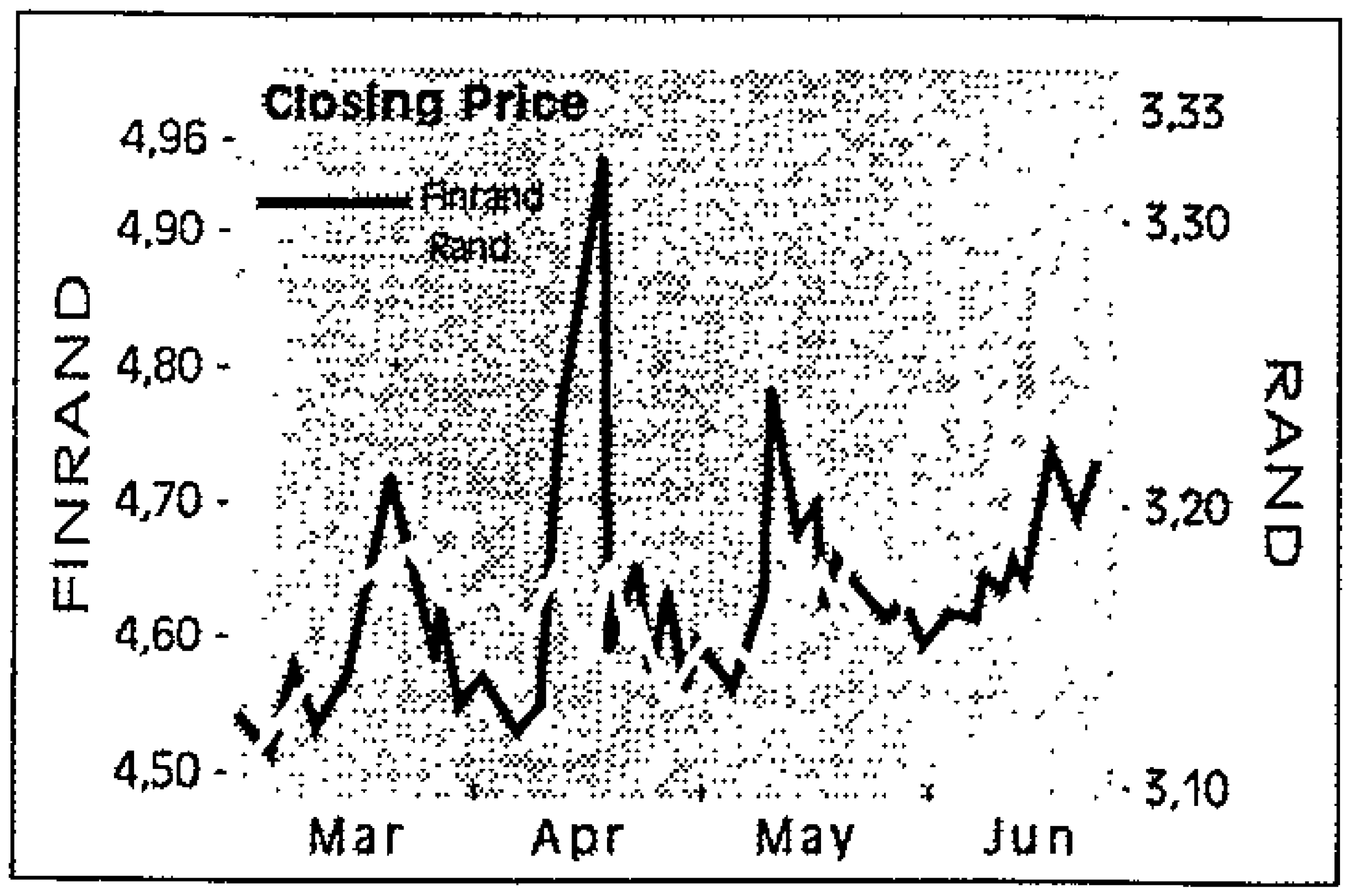
ECONOMY – GENERAL
1993

Future of finrand hangs in balance

Star 1/7/93

By Claire Gebhardt



Is the finrand to be phased out?

That's the question everyone is asking after a report from Brussels that Reserve Bank Governor Dr Chris Stals had set a four-year timetable for its scrapping.

Not generally known is that it was not part of his official speech at the Brussels conference.

Several experts were surprised that he would have committed himself to a four-year timetable.

Reserve Bank officials were equally mystified.

Cause for concern is both the parlous state of foreign exchange reserves and the fact that the finrand is an integral part of the debt standstill arrangements, which have at least another seven years to run.

Stals's move presumes a political settlement, an end to substantial net capital outflows, a substantial narrowing of the discount on the financial rand, and better foreign reserves.

At present, the reserves cannot cover even two months of imports.

Doing away with the finrand would still leave intact the debt-equity swop mechanism and money would move out at the prevailing exchange rate.

However, an informed source said yesterday Stals had argued of late that scrapping the finrand system would most probably occur in circumstances where the debt standstill was lifted.

The scrapping of both simultaneously would ensure parity between foreign creditors on the one hand and foreign investors in bonds on the other.

The interim debt standstill lapses at the end of the year and a final debt accord is expected to be in place at the beginning of next year for the repayment of the remaining $5 .5billion caught up in the standstill net.

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Crucial factor

"In three or four years' time the amount of standstill dollars will have fallen significantly and the importance of the standstill will be diminished.

"In these circumstances, Stals could lift the finrand without prejudicing foreign creditors," the source said.

A crucial factor, however, is the size of the financial rand discount.

Creditors with foreign debt caught inside the standstill net in general have been reluctant to take out their money through the finrand system because of the penalty of a wide discount on the finrand — now about 30 percent.

Scrapping the finrand would obviously also have an adverse effect on the commercial rand — which could lead to inflationary pressure.

However, economists said this week that Stals appeared to be banking on renewed access to IMF facilities within the next few months, which would improve SA's credit status in international markets, making it easier to raise private finance overseas, and thereby strengthening foreign reserves.

This would not only enable the Reserve Bank to defend the rand, but could also persuade foreign bank creditors to retain their exposure to SA.

The IMF will obviously not fund capital flight, but if SA were running a current account deficit because of pressure on the balance of payments in years to come, it could, in certain circumstances, apply to the IMF for assistance of up to R16 billion.

Tax experts slam ANC levy proposal

Star 1/7/93

By Claire Gebhardt

Preposterous, unrealistic and "tantamount to stealing". This is how tax experts and economists describe an idea floated by ANC deputy head of economics Tito Mboweni for a "reconstruction levy".

Mboweni mooted the idea in an article in The Star this week, as a possible approach to redressing apartheid's imbalances. The idea is based on Germany in the post-World War 2 period, where individuals and corporations had to pay half their 1948-49 assets into an "equalisation fund", either as a lump sum or as quarterly payments for 30 years. (49)

Price Waterhouse tax partner Chris Frame said that if the ANC was looking to employ half the population in the civil service, this was an excellent way to do so.

"Attempting to evaluate assets is a ludicrous idea when we can't even handle income tax at the moment.

"It would make more sense if particular assets were targeted, but then everybody would switch out of them immediately, and if it were cash, it would simply disappear."

Nedcor's Edward Osborne said he questioned whether overall effective levels of tax could be increased still further: "The idea is preposterous and ridiculous. It will increase direct taxation," he said.

For agreements to be credible they must also be enforceable, warns **Robert Klitgaard**

Build in 'arm-twisting' clauses

Star 1/7/93

PRESIDENT de Klerk and Nelson Mandela will soon be speaking with leaders of the World Bank and the International Monetary Fund about aid for South Africa. They will be asking for money and technical assistance. Perhaps they should ask for something more: "We don't need foreigners to tell us what to do, but we do need your help in guaranteeing any multiparty agreements we reach."

Everyone acknowledges that South Africa needs a credible commitment to the rules of a new economic and political order. As Democratic Party constitutional expert Colin Eglin remarked recently, South Africa's major parties "have to reach agreement on areas like socio-economic reconstruction and other development priorities, including the efficiency of the public service, otherwise there will be constant dispute at the highest level of government, making it unworkable".

A recent World Bank study of South Africa's economy suggests that a credible agreement is more important than the particular policies chosen.

While the analysis indicates that investment (and exports) do respond to appropriate macro policies, the single most important factor in stimulating investment, borne out by international experience, will be *investor confidence*. This will in turn come about through the implementation of *sustainable, consistent* and *credible* policies on the economic front, as well as *overall political stability*.

The italics are unusual in starchy World Bank prose. But political scientist Barry Weingast also feels compelled to italicise in his recent worldwide survey of "The Economic Role of Political Institutions".

"Providing for the security of a private market economy," he concludes, "requires a set of political institutions that *credibly commit* the State to those markets — ie, that limit future political discretion with respect to economic decisions."

I find this point fascinating but frightening. Yes, SA's negotiators must reach an agreement on good economic and political principles. This will be hard. But even if they succeed, it won't be enough. To be effective, the agreement must be credible. And to put it bluntly, how can anyone believe that any agreement reached during the next year will be honoured in the future?

Agreements of every kind are seldom credible without enforcement. Societies with weak enforcement mechanisms for contracts and loan repayments, for rights and laws, suffer in many ways. Business and labour, farmers and entrepreneurs, all will forgo some useful transactions for fear that, if one side fails to live up to the bargain, redress cannot reliably be sought.

It has been said that a fundamental economic right is the right to be sued, because this is essential for contracts to be credible.

Part of the enabling environment for free economic activity is that agreements once reached can be credibly enforced or guaranteed by third parties, especially by the government. Notice that the third parties do not specify the details of commitments. Rather, through the promise of enforcement, third parties guarantee the commitments that independent agents wish to undertake.

A number of actors and constituencies are bargaining over the creation of a new political and economic order in SA. How can they count on any agreement they reach? How can we? And if enforcing an agreement is suspect at best, might the parties find it difficult, even impossible, to reach an agreement — even one they all would like to reach? To say that the future government will enforce a multiparty agreement is, to many people, not a sufficient guarantee.

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I am not privy to the negotiations in SA. But I fear that important commitments may not be possible because the parties cannot count on enforcement. And I fear that even if negotiators do reach an agreement, it will not impress some of those who need impressing — including foreign investors and the like but, most importantly, fearful and suspicious South Africans of all races and classes.

We seek a mechanism to make commitments about the new economic and political order "credible and stable". Might international institutions help?

Could Messrs Mandela and De Klerk ask international "third parties" such as the World Bank and the IMF to help enforce any agreements that are reached by South Africans?

It should be made quite clear that what is desired is their guarantee, without international institutions becoming involved in the negotiations or attempting to influence the solutions. Might such a promise of enforcement facilitate negotiations? And thereby make any agreement reached more credible?

"Enforcement" is of course a scary concept. But let's not allow the word to derail us prematurely. Sometimes it will be enough to have a third party monitor the agreement and inform everyone that it is or is not being met. Sometimes it may be sufficient to guarantee each party to an agreement that, if the agreement is violated, the international community will provide compensation.

Sometimes there may need to be the threat of penalties to anyone who violates his commitments. Here one might imagine a number of possibilities, some specific to the transgressing party and other penalties applied to the country as a whole, such as jawboning and international criticism, the withdrawal of foreign aid, or even the enactment of various mild to strong sanctions.

My qualitative point is this: The international enforcing of political and economic agreements freely and independently made by South Africans could open up new possibilities for successful negotiations. And it would enhance credibility, thereby spurring investment and political confidence.

By all means let De Klerk and Mandela propose to international agencies a new Marshall Plan for SA. But let them also discuss guarantees and enforcement. Just as the ability to be sued enables private firms to enter into credible contracts, so may the ability to be penalised internationally enable credible political settlements to be negotiated.

● *The author, a former professor at Yale and Harvard universities, has recently been appointed a professor of economics at the University of Natal.* □

Manuel's changed manifesto

W/mail 2/7-8/7/93 (49)

ANC economics supremo Trevor Manuel is in the hottest seat in Plein Street. **REG RUMNEY** *reports*

HIGH up in the African National Congress' Plein Street HQ, department of economic planning head Trevor Manuel grapples with the accusation of being in favour of a socialist "commandist" approach to the economy.

Many governments, he says, have been or are "commandist" and he mentions the role of MITI in Japan and how the German government leaned on the private sector to invest in the former GDR on unification. These governments are not necessarily "socialist commandist", he reckons.

This is the same Trevor Manuel who not so long ago raised the ire of white South Africans by using the United States as an example of how capitalism failed. He still points to 25 percent of Americans having no access to health care in one of the richest countries in the world.

But there is no longer talk of nationalising the commanding heights. Manuel has mastered the economic terrain, offering a more sophisticated vision of economic policy. For instance, he acknowledges the price of reintegration in the world economy will be pressure to liberalise the economy, and spells out the ANC's differentiated approach to trade barriers — an approach, moreover, which fits in with a broader industrial policy.

The emphasis remains on the state's responsibility for economic policy, and affirmative action and beefing-up of anti-trust policy are on the cards. Also, he vows to make institutions such as the Industrial Development Corporation, the Small Business Development Corporation and the Development Bank more accountable.

The ANC's May 1992 policy guidelines dealt directly with the question of possible state intervention in the economy. Business hailed a playing-down of nationalisation. And there was, and is, a perception that the leadership of the ANC had been won over by the persuasive logic of the white elite and that most ANC supporters did not necessarily understand or approve of the shift.

Manuel points out that the May 1992 policy guidelines went further than any other policy process in South Africa in trying to bring people along with it through a process of widespread workshopping at regional conferences.

The document, in his view, relinquishes a hard-core position on state involvement in the economy in favour of a flexible position that sees the key issue as being how the state responds to needs or equity and growth, rather than terms of ownership.

That document is the cornerstone of policy. "The ANC's department of economic planning," he stresses, "are custodians of adopted positions rather than makers of policy."

Trevor Manuel ... Mastering the terrain

Asked about the state's ability to resist pressures for overhasty solutions, Manuel says frustrations are high now, partly because the negotiations have dragged on for three years and partly because of the worsening economy.

"There will always be a difficulty about the speed with which you can tackle problems," he observes. He is well aware of the dangers of macro-economic populism. "There will be intense debate about these issues. The problem is the phase of the debate about these specifics is not as deep as it was in the run-up to the policy conference."

Obviously, Manuel is concerned that the options of the future state have been constrained by the spending record of the previous government.

"Our constituency must clamour for housing," he notes. But he says a shortage of 1,4-million units will cost the state billions more in expenditure. The state cannot assume responsibility for that backlog alone: "We need creative solutions for the state to up its contribution of 15 000 houses a year. At all times we need to be mindful of the macro-economic balance."

Besides overall spending, Manuel echoes calls for shifts in allocation within the Budget. In the last Budget, R3,7-million was devoted to the Special Defence Account, primarily for weapons acquisition. He contrasts the boasts by Denel, a beneficiary of this account, about its low-level satellite with the widespread housing shortage.

The thrust of his observations about future economic policy are that the state must shoulder the burden of a policy integrating macro-economic, industrial and development policy.

"The Building Industries Federation says 300 000 houses a year need to be built and its members can deliver these. Last year the public and private sector together did not build more than 35 000. A question arises about the capacity of the building-materials sector to supply all these needs and the speed at which they can do so. There is also the question of the efficiency of the markets in the materials-supply sector, and this may be linked into anti-trust policy."

Here he mentions the cement cartel. "You can import cement of the same quality more cheaply." This line of reasoning would imply a lowering of tariff barriers, and could lead to a loss of jobs.

Manuel says the cement industry is relatively capital intensive, and its loss may have to be balanced against the needs of another industry with many jobs. "You need to look at how much of the housing backlog the fiscus can take care of and what instruments you have to design to bring private sector to the party."

The private sector, interested now only in a small, wealthy segment of the market, cannot sit on the sidelines, he says. "The problem remains that, as long as people are homeless, there will be a lot of pressure on the state to respond."

The National Economic Forum holds out some hope of bridging that gap by achieving a social accord between business, labour and the state. The NEF, he says, needs to be strengthened and properly resourced.

Manuel has already stirred some controversy about the NEF. A paper delivered to a South African Clothing and Textile Workers' Union conference on June 18 has been interpreted as a first shot across the bows of the union movement in a war over who controls economic policy.

Manuel says the ANC is committed to the NEF, and reiterates that no government has a monopoly on wisdom. There is a danger of the NEF and a myriad of other forums all talking at cross-purposes. The state has the ultimate responsibility for macro-economic policy and, though such policy will be touched on in these forums, elements of macro-economic policy cannot simply be separated out. He insists there must be more control of government spending, including the setting up of a fiscal commission. Now committees in each government department decide on spending without an overall strategic plan.

As outlined by Manuel, then, the ANC approach is no succour for those who believe in a smaller, less powerful state and the primacy of free markets: neither is he talking of pinning hopes on growth through inward-looking redistribution, or relinquishing overall control of economic policy to any grouping.

'Stalsjacket' ripped apart

W/mail 2/7-8/7/93 (49)

By REG RUMNEY

ECONOMIST Terence Moll has launched possibly the most astringent criticism yet of the Reserve Bank's present monetary policy — dubbing the policy a "Stalsjacket" on the economy.

Moll's criticism — delivered during a speech at a one-day seminar to launch the publication of *State & Market in Post-Apartheid South Africa*, edited by eminent economists Merle Lipton and Charles Simkins — drew a sharp response from Standard Bank chief economist Nico Czypionka.

Moll's criticism came in the updating of a paper he presented on Macro-Economic Policy in Turbulent Times. He concluded that the economic future holds out not the popularly supposed danger of macro-economic populism, but rather one of economic stagnation.

"The chances of populist agendas leading to disaster are smaller, but could still materialise," he said. This was largely due to the stubborn focus on inflation by the Reserve Bank.

Moll's paper reviews macro-economic policy in and before the 1980s. He characterises the period before the '80s as conservative Keynesianism; in the '80s, the policy was one of "pragmatic monetarism" associated with the then Reserve Bank governor, Gerhard de Kock.

Up to and during the De Kock era, he finds: inflation was moderate and predictable; current-account management was fair; management of the capital account was weak.

The economy grew slowly during the 1970s and sluggishly during the 1980s, largely due to turbulent world conditions and the constraints of apartheid. Moll believes, however, that the management of the macro-economy during those years was not as bad as is supposed.

Growth could have been worse; contrary to popular belief, the capital-labour ratio was acceptable. However, exchange-rate policy did not support a long-term industrial-exports strategy. The dubious composition of state spending during the '80s means the ill effects of pot-holed roads and too few phone lines will be felt in years to come.

At the end of the 1980s, Chris Stals' ascension to Reserve Bank governor, said Moll, heralded an era of "principled monetarism", of high real interest rate and keeping the rand strong. "The theme is 'fiscal discipline will lead to joy eventually' — but when?" he asked, noting the four-year recession now seems permanent.

He accused Stals of "hugely exaggerating the cost of inflation", pointing out that much more will be needed to cause the economy to boom than conquering inflation. Investment will not grow dramatically because of the way aggregate demand has been crushed. And he expressed concern about exchange-rate policy.

The Normative Economic Model, he said, is a supply-side document that falls into the "Stalsjacket" and disregards exports.

The effect of four years of recession, exacerbated by Stals' policies, are lower inflation, export problems, lower demand and investment, a weakened labour movement and a weaker government financial position, he said.

For the new government this means:

- Few immediate resources to respond to pressures for government spending.
- The first priority will be to get the deficit before borrowing in shape.
- Low investment levels

In summary, Moll said it was a recipe for persistent economic stagnation and disaster.

Czypionka disagreed strongly with what he said was Moll's assertion that inflation was not a problem in the '70s and '80s. "From expansion point to expansion point, it hit ever-higher peaks." If no action had been taken, there was the real danger of hyper-inflation. Moreover, the ever-growing demands of the state had to be counter-balanced by tight monetary policy or inflation would have been even higher.

Czypionka added that international pressures demanded a regime of real interest rates at all times. If the Reserve Bank had not adopted this policy, he said, South Africa would have run into serious balance-of-payments problems.

Capital outflows would have been greater if interest rates had not been kept high, he said, and referred to the arbitrage element of interest rates, with trade finance constraining interest-rate policy.

Exchange rates, he opined, had not been actively managed. The bank had allowed the market to determine exchange rates, and had never leaned against the wind.

Moll, an economist at Old Mutual, stressed that he was speaking in his personal capacity. The only real establishment criticism of Reserve Bank policy, however, has come from the Old Mutual-Nedcor grouping.

BUSINESS

Manuel's changed manifesto

Wkmail 2/7-8/7/93 (49)

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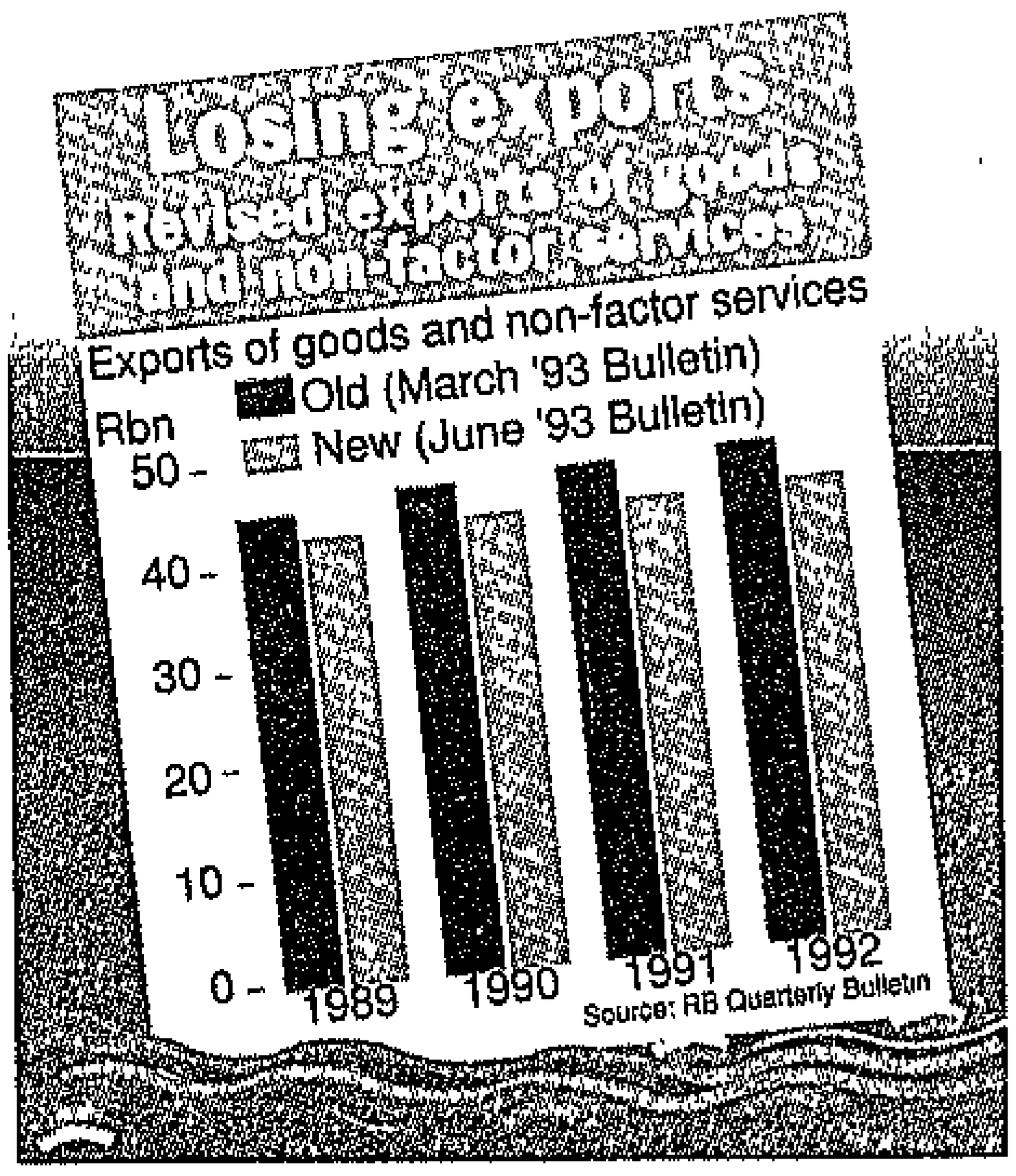
NATIONAL ACCOUNTS CHANGE

49

FM 2/7/93

Export figures published in the national accounts have been revised substantially downwards in the latest Reserve Bank *Quarterly Bulletin.* This follows revisions to trade figures, as from 1946, and the results of a census of foreign transactions, liabilities and assets which the Bank undertook in 1989.



The largest revisions are in the period from 1980.

As a result, there has been a change in the residual item — the amount subtracted from gross domestic expenditure to bring it in line with gross domestic product by income/output, published by the Central Statistical Service. This item is a source of anguish for analysts of national accounts. The size of the item, and the large revisions often made to it, highlight the difficulties of measuring GDP

Other national accounts statistics are to be revised next year to bring them in line with Central Stats data. And a change in the base year, for calculation of constant prices, from 1985 to 1990, is also due soon.

INFLATION AND GROWTH (49) FM 2|7|93

Breaking out of the spiral

The broad monetary aggregate M3 has fallen for the second month in a row — from R199bn in March to R197bn in April and R194,7bn in May. If the latest preliminary estimate from the Reserve Bank is confirmed, 12-month money supply growth is running at only 3,72%. And, from the mid-November base, there is a seasonally adjusted annual decline of 1,56%, against a guideline range of 6%-9% growth.

So the battle against runaway growth in M3, which peaked at a 12-month rate of 27,9% in August 1988, is well and truly won.

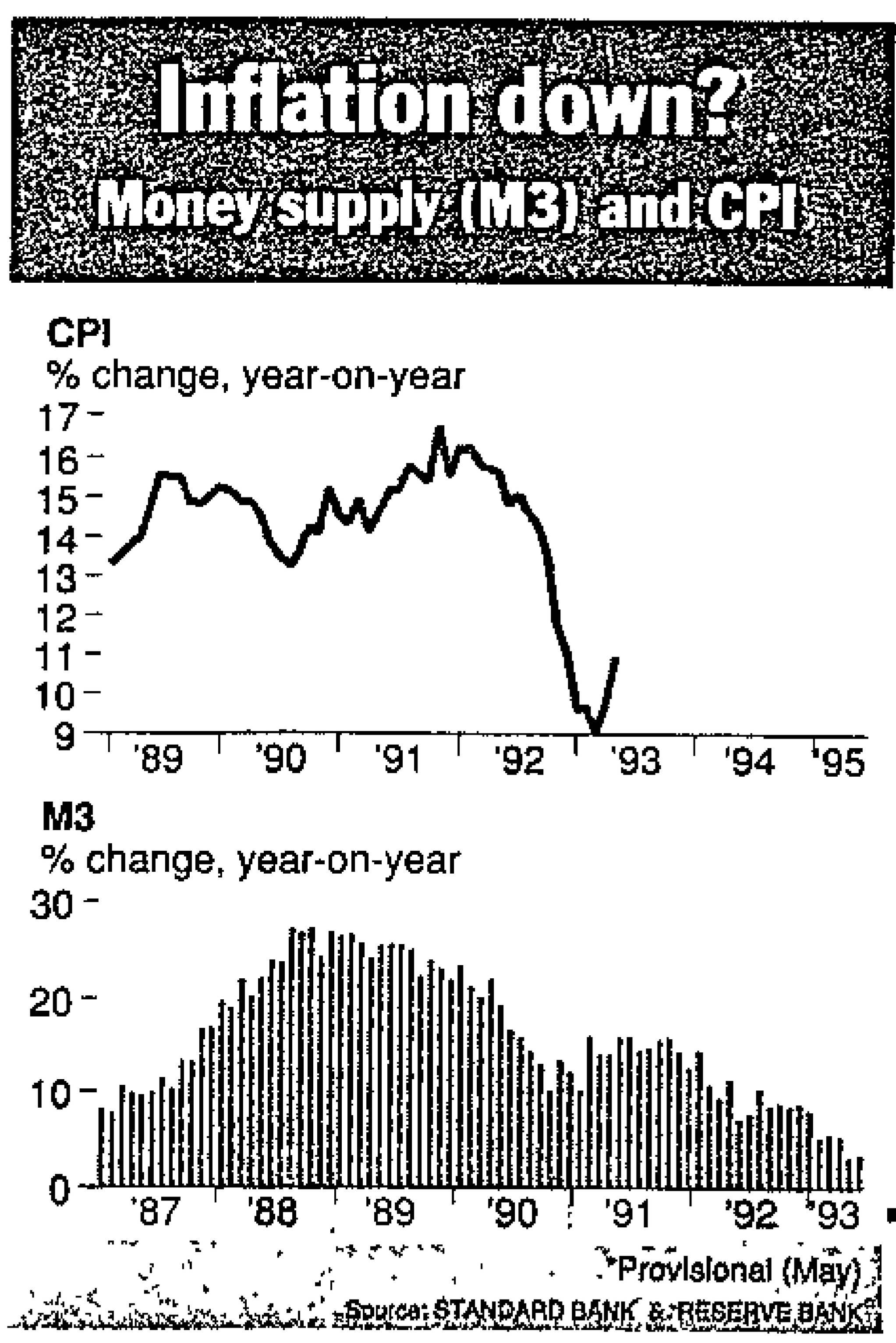
This improves the outlook for low inflation in the medium term. It might blip up for a variety of reasons, mainly technical, in months ahead, but this will be countered for a while by lower oil prices on international markets *(Economy* June 25). And it may show renewed strength when the economy recovers and gains momentum — particularly if government spending continues to rise faster than revenue collections and GDP. But, over the next year, it should rise far more slowly than in the past.

This is an appropriate point to evaluate monetary policy and the economic outlook.

Though an outflow of capital has been partly responsible for the recent fall in money supply, a decelerating growth trend has been in place for some time and is now reflected in lower inflation

Comparative stabilisation of prices is a triumph for monetary policy. The downside is that, if it is not accompanied by reforms in the goods market, economic recovery will be constrained.

The rate at which money increases puts a limit on nominal growth in the economy. But it can't determine what proportion of nominal growth is real and how much is due to rising prices. Other policies are needed to maximise real growth.



In an ideal (and largely theoretical) economy, with no constraints on the supply of goods, money supply growth would closely track real growth.

If supply of goods matches demand over a period, there can be no build-up of underlying inflation. There can be temporary or cyclical disturbances when supply and demand for goods are out of kilter but, in the longer term, if productivity improves along with demand, there is no reason for prices to rise continuously.

Profits and wages & salaries can rise, without causing inflation, if productivity rises at the same pace. This would be a truism but for the widespread perception that an inflation-beating rise in returns (profits or remuneration) means beating inflation. Unions that negotiate across-the-board wage rises out of line with the increase in productivity and businesses that routinely jack up prices without adding additional value are cheating themselves. Inflation will erode their nominal gains.

There is no ideal economy. Even Germany and Japan, which at times reported no inflation and strong growth, have become economic casualties. But that's no reason for not attempting to remove the grosser distortions in the SA economy.

These include tariffs that prevent cheaper imports from competing with domestic goods, exchange controls that force a handful of domestic companies to dominate the market because of a dearth of other investment opportunities, and downward rigidity in wages.

With inflation falling, there is room for nominal interest rates to fall further. But, if this is to achieve growth, the other problems will have to be tackled promptly.

☐ In the 12 months to April, the narrower monetary aggregates grew as follows: M0 14,2% to R14,4bn; M1A 26% to R41,9bn; M1 16,7% to R71,3bn; and M2 2,1% to R168,4bn. ■

LIQUIDATORS

Creditors rebel

Some creditors of KPL-Etsa, an electronics company in liquidation, have petitioned the Master of the Supreme Court to replace the provisional liquidator, claiming that he — Ernst & Young's Philip Reynolds — is showing undue preference to the major creditor, First National Bank. The Master was due to give a ruling this week.

Though not unprecedented, the action of creditors who petitioned the Master's office last week, protesting Reynolds's attitude, is unusual and well-orchestrated. Apparently at Reynolds' behest, the attorneys originally involved in the matter, Eiser & Kantor, have been augmented by Bell, Dewar & Hall.

Reynolds declines to discuss the issue, except to say that he regards it as *sub judice* and the action of the creditors, in copying their faxes to the *FM*, amounts to trial by the media, which he finds distasteful.

The underlying issues were reported in the *FM (Economy* March 19 and 26) Creditors claim they were misled by FNB reports on the status of KPL-Etsa when the bank was aware of the company's precarious financial position. Creditors also argue that the bank was in virtual control of the company in its final trading months and that FNB may have been trading recklessly The bank says it will oppose any action based on such allegations

Thirty creditors have petitioned for Reynolds' removal, stating: "We . are extremely dissatisfied with the appointment of Mr Reynolds . I hereby wish to stress that this is to be regarded as a formal request to remove Mr Reynolds from his office of provisional liquidator in terms of Section 379(i)(d) of the Companies Act. However, should our complaints in this regard not be given the appropriate attention, we would have no option other than to approach the court in terms of Section 379(2) of the Act."

At the root of the controversy is the question of whether money in the estate of KPL-Etsa may be used by proven creditors to bring proceedings against the bank on the grounds of the bank's alleged reckless trading. Eiser says Reynolds did make funds available for a reckless trading hearing, which has not yet been adjudicated. The new attorneys will not comment. Nor would the Master's office say anything.

One of the creditors, Peter van Broekhuizen, of HY Designs, claims it is improper that creditors who have proven claims cannot use money in the estate — "rightfully ours" — to pursue their action against FNB. ■

FINANCIAL SERVICES FM 2|7|93

In from the cold

Financial Services Board executive officer Piet Badenhorst is to investigate how to measure the strength of financial conglomerates. His report, due next year, is intended to establish "to what extent the financial strengths of the various components in financial conglomerates complement each other ".

(49) 3/7 – 7/7/93

Govt ti by nati

Joint control by all major political players over key national areas will soon be a reality with the institution of the transitional executive council and its sub-councils — mainly to facilitate the so-called "levelling of the playing fields". This will certainly transform government and decision making in South Africa during the run-up to the election.

But on several levels the ground has already been prepared for this transition to joint control.

During the past few years several forums have been established in important and contentious areas and have currently became an integral part of decision making. An Education Forum is being put together.

The major national and regional forums now number 22 — with the National Economic Forum, the new Local Government Negotiating Forum and the National Housing Forum the most important and influential.

Most of these forums are representative of a wide spectrum of disenfranchised people, but not all include government representatives.

Most consult with the public, while others mainly draw on the expertise of professionals.

It is still uncertain whether all will function after the election.

The National Economic Forum is set to play a key role next year when it will most likely help draft a provisional budget in the absence of a parliamentary sitting before the election.

The forerunner of these forums is the National Training Board set up shortly after new legislation in 1981 made its formation possible. But nearly all others sprang up after 1990 and their wide involvement is a far cry from the old advisory boards.

CHRISTELLE TERREBLANCHE and **SHANNON NEILL** focus on nine of the more important forums:

Western Cape Economic Development Forum (WCEDF)

THE WCEDF was formed in April 19[illegible] and officially launched in December the same year.

It anticipates filling an important position in a future democratic government.

All members of the WCDEF are plenary members. This group meets quarterly and meetings are open to the press.

The plenary appointed a 16-member steering committee with four representatives from each of the four major voting blocs — organised labour, organised business, community and political organisations and regional and local authorities.

In addition, there are two non-voting blocs including development funding and service organisations, central government and the parastatals.

It established six comissions. These deal with:

- Short-term job creation through public works programmes, special employment projects and similar initiatives. Skills training will be an integral part of all job-creation programmes. The commission will identify agencies to implement employment programmes, rather than executing projects itself.
- Urban development which interacts with other relevant forums working in this area.
- Education and training is developing proposals to address questions of literacy and numeracy, vocational training and organisational capacity building.
- Economic growth and restructuring will examine questions of attracting investment; export promotion; co-ordination of tourism development; co-ordination of small, medium and emergent enterprises support; and industrial growth restructuring strategies.
- Rural and agricultural development, focusing on the Winelands and the rural areas of the Western Cape.
- Development strategy integrating the work of all the commissions.

National Local Government Negotiating Forum (LGNF)

THE LGNF was launched on March 22, 1993. Its objective is to racially intergrate local government at all levels and it anticipates replacing the Council for Co-ordination of Local Government Affairs.

The LGNF has a statutory group involving local government, provincial administration and central government, and a non-statutory group working under the auspices of the South African National Civic Organisation (Sanco).

Its three working groups meet on a fortnightly basis. They report to a management committee which in turn reports to a 60-member plenary group. The LGNF holds regular press conferences to inform the public of its progress.

Its working groups deal with:

- Legal and constitutional matters, planning alternative local government legislation and examining various legal and constitutional policy options and models.
- Services and finance examining alternatives to central government funding
- Existing training boards and institutions, looking at how they can be opened up to service all people Options include affirmative action programmes which will integrate departments which are currently racially segregated

Water and Sanitation 2000 (WS2000)

THIS FORUM, WS2000 was launched in 1991 by a group of professionals. This was extended to include other interested parties in January 1992 when the Standing Committee on Water Supply and Sanitation (SCOWSAS) was launched to compensate for the sector's inability to meet current needs. It is now known as either WS2000, or SCOWSAS.

Members of the standing committee include the Rural Advice Centre, ANC, Sanco, Congress of South African Trade UnionS (Cosatu), Umgeni Water, Rand Water Board, Transvaal Provincial Administration, Inkatha Institute, Department of Water Affairs, Association of Water Boards, Human Sciences Research Council, SA Institute of Civil Engineers, Valley Trust, Pan Africanist Congress (PAC), Durban Water and Waste, Development Water and Waste, Development Bank of South Africa, Department of National Health, Azanian Peoples' Organisation (Azapo), Water Research Commission, Watertek, Water Institute of Southern Africa and the Association of Regional Services Councils.

The standing committee meets monthly to review work done by sub-committees and task groups At present it is left to committee members to inform their constituencies of progress.

SCOWSAS focuses on three areas:

- Education, training and affirmative action in the sector.
- Determining which institutions best meet the needs of the country.
- Deciding the costs of maintaining viable services

SCOWSAS is not a negotiating body, but the feeling among some members is that it should be one.

The National Housing Forum (NHF)

THE NHF was formed in August 1991. It initially planned to deal with problems surrounding hostels, but extended this to include broader housing issues.

Members include the ANC, Azapo, Inkatha Freedom Party, PAC, Sanco, Material Manufacture and Supply Sector, Construction Consortium, Association of Mortgage Lenders, Life Offices Association, South African Co-ordinating Committee on Labour Affairs (Saccola), Cosatu, Independent Development Trust (IDT), Kagiso Trust, South African Housing Trust and the Urban Foundation.

The NHF is a negotiating forum involved in internal negotiation and external bi-lateral negotiation with the government.

It will provide a forum for discussion around housing, rather than providing housing itself.

It consists of a plenary which meets four times a year where each party is represented. It decides on recommendations for the co-ordinating committee.

The co-ordinating committee has a member from each party, meets regularly, and is aided by working groups It is responsible for co-ordination and development of policy and strategy proposals

The working groups are staffed by experts and trainee members from disadvantaged organisations. They deal with issues of land and services, end-user finance and subsidies, housing options, institutional structures, integration of the cities,

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and hostels.

The NHF identified 14 issues for immediate attention, of which four required intervention.

These were around the 1993/4 state budget for which a submission on the use of housing funds was presented to the government; negotiation with the government to achieve joint control of the R326-million to be used for upgrading hostels; an attempt to stop the government from selling off state land; and discussion with the government to prevent unilateral restructuring.

The Communication and Participation Committee (CAP) was organised to facilitate communication between constituencies and communities. It issues newsletters to constituencies and key actors.

Border-Kei Development Forum (BKDF)

THE BKDF was formed in July 1992. Groups directly represented are: Ciskei government, South African government, Transkei government, ANC, Cosatu, Democratic Party (DP), National Party (NP), PAC, South African Communist Party (SACP), Sanco, Border Business Action Committee, Border Regional Development Association, Border Services Organisation Forum.

The BKDF meets monthly. It is assisted by an executive committee which meets between monthly meetings. Both report back to each other on proceedings. It is left to BKDF members to inform their constituencies on progress.

The BKDF's specific objectives are to:

- Formulate strategies to alleviate poverty and improve economic opportunities for less privileged communities.
- Focus on employment creation and maintenance.
- Identify policy instruments and opportunities for implementation within specific social and economic sectors.
- Encourage participation in planning and development by all.
- Identify those aspects which will strengthen the economic base of the sub-region

Four working groups, under the auspices of a directorate, deal with economic development, urbanisation, human resources and rural development.

National Economic Forum (NEF)

THE NEF was formally constituted on 29 October 1992. It comprises three blocs: business, labour and government.

The NEF is split into committees dealing with short and long term issues. Long term issues are discussed at monthly meetings, while smaller task groups meet more regularly. Task groups report back at monthly meetings. When decisions are reached at these, a press statement is released.

The NEF aims to examine:

- Economic and related socio-economic issues while aiding the transition to democracy.
- The generation and sustaining of economic growth.
- Social and developmental needs
- Improving utilisation of human and capital resources.
- Linking internal and international economic developments
- Improving participation of stakeholders in econommic decision-making.

Those organisations that do not fall into the required catagories may apply to participate in the NEF if they represent a constituency affected by macro-economic policy, are representative and a national body.

National Training Board (NTB)

THE fourth NTB was formed on May1, 1991, and will run for three years.

The board is appointed by the Minister of Manpower and consists of 24 members — seven each from employers and employees in the private sector, seven from training-related public sector groups and three with expertise and services useful to the board.

It meets three times a year and only reports to the public if a report has been concluded.

It liaises with concerned public groups.

Its objectives are to:

- Co-ordinate, facilitate and promote training.
- Identify needs, deficiencies and problems in training.
- Develop the national training infrastructure.
- Set training standards within the legeslative and training framework.
- Collect information on manpower training.

National Electrification Forum (NELF):

THE NELF was launched on May 14, 1993. Membership includes central government, local government, civic organisations, trade unions, political parties, the business sector, Eskom and a number of development organisations.

It has a plenary which will be attended by stakeholders in electrification and a management committee supported by a secretariat. A working group will be created to advise on conflict resolution at a local and regional level.

NELF believes discussion and consultation with concerned communities to be as important as electrification. Electrification will, therefore, be a result of national consensus.

It plans to liaise with other forums working on related issues.

Its objectives are:

- To accelerate electrification in South Africa, particularly in disadvantaged communities. Residents will be empowered through training in specific skills.
- Bring social upliftment and improved health and living conditions through electrification
- Stimulate economic growth in both the formal industrial sector and the informal sector through electrification

National Consultative Forum on Drought (NCFD)

THE NCFD first met on June 26, 1992, to discuss drought relief measures. Since its inception its focus has shifted from drought response to rural development.

Membership comprises church representatives, civics, liberation movements, unions, business, non-governmental organisations, homeland governments, welfare organisations and central government.

A steering committee administers programmes with the support of a secretariat, an operations room and a number of task forces dealing with water supply, nutrition, employment, agriculture and long-term development.

It focuses on:

- Training communities to organise development in their areas.
- Providing communities with drought-proofing information
- Providing skills training that will aid development.
- Funding and infrastructure development

It has established:

- A national early warning system (NEWS) to identify areas threatened by drought to try and deal with the problems before they become endemic.
- Regional forums to deal with regionally specific problems.
- A water supply task force to establish a water infrastructure in rural communities.
- An employment task force
- A nutrition task force (NTF) functioning through working groups on food relief, surveillance and monitoring projects.

Other forums currently working in South Africa include: The Food Logistics Forum, The Vaal Forum, Durban Region Initiative, PWV Regional Economic and Development Forum, Orange Free State REDF, Eastern Transvaal RDF, Central Witwatersrand Metropolitan Chamber, Kosh 2000 Initiative, Port Elizabeth Single City Forum, Eastern Cape REDF, Natal/Kwazulu REDF and the Northern Transvaal Development Forum

Wealth charge 'beats prescribed assets'

(49) ARG 3/7/93

Business Staff

THE often-mooted reintroduction of prescribed assets as a way to allocate funds for housing black communities is a poor alternative to a wealth tax, says economist Gordon Young of the Labour Research Service.

Prescribed assets amount to a hidden tax on savers, says Mr Young.

"If the previous pattern of prescribed investments is followed, then prescribed assets will be imposed on all retirement funds and benevolent funds. This will have a direct impact on the returns obtained by these funds.

"The pensions and lump sum payouts of all union members who participate in these funds will be reduced. Many of these are low-paid workers whose only savings are held in their retirement funds."

There is no shortage of funds for investment in South Africa, says Mr Young. But there is a shortage of projects that yield market returns.

"Offer the owners of capital an adequate return with acceptable risk and they will invest in infrastructure. Unfortunately, black communities cannot afford to pay market returns for much-needed infrastructure... a wealth tax, not prescribed assets, is the solution."

Mr Young says it would be difficult to extend prescribed assets requirements beyond the life offices and retirement funds. Unit trusts and investment trusts have always been exempted, and it would be impossible to impose prescribed assets on share portfolios held by individuals.

"Anyone who could afford to escape the prescribed assets net would do so. There would be a flight from the life offices — especially their retirement annuity funds — to the unit trusts... Astute investment managers would create new investment vehicles which would enable rich individuals to avoid the net.

"But poor people, ordinary workers and all who are not sufficiently wealthy to afford private investment advice will be caught in the net... and the cost of prescribed assets will be borne by those least able to afford it."

Wealth tax best says economist

ARG 3/7/93 (49)

'Presenting the bill for apartheid' to those who gained most by it

ALIDE DASNOIS
Business Staff

REPORTS that the ANC is considering the imposition of a tax on wealth sent a new flutter through the dovecotes of the rich this week.

But such a tax is by far the best way to raise money to repair the damage done by apartheid, says economist Gordon Young of the Labour Research Service. And the blow to the wealthy would not be as heavy as one might think.

Gordon Young first raised the idea of a wealth tax in an economic policy paper in 1992. He is convinced that it's a much better way than the reintroduction of prescribed assets to redistribute wealth from rich to poor communities.

A tax of 5 percent on all net wealth in excess of R1 million, would yield R500 million a year from the 20 richest families alone, the Labour Research Service nas calculated.

"It can be assumed that several billion could be raised every year from a comprehensive wealth tax".

Mr Young suggests that the tax be imposed for 10 years and that the funds raised be allocated towards social investments by a national development fund.

"A huge dent could be made in the backlog of infrastructural facilities in the black communities. And this would be done without permanently increasing taxes, without imposing new costs on companies, without squandering capital on consumption and without alienating foreign investors (who will obviiously not be affected).

The tax would be imposed on all assets owned by an individual, from houses to sports cars, shares, paintings or jewellery. Though some people might manage to hide away some of their wealth, assets such as houses, bank accounts and shares would be easy to trace — and insurance valuations could serve as a base for taxing other assets.

Such a tax would have beneficial side effects, Mr Young says. Holders of unproductive assets would tend to transfer their funds to productive assets to finance the new tax, unlocking wealth for investment. And the blow to the wealthy would be cushioned by inflation and by capital gains.

"Assuming that their assets grow in value by 5 percent a year in real terms, wealth taxpayers will end up, after 10 years, with assets increased by almost 10 percent in real terms."

The tax would be relatively cheap to administer, Mr Young says.

"In imposing a wealth tax a democratic government will be presenting the bill for apartheid to those who have gained most from it. But when the bill has been paid, the account will have been squared. The country could move forward with the slate cleaned."

Unlocking SA's wealth

ARG 3/7/93

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TOM HOOD
Business Editor

THE only way the country can escape its crippling debt burden is to privatise some of the R550 billion of state-owned assets, says the powerful South African Property Owners Association Sapoa).

The government is borrowing money on the capital markets to fund spending — and a major part of that spending is interest, warns Mr Derek Stuart-Findlay, past president of Sapoa.

Interest on borrowings is now consuming more than 18 percent of total government spending, compared with 10 percent 10 years ago, he says.

"If interest costs were stripped out of the 1993/'94 budget, virtually the entire deficit would be wiped out. The government, therefore, is borrowing on the capital market merely to service its existing debt, equivalent to a 'debt trap'. An ominous legacy is being created."

In an economic upturn, current levels of public sector borrowing could crowd out the private sector in capital markets. Interest rates are likely to rise and strangle any recovery almost before it starts, says Mr Stuart-Findlay in the latest Sapoa newsletter.

Few industrial economies could boast that public spending today was lower as a percentage of GDP than it was in the mid-1970s, but Britain is one example, he says.

Between 1989 and 1992, it raised R235 billion in privatisation receipts, of which R40 billion was raised in 1992 alone.

Globally, R250 billion was raised by governments in 1991 and worldwide cumulative privatisation receipts have totalled R1 250 billion.

"Privatisation has proved popular with a range of governments in Western Europe, North America (Mexico is privatising more than 460 nationalised companies), South America (Argentina is privatising a third of its road network), the Pacific Rim, Asia (including countries like Pakistan and Bangladesh) and at least 30 countries in Africa, including devastated economies like Tanzania, Uganda and Mozambique."

A World Bank study concluded that merely shifting state-run firms to the private sector brought about a positive difference.

In South Africa, about 33 percent of the official workforce is in the public sector. The government controls extensive assets either directly or through para-statals.

As an example, the SA Rail Commuter Corporation controls land holdings worth R1,7 billion.

The public sector is also a major consumer of goods and services, including lettable commercial space.

Mr Derrick du Toit, chief director of accommodation in the Department of Public Works — responsible for 80 percent of all accommodation required by the state — recently said the department leased 780 000 sq m of office space in Pretoria, representing 33 percent of the accommodation in the city's office blocks owned by the private sector.

He said it was department policy that ordinary office accommodation should be erected by the private sector while purpose-designed buildings like police stations and court buildings be built by the State.

With the probable devolution of state functions to regional authorities, there was no need for the state to be involved in further office development, said Mr Du Toit. In future, it would be involved rather in consolidation and better use of existing accommodation.

Mr Stuart-Findlay said: "Sapoa endorses this approach, but believes the public sector also should look towards a substantial privatisation programme of public sector assets."

Total public sector assets had a book value of about R550 billion expressed in terms of 1992 money.

Assuming these assets were sold at book value, deficits of the size anticipated for the 1993/'94 year (R25 billion) could be financed for the next 22 years, said Mr Stuart-Findlay.

"We estimate that if buildings only are taken out of the total and sold at book value, the deficit could be funded for three to four years.

"The principle, we believe, should be that the proceeds of these sale of public assets should not be used to fund public-sector current expenditure by financing deficits, but should rather be used to retire public debt."

The book value of fixed capital stock controlled by general government alone appeared to be about R270 billiobn. Total government debt was about R150 billion.

Assuming a sale of these assets at book value, the whole of the total debt could be retired, leaving a surplus of an impressive R120 billion which was about one-third larger than the size of the total assets of Old Mutual, South Africa's largest life assurer in terms of assets.

By taking this course of action, the government, by excluding interest on public debt, would be able to balance the budget.

JOBS

Gatt gives warts and all verdict on SA's economy

S/Times (Buss) 4/7/93

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JOBS will come from growth. Gatt has become the latest in the number of influential bodies to identify SA's economic ills, and suggest cures. By KEVIN DAVIE.

NOT a sector of South African business has escaped the attention of the General Agreement on Tariffs and Trade (Gatt).

Everything from cars to maize is surveyed in a 189-page report produced ahead of SA's trade policy review by Gatt last month in Brussels.

The report, although largely non-judgmental, gives many clues and raises problem areas which Gatt has identified in SA's economy

The report kicks off by noting SA's dismal economic performance as growth has declined, exports dropped, unemployment risen, the Budget deficit sky-rocketed, machines given preference over people, ownership concentrated and farm debt ballooned.

Control

But SA's importance in the African context is not ignored, the report mentioning a World Bank estimate that it accounts for 40% of the continent's industrial output.

It notes the high disparity of wealth between whites and blacks. It says whites, less than 15% of the population (excluding TVBC states), earn two-thirds of the national income; blacks 25%.

Four-fifths of industrial activity is controlled by four corporations.

"In spite of progress in the area of competition policy, deregulation and privatisation, economic concentration remains high in a number of sectors with consequent strong producer pressure to safeguard vested interests."

The population is expected to double by the year 2010 and the labour force to increase by 400 000 annually. More than 40% of the labour force is estimated to be outside the formal sector.

"Not only will there be additional demands on public spending for social services but also for major investments in job creation and training."

Several reforms have been implemented and the authorities are mindful that the structure of the economy detracts from competitiveness and limits employment opportunities.

Sanctions have limited the pace of economic reform. Their removal should encourage the authorities to create the conditions for an internationally competitive economy.

"The evidence from other countries at similar levels of development and trade orientation gives a clear signal that autonomous trade liberalisation, coupled with prudent and progressive social policies, can bring notable and sustained growth and development.

Moved

"Export-led growth, while beneficial to the balance of payments, is unlikely to immediately affect levels of unemployment, given the capital intensity of the export sector unless labour-intensive downstream industries can be developed."

The report uses published studies to show that the Government's attempt to boost industry near homeland growth points has not worked.

"It has been estimated that total investment per job in the industrial development points has been four times the metropolitan equivalent and other analyses have shown that every job created in a decentralised area has been at the cost of a job in the metropolitan areas.

"Expenditure may have simply moved jobs from one area of the country to another without adding to GDP."

The Industrial Development Corporation's emphasis is to support small and medium business.

"In 1991, 65% of the value of loans authorised under industral financing went to businesses with assets below R10-million and in 1992 such firms received loans of R110-million."

The Small Business Development Corporation (SBDC) says that although R1,4-billion has been budgeted for general export incentive scheme (GEIS) beneficiaries, only R77-million was earmarked for small to medium enterprise (SME) development in fiscal 1990-91.

Government funding of SBDC requirements has fallen from about R100-million in 1991-92 to R18-million in 1992-93.

"However, it should be noted, according to the authorities, that the IDC through its own programme, contributes substantial amounts to the development of small industries."

Textiles

Gatt quotes the Development Bank on import taxes or tariffs: "Protection from imports has strained the capacity of the import authorities; seldom being systematically revised; discriminated against exports; contributed to inflationary pressures; introduced inefficiencies in the production structure; and protected upstream industries at the expense of those downstream with larger value-added components."

This has reinforced a high-cost production structure.

"By attempting to attain self-sufficiency, inefficient industries were allowed to survive, with little pressure from domestic of foreign competition to reduce costs."

Some domestic producers enjoy as much as 490% protection from imports, says Gatt. Import control continues to affect 14% of tariff lines in manufacturing.

Particularly high levels of protection were found in textiles, clothing, chemicals, plastics and non-metallic minerals industries.

"The chemicals industry, dominated by the production of petroleum products, worth R34-billion in 1991, is the largest manufacturing sector."

Fuel users pay high retail prices and various industries are supplied directly at wholesale level.

Cars

"Apparently, Sasol operates a two-tier pricing system, under which export prices and prices to exporters of plastic products are 50% below those for domestic users, so that the local economy bears the cost of exports."

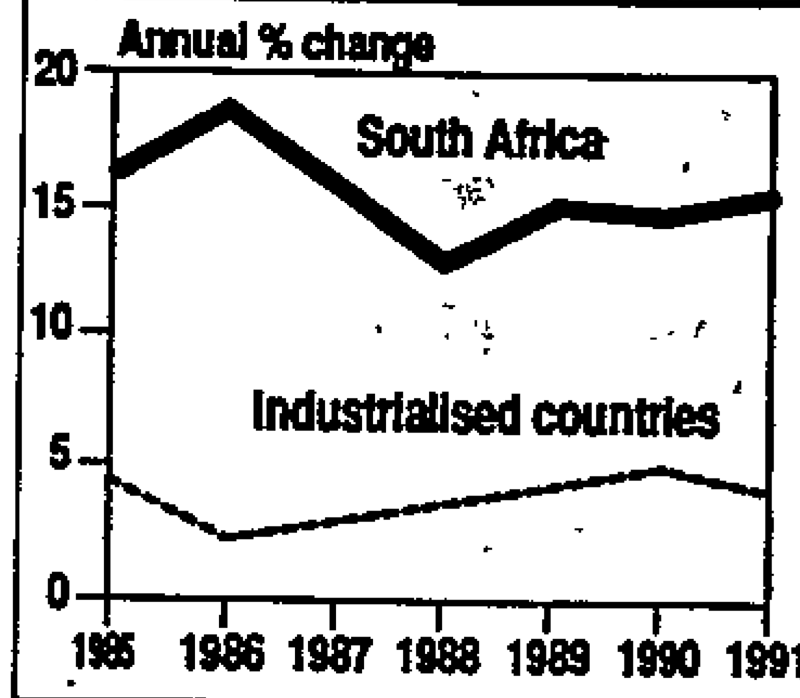
Gatt quotes Business Times in the case of Iscor, saying domestic users complain that it cross-subsidises its exports through a two-tier pricing system. SA users pay up to 50% more than the international steel price.

The iron and steel industry received the largest share of GEIS subsidies in 1991, nearly R400-million, or about 7% of the value of sectoral exports.

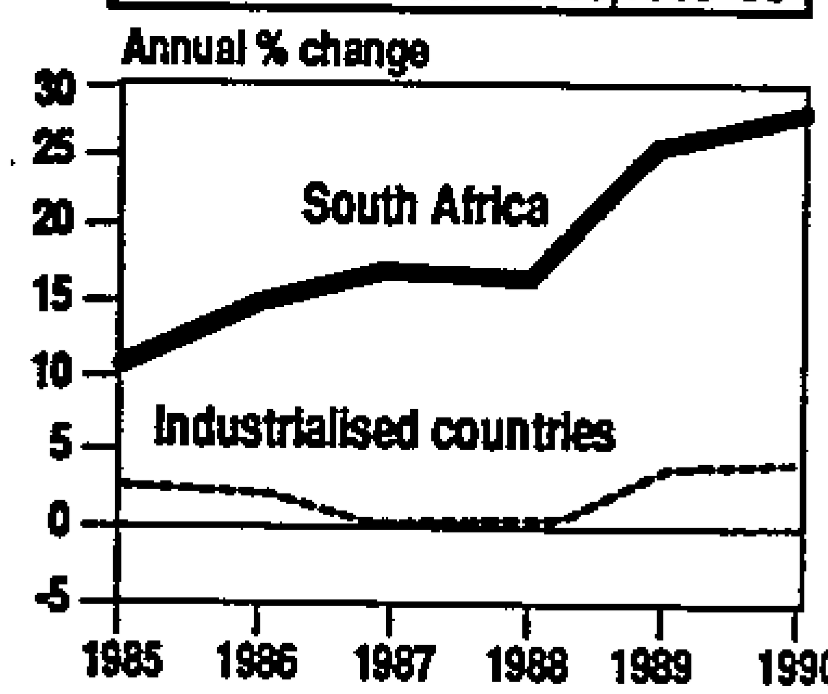
The secretariat says the motor industry local content programme, which has lifted car prices, has had no effect on foreign-currency saving. The trade deficit for motor vehicles rose from R1,4-billion in 1985 to R4-billion in 1991.

GATT: " The authorities have realised that the structure of the economy detracts from competitiveness and limits employment opportunities"

Consumer prices in SA and Industrialised countries, 1985–91



Unit labour costs: SA and Industrialised countries,1985–90



Source: GATT

need a really strong foothold in the

Cuts in tax allowance would boost economy

S/Times (Buss) 4/7/93

(49)

By CIARAN RYAN

A REDUCTION in tax allowances for industry and agriculture would allow the Government to drop corporate tax rates below the current 40%, providing a major shot in the arm for the economy.

A recent report by the General Agreement on Tariffs and Trade highlights the fact that SA's tax system favours capital-intensive industries at the expense of labour-intensive industries because of generous depreciation allowances.

It says most companies paid an effective tax rate of close to 30% in 1991 when corporate tax rates were 50% because of tax concessions. The report adds that many of the concessions which contributed to the differentials have been removed.

Reserve Bank governor Chris Stals says job creation is the country's first economic priority. Yet employment in industry and agriculture, the two largest recipients of the tax benefits, declined more than 300 000 during the current recession.

Revamp

Econometrix's Azar Jammine says the Government should scrap special allowances: "There is no point in tinkering with the present tax system by reducing the allowances. The whole system has to be revamped. A lower tax rate would benefit the entire economy and not just one or two sectors."

Depreciation allowances for industry and agriculture are costing the fiscus more than R12-billion a year in revenue, according to Gatt. The Department of Finance says projects worth a further R12-billion claiming accelerated depreciation allowances in terms of Section 37E of the Income Tax Act have been approved. Section 37E was created for a short period only to encourage capital investment in manufacturing.

Manufacturing industries claimed wear and tear allowances of R6-billion in 1990 — the most recent period for which figures are available. Farmers and agricultural co-operatives claimed a further R6-billion, although agriculture contributes just 4,5% to gross domestic product compared with manufacturing's 22%.

Reserve Bank figures put the country's capital stock at R403-billion. Agriculture's capital stock was valued at R15,6-billion, less than 4% of the total, and manufacturing's at R50-billion in 1992.

"The tax system is clearly biased in favour of farmers," says Econometrix's Tony Twine. "Admittedly, they have faced difficulties in recent years because of the drought.

"Reducing the tax allowances would redistribute wealth away from capital-intensive industries to those making more intensive use of labour and land."

Despite the allowances, fixed investment has dropped by about 8% a year since 1990. Total fixed investment in 1992 was R52-billion, roughly 16% of GDP, compared with 23% in the 1980s.

"In calculating a company's ~~taxable~~ income, the use of an asset is a legitimate business expense like any other cost," says Estian Calitz, deputy director general at the Department of Finance.

"The depreciation allowed for tax purposes should ideally reflect the annual cost of utilising the asset over the period of its useful life. One can debate whether the period over which the asset is written off is correct and this is something that we look at all the time.

"To determine whether farmers enjoy unfair advantages under the tax system, one must look at their capital output ratios and the nature of the agricultural activity. External factors such as the current drought must also be discounted."

Risen

Trevor van Heerden, chief director for tax policy and development at the Department of Inland Revenue, says effective tax rates have risen from 30% since 1991 because of the removal of special concessions.

The corporate tax rate has since been lowered to 40%, although Finance Minister Derek Keys says this loss to the fiscus will be neutralised by the imposition of the secondary tax on companies.

Mr van Heerden says wear and tear allowances vary from one country to another, and are influenced by the prevailing inflation rate and investment incentives. In SA, most equipment can be written off over four to six years. Low inflation countries have longer write-off periods.

Companies will contribute 14,5% of the budgeted tax revenue of R76,4-billion in the current fiscal year. Individuals will contribute 47%. Mines will contribute 1,3%.

Gatt made reference to the scheme which allows mines to deduct 100% of the capital expenditure against income, in particular the "ring fencing" of mines which allows capital expenditure in one mine to be written off against the income of another mine inside the fence.

There was praise aplenty for the changed South Africa at the two-day 'Forum Europe' conference held in Brussels this week — but little sign of increased investment or aid. JOHN FRASER reports

No foreign cash bashing on SA's door

S/Times 4/7/93

(~~48~~) (49) (~~50~~)

FOR years, South Africa was in the wilderness — shunned by Western leaders appalled by apartheid.

The economy suffered because of sanctions, and a visit by a South African politician to Europe would trigger a wave of hostile protests and demonstrations.

But this week in Brussels it was clear the climate had changed: Police didn't have to guard minister Dawie de Villiers when he flew in for a special conference on South Africa.

But while the country is being rehabilitated diplomatically and politically, it is still unable to attract the international aid and investment needed to provide the economic anchor for successful political reform.

Speaker after speaker during the two-day Forum Europe debate, warned that South Africa must not expect Western investors and donors to shower the country with aid and capital, however worthy of reward the changes may be.

Perhaps the most sober assessment came from Martin Kingston, a director of British investment advisers Morgan Grenfell.

Reality

Mr Kingston, who regularly counsels top European companies on investment prospects in South Africa, says he remains cautious.

Unless South Africa proves it can deliver sustainable political reform, there is unlikely to be much increase in Western investment, he says.

"The reality is that there is not an endless queue of impatient, pent-up foreign capital beating at the South African door to be let in.

"It will have to be courted and cajoled," he warned.

Businessmen in Britain are more willing to invest in Azerbaijan than in South Africa, where, because of question marks over the country's political future, it is difficult to evaluate the risk of investment.

The outlook for increased EC aid is also uncertain.

European Trade supremo Sir Leon Brittan and EC Foreign Policy Chief Hans van den Broek addressed the conference.

Both urged that the reform process be speeded up, but neither was prepared to promise much extra aid to help stabilise a newly-democratic South Africa.

Sir Leon warned that the EC was suffering from "donor fatigue".

The most obvious way for the EC to help South Africa would be by admitting it to the Lome Convention — a trade and aid accord linking Europe with more than 60 developing countries, including all of South Africa's neighbours.

Mr de Villiers said that in some respects South Africa was a developing country, despite its sophisticated financial sector, and therefore deserved special help.

However, he admitted that the existing members of the Lome Convention would be suspicious about South Africa's admission.

Current members fear that aid which would otherwise have gone to them would be channelled to South Africa instead.

The fact remains that unless South Africa can plug into the Lome Convention and exploit every avenue of aid, it risks being left behind.

The EC's aid programme to South Africa — worth about R1-billion — is Europe's largest single aid project.

But its focus is mainly on promoting democracy and helping education, rather than on directly trying to boost the economy.

However, it would be wrong to stress the negative aspects of the Brussels debate and to exclude the positive side.

The conference showed that despite the images of violence still appearing on Europe's TV screens, the EC is giving South Africa's politicians — white and black — the credit they deserve.

Convince

As long as business and political leaders of a soon-to-be democratic South Africa do not set their sights too high, there is a fund of goodwill to be tapped.

As Mark Lennox-Boyd put it: "We want South Africa to make it. And we want South Africans to know that we Europeans will continue to play our part in bringing that about."

The challenge for South Africa is to convince this British Minister and his EC colleagues that they need to match words with deeds.

If they truly want to see a democratic, prosperous South Africa, they need to give less praise — and a lot more trade opportunities, aid and investment.

□ *John Fraser is a freelance broadcaster and journalist who has covered the EC for 12 years*

MONEY MARKETS by Tim Marsland

B/Day 5/7/93

Shock at move on inter-dealer brokers

(49)

THE Reserve Bank's move to cut off inter-dealer brokers from its dealing room has raised some eyebrows in the capital market.

The Bank last week released its proposals for changes to the market, which included the gradual implementation of market-makers and fixed trading hours.

It also indicated that it would in future deal only with regulated counterparties such as banks and JSE brokers.

Inter-dealer brokers are to be excluded from dealing with the Bank, presumably because they are unregulated. These brokers fulfil a key role in the market in that they simultaneously bring a number of counterparties together without at the same time having a position in the market.

Some JSE floor traders are suspicious of these operations, possibly because they result in lost profits for the floor traders.

However, inter-dealer brokers offer the fairest dealing system in the market, since all parties that are plugged into an inter-dealer broker have equal opportunity.

This is not so in other areas of the market where the floor brokers, for example, are able to be selective about their dealings, which can give them an unfair advantage.

There are no secrets with inter-dealer brokers, since they do not hide the name of the counterparty as floor brokers are able to do.

In effect, they raise the level of transparency in the market — something the Bank is aiming at. Transparency has been lacking in the capital market and has enabled unscrupulous dealers to spread many false rumours.

Since inter-dealer brokers are the only impartial players in the market, it is not surprising the Bank's move raised eyebrows. It remains to be seen whether they will be able to survive, having been cut off from the mainstream market.

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IMF loan: Mandela angers FW

CT 5/7/93

49

PHILADELPHIA — President FW de Klerk and Mr Nelson Mandela were preparing to receive Liberty Medal awards from President Bill Clinton at an Independence Day ceremony here last night, embroiled in a political wrangle over the lifting of sanctions

It was up to the ANC — and not the current government — to decide whether South Africa should receive an $850million (about R2,8bn) loan from the IMF later this year, said Mr Mandela.

The remarks were in line with the generally imperious tone Mr Mandela has adopted toward Mr De Klerk, at least in public, in the run-up to yesterday's ceremony.

Mr De Klerk was reportedly angered by Mr Mandela's suggestion that sanctions should remain intact until legislation to set up the Transitional Executive Council had been approved. Mr De Klerk is quoted as saying that the hungry and the unemployed in South Africa are paying for every day lost.

Mr De Klerk appeared to have outflanked Mr Mandela on the issue of sanctions by announcing after a meeting with IMF managing director Mr Michael Camdessus that the IMF and the World Bank were "impatient" to resume lending to South Africa.

He predicted that the IMF would make available nearly R3 billion from its compensatory and contingency financing facility, possibly as early as November. The loan would be on favourable terms.

Speaking on Saturday in Philadelphia's legendary Independence Hall, where the United States constitution was drafted, Mr Mandela called Mr De Klerk's views "totally irrelevant". Lending to South Africa by the Bank and the IMF could resume only when the ANC called for the removal of remaining sanctions. — Own Correspondent, Sapa-AP

● End-sanctions call likely soon — Page 2

sive resistance to pressure negotiators into ac-

Economic forum meets

BDay

GRETA STEYN

THE National Economic Forum is expected today to announce the Development Bank's appointment to probe the feasibility of a R5bn public works programme.

The programme will be aimed at job creation which could kick off in next year's Budget.

(49)

The forum, which has its maiden plenary meeting today, will for the first time disclose agreements already reached. In addition, Finance Minister Derek Keys, Cosatu general secretary Jay Naidoo and Business Forum chairman Dave Brink will then provide a perspective on the national economic forum's future.

5/7/93

The short-term working group report is expected to focus on job creation, with an announcement of the speedy implementation of a R45m programme.

The R45m will be spent in terms of this year's Budget, but it is understood there will also be a report-back on a bigger programme aimed at next year's Budget.

However, it is unlikely that concrete progress on a public works programme will be reported, as there is debate within the forum about financing such a scheme.

The long-term working group is expected to release a statement aimed at boosting private investor confidence.

It is understood the statement will emphasise forum participants' commitment to an economy based on market principles.

One of the major issues of disagreement is also expected to be aired today — decentralised wage bargaining, a key tenet of the normative economic model.

Another disputed issue is the way in which government spending has to be cut.

Other issues raised at the forum, and which could arise in discussions today, include export processing zones, Abacor's listing, the quality of SA's statistics and SA's tax system.

Deadlock on public service revamp

Economic forum plans to create jobs

BIDay 6/7/93

(49)

GRETA STEYN

THE National Economic Forum yesterday announced wide-ranging short-term economic policy proposals mainly aimed at creating jobs and cushioning the recession's blow to workers.

While little progress was reported in formulating a consensus long-term economic policy for SA, indications are that Finance Minister Derek Keys's normative economic model will be substantially rewritten. The forum's short-term working group effectively rejected one of the key tenet's of Keys's model — decentralised wage bargaining — by saying: "Centralised bargaining is one of the tiers of our collective bargaining system and as a matter of policy the parties agree not to undermine this arrangement."

A key area of disagreement between forum participants was the restructuring of the public service and the retrenchment of public servants. A committee has been established to consider the different parties' proposals on restructuring.

In the immediate future, the forum will spend R49m on job creation and R30m on small business development programmes. The forum has asked the Development Bank to investigate as a matter of urgency the viability of job creation programmes suggested by regional and other forums and government departments.

In the medium term, a more ambitious programme of public works was needed, addressing on a wide scale the provision and maintenance of infrastructure to historically deprived communities. A rigorous pre-investment investigation would have to be undertaken.

Calculations by the Development Bank, released earlier this year, showed that R5bn could be invested in such a programme. The forum said yesterday it would set up a committee of seven people nominated by labour, government and business, to finalise the structures necessary for a pre-investment investigation and its terms of reference. It did not, however, appoint the Development Bank to conduct the investigation, as speculated earlier this week.

Also in the medium term, the forum's technical committee would formulate a national framework for small and medium business development. It also hinted at a change in the Small Business Development Corporation's board by saying organisations using public funds for small business development should have representatives of all major stakeholders in their decision-making body. "Accordingly, the (forum) will interact with existing institutions to implement this principle and will finalise this matter by the end of August 1993."

The emphasis on labour issues in the short-term working group's proposals was further reflected in agreements on job security, restructuring the Unemployment Insurance Fund, targeted assistance programmes, labour-based construction, the public tender system and the establishment of a National Development Corps.

The UIF had to be restructured to ensure compulsory state funding in addition to the current contributions from employees and employers. It had to provide benefits to temporarily laid-off workers and assist more actively in retraining.

☐ To Page 2

Job creation

BIDay 6/7/93

☐ From Page 1

Industries should consider the establishment of work security funds to provide money to workers during training and retraining, should assist with matching retrenched workers with vacancies and should conduct retrenchments in a transparent and "fair" manner. (49)

Targeted assistance programmes should be developed for declining industries. They would apply where a community was dependent on a single enterprise or mine, or where a large employer of labour was involved.

It was recommended that the Public Tender System promote the public sector's purchasing of locally manufactured articles with a high local content "to maximise job creation".

Business Forum chairman David Brink said the National Economic Forum had been "fire-fighting to find solutions to problems in the ailing economy". In future, it would have to turn its attention progressively away from the consideration of short-term interventions, and more towards long-term wealth creation.

Govt agrees to halt Abacor privatisation

BIDay GRETA STEYN and TIM MARSLAND 6/7/93

THE National Economic Forum had persuaded government not to proceed with privatising Abacor, its short-term working group said in its report to the forum's first full plenary session yesterday.

The group had also proposed to restructure Customs and Excise to prevent fraud. Other issues still on its agenda included export processing zones, VAT and taxation, the regional industrial development programme, trade and tariff policy and industrial restructuring. (L49)

The long-term working group had worked on reaching agreement on a framework for foreign direct investment (FDI) and was working on a statement on a key factor determining private sector investment — the impact of political circumstances on investor confidence.

Points of agreement on FDI included the fact that investors could forget special treatment in the new SA, although corporate tax rates should be set at relatively low levels by international standards.

The working group said these tax rates would be applicable to local and foreign firms. Foreign firms would also have to subscribe to SA's labour laws.

It argued that for developing countries, assurances on security of investment and on access to foreign exchange were more efficient ways of attracting foreign investment than the more radical form of tax and other incentives applied by some countries.

It also called on SA to hold negotiations as soon as possible with other southern African countries with regard to export policies. It said that while the removal of trade barriers would attract investors to SA, neighbouring countries could be tempted to offer increasingly generous incentives to encourage foreign patronage. This could lead to a conflict of interest — hence the need for urgent talks.

Foreign investment by local firms would also have to be examined. However, there was no reason to believe that this investment was "intrinsically detrimental" to SA. Each foreign investment would have to be judged on its merits, it said.

☐ To Page 2

Abacor

BIDay 6/7/93 ☐ From Page 1

The long-term working group would also set up a task force on foreign trade policy as soon as possible to address the simplification of the existing tariff system, the phasing and sequencing of reforms, institutional roles and incentives.

The group had also established a task force on the production and use of statistics in SA. It would identify SA's major statistical shortcomings and methods for addressing these. The deadline for submitting its findings was the end of September.

(L49)

Finance Minister Derek Keys asked the long-term working group to turn its attention to the "expectations gap" — managing the need for a more equitable distribution of resources. "We will have to produce a scenario, even if it is one that extends over a lengthy period, in which people can have some faith, and which gives them reason for hope."

Forum spotlight on job creation

CT 6/7/93 (49) (1?3)

From GRETA STEYN

JOHANNESBURG. — The National Economic Forum yesterday announced wide-ranging short-term economic policy proposals mainly aimed at creating jobs and cushioning the recession's blow to workers.

While little progress was reported in formulating a consensus long-term economic policy for SA, indications are that Finance Minister Derek Keys's normative economic model will be substantially rewritten.

The forum's short-term working group effectively rejected one of the key tenet's of Keys's model — decentralised wage bargaining — by saying: "Centralised bargaining is one of the tiers of our collective bargaining system and as a matter of policy the parties agree not to undermine this arrangement."

A key area of disagreement between forum participants was the restructuring of the public service and the retrenchment of public servants. A committee has been established to consider the different parties' proposals on restructuring.

In the immediate future, the forum will spend R49m on job creation and R30m on small business development programmes. The forum has asked the Development Bank to investigate as a matter of urgency the viability of job creation programmes suggested by regional and other forums and government departments.

In the medium term, a more ambitious programme of public works was needed, addressing on a wide scale the provision and maintenance of infrastructure to historically deprived communities. A rigorous pre-investment investigation would have to be undertaken.

SESSION HIGHLIGHTS

FINANCE Minister Derek Keys said yesterday specific "concentrated attention" would have to paid to underdeveloped areas of the economy. In a speech to the National Economic Forum, Keys said it was clear that increased emphasis will have to be placed on programmes for "improved distribution".

"... trickle-down effects from growth, even quite high growth, in the formal sector are not enough in themselves to have a material effect on seriously underdeveloped situations (such as low cost housing as equal job opportunities)."

- **A Budget was unlikely to be presented next March, according to the Finance Minister's special advisor Japie Jacobs.**

Dr Jacobs said this was in view of national elections set for late April 1994.

- **The NEF said it has persuaded the government not to proceed with the privatisation of Abacor — the state-owned network of abbatoirs.**
- **Renewed efforts would have to be made towards significantly reducing fraudulent customs clearing transactions. It was recommended at the session that the number of inspectorate posts and their staff levels be increased, and the identities of companies guilty of the fraudulent practices be published.**

Calculations by the Development Bank, released earlier this year, showed that R5bn could be invested in such a programme.

The forum said yesterday it would set up a committee of seven people nominated by labour, government and business, to finalise the structures necessary for a pre-investment investigation and its terms of reference. It did not, however, appoint the Development Bank to conduct the investigation, as speculated earlier this week.

Also in the medium term, the forum's technical committee would formulate a national framework for small and medium business development.

It also hinted at a change in the Small Business Development Corporation's board by saying organisations using public funds for small business development should have representatives of all major stakeholders in their decision-making body. "Accordingly, the (forum) will interact with existing institutions to implement this principle and will finalise this matter by the end of August 1993."

The emphasis on labour issues in the short-term working group's proposals was further reflected in agreements on job security, restructuring the Unemployment Insurance Fund, targeted assistance programmes, labour-based construction, the public tender system and the establishment of a National Development Corps.

The UIF had to be restructured to ensure compulsory state funding in addition to the current contributions from employees and employers. It had to provide benefits to temporarily laid off workers and assist more actively in retraining.

Industries should consider the establishment of work security funds to provide money to workers during training and retraining, should assist with matching retrenched workers with vacancies and should conduct retrenchments in a transparent and "fair" manner.

Targeted assistance programmes should be developed for declining industries. They would apply where a community was dependent on a single enterprise or mine, or where a large employer of labour was involved.

It was recommended that the Public Tender System promote the public sector's purchasing of locally manufactured articles with a high local content "to maximise job creation".

Business Forum chairman David Brink said the National Economic Forum had been "fire-fighting to find solutions to problems in the ailing economy". In future, it would have to turn its attention progressively away from the consideration of short-term interventions, and more towards long-term wealth creation.

Forum agrees on targets for economic action

ARG 6/7/93 (49)

☐ Public works programmes to ease unemployment

Business Staff

JOHANNESBURG. — The National Economic Forum has agreed on recommendations for short-term economic action — including protecting collective bargaining, and job creation through public works programmes.

Against estimates that 40 percent of South Africa's labour force has no formal employment, nine of the 15 areas agreed by government, organised labour and business deal with unemployment.

At its first plenary session since its inception last October, the NEF — which includes organised business, the government and labour — established its intention to secure a partnership with the government of the day in setting economic policy.

ANC economics chief Mr Trevor Manuel registered his concern over the extent to which a future government might find its policy-making prerogatives circumscribed by decisions taken by the Forum.

Finance Minister Mr Derek Keys — echoing the view of labour — spoke in favour of the NEF's policy-making role:

"We need to invent and then create an economy that answers the needs of our community."

Centralised bargaining was acknowledged as "one of the tiers" of the collective bargaining system.

Cosatu's Mr John Gomomo, a leading metalworker, called on business to demonstrate its commitment to the collective bargaining agreement.

Sacob president Mr Spencer Stirling pointed out that the sector's financial structure was too diverse to support a collective bargaining institution.

The agreements include:

- Full disclosure of all relevant information by employers on proposals to retrench workers and — while not a moratorium on retrenchments — at least a commitment to consultation on minimising job losses.
- The extension of UIF to workers laid off temporarily, or those on extended short time;
- Targeted assistance to troubled industries to reduce the impact on communities and regions;
- A commitment to address job security in the public sector in the context of restructuring;
- Support of labour-based work methods for civil engineering projects undertaken with public funds. (Cosatu signed an agreement with the indstry on this a fortnight ago.)
- A total of R49 million for job creation and small business; and,
- A commitment to a more ambitious programme of public works to redress infrastructural backlogs.

Other agreements inlcude the restructuring of the Public Tender Board, and proposals to improve the efficiency of the customs and excise function to reduce the illegal import of goods and so reduce job losses in affected industries.

The NEF also recommended the establishment of a National Development Corps as a voluntary programme for young people.

Keys spells out use of resources

Star 6/7/93

By Claire Gebhardt

Derek Keys . . . "we need a programme for greater efficiency and effectiveness of delivery mechanisms."

Finance Minister Derek Keys has called for a more equitable distribution of resources.

In closing remarks to the first plenary session of the National Economic Forum (NEF), he said more economic resources would have to be channelled into low-cost housing, rural development and opportunities for all.

Only a deliberate re-allocation of resources would allow SA to manage the "expectations gap".

Despite the rapid growth of government spending, infrastructural spending had been skimped on.

"As far as social spending is concerned, we need a programme for greater efficiency and effectiveness of delivery mechanisms."

It was 18 months since President F W de Klerk had given him the task of guiding the Government in its role in the economy. "So far the results have been disappointing and the responbility is mine alone," he said.

Fundamental

A fundamental problem of national development was that "trickle down" effects from growth in the formal sector failed to have a material effect on seriously underdeveloped situations.

Keys said it was vital to integrate the SA economy into the world economy.

In this context, the Department of Trade and Industry, the Board of Tariffs and Trade and the Industrial Development Corporation had been working flat out to submit an amended offer to Gatt (the General Agreement on Tariffs and Trade).

"In the next few weeks the results of all this labour will be laid before the forum."

The government would also soon make a presentation to the forum on the rescheduling of the debt standstill arrangements.

Business and labour had a vital role to play in the economy.

"Labour does not want the earth. It does not want to cripple business. It wants more education and training. It wants a career path from the lowest level in any business."

(49)

On the subject of retrenchment, Keys said a capitalist economy could not run on the assumption that every business would contine to exist.

Businesses which missed opportunities would die and be replaced by others. "But one has to minimise the human cost of these transitions."

He said the NEF's job-creation programme would have a powerful claim on increased financial support from the Government — Manpower's budget vote at the moment is R326 million.

Calling for the Government to lower its claim on national resources, Keys said the country could not finance the level of manufacturing investment needed if the Government kept up its excessive consumption expenditure.

"It is only when we have managed to remove dissaving that we will be able to look at further reductions in tax rates."

Keys said the NEF was faced with a critical task of designing detailed specific programmes to address macro-economic stability, labour, entrepreneurship and government.

"We have to do what is needed together, and it has to be materially different from what we have done in the past."

Budget unlikely before April election

By Claire Gebhardt

Star 6/7/93

There is unlikely to be a Budget next March because of the April 27 election, says Dr Japie Jacobs, special adviser to the Minister of Finance.

(49)

Dr Jacobs told delegates to the National Economic Forum yesterday that various expenditure appropriations would instead be made to tide the Govenment over between the end of the 1993/93 fiscal year and the outcome of the elections.

"But arrangements for an interim Budget will have to be worked out with other parties."

Strong labour showing at key economic talks

Star 6/7/93

(49) ~~(13)~~

By Paul Bell
Labour Correspondent

The National Economic Forum (NEF) has agreed on a series of recommendations for short-term action — including protecting collective bargaining, and job creation through public works programmes — that add up to a strong showing for labour in the opening round of the forum's deliberations.

At its first plenary session since its formation in October, the NEF — which includes organised business, the Government and labour — also established its intention to secure a partnership role with the government of the day in the setting of economic policy.

ANC economics chief Trevor Manuel reiterated his concern about the extent to which a future government might find its policy-making prerogatives circumscribed by decisions taken by the forum.

Finance Minister Derek Keys, echoing labour's view, spoke in favour of the NEF's policy-making role: "We need to invent and then create an economy that answers more closely to the needs of our community. The NEF is crucial to this process."

But his criticism of centralised bargaining, contained in the Government's proposed Normative Economic Model, was effectively repudiated in the NEF's first major agreement. Centralised bargaining was acknowledged as "one of the tiers" of the collective bargaining system, and the parties agreed neither to undermine it nor to oppose the setting up of such arrangements.

Labour leaders were generally happy with the outcome, but several delegates used the opportunity to air grievances against employers and the Government.

Cosatu's John Gomomo called on business to demonstrate its commitment to the collective bargaining agreement and condemn the efforts of motor sector employers to break the Industrial Council. Replying, Sacob president Spencer Stirling noted the sector's financial structure was too diverse to support a collective bargaining institution.

The agreements include:

- Full disclosure of all relevant information by employers regarding proposals to retrench workers and, while not a moratorium on retrenchments, at least a commitment to consultation on minimising job losses.
- Targeted assistance to declining industries to reduce the impact on communities and regions.
- A commitment to address job security in the public sector in the context of restructuring.
- Support of labour-based work methods for civil engineering projects undertaken with public funds.
- R49 million for job creation and small business.
- A commitment to a more ambitious programme of public works to redress infrastructural backlogs.

The players draw closer, but their forum has far to go

GRETA STEYN

BDay 7/7/93

(49)

VIVA NEF! With that cry, Cosatu's Jayendra Naidoo opened the first plenary session of the National Economic Forum. Viva! responded business representatives, unionists and even government. Naidoo jokingly told Finance Minister Derek Keys he had been slow in responding; business was coming on board quicker than government.

Monday's meeting was characterised by a jovial chumminess that would have stunned a Rip van Winkle who woke up on Monday at Nasrec after sleeping through the past few years in SA. Seeing Naidoo bantering with a usually crusty Finance special adviser Japie Jacobs is a rare treat. When Naidoo said it truly was a sign how far SA had come, that "Japie Jacobs is talking of transparency", Jacobs had the grace to smile.

If there was a sense of relief and excitement in the air, it was because the forum was finally able to deliver something concrete. After eight months of deliberations, it was in danger of becoming just another talk shop.

What will those proposals achieve? Were there losers and winners? And to what extent do the suggestions begin addressing the restructuring of the SA economy?

Business Forum chairman Dave Brink summed up what was achieved when he said: "Fire-fighting to find solutions to problems in the ailing economy has predominated, particularly in the work of the short-term working group. One might well describe the forum as having been in defensive mode."

The short-term working group came up with concrete suggestions that effectively set up a safety net for workers. Ranging from restructuring the Unemployment Insurance Fund and funding it from the public purse, to job creation and industries setting up work security funds, the story was one of protecting workers from economic hardship. It also recognised the need to deal with the "lost generation" with the suggestion that a national development corps be established, through liaison with the national peace secretariat, to provide a voluntary training, community service and development programme for young people.

One of the less emphasised aspects of Keys's economic model is the need for a safety net to ease the inevitable pain economic restructuring brings. The World Bank, too, argues for targeted assistance. From that perspective, and despite calling each other comrade and crying viva, nothing radical was achieved.

But while there obviously is a need for a safety net, it should only be a small and auxiliary part of overall economic policy. A net should catch mainly those who fall when an economy is being restructured, or falls into a recession.

One obvious danger is that too many resources will be allocated to protecting people from economic hardship, leaving less for investment and generation of new wealth. Monday's statements did not provide much detail on how much should be allocated by government to the UIF or to targeted assistance schemes, nor on business' contribution to worker security funds. On job creation, a tiny amount will be spent immediately but the medium-term plans are for a more ambitious public works programme.

There are signals that there will be some pressure on the fiscus emanating from the agreements reached in the short-term working group. It is not yet clear that the pressure will escalate to present a real problem, but it deserves careful monitoring.

Further pressure on the fiscus could result from the outcome of one of the main areas of deadlock — retrenching public servants. Unionists expressed strong feelings on public sector retrenchments — Cosatu representative Philip Dexter accused government of lacking commitment to the forum and Ebrahim Patel said it was "madness" to cut the number of teachers and nurses.

BRINK

But Keys, while not directly addressing the deadlock, gave a strong hint of his stance: "We cannot finance the level of manufacturing investment that we need if government is going to keep on absorbing several percent of GDP through excessive consumption expenditure."

The confrontation over the public service, and the possible pressures on the fiscus arising from the short-term working group recommendations, highlight the fact that an overall framework for fiscal policy has not yet been devised.

Absa economist Hans Falkena noted there were no fiscal "rules" set down such as a deficit of 3% of GDP and a public debt to GDP ratio of 60%. ANC economic head Trevor Manuel asked whether the short-term working group was working within a specific economic framework, such as the Keys model, which argues for a deficit of less than 3% of GDP. Patel hotly denied that the Keys model was being used. The fact is, there is no overall economic framework within which policy recommendations are being made.

The long-term working group's report comes as a disappointment to anyone seeking indications of the shape of a future economy. It acknowledges the importance of private investment by saying "there is a need for a correct balance to be achieved between private and public sector investment". But the point of departure is public investment.

The initial long-term working group investigation is focusing on the level and nature of public sector investment that would be compatible with increased private sector investment. It is specifically analysing the impact of government expenditure, especially capital spending, on private sector investment. It is also looking at the role of quasi-public sector institutions, such as the IDC, in allocating resources.

Keys also emphasised public investment: "We have been skimping on many aspects of infrastructural spending." But he was doing so within a specific framework of drastic cuts in government consumption spending and fiscal "rules" on the deficit. The long-term working group could say only that it was addressing the question of how the current level of government dissaving could be reduced to an "acceptable" level. "The related question of what would constitute an acceptable level is also being addressed."

The only real contribution to an overall economic framework came from the long-term working group's work on foreign direct investment (FDI). But it is understood that the ANC has objected to the formulation of a policy on FDI, not only because the organisation was excluded from discussions but also because sanctions still remain in place.

The exclusion of the ANC from the forum — a situation that will remain in place until the transitional executive council stage — makes progress on long-term economic policymaking virtually impossible. Manuel complained on Monday that the present government had no right to negotiate policy.

It is not clear whether the long-term working group's lack of progress reflects a decision to put things on hold until the ANC joins, or whether there was lack of consensus. The second factor must have played a role, as the group failed to release an expected statement on the impact of political circumstances on investor confidence and private investment decisions.

Cosatu's Alec Erwin said the creation of a macroeconomic framework was a slow process which was being slowed down even more by the delays in reaching a political settlement — causing "serious economic problems".

What will the status of the forum be once the transitional executive council is in place, and after the elections? Will it be an advisory body to government, like the Economic Advisory Council, or will it have an actual say? Cosatu general secretary Jay Naidoo left no doubt as to labour's intention of being a stakeholder in economic policy. The "comrades" at Monday's proceedings still have important differences to work out before arriving at a consensus on long-term economic policy.

B/Day 7/7/93

Five suites for the economy's reconstruction

(49)

DEREK KEYS

IT IS now 18 months since President F W de Klerk gave me the task of guiding government in its role in the economy. We can all agree that the results so far have been disappointing, and the responsibility for that is mine alone. But I still have the responsibility to do better in future. From the start this is a responsibility that I have been keen to share.

No solution that has not been arrived at through an open process of participation of all the important stakeholders has any prospect of success. The National Economic Forum is crucial to this process.

The forum's most critical task is the construction of five sets of programmes: programmes for macro-economic stability; for labour; for entrepreneurs; for government; and for improved distribution.

The latter arises from one of the truths we are coming to recognise: that "trickle down" effects, from growth, even quite high growth in the formal sector, are not enough in themselves to have a material effect on seriously underdeveloped situations. These have to be the subject of concentrated attention to ensure that the vicious circle of deprivation and inability to contribute is not passed on from generation to generation, but interrupted so as to create a way out of this deadly morass.

Let's review the content of these different groups or suites of programmes. The first relates to macro-economic stability. This is the area in which we have had the most practice and is largely under the management of the Reserve Bank. They have been reasonably successful. They relate to controlling money supply and bank credit, and to getting government's deficit funded in a non-inflationary way, which they managed to do last year when we had the biggest Budget deficit.

The second suite of programmes relates to labour. We cannot achieve a more satisfactory growth rate unless we make giant strides in respect of productivity. This is not simply a question of the work ethic, although this is important.

Labour has to be ready, willing and able to co-operate, to settle for flexible work practices and to collaborate with management in the pursuit of productivity. As far as wage claims are concerned, we have to move into a new era in which reasonable judgment is applied.

Of course, business has to offer plenty in return for a different attitude on the part of labour, but these things are not unreasonable. Labour does not want the earth. It does not want to cripple business. It wants more education and training. It wants a career path from the lowest level in any business. And while retrenchments are inevitable in a capitalist economy, one has to minimise the human costs of these events.

In the longer term, we have to solve the problem of the too great distances between workers and their workplace.

