stays around US$0,50, Mr du Plessis can count on another hefty contribution from the mines. But company and individual tax receipts could be substantially down on 1985-86's. GST receipts could be a little higher as a result of stronger consumer spending later in the year.

Little choice

That leaves the Government little choice but to speed the sale of some of its own capital assets — so-called privatisation. Mr Hamersma says: "There's no doubt that the Government can't keep on delaying this process. It must stop dragging its feet."

Mr du Plessis' main problem will be to convince businessmen that there is reason for confidence and that they can start investing again. Short of this, any economic growth will be shortlived and the effects on SA's serious unemployment problem minimal.

No fireworks expected in the Budget

15/3/86 STAR 49

By Duncan Collings, Deputy Finance Editor

This weekend South Africa holds its breath ahead of the country's national Budget to be presented by Finance Minister Mr Barend du Plessis to Parliament at 2.15 pm on Monday.

The Minister's statement is expected to be relatively lacking in fireworks this year and to be an "as you were" Budget with few changes affecting the general public, but is expected to continue and reinforce the mildly stimulatory policy currently being followed by the authorities.

He may tinker with the general tax structure to give some relief to the salary earner but nothing dramatic in the form of an increase in GST or an announcement of major tax changes is expected.

The Margo Commission is looking into the country's tax structure and is expected to report mid-year. Most commentators do not expect the Minister to pre-empt the commission's finding by making any major tax changes.

However, given the pariah status of South Africa in the world banking community, there is no doubt the Minister is going to be left with a shortfall between estimated Government expenditure for the 1987 fiscal year and revenue.

Foreign borrowing is at best tenuous and cannot be budgeted upon. His only recourse will be to look for the shortfall — estimated by commentators to be around R5 billion — from local sources.

He may look at a loan levy, he may increase excise on beer and cigarettes or he may look at direct tax receipts.

Politically this is an important Budget. The Minister dare not introduce too many unpopular measures given the extreme pressure from both the Left and Right of the political spectrum.

Some usual concessions to pensioners with some minor tax concessions may be granted together with increased expenditure on social services such as housing, schooling (particularly black education) and defence.

A delay on the introduction of the second phase of the perks tax, particularly on motor cars, is reckoned a certainty. Otherwise, no change in GST, some minor concessions on savings and a minor hardening of company tax is anticipated.

Most markets will come to a near standstill on Monday morning and "Budget fever" hit many markets yesterday — the rand on the foreign exchange market, the stock exchange and money market were extremely hesitant ahead of Monday.

Internationally too, many overseas economists, bankers, politicians and others will be keeping a close eye on Monday's Budget as an indicator of the country's economic stability, given its huge international indebtedness and the recent negotiations on the country's repayment schedule of its international debt.

FIN MAIL 14/3/86 (49)

THE BUDGET

What to expect from Barend

We all know what sort of a Budget Barend du Plessis should deliver on Monday: cuts in direct taxes, a move towards a more logical taxation system, rigid restraint of public-sector consumption spending, encouragement of private-sector enterprise, and a move towards deregulation and the social and infrastructural spending we need to ensure healthy long-term growth.

But will he? Not a damn.

During the Horwood era, we were told that a Budget was only one element of government financial policy. Not too much should be read into it in isolation; the trend (and need) was for important policy decisions to be taken throughout the year, as circumstances dictated.

True, Budgets have indeed become a less vital part of economic strategy: but it is questionable whether this is so much a result of deliberate policy, or because government (and Treasury in particular) has simply lost control of our destiny.

When Barend du Plessis gets up to deliver his second Budget speech, his options will already have been circumscribed by factors beyond his control, such as the need to accommodate the debt standstill; the (to put it mildly) quaint pricing and salary policies of some subordinate budgets (Sats, the Post Office), and the by no means unrelated total failure to control public-sector current spending, while vital social and infrastructure spending has been pared to the bone; the gold price; the weakness of the rand; the cost of the tricameral system; and the bargaining power of special interest groups like the farmers and the military.

The Budget is likely to prove little more than a holding operation, pending an improved economy and the report of the Margo Commission into tax. But there are certain measures Minister du Plessis must be considering for a moderate restimulation.

All this as well as the traditional determinants of broad economic policy and the need to (more or less) balance the government's books.

We need to stimulate the economy; but we must beware of inflation. So yet more government sector spending is not the answer. Assisted job creation is only a short-term palliative which in the long run creates structural problems of its own. The Railways have only just got over the white labour policies of a slump generated more than 50 years ago.

Growth must be led by the private sector. So we need deregulation and an end to artificial barriers; privatisation of State juggernauts too, but only if they are also exposed to real competition.

We cannot have major tax changes without pre-empting the Margo Commission. In any event, the need for revenue will preclude major concessions — a static rand gold price and rising costs are doleful portents for that crucial contributor to the fiscus, gold mining.

We are faced with a paradox: this should be one of the most important Budgets in recent history; but in the event it could well be dull and little changed, a holding operation pending economic revival and Judge Margo. In the longer run, Judge Margo's recommendations will be vital. We need a massive overhaul of the tax system and greater incentives for enterprise.

Gst was intended to reduce the burden of direct tax and switch the emphasis to indirect tax. The direct tax burden is now almost as heavy as ever: abolition of ridiculous peak marginal rates has been offset by fiscal drag, but we now have a heavy load too.

Because of the exigencies of our present position, we must accept an above normal public-sector deficit. Indeed, the actual figures in the fine print are scarcely relevant now; this should be a Budget for basics, not for bookkeepers.

But we can only accept an above-target deficit if the cash is used productively: especially on education and training.

After weighing up all these conflicting requirements, we expect little (if any) change in corporate tax rates, for individuals at best brackets raised some way (but probably not all) in line with inflation, and minor tinkering with anomalies and individual items — including possibly further stretching of the phasing-in of fringe benefits taxes. Abolition of the ill-conceived import surcharge would also be welcome.

Such a package would be a damp squib.

For the real news, we may have to await Judge Margo. And let us hope that for once government will not ignore the recommendations of a commission it appointed at vast expense, just because they may be inconvenient or may not pander to conventional wisdom or the ideology of the ruling clique. ■

STAR 12/3/86 49

Budget: GST and luxuries may go up

Mr Barend du ... pressure to give ... tax

By David Braun, Political Correspondent

Cape Town

A rise in GST and higher taxes on luxuries such as alcohol and tobacco are being forecast in the crucial national Budget on Monday.

Minister of Finance Mr Barend du Plessis is expected to increase spending on social services substantially.

To redress the inequalities of the past and to defuse the political unrest, he will have to pump more money into education, housing and welfare.

But if he is to bring down the inflation rate, he must curb Government expenditure.

He is under enormous pressure to make it possible to give at least salary earners tax relief, because inflation has pushed them into ever-higher tax brackets while reducing their spending power.

There could also be announcements on tax reform — particularly as regards the position of married couples.

If he is to make ends meet, he must look for revenue. However, he cannot take too much from companies or GST because he has to boost the economy and create the right climate for growth, investment and jobs.

Foreign money now short

Mr du Plessis will also want to look at how he can encourage people to save, because South Africa finds it almost impossible these days to borrow foreign money for its development.

So he ought to present a Budget which is both stimulatory but not inflationary; relieves the burden on salary earners — particularly the retired — but allocates extra resources to social upliftment; creates a climate for economic growth and increased business activity but encourages personal savings.

Budget speeches traditionally begin with a general review of the economic condition of the country. Mr du Plessis is likely to emphasise the point he has been making for months: that the economic fundamentals, apart from inflation, are looking good for a recovery.

The drought has been broken in many areas, though the locust plague may be a new threat to the agricultural sector.

To help give the business cycle a boost, the Government has in recent months forced down interest rates.

The rand has recovered somewhat since its low last year and the surplus on the current account of the balance of payments is healthy. But most of the surplus, if not all, is likely to be swallowed by the repayment of 5 percent of the country's foreign debts — as agreed in terms of the Leutwiler proposals.

Mr du Plessis is likely to express satisfaction with the recent management of the money supply but he will have to concede the inflation rate — at 21 percent — is far too high.

The Government will try to use the Budget to give impetus to its reform programme. It is likely Mr du Plessis will allocate R5 000 million to R6 000 million to education. Last year it was R5 044 million.

The Department of Constitutional Development and Planning's allocation will be an interesting one to look out for (last year it was R5 336 million), particularly as much of the provincial administration, which soak up most of this Budget, are to make way for the largely self-financing regional services councils.

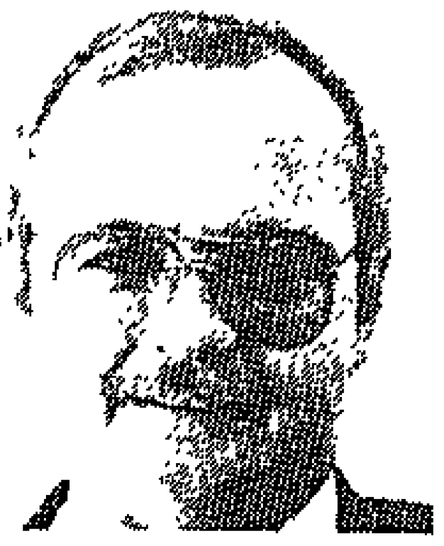
Defence (R4 274 million last year) and Law and Order (R954 million) are certain be given increments of close to the inflation rate, if not more.

It has already been announced that the surcharge on personal income tax is to be scrapped this year.

LEON STEENKAMP (49) FIN MAIL 28/2/86

IN MY OPINION

The Budget: what's to be done



Leon Steenkamp is assistant GM at Santamtrust.

This is the third in a series of pre-Budget commentaries, following Philip Mohr (*FM* February 14) and Aubrey Dickman (*FM* February 21).

The present depressed state of the economy, the resultant high unemployment rate and its implications for political stability, should be more than sufficient reason for the Minister of Finance to introduce an expansionary Budget.

And I firmly believe that this year's Budget should be predominantly directed at fundamental economic issues especially those inhibiting the productive side of the economy.

The number of unemployed could, according to my calculations, easily be in the vicinity of 1,1m. Assuming an average three dependants per unemployed worker, some 4,5m people could thus be direct victims of the current lack of job opportunities.

Although dangerously close to 20%, it is doubtful whether inflation will prevent the Minister from opting for a further stimulation of the economy. As should be evident from the low level of domestic demand and sharp decline in money supply growth, inflation is clearly not of a demand-pull nature at present. Consequently, it is unlikely to be fuelled by a stimulation of the economy, in the short term at least.

There is room for some stimulation of the economy, notwithstanding the foreign debt problem and the low level of our liquid foreign exchange reserves. The terms arranged for the rescheduling of foreign debt, however, have reduced the scope for economic growth and consequently for further encouragement of domestic demand.

Also, in view of the state of government finances, it would be unrealistic to expect more than a relatively mild stimulation of the economy, at least as far as tax reductions are concerned. This is because of the financial constraint the Minister will be facing and the pressures on government expenditure likely to emanate from the recent high level of long-term interest rates and the consequent high cost of public debt; the defence budget; civil service wage/salary claims; constitutional development and reform; the upgrading of public services for non-whites; and socio-political considerations in general.

So the scope for tax reductions seems to be very limited. The fiscal deficit for 1986-1987 could easily appoach R6 billion, even if only relatively mild tax concessions are introduced. Such a deficit would probably be perceived as too high by the fiscal authorities, bearing in mind the still relatively fragile state of the capital market. The rather sizeable foreign debt of the government (approximately R4,7 billion in September last year), could well contribute to the Minister of Finance adopting a cautious approach with his deficit before borrowing.

From a tax point of view, I am afraid that the Budget may, in the opinion of many, be something of a non-event. In addition to possible relief in respect of one or two relatively minor tax items (such as estate duty, which could be abolished), it is doubtful whether one could bargain on much more than a further extension of the phasing-in period of perks tax or, perhaps, a further moderate lowering of direct personal taxes.

To widen its impact, a further lowering of the Ladofca ceilings, a further relaxation of hire purchase requirements and possibly even a reduction in the petrol price may be announced at the time of the Budget.

There is only one policy that could lead to a fundamental and lasting improvement of the economy. It is one that will be directed deliberately at creating such a favourable dispensation for the entrepreneur as is practically possible. This would require a drastic reduction, firstly, in the company tax rate and, secondly, in the top marginal scale applicable to individuals. Such a policy would obviously be impossible to implement in full in any single year, especially in fiscal 1986-1987.

I would, nonetheless, like to see that such an approach be started this year. A clear official statement of intent will do much to foster confidence in the business sphere of the economy, even if the initial steps regarding the restructuring of the tax base amount to little more than gestures.

It is of the utmost importance that the entrepreneurial side of the economy be stimulated as far as possible during the next few years. Such a strategy should greatly benefit economic growth, job creation, foreign investment sentiment, inflation and, eventually, even State revenue.

The beneficial effects of deregulation and privatisation will be greatly curtailed if the prospective after-tax return on capital is not materially improved in the South African economy — which can, on a wide front, virtually only be achieved via a substantial reduction of the corporate tax rate.

Furthermore, it needs to be stressed that fiscal policy and the economy at large, will remain on an unhealthy footing as long as current government expenditure continues to grow at a relatively high rate.

At present, we have the situation that relatively large amounts are withdrawn or withheld from the entrepreneurial side of the economy to finance comparatively large consumption outlays by the government. The imbalance that has developed in respect of current and capital expenditure in the public sector in recent years also needs attention. It can be mentioned that the ratio of consumption expenditure by government to the capital expenditure of the public authorities rose from 1,9% in the first quarter of 1982 to 2,9% in the third quarter of 1985. This is an increase of 50% in three and a half years. In effect, the infra-structural and, in fact, the entire capital base of the economy is being eroded in favour of consumption expenditure by government.

49 DISPATCH

25/2/86.

Second reading debate: mini-budget

House of Assembly

Blame it on the low rand, unemployment, — minister

R1,5 bn extra to meet budget

CAPE TOWN — The R600 million made available by the government to alleviate the effects of unemployment was not all spent last year and would be carried over to the 1986/7 financial year, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Introducing the Additional Appropriation Bill, Mr Du Plessis said it appeared at this stage that R70 million of this money would be carried forward to the 1986/7 financial year.

● An additional R1,517 billion was needed to meet expenditure for the 1985/86 financial year, said Mr Du Plessis. This was an increase of 4,8 per cent on the amount budgeted last year.

Mr Du Plessis said the revised estimate of expenditure for the 1985/86 year was R32,97 billion, compared with R31,46 billion budgeted last year. It had been planned to reduce this figure by R417 million through savings on staff expenditure.

"Factors such as the lower level of the rand against other currencies, unemployment, riots, greater demand for services by government and consistently high interest rates caused the level of expenditure of R31,46 billion to be exceeded," he said.

"The drive to reduce government expenditure to a minimum inevitably entails sacrifices. This is particularly so in seriously recessionary times, compounded by our present political situation in which large segments of the population have high expectations."

● A total of R288 million out of the Additional Appropriation Bill's total of R1,517 billion was needed for the South African Police, the Defence Force and the Prisons Service, the minister said. He said this sum consisted of R42 million for the police, R245 million for the SADF and R1 million for the Prisons Service.

"This entailed the country-wide deployment of large numbers of police and troops and it was not possible for us at the beginning of the financial year to accurately estimate the additional cost," Mr Du Plessis said.

● After dealing with additional expenditure required by some other government departments, which represented the bulk of the appropriations requested, Mr Du Plessis said the balance, which amounted to R178 million, was for other services which were spread over various Votes.

Mr Du Plessis gave the assurance that adequate additional funds would be available to finance the excess expenditure on a sound basis.

● The poor financial position of Development and Community Boards was being aggravated by the "high incidence" of rent and service charge defaulters, Mr Du Plessis said and added a sum of R94 million was included in the vote of the Department of Consitutional Development and Planning as bridging finance. He said in many cases the defaults were for reasons "unrelated to economics". — Sapa

Foreign debt no problem — Munnik

DISPATCH 25/2/86.

CAPE TOWN — The Post Office had no problems with its overseas debt repayments, the Minister of Communications, Dr Lapa Munnik, said yesterday.

Replying to the debate on the second reading of the Additional Post Office Appropriation Bill, he said his department still owed R2 070 million over ten years.

"We have repaid our loans to the Treasury. We have no problems. Our loan repayments are all in the Budget."

Asked by Mr Alf Widman (PFP Hillbrow) whether the R2 070 million was part of the R14 billion involved in the Leutwiler agreement on South Africa's overseas debt, Dr Munnik said he was not sure but he expected this was the case as the agreement covered the country's total debt.

Dr Munnik said the Post Office had saved R61 million in the current financial year on items such as accommodation, services to other departments, telephone directories and land and buildings.

The capital programme had been extended in some areas.

Dr Munnik should do all in his power to avoid tariff increases in the Post Office budget next month, Mr Widman said during debate on the Bill.

He said the 20 per cent inflation rate was the inevitable consequence of the government's inability to provide a proper economic policy.

He questioned the minister's statement that revenue would be lower than estimated for the 1985/86 year.

● The House would not have been asked to vote for a 6,8 per cent increase on the original Post Office budget if "a certain person" had not "schlepped his fellow South Africans into the Rubicon up to their nostrils" and left them there for five months, Mr Brian Page (NRP Umhlanga), said.

The reason for the increase on the original estimate lay largely in the devaluation of the rand against other currencies.

"I can't help but think that we wouldn't be faced with that if, on August 15 last year, we hadn't decided to go paddling in the Rubicon," he said. — Sapa

Changes to finance Acts

CAPE TOWN — A technical Bill on financial institutions which will amend the Insurance, Pension Funds and Stock Exchange Control Acts, was introduced yesterday by the Minister of Finance, Mr Barend du Plessis, at a joint sitting of all three Houses. — Sapa

Transkei receives R1 bn from customs

CAPE TOWN — Transkei has received more than a billion rands from South Africa over the past nine years in terms of the Customs Union Agreement and Ciskei has received close to R400 million in four years

The Minister of Finance, Mr Barend du Plessis, revealed the figures to Parliament yesterday in reply to a question by Mr Louis Stoffberg (HNP Sasolburg).

Since 1977, Transkei has received R1 264 357 000 and Ciskei R371 414 000 since 1982. Since 1978 Bophuthatswana has received R1 366 363 000 and Venda R128 783 000 since 1980.

Mr Du Plessis said the four independent homelands would receive R747 306 000 between them this financial year and the BSL countries R472 000 000.

The breakdown is: Transkei — R295 237 000, Ciskei — R371 414 000, Bophuthatswana — R277 435 000, Venda — R132 529 000, Botswana — R174 429 000, Swaziland — R136 576 000 and Lesotho — R161 086 000.

South Africa will earn R2 326 000 000. — PS

Schwarz says contribute to survive

CAPE TOWN — The black community would have to rid itself of the misconception that attainment of political power would change their economic plight, Mr Harry Schwarz (PFP Yeoville), said yesterday.

Similarly, whites would have to rid themselves of the misconception that political power could be shared while retaining the same economic privileges for themselves. He was speaking during the third reading debate on the Assembly's mini-budget, dealing with the section of state services under control of the House.

"There is only survival for everyone in South Africa if everbody is prepared to make a contribution," Mr Schwarz said.

The problem of the division of state expenditure was one of the major socio-political issues facing the country. There was agreement that apartheid had to go but the real struggle that had to be faced was the division of wealth — in which state expenditure played a cardinal role.

There were two misconceptions which had to be dealt with. "There is the black misconception that one need only give them power and overnight their economic plight will change.

"There is the misconception among whites who believe that political power can be shared and they can still have the economic privileges of today." These two issues went together. Did the chairman (of the Minister's Council and Minister of the Budget, Mr F. W. de Klerk) believe he could abolish discrimination in state services, such as education, and give equality without a reduction in the level of services.

"Will the standards of white education remain the same in real terms, that is, go up by at least the inflation rate? If so, the burden on the state — and I use education only as an example — will become increasingly high.

"Parents must make an increasingly large contribution towards educating their children. Is the white South African prepared to pay a premium on the education of his children to ensure survival, or will he demand to make education equal without any sacrifice?"

Mr J. W. H. Meiring (NP Paarl) said the debate centred on three issues: was reform going too fast or too slowly; what was the best constitutional formula for the unique heterogenic population of South Africa; and the redistribution of wealth. "Our task is to get every South African to have faith in a better future for this country," he said. — Sapa

Du Plessis 'not on target'

B-DAY 13/3/86 (49)

Economics Reporter

FINANCE MINISTER Barend du Plessis has not reached the fiscal and philosophical targets that he set in the last Budget, according to the latest issue of *Assocom Review.*

It said the economy was still depressed, that bankruptcies and business failures had resulted in each bank making extraordinary provisions for bad debts, that unemployment was rising, the inflation rate was at a terrifying peak and that the living standards of most of the population had fallen sharply.

The balance of payments surplus was buoyant, but this was a reflection of the reduced demand for imports, the review said.

Not all the blame could be put on the minister, as his Budget could not have prevented unrest and its consequences, but he could have done something about the "State's insatiable appetite for money impoverishing the private sector".

State spending overrun was considerable and government was only saved by the rand's devaluation and its positive effect on mining companies earnings, Assocom said.

A strong, determined line to achieve spending control had been promised but not implemented and Assocom believed that Du Plessis' Cabinet colleagues had not given him the required backing.

Lower taxes could encourage savings and investment, to produce larger revenues, Assocom said.

BUDGET REACTION BDAY 19/3/84 49

Tax exemption has strings

LESLEY LAMBERT

WOMEN in business ventures with their husbands, or employed by companies of which their husbands are major shareholders or directors, do not qualify for the 20% tax exemption announced in Monday's Budget.

The sting in the tail of the tax exemption for married women — whose tax bills are assessed according to joint income — is that it applies to earnings which are broadly defined by tax law as "income ... derived by a married women from a trade carried on independently from her husband".

The earnings definition also excludes:

☐ Income derived from savings in specific circumstances, including rentals, royalties, copyright and dividends;

☐ Salary from a private company or close corporation in which her husband is a partner, a major shareholder or a director. (Public companies are excluded because, according to the Department of Inland Revenue, they are less susceptible to being swayed by individual employees);

Tax expert Costa Divaris predicts agitation for the relaxation of these exclusions.

He feels the tax authorities should rather opt for a fair system at the risk of abuse rather than a system which goes to such great lengths to close loopholes that it unfairly excludes people who legitimately qualify for concession.

"Inevitably, there will be attempts at getting around the exclusions.

"One can be sure that wife-swapping will increase. What I mean is that women who are involved in business partnerships with their husbands are going to swap jobs with friends who are doing the same thing."

Divaris feels the concession discriminates against single people.

For example, he said, assume a single person earning R24 000 a year works harder than a married couple who each earn R12 000 a year. Whereas the married couple — or one partner at least — benefits from the concession, the single person does not.

The R1 800 tax-free threshold does not apply to annual income of less than this amount, says Inland Revenue's chief director (legislation) Jan Massyn.

He said a married woman earning R100 a month would be entitled to the full amount of R1 200 tax-free, as opposed to the R1 800 limit. This, he said, would stop the concession spilling over into the husband's income.

Massyn said the concession would apply automatically and the effects would be seen on the next tax assesments.

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with friends who are doing the same thing."

Budget 'fails to meet' needs of black pupils

CLAIRE PICKARD-CAMBRIDGE

THE Congress of SA Trade Unions (Cosatu) said yesterday Budget proposals on education made "no step towards meeting basic demands made by millions of black students".

Cosatu general secretary Jay Naidoo said only one-sixth of the total education budget would go to black education this year. Cosatu believed nothing short of an alternative education system designed by the majority would be acceptable.

He added that reduction in the bread subsidy came as a shock to poorly paid workers and would cause a dramatic increase in the price of an already expensive staple food.

He said the proposed increase in the defence budget convinced Cosatu that government was not committed to finding a peaceful solution to SA's crisis.

"The diversion of vital resources to bolstering repressive organs of the apartheid regime will not create the peace our country needs," he said.

Instead of stockpiling more arms, government should redirect resources to developing technological and human potential.

Cosatu believed job-creation plans would not solve the unemployment problem. Fundamental change was needed.

Sapoa see signs of hope

JANE STRACHAN

THE Budget should have an encouraging effect on the property market in the third quarter of the year, say property owners.

However, they fear the benefits of privatisation have not yet been sufficiently recognised.

They say it is significant that no comment has been made on real rates of return — the difference between the inflation rate and interest rates — as this has an enormous impact on the industry.

SA Property Owners' Association (Sapoa) executive director Peter Erasmus says there is no reason why large sums of money should not start flowing into state coffers by selling the majority of government buildings to the private sector, which could be done on a straightforward lease-back arrangement.

A discouraging aspect of the Budget for Sapoa is increased tax — the 0,1% establishment levy is no less than an additional transfer duty for the property industry, he says.

The organisation says while it may be argued that the rate is minimal, the total sum to be paid by the industry will be large.

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MAS HOLDINGS LIMITED

'Dangerous, inflationary'

CAPE TIMES 18/3/86 49

By ANTHONY JOHNSON
Political Correspondent

OPPOSITION party finance spokesmen last night slammed the Budget as "dangerous", "inflationary", "lacking credibility" and failing to cater sufficiently for the needs of the unemployed and the impoverished.

The government's decision to increase the bread price and its failure to reduce general sales tax came in for particularly harsh criticism from a number of parties.

Despite these reservations, however, support was expressed for the increases in funding of education, housing, pensions, the removal of the surcharge on books and the relief given to working wives.

The Progressive Federal Party's spokesman on finance, Mr Harry Schwarz, described the Budget as "an ad hoc affair" that failed to cater "in any meaningful fashion" with the problems of lower income groups, the unemployed and the impoverished.

He said he had "great difficulty" in accepting the "unrealistic" expenditure figures since the government historically underbudgeted "and the picture at the end of the year is likely to be quite different".

Mr Schwarz said a "clear characteristic" of the Budget was "the almost total absence of measures designed to combat inflation.

"If there was money available for tax concessions, GST should have been reduced in the light of the rate of inflation and the plight of the lower income groups and the unemployed.

"In any event, the tax concessions for individuals are illusionary as

To Page 5 A

State spending rises 23% as...

BDAY 18/3/86 (49)

Revenue flows in

JOHN TILSTON

STATE revenue collections soared last month as gold mine taxes and provisional-tax payments flowed into the Treasury.

Receipts totalled R3,64bn, 38,5% (R1bn) higher than in February 1985, according to figures published in the latest *Government Gazette*. Cumulative receipts for the first 11 months of the financial year have now reached R26,9bn — 26,7% above last year's levels.

State spending last month was R2,45bn, bringing cumulative spending, with only one month of the financial year remaining, to R29,13bn — 23% higher than last year.

Although no detailed breakdown is given in the figures, the increased revenue is likely to be from large tax payments from the gold mines, which enjoyed record profits in the last four months of 1985 as the rand price of gold reached all-time highs on the back of a rand which sank to record lows.

Despite the problems facing the country and government's convenient November decision to ease the brakes on departmental spending, no department has yet exceeded its budgeted estimate.

However, a number of departments are almost at their limit and can be expected to go over the top this month. Economists believe there are still a number of big-ticket items in the pipeline, such as the Reserve Bank's foreign exchange forward-cover bill, estimated in the market at R2bn.

There were capital-market issues of R217m in February and, interestingly, a foreign credit of R258 000 was raised for the first time in several months.

The figures also reveal that R152,8m, part of SA's International Monetary Fund loan, was repaid during the month.

Coloureds have cash for white homes

18/3/86 BDAY (81)

...IZABETH — Several weal... ...ople in Port Elizabeth ...uy properties in ...nts in the white areas, the housing shortage would be relieved.

They add that the sale of houses in white areas would also be stimulated.

It is reported that some white property owners are upset because at least ...coloured person has been given ... to buy property in the ...ea. — Sapa.

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POLITICAL REPORT (49) Star 18/3/86

Non-NP politicians not enthusiastic about Budget

Political Staff

PARLIAMENT — Mixed reactions with little enthusiasm came from politicians outside the National Party in their first response to the Budget.

The **Rev Allan Hendrickse**, leader of the Labour Party, said his party welcomed the Budget "with some reservations.

"It has recognised certain realities in terms of supply and demand. The cancellation of surcharge on books is most welcome and certainly an investment in the future," he said.

"It is regretted that the R36 614 000 needed for an increase in pensions and grants towards parity in five years has not been granted to us."

The Labour Party would examine the Budget for the House of Representatives with a view to seeking a further increase towards parity.

The availability of more money to finance job opportunities and to create a source of income for the unemployed, was most welcome.

"We certainly regret that the exemption of all foodstuffs from GST has not been agreed to," Mr Hendrickse added.

Mr Derrick Watterson (NRP, Umbilo), finance spokesman of the New Republic Party, said his party regarded it as a "rich man, poor man budget". It assisted rich and poor to some extent, but did little for the middle group.

The limited concessions made to encourage internal savings were totally inadequate and the reduction of the bread subsidy was a sad blow to the household budgets of the lower-income groups.

"But we welcome the increased funding of housing, education, the removal of surcharge on books and also the relief given to working wives," Mr Watterson said.

"The Budget is quite dull and will not generate the enthusiasm and confidence necessary for a real forward surge," Mr Watterson said.

Mr Vause Raw (NRP, Durban Point) said he welcomed the abolition of the means test on the "handful" of survivors from World War I.

The Minister of the Budget in the House of Delegates, Mr J N Reddy, expressed concern over the imminent rise in the price of brown bread.

The price of a loaf of brown bread is expected to go up by between five and nine cents following yesterday's announcement that the State subsidy is to be reduced from R200 million to R150 million.

Mr Reddy, who is also the leader of the opposition Solidarity Party, said that on the whole, he was happy with the Budget.

He also expressed disappointment over the fact that GST had not been reduced.

short and the long term." tween 16 and 20 percent nel".

Conservative Budget — economists

Cape Times 18/3/86 49

Financial Reporter

LEADING local economists saw the Budget as a conservative one.

Professor John Simpson, director of the University of Cape Town Graduate School of Business, saw it as "primarily a white man's, upper-income group budget".

But Professor Attie de Vries of the University of Stellenbosch said that although there had been "a slackening of the distribution of wealth we have had over the past two years" there were still benefits to the lower-income group through such things as education and housing.

Professor Brian Kantor of the University of Cape Town welcomed the introduction of formal monetary targeting.

He said the target of above 16 percent showed that the government was aiming at rapid growth and meant that short-term interest rates would drop.

Professor Brian Kantor . . . income tax relief will be very welcome.

The planned borrowing requirement indicated was very small.

He thought R1m could have been taken off General Sales Tax very easily.

"The income tax relief will be very welcome. I don't think people expected it and it should be very popular".

Professor David Rees of the University of Cape Town also described the Budget as conservative "with few surprises".

He said the indication was that there would be a small borrowing requirement.

"But one of the questions is whether the minister's expenditure forecast is credible or whether he will have the same difficulties as last year."

Professor Rees said that last year Mr Du Plessis "went for a very tight Budget indeed" but was unable to keep to it.

The indication was that there would be no

18/3/86 STAR

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Business sceptical about the budget

By Peter Farley

An unrealistic view of inflation and an optimistic projection of revenue were the two main criticisms by leading businessmen of Finance Minister Mr Barend du Plessis' second budget.

Speaking at a dinner last night where they had the opportunity to quiz the Minister, many senior businessmen and economists felt that, accordingly, the estimated R893 million which Mr du Plessis earmarked to be raised through new government stock issues grossly underestimated what the authorities will have to raise in the capital markets this year.

Mr du Plessis would not, however, be drawn on what inflation estimate, gold price or exchange rate the authorities had used in calculating the budget. But many of those present speculated that the minister had been over-optimistic in all three areas.

The main bone of contention was the Minister's estimate that revenue from income tax and "other receipts — excluding customs and excise, GST and gold mine tax" would effectively rise by a third to R18,9 billion.

This is after the R1 billion lost through income tax reductions and indicates an upwards swing of R5 billion from last year's R14,9 billion.

The massive increase in estimated funding from this source meant that the Minister was able to reduce his financing requirements from the R5,7 billion needed last year to an estimated R5,5 billion in 1986/87.

On the inflation front, economists pointed out that the authorities intention to limit money supply growth to between 16 and 20 percent this year combined with the expectation of a 3-5 percent growth in Gross Domestic Product, indicated inflation targeting from a low of 11 percent to a peak of 17 percent.