We also have an immediate issue for the forum's attention in the shape of the pressing need for job creation.

The third suite of programmes relates to entrepreneurs. We cannot make this economy grow without much more investment. We do not get investment simply by deciding we need more. We get more investment only by creating opportunities for profit-making.

Going from our present pedestrian condition to something exciting means we have to look at the world's markets. If we are going to have that higher level of investment, it will have to be financed. We need a programme which will marshal the necessary capital resources, and these will have to include foreign capital to a fair extent.

Of course, we need also to take a longer term view of the development of entrepreneurs. We have to create new entrepreneurs. We have to have a programme for assisting the development of small entrepreneurs. We have to raise the levels of competition. Part of the way of doing this is to lower the tariffs and to have a simpler tariff structure.

The fourth group of programmes relates to the way in which the government behaves. Government has to lower its claim on the country's resources. I realise how much pain this causes. But we cannot finance the level of manufacturing investment that we need if government is going to keep on absorbing several percent of GDP through excessive consumption expenditure.

Only by removing dissaving will we be able to look at further reductions in tax rates. As we do this, we will be able to allocate more resources to infrastructural spending. We have been skimping on many aspects of infrastructural spending.

Finally, more equitable distribution means more of the economy's resources going to areas like low-cost housing and rural devlopment, and making more opportunities available to people from all quarters and at all levels. Only if we make a deliberate allocation of resources in this direction will we be able to manage the expectations gap.

☐ **This is an edited version of Keys's address to the National Economic Forum on Monday.**

LETTERS

Dear Sir,

not directly involved in the process.

Business confidence rises marginally

BDay 7/7/93

SHARON WOOD

BUSINESS confidence lifted slightly in June, suggesting a possible bottoming out of the economic recession, Sacob chief economist Ben van Rensburg said yesterday.

The chamber's monthly Business Confidence Index rose a small 0,1 percentage point to 94,1 from 94,0 in May. This turned around a substantial 1,1 percentage-point drop in May.

"Although the overall economic picture remains mixed, there is statistical evidence to suggest that the economy may have bottomed out," said Van Rensberg.

(49)

He added the improvement was partly due to positive, but limited, trends in some of the key economic indicators. Sacob's manufacturing survey had shown two consecutive rises in activity levels.

But he warned there would have to be a substantial improvement in economic activity in the last two quarters of the year. GDP would have to rise by 4% a quarter if growth for the year was to be 0%.

Growth during the latter half of the year would stem primarily from agriculture and slightly from mining.

"We are not looking at an improvement in living standards but at the economy lifting its head out of a very deep recession," he said.

He stressed that economic recovery remained vulnerable to events in the political arena and to balance of payments developments.

Sacob believed the case was mounting for a further reduction in Bank rate soon, he said. "This will not be an enormous economic stimulus, but will allow small businesses to catch a desperately needed lifeline."

He said the National Economic Forum would be a confidence-building exercise and was an important step in the process of trying to reach consensus. He also said the forum was desirable if SA wanted high economic growth.

(180)

During June there had been five negative influences on the confidence index and eight positive. Negative influences included the sharp deterioration in the commercial rand, the decline in imports and exports, a sharp increase in insolvencies and a decline in manufacturing production.

Positive influences were the lower rate of inflation, the slight decline in BA rates, the higher expected real value of retail sales, the marginally lower unemployment rate, a firmer gold price, slightly more passenger vehicles sold, a rise in the number of building plans passed and an uptrend in share prices.

TRAINING ... During June, NBS Bank donated nearly R18 000 to local training institutions. Colin MacGregor, sales manager, hands over a donation to Informal Business Training Trust development manager Pamela Johnson.

Flutters of recovery for embattled economy

CT 7/7/93 (49)

Business Editor

THE economy is "beginning to respond to certain positive short-term impulses," Boland Bank chairman Pietman Hugo says in its annual report, released yesterday.

"These include the more favourable rainfall conditions of the past summer, indications that the political negotiation process is being regarded more seriously and the prospects of a gradual improvement in export volumes as well as prices of major commodities."

But, Hugo warns, the rate of recovery is still being hampered by the fragility of business confidence, limited growth in employment, the poor after-tax position of individuals and more stringent control of current government spending.

"In addition the Reserve Bank is persisting in its cautious policy in respect of money supply growth and real interest rates, which is expected to limit the demand for credit."

Hugo says the deepening of the economic downswing in the second half of 1992 had "an inhibiting effect on the business activities of both Boland Bank and its clients."

Although the bank increased its net profit by 12% to R24,1m bad and doubtful debts increased sharply.

MD Gert Liebenberg said yesterday that in many cases bad and doubtful debts were due to unemployment.

He says in the annual report that unfavourable economic conditions and the pressure they exerted on the average South African "made the past financial year one of the most challenging periods in the history of Boland Bank."

In spite of this there was sustained growth in clientele and the bank's discretionary financing portfolio grew by some 10%.

"During the past three years the bank has adhered to a conservative asset growth approach with the focus on the management of existing credit risks."

Business confidence edges up

CT 7/7/93

(49)

By AUDREY D'ANGELO
Business Editor

A HIGHER gold price and tentative signs that the economy may have bottomed out caused business confidence to edge up in June. The SA Chamber of Business (Sacob) Confidence Index (BCI) — which fell in May to 94% from 95,1% in April — moved up by 0,1% to 94,1%.

Sacob chief economist Ben van Rensburg comments that "although the overall economic picture remains mixed there is statistical evidence to suggest that the economy may have bottomed out.

"This includes the results of Sacob's most recent survey of the manufacturing sector which has shown two consecutive improvements in activity levels.

"However, the economy will remain vulnerable to political uncertainties and the violence."

Van Rensburg points out that without the sustained higher gold price reserves would have fallen to critical levels "with negative implications for monetary policy and for growth prospects.

"The seriousness of the situation is partly illustrated by the recent sharp deterioration in the exchange rate of the rand."

"While there may be some tentative signs that the economy is starting to recover again after the shocks of the Hani assassination such a recovery remains vulnerable."

Listing reasons for the marginal improvement in confidence, Van Rensburg says:

- The rate of inflation as measured by the CPI declined to 10,6% from 11% the previous month;
- There was a further slight decline in the average rate of interest on three-month Bankers' Acceptances in June;
- The expected real value of retail sales for June, on a seasonally adjusted basis, was slightly higher than for May;
- The number of registered unemployed in June, on a seasonally adjusted basis, was marginally lower;
- The dollar price of gold strengthened further;
- The number of new passenger vehicles sold was slightly higher;
- The seasonally adjusted value of building plans passed, at constant 1985 prices, was marginally higher; and
- The price of shares on the JSE continued to rise in response to the higher gold price

He says that although "significant concern has been expressed at the low level of tax receipts Sacob believes it is too early in the fiscal year to draw firm conclusions in regard to the size of the government deficit."

There have been "significant distortions in a number of statistics which make it difficult to evaluate the real state of the economy.

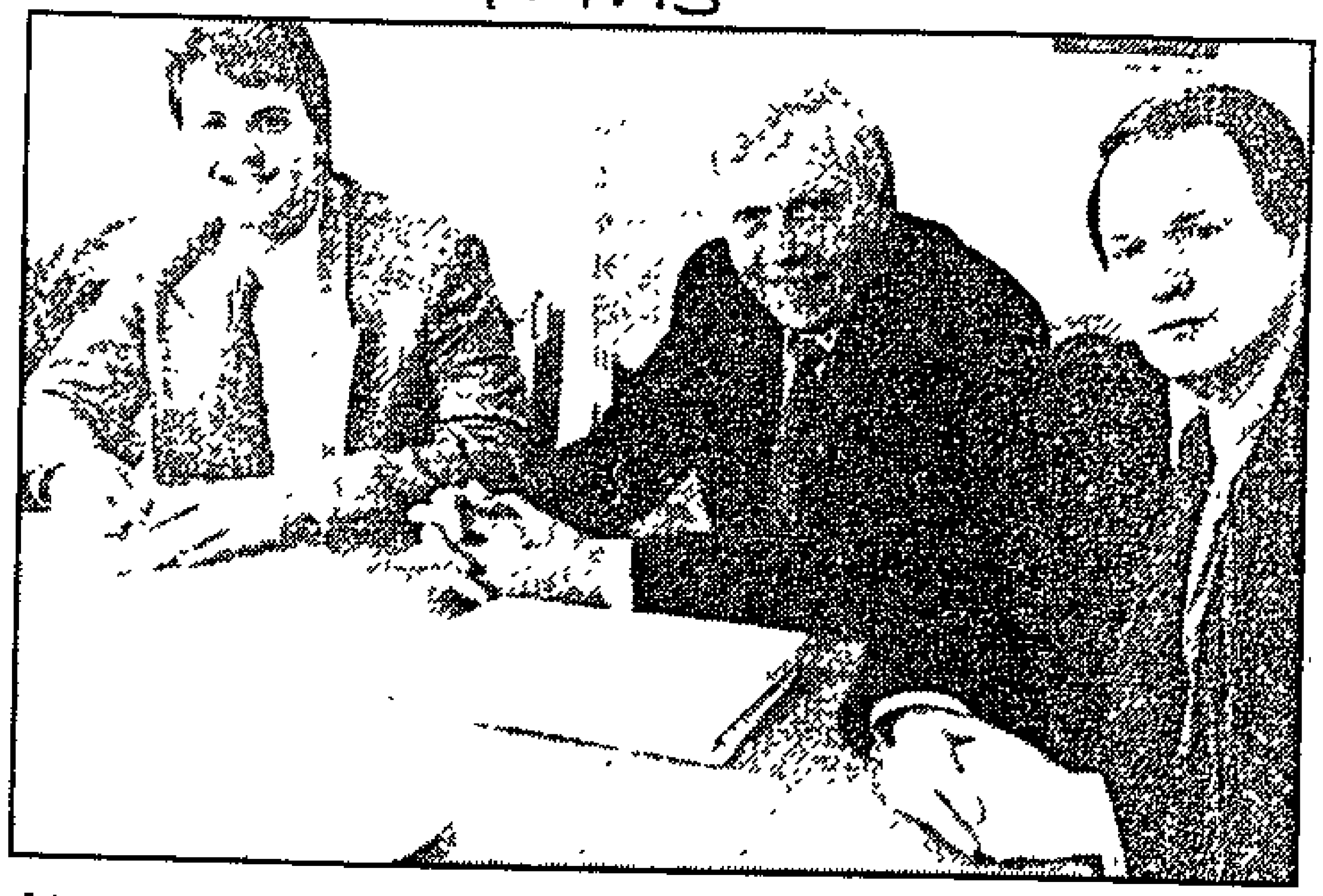
"Although these distortions may have tended to overstate the depressed state of the economy in recent months there is an equal danger that, in being corrected, they will serve to exaggerate the extent of any improvement in the economy.

"This is likely to be the case when the official gross domestic product (GDP) figures are released for the second and third quarters of 1993."

Business confidence shows some signs of improvement

Star 7/7/93

By Claire Gebhardt



At yesterday's meeting . . . Sacob's Keith Lockwood, Ben van Rensburg and Raymond Parsons.

South Africa may finally be emerging from its longest recession ever, according to the South African Chamber of Business (Sacob).

Chief economist Ben van Rensburg said yesterday the economy could register positive growth in the second and third quarters of 1993 as a result of a considerable improvement in the agricultural sector and the higher dollar price of gold.

Overall, however, growth of gross domestic product would be zero, or at best nominal.

The fragile business mood also took an uptick in June with Sacob's business confidence index (BCI) registering a 0,1 percentage point increase to 94,1.

This followed a sharp decline of 1,1 percentage points in May in the wake of Chris Hani's assassination.

Tentative

Van Rensburg emphasised that the signs of recovery were tentative and vulnerable to reversal if the political situation deteriorated.

Sacob said that without the firmer gold price, which was helping to reduce pressure on the balance of payments (BoP) and reserves, the level of gold and forex reserves would have been critically low, with negative implications for monetary policy and for growth.

"The seriousness of the situation is partly illustrated by the recent sharp deterioration in the exchange rate of the rand."

But a declining rand would make exports more competitive in international markets, said Sacob.

(49)

Together with the higher dollar price of gold, it meant that returns for South African gold mines had effectively risen by 27 percent since the beinning of the year.

"Non-gold exports will, however, continue to be constrained by a sluggish world economy."

Sacob said the unexpected drop in the inflation rate indicated not only the effectiveness of monetary policy, but also the depressed state of the economy.

Calling for a further reduction in the bank rate as soon as the BoP situation allowed, Sacob said it could be argued that very high real interest rates were inappropriate for a country in deep recession.

"The combined effect of high real interest rates and a contracting economy have had a significant impact on the small business sector, as evidenced by the continued high number of insolvencies and liquidations, with accompanying job losses.

"Access to IMF financing, which will give the Reserve Bank greater leeway in managaging the reserves position, is urgent."

Some of the positive influences on the BCI in June were a decline in the consumer price index (CPI) to 10,6 percent from 11 percent the previous month, a decline in the number of registered unemployed, an increase in the number of new cars sold and a continued rise in the price of shares on the Johannesburg Stock Exchange in response to the higher gold price.

Rising losses on Bank forward cover book

BDay 8/7/93

TIM MARSLAND

THE Reserve Bank is beginning to incur increasingly large losses on its forward cover book due to the continuing decline of the rand against the dollar, market sources said yesterday.

Bank foreign exchange GM James Cross confirmed the Bank had made losses, but would not disclose the amount.

"The Bank unfortunately does make losses whenever the dollar gets stronger," he said.

The Bank provides forward cover — buying currency at a fixed exchange rate ahead of when it is needed — to the local currency market to protect its reserves.

If the Bank did not provide the cover, local banks would have to go offshore for the cover, which would cause an outflow of foreign exchange, draining the country's reserves.

Sources said the rand's fall in five weeks from R3,20 against the dollar to its current R3,35 — a decline of 4,68% — meant an additional R3,8bn would have been added to the negative cash flow on the account.

Based on this, the total loss on the forward book would have increased to about R12bn.

Currency dealers said this loss had been exacerbated by the Bank inflating its forward cover book to support the rand. It had been borrowing dollars in the forward market, which it then sold in the spot market to prop up the rand.

Dealers said the Bank had actively used this tactic over the past few weeks.

Indications were that the Bank had again intervened in the market yesterday, although it was seen only in the spot market, dealers said.

Cross said the gold and foreign exchange contingency account — in which the losses on the forward cover book were included — had shown a net improvement in the past four months. This was due to the better gold price, he said.

Nedcor Bank chief economist Edward Osborn said the losses on the forward book ought to be written off, as they represented an unnecessary claim on the exchequer.

Dorbyl mothballs shipyard as orders dry up

BDay 8/7/93

EDWARD WEST

DORBYL Marine said yesterday its decision to mothball SA's last shipbuilding yard still in operation followed confirmation from a merchant bank that it was no longer possible to finance further vessels for one of its major clients.

Durban-based Dorbyl Marine delivered the last of three R100m ships built for Europe-based Columbia Ship Management in April. Columbia ordered two more ships, but the Reserve Bank refused to sanction the deal. However, leads were being pursued for the building of a barge and an offshore production platform at the shipyard, Dorbyl's statement said.

In the meantime, core shipbuilding skills that had been built up over the years would be retained by placing people in other departments pending shipbuilding-related work in the future.

Dorbyl planned to focus its marketing on traditional repair facilities, major ship conversion and steel repairs.

MD Dawid Mostert said negotiations were also under way to expand ship repair facilities to the West African coast.

Stals sticks to monetary policy

Outflows wipe out reserves' gold gains

BDay 8/7/93

49

GRETA STEYN

BIG capital outflows wiped out the gains of a surge in the gold price to push the Reserve Bank's holding of gold and foreign exchange reserves down by R389m in June to R7,5bn.

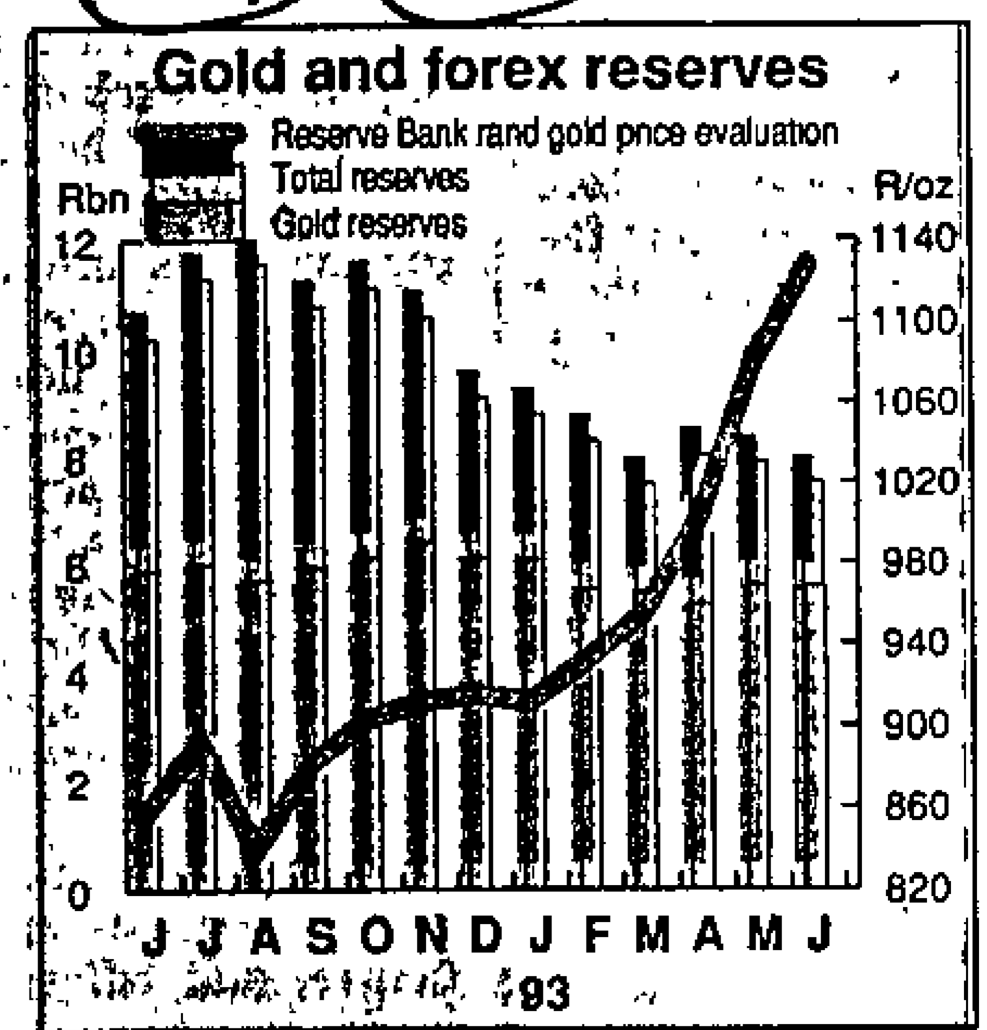
The reserves figure, worsening since the end of August last year, is the only key indicator flashing warning signals for monetary policy. Economists said yesterday's figures suggested a cut in Bank rate would have to be delayed for some months.

Reserve Bank Governor Chris Stals was sanguine about the figures, but said the Bank was not considering slackening its monetary policy stance.

"The outflow of reserves means a tightening in liquidity in the money market, which puts upward pressure on interest rates. The Bank has acted to prevent rates from rising, but we cannot do more than that while the outflow continues."

He said the fall in the reserves reflected large foreign debt payments in June. After further payments in July, pressure from that source would abate as obligations for the rest of the year were small. There were also signs that the current account of the balance of payments was improving, as agricultural imports would fall while prices of gold and other commodities exported by SA were rising. "Once the big debt payments are out of the way, the reserves should begin to stabilise."

Economists noted that valuation factors had disguised the severity of the fall in the reserves in June. The rand figures were boosted by the exchange rate's weakening against the dollar (the main reserve currency). In dollar terms, SA's reserves stood at $2,25bn in June.



Graphic RUBY-GAY MARTIN Source SA RESERVE BANK

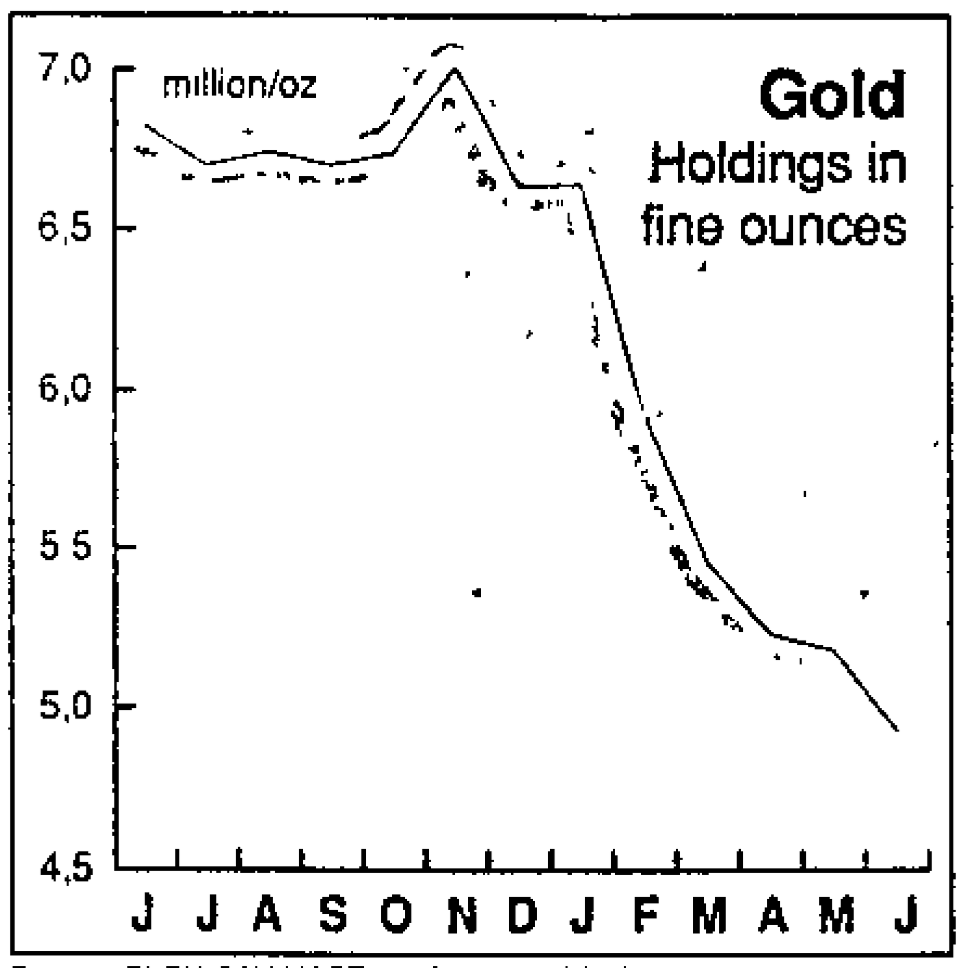
The Bank's statement of assets and liabilities released yesterday indicated massive sales of gold — at a substantially higher price — to generate foreign currency. Physical gold holdings were down by about 249 000 oz to 4,9-million oz. The Bank's holding of gold was last below 5-million oz in June 1991. At R1 125,41, gold was valued R47,94/oz higher than in May. But the higher valuation was neutralised by gold sales, slightly reducing the value of gold held by the Bank to R5,56bn. Currency held by the Bank fell by R358m to R1,96bn.

Bearish sentiment in the capital market ahead of the release dissipated at the close of trade, as dealers began saying a fall in the reserves had already been discounted.

Bank's gold holdings fall heavily

BiDay 9/7/93

ANDY DUFFY



Graphic RUBY GAY MARTIN Source RESERVE BANK

THE reservoir of gold held by the Reserve Bank had been drained by more than a quarter since December, as SA struggled to meet its debt obligations.

According to figures released by the Bank earlier this week, its gold holdings, which form a major part of foreign exchange reserves, fell to 4,9-million oz in June as the Bank attempted to generate vital foreign currency. (49)

The figure, the lowest for two years, represents a significant fall from the level just six months ago when gold holdings stood at 6,46-million oz, and a fall of nearly 28% over the year.

☐ To Page 2

Gold

BiDay 9/7/93

☐ From Page 1

Though Reserve Bank Governor Chris Stals has consistently stated that the Bank must build up bullion reserves, its stocks have suffered a steady month-on-month decline from a high of more than 7-million oz last November. (49)

Though economists believe the Bank may have tried to exploit the rising gold price through sales, much of the heavier selling took place earlier in the year, when the metal was languishing at the $330 level.

However, much of the gold will have been swapped rather than sold, though the Reserve Bank declined to detail what proportion had been swapped.

Bank gold and foreign exchange GM James Cross said yesterday the decline in gold stocks merely reflected the overall fall in reserves. It did not contradict Stals's policy because gold, as a proportion of total reserves, remained at a high level. The pressure on reserves would also taper off, because foreign debt obligations after July would be substantially reduced.

However, economists said the figures underlined the dire state of the country's reserves, which dropped R389m to R7,5bn in June — a fall of 26% on the year — under the pressure of increased capital outflows.

"This is a hefty drop," said Nedcor Bank chief economist Edward Osborn. "They (the Bank) have obligations to meet which cannot be reneged on. This is the basic reason why the Reserve Bank is maintaining a very strict monetary stance."

Old Mutual chief economist David Mohr said the Bank had been forced to dig into its gold reserves because other reserves — such as currencies — were nearing exhaustion. These stood at R1,9bn in June, down more than a third on December's R3bn, and just 45% of the level a year earlier.

BUSINESS

World Bank offers some fresh ideas

W Mail 9/7-15/7/93. (49)

The World Bank has issued a document on South Africa in which many of its usual economic pronouncements seem markedly toned down.

REG RUMNEY *reports*

SCRUTINISE the following statements and see if you agree. The World Bank would like to see a new South African government:

- Maintain a strict monetary policy to crush inflation completely and lower the Budget deficit (the gap between revenue and spending) to around three percent of gross domestic product.
- Drive down wages to increase employment and lower the country's capital intensity.
- Liberalise the economy for the sake of efficiency and export-led growth by cutting all trade protection immediately.

If you thought the above true, you would be wrong on all counts.

The World Bank's latest policy document, *An Economic Perspective on South Africa*, breaks with past doctrinaire thinking on a number of points in suggesting paths out of South Africa's economic mire.

Take inflation. Yes, the World Bank advocates prudent fiscal and monetary policy, and warns against a return to the negative real (adjusted for inflation) interest rates the Reserve Bank allowed between 1973 and 1983.

Crucially, the Bank also warns: "Equally, the authorities need to consider the consequences for the real economy of quickly reducing inflation much below its present level."

On the deficit, the World Bank notes: "If GDP growth of around five percent a year could be attained, then a fiscal deficit of as high as six percent of GDP may be sustainable."

In the context of productivity, the Bank does repeat an oft-stated assertion that sectors of the South African economy, particularly manufacturing, are too capital intensive, and that this has contributed to slower growth.

As Nedcor chief economist Edward Osborn and, lately, Old Mutual economist Terence Moll, have pointed out, the reasons for the rising capital:labour ratio are not as simple as popularly supposed.

The Bank does mention the effect of large "strategic" investments in chemicals, and does not attribute the phenomenon entirely to negative interest rates or high wages.

It does point to increases in black wages as a constraint to employment and growth. "Earlier work indicates that movements in real black wages have contributed significantly to the slowdown in growth and employment in 1970-1985. In the absence of such changes, employment of blacks and real GDP would have been, respectively, about 14 percent and 3 percent a year higher in 1985.

"The change in relative factor prices would thus seem to go some way towards explaining the decline in employment growth, and a little way towards accounting for the decline in GDP growth."

It does not risk trade union wrath by advocating a simple lowering of black wages. Indeed, the Bank has moved closer to the union position, as enunciated at the National Economic Forum, of insisting on more training.

"On the supply side, expansion of skilled labour is needed to ease the upward pressure on wages as the economy moves back to full capacity. This will have positive effects on both GDP and employment growth. It is likely to increase capital productivity by removing the major constraints that effectively linked skill accumulation to growth in white labour supply.

"That should also encourage rapid growth in the employment of unskilled labour, as the returns are higher when complemented by greater skills of other workers. This will also counteract inflationary pressure from growing white wages and, perhaps, reduce black wage growth as pressure for catching up is reduced."

The Bank goes on to say the process will also increase income equality.

Education and training will take time to be effective, the Bank acknowledges, and so the skills of the labour force should be upgraded quickly through training.

Again, the union movement would agree with the approach advocated by the Bank, of a pact between major employers and trade unions on training.

Will they agree on the specifics?

"Employers would agree to upgrade workers through training and the unions would agree to limit strikes and other industrial action," urges the report.

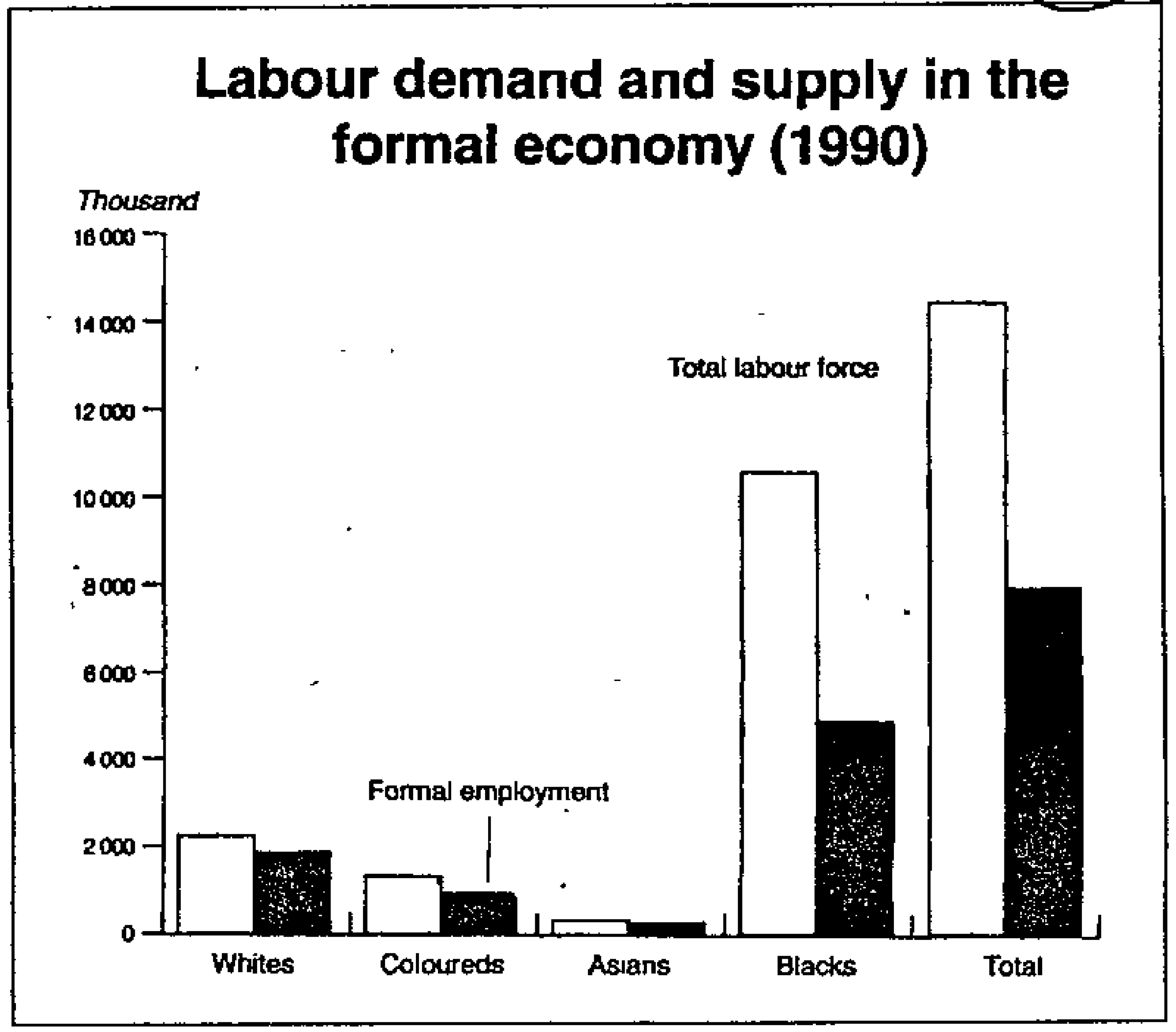
On the Bank's welcome acknowledgement of the urgency of job creation, there is room for disagreement too. It advocates public works schemes, as well as encouraging the growth of small-to-medium-sized firms and a shift to more labour-intensive agriculture. But, while labour and employer bodies in engineering have agreed on task-based payment, the Bank recommends: "Where the public sector is the contractor, wages of unskilled workers should be paid at about one half of formal sector rates."

The bank, not unexpectedly, pins our hopes on export-led growth, noting it would promote efficiency and increase demand for the goods we produce.

It says South Africa's most urgent task is to put right our anti-export bias. Though export neutrality is linked in the minds of many with import liberalisation, the Bank notes they are not synonymous. Indeed, it cautions against sweeping and immediate lowering of tariff protection. Instead, it opts for free trade zones, bonded warehouses, duty exemption and drawback schemes.

"South Africa's average import duty is not high by developing country standards. While a lower average rate would make industry more internationally competitive, the present high unemployment and stagnating economy make such a course undesirable."

Rather, says the Bank, tariffs need streamlining and continuous changes to the tariff schedule must end.



The unemployment problem writ large ... The World Bank views training as a key solution
Source: ABSA

NEF compromises on foreign investment

W Mail 9/7 - 15/7/93 (49)

By REG RUMNEY

OF the reports issuing from the National Economic Forum this week, agreement on foreign direct investment represents real compromise.

The report is in an addendum to the forum's long-term working group report.

Consider the different places labour, business and government may be coming from on this issue.

For labour, the issue is protection of union rights and creation of jobs. Not so long ago, the union movement, suspicious of the multinational corporations, produced a foreign investment code punitive to foreign companies.

For business, attracting outside investment is essential, even if this means tax and other incentives and special treatment (unionists would say maltreatment) of labour.

For the government, the issue is revenue and management of the economy.

The compromise is that tax incentives or relaxation of labour law should not be granted foreign firms. Instead, reasonably low and stable corporate tax rates should apply and all firms should live with the same labour laws. Further, a broad range of incentives developed under a coherent industrial policy should apply equally to foreign and local investors.

Incentives themselves are not problematic, notes the document, but incentives aimed simply at attracting foreign investment without looking at a broader industrial strategy are.

The compromises come within the acknowledgment by all three groups that foreign direct investment (FDI) is a necessity.

Labour did not agree that South Africa needed to look outside for investment capital, but there was general agreement FDI was needed for other reasons and was supplementary rather than prime. The general conclusion was that low business confidence was deterring both foreign and domestic investment, and that foreign investors look to domestic investors for the signal to invest.

"Therefore the first step towards encouraging foreign investment is the creation of an economic climate which encourages and stimulates domestic investment."

The group looked at the effect of FDI on the balance of payments, and came to the conclusion that net FDI could play a role during the transition from being a net capital exporter to having access once more to international capital markets. High inflows of FDI, primarily for fixed investments and largely in the form of equity, also reduce the need for indirect loan finance and diminish the danger of a foreign debt trap. Naturally, this does not apply while the financial rand is still in force, since it is designed to neutralise capital outflows against inflows.

The NEF group recognises that the quality of FDI is more important than quantity, with the priority being the strengthening of the long-term growth potential and competitiveness.

The need to attract commercially useful technology, often brought in by transnational corporations, was identified as important. Moreover, policy should encourage transnationals to train South Africans in new technologies and encourage technology transfers in other ways, as well as transfer some of their R&D activities to South Africa.

FDI is also important, found the group, in providing access to foreign markets for our manufactured exports. As well as the obvious spin-off of funds and technology, a rapidly rising proportion of world trade now takes place within companies.

Meanwhile back at the World Trade Centre

WIMail 9/7–15/7/93. (49)

Another victim ... Despite the success of NEF talks and progress made at the World Trade Centre, the death toll continues to rise in townships such as Thokoza
Photo: KEVIN CARTER

With exciting progress at the National Economic Forum and carnage in Katlehong, it became clear this week that we have two new South Africas

By PHILLIP VAN NIEKERK

WHEN an Inkatha Freedom Party representative with a Greek name and an English public school accent took the floor at Monday's National Economic Forum (NEF) meeting to demand why federalism was not being taken into account in the founding document, a British correspondent gave an audible groan.

His comment, "not another white Zulu", was not meant to slur, but to express his exasperation at hearing the voice of the obfuscators at yet another forum, albeit in the dulcet tones of Michael Alchouzos

For an uncomfortable second, one was propelled from the Nasrec exhibition hall back to the World Trade Centre, forced to listen to the self-righteous carping of apartheid's leftovers, the Concerned South Africans Group

The spectre of the Cosag parties attempting to hijack the nation's economic agenda kept the African National Congress from officially participating in the NEF.

"We don't want to create a circus where all 26 parties demand their say," explained Trevor Manuel, the ANC's head of economic planning.

And perhaps it is the absence of the cacophony of the World Trade Centre that has allowed the NEF — a collaborative venture of the government, the unions and business — to progress as far as it has.

In the initial phase, the unions seem to have had the best of it. Most of the proposals so far are dedicated to putting more people to work and strengthening the security and welfare net.

According to the Congress of South African Trade Unions' Alec Erwin, the unions were buoyed by the NEF agreements, but want to start delivering real benefits to people on the ground before trumpeting the forum's successes.

The absence of the ANC, given that it is likely to be the majority party in a government of national unity after next April 27, however, is a weakness. It means that one leg of the NEF triangle is a lame duck government happily signing cheques its successor must pay.

The ANC must be dismayed to see its trade union allies negotiating with a weak National Party government, extracting concessions and making hay now, creating consequences and precedents that will be firmly in place by April 27.

Manuel even warned of the NEF usurping the prerogative of a new government in formulating economic policy and assuming too much about the present government.

The ANC concerns come at a time when there are other strains in its alliance with Cosatu. The buck for last Thursday's failed stayaway to protest the rightwing storming of the World Trade Centre is still being passed. The National Union of Metalworkers' call at the weekend for Cosatu to break its alliance with the ANC after the election is even more tangible evidence of diverging interests.

The harsh truth, though, is that reconstruction can't wait for an election. Erwin says: "Virtually all the issues we dealt with are crisis issues. If we don't take action now, it will be very serious." He denies that the NEF is making major policy or pre-empting issues that are the proper province of the government.

However, he adds: "If the ANC chooses to reverse the unions' agenda, they will have a clash on their hands anyway."

There is nothing about the broad thrust of the NEF that contradicts ANC economic policy. It shows recognition by all concerned that — with apologies to General Motors — what's good for the poor is good for South Africa.

Finance Minister Derek Keys, who has advanced his cause to remain in the government of national unity, acknowledged as much in describing the long range purpose of the NEF: "We need to invent and then create an economy that answers more closely to the needs of our community."

The once fashionable "trickle-down" views of the Eighties have been discredited, swopped for the approach that the state and the private sector have to intervene to rebuild black communities. Economic resources will have to be channelled into low-cost housing, rural development and opportunities for all.

More than all the specifics, it is this framework of a co-operative economy that is being thrashed out. Coming just days after the foundation for democracy was laid at the multi-party talks, we should all be dancing with joy in the streets.

Yet these events are overshadowed by the images on television of burnt-out taxis, of bodies in the dirt, and of refugees fleeing the mayhem of Katlehong and Thokoza.

There is a new apartheid, two new South Africas: the South Africa of negotiations, where progress beyond the wildest imaginings of five years ago is being achieved, and a terrible South Africa of dust, decay, death and disillusion.

The suspicion and distrust of the process was reflected by the union participants themselves, who put the NEF under tough questioning on Monday. Out on the streets, the ANC negotiators at the World Trade Centre find themselves under increasing fire from the young militants.

It brings to mind words Alan Paton wrote 30 years ago: "... who knows how many years must pass and how many lives must be spent and how much suffering undergone before it all comes true? And when it all comes true, only those who are steeped in the past will have any understanding of the greatness of the present."

Yet it is the violence and the economic and social disintegration of many black communities that has sullied the successes of the present.

The significance of the NEF is that economic reconstruction is as essential as the Peace Accord in combating violence.

Delivery has to begin now — people who have been so long at the bottom of the pile need to benefit, no matter how it pains the rest of the economy. Otherwise this society has no future anyway.

All roads lead to Rome, to the vote, to a legitimate government to relieve a tired regime that has lost the will to protect not only people's lives, but also the very place where the new South Africa is being negotiated.

But we have seen this week how gridlock at the multi-party talks affects people's lives. Having lost the argument over the election date, the rightwing has pounded the point that it will be impossible to hold an election in the current political climate.

That puts it in the dangerous situation of having a vested interest in violence.

And with the ANC unable to control its own heavily armed supporters, the fuse is frighteningly short.

Under such pressure, the ANC shouldn't fret about being usurped by the NEF. Without a reasonably amicable political settlement, there will be no reconstruction at any cost. For now, it's back to the World Trade Centre.

NATIONAL ECONOMIC FORUM

FM 9/7/93

Symptoms not causes (49)

Attempts to reach consensus on any topic in SA are constructive but, when the parties represent widely diverse viewpoints, as in the case of the National Economic Forum, the process is hardly conducive to the formulation of a coherent economic policy.

At the forum's first plenary session in Johannesburg this week reports were presented by the long- and short-term working groups. The problems facing delegates and press are of interpretation. And they appear to be shared even by some key delegates.

Unlike the now obsolete Economic Advisory Council, the forum has the merit of being representative of most South Africans — with some important exceptions. But the report of the short-term working group contains many of the flaws of the council's reports: ambiguity and internal contradictions.

Anglo's Bobby Godsell, who chaired the open debate, at one point described a problem as one of semantics In response to questions on centralised bargaining, he explained a last-minute insertion may not have clearly conveyed what was intended. The passage under discussion, at that point, appeared in the report of the short-term working group and referred to centralised bargaining:

"The parties record their preference for a voluntarist approach to establishing and shaping bargaining institutions Voluntarism remains important to the extent that it is able to foster workable and equitable bargaining arrangements. Voluntarism in this context does not preclude centrally bargained agreements being extended to non-parties."

The key phrase, it seems, is "to the extent that it is able to foster workable and equitable bargaining arrangements." It is in the discretion of the Minister to impose agreements if he believes these conditions have not been met.

Another problem with many proposals is the strong flavour of motherhood and apple pie.

Section 2, dealing with agreements on job security, states: "The objectives of the NEF are to achieve economic growth, equity and participation." Naturally. But the proposals in the section have little to do with growth. They deal with worker protection and call for a more constructive approach to and greater transparency on the issue of retrenchments. They also propose that the Unemployment Insurance Fund should provide benefits to people on extended short-time.

These measures address symptoms not causes.

Referring to the State procurement policy, the document suggests steps should be taken to promote the "purchase by the public sector of locally manufactured articles with a high local content in order to maximise local job creation." It also proposes, however, that public procurement should help industries "undergoing a restructuring process agreed at tripartite level, towards the goal of greater international competitiveness." Theoretically, it may be possible to achieve both these goals. In practice, they are almost certainly mutually exclusive.

The most useful proposals are those that relate to the mechanisms for using funds already allocated in the Budget — for job creation and small business development.

Other proposals deal with:

☐ Fraudulent imports which "resulted in a number of jobs being lost in local industries." Measures to stop these were put forward;

☐ The public tender system — the State Tender Board will be restructured to include representatives from labour and business as well as technical experts and State representatives.

A decision on a public works programme has been deferred until "a rigorous pre-investment investigation" has been conducted.

No agreement has yet been reached on the highly controversial subject of cost-cutting measures in the public sector and their impact on job security. It is to be "urgently" addressed.

The report of the long-term working group examines the investment, finance and foreign trade gap, and labour markets, job creation and productivity This concentrates on ends (reasonably perhaps in a long-term document) without much detail on means — and is wordy rather than lucid.

On the investment gap, it says: "Investigation of investment issues is underpinned by a recognition of the need for higher levels of investment and the need to focus on both public-sector and private-sector investment, separately and in relation to each other in this regard "

The report recognises "the need for higher levels of investment," is investigating "the level and nature of public-sector investment that would be compatible with increased private sector investment" and is addressing "factors determining private-sector investment." It has "identified points of agreement which, taken together, constitute a framework within which to locate foreign direct investment "

It suggests that, to attract foreign direct investment what is needed is "consistent credible economic policies rooted in a broad national consensus." Two probably mutually exclusive conditions.

The report, however, is an achievement if only because organised labour has approved principles that will generate a healthy market economy. Whatever their flaws, both documents represent an achievement on the part of the working groups. Formulating and achieving consensus on economic policy is a Herculean task. The goal is probably unattainable.

But the exchange of views is crucial in order to assess the dimensions of the problem. And the *bonhomie* that prevailed for most of the session is not simply a sideshow It establishes that, in the absence of agreement, there can at least be an understanding of the many perspectives on policy.

Whatever the policy that eventually emerges, it will be the better for the forum's existence. And the prospects of implementing it will be improved.

☐ The annual Budget, usually presented in March, is to be postponed next year until after the April 27 general election. A date is to be announced. Fiscal arrangements will be extended by the Part Appropriation Bill ■

LABOUR

NEF tripartism triumphs

WMail 9/7-15/7/93. (49)

The National Economic Forum, where the state, business and labour are thrashing out future national economic policy, has made great strides in its short existence.

By **FERIAL HAFFAJEE**

A SEA of sober suits and the odd struggle T-shirt greeted delegates to the first ever plenary session of the National Economic Forum this week.

Six government ministers, the cream of South Africa's unions and the best of the business world met on Monday in a conference centre outside Johannesburg to present to an eager public the fruit of their first eight months of work.

This was tripartism at work: the state, business and labour getting together to hammer out economic and labour market policy, taking decisions on consensus and throwing in a good few checks and balances to even the enormous odds.

A chortling Japie Jacobs (a government advisor), an almost smug Bobby Godsell (Anglo-American director) and the Congress of South African Trade Unions' other Jayendra Naidoo chaired the proceedings. Labour had clearly arrived — albeit not in a Mercedes-Benz — and was sitting as an equal negotiating partner.

The NEF, which was formed in October last year, has done a lot of work in very little time: numerous agreements have been reached, stumbling blocks identified and a macro-economic policy outlined.

More important, though, is that it is a transparent process: submissions have been invited from the public, it has promised regular bulletins and plenaries and even had a question time at Monday's meeting where delegates were free to criticise and condemn.

Strong condemnation came from Cosatu's Jane Barrett: to loud applause she noted that "there is not a single woman on the working groups (of the NEF)". There were only five women in the labour delegation and not one in the business delegation.

At a gathering of such a diversity of interests, ideologies and identities, there were bound to be tensions.

The South African Municipal Workers Union's Salie Manie told the government his union was not opposed to public sector restructuring, but that retrenchments were not the answer: "If you don't know how to do it, come to the workers, we've got some ideas."

The South African Chamber of Business delegate said the NEF's commitment to voluntarism — voluntarily entering into bargaining agreements — contradicted their commitment to centralised bargaining.

And the Inkatha Freedom Party's delegate complained that participants were dictating "an indefinite lifespan for the NEF". "Console yourself, this is a process not an event," a patient chairman kept saying.

But the air at the indaba was generally conciliatory and often jocular. Said Naidoo: "When do you know that the process of change has touched the hearts of everybody? When Japie Jacobs advocates a process of transparency."

And Godsell said: "Labour's prodding me to get on. I'm used to labour prodding me."

●See PAGES 17 and 22

Agreements reached at the National Economic Forum

W/Mail 9/7-15/7/93

(49)

THE main agreements affecting the labour movement were reached in the short-term working group. These include:

A national job creation and small business development programme to be set up under the direction of the NEF.

The job creation programme will be directed at the provision of infrastructure, while the small business development programme will provide assistance to entrepreneurs in particular geographic areas.

The 1993/4 budget set aside R45-million for job creation projects; the Department of Manpower has R4-million set aside for training people employed in such projects, while there is R30-million budgeted for the small business development programmes.

Recent reports quote the Development Bank as saying it has R5-billion to direct into job creation projects.

The parties to the NEF recognised the value of industry level bargaining and agreed they would not oppose the establishment of centralised bargaining arrangements.

On job security, the parties agreed to full disclosure of information and selection criteria for proposed retrenchments, as well as a fair package for retrenched workers.

It also agreed to promote the idea of Work Security Funds, which will provide workers with funding while they are being trained or retrained.

The parties agreed to overhaul the Unemployment Insurance Fund. This will include providing benefits to workers laid off temporarily, as well as to those on extended short-time. Other plans include compulsory state funding of the UIF.

Other agreements reached include the restructuring of the public tender system, the formation of a national development corps for young people, a halt on the privatisation of Abacor and the setting up of targeted assistance programmes to declining industries and affected communities.

FM 9/7/93

(49)

THE RAND

Things are not what they seem

No one tracking the recent performance of the rand would think there is anything going for the unit. Last Thursday it fell to a record low of US29,5c. And, after an upward blip on the Friday morning following — to just over US30c — it lost almost all the gains by Monday's close.

Yet, apart from the erosion in value caused by an inflation differential between SA and trading partner countries, the rand's medium-term outlook is encouraging.

On the face of it the domestic currency has seldom, since the early Eighties, been better placed. The price of gold, the country's chief export, has risen dramatically — from $326/oz early in March, to around $387 at the start of this week and over $390 on Tuesday. In the five months to May, the item "other unclassified" which is largely gold, represented about 37% of export income, so an improvement in the prospects for gold would have a substantial effect on the trade balance.

And the price of oil has fallen about $2 in that period, to under $17 a barrel on international markets on Friday. This is not a factor that the domestic currency market immediately responds to but it has considerable medium-term importance. In the five months to May, the trade category "other unclassified", which is mainly oil, represented about 10% of imports.

There are other reasons the unit could be expected to be performing better. Last Friday came news of a potential $850m IMF loan; at Kempton Park "sufficient consensus" was achieved to finalise the election date, provisionally set for April 27, 1994; and gold breached $390 for the first time since the Gulf War. The metal price is showing great resilience after a remarkable rise.

Yet, despite a significant improvement in the terms of trade and the announcement that IMF facilities would be available, the rand is about 5% lower against the dollar than it was in the second week in March. This came as the US currency fell from around Y118 on March 15 to Y109 on Monday morning and was little changed against the mark, from about DM1,66 to DM1,69 on those dates.

Against a trade-weighted basket of currencies, the depreciation has been less than against the dollar; but that it has taken place at all is significant. The policy of the Reserve Bank is to keep the domestic currency stable, in real terms, against the basket. This means any fall against the dollar usually brings a compensatory increase against the cross currencies. On this occasion it has not happened (see graph).

This is an indication either that the Reserve Bank has not had the resources to intervene effectively or that Reserve Bank Governor Chris Stals is taking advantage of the lack of inflationary pressure in the economy to allow the rand to depreciate. This will either boost exporters' income in rand terms or give them the opportunity to price competitively in world markets.

The flip side of this is that a depreciating currency means higher import prices. Which may be why the Bank allowed the currency to rise 2%, in real terms, against the dollar last year. With inflation a priority, Stals may have opted for a stronger rand last year. However, right now could be a better time to reverse that trade off.

This process would help reserves to recover from the recent slide — from R11,5bn in August last year to R7,9bn at the end of May.

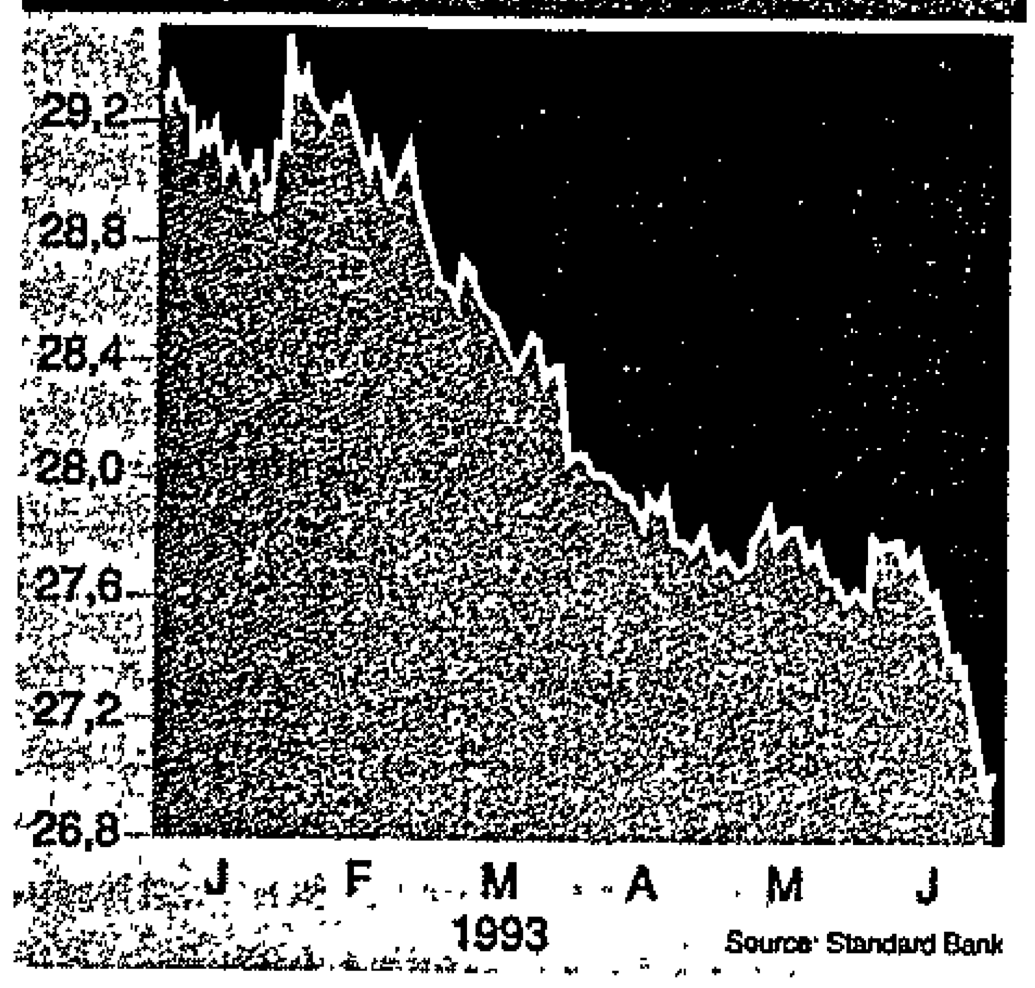
Old Mutual's Ursula Maritz says about $1,6bn in debt in and outside the net is due for repayment this year. She says a significant factor in the outflow has been the repayment of debt outside the net. For instance, the failure of public utilities to roll over foreign loans, because of the high risk premium attached to the cost of borrowing offshore, since Boipatong in June last year.

This was accompanied by some degree of disinvestment. Certainly there were outflows not related to debt repayments.

But an indication that investor sentiment is not unfavourable comes from JSE figures on listed securities. Though the sale and purchase of these assets do not directly affect reserves, because they are conducted through the financial rand, it is an important indication of confidence.

Long slide

Nominal effective exchange rate of the rand (1979=100)



And, despite the assassination of Chris Hani in April and its destabilising aftermath, investment flows over the four months to April were favourable *(Economy* July 2). The Reserve Bank Quarterly Bulletin records that:

- ☐ Net purchases of shares by non-residents rose from R600m in the last four months of 1992 to R1,8bn in the first four months of 1993; and
- ☐ Net purchases of public sector stock amounted to R300m in the first four months, afer net selling of a similar amount in the last four months of 1992 *(Economy* July 2).

JSE figures show, in May, there were:

- ☐ Net equity purchases by non-residents of R570,4m; and
- ☐ Net gilt purchases of R106,7m.

Damage was done in June, when a R199m net purchase of gilts was wiped out by a R203,8m net sale of equity to produce a net outflow of R4,8m.

Instead of countering debt repayments, investment flows through the JSE moved in the same direction — out.

A factor which is not sufficiently recognised, says Nedcor Bank's Mark Parker, is the growing role of hedging transactions in the forex market. Though, over a longer term, these would move in the same direction as underlying transactions, they may cause huge one-off distortions in a thin market, on settlement dates, says Parker. Cont P

AFRICAN BANKING

As trade and financial doors are opened to SA in other African countries, businesses and institutions will need to learn more about banking in the rest of the continent.

The African Banking Conference, organised by AIC Conferences and sponsored by Meridien Biao, will provide the insights needed. The conference, at the Sandton Holiday Inn on August 18-19, is presented in association with the *FM.* Keynote speakers are: Paul Popiel, senior financial economist for the Africa region at the World Bank, and Babacar N'diaye, president of the African Development Bank in the Ivory Coast.

Other speakers include representatives of the Reserve Bank, the SA Foreign Trade Organisation and commercial and central banks in Africa.

The fee is R2 154,60 a delegate, including Vat, and a discount of 10% is available to organisations sending three or more people.

For more information phone (011) 803-9680 or fax (011) 803-9684.

P.T.O

NATIONAL ECONOMIC FORUM

FM 9/7/93 (49)

Delivering the wrong message

The National Economic Forum (NEF) had its first plenary and public session in Johannesburg on Monday (see *Economy*). It was clearly intended to be an elaborate advertisement for the work done in the many secret sessions. In the event, it certainly didn't turn out the hottest tribunal in town.

There are many reasons to justify the establishment and continued existence of the forum. Among them is the need to build bridges and for disparate points of view to seek some form of understanding, even if consensus was likely to be difficult or even impossible.

But just as deliberations at the World Trade Centre have failed to foster even sufficient consensus for anything but the outline of a democratic constitution, so the NEF has been unable to find enough ground of common interest to form the basic provisions of a rational and unambiguous short-term economic policy. No wonder the national Budget, due normally in late March, is to be postponed until after the proposed April elections.

No doubt the NEF will argue that it is not necessarily the forum from which consensus should be sought for the Budget. There is some truth in that, as the ANC was not a participant.

But if sufficient agreement could not be drawn from this forum to enable Finance Minister Derek Keys to present a broadly based consensus Budget, with reasonable expectations that an interim participatory government would find it acceptable, serious reflection on the forum's utility may be justified.

No reasonable person would expect the forum to have agreed on long-term economic policy. A case may even be made for consensus on only the broadest possible objectives of short-term policy. But if the forum cannot agree on the basic content of a Budget sufficient to allow some certainty that its measures will be applied during the next fiscal year, its deliberations do not augur well.

The message that most businessmen will understand from Treasury adviser Japie Jacobs's statement that the Budget will have to be postponed from March until after the election is that an interim government would probably reverse whatever uncomfortable measures the Budget would have contained.

Certainly, the announcement flies in the face of the forum's declared objective to foster prosperity and equity, especially if a rising trend of investment is to be encouraged next year. The fiscal and monetary stability and certainty necessary to ginger up business confidence and promote investment will be conspicuously absent.

Stability is all the more important in view of the social and political turmoil that continues to plague the country. The despondency this is creating among large sections of the productive population will certainly discourage investment initiatives and much else besides.

Dismay should not end there. Most successful governments in Western democracies had a clear idea of their objectives and policies before taking office. When they were in office, those policies were implemented with vigour born of conviction and confidence.

It now looks as if the first government in the new SA, even though an interim one, will not be in that happy position. Simply, the result will be that the business environment will become much more unstable before any improvement can reasonably be expected.

This unhappy situation vindicates misgivings we expressed at the time of the formation of the NEF. We believed that business and labour should have participated in deliberations at the World Trade Centre; certainly they had more claim to be there than some of the dubious inclusions in the 26 negotiating parties.

If that had occurred, chances are the interim government would have had some perspective on the processes vital to the provision of the resources needed to sustain orderly and equitable government, let alone return to prosperity.

Postponement of the March Budget suggests too that Keys has produced his first and last Budget and that his influence in an interim government is likely to be very limited, if he has any at all.

It raises questions whether the fiscal discipline he has attempted to impose will be allowed to continue, whether the direction he has given to trade policy on the eve of a critical Gatt presentation will be sustained, and whether the conciliation he brought has been to any avail.

If the answers are discouraging, no matter what relief many will feel at having at last a democratic election in sight, the prospects of more savings, investment and ultimately more jobs will be decidedly less and the mood of potential investors correspondingly lower.

The announcement that the Budget will be postponed was the wrong signal to send to the business community. Indeed, the first plenary session of the NEF itself was an exercise in such confusion and dispute that business sentiment will be constrained.

The tortuousness of the World Trade Centre negotiations and how long they will continue is difficult to judge. But after this week's meeting of the NEF, it is clear some attempt should be made again to include these vital economic constituencies in constitutional deliberations. ■

Economic apartheid

(49)

Guardian W in W/Mail

SOUTH AFRICA has broken through another roadblock on the long road to democracy. Once again it has taken the spur of extremist action and the fear of more to overcome the obstacle. The assassination of Chris Hani had already forced President de Klerk to accept the need for naming an election date. The attack by the Afrikaner Resistance Movement (AWB) underlined the danger that racist thuggery, condoned by the security forces, could quickly occupy a political vacuum. Once again too it is the ANC which has given more ground in allowing important provisions of South Africa's first multi-racial constitution to be drafted by the current negotiating forum. These will now only be approved, not written, by an elected constituent assembly as the ANC had originally demanded. 9/7-15/7/93.

Agreeing on who should write the constitution only begins the argument as to what it should say. The central issue is to what extent, and for how long, power-sharing should be a feature of multi-racial government. In an earlier compromise, the ANC and the National Party agreed in February on a transition period of up to five years after the election during which power would be shared in a government of national unity. In last year's referendum, the NP had more or less promised its white constituency to insist on power-sharing being continued after the transition but has recently conceded that this would be "unwise". But it remains the critical issue where Mr de Klerk is vulnerable to extreme right pressure. South Africa has to face the probability that if majority rule, even after a long transition, is written into the constitution, the white extremists will resort to more sustained violence. Powerful figures with army and security backgrounds have already threatened as much.

Last week's black demonstrations in Cape Town, with cries of "Kill the Boer", were to be expected after the AWB's unchallenged rampage. The problem is not slogans on the streets. It is the alienation of large swathes of the black community for whom political change means little. Black unemployment runs close to 50 per cent and economic apartheid, as Cosatu's leader Jay Naidoo has said, will last much longer than political apartheid. The sub-text of power-sharing is about the maintenance of economic privilege as well as political authority. This is also the human context in which the township violence will flourish outside and within the conflict with Inkatha. The Savimbi option is not realistic politics for Chief Buthelezi, but from a narrower base his movement can still play a troublesome rogue role. South Africa has come a long way to the prospect of Nelson Mandela as its first properly elected president. But, even with a fair negotiating wind between now and next April, there are deeper hidden dangers ahead.

LABOUR NEWS IN BRIEF

Compiled by **SHARON SOROUR**

Short-term action for economy

THE National Economic Forum (NEF) this week approved recommendations for short-term economic action — including protecting collective bargaining and job creation through public works programmes.

At its first plenary session since its establishment last October, the NEF, comprising organised business, government and labour, also voiced its intention to secure a partnership role with the government of the day in setting economic policy.

Finance Minister Mr Derek Keys emphasised the need to create an economy that answered more closely to the needs of the community.

Centralised bargaining was acknowledged as "one of the tiers" of the collective bargaining system.

Miners reject CoM pay offer

THE National Union of Mineworkers (Num) has rejected a final pay offer by the Chamber of Mines, and unions affiliated to the Council of Mining Trade Unions have declared a dispute and applied for a conciliation board hearing.

Num said gold mines had offered pay increases ranging from six to eight percent.

The offer was rejected because the higher gold price provided the mining industry with additional profit of R200 million a month, and workers had made big sacrifices in recent years by accepting increases far below the inflation rate, resulting in low living standards.

Footwear workers down tools

THOUSANDS of footwear workers in the Western Cape have downed tools following the breakdown of wage negotiations, according to the SA Clothing and Textile Workers' Union.

Union organiser Mr Ronald Bernickow said about 3 000 workers went on strike yesterday because they were unhappy about the wage offer from manufacturers.

Footwear Manufacturers Federation director Mr Dennis Linde confirmed the deadlock.

Toy firm locks out workforce

EDUCATIONAL toy manufacturers, Playthings, has locked out members of its workforce in Epping after they refused to accept a final wage offer and negotiations ended in deadlock.

Company director Mr Steve Knight said Playthings offered a final wage offer of R18 a week increase, but when the talks deadlocked the union was demanding R47 across-the-board.

Public servants slam 'decrease'

THE Public Service League this week slammed the five percent salary increase for public servants as a salary decrease in relation to the consumer price index.

League general manager Mr Bernard Wentzel said 70 percent of members fell into the lower income group and a five percent increase meant "a disgusting R35,70 a month".

Wildcat strike at Sun City

ABOUT 3 500 Sun City workers — 70 percent of the staff complement — staged a wildcat strike this week but returned to work after management agreed to address grievances tabled by a workers' committee at a meeting this week.

Rocky road ahead

Sowetan 1/7/93

By Mzimkulu Malunga

THE coming years will be tough for business, says Democratic Party leader Dr Zach de Beer. (49)

Addressing a Business Conference for Active Change in Johannesburg, he said: "For the sake of the workers, managers, shareholders and the country, it is vital that our businesses survive, make profits and pay tax." The changing political climate would create numerous strains and anxieties but nothing must be allowed to interfere with the efficient, cost effective and profitable management of business.

De Beer called for increased representation of blacks in management positions of companies, but placing people on positions they could not handle should be avoided. "Where appropriate, this should be done by management in concert with trade unions," he said. Urban Foundation chairman Mr Mike Rosholt said business should forge mutually acceptable links with all of South Africa's communities.

Economic Forum will be a major player

CPress 11/7/92

(49)

THE first plenary session of the National Economic Forum made it clear that this body, representing the key players in the SA economy, will play an important role in the future.

How serious the Forum is taken is reflected by the fact that Finance Minister Derek Keys has undertaken to submit SA's new proposals to the General Agreement on Tariffs and Trade (GATT) to the Forum for their scrutiny.

He said during his closing remarks to the first plenary session that certain government departments were at present working "flat out" to complete these proposals in time for the Uruguay round of GATT negotiations.

MONEY TALK

Another factor highlighting the importance of the Forum was that representations on the rescheduling of SA's debt standstill arrangements would be made to it in due course.

Not so long ago Keys spoke about economic warfare in SA between labour and employers, but such was the spirit during the session that he struck a far more hopeful note on the relations between these two key players in the SA economy.

"Labour," he said, "does not want the earth. It does not want to cripple business (as so many businessmen seem to think!). It wants more education and training. It wants a career path from the lowest level in any business."

He emphasised that both parties had a vital role to play in the economy.

He also agreed unconditionally with those who pleaded for a new deal for the country's underprivileged, saying that more resources would have to be channelled into areas such as low-cost housing and opportunity creation.

The Forum's job-creation programmes would have a powerful claim to more support from state finances, but he warned that the country could not finance the level of manufacturing investment needed if the government did not reduce its "excessive consumption expenditure".

However, he pointed out that the Forum would have to go much further than mere job-creation programmes.

The challenge was far greater as it would have the critical task of designing specific programmes to address macro-economic stability, labour, entrepreneurship and the role of government.

Keys felt that what needed to be done in SA would have to be done together by the various economic players.

"And it has to be materially different from what we have done in the past.

"We simply cannot continue quarrelling and waging economic warfare against each other as our economy has to survive in a highly competitive and even dangerous world.

"To succeed we will have to look at what countries such as Japan have achieved asa result of their close co-operation between government, labour and business for the sake of the national good."

ANC exclusion bodes ill for economic policy

S|Times [Buss] 11|7|93

By CIARAN RYAN

THE ANC's exclusion from the National Economic Forum (NEF) threatens to undermine economic policy formulation, say delegates.

Fears that the ANC would refuse to bind itself to NEF policy decisions were raised this week after the first plenary session.

Delegates were treated to the rare spectacle of the ANC attending as an observer while the Government, labour and business presented agreements on issues ranging from collective bargaining to job security and public works programmes.

ANC economics co-ordinator Trevor Manuel objected to the Government's part in economic policy determination.

Seat

Privately, delegates were worried that the ANC might seek to spoil the party, or renegotiate agreements once the transitional executive council had been formed, at which point the ANC would be entitled to a seat on the NEF

A delegate says: "Differences between labour and the ANC are emerging. You have the unusual situation of Cosatu distancing itself from the ANC."

Cosatu insists that it will have to be consulted about economic policy now and in the future, an issue which could become the first chink in the patriotic front armour.

There are even reports that Cosatu might form a labour party if there is any attempt by a future government to reject its participation in economic policy determination.

(49)

Positive proposals emerged this week from the NEF short-term working group.

There was a defensive tenor in some recommendations, more emphasis on job security and retrenchment policy than on job creation, for example. Other recommendations appear contrary to the General Agreement on Tariffs and Trade.

A breakthrough for labour was the agreement on the co-ordination of bargaining at economy, industry and plant levels. Rules for retrenchment were established and a commitment made to establish work security funds in each industry. The money would pay retrenched workers during training. A database of retrenched workers would be compiled.

The Unemployment Insurance Fund is to be restructured to ensure that temporarily laid off workers receive compensation.

Finance Minister Derek Keys sounded a strong warning to protected industries:

"We cannot run a capitalist economy on the assumption that every business that exists will continue to exist and that there will be no retrenchments. This is not the way a market economy works.

"One has to operate on the basis that certain businesses which have missed their opportunities are going to die and will be replaced by other businesses that are created, and one has to minimise the cost of these transitions."

The forum highlighted the low funding for job creation.

The Development Bank of SA is to report on proposed short-term public works and training programmes soon.

Customs and excise is to be tightened up to stop the fraudulent import of manufactured goods to avoid payment of tariffs. The offenders have cost many jobs.

Check

Five percent of all consignments will be checked, particularly where employment-sensitive sectors are affected.

Customs staff will be rotated between posts and companies found guilty of fraud will have their names publicised.

In spite of commitment by the Government to reduce the preference for local content in the public tender system, the NEF agreed that "within reasonable financial boundaries" State procurement policies should promote the purchase of SA goods.

Labour-intensive industries are to be given price preference in the State tender system.

The long-term working group outlined four areas of investigation. the investment gap, finance gap, foreign trade gap and labour markets, employment creation and productivity.

Mr Keys' suggestion that the normative economic model would be used as the basis of negotiation was regarded as "presumptuous" by labour delegates who objected to its position on collective bargaining. Labour is preparing two economic models of its own.

The agreed framework for foreign direct investment calls for a stable democracy, consistent and credible economic policies, and "a clear message to foreign investors that SA will welcome foreign investment".

A member of the NEF says: "The real test now is to implement the short-term recommendations and get consensus on the longer-term economic issues.

"This could become a problem unless the ANC lends its support."

The real question is whether an ANC government would want the NEF to restrict its power to implementing policies of its own.

'SA could become an economic powerhouse'

Business Staff (49)

SOUTH AFRICA stands a better than average chance of becoming one of the world's economic powerhouses in the next 10 years according to Fortune magazine managing editor Marshall Loeb.

This is Loeb's key message, to be delivered to local businessmen, when he visits the country in September to address an Ernst and Young Directors' Forum.

In a preliminary draft of his address, Loeb lists SA, India, Mexico, Argentina and Chile, Indonesia and Vietnam as nations that international businessmen should "keep their eyes on" for potentially spectacular growth and marketing opportunities.

He also maintains SA is one of the few countries worldwide to satisfy the characteristics he believes will determine the economic, political and social success of nations during the next 10 years.

Loeb adds "SA has very few physical or material limitations. That is a superlative statement, but it is indisputably correct.

CT 12/7/93

"So, despite all of your immediate and very visible problems, if you follow sensible policies — policies based on the freedom and security of individuals and of business enterprises — then the future of your country, blessed with resources and strategic location, can be very bright indeed."

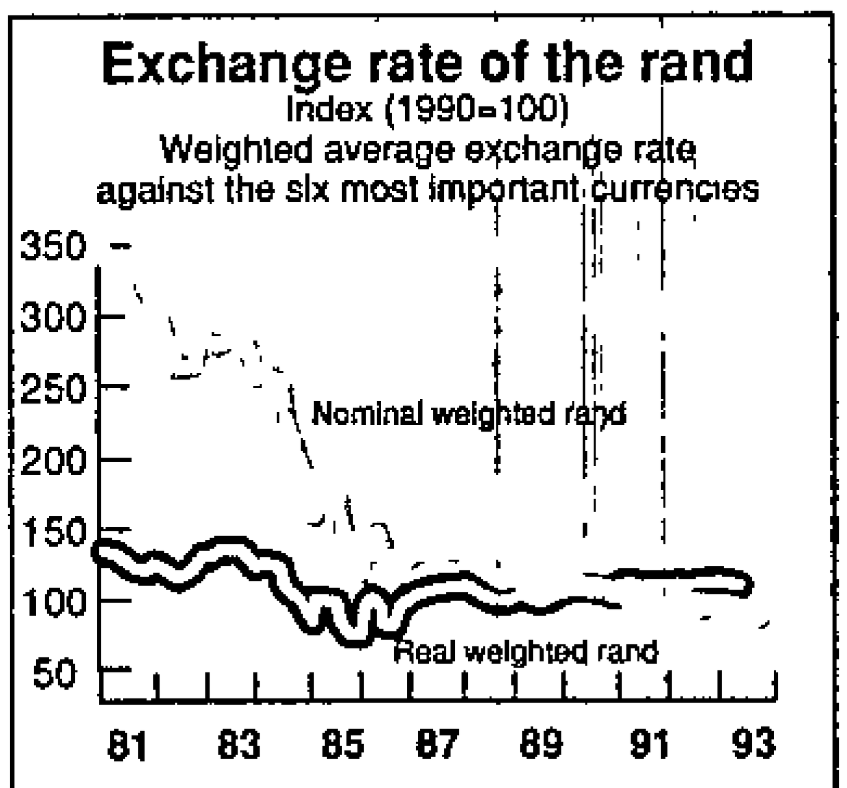
Economist forecasts comeback for rand

B Day 13/7/93

LINDA ENSOR

CAPE TOWN — The weakening in the rand's value in recent months did not mean the currency was on a slide, Boland Bank group economist Louis Fourie emphasised in the bank's latest Economic Review.

Compared with June's rand/dollar exchange rate of R3,32, he predicted a rate of R3,30 in December, R3,32 in June next year, and R3,45 by December 1994. Relative to the pound, the rand would trade at R5, R5,15 and R5,20 respectively, Fourie believed, while the yen/rand exchange rate was forecast at 33,33, 34,04 and 31,88 respectively.



Graphic LEE EMERTON Source BOLAND BANK

"Fundamental policy measures to bring about exchange rate stability remain in place with the result that the rand should show recovery in real terms in the forthcoming year," Fourie said. He did not foresee the Reserve Bank easing policy on money supply growth in the short term.

The Bank's conservative policy would perpetuate the "scarcity" of the rand, and protect the currency against a continued depreciation in real terms. (44) (49)

"There is good reason to believe that the policy trend will be maintained in the months to come, in view of SA's shaky balance of payments position and a fiscal budget deficit that threatens to be greater than initially foreseen."

Fourie estimated that the budget deficit would be between R28bn and R30bn, or about 8% of GDP.

"The fact that the rand exchange rate showed a marked natural depreciation in recent months also relieves the "non-official" pressure on the Reserve Bank to help create a weaker, or "export friendlier", exchange rate," Fourie said.

Economic upturn likely early next year — chamber

B/Day 13/7/93

ADRIAN HADLAND

PRETORIA — There were positive signs that the recession was bottoming out, the Northern Transvaal Chamber of Industries said yesterday.

In its publication, Economic Focus, the chamber said the economy had at last entered a phase of resistance and an upturn could be expected by early next year. Private consumption had increased slightly in the first quarter, against previous declines, and the reduction in consumers' debt augured well for a resumption of normal consumer spending.

(49)

A further decline in the interest rate, together with steadily falling inflation, also boded well.

The "massive destocking process" of the past four years appeared to be tapering off while an even higher dollar gold price would have a positive influence.

The chamber warned, however, that it was premature to talk about a general economic upturn. Real wages had increased at a much faster rate than labour productivity had, contributing to a continued increase in real labour costs per unit.

"This unsatisfactory development is really at the core of a serious structural problem in the SA economy and has to be rectified," it said.

If the increase in real wages was not limited to growth in productivity, spiralling labour costs would affect SA's ability to compete effectively, ensure price stability and promote economic development and long-term employment opportunities.

The longer steps to increase production capacity and employment ability were delayed, the more difficult it would be to uplift communities financially and establish a firm basis for sustained economic growth.

Kriel affirms support for police chief

B/Day 13/7/93

PRETORIA — Law and Order Minister Hernus Kriel yesterday rejected speculation that Police Commissioner Gen Johan van der Merwe was about to retire at his suggestion.

Kriel said although it remained Van der Merwe's prerogative to take early retirement if he wished, he knew of no decision or planning in this regard.

"I can state quite categorically and unambiguously that the government and I have the fullest confidence in Gen van der Merwe and his general staff."

However, the ANC called again yesterday for the removal of Van der Merwe and Kriel, "given their complete inability to provide responsible leadership to the police and Law and Order Ministry".

(51)

"This country needs a professional, non-partisan police force that acts in the interests of all its people." — Sapa.

Economy's resilience is impressive, says BoE

Star 13/7/93

By Claire Gebhardt

The economy is no longer sliding and may even be modestly expanding, says the Board of Executors (BoE) in its July Investment Outlook.

"Given effective government we still have the potential to achieve a sustained and vigorous upswing."

Labelling the economy's resilience "impressive" BoE notes that in spite of a poor start to the fiscal year it believes the Minister of Finance will come close to meeting his borrowing and spending targets.

(49)

"A cut in short term interest rates is justified by a single digit underlying inflation rate, below target money supply growth and depressed domestic demand, but is being held back by continued foreign capital outflows."

The BoE says the domestic equity market is proving even more resilient than the economy.

It suggests equity investors are either very confident that the eventual outcome of the transition will be favourable — or alternatively feel that equities are the least vulnerable should the transition process fail.

The publication notes that though the Minister of Finance's claims that the economy will achieve positive growth this year are greeted with widespread incredulity, among many positive factors supporting his view are:

- The increase in mining production.
- Orders flowing from the Columbus and Alusaf projects.
- Eskom's household electrification programme.

SA 'can be economic dynamo in 10 years'

Star 13/7/93

Finance Staff

Local businessmen and economists might be suicidal over South Africa's economic outlook, but a prominent foreigner points out that this country has few material or physical limitations.

"That is a superlative statement, but it is indisputably correct," says no less a personage than Marshall Loeb, Fortune magazine's managing editor.

He feels that South Africa — loaded with minerals and strategically located — stands a better than average chance of becoming one of the world's economic powerhouses in the next 10 years.

Businessmen will be able to hear him deliver this message when he visits the country in September to address an Ernst and Young directors' forum.

(49)

Loeb lists South Africa, India, Mexico, Argentina, Chile, Indonesia and Vietnam as nations international businessmen should "keep their eyes on" for potentially spectacular growth.

What of the caveats and provisos that invariably accompany even mildly optimistic scenarios of this sort?

Well, says, Loeb, South Africa must obviously follow sensible policies based on the freedom and security of individuals and of business enterprises.

He maintains South Africa is one of the few countries worldwide to satisfy the five characteristics he believes will determine the economic, political and social success of nations during the next 10 years.

Any nation's ability to realise its potential will depend largely on creative management "to look ahead, to look around corners, to discern changes and to anticipate them and respond to them — not just short-term economic changes but also long-term changes in our society and political life".

From Loeb's mouth into heaven's ears.

Rocket fire blasts violence into new era

218

CT 13/7/93

Staff Reporter

A LIMPET mine exploded in Thokoza yesterday seconds after and three metres away from the impact of an RPG-7 missile which slammed into a hostel wall after narrowly missing a police patrol vehicle.

The MPM magnetic mine was detonated almost simultaneously as the lethal missile smashed harmlessly into the wall of No 2 Hostel, police spokeswoman Lieutenant Janine Smith said.

The appearance of heavy weaponry on the streets of East Rand townships has changed the dynamics of the violence usually limited to stones, pangas and bullets.

Inkatha Freedom Party PWV organiser Mr Humphrey Ndhlovu condemned the attack saying it violated the peace agreement between the IFP and the ANC.

No one has claimed responsibility for the attacks.

Internal stability unit spokesman Major Andre Venter said police were "defenceless" against the shoulder-launched RPG-7 armour-piercing rocket.

An RPG-7 rocket would tear through any of their vehicles "like a hot knife through butter".

The last time an RPG-7 was used in South Africa was "some years ago" in an attack on the Booysens police station, he said.

Police were investigating charges of terrorism.

Jane's Defence correspondent Mr Helmoed-Romer Heitman said the only vehicle "relatively immune" to an RPG-7 was a "full blown battle tank".

The hollow cone projectile impacts on the target sending molten metal inside the vehicle and then relies on secondary explosions to destroy the vehicle.

The RPG-7 was easy to use and lethal, but big, he said.

The ANC's MK, the PAC's Apla cadres and SADF personnel were all trained in its use, he said, and it was used extensively in the Angolan and Mocambican wars.

Mercer tried bribe — claim

NEW YORK. — Heavyweight boxer Ray Mercer appeared in court here yesterday in connection with accusations he offered an opponent $100 000 (about R330 000) to lose.

Mercer, training for an August 12 fight against Tony Willis in Atlantic City, is accused of bribing Jesse Ferguson during their February 6 fight at Madison Square Garden.

Ferguson won a decision over Mercer and went on to a big-money fight against heavyweight champion Riddick Bowe. Bowe won the fight in the second round. The judge will make a ruling on September 27. — Sapa-AFP

Stals sees 1 percent growth rise

CT 13/7/93

Own Correspondent

JOHANNESBURG. — Reserve Bank Governor Dr Chris Stals believes the growth rate could rise one percent this year, depending on agricultural production, and could rise even further next year, depending on political stability.

49

In an interview yesterday, he also said inflation was declining again towards a single digit.

He also expressed "faith and confidence" that South Africa would have access to new foreign capital to meet its heavy debt commitments next year.

● Full report — Page 10

n for Bok rugby

irst against Western Australia in Perth tomorrow.

Kick-off is at noon, with bilingual commentary on Radio 2 000.

Meanwhile, **IAN GAULT** writes from Perth that the Boks had their first victory yesterday when SA Rugby Football Union executive president Mr Ebrahim Patel, addressing a large contingent of journalists, headed off potentially hostile questions about drugs, foul play and racism in sport.

The Bok management had obviously done their homework and the television crews were dismantling their cameras long before the end of the meeting.

A special match to mark the centenary of the Western Australian Rugby Union is being arranged in Perth on Wednesday, August 25. It will be a composite team of Springboks and All Blacks and will play an Australian Barbarians XV.

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● Full report — Page 10

Mandela – working US crowds for cash

Star 13/7/93

(119) (337)

By Peter Fabricius
Star Bureau

ATLANTA — Nelson Mandela left for South Africa last night after a 10-day low-key, high-profit fund-raising tour of America.

Compared to his debut tour in 1990 when he was mobbed by crowds and given the rare honour of a ticker-tape parade in New York, this was a much more professional and business-like affair.

The aim was to make a big dent in the $43 million (R141 million) the ANC estimates it will need to win the elections on April 27. And so, instead of the crowds, Mandela concentrated on working the corporations and the entertainment stars.

But he also focused on black Americans. Even then, though, he rattled the collection box to good effect. A man famous for his single-mindedness, he was laser-like in his concentration on the goal of raising money.

No source was left untapped, no occasion squandered.

An Atlanta newspaper believed the difference between his 1990 and 1993 tours was illustrated by the following anecdote. It overheard one of Mandela's entourage chatting to a visitor over lunch in the plush Ritz-Carlton where the ANC stayed.

They were debating about about who should pick up the tab. But not for long. "Oh, I'll just charge it to Coke," the newspaper quoted the ANC staffer as saying. Coke paid for the hotel bill and other costs and flew Mandela to and from Atlanta in one of its corporate jets.

The Atlanta newspaper noted the contrast between this new slick image which the ANC was now projecting and the revolutioary reputation it still had when Mandela visited in 1990.

Among the celebrities who kept Mandela company on this tour were Michael Jackson, Elizabeth Taylor, Dannie Glover, Sugar Ray Leonard, Barbara Streisand and black poet Maya Angelou who recited one of her works at the inauguration of President Clinton.

Just how much money he raised is hard to establish. One figure given is $1,4 million (R4,6 million) in actual donations — not counting pledges. That seems a conservative estimate. And ANC officials note that Mandela laid the groundwork for continuing fund-raising efforts which will continue to bring in cash after his departure.

Certainly the likes of Glover intend pursuing the ANC's election cause in the months ahead. "This election is the most important event in the world and there is a community of us here who want to make sure the world knows that' he said in an interview.

Star 13/7/93

Clarify economic policy, ANC urged

(49) (483)

DURBAN — Organised commerce is once more to take the ANC to task over nationalisation.

The South African Chamber of Business at its regional congress in Maritzburg at the weekend undertook to get the ANC to state publicly whether it supported its alliance partner the Cosatu-affiliated National Union of Metalworkers of South Africa in its call at the National Economic Forum for a policy of nationalisation without compensation.

In addition, the business movement said it would call on the ANC to "state unequivocally" whether a recently reiterated call for a 50 percent wealth tax to fund socio-economic reconstruction was official ANC policy, although rejected by the ANC two years ago. — Own Correspondent.

Debt talks are going quite well, says Stals

Star 13/7/93

By Claire Gebhardt

The Governor of the Reserve Bank Dr Chris Stals has discounted suggestions that the country faces an appalling year in 1994 as creditors apply the squeeze over the debt inside the standstill net.

Dr Stals says a worst case scenario in which no new funds are available or banks refuse to roll over debt is "unrealistic".

Stals says no details of the proposals on the Debt Standstill are available at this stage but nego tiations have gone quite well.

"Most of the technical details and controversial issues have been sorted out and we are confident that the matter can be finalised.

(49)

"We have presented the proposals to the other political players and we are now waiting for them to reach concensus on what is acceptable to them."

Stals says the worst case scenario reported yesterday implied that South Africa would be forced to repay all its foreign debt from now until the year 2000 and that no new loans would be coming in.

'And then we'd have to assume the economy no longer existed, says Stals.

"In any reasonable process at least some of your maturing loans will be replaced by new loans, some will be rolled over and as trade occurs trade financing will increase.

"But what will be replaced by new loans will depend on political and economic develoments and confidence in South Africa as a place for investment.

"In some years there could be a net inflow of capital.

"Our best-case scenario is R5 billion to R6 billion per annum capital inflow."

Capital market players cut their trading hours

B/Day 14-7-93

TIM MARSLAND

MAJOR borrowers in the capital market yesterday cut their trading hours in line with similar steps implemented by the Reserve Bank.

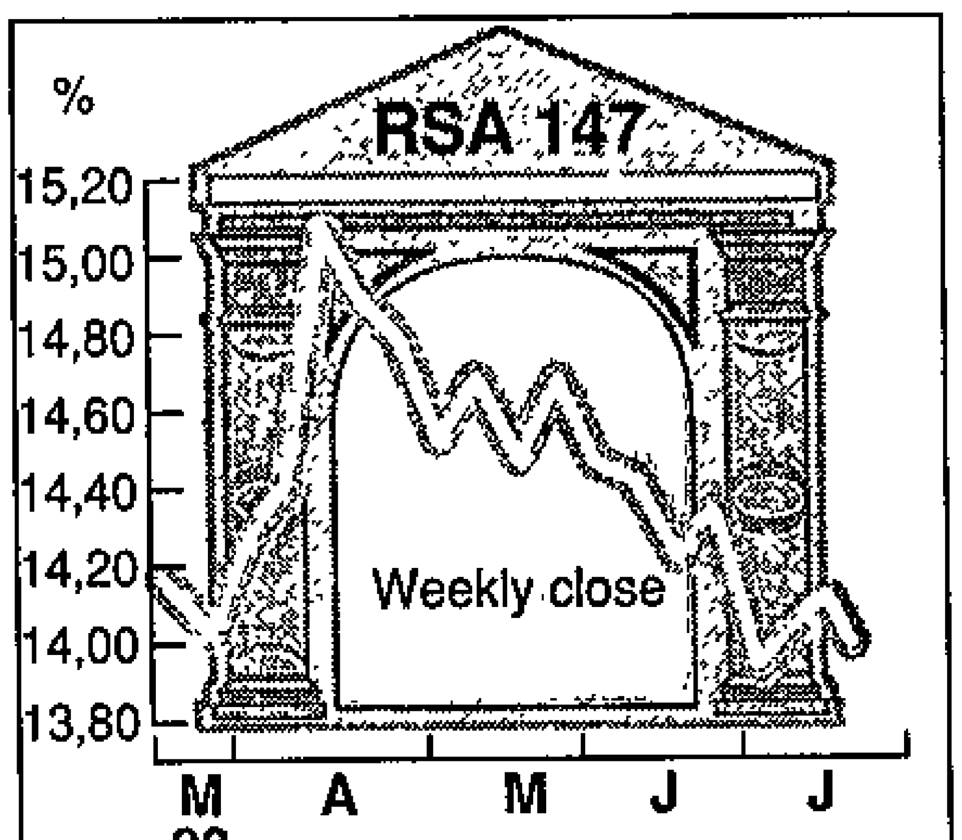
(49)

Also on the capital market yesterday, rates eased as investors took heart from an upbeat view from Bank Governor Chris Stals on the economy.

The easier tone was most prominent in the medium-dated stocks where government's R147 bond closed at 13,955% from a previous 14,100%.

JSE bond traders said volumes could be affected, partly because the new hours would make it difficult for foreigners to trade here because of time differences. Also, trade that used to take place early in the morning in reaction to economic data released after the previous day's close would be lost.

Government spokesmen said the move was discussed at a meeting of the Association of Issuers — an informal grouping consisting of the Reserve Bank, Eskom, Telkom, Transnet and other organisations that raise funds from the market.



Graphic LEE EMERTON Source I-NET

An Eskom spokesman confirmed its trading hours were now 8.30am to 12.30pm and 2pm to 4pm. Transnet is to implement the same hours.

Telkom treasury manager Willie Landman said the new hours were being looked at, but added that Telkom would follow the lead of the other issuers.

A merchant bank dealer said the decision to open trade at 8am meant market direction would again be determined by non-issuers.

He said the market had become accustomed to players phoning the issuers early in the day and taking their lead from them.

It could also have the effect of encouraging more trade through the JSE bond floor and merchant banks

Meanwhile, Financial Markets Registrar Piet Badenhorst said yesterday he would issue a statement in due course on the latest developments regarding the Bond Market Association.

Its members yesterday refused to approve new rules for the organisation — a key step required for government to issue a licence for the planned Bond Market Exchange.

This was the third time they refused to approve the rules.

Tariffs build barriers to jobs

ST Times (Buss) 4/7/93 (49)

HOW we measure up internationally. Comment by KEVIN DAVIE

THE good news last year was that South Africa had been included for the first time in the World Competitiveness Report (WCR). The bad news this year is that we have slipped from eighth to 11th place among newly industrialised countries.

On this form, we face relegation the year after next to the lowest-ranked country in the world.

Comparisons have been commonplace since we started moving out of the laager and back into the big competitive world. Our rugby players have changed their horizons from the Currie Cup to international competition.

Some of our sportsmen have done exceedingly well; Willie Mtolo took top spot in the New York marathon and Elana Meyer a silver medal at the Olympic Games.

But our economic performance has been sobering. Last year's WCR ranked us eighth among emerging economies (we did not even make the A list, which includes New Zealand and Australia).

Other comparisons have been even worse. Nepal is the only country, experts say, which has a more complex and unwieldy import duty structure than ours.

From behind this tariff wall we run uncompetitive industries which succeed in the cossetted SA environment, but look as stupid as Naas Botha's Boks seemed in France when exposed to real competition.

In the past year three countries — Mexico, Venezuela and Indonesia — have moved up the WCR rankings ahead of SA, leaving us with former socialist Hungary snapping at our heels.

It adds enormously to national prestige when we win a marathon abroad, do well at the Olympics or beat another country on the rugby or soccer field, but this does little to fix what Reserve Bank Governor Chris Stals describes as our most serious economic problem: unemployment.

Competitiveness really matters. It affects the ability of the economy to grow, to create jobs, to attract investment, generate profits and bring in tax revenue for the fiscus to invest in education, training and other forms of upliftment.

Competitiveness affects our ability to earn foreign exchange. The more foreign exchange we earn, the cheaper it is to borrow money, leading again to more growth and investment.

But unfortunately, as quantified by the WCR, we are not doing too well. Our competitors go forwards while we go backwards.

What can be done?

The problem appears intractable, but solutions have been documented by expert reports produced both here and abroad.

To become more competitive we will need to lower import barriers and get rid of impediments to competition.

These produce inefficiency, waste resources, protect uneconomic industries and favour capital-intensive, upstream industries at the expense of labour-intensive, downstream ones.