They therefore felt that the government had underestimated the short-term inflationary indications which had already forced the consumer price index above the 20 percent mark.

They also noted that massive effort would be needed just to reduce inflation from its current post-war peak to the 17 percent top-of-the-range estimate used by the government in its budgeting.

It was pointed out that already the leading parastatals — SATS, Escom and the Post Office — had reduced projected funding requirements from the capital markets and if the government is to be believed in its call for only R893 million this year then long-term rates must begin to fall sharply.

However, the analysts added, there will be few in the market who are prepared to take that view, with inflation still above 20 percent.

Analysts also suggested that the Budget showed no real regard for any possible sustained appreciation of the rand and any repercussions that development might have on the ability of the country to repay its foreign debt commitments.

Economists said that the impact on the current account surplus, should the rand remain at, or above, current levels would force the government to dip into reserves to meet the agreed repayment obligations.

And though the exchequer has estimated gold mine tax revenue to fall from R3,1 billion last year to R2,8 billion, analysts estimate that the fall could be more substantial if the rand strengthens much from present levels.

The total of R37,57 billion estimated by the minister for government expenditure this year was also brought into question, in that it was only 14 percent up on last year at a time when inflation is running at a figure 50 percent greater than that used by the Minister.

Overall, the Budget was seen as "populist" and "mildly stimulatory." But, according to one leading economist, "it again gave the impression of Chinese accounting, or being put together with extensive use of mirrors."

Spot rand against the dollar

FACTORIES &

BD 1984

State spending rises 23% as . . .

18/3/86

(49)

Revenue flows in

JOHN TILSTON

STATE revenue collections soared last month as gold mine taxes and provisional-tax payments flowed into the Treasury.

Receipts totalled R3,64bn, 38,5% (R1bn) higher than in February 1985, according to figures published in the latest *Government Gazette*. Cumulative receipts for the first 11 months of the financial year have now reached R26,9bn — 26,7% above last year's levels.

State spending last month was R2,45bn, bringing cumulative spending, with only one month of the financial year remaining, to R29,13bn — 23% higher than last year.

Although no detailed breakdown is given in the figures, the increased revenue is likely to be from large tax payments from the gold mines, which enjoyed record profits in the last four months of 1985 as the rand price of gold reached all-time highs on the back of a rand which sank to record lows.

Despite the problems facing the country and government's convenient November decision to ease the brakes on departmental spending, no department has yet exceeded its budgeted estimate.

However, a number of departments are almost at their limit and can be expected to go over the top this month. Economists believe there are still a number of big-ticket items in the pipeline, such as the Reserve Bank's foreign exchange forward-cover bill, estimated in the market at R2bn.

There were capital-market issues of R217m in February and, interestingly, a foreign credit of R258 000 was raised for the first time in several months.

The figures also reveal that R152,8m, part of SA's International Monetary Fund loan, was repaid during the month.

STAR 18/3/86 (49)

Govt 'lost chance to restore stability'

Both Left and Right attack Budget

By David Braun, Political Correspondent

Cape Town

The Budget has been attacked sharply from both the Left and the Right for failing to address South Africa's political and economic crises.

The Progressive Federal Party warned today that the Budget lost an opportunity to restore stability and revive business, investment and consumer confidence.

The chief Opposition spokesman on finance, Mr Harry Schwarz, said Minister of Finance Mr Barend du Plessis had failed to draw up a crisis Budget to address the national political and economic crises.

But the Conservative Party slammed the Budget because it failed to deal with unrest, and because it further undermined the parlous circumstances of the poor.

Mr Schwarz said: "Mr du Plessis should have cut GST, and he should have provided encouragement to industries which were in a difficult, if a bankruptcy situation.

"What a difference it would have made if people could have walked away from yesterday's Budget and said: 'I am going to start a new business now', or: 'I am going to be able to get a job now'.

For more reports on the Budget see Pages 4, 17, 19 and the special 20-page Budget supplement.

Mr Schwarz said it was also a pity that Mr du Plessis had missed the opportunity to eliminate discrimination in various social services, particularly social pensions.

"If only he had just started this process by announcing the closing of the gap over a period of years."

The impact would have done much to restore stability, he said.

"The major factor remains that we do not have stability," said Mr Schwarz.

"The unrest continues and pressure continues from outside.

"Until you restore stability, investor confidence and consumer confidence, then we are not going to get the show on the road."

CP finance spokesman Mr Jan van Zyl felt the Governmeeent had not allocated sufficient resources to deal with the emergency conditions of the farmers.

He said the Government had also further redistributed income in this Budget.

Praise — but not everyone is happy with Barend

By Michael Chester

There were bouquets and brickbats for Finance Minister Barend du Plessis today in reactions to his Budget.

Bouquets came from taxpayers for his scrapping of the seven percent income tax surcharge and the five percent across-the-board tax rebate.

The GST standstill was welcomed and married couples praised the move to increase the tax-free portion of a wife's earnings from R1 600 to 20 percent of income with a minimum allowance of R1 800.

The first brickbat came from Mr Harry Schwarz, PFP finance spokesman. He said the Budget had done nothing to combat inflation, at its highest in 66 years.

Mr Schwarz warned that, despite the concessions, taxpayers would end the year paying an additional R1 500 million overall because of inflation pushing them into higher tax brackets and because of bigger GST bites from higher prices.

Mr Schwarz said the Budget had failed to lay foundations for sustained economic growth and stability.

The Association of Chambers of Commerce was also disappointed by the lack of action against inflation.

The announcement that the bread subsidy would be slashed by R50 million raised bitter protests. Mrs Ina Perlman, director of Operation Hunger, was "horrified and appalled".

Another brickbat came from Mr Sam Moss, PFP leader in the Johannesburg City Council. He said the R320 million set aside for improvements in underdeveloped villages and towns was "woefully inadequate to reduce unrest".

Labour relations consultant Mr Gavin Brown feared the measures for mild economic stimulation would make little impact on unemployment.

Professor Jan Hupkes of the Unisa School for Business Leadership said the stimulus should increase the economic growth rate to between three and 3,5 percent but the Budget had failed to tackle inflation or unemployment with enough zeal.

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Reaction mostly favourable

Economics Reporter

FINANCE MINISTER Barend du Plessis has made good use of what little was up his sleeve, says Deloittes tax consultant Trevor McGlashan.

However, the changes have not been very extensive, which is hardly surprising in view of the impending Margo Commission report, he adds.

McGlashan was struck by topping up of payments for companies in the third quarter will be implemented in the next two weeks, which does not give them much time and also by the concessions on Estate Duty which will not apply until 1st April.

"Any rich person about to die would have to be put on a life support machines and then the plugs would be pulled out on April Fool's Day, otherwise his family would loose a lot of money."

McGlashan is worried by the tacit admission that inflation will carry on at present levels for several months.

Ian MacKenzie of Arthur Young says that, in some cases, the cuts in tax rates are dramatic.

"It was good to see that sales tax was not increased, but it is strange that estate duty was not abolished altogether. I expect it to be replaced soon by a capital-gains or capital-transfer tax," MacKenzie says.

Ian Wilson of Price Waterhouse says the 20% concession for married women is a meaningful step forward. He is less certain about the effect of the cut in estate duty, but imagines that it may have a ripple effect on life insurance.

Wilson says the Budget's overall intention was to give people more disposable income, and so put more cash into the economy.

Mike Potts of Pim Goldby describes the Budget as mildly stimulatory, but sees it as only a holding Budget until the Margo Commission files its report.

He describes married women's tax allowance as a step in the right direction, and one which would encourage married women to go back to their former professions.

However, the increase in PAYE deductions in July this year could mean that some women would pay more tax than before.

"Until separate taxation is introduced, divorce will remain an option to reduce tax," Potts adds.

Costa Divaris of Divaris Stein believes the tax concessions could be absorbed by a combination of fringe-benefits tax and fiscal drag. He is disappointed that estate duty was not abolished.

"I am also afraid that this is not the full Budget, and a tax increase could be sprung on us later.

"The worst news is that companies are being hit. It no longer makes sense to be incorporated, as company tax is 50% and personal tax 47,5%."

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DA 49

House of Assembly / Barend du Plessis' Budget

Wide relief given

PARLIAMENT — The Minister of Finance, Mr Barend du Plessis, yesterday introduced a Budget in which relief over a wide spectrum is given to those whose need is greatest and in which provision is made on the expenditure side for those who will not share in announced tax concessions.

The biggest relief to the taxpayer comes in the form of the discontinuation of the seven per cent surcharge, a discount of five per cent to be calculated on net tax after deduction of rebates, which will be allowed to all married and unmarried people irrespective of age, and an increase in the non-taxable portion of a married woman's earnings to either R1 800 or 20 per cent of her net earnings, whichever is the greater.

On the expenditure side, generous provision is made for the upgrading of living conditions, particularly those of people in the less-developed areas and communities.

An amount of R631 million has, for example, been provided for the improvement of the infrastructure and housing of black people.

Another example is the R6 082 billion provided for education for all population groups. This is an increase of 19,3 per cent over last year. Adjustments in military and social pensions should benefit the aged.

The Minister said he could not afford to leave the unacceptably high inflation rate out of account or to ignore the country's obligations regarding the repayment of foreign debt. It was therefore important that the increase in total proposed expenditure be kept within limits, he said.

Against this background, the increase in total expenditure of 13,9 per cent above the final level for the preceding year could be considered reasonable. It was much below the current rate of inflation, he said.

The estimated deficit before borrowing — which determines the government's net borrowing requirement — is about 2,7 per cent of the gross domestic product, which is well within the three per cent guideline set in last year's Budget. The upshot of this would be, said the Minister, that the government's claim on the domestic capital market during the next 12 months would be only R893 million.

This should provide sufficient room for the rest of the public sector and for the private sector to satisfy their capital requirements on the local market at reasonable rates of interest. Mr Du Plessis said that as a further discipline, the government's total borrowing requirement had been been kept below the total intended capital spending for 1986-87. "No current expenditures will thus be financed by borrowing," he said.

Provision had also been made for continued investigations into improvements in the system of determining priorities in the public sector. This involved both capital projects and current expenditure.

These investigations would supplement the work of the Margo Commission investigating the country's tax structure and which was due to report during the course of the year. Because of the impending report, no major, far-reaching changes in the tax structure could be introduced. The status quo had to be maintained except for minor adjustments. The Minister concluded by saying that South Africa was blessed in that it had, in difficult circumstances, been able to do as much in the material sphere for its people as it had in yesterday's Budget. — Sapa

Tax discount for individuals: relief for marriages

CAPE TOWN — The Minister of Finance, Mr Barend du Plessis yesterday announced a five per cent discount on tax payable by all income groups and also increased the proportion of a working wife's salary which may be deducted for income tax purposes.

The Commissioner for Inland Revenue has issued a statement authorising an immediate five per cent reduction in tax deductions for all employees other than married women. The statement said: "All employers are hereby authorised to reduce by five per cent the amount of employees' tax which, in accordance with Volume 28 of the prescribed employees' tax deduction tables, is required to be deducted from any amount or remuneration which on or after March 1, 1986 is paid to any employee, except in the case of married women whose tax deductions are determined in accordance with M, N, O or P."

Where tax had already been deducted for this month, employers were authorised to make an appropriate adjustment during April. In the case of married women, new tables in line with their share of joint tax liability would be issued shortly.

Mr du Plessis said the five per cent discount on tax payable after deduction of rebates would reduce the maximum marginal tax rate by six per cent, from 53,5 per cent to 47,5 per cent.

Basic progressive tax rates introduced last year would remain unchanged, however.

"The fact that the maximum marginal rate is now less than 50 per cent illustrates the desire of the government to give the necessary incentives to entrepreneurs and high-level manpower, which play a meaningful role in economic development and job creation," Mr Du Plessis said.

The discount, on net normal tax payable after deduction of rebates, would take effect on March 1, 1986.

"This generous concession and the concession in respect of wives' earnings should afford appreciable relief to a very large body of taxpayers, including those with fringe benefits."

The concession on wives' earnings allowed for 20 per cent or a minimum of R1 800 of working wives' salaries to be exempt from tax.

This meant that a married woman who presently earned R20 000 per annum would be able to deduct R4 000 as against the present R1 600.

"The entry of married women into the professional and labour market is a world-wide phenomenon, and one that in South Africa with its great shortage of skilled labour power is of growing importance," the Minister said.

There were various schemes whereby the problems that had built up around the tax burden of married couples could be eliminated but each suffered from the disadvantage of an unacceptably high loss of revenue to the fiscus. "The search continues for an acceptable compromise between a theoretically sound and an affordable solution," Mr Du Plessis said. It was being thoroughly researched by the Margo Commission.

The interim relief provided for the working married would apply to the tax year that ended on February 28, 1986.

Mr Du Plessis said the large sums married couples stood to pay on assessment could not be blamed on the tax structure as such, but rather on the fact that the PAYE tables for women often did not provide for adequate deductions to meet the actual tax liability. The Commissioner for Inland Revenue was going to prescribe amended tables applicable to married women which would come into force from July 1, 1986, to provide for deductions more in line with the wife's poprtion of the tax payable on the joint income.

Mr Du Plessis added that the loss of tax from the abolition of the seven per cent surcharge on income tax, announced last year, was R500 million for 1986/87 and R588 million for a full year. — Sapa

Pensions to go up by R18 a month

Dispatch Correspondent

CAPE TOWN — Pensioners of all races are to receive R18 a month more from October 1.

This means that white pensions will increase from R180 a month to R198, while those of blacks will go up from R79 to R97 per month.

Of the R170 million appropriated for improvement of social benefits, a total of R106,7 million will go to additional pensions and allowances for blacks and R26,6 million for whites.

In the case of blacks, an amount of R53,6 million will be allocated to pensioners in South Africa, while R52,6 million would be made available to the Department of Development Aid "for transfer to the governments of the self-governing nation-

The improved allowances also provide for an increase in foster-child allowances for blacks of R11 per month (from R48 to R59 per month), while the children's allowance will be increased by R5 per month from R19 to R24.

Whites' foster parents' allowances will be increased from R122 to R133 a month and child allowances will be increased from R54 per month to R59.

Expenditure: R37 bn

CAPE TOWN — Mr Barend du Plessis has budgeted for an expenditure during the forthcoming financial year of R37,447 billion.

This represented an increase of 19 per cent on last year's figure and a 13,6 per cent increase on the revised figure of R32,977 billion, he said in his budget speech.

Apart from the 10 per cent salary increases for public servants already announced, a further R227 million is being made available to enable the continuation on a modest scale of the programme of job differentiation in the civil service.

A total of R650,6 million has been provided for housing — an increase of 25,4 per cent on last year's budget — while the total provision for black housing amounts to R311,3 million of this.

For education, still by far the largest expenditure item in the budget, the Minister has allocated R6,082 billion, an increase of 19,3 per cent on 1985/86.

"Regarding black education as such, the increase in primary and secondary education outlays is R159 million, or 27,8 per cent above the budgeted amount for 1985/86."

Reiterating the need for South Africa to be fully prepared in the military sphere in order to contain the forces threatening the country, and the heavy financial demands of this, Mr Du Plessis said defence was allocated an amount of R5,123 billion, representing 13,7 per cent of the estimated expenditure for the 1986/87 year — a ratio that was virtually the same as that for the previous financial year.

A sum of R775,8 million was provided for the Atomic Energy Corporation, or an increase of 47,5 per cent over 1985/86.

"If the carry-over costs of expenditures that in 1985/86 were covered by loans of about R157 million, and the redemption in 1986 of AEC loans of 52,5 million, are left out of account the increase for this service is only 7,6 per cent," the Minister said.

The government had accepted the Davin Commission of Inquiry's recommendation that the subsidy on bread be phased out and the subsidy for 1986/87 would be reduced to R150 million from R200 million last year.

On SWA/Namibia, Mr Du Plessis said the R476,5 million provided in the budget was R169,5 million, or 55 per cent, more than in 1985/86.

"This sharp increase is not the outcome of large scale extensions but represents the transfer of the responsibility for the provision of certain services from the Republic to South West Africa."

If these were left out of account, the increase was only 13,9 per cent over the 1985/86 figure of R307 million.

Amounts of R36,3 million were needed for phase two of the compensation of operating losses on railway and road transport services within the territory; R30,5 million for the takeover from the South African Police of police services; and R60 million for foreign loans which had to be redeemed by South West Africa/Namibia in 1986/87.

Tax cuts: what they mean

Star 18/3/86

'Concessions for those who need them most'

By David Braun, Political Correspondent

PARLIAMENT — A five percent cut in income tax, a new deal for working wives, new incentives to save — and no increases in GST or company tax — were the main features in the "moderate growth" Budget announced by the Minister of Finance, Mr Barend du Plessis, yesterday.

About the only bad news for the man in the street in the record R37,5 billion Budget is the reduction of the bread subsidy from R200 million to R150 million which will probably increase the price of a loaf by 6c.

The five percent "discount" on personal income tax is in addition to the abolition of the seven percent surcharge which applied in the past tax year. The discount is calculated on each taxpayer's net tax after deduction of rebates and will be allowed to all married and unmarried people.

Mr du Plessis said the non-taxable portion of a married woman's earnings would be increased to R1 800 or 20 percent of her net earnings, whichever was the greater.

This concession is to apply with effect from the tax year just ended and will have an effect on the tax returns now being assessed.

The exemption of R250 in respect of interest and building society dividends is increased to R500 from the year of assessment ending February 28 1987.

The import surcharge on books has been abolished and that on fully-assembled cars reduced from 125 percent to 100 percent.

Estate duty rates are to be adjusted considerably so that the maximum of 35 percent is reached only after the dutiable amount of the estate exceeds R800 000, instead of R400 000.

Mr du Plessis said it was a Budget which addressed itself primarily to the people of South Africa and their needs — giving relief over a wide spectrum where the need was greatest.

He said that, for those who would not be sharing in the tax concessions, provision was made on the expenditure side.

"Generous provision is made for the upgrading of living conditions, particularly those of people in the less-developed areas and communities."

A total of R631 million has been provided for black housing, R6,082 billion for education of all population groups (with the increase for blacks close to 28 percent).

From next year, high-income provisional taxpayers will have to pay the Receiver of Revenue in three instalments instead of two during any one tax year.

In future, companies will have to pay 100 percent of their provisional tax by due dates, instead of the current 90 percent.

Surcharges of 25 percent on gold and diamond mining income, and 15 percent on other mining income, are to be reimposed.

Stamp duty on debit entries in banking and credit card accounts is to be raised from 5c to 10c an entry from July 1.

Stamp duty on marketable securities (10c for every R10 of the consideration) levied in respect of the registration of transfer of any marketable security is to be raised to 15c for every R10.

The one percent marketable securities tax, levied in respect of every purchase of marketable securities by a stockbroker on behalf of any person, is to be raised to 1,5 percent.

The moderate tax relief proposed by Mr du Plessis is worth R1,144 billion and raises this year's expected deficit before borrowing to just under R4 billion.

Mr du Plessis proposes to finance this by rolling over Government stock, selling new Government bonds, and issuing new Government stock.

Where the money goes

The main features of yesterday's Budget were:

- A five percent discount on income tax from March 1.
- Adjustments in the tax on married couples.
- Lifting of the seven percent surcharge on personal tax and the tax discount which will cost more than R1-billion a year.
- The tax-free interest limit on savings raised from R250 to R500 a year.
- Pensions to increase.
- Special task group to cut down Government expenditure and special priority given to massive upliftment programme.
- Ten percent surcharge on imported books to be lifted.
- Bread price likely to increase following R50-million cut in subsidy.
- Customs duty on fully assembled imported cars down from 125 percent to 100 percent.
- Stamp duties on the transfer of marketable securities to go up.

Buthelezi says sentiments good

ULUNDI — "The sentiments" in which the Minister of Finance drew up the Budget were welcomed today by kwaZulu Chief Minister Mangosuthu Buthelezi.

Chief Buthelezi said: "If ever South Africa needed a Budget designed for the people, it is now. I only hope the Minister ~~will meet his~~ target and that history will show, this time next year, that the Budget was indeed one that met the needs of all South Africans.

"I welcome the additional spending on black education, black housing, the infrastructual needs of the under-developed rural areas and small towns, and on social pensions."

He was also pleased that the Minister had chosen to stimulate the economy. — Sapa.

'Provisions welcome, but they're not enough' is widespread reaction

Reserved nod for Budget

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Staff Reporters

The President of the Public Servants' Association, Dr Colin Cameron, has welcomed the Budget provision of R227 million for the public sector's job-differentiation programme.

Dr Cameron also described as satisfactory the 10 percent salary increase announced for public servants.

The R227 million would be used by the State to boost salaries in special categories where public servants' salaries had fallen far behind the private sector pay levels, he said.

"These funds will help us make moderate progress towards this programme and is welcomed most sincerely," he said.

"The pay increase will provide some relief for public servants, but it will not compensate for the backlog that has developed in the past two years," said Dr Cameron.

SERVICE BONUSES

Finance Minister Mr Barend du Plessis said the 10 percent increase in public servants' salaries announced recently would reduce to an extent the backlog created by cuts in service bonuses last year and the 27-month lag in salary increases.

Educationists, the presidents of several teachers' organisations and the Progressive Federal Party have welcomed the 19,3 percent in the education budget — with reservations.

Most educationists who spoke to *The Star* questioned how this money would be used and stressed that greater attempts should be made to bridge the gap between white, coloured, Indian and black education.

Education was allocated R6,082 billion — the largest amount allocated to any portfolio and a 19,3 percent increase on last year's budget. Black education expenditure increased by 27,8 percent over the 1985/86 budget.

INFLATION RATE

The president of the African Teachers' Association of South Africa, Mr Randall Petini, said the increase in black education spending looked impressive, but that the gap between funds allocated to the different racial groups needed to be bridged urgently.

The Progressive Federal Party spokesman on education, Mr Peter Nixon, said he was pleased that the increase was above the inflation rate.

He added that money should be divided equally between pupils of different racial groups.

The president of the Teachers' Association of South Africa, Mr Pat Samuels, said the Minister had made a wise decision in increasing expenditure in black education.

But, more money would not solve the problems in black education, he stressed.

There was mixed reaction among women's organisations about tax concessions for married women.

The Minister announced that the non-taxable portion of married women's earnings was to be increased to either R1 800 or 20 percent of her net earnings, whichever was the greater.

This would apply with effect from the tax year just ended, which meant it could have an effect on tax returns now being assessed.

The PAYE tables applicable to women were also to be amended from July 1, 1986 so that monthly payments would be increased and the amounts payable at the end of the tax year decreased.

Mrs Roberta Johnston, of the Women's Legal Status Committee, said it appeared the position of married couples would be much improved, particularly for earners in the upper-income bracket who were worst-affected by joint taxation.

"But I still believe the taxation rate is too high and I will always say we should not have joint taxation — the person who earns the money should be taxed and receive refunds. With joint taxation at present, it is the husbands who receive repayments," said Mrs Johnstone.

'A JOKE'

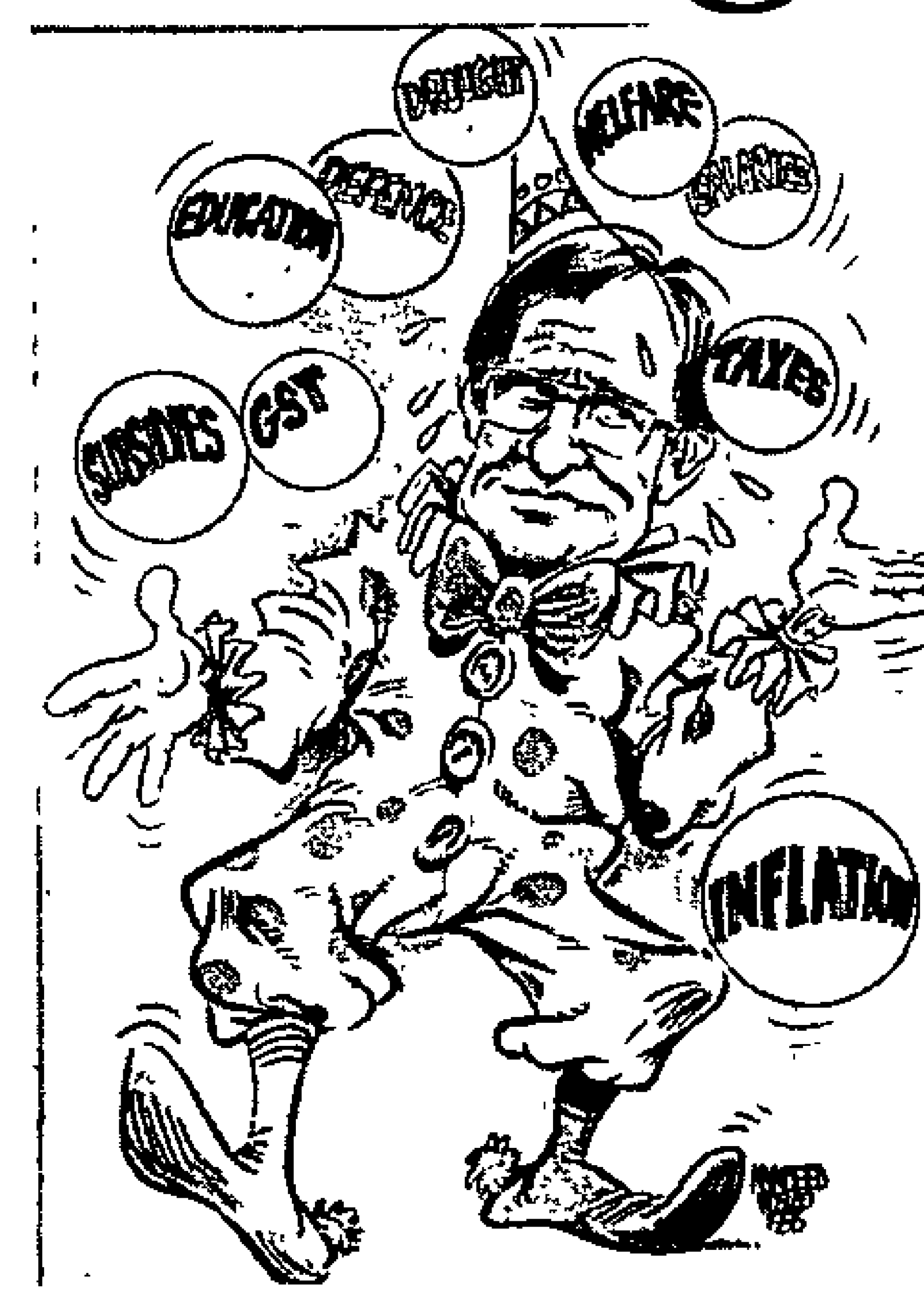
Mrs Margaret Lessing, director of the Women's Bureau of South Africa, said all married women would appreciate the concessions to married couples, in addition to the reduction in personal income tax, pending the recommendations of the Margo Commission.

However, Mrs Elsa Schreiner, national president of the National Council of Women of South Africa, was bitterly disappointed by the absence of any real attempt at introducing separate taxation.

She said that 20 percent non-taxable income concession would be a joke to most women.

While welcoming increases in social spending in the areas of housing and education, Black Sash national president Mrs Mary Burton said her organisation felt "considerable anxiety about the poorer section of the community".

The fact that GST had been left at 12 percent was to be welcomed, but this had to be weighed against the cutting of the bread subsidy.



Military experts said the "modest" defence budget was an indication that the South African Defence Force was not planning any major expansion in its activities during the coming year.

It also reflected an optimism that Armscor was expecting to do good business.

The Government's present job-creation and training schemes would not solve the massive problem of unemployment, major trade union groupings said yesterday.

Reacting to the Government's allocation of R235 million to the projects, the unions said only the restructuring and stimulation of the economy would solve the problem.

In a joint statement, the Council of Unions of South Africa and the Azanian Confederation of Trade Unions said the job-creation and training schemes would only benefit a small percentage of the unemployed.

The Trade Unions Council of South Africa (Tucsa) welcomed further allocations to training and job creation, but said it believed that "the massive problem of unemployment can only be solved by measures which will bring about an upturn in the economy and dynamic growth".

'Modest defence allocation'

By Hannes de Wet

The "modest" defence allocation announced yesterday could indicate that the South African Defence Force would have fewer commitments in the coming financial year.

It could also reflect optimism that Armscor was anticipating a good year in armament sales to other countries, say military experts who spoke to *The Star* last night.

Finance Minister Mr Barend du Plessis reiterated in the Budget speech the need for South Africa to be fully prepared to contain the forces threatening the country.

He allocated R5,123 billion to defence. This represents 13,7 percent of the total estimated expenditure for the 1986/87 year — a ratio that was virtually the same for the previous financial year.

Mr du Plessis said a surplus of R323 million on local borrowing was to be tranferred to the Special Defence Account.

Professor Deon Fourie, Professor in Strategic Studies at the University of South Africa, said the allocation to defence was about half-a-billion rand more than last year, which appeared to be a "minor" increase.

"Defence took the highest percentage of State expenditure in 1981, when the ratio was nearly 23 percent. Since then it has fluctuated between 14 and 17 percent. In view of that, 13,2 percent is a considerable drop."

Professor Mike Hough, head of the Institute for Strategic Studies at the University of Pretoria, said it could also be concluded from the projected allocation that the SADF was not planning any large-scale expansion in its activities.

FAIR INDICATION

Professor Fourie agreed that the Budget could indicate the SADF would have fewer commitments in the coming year. "But it remains to be seen whether the SADF will be able to live or function within the projected budget."

Professor Hough also pointed out that precise comparisons and conclusions were difficult without taking the Special Defence Account and the Additional Budget later this year into account. "But the figures in the main Budget usually give a fair indication of what defence spending is going to be."

Professor Fourie said the projected budget could reflect optimism about the sales of arms as a source of income.

In comparison to other countries, South Africa was spending a moderate amount on defence. Israel spent $3,621 billion (about R7,242 billion) on defence in 1985/86 to South Africa's $2,147 billion (R4,294 billion) in the same year.

East Germany, with a population of 17 million people, had a defence account of $7,856 billion (R15,712 billion) last year. Switzerland, with a population of six million, spent $1,957 billion (R3,914 billion).

Professor Hough said some people had expected that the role of the SADF in the unrest would have meant an increase in defence spending. This had not happened because the SADF was using existing resources in assisting the police.

3.

: All

tion : Yes

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Lack of sensitivity shown to low-income groups, says Schwarz

18/3/86 STAR 49

By David Braun,
Political Correspondent

Mr Harry Schwarz ... "funds for jobless inadequate".

Mr J J B van Zyl ... "white taxpayer will suffer".

CAPE TOWN — The Budget did not cater in any meaningful fashion for the problems of the lower-income groups, the unemployed and the impoverished.

Its figures lacked credibility.

There was none of the imagination or realism which could have dealt with major threats to stability and with the serious economic problems which threatened the country's ever-increasing population and its legitimate expectations.

This scathing analysis of the second Budget of Finance Minister Mr Barend du Plessis was made by the Progressive Federal Party spokesman on finance, Mr Harry Schwarz.

He said he had great difficulty in accepting the expenditure figures announced in the Budget.

DIFFERENT PICTURE

This was because the history of the past few years demonstrated that the Government underbudgeted on its spending.

The current Budget showed numerous signs that the figures submitted were unrealistic and that the picture at the end of the year was likely to be quite different.

A clear characteristic of the Budget was the almost total absence of measures designed to combat inflation. On the contrary, Mr Schwarz said, the Budget, in many respects, would further stimulate inflationary tendencies.

"The increase in the bread price should be regarded as disastrous in these times and demonstrates total insensitivity towards the hardships of particularly the elderly, the low-income groups and the unemployed," he said.

Mr Schwarz said the funds allocated to deal with the unemployment problem were still inadequate. This was all the more regrettable as this was, and would continue to be, a major factor in the instability of the country.

If there was money available for tax concessions, GST should have been reduced in the light of the high rate of inflation and the plight of the lower-income groups and the unemployed.

"In any event, the tax concessions for individuals were illusory as the Government intends to take, after the concessions, well over an extra R1 000 million from the pocket of individual taxpayers by way of income tax compared with last year.

To this had to be added the increased GST of R1 300 million which the Government anticipated collecting this year.