This translates into high unemployment and increasing violence and political tension.

Violence chases away investment, we slip further down the competitiveness rankings and the cycle begins again, each time more forcibly than before.

The Government has recognised the problem and tabled the normative economic model to increase competitiveness through the phased lowering of tariff barriers, pushing for more deregulation, outlawing cartels and retail price maintenance and giving increased powers to the Competition Board.

But the Government, which is committed to an election, realises that it cannot implement reforms unilaterally. It therefore wants consensus on economic reform from the National Economic Forum (NEF).

NEF reports tomorrow on the progress of its deliberations. Although inside sources say substantial progress has been made, don't expect a mandate which will soon be translated into policies to shoot us up the competitiveness rankings.

Another way to measure our economic performance is to look at the rand. Although R2,50 bought $1 when President de Klerk stunned SA and the world in February 1990, this week it took R3,30 to buy a dollar.

But if all seems bleak and foreboding, consider another country in transition, Russia, which has yet to appear on the WCR rankings.

A few years back the rouble was at near parity with the dollar; now a thousand are needed to buy a dollar.

focus on reconstruction

Sowetan 14/7/93

This is part one of the *Sowetan* series on reconstructing the economy in South Africa, written by Cosatu general secretary **Jay Naidoo**:

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IF FIVE years after the first democratic election on April 27 1999, the majority of our people are still denied housing, land, jobs, electricity, health care and decent education, they will say that the vote has been worthless.

That it has totally failed to address the brutal effects of apartheid rule. We believe that this "low road" scenario is one which has to be avoided at all costs, if we are to emerge from the nightmare of apartheid into the daylight of a vibrant democracy which puts its people first.

The challenge of addressing apartheid's legacy should not be left to any one section of society, or even to a democratically elected government.

This massive task of reconstruction is not unlike the rebuilding of societies ravaged by the second world war; it requires the involvement and commitment of the whole society if it is to succeed.

We are proposing a Programme for Reconstruction and Development aimed at addressing in a planned, coherent and systematic way the enormous social and economic problems we have inherited from years of apartheid misrule.

Empty promises of jobs, housing, and so on which we are sure the Nationalist Party and their allies will make in the coming elections will not put food in our people's bellies or a roof over their heads.

We need programmes with clear time frames and targets, which spell out how we will provide housing over, say, the next five years, how we will create jobs, how we will create a national health system, and so on.

Five pillars

The Reconstruction Programme we are proposing rests on at least five major pillars:

- Job creation through large-scale public works programmes which would both kick start the economy and extend social services to the previously excluded majority in the urban and rural areas.

Parallel to this, an urgent restructuring of our moribund industry aimed at creating sustainable jobs, and encouraging investment in productive activity. If our economy continues on the cheap labour path, combined with speculative investment in shares, glass buildings and export of capital we will only deepen our desperate crisis of structural unemployment, and remain trapped in an unbreakable cycle of poverty.

- Secondly, a programme to overhaul the entire education system, and develop a national training scheme that addresses the high levels of illiteracy, the low skill base, and the inefficiencies of the economy.

- Thirdly, the Reconstruction Programme will have to address the social poverty in which the majority of people live. National resources will have to be channelled away from the military machine and wasteful bureaucracy, and into extending basic necessities such as housing, health care, electricity, water, and pensions to people in the rural and urban areas.

Jay Naidoo ... job creation important.

Further, a rural development and land reform programme will have to be implemented. These measures should be seen not only as a necessary programme of redistribution, but also as growth-generating activity which will change the shape of our economy, in that it will bring all our people into the mainstream of economic life.

Unleash energies

- To implement these programmes it will be necessary to advance and protect the rights of ordinary people to empower them to drive the reconstruction programme and to unleash their creative energies.

For example, the process of centralised bargaining and the participation of workers in industrial decision making is essential, if trade unions and employers are to effectively embark on the restructuring of our industries, job creation, and training.

Other sectors of civil society as well need to be empowered to participate in decisions which affect their lives. This grassroots democracy is a vital countervailing power to ensure that the new state becomes responsive and accountable to ordinary people, unlike the arrogant and corrupt state machinery we have to deal with today.

- Lastly, there must be a democratic political solution, and effective and accountable government. If the democratically elected government is to be able to implement a programme of reconstruction and development, the majority party has to be able to implement its programme without interference from minority parties.

This implies a strong central government, as opposed to the "lame duck" government envisaged by the NP which would be unable to govern effectively.

This programme of reconstruction will be driven by forces in civil society, together with a new democratic state. Nevertheless, we believe that many of the processes necessary to implement the programme can be initiated now, albeit in a limited way, to prepare the ground, and to ensure that we begin to concretely address some of our people's most critical needs.

Many of Cosatu's current initiatives are precisely geared to meeting this objective.

National Manpower Commission

The restructuring of institutions such as the National Manpower Commission, the National Training Board, the setting up of the National Economic Forum, and issue-based negotiating forums such as the Housing Forum, as well as industry restructuring committees, has already begun.

In the medium term these will create the institutional framework within which the reconstruction programme can be negotiated and implemented.

In addition, job creation, housing and other programmes negotiated through these forums are aimed at delivering concrete results in the short term.

As we move through this transitional phase the obvious issue is what replaces the apartheid system and how to ensure that democracy means more than just a vote every five years.

The programme for reconstruction is our answer.

Through discussions with our allies and others in civil society we are trying to ensure that such a programme has broad based support and that it will underpin the process of political transition.

In forthcoming articles in this series I will explore in more details how different elements of the Reconstruction Programmes will be implemented.

Fiscal policy a key determinant of competitiveness

BDay 15/7/93

ERNEST LAI KING (49)

SOUTH Africa's fiscal policy will be a major factor influencing the international competitiveness of our industrialists. In a planned economy like SA's, tax plays a predominant role in day-to-day economic choices.

Tax neutrality cannot, in practice, exist in an economic system like SA's. Incentives are required to correct the imbalance caused by a high tax rate, and the tax system has, and will continue to be used to encourage targeted investment. Neutrality can exist only in pure market economies like Hong Kong, where maximum corporate and individual tax rates are 17,5% and 25% respectively.

Fiscal policy can positively influence economic growth by:

- ☐ Influencing the efficient deployment of labour and capital;
- ☐ Signalling to the private sector the type of factor creation required which will lead to sustainable competitive advantage;
- ☐ Providing an enabling environment in which industrialists can expand and create jobs;
- ☐ Targeting specific sectors for special treatment; and
- ☐ Creating a medium- to long-term economic vision.

Singapore, judged as the most competitive country in its category for the fifth consecutive year by the 1993 World Competitiveness Report, has successfully used its fiscal policy to promote its competitiveness. Taxation guides the allocation of resources and incentives are provided for skills development, market development, production and technology development, research and development, the encouragement of international trade and outward investment.

Singapore realised that sustainable competitive advantage is achieved by constantly upgrading national productivity through product technology, scientific research and development, education and training and innovation. More importantly, it communicated this to its people via its fiscal policy.

SA was ranked eighth out of 14 countries in the 1992 World Competitiveness Report and has since slipped to 11th spot. Historically, our fiscal policies have attempted to boost exports through tax incentives which sought to drive down production and marketing costs. The signal communicated by government through its fiscal policy has been that we should compete on cost. However, high tax rates, high inflation, labour unrest, low productivity and a high cost of capital must lay to rest the myth that SA is a low-cost country. In any case, today's low-cost country is replaced by tomorrow's low-cost country.

A new mindset is necessary to identify the true determinants of sustainable competitive advantage.

Nations that have invested heavily in education and training — for example Germany, Japan, Korea and Singapore — enjoy advantages in many industries. Improving the general education system is an economic, and not a social, priority of our government.

Past Budget speeches have emphasised the need for the development of more skilled manpower. However, the employees' training allowance tax incentive was withdrawn in the 1991/92 Budget. No such tax incentive is now available. The favourable tax treatment of bursaries for tertiary education awarded to employees and their dependants was withdrawn in March 1992 and the tax exemption benefit drastically curtailed.

The withdrawal of such incentives — designed to "signal" to the private sector the importance of creating a skilled labour force — on the basis that taxpayers were "abusing" them is an example of the reactive, short-term character of our fiscal policy.

The recent retrenchments of large numbers of teachers and the lack of effort shown by the state to motivate teachers and academic staff makes the profession an unattractive one — very different to the high status afforded to this profession by successful countries like Japan and Korea.

In the area of science and technology, virtually every advanced nation has policies designed to encourage research. For example, Italy provides tax incentives for installing approved types of factory automation equipment, the German government partially funds institutes like the Max Planck Institute; the US subsidises federal laboratories like the National Institute of Health and the National Science Foundation; Japan sponsors co-operative research projects; the Singapore government has set as a national priority the upgrading of their computerisation, automation and robotisation industries and funds research projects; Taiwan has legislation aimed at attracting and stimulating the research and development of hi-tech industries; and so the list goes on.

In SA there is no significant tax incentive given to industry to encourage such development.

In the area of internationalisation, SA ranks a lowly 11th out of 14 countries in the 1992 World Competitiveness Report. Singapore provides incentives for outward overseas investments which will provide economic spin-offs to the Singapore economy. Generous tax incentives are given to companies which invest overseas in industries that allow access to foreign technology and investments that provide access to overseas markets.

In contrast, the SA government, through currency restrictions and the lack of incentives to internationalise, appears to view internationalisation attempts with suspicion, almost as if the company wishing to invest abroad was somehow harming or abandoning the nation.

In the area of finance, SA rated highly, being placed fourth out of 14 countries. On the cost of capital variable however, SA was ranked eighth. The upgrading of an economy requires that ample capital is available at low real cost. If a country is to invest heavily it needs an affordable supply of capital, and one of the prerequisites of this is a high domestic savings rate.

In Japan, exceptionally high savings rates were sustained for many years and financed exceptionally high rates of investment. Because savings were in good supply, real interest rates in Japan have generally been lower than in the US and most other large industrial economies. However, before a high domestic savings rate is possible inflation has to be controlled and low tax rates are required. None of these enabling conditions exist in SA.

In Singapore there is a programme of forced savings tied to the social security system. This has generated a big pool of capital, and tax policy was a prominent tool for encouraging savings. Controlling government deficits not used to finance productive investments is perhaps the most direct way in which government can influence gross domestic fixed investment growth.

In SA, the deficit before borrowing is unacceptably high, and the increase in government expenditure has not been in the area of productive spending but rather in the area of unproductive consumption expenditure.

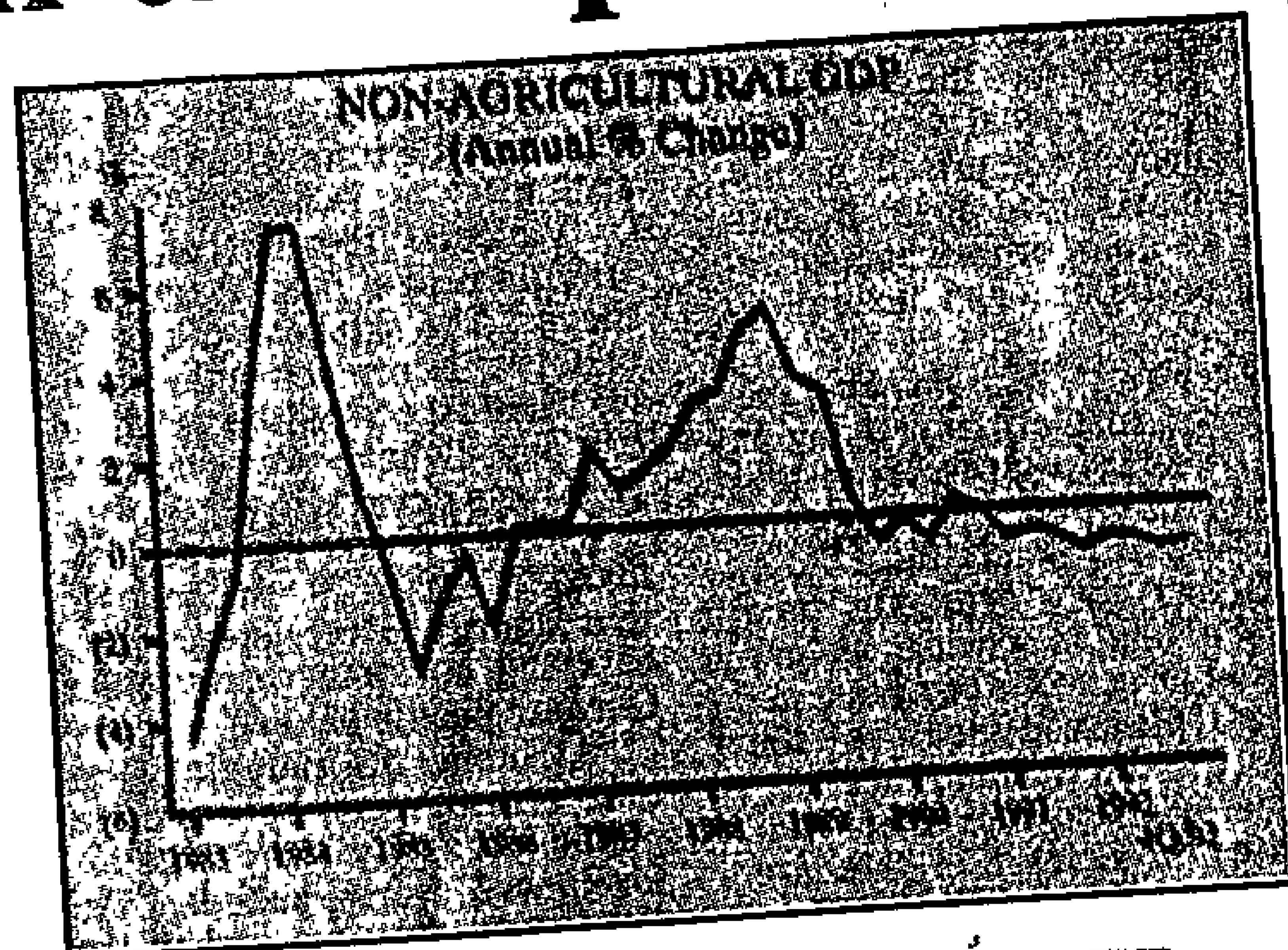
Unless state spending can be brought under control and systematically reduced, any hope of implementing an appropriate fiscal strategy for economic success will be still-born.

☐ **Lai King is Sentrachem group tax consultant and vice-chairman of the SA Fiscal Think Tank. This is an extract from an MBL thesis.**

Consumers feeling the strain on their pockets

Star 15/7/93

By Claire Gebhardt



Disposable income will shrink by at least another 2 percent this year in real terms, after a 2,2 percent fall last year, says First National Bank.

Its latest Business Brief notes that the man-in-the-street has been hard hit by a Budget which has raised his tax burden by some R8 billion through the hike in VAT and no compensation for fiscal drag.

"On taxable income of R265 billion in 1993 that represents a loss of 3 percent to individual consumers — an amount which the Minister will use to contain government dissaving.

"The budget deficit before borrowing which grew by some 5 percent of GDP last year to 8,6 percent of GDP is expected to be reduced by some 2 percent to 6,8 percent of GDP this year." (128) (L49)

Without any easing in monetary policy, the restrictive fiscal stance is unlikely to support the economy in any way, quite the reverse, says the Bulletin.

Corporate tax

FNB notes that although the Minister reduced the nominal corporate tax rate from 48 percent to 40 percent while introducing a 15 percent distributive profit tax, any benefits to be had from his supply-side incentive will have to await a more propitious environment for fixed investment spending.

The bank warns against relying on a highly respectable 8 million-ton maize harvest for growth.

"The outlook for the non-agricultural part of the economy remains abysmal."

Negative factors include the possibility that the formal sector will shed 2 percent of its labour force for the fourth consecutive year.

Wage and salary increases which averaged 17 percent during 1989 to 1991 and 13 percent last year, may only be just over 10 percent this year.

Credit extended to the private sector is currently only growing at 8 percent year-on-year.

"Taken together with the increase in the minister's tax take, this reduces the nominal growth of disposable income considerably."

The brief says many companies will remain in a defensive mode as few expect any degree of economic recovery this year while profit performances in many sectors also remain abysmal.

Warning

"However, despite the perceived temporality of these developments the Reserve Bank Governor went live with warnings from early February 1993 that if the deterioration in the foreign reserves were to continue beyond a certain point he would have to allow the associated increase in the money market shortage to force an increase in interest rates."

But encouragingly the gold price rise from a $326 low in March to $358 in early May added appreciably to the foreign reserves, says FNB.

"With every $30 gain sustained for a year equal in magnitude to the entire maize import bill last year, the impact of a rising gold price is no chickenfeed."

Bank rate

Provided there are not too many major political accidents ahead, the foreign reserves may rise once more in the second half of the year making another 1 percent cut in bank rate and prime plausible, says the bank.

"Whether next year will see another three such cuts will depend on; the balance of payments remaining supportive; the budget deficit next year being adequately covered by borrowings and not inspiring another increase in the indirect tax burden and also the CPI inflation rate eroding to 10 percent by late 1993 and dropping to 7 percent year-on-year by April 1994.

"Despite the very real doubts that exist widely on all these scores, the probability of this outcome actually materialising appears to be steadily improving."

SOWETAN Thursday July 15 1993

Hail to Africa's saviour

Sowetan 15/7/93

HAIL the private sector - saviour of Africa's economic problems.

This perception dominated in speeches at a conference on business opportunities in Africa last weekend.

Organised by the South African Foreign Trade Organisation, key figures from the influential private sector north of the Limpopo attended.

Among them were the general secretary of the African Business Round Table, Esom Alintah and president of Eastern & Southern African Trade Development Bank (PTA Bank), Martin Ogang.

Also present were representatives from the private wing of the African Development Bank and the Southern African Development Community.

Despite pressure from the governments in post-colonial Africa, the private sector has survived and since the end of the cold war various administrations have been pressurised by the West to pursue policies to promote free enterprise.

"Before you decide to do business in

It was advisable for South African businessmen to get a partner in an African country as such people know the terrain well.

49

Getting your priorities right

(49) FM 16/7/93

Professor Stephane Garelli is a professor at the Institute for Management Development and the University of Lausanne in Switzerland. He publishes the annual *World Competitiveness Report*, which ranks the international competitiveness of 37 nations. He spoke to the *FM* while in SA to discuss his latest report's findings.

***FM:* What are the key components which determine the international competitiveness of nations?**

Garelli: Firstly, you need a stable, predictable environment in which business can operate. Then you need to master world-class technology and management techniques, especially in the field of implementation, quality, speed and customisation.

In addition, you require an international orientation and you need to secure access to those markets and ensure that you're competitive in them. Finally, you need people with a quality education and a competitive attitude. To achieve this, you need to invest in education and manage your system of values in the same way that you manage your financial assets.

What is the significance of SA's slip from eighth position in the competitiveness rankings among non-OECD nations in 1992 to 11th position this year?

I think the ranking is taking into account the difficult situation in SA, combined with the effects of the prolonged recession.

Inherently, SA has three main weaknesses the inability of government to provide a stable social and business environment and not to interfere too much in the economy; the country's difficulty in building an economy that has rules which are compatible with international practice, and the failure of the country to disseminate education to all levels of society.

What in your opinion is the most important step SA must take to regain its competitive edge?

In my view, it is basically to reduce institutional instability Business likes to have a predictable operating environment. It does not like unpredictability, rapid and dramatic change.

SA has to establish new rules of the game, in terms of its environment, which are the result of national consensus and are acceptable to all in the longer term.

Why is it that Japan, which is number one in your ranking of the major industrialised countries, has remained so singularly successful?

If you look at all the critical success factors in the Japanese economy, what really stands out is the attitude of its people, their value system and the quality of their education.

They have developed what I call a kitchen table approach to education in that school homework is done in the kitchen, with the entire family participating in the process. By neglecting secondary school education and concentrating on institutions of higher learning, the West has really fallen badly behind in education.

Can you explain why Switzerland and Denmark, which are small countries, feature near the top of the rankings among the OECD countries?

Both have a well-developed infrastructure, have invested heavily in education and training and have mastered the new technologies which drive many modern production processes. But, more important, they enjoy an incredibly stable political and business environment France is the same Their governments might change but their economic policies remain largely unaltered, which enables business to get on with the job of penetrating and being successful in world markets

If you had a message for a new SA government, where do you think its priorities should lie?

The future of SA in international trade is likely to depend on three things the stability of its institutions, the predictability of its environment and the education and training of its people The country has to ensure that the education it is delivering is relevant to the needs of enterprise.

In addition, it has to ensure that it has access to world markets This is why its participation in Gatt is so important. In a world made up of large trading blocs, the only way to negotiate from a position of strength is through Gatt. Finally, it must draw up a set of policies which allow for the development of more medium-sized enterprises.

RESERVES FM 16/7/93

Trickle back

(49)

With major debt repayments for the year completed on July 7 — according to Reserve Bank Governor Chris Stals — capital outflows should start slowing. These repayments, Stals says, include all government and public corporation debt; "and there are no major private sector loan repayments due this year that we know of."

Though payments of debt in the standstill net have still to be made on schedule in August and December, these are comparatively small at a total of R250m

The cost of securing rollovers of existing off-shore debt has become critical to the state of gross reserves Prospects, says Southern Life economist Mike Daly, depend on the attitude of foreign creditors. "Overseas bankers are effectively forcing the repayment of debt outside the net by virtue of the high premium they are charging This is in spite of talk of IMF funds becoming available later this year."

Factors which are bound to play a part in the months ahead include.

- Currency moves. Since August, the rand has declined 18% against the US dollar. Further depreciation will make foreign debt repayments more onerous, in terms of forward cover. In dollar terms, the decline in reserves has been sharp: 9% in June to US$2,3bn from $2,5bn in May (down from an August peak of $4,2bn). In rand terms, the decline was 5% between May and June to R7,5bn (from R11,5bn in August);
- The gold price The bull run since March has allowed the Bank to dispose of gold holdings (principally through swaps) while protecting foreign exchange reserves. Gold holdings were reduced by about 250 000 oz, with little impact on the value of gold reserves, which fell only R32m in June. A gold price above $400/oz for the rest of the year would allow the Bank to dispose of even more of its obligations this way. In addition, it will attract more foreign exchange earnings;
- The expected improvement in the current account of the balance of payments, due largely to improved agricultural conditions and possibly the rising price of gold; and
- Short-term finance of about R2,1bn raised earlier this year by the Bank, some of which may still be outstanding.

Even taking these issues into account, the outlook for the year is mildly encouraging Says Daly: "The level of merchandise imports covered by reserves should reach two months' cover, from the present 1,8 But this is still short of the two-and-a-half seen in August, so Stals may not be prepared to move on rates until we see that level again." ■

THE POOR FM 16/7/93 (49)

Starting small

The guru of people's banking, Muhammed Yunus, flew back to his native Bangladesh last Sunday having spent 10 days in SA promoting the idea of credit-assisted self-employment — a cause for which he is internationally renowned.

A kind of capitalism from below, it is a strategy for economic self-reliance that has achieved great success in Bangladesh and is now copied in 65 mainly developing countries. The vehicle for this success has been the rural Grameen Bank, founded by Yunus over 10 years ago. Grameen offers credit services to the landless poor — those who have no collateral and therefore no access to commercial bank loans.

He argues that credit should be treated as a human right. "We talk of the right to food, shelter and so on. But how do you implement these rights? Credit can translate that resource into tangible things and produce an income floor. If that can be done, the right to food and so on will immediately be established . . .

(49)

"It begins with slight disbelief, that maybe there's a trick involved," says Yunus of his meetings with SA commercial bankers, economists and activists, who wanted to know in great detail how Grameen works.

He defines development as "changing the lives of the bottom 50%." Experience, he adds, shows that "trickle down" theories do not deliver.

Rejecting what he calls the textbook approach to banking, Yunus believes that "banking should be for everybody. You have to design a mechanism by which this can be done. Credit is like getting a rope into the hole and if you work hard it enables you to get out of the hole."

Prof Yunus (53) taught at Chittagong University before being drawn into the need for finding credit facilities for the very poor.

Poor people, he says, need small amounts of money to change their lives. In 1976, with his own money, he tried out a scheme in a village next to the university. Happily this worked, and he expanded it in an attempt "to convince conventional bankers that they did not need collateral." They remained unconvinced.

Hence his decision to set up a separate bank altogether concerned with only the poor. Government was loathe to give its permission and the legal framework, but after two years of lobbying Grameen eventually

Cont-D.

became a bank in 1983 by a special Act of parliament. This does not make the usual requirements as to capital:loan ratios necessary "because we are not working with depositors' money; it's almost equity banking.

"Today it is a pretty large bank. It works in 32 000 villages (50%) in Bangladesh, serving 1,6m borrowers. About 93% are women who have gradually improved their lives as a result of small loans. It has an excellent repayment rate of over 98%" — which seems not unconnected with the fact that 92% of the clientele are women.

"We introduced housing loans in 1984 in addition to the tiny loans aimed at income-generating activity. Everybody predicted the end of Grameen Bank, because these were bigger loans and long-term. But they were surprised. People continued to pay back. We have so far given 180 000 housing loans, which grow by 10 000 a month. We have now set up a financial system which lends money to the poor for things they know how to do."

The bank not only works for the poor, it is also owned by them. Any Grameen borrower can buy shares (at $2,50), which entitles the borrower to vote and choose the board.

The average loan is about $80, paid back in weekly instalments within a year. Housing loans are generally paid back in 10 years in weekly instalments. A typical housing loan is $300, which builds a tin-roof house with four concrete pillars and a sanitary latrine. "Where people are living in shacks, in a monsoon country, this makes a tremendous difference and increases productivity."

Grameen Bank's Yunus ... *credit where it's due*

An essential feature of Grameen loans is that they are made to groups of five people. Each member must agree to the loan and understand the loan process. These groups offer support to their members and constantly monitor repayments. Everything is open and that "keeps us very clean and fair."

Grameen does charge interest (which to its Islamic Bank critics is explained as more of a service charge than usury, which is banned under Islam). The rate is 20% (compared to 15% charged by the commercial banks) for its income-generating micro-projects, and 8% for housing loans.

The project includes two types of savings — the group savings fund and an emergency insurance fund — which appear related to the high loan repayment rate.

International funding has helped. The first loan, $3,4m, came from the UN International Fund for Agricultural Development (Ifad), in 1982. Since then it has borrowed $118m from Ifad and Scandinavian development agencies.

Research has found that over a 10-year period, nearly half of Grameen families have lifted themselves above the poverty line, with a quarter close to doing so. The rest either had no male member of the family or a chronically diseased member.

In SA, he suggests, local banks should create a special project, using a small fund out of their profits as a social service. He proposed to the Development Bank that it open a separate window — akin to the World Bank, which charges market rates to First-World borrowers but only 1% to a country like Bangladesh.

He was impressed by programmes similar to Grameen's that have started here — such as that of his hosts, the Women's Development Bank (run by Zanele Mbeki, wife of the ANC's Thabo Mbeki), the Group Credit Company in Cape Town and the Small Enterprise Foundation in Tzaneen. ■

Govt revenue shows signs of recovery

BiDay 16/7/93

GRETA STEYN

GOVERNMENT revenue has shown the first signs of recovery after languishing at alarmingly low levels in the first two months of the fiscal year, figures released yesterday by the Finance Department showed.

(49)

But spending in the first three months of the fiscal year rose at a more rapid rate than budgeted and the deficit, at R9,7bn, was almost 39% of the budgeted amount.

However, the Finance Department cautioned in a statement against reading too much into the figures and said high priority was being given to staying within the budgeted limits. Government was ahead on its borrowing programme and the rest of the year's borrowing needs would be met without placing upward pressure on capital market rates.

An amount of R18,03bn in revenue was collected during the first three months of the 1993/94 fiscal year, which is 13,6% higher than during the corresponding period a year ago. The statement said: "It appears the year-on-year growth rate of receipts . . . is moving progressively closer to the budgeted increase of 17,3% for the full year. At this early stage of the financial year, there is thus no reason to suspect that revenue will be lower than budgeted."

In April, revenue was lower than a year ago and in May a small increase of 2,9% was recorded, suggesting that government was again heading for a larger deficit than the budgeted R25,3bn.

A breakdown for revenue in the first two months (the latest available) showed receipts from personal income tax were lower than expected, while the trend for corporate tax remained uncertain.

The statement said public servants' salary increases, effective in July, would start boosting receipts later in the year. The trend for corporate tax would become clear only in August, once the figures reflected the new tax dispensation more clearly.

Receipts for VAT were "satisfactory", while Customs and Excise and surcharge income were higher than budgeted.

Spending in the first three months of the fiscal year rose by 10,7% against a budgeted 8,8%. The increase was "not substantially out of line with the budgeted expenditure figures for the financial year".

Goverment spending up 10,7 pc

Star 16/7/93

By Claire Gebhardt

Government spending in the first three months of the 1993-94 fiscal year rose to R27,8 billion — up 10,7 percent, against a budgeted 8,8 percent increase, figures issued by the Department of Finance show.

Revenue receipts of R18,03 billion were 13,6 percent higher than in the same period last year, leaving a deficit of R9,74 billion — almost 39 percent of the budgeted figure of R25,2 billion. (49)

The department says it hopes to achieve the budgeted revenue increase of 17,3 percent for the full year.

The figures show that 61,4 percent of the financing programme has already been completed, leaving an outstanding borrowing requirement of R12,4 billion for the year.

FOREIGN DEBT REPAYMENTS (49) FM 16/7/93

Too many radicals, one bullet payment

An interim government could inherit a painful constraint on growth. Of the US$23,7bn of foreign debt outstanding in 1985, about $17bn has still to be repaid. Unless repayments of about $5bn debt in the standstill net can be renegotiated and debt outside the net rolled over on reasonable terms, SA will face ongoing capital outflows.

The only way to shed the constraint will be to face the truth about the debt crisis — it was caused politically and can only be cured the same way. The new government will have to adopt policies and postures which reassure local and overseas investors alike that we will follow the free enterprise path and that private property will be secure in the new SA. The price for dodging this sensitive issue for long will be high.

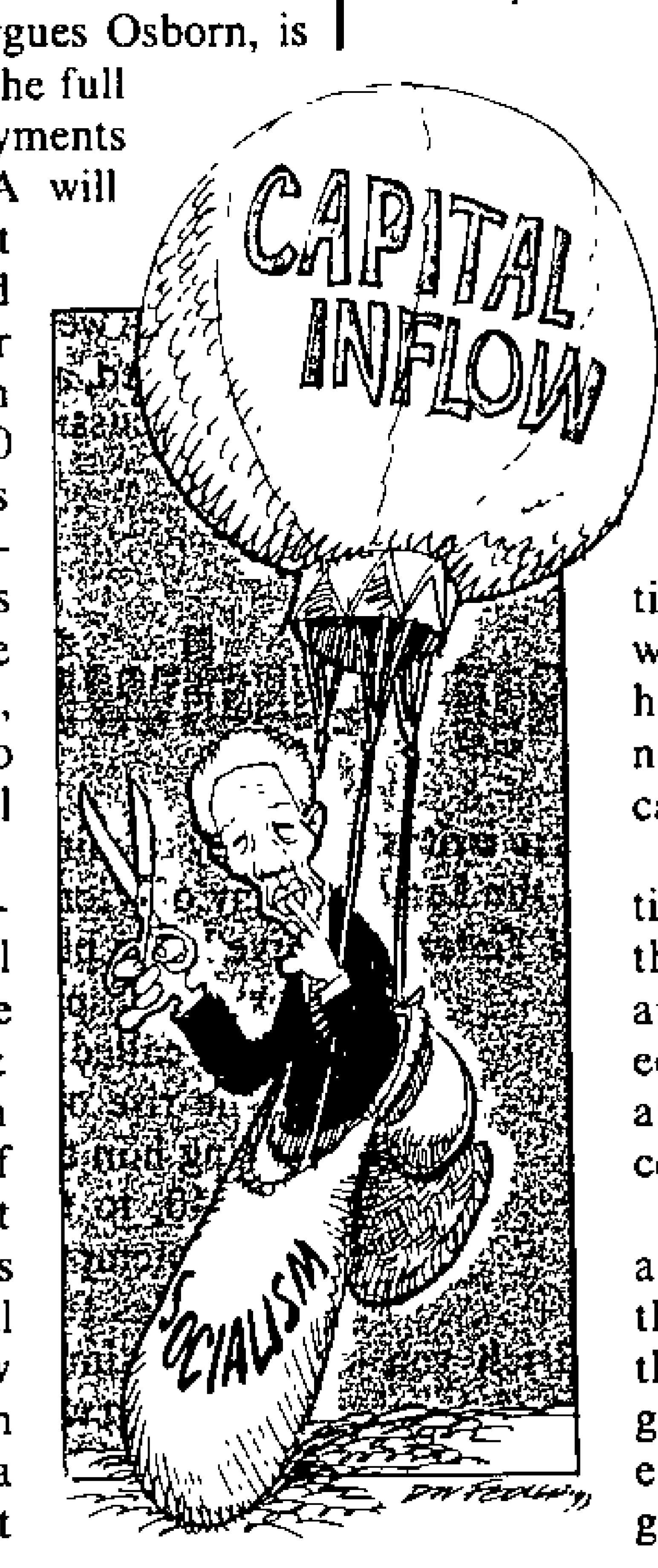
Meanwhile, views differ strikingly on the level of foreign payments which will have to be made in 1994. Reserve Bank governor Chris Stals rejects, as "an unrealistic worst case scenario," a situation in which no new funds are available next year or overseas banks refuse to roll over debt.

This scenario proposed that SA will be forced to repay all its foreign debt from now until the year 2000, without any new loans to offset the outflows. Not only, argues Stals, can we reasonably assume some loans will be rolled over, but some new money will be available and there will be further benefits from increased trade finance. His best case is a capital inflow of R5bn-R6bn a year. But this will hinge on political as well as economic aspects.

Nedcor economist Edward Osborn, in contrast, provides a view of unrelieved pessimism for this year and next. He sees a combination of weak foreign reserves and a projected balance of payments quite inadequate to meet the likely schedule of debt repayments, let alone provide for growth (see table).

Until recently, Osborn estimated the current account surplus at about R5bn, but the way imports are now rising, he considers SA will do no better than R3,8bn. More optimistic estimates from other sources, however, put the surplus at R4bn-R5bn.

The position for 1994, argues Osborn, is likely to be worse. Against the full $2,3bn or $2,5bn debt repayments (without any roll-over), SA will achieve a current account surplus of $700m if the gold price averages $385/oz, or $1bn if it averages $400. An average gold price of $500 would make an enormous difference, as it would generate a current account surplus of $3bn. But it should also be remembered, says Osborn, that the economy is likely to recover next year, which will push up imports.



According to a recent analysis by the London School of Economics' Centre for the Study of the SA Economy & International Finance, an agreement for repayment of the remaining debt in the net has been achieved. But this is subject to "broad political endorsement." Stals has now confirmed that SA's foreign creditors had asked for a substantial upfront bullet payment on the $5bn of affected debt being negotiated — as claimed by the LSE Centre. In this respect, the foreign bankers were simply treating the new agreement as if it applied to a new loan.

Osborn concludes there is likely to be a shortfall of about $400m this year, between the current account surplus and the capital account outflow — in the absence of new finance. This is on the assumption that gold will average $360 for the year. But this pessimism seems unfounded as Stals says the last big foreign debt payment for the year was made last week (see P33).

The tough years
Five years of foreign debt repayments

		1993	1994	1995	1996	1997	1998
$bn							
Public sector		771	965	737	440	332	367
Converted debt		403	769	949	892	836	813
Affected debt	(a)	437	520	276	260	245	230
	(b)	437	743	743	743	743	743
Total payments	(a)	1 611	2 254	1 962	1 592	1 413	1 410
	(b)	1 611	2 477	2 429	2 075	1 911	1 923

Assumption (a) is a bullet payment on affected debt of 10% up front and thereafter 3% per half year on residual balance
Assumption (b) is even disposal of affected debt over 7 years

Source Nedcor

For 1994, Osborn predicts, the shortfall would be $1,5bn (if the higher figure of $2,477bn is taken for repayments and gold averages $400).

However, if debt negotiations are on track (which assumes SA is capable of meeting the payments) Osborn is being far too pessimistic about capital inflows. Alternatively, there could have been strong assurances that SA will receive a big block of IMF money soon.

If a bullet payment is really being requested by foreign bankers, it is a strong signal to the interim government that it needs to watch its relationships with them at least as much as those with its own radicals. Perhaps the question of a bullet payment is a side-issue.

Regardless of the details of the debt deal, we need to look more closely at overseas political risk perceptions — which lie at the heart of the whole foreign debt problem.

The imminent installation of an interim government will put an end to the "apartheid factor" But this does not necessarily dispose of the political risk factor.

There are two aspects to political risk. The first is whether the present state of incipient anarchy in some areas can be ended and stable political authority and law and order reinstated countrywide.

But more politically sensitive and divisive is the question of the ANC's economic policies, as they are currently being propagated, and how they will influence the actions of an interim government.

Senior ANC leadership has not taken a stand against alarmingly socialist or, at any rate, populist and redistributionist policies being propagated within its own ranks.

Sacob director-general Raymond Parsons says business will need to be reassured that property rights will be entrenched in any new constitutional dispensation — a vital issue which it appears the incomplete agreement on the interim constitution has not yet addressed.

After the election next April, the whole issue of capital flight — of which debt repayment is only the part above the waterline — will have to be faced

Says Parsons: "It is not enough that any future government should merely be market-tolerant; it must also be seen to be market-friendly in order to secure high levels of investment. This requires that the rules of the game under which business and investors will operate be reasonably certain and predictable "

If the right frame of mind among investors can be cultivated, there would be a variety of financial benefits. Thus, the illegal and invisible outflow of domestic capital, notably through over-invoicing and transfer pricing, will reverse itself We could hope for a sub- cont

Keys urges action to create new jobs

BiDay 16/7/93

ERICA JANKOWITZ

DURBAN — Unless SA developed an economic policy which could offer employment opportunities to the bulk of new entrants to the labour market and those affected by structural unemployment, it would not succeed in redressing past imbalances, Finance Minister Derek Keys said last night.

Speaking on economic reconstruction at the opening of the annual labour law conference, Keys said "social objectives remain the test of validity of economic policy".

As such, SA's present economic policy had failed and it was the duty of all parties to attempt to develop a new policy to address the most pressing need· job creation.

To date no party had come up with a viable solution, but it was their job to do so, he said.

Keys syggested that the two most important pillars of viable economic growth were the "expectations gap" created by political change and the development of entrepreneurs.

He said creating expectation in disadvantaged communities was the equivalent of creating a collective drive for wealth which would "generate the ability to sacrifice and think on a long-term basis".

In finding a reconstruction process acceptable to all parties, they would have to find a way to harness this desire in a productive way so that it fitted in with a drive for economic growth which could, in turn, progressively satisfy needs, Keys said.

He said SA was not unique in its economic problems as most Western countries were attempting to solve their unemployment and low growth problems. ~~(13)~~

"If European countries, with millions of jobless citizens, invest in this country, it will not be to purchase our products which would be produced in direct competition to their industries," Keys said. Therefore economic growth would have to come from within as many trading blocs had imposed import quotas. (49)

Cosatu negotiations co-ordinator Jayendra Naidoo told the conference Cosatu's reconstruction programme was not based solely on economic restructuring, but also had a social aspect.

The programme was "an absolute priority" which needed to benefit people immediately to prove that political change would redress "apartheid-created disparities".

State funding was essential, as were job creation, centralised bargaining and "a comprehensive programme of industry restructuring".

In respect of restructuring, Naidoo restated Cosatu's position on centralised bargaining and a living wage policy.

Poor economy fuelled by education system

BiDay 16/7/93

LINDA ENSOR

CAPE TOWN — Business had a crucial role to play in improving the quality of SA's education system without which the country had no hope of achieving a higher level of international competitiveness, a conference on the 1993 World Competitiveness Report heard yesterday.

The poor quality of SA's labour force, the low level of international integration of its economy, and the predictability, transparency and relative lack of stability of government were three problems the report identified as negatively affecting the country's competitiveness.

One of the conference panellists, Bureau for Economic Research director Ockie Stuart, noted that SA's education system failed to meet the needs of a competitive economy.

"We need to drastically restructure our education system otherwise our world ratings will continue to drop," Stuart said. (49)

Teaching shifts should be introduced to make better utilisation of existing classroom capacity, Stuart recommended. Davis Borkum Hare economist Jos Gerson agreed, but said reversing the trend of poor education would take about 20 years.

World Competitiveness Report director Professor Stephane Garelli said that in Europe 5%-6% of all investment in training was made by corporations which regarded the public system as inappropriate to their needs. Large corporations had established their own business schools to provide training for workers.

Garelli emphasised that the key to competitiveness was skilled labour. This was why the quality of education provided in a country was one of the criteria for assessing its relative competitiveness. (50)

On the subject of the productivity of white-collar workers, Garelli noted that worldwide this had not matched manufacturing productivity improvement. During the 1980s manufacturing productivty in OECD countries rose 3,6% whereas non-manufacturing productivity increased by only 0,3% despite a massive investment in technology.

ANC economic planning head Trevor Manuel emphasised that there was no possibility for SA companies to compete internationally if they were not able to do so domestically. The inefficiencies of the economy were protected behind trade barriers and there was a need to expose companies to international competition in a managed process.

I N THE PAST three weeks we have been examining affirmative action — why it came into being and specific types of affirmative action that have been implemented in other parts of the world.

Affirmative action refers mainly to opening up opportunities for groups which have been discriminated against, in employment, schools, universities, and so on.

However, before people can take up these new opportunities, they need to be in a position to do so.

For example, if a family is so poor that all their children have to work without ever going to school, it does not help them at all that schools have been opened to them and school fees lowered for their benefit

In South Africa, economic imbalances have created a tremendous divide between the living standards of the average white and black South African

This question was addressed at a conference on 'Reconciliation and Democratisation' in Namibia last year. The conference was organised by the African European Institute which seeks to promote economic development, social justice, and peace in Southern Africa.

Among the speakers at the conference was Professor Bas De Gaay Fortman, a member of the Association of European Parliamentarians for (southern) Africa as well as a member of the World Council of Churches. He spoke about 'Economic Justice as a Component of Reconciliation'.

Fortman began his delivery with an old Dutch story about a beggar and a nobleman. While passing the nobleman's land the beggar asks him: "Whose land is it?"

"It is mine," is the answer.

"And how did you get it?" the beggar continues to ask.

"Well, I inherited it from my father"

"And how did he get it?"

"Well, he inherited it from my grandfather," is the answer.

"And he?"

"From my great-grandfather", is the answer.

"And he?"

They continue like this until they come to a great-great-great-grandfather who lived in the Middle Ages. Here the nobleman has to reply: "He fought for it."

"Ah", says the beggar, "Shall we fight for it again?"

Fortman comments that "as long as he does not enjoy a minimal

RETURN TO THE LAND: Land claims in a democratic South Africa will be based on entitlement — justice for people who have been deprived

Laws alone don't make justice

Sowetan 17/7 - 21/7/93

~~[illegible]~~ 49 ~~[illegible]~~

access to resources, the beggar is not prepared to accept the nobleman's claims to the land. As long as some people are so deprived that they are unable to reconcile themselves to the status quo, polarisation and violence may follow Economic or social justice has to do with acceptance of the claims of the poor and promotion of socio-economic equality."

Fortnam mentions two different concepts of justice. One is an old Roman Law, the concept of Justicia, which is based on negative freedom: freedom from. The other is the Old Testament concept of Tsedaqa based on positive freedom: freedom to.

He says that the concept of social justice goes much further than either of the above because it accepts necessity as a source of law. "In other words, needs create rights. This introduces the need for some kind of entitlement system. Entitlement is the possibility of making legitimate claims — claims based on rights."

Fortnam differentiates between three systems of entitlement.

- The first is institutional entitlement. This relates to entitlement through tribes, clans, villages, political parties, trade unions, employment firms.
- Direct resource-based entitlement flows out of ownership of something, for example, "my own labour, my own land, my own skills, my own knowledge, my own shop".

People engage in arrangements involving rights and obligations with others on the basis of this kind of entitlement.

- State-arranged entitlement is the third form. Access to health care, education, police protection, and so on, is mostly arranged by the state, which can also implement policies of redistribution.

"Poverty is a matter of inadequate sources of entitlement. An unequal distribution of power is, however, rarely corrected from above. It can be rectified only through emancipation of the poor themselves, in other words, 'development from below'," Fortnam said.

"Civil and political rights — the 'basic freedoms' — imply a restraint on state power, while economic and social rights require the state to take affirmative action."

Fortman says while legislative and judicial action is important for the realisation of human rights, the most crucial aspect of achieving them is conscientisation.

"The basis of human rights is in the heart of people. Human rights are, above all, a culture."

Fortnam says that civil and political rights are inseparable from economic, social and cultural rights.

"For people with an empty stomach freedom of expression is not very meaningful But what is the significance of a right to food when starving people are not permitted to say that they are hungry?"

ANC levy 'will kill economy'

St 15. 2. 17/93

By Claire Gebhardt

The ANC's controversial reconstruction levy would plunge the economy into a recession considerably more severe than is being experienced at present.

A further heavily negative spinoff would be a wave of emigration.

(49)

That's the consensus view among economists reacting to the revelation by ANC deputy head of economics, Tito Mboweni, that the proposed levy would take the form of a once-off 5 percent tax on fixed assets and a 15 percent tax on income.

Price Waterhouse tax partner Chris Frame insists that the levy is a wealth tax combined with a straight surcharge on income.

"It's semantics to talk of a reconstruction levy. As far as I'm concerned, a 5 percent tax on your assets is a wealth tax.

"The 15 percent is a straight surcharge on income tax and an increase in taxation of that amount will kill the economy. Already 5 million people are paying for 35 million.

"Money put into black housing, no matter how necessary, won't generate growth. We're talking about spending money we haven't got instead of going out and creating it."

Sanlam economist Johann Louw says the levy would have a depressive effect on consumer spending and business confidence and could prolong the recession.

"Consumer spending, which is already severely depressed, accounts for 60 percent of GDP. Taking money away from one section to give to another won't stimulate the economy and at the end of the day we'd all be worse off."

Other economists said it was crucial that Mboweni indicate whether he was talking about gross or net assets.

On a house valued at R400 000 but with a bond of R200 000 the levy could be either R10 000 or R20 000. And if you're earning R100 000 a year you'd have to cough up another R15 000 on top of that.

Spread over 20 years or not, few have that kind of money.

Besides, the levy would be tantamount to tax on tax, since in the vast majority of cases assets owned would have been bought out of after-tax income.

Star 17/7/93

ANC man committed to reconstruction levy

(49)

CLAIRE GEBHARDT

THE ANC's deputy head of economics, Tito Mboweni, has reaffirmed his committment to a reconstruction levy, saying he hopes it will raise more than a capital gains tax.

In response to questions at an American Chamber of Commerce (Ancham) luncheon yesterday, he declined to say whether it would be levied on net or gross assets.

Mboweni said he was speaking in his personal capacity and was not necessarily reflecting official ANC policy.

Citicising the emotional debate around the levy, Mboweni emphasised it was critically distinct from a wealth tax.

"A wealth tax would tax the top 5 percent of income and asset owners and be continuous.

"A reconstruction levy will be directed at all income earners and asset owners for specific socio-economic development on a one-off basis.

"Individuals and companies will be expected to contribute a specific percentage of their incomes and a percentage of the value of their assets at a specific point in time, say 1993."

Mboweni denied the levy would scare away foreign capital. "The foreign investors I deal with accept that in investing in South Africa they will find themselves in a society in transformation".

Mboweni said the reconstruction process was not going to come free. "Without increasing the tax burden or the budget deficit, there is no way the Budget can cope with repairing the damage done by colonialism and apartheid.

"And the dangers of an ever-increasing budget deficit are well known, as are the difficulties of high taxes."

Mboweni said people whose properties were forcibly and wrongly taken away from them after the 1913 and 1936 Land Acts would have to be compensated. "In the process of land distribution some current landowners will also have to be compensated for losses where a land claims court finds in favour of those dispossessed."

In lively debate, a businessman said most people were already paying half their money to the taxman. If VAT were added, it was more than half.

TITO MBOWENI: Levy won't frighten foreign investors.

Economic revival 'vital to SA stablity'

ANC 17/7/93 (49)

WASHINGTON. — Without economic renewal, a political settlement in South Africa is doomed to failure, a senior American official has warned here.

No one should harbour any doubts about this, Mr Peter R Chaveas, director of the Office of Southern African Affairs in the US State Department, told the Washington International Trade Association.

"Only a vigorous market-led economy can generate the level of resources necessary to redress the socio-economic legacy of apartheid and give all South Africans a stake in the country's future," he said.

Mr Chaveas said the US welcomed the convergence of opinion among major parties in South Africa that a healthy private sector was essential and stood ready to help the country's recovery and its transition to nonracial democracy.

Once the transitional executive council was in place, the US would "reconsider the applicability" of the Gramm Amendment which restricted US support for IMF lending to South Africa.

"We believe the IMF and the World Bank have a substantial role to play in South Africa's recovery," he said.

But, the public sector could not provide sufficient resources to address South Africa's crying needs and the Clinton Administration actively would encourage the private sector ... "to seize the opportunities posed by a new South Africa and the most promising regional economy on the continent".

Mr Chaveas said the US would seek the removal of remaining legal and regulatory barriers and promote the involvement in South Africa of US Government programmes that supported the private sector — Sapa.

BiDay 16/7/93

Rumours boost Minorco shares

JOHN CAVILL

LONDON — Minorco shares leapt more than 10% yesterday as rumours of a possible major deal swept the London market.

Stockbroker analysts said there was no obvious reason for the sudden rise which started in Johannesburg with a R4 jump and was followed in London by a climb of nearly $2 to $18,78 at one stage.

Traders reported that investment houses linked to the Anglo American-De Beers grouping which controlled Minorco were involved in the activity Davis Borkum in Johannesburg, Warburgs in London and Lazards in New York.

"The Johannesburg market is a notoriously leaky bucket and it is because the buying started there that we believe something is in the wind," said one analyst, "but we haven't a clue what it is."

The rumours included:

☐ Imminent denationalisation of Zambia's copper mines (ZCCM) where Minorco already has an indirect stake through its 50% holding in Zambia Copper Investments;

☐ A possible flotation of the unquoted $2,5bn Anglo American of South America (AMSA), controlled by Anglo, De Beers and Minorco; and

☐ A restructuring of Minorco to make itself private.

Analysts, however, said it was far from clear how the ZCCM deal — regarded as the most likely of the three stories — would be structured. "If Minorco buys back into ZCCM that would fit in with its strategy. It lost out in the bid for Olympic Dam, the big Australian copper mine, and while it has stepped up investment in Colahuassi in Chile, Minorco still has plenty of cash (about $1,1bn) after Charter Consolidated buys the group out of its 36% stake," said one.

"On the other hand, so far Minorco has steered clear of Africa and Anglo has an estimated R350m of Zambian government debt — from the nationalisation — which is pretty worthless but which could be swapped for equity in ZCCM." And "there is the prospect of a bigger interest in Colahuassi if Gencor succeeds in buying Billiton from Shell. Billiton has a stake in Colahuassi and AMSA has a pre-emptive right to buy that if Gencor takes over."

Capital market rates react to good news

BiDay 15/7/93

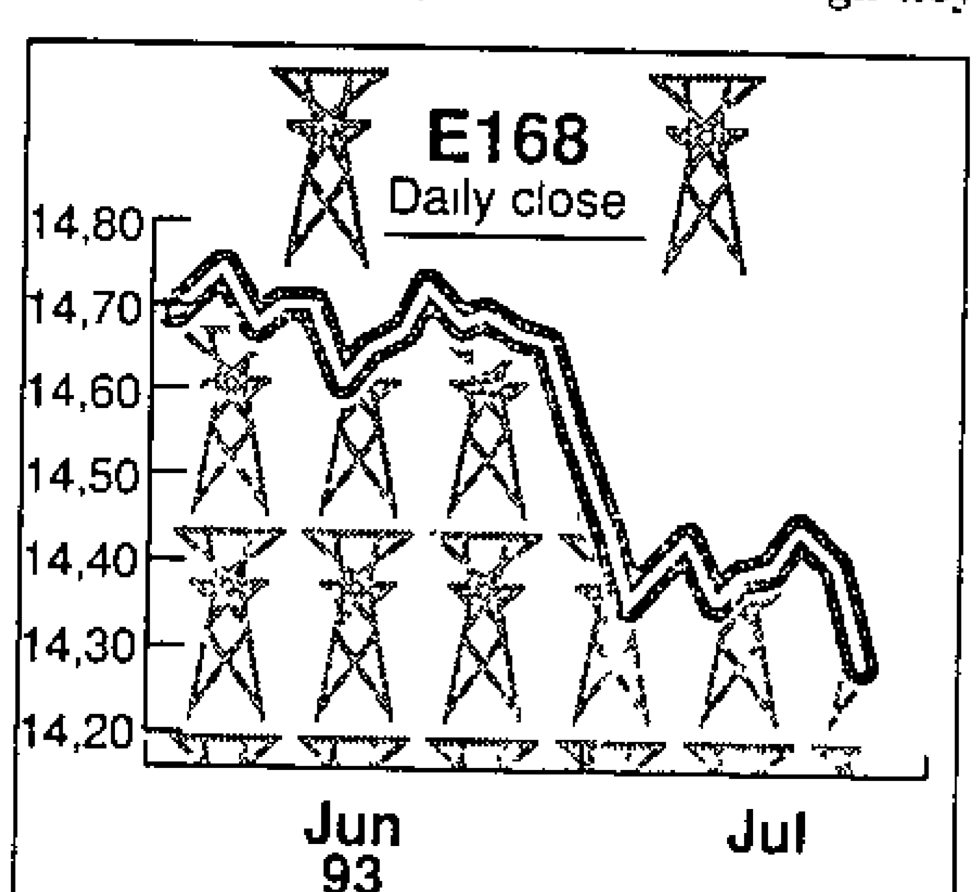
TIM MARSLAND

CAPITAL market rates dropped across the board yesterday after the release of bullish producer inflation data and positive developments on the sanctions front.

Dealers said it had been one of the most active days in recent months, with heavy trade taking place. The key Eskom 168 bond closed at a nine-month low of 14,27% from a previous 14,43%. (L49)

Rates eased initially on news that New York was considering lifting sanctions.

But once the producer data came in well below market expectations at 7% for the 12 months to May, rates fell through key resistance levels, bringing within reach all-time lows set last October, dealers said.



Graphic LEE EMERTON Source I-NET

The lower producer inflation came on top of comments earlier this week by Reserve Bank Governor Chris Stals that single-digit inflation was possible this year.

The dealers said this had again brought into focus the possibility that interest rates would be cut in the next few months.

One dealer said the 14,32% level on the Eskom 168 had been a key chart point and breaking through that level had been "extremely bullish".

However, the rate would have to fall even further for it to have decisively shaken off resistance around that level.

Another dealer said institutions, which had been absent for some time, had been active in the market, as had foreigners.

He noted interest from London.

Another dealer said a correction was possible in the next few days, and if one did not occur, "then I'll be worried"

This would mean much of yesterday's down move was due to speculators and once that source of buying dried up, there would be "blood on the floor" when they tried to get out of their positions.

Dealers reported active options trade yesterday, with many options being exercised.

JOBS

By comparison, SA lags behind on most counts

SI Times [Buss] 18/7/93

Competitiveness means growth and jobs. But, as **CIARAN RYAN** finds in reviewing the latest World Competitiveness Report, South Africa ranks dismally on these and most other measures of economic effectiveness.

THE latest World Competitiveness Report ranks South Africa second last in the categories People and Government. Pakistan is last.

Overall, SA slipped from eighth to 11th in comparison with 15 newly developed countries.

The comparison is based on performance in eight areas: infrastructure, SA's highest score (fifth), domestic economic strength (11th), internationalisation (13th), government (14th), finance (sixth), management (seventh), science and technology (seventh) and people (14th).

SA's low "government" rating is attributed to interference in the economy, the need for political restructuring and high personal income tax which discourages the work initiative.

Personal income taxes in SA form 8,7% of gross domestic product, the most uncompetitive in the 15-nation comparison. SA ranks seventh for improper practices in the public sector. Pakistan scores least in the category and Singapore the most.

SA is 14th in the "people" category, scoring lowest points for worker motivation, alcohol and drug abuse, the brain drain, lack of equal opportunities and population growth. It has the second-worst dependency ratio, educational system and employment growth of the 15 countries.

STEPHANE GARELLI

SA managers are ranked 13th, but entrepreneurs are second.

Singapore tops seven categories. The exception is management, where it relinquishes top spot to Hong Kong, the second-most competitive country.

Taiwan is third overall, followed by Malaysia, Chile (included for the first time), Korea, Thailand, Mexico, Venezuela and Indonesia. SA does better than Hungary, India, Brazil and Pakistan.

Denmark is head and shoulders above the rest in comparison with 22 developed countries, followed by New Zealand, which zoomed up the ratings from 10th last year, displacing Germany and Japan, which slipped into third and fourth overall.

Publisher of the report and a professor at Europe's International Management Development Institute, Stephane Garelli, says the most competitive countries are those which add value and export.

"Cheapness of labour has very little to do with competitiveness," he says. "Singapore, Hong Kong and Taiwan have been very successful at internationalising their economies.

"Interestingly, very few of the most competitive economies are rich in natural resources. An abundance of natural resources tends to invite complacency. The fact that the gold price is going up is good for SA in the short term, but it could be dangerous in the long term."

Nearly half of Singapore's exports are produced by US-owned companies. Professor Garelli says a hospitable investment climate is a major contributor to competitiveness.

SA's "trade policies hinder the international activities of companies in the long term" says the report, which ranks SA second last in this category. Singapore has the most stimulatory trade policies and Brazil the worst.

Exports account for 26% of SA's gross domestic product, placing it 11th, way behind Singapore which exports 20,2% of GDP, but ahead of India with 6,7%.

SA ranks first in coal production, but poorly in terms of hydro-electric and thermal energy output. SA has the highest CFC emissions of the 15 countries.

SA's cost of capital is "too high for competitive development".

SA ranks fourth in the stock-market sub-category, reflecting the degree to which the JSE reflects the real value of companies. It is ranked fourth for insider trading, behind Singapore, Chile and Hong Kong. Most insider trading occurs in Pakistan.

SA's financial risk rating is 36, says the guide, placing it third last. The banking and financial services sector is sixth overall.

Professor Garelli says: "Literacy and education are critical to the long-term success of countries. The report looks at which countries are investing in education and the type of skills being generated by the educational system.

"Although SA slipped down the ratings this year, this is not a static list. Parts of SA are First World, others are very poor. We do not prescribe to any country what it should do, but by looking at some of the more successful economies, you can see where they are channelling their energies."

SA corporations do not care enough about customers, says the report, placing it 11th on the list. Chile scores most for customer satisfaction and Pakistan least.

SA has the seventh-largest economy of the 15, but a GDP growth of only 1,35% between 1987 and 1991 places it 13th. Surprisingly, SA ranks fourth for inflation. Mexico has the lowest inflation and Brazil the highest.

"Successful economies maintain tight control over the manufacturing process," says Professor Garelli. "The biggest mistake the US made was to lose control of its manufacturing basis.

"The small-business sector played a huge role in the success of Korea, Japan and Taiwan. Although the large Japanese companies are household names, they are supported by a massive small and medium-business sector."

World Competitiveness Report rankings

Newly-industrialised countries	Domestic economic strength	Internationalisation	Government	Finance	Infrastructure	Management	Science and technology	People
Brazil	15	14	15	13	11	11	14	10
Chile	8	3	6	5	9	4	6	5
Hong Kong	6	2	2	2	2	1	4	3
Hungary	14	10	12	12	10	14	8	9
India	9	15	10	15	14	12	12	13
Indonesia	7	9	8	9	12	13	9	12
Korea	2	11	9	10	7	6	3	4
Malaysia	3	5	4	3	6	5	5	6
Mexico	10	7	7	8	8	9	11	11
Pakistan	12	12	13	14	15	15	15	15
Singapore	1	1	1	1	1	2	1	1
South Africa	11	13	14	6	5	7	7	14
Taiwan	5	4	3	4	3	3	2	2
Thailand	4	6	5	7	13	8	10	7
Venezuela	13	8	11	11	4	10	13	8

Graphic: FIONA KRISCH Source: THE WORLD COMPETITIVENESS REPORT 1993

Bid to lift investment 'will be hard to achieve'

BDay 19/7/93

GRETA STEYN

FINANCE Minister Derek Keys's policy to raise public fixed investment substantially would be difficult to achieve during the present fiscal year, Bureau for Economic Research economist Graham White predicted at the weekend.

Delays in getting public investment off the ground could postpone a recovery in overall fixed investment with no real increase in overall investment expected before the middle of next year. (49)

White said although central government had budgeted for a 23% rise in capital expenditure, implementation of the spending projects was likely to be subjected to delays because of the political process. Projects would have to be decided on through consensus, which threatened to delay their implementation. At lower levels of government, a similar trend was likely. The new local authorities which would be appointed later this year were likely to review capital spending projects currently in place and those in the pipeline.

He noted that despite the policy of increasing public investment, the first quarter of this year had seen a 5,8% (annualised) decline in investment by public authorities. The figure was the most striking feature of the data on fixed investment released in the Reserve Bank Quarterly Bulletin, because it contrasted with Keys's stated policy aims. He did not expect a substantial turnaround in the pattern before the end of this year.

For private investment, there was a decline of 7,8% (annualised) in the first quarter, compared with the bureau's forecast of a fall of 9%. Although the decline was smaller than projected, it did not deviate enough for the bureau to revise substantially its overall forecast for the year of a fall in real fixed investment of about 3%. For the first quarter, the forecast was an annualised real decline of 6,8%, compared with a realised fall of 7,6%.

British envoy asks US to aid SA economy

(49) ARCT 19/7/93

WASHINGTON. — British ambassador to the United States Sir Robin Renwick has made a strong plea for economic assistance to South Africa so that it can succeed as a democracy and play a unique role in generating economic growth in the region.

In an address in Washington, Sir Robin — a former ambassador to South Africa — spoke of the importance of consolidating democracy in many parts of the world, including Eastern Europe, the Baltic and Russia.

In South Africa enormous efforts had been invested in helping to secure the elimination of apartheid, he said.

"The objective has largely been achieved. The country is now within months of its first universal suffrage elections — but that's not the end of the story. The whole of Africa is in dire and worsening economic straits.

"We now have to help South Africa succeed as a genuine democracy with political freedom guaranteed." — Sapa.

Govt backs flexible labour bargaining

BIDay 19/7/93

ERICA JANKOWITZ

GOVERNMENT was rethinking its opposition to centralised bargaining as contained in the normative economic model, Finance special adviser Japie Jacobs said at the weekend.

(49) (.)

Speaking at the sixth annual labour law conference at the University of Natal, Jacobs said government would not intervene in determining bargaining structures, but would adopt a pragmatic approach in allowing the parties to decide which system of bargaining best suited each sector.

"Centralised bargaining is one of the systems in use. The government will absolutely not propose legislation to outlaw it, but neither will we pass a statute to make it compulsory," Jacobs said.

He proposed a flexible approach to bargaining levels in contrast with the "market system" approach embodied in the model.

As Cosatu advocated centralisation as one of its pillars of reconstruction, government's unwillingness to dictate labour market policy was still an area of debate between the parties, Jacobs said.

He said government should not prescribe economic policy, but should negotiate with the parties involved. As such, Jacobs felt the National Economic Forum was of particular importance as business, organised labour and government had formed working groups in which major policy decisions were formulated.

Government had to take account of the impact of labour policy on economic growth and performance. Policy decisions therefore could not be left solely to the Manpower Department.

He said government may have to aid certain sectors during restructuring to ensure their continued survival and international competitiveness. For example, in the vehicle, textile and electronics sectors, in which technical renewal and advanced training were required, tariff structures were being investigated.

However, Jacobs suggested a quid pro quo from labour in the form of accepting lower wages during training. These would

□ To Page 2

Labour

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□ From Page 1

be revised once training was completed.

"This is the component which is missing. Labour is very quick to pass additional financial burdens on to business without taking their full cost-impact into account," he maintained.

On the issue of labour-intensive production, Jacobs said the ratio of capital to labour costs would have to be taken into account in establishing which sectors were best suited to its introduction. (49)

He said government should not intervene and prescribe this type of production in all spheres, especially as SA was attempting to end its years of isolation from the world economy.

"Government will support labour-intensive production as long as it is cost effective. But on this issue, the labour movement is imposing itself as an arbiter of investment decisions," Jacobs said.

Opening the conference, Finance Minister Derek Keys described the normative economic model as not being government policy, but being based on the "best economic advice as a basis for finding a solution to our economic problems".

Both government representatives agreed they had a long way to go in finding an acceptable way of "revitalising" SA's structural decline.

Star 20/7/93

Squabbling squashes rate cut hopes

By Claire Gebhardt

Political events have exacerbated short-term capital outflows and are preventing a lowering of interest rates, says Syfrets in its latest Economic Quarterly Review.

Economist Elmien de Kok says the public squabbling between ANC leader Nelson Mandela and President FW de Klerk in the US, and the government's handling of the AWB's storming of the World Trade Centre has had a negative impact on market sentiment.

"Second quarter statistics will probably show further declines in net foreign exchange reserves."

Outflows of R3,25 billion in the first quarter are already 41 percent up on the R2,3 billion registered for the whole of 1992, she notes.

(49)

"On the positive side, the outflow on the capital account should diminish with the advent of a Transitional Executive Council.

"Elections on April 27 next year seem certain and this, combined with progress on a Transitional Executive Council, bodes well for the future and for financial markets."

Syfrets sees a sideways movement in economic activity this year with a mild recovery in 1994.

"Exports will probably lead the upswing on the back of a weakening rand and an improved world economic outlook."

"Fixed investment spending, though coming off a low base, should also show better growth as various projects in the pipeline, get under way."

But consumer spending will lag the recovery given reduced wage increases and a heightened tax burden, she says.

On the equity front, de Kock says the unexpected run in the gold price has propelled share prices to levels not justified by the unimpressive earnings forecasts for the next 12 months.

"We therefore maintain our recommendation for a cautious stance towards equities.

Hopeful signs of upturn in the economy

49

ARG 20/7/93

TOM HOOD, Business Editor

COMPANIES are getting ready for an upturn in the economy by spending millions on importing machinery and transport equipment

Imports of transport equipment surged by 32,4 percent in June compared with May, while imports of machinery jumped by 30 percent.

The trend was revealed today in June's figures of exports and imports.

"This indicates that companies are starting to invest back into capital equipment and a turn-around in the investment cycle signals a bottoming out of the recession," said Mr Carlos Texeira, economist at the South Africa Foreign Trade Organisation.

Safto's exporters' confidence barometer indicated that exporters' perceptions were positive and that they based their predictions on orders

The value of exports soared last month and the surplus over imports was the highest this year.

But part of the improved performance was due to the depreciation of the rand, which earned exporters more rands for their sales in other currencies.

The higher dollar price of gold and increased diamond sales also gave a boost to exports.

June marked the third month in succession that export growth gained momentum.

Economists welcomed the figures, saying they were yet another positive indicator that the economy was turning after five long years of recession.

They were optimistic that the June trade surplus, combined with lower capital outflows in the second half of the year, signalled another cut in interest rates in coming months.

South Africa's monthly trade surplus soared by 26 percent in June to R2,36 billion compared with May's R1.87 billion.

Exports were nine percent higher at R7,09 billion while imports increased by 2,4 percent to R4,72 billion from R4,61 billion.

Total exports in the first six months of this year of R3,69 billion were 11 percent higher than the same period a year ago while imports of R2,76 billion were 14 percent up.

Exports of precious or semi-precious stones and metals were 40 percent up at R4,78 billion in the first half of 1992 compared to R3,4 billion a year ago. Growth in the imports of agricultural products slowed, following large increases early in the year because of the drought.

Most import categories registered nominal growth over the equivalent period last year, the figures showed.

But import growth levelled off in June and the monthly surplus increased to R2,3 billion in June from R1,8 billion in May.

NEWS IN BRIEF

BiDay 2/7/93

Cane farmers hit

NATAL South Coast sugar farmers were again facing heavy crop losses because of drought and pests, including Eldana borer infestation, it was reported yesterday. In the Umzimkulu area the loss last year of R40m in cane-related income would almost certainly be repeated this year.

Award for Suzman

ANC president Nelson Mandela would deliver the keynote address at the national congress of the SA Jewish Board of Deputies in Johannesburg on August 21 when the Nahum Goldman Award would be presented to veteran politician Helen Suzman, a statement by the board said.

Concorde on safari

A CHARTERED British Airways Concorde will make the supersonic airliner's first comprehensive trans-African journey to SA with a leisurely 17-day flight via Kenya, Tanzania, Zimbabwe and Botswana from October 23 to November 10. Ninety passengers, mostly Americans, will pay about R40 000 each for the trip, which embraces some of the continent's most famous game reserves and ends with a Blue Train journey from Johannesburg to Cape Town.

Caption incorrect

A caption to a photograph depicting the handing over of a memorandum from the Seven Buildings Project to the National Housing Forum (NHF) in Business Day on Friday was incorrect in describing the people involved. Matthew Nell is the chairman of the Co-ordinating committee of the NHF and Saths Moodley is the senior co-ordinator of the NHF.

REPORTS Business Day Reporter, Sapa

Tentative signs of recession's end

BiDay 2/7/93

KELVIN BROWN

THE recession was showing some signs of bottoming out but the signs were still not strong enough to indicate a definite end to the downturn, economists said yesterday. (LA)

Various indicators had shown some improvement recently with real gross domestic product increasing in the first quarter. This was carried through as mining production, agricultural output and exports had all shown increases in data released over the past few months.

Standard Bank chief economist Nick Czypionka said the current improvement was more of a statistical nature due to the better gold price, the ending of the drought and the upturn in the economies of the US and the UK. However, he added: "We are not yet seeing it out on the street."

Other indicators that had shown some levelling out included motor car sales, manufacturing output and notes in circulation. Manufacturing production was up since the middle of last year and notes in circulation — an early indicator of higher spending demand — was also better.

Czypionka said a recovery would be visible only when the man in the street felt things were better, which would be reflected in an improvement in spending patterns. "This should occur when job security improves and people have more money in their pockets."

When SA gained greater access to overseas financial markets and the situation on the political front got better the economy should benefit even further, Czypionka said. "Until then the situation is unlikely to show definite signs of improving although there may be some bouncing back statistically."

UAL economist Dennis Dykes said although there were some signs of a turnaround it was difficult to tell if it was just a blip or a sustained increase. "The question is whether it will continue or be held to ransom by the political process."

The position of consumers was still not good as disposable income had been knocked by higher taxes and lower wage increases. He said the indicator to watch for was credit extension. "When consumer confidence picks up it affects demand for credit even before GDP."

Old Mutual economist Dave Mohr said the improvement in the primary sectors could suggest a flattening out in the recession later this year.

"In the past all sustainable recoveries in SA usually started with an improvement in exports and the primary sectors."

Agricultural production was good but volatile as it was dependent on the weather while the mining sector was showing signs of improving. There were pockets of evidence that overseas demand was picking up.

Gold and platinum prices had improved, and this carried through to the steel and other markets.

The depreciation of the rand should also help improve exports in these and other areas.

Mohr said the evidence indicated the economy could approach a turnaround this year with a slow improvement next year depending on what happened politically. However, there was little room for growth in the economy given current fiscal and monetary policies.

Farmers 'must clear proposed labour laws'

BiDay 2/7/93

DIRK VAN EEDEN

ANY proposed labour legislation for agriculture would have to be cleared with farmers before implementation, Free State Agricultural Union president Piet Gous said yesterday.

"Government quickly talks to farmers, decides on its own what it wants to do and then calls it negotiations," he said. (LHS)

At a congress Free State farmers had called for a referendum, or they would not accept new legislation, Gous said.

Chairman of the union's manpower committee Japie Grobler said a forum had already been established to inform farmers about their legal rights and the changes they would have to make should comprehensive new legislation be adopted.

The forum, with representatives of the Transvaal and Free State Agricultural unions, Nampo advisers, Boskop training centre and the Manpower Department, would also strive for better labour productivity.

Several information days were planned for farmers.

Gous said the Free State Agricultural Union opposed the planned legislation because it did not take into account the personal relationships between farmers and their workers, or the specific needs of agriculture.

He warned that many labourers would lose their jobs if a minimum wage was introduced. Farmers would not be able to pay higher wages and would rather mechanise.

The union was also opposed to legislation legalising strikes. A farm could be ruined if it was not worked for a week or two.

"A farm is not a factory that can be shut down. When it is planting season you must plant, and a cow does not calve between eight and five either."

No other industry had provided housing and other social benefits for its workers to the same extent that farmers had.

Should strikes be legalised, farmers would have to allow unknown trade union workers on their farms. Because they could not know all the trade union organisers, it would create a serious security risk.

Hopes of recovery 'appear premature'

Business Day Reporter

EXPECTATIONS of an imminent economic recovery were premature even though a growing number of indicators had begun to stabilise or improve, Standard Bank said in its latest Economic Review.

The bank said the fact that these improvements had been broadly based tempted the conclusion that the economy had begun to turn around. However, the comparison with last year was distorted by the degree to which special factors — drought and mass action — had depressed economic activity in the third quarter of last year. B/Day 22/7/93

"While output in various sectors has been improving, there is continuing weakness at the retail level and this poses a serious question as to the sustainability of the recovery in those areas of the production sector which are domestically orientated."

The firming and subsequent waning in retail sales between September and May was a cause of concern. It confirmed that the commercial sector of the economy remained subdued and that overall expenditure growth would probably not be enough to sustain the growth momentum in production. (49)

The main factor keeping the economy from turning around was the Budget's "attack" on the financial position of individuals, which dimmed the prospect for an increase in private consumption expenditure.

The chances of an increase in GDP in the near term were slim. Balance of payments problems had prevented further monetary policy accommodation to kick start the economy.

Economist criticises Keys's economic model

B/Day 22/7/93

KELVIN BROWN

FINANCE Minister Derek Keys's normative economic model was naively optimistic and its implicit economics highly questionable, Nedbank chief economist Edward Osborn said in the bank's latest quarterly guide to the economy.

As far as Osborn was concerned the model's paper was a political document that "embodies the pure milk of economic free market liberalism, which the authors are presumably hoping might be the means of diluting the strong brew that is likely to be forthcoming in the new SA".

Osborn said that instead of leading to sustained growth, the model would probably damage the economy more badly than the recession.

(49)

If anything, the model had "done the country a disservice in oversimplifying the problems of industrialisation and the strategic past to export success for the future". Osborn said the fundamental flaw of the model was the implicit notion that maximising savings would maximise investment and therefore future growth.

In the real world productive investment decisions were based on perceived investment opportunities. He believed the relationship between savings and investment was not as simple as portrayed in the model. Although the government might wish to influence investment decisions, the level of investment determined the overall level of income and hence savings.

The "supply-side economics" idea of lower taxes eliciting a response in terms of production activity was flawed. Osborn said Ronald Reagan had implemented this idea — a disastrous move which had caused the surge in the US deficit.

The model's theme that emphasis should be given to the establishment of labour-intensive industries in SA, due to the abundance of labour, was unrealistic, said Osborn. In the absence of any state incentives, there was no question of a more desirable alternative existing.

Osborn also questioned the idea that anti-export bias in manufacturing could be removed by getting rid of protection from foreign imports. Removal of protection would not induce entrepreneurs to move out into the export field.

He said duty free imported supplies would not make SA more competitive due to high wage rates in relation to productivity and the high cost of capital.

Govt 'can spend' during transition

BDay 22/7/93

GRETA STEYN

GOVERNMENT had no need to pass Part Appropriation legislation to enable it to continue spending from April next year until a new government's Budget was ready, State Expenditure director-general Hannes Smit said yesterday. (49)

The Exchequer Act made provision for government to spend about 15% of the 1993/94 Budget a month in the first three months after the present fiscal year had ended. After that, the percentage dropped to 10% a month and the spending could continue until the previous year's total spending figure had been reached, Smit said.

Economists said this would allow government to keep going for about nine months while a new Budget was being framed.

Smit said government was following a "business as usual" approach to the budgetary process. Preliminary estimates of departmental spending for the 1994/95 fiscal year had already been drawn up. These would be accepted by the present Cabinet in December and would form the basis for next year's spending until a new government was in place.

Smit noted State Expenditure was taking care to leave a clear audit trail when costing government services and arriving at expenditure estimates for the next fiscal year. "The process will be entirely transparent to the next government and the full implications of changes in spending priorities will be easily established."

The next government would have two alternatives when it came to power — it could scrap the expenditure estimates produced by the present government and redo the exercise, or it could produce a supplementary Budget. The second alternative would create the least administrative disruptions, Smit said.

He said the only legislative changes needed before the end of the present fiscal year would be to enable the inclusion of Own Affairs spending on the main Budget. These changes would probably be made in the last session of Parliament before the election. Legislative changes would also be necessary to regulate expenditure by the self-governing territories and the TBVC states.

Smit said State Expenditure was scrutinising legislation to determine the structural changes that might be needed to ensure government continued to function smoothly.

Budget business as usual

(49) CT 22/7/93

From GRETA STEYN

JOHANNESBURG. — Government had no need to pass Part Appropriation legislation to enable it to continue spending from April next year until a new government's Budget was ready, State Expenditure director-general Hannes Smit said yesterday.

The Exchequer Act made provision for government to spend about 15% of the 1993/94 Budget a month in the first three months after the present fiscal year had ended. After that, the percentage dropped to 10% a month and the spending could continue until the previous year's total spending figure had been reached, Smit said.

Economists said this would allow government to keep going for about nine months while a new Budget was being framed.

Smit said government was following a "business as usual" approach to the budgetary process. Preliminary estimates of departmental spending for the 1994/95 fiscal year had already been drawn up. These would be accepted by the present Cabinet in December and would form the basis for next year's spending until a new government was in place.

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ANC economic intentions for discussion next week

MICHAEL MORRIS
Political Correspondent

(459)
ARG 20/7/93

DEMOCRACY alone will not achieve economic growth in South Africa and there is a need for greater cooperation between the State, business and trade unions.

This is the view of Mr Tito Mboweni, acting deputy head of the ANC's economic planning department and coordinator of the movement's trade and industrial policy.

What the ANC has in mind on the economic front will be the subject of a debate next week between Mr Mboweni and businessmen and women from the Peninsula.

The debate will centre on the question: "Does business have a future in the new South Africa?", and will cover wide-ranging aspects, including national economic management, income distribution, the protection of retirement annuities and endowments, the redistribution of land and ensuring access to productive assets by all South Africans, and affirmative action.

Mr Mboweni believes post-election South Africa "is far more likely to succeed if the economy is growing than if it continues along its present path of decline".

"It is also clear that the democratic State will not be able to achieve new growth and development on its own. That is why I have emphasised the need for active cooperation between the democratic State, business and the trade union movement," he said

● The debate will be held at the Woodstock Holiday Inn on Tuesday July 27 from 5pm to 7pm. Further details available at ☎ 782 5892.

PROPERTY RIGHTS

FM 23/7/93.

Seeking a balance

(49)

Whatever political bargains may be struck at the negotiating table, SA's prospects depend on a single economic issue: how to redress the inequities of the past without damaging our growth potential.

This debate has moved from angry exchanges over nationalisation to arguments about the merits of other mechanisms for redistribution. The controversy relates not to sins of commission — as when traders and householders were removed from their properties under the Group Areas Act and transferred to less profitable and salubrious areas. It relates to sins of omission, when people were denied the opportunity to live and work where they chose and were disadvantaged by a panoply of race laws.

ANC economist Tito Mboweni has proposed a reconstruction levy to make good the property losses inflicted on most South Africans by apartheid. "Unless all South Africans face up to this challenge, this country will remain polarised . . . and dreams of economic growth . . . may never be realised."

The SA Chamber of Business (Sacob) acknowledges "that discriminatory measures of the past have undermined overall respect for that principle (property rights). Corrective measures will be required which will not only redress such injustices but will allow the market to operate in a way that will secure an equitable and efficient outcome.

"Failure to pursue such a course will result in continued opposition both to the principle of property rights and to the market-driven economic system."

These comments come in a submission to the National Negotiating Forum's technical committee on fundamental rights, expressing concern at the lack of urgency in dealing with fundamental economic issues. It points out that, of 24 rights and freedoms considered by the committee, 18 have been decided on. Among the six referred back to the technical committee for debate are property rights and economic activity.

Essentially, the question is at what point a reconstruction levy — or any similar mechanism — threatens property rights.

Mboweni says the idea "is drawn from the experience of Germany after World War 2

 FM 23/7/93 (49)

. . . The basic principle was that those who were able to keep their properties in part or in whole during the war would contribute money into a fund." All individuals and corporates had to pay a levy amounting to half their 1948-1949 assets, either as a lump sum or in quarterly payments over 30 years. Mboweni suggests that, in SA, the levy could be based on both property and income.

He argues that a reconstruction levy is not a wealth tax. The latter is "introduced by fiscal authorities at a certain percentage for a specific group of wealthy individuals. Normally this could be a tax for the top 5% of income and asset owners (which) is built into fiscal policy and is continuous.

"This makes it fundamentally different to a reconstruction levy. Another difference is that the levy is not directed at the wealthy top 5% but at all income earners and asset owners. It is a one-off contribution."

The principle of reparation is sound.

But, if it is to be implemented it will have to be carefully thought out. A tax, for instance, could only succeed if the people obliged to pay:

- ☐ Can afford to, given the already high rates of taxation; and
- ☐ See it as worth their while. They could prefer emigration — especially if they don't

believe their payments will stabilise the economy.

If the German example were to be followed, it would either erode assets (possibly accumulated over a lifetime) or effectively be a continuous tax.

And the implications are broader. Says Sacob's Raymond Parsons: "Business and investor confidence — needed to secure high levels of growth — will require reassurance on property rights."

If, as Sacob points out, future property rights can only be meaningfully debated once the property violations of the past have been addressed, a solution must be found that does not violate property rights of the future. Sacob argues: "Property relates not merely to a physical object but to a social order sanctioned by the State . . . The creation and execution of plans to produce depend upon a firm expectation about property rights. Trade in its essence is concerned with the exchange of those property rights."

Merton Dagut, who heads the Wits University economics department, suggests a constructive way of transferring resources from the beneficiaries of apartheid to the non-beneficiaries would be a direct tax based on expenditure. This, he says, is a better measure of what people are taking out of the economy. It would favour saving, encouraging risk-bearing and wealth generation, which would provide the resources required

23/7/93

for uprooting poverty.

He proposes a high threshold and progressive taxation thereafter. This would gradually draw more taxpayers into the net as low income earners become economically empowered. Moreover it is a gradual but continual process which will not send shockwaves through an already shocked economy.

Parsons argues that the best way to deal with socio-economic upliftment (another way of describing reparations or reconstruction) is sound economic and development policies. This, he argues, requires a guarantee of property rights.

"If the political negotiators allow this issue to go by default then business confidence in a new constitution and future economic policy will be correspondingly reduced." ■

COMPETITIVENESS (49)

Eye on the right ball

FM 23|7|93.

When measured as scientifically as possible, this country's ability to compete in the world economy — even among the poor or developing nations — is low and declining. This is hardly comforting. But it should not be a matter of despair, for we have been carrying the heavy penalties of apartheid economics at home and of boycott from abroad.

Indeed, it could be argued that we haven't done too badly by maintaining earnings from exports above the cost of imports and capital outflow since the mid-Eighties.

We have been able to achieve this export performance by allowing the rand progressively to decline in value and by placing great strain on our infrastructure to ensure fast and reliable delivery, supplemented by adroit financing from an efficient financial services industry.

Our problem, now that we have entered a new era of disappearing sanctions and more market-orientated domestic economic policies, is that the game is not going to get any easier. For our competitive edge we have depended too heavily on our strong points — such as our infrastructure — without adequate replenishment. And we have used up too many of our scarce resources in maintaining and then dismantling apartheid structures.

Simultaneously, we have paid scant attention to fostering those factors of competitiveness in which we are ill served. Education is one of them; the appropriate use of science and technology, and government policies that encourage competition and eschew protectionist attitudes, are others In most of these fields we are now moving slowly in the right direction.

But before we can hope for any benefit to flow from these significant shifts in attitude towards sensible economics — both among the Nats and the ANC — it is essential that we achieve price stability. Any gains that flow from these other determinants of competitiveness can be wiped out instantly by a surge in the general price level — in short, by rising inflation.

We have not yet mastered that problem, though inflation pressures are reducing. The 9% deficit before borrowing is an ominous indication that we still face a substantial inflationary threat — especially if the next government places political expediency spending above fiscal discipline.

The next critical determinant of international competitiveness is a strong commitment, at all levels of business activity, to economic growth. With the ANC clinging tenaciously to its trade sanctions policy and professing illogical slogans such as "growth through redistribution," we are not on the verge of a widespread growth commitment.

Rising productivity is never achieved until there is a rising trend in fixed capital investment. No matter how much is spent on education and training, or on enhancing management skills, nothing will be achieved unless investment is increasing and the economy growing. Those who, for political reasons, are denying this country access to the resources that would enhance growth are demanding a sacrifice the magnitude of which they cannot comprehend.

We have already begun to spend heavily on education, motivated more by social injustices than economic utility. That expenditure is going to be substantially wasted unless it is enhanced by rising investment and business activity. For education without employment opportunity has a reduced benefit to the economy and will not enhance competitiveness.

There are two glaring examples in Africa of governments that have spent substantially on education but where, because their economic policies were either inappropriate or ineffectual, prosperity has not been the outcome and social tensions have risen. They are Zimbabwe and Kenya.

Education, even if it is supported by stable prices and rising growth, will not increase competitiveness unless it is both appropriate to a technological age and fosters ambition. The latter, it has been shown in the Little Tigers, is best perpetrated within the family unit — the very unit that collectivists and apartheid ideologues have sought to destroy.

The crucial point is that some factors of competitiveness are more important than others and co-ordination in their application is vital if they are to bring prosperity.

We in SA have other drawbacks flowing from apartheid. The preoccupation with affirmative action will, without any doubt, reduce managerial efficiency and lower educational standards. The outcome will be beneficial to the few that affirmative action will favour. The cost to the economy and the community of this cosmetic attempt at equality is going to be high.

While our infrastructure has served us well during the crisis years of trade and financial sanctions, the decline in recent years of public sector fixed capital investment indicates it is not adequately being repaired or replenished, let alone expanded.

There is one competitive advantage that the SA economy enjoys that has not been much highlighted: a capacity to adjust quickly to adversity. The economy did so in the Eighties in the face of substantial economic battering, especially at the hands of the international banking community. And in this respect, despite its numerous poor, the SA economy is more characteristic of a developed country than many others of equivalent size.

We have no doubt that our economy has the latent ability to adjust again to a more favourable change in our international trading and financing circumstances. But such change will need to be supported by stable domestic prices and an unmistakable commitment to growth. ■

ago. CT 23/7/93

Export Free Zones 'boost for W Cape'

"real hard sweat" would be needed to achieve stable foreign reserves.

"SA needs to have forex covering three months of imports and for that reason I see interest rates staying high, possibly for the rest of the year."

He added that "there are tentative signs that the economy has already ceased contracting".

These signs included the real growth of retail sales and manufacturing production as well as the breaking of the drought, the rebound in new car sales and rising notes and coins in circulation.

Stals told 'communicate better'

LINDA ENSOR

CAPE TOWN — Reserve Bank Governor Chris Stals should do more to communicate the need for wage and price restraint in his fight against inflationary expectations, Southern Life chief economist Mike Daly says in the latest issue of the quarterly Economic Comment. BIDCW

Daly said provided the inflation rate was sufficiently low, there was scope for real economic growth within low nominal GDP growth.

However, with the exception of the first quarter of 1990, the real wage per capita had increased every quarter since the start of the recession, despite the high levels of unemployment, he said. (458)

The quicker there was voluntary pricing adjustment, the sooner real output and employment could start to recover, indicating, Daly said, that in a real sense the recession need not have happened.

Daly noted that there was an apparent trend for pricing behaviour, especially in the labour market, to be moderated "if only because of untenable pain levels and not necessarily because of a belief that prices in general will be rising at a slower rate."

He predicted the inflation rate would average 10% this year and, assuming there were no further indirect tax increases in the next Budget, would fall sharply to 7% in April next year, as the impact of the rise in the VAT rate fell out of the year-on-year comparison. 23/7/93

A threat to this scenario would be the further depreciation of the rand pushing up the price of imports.

Within this scenario, as well as the possibility of a R3bn IMF loan before the end of the year, there would be scope for at least one more 1% cut in interest rates. (49)

Daly believed there were some tentative signs that the economy had stopped contracting and that there was a bottoming out of activity. He forecast a fall in GDP of 0,5% this year and a GDP growth rate of 1,7% next year. Provided recent trends in the rand gold price were maintained, the effects on the broader economy would come through in the second half of next year. Daly expected a low point for the rand of R3,50 this year.

"Inventory rebuilding, a boost to the mining sector via the depreciating rand, lower inflation and short-term interest rates and some fairly substantial funding of job creation and public works projects, should boost growth, especially in the second half of 1994 and into 1995," he said.

The international environment remained unfavourable for basic commodity exports, and there was unlikely to be any significant export growth this year compared with last year.

There were indications that prices might have bottomed, Daly said.

Economic growth of 2,8% was forecast for the US economy this year and 3% next year, 1,2% and 3,3% respectively for the Japanese economy, and -2% and 1% for Germany. Overall economic growth for the major industrialised countries was expected to average about 1,2% this year and 2,7% next year.

South 24/7 - 28/7/93

ANC to present its economic policy

(49)

THE ANC will be spelling out its economic policy at a seminar in Cape Town on July 27.

Mr Tito Mboweni, the acting deputy head of the ANC Economic Planning Department and co-ordinator of trade and industrial policy, will be speaking at the conference.

The seminar will include top businesspeople and the debate is expected to be "lively", says organiser Pam Herr.

Among the issues to be discussed are:

- Management of the national economy
- Income distribution
- Building confidence in the new regime
- Access for all South Africans to productive assets
- Stabilising society (dealing with levels of violence)
- Environmental protection
- Protecting retirement annuities and endowments
- Redistribution of land: the Land Claims Court System
- Affirmative action in the workplace
- The voter education and information process
- The future of business after national elections.

For more information contact Pam or Mervyn Herr at (021) 782-5892 or fax (021) 782-1774.

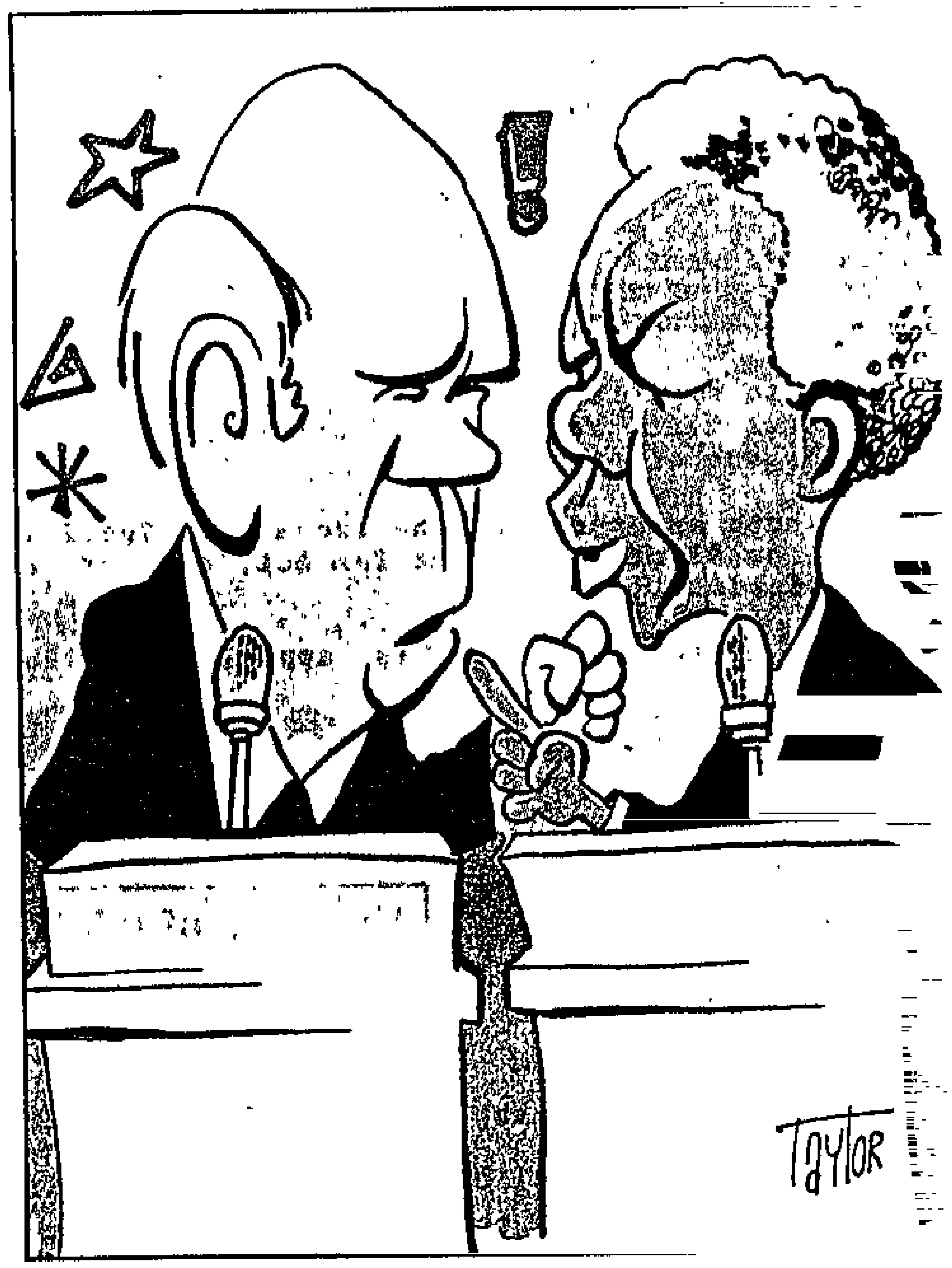
The seminar is being held at the Woodstock Holiday Inn.