TARIFF INCREASES

Mr Schwarz attacked the Budget as an ad hoc affair which sought to deal with a short-term situation and gave little indication of any real assessment of priorities or long-term planning.

"One cannot look at this Budget in isolation, but must examine it in the light of all the other recent tariff and government-administered price increases," he said.

The Conservative Party finance spokesman, Mr J J B van Zyl, was also highly critical.

The Budget was dangerous, he said, because it killed the goose that laid the golden egg — the white taxpayer; continued to redistribute income; failed to curtail inflation; failed to provide extra resources for the desperate plight of the farmers. Also, it underbudgeted for State spending, he said.

The middle-to-low-income groups would be penalised heavily as a result, he said.

they can collect and repair satellites in near-earth orbit," says Tom Geary, director of the University of the Witwatersrand planetarium.

Many losses have been as a result of the failure of the apogee kick motor to get the satellite into orbit, leaving it to wander through space and eternity. Others have been caused by malfunction in orbit and criticism has been levelled at manufacturers.

Meanwhile, the shuttle programme has missed its rendezvous with Halley's comet, scheduled for last week, while exhaustive investigations into the January debacle are carried out.

When the cause of the *Challenger*'s destruction is known, insurers will have a clearer idea of the risks ahead in aerospace. ■

(49) FIN MAIL 14/3/86

IN MY OPINION

RUDOLF GOUWS

Weighing up the Budget risks

Rudolf Gouws is Group Economist, Rand Merchant Bank.

This is the final piece in our series of pre-budget commentaries.

The conduct of economic policy (like the conduct of a business) concerns evaluating and weighing up risks. It is also about trade-offs and the optimising of results.

Right now the possible job-creating impact of further fiscal stimulus is being weighed up against possible damage to the ability to repay foreign debt and build up foreign exchange reserves. It is also being weighed up against the risk of fuelling inflation and against possible damage to foreign creditors' and potential investors' perceptions about SA's economic management.

And it is being weighed up against the risks of further damage to the economy should the long-run aim to reduce government's share of total demand and economic activity not be reached.

It often turns out that the "long run" is no more than a series of short runs, because one set of "special circumstances" is inevitably followed by another. It already seems a certainty, rather than a risk, that the long-term goal (announced a year ago) of reducing the ratio of government spending to gdp to 1981 levels by the end of the decade will not be attained.

In my view, the scope is limited for material job creation gains even were spending stepped up even further. In all but the very short term, a rising ratio of government spending to gdp has in the past meant less, not more, economic growth and job creation in the economy at large. This has been as true in SA as elsewhere.

I have no qualms about the special training schemes started last year, but the job-creation package may establish (or foster) the idea that it is government's task to provide employment. Jobs created by such schemes are few in relation to the overall unemployment problem — yet the spending involved is sufficient to add meaningfully to the budget deficit or the tax burden. There is also the danger of the expectation arising that these programmes will become a permanent feature.

Apart from spending on specific job creation schemes, stepped-up spending across the board has also been called for to get an upswing under way. With the business and consumer mood as poor as it is, this may simply leak away in higher savings, rather than prompt an increase in real economic activity. This is always a risk, but right now the risks may be running the other way because other expansionary forces are already at work.

Much of the impact of the recent rapid rise in government spending has still to be felt; public servants have received a 10% increase; the surcharge on personal income tax has fallen away; most interest rates are well below the inflation rate; and the fall last year of the exchange rate has raised rand incomes of exporters and had an expansionary (and inflationary) impact on the economy at large.

With real import levels and inventories in commerce and industry now very low, a strong revival of demand will soon boost imports, reducing the current account surplus.

Granted, the problem is not immediate: for the period up to March 1987, the surplus would be more than sufficient to cope with the envisaged $2 billion foreign debt repayment. But the amounts falling due subsequently are large. Re-lending to SA of a portion of the funds repaid is likely, but by no means certain, and the prospect cannot form the basis for risk-taking in economic policy. Also, not only the ability to repay debt is at stake, but also the build-up of foreign exchange reserves.

Last year's Budget speech made clear government's intention of not financing current expenditure from loans, that is, dis-saving by government would cease. Partly by force of circumstance and partly by design, this did not occur. It is arguable that dis-saving by government is perhaps not the anathema it has been held to be.

Many forms of current expenditure (training and education spring to mind) represent an investment in future growth and stability of the economy and society, so it is appropriate to fund a portion of this with borrowings. There are, however, risks in terms of the impact on financial markets.

Government saving or dis-saving forms an important part of gross domestic savings. The difference between gross domestic savings and gross domestic investment is, by definition, equal to the deficit or surplus on current account of the balance of payments. To the extent that government dis-saves, the current account will show a smaller surplus or larger deficit.

This helps explain why the general course of the rand's exchange rate correlates fairly closely with the ups and downs of government savings. For obvious reasons, the same holds true for interest rates. The conclusion is that, while borrowing to fund part of the government's investment in human capital and social stability is a logical temptation, there are clear risks in exchange rate and interest rate terms.

A R5 billion-plus budget deficit will be substantially larger than projected government capital expenditure. At about 3,6% of gdp, it will also be larger than the long-term goal of 3% set last year, and about twice the ratio deemed prudent by the team that agreed in November 1982 to borrow $800m from the IMF.

Since tax increases at this delicate stage of the business cycle would be most unfortunate, the main focus of the Budget must be on reducing expenditure.

In last year's Budget speech, the Minister spelt out the benefits of privatisation. Next week's speech should detail some projects and give some indication of timing. The Minister has on occasion likened government's efforts so far at cutting expenditure to the snipping-off of twigs, and he foresaw some branches also getting the chop in the years ahead.

If there could be tangible evidence of this, it would help meet the other targets of lowering the tax burden and limiting the deficit. Real and rapid deregulation will also help cut government spending while making it much easier for the corporate and informal sectors, rather than government, to create jobs.

The agreement on repayment of foreign debt has already gone some way towards restoring our image in international financial circles. We should strengthen these perceptions by restoring confidence in our management of the economy.

Using economic policy and the Budget to buy time to make political change is fraught with risks not worth taking. A conservative economic policy approach, combined with imaginative and far-reaching political initiatives, is what we are now looking for.

Calls on Du Plessis to limit spending

BD 14/3/86 (49)

LESLEY LAMBERT

VOLKSKAS Merchant Bank MD Lawrie Korsten has called on Finance Minister Barend du Plessis to stake his job on his ability to control government spending during the 1986/87 financial year.

This was one comment to emerge from a *Business Day* straw poll of business leaders and senior economists on what they thought Du Plessis should announce in today's Budget.

"Government spending must not be allowed to increase by more than 10% during 1986 and a good starting point would be a management audit of the over-staffed Finance Department," Korsten said.

Others demanded total honesty in disclosing the real economic state of the country and working from there, rather than trying to conceal negative developments during 1985 behind optimistic predictions of future growth.

Some commentators said that until government showed sincere commitment to futher political reform, very little that Du Plessis said today could heal the politically-related trauma to which a fundamentally strong economy has been subjected.

There was predictable consensus on the need for tax relief, especially for individuals who had suffered the effect of stringent economic measures applied to cool the economy in August 1984.

Many commentators recommended that more judicious government spending and efficient tax administration measures should replace attempts to draw income from higher taxes.

Arthur Anderson's Pierre du Toit called on the fiscus to limit the top marginal tax rate for individuals to 50% and to apply the top rate to higher incomes.

Another vital budgetary objective was to find the delicate balance between containing and reducing inflation, while introducing slightly stimulatory measures to encourage growth and create new jobs.

Generally, the commentators expected a conservative Budget, given the prevailing economic circumstances. However, many called for bold and imaginative moves towards privatisation and a clearly defined export strategy — two areas which could boost employment.

Government overspends, Barend asks for more . . .

ARGUS 24/2/86

49

Political Staff

FINANCE Minister Mr Barend du Plessis is to ask Parliament for extra money this afternoon to cover the Government's overspending during the current financial year.

He had originally hoped that Government departments would be able to keep within this year's record R31 000-million Budget, but abnormal political and economic problems put paid to this.

It is expected that the Government's over-expenditure for the financial year will be in the region of R1 500-million, bringing the 1985/86 total to near R33 000-million.

Mr du Plessis will be looking for a total of at least R36 000-million in his new Budget, to be tabled on March 17, which does not bode well for any significant tax relief.

"DETERIORATION"

Major reasons for the overspending have been the fall in the exchange rate of the rand, the high inflation rate and the hundreds of millions allocated to emergency job creation programmes and feeding schemes.

Progressive Federal Party spokesman on Finance Mr Harry Schwarz said the "economic deterioration in the country has caused a necessity for relief of joblessness and hunger in a manner which was not contemplated by the Budget".

Government expenditure did not otherwise seem to have got unduly out of hand.

"On the other hand, the Government has been lucky in that it received increased revenue, particularly from the gold mines," Mr Schwarz addded.

Among the biggest overspenders in the current year have been the Defence Force (an extra R244-million on its R4 274-million budget), Constitutional Development and Planning (R386-million), the Police (R42-million), Communication and Public Works (R61-million), Development Aid (R40-million) and Agricultural Economics (R49-million).

(49) Mercury 18/3/86

Budget aims to boost S A internationally

Parliamentary Correspondent

THE Government has budgeted for a total onslaught on the international world during the current financial year.

Increased expenditure on the promotion of South Africa in the outside world has been included in the budget for the Department of Foreign Affairs.

And cultural exchanges are to be promoted through the Department of National Education, trade relations are to be increased through the Department of Trade and Industry, more is to be spent on the promotion of tourism through the Department of Environment Affairs and Tourism, and increased international labour liaison is to take place through the Department of Manpower.

These items have been provided for in the draft estimates of expenditure, which were tabled in Parliament yesterday.

Altogether R230 million has been budgeted on promoting South Africa internationally and spending in all programmes aimed overseas.

Government spending on 'foreign relations' through the Department of Foreign Affairs is to rise to R153 million from R97,5 million.

This programme is intended 'to promote relations with foreign countries, seek acceptable solutions to international problems affecting the interests of the Republic of South Africa, participate in international initiatives aimed at promoting co-operation, peace and protecting the rights, property and citizens of the RSA in foreign countries'.

Expenditure on promoting relations with Africa is to go up by R1 000 000 to R5 600 000, on relations with overseas countries by R50 million to R131 million, and on relations with international organisations by R4 100 000 to R8 000 000.

The department has also budgeted a new item, R3 600 000 for guests and visitors. This is described as 'creating opportunities for prominent and influential opinion-makers abroad to obtain first-hand knowledge during visits to the RSA'.

The Department of National Education has budgeted R610 000 for international liaison in sport, compared with the R488 000 last year, and R954 000 on 'cultural relations with foreign countries', compared with R734 000 last year. Much of the increase is to go to exchange programmes.

Under the Department of Manpower, spending on 'international, interstate and related labour matters' is to go up by R200 000 to R848 000.

Trade relations spending under the Department of Trade and Industries is to cost R3 400 000 (up R1 200 000), while export trade promotion is to cost R16,7 million compared with R13,7 million last year.

Included in the export trade promotion programme is an additional R3 200 000 for the South African Foreign Trade Organisation (Safto), whose grant will total R4 200 000.

The promotion of tourism under the Department of Environment Affairs and Tourism is to go up by R19 million to R50,5 million.

No delay in fringe benefit tax

Parliamentary Correspondent

MR DU PLESSIS rejected calls for a delay in the implementation of phase two of fringe benefits taxation.

And the minister's rejection is likely to be received with considerable gloom by the motor industry which was hoping for a delay in its implementation.

Announcing that phase two would go ahead as planned, Mr du Plessis also said that the duty on fully assembled imported vehicles would be dropped from 125 percent to 100 percent.

With regard to fringe benefits tax, Mr du Plessis said that while it was difficult to estimate the revenue which would be received, the indication was that the increase in employees' tax collections would be significant.

Representations had been made for the freezing of the phasing-in period for certain fringe benefits on the grounds that this would boost trade and industry.

While he understood such representations, it should be borne in mind that an exceptionally long phasing-in period had been allowed.

The Margo Commission, he said, did not support an extension and longer phasing-in periods could therefore not be supported.

However, the abolition of the 7 percent surcharge and drop in personal taxation should bring relief to those particularly affected by fringe benefits taxation.

With regard to the lowering of the customs duty on fully assembled imported vehicles, the minister said the sharp depreciation of the rand had 'magnified the price-raising impact of this measure'.

Standstill

A result of this was a decline in import volumes which caused revenue from this source to fall sharply instead of rising.

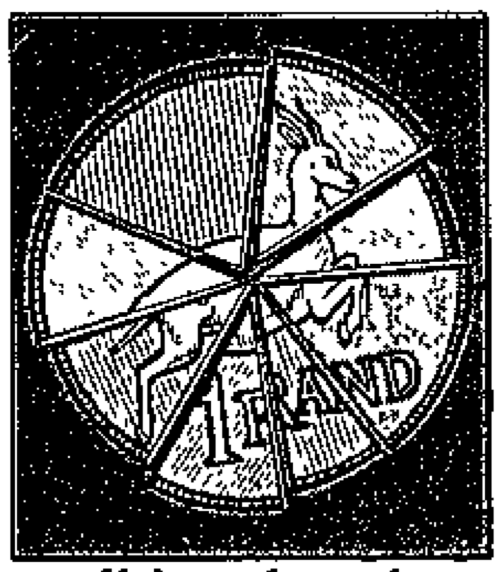
The market with its allied service and maintenance industries had virtually come to a standstill.

Mr du Plessis said that although he had no intention of encouraging imports, it was intended to drop the duty to 100, which would still give the local industry 'more than sufficient protection'.

Fin Mail 21/3/86 (49)

THE BUDGET

Two cheers for Barend



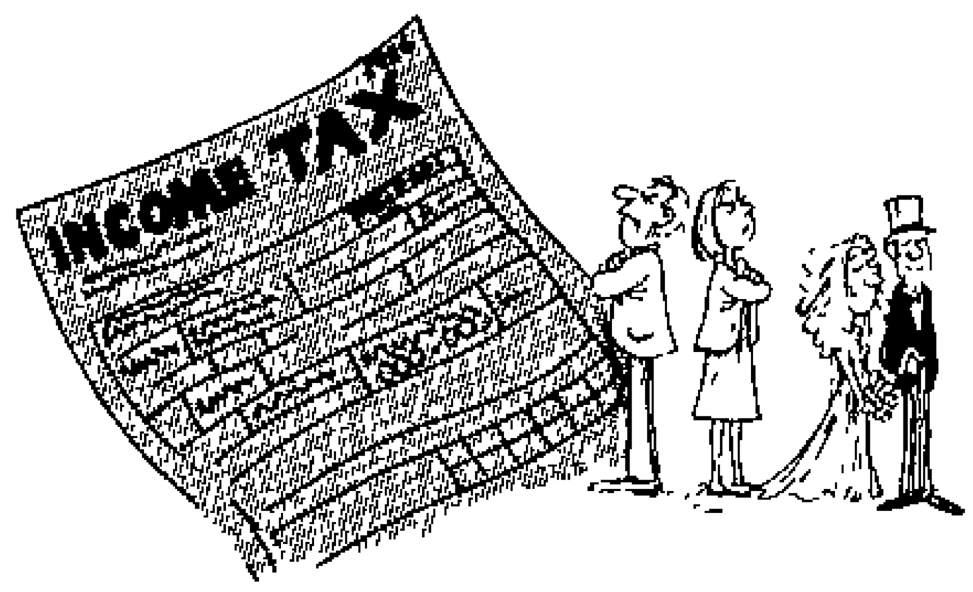
In the days of Dr Nico Diederichs and Owen Horwood, Ministers of Finance used to spatter their Budget speeches with classical quotations and allusions. It is a comment on our current condition that the only person Barend du Plessis could draw on for quotation was P W Botha himself. While this may seem a flip reaction, it reflects the extent to which extraneous pressures restrict what would be the normal functioning of the budgetary mechanism.

Barend du Plessis' second Budget is a great advance on last year's maiden effort. Reservations centre not on the direction of its thrust, but on whether its proposals are bold enough. And ugly problems are lurking in the background: the voracious financial needs of the regional services councils later this year, the stubbornly high level of inflation, and whether public sector spending can really be held in check at last.

As the *FM* has already written, Du Plessis' room for manoeuvre has been limited by subsidiary appropriations and the need for infrastructure spending. Given these limitations, he has done much. But a big question, as always, remains the gap between promise and performance.

If State spending can indeed be kept to the limits now proposed — an increase of only 13,9% on the revised 1985-1986 figure — this will be a decline in real terms. It will probably still be a decline at the 17,7% average increase in expenditure over the past two years, which Du Plessis considers a more meaningful base, as spending in 1985-1986 was already at a high level.

The trouble is, in the past State spending has always over-run budgetary targets. Actual spending in 1985-1986 rose 21,6%, against an estimated 13,6%. This trend goes back long before Du Plessis' appointment, and in part reflects higher than expected inflation; but it does create a credibility gap which will have to be bridged before the private sector will take Budget projections at face value.



Du Plessis' defence of public sector remuneration is, alas, unconvincing. Not only is the distinction between "administrative" and "development" personnel hazy (do all those classed as "educationists" actually teach?), to draw conclusions on comparative remunerations by reference solely to salary notches is an apples-&-pears exercise.

It ignores such vital areas as relative productivity, fringe benefits (and their tax treatment) and service conditions — security of tenure and pension rights.

This apart, the public sector spending proposals look sensible. It is good to see continued emphasis on education and training, and the R320m to be devoted to infrastructure in underdeveloped areas — extending, Barend said on TV, to such basics as water taps and toilet facilities — will have an importance beyond its monetary value.

The social return on such investment is enormous; and the process of spending it will be a useful stimulus to the informal sector.

Perhaps the most imaginative step relates to treatment of working wives' income. To exempt from tax R1 800 or 20% of a wife's net earnings (whichever is the greater) — with effect already for the 1986 tax year — is a major advance, as the revenue loss of R116m for 1986-1987 shows. It is particularly valuable at upper-income levels, and could do much to attract skilled women back into the labour market.

But it is unfortunate that this has not been accompanied by proposals of similar flair for

STATE OF THE ECONOMY

"One should simply look at where we stand today in comparison to only a few years ago," appealed Finance Minister Barend du Plessis in the opening stages of his Budget speech. Quite, but the contrast is not encouraging.

Real gdp fell 1% in calendar 1985, to R65,4 billion, compared with a 5,1% rise the previous year. "The marginal decline does not, however, fully reflect the magnitude of the downswing evident in other economic indicators. . ." notes the statistical-economic review released with the Budget.

The downswing in real economic growth (which had only just kept up with population growth during the past decade) caused per capita real gdp also to decline to the lowest level in a decade. Du Plessis predicts a moderate rise in real gdp of more than 3% this year.

Registered white, coloured and Asian unemployment more than doubled during the year to a record 75 800 in the fourth quarter (black unemployment also soared to new highs, but official figures lack credibility). Average salaries and wages in the non-agricultural sector increased by 11,2% (16,5% in 1984), meaning a 4,4% decline in real remuneration after a 4,2% rise the year before. Gde plummeted by 7,8%, thanks to a run-down in inventories and tough monetary policy, after an increase of 7,6% in 1984.

Exports increased by 56% in rand terms (22% by volume); and the rand value of net gold output rose 32%. Imports fell 16% by volume and 6% in rand terms. Du Plessis predicts a current account surplus of between R4 billion-R5 billion for 1986.

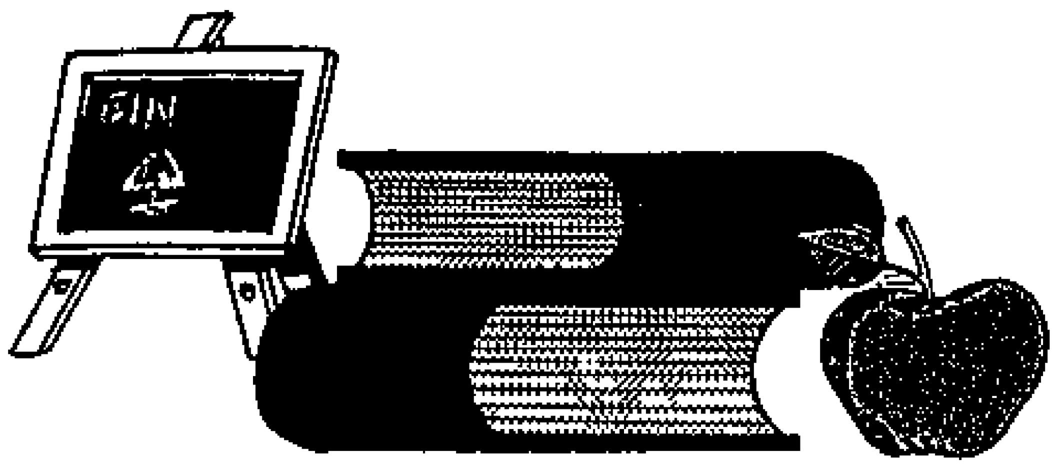
The capital aceount has of course been a huge drain. A net capital outflow of R3 billion in the third quarter was followed by R5 billion in the fourth, more than neutralising the current account surplus.

No help could be expected from the International Monetary Fund (IMF), although, as Du Plessis points out, it is the function of that body to help members with balance of payments difficulties. Regular repayments are being made, he said, on loans obtained from the IMF in 1982.

From the begining of 1984 to the third quarter last year when the international debt crisis developed, SA repaid more than R8 billion foreign short-term debt. In the process, the Reserve Bank had no chance to rebuild its foreign reserves and down went the rand.

Du Plessis said he was not underestimating the "formidable problem" of re-entry to international capital and money markets. Hence the need for even more financial discipline. "We shall be able to persuade international bankers to return to SA only if we can convince them that we actually do not 'need' them any more."

Few would doubt that that might be a hard one to put over. Given the problem's large political content, its resolution may lie far outside the Minister's financial realm.



other individual tax rates. The 7% surcharge on individual tax was always intended as a temporary measure to meet a special need, which has already ended. To claim credit again for its abolition is really taking a second bite at the cherry.

And a 5% discount on personal tax liabilities, though it has the merit of coming into effect immediately, is no substitute for a general adjustment of brackets — especially after a year of the highest inflation in living memory, with a correspondingly heavy burden of fiscal drag or bracket creep. It is least valuable to those who pay least tax — the lower income groups whose living standards have suffered most from inflation, and who will also be hardest hit by another change admirable in itself — the phasing out of the bread subsidy.

It is this basic difference that makes us on the one hand welcome concessions for working wives, but deplore a crude tax discount, even though both are regressive in nature.

Moreover, discounts — like surcharges — are temporary. May we be faced by a scrapping of the discount in 12 months' time? Or even sooner, if State finances deteriorate? We can only hope that this palliative has been introduced to avoid sweeping changes in tax tables, which could soon be rendered out of date if the deliberations of the Margo Commission require more fundamental change.

R6 BILLION MORE

amounts in Rm

	1986-7*	1985-6
Income tax		
Gold mines	2 250	1 990
Other mines	480	284
Individuals	11 800	8 967
Companies	5 700	4 260
Sales Tax	9 450	8 320
Other taxes (net)	2 200	2 502
Total income tax	31 880	26 313
Customs & Excise	2 550	2 009
Total Revenue	34 430	28 322

*estimated

After all, the principle of indexing is already accepted in this Budget, in the (welcome, if unfortunately deferred for some months) adjustments to pensions.

In a similar vein, it is a pity that there has been no general adjustment in the qualification threshold for becoming a provisional taxpayer. Virtually anybody with non-salary income now falls into this category. With another few years of inflation, the benefits to the taxpayer of PAYE (but not, of course, to the fiscus, whose income flow is accelerated) will be eliminated.

But leaving aside the gains and losses for individual taxpayers, perhaps the most remarkable — possibly even praiseworthy — achievement of this Budget is the relatively low borrrowing requirement. At the time of the debt standstill, there were widespread — and justifiable — fears that exclusion from foreign capital markets would place heavy demands on the local capital market.

This has simply not happened. First the Sats and Post Office budgets, and now Barend, have placed much lower reliance on borrowings than most expected.

This should preclude any risk of the public sector "crowding out" private sector finance and do much to relieve upward pressure on interest rates. Capital markets are already signalling this.

Of course, where this will lead is another matter. To Barend, it places the onus of economic development squarely on the private sector. If they do not accept this responsibility, he hinted darkly on TV, government may be forced to step in.

HOW TO SPEND IT

Selected expenditure items (Rm)

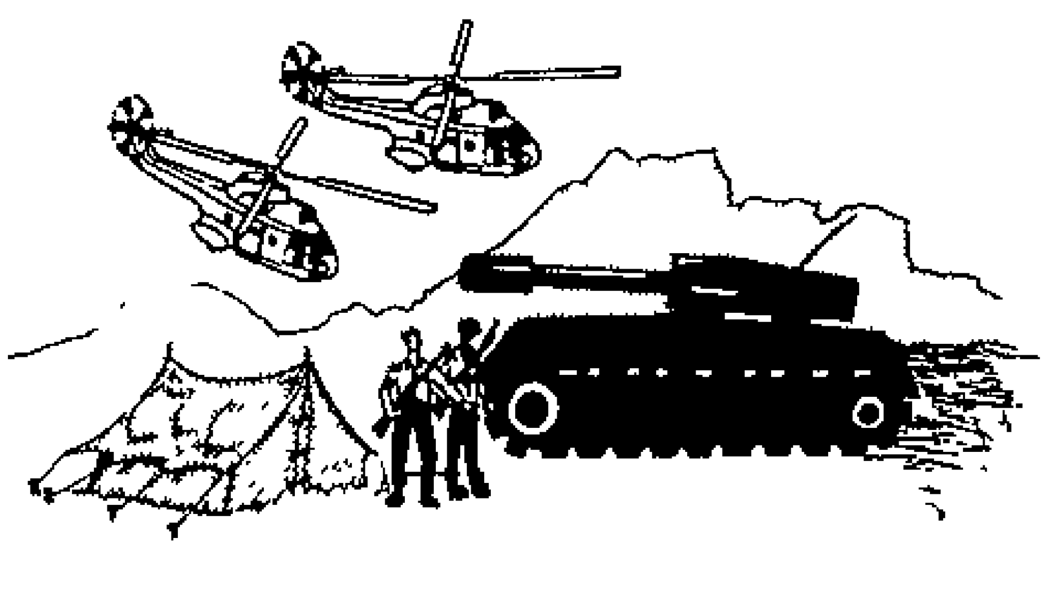
	1986-87*	1985-86
Defence	5 257	4 409
Education	6 083	5 099
Welfare promotion	1 933	1 781
Health	2 799	2 513
Civil pensions	1 245	857
Constitutional Development	2 912	2 325
Improvement of conditions of service	1 077	235
Transport	1 721	1 622
Agriculture	876	1 087
State debt costs	5 233	4 479
Other	8 435	8 570
Total expenditure	37 571	32 977

*Estimates

This is simplistic. Cheap finance is only one stimulus to private sector enterprise, and far from the most important. In any event, with existing low levels of capacity utilisation, more fixed investment is not the most pressing need. We need a revival in confidence and better use of the productive facilities already available.

This is yet another reason why more radical reductions in personal tax, putting more money into the hands of the consumer, were desirable.

In his Budget speech last year, Du Plessis said the deficit before borrowing should be

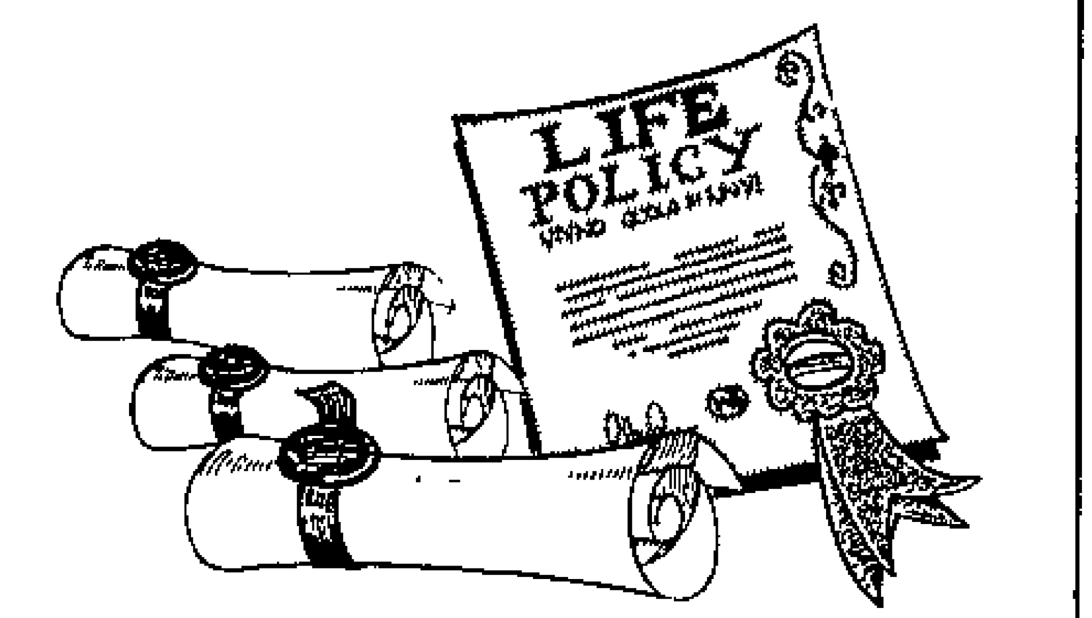


get shows, gst is already in the same league as a revenue source as either personal or corporate taxes. An effective increase in retail prices is the last thing we need.

We cannot avoid feeling that this was an Aunt Sally put up — not necessarily by the Minister — to be knocked down. It is an easy source of kudos to be credited for not doing something you never intended to do anyway.

Budgets can be as important for what they do not say as for what they do. Conspicuous by their absence were *specific* references to the two new taxes — on employment and turnover — businesses will bear from September to finance the proposed regional services councils (RSCs).

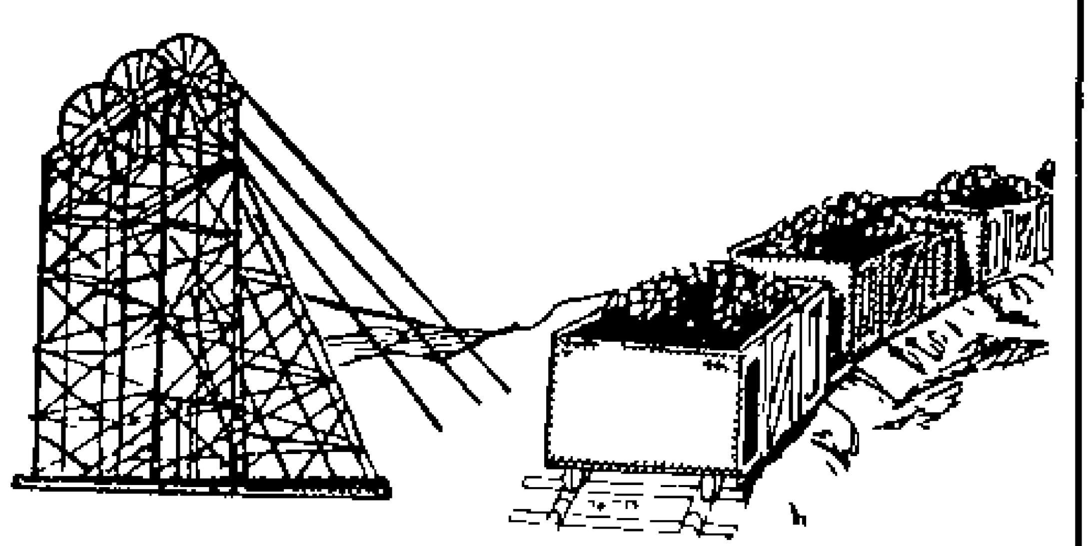
Indeed, government has been extremely coy about these. But some private sector economists reckon they could gross as much as R900m in the second half of this fiscal year, or almost R2 billion in a full year. Unless their introduction is accompanied by concessions elsewhere, sums like this could dwarf the injections of spending power to the private sector made this week.



With this overhang later in the year, why was Barend so restrained now? That the heart of this Budget is in the right place is undeniable. What is questionable is whether it is adopting the right strategy for stimulating our fragile economic revival and whether, even within its own parameters, it goes far enough.

Nor does the Budget do anything to attack the root causes of inflation.

It is to be hoped that effective implementation of monetary targeting (see *Economy*), a diminution of imported inflation (whose benefits are already being seen in some consumer durable sectors) and the cost benefits of higher capacity utilisation will help here. For the moment, it seems inflation has been relegated to a minor problem; but the gap between our inflation rate and that of our trading partners in Western Europe and North America has probably never been higher.



We may choose right now to attach greater priority to growth than inflation, but the problem will not go away. Last year, a weak rand compensated for cost increases in our leading export sectors (notably mining). That cushion has been exhausted. Right now, stimulating growth may well be more important; but there will come a point when further growth will be impossible unless inflation is checked.

There is nothing in the Budget to suggest Barend du Plessis has any answers to that one. ■

BEHIND THOSE 'TAX CUTS'

The Budget granted significant relief to personal taxpayers — if they can forget that the inflation rate is 20% and likely to stay there.

The 5% discount on tax payable after deduction of rebates, which replaces the 7% surcharge, means that the top marginal rate — which still comes in at R60 000 for married and R42 000 for unmarried taxpayers — falls from 53,5% to 47,5%. Relief to the burden of joint taxation is the new tax-free status of 20% of wife's income — with a "minimum" deduction of R1 800 (see table).

NEW TAX CONCEPTS

Taxable Income:		
Husband		R50 000
Wife		18 000
		68 000
Wife's earnings deduction:		
20% x 18 000		3 600
Taxable income		64 400
Tax Payable		23 120
Rebates:		
Primary	880	
Child (2)	200	
Insurance	75	
		1 155
		21 965
5% discount (previously 7% surcharge)		1 098
Net Tax Payable		20 867

Notes: 1. The 7% surcharge was abolished on March 1 1986
2. The 5% discount applies from March 1 1986
3. The tax-free status of 20% of a married woman's income applies from March 1 1985.

With these "tax cuts" it might be expected that taxpayers will pay less tax in the current fiscal year. However, revenue estimates show that the personal tax haul will increase by 32% to R11,8 billion in 1986-1987. And the gst haul is estimated to increase 14% to R9,5 billion.

Thus personal taxpayers will pay R4 billion more than in 1985-1986: purely because of inflation. The tax cuts are largely illusory.

Referring to the Margo Commission on tax, Du Plessis ducked mainstream tax reform by saying "he sought as far as possible not to disturb the status quo." The previous fiscal year, it may be remembered, he announced a number of changes, including the controversial 10% import surcharge.

Other "reliefs" need clarification:

☐ The 5% discount applies to all salaried taxpayers *except* married women;
☐ PAYE tables will not be adjusted from those for the 1985-1986 tax year. Employers must deduct 5% from the tax payable shown in PAYE tables; and
☐ Married women will be taxed according to new PAYE tables to be published by July 1.

On the relief provided to working married women — which is backdated to March 1 1985 — Du Plessis said "20% of her earnings with a minimum of R1 800 (is) exempted from tax." So, if a married woman earns in a tax year:
☐ R10 000, 20% (or R2 000) has tax-free status;
☐ R3 000 (of which 20% is R600), R1 800 has tax-free status; and
☐ R1 000, only R1 000 (and not R1 800) has tax-free status.

New provisional tax rules harm taxpayers to the extent that they must pay three, instead of two provisional payments — and the final payment must be 100% spot on. This effect of this cannot be underestimated because salaried taxpayers with *investment* income greater than R1 000 are automatically classified as provisional taxpayers. This threshold was not adjusted.

However, the interest deduction has been increased from R250 to R500. The new provisional tax rules will first affect personal taxpayers' actual cash flows only in August 1987.

While the company tax rate of 50% is unchanged, the revenue haul is nevertheless estimated to increase by R1,5 billion to R5,7 billion; gold mine tax and surcharges are scarcely changed (up R259m to R2,3 billion).

Qualifying levels for payment of estate duty have been substantially raised, the expected haul falling from R100m to R80m in the current fiscal year. Only two taxes were increased: marketable securities tax, from 10c to 15c for each R10, and the levy on bank debit entries, from 5c to 10c an entry.

The implementation of fringe benefits tax goes ahead unchanged, with no further relief on phasing-in periods.

The Regional Services levies of 0,1% of turnover *and* 0,25% of payroll will be applied nationally. However, three months' notice before collection can begin must be served. It is expected that the levies will first be extracted in September 1986.

BUDGET IN A NUTSHELL

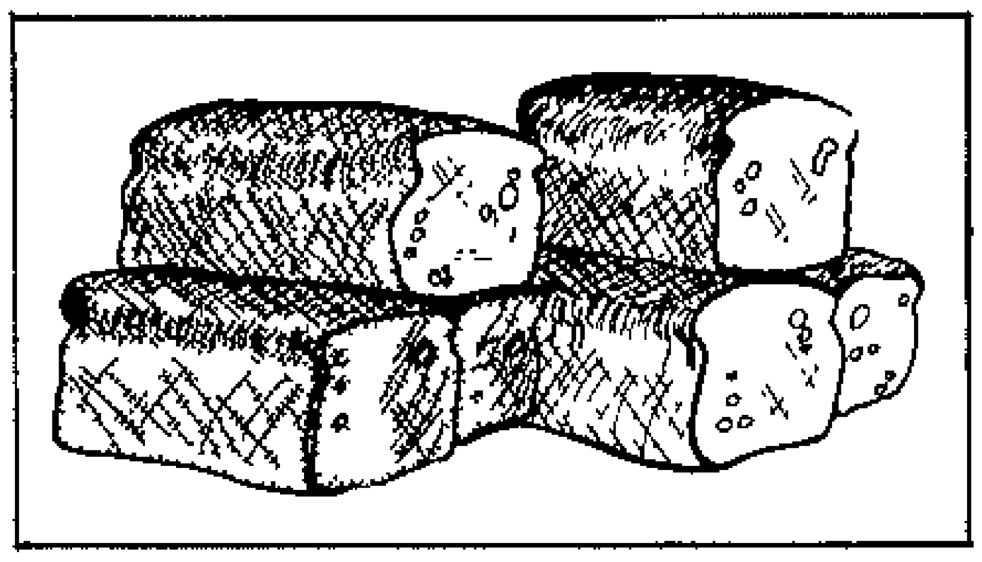
Revenue: Total revenue for the coming financial year is forecast at R33,63 billion, an increase of 13,1% on the revised Budget estimate of R29,73 billion for the previous year.

Expenditure: Total expenditure for the 1986-1987 year is estimated at R37,57 billion, an increase of 13,9% on the previous year's revised estimate of R32,98 billion.

Financing: There is an estimated deficit before borrowing of R3,94 billion, or 2,7% of expected gdp. This is 21,5% up on the revised 1985-1986 deficit before borrowing of R3,25 billion (2,6% of gdp). If loan redemptions for 1986-1987 are added, the financing requirement for 1986-1987 is R5,5 billion.

Capital expenditure: Some R4,25 billion.

Bread subsidy: Reduced from R200m to R150m.



Job creation: The remaining R70m of the R600m allocated for job creation last year will be made available. A further R90m is allocated, while R75m is provided for the continuation of training the unemployed.

Public service remuneration: The 10% increase in salaries is estimated to cost R1 billion. A further amount of R227m is to be made available to continue the programme of job differentiation. 71% of State employees earned less than R10 000 in 1985 and 94% under R20 000.

Public Investment Commissioners: They are expected to invest R3,25 billion in government stock against the R3 billion anticipated investment in 1985-1986. New bond sales of R140m are expected. Government stock worth R1,22 billion matures in 1986-1987. It is assumed the full amount will be reinvested in government stock. Some R893m should be raised by issue of new government stock. This is greatly reduced from the revised R1,57 billion for sales of new stock in 1985-1986.

Defence: An amount of R5,12 billion, 19,2% up, will be spent. This represents 13,7% of estimated total expenditure.

Education: Spending goes up 19,3% to R6,08 billion. The increase in primary and secondary black education is 27,8%, or R159m.

Housing: Provision is made for expenditure of R651m, an increase of 25,4%. The net addition to the capital of the National Housing Fund is up 28% to R239m. Total provision for black housing is R311m. In addition, R320m of the R1 billion announced in August for the upgrading of infrastructure will be spent this year.

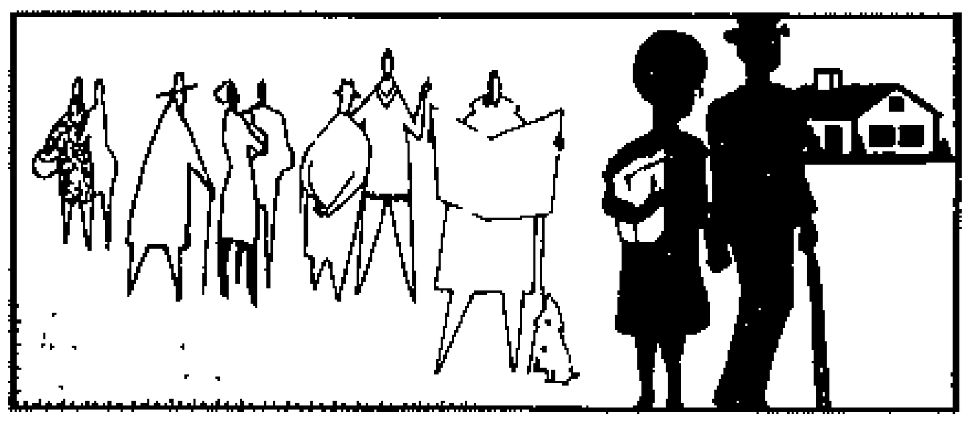
Atomic Energy Board: R776m is provided, an increase of 47,5%.

Small Business Development Corporation: R30m has been allocated in fresh share capital, and the R28m unspent balance of last year's R75m job creation programme will be carried forward.

Foreign loans: No provision is made for new foreign loans.

Foreign exchange losses: No provision has been made for any transfer to the Reserve Bank to cover losses in the Bank's transactions on behalf of the Treasury in gold and foreign exchange.

Pensions: From October 1 civil pensions will increase by 1% for each completed year after retirement, with a minimum of 7,5% and a maximum of 15%, at a cost of R31m. Parity between population groups



will be achieved in the benefit scale for military pensions. R170m is set aside for social pensions.

Regional levies: These are unlikely to be widely collected before September. It is agreed that the Regional Establishment Levy will not exceed 0,1% of a business's turnover nor the Regional Services Levy 0,25% of its payroll. Three months' notice before collections can begin must be served on taxpayers.

Customs and Excise Duties: Unchanged other than relaxations on imports of books and motor cars (see below).

Gst: The present gst exemptions and rate remain.

Personal taxes: As from March 1 1986 there will be a 5% discount on net normal tax payable after deducting rebates. This will cost R555m a year. Basic progressive taxes introduced last year remain. The income notch at which the maximum rate is reached remains R60 000 for a married person and R42 000 for an unmarried person. The effective rate for a married person without children and earning R60 000 falls to 31,5% from 35,3%.

Married couples: Interim relief is provided on taxation of working married couples. The R1 600 of a wife's net earnings presently exempt from tax will become 20% of her earnings or a minimum of R1 800 exempt. In practice this means that if a wife's salary is R20 000 a year the deduction will be R4 000 as against the present R1 600. Adjusted tax tables applicable to working married women come into force on July 1.

Interest and dividends: The amount of interest income exempt from tax is doubled to R500 a year at an annual cost of R107m. At current rates this means the interest on a taxable investment of about R4 000 will be tax-free.

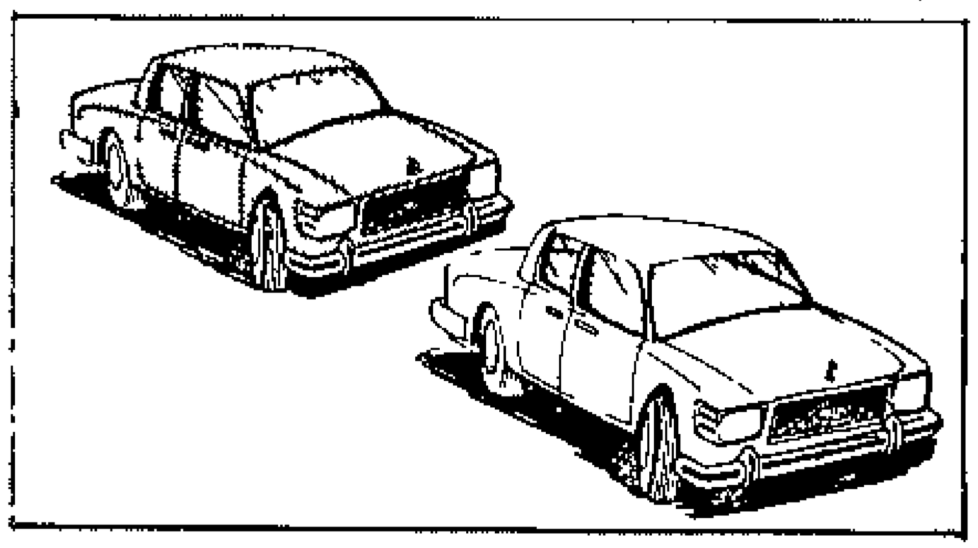
Company taxes: The 25% surcharge on gold and diamond mines, 15% surcharge on other mining companies, and 50% tax rate for non-mining companies remain. Last year's special 7,5% surcharge on insurers' investment income is not repeated.

Estate duty: All deductions are doubled: the maximum rate of 35% is now reached at R800 000 instead of R400 000.

Import surcharge: The 10% import surcharge on books is abolished and that on cars cut from 125% to 100%, but otherwise remains.

Marketable securities tax: Increased from 10c to 15c/R10; the levy on bank debit entries is doubled from 5c to 10c/entry.

Perks tax: Implementation of fringe



benefits tax goes ahead; no relief on phasing-in periods is granted.

Provisional tax: The total of the first, second and third payments of provisional tax is increased from 90% to 100% of actual tax liability.

14/3/86.

THE ECONOMY WEEKLY M. (49)

Budgeting for a more peaceful tomorrow

What would an ideal budget, designed with reform in mind, have as its goal? We asked the economic spokesmen for political groups across the spectrum. PHILLIP VAN NIEKERK reports

NEXT week's budget has to contain fundamental and far-reaching measures if it is to address the country's underlying socio-political and economic problems.

That's the view of leading economic spokesmen for political groups across the spectrum.

But they also express reservations about whether the government can tackle the issues, or whether the budget itself is an important enough device to effect fundamental change.

No one is in any doubt that the country is in possibly its worst economic and political crisis ever. Because of these crises, the budget assumes a larger than usual importance.

HARRY SCHWARZ, the MP for Yeoville and Progressive Federal Party spokesman on financial affairs, says the basic issue is whether the budget will be a patchwork of short-term solutions or lay the foundations for long-term economic planning.

Schwarz says if he were Minister of Finance — a post he concedes he is unlikely to hold — he would concentrate on job creation.

"We need to mobilise savings inside South Africa. Money is not coming from abroad so we need to create capital inside the country for the purpose of job-creation.

"If people are employed productively, this has a disinflationary effect, so that inflation and unemployment are tackled at the same time."

Schwarz says the "supply-side" economic theory of Thatcher and Reagan et al is fallacious in holding that unemployment and inflation cannot be dealt with at the same time.

PFP's Harry Schwarz: Reaganite economics is fallacious

"The main outcome of supply side economics is that the new wealth that is being created is going to the well-off. The problem in the budget is to ensure that the wealth that is being created is more equally distributed."

Schwarz says if there is to be a tax deduction it should affect the whole population through a deduction in indirect tax, such as general sales tax.

ALEC IRWIN, education director of the Congress of South African Trade Unions, says he does not see how the budget can restore anything at the moment.

"At best it deals with fiscal and monetary matters. One has to tackle much more deep-seated structural issues, where there is a need for fairly comprehensive change.

"These include rural collapse, unemployment and a lack of socio-economic infrastructure for the poor. This entails economic and political planning which I don't think the government is capable of."

FUAD CASSIM, of the Wits economics department and assistant secretary of the Transvaal Indian Congress, believes there should be an increase in welfare expenditure, as opposed to "warfare" expenditure.

He says there is an urgent necessity to decrease defence spending and increase community and welfare spending.

The government, he says, is suffering under severe constraints of its own making.

"We have to examine the context in which this budget is coming in. The government is facing its worst political crisis ever and seems to have gone into paralysis.

"It will no longer be able to solve its problems without relevant and fundamental political action."

Cassim believes this should include a programme to raise taxes fairly. "What is required is an elimination of indirect taxes such as general sales tax, which is retrogressive and lays claim to a far greater proportion of money from the lower income than the higher income groups. At the same time the burden of taxation on companies is declining."

JAN VAN ZYL, the MP for Sunnyside and Conservative Party spokesman on finance, says the government must reduce taxes severely.

"The country is technically insolvent. We must have growth and at the same time reduce inflation. At the same time the government must curb state spending and there must be proper planning and discipline."

ARTHUR HAMMOND-TOOKE, the director of economic affairs for the Federated Chamber of Industries, says the government is now operating within tight political constraints.

"What is needed is to enlarge the potential for reconstruction of the economy. We need to shift some of the constraints which are holding the economy back."

Hammond-Tooke says the government needs bold action to reduce the level of taxes in the short-term, to stimulate the economy and forge a "supply-side recovery. "We've got to watch the whole of government expenditure on a strict priority basis. We need control and very careful priorisation in terms of the country's needs."

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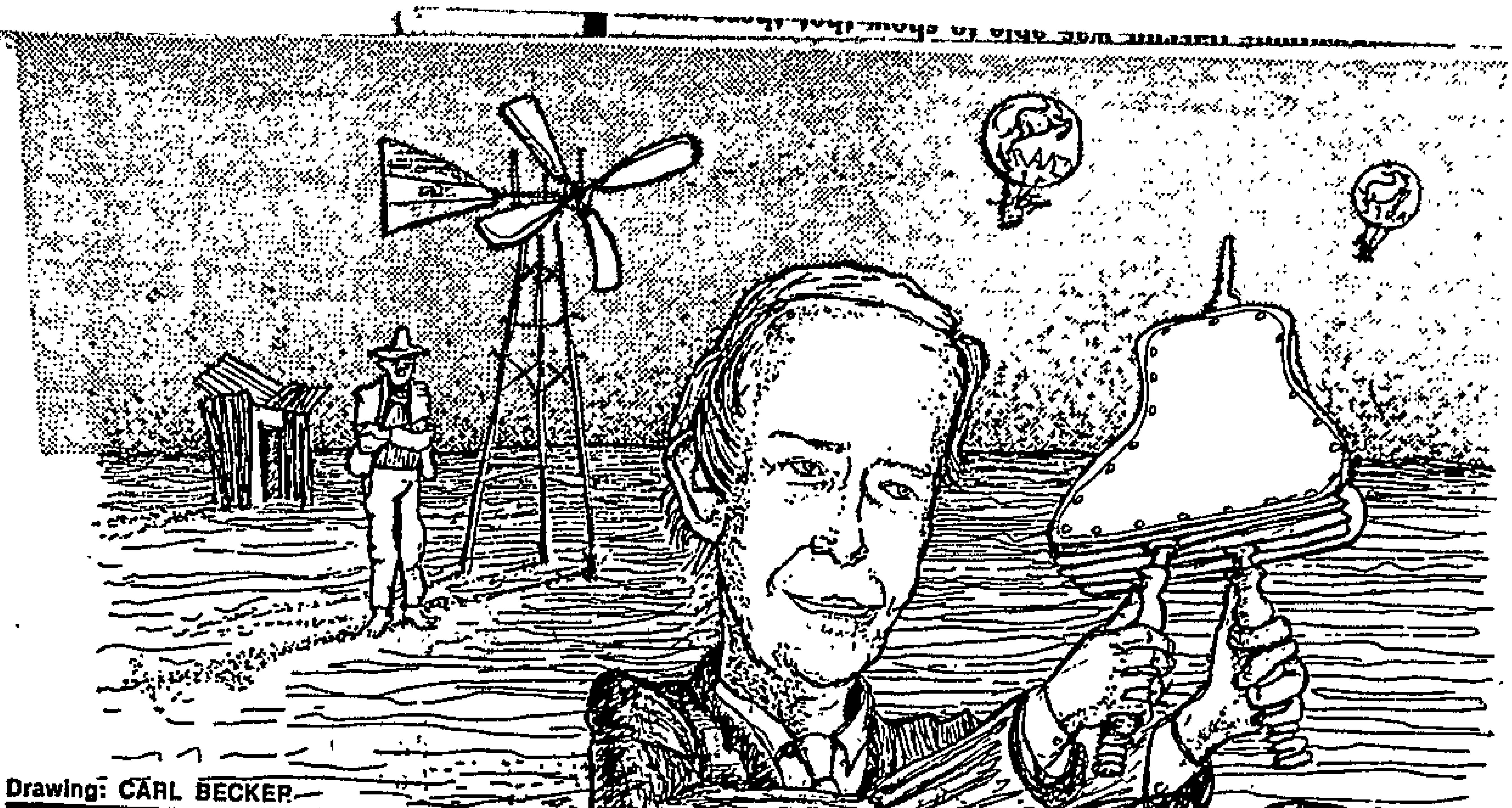

Drawing: CARL BECKER

Weekly M. 49 21/3/86

An insensitive arithmetic

TWO comments on the budget stick in my mind. Although they came from opposite ends of the spectrum, they said roughly the same thing.

TV ad-star Clive Weil of Checkers said it was "a rich man's budget", all right for people earning salaries but "insensitive" to the rest of the population.

And UDF publicity secretary Murphy Morobe predicted that the economic consequences of the budget were "more likely to fuel resistance than stem it". Neither mentioned housing, but their remarks become painfully applicable to the derisory sum allocated to black housing.

We don't know yet what amounts will be allocated to housing for coloured and Indian people because that is an "own affair" and will be dealt with in "own affair" budgets.

But black housing is a "general affair", which means that everything to do with it is decided by whites.

So Finance Minister Barend du Plessis was able to disclose that he was planning to spend a total R331,3-million on black housing.

This is less than 50 percent of the total R650,6-million he allocated for all housing.

BUDGET '86

Jean Le May reports from the House

When this is put alongside the cut in the bread subsidy, the refusal to lift GST on all food, and the failure to reach parity in schooling, pensions and social services for blacks, Morobe's reaction is understandable.

The budget provisions were "a continued assault on the already severely eroded living standards of blacks" and continued the trend of forcing the poorer sections of the population to carry the major burden of apartheid".

I hope the government is listening to Morobe's remarks but I doubt it. I hope the government will make the connection next time a police van or even a bread delivery van is hit by a shower of stones in Guguletu or Soweto, but I doubt that too.

Some people have alredy made the connection, among them PFP leader Colin Eglin, the Urban Foundation and the Black Sash, all of whom described the allocation for black housing as "inadequate".

Eglin said replies to questions in parliament had revealed that more than two million blacks did not have homes and many more were living in sub-standard housing.

Ministers had given information, he said, which disclosed a shortage of at least 390 790 homes, with only 16 613 provided by the state, local authorities and the private sector last year.

Last week Minister of Development Aid Gerrit Viljoen said there was a shortage of almost 200 000 houses in the homelands, and Constitutional Development Minster Chris Heunis admitted to a shortage of 221 572 in non-homeland areas.

Another question elicited the information that no family homes at all had been built in Guguletu, Nyanga and Langa last year.

In yet another, a questioner was told that the population of Soweto was just short of a million, at which Helen Suzman interjected: "You can double that."

Her comment arouses the interesting speculation that government planners are as bad at arithmetic as they are insensitive to the makings of even worse crises inherent in the budget provisions.

21/3/86. WEEKLY M.

THE ECONOMY

(49)

Can reality face the Barend challenge?

BUDGET '86

Reg Rumney on the area Barend dodged: inflation

FINANCE Minister Barend du Plessis's Budget seems to have sidestepped the inflation trap.

Economists say the Budget coped with the problem of trying to breathe life into the economy and of increasing spending on necessary social services like housing, in the face of South Africa's foreign debt crisis and the prospect of further boosting already high inflation.

However, Progressive Federal Party MP Harry Schwarz has criticised the Budget for "the almost total absence of measures designed to combat inflation".

Then too, the government has in the past been consistently over-optimistic about its ability to stay within its Budget. Why should spending estimates match reality this time round, ask sceptics?

In the Budget, Finance Minister Barend Du Plessis said the aim was to keep the deficit before borrowing to R3 944-billion, or 2,7 percent of the gross domestic product.

Total estimated spending for this financial year is 13,9 percent above the final level for 1985/86.

This is well below the worryingly high inflation rate of around 20 percent — too low to be true, say critics, who feel Du Plessis will be forced to increase spending during the year.

But with the Budget comes an important new anti-inflationary device: the adoption of money supply growth targeting.

The implication of this, in brief, is that the Reserve Bank will be, in a sense, indirectly monitoring government spending.

If government spending exceeds the estimated amount, pushing money supply growth up, interest rates will have to be allowed to rise to bring money supply growth within the 16 to 20 percent target limits set for 1986. And high interest rates, in turn, are generally unpopular with voters.

The Budget is "reflationary" rather than inflationary, according to Nedbank economist Ian McFarlane, and "seeks to rekindle economic activity, albeit in the context of the current account restraint and inflation".

The stress is on modest stimulation.

"In itself the Budget will not aggravate inflation. It's a cautious Budget."

The issue of only R893-million (R1 566-billion in 1985/86) of new government stock means that the feared "crowding out" in the capital market of both public and private sector borrowers will be avoided.

It had been feared that interest rates would soar as the government and public and private sector borrowers competed for scarce money, in the light of the drying up of foreign finance.

Faced with high capital market interest rates public sector borrowers like Escom, which would previously have gone overseas to raise loans, would be forced to raise tariffs instead — fuelling inflation.

Bill Lacey, economist of the Associated Chambers of Commerce (Assocom), agrees Du Plessis did not address himself specifically to the inflation problem.

"The prime objective was to get the economy off its back, and to address unemployment.

"On the other hand, he could not afford to go on a spending spree while foreign bankers were waiting at the door to be paid."

Du Plessis did this by "putting more cash in consumers' pockets with tax concessions".

Disappointment has been expressed that General Sales Tax was not reduced, a move which would aid the lower income group and the unemployed.

And a bread price hike seems unavoidable after the R50-million cut in the bread subsidy from R200-million to R150-million.

Moreover the maize price subsidy has been more than halved — from R250-million to R120-million — this year, and this may translate into a higher price for this basic foodstuff.

Still, the Budget, while it is no fireworks display, is largely non-inflationary and, as Lacey points out, its aim of 3 to 3,5 percent growth will supply overseas bankers with one of the signs they want to see.

It is up to President P W Botha to supply the political reforms they are pressing for, if he can.

21/3/86.
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(49)

THE ECONOMY

Taking subsidies from the mouths of the poor

BUDGET '86

The staple diet of the poor is bread. The staple diet of the even poorer is maize. With the cut-backs in subsidies, those on the poverty line are simply going to have to eat even less. PAT SIDLEY reports

MORE widespread hunger, malnutrition and starvation will follow the government's cut-back of R170-million in subsidies on basic foods.

The government has announced it will remove R50-million from the bread subsidy and, it appears, wipe out R130-million from the maize subsidy.

Exaggerating the problem, the government has claimed it cannot find enough needy families to qualify for its food aid programmes and has taken back into the ailing treasury more than R6-million which had been earmarked for the country's destitute.

These moves can only lead to more widespread hunger and starvation among the poor.

Conservative estimates of two years ago claimed that about three million people were malnourished. But since then the cost of living has increased phenomenally and unemployment has risen drastically.

World Vision director David Cuthbert says he believes about six million people are in need of basic assistance for food, clothes and shelter. Other studies show that between 21 percent and 30 percent of the country's potential black workforce is under-employed or unemployed.

The subsidies on bread and maize directly help poorer consumers to buy basic foods and there is a direct correlation between the size of the subsidy on bread and its consumption.

Both bread and maize prices are expected to increase soon. The Maize Board is currently discussing price increases and a bread price increase is said to be imminent.

The vast majority of South Africa's needy eat maize as a staple diet. Bread is generally eaten a rung up the economic ladder.

In periods of high unemployment, more poverty and high inflation, the poor tend to eat less of everything so that those who ate bread, switch to maize. Those eating maize, simply eat less.

The R50-million decrease in the bread subsidy (which was R200-million) is likely to add at least 6c to each loaf of brown bread. The controlled price of a brown loaf is 50c. That of a white loaf is 70c. About 13c of the price of the brown loaf is the subsidy.

In 1974/75 the R35-million subsidy on bread was split almost evenly between white and brown loaves. In those days 738-million white loaves and 378-million brown loaves were sold. A white loaf cost 20c, brown16c.

Around 1978 the government decided to switch its focus from white bread to brown and provided R40,3-million for brown bread and and R5,4-million for white. That year 900-million loaves of brown bread were sold and 379-million loaves of white were sold. The subsidy that year kept the price of brown bread down to 16c a loaf and white bread rose to 25c.

In 1982/83 the R200-million subsidy was paid almost entirely on brown bread and sales shifted. Of the 1,6-billion loaves of bread sold, about 75 percent were brown and 25 percent were white. The price of the brown loaf was 35c and a white loaf was 53c. (This included GST which has since been dropped on fresh foods.)

At the moment, the Wheat Board says, about 1,740-billion loaves are eaten annually. About 75 percent of them are brown and the subsidy of about 13c a loaf is entirely on brown bread.

These figures show dramatically that when the size of the subsidy keeps prices down, eating patterns change radically in line with it. And they also show that in spite of the population increase, bread consumption has hardly changed.

Additionally, the size of the loaf has decreased from 900gms to 850gms and this has failed to increase sales of bread.

This should indicate that more maize is being consumed. However, data compiled by consumer expert Vita Palestrant for Checkers' submission to the Davin Commission on the bread subsidy, illustrates that maize consumption has dropped as well.

"It is reasonable to assume that consumers switching from brown bread to maize were taking the place of those maize consumers who were being forced, of necessity, to eat far less," says Palestrant.

The Davin Commission looked at whether subsides benefited underprivileged consumers. It argued that it benefited middle and upper-income groups.

Checkers' submission to the commission argued forcefully that the subsidy was correctly targeted. Justifying this, it said blacks consumed about 72 percent of all bread in South Africa, with coloureds and Indians taking another 12 percent.

The maize picture has been gloomier than the bread one. For a decade until 1984/85 its annual average growth rate was 0,6 percent. During that period the bread price rose by 246 percent against the white maize price, which increased by 378 percent. The consumer price index for that period rose by 232 percent and the food index by 256 percent.

At the moment producers fetch R218 a ton for maize and sell it for R265 a ton. About R16 a ton is subsidised for handling and storage.

About three million tons of maize in the form of mealie-meal is consumed annually.

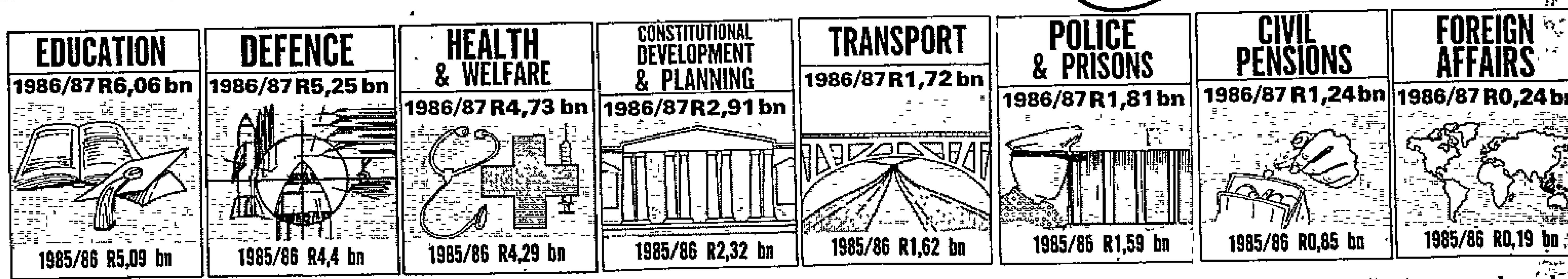
The Checkers submission to the Davin Commission ended on a note of warning that the cutbacks in subsidies were occurring against a backdrop of widespread unrest and deep recession.