SA leaders not helping economy

Star 24/7/93

US spat deters investors

POLITICAL squabbling does not bode well for a strong and unified interim government — which is needed to enhance market sentiment, among other things, writes our Financial Reporter.



THE recent public squabbling between ANC leader Nelson Mandela and President de Klerk in the United States has affected financial market sentiment, says Syfrets in its latest Economic Quarterly Review.

Syfrets economist Elmien de Kock says: "It does not bode well for a unified and strong interim government — the main requirements of a country in transition."

Ignored

Although the AWB's storming of the World Trade Centre did not affect investor sentiment, the Government's handling of the affair and the behaviour of other private armies have nevertheless added to uncertainty.

In the short term, the high level of violence and the volatile financial rand could also cause setbacks in the financial markets.

Overall, argues De Kock, political events such as these cannot be ignored in the economic equation.

They have, for example, exacerbated short-term capital outflow — which in turn restricts the Reserve Bank's room to manoeuvre on monetary policy, as it delays an easing of interest rates.

Second-quarter statistics will probably show declines in net foreign exchange reserves.

An outflow of some R3,25 billion was recorded in the first quarter — 41 percent more than the R2,3 billion outflow registered for the whole of 1992.

(49)

However, De Kock notes that the outflow on the capital account should diminish with the advent of a Transitional Executive Council and better political prospects next year.

"Elections on April 27 1994 seem certain, and this factor, combined with definite progress on a Transitional Executive Council, bodes well for the future and for financial markets," she says.

During the first quarter 0,8 percent growth was registered on the back of recoveries in agricultural production, mining production and inventory restocking.

Consumer spending also showed a real gain of 0,3 percent despite a continuing decline in personal disposable income.

De Kock describes this slight uptick as "a bit of a surprise" given the severe downturn in the second half of 1992.

Syfrets forecasts no growth in economic activity this year, but a mild recovery in 1994.

With an improved world economic outlook, exports will probably lead the upswing on the back of a weakening rand.

Fixed investment spending, though coming off a low base, should also show better growth as projects in the pipeline get under way.

However, consumer spending, labouring under reduced wage increases and a heightened tax burden, will lag the recovery.

On the equity markets, De Kock says the unexpected rise in the gold price has propelled share prices to levels not justified by the unimpressive earnings forecasts for the next 12 months.

"On a dividend yield and earnings yield basis, the all share, all gold, financial and industrial indices have never been more expensive," says De Kock.

"We maintain our recommendation of a cautious stance on equities."

Sacob: R40bn needed to level playing field

(49). CT 24/7/93

JOHANNESBURG. — Altogether R40 billion will be needed for the immediate elimination of disparities in South Africa, the South African Chamber of Business (Sacob) has estimated.

Speaking at a Human Sciences Research Council conference here yesterday, Sacob director-general Mr Raymond Parsons said this was the amount needed to level the playing field in education, social pensions, health and housing. It excluded direct job creation programmes.

This amounted to 40% of the 1992/93 budget and represented 15% of gross domestic product.

He said social spending of this order should be addressed within a sound economic framework.

The country should guard against "heroic experiments" which promised expanded welfare, but irreparably damaged the economy.

South Africa needed a 10-year socio-economic programme to deal with its biggest challenge — reconciling expectations with resources and growth.

Expectations had escalated against a background of poor economic performance, he said.

"We must manage expectations in such a way that the chances of socio-economic policies succeeding are enhanced.

'R40bn to eliminate disparities'

(49)

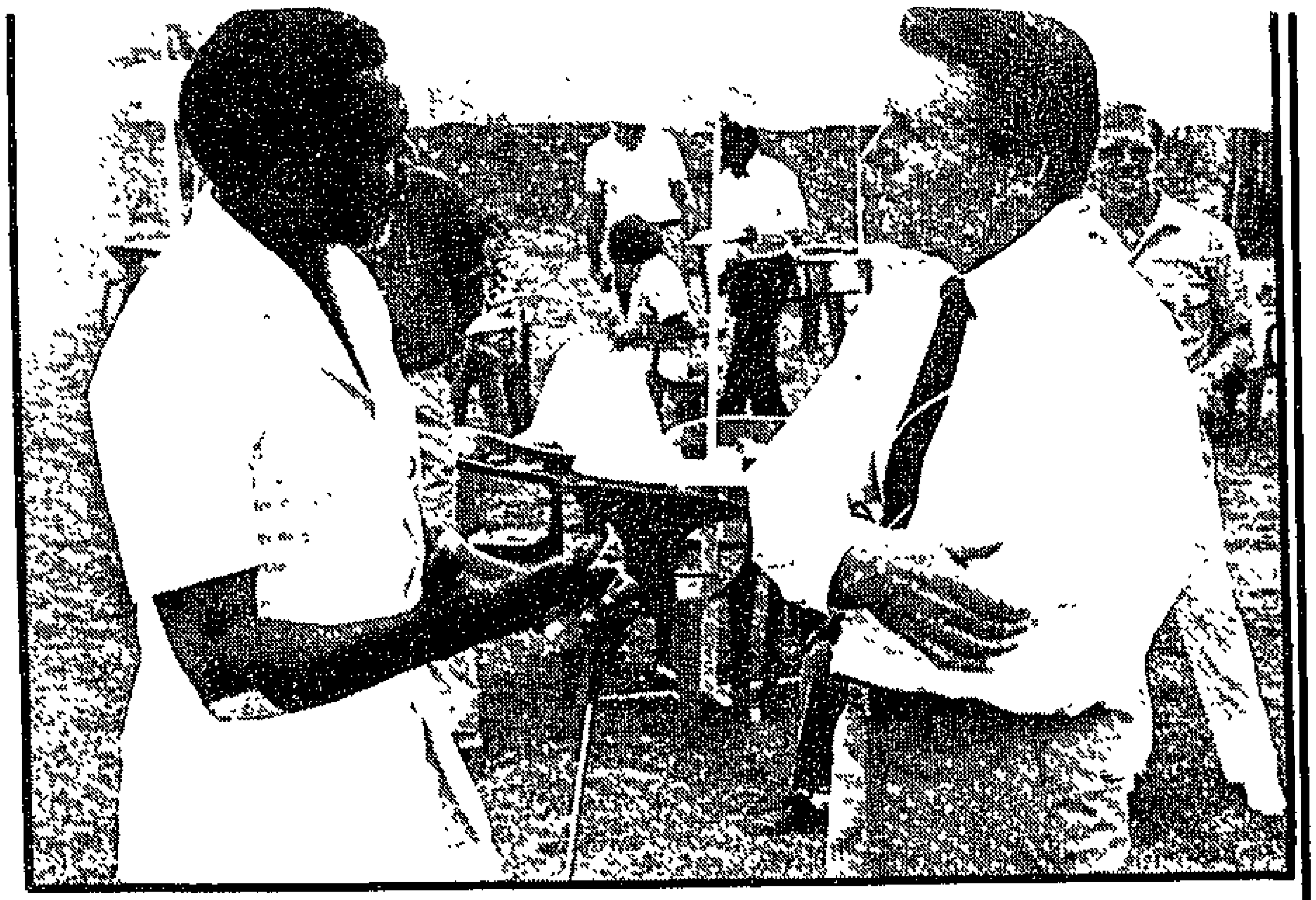
Weekend Argus Reporter ARG 24/7/93

THE South African Chamber of Business director-general, Mr Raymond Parsons, said the elimination of disparities in South African society would require R40 billion.

He told a Human Sciences Research Council conference in Johannesburg that this was the amount needed to level the playing field

This amounted to 40 percent of the 1992/93 Budget and represented 15 percent of the gross domestic product. Mr Parsons said social spending of this order should be addressed within a sound economic framework.

Meanwhile, in the wake of the outcry over his proposed "wealth tax", ANC deputy head of economics Mr Tito Mboweni has pointed out that a reconstruction levy is not ANC policy but his personal recommendation.



WHATS UP DOC? . . . Soweto's Dr Nthato Motlana and Gary Player deep in conversation at a golf course opening.

SA economy showing signs of a recovery

C Press 25/7/93

ALL eyes are on the political negotiation process in Kempton Park and little attention is being paid to economic matters.

Yet, no new political dispensation will work unless the economy is strong.

While our economy is under severe pressure, certain signs are beginning to emerge that we may well experience positive growth this year after four years of severe recession.

One of the most positive signs is that agricultural production has rebounded strongly from last year's extremely low levels caused by drought.

During a normal season agriculture places money and food into the pockets of thousands of people in even the remotest areas, causing money to flow through the system and thus creating jobs.

Then there is the gold price which recently test-

MONEY TALK

ed the important $,00-an-ounce level before it was pushed back by sustained selling. Gold has always been special on the SA business scene and is still our biggest earner of foreign exchange. When the gold price is strong the mood changes for the better!

The big question is whether the higher prices will hold. Last year the gold price was knocked on the head by central bank selling, mainly by Holland and Belgium. However, India, and especially China, are displaying a growing appetite for gold – enabling the market to absorb the additional supplies provided by the central bankers.

China is the big hope for gold producers such as SA as China's economy is the third biggest in the world and is growing much faster than the other big economies. Officially China is still a communist state, but in practice capitalism is flourishing.

49

Wealth and gold have always gone together, so one can expect the strong demand from China to be sustained.

~~49~~

Other factors favouring a better outlook for our economy include a slight improvement in international commodity prices, a sharp rebound in factory output compared with last year's very depressed levels and signs that inflation will probably decline.

Then there are certain large projects, such as Columbus stainless steel, Alusaf aluminium and Eskom's huge electrification programme for black areas that are rapidly coming off the ground.

ST Times [Buss] 25/7/93

Enter Tito the tax-mugger

When in doubt, tax. COMMENT by **KEVIN DAVIE.**

MANY governments, even those which know that cutting taxes is more likely to lead to growth and investment, find it easier to increase taxes than reduce their spending.

The present Government, although committed to cutting taxes and spending, is presiding over a Budget deficit at record levels, one which might still undo the painstaking progress which has been made at the Kempton Park negotiations.

Taxpayers have been shaken so hard and for so long to fund the death throes of apartheid that they have all but lost their ability and will to pay.

They're sick and tired of corruption, of waste, of duplication, of parliamentary fat cats and of subsidies to vested interests which can't or won't work for their own living.

They've also been paying the rents and services of people who can't or won't pay for their own accommodation, plus billions for supporting Bantustan leaders who strut and fret with so much importance at Kempton Park.

But the next government, in the person of ANC economist Tito Mboweni, wants taxpayers to pay more.

He wants a one-off payment levy for a separate account (but controlled by government) to fund reconstruction. The charismatic Mr Mboweni, who is much in demand in corporate boardrooms, is backing off the rates at which the tax would be levied.

But he has outraged many taxpayers, who simply cannot pay more even if they wanted to.

Most curious about Mr Mboweni's suggestion is that he apparently believes there is a shortage of funds for development and reconstruction. There is not.

(49)

Most public and private organisations committed to development have more money than they can spend.

Building societies, such as the Perm, which entered the black housing market, burnt their fingers so badly that they appealed for their competitors to join them.

And, as acknowledged by ANC leaders, SA's budgetary spending on social services is already high compared with other developing countries.

Some will argue that politics has bedevilled development. Of course it has, but don't expect the rent boycott to end the day an ANC-led government comes to power.

As the Perm found to its cost, people may be committed to paying their bonds, but job losses in many cases prevent them from doing so. This suggests that the development priority should not be housing, but jobs

Job creation is a well-misunderstood process in these parts, but firmly ingrained in the rocketing economies of South-East Asia.

Input prices are kept as competitive and low as possible; labour sets its price at what it can fetch. In the early stages of development this may not be much more than enough for food and shelter.

Mass consumer markets are targeted with low-tech, labour-intensive production. The beginnings may be humble, but with it comes empowerment as skills and per capita incomes grow.

Now the Taiwanese find they can no longer compete in labour-intensive production because their wages are no longer competitive. They have moved increasingly into high-tech.

Taiwan has an unemployment rate of 1,5%, while 40% of economically active South Africans cannot find formal-sector jobs.

But our labour aristocrats don't like the idea of low wages. Fresh from a R350-a-head breakfast, Cosatu's Jay Naidoo warned the ANC investment conference this week that low wages were not the solution to SA's no-growth problems.

It's easier to send in Tito the tax-mugger, even if his ill-gotten takings do not help the cause of development one little bit.

R40-bn needed to end inequality in SA – Parsons

Star 26/7/93

(49)

By Michael Chester

The cost of wiping out black-white inequalities in a post-apartheid society has been assessed by the SA Chamber of Business at no less than R40 billion.

The new estimate, covering disparities in education, social pensions, health services and housing, was revealed by Sacob director-general Raymond Parsons at a conference called by the Human Sciences Research Council in Johannesburg at the weekend.

Moreover, he added, the estimate still left aside the problem of direct job-creation programmes to counter unemployment.

The simple magnitude of the cost of levelling the playing fields in basic services, he argued, made it crucial to face blunt realities and work out a sound economic framework.

"The track record on fiscal discipline here, and abroad, is very im perfect, to say the least," he said. "We need to guard against heroic experiments which promise expanded welfare but cause irreparable damage to the economy."

South Africa needed to reach agreement on a 10-year socio-economic programme that matched its vital new priorities with the availability of resources to inject a new sense of realism.

The average real economic growth rate per capita between 1965 and 1989 had been a feeble 0,8 percent a year and had actually shrunk to a negative rate since 1990.

Neither political progress nor a return to social stability seemed possible without a return to a positive economic tempo, Parsons said.

It was imperative that social upliftment went hand in hand with economic growth that spread benefits as widely as possible.

Agreement on a 10-year programme would create an overall focus, and distinguish between goals set by the public and private sectors.

NEWS Congress rejects Saccawu's financial statement ● Job creation strategy needed

Union's books queried

Sowetan 27/7/93

By Ike Motsapi

THE national congress of the South African Commercial Catering and Allied Workers Union at the weekend rejected their 1992 financial statement "because some money could not be accounted for".

The congress resolved to authorise another audit.

Auditors' warning

The union's auditors had earlier warned Saccawu to correct the mistakes in the financial report within 30 days or else face the prospect of their disclosing the details to the Public Accounts and Auditors Board, which in turn empowered the board to disclose such information to the Attorney-General.

Meanwhile, the fate of six officials of the union's Witwatersrand branch who have been suspended will be decided within two weeks.

Suspensions confirmed

Congress confirmed their suspension and that they have to appear at an inquiry at their branch.

A statement by Papi Kganare, general secretary of Saccawu, said: "With regard to recent problems with financial maladministration, all financial people will work under close supervision. The financial co-ordinator will have no power to authorise financial transactions."

Other resolutions taken are:

- Saccawu will launch a campaign to organise, strengthen and defend the union for a changing South Africa;
- A full-time national gender co-ordinator is to be appointed and a gender commission to be established to investigate and make recommendations on the position of women in the union and on the shop floor; and
- A demand will be made that a moratorium on retrenchments be taken up by all working class organisations and be put to the present Government.

Blacks must lead in economic revival

Sowetan 27/7/93

By Mzimkulu Malunga

BLACK entrepreneurs should lead the struggle for economic transformation, Southern African adviser to the World Bank Mr Isaac Sam said yesterday.

Addressing about 1 000 delegates at the 29th annual general meeting of the African Chamber of Commerce and Industry, Sam said one of the first challenges facing a new government in this country was the nurturing of its human resources.

(49)

"Without skilled labour, access to appropriate and innovative technologies and financial systems that offer a variety of options for a number of needs, it is very difficult to compete in today's international environment," he said.

"No country can expect to make rapid economic progress if 60 percent of its economically active population is functionally illiterate as in South Africa," Sam said.

South Africa needed a sound job creation strategy to address its high rate of unemployment and only a strong partnership between the private sector and the government could ensure that this dream was realised

Star 27/7/93

Small business sector needs a voice

By Stephen Cranston

The National Economic Forum is a classical conspiracy of crony capitalists, says Ian Hetherington, MD of Job Creation.

Hetherington says that the small business sector including the informal sector represents 30 to 40 percent of the total economy but has been allocated a mere 0,1 percent of the budget.

"It appears that the allocation of these moneys has been given to the NEF which doesn't have the appropriate expertise to do this."

He argues that government retain decision-making powers and takes advice from all quarters — including taxpayers, consumers, the unemployed and small business sector — none of whom are in any way adequately represented on the NEF." 49

Hetherington has just returned from the US and UK where he investigated small business support groups. He says he has no problem with big labour and big business advising the minister, providing the minister also listens to other advisers. "The NEF appears to be agreeing that centralised bargaining continue through the industrial council system. The state then gives statutory support to these agreements between big labour and big business and imposes them on non-participants.

He says the small business sector needs to be separately represented as interests differ from those of the corporate sector.

"Ideally we should follow the British and American examples and appoint a small firms minister and a small business commissioner to look after the interests of the most efficient job generating sector of the economy."

He also urges the state to set aside a portion of state purchasing for small firms. 30

In the US any state purchase of less than $25 000 is reserved for competitive bids from small firms. This means that 34 percent of federal purchasing is from the small business sector.

Ashton goes diamond hunting

Star Foreign Service

MELBOURNE — Canada's potential diamond riches are proving an irresistible attraction for Australia's biggest diamond miner, Ashton, which has signed up for its fourth major project in the country.

Ashton has just joined in a venture with the Canadian group, KWG Resources, to explore a large area in Ontario and Western Quebec at a cost of $1 million.

Ashton is already involved in three similar deals in Canada as well as a large scale project in Russia.

Help for black agents

Business Staff Star 27/7/93

The Institute of Estate Agents (Ieasa) is to launch a set of courses specifically to help black homeowners and agents protect themselves against some of the pitfalls possible in buying and selling property. 585 146

The programme has the backing of First National Bank, which has donated R15 000 towards it.

Ieasa president Colin Sidelsky says the courses were compiled after lengthy discussions with community organisations.

The programme will be run from the institute's head office in Johannesburg.

Business lauds move

Sowetan 28/7/93

BUSINESSMEN have cautiously welcomed the eminent lifting of all remaining sanctions against South Africa.

"We need to start laying the foundations of reconstruction," said Mr George Negota, the National African Federated Chamber of Commerce and Industry's tax committee chairman.

Negota said he saw the announcement as a response to the rapidly deteriorating economic conditions.

On Monday night, ANC head of international affairs Mr Thabo Mbeki announced that sanctions would be lifted next month after the establishment of the Transitional Executive Council.

However, Mbeki warned that the envisaged step would not automatically see foreign investors flocking to the country.

"There are some people in this country who believe that our economic problems will be solved by foreign investment. That is wrong."

49

Economy 'set to shrink further'

CT 28/7/93 (49)

By MAGGIE ROWLEY
Deputy Business Editor

THE SA economy could be expected to shrink by a further 1,1% this year, forecasts ABSA in its latest quarterly Economic Monitor.

Contrary to expectations of a moderate improvement in economic growth in 1993, ABSA does not believe this will be forthcoming before next year when real growth of 0,8% is forecast, climbing to a possible 1,5% in 1995.

The real GDP for the first quarter increased by an annualised 0,8% over that of the previous quarter — the first quarter increase in growth since the third quarter of 1991.

However ABSA points out that although welcome, the improvement should be put into perspective.

"The strong recovery of agriculture, following the poor showing in the previous quarter owing to the drought is mainly responsible for this development. In fact agriculture increased its added value by 53,9% in the first quarter.

"However, measured year on year, first quarter agricultural output was still 40% below that of a same quarter of 1992. The real year on year growth was also - 2,9%."

Mining output continued to improve in the first quarter with an annualised 1,1% real increase implying a 1% increase compared with the first quarter of 1992.

"Despite expected further quarterly increase in the GDP for the rest of the year, a positive growth rate is unlikely given the low production level in the first quarter.

"In addition, the final domestic demand components of the economy remain poor."

However, a moderate improvement in inventory accumulation is evident and will probably continue.

ABSA said the lower turning point of the business cycle was approaching but warned that a possible upswing next year would be very gradual.

The deficit on government finances, projected by ABSA at R30,2bn for the year would be aggravated mainly by an expected under-recovery on tax receipts of R3bn and growing government expenditure.

The Monitor noted the government was already borrowing to pay its interest bill and chances that it would fall into a debt trap were increasing. The government would have to cut current expenditure even more, "no matter how unpopular and difficult this may be" to avoid this.

The fortunes of the economy continued to be dictated by the balance of payments. ABSA forecast a larger current account surplus of R5,9bn for 1993. However, the extent and direction of capital outflows, while uncertain, were expected to remain large.

Net reserves declined a further R3,3bn in the first quarter of this year, following a R3,1bn fall in the final quarter last year.

The value of the rand, which fell sharply against the US dollar in the second quarter last year, was likely to weaken further to an average of R3,24 this year against R2,85 in 1992.

ABSA said a 1% cut in the bank rate to 15,25% was possible in the second half this year. Capital market rates could also tend slightly lower. However, these trends were dependent on the size of the government deficit and the extent of capital flows on the balance of payments.

Star 29/7/93

Mboweni speaks, S

49

ANC economist Tito Mboweni has caused controversy by proposing multimillion-rand tax levies for a fund to iron out inequalities caused by apartheid. MICHAEL CHESTER looks at the possible impact of such a tax on personal and company budgets.

CONTROVERSY over the reconstruction levy proposed by ANC economist Tito Mboweni has reached gale force, with estimates of the extra load on income tax burdens running into multiples of billions of rands

The package of proposals, with a once-off 15 percent special levy on income tax, plus a 5 percent tax on fixed assets, has sent everyone scurrying for their pocket calculators.

Mboweni has stayed short of putting figures to the revenue target he has in mind, aimed at creating a special fund for various socio-economic upliftment programmes to remedy the deprivations caused most of black society by apartheid.

However, the massive scale of the programmes that must somehow be tackled can be judged by recent estimates by the SA Chamber of Business, showing that it would take R40 billion to iron out black/white disparities caused by apartheid in such basic spheres as housing, education and health services.

Realities

The difference in approach to solutions comes with comparisons of strategies.

Sacob director-general Raymond Parsons is convinced South Africa must match what it needs to do with what it can afford to do, and confront the realities that it may require a programme stretched over at least 10 years to level the playing fields.

Mboweni clearly wants much quicker results from political reform.

It still leaves everyone in a quandary about the costs of breaking the conundrum.

A review of 1993 Budget estimates about the size of anticipated tax collections in the coming 12 months makes it obvious that hardest hit by the income tax proposals would be individual breadwinners, whose tax bills in the current 1993/94 financial year already threaten to climb above R36 billion. If one assumed the proposed levy would add 15 percent, the burden would increase by R5,4 billion.

However, estimates using the R36 billion benchmark could be far from precise because of the wide variations in the average individual levels of normal taxation going into the R36 billion

If the levy were imposed on all taxpayers, whatever their tax bracket, the collections could soar far higher.

But Mboweni has not yet spelt out who would be included or excluded from the proposed special levy. It is widely assumed he would set a threshhold level that would relieve lower-income taxpayers of the levy and fix the aim on higher-income brackets

Company tax bills are expected to be around R11,9 billion. A 15 percent hike would boost the bills to over R13,6 billion.

But even heavier burdens could be expected from the second round of the proposed wealth tax package — a 5 percent special levy on the value of all fixed assets.

Here, the Econometrix research unit finds it impossible even to guess at the overall impact until Mboweni provides a more detailed definition of the assets to be counted.

On the assumption that corporate as well as private assets would be scooped into the net, clearly by far the biggest contributions to the reconstruction fund would come from the business world

For instance, if the formula were based on net assets, the 5 percent levy would cost the Barlow Rand industrial empire alone about R737 million, based on net assets put at more than R14,74 billion.

With net assets of nearly R10,297 billion, SA Breweries would need to find about R515 million.

Or would the tax collector delve into the complex patterns of fixed assets, plus current assets, and disregard interest-free liabilities? No one knows.

Nor does anyone know how Mboweni would count personal assets, such as houses, cars, TV sets and CD players, perhaps speedboats or even yachts, bank balances, jewellery ..

What about shares held in companies quoted on the Johannesburg Stock Exchange if regarded as personal assets? With the current market value of equities running at more than R628 billion, shareholders could be expected to fork out about R31,4 billion under the 5 percent levy rule.

But let's come down to the nitty-gritty. Let's look at the scenarios for rank-and-file families without investment funds.

Take breadwinners who fall into an average pattern and have a spouse and two children, and who earn a modest R16 500 a year — R1 375 a month. The 15 percent income levy would increase their tax bill from around R575 to as high as R3 050.

Taxable income of R55 000 a year, or R4 583 a month, would mean a jump in taxes from R11 825 to over R20 000.

The R150 000 house he may live in — if regarded as an asset, with no allowance for any outstanding amount on a probable mortgage — would cost another R7 500 in the 5 percent asset levy.

An annual income of R110 000 would mean income tax bills spiralling from R35 175 to R51 675.

A R250 000 house, clear of home bond repayments, would mean an additional bill of R12 500.

Yet to be counted, of course, could be the asset value of the car in the garage. We still haven't come to reckon the value of furniture, or time-share holiday home

Mboweni insists: "There is no need for anybody to be scared We all have to face up to the difficulties of building a new and more equal society.

"The challenge of building a new society, of reconstructing South Africa, as it were, will demand that resources — especially financial — be made available for development, reparation and compensation

"There is near unanimity that without either increasing the tax burden or the budget deficit there is no way in which the ordinary budget of South Africa can cope with the enormity of the challenge."

Econometrix director Dr Azar Jammine responds: "It is not difficult to see that the removal of 15 percent of disposable income in one fell swoop would have a devastating effect on economic activity, the likes of which has never been experienced in the country's economic history.

"As regards the 5 percent tax on fixed assets, one has difficulty with the concept on several counts. Measurement of the value of one's fixed assets must surely represent a minefield of subjectivity and bureaucracy if the tax is to be levied at a relatively low threshold level of wealth.

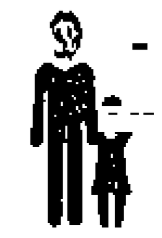
"We are all well aware of the urgency of a basic reconstruction of society However, South Africa must face the blunt reality that it cannot afford to provide all the necessary remedies at one stroke

"We need to build the foundations of reconstructions with care, however, unless we are going to run the risk of undermining longer term confidence."

Far better, he argues, would be to tackle the task of a sweeping reform of the entire taxation system.

Mboweni agrees that the cost of socio-economic reconstruction will be enormous: "Building a new South Africa will also require a high degree of national consensus that we should fairly and squarely deal with the consequences of the past in order to make a new beginning based on justice, national reconciliation and solidarity" □

- **ANC economist Tito Mboweni has stressed that the proposal to introduce a special reconstruction levy — widely interpreted as a wealth tax — is his own personal idea.**
- **He believes such a levy would generate the additional funds required to tackle socio-economic programmes needed for the upliftment of black society from deprivations blamed on colonial and apartheid regimes.**
- **The ANC has so far made no official comment on the proposed package.**



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Star 29/7/93

Mboweni speaks, SA shivers

(49) 820

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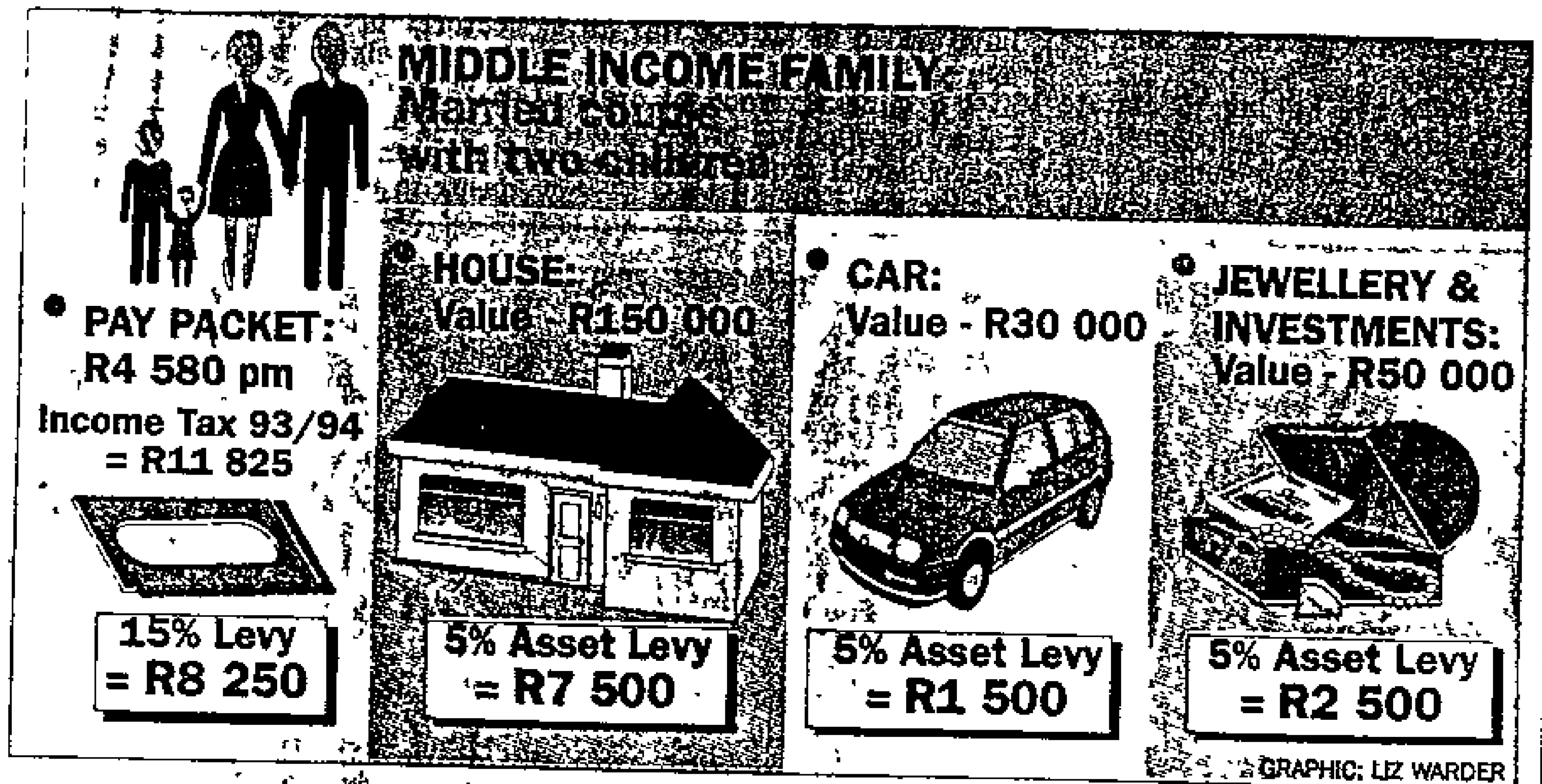

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COMPANIES IN TRANSITION FEATURE

Recipe for jobs is sought

Sowetan 29/7/93

Cosatu general secretary Jay Naidoo

By Joshua Raboroko

THE National Economic Forum, aimed at finding a "recipe" to forge a new economic order in South Africa, has announced wide-ranging short-term policy proposals mainly with the purpose of creating jobs and easing the recession's hard blow to workers.

In the immediate future, the forum will spend R49 million on job creation and R30 million on small business development programmes.

The forum has asked the Development Bank of Southern Africa to investigate urgently the viability of job creation programmes suggested by regional and other forums and government departments.

The forum consists of 17 business organisations, major labour movements, Congress of South African Trade Unions, the National Council of Trade Unions, Federation of Labour Organisation and the Government's Department of Trade and Industry and Finance.

New order

The fundamental motivation of the parties to the forum has been to find a "recipe" to forge a new economic order in South Africa which will achieve efficiency and equity.

It also aims to find and agree on a desirable pattern for redistribution of wealth in a way that does not conflict with the growth potential.

Business Forum chairman Mr David Brink said NEF had been "fire-fighting to find solutions to problems in the ailing economy."

In future, he said, it would have to turn its attention progressively away from the consideration of short-term interventions, and more towards long-term wealth creation.

Finance Minister Mr Derek Keys assured members of the NEF that a worthwhile job creation programme put together on an integrated basis would have a powerful claim for increased financial support from the government.

Main architect

"In my opinion the forum itself is not the manager of such a programme, but it must be one of its principal architects," the minister said.

Cosatu's general secretary, Mr Jay Naidoo, said the forum was a major breakthrough for creating legitimate inclusive multilateral structures for the negotiating of economic policy initiative.

Its meeting this month agreed that in the medium term, a more ambitious programme of public works was needed, addressing on a wide scale the provision and maintenance of infrastructure to historically deprived communities.

Of importance was that it agreed that a rigorous pre-investment investigation will have to be undertaken at the time when sanctions have become a controversial issue in South Africa.

The forum has agreed it would set up a committee of seven people nominated by labour, government and business, to finalise the structure necessary for a pre-investment investigation and its terms of reference.

It also agreed that it would formulate a national framework for small and medium business development.

Labour issues

4.9

The emphasis on labour issues in the short-term working group's proposal was further reflected in agreements on job security, restructuring in the Unemployment Insurance Fund, labour-based construction and the establishment of a National Development Corps.

Naidoo said democracy must mean:

- Jobs at a living wage for millions of unemployed;
- Decent housing for millions of homeless; and
- A proper education and training of unskilled and deskilled black people and an effective health care system that permanently eliminated the ravages of malnutrition and other diseases.

GROWTH AND REDISTRIBUTION

Trickling away

fm 30/7/93

The theory that the benefits of economic growth will automatically trickle down through a society has been discredited by experiences in many developing economies. But then so too have theories that rely on the proactive redistribution of wealth.

While market mechanisms may not ensure that the poor share in the benefits of growth, they will at least allow it. "Where trickle-down fails," says Wits Business School economist Mark Addleson, "is in reaching the people trapped in a subsistence economy, isolated from the mainstream of activity." And in the absence of conduits to carry the multiplier effect to these people, the funds derived from a reconstruction tax of the sort proposed by ANC economist Tito Mboweni will also fail to reach their target (*Economy* July 23.)

Addleson points out there is an important difference between the situation in post-war Germany — an example cited by Mboweni — and that in SA. "There the jobs had been lost; here they have still to be created. This means the preconditions for growth are not yet in place." 49

Obviously there would be huge practical problems in implementing the scheme — from valuing assets, to deciding on an optimal rate and administering the funds raised (Mboweni spoke in general terms and, in the absence of detail, critics can only make assumptions about the mechanics). But the crucial flaw is that money raised in the process will almost certainly remain in the formal sector, representing simply a transfer of funds from an established elite to an emerging elite. Which it may just as well do because there is certainly not enough wealth in the hands of the few to meet the needs of the many.

What a reconstruction tax will achieve, in an economy with a small tax base, will be unintended and undesirable. Even the suggestion of such a tax will have triggered a series of decisions — to earn less, save less, spend more, smuggle funds off-shore or emigrate — which run counter to the interests of the country as a whole. The losses will be difficult to contain.

On the other hand, time and economic growth will redistribute without the unintended consequences. Absa's *Economic Spotlight* points out that, even before the official end of apartheid, a significant redistribution had taken place. In 1960, whites earned more than 70% of personal income and, in 1990, less than 54%. The ratio of white to black wages shrank from nearly seven in 1970 to less than three in 1992. And real disposable per capita income of whites increased about 38% between 1960 and 1990 while those of blacks rose about 92%.

The rate at which this redistribution has taken place has not been satisfactory — per capita disposable income of blacks is only R1 000 a year while that of whites is over R8 000. So it is natural to seek ways to speed up the process. fm 30/7/93

"But if there are no conduits to carry funds through to the subsistence sector where the greatest poverty is found," says Addleson, "it is futile to attempt it. The only way to reach those people is to draw them into the formal economy — which brings us back to economic growth." 49

The process is slower and may not be as emotionally satisfying as imposing a punitive tax. But it will at least be effective.

"There is a choice," says Addleson, "between development and upliftment on the one hand and redistribution on the other. We have to decide what we want to achieve." ■

QUALIFIED APPLAUSE

FM 30/7/93

Businessmen who support a liberal democracy should find some things to applaud in the latest constitutional proposals, says SA Chamber of Business (Sacob) chief Raymond Parsons.

"The proposals rest on respect for constitutional principles, regionalism, the rule of law and an independent judiciary. For the business sector, two key factors in any new set-up must be the retention of a common market and a common currency — both of which are included in the draft proposals. There is also recognition of the need for an independent Reserve Bank and Auditor-General. And the committee on fundamental rights during the transition has now included the issues of property, economic activity and labour relations."

All this is in line with submissions which Sacob has been urging upon the political negotiators for some time, says Parsons.

Whether the constitutional package will ultimately promote stability and predictability, he cautions, will depend mainly on whether the regional and other proposals are acceptable to "the main political players" and how inclusive the process remains.

From Sacob's viewpoint, however, "there are certain key economic and financial provisions which are not sufficiently entrenched": (49)

- ☐ Property and economic activity rights are entrenched only for the immediate transition and are subject to re-negotiation by the elected constituent assembly. There is also a danger of diluting the safeguard on free economic activity;
- ☐ On inter-governmental financial relations or "fiscal federalism", Parsons says that in spite of their economic importance, such provisions cannot be judged by economic criteria alone. They would be an essential part of the political bargain that has to be struck to reach "sufficient consensus" and are bound to influence the whole pattern of relationships between the central and regional governments. Fiscal discipline should be a major cornerstone and the new constitution should not increase the role of government in the economy nor the total tax burden;

- ☐ It is not clear whether the proposed shape of regionalism will be a satisfactory compromise from an economic and financial point of view. This depends on the commission on regional demarcation and on the definitive work on regional governments to be done by another commission, after the interim constitution comes into operation. And since the Fiscal & Financial Commission is yet to be created, "the proposals are permeated with vagueness and uncertainty";
- ☐ While a Fiscal & Financial Commission (which should be entrenched) is necessary, it must be impartial and nonpolitical. To allow regional representatives on it could lead to political bargaining and regional financial conflict;
- ☐ Regional powers are too narrowly drawn in some respects, with a strong undercurrent still "that Pretoria knows best". With appropriate boundaries, says Parsons, regions should have sufficient financial muscle for development; and
- ☐ Interaction between political decision-makers and major economic stakeholders, such as business and labour, should be recognised and clarified.

S/Times (Buss) 1/8/93 (153) (49)

Signs point to cheaper cash as inflation slows

By CIARAN RYAN

RESERVE Bank Governor Chris Stals is bullish about the economy on good inflation and gold news.

He rules out an early cut in interest rates even though the consumer-price index fell from 10,6% to 10% in June. But a cut is possible once the reserves improve.

Economists predict a bank-rate cut within two months.

Board of Executors Merchant Bank, which has a small, elite mortgage book, has dropped its bond rates from 14,5% to 14% in anticipation of a bank rate cut.

The big four commercial banks dismiss talk of a bond rate war.

Dr Stals says: "The capital outflow is still a bit worrying and is draining liquidity from the money market. But the higher gold price and lower inflation give us more room for manoeuvre.'

Reserves are down to $2-billion after debt repayments of about R500-million in July. They are expected to improve as proceeds from gold and other precious metals and commodities sales are repatriated.

The financial markets, spurred by upbeat news on inflation and gold's breach of the $400 an ounce, have discounted a cut in bank rate by dropping three-month bankers' acceptances to 11,8%.

Gilt rates also dropped this week.

Economists predict a return to single-digit inflation for July. The lower figure for June was the result of food price increases falling from 7,4% in May to 6,3%.

Money-supply growth is down to about 3% against a targeted 6% to 9% because of low demand for credit.

Dr Stals says that in spite of transferring Treasury deposits of R6-billion to the money market in the past two months, the shortage averaged R3-billion to R4-billion because capital outflows continued to drain liquidity.

The banks say their bond rates will stay at 16% until clearer trends emerge.

"We will not pre-empt a cut in the bank rate," says Duncan Reekie, Standard Bank's general manager for home loans. "We need further indicators from the market and the Reserve Bank that rates are dropping."

Board of Executors economist Rob Lee says rates are bound to drop.

"Underlying inflation is down to 7,9% if one excludes the VAT increase in April. With prime overdraft at 16,25%, we have positive interest rates of over 8%, which is severe."

Nedbank economist Magan Mistry says the CPI is likely to fall to 9,5% in July, bottoming at 9,4% in October and rising — because of seasonal factors — to 10,7% in December.

Stripping mortgage interest payments out of the CPI, underlying inflation is 12,5%, only slightly positive on a bank rate of 14%.

"Evaluated on this basis, there appears to be less room to move on interest rates," says Mr Mistry.

Dr Stals warns against leaving items out of the CPI — "the figures become meaningless".

Econometrix's Tony Twine says the inflation figures indicate the severity of the recession.

"The worrying part about it is that all the factors which contribute to inflation are still there — Government deficits, concentration of economic power, industry protection and inflationary expectations.'

Now for some good news (but first the bad)

SOUTH Africa's economy was likely to register a slightly negative growth rate this year, but the good news is that the recession has bottomed out, according to the Board of Executors.

"The foundations are now laid for at least a modest recovery in 1994," the BOE's August Investment Outlook forecasts. (49) ARG 1/8/93

The country's oldest financial institution points to a number of positive growth factors for next year.

- a slowly improving international economy,
- the rising dollar gold price
- an export boost from the country's more competitive exchange rate from the weakening rand,
- the implementation of large scale investment projects like Columbus and Alusaf,
- electrification programmes,
- a slowdown or even an end to the inventory destocking process, and
- prospects for single digit inflation and further cuts in short term interest rates, possibly in September.

BOE notes the first five factors are largely independent of the political negotiations process. The last two factors would be "considerably reinforced" by a satisfactory political solution.

SECOND-QUARTER GDP

(49)

GDP at market prices rose 5,1% in the second quarter, says Central Statistical Service. This is a quarter-on-quarter rise, seasonally adjusted and annualised, as are all other increases referred to below.

At factor incomes (taxes are subtracted and subsidies added), the rise was 5,4%. A breakdown shows agricultural GDP rose 231,5% after a 53,9% jump in the first quarter.

A comparison with the second quarter of last year, which some analysts feel is a more appropriate base, shows a small decline. But an official of the Department of Agriculture points out that only half the season's maize crop was marketed in the second quarter, whereas the entire crop was marketed in the 1992 second quarter so a year-on-year comparison is not valid.

Non-agricultural GDP declined 0,2% after a rise of 0,3%. This is broken down into:

- ☐ Mining, up 2,5% after rising 2,6% in the first quarter;
- ☐ Secondary industries, up 0,1% after 1,1%; and
- ☐ Tertiary industry, down 1% after a decline of 0,8%.

The casualty among secondary industries was manufacturing, which fell 0,2% after rising 1,8% in the first quarter.

State urged to buy from small firms ● SARCC improves Soweto facilities

Small business is getting too little

Sowetan 2/8/93

49

"The National Economic Forum is a classical conspiracy of capitalists and what is worse is that it is going beyond being an advisory body"

■ OVERSEAS EXAMPLES Call for appointment of small firms minister:

By Joshua Raboroko

THE SMALL BUSINESS SECTOR, including the informal sector, represents between 30 to 40 percent of the total economy but has been allocated very little money in the Budget, according to managing director of Job Creation South Africa Mr Ian Hetherington.

Writing in a magazine, Hetherington says: "Furthermore it appears that the authority for the allocation of these monies has been given to the National Economic Forum which does not have the appropriate expertise to do this.

"We insist that the Government retain decision-making power and takes advice from all quarters — which in economic terms includes taxpayers, consumers, the unemployed and small firms sector — none of whom are in anyway adequately represented in the forum."

Job Creation is a management consulting firm specialising in all aspects of entrepreneurial development.

It has assisted several major corporations, foundations and development bodies to devise their own small business promotion programmes.

It has also made detailed recommendations to large corporations on the development of small supplier programmes.

Through performance contracts it has been able to create more than 500 new jobs by assisting would-be entrepreneurs to succeed.

Dr Ben Vosloo

Hetherington, who has just returned from the United States and United Kingdom where he investigated small business support groups, says he has no problem with "big labour and big business" advising the government provided the government also listens to other advisers.

"The National Economic Forum is a classical conspiracy of capitalists and what is worse is that it is going beyond being an advisory body.

An example of its unilateral decision-making is becoming apparent in the area of centralised bargaining.

"It appears to be agreeing that centralised bargaining will continue through the industrial council system.

"The state then gives statutory support to these agreements between big labour and big business and imposes them on non-participants," Hetherington says.

The small business sector needs to be separately represented as its interests differ from those of the corporate sector.

"Ideally we should follow the British and American examples and appoint a small firms minister and small business commissioner to look after the interests of the most efficient, job generating sector of the economy," he says.

He urges the state to set aside a portion of state buying for small firms.

"In the USA any state purchase of less than 25 000 dollars is reserved for competitive bids from small firms. The effect of this is that 34 percent of purchasing is from the small business sector."

The idea of appointing a minister for small business has been supported by the managing director of the Small Business Development Corporation, Dr Ben Vosloo.

Job creators can apply for grants

Star 3/8/93

By Michael Sparks

The National Economic Forum (NEF) opened applications yesterday for grants from the initial R49 million fund put aside by the Government for job-creation programmes.

Trade unionist Jayendra Naidoo said the programme was important as it addressed unemployment.

The NEF announced that applications could be made until September 13. (49)

The criteria on which applications would be judged included the group's sponsorship and the existence of other available funding and the cost of the project.

The number of jobs that would be created and the duration of that employment, the value of the goods made and the training levels and labour standards of the project would be considered as well as financial controls, sustainability of the project and its effect on economic growth.

The business representative on the NEF's process committee, Bobby Godsell, said all applications would be considered by a technical committee with representatives from business, labour and the Government, with the Development Bank of SA monitoring their implementation.

Government representative Japie Jacobs emphasised that more money could come from the Government if it were spent wisely.

Naidoo said emphasis was being placed on the creation of jobs, and that "a living wage" from those jobs was not a prerequisite at this point, though it would be taken into consideration.

NEWS IN BRIEF

'Boere mafia' held

NINETEEN alleged members of the "Boere mafia", a syndicate specialising in white-collar crimes and which has netted at least R4m, have been arrested in a police swoop.

Almost 200 policemen were involved in a swoop on Sunday night which prevented fraud of about R36m, spokesman Capt Evan Johnson said. Alleged crimes ranged from illegal possession of weapons and cocaine to vehicle finance fraud and theft.

Seventeen of the 19 suspects appeared in the Pretoria Magistrate's Court yesterday. Two more are to appear today.

Wolvaardt posting

PIETER Jacobus Wolvaardt had been appointed ambassador to Brazil, Foreign Minister Pik Botha announced yesterday.

St Lucia report

THE CSIR's final report on the St Lucia dune mining proposals would be published only in mid-September, while the review panel hearings scheduled for this month had been postponed to November, the CSIR said yesterday.

B/Day 3/8/93

New plant offered

OCEANA Fishing was offering to set up a vegetable freezing plant in Lambert's Bay to stave off unemployment when it closed its fishmeal plant in the town, director Leon Conradie said yesterday. The Food and Allied Workers' Union threatened to seek a court interdict to stop the closure as 100 fishing industry workers could lose their jobs.

Transnet results

IT was incorrectly reported yesterday that Transnet would release its results later in the day. In fact, the results will be announced on August 30. Business Day regrets the error.

REPORTS: Sapa, Business Day Reporters, Own Correspondent

Funding criteria for job creation

B/Day 3/8/93

GRETA STEYN

THE National Economic Forum yesterday unveiled the criteria to be used in allocating R49m for job creation and said more funds would become available if it appeared necessary.

It also announced that the forum's process committee met the planning committee of the multiparty negotiating process yesterday. Forum labour representative Jayendra Naidoo said it was decided to set up an informal liaison committee between the two bodies to take forward the dialogue on how constitutional issues affected the economy. (49)

The forum has also liaised with the ANC on its strategy to form a "united front" on foreign investment.

Naidoo said the forum was also discussing the restructuring of the SBDC board and working on a policy framework for small business.

Other forum activities disclosed included a meeting yesterday to discuss the latest GATT offer and a meeting later this week on co-ordination of bargaining.

On the job creation programme, forum business representative Bobby Godsell said: "We are pioneering a new way of accessing public funds. A partnership is being forged between civil servants and civil society."

The forum invited the public to apply to it for funds, stating it would base its decisions on: the number of jobs envisaged and the period of employment, the amount of state funding needed and details of available supplementary funds, the usefulness of the goods and services emanating from the project, the envisaged management of the project, audit and financial controls proposed and required for a project of the type envisaged, sustainability of the project beyond the funding period, the project's training component and the value of the skills acquired, the project's envisaged labour standards and how they compare with industrial norms, the nature of community involvement, the regional impact of the job-creating project in relation to undeveloped areas and areas of high unemployment, and social tension and its impact on economic growth.

Applications should also contain details on the sponsoring group and a short description of the project.

Government representative Japie Jacobs said it was impossible to quantify how many jobs would be created. He said government projects financed from sales of strategic stockpiles of R1bn had created about 60 000 jobs. "But this is a new approach, from the bottom up instead of from the top down. We really cannot say how much new employment will be created, but preference will be given to labour-intensive projects." He hoped existing projects would also apply for funds.

Godsell said the programme's most important aspect was the process of involving civil society

Public sector remuneration increases

B/Day 3/8/93

ADRIAN HADLAND

PRETORIA — Public sector salaries, wages and bonuses had increased on average by 14,7% in the first quarter of 1993, the Central Statistical Service reported yesterday. (255)

It said that with the exception of the agricultural marketing boards, all other components of the public sector registered increases in total salaries, wages and bonuses — including employer's contributions — in excess of 11%. The boards showed a 6,8% increase on average.

The CSS said at the end of March, the public sector provided work for 1 665 376 people or 8 880 fewer than for the same quarter in 1992.

The self-governing territories had taken on more than 37 000 extra people in the first quarter.

ANC to give research, development incentives

B/Day 3/8/93

THEO RAWANA

AN ANC government would introduce fiscal incentives for industries to engage in research and development to advance science and technology locally, ANC national science co-ordinator Roger Jardine said yesterday

Jardine was speaking in Midrand at a seminar on the need for technological advancement.

The conference was hosted by the SA Institution of Mechanical Engineers, Nafcoc and the SA Black Technical and Allied Careers Organisation.

Jardine said the ANC attached much importance to science and technology and SA was not doing enough about research and development and industries were also "falling short" in this field.

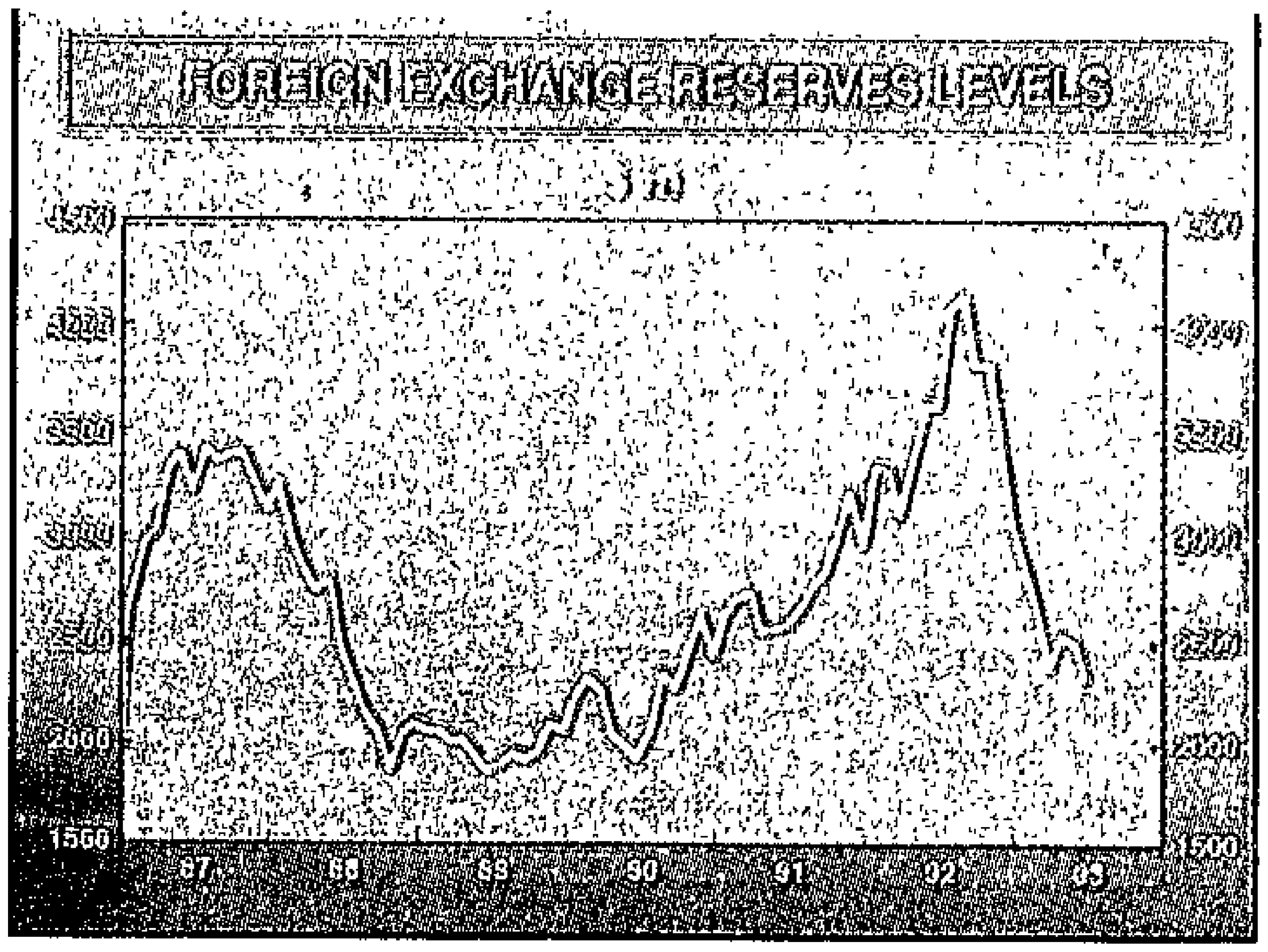
"For technical advancement you need to have science and technology in basic education — they should form part of general education," Jardine said.

Companies would be encouraged to conduct research on technical and economic development and be given incentives for waste and pollution minimisation, he said.

Anglo American executive director Michael O'Dowd said SA should avoid early specialisation.

Students should have a grounding in a broad range of engineering before they limited themselves to a particular sub-branch, he said.

"It seems to me that the scientific basis of engineering is . . not at all at the cutting edge of science and the mathematics used by engineers in practice is not very advanced."



Recovery unlikely before election, says Old Mutual

Star 4/8/93

By Claire Gebhardt

The recession has bottomed out, but recovery may have to wait until after the election next year, says Old Mutual.

Chief economist Dave Mohr says positive and negative signals are somewhat mixed.

"Agriculture will play a dominant role in gross domestic product (GDP) growth this year, with a forecast 1993 maize crop of 9 million tons, more than three times last year's figure, which could boost GDP by 1 percent or more.

"Mining could also contribute positively to GDP because of the higher gold price, combined with a somewhat weaker rand and a more synchronised growth effort internationally."

But, says Mohr, the economy cannot grow if no one is spending.

Retail sales

"Though retail sales are not getting worse, they are also not getting better and this is not surprising, given ever-declining real disposable income."

This is the direct result of tight monetary policy, tax increases, fiscal drag, high prices and lower wage and salary increases, he says.

Mohr says that while the short-term inflation trend, weak state of the real economy and decline in international rates suggest a lowering of domestic interest levels, the squeeze on foreign reserves rules out any rate cut in the short term.

"In practice, the real economy cannot be stimulated into recovery when the forex reserves are so low without risking another full-blown currency — and ultimately — inflation crisis."

Mohr says that despite a significant widening of the current account surplus and a higher gold price in the second quarter of the year, the reserves edged sideways, suggesting large amounts of capital are leaving the country.

(49)

"It now appears that apart from continued debt repayments inside the standstill net, many local borrowers are tending to repay maturing foreign debt outside the net, rather than attempting to renew such loans.

"And next year we will be faced with maturing loans under the 10-year conversion option."

The $800 million (R2,7 billion) International Monetary Fund (IMF) loan will not make much difference to the reserves in the short term, he says.

"Compared to the $2 billion of forex lost since September last year, the figure is relatively modest, and there is the possibility that it could be absorbed by a fairly large "bullet" repayment of debt inside the standstill net next year."

Turning to long-term interest rates, Mohr says unexpectedly high government financing requirements could keep market rates at high levels over the rest of the year.

"With the rate of the R150 government stock around 14,0 prcent and inflation at 10,0 percent, the real return is some 4 percent.

"There is scope for long-term rates to decline.

"The major constraint may be government spending.

"Treasury figures for the first three months of the fiscal year indicate that the deficit could exceed the budgeted 6,8 percent of GDP," he says.

How to fix economy

Sowetan 4/8/93

SOUTH Africa's economy is in need of structural adjustment and reconstruction, Africa Institute of South Africa executive director Mr Stef Coetzee said yesterday.

Speaking at an international development workshop arranged by the United Nations and South African research institutions, he said the major parties still did not have a common framework for economic development. (49)

Coetzee said South Africa's development problems included poverty, inequality, unemployment and a lack of sustained economic growth. "What is needed are policies that would expand the material base for development in such a way that it will benefit those people most in need of development."

Structural adjustment programmes in sub-Saharan countries had been successful in promoting exports through liberalisation and deregulation policies, but had been less successful in achieving higher rates of economic growth.

To reach agreement on structural adjustment and reconstruction policies, a socio-economic development and reconstruction council should be established and development finance institutions be rationalised as a matter of urgency. — *Sapa*.

R49-m allocated for job creation

Sowetan 5/8/93

Bobby Godsell

THE National Economic Forum has launched a campaign to identify and fund viable job creation projects throughout the country.

This week the organisation announced that it had obtained the R49 million allocated to job creation in this year's national Budget and it was ready to fund viable community-based job creation projects.

Cosatu's representative on the NEF, Mr Jayeendra Naidoo, said the organisation was awaiting applications for funding for existing and planned job creation projects.

If an application was successful, the group behind the project would get a grant from the NEF. The Development Bank of Southern Africa would act as a secretariat for the programme.

Naidoo said the Government would supplement the R49 million should the money be used up though he declined to say how much the Government would be prepared to inject into the programme.

Viability, community involvement and the ability of a project to create jobs were among guidelines which would influence decisions on funding applications.

"It is important that we use up all the money so that we can get extra finance from the Government for this programme," said Bobby Godsell, business representative on the NEF.

The deadline for applications is September 13 and those who want to apply can phone the NEF at (011) 618-2079 for more information.

During the month of September, the NEF will release a number of reports on issues such as the role of small business in a post-apartheid scenario and how the Unemployment Insurance Fund could be restructured. (49)

Applications will be invited in the near future after the NEF has announced a funding programme for small business development projects in rural South Africa. Individuals and non-governmental organisations will benefit from this programme for which R30 million is available.

5/8/93

R1-bn injected into the banking system

Star 6/8/93

By Derek Tommey

The Governor of the Reserve Bank Dr Chris Stals, thinks it would be too risky to reduce Bank rate, so he is doing the next best thing.

He said last night he was releasing R1 billion from the banking system's cash reserves. This will reduce the banks' borrowing from the Reserve Bank.

(49)

It should lead to some easing in money market rates, to an improvement in bank profitability, and will provide banks with more funds for lending.

Dr Stals' action followed the disclosure at the weekend by the Reserve Bank that total domestic credit extension had contracted in May for the second month running.

After rising R800 million to R217,7 billion in March, it had dropped to R214 billion in April and to R211,4 billion in May — clear evidence that the economy was contracting in these months.

Dr Stals said most of the recent financial statistics, other than those for the gold and foreign ex change reserves which were still under pressure, had indicated a need for some easing in the overall monetary policy stance.

There were encouraging prospects for some improvement in foreign exchange reserves in the near future.

But a premature reduction in Bank rate against this background could be risky.

However, some easing of the cash reserve requirements to take account of both the structural problems in securities trading and the need for a mild relaxation of monetary policy could be justified at this stage.

He said a special study was being made of risk exposure in securities trading.

Business confidence shows marked surge

Star 6/8/93

By Claire Gebhardt

South Africa's fragile business confidence took a sharp upturn last month to its highest level in 2½ years. (30)

Sacob's Business Confidence Index (BCI) registered a 2,6 percentage point increase to 96,7 last month from 94,1 in June.

Sacob chief economist Ben van Rensburg warned however that this did not mean the end of the five-year-long recession.

He expected overall economic growth in 1993 to remain at zero. "Prospects for 1994 remain hostage to developments on the political front".

Van Rensburg said business confidence had taken a hammering over the past 12 months, not only from events like Chris Hani's assassination but also from a bad year economically.

He warned that the recovery was tentative and that the upturn in the business mood could be reversed in coming months.

Negative developments on the political front which had impacted on business confidence were the deficiencies in the proposed constitution and the fact that all players were not at the table.

The strongest factors were the end of the drought and the higher gold price.

Other positive factors were the stronger sales of passenger vehicles and certain other durable goods. (49)

Van Rensburg said signs of an upturn in overseas economies augured well for an increase in South African exports.

Also positive was the recent decline in the rate of inflation, and slow money growth which had increased the chances of a further cut in interest rates.

Sacob chairman Raymond Parsons said it was encouraging that 12 of the 13 indices which make up the barometer showed positive movement — the only negative input had been unemployment.

Key sub-indices which strengthened last month to lift the BCI were a firmer financial rand, lower official inflation, the sharp rise in the bullion price, strong growth in merchandise exports and a slight rise in imports.

Business hopes up

THE SA Chamber of Business confidence index bounced up to 96,7% in July — its highest level for nearly three years. It was 94,1% in June. (49)

But a major reason for improved confidence was the recent higher gold price, which fell below $400 an ounce yesterday. CT 6/8/93

And, warning that statistics can give a misleading impression, Sacob chief economist Dr Ben van Rensburg said that although "some encouraging signs have emerged to suggest that the economy has bottomed out", the rise in the Business Confidence Index "has probably overstated the effect of these on sentiment".

He points out that signs of recovery are patchy and any recovery in the business mood could easily be reversed by political developments.

"Sacob's forecast for overall economic growth in 1993 remains at zero."

● SA business confidence hits three-year high — Page 8

Confidence surges but little hope for upturn

BDay 6/8/93

SHARON WOOD

EARLY signs that a tentative turning point in the recession had been reached emerged yesterday when Sacob's Business Confidence Index (BCI) surged to 96,7 in July.

This was its highest level since November 1990, up from 94,1 in June 1993.

But Sacob economist Ben van Rensburg cautioned against expecting economic activity to pick up rapidly.

"While this does not mean an economic recovery is imminent, there was a sufficient 'bunching' of evidence in July suggesting that the economy may indeed be bottoming out," he said.

(49)

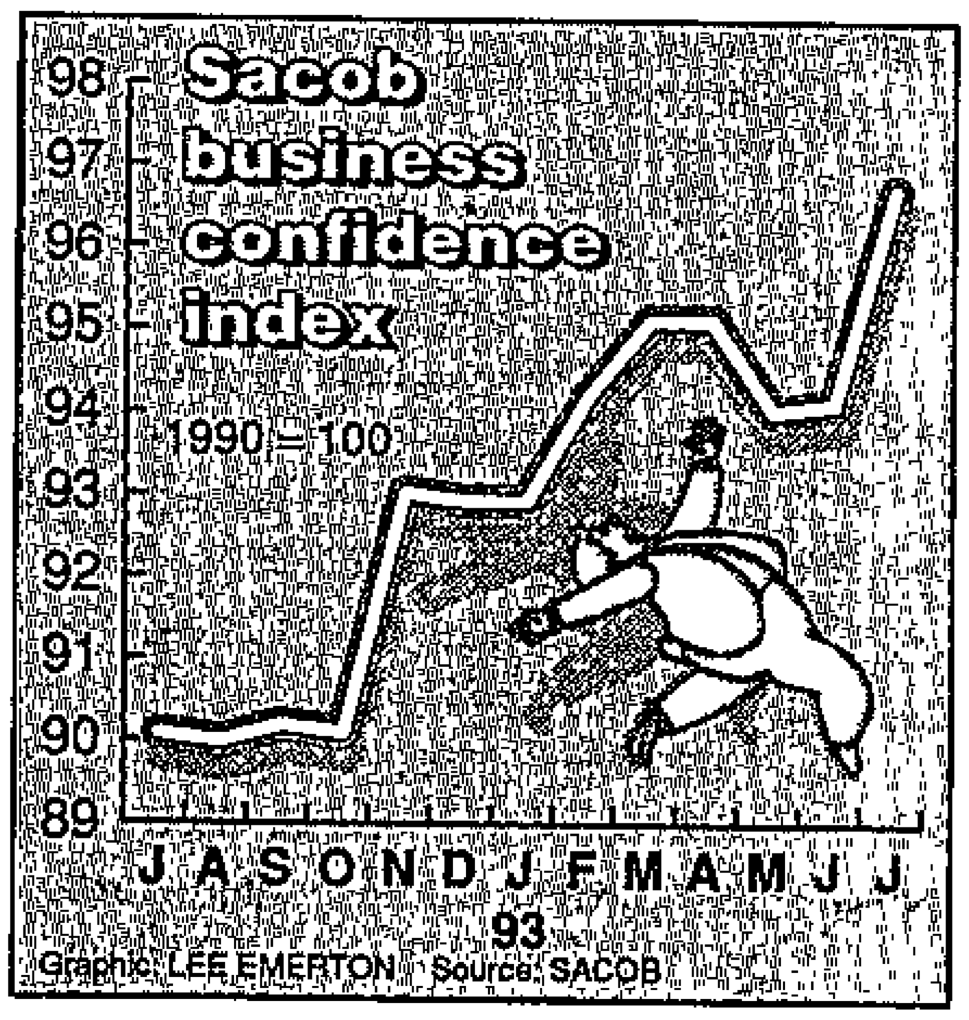
Twelve of the 13 indices that make up the index showed an improvement.

But the unemployment rate continued to deteriorate.

The signs of bottoming out were still quite patchy, he said.

These were confined mainly to the mining and agriculture sectors.

Sacob's growth forecast for 1993 remained zero, despite modest increases in GDP expected for the rest of the year.



Van Rensburg warned that an economic upturn could be reversed in the coming months by any further setbacks on the political front.

Failure to keep negotiations as inclusive as possible could have significant implications for the legitimacy of any future government and stability, he said.

The recent sharp increase in violence was contributing to a growing sense that the country was sinking into anarchy, Van Rensburg said.

"It is essential that violence be addressed in a co-ordinated and concerted manner by all parties interested in the future of this country, if SA is to avoid being written off as an investment destination," he said.

The decline in the inflation rate and low growth in domestic credit extension, had laid much of the groundwork necessary for a relative easing of monetary policy and a further cut in short-term interest rates.

Van Rensburg said Sacob welcomed Reserve Bank Governor Chris Stals' move to reduce cash reserve requirements, adding R1bn to the money market.

But the low level of gold and foreign reserves, battered by huge capital outflows, was standing in the way of a cut in rates, he said.

"Although the extent of the outflow is expected to decline in the second half of the year, it is still anticipated that around R9bn of capital will flow out of the country during 1993."

Van Rensburg said he hoped progress on the political front could be made to facilitate a debt renegotiation agreement and lift the IMF sanctions.

This would help ease the pressure on reserves, he said.

ANC and Anglo clash over SA's economic policy for the future

ARG 7/8/93 (49)

VICTORIA FALLS. — Officials of the African National Congress and Anglo American, one of South Africa's biggest companies, clashed over future economic policy at a conference of South African business leaders this weekend.

Tito Mboweni, a senior official attached to the ANC's economic unit, said a democratic South Africa would need to promulgate new anti-trust laws to end domination by large companies and to open up the economy to competition.

He said the ANC was concerned at the concentration of economic power in the hands of a few firms which dominated markets and at times operated as cartels.

"Having looked at the international scene we feel that anti-trust laws are necessary and useful in a new South Africa," Mr Mboweni told 120 top businessmen and women from all sectors of the South African economy.

"There is also a need for a review of state institutions that govern operations of monopolies and big corporate groups," he said.

He rejected one delegate's comment that the ANC's position on anti-trust laws contradicted its policy of nationalising key industries.

"We have gone past the problem of nationalisation. We have decided that the state can only buy certain key companies if it wants to increase its role in the economy."

Michael Spencer, a public affairs consultant of Anglo American, rejected the need for legislation to curb operations of big companies, saying this would stifle economic growth at a time when South Africa's priority was to reintegrate its economy with that of the world.

"I would hate to see legislation brought to stop people creating wealth. This issue is being thrown around as a panacea to our problems, but our imperatives are to get economic growth and seek ways of a wider participation of those who until recently have been excluded," he said.

Mr Spencer, whose company controls 25 percent of market capitalisation of the Johannesburg Stock Exchange, said large firms were already opening up their markets to competition and those that did not deliver a good service or goods would collapse because of market forces. — Sapa-Reuter.

NEF jobs scheme

South 7/8 - 11/8/93

THE NATIONAL Economic Forum launched its job creation project this week — with an emphasis on labour intensive schemes. (123)

The programme will be financed from R49 million the NEF has secured from the government. (49)

The government, labour and business convenors of the prgramme called for applications for job creation schemes to be sent in before September 13 this year.

NEF process committee labour convenor and trade unionist Mr Jayendra Naidoo said a tripartite technical body had been set up to assess and allocate proposed job creation projects.

The technical committee, with the Development Bank of South Africa will monitor projects.

Business convenor and Chamber of Mines outgoing president Mr Bobby Godsell said the job creation project was pioneering a change in the way government spent its funds.

"I hope we are laying down a new set of rules for the public funds used for the public's good," said Godsell.

Government convenor and the Finance Minister's Special Advisor Mr Japie Jacobs said the state was likely to have to provide more funds.

"It (the initial funding) will not make a great impact on the problem, but we would like to see it augmented."

He said the September 13 date was not a deadline but a way of "kick starting" the process.

— SAPA

JOBS

S/Times (Buss) 8/8/93 (49)

When high-tech can't do the job

Capital-intensive production may bring in foreign exchange but does it do enough for an economy with a much greater need for labour-intensive growth? By **KEVIN DAVIE**.

THE conventional wisdom on technology, as articulated by Harvard guru Michael Porter, stresses that technology is the cutting edge in determining a country's competitiveness. In SA, the Atomic Energy Corporation (AEC), for one, has taken up this line, using the fact that it has developed sophisticated know-how while secretly making six nuclear bombs to justify the R451-million handout it continues to receive from the State.

The AEC's argument is that unless SA is at the leading edge of technology, it will slip into the Third World. Export markets will decline and SA will face increasing poverty and desperation.

With heavyweights such as Porter being quoted to support this view, it appears that the multimillion-rand subsidy is a justifiable, if expensive, way forward. The argument has been put to ANC notables, who are buying it: high-tech shall set us free.

At the same time, a welter of reports about economic transition in SA have argued for labour-intensive strategies to combat unemployment.

But some economists argue that SA's labour-intensive industry is not competitive. Heavyweights such as the Industrial Development Corporation (IDC) agree. Capital-intensive industries may create few jobs, but they are competitive undertakings which can stand on their own in world markets.

This means that the fiscus continues to support the AEC while the State-controlled IDC pours billions into capital-intensive projects which stand to earn lots of foreign currency but will provide relatively few jobs.

But while high-tech and capital-intensive rule, 40% of the economically active population is estimated to be without formal employment.

Although the status quo may appear confused and contradictory, closer examination is illuminating.

The AEC's high-tech products were developed in the sanctions era. It had to develop its own technology because it did not have access to foreign inputs.

It has a range of items such as air cleaners and radio-activity testing devices which it is marketing here and abroad. But the products, almost without exception, are not targeted at mass markets. Even if the AEC does win export orders, it will not provide much employment. Nor will it earn much revenue: its products are too specialised for mass markets.

The same applies to Denel's Simera, which has concluded a deal with Rolls-Royce to supply gearboxes. The high-tech deal, although providing benefits further down the line, will net only R30-million annually in sales for Denel. This means some workers will not have to be paid off, which is a good thing, and the deal does help Denel's finances.

Denel has paid a R60-million dividend to its shareholder, the Government. But so long as it still benefits from a large chunk of the R3,7-billion classified business which Armscor does with the Special Defence Account, it is impossible to determine who is paying whom.

If the AEC and Denel are able to win export dollars and generate employment, well and good. But let them do it without State support to prove their viability.

There is, of course, a case for State support for research and development, but as noted by analyst Michael Cherry, the AEC's annual subsidy is nearly twice that of SA's largest research institutions, the CSIR.

The same could be said of the Government's support for big business and capital-intensive projects at the expense of small business and labour-intensive development.

There is no shortage of IDC money for multi-billion minerals beneficiation and the Small Business Development Corporation (SBDC) has in the recent past funded loans from its own cash flow of about R20-million a month.

Shortage of funds has led it to reject far more applications than it approves — this when it is internationally recognised that small business is the locomotive of economic growth.

The SBDC's entire cash flow of R884-million from its shareholders, the IDC (50%) and the private sector (50%), has been used to create loan capital of R1,6-billion and 350 000 jobs. Compare this with the R1-billion the IDC will invest in the Columbus stainless-steel project, creating only 100 jobs.

It is said that on a recent visit two ANC luminaries were told by the Chinese authorities that China was facing the problem of an overheating economy.

"Well ours is frozen stiff," the ANC men replied.

I had a chance this year to see how China has been able to attract floods of investment from around the world.

With an abundance of labour, but little access to technology, China has targeted mass consumer markets where it can exploit the advantage of its large labour force through ventures with foreign partners who supply the technology.

A visit to a joint venture near Beijing showed television sets being put together by scores of workers in labour-intensive production. Break a television set into its component parts and even relatively unskilled workers can put them together.

But the refrain in SA is that labour is not skilled enough; there is the notion that you have to be able to design a television set before you can assemble one.

China's growth has been signposted by the examples of Korea, Taiwan and Singapore where rapid growth has accelerated per capita incomes virtually overnight.

These economies now produce high-tech consumer products, but as in the case of Taiwan, growth started from a low-tech base. Relatively poorly paid labour using simple technology, employed in small businesses, has been the motor of growth.

Where monopolies exist in the production of basic inputs such as steel and plastics, the government intervenes to ensure that they are supplied at least at world prices, if not below. But in SA's case, as noted in a recent report by the General Agreement on Tariffs and Trade, steel and plastic prices can be 50% above the export price.

Many SA entrepreneurs find they are enthusiastically received abroad until the price is mentioned. In some cases not even the general export incentive scheme paid for by the taxpayer is enough to provide a contract.

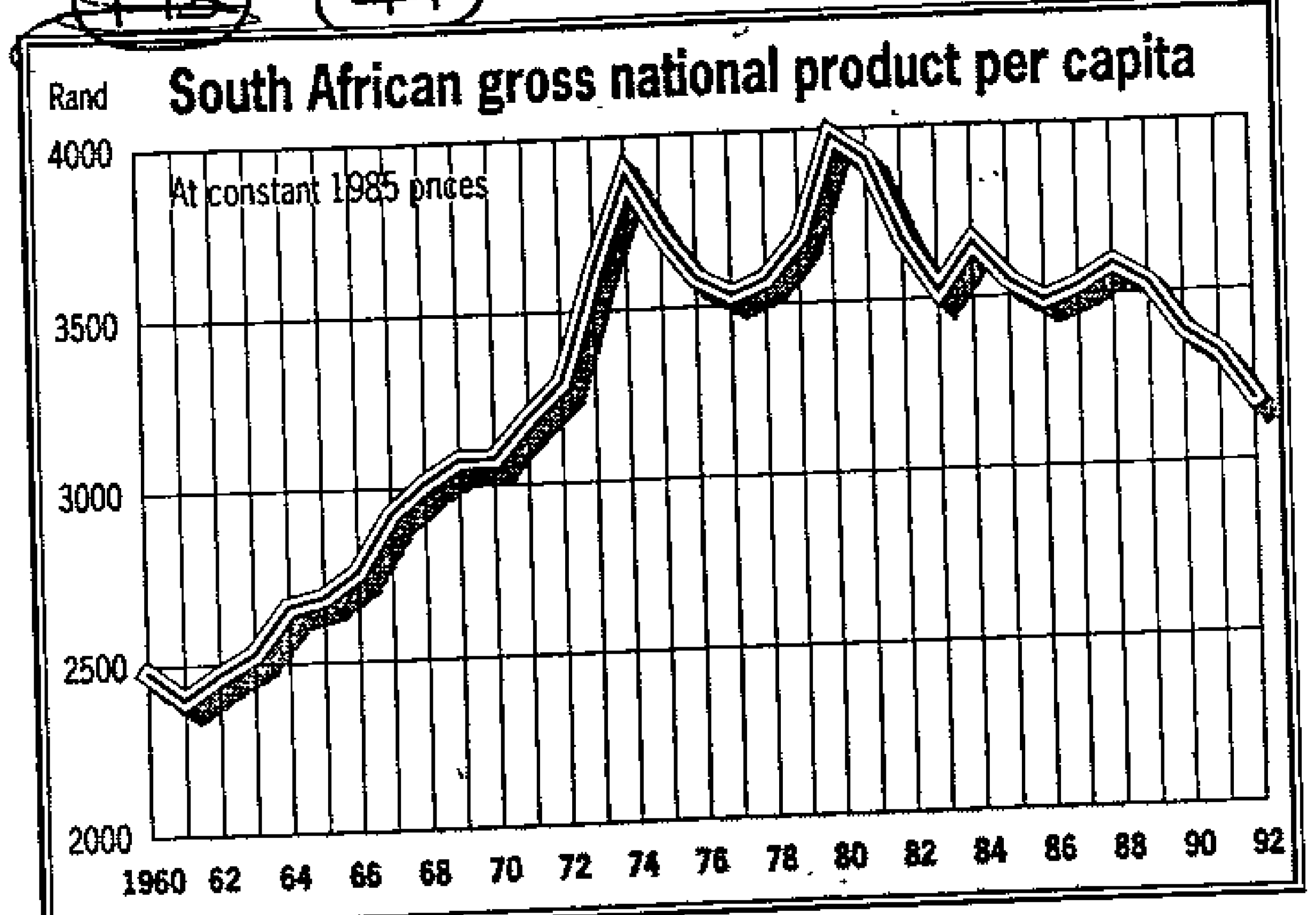
It is widely believed in SA that the labour force is not as hard working or productive as that in South-East Asia.

But there is no shortage of a work ethic in SA, be it employees who get up in the early hours to make it to work on time, illiterates who study after hours to improve themselves, hawkers who'll spend all day on a cold street corner earning pitiful money, shop owners who work 16 hours a day, seven days a week, self-employed builders who . .

Any market clears at a price. At R350 a month in joint ventures the Chinese labour market clears. In SA at R1 000-plus a month for unionised labour, 40% of the economically active population cannot find jobs.

Right now the vast numbers of unemployed are SA's chief liability, requiring tax support, contributing to crime and violence and chasing investment away.

Allowed to work for the dignity of what their labour can fetch in a competitive market, they could become a major asset, the base for stability, investment, exports, skills development, increasing per capita incomes and growth the like of which SA has not seen for decades.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Fall in reserves ends hopes for rate cut

B/Day 9/8/93

KELVIN BROWN

THE R157m fall in the Reserve Bank's holding of gold and foreign exchange reserves to R7,36bn in July made it very unlikely that Bank rate would be cut this year, economists said at the weekend.

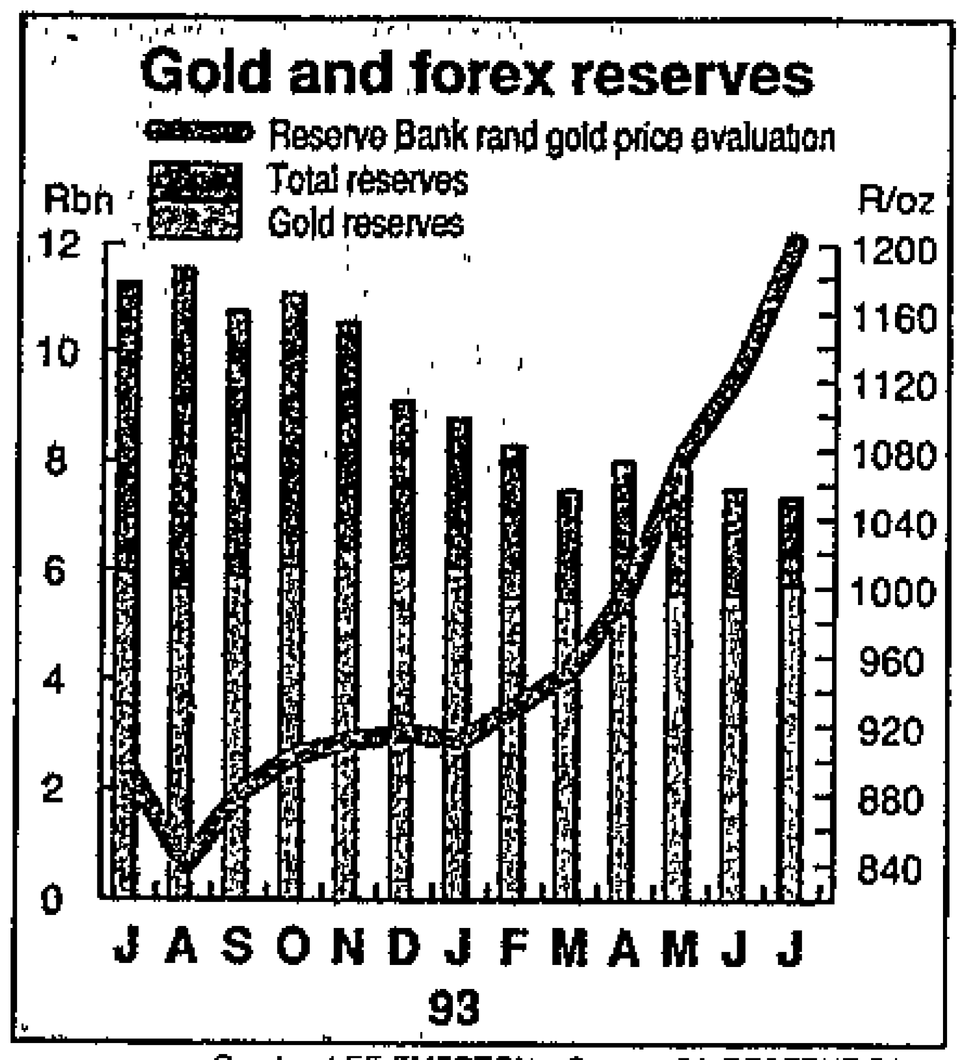
The July statement of assets and liabilities released at the weekend showed total reserves were R7,36bn compared with R7,51bn the month before.

The currency component fell R354m to R1,60bn. Gold holdings were valued at R1 200,60 an ounce in July from a previous R1 125,41, offsetting a decline of more than 145 000 ounces which left the Bank with 4,792-million ounces valued at R5,75bn (June: R5,56bn).

(49)

Economists said large capital outflows were responsible for the poor figures. Some of this outflow was the result of parastatals repaying foreign debt earlier in the month.

Sanlam senior economist Pieter Calitz said the latest reserves figure was "very disappointing" when viewed in the context of the higher bullion price. It left Reserve Bank Governor Chris Stals with little



Graphic LEE EMERTON Source SA RESERVE BANK

scope for cutting the Bank rate this year.

Calitz said the fall in total reserves indicated there was another large capital outflow in July, offsetting the estimated R1,2bn surplus on the current account in the month. "The picture is not looking very

□ To Page 2

Reserves

B/Day 9/8/93

□ From Page 1

good," he said.

In the whole of last year the net capital outflow was R2,8bn. In the first half of this year it already stood at about R5,4bn.

Calitz said there would have to be a large increase in net reserves before Stals could cut Bank rate.

(49)

The current reserves figure of R7,36bn covered only five weeks of imports. The Bank has indicated the country needs import cover of at least two and a half months — about R17bn — before Bank rate could be cut.

Even if most of the foreign debt repayments had been made for this year, reserves were unlikely to build up to the required level in time to justify a cut in interest rates before 1994.

If gold remained below $400 it was even less likely that this level would be reached, said Calitz.

He warned that if the reserves did not show a substantial improvement, SA would be unable to finance an upswing in economic growth. "As soon as the economy picked up imports would rise, robbing the country of precious foreign currency," he said.

Market 'must lead the way on rates'

B/Day 10/8/93

KELVIN BROWN

THE Reserve Bank wanted the market, rather than a Bank rate cut, to lead the way towards lower interest rates, Reserve Bank Governor Chris Stals said yesterday.

The Bank's decision last week to ease the reserve requirement was part of a long-term structural change in its operations and paved the way for the market to lower interest rates first, Stals said.

In the past, the Reserve Bank had cut the Bank rate and then used other methods to bring the market into equilibrium. "Now we rather want to cut Bank rate to endorse trends in the money market."

Stals said current trends in the money market were encouraging. However the money market shortage was still too large and would need to come down slightly before the official interest rate could be lowered. He did not rule out a cut in interest rates before the end of the year.

The decison to cut the Bank rate also depended on what happened to the gold price, the exchange rate and the political situation. Stals was optimistic about the performance of the reserves in the coming months. Most of SA's loan commitments for the year had been repaid and the current account surplus also looked good.

Stals said the R1,2bn fall in "other liabilities" in the Bank's July balance sheet was not necessarily attributable to the repayment of R2,1bn in short-term loans the bank had taken out earlier in the year. But some repayments had already been made.

Asked whether a Bank rate cut would be considered only when reserves covered at least 2,5 months of imports, Stals said there was no hard and fast rule. Organisations like the IMF preferred countries to have at least three months' import cover, but SA could make a good case for a lower import cover as it was a large producer of gold, which was "as good as foreign exchange". (49)

Sacob, which yesterday held talks with Stals on monetary policy, said a cut in interest rates should be coordinated with other announcements to boost "fragile" business and consumer confidence.

PAUL RICHARDSON reports that money market rates eased yesterday as the short-term interest rate market remained optimistic about a Bank rate cut. This was in spite of weak gold and foreign exchange reserve figures.

Standard Bank quoted three-month NCDs easier at 11,70% from a previous 12% and six-months at 11,90% compared with 11,95%. The 90-day BA rate was lower at 11,80% from a previous 11,85%.

Money market rates eased despite a slightly higher cash shortage — the Reserve Bank indicated the shortage at R3,221bn on Saturday from Friday's R3,188bn.

While the gilts market reacted bearishly to the figures, sentiment improved at the close of trade.

● Comment: Page 8

BoE cool on bid to revamp SA economy

(49) ARG 11/8/93

Business Staff

VITAL economic reforms will be "too little, too late", the Board of Executors (BoE) says.

Its latest Investment Outlook says it is unrealistic to expect the National Economic Forum (NEF) to produce anything but "platitudes and second-best measures" because of its conflicting interest groups.

The Reserve Bank is also taken to task for its "less than visionary approach", at a time when it should be pressing for radical market-driven economic reforms.

Any effective economic reform package will be painful and therefore opposed by one or more of the parties to the NEF. "The NEF may well labour mightily only to produce a veritable mouse."

Stressing the urgency of the need for decision-making, the BoE says maximum benefit from structural economic reform will only be gained if it is undertaken at a time when the recesssion is still uppermost in the minds of business and unions.

Sagging foreign exchange reserves to blame

Hopes dashed of quick cut in interest rates

Star 11/8/93

BY CLAIRE GEBHARDT

Plummeting foreign exchange reserves are now the only factor holding up the eagerly awaited Bank rate cut, economists say.

The shock news of the latest R157 million fall in forex reserves to R7,36 billion in July was received with doom and gloom yesterday.

Many people said they had pinned their hopes on interest rate cuts to lift their falling disposable incomes.

All said they were feeling the sharp pinch of a higher VAT rate, no compensation for fiscal drag and lower salary and wage increases.

Most were doubly disappointed because they had been led to believe a sharply higher gold price would boost reserves.

Large capital outflows of R1,5 billion to R2 billion are said to be responsible for the poor figures.

Analysts say that with the total outflow of capital to end-July standing at roughly R7 billion, SA has lost half its reserves in the past seven months.

But UAL economist Dennis Dykes says the pessimism may be overdone.

He says one of reasons for the fall in reserves is the fact that the Reserve Bank was forced to borrow slightly more than R2 billion at the end of last year and has now utilised the higher gold price to repay part of this loan to reduce overall interest costs.

Dykes says the reason for the R2 billion exposure was a big balance of payments crunch caused by short-term capital outflows combined with a small trade surplus at the end of last year.

"Last year things went badly wrong because of the drought and massive short-term capital outflows as the dollar appreciated against other currencies including the rand.

Dykes says there has already seen a substantial improvement in net reserves, not yet reflected in gross reserves.

Econometrix director Azar Jammine says prospects of a one percent cut in Bank rate, probably in October, remain intact.

(49)

"Reserves should rise from August onwards and be boosted by the R3 billion IMF drought relief due in November.

"We have always known that 1993 would be a crunch year because foreign debt of R5 billion to R8 billion, both inside and outside the standstill net, was set to fall due."

Jammine says holdings of foreign exchange of about R6 billion in August 1992 have shrunk to R1,6 billion ($500 million).

"Historically, whenever the foreign exchange component has declined below $500 million, the commercial rand has been under downward pressure as in 1985/86 and 1988.

"Therefore, should the reserves recover in coming months, the real effective exchange rate should resume its steady trend."

Star 11/8/93

BoE calls for positive attitude

■ BY CLAIRE GEBHARDT

The Board of Executors (BoE) says vital economic reforms will be "too little, too late".

Its latest Investment Outlook says it is unrealistic to expect the National Economic Forum (NEF) to produce anything but "platitudes and second-best measures" because of its conflicting interest groups.

The Reserve Bank is also taken to task for its "less than visionary approach", at a time when it should be pressing for radical market-driven economic reforms.

The BoE says any effective economic reform package will be painful and therefore opposed by one or more of the parties to the NEF.

"The NEF may well labour mightily only to produce a veritable mouse." (49)

Accusing the Reserve Bank of being overly cautious, BoE economist Rob Lee says economic decision-makers have been fighting a defensive rearguard action for so long that they appear either too exhausted or too rigid to seize the positive opportunities opening up for them.

Stressing the urgency of the need for decision-making, the BoE says maximum benefit from structural economic reform will only be gained if it is undertaken at a time when the recession is still uppermost in the minds of business.

"We have long argued for a structural devaluation of the commercial rand through the abolition or reduction of exchange controls, lower tariff barriers and reduced export subsidies."