It noted that between October 1984 and May 1985 a decline in bread consumption took place in several areas hit by unrest — before the introduction of consumer boycotts.

"We wonder whether hunger itself acted as part of the trigger mechanism setting off the disturbances," the submission says.

18/3/86 BDAY (49)

Barend's Budget in a nutshell



□ REVENUE: The total revenue for the coming financial year is forecast at R33,627bn, an increase of 13,1% on the revised Budget estimate of R29,730bn for the previous financial year.

□ EXPENDITURE: The total rises to R37,571bn, an increase of 13,9% on last year's revised figure of R32,977bn.

□ FINANCING: This leaves an estimated deficit before borrowing of R3,944bn, or 2,7% of the expected GPD. Adding expected loan redemptions of R1,564bn the financing requirement is R5,508bn.

□ DEFENCE: An increase of 19,2% brings proposed spending to R5,257bn. This represents 13,7% of the estimated expenditure for the coming year which is 0,1% down on last year.

□ EDUCATION: Spending goes up 19,3% to R6,082bn. The allocation to black education increases by 27,8%.

□ BREAD SUBSIDY: The subsidy decreases from R200m last year to a proposed R150m for the coming year.

□ PENSIONS: From October 1 civil pensions will increase from between 7,5% and 15%. On the same day a new structure, which ensures parity between the different race groups, will be introduced for military pensioners. Uniform pensions of R600, R750 and R1 000 per month will be payable. There will also be a supplementary allowance for those who have a disability of at least 80%.

□ INTEREST: Tax exemption is raised from R250 to R500.

□ WORKING COUPLES: A total of 20% of a working wife's pay, with a minimum of R1 800, will be exempt from tax.

□ PERSONAL TAXES: A discount of 5% is proposed for all income groups.

□ ESTATE DUTY: The doubling of all deductions in terms of section 4a of the Estate Duty Act is proposed. Rates of estate duty will be changed so that the maximum rate of 35% is reached at R800 000 instead of the present R400 000.

□ PROVISIONAL TAX: It is proposed that the total of first, second and third payments of provisional tax by companies should be increased from 90% to 100% of their actual tax liability. Provisional taxpayers, other than companies, whose taxable income exceeds R50 000, will also be liable for a third payment.

□ STAMP DUTY: Duties on the transfer of marketable securities will be raised from 10c to 15c per R10 or portion of the relevant consideration value.

□ MARKETABLE SECURITIES TAX: The rate increases from 1% to 1,5%.

□ SURCHARGE: The dropping of the 7% surcharge announced last November is included in the Budget.

18/3/86 SMC (49)

City-dwellers back privatisation

MOST white urban South Africans support the privatisation of state-owned corporations like Escom and Iscor.

A recent poll conducted by Markinor among 1 000 white urban adults shows as many as 61% believe the State should offer shares in its corporations to the public, while 34% oppose the idea. Among civil servants, 58% support privatisation, while 41% are against it.

Wassenaar questions state's economic policy

STAR 19/3/86.

CAPE TOWN — The first 18 months of the term of the Minister of Finance, Mr Barend du Plessis, "have not been an unqualified blessing" Dr Andreas Wassenaar said yesterday.

Dr Wassennaar, recently elected honorary life president of Sanlam, was delivering his seconder's address at the company's annual general meeting.

He said that "up to now" there had been little evidence that the authorities "have the resolve and perseverance to end their overspending."

Dr Wassenaar said for many years the budget and financial regulations had been used to finding funds wherever these may be had with the least trouble, notwithstanding objections.

"This trend was exemplified by the ¼ percent levy on bank deposits in the 1985 budget. If to this is added the economic disaster which hit South Africa — and the small business sector in particular — when the minister, in August 1984, after only one month in his post, increased the interest rate to 25 percent (resulting in bankruptcies and unemployment) one could with justification state that the first 18 months of the term of the Minister of Finanace have not been an unqualified blessing," Dr Wassenaar said.

"Is it not time to think about a structural change in the economic control emanating from the cabinet," he asked. "Do we not require a Minister of Economic Affairs, assisted by three deputy ministers — one for finance, one for industry and one for agricultural economics? This would solve another problem, namely divergent approaches by the three ministers responsible for the various economic/financial aspects." — Sapa.

FIN MAIL 21/3/86

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THE BUDGET

Mildly positive

Tuesday afternoon saw a pickup of activity on the stock market as investors interpreted the Budget as being mildly positive for the stock market, despite the increase in tax on dealing.

There were some differences of opinion: Eric Levine, consultant to Max Pollak, says that the R1 billion-odd reduction in personal taxes should be "fairly meaningful to the consumer sector, as it amounts to 3,2% of total retail sales in 1985 and takes immediate effect." But Syfrets' Leon Campher feels that, though the Budget is mildly optimistic, Finance Minister Barend du Plessis did not give as much as has been thought. The fringe benefits tax will take about R700m away from certain consumers.

Other differences were expressed about inflation. Hendrik du Plessis, assistant GM for Sanlam, feels that the outlook has improved slightly. Government is still attacking the problem and targeting the money supply is a positive step, so this puts some curbs on expectations that inflationary fears will boost the JSE.

Paul Ferguson of Fergusson Bros Hall Stewart considers, however, that nothing has been done about inflation. As a result, long-term interest rates will remain high, and he feels "positive about the market."

Consumer companies are generally expected to enjoy some benefit. Ferguson thinks the Budget has been good for durable and semi-durable goods, but not for the motor trade. Sanlam's Du Plessis is more specific — that Sanlam also expects improvement from the sectors which will gain from increased expenditure on housing and infrastructure (building and construction), but stresses the effect will be marginal as the market has discounted most of the Budget.

Comments about the increase in marketable securities tax (mst) and stamp duty show less concern about the impact on the local institutional investor than on the non-resident buyer. JSE president Tony Norton called it a "very unpleasant surprise." These taxes, he says, have been researched and "found to be prejudicial to markets and with other markets abolishing them, the JSE has become uncompetitive. Non-residents tend to want to deal offshore in any case and there is now a cost penalty for dealing here."

Brokers stress that a rise in mst goes against international trends and Ferguson points out that the increase raises "a minuscule amount of money."

Norton says the JSE will ask the minister to consider points laid before the Margo Commission, of which he must have been unaware when he made his proposals. He was also probably unaware that the British Chancellor of the Exchequer is expected to announce today the abolition of a similar tax.

Overall, however, Norton, and most of the investment community consider that it was a workmanlike effort within the confines of present circumstances. But a number say the problem is that there is no long-term plan — that this Budget and last year's were prepared on an ad hoc basis. *Pat Kenney*

Tax sting stays for some working wives

(220) (255A) (19) R DAY 20 5/86.

WOMEN involved in joint business ventures with their husbands — or employed by companies of which their husbands are major shareholders or directors — do not qualify for the 20% tax exemption announced in Monday's Budget, reports LESLEY LAMBERT.

THE sting in the tail of the tax exemption for married women — whose tax bills are assessed according to joint income — is that it applies to earnings which are broadly defined by tax law as "income ... derived by a married woman from a trade carried on independently from her husband".

The exclusion has always existed to prevent husbands transferring their income to their wife's taxable income, but now that the married woman's tax-free threshold has been raised from R1 600 to 20% of her earnings, with a minimum of R1 800, those excluded are bound to feel even more frustrated than before.

And for husbands who may have interpreted earnings as including investment and interest income — and therefore as a means of benefiting from the concession by transferring investments into their wife's name — there is no loophole.

The earnings definition goes on to exclude:

☐ Income derived from savings in specific circumstances, including rentals, royalties, copyright and dividends; and,

☐ Salary from a private company or close corporation in which husband is a partner, a major shareholder or a director. (Public companies are excluded because, according to the Department of Inland Revenue, they are less susceptible to being swayed by individual employees.)

Another disappointment for husbands in search of loopholes is that the minimum R1 800 tax-free threshold does not apply to annual income which is less than this amount, according to Inland Revenue's chief director (legislation) Jan Massyn.

If a married woman earns R100 a month, for example, she is entitled to the full amount of R1 200 tax-free, as opposed to the R1 800 limit. This is to avoid the concession spilling over into the husband's income.

Tax expert Costa Divaris predicts agitation for the relaxation of laws which exclude some women from these concessions. He feels the tax authorities should rather opt for a fair system at the risk of abuse, rather than a system which goes to such great lengths to close loop-holes that it unfairly excludes people who legitimately qualify for concession.

"Inevitably there will be attempts at getting around the exclusions. One example is women involved in business partnerships with their husbands swapping jobs with friends who are doing the same thing."

Divaris feels the concession for married women discriminates against single people.

The concession applies to the tax year ended February 28 1986.

Tax changes 'temporary'

B-DAY 20/3/86 49

Business Day Reporter

TAX changes announced in the Budget should be seen only as an interim measure, says a tax official.

Chief director C Kingon, policy administration, at the Inland Revenue Department, said at an Economic Society of SA/Assocom seminar yesterday that the entire tax structure was on hold until the Margo Commission reported its findings. He added it was only a matter of time before joint taxation was scrapped.

Dr V Solomon, director of sectoral affairs in the Department of Finance, said the Budget had ensured an economic growth rate this year of 3%-3,5% "and maybe a bit more".

20/3/86 B.DAY

Upturn fails to make its mark

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Economics Reporter

THE economic upturn Finance Minister Barend du Plessis mentioned in Monday's Budget has not had much effect on retail sales.

This view, shared by key retail trade managers, is consistent with disappointing Central Statistical Services figures for the wholesale trade.

They showed a decline in constant 1980 prices from R2,794bn in February 1975 to R2,625bn this February.

The value of wholesale trade for the period December 1985 to February 1986 was 7,1% down on the previous year at constant 1980 prices.

Edgars sales manager George Beaton said sales increases that had occurred had resulted from hard work and the discounting of most-wanted goods.

Dion MD Stanley Fleischmann said he saw no signs of upturn.

Checkers MD Clive Weil said things were still tough because people were shocked by heavy price increases. Demand was still soft.

Any improvements from the Budget were likely to be absorbed by imminent price increases in bread, sugar, milk, flour and maize meal, Weil said.

Leading estate agents said the economic upturn in residential property had not yet fully materialised, although the market was bottoming out.

De Huizemark MD Piet Hamman said there was an increase in sales over the latter part of last year, although it seemed to have peaked in February.

Aida Geffen of Aida Estate Agents said there was more market confidence now.

Blacks attack Budget

BLACK political organisations and trade unions have slammed the budget announced by the Minister of Finance, Mr Barend du Plessis, in Parliament, this week.

The organisations include the United Democratic Front (UDF), the Azanian People's Organisation (Azapo), the Congress of South African Trade Unions (Cosatu), the Azanian Confederation of Trade Unions (Azactu) and the Council of Unions of South Africa (Cusa).

The UDF's publicity secretary, Mr Murphy Morobe, slammed the proposed rise in the price of bread and the maintenance of the GST. He described them as a continuation of assaults on the already severely eroded standard of living of blacks.

Inflation

The Budget would lead to inflation, higher interest rates and increased unemployment.

Azapo's publicity secretary, Mr Muntu Myeza, said the budget would hit the poorest people hard.

"A bankrupt regime cannot make any real attempt to alleviate the dire economic plight of the black majority. Only when freedom dawns will we see a just distribution of welfare and resources," he said.

Cosatu's general secretary, Mr Jay Naidoo, in a statement said that the Budget was drawn without any consultation with the democratic majority and will be unable to solve "the economic, social and political chaos into which this government has plunged our country."

Sowetan 20/3/86

Bread

He said the provision of R235 million to alleviate unemployment was "a drop in the ocean".

The decrease in the bread subsidy would "hit hard at the millions of under-paid workers and erode their already declining standard of living," while the increase of 13.7 percent in the defence budget meant a "diversion of vital resources of our country to bolstering the repressive organs of the apartheid regime."

The allocation of a sixth of the total education budget to blacks, "makes no step to meeting the basic demands made by millions of black students," he said.

In a joint statement, Azactu and Cusa said until such time that blacks were able to make decisions in Parliament, "this type of meaningless charade will continue to govern the people".

Profligate state spending is a worry, says Joop de Loor

Own Correspondent

DURBAN — Auditor-General Joop de Loor is concerned about the profligacy of state departments, but simultaneously confident that steps being taken to reduce government spending will bear fruit.

He told Durban businessmen at a University of Durban-Westville/Natal Building Society seminar yesterday that many empires had been built in the civil service — and with their powers of political lobby, expenditure-cutting exercises by the government met considerable resistance.

"In the nature of the case, any pruning of the vast apparatus of such expenditure is bound to be a halting process, and I should be less than candid if I were to claim that the resolve to cut back could always be vigorously translated into action. But the events and pressures of the past several years have been potent in bringing home the realisation that things cannot go on as before," said Dr de Loor.

Expressly steering clear of the political issues, Dr de Loor said massive spending was necessary to do this and to narrow the gap between the first and third worlds of South Africa "in the way we all wish".

People had to brace themselves for massive spending to provide the necessary infrastructure — and if at the same time they wanted to see government spending rolled back, or at least contained, they had to be prepared to see something give.

The ever-present danger in South Africa of over-concentration of activities in the hands of monopolies had to be avoided and the funds generated from the sale of state affairs should not be injected into capital holdings, but rather be used to reduce public debt or finance capital projects.

Government spending is 'reasonably stable'

STAR 20/3/86 49

By Dr Roger Gidlow

Criticism of the role of the government in the economy and especially the growth in state expenditure is rife within the business community.

Dissatisfaction with recent taxation policies has been instrumental in the establishment of the Margo Commission, whose recommendations on taxation policy are expected to released later this year.

The inability of government to keep the growth in its spending within budgeted targets in recent years has been of particular concern.

Detractors argue that higher levels of tax on companies amd individuals, which have been made necessary by high government spending, have stifled development in the inherently more productive private sector.

Yet if one takes a longer term perspective, the trend in state spending has been reasonably stable. From 1977 to 1984, government spending averaged 25,4 percent a year. In 1977 the figure was 26,2 percent compared with 25,8 percent in 1984.

Although the share of government spending in total spending has not changed materially, government consumption spending in recent years has constituted a higher proportion of total state spending.

In other words, investment expenditures by the government have lagged behind consumption spending. Indeed, during 1983 and 1984 the current expenditures of the government exceeded its current income so that government savings became negative.

The growth rate in state spending tends to be more stable compared with the other major components of expenditure. The share of total gross expenditures in the economy taken up by the state tends to fluctuate in line with business cycle developments.

In the fiscal years between 1981 and 1985, there was a marked increase in the size of the budget deficits but a fall is expected in the year ending March 1986.

The Minister of Finance has indicated this should be around R3,25 billion compared with roughly R4,7 billion the previous year.

Even so, overall fiscal policy has been conservative in recent years in the sense that the deficits have not, on balance, been financed by resorting to bank credit. In the three years from 1982 to 1984, the net claims of the banking sector on the government consistently declined.

The solicitude expressed over budget deficits in South Africa can be exaggerated. By international standards they are not particularly high. The deficit for the year ending March 1986 is expected to be equivalent to about two percent of the gross domestic product (GNP). Even the higher deficit for the coming fiscal year is not expected to exceed 2,7 percent.

This compares with the position in the United States, where the budget deficit for 1986 is expected to be around five percent of GNP. In contrast, the budget deficits in both West Germany and Japan are running at less than one percent of GNP.

Various options are open to Treasury to facilitate the financing of these deficits, apart from possible changes in prescribed investment requirements or modifications in the tax and expenditure policies of the government.

Several countries have adopted the practice of selling government stocks indexed to the rate of inflation.

In Britain, for instance, such bonds have attracted much interest since their introduction in 1981. In view of the worries on the part of institutional investors about the rate of inflation here, such bonds might be well received.

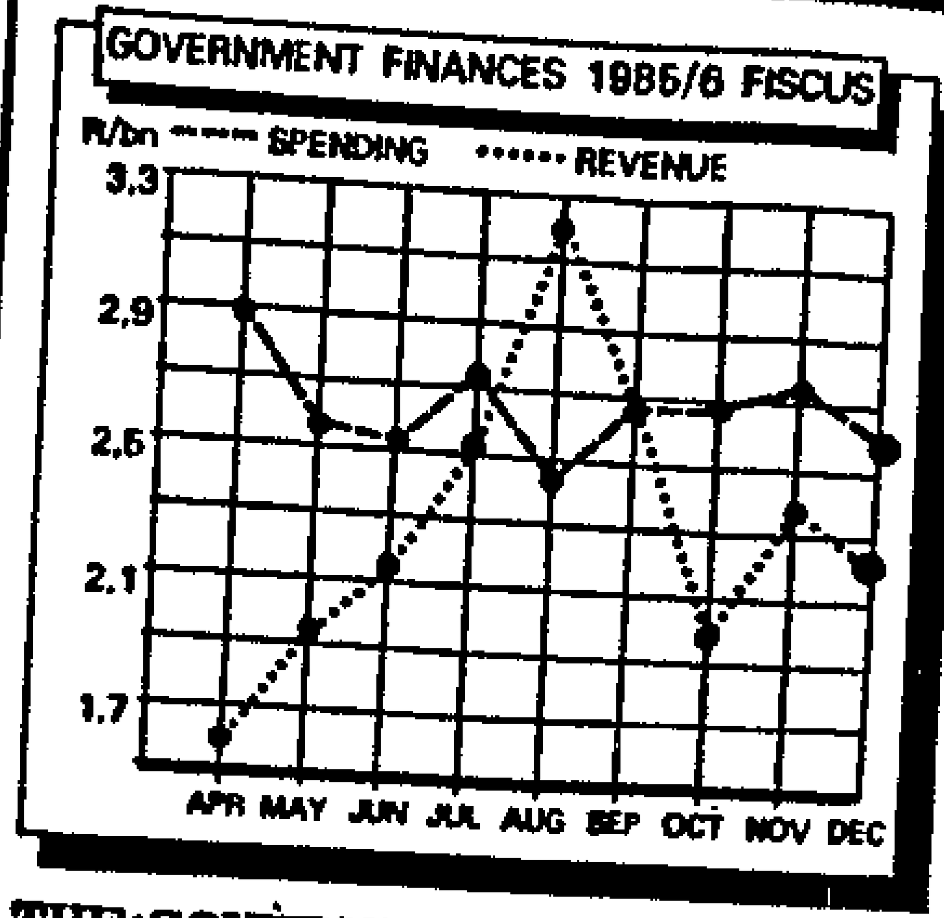
Assuming the mixture of tax and expenditure policies remain unchanged, there is a much more attractive option which would appear to offer potentially enormous scope for the Treasury to ease any budgetary financing problems it faces.

An increasing number of governments in both developed and developing countries are embarking on the privatisation of state industries as a means of financing part of their budget deficits as well as easing their balance of payments problems.

Quite apart from its economic benefits, privatisation is proving to be one of the strongest sources of political appeal to the Conservative Party at the present time. Given the attractions associated with this option it cannot be excluded that steps will be taken in this direction in South Africa.

The Treasury could raise billions of rands annually over a period of years by selling off public corporations. What is more, insofar as conscious efforts were made to sell the new equity shares to foreigners, the capital account of the balance of payments could benefit provided a unitary exchange rate system was in force.

BIG TICKET ITEMS STILL IN THE WINGS AS ...



State spending climbs

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21/1/86. BUS DAY

JOHN TILSTON

THE GOVERNMENT spent R2,63bn in December, bringing cumulative spending for the first nine months of the fiscal year to R24,03bn, only 1,8% above revised budget estimates but 22% above 1984/85 fiscus levels.

In the March budget Finance Minister Barend du Plessis estimated this financial year's expenditure would be 11,5% above that of the year ending March 1985.

The cumulative revenue figure reached R20,76bn, after collections totalled R1,99bn last month. This represents an increase of 23% over last year.

State spending is now set to overshoot budgeted figures by a substantial amount. Estimates vary, but a number of big ticket expenditure items are still in the wings waiting to be accounted for. The largest is likely to be the Reserve Bank's foreign exchange forward cover bill, which is estimated by market analysts to be around R2bn. Only R600m was budgeted for this.

One economist expects this bill to be added to the March expenditure figures, after the substantial gold mining tax receipts have been collected in February.

In addition, as Volkskas economist Adam Jacobs points out, the increase in government spending announced last year will only begin to show up in official figures from next month. Other items, such as the bulk of the R600m "employment relief" package, will also begin to bulge expenditure figures in the last three months of the fiscal year.

Jacobs now expects state spending for the 1985/86 financial year to be between R33bn and R34bn. The revised budget set spending at R31,45bn.

This will mean that for the sixth consecutive year state spending has exceeded budgeted targets.

The accumulated deficit before borrowing is now R3,29bn.

According to figures in the *Government Gazette*, only one department — Manpower — has so far exceeded its budgeted spending estimate. But at R135m (R127m), it is one of the smallest spenders.

Changes in departmental responsibilities make year-on-year comparisons meaningless. Chris Heunis' Department of Constitutional Planning and Development has grown by leaps and bounds in the past year. By the end of December it had spent R4,16bn, 77% of its allocation. Surprisingly, defence spending is spot on target, while the police have spent R756m, 79% of their allocation.

The figures reveal that loan levies totalling R470m were paid out last month.

Bill 'threatens' worker rights

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21/3/86

By ANTHONY JOHNSON
Political Correspondent

FEARS have been raised in trade-union and civil-rights circles over proposed legislation to grant President P W Botha vast discretionary powers to "undermine" trade unions and scrap employees' rights and benefits.

Concern reached a peak yesterday as groups opposing the Temporary Removal of the Restriction on Economic Activities Bill learned that today is the deadline for submission of representations to the parliamentary standing committee on home affairs which is considering the legislation.

The president of the Black Sash, Mrs Mary Burton, yesterday appealed for an extension of the deadline for presenting evidence as many interested parties were unaware of the impending legislation.

She said the proposed law could lead to the removal of workers' rights and "create opportunities for tremendous exploitation".

'Red tape'

Cosatu, apparently caught off guard by the early cut-off date for submissions on the bill, is to send an urgent telex to Cape Town today to detail its objections to the proposed legislation which empowers President Botha to bypass Parliament and suspend measures restricting "entrepreneurial activity" by slashing "red tape".

Cosatu will argue that the new measure allows the rights and protections workers have won over the years to be whittled away in the name of promoting small business.

Strongest criticism of the proposed measure yesterday came from the National Committee Against Removals (NCAR).

A spokesman for the NCAR said: "If this bill becomes law the State President will be granted vast discretionary powers to undermine the trade union movement and introduce 'sweatshop' conditions wherever and whenever he may wish."

Standards

The NCAR said it saw the bill as part of the move towards implementing "orderly urbanization" as outlined by the President's Council report on urbanization.

"This report clearly recommends the lowering of standards with regard to housing, health and safety for workers. It urged the government to recognize South Africa as a 'Third World' country and then to scrap controls which inhibit the free enterprise system."

The NCAR said it viewed the possible scrapping of health and safety protections, of enforcement of contributions to UIF and workmen's compensation funds, and of provisions such as the supervision and use of machines "as irresponsible in any society".

"South Africa has evolved a system of commendable labour legislation over the past six years. Is this all to be scrapped in the name of providing employment or extension of benefits of the free enterprise system to the black entrepeneur?"

'Bantustans'

The NCAR said that while the provision of employment was clearly necessary, "this country cannot afford extending the appalling lack of protection and widespread exploitation of black workers in the bantustans to the rest of the country".

The NCAR pointed out that in the homelands unions were not allowed to organize, there were no minimum wages or maximum hours, no protection from injury or disability during working hours.

It was not uncommon for workers to be earning as little as R12 a week in factories located on the edge of relocation areas such as Ezakheni in KwaZulu, Onverwacht near Bloemfontein, Phatuditshaba in QuaQua or Itsoseng in Bophuthatswana, the NCAR said.

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CAPITAL MARKET

Quick off the mark

21/3/86

Reaction to the Budget's lower than expected borrowing requirement was cautious. While rates fell, serious doubts were expressed about the credibility of the figures and Treasury's ability to keep to them.

The Reserve Bank wasted no time in marketing 1989 stock for delivery in mid-April. The new issue, at par with a 14% coupon and maturing in September 1989, is likely to be tapped for the full amount of R893m required by the Treasury for 1986-1987. With such a small borrowing requirement there is no room or need for other issues.

The issue offers investors in the R464m RSA 7,5% 1986, which matures in mid-April, the opportunity of reinvesting and has the added advantage of becoming a liquid asset in six months' time. It was trading at 15,1% at press time Tuesday. Sentiment is "not madly bullish."

In response to the Budget, rates eased. RSA 13% 2005 dropped 10 points Monday to 17,12% and by press time Tuesday was trading around 17,03%. Escom 11% 2009 and Sats 7,5% 2008 dropped to 17,86% and 17,52% on Tuesday from their respective 18,18% and 17,71% Monday highs. Scepticism about the reality of the Budget prevented rates falling further.

The R3,944 billion estimated 1986-1987 deficit before borrowing, which determines government's borrowing requirements, will demand a mere R893m on the local capital market. No current expenditures will be financed by borrowing as borrowing has been kept below intended capital spending. Reinvestment of maturing stock will total R1,2 billion.

The Public Investment Commissioners (PIC) will invest R3,25 billion in government stock. The enlarged payroll to be financed by the Exchequer and the higher pension fund contributions will increase the PIC's cash flow. This, Treasury points out, will be supplemented by the high return on the existing portfolio. New sales of Treasury Bills worth R140m are expected.

The PIC is expected to have invested R3 billion to finance the 1985-1986 financial year, 20% above the original estimate. The sale of government stock to finance the 1985-1986 fiscal year has risen by around 50% to R2,4 billion, coming, according to Treasury, "almost exclusively from the non-bank private sector — which emphasises the success of Exchequer financing."

Assuming full reinvestment of maturing stock (a safe assumption), it is evident that the sale of new government stock, an integral component of monetary policy, amounted to more than double what was initially budgeted. This obviously placed a higher interest burden on the Exchequer. ■

RAND'S PRICE

Mar 18 1986	R1 equals	One foreign unit equals (R)
SDR	**0,434**	**2,305**
	0,520	1,922
UK £	**0,338**	**2,959**
	0,456	2,192
US $	**0,498**	**2,008**
	0,509	1,965
Canada $	**0,689**	**1,451**
	0,700	1,429
Switzerland Fr	**0,933**	**1,072**
	1,435	0,697
France Fr	**3,423**	**0,292**
	5,147	0,194
Germany DM	**1,114**	**0,898**
	1,684	0,594
Japan Yen	**86,750**	**0,012**
	131,500	0,008
Italy Lira	**757,500**	**0,001**
	1 066,750	0,001
Zimbabwe $	**0,785**	**1,274**
	0,798	1,253
Austria Schil	**7,800**	**0,128**
	11,800	0,085
Holland Guilder	**1,258**	**0,795**
	1,905	0,525
US $ value of SDR	0,956	**1,155**
Financial Rand		
Cost in US $	n/a	**0,345**
Discount (%)	n/a	**30,723**

Year ago figures in light print.
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.
The above rates are for guidance purposes only.

COCOA

Talks collapse

Decisions on "possible" arrangements to replace the International Cocoa Agreement will be taken before the end of July, producers and consumers said in a joint declaration at the end of this month's United Nations cocoa conference in Geneva.

In the latest nail in the coffin of old-style commodity pacts designed to prop up prices, the conference failed to negotiate a new price-supporting agreement to replace the one due to expire at the end of September.

The talks broke down when the Ivory Coast, the biggest producer responsible for nearly 30% of world output, withdrew.The European Economic Community, the biggest consumer, took the line that agreement without the Ivory Coast would be meaningless. Although not a member of the present (1980) agreement, the Ivory Coast had been active in the latest negotiations.

Producers delayed the closing of the conference by trying to obtain changes to the wording of the declaration that would not preclude some new agreement with economic provisions being accepted by the end of September. They will probably come back with proposals for some form of price-stabilising arrangement to obviate the need for dismantling the 100 000 t buffer stock.

There is also the question of how to share out collected levies of $234m.

A veteran African diplomat commented that he had never taken part in trade negotiations where consuming countries showed so little willingness to reach agreement.

The talks highlighted the fundamental confrontation between the political demand of producing countries for a price-stabilising and "sufficiently remunerative" agreement and consumers' insistence that any accord would have to reflect economic realities and allow for market fluctuations.

Consumers concentrated on getting included in a new agreement a mechanism for frequent automatic adjustments of prices in line with currency fluctuations and buffer stock changes. The producers put most emphasis on obtaining a good reference price — $1,15/lb — and limiting adjustments to an annual review.

The line of consuming countries had been clearly signalled before the conference, but producers' negotiators apparently arrived with instructions too inflexible to allow compromise over the price revision mechanism or even a meeting of minds.

The International Cocoa Organisation secretariat had underlined market realities at the start by tabling projections indicating an excess of production over consumption for the next five years.

The cold realism now applied by Western governments to commodity agreements designed to keep prices above world market levels appears still not to have been taken on board by most producers. The Ivory Coast's realism was not appreciated by other cocoa producers when reports started to circulate that it had been selling heavily before it made its decisive intervention. ■

MONEY MARKET

More aid

It was not until Saturday that the market shortage started falling. In fact, it increased during the week to peak at R2,09 billion — higher than the R2 billion February month-end shortage. But the fall was not enough for the Reserve Bank's comfort, so it entered into a R200m repurchase agreement with banks on Tuesday to replace the maturing agreement. The tender drew R520m applications at an average rate of 12,79% — higher than the market expected. Bids were in a 12,3%-12,8% range.

This, the fourth repurchase agreement since the February month-end (the previous three were for R500m each), matures on

THE BUDGET 21/3/86 (49) F IN MAIL

Okay for some

Polite applause from the business sector has greeted Finance Minister Barend du Plessis' Budget. The verdict, as we have all heard by now: "Mildly stimulatory".

But, on deeper reflection, there is concern that not enough has been done to get the sluggish economy moving again.

In fairness, the Budget came at a time of high inflation and low political confidence which make economic reactivation difficult. But the feeling is that much stronger medicine is needed to provide relief for sectors hit by 18 months of recession.

Inhibiting growth

No attempt, says a Chamber of Mines spokesman, "has been made to bring about drastic changes in a fiscal system which still inhibits economic growth in many ways." But the Chamber gives some kudos to government for measures aimed at curbing public spending. The question, of course, is whether government can stick to its good intentions.

A cautious Associated Chambers of Commerce notes the Budget's big flaw is that "the problem of inflation does not appear to have been fully addressed."

The 5% cut in personal tax, along with the pre-announced abolition of the 7% tax surcharge, may have a temporary benefit for retail sales. But there's a strong belief that the gains will be whittled away by inflation over the next six months.

The cement industry, for one, sees little chance of the Budget paving the way for more private-sector spending. But some public-sector spending measures, admits Cement Distributors of SA GM Berry Pavey, "will give the construction industry a much-needed fillip over the year."

The main hope seems to lie in the 19,3% rise in education spending and a similar hike in the Defence budget.

But there's little relief for SA's hard-hit motor manufacturers. While the standstill on gst and the personal tax cut are welcomed, the National Association of Automobile Manufacturers is disappointed that government still ignores industry signals for help on the fringe benefits tax issue.

The biggest disappointment, however, is felt by the shipping and freight forwarding industry and importers. They are bitter that the seven-month-old 10% import surcharge, seen as a highly cost-push measure, has been retained. As Henaways Freight Service's John Buchel notes: "It's a heavy blow to importers." ■

CHARLES SIMKIN

2/3/86 (49) FINMAIL

Budget dissection

Charles Simkin, Nationalist MP for Smithfield, OFS, and chairman of the parliamentary Joint Standing Committee on finance, effectively took over from Finance Minister Barend du Plessis for seven days this week to pilot the Budget through its next stage.

Immediately after Du Plessis presented

Simkin . . . taking over from Barend for seven days

his Budget in Parliament on Monday, it was referred to Simkin's committee for dissection and examination before being sent back to the three houses of Parliament for debate.

Although the committee — comprising 23 members: 11 whites, seven coloureds and seven Indians — can't alter the Budget, it can recommend changes or additions. For example, last year it recommended that rice

be exempt from gst along with other staple foods. The suggestion was accepted by government.

Unlike other joint standing committees where, if consensus can't be reached, a Bill can't proceed before the deadlock is broken, the finance standing committee only makes recommendations concerning the Budget if all members agree. If not, the proposals are dropped.

Simkin says a key function of the committee is to call in senior civil servants to explain and justify the demands made by their departments on the Treasury. Du Plessis himself, as political chief of financial affairs, is likely to be called before the committee to defend the Budget's underlying policy.

"It is both an exercise in understanding the Budget better and keeping civil servants on their toes," he says. This year, Simkin hopes to have greater private sector input. He has appealed to interested individuals and institutions — particularly Assocom, the Federated Chamber of Industries and the Afrikaanse Handelsinstituut — to submit memoranda on the Budget, and he hopes to call in their representatives to give further evidence.

Last year, when the committee system was used for the first time, Simkin believes that too many State departments were called in and the private sector neglected. This year he hopes to make amends.

"The first two days of sittings are devoted to evidence from the Department of Finance and the Reserve Bank. We try to get clarity on various issues," he says. "Then we call in the various departments and after that we hope to have private sector input."

Though the committee's proceedings are in camera, the evidence is taped and eventually published, so the likelihood of "secret deals" is slim. But Simkin says he believes the committee works far better out of the public eye. Discussions are franker and more is achieved.

"It's not as if we are hiding anything. The evidence is published and most of the issues raised in the committee usually come out again anyway during the debates in the Houses," he says.

He is generally impressed by the grasp committee members have of financial matters, many of which are highly technical. Though it's unlikely that the Nationalist members on the committee will want major changes, the likes of the Progressive Federal Party's Harry Schwarz ensure thorough scrutiny of all measures even if Du Plessis' proposals can't be redrafted.

Simkin has been in Parliament for 11 years. Before that he was an OFS provincial councillor for 11 years. His Smithfield constituency covers the whole south-eastern Free State region and borders on Bophuthatswana, Lesotho and Transkei. Though he describes himself as a farmer and owns a farm in the Dewetsdorp area, he also has an M Sc in mathematics from Stellenbosch University and at one time lectured in statistics at the university. ■

SHORT-TERM INSURANCE (49)

21/3/86. FINMAIL

Enter the actuary

Actuaries are entering the field of short-term insurance. Compared to life assurance, their traditional area of expertise, it is proving a great adventure. Says Pieter Robbertse, qualified actuary and MD of President Insurance: "There is never a dull moment."

While long-term risks are relatively clearly defined, short-term hazards present a constant challenge. Traditionally, risks have been rated by a process known variously as underwriting expertise, experience, intuition, gut-feeling and guesswork. The method proved effective — the industry prospered for centuries. But more is needed for the years ahead.

One reason is that, worldwide, short-term insurers have come unstuck. For too long they depended on high interest rates and the investment income these produced to make good underwriting deficits. They slashed premium rates to ensure market share; as long as they kept money flowing into the

President's Robbertse ... wise before the event

banks, the strategy worked.

But declining interest rates and unexpectedly high claims over the past few years have changed that. Now the cost of claims — known in the industry as the burning cost — has become a burning topic.

At the same time, it has become clear that there is a whole new landscape of short-term risk — and past experience is no longer a guide to the future. Not only must insurers return to fundamentals of underwriting, they must do so with new insight. This is where actuaries come in.

Says Peter Milburn-Pyle, convener of the general insurance sub-committee of the Actuarial Society of South Africa (ASSA): "The profession has an enormous amount to offer the general insurance movement by way of sound mathematical, statistical and financial advice." Insurers, he finds, are not always aware that they can benefit from actuarial skills; there is often "an inherent suspicion of the techniques we are trying to promote."

However, he stresses, actuarial advice need not supplant traditional methods. "The two can be used together."

The advantage of statistical and mathematical models is that a multitude of factors — many entirely new — can be fed into them to come up with a scientific conclusion. But success depends on correct interpretation.

Says Robbertse: "We have always had statistics, but you can do nothing unless you have the right ones and know what to do with them."

Also essential is volume. To provide this, the SA Insurance Association is attempting to establish a data base of policies in force and claims paid.

Says CE Rodney Schneeberger: "We are in the final phase of a project started three years ago. We have liaised with ASSA to devise a system. When it's implemented, we will be able to produce meaningful statistical information." He hopes that a scientifically based statistical rating system for personal lines and motor insurance will be available by the beginning of 1987. Eventually it will be extended to other types of cover.

This development will be invaluable — provided companies use it. Says Robbertse: "It is essential the actuary has authority to drop portfolios."

He believes it is better to turn away business than take bad business. "When I asked a client recently to put up hail nets, he told me he could take his business anywhere. I decided it would be better to lose him than take an unacceptable risk."

So the client took his business elsewhere. Two months later, he was hit by a hailstorm — and his insurers with claims totalling R600 000. Fortunately for Robbertse, he was wise before the event. ■

MONEY SUPPLY (49) F.M 21/3/86

Time for targets

The long-awaited introduction of money supply targeting follows its official acceptance by government in last Monday's Budget speech. As expressed in the final report of the De Kock Commission, the main reason for introducing such targeting is to assist the monetary authorities in their policy of controlling the money supply to curb inflation.

Reserve Bank Governor Gerhard de Kock says that the newly-defined M3 targeting policy, however, might already look as if it had gone awry before it started; he notes that the exceptionally low M3 growth last year coincided with extremely high inflation. "This was a case of the exception being the rule," he maintains, "since inflation then

De Kock says the newly-defined M3 was chosen after extensive studies and with the approval of the International Monetary Fund. This is in addition to new definitions for the other monetary aggregates including the introduction of a new concept, M1(A). This comprises basically coin, banknotes, and cheque deposits, leaving just "other demand deposits with banking institutions" under the old M1. ■

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) (i) *Fresh milk* — *cent per litre with effect from 1 June 1985*

Bloemfontein:	44,29	Prices paid by distributors to the Board for producer's mild with 3,5% butterfat.
Cape:	47,42	
Natal:	45,12	
Transvaal:	45,13	

(ii) *Industrial milk* (according to grades and chemical quality)

Grade A plus bulk facilities:	466 cent per kg butterfat and protein
Grade A:	407 cent per kg butterfat and protein
Grade B:	394 cent per kg butterfat and protein
Grade C:	378 cent per kg butterfat and protein

(b) Fresh milk:	None.
Industrial milk:	(with effect from 85/12/01)
Grade A plus bulk facilities:	20 cent per kg butterfat and protein
Grade A:	None
Grade B:	None
Grade C:	None.

HANSARD 24/3/86

Production/exports

(24) Q CSL 667 .

542. Mr P A MYBURGH asked the Minister of Agricultural Economics:

What was the value of the Republic's agricultural (a) production and (b) exports in 1985?

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) R10 641 million.

(b) R2 200 million (preliminary estimates).

Q CSL 667 .

Marketing Act

(49) HANSARD 24/3/86

543. Mr P A MYBURGH asked the Minister of Agricultural Economics:

What percentage of South Africa's total agricultural production in the 1984-85 production seasons was not under the control of any board established under the Marketing Act No 59 of 1968?

The MINISTER OF AGRICULTURAL ECONOMICS:

28,6 per cent.

HANSARD 24/3/86 Q CSL 668.

Marketing boards: bursaries

633. Mr P R C ROGERS asked the Minister of Agricultural Economics:

Whether any marketing boards made grants to his Department for bursary purposes in 1985; if so, (a) which marketing boards, (b) how many grants were made by each such marketing board and (c) what was the amount of the grant in each case?

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) Marketing Board	(b) Number of Bursaries	(c) Amount of Bursaries
Potato Board	2	R3 600 per bursary
Wheat Board	6	R3 600 per bursary
Dairy Board	2	R3 600 per bursary
Meat Board	11	R3 600 per bursary
Wool Board	7	R3 600 per bursary

The allocation of bursaries during 1986 to all four Departments of Agriculture is receiving attention.

Q CSL 669 .

Bread/maize/butter: subsidies

HANSARD 25/3/86

652. Mr E K MOORCROFT asked the Minister of Agricultural Economics:

What amount was paid out in subsidies in respect of (a) bread, (b) maize and (c) butter for consumer use in the 1984-85 financial year?

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) R194 285 276.

(b) R215 million, including R48 803 790 in respect of losses on imported maize.

(c) None.

Q CSL 669 .

Black Transport Services Act

HANSARD 25/3/86

673. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

What was the total amount collected in terms of the provisions of the Black Transport Services Act, No 53 of 1957, in contributions from employers between July 1957 and 31 March 1985?

The MINISTER OF TRANSPORT AFFAIRS:

R259 011 557,49.

Land and Agricultural Bank

HANSARD 25/3/86 Q CSL 669.

699. Mr D J N MALCOMESS asked the Minister of Finance:

(1) How many (a) Whites, (b) Coloureds, (c) Indians and (d) Blacks are employed by the Land and Agricultural Bank;

(2) whether any such employees are in receipt of housing loans from this Bank; if so, how many in respect of each race group;

(3) whether any of these housing loans exceed R70 000; if so, how many;

(4) what is the amount of the highest housing loan received by an employee of this Bank;

(5) in respect of what date is this information furnished?

The MINISTER OF FINANCE:

(1) (a) 993.

(b) 27.

(c) None.

(d) 129.

(2) Yes—Whites 495, Coloureds 6 and Blacks 1.

(3) Yes—41.

(4) R97 500.

(5) 31 December 1985.

TUESDAY, 25 MARCH 1986

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†Indicates translated version.

For oral reply:

General Affairs:

Question standing over from Tuesday, 18 March 1986:

Birkenhead

*31. Mr R M BURROWS asked the Minister of National Education:

(1) Whether the National Monuments Council has received any applications for permits for divers to (a) inspect the wreck of the *Birkenhead* and (b) recover wreck material from it; if so, (i) when and (ii) from whom;

(2) whether any permits were granted; if so, (a) to whom and (b) when;

Future of SA business is black

BDAY 24/3/98

CHRISTO NEL

THE MD of a major local organisation remarked recently: "No matter how you look at it, the future of South African business is black. That is why our company is placing a major focus on their development and advancement."

The sheer demographics predicting huge short-falls in managerial skills, coupled to the unprecedented injection of well-educated blacks into our business world, have been quoted to a point of excess — yet in a recent study involving more than 100 of SA's major corporations, black advancement was viewed as being addressed, at most, at an immature level of competence.

The major contributing factors to this sad state of affairs have been:

☐ Lack of direct top management involvement (not merely support);

☐ Lack of integrated and holistic strategies and over-reliance on "quick-fix" solutions;

☐ Interpretation of black recruitment as black advancement, thereby creating a sense of complacency if the ratio of black employees was increasing.

Management have generally not formulated clear actions and goals, with concommitant short-term and crisis management often characterising black advancement initiatives.

The top echelon of management need to formulate a total long-term black advancement strategy. This should be regularly monitored by a senior review board consisting of senior line and staff managers.

The key to success lies in the identification of "champions" within the organisation that oversee and drive the implementation of it.

This aspect has often been used to retard progress. Yet all of the successful organisations have found that a simple process of "Sell and Tell" has proved highly effective.

This basically entails first informing all of the involved parties regarding the essential nature of black advancement. Any further resistance has normally been overcome by leaving all employees no alternative other than to adhere to the corporate strategy of black advancement.

The success of this facet is dependent upon the above prerequisites to success. Once achieved, a practical on-the-job related process of training must be followed.

Success models in SA companies such as Mobil and Barclays Bank have depended entirely on the practicality and job-orientated nature of the training programmes, rather than implementing complex and off-the-job training systems.

The most important people in the black advancement process are the line supervisors and managers. For this reason line managers need specific training as coaches and mentors.

The lack of formalised mentorship programmes is guaranteed to reduce the impact of black advancement substantially. Line management must also be trained to the total ownership of and responsibility for the black advancement programme.

Moses Maubane, the chief executive of African Bank, recently stated at a public seminar: "You (white managers) think we (blacks) cannot make decisions. You're quite right, we can't — because you don't give us the opportunity to make decisions."

This remark adequately defines the need to give all employees the opportunity to become involved in decision-making activities.

The opportunity of setting targets, identifying opportunities and solving problems on-the-job is essential to black advancement.

There is a need for formalised career-pathing for at least the upwardly-mobile blacks within the organisation. The lack of adequate role models at higher levels, linked to the frustration of perceiving low-level "dead-ends," prevents the essential development of realistic higher expectations.

Management needs to allocate a great deal more effort to ensure the success of black advancement. This will entail a thorough scanning of the environment to determine what works and what is doomed to failure or mediocrity. But, regardless of the initiative that is launched, the above prerequisites must be fulfilled in order to achieve success.

☐ *CHRISTO NEL, BA (Hons) UP and a visiting researcher at New York University, is consultant for a variety of major SA organisations. He specialises in the analysis and implementation of strategy for performance and productivity enhancement, black advancement and executive development.*

Enhance people's commitment

24.3.98

Statistics indicate upswing

(49) BDAY 24/3/86

LESLEY LAMBERT

STATISTICS released in the latest *Reserve Bank Quarterly Bulletin* have substantiated evidence of a modest, but fairly broadly-based, economic upswing that began during the fourth quarter last year.

Economic output increased in most sectors during this period and some components of gross domestic expenditure started to show a moderate recovery, according to Reserve Bank figures.

Despite this recovery, real gross domestic product declined by about 1% in 1985, compared with a 5% increase in 1984, while an improvement in trade caused real gross national product to rise marginally by about 0,5%.

But the *Bulletin's* economic review warns that two major constraints still suggest a need for caution in stimulating the economy.

Firstly, the rate of inflation is still high, although this can be attributed more to the sharp rand depreciation than excessive demand. Secondly, the need to reduce SA's foreign debt requires a level of overall expenditure compatible with a surplus on the current account of the balance of payments.

According to the statistics, excess demand has been eliminated, as shown by the 7,5% decline in real GDE during 1985.

The most significant change in individual expenditure was the modest upturn in real private consumption expenditure during the third and fourth quarters, while real government consumption expenditure declined by about 1% in 1985.

Along with the decline in expenditure, the domestic savings ratio has almost

● To Page 2

Figures show a slight upswing

B.DAY 24/3/86 (49)

● From Page 1

been restored to its longer-term trend.

In addition, a healthy balance of payments on the current account was established in 1985.

By the fourth quarter, imports had become approximately counterbalanced by non-gold exports alone. In line with this development, a current account surplus of about R7bn, 6% of GDP, was recorded during the year.

Net outflow of capital, not related to reserves, totalled more than R10bn last year. So, despite the large current account surplus, the net foreign reserves declined by about R3bn.

Surprise as Govt shelves bread-price rise

Political Staff

THE bread price is to stay unchanged for the time being, it was announced today.

The announcement came as a surprise after widespread expectations that brown bread would go up soon.

There were fears that it could cost as much as 9c a loaf more after Finance Minister Mr Barend du Plessis slashed the bread subsidy in the Budget last week.

Now the Agriculture Minister, Mr Greyling Wentzel, said: "The bread price increase has for the present been averted."

This was a result of funds being made available by the Wheat Board, he said.

According to sources in the Agriculture department the price is likely to be reconsidered only in October.

Mr Wentzel said: "It remains the Government's aim to keep the price of bread as low as possible, especially during this time of unfavourable economic conditions which are imposing a heavy burden on the less-privileged.

An apparently inevitable rise in the bread price drew severe condemnation last week.

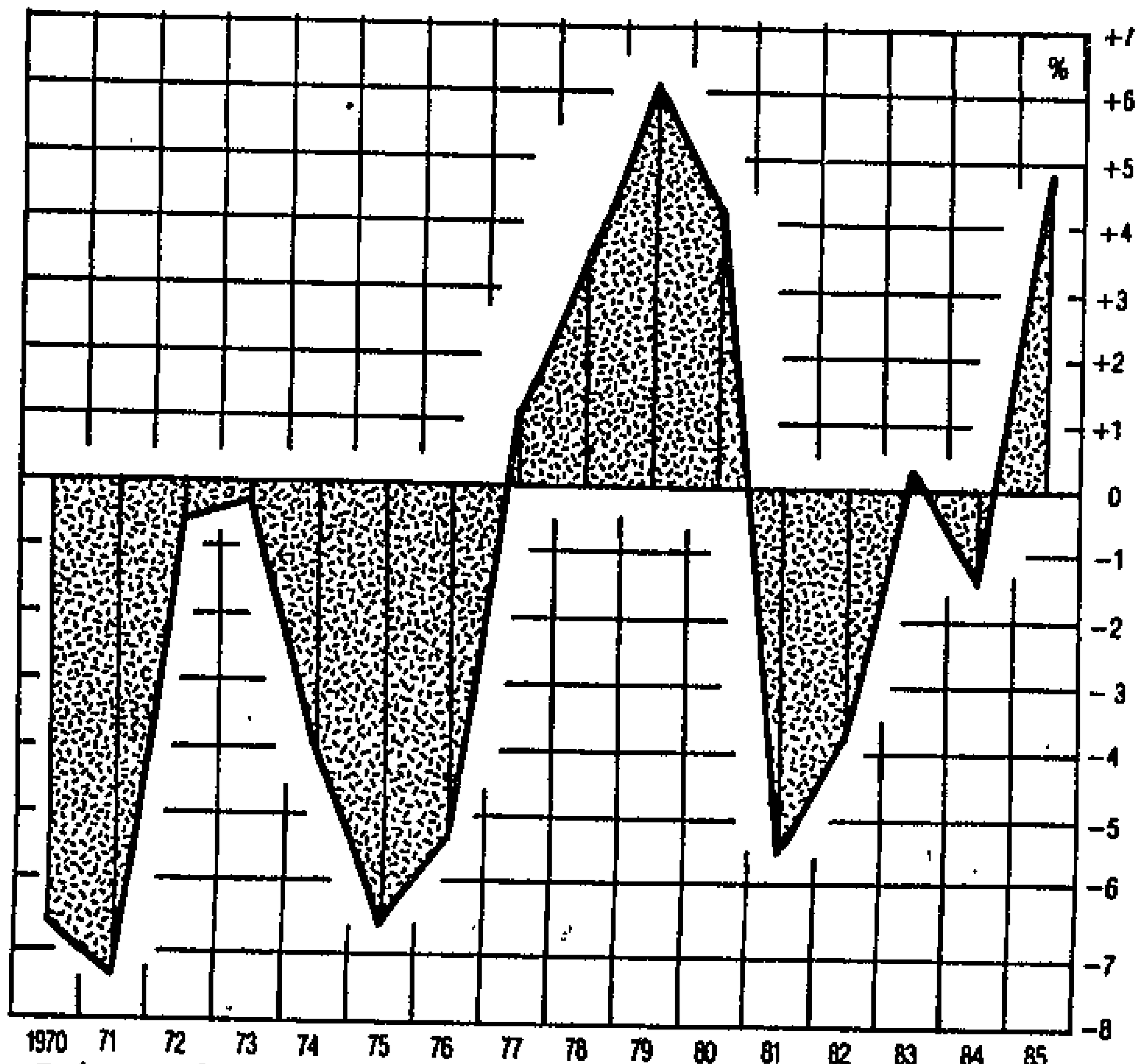
Mr Wentzel's announcement added: "The reduction in interest rates is continuously taken into account where the payment of financing costs on the Wheat Board's stocks is concerned.

"Millers' and bakers' margins will similarly be reduced from April 1 as a reult of the lower interest rates.

"Besides these savings, the improvement in the exchange rate of the rand should result in the cost of wheat soon to be imported being considerably lower than originally expected."

Improving economic climate gives new hope on debt crisis

49 STAR 24/2



Balance of payments, current account as a percentage of GDP.

By Neil Behrmann

LONDON — A report by the *Economist* Intelligence Unit predicts that South Africa will be able to repay half of its huge $24 billion debt by 1990.

The report, which is relatively optimistic, forecasts that the economy will grow moderately in the next few years. The nation will remain tense, but violence will abate in an improving economic climate.

"The South African economy seems poised for renewed growth," says the report which is written by Pamela Freer, a South African economist.

The sharp decline of the rand, relaxation of credit, tax cuts, public spending increases and stronger exports "give hope that the country's international debt difficulties will be overcome," says the report.

But growth will be inhibited by repayments of foreign capital and inability to raise new funds from abroad.

"The wave of violence will recede during 1986 as increasing repression and arrests isolate discontented blacks and raise the personal risks of protests to unacceptable levels."

A growing economy will also create employment and discourage violence.

Ms Freer bases her predictions on the following political and economic assumptions:

- The National Party will implement gradual reforms;
- The African National Congress will fail to destabilise the country;
- The Government will still have sufficient funds for development, spending and employment, despite the burden of massive foreign debt repayments;
- Government policies will be geared towards encouraging economic growth;
- The Government will try to prevent inflation from worsening, by applying "stop go" policies;
- Inflation will fall.

The *Economist* Intelligence Unit says that after slackening this year, growth of the World economy will accelerate in the late Eighties.

Gold price

It predicts that the gold price, currently around $357, will average around $315 to $330 in the next three years and rise to around $366 by 1990.

To counteract official and unoffical sanctions, barter deals will become more prominent in international trade.

"Countertrade may go some way towards protecting vulnerable commodity exports, notably steel, uranium, manganese, coal and some agricultural products," says the report.

Coal and diamond exports will be poor, but metals such as platinum "face a better short term future".

South African exports wi[ll] rise in the short term; but at [a] slower pace than world trade [in] the next five years. Expor[ts] however, will rise sharply i[n] 1986.

The Unit forecasts that th[e] rand, currently around 48 U[S] cents will average around 45 this year. It will remain a wea[k] currency and slide year by ye[ar] to 37c by 1990.

Inflation

The current account of th[e] balance of payments, while stil[l] strong, is weakening, says th[e] report. South Africa's inflatio[n] rate is well above its tradin[g] partners and because it mus[t] repay foreign debts, the rand i[s] likely to fall.

But the depreciation of th[e] rand will boost exports and surpluses on the balance of payments current account will be sufficient to repay half of South Africa's international debt.

Current account surpluses will persist because growth is expected to be moderate and fairly steady, says the report.

It predicts that South Africa's growth rate will rise to 3,8 percent this year and to 4 percent in 1987. It will jump to 4,9 percent in 1988 and then decline to 4,4 percent in 1989 and 3,7 percent in 1990.

The study forecasts that after, a slow start consumer spending will rise sharply. Capital investment will remain depressed. But the amount of jobs on offer will grow "fairly fast" at an annual average of around three percent in the next five years.

"This should be just about enough to contain unemployment at roughly the present level and it should certainly be sufficient to allow for further advancement of blacks, coloureds and Asians into higher level jobs."

The report expects interest rates to rise this year; but profits should increase too.

Falling international oil prices were not mentioned as an economic factor in the report.

Call for anti-takeover laws

04/3/86 ALAN SENDZUL BDAY (49)

LAWS which make it difficult for giant SA corporations to expand their power bases and swallow up segments of the market are a distinctly lacking feature of local industry.

As a result, corporations like Anglo American (54,1% control of all JSE companies), Sanlam (11,3%) and the Old Mutual (10,9%) have an unbridled growth potential which is strangling development of the total economy.

"Such laws could initiate a break-up of large monopolies which appear to be gaining even further control," says Robin Mcgregor, the author of *Investors Handbook*.

He sees a more even distribution of skilled labour which could be realised through management buy-outs as a probable effect of any such legislation.

SA stands out among the industrial countries virtually as a lone economy, where takeovers flourish unabated. Much of the control over companies is exercised through indirect means; usually a low shareholding of 15%-20%, but just enough for a say in the running of a company's affairs.

Many of the larger corporate groups have such well-established lobby bases within government circles that it remains unlikely that any inroads will be made into changing the present structure.

POWER CONCENTRATIONS

CONTROLLING BODY	% JSE CONTROL USING MARKET CAPITALISATION			
	1983	1984	1985	1986
Anglo American Group	52,5	54,1	53,6	54,1
Sanlam	9,4	10,7	12,2	11,3
SA Mutual	,6	2,7	10,6	10,9
Rembrandt Group	2,1	2,8	3,8	4,4
Liberty Group	1,1	2,1	2,0	2,3
Anglovaal	1,7	1,7	2,1	2,1
Ventron Group	Included in		1,2	1,1
Ackerman Group	"Director		,8	,9
Frame Group	Controlled"			,4
Controlled By Directors	4,1	5,1	2,2	2,2
Foreign Controlled	5,4	5,7	5,9	6,1
State Controlled	3,2	2,3	2,8	3,2
	80,1	87,2	97,2	98,8
Unallocated	19,9	12,8	2,8	1,2

TOP FOUR CONTROL

1983	1984	1985	1986
71,4	70,3	80,2	80,2

*Source: McGregor's Investors' Handbook Incorporating Who Owns Whom

But, for a developing country such as SA, which is striving to increase its potential to grow, the benefits from halting further monopoly concentration can hardly afford to be overlooked.

Political climate strains economy, says Sanlam

25/3/86 · SAMC (49)

CAPE TOWN — The sharp contraction in general economic activity last year could be largely attributed to the strict monetary and fiscal policy from about mid-1984 up to May last year, according to a survey released by Sanlam's Economic Research Department.

Commenting on the state of the South African economy after the Budget, Sanlam said this action had helped to check over-expenditure and restore the balance in most sectors of the economy, but that "the deteriorating domestic and foreign political climate" last year had made new demands on the country's economy.

Although it appeared that the lower turning-point of the downswing was reached late last year, several problems remained — and these could have adverse effects on the recovery.

Some of the problems singled out by Sanlam were that South Africa was entering the upswing with an alarmingly high inflation rate which compared unfavourably with those of her major trading partners; an improvement in consumer spending seemed bleak judging by modest salary and wage increases, and the country was obliged to use the greater part of the surplus on current account of the balance of payments for the repayment of its foreign debt.

"Nevertheless we believe the budget is moderately expansionary and that it will lend support to the steps taken earlier to boost the revival in the economy, and we expect business conditions to gradually improve as the year progresses, but the high inflation rate and shortage of foreign capital will restrict longer-term growth potential."

If the expected good agricultural year materialised, gross domestic product could rise by more than three percent this year, compared with a negative growth rate of about one percent last year, Sanlam said.

Referring to inflation and food prices in particular, Sanlam said it was disturbing that the rate of increase in the food price index was faster in January this year than the high figure of December last year.

"More expensive food once again made the most important single contribution to the sharp rise in the total consumer price index. Sharp rises in the price of especially meat and vegetables were mainly responsible for the exceptionally large increase in the food price index."

The delayed effect of the steep depreciation in the external value of the rand last year also played its part in the increased prices of certain consumer goods such as motor cars and certain household appliances.

"The high inflation rate has serious implications for our long-term economic recovery. The degree of success achieved during the next 12 months in combating inflation will greatly determine whether or not the revival will continue next year," Sanlam said.

Commenting on the balance of payments, Sanlam did not think the budget would seriously influence foreign trade accounts this year and expected exports to remain reasonably favourable. The current account should again show a relatively large surplus this year.

Referring to interest rates Sanlam expected money market interest rates to soften in the next few months, but "we expect these rates to rise in the second half of the year" due to an increase in the demand for credit by the private sector. — Sapa.

Agreement reached on all aspects of foreign debt

25/3/86 SMC

CAPE TOWN — South Africa and its major creditor banks reached agreement yesterday on all outstanding issues regarding repayment of the country's foreign debt, the Minister of Finance, Mr Barend du Plessis, announced.

The agreement included two important modifications to the original repayment proposal.

These were extension of the termination date of the interim arrangement by three months to end June 1987 and payment on April 15, 1986 of five percent of all debt maturing on that date or already matured by then.

The major creditor banks had agreed to maintain their exposure to South Arican borrowers at not less than 95 percent of the present level until the end of June 1987.

MAJOR REVIEW

In the case of debt maturing between April 15, 1986 and the termination date of the arrangement, the five percent would be released on the original maturity dates.

A meeting between the major creditor banks and South Africa would be held in September this year to review progress made and a major review of the situation would take place in April next year.

Mr Du Plessis said the South African Reserve Bank had arranged to provide for any withdrawals of released funds on or before April 15 and would not need to acquire any additional foreign exchange capital from the local market.

Mr Du Plessis said the arrangement stipulated that existing South African borrowers whose foreign loans had already matured must renegotiate their loan arrangements with their creditors.

STAR 25/2/86

'Budget plan discriminates'

(49)

PARLIAMENT — The fact that the main Budget would only be debated in the House of Assembly was discriminatory, the Chairman of the Ministers' Council in the House of Representatives, Mr Allan Hendrickse said yesterday.

Replying to a motion by Mr Jac Rabie (LP, Reiger Park), who called for the formation of committee to investigate a constitutional alternative, he said the constitution should not be used "to preserve white privilege and prerogative."

Until all three Houses could discuss the Budget together the practice would be seen as discrimination against the other Houses.

The motion was passed after a division in which the Freedom Party opposed it. — Sapa.

Debtors can now negotiate

From Page 1

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to acquire any additional foreign exchange for this purpose from the local foreign exchange market."

Each South African debtor would be in a position to negotiate with foreign lenders for a possible voluntary extension of released funds, and potential new borrowers of foreign funds should also be in a better position now to negotiate for new loans.

South African borrowers of foreign funds whose existing contracts had already matured should re-negotiate their loan arrangement with their foreign creditors to agree to new conditions which comply with the settlement agreement.

Major creditor banks have agreed to the interim arrangement which Leutwiler has also submitted to the smaller bank creditors.

"These smaller creditors have been asked to support the interim arrangement. Debts due to non-bank creditors will at present be treated in a similar way, but further discussions on this issue are still taking place.

"The major creditor banks and South Africa will meet in September 1986 to review progress made up to that time, and a major review of the situation will take place in April next year," said Du PLessis.

Debt judgments total R676,6m

BDAY (47) 25/3/86

GERALD REILLY

THE pattern of mounting debt continued in 1985, with the total of summonses issued exceeding 1-million for the first time, figures issued in Pretoria yesterday by Central Statistical Services show.

The increase amounted to 17,5% over 1984 figures.

This was due mainly to a rise in the number of summonses for unpaid rents: 45,4%; money borrowed: 33,5%; RD cheques: 23,7%.

Civil judgments for debt in the 12 months increased by 15,7%, compared with 1984.

However, the big increase was in the amount relating to the judgments, up by a massive 89,1%. The total involved rose to R676,6m.

Coloured budget increased by 30%

25/3/86 BDF

44

● JULIES

THE 1986 House of Representatives budget increased by 30% on the amount last year, the House's Budget Minister Andrew Julies said yesterday.

He said it totalled R1 737 471 000, of which R869 501 000 would go to Education and Culture, R442 554 000 to Health Services and Welfare and R342 516 000 to Local Government, Housing and Agriculture. His department would receive more than R18m.

The increases in the budget were the best that could be obtained, he said.

Julies said a large amount of his department's budget would be used to acquire a computer which would accommodate the needs of his administration and offer careers to many people.

He added that coloured pensions would be increased by R18 to R135 a month from October.

The system of pension bonuses had been discarded and social pensioners would now receive a fixed pension of R135 a month.

The House would receive R25m for the improvement of pensions.

Other increases were an R11 increase, to R96,50 a month, in the allowances paid to foster parents and a R5 increase, to R35 a month, in child allowances.

Spelling out his policy of employment of staff in the administration, he said he could not accept the principle that coloureds should be promoted without any regard for the aspirations of other groups. — Sapa.

IN BRIEF

BDAY 25/3/86 49

PARLIAMENT


● REDDY

Reddy introduces budget

NEW Minister of the Budget in the House of Delegates J N Reddy introduced his budget for the 1986/7 financial year yesterday and gave a breakdown of how the Own Affairs allocation of R697m would be spent.

With an additional sum of about R11m, which was to be added to the estimates for improved pensions and allowances, the year's budget was 24% up.

Reddy said the money would be divided as follows:

□ Budget and Auxiliary Services — R8 796 000 (up 1,91% on last year);
□ Local Government, Housing and Agriculture — R184 021 000 (up 45,87%);
□ Education and Culture — R365 104 000 (up 13,45%);
□ Health Services and Welfare — R112 675 000 (up 6,79%);
□ Improvements of Conditions of Service — R26 635 000 (up 423,79%).