Bankers 'unable' to cut interest rates

B/Day . 1/8/93

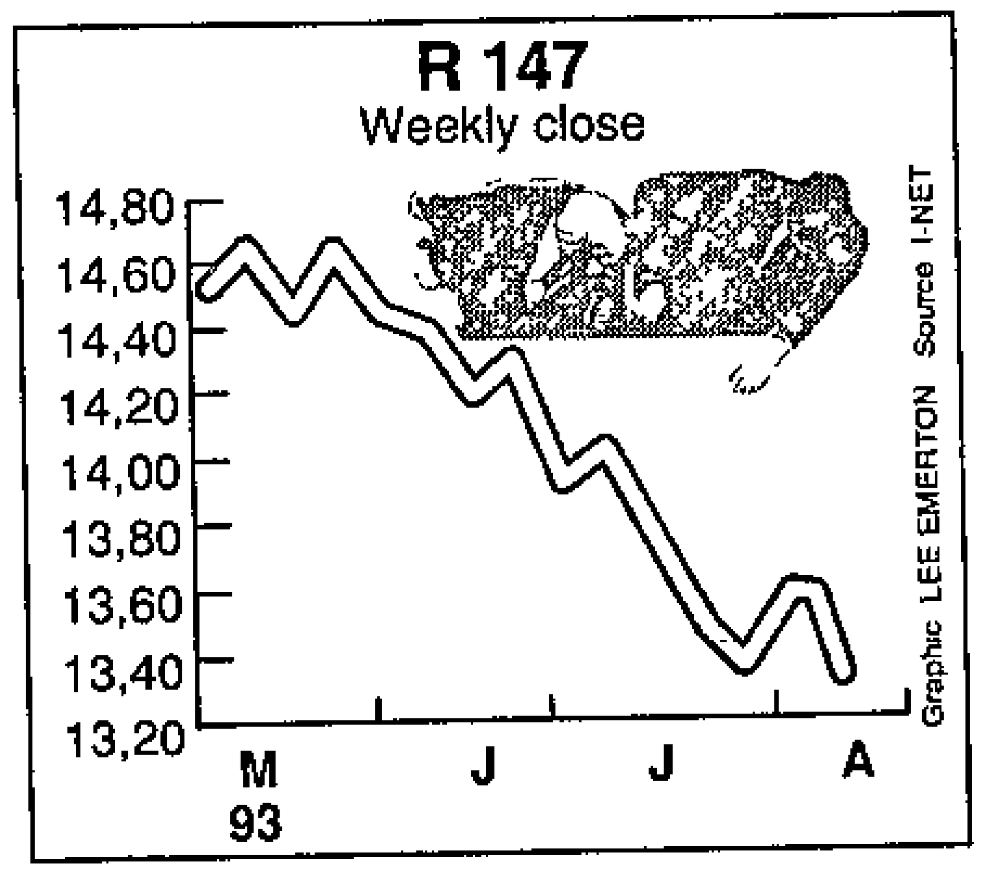
KELVIN BROWN
and TIM MARSLAND

A STALEMATE exists on interest rates, with bankers saying they are unable to cut rates despite Reserve Bank Governor Chris Stals's calls for the market to "lead the way".

Stals said the Bank wanted bankers to act after moves last week to put liquidity into the money market. Money market dealers said the cash injection had not been enough to justify action on the prime overdraft and home loan rates. Banks' bad debt problems were also putting a brake on interest rate falls. (49)

However, jobbers in the gilts market were convinced of an imminent fall in short-term interest rates and rates were pushed through key resistance levels.

Long bonds fell about 20 points to break through the 14% level, with Eskom's popular E168 closing at 13,96% from 14,15%. The fall was even more pronounced in the medium area where bonds dropped about 30 points. Government's R147 ended the day at 13,3% from 13,57%.



"Stals wanted the market to lead a (Bank) rate cut, so it sent him a very clear message that it wanted a rate cut and it wanted it now," one bond trader said.

However, FNB, which led the way in cutting mortgage rates last time, said it

□ To Page 2

Interest rates

B/Day 1/8/93 □ From Page 1

could not consider such a move at this time despite the easing in monetary policy.

FNB group treasurer Peter Carroll disagreed with the Reserve Bank's prediction that the drop in cash reserve requirements would inject R1bn into the system, giving banks the scope to lower interest rates.

He said the actual amount of cash that would be injected into the system would be much lower than the R1bn the Reserve Bank thought possible. (49)

Nedbank local treasury GM Jimmy Forbes said he expected the figure to be between R400m and R500m. "We need a lot more than this before the money market shortage will be low enough to allow us to lower interest rates before a Bank cut."

The current market shortage was about R3,5bn. Carroll said only the merchant banks and smaller trading banks, which held large amounts in cash reserves with the Bank, would benefit from the easing of the cash reserve requirements.

focus on the economy

Sowetan 12/8/93

The workers and their organisers are a fundamental part of the solution to our economic crisis and not the problem, argues **Jay Naidoo**, secretary-general of Cosatu:

THE ENGINE OF ANY programme of reconstruction is the creation of a dynamic economy orientated to developing the human, productive and technological potential of the country and meeting the needs of its people.

This concept of a people-driven economic transformation is at the core of our programme of reconstruction.

The question that needs to be answered is: What vehicle will drive us from the moribund apartheid economy to the type of economy described above?

Cosatu's departure point is that workers ultimately have the most interest, and potentially the capacity, to ensure that our economy moves in this direction.

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The more our economy stagnates and shrinks, the more jobs are lost, the more workers and their families suffer.

Overseas capacity

Big business can invest in speculative ventures, or move its capacity overseas, but workers have only one economy.

Therefore we need to accept that workers and their organisers are a fundamental part of the solution to our economic crisis and not the problem, as some in business and government seem to think.

Secondly, we have to accept that the current growth path of the economy is a cul de sac. There is no future for an economy based on cheap labour, over-reliance on primary commodities (minerals and agriculture) and import of technology and know-how.

The most successful world economies have concentrated on developing their human resources, manufacturing industry, value-added production, and development of indigenous technology and research.

The problem until now has been management motivated largely by short-term profit, and driving their competition, where it exists, into the ground.

Economic crisis

The Government, for its part, has had no vision, or strategy to address our structural economic crisis.

Unions have had to recognise that simply struggling for higher wages and better working conditions will not in itself resolve our economic problems: we have to make a strategic shift from resistance to transformation.

The business "solution" to our economic crisis has been devastating for workers: mass retrenchments; extension of working hours and number of jobs performed by one worker; cutting real wages; sub-contracting; replacement of permanent with temporary workers; and displacing workers.

Jay Naidoo ... economy must be driven by the people.

For industrial restructuring to succeed, workers and trade unions will have to be part of decision-making at all levels. This includes decisions on investment, changes in production, technology, training and so on. Joint strategy implies full access to information so that well-informed decisions can be made.

Further, there needs to be a reorientation of priorities, with training and human resources development, development of local technology, research and development, and investment in job creation taking top priority.

Productive potential

This is the only way to unleash the productive potential of our people, which has been stifled for so long.

Stephane Garelli, author of the World Competitiveness Report, which compares the performance of different countries, identities a key competitive advantage of the leading economies, including newly industrialised countries, as being their development of human resources.

This is also the area where he puts South Africa at the bottom of the list.

Once an industrial framework is created to negotiate restructuring in each industry, such as tripartite restructuring committees, we will be able to develop a global co-ordinated strategy to rescue our dying industries, particularly in the manufacturing and mining sectors.

Industrial restructuring cannot be devised at enterprise-level alone, although democratisation of enterprises is a key element of such restructuring.

To be coherent, such restructuring will need to be planned at industry and national level, and fit into an overall economic framework.

Appropriate institutions

This requires appropriate institutions to ensure that the key players bind themselves to a programme.

Most critical of these institutions are the centralised bargaining forums, which provide a framework for industry-level bargaining.

These forums are well placed to link the "traditional" collective bargaining issues to broader questions of industrial restructuring.

Job creation

Wages, grading, skills and training can be linked to job creation, technology policy, and other critical issues affecting the future of the industry.

It is therefore extremely important that we take forward the agreement reached at the NEF to set up industry forums where no centralised bargaining structures currently exist.

It is in the interests of both employers and workers that we do so if we are to arrest the stagnation and disintegration of our industries and reorientate them on to a new growth path.

"The Government, for its part, has had no vision, or strategy to address our structural economic crisis"

Poor economy expected to push deficit to R30bn

KELVIN BROWN

THE Budget deficit for the current financial year was expected to increase to R30bn, much more than the estimated R25,3bn, as the economy was performing worse than foreseen at the time of compiling the Budget, analysts said yesterday. BDay

In the first quarter of the current financial year the deficit was R9,7bn, an effective 40% of the budgeted deficit for the whole year. Government revenue and expenditure figures for July are due out on Friday. 12/8/93

Absa senior economist Pierre Morgenrood predicted the deficit would surge by at least R4bn above the original figure because of R3bn in extra expenditure and R1bn less in revenue collections. (49)

He said the main factors contributing to lower revenue were a smaller fiscal drag effect and overstated VAT collections. VAT would bring in less than the budgeted R23,5bn because of the poor performance in retail sales figures and the erosion of revenue by VAT concessions.

On the expenditure side the budgeted figure could be overrun by unforeseen costs and the usual underestimating of certain items, said Morgenrood. Government's approval last week of an extra R469m for drought relief would push up spending.

Tax experts agreed tax collections could be lower than estimated. Government had estimated individual income tax would raise 15,8% more than in the 1992-1993 financial year while taxes on non-mining companies would increase 2,8% to R11,1bn.

Kessel Feinstein tax partner Beric Croome said the worse than expected economic situation had placed companies in a position where they were unable to declare dividends, depriving government of revenue from secondary tax on companies (STC).

He expected revenue to fall significantly after the introduction of STC as companies found ways of avoiding the tax.

SA 'now out of recession'

By AUDREY D'ANGELO
Business Editor (49)

SOUTH AFRICA is technically out of recession now. Gross domestic product (GDP) rose by an encouraging 5,1% between April and June, after rising 1,4% in the revised figure for the first quarter. CT 13/8/93

And the June producer price index (PPI) dropped to 6,4% from seven percent in May.

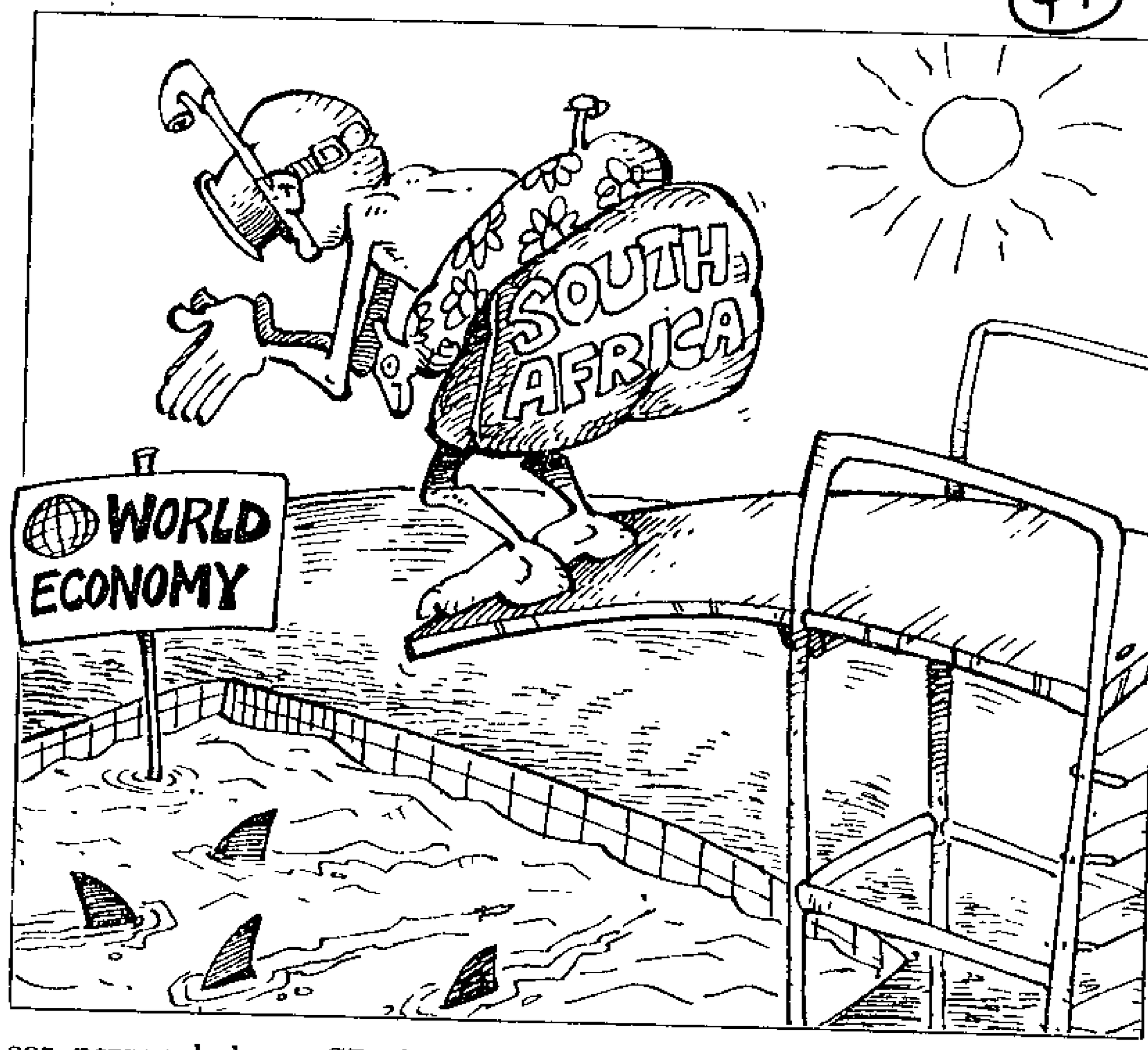
● SA quits recession on firm GDP fillip — Page 11

THE WEEKLY MAIL & GUARDIAN
August 13 to 19, 1993

Why no one owes South Africans a living

(49) WM 13-19/8/93

For South Africans to become competitive in the world economy will take more than access to markets. It will need a change of attitude, writes **James Forson**



THE competitiveness of nations is probably less a question of monetary and fiscal factors than sociology and human nature.

During a series of presentations recently on the 1993 World Competitiveness Report by its director Professor Stephane Garelli, parameters such as money supply, inflation and taxation were hardly heard. Garelli left local audiences with the distinct impression that what really count are family values, discipline, the work ethic and high school education.

For South African observers long accustomed to viewing competitiveness in terms of economic statistics, this move into the realms of human behaviour was both fascinating and disturbing. You went away either fired up at the challenges facing the new South Africa — or deeply despondent and moved to emigrate.

Either way, Garelli's foray into the so-called "soft" factors of competitiveness (attitudes, family values, education etc) versus the "hard" factors (GDP, trade balance, inflation, etc) presents a huge challenge to the majority of South Africans. To the select audiences (they included the African National Congress' Tito Mboweni and Trevor Manuel) who heard Garelli's presentations, it must have been painfully obvious how dangerously deficient South Africa is in this area.

"Koreans work 54 hours a week and sleep on the factory floor to save time commuting to work," said Garelli. (The joke in the West, he added as an aside, is that workers also sleep on the factory floor — but during working hours.)

Korea, like other roaring South East Asian economies, is in what Garelli terms the "hard work" phase where all-out effort is of the highest priority to individuals. Europeans and Americans might scoff at this single-minded attitude to work, but they too exhibited similar characteristics when their own economies took off at the turn of the century. It is the national mindset that ultimately moves people to improve themselves — and by extension their companies and countries.

In 1979, Japanese children were asked to list their favourite words. The first five were effort, perserverance, thank you, loyalty and tenacity. "The list would probably have been the same in Europe during the Industrial Revolution," Garelli observed. "Today, European and US children are more likely to talk of love, fun, surfing and MacDonalds."

In a similar experiment, Japanese children listed, in order of priority, their ideal Christmas gifts: electronic diary, cordless phone, word processor, personal phone, CD player, personal computer, fax and telescope. What this shows, Garelli argued, is a technologically advanced mindset underpinned by an almost embarrassingly conscientious attitude to education and self-improvement.

It produces huge gains at secondary school level, where the bulk of a nation's productive assets — its school children — are getting to grips with what any growing economy needs in abundance: mathematics and sciences.

Comparative studies show that Japan's high school level is about three times that of the West. The West is almost twice as strong at top university level — but apparently this is not the advantage it appears to be.

"People always equate education with university degrees," said Garelli, "whereas it is really about educating the huge middle stratum of secondary school children. This is something we have yet to learn, even in Europe."

If education was merely an end in itself, the soft factors outlined above would have little effect on competitiveness. However, it goes right to the heart of the provision of goods and services in the modern world economy. Already, in the industrialised world today, only 15 percent of the active population physically touches a product; the other 85 percent are adding value through the creation, management and transfer of human information.

"The labour content in the total cost of manufacturing is now often under 10 percent," said Garelli. "For example, Swatches are manufactured in Switzerland, not in a Third World country. Why? Labour costs are barely five percent of the total production cost."

Knowledge is also fuelling productivity gains in design and manufacture. It took Honda five years to develop a car in the mid-1980s; now it's down to three years.

"No country can succeed in world competitiveness without mastering this crucial element of speed," said Garelli. "But illiterates cannot master such processes. Competitiveness is not about cheap labour, but educated labour."

The message is inescapable: the only way countries thrive and prosper is by manufacturing goods and services in world markets quicker, cheaper and better than anyone else.

Garelli stressed the need for countries to lay the foundations of the soft side of competitiveness as early as possible. "It takes only two years to reverse an economic deficit, but 10 years to reverse a technology deficit and 20 years to reverse a deficit in skills and training."

The South East Asian economies would not be where they are today if they had not laid the foundations in skills and training over 20 years ago. Similarly, if South Africa is to tread the road to competitiveness and wealth, it has to start planting the seeds now.

But this begs the question: if the pay-off only comes in 20 years, why bother? Surely today's formidable competitors won't be standing still during that time?

Fortunately, people — and by extension, nations — do not remain at the same stage of development. Like the US and Europe before them, today's hot-shot South East Asian economies will eventually move from the "hard work" phase into a kind of "levelling off" phase in which self-achievement and individual values start to replace collective values.

This is already noticeable in Japan, where a 1992 compilation of school children's most favourite words showed some interesting changes; effort was still on top, but was followed by sincerity, freedom, peace and love.

Pressures in Japan to reform the political system, enforce more ethical standards in business and change women's inferior status relative to men are other illustrations of that society's slow evolution towards more individual values.

Historical evidence suggests that nations, like individuals, need to ease off and enjoy the fruits of their labour — which leaves the field wide open for the next batch of successful economies.

South Africa has as much a chance as any other country of being among the frontrunners, but only if it lays the proper foundations as soon as possible and heeds the lessons of international experience.

James Forson is a project manager at Business Futures Group, the management consultancy that brought Garelli to South Africa.

Time for economy to change course

Star 13/8/93

(49)

We must lessen reliance on primary commodities, writes Jay Naidoo

The engine of any programme of reconstruction is the creation of a dynamic economy oriented to developing the human, productive and technological potential of the country and meet the needs of people.

This concept of a people-driven economic transformation is at the core of our programme of reconstruction. The question is: what vehicle will drive us from the moribund apartheid economy to the type of economy described above?

Cosatu's departure point is that workers ultimately have the most interest, and potentially the most capacity, to ensure that our economy moves in this direction.

Big business can invest in speculative ventures, or move its capital overseas but workers have only one economy. The more our economy stagnates and shrinks, the more jobs are lost and the more workers and their families suffer. Therefore, we need to accept that workers and their organisations are a fundamental part of the solution to our economic crisis, and not the problem as some in business and Government seem to think.

Secondly, we have to accept that the current growth path of the economy is a *cul-de-sac*. There is no future for an economy based on cheap labour, over-reliance on primary commodities (minerals and agriculture), and import of technology.

Government, for its part, has had no vision or strategy to address our structural economic crisis. Unions have had to recognise that simply struggling for higher wages and better working conditions will not in itself resolve our economic problems: we have to make a strategic shift from resistance to transformation.

The business "solution" to our economic crisis has been devastating for workers: mass retrenchments, extension of working hours and number of jobs performed by one worker; cut ting real wages; sub-contracting; replacement of permanent with temporary workers; and displacing workers with machines.

The result has been that the manufacturing sector employs fewer workers today than it did in 1980.

We are in total contrast with the world economy, which trades increasingly in manufactured commodities, with an increasing reliance on trade in primary commodities.

Between 1960 and 1989, the proportion of non-gold goods exported as raw materials increased from 40 percent to 46 percent while exports of final finished goods fell from 16 percent to 6 percent.

Internally, our highly protected manufacturing industry concentrated on producing luxury commodities for the limited white market — a formula which soon exhausted its limits. The crisis caused in our mining industry through shortsighted exploitation of resources has also led to massive job-loss — 166 000 jobs lost in the mining industry alone, with each one resulting in the loss of two other jobs elsewhere.

Trade unions in crisis-riddled sectors such as mining, engineering, electronics, automative and clothing and textiles, have taken the initiative to convene industry-wide summits and task forces, involving business, labour and Government.

Creative and exciting proposals have been made to restructure these industries. Many of the proposals, however, have not gone beyond the drawing board, largely because of the short-term approach of Government and the failure of business to accept trade unions as partners in formulating industry strategy.

Nevertheless, proposals on restructuring have the potential to turn these sectors around, if all parties commit themselves to implementation. A democratic government will be able to play a vital role in facilitating this, by developing appropriate policies on trade and tariffs, research and technology, training and education and targeted assistance programmes for struggling sectors.

But creating this environment will not succeed if business persists in its authoritative, top-down, unilateral style.

■ *Jay Naidoo is the general secretary of Cosatu.*

Budget deficit way over original estimated figure

Star 13/8/93

BY DEREK TOMMEY

South Africa's Budget deficit in the four months to July was R10,4 billion, Estiaan Calitz, Director-General of Finance, said last night.

This amounts to 41,2 percent of the estimated Budget deficit) of R25,3 billion for the financial year to March 1994.

However, the gap between state expenditure and revenue has narrowed sharply, as the deficit in July was down to R664 million. (49)

Total exchequer receipts in the four months to July were R25,2 billion, including collections of R7,2 billion in July.

Total revenue has been steadily rising, compared with a year ago.

While receipts in April were down 0,7 percent on a year ago, they were 2,9 percent higher in May, 13,7 percent higher in June and 13 percent higher in July.

However, they need to show further growth if they are to catch up with the 17,3 percent budgeted for the full year.

Total exchequer issues in the same period were R35,6 billion, with R7,9 billion being spent in July.

This brought the cumulative increase in issues for the four-month period to 10,2 percent, which is slightly higher than the 8,8 percent forecast

The additional expenditure of R449 million for drought relief and R255 million for job creation programmes will be financed in a way that will not increase the deficit.

Tax receipts in the three months to June showed no growth at R9 billion.

But the 40 percent increase in the value added tax (VAT) in the Budget has begun to have an effect and collections rose 47,8 to R5,3 billion.

Customs and Excise receipts in this three-month period grew faster than Budget forecasts.

Agricultural sector pulls economy technically out of recession

Star 13/8/93

Worst is over

FINANCE Minister Derek Keys and leading economists have hailed the improvement in economic performance.

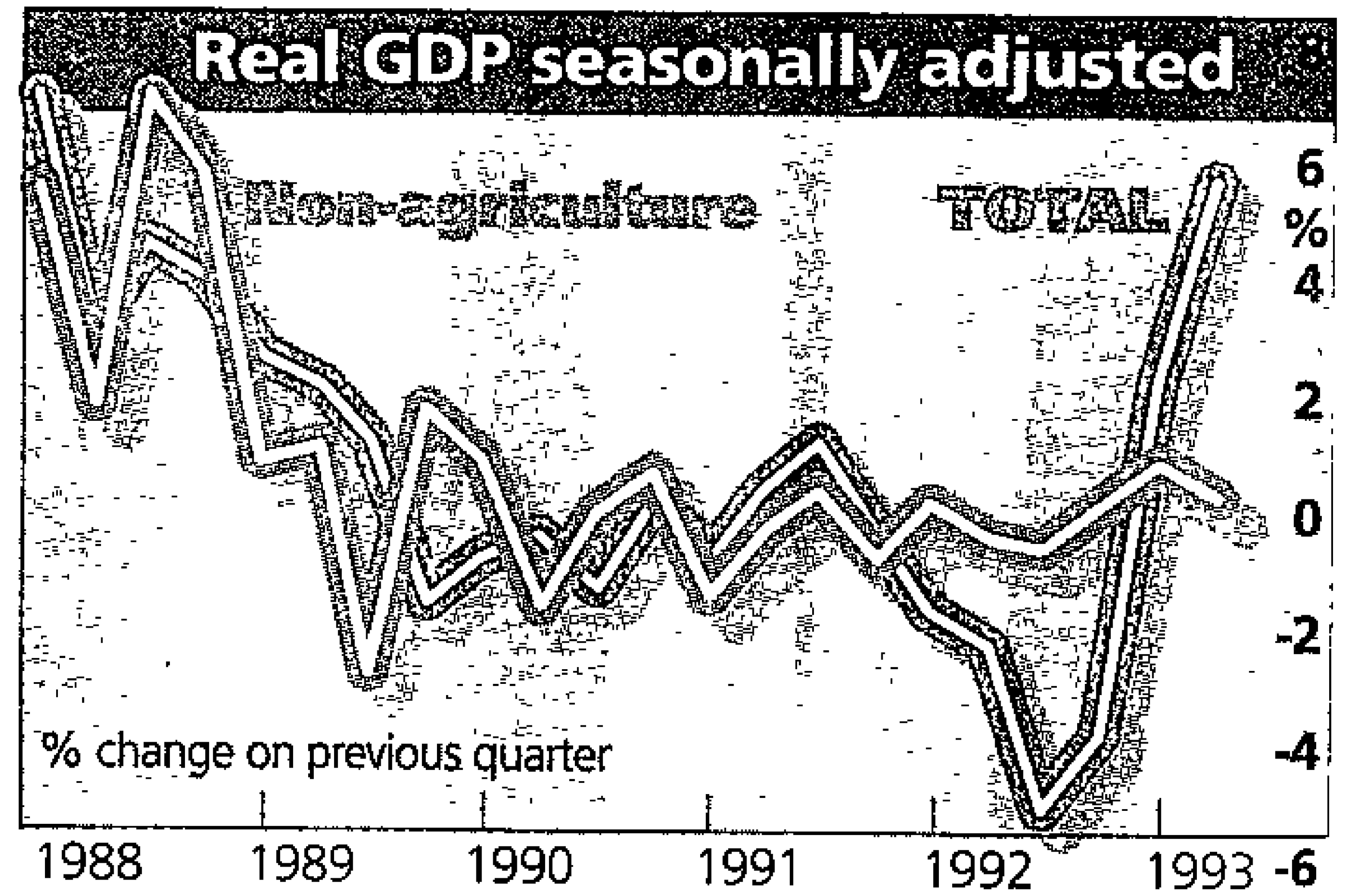
BY CLAIRE GEBHARDT

South Africa is technically out of recession.

Figures released by the Central Statistical Service (CSS) yesterday show real gross domestic product (GDP) surged for the second consecutive quarter to 5,1 percent in the period April to June, compared with 1,4 percent in the first three months of 1993.

Producer price index (PPI) figures also brought good news.

The PPI fell by 0,6 percentage points from May to an annualised 6,4 percent in June, auguring well for a sustained period of single-digit consumer inflation.



GRAPHIC GAIL IRWIN

Finance Minister Derek Keys expressed satisfaction yesterday with the rise in real gross domestic product.

He said the continued growth in GDP vindicated his viewpoint that the cyclical turning point to the downturn had been reached at the beginning of the year.

Economists also expressed their delight, but cautioned that the growth had mainly been on the back of a strong agricultural turnaround.

Agricultural production rocketed 231,5 percent in the second quarter from 53,9 percent in the first.

(49)

Non-agricultural sector GDP, however, declined to a negative 0,2 percent in the second quarter from 0,3 percent in the first.

UAL economist Dennis Dykes said the GDP figures showed that the primary sector was improving, rather than the secondary and tertiary sectors.

But he said the 0,2 percent fall in manufacturing GDP, compared with 1,8 percent in the first quarter, should not occasion too much alarm, given the negative impact of Chris Hani's assassination and the ensuing strikes, stay aways and violence.

"Manufacturing took a heavy knock in the second quarter and has held up surprisingly well."

He called the fall in the PPI and CPI figures extremely encouraging, given the hike in VAT and fuel prices.

Absa economist Adam Jacobs cautioned that SA was not yet out of the woods.

"Agriculture has improved because of the higher rainfall and there has been an improvement in mining but, for the rest, domestic demand is very weak.

"If we remove agriculture from the figures, the economy is moving sideways and has been doing so for the past twelve months."

Sanlam's Johann Louw said although SA was technically out of recession with two quarters of positive GDP growth, theoretically the non-agricultural sector should also show positive growth and he was hopeful that this would happen by year-end.

"We are sticking to our forecast that the growth rate for the year as a whole will be zero, or a negative 0,5 percent."

Afrikaanse Handelsinstituut (AHI) economist Nick Barnardt was less optimistic.

He doubted whether agriculture would continue to post higher figures for the rest of the year.

"The sugar crop is bad this year and there are problems in the fruit and tea sectors.

"The latest GDP figures are good, but total GDP in the first half of this year is 2 percent down on the first half last year."

He said mining had also contributed to the positive second-quarter figures, increasing by 2,5 percent from 2,6 percent in the first quarter.

Revenue is still running below budget

GRETA STEYN

SPENDING was still slightly above budget and revenue behind budget, putting upward pressure on government's deficit, figures released last night by the Finance Department showed.

A statement said the increase in spending in the period April to July from last year was 10,2%, while the budgeted increase for the full financial year was 8,8%.

Revenue continued its recovery from alarmingly low levels in the first two months of the fiscal year, but was still running at less than the budgeted rise of 17,3% for the full year. Revenue was up about 13% after four months.

The deficit for the period amounted to R10,4bn, or about 41% of the budgeted deficit. BI Day 13/8/93

The statement said the extra spending announced last week for drought relief (R469m) and job creation (R255m) would not raise the deficit. The spending would be financed from sales of strategic stockpiles and reallocation of budgeted funds.

Of the R255m for job creation, R75m would be spent by government with the remainder going to the National Economic Forum. Added to the R45m already provided for in the Budget, R225m was now available for forum projects. This was in line with Finance Minister Derek Keys's Budget speech. (49)

A breakdown of revenue up to June — the latest available — showed income tax receipts running at abnormally low levels (only 0,4% up from last year).

However, the statement cautioned against reading too much in to the figure, saying the new company tax dispensation had distorted the figures and the tax effect of higher public sector salaries had not yet been felt.

VAT collections surged almost 48%, reflecting the "satisfactory course of collections" as well as the effect of its increase to 14%.

The growth rate of receipts from customs and excise and import surcharges was higher than budgeted up to June. But the July figures were affected by the Customs Union payment, and were minus R20m for the month.

SA quits recession on firm GDP fillip

(49) CT 13/8/93

By AUDREY D'ANGELO

SA IS technically out of recession now. Gross domestic product (GDP) rose by an encouraging 5,1% between April and June, following a rise of 1,4% in the revised figure for the first quarter.

And the producer price index (PPI) is continuing its downward trend. It rose by only 6,4% in June after a rise of 7% in May.

The Minister of Finance, Derek Keys, said the continued growth in GDP supported his viewpoint that the cyclical turning point of the downturn had been reached at the beginning of the year.

But economists pointed out that the steep rise in GDP was due mainly to the recovery of the agricultural sector — which rose by 231,5% following a 53,9% rise in the first quarter — and a better performance by mining. Manufacturing, construction and retail trade still turned in negative performances.

Sanlam chief economist Johan Louw said that although growth for two consecutive quarters meant that the recession was technically over, business people and the man in the street would not notice any difference for some time.

"The best we can really say now is that we are moving out of recession."

Louw said he had not revised his forecast of zero growth for 1993.

However, Board of Executors economist and senior portfolio manager Rob Lee said the rise in GDP was "a very strong figure that backs up our view that the economy is turning.

"Car sales this year are up by about 5% in volume terms. Notes and coins in circulation have been rising for months, which is normally a good sign.

"And even though manufacturing production is down from the first half of last year, it is up from the second half."

Lee admitted that even growth in the agricultural sector was "not all that strong, because it has risen from a low point.

"But," he continued, "I would not have forecast quite such a high figure and we must take encouragement from it.

"When all the improvements are added together they become quite significant."

Old Mutual economist Johann Els said the GDP figures were not quite so encouraging when it was realised that, excluding agriculture, the economy had in fact declined by an annualised 0,2%.

However, the revised figures for the first quarter showed the economy had performed better than thought at first. Growth in the non-agricultural sector had risen by 0,3% from January to March.

Although the improving trend in agriculture would probably continue, Els expected growth in 1993 to be "zero or slightly positive".

Figures released by the Central Statistical Services (CSS) yesterday showed that the manufacturing sector fell by 0,2% after rising 1,8% in the first quarter. Tertiary industries fell by 1% after a fall of 0,8% in the first quarter.

The CSS pointed out that these figures were preliminary and subject to revision when the next quarter's figures are issued in November.

And, their report said, the 5,1% rise was the highest since the first quarter of 1988.

PPI AT 21-YEAR LOW

THE producer price index (PPI) continued its downward trend in June. It fell to 6,4% year on year — the lowest figure for 21 years — from 7% in May.

Economists, pointing out that the deflationary trend was continuing, said that it would feed through to a lower consumer price index (CPI).

But although the year on year figure for locally produced commodities slipped to 6,3% and the rise between May and June was only 0,2%, the weakness of the rand meant that the imported component rose by 6,8% year on year and 0,9% month on month.

In spite of this Board of Executors economist and senior portfolio manager Rob Lee said the favourable figure strengthened the case for another cut in bank rate.

"The underlying inflation rate is now 8% and prime rate is 16%, which is very high. We have good reason to think that the gold and foreign exchange reserves will start recovering."

He expected a bank rate cut within three months.

Old Mutual economist Johann Els said the PPI figure was "very good indeed. It is the lowest since 1972, and the figure for July could drop further."

"It's fortunate that international oil prices are very low, eliminating the effect of the weakness of the rand."

Agricultural production surges

GDP growth signals end of recession

B/Day 13/8/93

KELVIN BROWN

GDP in the second quarter defied economists' expectations with an increase of more than 5%, signalling an end to this century's longest recession.

The Central Statistical Service (CSS) said yesterday the growth figures for the first quarter had been revised upwards to 1,4% from a preliminary 0,8%. (149)

Finance Minister Derek Keys was upbeat about the figures. His office said: "The Minister considers the latest GDP figures as a vindication of his view at the beginning of this year that we had reached the cyclical turning point in the downturn."

Economists said the worst of the recession was over and slow growth would be recorded during the rest of the year.

A surge in agricultural production from very depressed levels was the driving force behind the strong rise in GDP between the second and first quarters. The figures — seasonally adjusted and annualised — showed a massive 232% real increase in agricultural output.

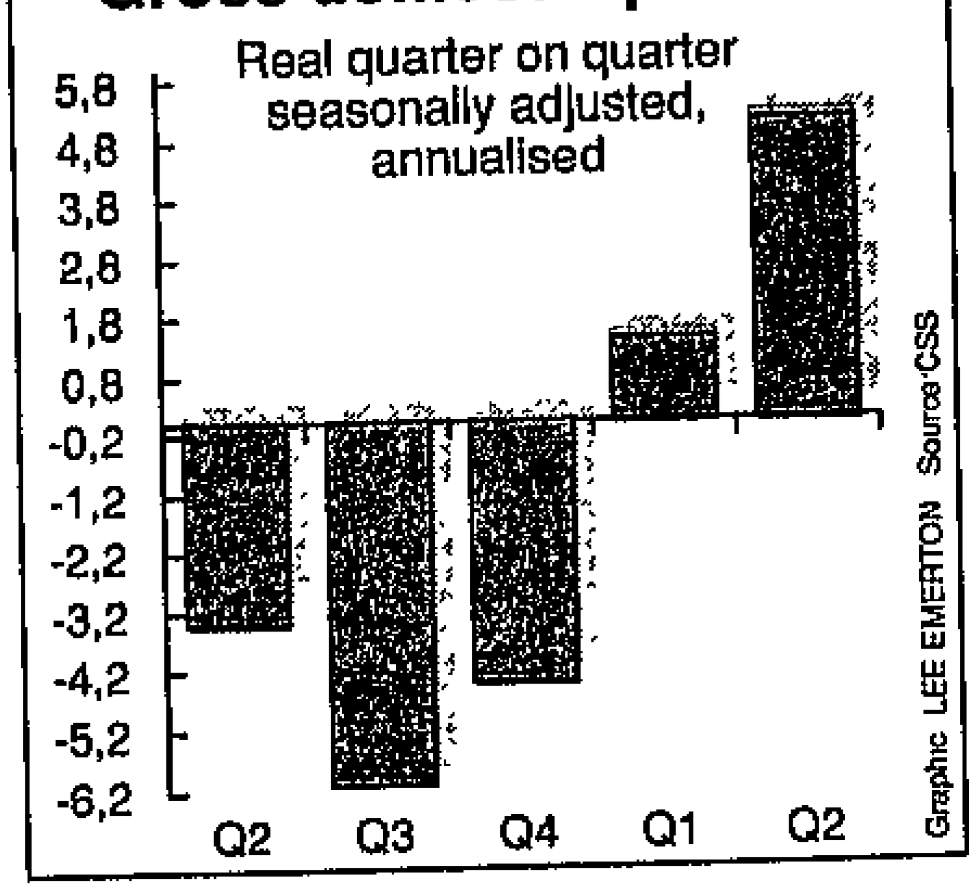
Keys said although agriculture was the main factor there were other encouraging figures. He noted the contribution of electricity, gas and water rose sharply, which was a good indication of economic growth.

The continued increase in mining production, at a rate of 2,5%, was pleasing and represented an important "flywheel factor" in generating future economic growth.

"Once again, the growth in GDP owed nothing to an increase in the expenditure of general government," Keys said.

Growth in manufacturing contracted 0,2% from a previous 1,8% increase.

Gross domestic product



Old Mutual economist Rian Le Roux, predicting positive growth for the year as a whole, said: "We can safely say the worst of the recession is over." The decline in the manufacturing sector appeared to have bottomed. There was a trend of inventories being depleted in the manufacturing sector, which pointed to improved demand and increased output. However, it would not hit the man in the street, except the farmer, until next year.

Simpson McKie economist Graham Boyd said even though the recovery was only evident in the agricultural sector, it should have a spill-over effect on the rest of the economy as farmers spent more.

AHI economist Nick Barnardt said the good performance in exports in the second quarter had cushioned the non-agricultural sector against further contraction. "Despite the ending of the drought, no one

To Page 2

Recession

B/Day 13/8/93 From Page 1

expected a rise of 5% in GDP."

LINDA ENSOR reports that Keys said at the UCT Graduate School of Business annual MBA dinner last night he believed the moderate fall in the economy had been arrested and turned around. (149)

The drop in company and personal tax rates, reduced import surcharges, and falling inflation and interest rates were some of the achievements of President F W de Klerk's era. This was not the record of "incompetent economic management".

It was remarkable that the economy had shrunk by less than 4% since 1989, with half of this attributable to the drought.

Keys said SA had a long way to go before debt became a substantial problem. SA's debt as a percentage of GDP was 45%, compared with the OECD average of 68%.

He expressed scepticism about the ability of the market system to create jobs and said other possibilities would have to be explored. All parties had to come together and recognise that measures taken so far had failed. The lack of job creation was a potential disaster as 300 000 new job seekers came on to the market each year.

● Comment: Page 6

SA 'already in upswing'

CT 14/8/93 (49)

By AUDREY D'ANGELO

THE economy "has already entered a moderate upswing", according to Boland Bank economists Louis Fourie and Francois Janssen.

They base this statement in their August Economic Review on statistics available before this week's announcement that gross domestic product (GDP) rose by 5,1% in the second quarter.

And a report by SA Chamber of Business (Sacob) economist Keith Lockwood, based on his monthly survey of manufacturing confidence, shows that Western Cape companies expect an increase in sales and production in the coming year.

Lockwood says manufacturers all over the country report a steady improvement in orders over the past three months.

A big improvement in the outlook of manufacturers in the coastal regions "probably reflects in part the boost given to exporters by the recent depreciation of the rand against major currencies — together with the fact that these areas have been relatively less affected by violence in recent months".

Cape firms set for rise in sales

Fourie and Janssen give rising exports as a major reason for an improvement in the economy.

They forecast that economic growth will average 0,5% in 1993 and 2,5% in 1994. But they add: "The estimate for 1994 may eventually prove too conservative."

They say the weakening rand, and the stronger rand/gold price in recent months, have had a favourable effect on export earnings.

"Moreover agricultural exports are gradually being restored while it would seem that the further opening up of world markets and exploitation of these opportunities by SA exporters is beginning to bear fruit.

"This is borne out by the monthly average value of exports, which amounted to R6,8bn in the second quarter of this year compared with an average of R5,5bn in the first three months of 1993 and a monthly average of R5,6bn for 1992."

In spite of factors limiting disposable income such as higher indirect taxes "signs of a modest improvement in consumer spending become clearer by the day", Fourie and Janssen continue.

"The reason for these tentative signs of economic revival most probably lies in a gradual contraction in the rate of retrenchments and the improvement in farming and mining conditions."

They say the length and sustainability of the upswing will be determined by:

- A visible pick-up in the economies of our main trading partners, a concomitant improvement in international commodity prices and a further post-sanctions exploitation of export opportunities.
- A further decline in inflation, effectively boosting individuals' real disposable income.
- A further interest rate reduction.

Faint signs of recovery

SI Times (Buss)

15/8/93

By CIARAN RYAN

TWO successive quarters of growth have given a flicker of life to South Africa's economic corpse.

It may not be time to pop the champagne, say economists, but the figures suggest the four-year recession has bottomed out.

"One must distinguish between the bottom of the recession and the start of the upturn," says Econometrix's Tony Twine.

"Although I am guardedly optimistic, I think the economy is still trundling along the bottom."

Growth in gross domestic product picked up in the second quarter, rising by an annualised 5,1% after a 1,4% improvement in the first three months.

However, the economy has contracted by 1% in the past year and by 4% since the recession began.

The first-half turnaround owes its impetus to a recovery in agriculture and mining.

There is good and bad news about inflation. The good news is the drop in the producer price index (PPI) to 6,4% in the year to June from 7% in May. The 6,4% figure is the lowest since 1972.

The bad news is that demand is diving, forcing companies to lower prices. Non-farming and non-mining components of the PPI recorded negative growth.

The rand's fall contributed to the continued rise in prices. The PPI for imported items was 6,8% in June compared with 3,1% last December, more than a doubling in price increases in the first six months of 1993.

Car sales for July jumped to 17 428, 10% higher than July 1992 and 11,5% higher than the 15 622 in June 1993. The increase is ascribed to improving business confidence, anticipation of price increases and inventory build-up.

(49)

Finance Minister Derek Keys is happy about the economic news, although tempered by gold's fall to $367,50 an ounce from above $400 a few weeks ago.

Mr Keys has been right on two counts this year, says a spokesman for his office — first, that inflation would drop below 10%; second, that the economy would turn this year.

(+53)

Mr Keys says a positive sign was higher electricity, gas and water sales, normally a precursor to economic growth.

Government spending had nothing to do with the economic improvement, he says. Mining output continued to increase by 2,25%, but manufacturing growth collapsed from 1,8% to a negative 0,2%.

The balance of payments could find itself under pressure if the gold price continues to fall.

Reserve Bank Governor Chris Stals says: "The balance of payments has improved since July, although it is still vulnerable to the gold price. Inflation is falling and will provide room for relaxation of monetary policy."

Budget figures released this week show a deficit of more than R10-billion for the first four months of the year, more than 40% of the R25,4-billion budgeted for.

Although this points to another deficit overrun for the year, its size is little changed from a month ago, signalling an improvement in revenue collections. A continued economic recovery would improve revenue collection, helping to contain the overrun.

Government spending for April to July was R35,6-billion, 10,2% higher than the corresponding time last year. The budgeted increase for the year is 8,8%.

Receipts for the first four months totalled R25,2-billion, boosted by an additional R7,2-billion in July. This is 13% higher than in the corresponding time last year, but still short of the 17,3% budgeted for the year.

Income-tax receipts for the first three months of the year were R9-billion, 0,4% higher than in the same time in 1992-93.

VAT collections were R5,29-billion, 47,8% more than in the same 1992-93 period.

The Department of Finance says the figures reflect "the satisfactory course of collections as well as the impact of the increase in the VAT rate (with additional zero-ratings) to 14%".

Bloodshed 'keeps economy balanced on a knife-edge'

SA's longest recession on record was technically over but bloodshed and political anxieties remained serious obstacles on the road to recovery, analysts said at the weekend.

The Board of Executors' investment house portfolio manager Rob Lee said hopes for recovery and investment were poised on "a political knife-edge" B/Day 16/8/93

Much would depend on a successful transition to democracy. The April elections had to look free, fair and peaceful and the next government had to assure investors of sound economic management. (49)(~~34~~)

Analysts said investors remained concerned about the violence, which has escalated since the election date was set on July 2.

More than 9 000 people have been killed since government began to dismantle apartheid three years ago.

Official data on Thursday showed the economy had grown for the second quarter in succession by mid-year, statistically signalling an end to four years of recession.

The latest inflation figures suggest it might be possible to bring the rate below 10% in 1993 for the first calendar year since 1973.

World prices for gold, SA's chief export, have dipped below $370 from nearly $410 at the end of July, but remain well above $329, the average for the first quarter.

But, despite seasonally adjusted annualised growth of 5,1% in the quarter to June, economic output in the first half of 1993 was still 2% down on the same period of 1992.

The second-quarter growth was largely the result of a recovery in farm output after last year's severe drought. Apart from agriculture and mining, the economy remains in the doldrums.

Most analysts expect no growth for the full year, saying the country should not expect much recovery driven by investment or consumption until after the elections.

"It's a bit premature to say we're out of recession," said Sanlam chief economist Johan Louw, noting that foreign economies whose health was vital to South African hopes of export-led recovery remained sluggish.

"On the political front, the situation is still very uncertain. As long as that remains so, investors and consumers will not be inclined to spend."

Finance Minister Derek Keys said last week there was a desperate need to create jobs and tackle inadequate investment in new productive capacity. There were 300 000 new job seekers every year but no new jobs had been created in more than a decade. "This, and nothing else, is our fundamental economic problem," he said. — Sapa-Reuter.

focus on the economy

Sowetan 16/8/93

Workers have the most interest in ensuring a dynamic economy to meet the needs of the people, says **Jay Naidoo**, secretary-general of Cosatu.

49

The engine of any programme of reconstruction is the creation of a dynamic economy oriented to developing the human, productive and technological potential of the country, and meeting the needs of its people.

This concept of a people-driven economic transformation is at the core of our programme of reconstruction. The question that needs to be answered is: What vehicle will drive us from the moribund apartheid economy to the type of economy described above?

Cosatu's departure point is that workers ultimately have the most interest, and potentially the capacity, to ensure that our economy moves in this direction. The more our economy stagnates and shrinks, the more jobs are lost, the more workers and their families suffer.

Big business can invest in speculative ventures or move its capacity overseas, but workers have only one economy.

Therefore we need to accept that workers and their organisers are a fundamental part of the solution to our economic crisis and not the problem, as some in business and Government seem to think.

Secondly, we have to accept that the current growth path of the economy is a *cul de sac*. There is no future for an economy based on cheap labour, over-reliance on primary commodities (minerals and agriculture) and import of technology and know-how.

The most successful world economies have concentrated on developing their human resources, manufacturing industry, value-added production, and development of indigenous technology and research.

The problem until now has been management motivated largely by short-term profit, and driving their competition, where it exists, into the ground. The Government, for its part, has had no vision or strategy to address our structural economic crisis.

Strategic shift by unions

Unions have had to recognise that simply struggling for higher wages and better working conditions will not in itself resolve our economic problems: we have to make a strategic shift from resistance to transformation.

Business "solutions" to our economic crisis has been devastating for workers: mass retrenchments, extension of working hours and number of jobs performed by one worker, cutting real wages, sub-contracting, replacement of permanent with temporary workers and displacing workers with machines.

The result has been that the manufacturing sector, which should be the engine of growth of our economy, and generator of jobs, employs fewer workers today than it did in 1980.

In total contrast with the world economy, which trades increasingly in manufactured commodities, we trade in a declining share of manufactured commodities, and have had an increasing reliance on trade in primary commodities.

Between 1960 and 1989 the proportion of non-gold goods exported as raw materials increased from 40-46 percent. In the same period export of raw materials increased from 40-46 percent. In the same period export of final finished goods fell from 16 to 6 percent. Internally, our highly protected manufacturing industry concentrated on producing luxury commodities for the limited white market, a formula which soon exhausted its limits. The crisis caused in our mining industry through short-sighted exploitation of our resources has also led to massive job loss. Nearly 166 000 jobs have been lost in the mining industry alone with each mining job lost calculated to result in the loss of two other jobs.

Trade unions in crisis-riddled sectors such as mining, engineering, electronics, auto, clothing and textiles, have taken the initiative to convene industry-wide summits and task forces, involving business, labour and Government. Creative and exciting proposals have been made to restructure these industries. Many of the proposals, however, have not gone beyond the drawing board, largely because of the short-term approach of Government and the failure of business to accept trade unions as equal partners in formulating industrial strategy.

Nevertheless, proposals on restructuring have the potential to turn these sectors around, if all parties commit themselves to implementation. A new democratic government will be able to play a vital role in facilitating this by developing appropriate policies on trade and tariffs, research and technology, training and education, targeted assistance programmes for struggling sectors, and so on.

The creation of this environment will not succeed however if South African business persists in its authoritarian, top-down, unilateral style.

For industrial restructuring to succeed, we will need a radical change in business culture. This goes way beyond symbolic share ownership schemes and such like. Business will have to accept that the current definition of "managerial prerogative", which assumes that all important industrial decisions are made by employers alone, has actually become a barrier to economic development.

For industrial restructuring to succeed, workers and trade unions will have to be part of decision-making at all levels. This includes decisions on investment, changes in production, technology, training and so on. Joint strategy implies full access to information, so that well-informed decisions can be made.

Further, there needs to be a reorientation of priorities, with training and human resources development, development of local technology, research and development, and investment in job creation taking top priority. This is the only way to unleash the productive potential of our people, which has been stifled for so long.

Stephane Garelli, author of the World Competitiveness Report, which compares the performance of different countries, identifies a key competitive advantage of the leading economies, including newly industrialised countries, as being their development of human resources. This is also the area where he puts South Africa at the bottom of the list.

Once an industrial framework is created to negotiate restructuring in each industry, such as tripartite restructuring committees, we will be able to develop a global, co-ordinated strategy to rescue our dying industries, particularly in the manufacturing and mining sectors.

Industrial restructuring cannot be devised at enterprise-level alone, although democratisation of enterprises is a key element of such restructuring. To be coherent, such restructuring will need to be planned at industry and national level and fit into an overall economic framework.

This requires appropriate institutions to ensure that the key players bind themselves to a programme.

Wages, grading, skills and training can be linked to job creation, technology policy, and other critical issues affecting the future of the industry. It is therefore extremely important that we take forward the agreement reached at the NEF to set up industry forums where no centralised bargaining structures currently exist and it is in the interests of both employers and workers that we do so if we are to arrest the stagnation and disintegration of our industries, and reorient them into a new growth path.

Keys warns of growth in SA debt

(49)

CT 16/8/93

Own Correspondent

AMANZIMTOTI. — Finance Minister Derek Keys celebrated the "magnificent" SA economy which he said had turned the corner, but he warned that the country's national debt was likely to increase.

In a review of SA's economy during the (President F W) "De Klerk era" at the NP congress, Keys said SA problem's were now the same as those faced by other Western countries — job creation, increasing investment and fiscal difficulties.

Government spending had more or less been maintained but the government's income had fallen by more than 13% over the past three years.

As a result, there had been an increase in the country's deficit and this had resulted in an increase in the national debt.

But SA's national debt as a percentage of GDP was about 45%, and compared well to that of the OECD "economic stars" whose average debt was 68% of GDP.

"The things that we will have to do through this transition period will mean that this percentage will have to move up, but we have got some scope, we are not teetering on the brink," he said.

Commodities

Keys said the economy had performed magnificently and would perform magnificently, especially if one took into account what the economy had had to contend with since De Klerk came to power.

He said since then, the growth that was the hallmark of the Reagan era ended, resulting in a dramatic drop in commodity prices.

SA had also scrupulously adhered to its loan repayments, paying out about $1bn per year which had restricted growth to a certain extent.

Although businessmen whole-heartedly supported De Klerk's reforms, they had led to a huge increase in uncertainty which had affected investment, he said.

And in addition to severe drought, the government had had to complete some of the investments initiated in the pre-De Klerk era.

Against that background, it was remarkable that SA's economy shrunk by only 4%.

During the De Klerk era, social spending had increased and the liquidity of civil servants' pension funds had been increased, inflation had been brought down and VAT had been introduced.

What still remained was to increase investment and provide employment opportunities.

Keys said the problem would also have to be addressed structurally, and this was being dealt with by the National Economic Forum, adding ruefully: "It is important that we should fail together."

Nevertheless, SA could be proud of its economy which was capable of much greater things.

Zim talks: New hope for SA

CT 16/8/93

(49)

VICTORIA FALLS, Zimbabwe. — An audience of South African business leaders liked what they heard when an African businessman called for trust and an end to discord.

Hashim Ismail from Tanzania told an investment conference South Africa was the "most valuable real estate in the world" and urged the 120 delegates to keep it that way.

Hashim's message of hope captured the mood of the recent conference in this northern Zimbabwean resort city to examine South Africa's economic and political future.

"I want to see a torch, a bright light symbolising a new era of trust where before there was discord and mistrust — a light that signifies progress and hope where before there was despondency," he told top businessmen and a sprinkling of rival politicians.

To loud applause, the Dar es Salaam-based Hashim declared "My only piece of advice to you is that you must resist all attempts at nationalisation. It should be a banned word from your dictionaries. I speak with some experience, coming as I do from Tanzania, where we tried this for 30 years.

"Nationalisation brings about shortages of all commodities, breeds evil and corruption. It's a policy which only takes you back 50 years."

The investment conference, sponsored by Frankel Pollak Vinderine, ended in an upbeat mood, with speakers calling on the country to forge ahead with democratic elections despite political violence.

A resolution of South Africa's political problems, they said, would help curb the high level of violence which, according to one delegate, Lawrence Schlemmer, made the country the "most murderous" in the world. — Sapa-Reuter

London paper cites massive gold sales by US financier's Quantum Fund

Finger points to Soros

Star 16/8/93

BY NEIL BEHRMANN

London — Market sources believe that George Soros' $30 billion (R100 billion) Quantum Fund recently sold the gold it bought earlier in the year.

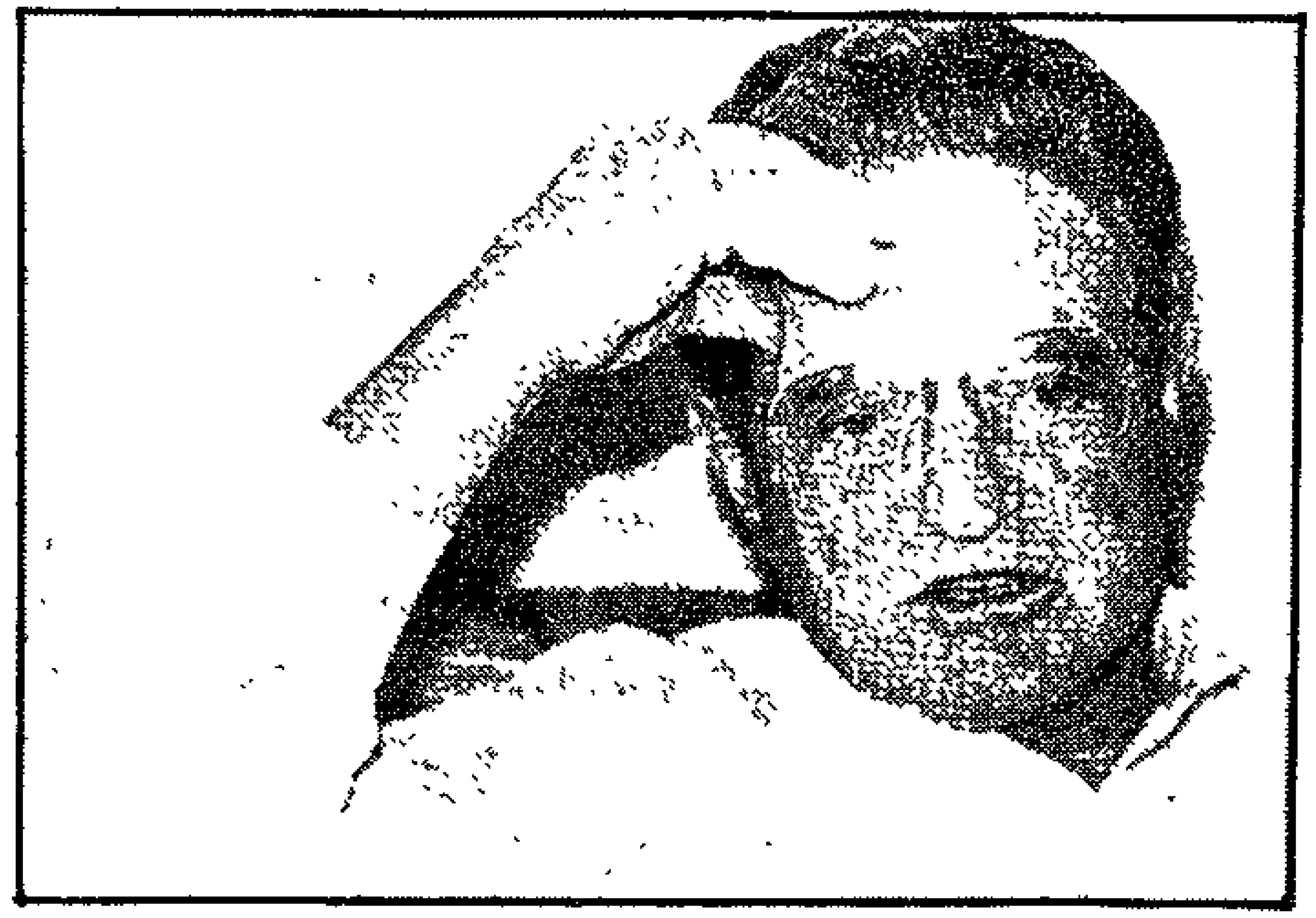
Huge amounts of gold have been sold on Comex, the New York futures and options market, over the past two weeks.

The open interest on Comex has plunged to the equivalent of 17,5 million ounces from its recent peak of 21 million ounces as commodity funds and other speculators dumped gold.

Gold fell last week under $368 — more than $40 below its peak of $409,50 reached in Hong Kong a fortnight ago.

The finger is being pointed at George Soros, with the London Sunday Times claiming he has sold 2 to 3 million ounces.

Most of this would have been sold in the futures and options market.



George Soros. . . . has not confirmed profit-taking

The market noticed that there was a big physical seller of gold in recent days and dealers suspected a European nation was using its gold to replenish foreign exchange lost in currency support operations.

A large proportion of the gold was sold through a leading US house with topnotch central bank links, according to market sources.

Since this was physical bullion, a central bank was cited, the obvious candidate being the Bank of France, which holds just under 82 million ounces of gold worth $30 billion at market prices.

This valuation almost matches estimates of a $31 billion decline in France's foreign exchange reserves.

The reserves fell while the central bank sold foreign currency in an unsuccessful attempt to support the franc.

Yet bullion dealers believe that if the Bank of France did make use of its gold holdings, it would not have sold outright.

It is far more likely that the central bank would have swapped the gold for foreign exchange. In other words, gold would have been used as collateral for loans.

When swaps take place, however, bullion banks accept the risk of holding the gold and hedge their positions.

So recent physical sales of gold by US houses could have reflected a swap transaction, say dealers. The Bank of France has refused to comment.

Reports that the Quantum Fund took profits on its gold have not been confirmed by Soros, but well-informed sources told the Sunday Times the fund had been selling.

Soros, apparently still holds 10 million shares in Newmont Mining, which he bought from Sir James Goldsmith for $39,50 — the shares are currently trading at $48.

The market takes Soros seriously because he made an estimated $1 billion for the Quantum Fund by selling sterling short in September 1992. (49)

A well-publicised purchase of gold by Quantum and financier Sir James Goldsmith last April set the market alight, encouraging other speculative players to enter the market.

The predictions became self-fulfilling and gold soared to $410 from around $335 in April.

According to the Sunday Times, Sir James, who originally disclosed that he bought gold in 1990 when prices were around $370, is still holding onto his bullion.

National debt expected to rise

TIM COHEN

AMANZIMTOTI — Finance Minister Derek Keys lauded SA's "magnificent" economy at last week's Natal NP congress, but warned that although the economic corner had been turned, the national debt was likely to increase. B/Day

Reviewing the economy during the "De Klerk era", Keys said SA's problems were now the same as those of other Western countries: job creation, increasing investment and fiscal difficulties.

Government spending had more or less been maintained, but its income had fallen by more than 13% over the past three years. The resultant budget deficit increase had increased the national debt. Although this now stood at about 45% of GDP, it compared favourably with the 68% average of OECD "economic stars".

Keys was not worried that the debt percentage would rise with heavier state spending in the transition period. He took into account the fact that commodity prices had fallen dramatically and that foreign debt repayments of $1bn a year had restricted growth. 16/8/93

Although businessmen wholeheartedly supported De Klerk's reforms, they had led to a huge increase in uncertainty which had affected investment, he said.

In addition to severe drought, government had had to complete projects initiated in the pre-De Klerk era. Against that background, it was remarkable that the economy had shrunk by only 4%. (49)

During the De Klerk era, social spending had increased and the liquidity of civil servants' pension funds had been increased, inflation had been brought down and VAT had been introduced.

What still remained was to increase investment and, most importantly, provide employment opportunities

CAPE

Banks forecast the recession might be over

(49) CT 17/8/93

ALIDE DASNOIS
Business Staff

NEW forecasts by Boland Bank and Nedbank suggest that the downswing in the economy might be over.

A moderate revival in the economy, says Boland Bank, is being supported by better export earnings, higher consumer spending and growth in the primary sectors of the economy.

But, the bank says, a continued upswing will depend on:

- A pick-up in the economies of South Africa's major trading partners;
- The return of investor confidence and investment; and,
- Further falls in inflation and in interest rates.

Boland Bank expects economic growth of 0,5 percent this year and 2,5 percent in 1994.

Nedbank says improved consumer and business confidence can be seen in higher car sales, the recent rise in the gold price, a slow-down in producer and consumer price inflation and, fewer business insolvencies.

But it warns that continued violence and political turmoil are still undermining the economic recovery.

Nedbank says calls for a reduction in interest rates have to be tempered by the disturbingly low level of foreign exchange reserves, covering only about six weeks of imports.

Last week figures given by the Central Statistical Service (CSS) showed real gross domestic product (GDP) rose 5,1 percent in the June quarter, compared with 1,4 percent in the previous quarter.

The CSS also announced a fall in producer price inflation, feeding hopes of further slowdowns in consumer prices.

But economists warned that most of the improvement was in agriculture and mining, and that the South African economy was not yet out of the woods.

Afrikaanse Handelsinstituut economist Nick Barnadt pointed out that GDP in the first half of the year was still 2 percent down on the same period last year.

Economists see signs of upturn

Star 17/8/93

BY CLAIRE GEBHARDT

Two economic forecasts released yesterday confirm that South Africa's long-awaited upturn has begun.

Boland Bank's latest Economic Review says the stifling grip of the economic downswing has been checked.

Nedbank's Economic Profile says the second-quarter increase in gross domestic product (GDP) signals that the economic recovery is continuing.

Boland says a modest revival is being supported by improved export earnings, an uptick in consumer spending and improved production trends in the primary sectors of the economy.

But it warns that the sustainability of the upswing will depend on:

- A recovery in the economies of overseas trading partners;
- A revival of investment spending;
- A further decline in inflation; and
- A futher interest-rate reduction.

Nedbank says improved consumer and business confidence is evident in increased new passenger vehicle sales, a higher gold price, consumer inflation expected to fall below 10 percent in July, producer price inflation of 6,4 percent, a levelling off in the number of insolvencies and an improved agricultural season.

(49)

It warns, however, that ongoing violence and political turmoil are undermining South Africa's economic recovery — particularly local and overseas investment.

Nedbank says calls for a reduction in interest rates have to be tempered by the disturbingly low level of foreign exchange reserves, covering only about six weeks of imports.

"Although most of this year's foreign debt repayments have already been met, the amount falling due in 1994 is estimated to be larger than the projected current account surplus."

The bank says it is not surprising that the monetary authorities remain hesitant to lower interest rates.

"In this regard, access to large-scale foreign capital and an improvement in South Africa's export performance, would be invaluable," it says.

Economy will grow a little — Nedbank

KELVIN BROWN B/Day

THE increase in GDP in the second quarter was substantially higher than expected and signalled a continuation of the economic recovery established in the first quarter of 1993, Nedbank said in its latest economic profile.

Nedbank forecast the economy would grow 0,6% this year in comparison to last year.

Although the good second quarter figure was largely the result of an improved agricultural season, there were signs of a general improvement in consumer and business confidence in spite of continuing recessionary conditions in retail and wholesale trade, manufacturing and construction. 17/8/93 (49)

Confidence appeared to be improving thanks to the gold price sustaining its level around $370/oz, good consumer inflation figures, a levelling off in the number of insolvencies and the improved agricultural season.

But Nedbank said in spite of these positive factors, violence and political turmoil severely undermined SA's economic recovery.

Local and overseas investment in SA had been affected seriously by these disturbances. The continued increase in the level of unemployment in the first half was also very disturbing.

However, it was encouraging that the number of liquidations in the agricultural and construction sectors fell by 11% and 12% respectively during the same period.

Nedbank forecast no change in the prime rate this year or next year. It said it was not surprising that the authorities were hesitant to lower interest rates because foreign debt falling due in 1994 was estimated to be larger than the projected current account surplus.

Repeated calls for a reduction in interest rates had to be tempered by an acceptance of the balance of payments remaining under pressure, it said.

New SA will 'pay' for civil disobedience

CT 17/8/93 (49)

By ANTHONY JOHNSON
Political Correspondent

THE "free lunch syndrome" sweeping the country had the potential to make or break the new South Africa and its leaders, former auditor-general Mr Peter Wronsley said yesterday.

In an address to the Cape Town Press Club, Mr Wronsley expressed concern at the "slide into lawlessness" by those who protest their political grievances by stealing water, accommodation, electricity and sanitary services.

"It seems likely this engineered breakdown in civic morality will persist in the 'new' South Africa," he said.

Mr Wronsley said this "free lunch syndrome" was reaching "pandemic" proportions.

The "ungovernability" or the destruction of civic order by the sheer weight of mass disobedience was like a poison gas.

"Once released it cannot be recalled and if the wind changes direction your side pays the price."

The failed policy of grand apartheid had cost billions of rands over 40 years "with the blessing of the majority of the white electorate".

Expressed fiscally, the activities of "bad egg" public servants "pale into insignificance" when measured against the vast resources devoted to execute and defend an ideological concept eventually repudiated by the party which created it.

Business Report

Modest revival 'on the cards'

(49) CT 18/8/93

THE prolonged downswing in the country's economy had been checked and a modest revival was anticipated, Boland Bank said in its August economic review.

The Bank said the revival was supported by an improvement in export earnings, an unexpected stabilisation of consumer spending and improved production trends in the primary sectors of the economy.

The improvement in export earnings gained momentum mainly during the second quarter, primarily owing to the stronger gold price, the yield effect of the weakening of the rand and the recovery of agricultural exports.

Referring to consumer spending, the Bank said: "This trend appears to be underpinned by a decline in the rate of retrenchment/rationalisation in the broad economy, and the improvement in production conditions in the agricultural and mining sectors."

The continued upswing would be determined by a visible recovery in the economies of SA's main trading partners, a revival of investment spending and further declines in inflation and a further interest-rate reduction.

The bank anticipated that economic growth would average 0,5% in 1993 and 2,5% in 1994. — Sapa

More criticism of Keys model

B/Day 18/8/93

KELVIN BROWN

OLD Mutual economist Terence Moll has added his voice to Nedbank chief economist Edward Osborn's criticism of Finance Minister Derek Keys's normative economic model.

And the Afrikaanse Handelsinstituut is to meet today to decide whether to release publicly an internal memorandum believed to be critical of the model.

The main criticisms have centred around the the notion that investment and growth could be maximised by maximising savings, lowering taxes and achieving low inflation.

Moll said shifting resources from government to the private sector would not necessarily result in the private sector investing the resources released. "If the private sector does not want to invest such resources, they'll merely be consumed, and nothing will change."

Moll criticised the model for the assumption that low inflation would break the vicious cycle of a stagnant economy in which people lacked confidence about what the future would bring. "If businesses don't want to invest, aren't exporting and don't train their workers enough, the price level could be gloriously stable and little would change."

What was needed was a stimulation of demand. "No wonder investment is so low; nobody expects any sales in the near future."

The model was full of talk of "people participation", but not strategy to ensure that people would actually participate. "This emphasis looks like window-dressing." Moll added the model would not raise the national income of the poor, as it hoped to do — if at all, this would fall.

Osborn said in Nedbank's latest quarterly guide to the economy that the relationship between savings and investment was not as simple as portrayed in the model. "In the real world investment decisions, that is of the productive kind, are made with regard to perceived market opportunities." (49)

Osborn also said the "supply-side economics" idea of lower taxes eliciting a response in terms of production activity was flawed. "The level of production of existing firms is not dictated by taxation changes, but essentially by market demand forces."

Osborn, whose media release of the guide slated the model for being a political document, later toned down the language of his criticism.

AHI economists declined to comment on their view of the model, saying a meeting would be held today to decide on releasing a statement. It was understood the AHI would express similar criticism.

Signs of growth in battered economy

B/Day 19/8/93

ADRIAN HADLAND

PRETORIA — Economic indices released yesterday by the Central Statistical Service suggested some positive signs were beginning to emerge from various sectors of the economy.

The building industry reported that the seasonally adjusted value of building plans passed in the second quarter of 1993 had shown an increase of 2,1% to R2,7bn compared to the same period in 1992.

Due mainly to heightened activity in the Witwatersrand and Pretoria areas, the figure was, however, still 5% down on the second quarter of 1992.

The real value of buildings completed in the past quarter also indicated an increase of 5,6% over the previous quarter with buildings completed in Durban to the value of R357,2m. In Pretoria buildings to the value of R180,7m were completed over the same period.

The CSS figures also indicated that almost 800 more townhouse units were approved for construction than in the last quarter, although the average size of units had decreased from 124m² to 104m².

The hotel industry reported that its bed occupancy rate in June this year was 1,3% higher than June 1992.

Four-star hotels showed increases of 3,2% and 5,8% in room and bed occupancy while one-star hotels registered decreases of 10,1% and 1,9% respectively for the period.

Worst hit of the regions was the eastern Cape in which room and bed occupancy rates fell by 24,6% and 29,1%.

Expected retail sales for August were pitched at R7,6bn by 100 major retailers, an increase of 11,3% over August 1992.

(49)

This represented a 1,8% rise in real sales at constant 1990 prices, the CSS said.

And the number of foreign visitors entering SA through Jan Smuts, DF Malan and Louis Botha Airports in the first six months of 1993 had increased by 10,6% to 610 915 over the first half of 1992.

Economists said they were wary of drawing any hard and fast conclusions from what were mostly short-term indices.

"Things don't look any worse and, if anything, appear to be getting slightly better," one Absa economist commented yesterday.

President F W de Klerk said yesterday that things were "slowly starting to improve". On the eve of his departure to visit Uruguay, Paraguay, Chile and Argentina, De Klerk said two consecutive quarters of improved GDP performance suggested the economy was on the road to recovery.

GDP in the second quarter of 1993 defied economists expectations with an increase of more than 5%.

Growth figures for the first quarter were revised upwards last week by the CSS to 1,4% from a preliminary 0,8%.

Call to redirect wealth to poor

Sowetan 19/8/93

By Mzimkulu Malunga

THE Development Bank of Southern Africa advocates the redirection of resources to disadvantaged communities as one way of addressing the country's economic problems.

The bank's draft document on how to restructure the South African economy highlights inefficiency and inequities in the economic set-up as two major fundamental problems facing this economy.

Both factors have to be addressed simultaneously to enable democracy to flourish and level the economic playing field as well.

DBSA's director for policy analysis, Dr Johan van Rooyen, says the institution has decided to take part in debates to shape an economic policy for this country.

He says the bank takes a different approach from the Government's Normative Economic Model — tabled early this year by Finance Minister Derek Keys — which called for export-led growth as the way forward, leaving very little room for the domestic market.

49

Opening up economy

While opening the economy up for greater levels of international competition will help, the broadening of ownership in the existing companies, deconcentration as well as nurturing emerging entrepreneurs will contribute greatly to economic parity in this country.

Electrification and reconstruction have also been identified as among the major factors which could stimulate the economy.

In an attempt to give impetus to its newly demarcated role, the banks have also embarked on a major research programme seeking to answer a question relating to how and where South Africa will source the money to finance its economic reconstruction programme.

Part of the research programme is devoted to stimulating productivity in the agricultural sector using the current resources.

Titled *Efficiency and land market in South African agriculture*, the policy assignment is jointly funded by the DBSA itself, the World Bank, Ford Foundation and Pretoria University.

Agriculture is being targeted mainly because of its ability to create jobs.

Van Rooyen says the wages issues also have to be addressed as the workforce which earns better wages can stimulate growth in the economy with increased consumption.

Meanwhile, the DBSA has appointed Dr Gail Mlokoti as its corporate affairs manager this month.

STATE FINANCES

Fm 20/8/93

Swallow or a summer?

(49)

For the first time in nearly two years, there are signs that revenue collected in the current fiscal year might come close to the Budget estimate. The weak performance of the first two months of the fiscal year was turned around in June and July (see graph) and revenues for the first four months of the fiscal year now exceed those of the same period last year by 13%. This represents real growth of about 3%.

Prospects for meeting the budgeted 17,3% revenue increase are improving.

This follows a boost to Vat collections. In April, Vat on most goods was increased from 10% to 14%, while a wider range of food items was zero-rated. The net effect has been positive.

Even more encouraging, Vat revenue is rising at a faster rate. A breakdown for the latest month is not yet available but, in the first two months of the fiscal year, Vat revenues were 25,8% higher than in the corresponding period in 1992-1993 and in the first quarter the figure was 47,8% higher.

Sacob's Ben van Rensburg says the weak April performance was largely the result of teething problems associated with implementing the new 14% Vat rate, notably lags in collections, and advanced purchases at the old rate of 10%. "It's likely that, when the full breakdown for July is released, Vat collections will have done well again," he adds.

Customs & Excise revenue growth has been steady, increasing by 11,7% against a budgeted 12,1% in the first four months.

Gouws

Jammine

Van Rensburg

The other main source of encouragement is recent GDP growth (see page 35).

The significance of this, says Rand Merchant Bank economist Rudolf Gouws, is that Budget estimates could be much closer to the outcome than in the previous year. In 1992-1993, even the most pessimistic forecasts about the deficit turned out to be conservative.

Says Econometrix's Azar Jammine: "When Barend du Plessis announced his last Budget, it was based on an estimated increase in nominal GDP of 16%. It turned out to be only 8%. There's little chance of that kind of disaster this time round."

But hope, as Francis Bacon said, though a good breakfast, makes a poor supper. And it could be that extrapolations (which show the R88,9bn Budget estimate of total revenue exceeded) are over-optimistic.

There are several reasons:

☐ Other inland revenue items remain weak. Income tax over the first quarter was only 0,4% higher than in the first quarter of 1992-1993. But this might show an improvement once July's breakdown is made available, says State Expenditure Department fiscal planning director Jurie van Tonder. In that month public sector salary increases came through, which means a higher Paye take — and the effect of secondary tax on companies would have been seen; and

☐ Jammine says that though the two quarters of growth are welcome, they don't automatically translate into higher revenue growth. "The growth we've seen has been in agriculture and a bit in mining and the automobile industry. None of these will result in higher incomes for the economy as a whole." He adds that higher employment as a result of an upturn in the economy comes only six months to a year after the start of the upturn.

Jammine warns the issue is not only GDP growth but also inflation

"If, as is likely, the inflation rate turns out to be lower than the 10% expected, revenue projections would have to be adjusted accordingly."

More important, though, is the level of government spending. "In the past, government has not been able to keep its spending within budgetary limits; so it remains to be seen whether it can be reduced in line with lower inflation.

"The fact that government has overshot spending in the first four months is significant." Spending of R35,6bn in the first four months was 10,7% higher than over the first four months of 1992-1993. And, on a pro rata basis, it exceeded the budgeted increase of 8,8%.

POOR RECORD

Revenue % increase

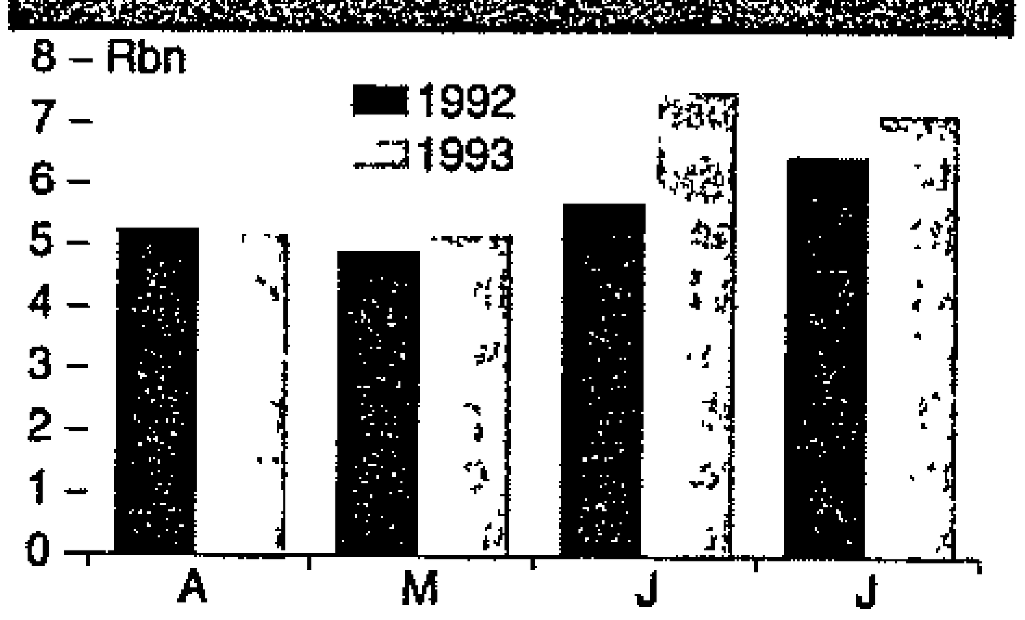
	Budgeted	Actual
1993-1994	17,3	—
1992-1993	15,7	4,7
1991-1992	11,1	7,4

But even allowing for these overshoots, says Gouws, a huge increase in the projected deficit is unlikely. "We're probably looking at a deficit of R27bn-R28bn. This is up on the budgeted R25bn but well below the R30bn feared by some a few months ago."

Patrick Lawlor

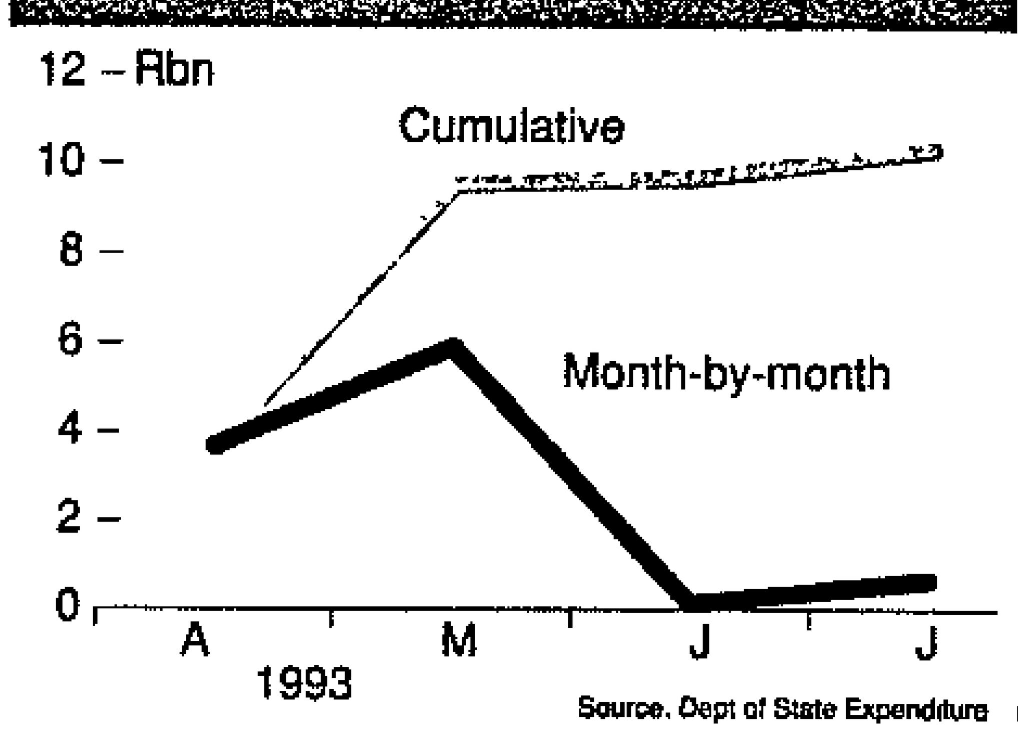
Goin' up

Total inland revenue collected in each month



...and down

Issues minus receipts



Source: Dept of State Expenditure

Fm 20/8/93

IMPORT TARIFFS

Uruguay roundabout

SA business is facing a crucial test of its ability to compete internationally Officials of the Department of Trade & Industry, domestic businesses, and their representative organisations, are wrestling with the final draft of a revised offer on tariffs, circulated

GDP

Windfalls and rainfall

Agriculture operates outside the business cycle. Though a buoyant economy increases demand for agricultural products, the outlook for this sector of the economy is determined by supply — basically the weather. Growth in mining, too, is not a reflection of domestic demand but of increasing activity in international markets which boosts the price of commodities.

So the second-quarter surge in agriculture (see box) and the improvement in mining tell us little about the business cycle. From the manufacturing sector, where activity declined in the second quarter, comes evidence that the turning point in the economy has not yet been reached. And changes in non-agricultural GDP over 18 months (see graph) show that the traumatic events of the second quarter set back a tentative recovery in the first.

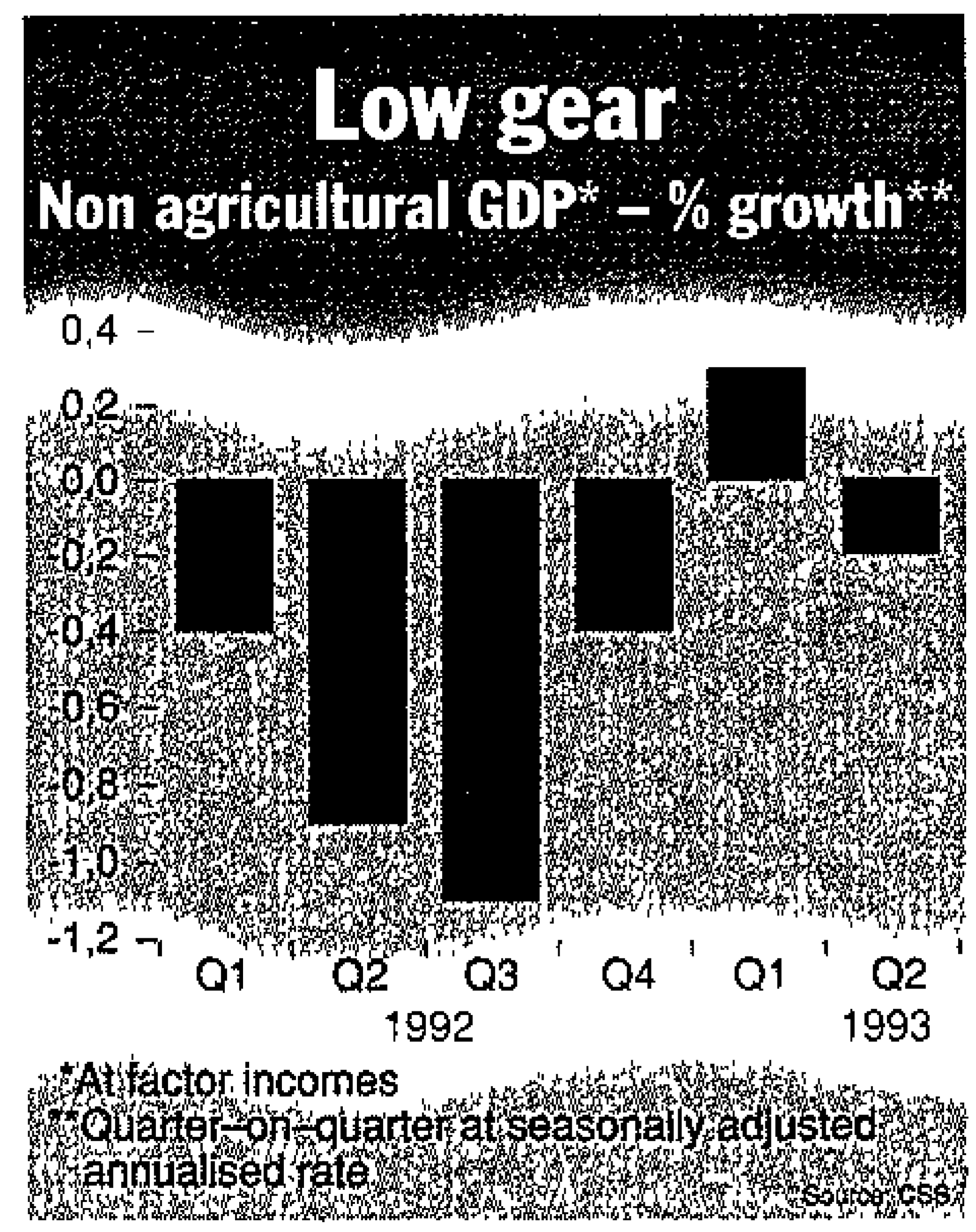
However, the benefits of mining and agriculture will spill over into the rest of the economy. As GDP in constant rands is an index of physical output, the second-quarter figure does not reflect the higher gold and platinum prices in the period. But eventually the higher nominal prices, if sustained (now looking less likely), would increase disposable income and stimulate production in other sections of the economy — at which point it would be captured in GDP figures.

Similarly in agriculture, the knock-on effect of the first-quarter recovery are still working their way through the system as farmers restore their finances and recover their confidence.

In June last year, the Reserve Bank *Quarterly Bulletin* published notes (by Coen Pretorius and Daleen Smal of the Bank's economic unit) on the macro-economic effects of the drought on growth, investment, the current account of the balance of payments, inflation and employment.

Based on a long-term trend, Pretorius and Smal assumed that gross value added by the agricultural sector is 2,5% a year when rainfall is normal. Then they assumed a decline in agricultural GDP of 14% in 1992 as a result of the drought. They discussed the potential impact of this on the rest of the economy — through forward and backward linkages with other sectors.

"The agricultural sector is an important purchaser of the products and services of other sectors. The manufacturers of livestock feed, fertilisers, insecticides, agricultural machinery and implements can be singled out as dependent on sales to farmers." These are backward linkages.



Forward linkages are the delivery of raw materials to the secondary sector. Pretorius and Smal cite a report of the Economic Advisory Council in 1986: "According to the input-output table of the national economy, about 58% of the value of the agricultural production was delivered to secondary industries for further processing, whereas the delivery of agricultural production to processing industries amounted to 8,2% of the total value of inputs to manufacturing production." Any increase or reduction in prices of these commodities affects disposable income available for other expenditure.

The authors concluded that a 14% decline in agricultural GDP would reduce real GDP by about 1,8% — a direct impact of one percentage point and an indirect impact of 0,8 percentage points. That means, in current prices, GDP would have been R4,6bn lower in 1992 than in a normal year. (In the event, the decline in agricultural GDP amounted to 25%, so, to correctly calculate the impact of the drought, the findings would have to be adjusted accordingly — an exercise the researchers have not yet done.)

This year's recovery in agricultural GDP has, of course, set in motion a chain of growth. An important benefit from the bumper season in many crucial crops is that the reduction of agricultural imports will free SA's meagre supplies of foreign exchange for imports of other (much needed) goods. To the extent that these are capital and intermediate goods, this should increase domestic output.

The performance of the mining sector is potentially more important to SA than that of agriculture, as it represents about 13% of GDP, whereas agriculture amounts to only 5%-6%. Moreover, the multiplier is bigger. Research by Hans van Rensburg of the Department of Regional & Land Affairs, presented at a Mintek seminar in 1992, established that growth in the mining industry adds an additional 90% value to the rest of the economy (an extra R900 000 for every R1m in mining output).

Research by the Department of Agricultural Development in 1992 showed that for every R1m of agricultural production, additional output of R600 000 will be generated in all other sectors.

But, in the second quarter, the extent of the growth (R1,5bn in constant 1985 rands) in agriculture dwarfed that of mining & quarrying (R95m). So it would have had a greater effect on the economy in the second quarter. This is likely to continue in the third quarter as agricultural output is expected to sustain its improvement.

The performance of manufacturing could improve. Productivity in the second quarter was inhibited by public holidays, political stayaways after the assassination of Chris Hani and fears of further disruption. The absence of these events in the third quarter could allow the tentative recovery of the first quarter to resume.

Overall prospects for GDP are better than they have been since early 1991 when the expected recovery failed to materialise. This time support will come from increasing economic activity in the US and UK, which should stimulate demand for SA exports. But no big improvement can take place until political settlement is achieved domestically and the level of violence reduced. This will allow demand and supply of goods to increase, boosting GDP in all sectors. ■

Economy robust, says Keys

B/Day 20/8/93

GRETA STEYN

FINANCE Minister Derek Keys yesterday urged business people to share his optimism, saying it was important they realised the economic corner had been turned.

In an upbeat message to the SA British Trade Association (Sabrita), he said: "This economy has taken the shocks that came its way magnificently.... Unless (business) people have a balanced view they will not be in a position to spot the turn in time and take the positive decisions the country needs if it is to move rapidly out of the decline."

He said there were plenty of indicators showing the economy was on its way up. The Reserve Bank monitored 50 indicators of which, at the last count, 35 were up, 14 down and one unchanged.

Describing the economy as "robust", he noted the gloom that had abounded at the beginning of the year had proved unfounded.

Keys said achievement of social objectives was the ultimate test of the validity of any economic policy.

The top social objective was the creation of jobs and export-led growth would be a component of an economic policy that achieved this aim.

(49)

The Clinton campaign slogan for the presidential election had been "It's the economy, stupid". For SA, a slogan of "It's jobs, stupid" seemed appropriate

On the normative economic model, he emphasised that it was not "the Keys model" but represented the best advice government's economists could give him At present it was the only growth strategy that had been spelled out.

While the short-term cyclical trend was encouraging, there was still some way to go to get the long-term trend right. "It will require a major creative effort from all of us"

Keys said there was a convergence of views among economic policymakers and potential policymakers, regardless of their ideological equipment, that growth led by manufactured exports was "the way to go."

Phone tapping admissions put Absa on the hook

B/Day 20/8/93 (49)

JIM JONES

CRISIS management has become increasingly important to Absa as the banking group's executives have grappled with the intricacies of the merger and public disclosures of the bank's activities in a series of court cases.

The latest problem to face management and shareholders of SA's largest banking group is how to handle the admission by former CE Piet Badenhorst, present CE Danie Cronje and directors Mike de Blanche and Alwyn Noeth that they bugged the private telephones of sports promoter Peter Mancer and former Allied executives Kevin de Villiers and Patrick Ronan. The bugging problem is a legacy from Badenhorst's years at the top and relates to his dispute with De Villiers over Absa's takeover of Allied.

This week the Absa directors who were Badenhorst's accomplices in the bugging turned down a request for an interview with Business Day. Business Day also tried to obtain comment from chairman Herc Hefer, but he was "incommunicado" at a game reserve until next week.

However, ahead of the De Villiers/Ronan trial, Cronje and his colleagues declared that the buggings had had nothing to do with the present magistrate's court case in which De Villiers and Ronan are facing fraud, attempted theft or perjury charges. They conceded they had hired private investigators to bug the telephones in May and June 1991, but maintained that the bugging of home phones and taping of private conversations were associated with the Allied Bank yacht case which ended in victory for Mancer over Absa earlier this year.