Reddy said he agreed with remarks made by President P W Botha at the opening of Parliament, when he said the new constitution had proved in a year that various communities could take part effectively and peacefully in joint decision-making at central level.

The General Budget — delivered last week by Finance Minister Barend du Plessis — had given special attention to the needs of the developing sectors of society, he said. — Sapa.

CAPE TIMES 25/3/86 49

SA, banks reach further agreement

SOUTH AFRICA and its major creditor banks reached agreement yesterday on all outstanding issues regarding repayment of the country's foreign debt, the Minister of Finance, Mr Barend du Plessis, said.

Mr Du Plessis, in a statement, also announced other modifications to an agreement reached in February after Pretoria froze repayments of some $14 billion (R28-b) of debt last year.

The five percent repayment in respect of all debt maturing before April 15 this year will now be released in one amount on April 15, he said, without giving figures.

'Agreed'

In the case of debt maturing between April 15 this year and June 30, 1987, the five percent will be released on the original maturity dates of the relevant debt.

"The major creditor banks have now agreed to maintain their exposure to South African borrowers at not less than 95 percent of the present level until the end of June 1987, and South Africa will lift the repayment restrictions on five percent of the 'affected debt' that has already reached maturity or that will mature up to June 30, 1987," he said.

Mr Du Plessis said a meeting between South Africa and the major creditor banks would take place in September to review progress, while a major review would occur in April 1987.

The Reserve Bank had made the necessary arrangements to provide for any withdrawals of released funds on or after April 15.

"It will not be necessary for the bank to acquire any additional foreign exchange for this purpose from the local foreign exchange market," he said.

The lifting of restrictions on the repayment of funds did not necessarily mean that the funds will be withdrawn from South Africa, Mr Du Plessis said, noting that South African debtors could negotiate with foreign lenders for a voluntary extension of released funds.

Mr Du Plessis said all outstanding issues had been disposed of at a meeting between South Africa and major creditor banks in London yesterday. — Reuter

16

B, Day 25/3/86

49

A saving of R1bn on oil imports

SA economic boost from drop in oil price

SOUTH AFRICA and the world economy can gain considerably from any continued fall in the international crude oil price, says Sanlam in its latest economic survey.

For SA it could mean a saving of more than R1bn on its annual oil-import bill (almost 18% of total imports), it adds.

But Sanlam also warns that if the oil price drops to levels equal to, or lower than, the average $8 a barrel, it could have dire international consequences.

Sanlam notes that although the recent sharp drop in the oil price may influence countries in different ways, it can be assumed the world economy will benefit by extending the upswing in the international economy.

CHRIS CAIRNCROSS

It is estimated that a 30% drop in the price will lower the average inflation rate by as much as 2% over the next year and raise the real economic growth rate by between 0,5% and 0,75%.

Oil importers and consumers like the US, Japan, West Germany, France, Italy and SA should gain materially.

Detrimentally affected will be oil-producers like Mexico, Nigeria, Indonesia and Britain.

Oil-producing countries with large foreign debts like Mexico ($98bn), Venezuela ($38bn), Nigeria ($20bn) will be plunged into financial crisis and the ripple effect will be felt in all the industrialised countries.

This may lead to increasing concern over the international financial system, resulting in people losing their confidence in financial assets and resorting to real assets like gold. Sharp price increases of these assets can thus be expected.

As far as SA is concerned, the lower oil price will have a beneficial effect on the country's inflation and growth rate.

The report says: "Although little is known about SA's oil transactions, our estimates indicate that the lower oil price and the strengthening in the external value of the rand can save SA more than R1bn on its oil-import bill annually."

Further windfalls would also come from likely increases in the gold price that could possibly accompany any collapse of confidence in the international financial system.

Reichmans grooms its image

(49) (88) STAR 26/3/86

By Gareth Costa

Trade finance house Reichmans will be seeking to reverse its industry's battered image when it hits the JSE boards in the next few weeks.

The confirming business — basically letters of credit and trade financing — has come in for criticism in the financial community following disastrous performances by one time high-flyers Trade & Industry, Anglo African and Ewings.

Many financial commentators were sceptical when the listing announcement was made, but Reichmans MD Mr Milton Levine dispels criticism by saying: "I always refer critics to the stores sector of the JSE; lately there have been many companies there in dire financial difficulties, but there are also many excellent ones, like Pick'n Pay and Score. Reichmans too will stand out."

This claim will be backed up once the prospectus is published in three weeks time, which is expected to show that the company has had ten years of sustained growth, last year recording a R3 million after-tax profit from a turnover of R250 million.

And the forecast 25 percent growth for the year ahead has been described by one banking source as "conservative".

But the industry's problems will still be a major problem to shrug off if Reichmans is to convince an historically sceptical investment community.

An accepted cause of both T & I's and Ewings' problems was the rapid expansion and diversification programme which over-extended those companies.

One banker suggests that T & I's management attention was diverted from the business of trade finance to the task of rectifying the troubled Anglo African Shipping.

PHILOSOPHY

The suggestion is that sometimes they are virtually forced to buy out clients or face losing money.

The lesson to be learnt, and which Mr Levine says is his business philosophy, is to stick to the business one knows. He has been at Reichmans since the age of 25, and in the ensuing 10 years has moved from being a minority shareholder to controlling the company.

Trade financing provides a service to importers in that the goods are paid for, checked, shipped and insured on behalf of the client, all of which a bank does not do.

Mr Levine stresses: "We are not in competition with banks, often clients are referred by the banks to us. We will open letters of credit for clients in overseas markets through our offices in London, Geneva and New York."

The debt standstill has opened more business avenues for trade finance houses since foreign suppliers have become nervous about dealing with banks, believing that money will become tied up in SA. But since trade payments are excluded from the standstill, trade finance houses have not been affected.

He admits that bad debts can be a problem, but says the company has made adequate provisions. "Anyhow, our profit history is still strong sfter provision for bad debts".

Another strength is that Reichmans management stands out, with many of the directors chartered accountants or in possession of other degrees. And nearly all have been in shipping for most of their lives.

remitted to overseas principals.

The chamber said: "This involves disclosure of cost structures and sources of supply which is confidential and privileged in-

public and private sectors.

The Board of Trade and Industries was instructed as long ago as 1978 to investigate tender procedures and preference systems.

Deregulation too slow

26/2/88 BD

Business Day Reporter

SPECIFIC action on deregulation has been slow, says the latest issue of the Development Bank's quarterly journal, *Development Southern Africa*.

It says the committee for economic affairs of the President's Council made 33 recommendations in its 1984 report. None related to legislation and regulations restricting participation in the economy.

In a report last year, the committee gave a balanced and level-headed view of the small business and informal sectors, but made only vague recommendations in order to obtain a consensus.

It said that since the formal economy would be unable to provide a living for the total labour force, the informal sector would have to play an important role in job-creation.

The Development Bank is wary of the committee's criticisms of the Small Business Development Corporation (SBDC) because more emphasis is put on concessional interest rates than on greater access to funds.

It feels the SBDC should extend its information and advisory services and that its bank indemnity scheme should be replaced by a small business credit guarantee fund.

STAR (49) 26/3/86

'Pocket money' budget slammed

Political Staff

PARLIAMENT — The House of Representatives has slated its coloured "own affairs" budget as "pocket money".

"It was unacceptable that the coloured "own affairs" budget had only increased by R343 million while the white budget had risen by R2 billion, Mr Frederick Peters, (LP Silvertown) said in the debate on the "own affairs" budget.

"Our budget is peanuts, pocket money. We receive R1,7 billion, they receive R4,5 billion.

The difference between the white and coloured budgets was even more unfavourable when one considered the coloureds' backlog in housing, education and social services, Leader of the Opposition Mr Dennis de la Cruz said.

The budget showed that the Minister of the Budget, Reverend Andrew Julies, was powerless to do anything but distribute funds given by the central Government.

Only R869,5 million had been allocated for coloured education compared to the R3 069 million for whites.

Yet it was these inequalities in education which triggered the present crisis in the country.

Mr Cecil Herandien (LP Macassar) said the Government appeared to respect only those who advocated violence, reports Sapa.

"I can't see how we can go back to the electorate after this budget without getting a tractor tyre around our necks."

Budget 'might help firms'

Business Day, 26/2/86 (49)

Economics Reporter

THE Budget could boost company profits and ease pressure on the domestic money market, according to Sanlam's March *Economic Survey*.

The publication said business turnovers would increase moderately, as the economy revived and gross domestic product increased.

Competition would remain fierce, it added, and costs would continue to rise steeply, although the increased costs would be difficult to pass on to consumers.

It predicted that construction and engineering would benefit from increased government spending.

Sanlam expects the Budget's benefits on interest rates to be short-lived because of a restrictive policy by monetary authorities and the private sector's increasing demand for credit.

The loan requirements for public and semi-public institutions are expected to diminish: the Budget provides for R893m to be obtained from the private sector, compared with R1,56bn last year, and capital expenditure programmes have been curtailed.

The budgetary proposals provide for a spending increase of only 13,9% — 21,6% higher than the original 1985/6 Budget estimates. But if government keeps to the targets, the increase will represent a decline in real expenditure.

Sanlam described the Budget as moderately expansionary and said it would help revive the economy.

WEEKLY MAIL 27/3/86 (49)

THE ECONOMY

Three factors behind the rand's latest dip

By REG RUMNEY

THE rand's recent fall in value against other currencies is in part a "technical correction" to its rise since the beginning of the year.

This is the opinion of Barclays Bank senior economist Loretta Gell.

The correction, she feels, has been turned into a slide by panicky importers, worried about SA's foreign debt repayment putting pressure on the rand, rushing into the market to buy foreign currency.

The rand firmed slightly yesterday to close at $0,4670/80. On Tuesday it fell to $0,4650 — a fall of more than 1c from Monday's $0,4760 close.

The first crack in the currency's steady trend appeared last week, when it dipped below $0,50 for the first time since it reached that level on February 24.

Standard Bank economist Nico Czypionka explains that three factors were responsible:

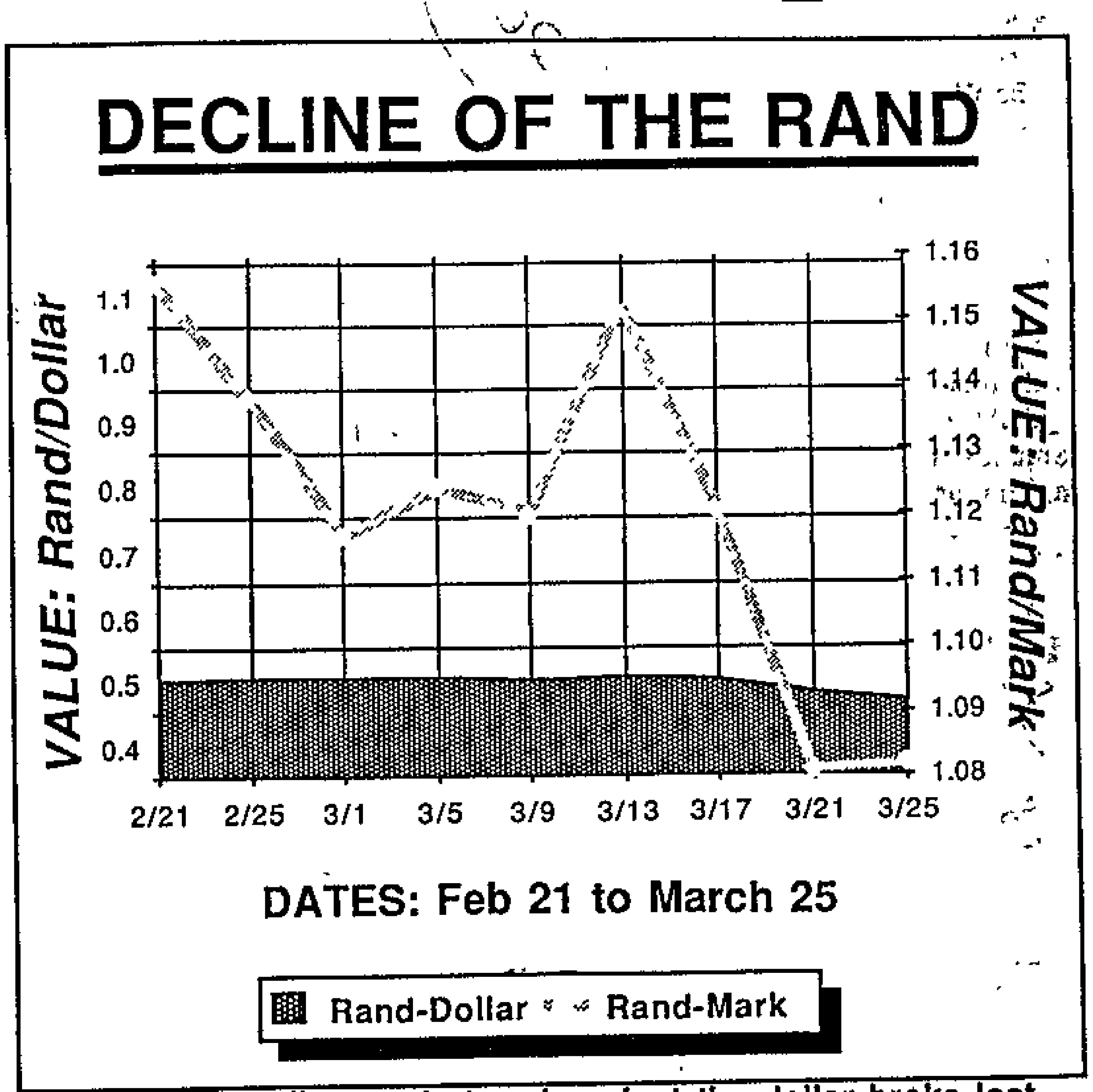
- Fears about the effect of a speculated R500-million repayment of foreign debt on the foreign exchange market.
- An apparent holding back by the Reserve Bank of its normal injections of dollars into the market.
- A strong dollar helping to depress the rand.

Speculation that the government agreed with foreign banks to repay R500-million of foreign debt in one go knocked the rand, says Czypionka, pointing out it started to slide around the time reports of the early repayment started to appear in the press.

Describing the R500-million as a "significant chunk", he points out the market could have taken it in its stride if that same amount were spread over a year.

The foreign exchange market did not think the Reserve Bank would have the capability of effecting the single payment of R500-million.

Moreover, the Reserve Bank, which makes regular injections of dollars into the foreign exchange market, as well as "intervening" by boosting its sales of dollars at times to support the rand, seemed to have been holding back on those dollar payments.



How the rand's steady trend against the dollar broke last week. The rand has also fallen against other currencies.

This would give the impression the Reserve Bank was trying to build up its dollar reserves in expectation of a large dollar payment.

A lot of importers who had stayed out of the market in anticipation of the rand rising against the dollar rushed back in when the reverse happened.

"The amounts involved are very significant," says Czypionka.

He adds that the Reserve Bank, if it has been staying out of the market to build up its dollar holdings in expectation of a large payment, cannot just intervene because this would defeat the purpose of its staying out in the first place.

On top of all this, the dollar has strengthened. The rand's decline against other currencies, says Czypionka, is not as great.

"And, of course," he says, "the very decline of the rand sucks importers in."

Gell says the market is "a little bit worried about the debt repayment".

And she concurs that the Reserve Bank has been holding back — until recently when it has intervened fairly aggressively in the foreign exchange market on the rand's behalf.

In spite of the Reserve Bank's intervention, however, the prognosis for the currency is not, in the short term, good in the light of how far it has fallen already, despite Finance Minister Barend du Plessis' assurances on Monday the debt repayment would not put pressure on the rand.

CAPITAL MARKET

28/3/86 FIN MAIL

Stubbornly high

Probably in reaction to the falling rand, long rates stubbornly refuse to go down. After falling early last week in reaction to the Budget, rates hardened. Temporary respite came in response to Friday's inflation rate decline, but was short-lived. There is little institutional buying and option demand is in the short end, mainly in the one- and two-week area.

Dealers are puzzled by the high rates and bearish sentiment. Some phoned around trying to find out who the institutional seller was, but found none. Others explain that there is simply nothing bullish to hang on to.

RSA 13% 2005 dropped from 17,33% on Thursday to as low as 17,16% Friday. Later in the day it was up again at 17,26% and by press time on Monday was trading around 17,34%. Escom 11% 2009 and Sats 7,5% 2008 dropped to 18,01% and 17,66% only to end Friday at 18,19% and 17,79%. By Monday, they had gained a further 10 points. The new RSA 14% 1989 stock was traded four times at 15,1%.

According to the March Reserve Bank *Quarterly Bulletin*, new issues of public stock increased from R3,2 billion in 1984 to R3,5 billion in 1985. Similarly, new funds raised by companies in loan stock and share capital increased from R1,2 billion to R1,8 billion.

Net sales of stock declined from R2,5 billion in the first half of 1985 to R341m and R421m in the third and fourth quarters. In January-February net sales amounted to R30m. ■

28/3/86 (49) FIN MAIL

ECONOMIC INDICATORS

		This month	Last month	Monthly change %	Annual change† %
Business activity index 1980=100*	Feb	78,73	78,41	0,4	−1,9
Leading indicators index, 1980=100*	Feb	76,88	78,53	−2,1	7,7
Consumer price index, 1980=100	Jan	215,00	208,60	3,1	20,7
Wholesale price index, 1980=100	Jan	204,18	199,39	2,4	22,2
Retail sales 1975=100	Jan	119,29	115,39	3,4	−4,4
Wholesales sales 1980=100	Jan	223,35	223,00	0,2	19,7
New car sales	Feb	14 442	15 209	−5,0	−20,0
New commercial vehicle sales	Feb	7 640	7 485	2,1	−14,3
Manufacturing production, 1975=100	Dec	122,20	119,30	2,4	−0,6
Mining production, 1975=100	Dec	104,42	103,61	0,8	−3,1
Mining production (excl gold) 1975=100	Dec	116,69	115,86	0,7	4,5
Cement production, kt	Dec	536	558	−3,9	−25,2
Rail traffic, excl pipelines, Mt.Km	Nov	7 938	8 294	−4,3	1,2
Electricity available for distribution GWh	Dec	10 678	10 860	−1,7	4,8
Building plans passed, Rm	Dec	320,150	395,475	−19,0	−19,6
Buildings completed, Rm	Dec	272,235	343,979	−20,9	−14,9
Imports, Rm	Jan	2 782,37	1 626,66	71,0	21,1
Exports, Rm	Jan	3 493,80	3 364,04	3,9	28,4
Money, Rm	Jan	22 210	22 957	−3,3	−12,7
Money and near money, Rm	Jan	40 862	42 089	−2,9	7,4
Commercial bank lending, ● Rm	Jan	30 248	29 750	1,7	13,9
Bank debits, Rm	Jan	160 940	170 500	−5,6	−3,4
Unemployed whites, coloureds and Asians	Dec	78 149	76 485	2,2	90,9
Unemployed blacks	Nov	542 429	528 167	2,7	6,7
Immigration	Nov	973	1 221	−20,3	−50,9
Emigration	Nov	1 140	1 115	2,2	55,1

* Revised index.
● Discounts and advances, excluding Land Banks † Not seasonally adjusted. All other figures are seasonally adjusted

Source: Standard Bank

COMMODITY PRICES

	Last year	Last week	Mar 21 1986
Metals			
Copper (cash wirebars) (£/ton)	1 186	1 001	973
Lead (£/ton)	302	252	249
Tin (standard grade) (£/ton)	9 661	n/a	n/a
Zinc (£/ton)	771	425	419
Silver (p/oz) (London delivery)	536	388	383
Aluminium (£/ton)	931	799	810
Antimony ($) (cif)	2 950	2 675	2 700
Copper RCP (R/ton)	2 720	2 922	2 922
Nickel (£/ton)	4 475	2 855	2 736
Wolfram ($) (cif)	77	56	56
Platinum ($/troy)	268	412	429
Palladium ($/troy oz)	112	112	115
Gold ($/troy oz)	316	353	354

	Last year	Last week	Mar 21 1986
FT commodity index (1952=100)	295,0	n/a	n/a
Raw Materials			
Wool (p/kg)	507	418	416
Jute ($/ton)	890	290	290
Groundnut oil ($/ton)	840	285	283
Rubber (p/kg) (Ldn RSS)	67	59	58
Cotton (US cents per lb)	67	53	52
Foodstuffs			
Sugar (Raw, LDP) (£/ton)	94	119	118
Wheat (English milling) (£/ton)	120	115	119
Maize (SA yellow) (£/ton)	102	96	96
Barley (£/ton)	117	115	116
Cocoa (£/ton)	2 073	1 530	1 428
Coffee (London robusta) (£/ton)	2 264	2 428	2 347
Beef (p/kg)	94	97	95

EUROCURRENCY RATES

	1985 Jan 7	1986 Feb 24	Mar 4	Mar 10	Mar 17	Mar 21
	%					
Sterling:						
three-months	10,38	12,44	12,50	11,94	11,75	11,19
six-months	10,56	12,06	12,25	11,56	11,25	10,59
US dollar:						
three-months	8,50	7,94	7,81	7,44	7,50	7,44
six-months	9,00	7,94	7,75	7,44	7,34	7,44
Swiss franc:						
three-months	4,75	4,06	3,81	3,81	3,00	4,13
six-months	4,75	4,00	3,81	3,75	3,98	3,88
Deutschemark:						
three-months	5,56	4,50	4,44	4,38	4,50	4,50
six-months	5,63	4,50	4,44	4,38	4,38	4,50
Yen						
three-months	6,22	6,16	5,78	5,47	5,63	5,53
six-months	6,16	5,75	5,59	5,34	5,25	5,25

CREDIT CARDS %

	Interest on credit/debit	
Barclays	10	24
Nedbank	11,5	24-27
Santam	14	24
Standard	11	24
Trust	10	24
Volkskas	10	24

POST OFFICE %

†*Indefinite Period Treasury Bonds (1)	10,5
*National Defence Bonds (no limit)	16
†Post Office Savings Accounts (also Telebank) (2)	6,5
†Savings Bank Certificates (3)	10,5

* Sold by the Post Office for the Treasury.
†Tax free, limited to: (1) R60 000/taxpayer;
(2) R10 000/person;
(3) R70 000/taxpayer.

MONEY RATES

	Last year	Last week	Mar 24 1986
Call Rates			
Discount houses (basic)	21,50	12,00	12,00
Banks (over R50 000)	20,50 to 23,00	11,25 to 12,00	11,25 to 12,00
Money Market Rates			
90-day acceptances	22,20	12,20	12,30 to 12,35
3-months NCDs	23,50 to 23,75	12,50 to 13,00	13,00
Commercial Banks*			
31-day deposits	22,00	12,50	12,25
12-month deposits	20,25	14,00	13,75
Prime overdraft rate	25,00	15,50	15,50
Securities			
Long term RSA	16,85	17,05	17,33
Long term Escom	17,20	17,85	18,14
Medium term RSA	17,75	16,90	17,11
Medium term Escom	17,50	16,90	17,14
Short term RSA	18,10	14,70	14,60
Short term Escom	18,10	15,00	15,65
Overseas Rates			
UK base rate	13,50	12,50	11,50
Offered Rate (Libor) US$ 6 months	9,68	7,44	7,50
London clearing banks overdraft rate	14,50	13,50	12,50
London acceptances — 90 days	12,69	11,31	10,94
New York acceptances — 90 days	8,85	7,07	7,06
London acceptances — 180 days	11,67	10,75	10,00
New York acceptances — 180 days	9,20	6,92	6,92

* Large amounts subject to negotiation.

TREASURY BILLS

	Mar 7 1986	Mar 14 1986	Mar 21 1986
	Rm		
Maturing	50,00	60,00	60,00
Offered	60,00	60,00	60,00
Applied for	168,68	77,61	124,26
Allotted	60,00	60,00	60,00
Rate (%)	11,95	12,02	12,02

SA RESERVE BANK

	Feb 1985	Jan 1986	Feb 1986
	Rm		
Gold*	3 423,3	3 548,2	3 037,8
Foreign Assets	853,8	1 355,3	1 298,9
Total	4 277,1	4 903,5	4 336,7
Deposits:			
Government	1 101,5	204,2	1 681,4
Provincial	86,3	27,6	53,8
Bankers	954,2	972,3	973,4
Others	1 102,7	1 216,5	1 071,9
Bills discounted	2 053,1	1 498,4	1 959,7
Loans and advances:			
To Government	—	—	—
Others	1 333,3	1 003,7	1 024,7
Notes in Circulation	3 479,8	3 943,6	4 004,4
Government Securities	51,3	34,8	33,1
Gold m ozs	6,61	4,86	4,95

* Gold valued at R517,70 per fine ounce in February 1985, R729,97 in January and R613,28 in February 1986.

KRUGERRAND

	Mar 25 1985	Mar 17 1986	Mar 21 1986
	R		
1oz	627	723	765
1/2oz	315	368	385
1/4oz	162	190	195
1/10oz	70	78	80

OIL PRICES

Free market spot prices of crude oil and products

	Mar 25 1985	Mar 21 1986
Crude oil ($/barrel fob)		
Arab light	27,80	*
North Sea (Brent)	28,00	13,75
West Texas Intermediate	28,10	13,95
Products ($/ton cif/NW Europe)		
Premium Petrol	263	159
Heating Oil	238	176
Heavy Fuel Oil	156	89

* = Not traded

Real manufacturing output improved as a result of export demand and a levelling off of the decline in domestic demand. The gain in commerce was largely caused by improved conditions in the motor trade as interest and HP rates eased. ■

THIRD PARTY INSURANCE FIN MAIL 28/3/86

Figuring it out

Now that the major controversies surrounding the new Third Party insurance system have been resolved — not necessarily to everyone's satisfaction — a few points of contention remain.

One is the question whether the 13 insurers in the consortium will simply provide a service for clients, or will benefit handsomely from the R450 a claim they are to be paid.

"The figure was arrived at after negotiation between insurers and the Motor Vehicle Assurance Fund," says deputy Director General for Transport, Ronnie Meyer. "The companies made a calculation based on previous claims. We compared this with our experience handling hit-and-run and uninsured claims and decided it was reasonable."

The figure is "comfortable," admits an insurer who declined to be named. "It's in excess of what it cost us in 1984-1985, and even if you escalate by 20% it's still more." But it's not *too* much, he insists.

"The main problem," says Cusaf assistant GM Ove Bertrand, "is that we pay upfront and only get reimbursed later. We are partly financing the scheme."

And the outlay this year is considerable as tokens have to be issued by insurers free. Says Cornelius Oosthuizen, MD of Santam, which has 22% of the market: "We have something like 1m tokens to get out to clients. There's the cost of preparing tokens, of envelopes, of putting them into envelopes, and of postage. And you have to keep records of tokens you issue.

"Then let's look at the claims side: you have to provide forms, record details of accidents and file information. You may have to wait two years for a claim for injury. Only then will you get your R450."

Moreover, companies have to wait 14 days after paying out damage awards for reimbursement from the fund.

Says Oosthuizen: "My feeling is that those with less than 10% market share will have difficulty breaking even. Those with only 2% or 3% may come out with a loss." ■

BANKING FIN MAIL 28/3/86 49

First step up

An element of the Budget which ~~could~~ prove a future milch cow is the levy on debit transactions. Following the example of gst, which started at a low base, debit levies were doubled from 5c to 10c, from July.

With an estimated 300m debit transactions a year at present, including cheques, current account debits and credit cards, Finance Minister Barend du Plessis may garner R30m in a full year. Credit card transactions alone are running at a million a week and are expected to grow considerably.

Services affected include standing orders, payment by a bank of insurance premiums, electronic/magnetic tape operations, municipal debits, and promissory notes. Peet Strydom, Senbank economist, believes there is every likelihood that the Minister will raise the levy in future budgets. As financial transactions are part of our everyday lives, there is little option but to cough up. As a result, he says, "people will make more effective use of debit transactions, thus lowering volumes."

General banking reaction was one of resigned acceptance. A spokesman for the Bank of Lisbon tells *FM* that it will have little impact on the volume of turnover, but customer resistance is possible if the levy is increased much more.

Bill Mansfield, GM personnel services at Standard Bank, believes there will be a slight hiccup in the early stages before the normal trend is resumed. Nedbank's executive assistant for domestic banking, Tom Bangert, considers the levy a "necessary evil."

The industry average is that an individual writes between 20-30 cheques a month. Thus, one can expect to pay R2-R3 a month to the exchequer on cheque usage alone from July.

The equity of this tax is indisputable. It applies only to the extent that one uses banking or allied services. ■

INFLATION FIN MAIL 28/3/86

Down but not out

As expected, the year-on-year inflation rate for February was considerably below the previous month's record. At 18,05%, cpi may give the distinct impression it's on its way

THE BLUE CHIP CLOCK

That cliché, "the minutes seem to pass like hours", is an apt description of the South African economy right now. While we wait for an upswing that drags its feet, the *FM Blue Chip* forecast clock needs a little clarity.

Reproduced here is the "Typical business cycle" clock from the *Forecast* for March 1986, but with the minute hand removed.

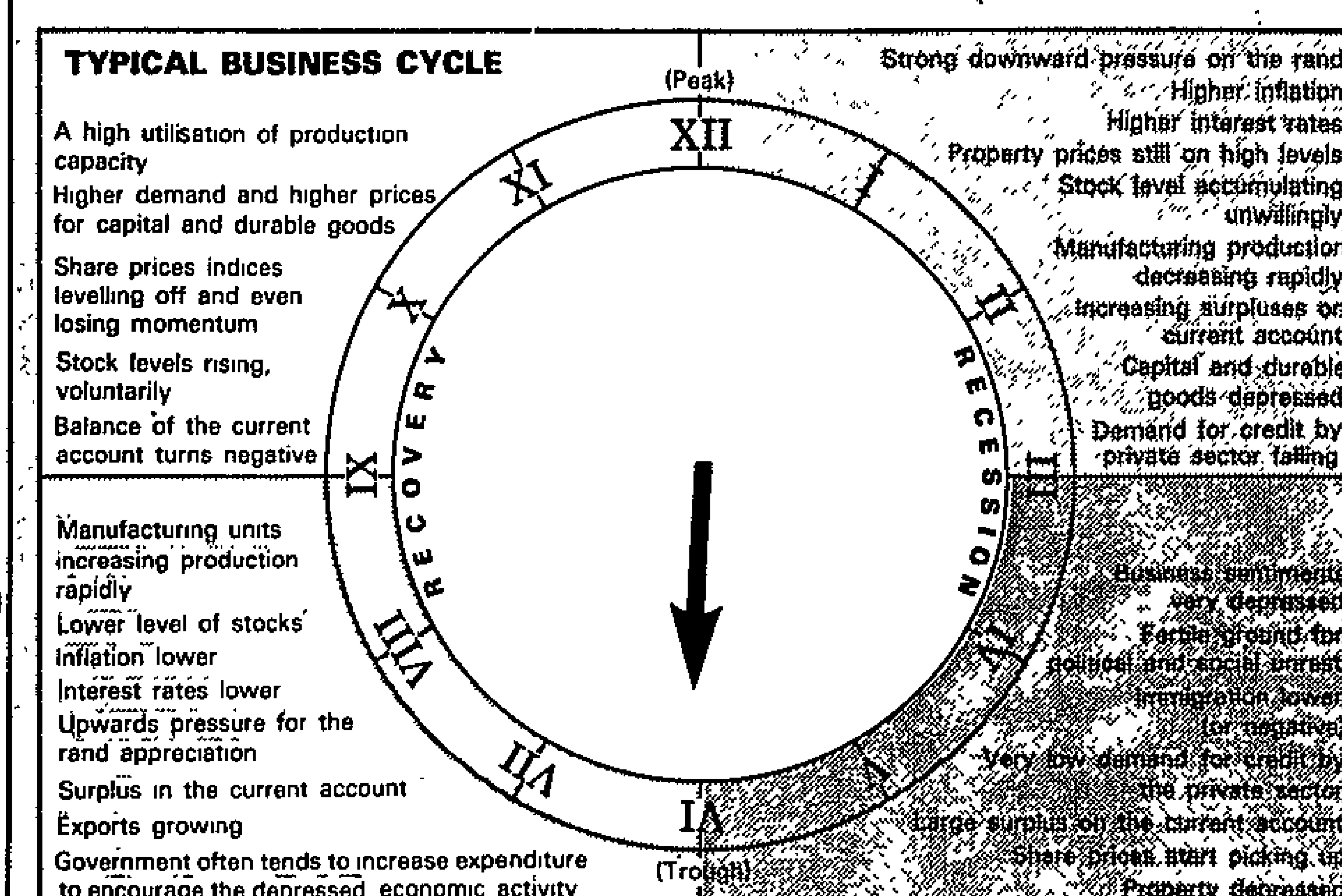
This will be the future format, with the hour hand alone indicating the course of the business cycle.