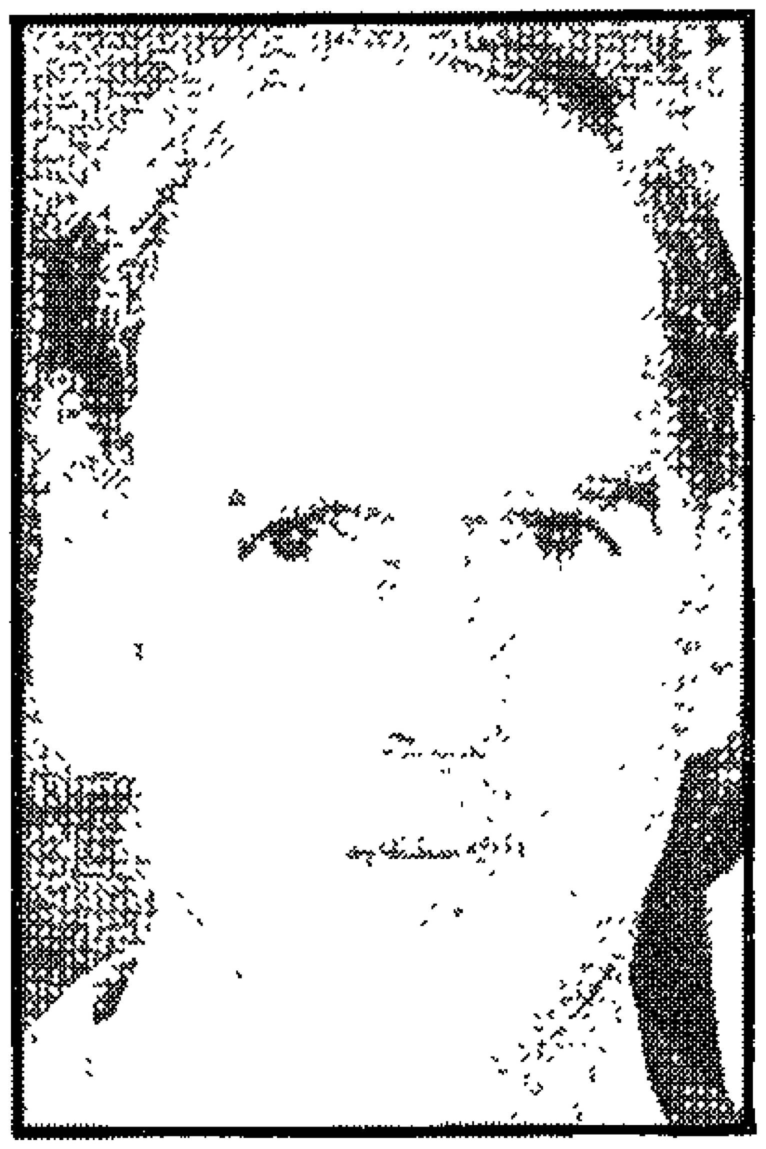
That disclaimer is fine as far as it goes and could take some of the heat off the Absa bosses in the present trial. But it throws up a host of other problems. The fact that the four Absa men have admitted to the buggings, criminal offences on the face of it, would appear to merit investigation and possible prosecution by the attorney-general. If the admissions are correct, shareholders and clients might also wonder about the bank's top management style.

Badenhorst and his then legal adviser Michael Katz, senior partner of the Edward Nathan law firm, were no strangers to the attorney-general's office. They met the attorney-general on various occasions to motivate the prosecution of De Villiers and Ronan. In the weeks leading up to the trial, Absa grew concerned at what might emerge and unsuccessfully explored with the attorney-general the possibility of having the case dropped.

Before he left Absa, Badenhorst had put out feelers to De Villiers and Ronan to see if there was the possibility of a settlement, though how this might have been possible in a criminal case is a matter of some conjecture. Nevertheless, Hefer persisted with the settlement attempts after Badenhorst's departure.

The three who were bugged would appear to have civil claims against the Absa people for invasion of privacy. The bugging admissions also have implications for a previous civil suit — the dispute between Mancer and Absa over payments Mancer was due for promoting the Allied Bank yacht's round-the-world race bid.

In the Mancer case, no mention was made of the tapes from the bugged phone calls in pre-trial discovery procedures. Discovery is an essential part of, and legal requirement in, civil commercial cases. Each side has to provide the other with a list of all documents, tapes and papers relating to the issue so that the case can be decided fairly. Each side has to declare on oath to the court that full discovery or disclosure has been made.



☐ CRONJE

Cronje clearly knew the bugging had taken place, knew that tapes had existed because he had listened to them along with Badenhorst and the others, and should have been aware of Absa's duty of full disclosure in the discovery procedures. He might have been unaware of the discovery proceedings. The first discovery affidavit had been signed by former Absa director Bob Aldworth, who allegedly attempted to defraud the bank and who is now a fugitive in England. Aldworth also signed second "further and better" discovery documents and affidavits days before he fled SA.

Was Absa's legal team also aware of the bugging tapes' existence? Katz states "with respect" that he had nothing to do with the pre-trial discovery procedures. Handling the case at Edward Nathan were partners Errol Knowles and Jacques Tredoux. Neither was available for comment.

As part of his admission this week, Badenhorst said he had been assured by counsel that the tapes could be used in evidence in the Mancer case. As the tapes were not disclosed it would appear that Edward Nathan was unaware of their existence and that another firm of attorneys had been briefed and obtained counsel's advice without telling the Edward Nathan team.

When Aldworth blew the gaff on the bugging while the Mancer trial was taking place, alarm bells should have begun ringing in the minds of Absa's lawyers.

Since the Mancer trial Knowles has certainly become aware of the bugging. In a recent letter to Ronan's attorneys, he listed Peter Arnold as a client and grouped him in the same paragraph with Cronje and the other Absa directors. Arnold was the private investigator who put together and managed the bugging team.

That linkage might seem a minor matter, but it is a major problem for the Absa directors attempting to disentangle themselves from the disclosures. They have apparently pulled the Edward Nathan team off the present case and instructed Routledge, McCullum to keep a watching brief.

Getting back to the Mancer case bugging, which apparently cost Absa R54 000, attempts were made to conceal it or at least to distance it from Absa. It was handled by an external public relations consultant for Absa, Lucien Vallun of Vallun Wilkins & Associates, and attorney Dennis Jooste of law firm Bowman Gilfillan.

Vallun, who specifically handled Badenhorst's public relations, says he has been instructed by his client's legal advisers not to discuss anything to do with the affair with the Press. Nevertheless, he was an early link in the laundering of the payments to the private detectives who plugged their recording devices into private telephones. The route through Jooste was separate.

Jooste declined to answer questions, claiming client privilege. However, Jooste used his firm's trust account to make payments to the private investigators.

Vallun was paid cheques by Absa for what were described as public relations services. He paid them into his firm's bank account, converted the money into cash and paid Arnold. Arnold, in turn, paid Dave Miller of the Spy Shop, who did some of the bugging himself and subcontracted other parts to other private detectives. Badenhorst and his former colleagues admitted that the Absa accounts used to pay for the bugging had been closed.

There remains the question of whether Mancer was prejudiced by non-disclosure of bugging and the existence of tape recordings of phone conversations. The fact that disclosure was incomplete in discovery procedures indicates Mancer's attorneys were not privy to the full facts. Had they known them, Mancer might not have agreed to a R3,8m settlement against the R4,5m claimed from Absa.

When they admitted to the bugging, the Absa executives produced blank tapes which they claimed were the only record of the bugging. That leads to other questions. Was evidence tampered with? Were the tapes deliberately wiped to erase evidence? Who wiped the tapes? And if so, who authorised the wiping?

Interest rates down by end of the year?

S/Times (C/Metro) 22/8/93

By JEREMY WOODS

RESERVE BANK governor Chris Stals said this week that interest rates could come down by "one or two percent" by the end of the year, if South Africa suffered no major economic or political upheaval.

"It does not look right for rates to come down at the moment, because the banks are still borrowing large amounts of money and short-term rates are still relatively high. But this could change very quickly," he said in Cape Town this week.

(49)

"The prospect for lower rates looks encouraging so long as there are no major political or economic upheavals in the pipeline. The current account surplus looks better — and is increasing. The gold price is up though volatile, and agricultural exports are starting to flow out of the country again," he said.

With a weary eye on the "fast-changing environment in which we live", Dr Stals says he feels more confident now about rates coming down than he has "for some time".

Reserve Bank governor **CHRIS STALS**

"Inflation is declining, and sooner or later we will have lower interest rates. That's really what we are saying."

Dr Stals said people often thought the Reserve Bank liked high interest rates and was reluctant to bring them down.

"Its just not true. Rates are high because of the demand and supply situation The Reserve Bank doesn't like high rates any more than anyone else. We wouldn't have them if South Africans saved more, if we didn't have to finance huge capital outflows and fund a large budget defict of government spending each year."

But he said, the Reserve Bank was not going to "create more money" and pump it into the system to bring rates down artificially.

"That is inflationary and we are not prepared to do it. It might give the economy a short-term boost, but pretty soon the results of that action would come through and the inflation figures would start rising again."

"If rates come down, we want them to come down naturally as dictated by conditions in the market so that this economy can experience some real economic growth."

No light yet at the end of the tunnel

CT 23/8/93 (49)

JOHANNESBURG. — The South African economy shows no clear signs of imminent revival despite technical signs of an end to four years of recession, according to the Reserve Bank.

The Bank, releasing its annual report ahead of the agm today, noted that official data recently showed the economy grew an annualised, seasonally adjusted 5,1% in the three months to June. The improved quarter was the second in a row and thus, statistically, marked an end to the longest recession on record.

But the Bank said that key indicators monitored by it "are, in fact, not yet showing any clear signs of an imminent upturn in economic activity".

It attributed the recent improvement in the economy, which shrank by 2,1% last year, largely to a recovery in agriculture from the worst drought this century.

Although a few other sectors, including gold mining, showed some improvement, the non-farm economy on balance moved sideways, it said.

"Most of the main economic indicators only show that the downturn in economic activity may be levelling out," it said.

It said hesitant revival in the economies of industrial countries, low international commodity prices, and the socio-political climate in South Africa remained constraints on recovery in the local economy.

Political uncertainties and violence accompanying the transition to democracy had helped prolong the recession, and consumer demand was still fragile, it said.

A fall in inflation-adjusted personal disposable income, high unemployment, job insecurity and generally low confidence weighed against a sustainable rise in consumption spending.

Scant investment

The Bank gave no estimate of the number of people without jobs but said the formal sector was now unable to absorb 46% of the potential labour force, who either had no work or sought a living in the informal sector.

Real gross domestic fixed investment had shrunk 23,5% during the recession, and 40% in the last 11 years.

Real gross national product per individual — a measure of average material well-being — was now 13,5% lower than five years ago, it said.

But factors which could support an improvement in the economy this year and next included the projected removal of remaining economic sanctions and a gradual recovery in some leading world economies.

The economy could also benefit from several new large investment projects which have been set in motion and a depletion of inventories which could support a sharp rise in demand for goods and services when recovery gets under way.

● When Reserve Bank governor Chris Stals delivers his most important speech of the year today at the agm, the markets will be watching for clues on the direction of monetary policy.

The economic report noted real interest rates were "comparatively high", but said the fact that South Africa was still "moving towards financial stability" had to be taken into account. Net gold and foreign exchange reserves were still at a vulnerable level. — Business Staff, Own Correspondent and Sapa-Reuter.

Bank reports further slide in inventories

GRETA STEYN

INVENTORIES were run down again in the second quarter of this year after an increase from very low levels in the first quarter, the Reserve Bank's annual economic review said. BDay 23/8/93

This reflected not only the recession, but also a structural change. Inventory management had become more efficient with advanced computerised techniques and more reliable delivery systems.

De-stocking took place largely because of a substantial increase in the volume of merchandise exports and a decline in the volume of imports.

After reaching a high of 30% in the first quarter of 1982, the ratio of inventories to GDP declined steadily to 17% in the fourth quarter of 1992 and then rose marginally to 17,5% in the first half of 1993. (149)

The rate of decline varied considerably from quarter to quarter, "clearly illustrating the uncertainty among business enterprises about the short-term prospects for the SA economy", the Bank said.

The other components of total investment spending also took a hammering over the recession. Real gross domestic fixed investment in the first half of 1993 was 40% lower than its all time high in the final quarter of 1981 and 23,5% lower than its most recent cyclical peak in the fourth quarter of 1989. Private and public sector spending declined sharply in real terms.

Private sector capital spending fell by a compound average annual rate of 3,5% in real terms over the 1989/93 recession while public sector spending fell by 16,5%. An analysis of fixed investment by type of asset showed spending on buildings and construction work declined sharply, while investment in machinery and equipment declined more moderately.

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'Upturn only in 1994' (49)

CT 24/8/93

Business Editor

RECESSIONARY conditions in the economy are beginning to fade, Sanlam chief economist Johan Louw says in his Economic Survey for August.

But "it should be borne in mind the recovery in most sectors is taking place from a very low base indeed (and is actually indicating only slower negative growth in many cases)."

Louw warns that, because of the inability of foreign economies to get going — delaying an export-led recovery for SA — and the damage political instability and violence are doing to investors' confidence, "sluggish economic activity could continue for the next six to nine months and a general upturn in the economy will develop only in 1994."

However, the upswing in Britain is gaining momentum. As other economies improve Louw foresees "a moderate improvement in the prices of most commodities — including the gold price — in the next 12 months."

He expects longterm interest rates to come down, to below 14%, in the next six months.

Louw said yesterday that "to get an upswing we shall have to bring down taxes. Private consumption accounts for 60% of the economy."

Fiscal drag, in particular, reduced disposable income too much.

High black aspirations 'won't hinder recovery'

(49) CT 25/8/93

Business Editor

HIGH black expectations need not cause the next government to carry out policies that would prevent economic recovery, Seshi Chonco, chairman of the Black Management Forum in the Western Cape, said yesterday.

He told members of the University of Cape Town Graduate School of Business Association, at a lunch at the Woodstock Holiday Inn, that although the black majority expected a better life after the election he thought they would be prepared to accept a gradual improvement if they regarded the government as a legitimate one.

The expectations of black youth were significantly higher than those of older people. But expectations and demands for material benefits might not dominate a political settlement.

Freedom was more important than specific benefits and "the desire to feel vindicated as a South African might be the most important of all."

Chonco also pointed out that "there are strata in black society" and the expectations of black businessmen were not the same as those of people in squatter camps.

Blacks aspired to senior positions in the corporate world, and continued to be under-represented in it.

A CE had recently complained to him that black executives tended to go in and out of companies as though they were in a revolving door, instead of staying.

The cure for this was to change the corporate culture so that black executives felt that they, too, were members of the club.

In answer to questions, Chonco pointed out that governments had ways of dealing with dissatisfaction if the expectations of the majority were not being met.

Stressing that he was not a political partisan, he pointed out that some governments in neighbouring states had diverted the anger and disappointment of the electorate by blaming outside organisations such as the IMF.

Politics is delaying recovery — Stals

B/Day 25/8/93

GRETA STEYN

RESERVE Bank Governor Chris Stals yesterday sent a message to the politicians to work out their differences or face further damage to the battered SA economy.

In his Governor's address, he placed major emphasis on the need for caution in monetary policy — putting a damper on speculation of an imminent cut in Bank rate. He signalled the need for utmost care in the face of unrealistic expectations and dwindling foreign exchange reserves.

Pressure on SA's foreign exchange reserves could be alleviated if political agreement on two key issues could be reached — the rescheduling agreement on foreign debt in the standstill net, and access to IMF and World Bank finance.

(49)

Delays in settling the issues contributed to uncertainty in the international financial community about SA's ability to meet its future financial commitments. These issues were being negotiated "within the complex SA political process" and could not be decided conclusively on underlying economic and financial conditions alone.

"They do, however, have a profound effect on the current depressed business mood. It is in the interest of the SA economy that these issues be resolved as soon as possible," Stals said.

He also noted "the protracted negotiation process" and violence had joined forces with the drought to have a major negative effect on the course of the economy over the past 18 months. The phase of business uncertainty had been prolonged and the recovery in confidence delayed.

After more than four years of painful contraction, there was a growing impatience for economic recovery. The high and growing levels of unemployment were obviously aggravating violence and crime.

A cool-headed approach was now more necessary than before to avoid "adding fuel to the growing flames of unrealistic expectations". The monetary authorities had to guard against the temptation of yielding to the increasing pressures for an "early" stimulation of a weak economy.

Stals acknowledged SA's interest rates were high in real terms, but said they reflected the declining propensity to save, capital outflows, and the deficit. "As long

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Stals

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as these circumstances prevail, macro-economic stability will not be tenable without relatively high rates of interest."

SA needed financial stability "more than ever before", not only in support of sustainable economic growth but also to underpin any new democratic dispensation. Perennial expectations of high inflation further underlined the need for caution.

(49)

Good progress had been made, however, towards reducing the high inflation rate and creating a financially stable environment. Balance of payments pressures and the decline in the foreign reserves over the past year forced the Bank to be cautious. The developments in the BoP and in the foreign reserves over the past 12 months served as "a stark reminder" of what realistically could be achieved at this stage.

● See Page 3

'Further delay in upturn likely'

BDay 25/8/93

LINDA ENSOR

CAPE TOWN — Sluggish economic activity could continue for the next six to nine months before a general economic upturn occurred, Sanlam chief economist Johan Louw predicted in the latest Economic Survey.

Louw said a number of negative factors — particularly the lack of consumer and business confidence — could delay the start of a meaningful recovery.

He said unstable political conditions would continue to place severe pressure on foreign reserves, further delaying an economic upswing. He estimated that current total foreign reserves barely covered six weeks' imports.

Negative factors included the inability of foreign economies to get going, violence and lack of progress with negotiations. These were offset by a higher gold price and the prospect of financial sanctions being lifted. Improved mining production and a stable financial environment were also positive.

Louw expected the favourable inflationary trend to continue in the next year.

An average inflation rate of just under 10% for 1993 and less than 9% for next year was forecast. (49)

The trade account and current account of the balance of payments had improved in the past six months and Louw estimated a current account surplus of nearly R3bn for the first half. If the gold price continued rising, an annual current account surplus of more than R6bn (R3,94bn) was forecast.

Lower interest rates were justified by the inflation trend and the state of the economy. Louw said the real prime overdraft rate of 6% was high for this phase of the business cycle.

If the expectation of an improved balance of payments in the second half was realised, and if IMF loans became available, chances were that the Reserve Bank would reduce the Bank rate from 13% to 12%, Louw said. He believed long-term interest rates could drop below 14% in the next six months.

Stals sheds Bank's supervision role

B/Day 25/8/93

KELVIN BROWN

RESERVE Bank Governor Chris Stals's desire to create an "arm's length" relationship between banking supervision and the Bank has been realised.

Last year Stals expressed the Bank's wish to get rid of the responsibility for banking supervision. This was spurred by a spate of bank failures and financial scandals, including CIB, Alpha Bank and Masterbond.

In his Governor's address yesterday, Stals said the Bank would no longer bear responsibility for the Registrar of Banks' actions. The move would avoid any conflict between the Bank's functions. Accountability would rest with the newly-formed Policy Board for Financial Services and Regulation.

(49)

When the new board was announced in June, government extended regulatory authority for the banking sector to the Finance Minister, but decided to keep the Registrar of Banks with the Reserve Bank.

Stals said the new arrangement would enable the establishment of an "arm's length" relationship between the Office of the Registrar and the Reserve Bank. "It should make it easier to avoid any conflict of interest between the regulatory function and the Reserve Bank's reponsibility as lender of last resort."

The idea was first mooted in the Governor's address last year when reference was made for the need to separate the functions of bank supervision and lender of last resort. This was supported by the Jacobs commission of inquiry into the promotion of equal competition for funds in the financial markets and the Melamet commission'sinvestigations into the supervision of the financial sector.

Commenting on the new Mutual Banks Bill drawn up by the Registrar of Banks, Stals said it could serve as a useful bridge between the informal and formal sections of the financial sector. The Bill allowed for the registration of "informal" banking institutions through capitalisation with mutual participation rather than equity shareholding. The financial sector needed to be encouraged to provide adequate financial services across the economy, said Stals. "The Reserve Bank welcomes all efforts aimed at closer co-operation between the informal and formal sections of the SA financial system."

AHI sees 2pc interest rates cut

(49) ARG 26/8/93

Business Staff

THERE is scope for a cut of as much as a two percent in the official interest rate within the next six to eight months, says Afrikaanse Handelsinstituut chief economist Nick Barnardt.

"Though this will depend on developments in the balance of payments (BoP), we expect the current account surplus to exceed capital outflows in the third and fourth quarters," he said.

A decline in government spending from about 30 percent in the first quarter to 13 percent in the second quarter, and a concommitant narrowing of the fiscal deficit, had helped to ease inflationary pressures.

Also positive were a decrease in monetary expansion to around 4 percent, PPI inflation of around 6 percent, a perceptible decline in long-term interest rates in recent weeks and lower wages, salaries and labour cost inflation.

"These positive trends considerably outweigh the further depreciation of the rand exchange rate, the rise in export prices and the slight increase in the fuel price under-recovery in recent months."

AHI economist Johann Rossouw said surprisingly low inflation figures in recent months, higher JSE prices and a perceptible decline in long-term interest rates were positive for an economic recovery.

"The average prices of gold a platinum have improved, while the world price of oil, South Africa's biggest single import, has fallen.

"A perceptible improvement in the overall terms of trade, together with higher export and lower import volumes, producd an outstanding trade surplus in the second quarter."

But he cautioned that the economy remained extremely fragile and vulnerable to exogenous shocks.

Severe capital outflows continued on the balance of payments (BoP), causing a further decline in South Africa's foreign reserves in the second quarter.

"This tightened money market liquidity, and was reflected in the real prime rate — prime less non-VAT CPI inflation — risng to an eight-year high of 8,34 percent, currently the highest in the world."

Mr Rossouw said that although the restrictive effect was partly mitigated by the weaker exchange rate, it represented a significant tightening of monetary conditions.

He said the AHI was sticking to its forecast of zero or a negative 0,5 percent growth rate for calendar 1993.

"GDP growth in 1994 will be some two percent higher, but unemployment will continue rising sharply for the next 18 months."

Govt spending cuts to fund teacher salaries

GRETA STEYN

GOVERNMENT would try to finance the extra R850m spending for teachers by cutting existing expenditure, a State Expenditure Department spokesman said yesterday. B Day 26/8/93

He said government hoped that savings and reallocation of existing spending priorities would avert a spending overrun this fiscal year as a result of the teachers' strike. Government did not expect to exceed its budgeted spending total of R114bn with more than the amounts announced for additional spending on drought relief (R469m) and job creation (R255m).

The R850m spending on teachers' salaries will take effect from November, with five months of the fiscal year still to go.

Reserve Bank economics head Ernie van der Merwe said the Bank expected the announcement of additional spending to lead to a deficit overrun. (3**)

A significant discrepancy has arisen between Finance Minister Derek Keys and the Bank's calculation of the fiscal deficit. At the end of this fiscal year, the Bank and Keys would produce deficit totals that differed by more than R1bn, economists said.

This reflected the treatment of finance raised from the sale of state assets, which in the past was counted as a source of funds rather than revenue. Keys changed this practice in this year's Budget to include the finance in the revenue figure, arriving at a lower deficit than the Bank's. This approach would be applied to extra spending announced after the Budget. (49)

Van der Merwe said the Bank regarded funds raised through the sale of state assets as a one-off item which could not be counted as part of current revenue. Selling strategic assets was a financing activity and for economic analysis the deficit would have to include spending financed from this source. He said the extra spend-

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Spending cuts

B Day 26/8/93 From Page 1

ing would see the deficit rise above the original budgeted level. (3**)

According to the Bank's annual economic report, the budgeted deficit for the present fiscal year was R25,9bn, or about 7% of GDP. The Bank said these estimates "differed slightly from those presented by the Minister, because privatisation proceeds have been excluded from ordinary government revenue and are included in the financing of the deficit". (49)

This difference is set to widen as further spending to be financed from the sale of state assets has been announced.

In his Budget, Keys included the finance raised from the sale of state assets in the revenue totals, yielding a deficit of R25,3bn — slightly less than 7%. The approach will also be applied to the extra spending on job creation and drought relief.

Keys' office said funds for drought aid and job creation would be financed without increasing the budgeted deficit before borrowing. "Apart from reallocation of budgeted funds, sales of strategic supplies will contribute to the financing of the additional expenditure " This was in line with the indication in the Budget speech that "special funding arrangements" would be made to finance additional projects.

SA on key learning curve

Star 26/8/93

■ BY CHRIS WHITFIELD
POLITICAL CORRESPONDENT

THERE is much for us to profit from by following the example of South America, a touring businessman has found

Santiago (Chile) — Africa is in danger of becoming a forgotten continent and can learn from Latin America, says Attie du Plessis, former Afrikaanse Handelsinstituut president and executive director of Sankorp.

Du Plessis, one of seven businessmen accompanying President de Klerk on his week-long sweep across South America, also suggests that the entire southern hemisphere could be marginalised as powerful nations to the north and Far East form trading blocs. "In one or another way the countries of the southern hemisphere must position themselves," he warns.

Three of the Latin American countries being visited by the group are in the process of forming their own trading bloc, Merqusor. Uruguay, Paraguay and Argentina will be joined by Brazil — which De Klerk is not visiting — in Merqusor while Chile is yet to commit itself, apparently holding out for inclusion in the North American Free Trade Area (Nafta).

"They (the Merqusor nations) have obviously seen where the world is going in bloc forming," said Du Plessis, pointing out that the Merqusor nations will embrace over 200 million people.

Chile's astonishing success story also has lessons for South Africa, says Du Plessis. One of the important factors behind the country's recent economic success — nine consecutive years of positive economic growth — is "the high degree of consensus between the Government, entrepreneurs and the labour movement on economic policies ... They have focused themselves on the development of the economy.

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Busy

"As long as each and every one is busy with their own agenda you won't have stability and security," said Du Plessis.

"There is a lot for us to learn here, to see how people can get their act together."

He believes our National Economic Forum is ideally positioned to facilitate this process.

The trip has provided "reconfirmation in my mind that the economic forum is a very important thing ... something to get people looking in the same direction."

The businessmen have stressed that it would be unrealistic given the nature of the visit — short stops in each of the countries — to expect contracts to suddenly come pouring in. They point out that these things do take time, but are confident that their visit will have positive spin-offs.

He believed the doors being opened by travelling with De Klerk were also in the country's interests. "I can't think of one thing negative to say about it."

But he stressed that while the country was again part of the international community it would not simply "be taken along for the ride .. we have to fight for it and make sure that we are there. I see this trip as one component of an exercise of that nature".

Bid to boost Cape economy

(49)

BRUCE CAMERON
Business Staff

THE Western Cape Economic Development Forum has spelt out optimistic plans to turn the region into one of the world's leading local economies.

The plans unveiled at a media conference are to be ratified by a plenary session of the Forum next week.

The Forum has given notice with the plan that it is moving with urgency to tackle substantial developmental problems made worse by the swelling informal settlements in the region.

The first of the Forum's plans which are expected to start seeing results soon are those directed at shortterm employment using the R300 million shortterm employment facilities of the National Economic Forum. About 21 proposals for shortterm employment in the region are under consideration and could start opertaing in months.

But the attention is to tackle the problems of the western Cape in a co-ordinated manner to ensure sustained economic growth.

In a draft document the forum has spelt out the industries and attractions on which will provide the best growth opportunities. These include;

- The role of Cape Town as the legislative capital;
- The Western Cape's environment;
- The agricultural potential;
- The manufacturing sector;
- Tourism;
- Development as an educational centre;
- Development as a health centre;
- Research and development;
- As a financial and investment base;
- The conference industry;
- Development of facilities as an air and sea gateway;
- Sport;
- Art, cluture and design; and
- Textiles and garments

The plans included a draft vision statement to provide a framework for sustainable growth. The goals spelt out in the vision statement included:

- Meeting basic needs including shelter, employment, basic nutrition, infrastructure and service, education and an evirnoment of peace and stability;
- A growing economy based on attracting new investment; and restructuring key industries, including food, clothing and tourism to make the region competitive on local and foreign markets.

A key factor would be improved productivity with a commitment to improved skills and indudstrial relations;

- Sustainable development which incorporated environmental ceoncerns and public participation in planning decisions;
- Achieving greater equality of opportunity, income and assets by improvingproducivity of all people while correcting historically skewed racial and gender imbalances in the ownership and access to resources;
- Improving education and training with the development of human resources and skills being seen as critical to the region;
- Strengthening regional, nationla dn international links;
- Managing urbanisation and urban devbelopment effectively;
- Developing an equitable, efficient and sustainable pohysical environment that would help reintegrate the region. This would include improving the transport system;
- Establishing democratic, participative and effective local government; and,
- Increasing opportunity, choice and fulfilment.

ARGT 26/8/93

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Cosatu bid to keep the new SA liquid

(49)

BY CLAIRE GEBHARDT

Don't be surprised if you see your neighbour filling in his much-loved swimming pool after April 27 next year.

For if Cosatu national co-ordinator Jayendra Naidoo is serious, pool owners could be the subject of a special tax to fund South Africa's reconstruction.

Naidoo kept delegates to an Ernst & Young Opportunities Forum glued to their seats on Tuesday as he espoused some radical proposals for restructuring the economy.

"We have to find the money, and a reconstruction levy or a swimming pool tax is one idea," he said. It was necessary to redistribute goods by taking resources away from the minority to give to the majority.

"If you don't like that you'd better emigrate, or you'll have to emigrate within the country behind barbed wire and locked gates," he said.

Naidoo said South Africa needed to be rebuilt after being destroyed by apartheid.

And who will pay for it?

Naidoo said a lack of foreign investment was not the issue as billions of rands were available inside the country.

"People are afraid to invest because it might be burnt up. But the money in the pension and provident funds belongs to the workers, not the institutions.

"World Bank money and International Monetary Fund money will probably total only R3 billion — but South Africa's annual Budget is over R100 billion."

Cosatu was not afraid of

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Naidoo . . . "If you don't like it . . . better emigrate."

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Pool tax mooted

◀ From Page 1

people's expectations. "They are very reasonable. People have told us that all they want is a job, a three-roomed house, schooling and clothes and food for their children." (49)

But Naidoo admitted it would be impossible to provide more than 1,2 million houses.

"We have to offer a plan to meet these expectations." He said the poor were being "screwed".

"Electricity is provided for whites at a subsidised rate, while Soweto residents pay the full price."

Naidoo said industry, the civil service, security forces, housing, rural development, electrification and food prices would have to be restructured.

Forget about low wages over the next 10 or 20 years. He quipped: "South Africa is union country."

He claimed that Cosatu had more power than the politicians. "What would the ANC do without us? We're the only ones with plans for reconstruction after the election."

Responding to a question on nationalisation, Naidoo said Cosatu had not moved away from it, but would apply a narrower definition.

"If we perceive that the pharmaceutical industry is a monopoly and needs to be nationalised to bring down the price of medicine, we will do so."

Economist calls for redistribution

(49)

Own Correspondent

PORT ELIZABETH. — South Africa's economic problems will be solved only by redistributing wealth in such a way that it generates a social and economic climate that restores confidence, says University of Stellenbosch economist Professor Sampie Terreblanche

Speaking at the official opening of the annual congress of the East Cape Agricultural Union last night, he pleaded for a redistribution of wealth as a symbolic gesture to rectify the "blatant injustice" to non-white groups.

CT 26/8/93

"It cannot be called an apartheid fine — because the whites will never be able to repay 120 years of injustice," Prof Terreblanche said.

"Five percent of South Africans own 88% of all riches in the country. The rich say they have earned their riches, which in most instances is not true. Many of them got their riches from their membership of the group who had all the political and economic power."

Hopes rise for economic upturn

BRUCE CAMERON
Business Staff

AN increasing number of economists are starting to predict signs of life in an economy that has been contracting for 4,5 years.

The latest is Sanlam chief economist Johan Louw who believes that a number of developments indicate that the longest recession of the century is "practically a thing of the past".

The announcement by Central Statistical Services that the seasonally-adjusted real gross domestic product grew by more than five percent in the second quarter of the year as against 1,4 percent in the first quarter "is pariculary good news".

Latest figures on the economy indicated the expansion can largely be attributed to the sharp rise in agricultural production but they also showed recessionary conditions in general were starting to fade.

Positive factors that would support the upward trend included: (49) ARG 27/8/93

- The higher gold price;
- An impprovement in mining production;
- A levelling out in the decline in retail sales;
- A considerable increase in manufacturing volumes;
- A sharp increase in new vehicle sales;
- Reasonably stable financial conditions with both inflation and interest rates; and
- The imminent lifting of sanctions.

However, there were still a number of negative factors including the level of violence.

Violence was undermining consumer and business confidence as well as foreign investor confidence which in turn was placing the country's foreign reserves under pressure.

Mr Louw warned that if the pressure on the foreign reserves continued even limited economic growth could not be accommodated.

At the moment reserves could hardly cover payments for six weeks' imports of goods and services.

For this reason the lifting of financial sanctions and possible IMF loans of about R3 billion were eagerly awaited.

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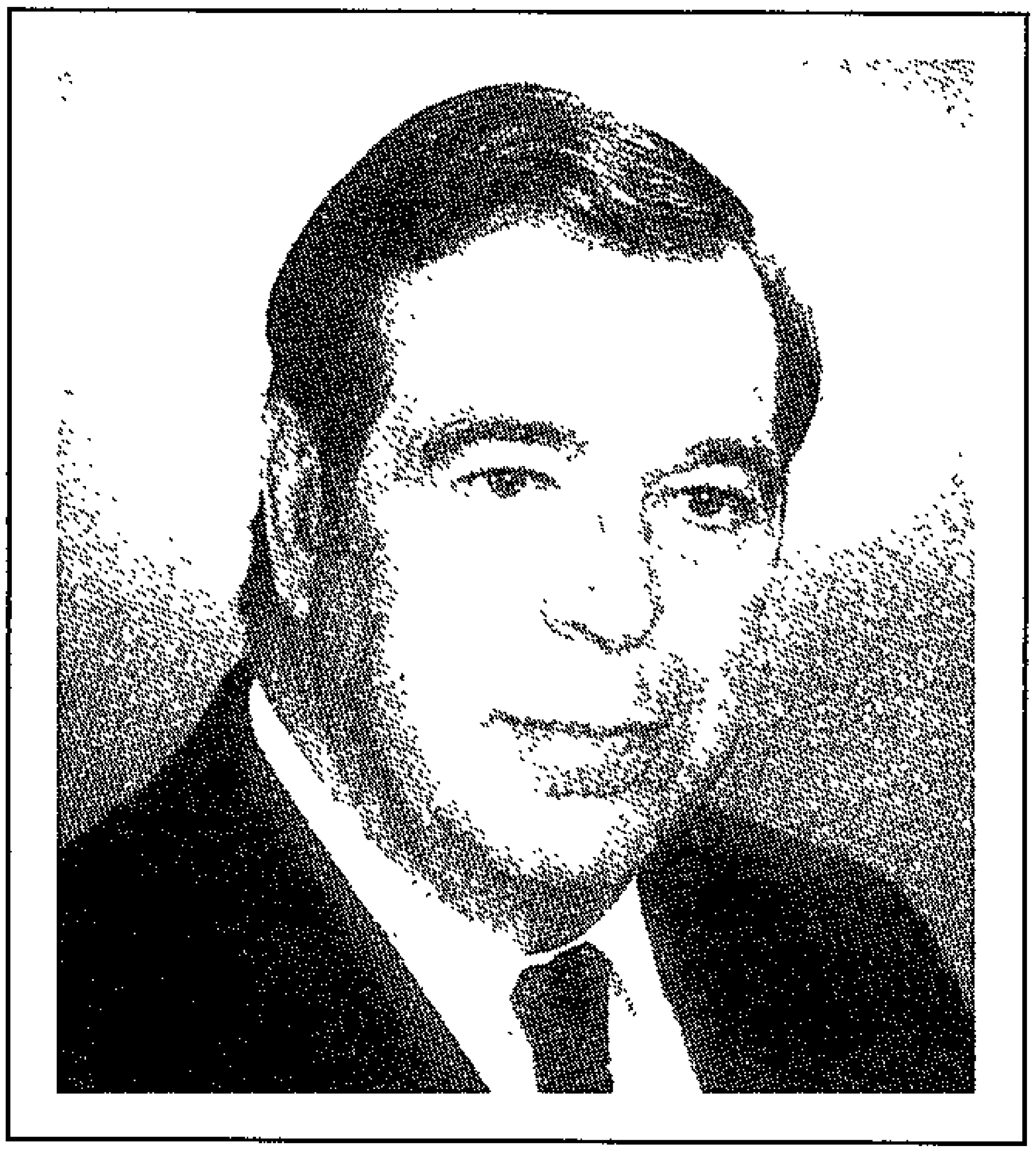
GOVERNOR'S ADDRESS

Address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-third ordinary general meeting of shareholders of the Bank on 24 August 1993



Introduction

The recession in the South African economy, which had started in March 1989, deepened considerably in 1992 and then levelled off in the first half of 1993.

Two major exogenous events influenced the course of the economy during the past eighteen months:

- Firstly, the severe drought of the 1991/92 agricultural season adversely affected not only economic activity in the summer rainfall areas, but also the balance of payments, the foreign reserves and the overall liquidity situation.
- Secondly, the protracted negotiation process aimed at political and social reform, and the further escalation of violence and social unrest, prolonged the phase of business uncertainty and delayed the recovery of investors' and consumers' confidence.

These local developments occurred against the background of a global economy that also remained fairly depressed. Encouraging signs of an emerging recovery in the United States of America and the United Kingdom were neutralised by adverse developments in the Japanese and in the German and other European economies. Turmoil in the foreign currency markets since September 1992, the *de facto* suspension of the European Exchange Rate Mechanism and volatile exchange rate movements among the major currencies also affected the South African balance of payments. From September last year up to the middle of this year, a continuous appreciation of the United States dollar against the rand encouraged adverse leads and lags in the movement of foreign capital and contributed to a sharp drop in the country's gold and foreign exchange reserves.

As in the preceding year, however, the depressed real economic situation was again accompanied by some further progress in stabilising internal financial conditions. The rates of increase in monetary aggregates such as bank credit and the money supply declined to levels compatible with the paramount monetary policy objective of overall financial stability. It is gratifying to note that at last the hard-core inflationary pressures of the past two decades are now showing signs of crumbling.

"It is gratifying to note that at last the hard-core inflationary pressures of the past two decades are now showing signs of crumbling."

After more than four years of painful contraction there is a growing impatience for an early economic recovery. The high and growing levels of unemployment are obviously abetting and aggravating the escalating violence, together with the repulsive criminal acts of murder, robbery and theft.

A cool-headed approach towards macro-economic policy is now more necessary than ever before to avoid adding fuel to the growing flames of

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unrealistic expectations. The monetary authorities in particular must guard against the temptation of yielding to the increasing pressures for an early stimulation of an inherently weak economy through a premature relaxation of the disciplines that have served to put the country firmly on the road to longer-term financial stability. Such an artificial stimulation will not lead to sustainable economic growth. It will only revive the old-fashioned stop-go and boom-bust policies of the nineteen seventies. Most countries in the world have long since discarded this short-term approach to monetary policy. The challenge for South Africa is rather successfully to steer the economy into a process of high and sustainable economic growth *with* financial stability.

Domestic economic activity bottoms out at low level

After more than three years of almost uninterrupted declines, the quarterly change in the real gross domestic product, measured at an annual rate, showed welcome increases of 1½ per cent in the first and 5 per cent in the second quarter of 1993. This was preceded by sharp declines of 5½ per cent in the third and 4½ per cent in the fourth quarter of last year.

Although the recent improvement in real economic growth could be attributed mainly to a rise in agricultural output following the return to more normal weather conditions, the real value added by a few other sectors of the economy, for example electricity, gas and water, also changed direction from a downward trend to a sideways or slightly upward movement in the first half of 1993. At this stage there are, however, no convincing signs of any general upward movement in total non-agricultural economic activity.

"... the quarterly change in the real gross domestic product, measured at an annual rate, showed welcome increases of 1½ per cent in the first and 5 per cent in the second quarter of 1993."

Total real domestic expenditure continued to drift downwards throughout 1992 and then showed a rather strong increase at a seasonally adjusted annualised rate of 9 per cent in the first quarter of 1993. This subsequently proved to be an aberration, caused mainly by a relatively large increase in industrial and commercial inventories, partly reflecting a temporary sharp rise in imports and lower exports during the first three months of the year. These developments were reversed in the second quarter when a large decline in inventories occurred as the volume of exports rose and that of imports declined. Total real gross domestic expenditure accordingly declined again at a seasonally adjusted annualised rate of as much as 12 per cent in the second quarter.

Although real consumer spending by households increased marginally in the first half of 1993, consumer demand remained fragile in an environment of persistent socio-political and economic uncertainty. With a deliberate reduction in the rate of expansion in current government expenditure and a continuation of the contraction in real gross domestic fixed investment, overall final demand declined further throughout the past twelve months.

The depressed economic conditions reduced the rate of growth in total nominal factor income to less than 10 per cent per annum over the past eighteen months. Both the owners of corporate businesses and employees therefore had to accept declines in the nominal rates of increase of their total gross operating surpluses and gross remuneration, respectively.

Against this background it is not surprising that total gross domestic saving declined further from 22½ per cent of gross domestic product in 1989 to 16½ per cent in 1992 as well as in the first half of 1993. A substantial increase in dissaving by general government and a decline in corporate saving more than offset a small increase experienced in personal saving.

The severity of this long-drawn-out recession is best illustrated by the fact that total employment in the formal non-agricultural sectors of the economy declined by 4,8 per cent, or by nearly 286 000 employment opportunities, from the beginning of the recession in 1989 up to the end of 1992. It is estimated that 46 per cent of the total economic active population of South Africa is now either engaged in the informal sector, or totally unemployed.

Vulnerability of balance of payments illustrated by sharp decline in foreign reserves

Over the three years from the middle of 1989 to the middle of 1992, South Africa's net gold and foreign exchange reserves increased by R6,2 billion, but in the subsequent nine months from July 1992 to March 1993 they declined again by R7 billion. All the progress made through the painful adjustment process of three years of depressed domestic economic conditions was therefore lost again in a relatively short period of a mere three quarters. After an increase of R1,2 billion in the second quarter of 1993, the official net foreign reserves position in the middle of 1993 was only slightly better than it was four years ago.

The decline in the foreign reserves in the second half of 1992 through the first quarter of 1993 was due, firstly, to a substantial decline in the balance of payments current account surplus, mainly as a result of an increase in the imports of merchandise. The severe drought of the 1991/92 season took its toll in respect of the balance of payments through a decline in the exports of agricultural products on the one hand, and a substantial increase in grain imports, on the other. It was only in the second quarter of 1993 when the imports of agricultural products contracted and total exports of merchandise, including gold, rose sharply, that the current account surplus increased again. Indeed, on a seasonally

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political developments in South Africa. In the first six months of 1993, non-residents nevertheless made substantial investments on the Johannesburg Stock Exchange, particularly in gold mining shares. On a net basis, they invested R2,7 billion in South African shares and bonds through stock exchange transactions, and thus absorbed a substantial part of the liquid financial rand balances held by non-residents in the form of designated deposits with South African authorised dealers in foreign exchange. In the process, the financial rand exchange rate appreciated by 8,8 per cent in the first seven months of 1993, after having depreciated by 34,7 per cent in 1992. The financial rand discount *vis-à-vis* the commercial rand narrowed from 37,2 per cent on 31 December 1992 to 28,4 per cent on 13 August 1993.

Growth rate in the money supply declines and interest rates come under pressure

In the situation of the depressed real economic activity of the past year and under the influence of the net outflow of funds to the rest of the world, the rate of growth over twelve months in the M3 money supply slowed down from 10,4 per cent in February 1992 to 8,0 per cent in December 1992. In the fourth quarter of 1992, the average amount of the money supply was 8,8 per cent above the average of the fourth quarter of 1991; this was within the range of 7 to 10 per cent announced by the Reserve Bank as a guideline for an acceptable rate of growth in M3 for 1992.

"The strong declining trend in money market interest rates which had commenced already in February 1990...was also tempered by the deterioration in the overall balance of payments situation."

During the first seven months of 1993, the growth rate in the broad money supply slowed even further. Over the twelve months up to the end of June 1993, M3 increased by only 3,5 per cent, which was below the lower level of the monetary guidelines of 6 to 9 per cent announced by the Bank for 1993. An increase in the velocity of circulation of M3 over this period, however, compensated partly for the lower rate of increase in the M3 money supply itself.

The slower growth in the money supply was not only due to the sharp decline in the foreign reserves over the past year. The rate of increase in M3 was also influenced by a significant slow-down in the expansion of bank credit extended to the private sector. Over the twelve months up to the end of June 1993, the banks' total claims on the private sector rose by only 7,0 per cent above the level of 12 months earlier. This included mortgage advances extended by the banks against the collateral of residential property, which had increased by 17,5 per cent during these twelve months.

Money market conditions in general also reflected the decline in the foreign reserves as conditions tightened considerably in the second half of 1992 and in the early months of 1993. The average daily amount of accommodation made available to banks at the Reserve Bank's discount window, which had only been R1 billion in April 1992, increased to R4,1 billion in October 1992 and R5,6 billion in April 1993.

The strong declining trend in money market interest rates which had commenced already in February 1990 and which gained considerable momentum during the first nine months of 1992, was also tempered by the deterioration in the overall balance of payments situation. A few of the more flexible short-term interest rates actually tended to move upwards again in the second quarter of 1993. For example, the inter-bank call rate which had declined to 10,5 per cent at the end of March 1993, increased again to 11,5 per cent in July 1993.

The Reserve Bank on two occasions during the past twelve months endorsed lower interest rates in the market by reducing its Bank rate. After having been reduced gradually from a peak of 18 per cent to 15 per cent in three steps from March 1991 to June 1992, Bank rate was reduced further to 14 per cent in November 1992 and again to 13 per cent in February 1993. From then onward, the declining foreign reserves and the consequent tightening of liquidity conditions in the money market, with some upward pressure on interest rates, precluded the Bank from taking the lead in forcing interest rates down to lower levels. Indeed, after the most recent reduction in Bank rate in February this year, the margin between Bank rate and most of the short-term market interest rates narrowed. It has only been recently, since the middle of July when the downslide in the foreign reserves receded, that previous margins between interest rates have been restored again.

In the circumstances, the Reserve Bank from time to time had to provide more than just temporary assistance to the market to prevent undue liquidity shortages from developing. Apart from its normal short-term assistance, intended to neutralise temporary short-term fluctuations in market liquidity, the Bank also:

- on 16 March 1993, redeemed the R500 million of special Reserve Bank bills it had issued in June 1992;
- in April 1993, reduced the minimum cash reserve and liquid asset requirements for banking institutions (partly to prevent certain changes of structure and definition introduced at the time in the Banks Act from exerting upward pressure on interest rates). A further reduction in the minimum cash reserves for banks was announced by the Reserve Bank on 4 August 1993, to become effective in the middle of September 1993;

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the next few months, the objective should be to retain South Africa's rate of inflation permanently in the single-digit range.

There are still many misconceptions about the Reserve Bank's alleged "obsession" with the fight against inflation. The Bank is of the firm belief that sustainable economic growth will not be possible unless a stable currency can be assumed with some assurance for the future. No market-oriented economy can function efficiently without money, and money cannot play its proper part as a means of exchange, as a store of value and as a common denominator unless it can be trusted by the people to retain its value.

The social consequences of inflation should also not be underestimated. Stable money is not only a necessary condition for economic growth, but also for a viable democracy. Hyperinflation has in the history of the world not only destroyed the economies of countries, but has also led to the destruction of many democratic social systems. South Africa now needs financial stability more than ever before, not only in support of sustainable economic growth so desperately needed by all, but also to underpin any new democratic dispensation.

"Now that the rate of inflation has moved closer to those of South Africa's major trading partners and will hopefully continue to do so over the next few months, the objective should be to retain South Africa's rate of inflation permanently in the single-digit range."

Many of the critics of the Reserve Bank's anti-inflation policy are preoccupied with the Bank's intermediate objective of protecting the value of the rand. They forget that ultimately monetary policy is about growth, about saving and investment, about output and about jobs. The monetary authorities do not fight inflation for the sake of a stable currency alone, but because they believe that durable economic growth can only be assured in an environment of financial stability.

Some of the criticism against the anti-inflation policy is based on an illusory "trade-off" that is still perceived in some quarters to exist between growth and inflation. This perception is based on the fallacious doctrine that a country can have more growth if it would only be prepared to live with some inflation. After the stop-go policy experiences of the nineteen seventies and the tendency of inflation under such circumstances to rise to ever higher levels, the doctrine has been widely discredited and the debate on the imagined trade-off buried. The lesson from that experience was that, as long as inflationary expectations are nurtured by lax monetary and fiscal policies, the economic growth potential of a country will be eroded either by open or by repressed inflation.

Another illusion often found in this debate is the accusation that the central bank's anti-inflation policy is a "high-interest-rate" policy. This is, of course, also not true. It is only with low inflation that any economy can sustain low interest rates. The contrary has proved to be nearer the truth, namely, it is the reluctance on the part of the authorities to accept realistically high interest rates from time to time as indicated by underlying demand and supply conditions in the financial markets, that more often than not leads to inflationary monetary policies. Persistent or high inflation eventually forces even higher nominal interest rates. The Reserve Bank's anti-inflation policy should therefore rather be recognised for what it is, and that is a policy to establish a more permanent basis for low interest rates.

South Africa has clearly not yet succeeded in breaking the perennial expectations of high inflation. As long as this harmful psychology persists, the monetary authorities have to follow cautious policies and avoid any premature relaxation of the disciplined financial policies, which could easily be interpreted as a sign of weakness in the fight against inflation. Only when we have been successful for some time in keeping inflation down will the disbelievers be converted and act accordingly. Until such time, savers will probably continue to add an inflation premium to the interest rates they demand, and wage negotiations will continue to reflect the fears of workers of a continued inflationary future, thereby promoting the process of inflation itself.

There is another illusion that needs elucidation, and that is the unqualified presumption by many South Africans that assumed excessive increases in government expenditure and/or in wages and salaries and/or unjustified profit-making by monopolistic organisations will in future automatically lead to persistently high inflation. This may, of course, not be true, provided monetary policy can, if and when such excesses do occur, avoid the "monetisation" of the excesses, that is prevent the accommodation of the excesses with additional money creation. Over-expenditure by governments lead to an increase in the budget deficit, which must preferably be financed by raising taxes and/or by borrowing from the capital market, and not by the creation of money. The additional taxes and/or borrowing will reduce disposable income in the private sector and will be inclined to push up interest rates, and so crowd out private sector consumer and investment demands. Excessive increases in wages and salaries will exert upward pressure on the cost of production and downward pressure on profit margins, and will eventually work towards the destruction of jobs. Unjustified increases in prices will reduce the real effective purchasing power of the consumer and therefore eventually also the overall demand for goods and services.

In all these cases it will be of no avail to mask the process behind a veil of excessive money creation and inflation, because the ultimate result remains the same, namely slower economic growth, rising unemployment and widespread poverty. Should the inflation route nevertheless be preferred, it must be expected that even greater damage to the economy will follow, to make the inevitable restructuring before recovery so much

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for the accommodation facility. An effective upper limit has therefore been placed on the total amount of credit available at the discount window. This should lead to more sensitive interest rate adjustments in future liquidity crunches or expansions. The Reserve Bank will also in future have to rely more on open-market and other intervention operations, such as foreign currency swaps and repurchase transactions, to manage overall market liquidity. The Bank rate and yields on Treasury bills and government stock will have to be more representative of the underlying liquidity conditions in the market.

Thirdly, with the co-operation of the Department of Finance, arrangements were made for the transfer of at least part of government deposits from the Exchequer account with the Reserve Bank to government deposit accounts with private banking institutions. This step anticipates the introduction of proper "tax and loan" accounts that will shortly be opened by the Treasury with banking institutions to serve as depository accounts for tax collections and for the proceeds of loan issues by government. These new arrangements will eliminate the temporary sterilisation of money market funds previously held by the Treasury with the Reserve Bank, and will therefore reduce the frequency and the magnitude of overall shortages in the money market.

Fourthly, on 1 July 1993, the Bank ceased to participate in small-value or "retail" transactions in its open-market operations. The Bank previously became involved in the retail business in support of increasing overall market liquidity, and of promoting government stock as an attractive investment instrument. In the judgement of the Bank, the time had come for it to withdraw from this section of the market, and the Bank now confines its participation to larger-value transactions of R10 million or more. Agents are appointed on a rotation basis to trade in smaller amounts on the Bank's behalf. The authorities will continue to encourage developments which will eventually lead to a formal system of market-making by private sector participants in the government stock market.

In the longer run, all the aforementioned changes are intended to improve the effectiveness of monetary policy. They should support a more flexible interest rate structure that will be more responsive to changes in market conditions. At the same time, the new system incorporates more efficient brakes that will automatically be applied to curb excessive credit creation through the discount window of the Reserve Bank. The Bank's ability to meet its obligation to protect the value of the rand has therefore been enhanced by these changes.

Concluding remarks

There is a growing impatience in South Africa for an early economic recovery. The past year saw yet again a number of exogenous factors depressing the economy. These factors included the serious drought in large parts of the country in the 1991/92 season, a deterioration in the internal political situation accompanied by an increase in violence and social disruption, and an extensive adverse global economic climate. The effect on the South African economy is illustrated by a third year of negative growth in the gross domestic product in 1992, a decline in most of the components of gross domestic expenditure and a distressing further increase in unemployment.

On the more positive side, South Africa survived yet another crisis in its balance of payments and was able to meet all its international financial commitments, including paying for the additional imports of essential food, forced by the drought. Moreover, this was achieved without access to normal International Monetary Fund and certain other international credit facilities.

Good progress was also made towards reducing the high rate of inflation, and towards creating a more stable financial environment in general. The rates of expansion in the money supply and in domestic bank credit extension declined to relatively low levels that now provide support for an even lower rate of inflation in the year ahead. The decline in the rate of inflation to a single-digit figure provides sufficient proof that an even lower rate, in line with the low rates now prevailing in the economies of most industrial countries, is attainable also for South Africa.

In the first six months of 1993, real economic activity lifted its head, albeit mainly because of better weather conditions in some parts of the country. These early signs of a "recovery" have, however, not yet extended to all sectors of the economy.

"... real wealth can be created only by our own efforts, increased savings, higher productivity, better management and improved production processes."

Monetary policy retains its responsibility to secure and maintain financial stability. This is the contribution the central bank must make towards economic growth and the creation of jobs. Balance of payments pressures and the decline in the foreign reserves over the past year forced the Reserve Bank to be cautious Although nominal interest rates declined to a lower level as inflation receded, monetary policy remained restrictive. This is illustrated by the level of the real rates of interest, where some rates, particularly at the long end of the market, increased over the past year.

South Africa now stands on the threshold of a new era. There are many high expectations of what the economy will be able to provide in the coming years. The developments in the balance of payments and in the foreign reserves over the past twelve months serve as a stark reminder of what can at this stage realistically be achieved. Within these limits, real wealth can be created only by our own efforts, increased savings, higher productivity, better management and improved production processes. Financial stability is an indispensable pre-condition for the optimum development of all these activities. The Reserve Bank therefore remains committed to its mission, namely the protection of the value of the rand.

The omens are good, but the miracle won't happen

(49) WM 27/8 – 2/9/93

Despite improving signs, the economy still languishes in recession. **Reg Rumney** looks at the reasons for the extended downturn

INFLATION is down if not out and good weather has brought agriculture back from the brink — but that does not mean the South African economy is about to see a boom again.

The long drawn-out recession is not yet over, points out the Reserve Bank in its annual economic report.

"Most of the main economic indicators only show that the downturn in economic activity may be levelling out.

"The still hesitant and wavering economic recovery in industrial countries, the drop in international commodity prices to a very low level and the socio-political conditions in the country are still important factors restricting an economic recovery in South Africa."

Reserve Bank governor Chris Stals expanded on this in his annual address, blaming the drought and political uncertainty as well as a depressed global economy for the South African economy's continuing downturn.

He reiterated his doubts in his annual address this week — and warned he would take no precipitous steps to restimulate the economy by abandoning the Bank's mission of protecting the value of the rand, which has, in effect, meant interest rates consistently above inflation.

In one sense, the recession has been as mild as it was long. Since the start of the recession in the fourth quarter of 1989 real or adjusted-for-inflation gross domestic product (GNP), the key indicator of economic activity, decreased at a rate little over 0,5 percent a year.

Other recessions witnessed much bigger falls in annual growth rates. The Bank notes that what is alarming is the recession has lasted so long and came after a period of low growth throughout the Eighties.

How severe the four-and-a-quarter year recession has been is shown by the decline in GNP, the key indicator of economic prosperity. Real, or adjusted-for-inflation, GNP per head in the second quarter of this year was some 13,5 percent lower than its upper turning-point in the second quarter of 1988.

Looked at another way as a nation we are on average no wealthier now than we were 22 years ago. The Bank notes the average annualised income of R3 200 a head in the first half of 1993 (in 1985 prices) is only equal to that reached in 1971.

On the bright side, the Bank lists various positive pointers to economic improvement in the rest of 1993 and 1994:

- Gradual recovery in some of the world's major industrial economies
- Pending large investment projects
- Low inventories which could lead to a surge in demand for goods and services once the economy begins to recover
- The need to replace machinery, equipment and consumer durables
- The primary and secondary effects of the good agricultural crops in the second half of 1993
- A possible further return to normality of international economic relations with South Africa, including possible access to International Monetary Fund loans to counter any balance of payments crisis.

Add to this the possibility of another interest rate cut soon because of lower inflation — though Stals will keep a close watch on the balance of payments and the decline in our gold and foreign exchange reserves, which fell to a relatively low R7,4-billion at the end of July. At the end of June, gold and foreign reserves uncomfortably covered only six weeks of imports.

Inflation as measured by the Consumer Price Index fell to 9,9 percent year-on-year in July.

Money supply is down dramatically. In June the broad measure of money supply, M3, grew by only 3,95 percent year on year. Nedcor's latest *Economic Profile* points out this is below the lower level of the Reserve Bank's target range of six percent for the fifth consecutive month.

If our gold and foreign exchange reserves show a big improvement, now that the bulk of our foreign debt repayment commitments have been met, there will be room for an interest rate cut.

The fly in the ointment remains the political violence surrounding the protracted negotiations.

'Consolidate funds' call

ROBYN CHALMERS

MORE than R6,2bn is scattered among several government departments which could be funnelled into a national fund for job creation, a study by the University of Cape Town's School of Economics has found.

This was over and above calculations by the Development Bank of SA released earlier this year, which estimated that R5bn of government spending could be invested in a public works programme. B/Day

The study was supervised by UCT's School of Economics senior lecturer Iraj Abedian, who sits on the Employment Task Force of the Consultative Forum on Drought and Rural Development. 27/8/93

"In the current budget of R113bn, the government gave certain departments funding for programmes aimed at poverty alleviation, job creation and training," said Abedian.

"The study found the departments of Agriculture, Manpower, Health and Population Development and Foreign Affairs in particular had monies which could be diverted into a national fund," said Abedian. All allocations needed to be consolidated into a single fund for a community-based, labour intensive, national public works programme.

This would go a long way towards addressing unemployment and poverty, he said.

The issue of a public works programme is a key topic at discussions by government, the National Economic Forum and several associated bodies. A Development Bank spokesmen said the need for such a programme in the medium term had been accepted in principle by all parties concerned.

Abedian said that from the viewpoint of fiscal efficiency, a consolidated fund of this type, allocated in terms of transparent criteria, would have more impact than numerous fragmented allocations to various programmes. (49)

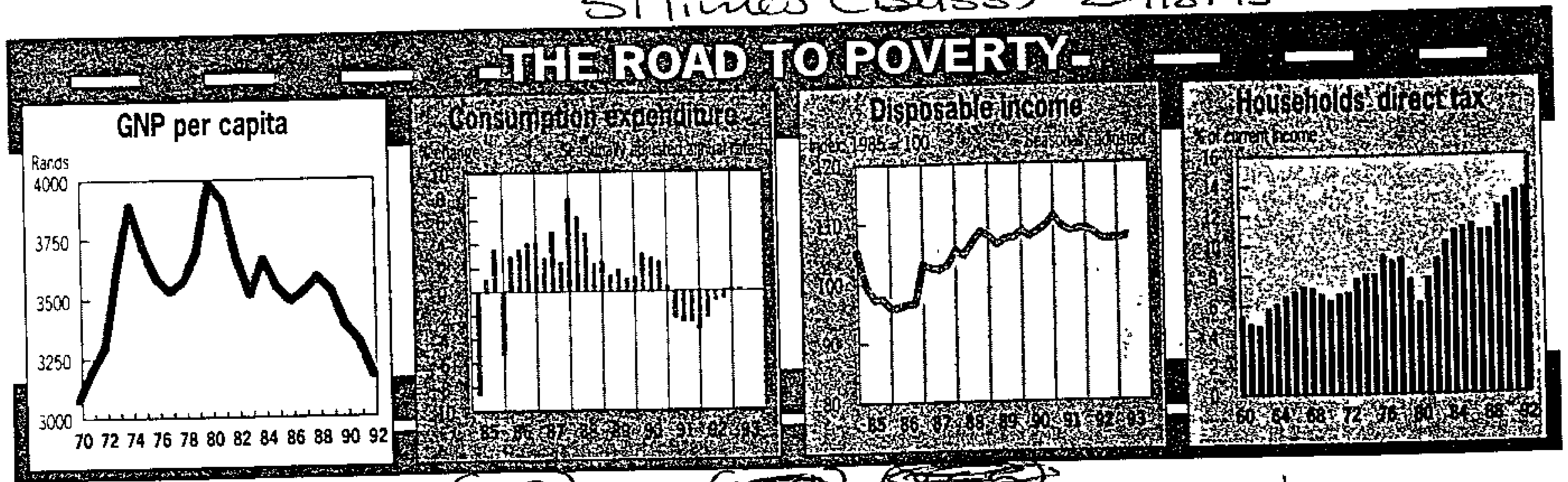
"The point is to give the communities greater direct access to funding by taking it out of the hands of the bureaucrats, he said.

MONEY

Recession takes us back to 1971

SI Times (Buss) 29/8/93

By CHERILYN IRETON



Graphic FIONA KRISCH Source RESERVE BANK

IF you've been feeling that the period between the last of your wages and the end of the month is getting longer, you are not alone.

The Reserve Bank this week provided evidence that over the past 12 years the average wealth of all South Africans has dropped by at least 20%. Furthermore, according to GNP per capita figures, we are now no better off than we were in 1971.

In its annual report the Bank says GNP per capita in constant rands was R3 200 a person in the first half of this year — that's just R2 more than the 1971 average of R3 198.

In 1980 we were getting over R789 more — at R3 985 a head. Since then our aggregate income has fallen 20% but the prices of consumer goods have roared ahead.

According to an analysis carried out earlier this year by Robin McGregor of McGregor's On Line Information service, beer prices have risen more than 357% since 1980, milk is up by 438% a litre, sugar and margarine by 456%. Brown bread is up by 553% a loaf and postage rates for a 10 gram letter have increased by 575%. Petrol is up 237% a litre, electricity by 350% a unit and toilet soap by 203%.

In terms of the world rankings of nations' wealth we have nothing to boast about either. The World Bank's Development report for 1993 published last month says South Africa was the 85th poorest nation in the world in 1991. Poorest was Mozambique with GNP of $80 a head, followed by Tanzania with $100 and Ethiopia with $120. In dollar terms South Africa at $2 560 was marginally better off than Botswana at $2 530 but trailed behind Lithuania, Hungary, Venezuela and Brazil.

The world's richest nation in 1991 was Switzerland at $33 610, followed by Japan at $26 930 and Sweden at $25 110.

In its annual report the Reserve Bank cites many reasons for our shrinking wealth (49)

They include the recession lasting four and a half years, the turbulent political process which has undermined confidence, a sharp drop in international commodity prices, the world recession, sanctions and the drought.

It says the financial position of households weakened considerably over the last two years as retrenchments rose and the rate of decline in real take-home pay accelerated, from 1% a head in 1990 to 1,5% in 1991 and as much as 3,5% in 1992.

Increase in salaries and wages were lower than the rate of inflation amid a climate of depressed agricultural conditions and a growing number of insolvencies among individuals and non-corporate businesses.

At the same time the tax burden of households continued to rise. The Bank says the ratio of direct taxes paid by households, measured against their current income, rose from nearly 13% in 1989 to 14% in 1992. This ratio averaged 10,5% in the 1980s and only 6% in the 1960s.

Consumer indebtedness rose from a low of 18,5% of take-home pay in early 1987 to 28,5% at the end of 1990.

The Bank says consumers have been less willing to commit future income because of greater job insecurity, lower rates of increase in nominal income and uncertainties about the future political dispensation of the country. The ratio of consumer credit to personal disposable income therefore declined to just under a quarter in the first half of 1993. At the same time the wealth of households was being eroded particularly by declines in real property values.

"It was therefore not surprising that households' real outlays on consumer goods started to fall sharply from the second quarter of 1991 until the end of 1992. The average level of real private consumption expenditure in 1992 was 2,5% lower than in the previous year."

Cutbacks in consumer spending took the form of lower outlays on discretionary and less essential consumer items. Spending on non-durable goods also decreased.

The Bank cautions against reading too much into the slight rise in spending in the first half of 1993. It signalled pre-emptive buying ahead of the expected price rises due to the increase in VAT. Reductions in the bond rate also assisted by lowering households' debt-servicing burden.

Another factor behind the 1993 uptick in spending was the recovery of agricultural income, the need to replace worn-out stocks of durable goods, rising house prices and the strengthening in share prices on the JSE.

The Bank says consumer demand is still fragile.

Factors such as the decline in personal disposable income, relatively low salary and wage increases, job insecurity, high unemployement, boycott actions and the generally low level of consumer confidence are not supportive of a sustained recovery in consumption expenditure.

Many households are now trying to reduce their level of indebtedness rather than increase their current consumption levels.

JOBS

The town that saved itself

S/Times (Buss)
29/8/93

While much of South Africa is racked by stagnation and violence, Stutterheim is peaceful and booming. By **KEVIN DAVIE**.

THREE years ago Stutterheim, a Border town about an hour's drive from East London, was dying.

Black communities in the area had been scheduled since the 1960s to be resettled in Ciskei; there had been virtually no development of roads, housing and schools for almost three decades

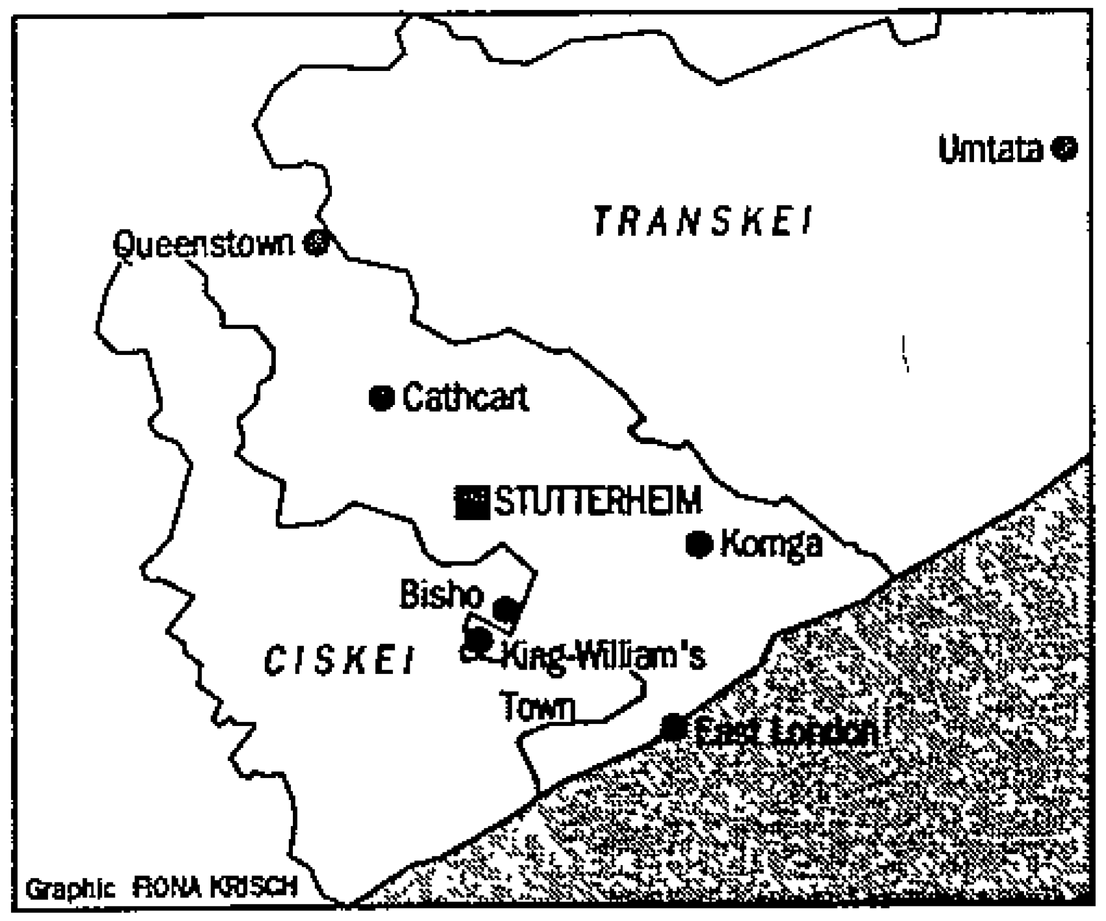
The result was frustration and anger. A consumer boycott in 1989 and 1990 closed 18 businesses and threatened to kill all development.

But out of the boycott, blacks and whites started talking and informal committees emerged to work out strategies to combat the underdevelopment which had come to threaten everyone

Some months later a newspaper called the committee of town councillors and civic association leaders the Stutterheim Forum. By then development priorities had been identified and money raised, chiefly from the Independent Development Trust and the Development Bank of Southern Africa.

Today Stutterheim is booming, achieving 15.5% growth last year Locals have been trained as builders, plumbers, plasterers and electricians; 900 serviced sites are being developed; a R2.2-million school is being built.

A business advisory service has been set up as have a range of businesses including clothing, brick making, toilet construction, trading and shoe making (Stutterheimers walk around in locally made shoes).



PEACE MAKERS ... Forum chairman Chris Magwangqana and colleague Nico Ferreira (4-9) Pictures: DAILY DISPATCH

A tannery is being established with the help of the Leather Institute at Rhodes University in Grahamstown and one of the communities has established a grain mill.

Nicky Callaghan heads the Business Information Centre, helping potential and existing businesses with information about where to obtain finance, how to upgrade skills and how to run a more effective business.

"We've had lots of inquiries from people starting or expanding their businesses," says Miss Callaghan. "We're looking at bigger projects which will beneficiate materials in the area."

Small-scale agriculture, including maize and stock farming, is being encouraged, as is vegetable growing. Regular market days will be held to encourage trade Previously unoccupied industrial premises now house 15 small businesses employing 150 people.

People who left Stutterheim for the urban areas are returning and newcomers are arriving to start businesses. Stutterheim is also exporting skills; some of the builders it trained have set up in the Port Elizabeth area.

Communities have been helped to establish seven "amakhayas" — day-care centres — which serve 260 children. Some of these, run from private homes, will move to new crèches.

Department of Health funding is being used to improve the nutrition of children. Teachers are being trained and their accommodation upgraded.

Adult literacy training has been helped by the use of Brand Knew, which teaches people to read by using familiar brand names. A careers college, which will train potential entrepreneurs in how to establish their own businesses, is envisaged.

A credit union, or "people's bank", which makes loans to the poor has been established.

Twenty-two projects in all are under way, says Forum chairman Chris Magwangqana, who has returned from a year's study of local government and development on a bursary at the University of Birmingham.

"This is development with a human face. It shows that the people of Stutterheim are not separated."

About 55 000 people are represented in the Forum — from the town of 3 500, four black townships, a coloured township and three informal settlements in the rural areas.

Nico Ferreira, a small-business consultant and deputy mayor, says the initiative has helped to empower individuals. "People now believe in themselves. They see that they can create their own jobs through little enterprises."

Violence, says Mr Ferreira, has not occurred in the three years the Forum has been in existence (it came into being before the national peace accord was signed). He says political tensions did rise after the assassination of Chris Hani, but the people of Stutterheim live in friendliness and harmony.

Mr Ferreira says the Forum has succeeded by following "a development agenda, not a political agenda".

A total of 38 other towns have approached Stutterheim for advice about its model and its expertise is in demand from as far away as Harare.

Its success lies in being able to strike an acceptable political solution and to tap development grant finance.

It could also be said that Stutterheim has wisely used this money while other areas still refuse aid for political reasons. Grant finance can be expected to be even more readily accessible in the heady days when the new SA really gets under way. But it won't be around forever and will need to be grabbed smartly while available.

Stutterheim has shown that this money can bring major empowerment benefits to a region. Although it could have employed outside companies to do the work, it has used the opportunity to provide jobs and skills.

It faces a real challenge, though — one Forum members acknowledge — when the development grants dry up.

For the longer term it can perhaps take a leaf out of China's book and scour the East London and Port Elizabeth areas for products which village enterprises can supply cheaply to formal business.

Village power has underpinned China's economic miracle. Established businesses can also learn by scouring areas like Stutterheim to see if some of their needs can be more cheaply supplied by labour-intensive village production.

Going on its recent track record, Stutterheim will rise to this challenge.

Situated at the centre of the Frontier Wars region, it has shown the rest of the country what can be achieved.

Stutterheim is both a model and an inspiration, providing simple, people-based solutions to complex problems.

Mr Ferreira says Stutterheim's problems were characteristic of what was wrong with SA. Now, he says, what has happened there can also happen in the rest of SA.

But what is Stutterheim's real secret? How had it managed to turn confrontation into opportunity? Mr Ferreira's answer: "Well, we live here."

Gloomy prediction for economic growth

MZIWAKHE HLANGANI

SA's first democratic government under the ANC could expect 0-2% economic growth over five years, Free Market Foundation director Leon Louw said on Friday. B1Day

While the ANC/Cosatu alliance's rapid shifts in economic policy were encouraging, slow growth would be achieved even under an NP/ANC government. 30/8/93

Finance Minister Derek Keys had proposed a 5% economic growth in his normative economic plan but it was unlikely the country could achieve this within 10 years, Louw said.

Addressing a conference organised by the Southern African Institute of Organisation and Methods, Louw predicted between 2% and 4% growth could be achieved, but it would mean less black economic empowerment.

He said the transitional process would take longer and be more painful than expected. Better results could not be achieved unless those bent on attempting to derail the process were accomodated.

The level of violence and the uncompromising attitute of some parties might drag the negotiation process into a quagmire.

However, it was encouraging that the "first generation" Bill of Rights upheld values of liberal capitalism and nonracial democracy. (449)

Gencor Development Trust senior manager Kobus Visagie said integrated development strategies involving government, political parties, communities and church bodies were needed to address reconstruction programmes.

Slight economic growth forecast

B/Day 3/8/93

LINDA ENSOR

CAPE TOWN — The economy should achieve a small positive growth rate this year but was threatened with another difficult and disappointing year in 1994 unless there was a dramatic reversal of current political trends, Board of Executors (BoE) senior portfolio manager Rob Lee has warned.

GDP growth in the current and fourth quarters was expected to be fuelled by a larger contribution from agriculture, increased trade surpluses and the early effects of the Alusaf and Columbus projects.

Writing in BoE's latest Investment Outlook, Lee said the transition process was deteriorating rapidly. He advised investors to adopt defensive measures until more convincing signs of real progress emerged.

The political situation had led BoE to take an increasingly cautious stance on the overall level of the stock market, especially as there was a general lack of sustainable, underlying growth in corporate earnings.

Of concern politically was the alarming escalation in political and criminal violence. "A sustainable economic recovery is a pipe dream while the growing tide of lawlessness is in place."

It appeared likely that the April election would be postponed, prolonging the decision-making vacuum and high level of uncertainty, and strengthening the more militant forces in the black community at the ANC's expense.

(49)

On the international economy, Lee said an unusually slow recovery seemed likely. Although commodity prices had probably bottomed, there could be a prolonged period of consolidation before a significant uptrend emerged.

The Reserve Bank would probably take advantage of any improvement in foreign reserves to stabilise the commercial exchange rate, leading to an extended period of correction and consolidation in the gold market.

Bond yields appeared to have further downside given the international trend towards lower interest rates; continued below-target M3 money supply growth; the likely cut in Bank rate by year-end on the back of improved foreign reserves; and the probability that the inflation rate would remain at less than 10% at least for the next year.

Lee criticised Reserve Bank Governor Chris Stals's failure to mention in his address at the Bank's recent AGM the need for an overall economic restructuring programme.

No surprise as growth in money supply tumbles

Star 3/8/93

49

As was widely expected, money supply growth declined sharply in July, adding further (but perhaps forlorn) hope to prospects of a near-term cut in interest rates.

Figures released by the Reserve Bank yesterday show that annualised growth in money supply (as measured by M3) dropped to 1,83 percent last month — its lowest level this year — from 3,29 percent in June.

Economists say the subdued growth is a reflection of the low level of activity (following four-and-a-half years of recession), which has depressed demand for money and credit.

Seasonally adjusted, M3 showed an increase of only 0,32 percent.

Money supply growth rates this year have been well below the central bank's annual guideline range of six to nine percent.

Although money supply statistics, combined with single-digit inflation, point to a good case being made for a cut in Bank rate, continuing pressure on the balance of payments is militating against an imminent reduction in the key discount rate.

Economic research unit Econometrix notes that Reserve Bank Governor Chris Stals "is not for turning" and that monetary policy is accordingly likely to "remain extremely tight for a considerable period of time".

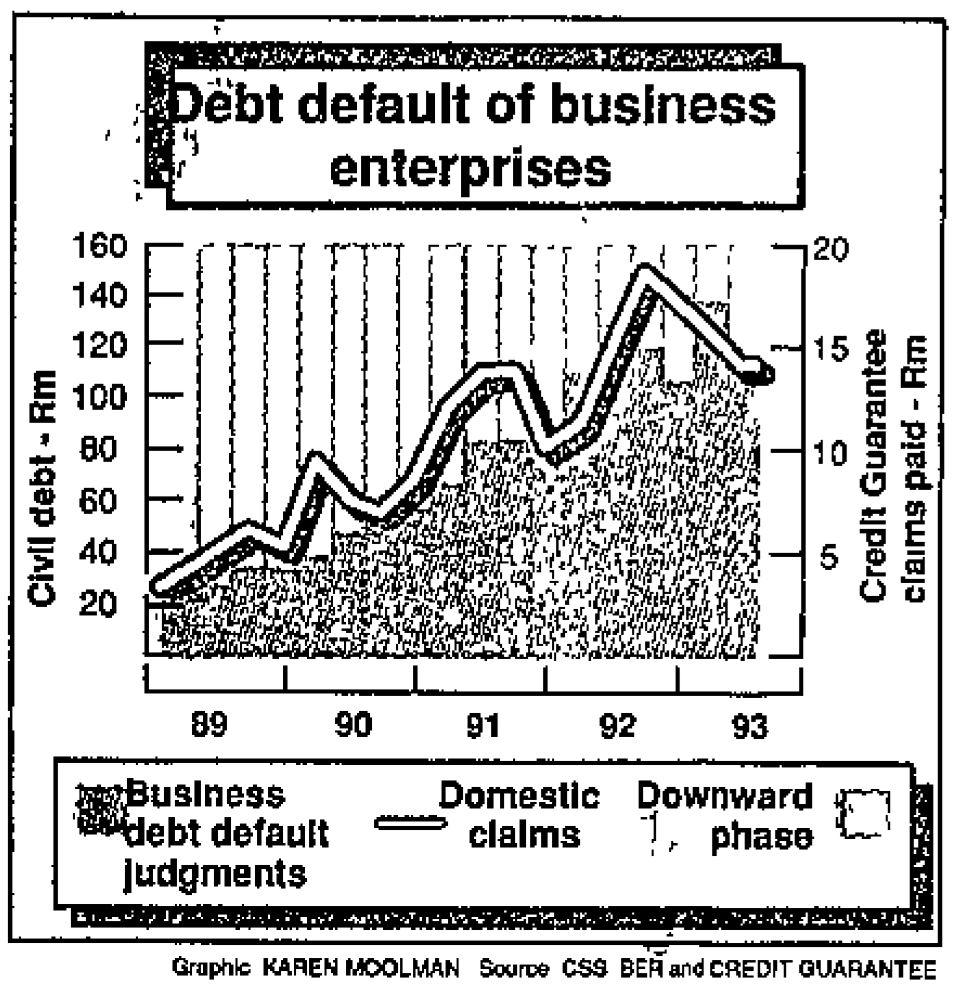
Stals recently drew attention to SA's uncomfortably low R7 billion of reserves in the face of the foreign exchange markets' daily trading volumes of no less than R14 billion.

In other words, there is little the Reserve Bank can do to halt the slide in the commercial rand, were the markets to drive the currency downward.

"Therefore," says Econometrix, "in order to prevent the currency from sliding, the Bank has to ensure that domestic real interest rates remain high in order to prevent local businessmen from paying their off-shore loans and borrowing the funds domestically instead." — Sapa and Business Staff

Value of debt judgments falls

BDay 2/9/93



Graphic KAREN MOOLMAN Source CSS BER and CREDIT GUARANTEE

KELVIN BROWN

A SECOND-quarter fall in the value of debt judgments against individuals and businesses provided further evidence that the economy was turning after four years of recession, economists said yesterday.

Central Statistical Service figures showed the value of debt default and consent judgments fell 12,8% to R716,3m in the second quarter from the first. (49)

Judgments against business enterprises registered the largest decline, falling 15,1% to R116,3m, while judgments against individuals slumped 12,3% to R600m.

Credit Guarantee economist Luke Doig said the figures seemed to indicate that debt defaults had reached a turning point.

☐ To Page 2

Debt judgments

BDay 2/9/93 ☐ From Page 1

The decline in summonses also suggested a bottoming in debt defaults.

There had also been a fall-off in the value of credit insurance claims Credit Guarantee had paid out on domestic defaults in the first half of this year. Credit Guarantee provided companies with cover to limit the exposure to credit risk. (49)

Doig said there was unlikely to be any significant fall-off in debt defaults in the near future, as the data was still too erratic to indicate a positive trend.

Although default judgments against individuals fell overall in the second quarter, they rose between May and June. Credit Guarantee also paid out more claims in July and August than the previous two months. "Over the next few months we probably will not see a sharp improvement, but rather a sideways movement in these figures to levels close to their peaks."

Individuals appeared to be handling their debts better than businesses. The value of judgments against businesses was still up 6,1% in the second quarter compared with the same period last year, while the value of debt judgments against individuals was down 8,1%.

Company liquidations were up 12,9% in the year to June, while the latest data for individual and partnership liquidations indicated they were down 14,3% from May last year. "At this rate more than 2 700 companies will close their doors this year at a rate of almost 11 every working day."

Doig said a significant improvement in business failures was unlikely until there had been a firm uptick in economic activity and considerably less political violence.

Stable SA urged — or economic horse set to bolt

(49) ARG 2/9/93

The Argus Foreign Service

LONDON. — Hopes that South Africa will become the economic saviour of its neighbouring states could soon fade if the region does not soon achieve political stability.

This is the conclusion of a lengthy report in a 16-page feature on Africa in the Financial Times yesterday.

The report quoted South African entrepreneur Anton Rupert's argument for regional integration — that a sated neighbour was a stable neighbour, unlikely to turn belligerent. And with peace and stability came economic development.

But, it warned, the post-apartheid government in Pretoria was likely to pay little attention to the problem of hungry neighbours until it solved the far more dangerous problem of hungry citizens — "and that could take until the end of the decade, even on an optimistic timetable, dampening hopes that South Africa will be the locomotive of rapid growth in Southern Africa, at least in the short term".

First among the problems was political transition in South Africa itself, where violence and instability had severely depressed economic activity and deterred foreign and local investment.

"Until South Africa is stable, accelerated economic growth in the region remains a pipe-dream, and achieving stability might prove a lengthy process."

Similarly, political upheaval in other countries of the region would inevitably delay growth.

Prospects for significantly increasing trade within the region were uninspiring, first and foremost because most of the countries of Southern Africa simply could not pay with hard currency.

Lifting sanctions also promised little. Even under sanctions, SADC states imported R2,4 billion worth of goods from South Africa.

Business 'wants action not talk from economic forum'

CLIVE SAWYER
Municipal Reporter

(49) (30) ARG 2/9/93

BUSINESS was keen for the Western Cape Economic Development Forum to yield results and not merely be a talking shop.

Cape Chamber of Industries delegate Chris Newton said this at the third plenary session of the forum.

He said the country should aim at a seven percent growth rate, and there was concern about whether the forum — set up a year ago — was going to deliver the goods.

Cosatu delegate Tasneem Essop, commenting on the report of the forum's development strategy commission, said specific strategies rather than "a shopping list of visions" were needed.

The forum, which represents labour, civic, government and business organisations, yesterday adopted a draft vision document and draft guidelines for the release of public land.

Outgoing forum chairman Leon Markovitz said it was not the policy of the forum to ask for a freeze on the sale of public land.

African National Congress delegate Basil Davidson said the draft policy on public land was aimed at facilitating development, not imposing a moratorium on transactions.

The draft guidelines said the forum believed a blanket moratorium on the release of public land would be neither feasible nor beneficial.

'Pin-stripe suit' crime slated

(49) CT 2/9/93

Staff Reporter

WHEN Mr Nelson Mandela stepped into parliament he would find that the country would be bankrupt after years of corruption, Mr Tokyo Sexwale, the ANC's PWC chairman, said last night.

He was addressing an audience of about 1 000 people at the Athlone Civic Centre.

Businessmen in South Africa had over the past few years been exporting billions in capital and "pin-stripe suit" crime was the highest in South Africa.

Mr Sexwale warned that the ANC could not make false promises and then fail to deliver after the election next year. He warned that the country could not be transformed overnight.

He promised, however, that an ANC government would bring about transformation and build a "country that we are proud of".

Mr Sexwale said that nothing should be allowed to stop the election. "We are even prepared to duck bullets to get to the ballot box. But we must be prepared to defend the ballot box."

Warning on split economy

BDay 2/9/93

LINDA ENSOR

CAPE TOWN — SA's economy was a single entity and could not be fragmented by a regional constitution which gave regions the power to control their own economic policy and resources, Cosatu negotiations convenor Jayendra Naidoo said yesterday.

Addressing the third plenary session of the Western Cape Economic Development Forum Naidoo stressed the need for a nationally integrated economic policy otherwise the chasm between developed and underdeveloped regions of the country would be perpetuated.

(49)

Noting that 41 different national and regional forums had been created in the past 18 months, Naidoo warned about them becoming a farce of democracy.

There was a need to streamline the forums to prevent the quality of their output being impaired and Naidoo indicated that the National Economic Forum had taken a decision to call all regional forums together shortly.

Naidoo said the NEF needed input and consultations from regional economic forums on job creation programmes which empowered the community. So far most applications to its job creation fund had been received from big business and government departments because the capacity to deliver programmes on the ground did not exist.

Naidoo expressed fears that SA faced a danger of collapse because of crime and violence. Steps would have to be taken to create security, stability and peace.

Regarding SA hosting the 2004 Olympic Games, Naidoo said none of the proposals put forward so far had addressed the question of infrastructural provision and costs and the resources generated by the event. The games could only be justified if they were good for the economy.

The plenary session adopted guidelines for the release of public land. ANC representative Basil Davidson said the aim was to find a vehicle to facilitate development in Cape Town.

In terms of the guidelines, the local forum would be consulted over plans to develop public land, which was defined to include land owned by parastatals.

Pressure on interest rates

STIMES (BUSS)

By CHERILYN IRETON

FOREIGN debt repayments of about $180-million in August are likely to reduce the Reserve Bank's holdings of gold and foreign currency and could stall interest-rate cuts, economists warn.

The August statement of the reserves is due in a day or two and could dictate whether bank rate falls below 13% before the yearend.

In July, the total reserves fell to R7,355-billion — the lowest in nearly two years.

But economists differ on the effect the reserves will have on interest rates.

Mike Brown of stockbroker Frankel Pollak Vinderine suggests the reserves will fall from R7,355-billion to R6,5-billion, reducing import cover even further. If this is correct, there will be no movement in rates.

Last month the total gross reserves were equivalent to the value of about a month and a half's imports of goods and services — a level described as uncomfortably low by Reserve Bank Governor Chris Stals. The Reserve Bank's prudent target is three months' cover.

5/9/93

Absa economist Adam Jacobs says the chances of a cut in bank rate in October are excellent.

(49)

He believes the implications of the turnaround in the net reserves in the second quarter have been underestimated. The large surplus on the current account and a slowdown in capital outflows allowed the Reserve Bank to reduce its short-term foreign borrowings by R1,6-billion, resulting in a R1,2-billion increase in net reserves.

Mr Jacobs says: "This trend is likely to continue if you look at the single-digit inflation figure and exceptionally low growth in money supply. Chances must be excellent for a bank-rate cut when Dr Stals returns from the International Monetary Fund meeting in October."

The net gold and other reserves increased by R1,2-billion in the second quarter after falling by R2,3-billion in 1992 and R3,3-billion in the first quarter of this year.

The Reserve Bank annual report says this sharp worsening of the overall balance of payments position forced the monetary sector to increase reserve-related liabilities by R4,4-billion in the 15 months to March 31. These liabilities were reduced by R1,6-billion in the second quarter.

At June 30, outstanding reserve-related borrowings amounted to R1,6-billion.

Absa says it is unusual at this stage of an economic cycle for there to be such a low demand for credit as is reflected in July's 1,8% growth in money supply or -0,32% if calculated using the fourth quarter of 1992 as a base.

The target range for money supply is 6% to 9% and the low growth rate reflects uncertainty.

'Marshall Plan for SA unlikely'

(49)

ARGUS 6/9/93

BRUCE CAMERON
Business Staff

A UNITED STATES-sponsored Marshall Plan to rescue the South African economy is unlikely.

This is the view of Fortune magazine's managing editor, Marshall Loeb, who said even a burst of private investment from the US was unlikely.

Speaking at an Ernst and Young conference in Cape Town today, Mr Loeb said there would be modest programmes but "nothing on the scale of a Marshall Plan such as Mr Mandela has called for".

Mr Loeb, who recently interviewed President Bill Clinton, predicted there would be a flurry of announcements about companies from the United States and elsewhere investing in South Africa.

But he feared the flurry would be brief, as many of the 200 or so American companies that had left South Africa "seemed in no hurry to return".

"They feel once burned ... They are going through a period of slow economic growth and spending restraint. They probably have more tempting markets in Asia and Mexico and, of course, they have grave worries about the present-day violence and the future stability of South Africa."

Mr Loeb said although sanctions would be dropped rapidly, the 150 or so city, county and state governments that had passed sanction laws, appeared in no hurry to repeal them.

Some legislators would want to see peace and demonstrable political progress before they voted to remove sanctions.

Mr Loeb said the problems of South African might be daunting but the opportunities were vast.

"If I were a South African business leader I would be travelling the world now in search of partners for joint ventures."

He said he would emphasise to foreign companies the importance and value of having South African business partners and of the vision, the reality and the opportunity inherent in the new South Africa.

He advised South African business leaders to regard change as their friend, not their enemy.

Any move to nationalisation "would be a tragedy and economic madness ..."

Global vision 'pivotal to economic growth'

CT 7/9/93 (49)

By AUDREY D'ANGELO
Business Editor

ERNST & YOUNG CONFERENCE

SA IS potentially a rich and influential country with a dazzling future — if its leaders follow sensible policies based on the freedom and security of individuals and companies — Marshall Loeb, executive editor of Fortune magazine, said in Cape Town yesterday.

He was speaking at a conference organised by Ernst & Young at the Vineyard Hotel.

Loeb said the entire world was now going through rapid change to a technologically driven global economy. Business people would need a global vision, and would have to think years ahead.

Global commercial competition was replacing ideological confrontation. "We shall have global competition instead of wars. And we shall all own so much of each other that war between developed economies will be impossible."

Listing SA's natural resources among its advantages, he said it could become a global powerhouse as demand for goods increased and raw materials were needed to make them.

He warned that there was unlikely to be any large-scale development aid, on the lines of the Marshall Plan, from the US. There would be a flurry of announcements about companies from the US and elsewhere investing in SA, but this was likely to be brief.

Sanctions imposed by US cities and State legislatures were likely to continue for as long as two years while legislators waited for signs of peace and progress.

He thought the 200 or so US companies which had disinvested from SA would be in no hurry to return, after having once burned their fingers and with grave worries about violence. There were more tempting markets in Asia and Mexico.

But, Loeb continued, SA had many things to offer. Many multi-nationals would see it as the most populous market in which they still lacked representation.

"You are the most developed nation in Africa and will soon be the most democratic."

And SA was undoubtedly the best place from which to reach the rest of Africa. "Your problems may be daunting but the opportunities are vast."

SA business leaders should now be searching the world for partners in joint ventures.

Discussing the US economy, Loeb said it was difficult to regard it as one entity because conditions varied from state to state. Fortune expected real growth of between 2,5% and 3% this year.

Inflation was low and interest rates would remain relatively low. The giant corporations were slimming down and many people who had been made redundant or retired early had become entrepreneurs, creating jobs for others.

In these conditions the US stock market should do well. "At some point it will fall 10% or 20%.

"But I believe it will be higher in two years and very much higher in five years.

"A deep recession is nowhere in sight."

Answering a question from Wesgro director David Bridgman, who pointed out that countries with an educated workforce were doing better than those relying on commodities, Loeb said: "The world economy has a tendency to move in waves. Prices of any natural resources will rise in the 21st century."

But, he pointed out, it would still be necessary for SA to develop its human resources, and to add as much value as possible to its materials for export.

Stressing that business should help in improving the education of the workforce, he said that in the US companies were finding it necessary to teach some employees reading, writing and arithmetic.

With more women going out to work he thought schools should remain open longer to give the children somewhere to go and something to do.

This meant that teachers should be paid more. And their status should be higher, as it was in Japan and in some European countries.

Changed mindset key to profits

(49) CT 7/9/93

Business Editor

THERE is money to be made in a changing SA, but only by people who change their mindset and recognise new opportunities, Trevor Manuel, head of the ANC economics department, said at the Ernst & Young conference yesterday.