Next month may see a move out of the trough. At last, pressure on individuals and companies, says the report, while still high, is abating. The trend for new companies registered continues upwards and total production in the manufacturing sector shows gains.

Also, retail sales appear to have responded to stimulatory measures by the monetary authorities.

In November, the number of new companies registered recovered from the October reversal, rising to 478 — 29% lower than the same period in 1984, adds the report.

The main bugbear for the first phase of the recovery is inflation, of course; whether this will ease during the rest of 1986 is an open question. As discussed in this section, a number of contrary forces are at work.



(49) FIN MAIL 28/3/86.

SA ECONOMY

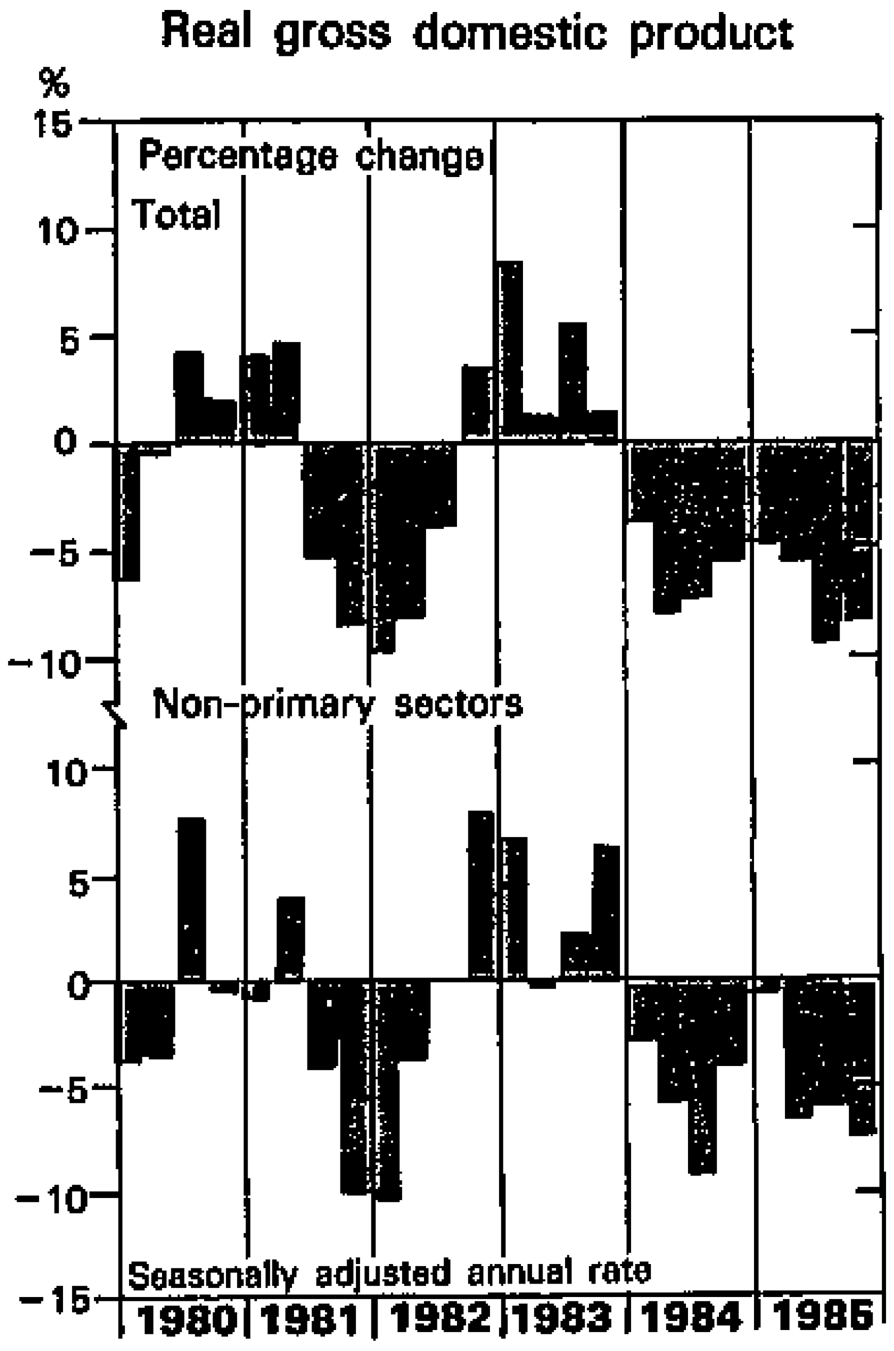
Growth gremlin?

The poor prospects for significant growth and the severity of last year's economic crisis are clearly brought home in the latest Reserve Bank *Quarterly Bulletin*, for March 1986. But the apparent confidence contained in the report is not accepted by many. Talk of promising growth prospects, when viewed against the background of high unemployment and the more fundamental backlog of job creation, doesn't hold water.

The latest statistical information, however, confirms that the process of economic adjustment since mid-1984 has laid a "sound foundation for renewed economic expansion."

JILTING JOBLESS

Real gross domestic product



Source: Reserve Bank Quarterly Bulletin

This is a fine description of a recession which caused immeasurable suffering, though the bulletin hints at the pain caused. Not only did non-agricultural employment decrease by 0,7% last year at a time when SA desperately needs to create jobs, even those who had work were worse off. Real remuneration per employee dropped 4,4%.

In 1985 output rose only in the agriculture and mining sectors, and, most significantly, in services. Says the report: "Financial services were overwhelmingly responsible for the higher output level." Though export-orientated mining experienced buoyant demand through economic expansion in industrialised countries and depreciation of the rand, other sectors, notably manufacturing, construction and commerce, were hard hit by depressed domestic demand.

Indeed, the mix of gdp must be cause for concern. Says one economist: "You simply cannot rely on services to stimulate growth. Growth must come primarily from manufacturing and mining. We need domestic manufacture of secondary goods, especially in view of our severe unemployment and desire to avoid over-stimulation of imports."

Economists generally doubt the prospects for a significant and sustainable recovery — even the officially estimated 3% growth for 1986 is not nearly enough for an economy that, by official estimates, must grow over 5% merely to absorb people coming on to the labour market.

Heaven knows what growth is needed to absorb the jobless — which some estimate near 4m — after the third real decline in gdp in the past five years. Since 1980 the economy has grown by a mere 5,7%.

"The whole thing is a dreadful picture," says another economist.

Comments Adam Jacobs, economist at Volkskas Bank: "Investment last year was largely hedging against inflation, rather than growth-orientated. It largely reflected strategies to transfer assets, rather than capital formation in new or expanding industries. There is a very real danger, on this basis, that growth cannot be sustained."

The 2% decline in real gross domestic fixed investment (GDFI) in 1985 means it has declined every year since 1981, recording a total decline of 15,8%. The Bank notes that GDFI fell in 1985 mainly as a result of the 6,5% decline in outlays of the private sector (only mining recorded an increase). Real government expenditure declined by 1%. Labour productivity (real gdp per non-agricultural worker) fell 0,7%.

With fixed investment, investment in structural development, declining at such a rate, what chance is there of long-term growth, never mind the prospect for short-term growth, which is just as bleak?

Even the Bank acknowledges that, despite the shift of emphasis in economic policy to promotion of growth, inflation and the need to repay foreign debt constrain stimulation. The "foundation for renewed economic expansion" looks very shaky indeed.

In its evidence why a "sound foundation for renewed economic expansion" has been laid, the Bank cites elimination of excess demand, underutilisation of resources, improvement in the domestic savings ratio to 26,5%, and a healthy current account — thanks to the low rand and buoyant foreign economies. The value and volume of merchandise exports increased 58% and 22% respectively while imports were down 16% by volume but up 6% in value. The value of net gold output increased 32% (at an average R711/oz), with volume 2% lower.

However, last year's R7 billion current account surplus (6% of gdp) was more than offset by the R10,4 billion outflow of capital. Net foreign reserves thus fell R3,3 billion. This, explains the bulletin, together with a slower increase in bank credit, was the "main statistical cause" for the slower monetary expansion.

The Bank notes that outflows assumed large proportions after the standstill as repayments were made on short-term loans exempt from it. There was also switching in the financing of imports from a credit to a cash basis while exporters delayed repatriation of export proceeds by granting credit to customers. Long-term capital outflows resulted from central government repayments.

Net sales on the JSE by foreign investors continued after the standstill. When the financial rand was re-introduced they no longer represented an actual outflow of funds, but a switch of investments.

Nevertheless, the Bank is able to report a "modest upswing being discernible in the fourth quarter." Despite increasing since the third quarter, all major indicators of the real economy declined in real terms over the year. Real gdp, gde, and private consumption expenditure fell by 1%, 7,5% and 3% respectively.

The fourth-quarter gdp increase, unlike that in the third quarter, was "fairly broadly based." Output improved in all sectors but agriculture (falling because of a poor wheat crop in the OFS).

DEDUCTIONS ERROR

Readers of Ernst & Whinney's *Tax Facts* pull-out last week should note an error in the schedule of deductions for individuals.

Confusion arose when the 1984 Income Tax Bill was read. The Minister of Finance, referring to deductions under medical expenses and medical aid contributions, gave the third category as "over 70." When the Act was passed, however, this correctly read "over 65."

A spokesman for Ernst & Whinney points out that the error was inadvertently repeated in *Tax Facts*. This mistake has been made by all other accountancy firms.

The three categories for medical expenses and medical aid contibutions for married and unmarried are: under 60; over 60; and over 65.

THE ECONOMY

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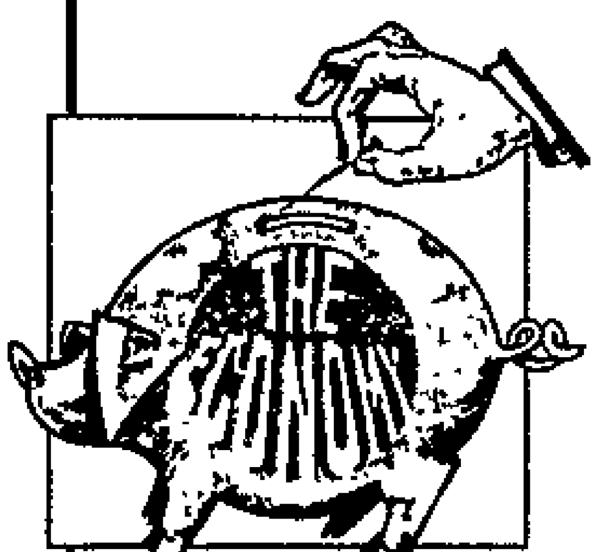
Boom then bust

Government has several options if it wants to stimulate the economy. But it will have to be careful that the cures are not worse than the disease.



For government to be the main source of economic stimulation is surely the quickest route to another boom-and-bust cycle. An injection of public sector spending is like a first sniff of cocaine: you get an initial high, but the long-run reaction is depressive and addictive. Eventually, more and more of the drug is needed to produce ever-diminishing effects.

Already, government has authorised a 10% increase in public sector wages. This may have been unavoidable, but add the normal annual "notch increase" and you get more like a 15% increase in the total government wage bill. That leaves little scope for holding back current spending. Indeed, in its latest *Economic Survey*, Sanlam estimates that total government spending in the Budget will be set 15% above the estimated R33 billion for this fiscal year, at R38 billion.

For government to stimulate the economy by spending more would increase the deficit before borrowing — although such borrowing for current expenditure has already done enough damage — and could push up the cost of private sector borrowing for more productive purposes.

Lower taxation might be a better stimulation. This, too, would widen the deficit, but it may be of a better quality if it allows more personal saving.

The third broad option, of course, is simply to increase taxes. This would contain the deficit but erode even further what little pocket money the public still has and shift even more resources to the unproductive public sector — which already consumes an unhealthy and rapidly rising proportion of gdp.

Comments a government spokesman: "Pre-Budget discussions are at a sensitive stage. But the thinking seems to be that we could have a combination of tax cuts and increased government spending as a stimulatory package."

He explains that strategy depends on the business cycle. "At this stage if you cut taxes there could be a large time lag before you see results — though it might have a multiplier effect." That is, tax cuts will stimulate private sector job creation and eventually additional tax revenues.

"Even so, there's still a time lag and government would have a negative cash flow in the interim. Increasing government spending has a much quicker response, although you do increase the government's slice of the economy."

Sanlam expects lower taxes, to leave a deficit before borrowing around R4,5 billion (compared to the estimate for this fiscal year of R3,2 billion).

But is this what we'll get? And if so, will government keep to such figures? Will it follow a clear economic strategy, or will we have a repeat of the boom/bust cycle experienced during the mini-boom of 1983-1984?

History tells us to be sceptical. Government spending has continually outstripped its promises.

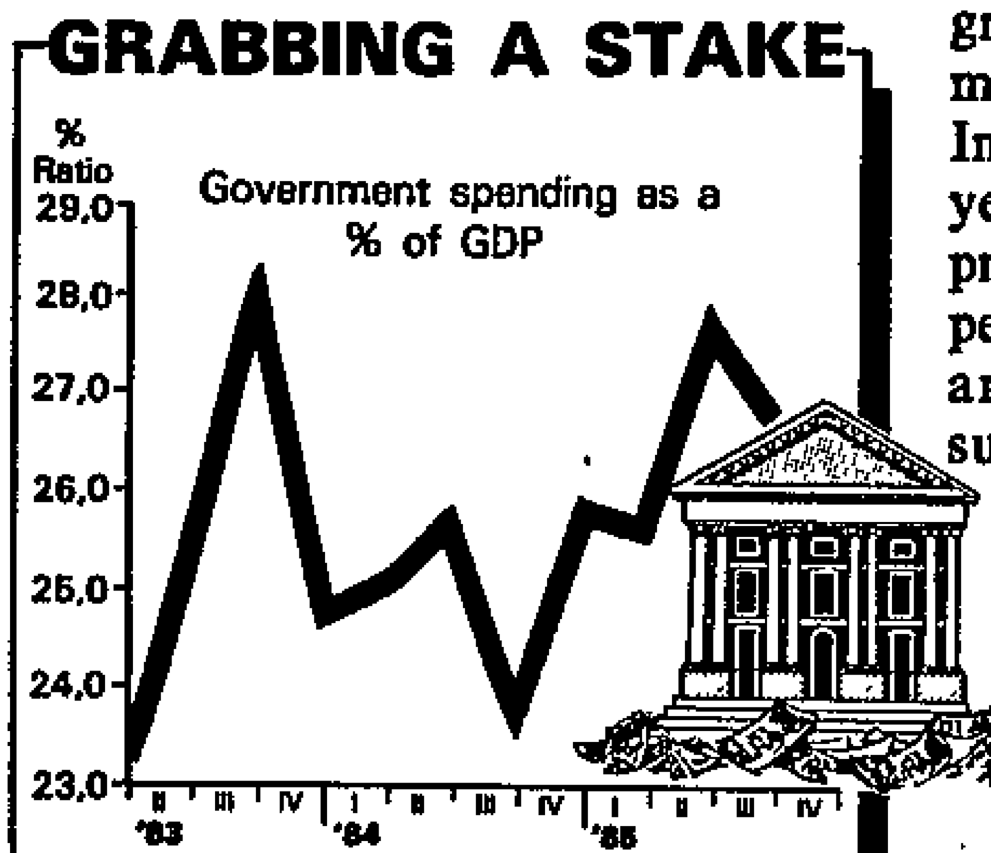
Aubrey Dickman, senior economic consultant to Anglo American, is "very unhappy" with government spending at 27% of gdp, which is "very high for this stage of our economic development." Nor do we know how much stimulation is needed, given the tremendous knock to confidence that has been experienced, he says. "There's no scientific answer, given all the psychological issues."

Says Cees Bruggemans, Barclays group economist, in a *Business Brief*: "Structural weakness, economic in nature, has been reinforced by developments in the political sphere. Modernisation of a socio-politically imperfect society will necessarily be accompanied by stress and uncertainty, that will tend to be reflected in the economic behaviour of the participants."

Jim Buys, economic consultant to Anglo American, traces developments. "The seeds have been sown over a long time. Job creation over the past 15 years, for example, has been poor, while the growth rate has been falling since 1972 — except for two gold peaks. So it has been a real boom/bust period."

Dickman has the figures: "Consumption grew faster than investment during this period. Investment grew 2% a year, from 1972-1984, private consumption expenditure 3,6% a year, and government consumption expenditure 5,5% a year."

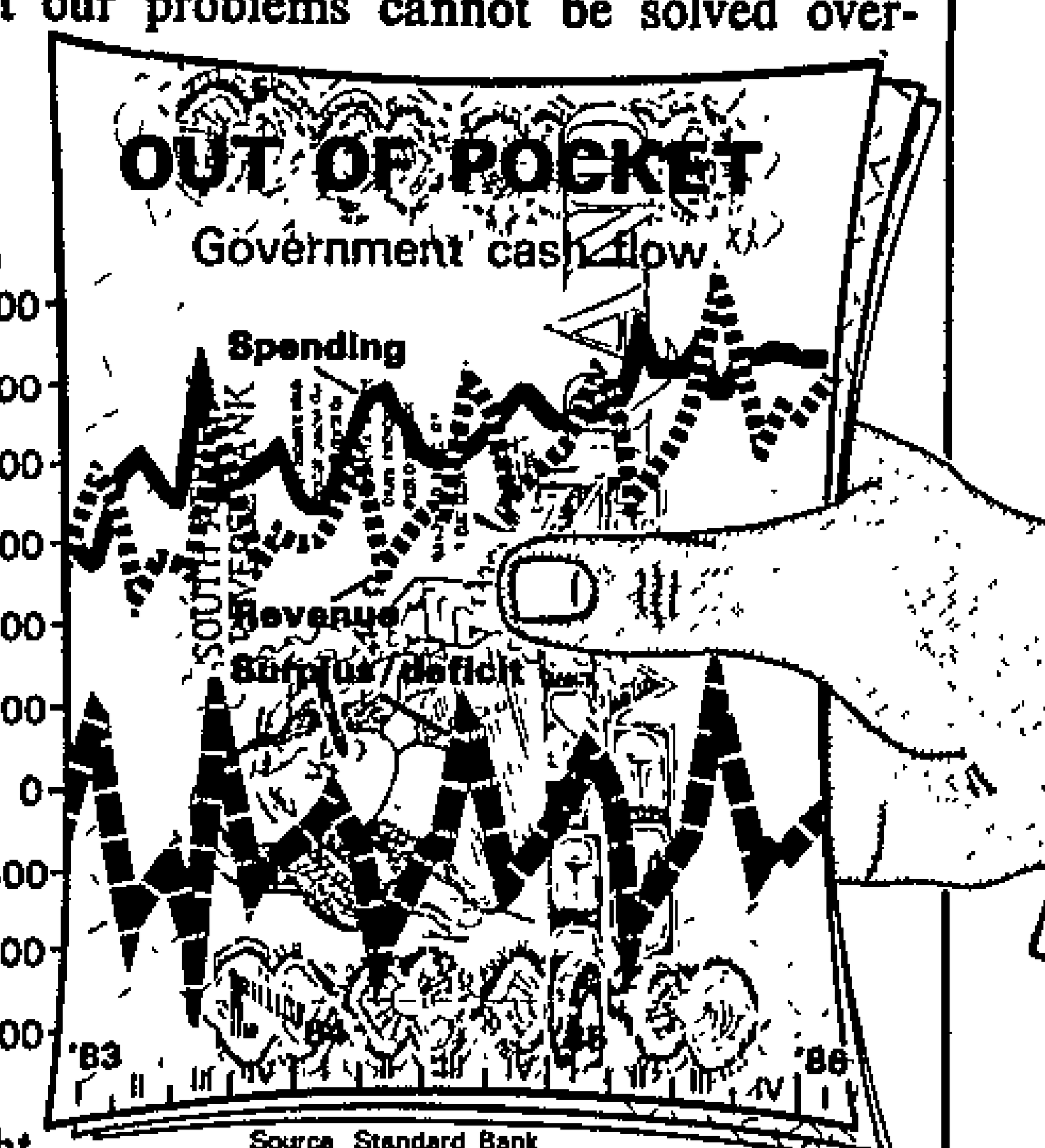
GRABBING A STAKE



And what investment there was went into capital-intensive projects like Sasol II and Sasol III and Atlantis Diesel. While this helped the balance of payments, jobs were not created elsewhere. Not surprisingly, gdp growth was also poor, at 2,9% a year.

Mismanagement included ideological duplication of spending, for example on education; government interference in labour practices; and failure to adapt to the "high tech" era. Interest rates were kept artificially low, little control was exercised over money supply, and fiscal drag impoverished people.

All this may be history; but while it's no use crying over spilt milk, it makes it clear that our problems cannot be solved overnight.



As Buys points out: "The ideal would be for government to withdraw or at least reduce its involvement in the economy: limit spending growth, say, to 10%, and cut taxes. But government involvement is needed to unravel structural defects." Long-term structural correction will need, for example, massive spending on education and housing. Government spending should also be slanted towards job creation.

Then, foreign debt repayments will haunt us for years.

Says Leon Steenkamp, assistant GM of Santamtrust: "The debt repayment arrangements are not so good from a growth point of view." He says the agreement to repay up to 5% of foreign debt over the next 12 months could cost R1,4 billion at the current rand-dollar exchange rate, plus a further R3 billion for debts outside the standstill, plus interest due. Add a government deficit before borrowing of R4,5 billion, and over R9 billion could be drawn out of the productive economy.

Comments Rudolf Gouws, economist at Rand Merchant Bank: "It's not a question of what we can do, but what we can afford to do. I don't think you should talk of outright stimulus. There is an over-riding need to maintain a balance of payments surplus, while government finances are in poor shape."

The government spokesman believes it is acceptable strategy for government to take the lead in the upswing. However, he also believes that consumers will not hold back through uncertainty. "If anything they would prefer to spend rather than to save, precisely because of uncertainties. Though they might hold back on investment," he admits.

Whether government's game plan works must depend largely on whether the unrest is permanent. Stimulation could quickly mop up excess capacity, and uncertainty will discourage investment in expanding capacity. Shortage of foreign capital will merely underline this problem. As capacity dries up the economy will stumble into another bout of rocketing inflation, interest rates and unemployment. Only this time the withdrawal symptoms will be even more disastrous than after the mini-boom.

A leading economist sums up the position: "Political change is a prerequisite for sustained growth. Growth through economic stimulation won't ease political unrest and disturbances, and therefore uncertainty.

"The townships have become politicised. Gone are the docile workers, to be replaced by a highly politicised youth that no longer has the traditional respect for older people. Because of this change in attitude, more jobs won't change the pattern of unrest, nor will gestures of minor political reform.

"Any president must decide at what rate to introduce reforms. He shouldn't make dramatic changes to make radicals happy. They will be pleased with nothing less than revolution. But what is needed is the kind of political change to carry the majority of middle-class people.

"What worries me most is the evidence that government is too scared of losing votes to the rightwing to reform at a meaningful pace." Consumers and investors will not rush to follow any government economic initiative. If the economy remains undermined by political instability, we will be lucky to see a reasonable 1986 before slipping back into an economic quagmire in 1987.

Never before has the economy been of such delicate fabric. Never before has so much of it been in government hands. ■

GPBM&B 77173

Liquid asset crunch

The rain, it raineth on the just and also on the unjust fella: But chiefly on the

The reasonably good rains have been a

through pipe leakage. The latest RWB figures, for February 21, show the average of

Bus Day 3/3/86. 49

Bureaucracy and big business are destroying SA

DIVARIS ... "no options"

Tax expert COSTA DIVARIS talking to Hellouise Truswell

IN THE present climate, it is a moot point if the tax system can be improved to benefit SA society. Given the downward spiral of SA's economy and government's urgent need for increased revenues to finance socio-political modernisation programmes, it is apparent the forthcoming Budget can change nothing.

It can only reflect the outcome of the decisions we've taken in the past and the decisions we're currently taking. So says 41-year-old tax specialist Costa Divaris.

Can he suggest a blueprint of bold initiatives for urgent reforms? From the taxpayers' point of view, the present system is grossly inefficient. And it takes a terrible toll. Tax payments by individuals increased 40% in the past 15 years. They now total close on 25% of GDP; 10 years ago the figure was a relatively modest 18%.

How can the present system be restructured to relieve the tax burden? I ask Divaris. Confident and knowledgeable, he is known to have a very strong handwriting of his own, backed up with an impressive CV on matters of tax.

He is the author of "The Ned-Equity Tax Guide to Company-owned Policies" and co-author of "Silke on South African Income Tax," "Old Mutual Income Tax Guide" and "In Touch with the Sixth Schedule".

He is also editor-in-chief of "Businessman's Law" and co-editor of "Juta's Tax Service". He co-edits and co-founded "Juta's GST, Tax Planning and Taxgram". He runs BSP Seminars on tax and is a partner in Silke Divaris Stein and Divaris Stein Publishers.

HE doesn't spout forth conventional wisdoms in his seventh floor African Life eyrie. Instead, sitting behind a round, glass-topped table which displays a splendid reclining bronze nude sculpted by Naomi Press, he parries my questions about reform imperatives.

With a grivitas born of passion for the issue under discussion, he claims: "South Africans are thoroughly bored with people coming out with prescriptions of what we should be doing.

"We're getting to the situation where you get three South Africans together and what emerges is four reform proposals, whether it's for tax or politics. They're closely linked.

"What we need to realise is there are no options. That we have painted ourselves into a corner on both the tax front and politically. We have no room to manoeuvre."

His voice rises as he underscores the core issue. "We have to consider what is politically possible. Not wonderful schemes. Not proposals. Not things that will change the face of society. And what is politically possible? I'm afraid, Mr and Mrs SA, that if you look carefully enough, very, very little is politically possible — both in tax and ordinary politics."

Glib assurances on the tax system he does not dish out. Rather, he sees the tax problem as one more dimension in an overall troubled scenario. Enmeshed in a cycle of escalating violence, South Africans appear to be in the middle of a muddle-through mood with little clear direction as to where they should be going.

Tax and politics are part of the same problem, Divaris emphasises. "Because we run our tax system the same way we run the country — for the purpose of control and for preserving Afrikaner and National Party hegemony. We run it without any underlying philosophy. And we run it without faith.

"SA's biggest problem today is that it has no faith. We have no faith in ourselves, no faith in our people, no faith in what we can do and achieve."

Divaris does not forsee any problem for government in balancing the forthcoming Budget. "For the moment it is sitting pretty. Its fiscal base is secure. It knows, even though it can't control its spending, that it has enough wealth left in the country to raid that wealth and make the Budget balance."

The crunch comes later, says Divaris: "The question I'm asking is how are they going to balance the 1990 Budget when they are going to be looking for R60bn to R87bn?

"For some reason, politicians and businessmen have very short horizons. They're using up the easy sources of wealth. They are destroying that wealth because they have created a wonderful system for destroying wealth."

The system, he explains, is the bureaucracy. "It is going on like a doomed train rushing at 100-miles-an-hour down the track that leads to the bridge that's been blown up. They're enjoying that ride. As long as there's rail in front of them, they're stoking the fires. We can only hope we won't be around when they reach the bridge that isn't there."

The bureaucracy, he points out, grows bigger at the rate of 20% every year. "Most of our money gets thrown away on salaries of bureaucrats. The talk is that more than R1bn rand a month is spent on salaries."

WHAT is called for is a change in philosophical outlook, he notes. Until then, you can't change institutions. "Until that and our morality changes we are going to carry on as we are at the moment. I think it is leading to the path of destruction."

He believes the massive bureaucracy on the one hand and big business on the other are destroying the country. "Big business blatantly manipulates the tax system for its own benefit. You just have to look at the collections coming from big companies and the mines, for example. Their contribution on a proportionate basis is miniscule because they have used the system."

Instead, he believes, big business needs to examine its own behaviour.

"What it's doing at the moment is demeaning. Where was it all this time? Now it's jumping up and down when it sees the cost of the system from which it's been benefitting all these years. Now it's running around like a chicken with its head off.

"Let's hope the cost increases to such a point that big business sits down and thinks more deeply about what it can do to make the long-term changes needed."

As he says, he can't tell big business what to do. But he suggests they analyse their long-term interests. "Not just the next reporting date. You know, one of our major faults in this country is our greed for unearned wealth."

Big business, he notes, might decide it would pay them in the long-term to stop asking for favours from government. "They might just perceive that the favours are destroying the economy — the individual favours that have short-term benefits but none in the long-term."

Tax concessions; import protection from overseas competition; monopoly powers granted by government; standards imposed to keep competition out; regulated prices; cartels maintained by government.

'ALL sorts of things that have a short-term effect to make the balance sheet look great. We are a country that is run on paper. The bureaucracy judges everything by what is said on paper. And business seems to judge everything by what is said on balance sheets."

One of the problems in SA, warns Divaris, is "we practice a statist philosophy. Government is consistently chosen in favour of the individual. We have the most incredible amount of government intervention, with dire results.

"For example, we have seen the utter destruction of the motor car industry, which is an outcome of our philosophical outlook. Does that stop us from carrying on?"

At the moment the blight is spreading to commercial vehicles. And we're doing this again with the computer industry, with textile machinery. We are doing it with the paper industry. We know these systems fail to produce moral or efficient results. Why do we do it? I believe there are two reasons.

"First and foremost is that we're under the power of a massive bureaucracy, and secondly we are under the power of big business. Between the two of them they are destroying us."

He points the finger at tax authorities. "Despite their professing to be unconcerned with economic realities, they believe they have the right and the duty to secure certain economic results through the tax system.

"For example, they'll destroy particular products for industry through the tax system without any compunction whatever. And they'll favour others. The most immoral propositions can be put to them by Parliament and they'll enforce them."

The policies which are framed, he says, are not necessarily made by any governing body as such. "They're made by vested interests that are seeping their influence into the system and controlling it at a thousand different points."

The same thing happens in tax, he believes. "Years ago, officials in the tax department began saying we must cut out tax concessions, tax expenditures, disguised ways of benefiting vested interests. Since then we have had more tax expenditures, not less."

What role can the Margo Commission on Tax Reform play in improving the tax structure? "It can make as many proposals as it likes. If they are not politically feasible in the context of our philosophy and our moral precepts, they will have no effect whatsoever."

He believes that radical changes that would have a positive effect would be defeated by vested interests. "We have had this before. We have had radical proposals where an immediate change is made. What happens is the old system carries on working as it has always worked. In the end, the radical change has been whittled away."

AS an example he quotes the introduction of GST. "We then made a significant decrease in income tax, because we had found a new source of revenue. The theory was that the tax burden would be distributed more equitably. It would be more efficient. People would be more productive because there were less taxes.

"That was the story line. It concealed the true facts that a new source of wealth had been created. A new source of revenue means that the man in the street is going to be robbed. That's exactly what happened, because after that income tax and sales tax both went up. So what is the use of making proposals that will be defeated and destroyed by institutional constraints ..."

Prescriptions and reform programmes, he says, are simply going to be smashed in the system. "The same thing applies to tax. I see, with all due respect, the current commission of enquiry is being almost irrelevant. It is delaying tactics.

"Because it has no power it can not achieve fundamental change. It has in fact enabled gross abdication of responsibility of the authorities. In the last few years the authorities have simply abdicated from their responsibility of running a sound, reasonable, efficient and — above all — moral tax system because the commission is going to look at it all. It has been a device for not doing anything about the tax system."

THE SHARP END/Peter Wilhelm

Happy, happy

SO THEN ... it seems that we're the fourth happiest people in the world. This applies to white South Africans; blacks are the 14th happiest, more so than the people of France and Spain, but less so than Chileans. All this according to the World Happiness Index, compiled by a London-based market research outfit.

The Index lists the top 20 happy nations. In descending order of well-

the economy and politics. But British gremlins have only to say:

The Japanese are worse off than the French because they have to get up early in the morning to invent new microchips to go with their fiche (an