The need for the development of SA's human resources could not be overemphasised. And education must be appropriate for the needs of the job market.

The challenge to business from international competitors must be met by finding niches in world markets.

Management must lengthen their horizons beyond the need to report to the next quarterly board meeting.

Manuel said he had just returned from South-East Asia with a new understanding of global competitiveness

The successful countries there had made sure, through careful economic management, that they were not in a situation where the World Bank could force them to conform to its dogma.

Their success had in fact caused the World Bank to change some of its thinking.

They had highly interventionist governments, whose intervention had enabled the private sector to grow

Manuel said there was no competition in the SA economy, where 81% of the market capitalisation of the JSE was controlled by six conglomerates.

There would not be much stability in future if the economy continued to be controlled by white males, who made up 7% of the population. And there would not be a vibrant economy as long as there was only 4% liquidity in the JSE.

The situation had to change, "not out of vengeance but as part and parcel of creating a vibrant economy."

Rand plunges to all-time low

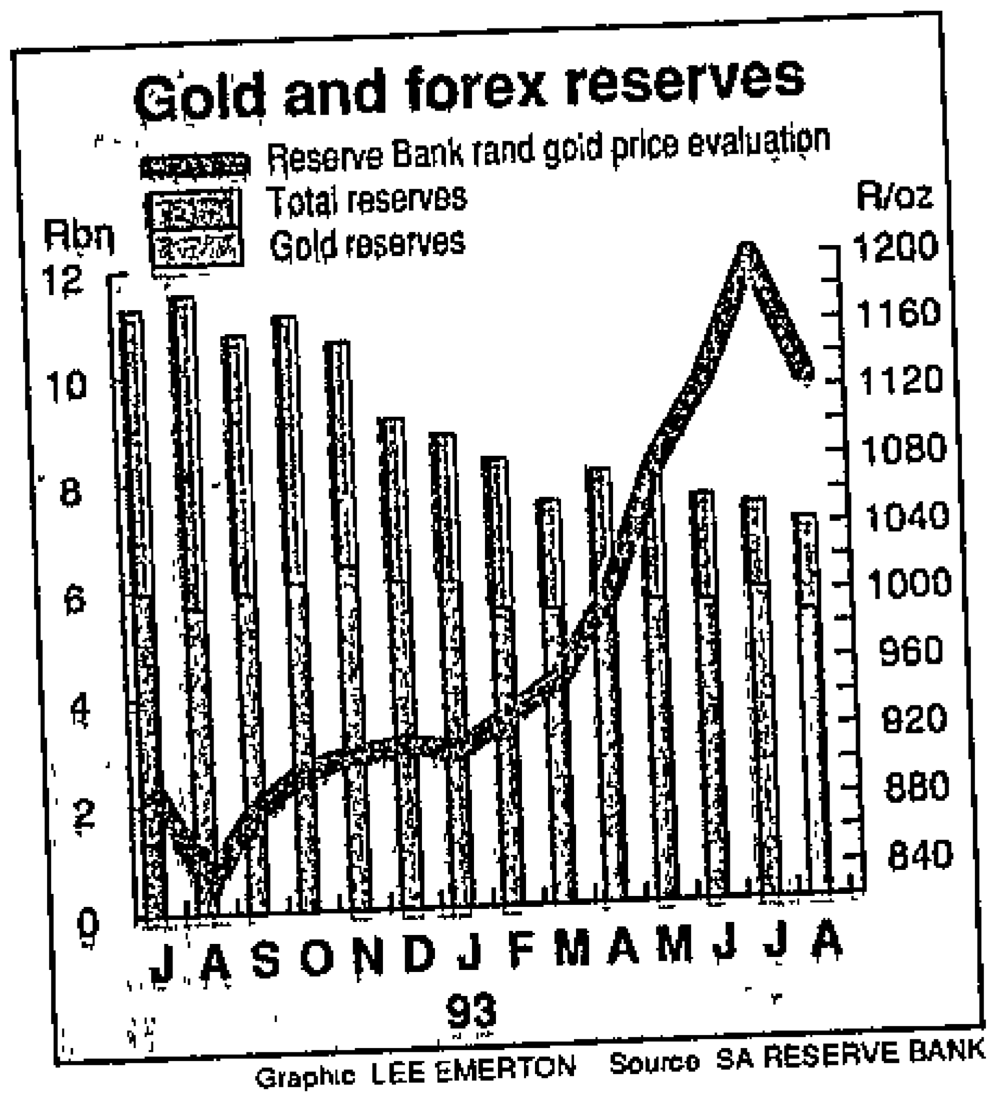
TOM HOOD, Business Editor

THE rand plunged to a record low in the wake of the gold price dropping $9 in a day to $350 an ounce in New York last night. (49) (??)

It now costs R3,40 to buy one American dollar. The rand will buy only 30 Japanese yen and R5,21 is needed to get £1.

ARG B/9/93

Gold's fall was triggered by speculators whose computer screens flashed alarm signals about the worsening American economy.



Graphic LEE EMERTON Source SA RESERVE BANK

Reserves at lowest level in two years

B/Day 8/9/93

GRETA STEYN

(49)

THE Reserve Bank's gold and foreign exchange reserves fell more than R320m to R7,03bn in August — the lowest level since April 1991.

Economists said the main reasons for August's fall were a substantial foreign debt payment (about R700m) and the sharp drop in the rand gold price. Gold was valued at R1 127,67 an ounce in August from July's R1 200,60. But the reserves appeared to have held up well. A drop to below R7bn had been expected.

There was no clear explanation for the smaller-than-expected fall in forex reserves. It could be a positive sign of a healthy current account surplus and a slowing down of short-term capital outflows. However, the moderate fall might disguise a weak situation if the Bank had to shore up reserves by using its foreign exchange overdrafts. There is a strong indication the Bank had to use these credit facilities in the R803m increase in other liabilities on its August balance sheet.

The Bank again sold a substantial amount of gold, with the holding of bullion falling by more than 104 000 ounces to about 4,69-million ounces.

In rand terms, gold holdings stood at R5,29bn (down R467m), while currency amounted to R1,75bn (up R146m).

Economist cautious on hike in confidence

B/Day 8/9/93

SHARON WOOD

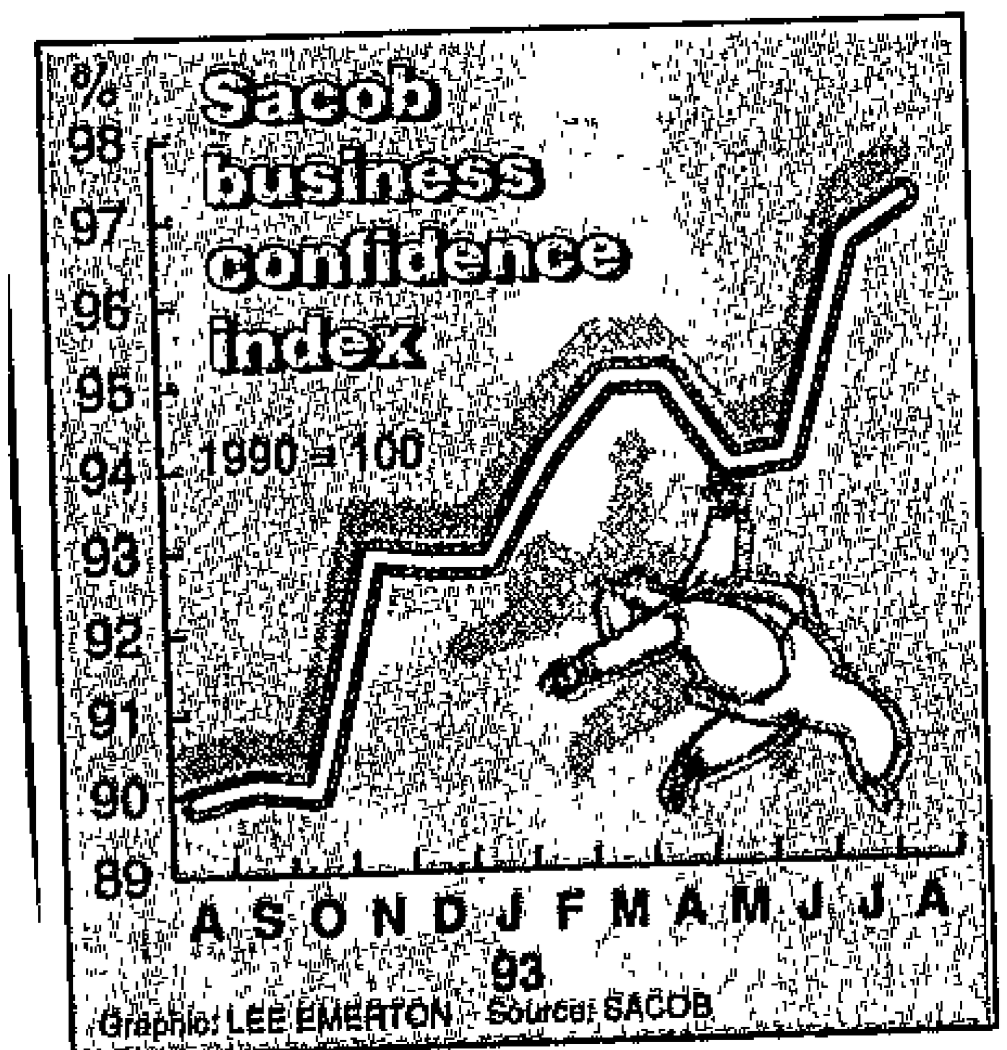
SA's economy showed "tenuous" signs of moving out of a recession, as indicated by a 0,5 percentage point rise in the August business confidence index to 97,2%, Sacob said yesterday.

But economist Ben van Rensburg said the chamber was wary of being too optimistic and had not revised its no-growth forecast for the year.

(49)

"At the moment the economy is still moving along the bottom."

He said it was important to acknowledge the threats to a sustained upswing. These were the performance of the world economy, the low level of gold and foreign exchange reserves, the high fiscal deficit, the high rate of unemployment, the levels of violence and erratic agricultural output.



The chief threat was the capital outflow on the balance of payments and the resultant low level of foreign reserves.

Unemployment was also a potential constraint. About 46% of the economically-active population were either unemployed or employed in the informal sector and this increased the potential for social unrest, crime and political exploitation.

Van Rensburg said constitutional negotiations had made progress in the past month. But there was a danger that the possibility of consensus would decline as decisions became more important.

Encouraging signs of economic stabilisation had emerged in important sectors of the economy over the past few months, reflected in the August improvements of nine sub-indices in the BCI.

Inflation declined, money market rates edged lower, retail sales were slightly higher, import volumes grew, car sales rose sharply and manufacturing production increased.

Only four sub-indices had a negative influence on the index. These were the deterioration in the commercial and financial rand, the higher registered unemployment figure, the weaker gold price and the lower equity prices.

Pik Botha: ANC to blame for loss of jobs

PRETORIA. — The ANC has cost South Africans many jobs and the National Party will be making this clear in the coming election, Foreign Affairs Minister Mr Pik Botha said here yesterday.

Replying to a question at a news conference, he said the ANC had played a negative role regarding economic growth and development in South Africa and the Southern African region.

If the ANC called for the lifting of sanctions it would have no effect.

"You can imagine that if the viewers in Europe see what is happening and how people are being killed at random, they are not going to invest irrespective of what the ANC or anybody says."

Sanctions would only really be lifted if the fighting in South Africa stopped.

What's more the issue of sanctions had become rather irrelevant because sanctions had practically been lifted everywhere CT 9/9/93

"I think the ANC made a mistake if they thought they were the sole party that could suddenly, dramatically ask for a lifting of sanctions.

"That card has been played. It's gone. They've lost it. And not only have they lost that card. They must be blamed for the situation that investments have not come into the country earlier." — Sapa (49)

How to support the Cape of False Hope

49

Overwhelming black expectations remain South Africa's greatest challenge. Even if all sanctions are lifted, as Nelson Mandela urges, there is no way they can be met, writes W F DEEDES, former editor of the Daily Telegraph, following a recent visit to South Africa.

AFTER black students rioted recently at Witwatersrand University in Johannesburg, causing damage disproportionate to their numbers, a senior official of the African National Congress came to talk to them.

In the first part of his address he told the students they had every right to express their grievances, but should do so in an orderly fashion, eschewing violence. On the other hand — and here came the sting — if the university failed to come up with an adequate response, it lay with them to take whatever steps they considered appropriate.

This calculated ambiguity illustrates the dilemma in which South Africa's black leaders now find themselves.

Having given the younger generation every incentive to be militant, the ANC is now caught in a youth rebellion it cannot control Nor, with the first multi-racial election barely eight months away, is it inclined to scold and so risk alienating its more ardent supporters.

More seriously, it is allowing the fantastic expectations of its supporters to get totally out of hand. What today arouses in me most apprehension for the future in South Africa is not the failure to reach unanimity on the shape of the constitution, not even the ghastly cycle of violence in the townships, but the certainty that these expectations are bound to be disappointed

This will lead to disillusionment among many blacks, with incalculable consequences.

An alarmingly high number of black South Africans see that the whites, Afrikaners and English-speaking, have combined their monopoly of political power with a comfortable house (often with a swimming pool) and a high standard of living. It must follow, the reasoning goes, that when power shifts from the white minority to the black majority, these same benefits will be available to all.

In reality, South Africa has always had its poor whites, and today there are a surprisingly high number who are extremely poor. But they are not taken into account in these heady black calculations.

Nor is it simply the ANC that has encouraged such dangerously high expectations. For years, the world has been assuring South African blacks that they were oppressed by an iniquitous system, the prime purpose of which was to deny them their rightful heritage.

Both President F W de Klerk and Mr Nelson Mandela are aware that the strength of South Africa's economy is a key to the future. This week, Mr Mandela said the ANC would actively campaign throughout the world for the remaining sanctions to be lifted and for inflows of foreign investment capital. But, in my judgment, the world's response to such overtures will be exceedingly cautious.

South Africa, recently described as the most dangerous country, is no big deal for international companies with ample factories and suppliers elsewhere. Prosperity can come only from enterprises which can see their way clearly to doing well in South Africa itself. As it is, the violence of recent months has cast a pall of doubt over such prospects. It will be a long while, therefore, before South Africa's economy can hope to meet even some of the huge social demands — education, health care, housing — which will be made upon it. In reality it can never match those demands.

What then? Some think that if the ANC wins next year's election and fails to meet these aspirations, it will be pushed out of office. My scenario is a different one.

If, after a year or two, black expectations are badly disappointed, the blame will fall not wholly on the politicians, black or white, but also on those in charge of South Africa's economy. It will be observed that while political power has shifted decisively to the black majority, nearly all the commanding heights of the economy remain in white hands. They hold the substance of well-being; the politicians hold only the shadow.

It follows (so the argument will run) that there will be no real improvement in the black condition until blacks have more say in how business is to be run. So South Africa will then move into a programme of black advancement within the economy — something which occurred on a small scale in Zimbabwe soon after independence. It is open to doubt how far such a development will tempt the overseas investor to pitch his tent there.

The serious question is what kind of an attitude the outside world should take towards this forthcoming crisis of confidence.

Will we, at this point, conveniently forget the past, forget the damage done by sanctions, and direct our overseas investment into safer channels? The fact is, of course, that we probably shall.

FM 10/9/93

None so blind

Since the mid-Eighties this country's trade balance has been in surplus, its foreign debts have been reduced, real interest rates are highest and inflationary pressures are receding.

Were it not for our politicians, the rand would in consequence be rising in value, the reserves swelling and businessmen and workers alike preparing to meet their boom.

Instead, the rand has plunged by 15% against six leading currencies over the past 18 months and the reserves are down to roughly half of what they were in the previous, much shorter recession. Capital is not just leaving the country, it is in haemorrhage.

So unemployment has risen to record heights and declining business activity is causing widespread distress and hardship, which is manifest in rising violence. This will continue while the economy is being used by the ANC and others as a political battleground. The consequences are dealt with on subsequent pages by the *FM*'s Board of Economists. (49)

Access to automatic support facilities from the IMF would alleviate this situation. The ANC, and the US government (its patsy in this respect), should consider carefully the consequences of their veto if they wish to see peace and a democratic election prevail. The battle against apartheid is over. That for a new and peaceful SA is yet to begin. ■

P.T.O.

Commentators divided over merits of currency protection

Star 10/9/93

Reserve Bank splits opinion

SOME see intervention as 'spitting into the wind', others as a psychological boost

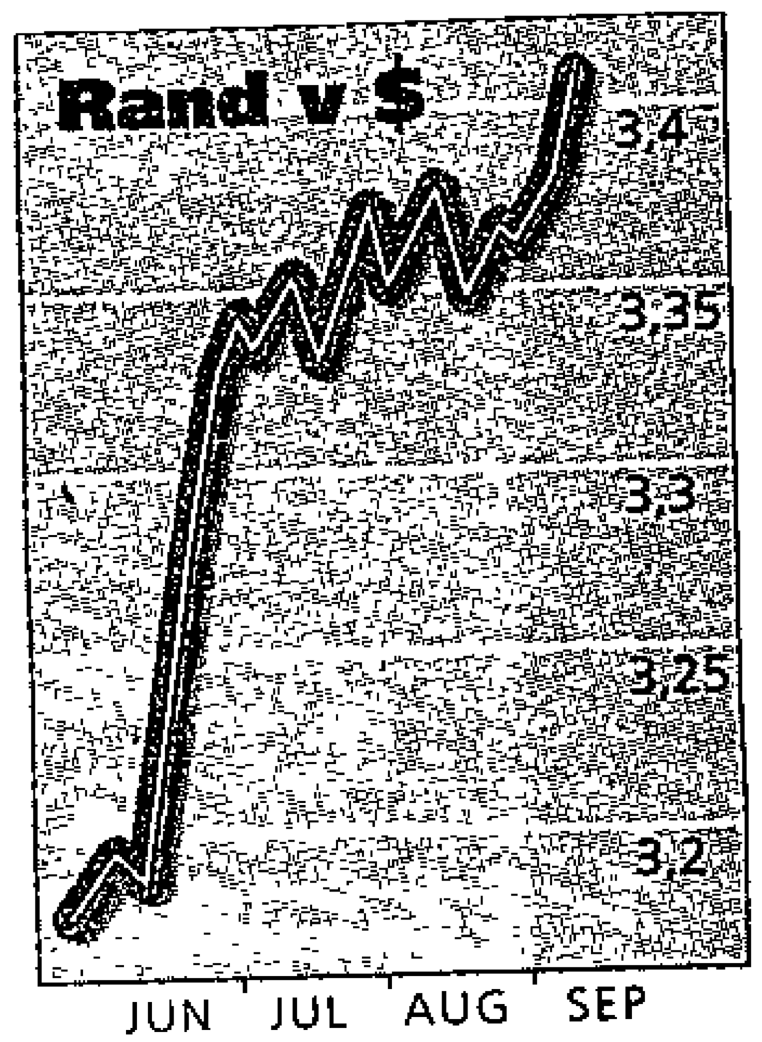
BY CLAIRE GEBHARDT

As the commercial rand continues to hit record lows against the dollar, commentators were divided yesterday over the Reserve Bank's aggressive intervention in currency markets.

Some said the country's low gold and foreign exchange reserves meant the Bank was simply "spitting into the wind".

Others said central bank support had given the market a psychological boost and signalled to foreign investors that it would not allow the rand to slide at an ever-increasing rate. (49)

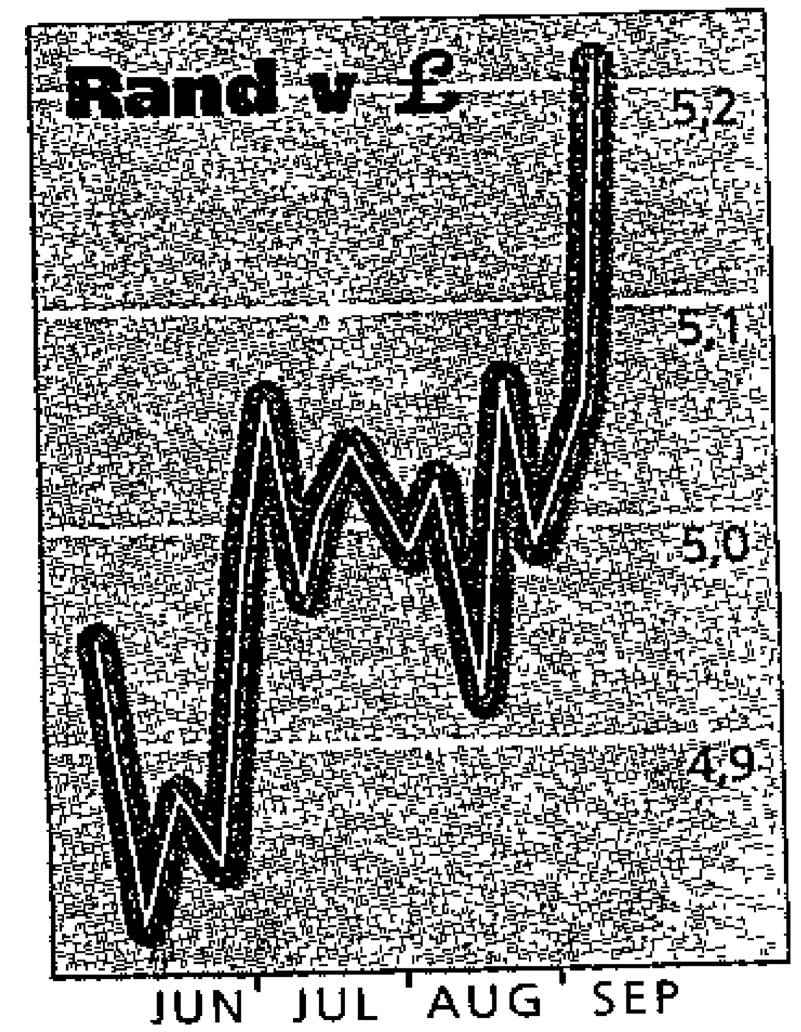
But scope for intervention is limited, given that the average turnover in the SA foreign exchange market in the first



half of the year was R14 billion a day, while the total gold and foreign exchange reserves of the entire monetary banking sector are less than R10 billion.

Economists note that central bank resources worldwide are hopelessly inadequate relative to the resources of the market.

Yesterday the rand closed at 3,398 against the dollar from Wednesday's record low of 3,4085 amid Reserve Bank



intervention as the dollar lost ground after cuts in the German discount and Lombard rates.

A dealer said the Bank had called a fairly big amount through brokers to let investors know it would take a position.

"Where a bank is asked to sell dollars on the Reserve Bank's behalf, the market is not aware of its presence."

Dealers noted that though the dollar weakened against other currencies, the rand continued to depreciate against the dollar because of the foreign reserves position.

Figures show that SA's gross reserves at R7,03 billion are at their lowest in two years.

Absa senior economist Adam Jacobs estimates that net reserves were a negative R1,7 billion at the end of the second quarter.

"We can intervene from day to day and smooth out some of the fluctuations, but our ability to change the trend of the rand is virtually non-existent."

Nedcor's Edward Osborne says SA's renewed access to the IMF is crucial to get supplementary foreign exchange to boost reserves — "but to what extent would the IMF be happy to see South Africa fund capital outflows from its $850million loan?"

As violence escalates and pressures on the capital account worsen, many fear SA could end up in a situation where the IMF loan is needed to support the rand or to finance payments on the final debt accord.

Should Stals let the rand depreciate?

The Bank is already allowing the rand to fall to reflect the extreme pressures on the capital account of the BoP.

Some economists argue that if the Bank were to allow the adverse pressures on the BoP fully to reflect in the exchange rate, the sharp depreciation of the rand will lead to higher import prices and therefore higher domestic prices.

The petrol price hike, partly caused by the drop in the rand, increases the risk of inflationary pressures.

The supporters of a rand fall say this won't happen because the economy is so weak that higher import prices won't be passed on and that there won't be pressures from trade unions because the labour market is weak.

US ready to help if ANC gives the word

CT 10/9/93 (49) (280)

WASHINGTON. — President Bill Clinton telephoned Mr F W de Klerk and Mr Nelson Mandela on Wednesday to assure them that the United States will promote economic development in South Africa following Tuesday's agreement on a multiracial Transitional Executive Council.

Mr Mandela is scheduled to visit Washington next month and address a conference aimed at spurring institutional investment in post-apartheid South Africa, conference organisers said on Wednesday.

A State Department spokesman said that only "when the ANC itself calls for the lifting of sanctions" could US prohibitions on International Monetary Fund loans to South Africa be explored.

Although most US federal sanctions against South Africa have been lifted, trade is seriously hampered by barriers at local level. — Sapa-Reuter

Slow exit ahead for sanctions

STOCKHOLM. — While Sweden has delayed its decision to lift sanctions against South Africa, indications are that the Commonwealth could lift sanctions within two weeks.

However, Australian Foreign Minister Mr Gareth Evans said in Canberra yesterday that the Commonwealth had not made a firm decision.

A UN spokesman said sanctions on South Africa would be lifted when democracy was firmly established.

Canadian officials said they wanted to be sure the agreement for a transition would stick, before lifting sanctions. — Sapa-Reuter-AFP

Growth still eludes the SA economy

Weekly Mail Reporter

AFTER having to wipe egg off their faces several times in the past two years, economists are now displaying caution about predicting economic growth. (49) WM 10-16/9/93

Two reports issued this week — the South African Chamber of Business' (Sacob) Business Confidence Index (BCI) and Sanlam's August *Economic Survey* — echo sentiments familiar among economists in the recent months.

While Sacob reported a 0,5 percent increase in the BCI, which is a barometer of the business community's confidence in the economy and therefore willingness to invest, chief economist Ben van Rensburg warned against over-optimism. He predicted zero growth for this year, citing slow world recovery, low foreign and gold reserves, political turbulence and still poor agricultural production.

Although more bullish than Sacob, Sanlam nonetheless cautioned that the minuscule recovery in some sectors of the economy was "taking place from a low base indeed".

The report says a general upturn can only be expected sometime next year.

On the positive side, Sanlam noted that seasonally adjusted gross domestic product grew by five percent in the second quarter of 1993 as opposed to 1,4 percent for the first quarter.

This growth trend, reckon both Sanlam and Sacob, could be supported by a higher gold price, improved mining production, a bottoming out of the retail sales slump and the sharp rise in vehicle sales. There has also been a stabilising of inflation and interest rates. Financial sanctions may also be on their way out, bringing forth International Monetary Fund and World Bank loans.

'Government intervention a necessity'

(49) ARG 11/9/93

BRUCE CAMERON
Business Staff

THE great debate on government intervention continues to rage — with free-wheeling freemarketeers insisting that the fall of communism proves beyond a doubt that government intervention is not on.

But, head of the African National Congress economics department Trevor Manuel — back from a visit of the Pacific ring tigers — says government intervention was a major part of the success of the mushrooming of South East Asian economies.

Speaking at a conference organised by accounting firm Ernst and Young in Cape Town, Mr Manuel, however, made it clear that government intervention was needed — not to stifle private enterprise, but to give it life.

He told businessmen he was concerned about the health of the private sector, which was not as competitive as a free-enterprise economy should be.

His target was to make the private sector competitive again — not only for the sake of South African consumers, but also so that South Africa was able to compete internationally

"Unless there is competition in the local econoomy we will never be able to compete internationally."

The South African private sector was dominated by oliogopolies and cartels. This had to be changed.

Mr Manuel said the role of the state had to be redefined and a proper economic policy devised that was not reliant on "falling on our knees and praying for a good gold or platinum price".

A fundamental restructuring of the economy was required that would enable the private sector and markets to operate efficiently.

The country had to move beyond the sterile debate of nationalisation versus privatisation.

He again made it clear that the ANC was not taken in by the World Bank/IMF approach to putting countries on the road to success.

Mr Manuel pointed out that the South-East Asian countries had "cocked a snoot" at the institutions. The institutions — with their failures in developing countries — had been sent back to the drawing boards because of the South-East Asia successes

Contributing to the success of these countries, which "take economic policy very seriously", was government intervention.

Trevor Manuel

Examples cited by Mr Manuel included·

■ Singapore — the government decided to intervene in the housing market. Now, there were no homeless people. The island state also forced all income earners to save 40 per cent of their earnings in a central provident fund;

■ Malaysia had a 20-year detailed economic planning policy, which included a fair amount of protectionism;

■ Taiwan had moved from five- to six-year plans, which were aimed at upgrading the infrastructure and the quality of life of all its citizens. Many of the major employers were state-owned companies; and

■ Japan's Ministry of Trade and Industry (Miti) had a direct guiding hand in the economy.

Mr Manuel said economic policy had to be based on the state interacting with the private sector to the advantange of the people.

He listed a number of issues that had to be tackled to fundamentally restructure the economy and which could involve state intervention.

These included

■ Changing the face of South African business from being dominated by white males of the age of 35;

■ Improving competition;

■ Restricting cartel practices and oliogopolies;

■ Alter government spending to get better value for the rand — for example, by not subsidising maize farming in the Western Transvaal, which was not a maize-growing area, while slicing spending on teachers,

considering "what we can do cheaper, better and faster".

Mr Manuel said that while the government looked at long-term economic planning, corporate South Africa also needed to stretch its horizons

A lead in investment also had to be taken by South Africans to get international investors to follow suit.

He told the private sector it could make money — but, not if it carried on the way it was now operating.

'A massive economic power ...'

Weekend Argus Foreign Service

LONDON. — South Africa will emerge as the leader of Southern Africa in the post-apartheid era. (49) (SA)

And as the boundaries of Africa are redrawn in the next century, South Africa could become a massive new country with great economic powers.

These are the views of renowned Africa expert Ali Mazrui, director of the Institute of Global Cultural Studies at Binghampton University in New York. ARG 11/9/93

Mr Mazrui was invited by The Economist magazine to take a peep into the next 150 years in Africa for a special supplement it has published marking its first 150 years of publication.

He sees much redrawing of the map of Africa as individual countries move towards regionalism and the formation of larger political communities and economic unions.

In this regard, he says, it is quite possible that South Africa will "federate or amalgamate" with Lesotho, Swaziland, Botswana and Namibia into an even larger country ..."

SA geared for growth — Keys

B/Day 13/9/93

PATRICK BULGER

SA's economic recession had bottomed out and the country was geared for strong growth, Finance Minister Derek Keys said at the weekend.

Speaking at the 79th NP Transvaal congress at Esselen Park outside Johannesburg, Keys said SA's economy was resilient and had survived despite a range of negative factors.

Among the indicators of recovery were a higher productivity rate, a lower interest rate, lower inflation and an end to what he described as the economic civil war characterising SA's economy in the 1980s.

Another encouraging sign was the reduction in government consumption expenditure. Concern about SA's budget deficit was misplaced. Government's debt was 45% of the country's annual national income, as opposed to the 68% average of the Organisation for Economic Co-operation and Development countries.

Keys said the De Klerk government's economic record was good despite a world recession, drought and political instability. There had been a limited decline in GDP since 1990. In the first quarter of this year, GDP increased 1,4% It increased 5% in the second quarter.

Keys' presentation, first made to the Cabinet at a bosberaad in July, was enthusiastically received by congress delegates. He was applauded when he said a feature of the De Klerk government's economic management was the inclusion in Cabinet of businessmen like former Housing Minister Louis Shill. This had encouraged a business-oriented outlook and had allowed government to entrench a market-oriented, property-protecting approach.

(49)

Government's role in establishing the National Economic Forum had played a major part in ending the economic civil war. There was an emerging consensus among SA's political players on how to handle SA's foreign debt and this consensus had assisted negotiations with international bankers.

He said SA's economic recovery had been assisted by Reserve Bank independence, a sound monetary policy, a constraint on government expenditure and robust investment in export industries like Alusaf and the Columbus stainless steel project.

SA was gearing for full participation in the General Agreement on Tariffs and Trade (GATT) and for normal relationships with the IMF and the World Bank.

"The basic economy is in a good state," Keys said. But it was important that the NP was included as a strong force in a future dispensation.

The World Bank and International Monetary Fund may demand from South Africa a much clearer picture of how it intends to tackle a new economic future before they consider a full-scale set of aid packages, writes ***Michael Chester***

Star 16/9/93

Rush to beat wild election promises

(49)

Optimism is running high that South Africa will waltz away from the annual conferences of the World Bank and International Monetary Fund that start in Washington on September 27 loaded with all the treasure chests it needs to pave new economic highways into the future.

The optimism may prove to be premature. Both institutions are expected to lend a sympathetic ear to requests for assistance over immediate problems stemming from the worst recession on record. But they are likely to be far more hard-jawed over a full-scale aid package.

Each still awaits more precise evidence of how South Africa intends to tackle the monumental task of repairing the damage caused by decades of apartheid and laying the foundations of a brand new non-racial society.

The Development Bank of Southern Africa hopes to short-circuit the risk of such a dilemma by reaching as many public loudspeakers as possible before all the megaphones are grabbed by politicians in the election battle.

DBSA chief executive Andre la Grange has set an urgent deadline to complete a master plan for economic reconstruction and broadcast the details by October/November, at least five months ahead of polling day.

Experts from across the entire political spectrum and scores of non-government development agencies and community leaders are being invited to join discussions in a bid to reach consensus on the shape and tempo of short and longer term targets.

Consultations are also in progress with the World Bank, African Development Bank and the SA Reserve Bank to consider the prospects of international assistance to help finance the multi-billion-rand exercise.

"We're not painting fanciful rainbows," says La Grange. "We are mapping out down-to-earth objectives that will be within practical reach, everywhere from housing and infrastructure to education and health services, with heavy emphasis on job creation in all spheres.

"It's crucial that voters learn the real facts about the socio-economic outlook before their heads are filled with impossible pipedreams by political rhetoric.

"The danger in the run-up to the elections is that wild promises of an instant Utopia, pledged by any politicians con cerned only with winning votes, could bring a terrible backlash when the new government finds it impossible to wave a magic wand that makes problems vanish at a single stroke."

The top priority on the bank's agenda is to spell out the realities of the time span it will take to reach objectives whatever the composition of the new government.

"Voters need to see way beyond April 27. They want to see where they may stand in the next five years, 10 years, 15 years, 20 years.

"It may test the patience of many impoverished families to learn how long it may take to complete a comprehensive development programme. But they will be prepared for that if we can kindle a sense of trust in the ultimate results, and show them the stages at which benefits will start flowing.

"In short, voters need to be alerted to the reality that the march to a new and better future for everyone is going to be a long and hard slog, whoever comes to power next year."

The DBSA believes that socio-political calm and stability can best be restored by showing everyone a vision of hope.

Also, La Grange feels, there may have been too many players on the field, each one highly dedicated to the upliftment of communities, but often in unintended collision.

"Our aim is to co-ordinate the teams and draw sharper lines around the goalposts."

The prospects of better harmony among the players have been improved by the far wider contacts that have been established across most political boundaries by a new triumvirate at the helm of the bank:

■ Professor Wiseman Nkuhlu of the Independent Development Trust, who has succeeded former Finance Minister Owen Horwood as DBSA chairman.

Nkuhlu, also president of the Black Management Forum, has sealed sound relations with all of the key political movements.

■ Henri de Villiers, former chairman of the Standard Bank, who has been elected president.

De Villiers brings the assurance of close links with the financial and business world.

■ Andre La Grange, who took over the reins as chief executive on the recent death of former Director-General of Finance Simon Brand.

La Grange, who has been with the DBSA since 1983, guarantees good relations with the public sector and the investment community in general.

Their combined new approach is based on strategies used by Singapore and Malaysia, which have astonished global observers with the pace of their economic development in recent years.

Both of them mapped out year-by-year targets that spanned over the next 10 years and beyond, allowing close public scrutiny of results to make certain that goals were met.

"We believe we can inspire similar confidence in South Africa if we clear the fuzziness that clouds the present scenario and deliver a set of objectives that can be seen to be within reach," says La Grange.

"Everyone will be more willing to roll up their sleeves and set about socio-economic reconstruction when they have a better sense of participation and when results can be expected.

"We want the draft development plan completed inside the next three months," says La Grange. "It will concentrate on the next five years, but with signposts to targets as far as 10 years and even 20 years ahead.

"The first priority is to prove that South Africa can produce results on its own."

La Grange ... SA must produce results.

Economy top of US agenda for De Klerk, Mandela

Political Correspondent

PROMOTING international investment will top the agendas of both President De Klerk and ANC leader Nelson Mandela when they visit the United States next week.

Both leaders are to address the World Economic Development Congress in Washington.

Mr Mandela is also expected to call for the lifting of remaining sanctions at a specially convened meeting of the UN Special Committee Against Apartheid in the UN General Assembly hall on September 24, according to a UN spokesman. 49

Mr De Klerk is to meet UN secretary-general Boutros Boutros-Ghali in New York on September 23 and will deliver the closing keynote address at the Washington conference on September 25.

Mr De Klerk has a range of meetings in the United States and, on his way home, in London with businessmen, bankers and other leaders "with a view to promoting South Africa's economic interests", according to a government spokesman.

He will also have discussions with British Prime Minister John Major in London.

Mr De Klerk, who will be accompanied by his wife Marike, leaves South Africa on September 23 and returns on September 28.

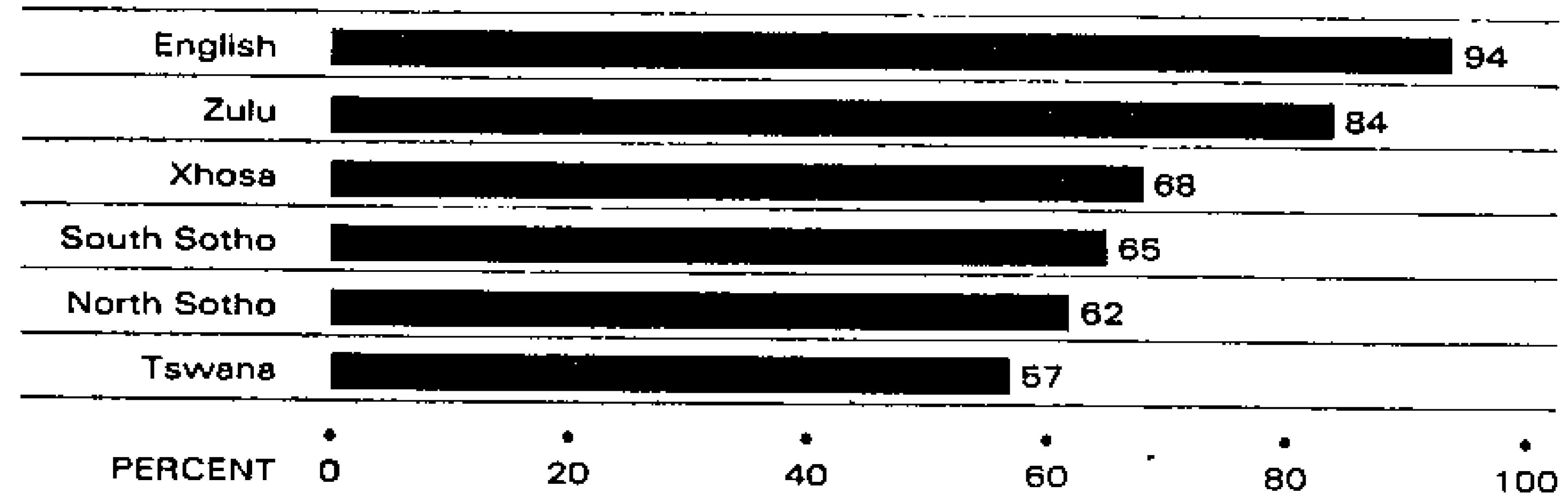
Mr Mandela is scheduled to visit the United States for at least a week and a number of European countries — expected to including Portugal, Belgium, and Britain — after his US trip.

ARG 16/9/93

Five colours in the new SA

MARKETPLACE
by AUDREY D'ANGELO
A column on the media, PR and advertising

CT 15/9/93
49



The chart shows languages understood by blacks with high school education.

THE black population and its collective buying power will grow so rapidly in the next seven years that it will be the only consumer market of any consequence in SA, says Coen Gous, marketing director of SABC's Radio Active unit.

Advertisers will have to aim at it, rather than their present target of the mainly white A and B income groups.

But, paradoxically, they will have to stop thinking in terms of black and white and divide the total population into five segments which have nothing to do with race but with mental attitudes. Their messages will have to be adapted to appeal to the segment they are hoping to reach.

Gous bases this on research carried out for Radio Active by Market Research Africa. Their findings, based on a sample of 2 799 people, were explained at a presentation at the Rotunda, Camps Bay, yesterday.

Radio Active's advice on how to reach the target market is based on a model with five colour codes, each based on a mental attitude.

The model was developed in the US by Clare W Graves, professor emeritus of psychology at Union College, New York State. It has been adapted for the SA market by Don Beck, director of the National Values Centre in Denton, Texas.

The five colours are purple, red, blue, orange and green. To illustrate the model's application in advertising Radio Active shows how it could be used to sell a washing powder.

It defines the purple group as people closely in touch with their collective past. "These are people who find safety and security in the belief systems of their ancestors," the report explains. "Bound by ritual and tradition, they are driven by the need to obey — the need to preserve and uphold the dignity of the tribe.

"In SA this could mean a dogmatic political organisation based on rigid structures. It could also imply a tribal clan who have occupied the same tract of land for generations".

In advertising to this group it is important to stress the collective "we". Advertising should be basic without any frills. For a washing powder, a woman would be shown saying that she used it and her mother and grandmother used it before her. "The old formula of tried and trusted would apply."

The red group are defined as ego-driven individuals who base their relationships with others on a position of strength. They live fast and flashy lifestyles and reject tribes and systems.

They would buy a washing powder which washed better than any other product. "It would be positioned to highlight the immediate gratification of the red person's needs."

The blue group are defined as firm believers in rank, structure and hierarchy, who go by the book and are guided by a doctrine that there is a right way and a wrong way to approach every task.

For them, says the report, advertising must focus on longterm investment with an emphasis on quality. "These qualities would be incorporated into the benefits of our washing powder and also include cost efficiency — "one tiny scoop washes the whole load sparkling clean without breaking your budget."

Orange people are defined as innovators, entrepreneurs and status seekers, upwardly mobile, success orientated and materialistic.

The report says advertising should appeal to their business principles. "The washing powder would be positioned as a low hassle product that won't take too much time to use in their busy lifestyles. The commercial would also convey a rational and intellectual message."

Green people are defined as humanitarians, social democrats and peace keepers. Advertising should appeal to their sense of moral obligation and their genuine concern for social upliftment.

"Our washing powder would be ozone friendly and bio-degradable. It would be a natural product that would not damage the environment."

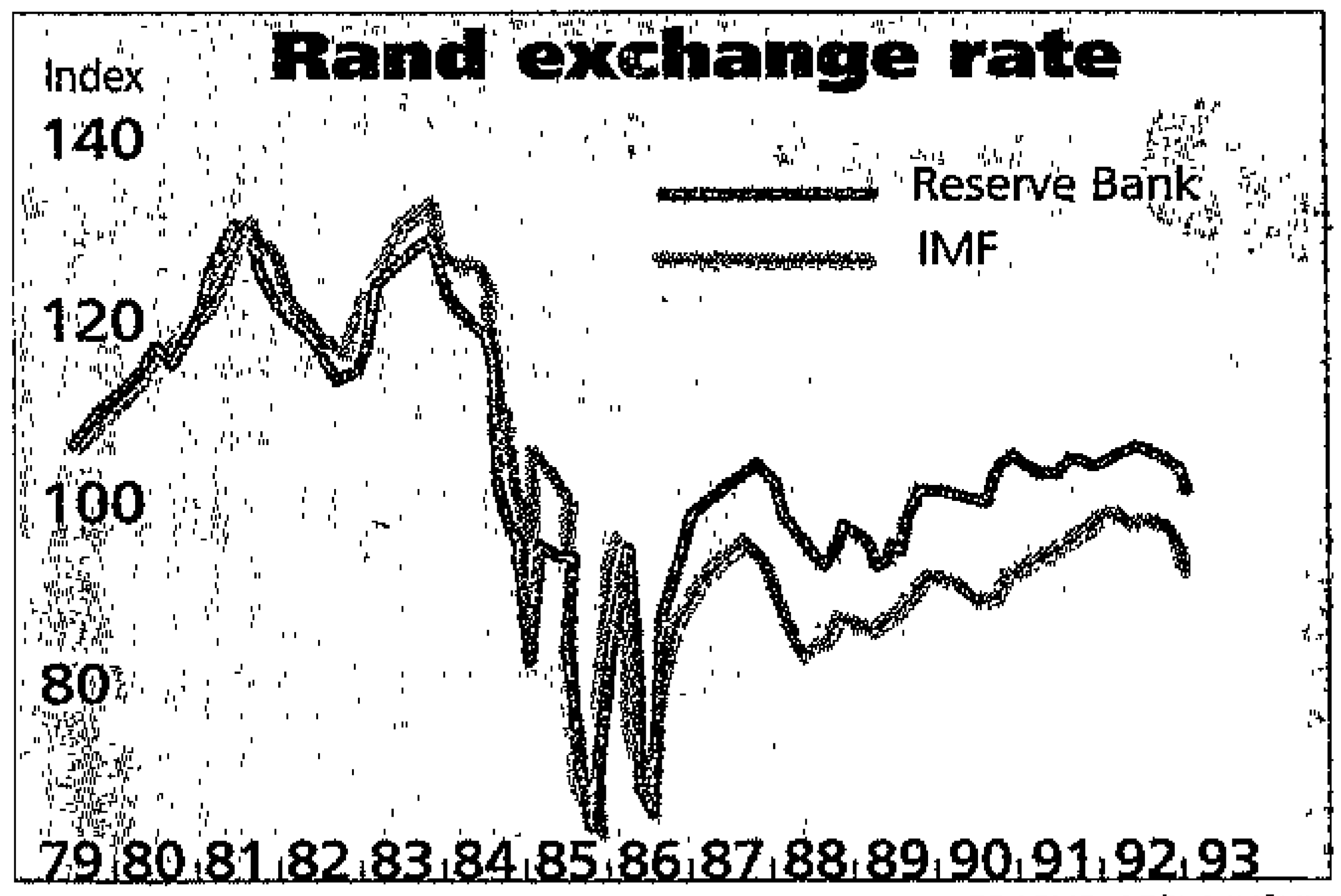
The report points out that the same person can have characteristics from more than one colour group.

Cream Advertising — in a move likely to puzzle the ad industry — has resigned from the lucrative Truworths account after handling it successfully for eight years, but has taken on Topics, another chain in Wooltru's Speciality Retail Group (SRG).

Cream MD Brian Addison explains that Truworths has built up a strong marketing department with its own DTP systems and creative people. "We felt we had taken them as far as we could creatively, and were seeking new challenges.

"Topics is a rising star within SRG. They are expanding and they don't have a sophisticated in-house marketing department like Truworths. As a full service agency we can give them all the advice they need."

So it will be interesting to see how Topics continues to grow, and whether its image will change, in the next year.



GRAPHS ABEL MUSHI

Reserves seen climbing

Star 17/9/93

BY JOHN SPIRA

Falling reserves should reach higher levels by the end of the year, in the process creating scope for a further reduction in interest rates.

That's the up-beat message contained in the most recent Sanlam economic survey.

Chief economist Johan Louw predicts that the capital account will improve in the next few months. (49)

"Following the repayment of R570 million last month in terms of the debt standstill agreement, the capital outflow should slow down from September.

"This, together with considerable surpluses on the current account, could cause total gold and foreign reserves to reach a higher level by the end of the year."

Louw believes the Reserve Bank will reduce Bank rate from 13 to 12 percent within the next three months — since, in addition to the reserves position, the downward trend of inflation and the weak demand for credit leave room for such a reduction.

Louw urges that the battle against inflation be waged on a front wider than monetary policy.

Higher productivity, moderate increases in wages and salaries and increased competition needed to be included as essential strategies against inflation.

Louw says the real effective rand is slightly undervalued. Hence, a further real depreciation is not expected.

"We therefore foresee that the weighted rand will depreciate in line with the inflation differences between SA and its most important trading partners over the next 12 months."

Sanlam sees the rand weakening significantly against the dollar and, to a lesser extent, against European currencies and the yen.

The graph shows the real effective value of the rand (after taking into account adjustments for differences in inflation), as calculated by the IMF and the Reserve Bank.

The two differ because the IMF allocates a greater weighting to the European currencies. Also, the IMF uses consumer prices and the Reserve Bank producer prices.

Govt revenue nears target

GRETA STEYN

GOVERNMENT's revenue situation improved significantly last month, as fiscal drag and tax payments on public sector salary increases swelled state coffers.

The Finance Department said revenue in the first five months of the fiscal year had risen 16,2% from last year, bringing government within striking distance of the budgeted 17,3% increase for the full year.

This is a far cry from the situation in the first month of the fiscal year, when revenue was slightly lower than in April 1992.

Government has steadfastly maintained revenue would pick up to acceptable levels, while economists projected a substantial shortfall for fiscal 1993/94.

The department said spending rose 10,6% in the first five months compared with the previous year — not too far away from the budgeted rise of 8,8% for the full year.

B/Day 17/9/93

But economists said the eventual rise in spending would be above budget because of substantial extra allocations for job creation, drought relief and an increase in teachers' salaries.

(49)

However, despite the extra spending, government still maintained that the deficit was not likely to exceed the budgeted

☐ To Page 2

Revenue

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☐ From Page 1

R25,3bn. Economists said the view depended on a changed definition of the deficit, which was out of line with the Reserve Bank and international practice.

(49)

The extra spending will be financed from the sale of state assets, instead of from long-term loans — hence government's view that it does not add to the deficit. But economists, including the Reserve Bank, regard the sale of assets as a one-off source of finance — a "below the line" item alongside loan finance.

A breakdown of the revenue position to July (the latest available) showed the increase in the VAT rate was paying dividends, while the fall in the company tax rate was holding back receipts. VAT receipts were up almost 55% from the previous year, while income tax receipts were only 1,3% higher. "The effects of salary increases in the public and other sectors and of fiscal drag will be reflected in the August figures, which are not yet available by revenue source," Finance said.

IMF cash injection 'very soon' for new SA

WASHINGTON. — International Monetary Fund (IMF) financing for South Africa now that apartheid is being dismantled is expected to be discussed at this week's IMF and World Bank annual meeting in Washington, said a senior official. 449 (ISS)

"I hope that very soon we will be able to contribute to the financing of South Africa," he said yesterday. "We see immense problems to tackle in the near future." ARG 20/9/93

The United States had blocked IMF and World Bank loans to South Africa, but the progress being made towards ending apartheid was expected to change that in the near future, he added.

The IMF official said an "enormous" international financing effort would be needed to help South Africa cope with its difficulties and to correct the distortions caused by apartheid.

Nearby countries, including Mozambique, Zambia and Namibia, would face problems as well, he said. — Sapa-Reuter.

'State must give the lead on investment spending'

CT 21/9/93 (49)

By AUDREY D'ANGELO
Business Editor

INVESTMENT spending is necessary to get the economy going — and the state must give the lead to the private sector, says First National Bank economist Cees Bruggemans.

"In addition to political restructuring, a strict monetary policy, labour market flexibility and trade reform, it will actually be necessary to get spending up in the economy," he points out in his latest quarterly Business Brief.

"Private investment will not respond otherwise. And if time is of the essence, which it presumably is, it won't do to sit around for the world economy to favour us or to watch how it goes with selective private efforts.

"Not that the state will have to maintain its leading role indefinitely. The issue here is one of sequencing."

However, Bruggemans continues: "A basic minimum of reform has to be in place before anything reasonable can be expected from either the private or public sector.

"That basic minimum is probably not too far away in time, at most a year or two. It makes the 1995/96 period the one to target for planning purposes in most businesses."

Forecasting a continuing decline in inflation "provided no unforeseen shocks delay progress once more — as oil, drought and VAT have now done for three years in succession." Bruggemans expects corresponding falls in interest rates in the next two years.

He bases this on the assumption that "the balance of payments condition is about to be bolstered by political decisions which will affect the capital account favourably."

Bruggemans also assumes that the budget deficit will not be pushed up by overspending by the new government to satisfy expectations. He warns that if this happens it will lead to SA's access to foreign capital being cut off again.

"Although the budget deficit is high it has a major cyclical component to it which a resumption of economic growth will help to address.

"It is, in other words, too early to pre-suppose that the structural aspect of the deficit is about to grow explosively for political reasons — not least because foreign capital may then go on strike once more, for economic rather than political reasons."

Discussing the present situation, Bruggemans says that although 1993 "is a lost year in economic terms, it doesn't mean that the economy is in an uncontrollable tailspin or that the fundamentals are not improving."

The critical requirements for a restructuring of industry are "political stabilisation and a more efficient operation of markets.

"With labour and capital 'correctly' priced, and undue trade protection eradicated, the basics would be in place for a major development effort."

STATE FINANCE

FM 24/9/93

Better prospects for fiscal 1993/1994

(49)

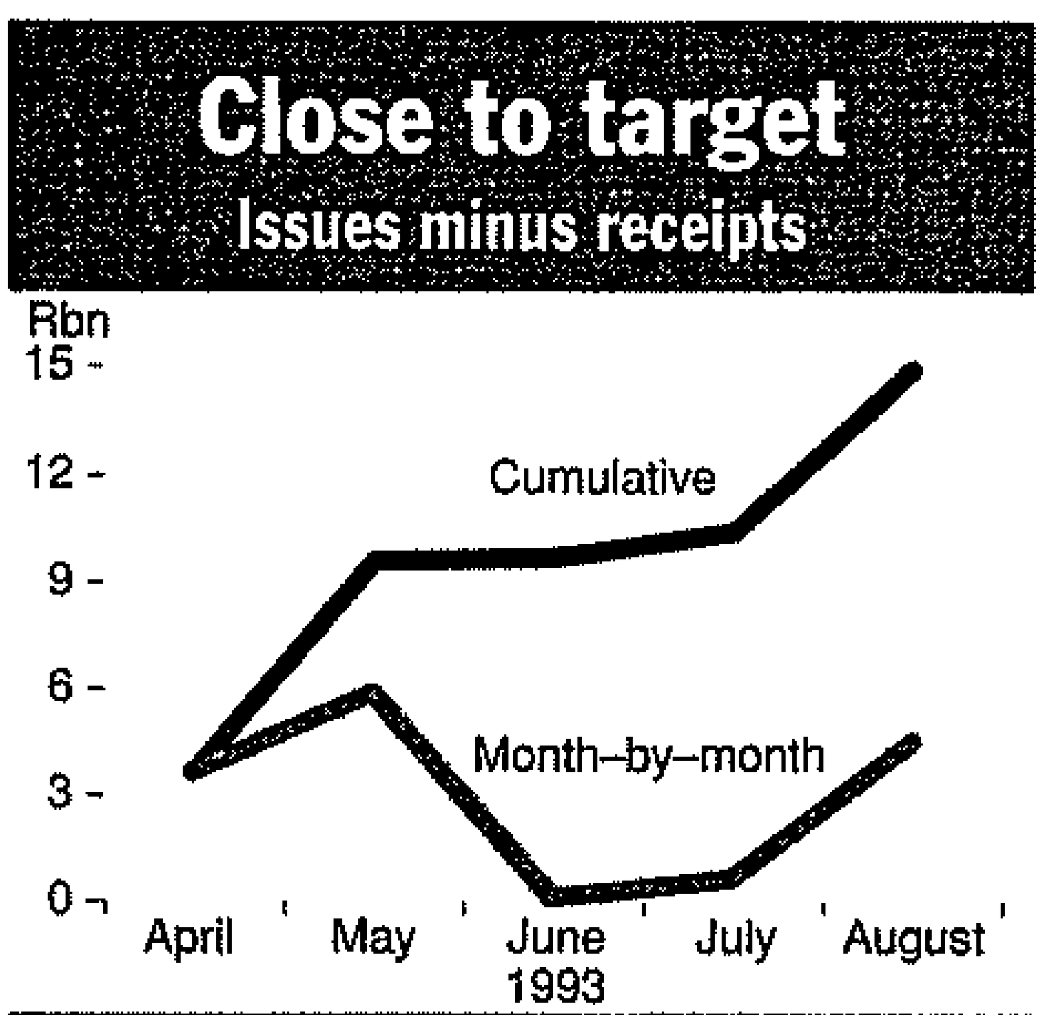
Latest Exchequer figures confirm a marked recovery in revenue flows. In the first two months of the year, cumulative collections were up only 2,9% on the same period the previous year. In June and July, they rose to 13,7% and 13%. After the five months to end-August, revenue for the fiscal year 1993/1994 stood at R32,1bn — 16,2% higher than in the corresponding period last year. This is just short of the 1993/1994 budgeted increase of 17,3%.

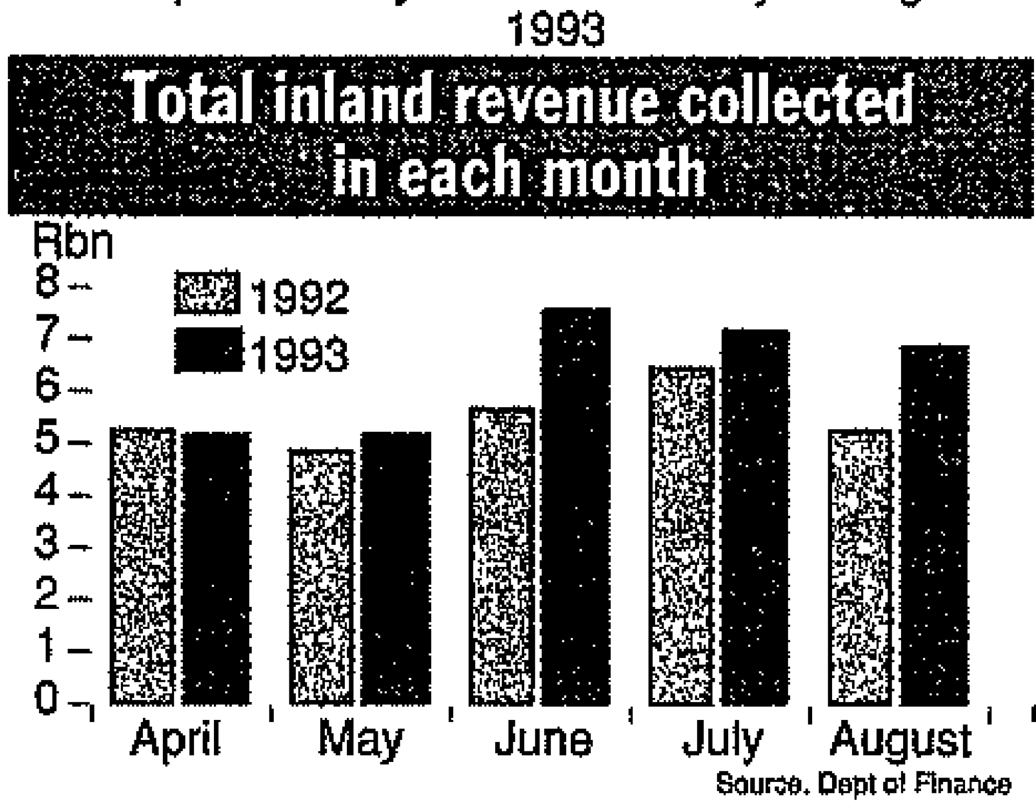
Inland revenue in the first five months has brought in R27,8bn, up 16,8% on last year, and Customs & Excise R4,3bn, up 12,1%.

In spite of large interest payments on government stock in August, of about R4,6bn, which pushed total issues to R11,4bn in the month, cumulative issues are still within Budget: R47bn over the five months, almost where they should be on a pro rata basis (R47,6bn).

Old Mutual economist Rian le Roux says the improvement in revenue collections can be put down to the four-percentage-point increase in Vat to 14%. The breakdown for August is not yet available, but July figures show a dramatic increase in this item: collections were 54,7% higher over the first four months than they were in the corresponding period in 1992/1993. This compares with improvements in the first two months and the first quarter of 25,8% and 47,8%.

However, Nedcor chief economist Edward Osborn remains sceptical about government's ability to meet its deficit forecast of R25,3bn: "On a pro rata basis, the deficit should be R11,6bn now but it's closer to R14,9bn. We are on track for a deficit for the year approaching R30bn." Last year at this stage Osborn predicted a deficit approaching R30bn, compared with a Budget forecast of R15,9bn. It turned out to be R28,3bn.





Source. Dept of Finance

Osborn argues Vat estimates won't be met because the inflows at the new rate of 14% came later than government expected — which should invalidate the Budget forecast for the fiscal year.

He also believes that government miscalculated the effect of the new corporate tax rate. "It seems companies are paying lower dividends and taking advantage of the lower corporate rate."

This, together with low company profits, explains the poor performance in overall income tax collections. In the four months to July, they were only 1,3% higher than in the previous year. But, in July, R4,4bn was collected, 3,1% more than in July last year. This probably reflects the higher public-sector salaries that month.

However, Southern Life economist Mike Daly points out this will also be reflected in higher government expenditure

Osborn points out interest payments on government debt remain a problem. "Non-interest expenditure has been reasonable, with issues only R900m ahead of the pro rata Budget figure. But the apparent saving on interest payments, now R2,2bn, is not likely to continue in the latter part of the fiscal year because of the heavy borrowing government has incurred so far, about R25,4bn, or R7,4bn more than its financing needs " He predicts this item alone will ensure a deficit of R30,6bn this fiscal year.

Most economists agree the key to controlling the deficit lies in controlling expenditure. A Finance Department spokesman says a Cabinet committee, consisting of Finance Minister Derek Keys, State Expenditure Minister Amie Venter and Public Enterprises Minister Dawie de Villiers, has been imposing discipline on expenditure.

The IMF's influence should also prove positive as it requires countries to set sustainable budget targets. *Patrick Lawlor*

US MONETARY POLICY

Blowing bubbles

The debate about which monetary aggregate should be targeted has been revived in the US, by a group of monetarists who say Federal Reserve monetary policy is irresponsibly expansionary and will create a bubble in bond and share prices. They argue that, if it does not change course soon, the US will face an "asset price bubble" similar to that which destabilised financial markets in Japan in the late Eighties

The group of economists was set up 20 years ago, to challenge conventional wisdom on US monetary policy and is headed by Allan Meltzer, a professor at the Carnegie Mellon University

Too lax

The criticism that Fed policy is too lax runs counter to the views of many mainstream economists who argue that the Fed ought to consider cutting rates further, to stimulate a still sluggish economic recovery. Those wanting the Fed to be more expansionary complain that M2, the main measure of broad money, has barely grown at all in recent years.

Meltzer and colleagues, however, prefer to focus on narrow measures of the money supply, such as the monetary base which consists of currency in circulation plus banks' reserves with the Fed Unlike M2, this measure has not been distorted by a shift from bank deposits to money market instruments in recent years.

Meltzer points out the monetary base has risen 11% in the past year — double the rate of growth of nominal GDP of 5%-5,5%. The economy is thus awash with liquidity, most of which has found its way into financial markets. Long bond yields have fallen steeply, he claims, not because of confidence that inflation will remain low, but because, with growth of reserves far exceeding loan demand, excess cash is being used to purchase government securities.

The initial impact of excessive growth of the monetary base is to raise asset prices. But it will eventually feed through into higher consumer price inflation, the group warns. The Fed has thus been lulled into a false sense of security.

In congressional hearings, Fed chairman Alan Greenspan said real short-term interest rates (the nominal interest rate minus inflation) are close to zero and cannot be maintained at this historically low level indefinitely. But the Fed has so far postponed raising rates because economic growth has been slower than expected and because an apparent spurt in inflation has been reversed. ■

CAPITAL ADEQUACY

Exploring the second tier

When Absa took over the troubled Bankorp last year and applied its own more conservative accounting and provisioning policies and

P.T.O.

Mokaba realistic about economy, says Minister

ANC 25/9/93

(49)

LEN ASHTON, Weekend Argus Reporter

CONTROVERSIAL leader of the ANC Youth Peter Mokaba may be a militant populist — but he seems realistic about the economy, according to the Minister for Tourism, Dr Bhadra Ranchod.

Dr Ranchod said in a speech at Paarl this week that, in recent discussions with Mr Mokaba, the African National Congress man agreed that politics should be kept out of tourism.

"I talked to Peter Mokaba for 1½ hours and gave him the opportunity to give his vision of the future. I believe in communication. It is my job to listen.

"The dialogue with this gentleman led to an understanding that we must keep politics out of tourism. All the political parties have recognised the value of tourism."

Dr Ranchod said that his appointment to the Cabinet six months ago was an indication that tourism was considered vital to South Africa's economic recovery.

Dr Ranchod was addressing guests at an award ceremony in which he presented the first Five Star Silver Classification in South Africa to the Grande Roche luxury estate hotel in Paarl. Most of the new grading and classification scheme applications submitted so far have received the maroon plaque for an accepted standard of service.

The few establishments that provide superior service will display the distinctive Silver Classification as an indication of service excellence — quality, with warmth of service, and high aesthetics.

The award was accepted by the general manager of Grande Roche, Mr Horst Frehse, at a dinner in the hotel hosted by the South African Tourist Board.

Finrand to go

Govt, ANC clash on foreign loans for SA

49

CT 27/9/93

From GRETA STEYN and SIMON BARBER

WASHINGTON. — The financial rand (finrand) looks set to go as the government and the ANC called at the weekend for the unit to be abolished.

In what seemed to be a joint policy arrangement the ANC said stability under a strong democratic government would enable South Africa to do away with the dual unit.

President F W de Klerk later told businessmen at the World Economic Development Congress that he was anxious to end exchange controls as soon as possible because it was "fundamentally important to open up our economy".

The ANC released a policy statement saying foreign investment through the finrand had no impact on foreign currency reserves and merely facilitated disinvestment.

"The two-tier system must therefore be abolished at the earliest opportunity."

Questioned later, Mr De Klerk said an International Monetary Fund standby facility — in addition to the $850m loan nearing finalisation — would be one of several prerequisities for such a step.

In asserting the need for further IMF finance, Mr De Klerk appeared to put the government on a collision course with ANC

ANC DIDN'T DO IT ALONE — DE KLERK

See PAGE 2

economics chief Mr Trevor Manuel, who said the organisation was unwilling to seek IMF assistance beyond the loan, known as the Commodity and Contingency Financing Facility (CCFF) now under discussion.

Speaking ahead of a meeting yesterday with the World Bank's vice-president for Africa, Mr Edward Jaycox, Mr Manuel said: "World Bank finance is not on the agenda."

He spelt out a cautious approach to foreign loans, conveying a fervent wish to avoid the World Bank and the IMF calling the shots on economic policy.

The CCFF requires an undertaking from the borrower to "co-operate" with the IMF.

Mr Michael Camdessus, IMF managing director, indicated after meeting the ANC that an announcement on the loan could be made "within days".

Mr Jaycox said earlier this year $1bn in World Bank finance was available for South Africa.

But Mr Manuel expressed fears that South Africa might plunge into another debt crisis

In a reference to the strings attached to IMF and World Bank loans, Mr Manuel said South Africa should guard against losing its sovereignty in dealing with the Bank and Fund

But he did not rule out using World Bank finance in the long term.

Mr De Klerk told the development congress that the government and the ANC had reached broad agreement on specific economic policies, including the need for the contingency facility and the terms of a final debt rescheduling to be announced today.

● South Africa is no longer a pariah state, the influential New York Times declared yesterday, citing Mr Nelson Mandela's call to end sanctions, and the passing of the TEC bill last week

SA 'needs appropriate mix of foreign funding'

ARG 30/9/93

49

The Argus Correspondent

WASHINGTON. — Finance Minister Derek Keys has firmly rejected any suggestion that South Africa can "go it alone" in funding growth.

In his governor's address to the annual International Monetary Fund and World Bank meetings in Washington yesterday, he said an appropriate amount and mix of foreign funding was crucial to any economic strategy.

Foreign funding would lead to greater immediate fulfilment of expectations and would also enable the economy to achieve a higher rate of growth.

"We look to the international community for support in our transformation," he said.

Mr Keys' remarks come after a week of perceived tension between government and the ANC about the timing and extent of IMF and World Bank intervention in the South African economy.

He referred to the crucial, "letter of intent" that has yet to be signed to unlock the $850 million IMF drought-related aid — South Africa's first access to financial facilities since the United States enacted the Gramm Ammendment in 1982.

"We remain aware that the necessary condition for this as regards our own behaviour is to conduct financial policies in a disciplined manner."

SA is on way back – Keys

Star 30/9/93

(49)

Washington — South Africa is on the brink of a full normalisation of its global financial relations as the country is set to resume full membership of the International Monetary Fund and World Bank, says Finance Minister Derek Keys.

In an address to the annual meetings of the IMF and World Bank, Keys said South Africa could now look forward to establishing and enhancing trade and financial ties with the international community.

He credited the rapid resumption of the country's global financial relations to the economic consensus achieved between the Government and South Africa's political parties.

The ANC, Pan Africanist Congress, the IFP as well as white parliamentary parties have since May been part of an "economic transitional council" initiated by Keys.

"We have already made an encouraging start in establishing a credible track record," he said, referring to the united South African application for a R2,9 billion relief loan from the IMF, a revised tariff offer to the General Agreement on Tariffs and Trade, and the deal on the final rescheduling of standstill debt.

Claire Gebhardt reports that agreement has still to be reached on the wording of South Africa's crucial "letter of intent" which is necessary to unlock the IMF's drought relief loan. Official sources said yesterday that the wording of the agreement was a "delicate" matter and that negotiations were ongoing.

The condition on which the loan depends, although not particularly stringent, relates to monetary expansion and the reduction of the deficit.

"The ANC has said that the country would like to make use of the loan but want the commitment to be defined as loosely as possible because they don't want their hands tied down at the beginning by their indebtedness to the multilateral agencies," said one source. "Government, on the other hand, is stressing the urgency of the need for financial assistance to back up the political process."

Keys firmly rejected any suggestion that South Africa can "go it alone" when it comes to funding growth.

He said foreign funding would lead to greater immediate fulfilment of expectations and would also enable the economy to achieve a higher rate of growth.

"Democracy brings political freedom but the transformation will not be robust unless it is accompanied by a just economic system that leads to improved standards of living."

South Africa would also look forward to World Bank agencies starting to develop programmes — lending money to both the private sector, for infrastructure projects, and the Government, for education and housing, Keys said.

■ From New York it was reported last night that the Organisation of African Unity had decided to lift economic sanctions against South Africa with immediate effect.

"We have asked for the immediate lifting of sanctions and they have supported that," ANC leader Nelson Mandela said after a meeting at the OAU's New York headquarters. — Sapa, Finance Staff, Star Foreign Service.

▶ **More reports — Page 19**

☐ Keys echoes plea by F W and Mandela

ARG 30/9/93 (49)

Call on world to aid recovery in S Africa

CLAIRE GEBHARDT
The Argus Correspondent

WASHINGTON. — Minister of Finance Derek Keys has joined the chorus of South African voices calling on those who imposed sanctions to come to the aid of a new South Africa.

In doing so yesterday, he echoed the sentiments of African National Congress president Nelson Mandela and President De Klerk, who implied at the weekend that there was a moral obligation on those who had led the sanctions campaign to help South Africa recover.

In his address as governor of the fund for South Africa at the joint annual discussions of the International Monetary Fund (IMF) and World Bank, Mr Keys said South Africa was looking to the international community and its multilateral institutions for support in its transformation.

"This community, which has displayed its collective will in past involvement in sanctions, disinvestment and other measures to accelerate change in South Africa, now has the opportunity to remain equally involved by displaying that same commitment to support positive development in South Africa," he said.

Mr Keys warned of the dangers of awakened expectations and said the greater the economy's ability to grow, the greater would be the chances of peace.

He was speaking against the background of a groundswell of acceptance in Washington of the moral challenge of replacing sanctions with investment.

The call has the support of the Clinton administration, which has doubled its assistance to black South Africans to R272 million and has allocated R42 million to support the election process.

It also has the support of the powerful congressional black caucus and people like Randall Robinson, a former arch proponent of sanctions. All are emphasising the need for urgent action by the black American community.

New York mayor David Dinkins has called for repeal of a New York City anti-apartheid law which, he believes, could free up to R136 billion in pension funds for investment in South Africa.

The office of Illinois senator Carol Mosely Braun confirmed there appeared to be something of a moral crusade under way in the United States.

In an interview, a spokesan said the office was being bombarded by callers asking how to invest in South Africa.

proceedings against Crusader, unless the proceedings were initiated with the specific consent of the court.

So this week, Cape Town attorneys MacCallums indicated they wanted the liquidation application transferred to the Transvaal Provincial Division MacCallums say "it is clear to us that the liquidation application . . cannot be adjudicated by the Witwatersrand Local Division."

The case is complex. It's difficult to see what the shareholders stand to gain, if there really are no shareholders' funds, except to give vent to their fury. The applicants give one reason for a winding-up as a need in terms of 344(h) of the Companies Act to investigate the sale of Rowand shares at between 320c and 340c.

A further argument is that Crusader's dividends have been paid from capital. The applicants have alleged that, according to documentation issued by the company, dividends have been paid from the surplus in the life fund. This is queried because there might have been no surplus. Recent valuations have revealed extraordinary differences which now seem to establish that the life fund is R58m in deficit.

The shareholders maintain that Crusader's directors knew, when they raised R20m through a rights issue in 1991, that there was already a deficit of R30m so the issue would only partially reduce that deficit.

The curators responded to this week's application that it was "mis-conceived and ill-founded." One of the applicants had no *locus standi*. Also, the curators object to the suggestion by shareholders that the company itself can be wound up without prejudice to policyholders — the shareholders argue that the company can be wound up and its dealings scrutinised while the policyholder funds can become a separately managed closed-end trust.

Also, according to the curators — with support from the Financial Services Board — it is significant the applicants own 2,4% of the shares while Anglovaal, holding 60%, has opposed liquidation as "inimical to the interests of policyholders." According to the curators, policyholders will be in for heavy losses in the event of liquidation. There would be a similar effect if the company were placed in liquidation while the life fund remained under curatorship.

Crusader's true position is still not known and might not be known until the return date of the curatorship order on November 9. The interest of the shareholders in going for the Rowand brothers is perhaps understandable The duty of the curators to protect, to the extent they are able, the interests of policyholders, is more clear-cut.

Shareholders might reflect on the attitude of three of Crusader's much larger competitors, all of which were sounded on the possibility of mounting a rescue operation. All declined to talk on the record but, summarised: "Why, when a competitor undercuts rates at our expense, should we put out funds to bail it out of trouble?"

But what are the possibilities of a PR coup for Sanlam? Old Mutual can hardly intervene because, having bought 6% from the Rowands, it would then look as if it had been painted into a corner. Sanlam, if it were to come forward with a deal to protect the policyholders, while divorcing itself from the shareholders' problems, would have scored off the old antagonist. One of the joint curators and ex-CE of Sanlam affiliate Metropolitan Life, was back in Cape Town last week for discussions which included Sanlam

Bryan Deans

FUND YIELDS

Bridging the gap

Southern Life has attracted about R200m since July by using a new system of portfolio management which relies heavily on the derivatives market. Executive director Shams Pather says the scheme, Step, is targeted initially at pension and provident funds but might also be applied to certain life funds, including RAs.

Essentially, the portfolio tries to bridge the gap between market-linked funds, which have historically produced highest returns, and guaranteed funds. By employing derivatives as a major investment avenue, Step is designed to give security of the initial capital, competitive returns and a short commitment period — as little as two years Pather says the fund is the first of its kind.

He adds that there is a built-in ratchet effect — as profits are made, they are locked into the portfolio. With a portfolio combination of bonds, cash and derivatives, gains derived from the stock market are consolidated, while free cash flow is used to acquire new futures.

It's not a fund to which a pension manager would commit his entire resources but probably one to apply to part of a portfolio to compensate for the limitations of guaranteed funds.

To be effective, any fund like Step needs expensive systems — computer software, specially written to lock out competition for as long as possible. And it has to overcome some doubts. These were first expressed by Southern's own portfolio managers, so the fund was back-tested over several years, recreating a period when there was no derivative market in SA, and applying it to the JSE's all-share index, as well as the US and UK market indices from 1966.

In theory, as a market rises, exposure is increased. Conversely, in a falling market there is immediate disinvestment and profits attained at the time are locked in.

Pather notes: "All the major institutions are accused of conservatism, because the illiquidity of the JSE stocks keeps us locked into our share investments. There may be some truth in that. By exploiting derivatives instead of direct share investments, we move around that problem. Instead of needing always to be proactive in the market, we can also be reactive to events in the market — consolidating gains, avoiding losses." He adds that back-testing showed that, had the fund existed when the market slumps of 1969 and 1987 occurred, the ratchet effect would have smoothed the results for pension and provident fund members ■

MONEY SUPPLY

In the second half of last year, growth in narrow monetary aggregates began to outstrip growth in the broad aggregate M3. According to the Reserve Bank's *Quarterly Bulletin* on the quarter, this came as investors switched to short-term deposits in the expectation that official interest rates would fall.

That kept year-on-year growth rates in these aggregates high, early this year. However, thereafter, growth slowed and, in July, decelerated sharply. Figures released by the Bank show that M0, the monetary base, which had grown by 15,7% in the 12 months to June, grew only 2,7% in the 12 months to July. And M1A slipped from 18,1% in June to 12,6% in July.

This follows a change in interest-rate expectations, after continued declines in gross gold and foreign exchange reserves. The September 1993 *Quarterly Bulletin* gives four reasons:

- ☐ Consolidation of deposits and borrowing under flexible mortgage facilities;
- ☐ Some disintermediation, induced by relatively wide margins between banks' deposit and lending rates;
- ☐ The selling of bankers' acceptances to investors in the nonbanking private sector, after the liquid asset status of this paper was abolished; and
- ☐ Other regulatory changes, such as the change in the way the cash reserve and liquid asset requirements are calculated.

Provisional figures for August show M3 grew 2,9% between July and August. The year-on-year growth figure is 3,9%, from 1,6% in July. The growth in M3 measured from the base of the current guideline year (November 1992), annualised and seasonally adjusted, is 2,6%. ■

CPI FM 1/10/93

Weight watching

Inflation was 9,3% in August, down from 9,9% in July, as all major components of the consumer price index rose at a slower rate (see graph).

Even transport inflation, which is in double digits, fell in the 12 months to August — to 15,6% from 15,7% in the 12 months to July. More meaningful declines in inflation were seen in housing, which rose only 0,8% in August, after a rise of 1,2% in July and food

DP 'rescue plan' will mothball Mossgas

CT 1/10/93

By ANTHONY JOHNSON
Political Correspondent

THE privatisation of key state assets such as Telkom and SAA and the possible mothballing of Mossgas form part of a five-point "economic rescue strategy" unveiled by the Democratic Party yesterday.

The main points of the plan, designed to create growth and jobs by kickstarting the economy, are to:

- Alleviate the tax burden on middle-income earners through greater efficiency in state expenditure, privatisation and introducing a lottery to fund welfare expenditure.
- Initiate a "massive" labour-intensive housing and development programme in conjunction with the private sector.
- Establish export processing zones and redress imbalances in tariff structures.
- Implement deregulation and rationalisation to make state spending more efficient, for example, by reviewing — and where necessary mothballing — "white elephants" like Mossgas.
- Privatise key state assets, starting with Telkom and SAA, to raise revenue, promote efficiency and roll back the deficit.

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The five-point strategy will be fleshed out at the DP's national congress in Cape Town this weekend.

About Mossgas, DP leader Dr Zach de Beer said no enterprise could be run at a loss simply because the government poured about R13 billion into it.

Top drawer push to boost SA economy

(49) CT 2/10/93

THE United States would mobilise the world's Group of Seven (G7) countries to bolster the SA economy, US Deputy Secretary of State Dr Clifton Wharton Jr said in Washington late last night.

Addressing a Global Business Access conference on institutional investment in SA, he stressed the importance of economic growth in conjunction with SA's democratic transition.

"If the government is unable to address forcefully the economic problems, SA's nascent democracy will be crippled and its future troubled."

The G7 includes Japan, Germany, France, Italy, Britain and Canada, and seeks to co-ordinate global economic growth.

Reserve Bank governor Chris Stals, speaking at the same conference, confirmed that SA's foreign investment unit was not about to be axed.

Stals said that while he knew the finrand was a "hassle" for foreign investors, the low level of SA's foreign reserves — \$2.7bn (R7,03bn), equivalent to five weeks of exports — made abolition of the two-tier currency system imprudent: "The financial rand system must be maintained as long as the domestic, political and social instability continues"

Earlier, SA markets anticipated this note of realism as the euphoria of the past week evaporated following last Friday's call for the abolition of remaining economic sanctions by Nelson Mandela

The financial rand ended 7.7% firmer on the week, but traders warned that its allure could be dwindling as fast as the unit's discount to the rand.

The finrand closed at 4.18/19 after a week of wild speculative swings.

Market analysts said the narrowing of the unit's discount to the rand meant the finrand was "not quite as attractive" as it had been Foreigners were taking profits.

While long bonds ended the day firmer on mild offshore interest and the expectation that the Reserve Bank would cut official interest rates, dealers pointed out that Stals was unlikely to cut rates before the elections.

Board of Executors portfolio manager Rob Lee pointed out that the run-up to elections would no doubt be turbulent, with possibly greater violence, which would further dampen economic recovery and investment confidence.

He said the vulnerability of world markets to weakness could flow through to the JSE — and that the gold hike earlier this year "was a flash in the pan".

On the JSE yesterday, shares in Gengold's Oryx Gold Holdings Ltd slumped 49% or R2,40 to R2,50 on news that the mine could need R900m in extra funding The fall was on only 500 shares traded

As prospects of a continued strong finrand performance faded, JSE shares managed a slight rebound from the morning's lows.

The Industrial Index fell 23 points to 4 476 and the Gold Index was a point down at 1 504. The Overall Index ended seven points softer at 3 763. — Business Staff and Reuter

Economic 'wasteland' warning

(280)
(49)

CT 2/10/93

NEW YORK. — Mr Nelson Mandela has warned that South Africa might be reduced to a "wasteland" unless economic sanctions are quickly lifted and new investment pours in.

The ANC president appealed to New York governor Mr Mario Cuomo this week for help in encouraging investment in South Africa, a nation he called "the most violent society in the world today".

Mr Mandela said the deterioration of the South African economy had resulted in an outburst of crime in addition to politically motivated violence.

"There is no atmosphere to attract investors," he said.

Mr Cuomo pledged the support of New York state. "South Africa has to be given a chance to rise up to the level of full partner of the rest of the nations."

EC plans

Last week, Mr Mandela told the United Nations that the international community should lift economic sanctions against South Africa, except for an oil embargo that should remain in place until a democratically elected government takes power.

The United States has agreed to lift its remaining sanctions, and the 12-nation European Community has announced plans to do the same on Monday.

Mr Mandela said some companies were ready to invest in his country after being invited several years ago to research potential markets in SA.

Mr Mandela said he understood the reluctance some companies might have toward entering a country where democratic government had not yet been set up.

"We hope in due course to be able to tell the world that the stability required by investors is secured and the violence has been stopped," Mr Mandela said.

But "there can be no permanent political settlement if we don't face the economic question", he added. — Sapa-Reuter

Slowly out of the slump

By TERRY BETTY

THIS week's announcement of a one percentage point cut in the Bank rate comes as a sign that the worst of the recession is over but economists say there is still a long way to go to get out of the slump.

SA Chamber of Commerce (Sacob) economic policy director Ben van Rensburg says: "All the figures point to the economy turning around."

Exports, especially of manufactured goods, have risen this year.

Sacob's business confidence index has reached 1987 levels. The number of insolvencies has fallen from almost 500 a month at the beginning of the year to 250 and car sales have rallied. At 9,1%, inflation is at its lowest in 20 years and the Bank rate of 12% is the lowest in five years.

S/Times (Buss)

GDP has grown in the past two quarters and economists say indications are that the third-quarter figures will be good.

31/10/93

Frankel Pollak Vinderine economist Mike Brown says the fly in the ointment is the lack of demand for credit.

Opinion that little investment is taking place is wrong. Nedcor Bank chief economist Edward Osborn says R28-billion to R30-billion of capital spending is under way. It includes only large ventures.

The spending is mostly on fresh capacity and not on plant replacement.

Mr Osborn says the economy should grow modestly in the next three to four years and that once capacity is fully utilised, get on to a higher growth path.

But much depends on politics and the recovery of the world economy.

"The only major economies showing growth are the UK and the US. Continental Europe is in a deep recession and in the throes of structural adjustment with retrenchment and unemployment," says Mr Osborn.

(49)

"Japan is in recession as it goes through a structural adjustment.

"At 13% annual GDP growth, China is overheated and curbs will have to be imposed to slow this down because inflationary forces are too strong."

Mr Brown says: "Leading indicators point to sufficient groundswell to sustain an economic recovery for the next few quarters, enhanced by lower inflation and interest rates."

Dr van Rensburg says: "If a new government gives a clear signal that it will stress economic growth, international competitiveness and a favourable environment for foreign investors, the sky is the limit for SA."

Mr Osborn says while the long term prognosis is good, the short term will be beset with problems such as structural changes to make industry internationally competitive

"The authorities must take cognisance of the delicate nature of the changes to steer the economy through this rough patch."

□ The 1% cut in the Bank rate caught the market unawares and resulted in a 50 point fall in short dated bonds.

An analyst said that while this would decrease the cost to government of raising cash, it would not have any effect in the current year, as the government had already financed much of its requirements.

MONEY

Welfare billions down the drain of bureaucracy

S Times [Buss] 3/10/93

(49)

NEARLY half of the SA Budget goes on social spending, but up to 80% may be swallowed up by administration and other costs, says a Sunnyside Group report.

By CIARAN RYAN

The intended beneficiaries of welfare programmes may receive as little as 20%, says the report which advocates an overhaul of the welfare payment system. The Sunnyside Group lobbies for deregulation of the economy.

This year R55,3-billion or 44% of total Government spending will go on social services, R27,3-billion of it on education, R12,9-billion on health and R10,6-billion on social security and welfare. Social services is the largest single category of spending and, other than interest on public debt, which grew by 21% a year since 1990, it is the fastest growing category — since 1990 spending on social services grew 17,7% a year.

"Where the state dispenses welfare on a monopoly basis, this tends to result in less money ending up in the hands of the intended beneficiaries," says Sunnyside Group director, Chris Daroll.

"There is a perception that SA is not a welfare state. If you consider that nearly half our budget is spent on welfare-related items, we are not far from becoming a welfare-dependent state," she says.

"While R55-billion sounds like a lot of money, if you divide it among 40-million people, you come out with less than R1 400 a person," says Tony Twine of Econometrix.

"Pressures for increased social spending are growing by the day, but with our small tax base, there is simply no way we can raise more taxes to pay for it. The money for social spending will have to come from other areas of the budget."

Mrs Daroll says experience in the US shows that 80% of welfare spending is absorbed by civil servants employed to dispense money to the poor and believes the same may apply to SA.

"Government has to tread a careful path between apparent neglect of suffering people and the creation of an ever-growing dependent population which is supported by a diminishing number of productive self-supporting citizens," says the Sunnyside report.

Welfare should ensure that people receive relief only if they are unable to care for themselves because of old age or sickness. Able-bodied people who are capable of working should be offered work rather than a hand-out, and those who refuse to work should not receive state support, says the Sunnyside Group.

The report argues for the removal of regulatory barriers to employment, such as business licensing laws, tax laws which prevent the accumulation of capital, labour laws which impose minimum wages, zoning and health laws and financial regulations which prevent the poor from access to finance.

The Sunnyside Group suggests redirecting welfare funds away from bureaucratic empires to the intended recipients. It says modern technology enables proper controls to be applied, dispensing with the need for large bureaucracies to distribute funds. It argues for decision-making regarding eligibility for welfare payment to be devolved to immediate neighbours and communities, with the assistance of voluntary groups working in the area.

"Budgeting can be achieved on an area basis and the welfare office in the area given the responsibility of spreading the funds more efficiently," says the report. "Local decision-making reduces the danger of escalating welfare payments."

The Sunnyside Group says a new welfare system is needed which funds recipients directly, providing substantially more money to targeted individuals. It says existing benefits such as pensions, transport, education, health and housing should be channelled through a single system. It calls for greater competition among suppliers, a substantial reduction of the public service in the welfare system and an audit trail to keep track of funds.

A recent IMF report said that SA spent more on education than most industrialised countries. Based on 1987 figures, SA spent 18,3% (21,4% this year) of total Government expenditure on education, compared to 17% for lower-middle income countries, 14,1% for upper-middle income countries and 12,9% for industrialised countries. SA spent 9,8% of its budget on health in 1987 (10,2% this year) compared to 7,6% for middle-income countries and 12,5% for industrialised countries. SA spent 1% on housing, the same as middle- and lower-income countries, whereas industrialised countries spent 4%.

focus on Economy

Sowetan 4/10/93

The IMF and World Bank are stumbling over themselves to offer loans to South Africa. Using independent African countries as an example, Mzimkulu Malunga looks at the pros and cons of accepting such an offer:

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WITH THE NORMALISATION OF South Africa's international economic relations, one of the key issues the country's technocrats have to address is a policy on interaction with the International Monetary Fund and its sister institution, the World Bank.

This factor became apparent last week when a contingent attending the annual meetings of these two institutions could not reach consensus on whether to accept a loan offer from the World Bank.

Economists of all disciplines know that this country cannot afford to turn its back on prospective funding from either of these Washington-based banks.

It is estimated that the country needs in the tune of R4 billion to cater just for about 400 000 new job-seekers who leave school every year.

Figures released by the Reserve Bank suggest that unemployment is growing at alarming proportions and more money will have to be spent to create jobs.

Even Trevor Manuel, head of the ANC's economics department, was quick to put context to his earlier remarks that the issue of a World Bank loan was "not on the agenda" when he noticed the noise it sparked.

Manuel later clarified his organisation's position as being its unwillingness to support blind borrowing which could result into a debt burden for the country.

Total debt

Currently, South Africa's total debt stands at around $18 billion, yet by international standards the country is said to be "under borrowed".

While dealing with both the bank and the fund is a reality that the country has little room to avoid, the major point of debate is the level of interaction with these institutions, particularly when the loans come loaded with stringent conditions.

Some, particularly in government circles, are in favour of an economic structural adjustment programme under the auspices of the bank.

But on the other hand, there are those who argue that South Africans must agree on an economic restructuring programme and identify the priorities before they can even think of involving outside forces.

Soon the country will be receiving about R2,9 billion from the IMF which will be used to alleviate the effects of last year's drought.

In this particular loan, the major condition is that South Africa should write a letter to the IMF undertaking to pursue sound economic policies and will be cautious when it comes to overspending.

But in future the conditions which have come to be know as "harsh medicine" could be a lot harsher.

> **"Officials of the IMF and the World Bank are quick to point out Asia and certain parts of Latin America in their quest to justify their harsh economic conditions for developing countries"**

However, the ANC's deputy head of economics, Tito Mboweni, is confident that South Africa can efficiently handle the IMF and World Bank.

He says the only time these two institutions intervene directly into the running of a country's economy is when their loans are not paid back on time.

World Bank

"We must manage our economy in such a way that we do not put ourselves at the mercy of the World Bank," he argues.

Mboweni says he does not foresee a possibility of loans form IMF and World Bank to South Africa exceeding 10 percent of the national budget.

But economists such as the director of the Institute for African Alternatives, Ben Turok, argue that leaders such as President Robert Mugabe of Zimbabwe and former Presidenet Julius Nyerere of Tanzania used to believe their countries had what it takes to keep the fund and the bank at bay.

Today it does not need a schooled economist to relate the hardships brought by Washington-tailored economic structural adjustment programmes in those two countries.

Despite more than a decade of "harsh medicine" in many African countries, the continent is yet to show an economic tiger that African can be proud of.

Writing in one of the bank's newsletters recently, two economists working for the institution admitted that it would take another 50 years before, for instance, an average Ghanaian crosses the poverty line, unless drastic steps are taken to nurture that country's economy.

Officials of these institutions are always quick to point out to Asia and certain parts of Latin America in their quest to justify their harsh economic conditions for developing countries.

Often people have taken to the streets in a number of African countries as the food prices go up after removal of government subsidies.

And their currencies become useless following a heavy devaluation process as the Washington-cooked economic medicine makes its presence felt.

But the institutions are not without their own form of ammunition to counter criticism.

"To put blame on the doctor who is trying his best to resuscitate a dying corpse is wrong," counters Mr Isaac Sam of the World Bank.

The IMF and the World Bank were established after World War 2 to help Europe and Japan recover from the devastations of the conflict.

The IMF was formed to help countries minimise the fluctuation of the value of currencies and problems relating to volumes of exports against those of imports — commonly called the balance of payments.

During the '50s and '60s when more countries gained their independence, the bank's facilities were extended to those states.

Today the World Bank Group comprises the International Bank for Reconstruction and Development, which gives loans to countries where income per person averages about R2 500 a year; the International Development Association, giving concessionary loans to poor countries; the private sector arm International Finance Corporation; and the Multi-lateral Insurance Guarantee Agency, which underwrites private sector investment in risky projects.

No overnight economic miracles expected

Star 4/10/93

Slow cure, says Stals

(49)

ALTHOUGH international attitudes to SA have taken a turn for the better, concrete improvements are not around the corner

IMF/WORLD BANK ANNUAL MEETING

Claire Gebhardt

Washington — Things are getting better . . . but don't expect instant economic miracles from the new attitude to South Africa.

This was the assessment of Reserve Bank Governor Chris Stals after the close of the annual IMF/World Bank meeting in Washington last week.

Stals said the attitude to South Africa was better than it had been for years, but concrete results such as an improvement in foreign reserves and a lowering of interest rates would not come overnight.

"We may relax a little more now. But the Reserve Bank doesn't determine interest rates, markets do.

"We will certainly not work against market forces — on the other hand, we don't intend to pre-empt them."

In an interview, Dr Stals said the objectives of monetary policy would remain the same — to keep the real exchange rate of the rand as stable as possible and to continue the fight against inflation.

"We must build up our foreign exchange reserves again to a level equal to at least three months of imports."

Lifting sanctions had opened the way for an improvement in SA's situation, but did not mean things had changed overnight.

"It doesn't necessarily mean that capital will flow in, but a very important obstacle has been removed and this can have an important psychological effect.

"The bottom line, however, is that we cannot change monetary policy because of the statements made. It will be affected by the deeds that flow from the statement."

SA faced a difficult situation over the next six months, with changes in the constitutional structure and the election campaign.

Asked whether the ANC and the Government saw eye to eye on IMF funding, Stals said the World Bank and IMF had for a long time indicated that they wanted political consensus from SA before they were prepared to approve loans.

"The problem has been in defining what is political consensus and how to convey this in a legal document."

It had eventually been decided that the approval of the Transitional Executive Committee (TEC) would be sufficient evidence of political concensus.

"It is hoped that the TEC will be established quite soon and will be able to endorse the application.

"To wait for a new government would take too long because we need to finalise the situation before the end of the year," Stals said.

"This is because the compensatory contingency financing facility (CCFF) is provided by the IMF on the basis of a pre-determined formula. This says the country must have experienced a negative effect on its balance of payments relating to an external factor over which it has no control — in this case, the drought.

"The fund's rules are very clear that this relates to the 12 months preceding the application.

"If we don't finalise our application by December 31, the base period will shift forwards by six months and we will be dealing with the calendar year up to June 1994, which means that we will be entitled to less than $850 million because the effects of the drought on our balance of payments will have been less severe."

The money was provided up front and could not be taken back if the country did not comply with the letter of intent.

"But obviously our reputation depends on it, and the IMF will check up on us every few months. If we default, we are unlikely to get any more money from the IMF."

Money allocated to SA from US pension funds for moral reasons would probably come in through the finrand and go into buying stock on the JSE.

"This won't improve the economy, but it will eventually narrow the discount between the finrand and commercial rand. Only then will it be possible to take a decision to scrap the finrand.

"Without lifting sanctions it would not have been possible to consider the abolition of the finrand at all."

Changes to economy makes forecasting 'futile'

(49) CT 7/10/93

By ARI JACOBSON

UNCERTAINTY over structural changes to the South African economy made forecasting, based on past trends, "futile" said Bureau of Economic Research's (BER) director Ockie Stuart.

Speaking on the first day of the international forecasting conference at the Lord Charles hotel in Somerset West yesterday, Stuart said that "to simply project past trends into the future (in the case of SA) is an exercise in futility".

He suggested that surveys, normally run on a quarterly basis, should be used in conjunction with other econometric techniques.

Stuart pointed out that surveys were also problematic because the unemployed in SA, some of whom had found jobs in the formal sector, could not be reached in these surveys.

This, the 21st Centre for International Research on Economic Tendency Surveys (CIRET), conference has attracted delegates from around the world.

The subjects being tackled for the rest of the week are as diverse as "the search for a business confidence index in Turkey" to "business cycle analysis for the Italian economy".

More meaningful topics for consideration by South Africans, on the opening day, were those by local economists Stuart, who looked at "the use of survey data in a rapidly changing environment", Stellenbosch University's (US) Hennie Kotze who delved into "transitional politics in SA" and US's Servaas van der Berg who tackled "the economic problems of SA in perspective".

Kotze told the audience that he was "optimistic about the political transition taking place in SA".

He said his observation was based on the fact that there was common ground among the major political parties on most issues aimed at growing the economy.

"The airfield is in front of us," he said, describing the completion of the transitional phase.

Van der Berg remarked that white living standards would need to drop by about 6% to help lift black incomes.

He said that black wages had increased significantly in real terms and "insiders" who had jobs were obtaining higher and higher wages while those on the "outside" without jobs were faced with more and more unemployment.

Economy is on growth curve

Sowetan 7/10/93

By Mizwandile Jacks

THE lifting of the remaining trade and investment sanctions is an indication that economic growth is gradually taking an upswing, says the South African Chamber of Commerce.

(49)

This is revealed by Sacob's Business Confidence Index (BCI) which tracks the performance of the 13 key economic guides into the business mood in the country.

The index indicated that the manufacturing industry's sales and production volumes were going up.

Durban was found to be the most optimistic region in terms of future sales prospects.

While there was a fairly large majority of industrialists who were positive about the improvement of sales and production volumes, that majority declined drastically in the Transvaal.

Progress on the political front with the acceptance of the Transitional Executive Council (TEC) and the rescheduling of South Africa's foreign debt repayments were evidence that the economy was gradually growing.

The cost of equal spending

ARG 9/10/93 (49)

ALIDE DASNOIS
Business Staff

ELIMINATING race discrimination in social spending would not hit white households as hard as is sometimes feared, Stellenbosch University economist Servaas van den Berg said this week.

He was speaking at the 21st annual conference of the Centre for International Research on Economic Tendency Surveys (CIRET), hosted by the Stellenbosch Bureau for Economic Research.

Equalising all social spending would only reduce the ability to consume of whites by 6 percent, estimated Mr van den Berg, while it would increase that of blacks by about 11 percent.

But, he said, this might not be enough to satisfy black expectations.

An ANC-dominated government would probably concentrate social reform on programmes with immediate and visible results such as housing and urban infrastructure.

"Such a government would also be tempted to concentrate its resources on urban dwellers, who are more organised and more vociferous and could therefore muster more opposition if their expectations are frustrated."

This would accentuate urban bias, Mr van den Berg said.

He said the balance of payments constraint on economic growth would persist unless South Africa could export more, or its propensity to import dropped, or foreign direct investment rose substantially.

A foreign capital inflow of $10 billion (R34 billion) a year would be necessary to sustain an economic growth rate of 5 percent. This was not realistic in the medium term.

In another paper delivered to the conference, the Stellenbosch bureau's Ockie Stuart argued that surveys rather than econometric forecasting should be used to predict trends during the transitional period.

Surveys should be used in conjunction with other techniques to gauge private spending, savings, fixed investment, employment, fiscal and monetary policy.

BUSINESS

NEF 'a unique, pioneer body', says new book

(49) ARG 9/10/93

SHARON SOROUR
Labour Reporter

SOUTH AFRICA'S National Economic Forum is a unique instrument embodying the stakeholder concept of a "social" market economy which addresses the needs of employees and government, not only shareholders, says World Economic Forum president Klaus Schwab.

The pioneering creation of the NEF had to be seen against the background of major global developments like the new world situation which could be likened to a second industrial revolution.

Writing in a new book entitled *Engine of Development? South Africa's National Economic Forum* (Juta and Co), he said it was not only the new global economic competition which made the NEF so relevant, but also the emergence of a new concept of the role of enterprise.

Edited by prominent trade union leader Ebrahim Patel — deputy general-secretary of the Southern African Clothing and Textile Workers' Union (Sactwu) and labour chairman of the NEF's short term working group — the book seeks to record the progress of the young and dynamic NEF.

In his article in the book, Mr Schwab writes: "Historically, the management of an enterprise has been seen as solely accountable to the shareholders of the company and the overriding objective was the maximisation of 'shareholders value'.

"This concept has been replaced today by the 'stakeholder' theory, which means that management is not only accountable to the shareholders, but to all 'stakeholders'," he said.

Contrary to the "pure capitalist shareholders theory", there were two other partners in the 'market economy' of a firm, namely the clients and the suppliers.

"In the 'social market economy' two additional partners have to be added: the employees and the government on a national and local level," he said.

The NEF was an expression of the stakeholder concept and "a unique instrument".

He said responsible management today meant taking decisions which over time optimally fulfilled the expectations of all partners, even if those expectations in the short-term were contradictory.

"In the long-term, there is one common interest — to strengthen the prosperity of the enterprise and in such a way the prosperity of the partners."

The book offers insight into the NEF, drawing on speeches by prominent trade union, political and business leaders made at two public meetings this year: A Sactwu conference on worker rights and the NEF's first plenary session.

"The contributors to this book reflect the diversity of interests represented in the NEF: Their perspectives are different, but all have in common a belief in the importance of the NEF as a new institution of development and decision-making," said Mr Patel.

SI Times [Buss]

Home is the village where the work is

10/10/93

(49)

Economists say village enterprises can be major providers of employment, as they have in China. Wupperthal, a missionary village of 2 000 souls in the Western Cape, provides a 160-year-old example against which to judge this hypothesis. **KEVIN DAVIE** reports.

IT's a long way from Nantai to Wupperthal.

A visit in June to the village of Nantai, about an hour's drive from Beijing in China, showed a success story which has helped to make China the world's fastest-growing economy.

The village, home to a thousand people and one of 19-million in China employing 96-million, farms its own fields and runs it own businesses.

Villages pay low wages and invest profits in new enterprises and in upgrading the infrastructure

A report in Business Times on Nantai produced a call from Bloemfontein development consultant Charles Grindlay who is trying to promote village-based job creation in South Africa.

A follow-up story brought Mr Grindlay 20 phone calls from across the country.

Stutterheim in the Border began a job-creation initiative three years ago and recorded 15% growth last year while the national economy shrank.

The key to its development success, outlined by Business Times on September 29, is sought by many. A video has been made and 35 other towns have asked how to set up job programmes.

Bot River in the Cape has formed an action committee. Its people are fully employed in the fruit-picking season, but it wants to provide year-long jobs.

Cape Town development specialist Brian Johnson has studied village enterprises.

Some of the world's best-known brand names, Cadbury chocolates, Sunlight soap, Halifax Building Society, Boots chemists and Barclays Bank, have their origins in humble village enterprises.

Village enterprise is not new to SA — it dates to the Moravian mission station founded at Genadendal (Valley of Grace) in the Cape in 1773.

In its heyday, Genadendal exported knives and hats by galleon to Europe.

Wupperthal, where the first velskoene were made in 1834, survives in a form which has changed little in 160 years.

Wupperthal is about four hours' drive from Cape Town, the last hour through mountain passes on a dirt road.

Decades before motor vehicles were even thought of, shoes from Wupperthal were moved along these roads.

Wupperthal is on a crack of land between the Cedarberg and Karooberg in the Tartra River valley. It was founded in 1830 by missionary cum shoemaker Johann Gottlieb Leipoldt of the Rhine Missionary Society.

Home to 2 000 souls, Wupperthal today is a living relic of another age. There are no new houses. All buildings including the post office, school, mini-factories and homes complement the original Cape Dutch style.

Fat cows munch on a rugby field, electricity arrived only a few years ago and all available land is extensively cultivated with cereals, fruit and vegetables.

The community is obviously contented. It is also spirited.

Eskom power did not reach Wupperthal so the village saved more than R100 000 to put in its own power line.

It also installed its own television receiver, some grumbling that they have to pay R167 for a licence fee yet "only receive TV 1".

The spirit of the village is also reflected in its name, from the German town Wupperthal. The German spelling was modernised to Wuppertal.

The official Place Names Commission of the Union decided in the 1950s that it would be Wuppertal.

But the Wupperthalers have not given in. "Let them change the name on the post franking stamp, the road signs and maps, but we always write Wupperthal.

"That's how it will surely still be in the 21st century," says its official history.

A brochure shows about 30 shoemakers sitting outside the factory in the early 1930s.

Before the Second World War, Wupperthal had 80 cobblers making 1 000 pairs of shoes a week.

But inflation which began in the 1970s made its tyre-soled velskoene too expensive. New makes were developed, but without much success.

Shoemaking has been scaled down. Only nine cobblers are employed. They work with the same moulds used six generations ago, making the original velskoen for R68 a pair.

The nine workers have equal equity stakes, the church the tenth.

Sales are made to stores in Cape Town, one in the Free State and one in Johannesburg.

The business does not make a profit, says Dawid Farao, who administers the shoe factory. "We run it for job creation and to support our families. But we can't operate at a loss."

Wupperthal diversified in 1970 into industrial gloves, mainly for the mines. Eighty workers were making 250 000 gloves a year by 1978.

But falling demand has hit hard in recent years. For six months last year the village made no gloves.

"Ons het baie swaar gekry," villagers say when asked how they survived.

Reef-based Consafe distributes Wupperthal's gloves.

Consafe's Giep le Grange says 1 000 jobs with 7 000 dependants have been lost in the leather industry in the past few years because three major companies have closed.

They were labour-intensive businesses in decentralised areas with relatively low labour costs.

The severe downturn in mining and cheap Chinese imports are the major reasons for the closures.

Mr le Grange says Chinese gloves sell for between R2,50 and R3,50 a pair after duties of 20% to 25%.

With assistance from Mr le Grange, Wupperthal has redesigned its gloves, making a combined leather-denim glove and has secured orders for 3 000 pairs a week, sufficient to employ 25 workers who earn R60 to R100 weekly.

These wages equate with the R200 minimum which Nantai pays.

With more orders the village does not put up prices; it creates more jobs. It would like to have at least 40 people working in the glove factory.

Wupperthal had its own tannery until 1986, but now finds it more cost effective to buy leather.

With rents of R30 for a house and garden and a steady supply of vegetables, including mealies, potatoes, beans and carrots, the villagers have food security.

The wages pay for other necessities and add-ons, such as television and radio sets.

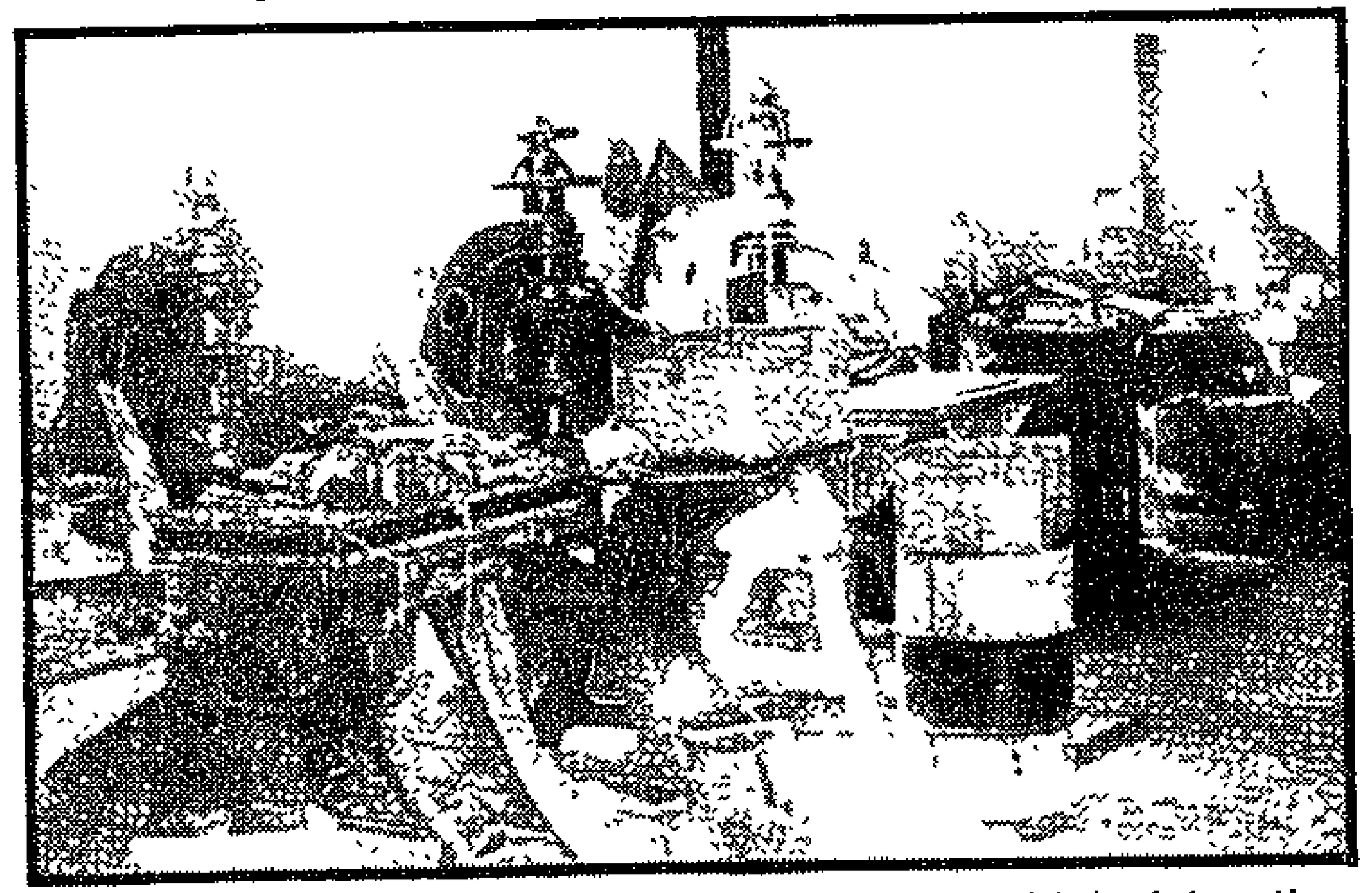
Newtown Developments' Brian Johnson says the strength of the Wupperthal example is that job creation is a key feature. Too many housing developments have failed because they neglect it.

Town planning laws separate residential and employment areas, adding to transport costs and mitigating against the development of self-sustaining communities.

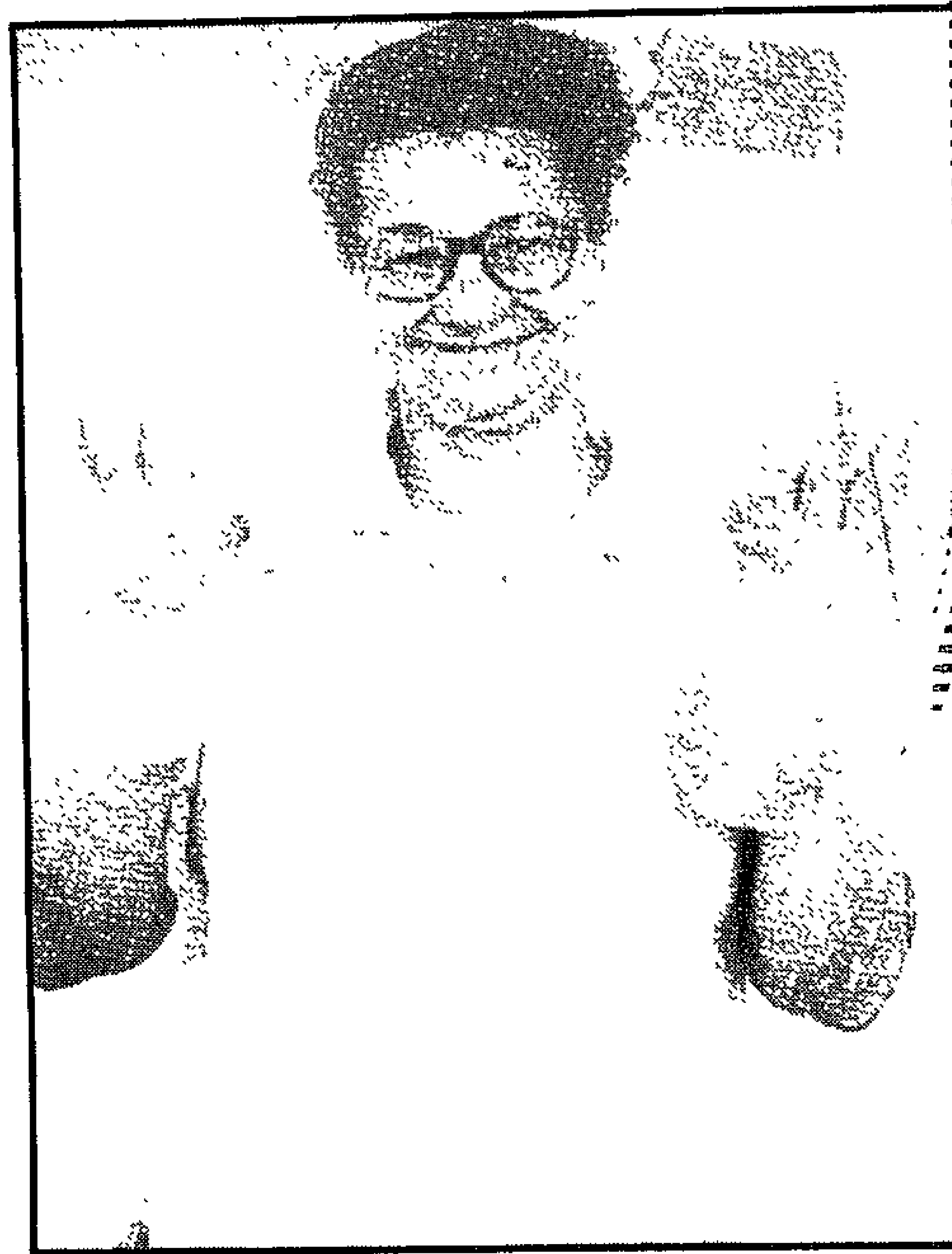
This spatial arrangement also undermines the sense of community and alienates people in their own environment.

Many residential developments fail because people no longer have access to land or jobs to pay rent or mortgage bonds.

The village enterprises of Wupperthal have a strong resemblance to those of Nantai. Both pay humble wages. They are simple, but dignified. There is also a strong sense of a people with a say in their destiny.



WUPPERTHAL'S WORKSHOP: Where it all gets stitched together



TOO DEAR AT R4 A PAIR: Amalia van Rooy with Wupperthal's leather gloves

Pictures: KEVIN DAVIE

Limited govt spending clause 'should be law'

Business Editor

CT 13/10/93

(259)

(49)

ALL future governments of SA should have their capacity to over-spend limited by a clause written into the constitution, Carel de Ridder, GM (investments) at Southern Life, said yesterday.

Stressing the importance of confidence in attracting investment and stemming the outflow of capital, De Ridder said that even when the problem of violence was solved investors would want to be certain that the next government would not over-spend in an attempt to satisfy voters' expectations.

He thought one of the most important items in a new constitution should be a clause limiting the government's deficit before borrowing.

"Some states in the US have such a clause and they are the most successful and prosperous.

"I hope the Economic Forum will get this point across when the new constitution is being written. I have not, so far, seen any mention of it. It is not something politicians are likely to press for."

De Ridder said the best way to lift living standards was to have a prosperous and soundly based economy which would attract investment, rather than by borrowing or through prescribed assets which would limit the return from insurance policies and savings.

He said the present strength of the JSE was due to the fact that the market was looking 15 months ahead and was positive about future earnings.

Although financial markets were expected to remain uncertain in the months leading to the general election he thought the longer term outlook was positive.

The lifting of sanctions and the renewed interest of foreign investors in our markets was an encouraging sign.

But he advised investors to maintain a balanced portfolio.

De Ridder said he was cautious about gold in the longterm, because so much of it was in the hands of central banks which were likely to sell once currencies had stabilised.

Physical demand for gold, for use in jewellery, had been shown to be price-sensitive.

Aid 'will see rand devalue'

49) (157)

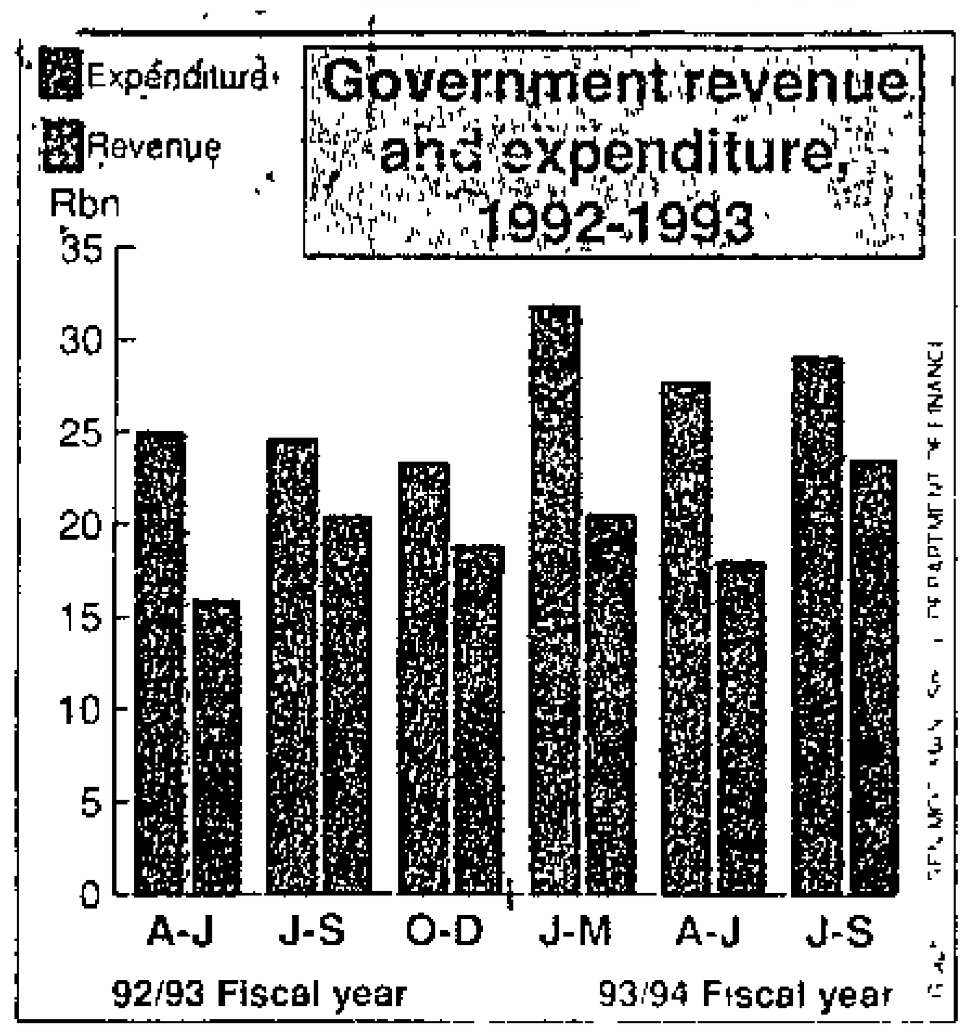
Own Correspondent

EAST LONDON. — Aid from the International Monetary Fund would result in the rand being devalued, a leading businessman warned last night.

Mr Nic Frangos, chairman of Datacor, told a meeting of the South African Institute for International Affairs that involvement in the IMF would inevitably have repercussions on the value of the rand.

"At present the rand is grossly over-valued."

However, he was positive about the future and was encouraged by the ANC's openness.



Government revenue and expenditure 1992-1993

Deficit 'likely to grow past R27bn'

KELVIN BROWN

THE budget deficit was likely to grow to more than R27bn in the current fiscal year, higher than the budgeted R25,3bn, as revenue growth continued to lag behind expenditure, economists said at the weekend.

Figures released by the Finance Department at the weekend indicated the deficit for the first six months of the current fiscal year stood at 61% of the budgeted deficit for the full year. B/Day

Expenditure in the first half of the financial year was 50% of the budgeted amount of R114,2bn for the whole year. But it was 14% higher than for the same period a year ago — more than the 9% budgeted spending increase for the full year. 18/10/93

On the revenue side, receipts were up 15% in the first six months of the fiscal year compared with the corresponding period last year, to 47% of the budgeted amount of R88,9bn for the entire financial year. This was below the budgeted increase of 17% for the full year. (49)

But a higher budget deficit was not expected to push up capital market rates as government had already met most of its financing requirements. According to the Finance Department, 94% of the net borrowing requirement for the 1993/94 financial year had already been realised.

Economists said that in the past less than 50% of the budgeted amount was spent in the first half of the fiscal year, suggesting a spending overrun was possible for the current financial year.

But the Finance Department blamed the latest increase in expenditure on higher

☐ To Page 2

Deficit

B/Day 18/10/93

☐ From Page 1

transfer payments to Transkei, Venda and Ciskei — brought forward to minimise interest on bridging finance — and larger interest payments on public debt.

Analysts mentioned other pressures were in place for more rather than less spending in the second half of the fiscal year. For example, government had offered teachers a salary increase exceeding the budgeted 5% rise in public sector salaries.

(49)

Revenue collections could lag behind the budgeted amounts as inflation performed better than expected and the economy worse than estimated.

A breakdown of the revenue position up to August — the latest available — indicated total income-tax receipts increased 5,5% compared with last year, well below the budgeted increase of 11,7%.

This was only partly offset by an increase in income from the higher VAT rate. In the five months to August VAT receipts were 49,7% higher than in the same period last year, compared with a budgeted increase of 43,1%.

Income from customs duties, surcharges on imports and excise duties also increased by slightly more than the budgeted amount. Net receipts from customs and excise were 13,6% higher compared with the corresponding period last year.

Sisulu to head up policy institute

TIM COHEN

FORMER ANC economic planning department head Max Sisulu plans to establish an independent institute to develop policy for the "broad democratic movement".

Sisulu said yesterday the proposed institute, to be called the National Institute for Economic Policy, would have no official link with the ANC or Cosatu, but would aim to make up for past apartheid-induced deficiencies. BDay

Organisers were still drafting the institute's constitution and defining its objectives, but its board would include South Africans of high calibre. 19/10/93

It was "absolutely vital", he said, for the broad democratic movement to develop policy urgently on a wide variety of issues.

The institute would be a successor to the Macro Economic Research Group (Merg), set up more than a year ago to investigate policy for the ANC and Cosatu. But it would differ from Merg in that it would not be formally linked to the ANC and Cosatu, though ANC and Cosatu members could sit on the board in their personal capacities. 149

Sisulu said the institute would be funded by donors and, in due course, an appeal for assistance would be made to the business community. It would draw on the resources of several universities.

The institute would be established shortly after the demise of Merg, which, according to news reports, had been affected by its staunch left-wing bias. It was possible the institute would take over some of the research commissioned by Merg, he said.

Group cautions on regional borders

B/Day 19/10/93

BILLY PADDOCK

A TASK group set up by the commission for demarcation reported yesterday that sensitive matters on the delimitation of regions were beyond the scope of a commission and would need much more political leadership and discussion. (262)

The group told negotiators at the World Trade Centre one of the most sensitive issues was whether the northern Cape region should be split and incorporated into the northwest region and the western Cape region.

Another was whether the Free State and the northwest region should be incorporated as one region.

But the most heated debate revolved around the eastern Cape/Kei region. Government and the DP argued that the eastern Cape should be separated from the Kei region because of historic animosity and economic growth point differences.

However, the dominant view was that it should be a single region.

Eastern Cape traditional leader Stella Sigcau said she disagreed strongly with the DP and government because they "just want the eastern Cape node to remain undeveloped and poverty stricken".

ANC negotiator Thozamile Botha argued for the retention of the 1910 boundaries, which would keep it as one region. He said even the ANC's original proposal tended to consolidate boundaries.

He said after the ANC had revisited the issue, it believed that it should be a single region. However, there might be a need for subregional development structures and strategies and these could co-operate, he said.

The DP's Eddie Trent said Port Elizabeth and East London had developed separate metropolitan areas serving their respective hinterlands and combining the two regions could result in political instability.

However, he said that if there was a strong reason for it being one region he would recommend that these have soft boundaries so that the matter could be reconsidered later.

Another area of dispute was over retaining Pretoria in the PWV. The Afrikaner Volksunie raised strong objections to what it called "extreme racism in reverse".

Negotiator Schalk Burger pointed out that in the report the commission said "fears exist that the white right wing want Pretoria incorporated in the eastern Transvaal in order to create a volkstaat there".

He also said the addition of Pretoria to the eastern Transvaal would increase the linguistic heterogeneity of the region although it would be less heterogeneous than the PWV.

He said he was concerned that the Afrikaner claim for self-determination had been ignored, and indicated the Volksunie might walk out.

It is understood that the planning committee which has looked at ways of resolving what seemed intractable problems, will recommend that all the boundaries be regarded as soft boundaries for purposes of the election and that final demarcation be left to future negotiations.

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Law governs domestic employment

B/Day 19/10/93

ERICA JANKOWITZ

THE extension of the Basic Conditions of Employment Act to cover the approximately 830 000 domestic workers employed in SA homes means employers will have to comply with legislative controls governing the employment relationship, commentators say. B/Day

However, no minimum wage has been stipulated. The SA Domestic Workers' Union suggests a R500-a-month salary for unskilled workers, or R6 an hour for part-time workers.

The new Act sets down minimum working conditions for domestic workers, gardeners, drivers for private households, and people who look after the sick, aged, frail and disabled. These are: 19/10/93

- ☐ A maximum spread-over (ie time measured from when the worker reports for duty until she knocks off, including meal and rest times) of 12 hours a day for those who do not live in or 14 hours for those who do;
- ☐ A maximum of five hours' work before a break of at least one hour (or 30 minutes by mutual agreement) must be taken; (253)
- ☐ A maximum of 10 hours' overtime a week — and this must be by mutual agreement and not enforced;
- ☐ A minimum of 14 consecutive days' paid leave a year; (254)
- ☐ Thirty-six days' paid sick leave per three-year cycle;
- ☐ A minimum of one month's notice of termination of the contract or a month's pay in lieu of notice;
- ☐ Minimum overtime pay of one-and-one-third times normal rate except for public holidays and Sundays when double time must be paid; and
- ☐ Seven paid holidays, including New Year's Day, Good Friday, Ascension Day, Workers' Day, Republic Day, Day of the Vow and Christmas Day.

Part-time workers — those who work a minimum of three days a week for the same employer — must have one day's paid leave for every 26 days of employment.

Top world banker bullish on SA economic outlook

(49) ARGUS 20/10/93

MARC HASENFUSS
Business Staff

THE South African economy left "substantial room" for optimism in the longer term, a senior World Bank official told delegates at the South African Chamber of Business' annual convention in Cape Town today.

In a surprisingly upbeat overview of the country's economic prospects, Dr Uri Dadush — the Bank's International Economic Analysis and Prospects chief — stressed that although South Africa's transition to an open economy would not be easy the country was not "badly placed" to achieve sustainable growth in the longer term.

"There is good reason to be optimistic about South Africa's growth potential in relation to other developing countries."

However, short term growth would be moderate and the estimated growth next year would be less than most developing economies.

"The economy is still relatively inward looking and undiversified..."

He noted that South Africa's commodity exports would pick up next year in line with the general uptick in world economies — but warned that commodity prices were not likely to hold up.

Dr Dadush pointed out that South Africa competed in the same commodity markets as Russia.

In spite of the prevailing political and economic uncertainty Russia was expected to increase its export output next year.

In addition, the majority of South Africa's exports were earmarked for Europe, where markets were expected to recover more slowly.

However, he estimated that revenues from commodity exports could grow at an annual rate of at least 2-3 percent for the the next 10 to 15 years.

International investment would also be held back until political settlement was achieved, Dr Dadush said.

South Africa would also need to give international investors the lead by showing that capital outflows had been stemmed, he added.

■ South Africa's rating in the Institutional Investor's Credit Rating for 1993 is well above most developing countries, World Bank figures disclosed at the Sacob convention showed.

South Africa, with a rating of around 40 (on a scale of 100), is placed well ahead of the average rating for developing nations in Sub-Saharan Africa (with 15,3), South Asia (35,8), the Middle East (36,1), North Africa (29,3) and Latin America/Caribbean (31,6).

Sudan is the lowest ranked African country with a rating of between 5-6 percent.

Boom for 20 years, given political peace

CT 20/10/93 (49)

By ARI JACOBSON

SOUTH Africa is in line for a 20-year economic boom — should the political situation in the country be resolved, said visiting UK academic David Llewellyn.

Llewellyn, a professor of money and banking at Loughborough University, was speaking at the opening of the 20th World Congress of the International Union of Housing Finance Institutions at Cape Town's Nico Malan Theatre yesterday.

Looking ahead Llewellyn talked of an upcoming 20-year period of "unprecedented world growth".

However this growth would not be orchestrated by the first world countries but rather from countries such as those within the Pacific Rim, Latin America, Eastern Europe, China as well as politically reformed states like SA.

He pointed out that SA had "enormous potential", which had remained essentially untapped because of a political situation that inhibited economic growth.

"As long as SA can encourage capital inflows (following from a positive political outcome) the country will enjoy a 20-year economic boom."

Llewellyn added that many more countries would start "industrialising over the next 20 years" and economic momentum would shift to these "new growth areas".

He said that the first world countries' contribution to gross world product would fall from 55% to 45% in this time period and China would provide some 16%.

The finance for these new regions of growth would not be in the form of loans that incur debt but would rather be based on the purchase of equity or portfolio investments in the relevant country.

"There will be an acceleration in the role of markets and the decline in the role of banks," he added.

Earlier German Savings Bank Association president Horst Koehler said that a stable monetary policy in a country created "democracy, social justice and led to a market-oriented economy".

Tax headache for SA

CT 20/10/93

'Few incentives for investment, growth'

By AUDREY D'ANGELO
Business Editor

TAXATION in SA is too high, and is "a significant disincentive to investment and work effort and therefore a constraint on economic growth," delegates to the annual convention of the SA Chamber of Business (Sacob) at the Cape Sun agreed yesterday.

They called on the government to reduce the State's share in the economy "and to ensure greater efficiency in government expenditure."

The tax system, a resolution said, should be shaped to give rise to:

- Lower corporate and other direct tax rates;
- Reduced complexity in administration and compliance;
- Increased conformity with international tax systems;
- Greater transparency in policy formulation; and
- Greater certainty in the application of the tax system.

Sacob also urged that "discriminatory use of the tax system should be undertaken with the utmost care, in order to avoid undermining the objectives stated above and to limit the potential for abuse."

A background document from Pretoria Chamber of Business said total government absorption of the gross domestic product (GDP) was 30% or more. If local authority tax revenues were included, the figure rose to roughly one-third of national output.

This was roughly the same as in Britain, Spain and New Zealand, lower than in Germany and Italy but higher than in the US and Australia.

But in those countries a large proportion of government revenue consisted of social security taxes and expenditure was related to highly developed social services.

"It is not unfair to say that in SA we pay heavily but get far less social value for money than prevails elsewhere."

Corporate tax rates were very high. As from this year the company tax rate was 40% compared with 15% in Britain, Germany and the US and less than 10% in France.

Taxes on individuals would be 9,7% of gross domestic product (GDP) this year — three times the amount derived from companies. "At 43% the individual maximum marginal rate is reached at an inordinately low income bracket, and bracket creep with inflation continues to increase effective personal tax rates at medium and even low income levels."

Geoff Ashley, of Cape Town Chamber of Commerce, said Sacob was calling for "sensible tax legislation which has been properly thought through".

Too many taxes and levies were causing an increasing administrative burden on the business sector. It needed a system which would be simple to operate and seen to be contributing to the good of all.

And there should be no retro-active legislation.

But Abri Meiring, market development manager at the Old Mutual, pointed out that any reform of the tax system must take into account the realities of SA — where the gulf between income groups was one of the highest in the world.

The Margo Commission had recommended that there should be a transfer of capital through tax.

But in fact, legislation since then had cut estate duties and tax on generation-skipping trusts. As a result of the reduction in death duties R71m had been collected last year when it would otherwise have been R600m.

And a more realistic tax on trusts would be far more effective than any capital gains tax would be.

It would keep "fiscal aberrations such as the recently suggested reconstruction tax off the agenda."

Reserve Bank 'must retain autonomy'

BILLY PADDOCK

THE Reserve Bank's independence from government should be guaranteed in a new dispensation, with its primary function being the achievement of monetary stability, the negotiating council's technical committee has recommended. B/Day

In its recommendation to the committee, the Bank said current legislation charged it with the responsibility of providing both monetary stability and economic growth. However, the committee thought "these may be contradictory goals" in the short term. "The phrase 'sustainable growth' has been used to address this potential tension," it said. 21/10/93

The report, which was tabled yesterday, drafts a section in the constitution saying: "The primary objective of the Reserve Bank shall be to achieve monetary stability in the interest of balanced and sustainable economic growth of the Republic and for that purpose to exercise control over the supply of money and the cost and availability of credit." (49)

It shall exercise its powers and perform its duties "independently provided that the Reserve Bank shall act in support of the general economic policy of government".

The report is silent on the position of the governor, but a committee member said Parliament would be in charge of this.

The same section in the constitution spells out the independence and role of the auditor-general, giving him a five- to 10-

To Page 2

Reserve Bank

B/Day 21/10/93 From Page 1

year tenure. He will be appointed by the president, after approval by a two-thirds majority of both Houses. A joint standing committee, consisting of representatives from all parties in both Houses, will nominate a candidate.

He will be able to investigate, audit and report on the accounts and financial statements of statutory bodies and institutions in control of public funds. (49)

The constitution also provides for a financial and fiscal commission of 11 members to advise and make recommendations on the fiscal and financial requirements of the republic and the regions

In another report the technical committee spelt out its suggestions for the election of a president It said the president should be elected by a simple majority of the House of Assembly, with the Chief Justice, or an Appellate Division judge, presiding over the election. The president would vacate his seat in the assembly on election.

The committee proposed a series of elimination ballots if there was more than one nomination, continuing until a simple majority was reached.

South 22/10 - 26/10/93

ANC wary of World Bank 'generosity'

49

THE World Bank's readiness to lend money to South Africa has received a mixed response from the major players in South Africa.

While government and business has been enthusiastic about taking money, the ANC has expressed caution.

For South Africa, the temptation is overwhelming to take the billions on offer from the Bank and its sister organisation, the International Monetary Fund (IMF), considering the huge sums needed to address pressing social problems and finance other industrial projects.

The Bank's Southern African Department Director, Mr Stephen Denning, said last week he was waiting for details of projects which need funding.

The Bank disclosed a few months ago that about R3,45 billion would be available for South Africa as loan finance.

The government argues that the country is under-borrowed and extra loans would help South Africa onto a steady growth path.

South Africa's foreign debt is currently 15 percent of its Gross Domestic Product (GDP) — or the size of its economy. Countries like South Africa usually have a debt of between 30 percent and 40 percent of GDP.

Yet, the ANC remains cautious.

Mr Trevor Manuel, Head of the ANC Economic Planning Department, said recently the R850 million Compensatory and Contingency Financing Facility (CCFF) of the IMF was enough for now.

That money was aimed at covering the capital outflows caused by the drought.

The CCFF is currently being negotiated and will probably come through towards the end of the year.

The crucial difference, for the ANC, is the conditions attached to the IMF/World Bank's finance.

The ANC is particularly concerned about the effect on the economy of the IMF's controversial Economic Structural Adjustment Programmes (ESAP).

The ANC says the strings attached to the money — the ESAPs — have worsened the economies of African countries.

Manuel says the CCFF money does not have the same conditions attached as the loans offered by the World Bank.

Instead of borrowing more, the ANC has been trying to attract foreign investment by punting the strength of the economy on international platforms, notably the World Economic Development Congress in New York last month.

It is in this area of attracting foreign investors that the ANC and the government have come to its greatest agreement on the economy.

The ANC's economic department has been working with the Minister of Finance Mr Derek Keys for about five months now on cru-

DEREK KEYS

TREVOR MANUEL

The ANC says strings attached to the money — the ESAPs — have worsened the economies of African countries

The areas of agreement include proposals to reduce trade tariffs and the agreement on the CCFF.

The ANC has also paved the way for South Africa, for the first time since 1985 when credit lines were cut, to start commercial borrowings

But getting attention these days is a difficult thing, especially if you're from Africa.

The competition is tough. The Latin American countries and South East Asia are still the areas in vogue for foreign investors.

Also, commercial banks are already heavily involved in Eastern Europe. In Russia these creditors are owed more than $27 billion (R81 billion), and are in arrears in interest payments of more than R3 billion.

With so much money involved, it's expected the focus will remain on these economies to make them work.

For South Africa to get an edge in this big-stakes lending, the IMF has recommended regional co-operation as a starting point to attract investors.

One thing is certain: any decision on lending will have to made jointly, if a crisis is to be avoided.

And now for the economic good news

(288) (49) WM 1-7/10/93

The end of most sanctions, access to IMF credit, and a final debt agreement are important psychological moves for South Africa.

Reg Rumney reports

A NUMBER of developments on the economic front this week have been heartening for South Africa, proving that the country is finally coming in from the cold.

Psychologically, they are cheering, especially at what may be the hard end of a four-and-a-half year recession. And their effects are more than emotional.

Trade sanctions never became as effective as they were hyped to be but they made life uncomfortable for South African exporters, forcing them to suffer "sanctions discounts" or seek new, less profitable markets, or incur costs in disguising the origin of South African goods. Most of these sanctions in Europe had already been lifted as were US federal sanctions. Yet officially ending them gives the signal to even the most die-hard anti-apartheid opponents that it is now OK to buy South African goods.

Financial sanctions, including a ban on International Monetary Fund (IMF) and World Bank loans, have been the much bigger problem.

Now South African is likely to receive an IMF drought-related loan of around $850-million, without the fiscal conditionality that may apply to other IMF loans.

It must be remembered that this is not a loan for development, but will have to be used to prop up the balance of payments, South Africa's account with the rest of the world.

The Reserve Bank keeps the balance of payments (BoP) in mind as well as the money supply in deciding whether to raise or lower interest rates. Hence it may seem the IMF loan gives latitude for a cut to stimulate the economy.

Nedcor chief economist Edward Osborn believes Reserve Bank governor Chris Stals will not want to cut interest rates for fear of encouraging imports which in turn would put the BoP under further pressure.

The BoP will already come under pressure because of the need to repay foreign debt.

The 1994 debt arrangements as the final repayment deal is known signals the end of the successive agreements on how to repay foreign banks the $14-billion they attempted to withdraw in 1985 and which was unilaterally frozen by South Africa, in the "debt standstill". That "affected" debt now stands at $5-billion. A final agreement means it will be paid back with a little latitude over eight, rather than say five, years.

The arrangement does not mean any new money will flow into South Africa, or that any loans will be rolled over. In one sense the mass withdrawal by foreign banks in 1985 had less to do with considered financial sanctions than funk at the growing political violence. So ending financial sanctions will not necessarily reverse the flow.

The money still has to be repaid. And it is only part of the around $17-billion — when lasted surveyed in 1992 — of foreign debt which has to be repaid over the coming years.

Osborn reckons that beginning this year and continuing next year South Africa will have to finance a capital account payment of at least $1,4-billion and up to $1,95-billion.

So the IMF's $850-million compensatory and contingency financing facility will then be sorely needed, particularly if economic recovery causes a surge in imports and an outflow of foreign exchange.

Remaining sanctions are the oil and arms embargoes. Their going will be more symbolic than anything else, though the end of the oil embargo will clear away the last skeins of the once-pervasive secrecy that has surrounded the petrol price.

Political uncertainty and violence, as the South African Chamber of Business has pointed out, remain the real internal sanction, keeping out foreign investment.

Investment in South African equities has already revived. From September last year right into this year net purchases of South African shares were positive.

Will **foreign direct investment** now flow into South Africa? As the Washington-based Investor Responsibility Research Centre has pointed out this is not on the cards. But the ending of sanctions has made entry easier for some groups.

Giant $14-billion Pillsbury food group moved fast after the ending of sanctions to announce it would undertake a joint venture with Foodcorp in South Africa. Foodcorp and Pillsbury will each have a 50 percent stake in a new company Pillsbury Brands Africa, with Pillsbury paying R90-million for its stake.

That may sound cheap for Pillsbury's entry into a new market. But Fordcorp group chief executive Dirk Jacobs reckons the deal benefits both parties. Foodcorp gets access to Pillsbury's marketing expertise and technology. Also, Foodcorp has gained access for its products to Pillsbury's offices around the world.

Joint ventures have been typical of the way foreign companies have cautiously entered the South African market. But they are meaningful devices for South African companies to gain access to overseas expertise and break out of isolation.

Other flies in the ointment?

State and local laws in the United States that bar investment in South Africa have yet to be lifted.

Although Pillsbury's home Minneapolis has not yet lifted local sanctions, Pillsbury made its move anyway. Jacobs reckons the speech made by President Bill Clinton encouraged the immediate lifting of all existing sanctions and made them a mere technicality, although Pillsbury would probably have consulted interested groups about investing.

The economic revival: Don't hold your breath ...

WM 8-14/10/93 (49)

The South African Chamber of Business has declared the recession over but good times are still some way off, reports Mondli waka Makhanya

WHILE positive signals from the economic scene keep punctuating the gloom on the political front, there is still little tangible improvement.

Most of the good news is in the form of expected foreign investment. The only real indicators the fat years may be around the corner are **an increase in exports and higher vehicle sales.**

Most economic analysts now predict a minuscule 0,5 percent growth in gross domestic product, adjusted for inflation, over the next 12 months.

The South African Chamber of Business (Sacob) this week topped South Africa's re-entry into the international economy by declaring the four-year recession officially over.

And Sacob's September Business Confidence Index showed the business community's sentiment was at its most bullish level since November 1990.

This is important because it means businessmen are now more willing to invest in machinery and order more stocks in anticipation of higher sales.

Sacob's observations are borne out by Stellenbosch University's Bureau of Economic Research's (BER) Manufacturing Survey which found that **fixed investment in manufacturing** is likely to increase over the next 12 months.

This increase will be confined mainly to replacing equipment, something manufacturers neglected over the past few years when demand for their goods was declining rapidly.

Much of the expected increase was linked to growing export rather than domestic demand. Exports have gone up in the second and third quarters of this year and this trend is expected to continue in the remaining three months of the year.

In the domestic market, political uncertainty and the financial squeeze on consumers are still hampering demand for manufactured products.

The BER reports that five out of every 10 manufacturers retrenched workers in the past year, and four out 10 intend doing so during the fourth quarter of this year.

This seriously dampens demand as this sector employs a quarter of wage earners outside the agricultural sector.

One sector still clouded in gloom is **property.** An indicator of the sad state of affairs in this sector is a Reserve Bank estimate that the building industry employs 10 percent fewer workers than it did eight years ago. Residential, office and industrial property rents are still depressed, so investors are unwilling to plough money into such projects at this time.

Construction is also suffering from a continuing decline in both the residential and non-residential sector.

Non-residential building is suffering mainly from the fact that businesses are not yet expanding capacity. Socio-political conditions and declines in real disposable income are the major factors inhibiting consumers in investing in private residences.

The BER notes that there was some growth in the townhouses and flats — both of which offer some security for the escalating crime and violence.

A noteworthy aspect of the BER Building and Construction Survey is the mood of the professionals in this industry. The architectural profession is for instance finding the going quite tough.

Architects, who are the first to see building projects at the sketch stage, have been experiencing drops in projects coming to them and are anticipating further drops in the fourth quarter of the year. Sketch plans moving onto the actual drawing stage are also going to decrease in the fourth quarter.

This has obviously had an impact on the employment in this sector. Retrenchments are continuing and about 15 percent of architectural firms surveyed expected to cut staff in the fourth quarter.

Quantity surveyors are also pretty pessimistic, but note a deceleration in the tempo of the decline. This sector also revealed that the trend is towards much cheaper buildings. Because conditions are deteriorating at a slower pace, layoffs are ceasing and some firms are actually looking towards increasing their labour forces in the fourth quarter.

While things may not be looking too bright in most sectors for this year, things are likely to pick up "well into 1994".

Looking for that elusive formula

(49) WM 15-21/10/93

South African business is looking more closely at the hard-to-define factors that make for sustainable economic growth. Reg Rumney reports

NOW that most sanctions and boycotts have fallen away, what does it take to get South Africa on a new, sustained growth path?

A number of scenario exercises have already sketched out what various experts saw as necessary preconditions for sustained growth, such as macro-economic stability and an independent Reserve Bank.

Two recent publications pinpoint an often forgotten success factor. Martin Nasser's *Mindset for the New Generation South Africa* and ABSA's *September Economic Spotlight* both touch on the attitude of individual entrepreneurs and investors.

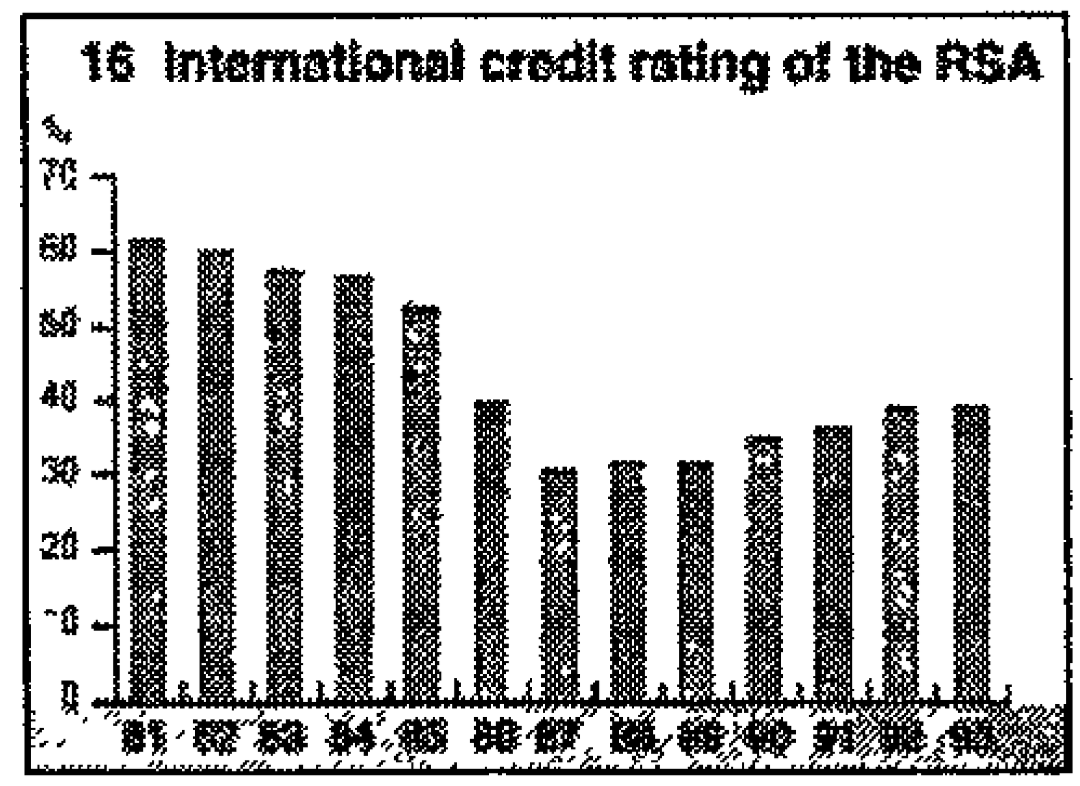
ABSA's economists reason that factors influencing productivity performance and investment are even more important than what traditional economics sees as prerequisites — sufficient availability of resources and their efficient application.

They go into the detailed preconditions for growth: law and order, a stable economic climate, motivated and trained people, technological development, low taxes, a low inflation rate, competition, sound fiscal and monetary policies, sufficient savings, higher investment, international creditworthiness, a sound infrastructure, business confidence, and sufficient profits.

"Listing the preconditions for growth and helping bring about an ideal climate will not necessarily lead to higher growth. The catalyst is the entrepreneur. It is vital that businessmen invest and improve their efficiency. In fact, Prof Albert O Hirshman, in his book *The Strategy of Economic Empowerment*, refers to a lack of decision-making and action as the vital missing link in many developing countries. That is why they don't achieve a growth lift-off in their economies."

Nasser's booklet is a research report on his Project New Generation Economy, a project which ambitiously looks at what is needed to "change the national mindset".

First, however, the booklet's appalling jargon, symptomatic of so much business literature, must be discounted. It is littered with terms such as "opportunity-based thinking", "windows of opportunity", "framebreaking" and "quantum leaps".



South Africa's credit-worthiness ... Easier to fix? SOURCE: ABSA ECONOMIC SPOTLIGHT

Still, the project promises a useful look at indigenous solutions found by "counter trend" South African businesses to prosper despite turbulence, noting that the trendy, cure-all management fads of the 1980s have waned in popularity.

"A significant limitation of the data published in recent literature and the more popular publications on this matter is the dependence on the well-tried 'secret formula' approach popularised by the landmark work of Peters and Waterman. Recent results indicate that many of the so-called excellent organisations have since disappeared.

"Recently a change has occurred in the thinking of South African managers regarding the idea of committing an organisation to using packaged formulas in an attempt to achieve renewal ... The 90s appears to be a period in which organisations will become a lot more pragmatic and realistic than they were in the trendy 80s."

The report castigates South African business for, among other sins, suffering from "the effects of outdated management approaches, a sense of smugness, uncompetitive organisational designs, impoverished leadership, impotent strategic thinking, dated labour practices and organisational instability".

Noting the incestuousness of South African corporate structures, it goes on: "There is an urgent need to enhance the stakeholder approach to the governing of the business sector and to dramatically improve the effectiveness of shareholders."

Businesses and entrepreneurs do not operate in vacuums. The ABSA economists note: "What can policy makers do to enhance and support the process? No more and no less than to create a stable political and macro-economic environment, to give selective support to the underlying preconditions for growth, and to oversee a well-functioning legal system.

"All this can go a long way to remove or lower barriers to economic growth. But, in the words of a World Bank spokesman: 'There is no single formula for success.' ... in the final analysis growth depends on the attitudes and abilities of the country's people."

The authors of the ABSA publication go on to note the importance of what they call a "team spirit" between individuals, the business sector and the government.

"A positive attitude, sound economic policies and teamwork seem to be the basic ingredients for economic growth and development."

The Mindset report says South Africa needs "an appropriate economic policy based on a mindset which nurtures and rewards new behaviours which are fundamentally innovative and lead to economic growth" and that government policy has militated against entrepreneurship.

Whether and how fast a commonality of interest can be achieved is a subject for study in itself.

But is the "pack leadership", which includes "intolerance of deviant behaviour" and which the Mindset team identified as one "new generation principle", such a good principle when taken outside the specific firm?

For instance, the Mindset team has a disquieting view of the media, noting many executives surveyed felt the media contributes "to the sense of economic hopelessness that currently dominates our country".

The following statement seems mild enough: "It has become critical that the media begins to play a balancing role in reporting these very important positive trends in our society if they wish to be seen as positive agents for on going change and prosperity in South Africa."

But it overlooks the disastrous consequences of the last time there was a *toenadering* between business and government in the mid-1980s, during the PW Botha era.

Then too it was widely thought the media's "negativity" contributed to the problem, especially the now-defunct *Rand Daily Mail* and the foreign media.

And many if not all businessmen welcomed the temporary fillip to business confidence that accompanied the removal from world TV screens of images of South African violence. How soon we forget.

LABOUR NEWS

ARGUS 23/10/93 (49)

'Maximum transparency' for NEF

SHARON SOROUR
Labour Reporter

THE big challenge facing the National Economic Forum was ensuring "maximum transparency" so the public and members of represented organisations participated as key actors in getting mandates to their negotiators, said Ebrahim Patel, NEF short-term working group labour co-ordinator.

In an interview in People Dynamics, the Institute of Personnel Management's official publication, Mr Patel - assistant secretary-general of the Southern African Clothing and Textile Workers' Union (Sactwu) — said agreements, even excellent ones, would not be "durable" if they were reached by only a few skilled negotiators.

"Those agreements would not have achieved the objective of refocusing the energies of large numbers of entrepreneurs and workers towards the purpose of economic reconstruction," he said.

The NEF, made up of business, labour and government, had an important role to play in a future democracy, he said.

Mr Patel said the NEF's positive achievements to date were the actual agreements, the process by which they were reached and the promise the NEF held for the future.

"Arising out of the agreements, we have a comprehensive new framework that starts to address some of the weaknesses of ordinary collective bargaining. Until now collective bargaining has tended to focus exclusively on redistributive issues and has not adequately addressed the economic challenges facing South Africa."

The issues of job security, job creation and economic growth were central to the NEF agreement.

"As an example R249 million has been set aside for NEF-sponsored job-creation projects."

This was the first time government had agreed to a body, other than a government department, dispensing such funds.

"Significantly, the parties have constructed a set of fairly rigorous criteria against which any applications for grants will be judged."

On centralised bargaining, the NEF agreement repudiated the basic assumptions of the government's Normative Economic Model on the labour market.

"The model posits the view that the key reform to introduce efficiency and create conditions for international competitiveness is the deregulation of the labour market.

"As organised labour, we put forward a coherent set of ideas arguing that for political and economic reasons, the attempt to dismantle centralised bargaining would not only result in increased conflict, but would remove the one opportunity to get co-operation towards the creation of world-class manufacturing in South Africa."

The NEF agreement acknowledged the value of centralised bargaining and set in motion a voluntary process, intended to concentrate the minds of industrialists on the debate about appropriate levels of bargaining.

It was agreed not to dismantle any of the existing centralised bargaining institutions and not to create obstacles preventing the development of new institutions.

Mr Patel said the union movement's biggest challenge would be for it to remain the voice of workers.

Acceptable economic policy no problem — Keys

PRETORIA. — South Africa should not have a problem constructing an economic policy acceptable to the outside world, Minister of Finance Derek Keys said at a media briefing yesterday.

He said the African National Congress clearly recognised the need for foreign investments, judging by the speeches delivered by their president, Nelson Mandela, during his most recent visits abroad.

The fact that the country needed an attractive investment environment had been well appreciated and clearly expressed by Mr Mandela. However, much work lay ahead, said Mr Keys.

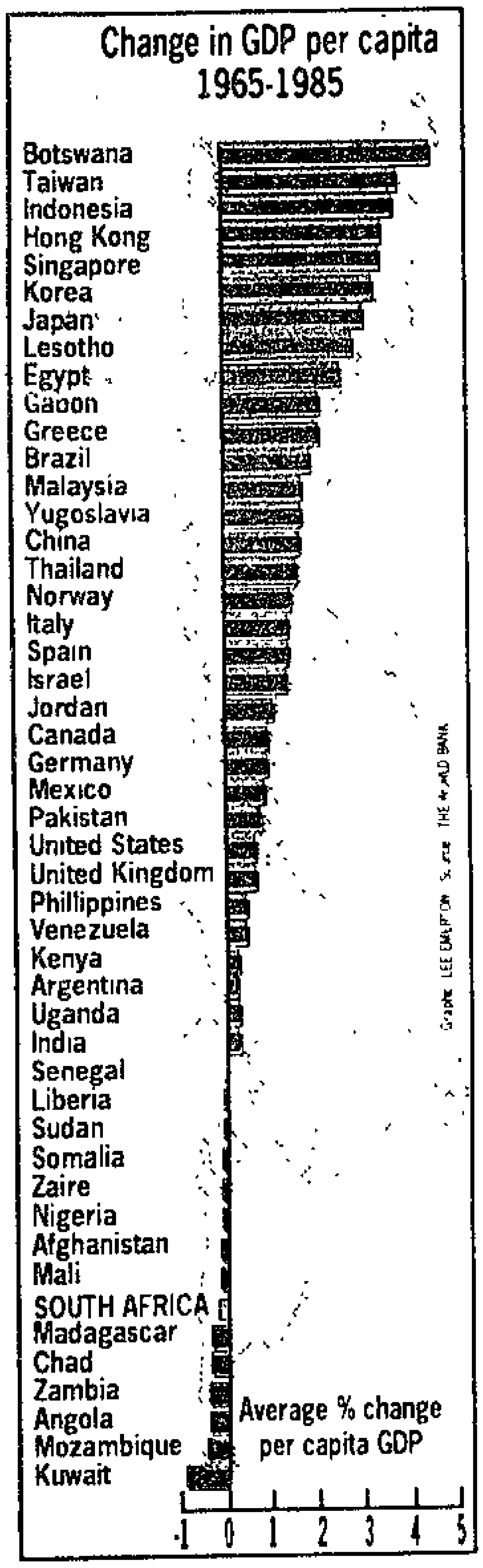
ARG 23/10/93 (49)

In spite of government initiatives, no new jobs had been created, and 300 000 jobseekers entered the market each year.

He was preparing a Budget as though it would be presented as usual in March.

"It's really the new government's Budget Perhaps the first thing the new government should do is to decide whether the Budget we're working on should be published as a discussion document." Sapa.

COMMENT



Gallant little Botswana sets a shining example

ST Times (Buss)

SOUTH Africans may be more preoccupied than most right now about what makes an economy grow, but they are not alone.

The World Bank has completed a two-year study, The East Asian Miracle, of eight high-performing East Asian economies.

Japan, Taiwan, Korea, Hong Kong, Singapore, Indonesia, Malaysia and Thailand have dramatically increased individual incomes in the past few decades, lowering inequality at the same time. 21/10/93

Although the East Asian miracle is the stuff of legend, these economies have all been out-performed by a Southern African country — Botswana

SA's neighbour has done better than all the rest with an average per capita growth in income of about 4,5% since 1965.

The World Bank did not include "diamond-rich" Botswana in the study, but focused on the dragons and tigers of the East, most of which lack natural resources.

Resource-rich South Africa does not feature at all, which is just as well. With an average 0,2% decline in individual incomes since 1965, we fall near the bottom of the list, below the likes of Somalia, Sudan, Uganda, Mali and Afghanistan.

We're only slightly above Angola and Mozambique, where poor performance was assisted by South African destabilisation.

We have been doing something horribly wrong. Apartheid, with its synthetic fuel plants, nuclear bombs, military expenditure, social engineering and hand-outs to favoured supporters. has cost us dearly

It has reduced us from the potential of being at the top of this list to near the bottom.

But now the debate rages about how to fix the problem, to grow while combating inequality.

A total of 68 forums are talking endlessly, arguing about ownership of different models, formulas and scenarios.

(49)

The longest-running of the forums, the Witwatersrand Metropolitan Chamber, pre-dates negotiations. A statement emerges every so often to suggest that the rent boycott is over, only for a similar statement to emerge several months later. And still the boycott continues.

A lot of nodding heads tell us that we have to build houses and that this will be our economic salvation. The pity is that all the evidence tells us that fewer and fewer houses for low-income earners are being built.

Private investors remain keen to enter this market, but with R3-billion in mortgage payments owing plus destruction of vehicles and threats to personnel, the prognosis looks bad indeed.

The World Bank study says there is no recipe for success, but there are lessons: keep the macro-economy stable; focus on early education; do not neglect agriculture; use banks to build a sound financial system; be open to foreign ideas and technology; and let relative prices reflect economic scarcities.

A strong export push, whether it results from an open economy and strong economic fundamentals or from a combination of strong fundamentals and prudently chosen interventions, offers high economic gains.

But nowhere is it suggested that building houses is the panacea. Singapore gave high priority to housing and achieved remarkable success, partly by tapping pension funds.

But this is the key, employed people are able to pay for their houses. First you have to provide employment.

China, which is copying the eight East Asian examples, is the fastest-growing economy in the world because wages are set at a price which encourages employment.

Economic reform has meant that 160-million people have emerged from poverty since 1978.

Wages in SA, through the industrial council system, are set well above the social cost of labour, meaning that 7-million people cannot find formal employment.

But instead of encouraging policies which will facilitate job creation, too much energy still goes into trying to treat the symptom, inadequate housing, rather than the cause, unemployment.

The result will be less growth in individual incomes and more inequality. We will remain near the bottom of the growth rankings, resource rich, but policy poor.

Kevin Davie

Keys to campaign for Nats

Worst over with recovery in reserves

B/Day 25/10/93

SA's major economic problem — the plunge in foreign exchange reserves — appeared to be over, Finance Minister Derek Keys said at the weekend.

Speaking at an NP briefing, Keys delivered an upbeat message on the economy, emphasising the strides made in normalising the country's international financial relations. He made much of the consensus already reached on economic policy-making.

In a final break from his low profile in party politics, Keys gave his first briefing under an NP banner. He made it clear he would play an active role in party politics during the elections.

Asked whether he would be campaigning, he said: "I am campaigning now."

On the reserves, Keys said: "I am not worried about the reserves any more, but the situation has been cause for concern."

The healthier exchange rate was evidence that forex levels were improving. Asked whether the recent pattern would be sustainable, he said there was "a definite break in the declining trend". However, some "ups and downs" could be expected.

The squeeze on the reserves had been expected as SA was bound to go through a "tricky" period with parties struggling to find each other. Policymakers' hands were tied during the period, and interest rates had to remain high. "But we have come through that."

The "letter of intent" needed to receive the IMF drought-related loan had been finalised and signed by all the parties. This committed SA to financial discipline, including a deficit reduction and wage restraints. The time frame was five years,

GRETA STEYN

and the commitment required went beyond the present government. (49)

It is understood that the IMF does not want to grant the loan until the Transitional Executive Council is in place, as it does not want to run the risk of the next government going back on the agreement.

Keys said the letter had not been handed over to the IMF yet because he was waiting for greater clarity on the political situation. The target date for sending the letter to Washington was November 8. This would be in time for all the formalities needed to get the loan approved at a December 22 IMF board meeting.

Asked about talk that SA would have to forgo $400m of the $850m loan if the application was late, he said he did not foresee a problem if there was a temporary delay in putting the TEC in place. (The amount of finance available in terms of the drought-related loan declines with the delay between the drought and the application.)

Keys was confident the new SA would have sound economic policies. "One cannot enter into a foreign debt agreement with banks over seven years with the consent of all the parties without the full implications being accepted."

Areas of disagreement between government and the extra-parliamentary groupings concerned labour markets and income distribution. Finding an acceptable minimum wage level was a key element in economic policy, and the topic was being discussed in the National Economic Forum. Issues surrounding income distribution were still vague, he said.

Keys upbeat

CT 25/10/93 (49)

SUPERSTAR . . . Steve Walsh as Jesus in the Hosanna scene from the Andrew Lloyd Webber hit Jesus Christ Superstar, which opens tonight at the Nico Malan Theatre. The musical has raised both controversy and praise since its debut in 1971.

Picture. STEWART COLMAN

Big economic problem 'over'

Own Correspondent

JOHANNESBURG. — South Africa's major economic problem — the plunge in foreign exchange reserves — appeared to be over, Finance Minister Mr Derek Keys said at the weekend.

Speaking at a National Party briefing, Mr Keys delivered an upbeat message on the economy, emphasising the strides made in normalising the country's international financial relations. He made much of the consensus already reached on economic policy-making in South Africa.

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On the reserves, Mr Keys said: "I am not worried about the reserves any more, but the situation has been cause for concern."

The healthier rand exchange rate was evidence that SA's foreign exchange levels were improving, he said.

Asked whether the recent pattern

putting the TEC in place. (The amount of finance available in terms of the drought-related loan declines with the delay between the drought and the application.)

Mr Keys was confident that the new South Africa would have sound economic policies.

"One cannot enter into a foreign debt agreement with banks over seven years with the consent of all the parties without the full implications being accepted," he said. He added that the GATT offer also extended into the future, as did the IMF letter of inter[illegible]

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The squeeze on the reserves had been expected, as SA was bound to go through a "tricky" period as the parties struggled to find each other.

Policymakers' hands were tied during this period, and interest rates had to remain high.

Committed

"But we have come through that. I am delighted with the response to the call to lift sanctions."

The "letter of intent" needed to receive an IMF drought-related loan had been finalised and signed by all the parties.

In terms of the letter, SA was committed to financial discipline, including a deficit reduction, and to practising wage restraint. The time frame in the letter was five years, and the commitment required went beyond the present government, he said.

It is understood that the IMF does not want to grant the loan until the Transitional Executive Council is in place as it does not want to run the risk of the next government going back on the agreement.

Mr Keys said the letter had not yet been handed over to the IMF because he was awaiting greater clarity on the political situation. The government was working to a target date of November 8 for sending the letter to Washington. This would be in time for all the formalities needed to get the loan approved at an IMF board meeting on December 22.

Asked about talk that SA would have to forgo R1 400m of the R2 975m loan if the application was late, he said he did not foresee a problem if there was a temporary delay in

CT 25/

(11B)

(263)

'SA needs to create wealth'

PRETORIA — The only way to fight poverty was not through redistributing wealth but by creating wealth, President F W de Klerk said in Gazankulu yesterday.

(49)

Opening the Nkowankowa Training Centre, he said the key to this did not lie in the hands of any ideology or in the hands of the rich, the government, industry or foreign aid

"It lies in our hands — in the hands of every man, woman and child."

Training and education, hard work and self-improvement were the keys to a better life. — Sapa

CT 26/10/93

Bank cautious over Key's upbeat tone

CT 26/10/93

(49)

By AUDREY D'ANGELO
Business Editor

SENIOR Deputy Governor of the Reserve Bank Pierre Groenewald reacted cautiously yesterday to an upbeat speech by the Minister of Finance, Derek Keys — who said he was no longer worried about the foreign reserves — and to a further drop in the Consumer Price Index (CPI) to 9,1% year-on-year.

Pointing out that there were "too many factors involved to speculate" on whether there would be a further cut in interest rates this year, Groenewald said: "I don't think the economy is strong enough to stand an upturn yet."

He pointed out that there were still foreign debts to be repaid and "we shall need all the surplus we have got at the moment to meet these demands".

But he added: "If we get an influx of foreign capital it will relieve pressure on the balance of payments and give us more scope."

Discussing the strengthening of the rand in the past few days, and its effect on reserves, Groenewald said: "Not all the reserves used for intervention necessarily flow out."

'Economy is not strong enough yet'

Old Mutual chief economist Dave Mohr pointed out that Keys had made his encouraging speech on a National Party platform and had admitted it was part of an election campaign.

Mohr said he did not expect a cut in interest rates before the year end. But the trend next year would be downwards, in line with the rest of the world and with inflation.

He said he did not expect any attempt by the government to stimulate the economy as a vote-catching ploy before the election. He thought it was too late to do that now. And he did not think the forthcoming election would be fought on economic factors.

Sanlam chief economist Johan Louw said he was "still confident there will be a 1% cut in interest rates before the end of the year".

Louw said the Reserve Bank always adopted a conservative attitude.

An uptick in the inflation rate was to be expected next month, on technical factors, and reserves were still a problem.

But he believed the Bank would "look forward and see an improvement coming and this will give them the leeway to bring rates down".

He expected the banks to take the lead in lowering prime rate because of the easing of money market shortages. "There are indications that (Reserve Bank governor Chris) Stals is looking to the banks to take the lead."

Louw said he expected SA to receive a loan from the International Monetary Fund (IMF) and this would strengthen the rand and put a brake on outflows of foreign capital.

"The reserves position is not what it should be, but I am sure the Reserve Bank will be able to accommodate a drop of 1% in the bank rate."

Stals upbeat on rate cut prospects

Star 27/10/93

BY CLAIRE GEBHARDT

It's all systems go for a bank rate cut — but the absolute essential is the $850 million IMF loan.

Reserve Bank governor Chris Stals said in an interview yesterday the low level of foreign reserves remained worrying.

"We would like to be a little more confident that the IMF application will be in before the end of the year before we talk about a rate cut.

"The reserves showed a bit of an improvement mid-month, but the figures are not looking so good now."

However, prospects of getting the loan remained good and everything else was in place for a cut in rates. (49)

"We are satisfied with the inflation figures, which are the result of monetary policy 18 months ago.

"The demand for credit is very low and money supply is increasing at such a low rate that inflation could stay low for some time."

Stals said he was aware interest rates were very high and that many people were suffering. "If we can give relief, we will give it without any delay.

Real interest rates were close to 9 percent, if a 1,5 percent VAT effect was taken into account.

Inflationary expectations remained critical. "The Germans reduced short-term interest rates last week and long-term rates went up because the market interpreted this as a dangerous move, and long-term rates are more important for growth."

Chris Stals . . . satisfied with inflation figures.

The lesson was not to reduce short-term rates if it led to inflationary expectations.

"But more and more people in SA are beginning to think in terms of low inflation."

Economists said they expected an end-November "anniversary cut" to coincide with Stals' announcement last year.

Frankel Pollak Vinderine economist Mike Brown said the Reserve Bank would have the October inflation figure at the end of November and it was likely to be favourable.

"The IMF application will be in, as well as the latest reserves figure after the last repayment of debt in November of about $70 million."

Star 28/10/93

Benefits of recovery some way off — OM

(49)

BY CLAIRE GEBHARDT

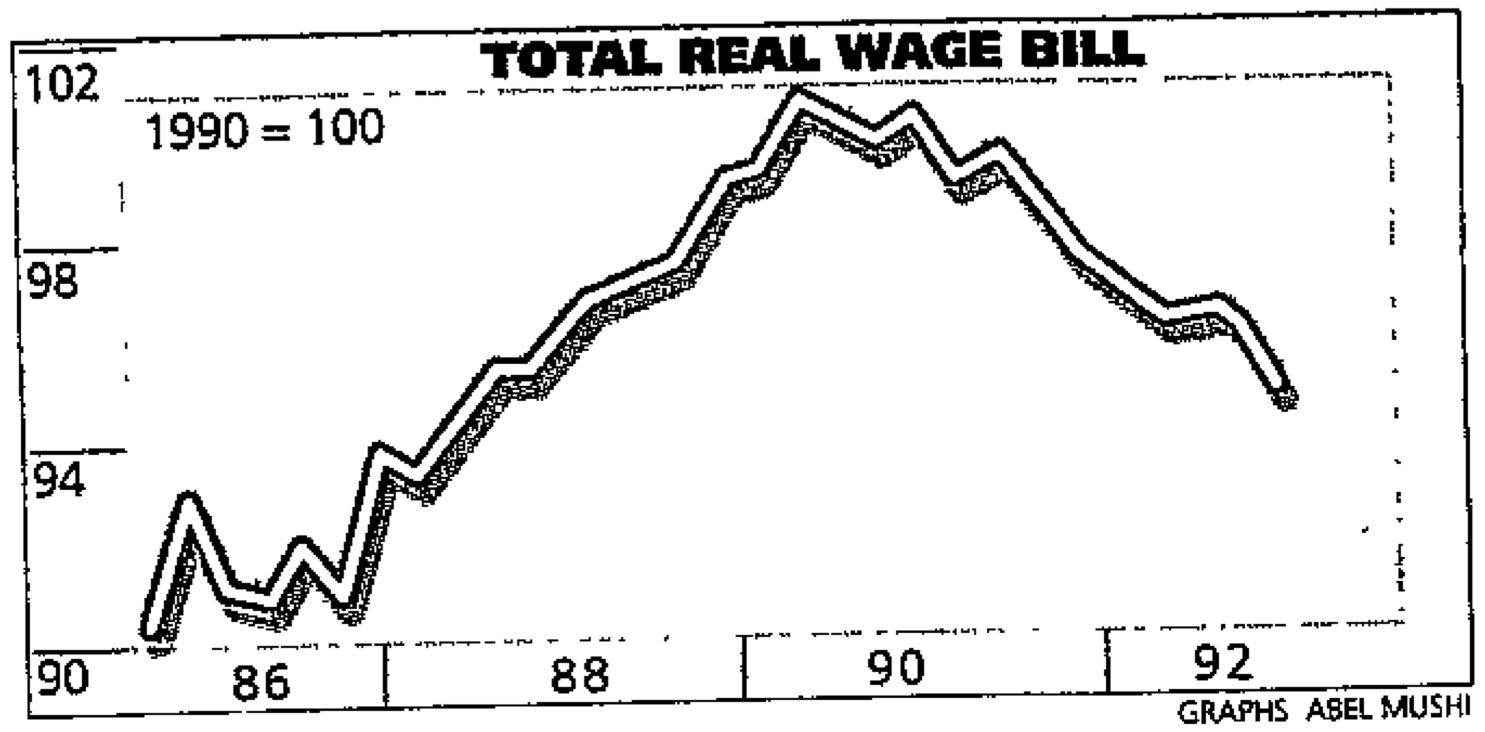
The economy is poised to recover, but don't expect your pocket to notice it for a while.

That's the message from Old Mutual chief economist Dave Mohr who predicts that take-home pay is unlikely to improve until well into next year.

Mohr forecasts growth of 0,5 percent this year, "provided the political scene is sorted out", and 1,5 percent next year.

But the slowness of the recovery means that few jobs will be created and real wages will continue to feel the pinch, he says.

"Meanwhile, people are being squeezed by higher taxes — VAT and the petrol price are up, and fiscal drag is whacking the middle classes."



GRAPHS ABEL MUSHI

Mohr says despite an upturn in the agricultural sector, the tertiary sectors remain depressed because of modest consumer spending.

He attributes this to slower wage and salary increases and job losses.

The net result is that the total real wage bill, according to Reserve Bank figures, continues to fall from highs last seen in 1989.

Mohr says consumer spending remains under pressure as individuals, nervous about the future and a new government, pay off their houses and credit cards, and borrow as little as possible.

"Real retail sales for the year to date are two percent lower than the same period last year.

"Real cash in circulation, a fairly reliable indicator of current spending trends, edged up early in the year but has fallen away since.

"Likewise, the Government is trying to cut back on its 1993/93 deficit, so its expenditure won't get the economy going again, and tax cuts are ruled out."

Mohr says the growth in vehicle sales, up by about 15 percent since mid-1992, and a leading indicator of what's happening, could be misleading.

"Most of the action appears to be in the car market, probably led by fleet purchases.

"Sales of commercial vehicles are lagging somewhat, and some buyers are moving downmarket from a Mercedes to a Toyota Camry, for instance."

The good news is that the economy looks healthier than it did a couple of years ago, with inflation down to levels last seen in the early 1970s and exports doing well.

"Many firms have adjusted to difficult times by cutting the fat and becoming lean and mean.

"With wage and salary increases moderating, and company earnings perking up, business seems ready for an upturn — but a sustained recovery has not yet begun."

BOE nets 26% earnings rise

(49) CT 29/10/93

By AUDREY D'ANGELO
Business Editor

THERE are "real signs that the economy is starting to turn, but slowly," Board of Executors (BOE) MD Bill McAdam said at a media conference yesterday, when he announced that his group had maintained its record of steadily rising earnings for the past 12 years.

BOE lifted attributable income by 26% to R16,9m (R13,4m). Earnings at share level, fully diluted, were 120c (96c).

The final dividend is 33c (26c) a share, making a total of 50c (40c) for the year.

Assets under administration rose by 33% to R6,2bn. This was "a result of a pleasing inflow of new funds to the pension fund division, who now manage assets in excess of R2,53bn."

Pre-tax income rose by 33% to R18,6m (R14m). But the tax bill rose by 80% to R4,5m (R2,5m), leaving after-tax income of R14,1m (R11,4m).

McAdam pointed out that these results had been achieved in spite of losses and write-downs totalling R3,8m after tax by the property division — the only one which had not performed strongly.

The group had now discontinued most of its property operations. The day to day management of property worth R280m had been taken over by DCF. Another R100m worth was managed by Boardprop.

This left top management free to devote more time and effort to the group's core activities.

Although its merchant bank was unlikely to handle another deal as big as the R2,2bn acquisition of Del Monte by Royal Foods other opportunities were presenting themselves all the time.

Some were overseas. There were possibilities at present in London and America.

The fees from a number of transactions could total as much as the fee earned from the Del Monte deal, which had "proved the bank capable of handling large and highly complex transactions — a reputation which will bring dividends in the future."

Discussing the outlook for the JSE, McAdam said: "SA sits on a knife edge. It will either be very good or very bad."

He thought it possible that SA would attract more investment from US funds, becoming a significant part of the Emerging World Index, and this would send the JSE even higher.

It was true that the firming of the financial rand could encourage overseas investors to take profits, but it could also encourage direct investment in SA industry.

McAdam said BOE was not looking for an acquisition at present or any diversification of interests. It was concentrating on its niche markets.

It intended to launch a money market unit trust, but no date had yet been set.

Giant mix-up in planning new SA

(49)

ARG 30/10/93

■ Huge sums of money could become available for the reconstruction and development of South Africa after next year's election, but, according to Professor Wiseman Nkuhlu of the Development Bank of Southern Africa and the Independent Development Trust, planners are unco-ordinated and working in a vacuum. **JEAN LE MAY** reports.

No fewer than 68 forums working for the socio-economic reconstruction of post-apartheid South Africa have sprung up countrywide during the past couple of years — but many are unco-ordinated and are working in a vacuum.

This criticism comes from Professor Wiseman Nkuhlu, chairman of the Development Bank of Southern Africa (DBSA) and chief executive of the Independent Development Trust (IDT), who says it applies particularly to groups involved in policy formulation for economic reconstruction and development.

One of the first tasks of the national constituent assembly after the April election should be the creation of a national commission for economic reconstruction and development, he said in an address to the Council for Scientific and Industrial Research (CSIR) in Pretoria.

A facilitating process had been set in motion some months ago, he said, after consultation with important stakeholders including political parties and trade union organisations.

However, there is little consensus on the issue since the ANC plans to hold its own conference on reconstruction and development early next year.

Moreover, when the DBSA released a report of a seminar on a macro-economic policy model for human development over the next five years, former Cosatu secretary-general Jay Naidoo said no one had been consulted about its release.

Professor Nkuhlu responded that nine months had been spent in obtaining the approval of all parties.

He said there was no doubt that while forums had played an important role in democratising policy formulation it was not clear whether they were going to change the policy positions of the individual political parties.

"Forums are developing their policy positions and programmes in a vacuum," Professor Nkuhlu said.

"There are no common assumptions on issues such as the projected gross domestic product growth levels, state and private sector roles, fiscal policies and so on.

"The lack of co-ordination means that recommended approaches may turn out to be neither compatible nor affordable.

"Finally, there is very little consideration of institutional matters. Even now it is not clear how the delivery of houses will be facilitated after the election and there has been very little discussion on the role of institutions such as the Industrial Development Corporation, the DBSA and the Small Business Development Corporation."

☐ One of the first tasks of the national constituent assembly after the April election should be the creation of a national commission for economic reconstruction and development, says Development Bank of Southern Africa chairman and Independent Development Trust chief executive Professor Wiseman Nkuhlu.

Outlining his proposal for a national commission, Professor Nkuhlu said the matter was so urgent that "everything possible must be done to mobilise all available resources, especially the capacity of professional and scientific organisations".

The contribution of the 68 forums, many at community level, was enormously important, he said.

But it was equally important that this valuable work should be co-ordinated.

"The facilitating committee we have set up should be given a mandate and legal status by the Transitional Executive Council," he said.

"It should become the socio-economic reconstruction and development management agent of the TEC, mobilising international funding and acting as a link with the World Bank, the EEC and international development agencies.

"During the transition phase, development should be channelled through existing development agencies: the Kagiso Trust, the DBSA, the IDT and the Land Bank have great capacity to deliver on a much bigger scale once violence has been alleviated and problems of legitimacy addressed."

The professor's proposal is that the commission should be in the office of the head of government and that it should be responsible for:

- Formulating economic policy and development strategies;
- co-ordinating various development departments;
- determining budget allocations for development;
- integrating ideas from forums, and
- setting development targets and ensuring that they are achieved.

"The liberation movements and their allies should become the main proponents of a socio-economic reconstruction and development programme," said Professor Nkuhlu.

"They must mobilise internal and external support around such a programme. They must extend participation to other parties but must be seen as the originators and core owners of the idea.

"This will enable them to reshape expectations through an effective communication strategy which sets affordable and sustainable targets in housing, job creation, human resources development and so on.

"The targets must come from the development programme process and national support should be canvassed extensively."

A difficult question was how to get political support for the process.

"The emergence of forums has created a conducive climate for multi-party co-operation on projects of this kind. Political organisations are now used to subjecting their positions to critical analysis at the forums. There are clear indications that they are prepared to compromise."

He said the development challenges were so enormous that that no single party or organisation could think of tackling them alone.

"Any political party that has the ambition of producing and implementing its own development programme without ensuring broad support through an inclusive process is being naive."

Another reason the process would not cause undue political sensibility was that it was technocratic by nature.

"Once agreement has been reached on underlying objectives and values, there must be the same best solution, whether the analysis is done by technocrats allied to the ANC, the NP, the PAC, the IFP or Azapo," he said.

Stals warns of inflation, poor rand

CT 30/10/93 (49) (853)

JOHANNESBURG. — Reserve Bank governor Dr Chris Stals warned yesterday it would be impossible to create a more equitable spread of income and wealth if inflation were unchecked and the value of the rand against other currencies deteriorated.

He told the Financial Mail investment conference here that the country could ill afford government overspending, balance of payments deficits and the inflationary pressure of excessive wage increases in the run-up to and following the elections.

Dr Stals stressed the importance of financial stability as a precondition for sustainable economic growth.

He said people would not save more when there is high inflation and savings were vital to finance the huge expenditure needed for the country's capital and human development.

Dr Stals said he was confident that financial stability could be maintained in a new South Africa provided the country relied on financial disciplines prescribed by the International Monetary Fund and the World Bank.

Also at the conference, ANC secretary-general Mr Cyril Ramaphosa praised Finance Minister Mr Derek Keys and Dr Stals.

He said he could not predict what the future held in store for them, but added: "They are outstanding people who have had a lot of confidence invested in the way they handle things."

Mr Ramaphosa said a future government which he expected to be headed by the ANC would follow fiscal policies "that will enable growth to be sustained".

He said he was sure the interim constitution would be finalised within a week and the concerns of the Freedom Alliance allayed.

"We are left with seven days to reach a settlement. We expect the Freedom Alliance to grasp the negotiations nettle and put forward proposals on how their concerns can be met."

Mr Ramaphosa said the ANC had no intention of dismissing the alliance's fears, but multi-party negotiators would complete their work by November 5 as scheduled.

Elections

He ruled out suggestions — principally made by President F W de Klerk — of a referendum to break any negotiations deadlock.

Mr Ramaphosa was also frustrated by the alliance's fear of the process of change and "the voice of the electorate".

"We've just been involved in a shadow-boxing negotiation with them ... without finding out what they really want.

"We look forward to the day elections are behind us so we can begin rebuilding our country.

"The business community demands it and the economy is crying out for this type of settlement." — Sapa

Stals's recipe for sharing our wealth

JOHANNESBURG. — Reserve Bank governor Chris Stals has warnedday that it will be impossible to create a more equitable spread of income and wealth in South Africa if inflation is unchecked and the value of the rand against other currencies deteriorates. (49) ARG 30/10/93

He told the Financial Mail Investment conference in Johannesburg yesterday that the country could ill afford government over-spending, balance of payments deficits, and the inflationary-pressure of excessive wage increases in the period before and after next year's elections.

"It will not be possible to promote a fair and equal distribution of income and wealth with a constant erosion of the value of the money."

The Reserve Bank protected the value of money and created financial stability through its fight against inflation and by ensuring a stable exchange rate of the rand against other international currencies, he said.

Government budget deficits, balance of payment deficits and excessive wage and salary increases all frustrated the central bank's efforts to protect the value of the currency.

There have been widespread calls, from the African National Congress in particular, for a more equitable distribution of income and wealth under a new government as part of the broader restructuring of the economy following elections in April.

Dr Stals stressed the importance of financial stability as a precondition for sustainable economic growth as well as a basic requirement for successful macro-economic restructuring.

"Those who today criticise a monetary policy of financial discipline and austerity, will next year blame the authorities for rising unemployment as and when financial instability caused by short-term expediencies eventually erodes the growth potential of the economy."

However, Dr Stals said he was confident that financial stability could be maintained in a new and changing South Africa provided the country continued to rely on financial discipline prescribed by the International Monetary Fund and World Bank

"We have applied those prescriptions in the application of monetary policy in South Africa, and they worked," he said. — Sapa

SA business beefs up local investment drive

CT 1/11/93 (49)

By ARI JACOBSON

FOR the first time in a very long while, SA business is ready to invest in its own country, according to opinions canvassed.

Most preferred not to be quoted, as investment decisions were at a sensitive stage, but all talked of serious discussions about investment locally, taking place in boardrooms right now.

The realisation, according to these sources, is that SA is most likely to make it through the transition and then to take up its position as "economic powerhouse" in Southern Africa.

As a spokesman for a large corporation said over the weekend "its a game of probabilities, but these days its much easier to be optimistic".

"Sure SA has vast natural resources but no-one seems to realise we have management in this country that that have survived in the worst conditions possible".

He said that local companies are "lean and mean" and the spate of good results is a clear indication that the tide is slowly swinging towards an economic upturn.

He added that in SA "we are in the unique situation" of having huge untapped markets — "the so-called third world component" and "there is easy access to about R100m people in Southern Africa".

Professor Martin Nasser at the recent launch of his book, Changing the Mindset for the New Generation SA, said "first we must talk the economy up and then we must invest".

It seems as if the talking is over, as figures show that about R30bn in fresh capital on large projects is about to be injected into the economy and this could be enhanced now that SA Reserve bank governor Chris Stals has cut the bank rate.

"It was masterful — it may just be enough to stimulate credit demand by the right people," said a money market trader.

Now consider that ANC consultant Denis Davis expects "no radical changes" to the tax laws of the new SA and there is a growing belief that both Minister of Finance Derek Keys and SA Reserve Bank governor Chris Stals could retain their positions in a new government.

It adds up to the sort of financial stability that could start to sway investment decisions in this country, from here and abroad.

Economic revival may be in sight, says Vosloo

B/Day 2/11/93

GAVIN DU VENAGE

POLITICAL and economic conditions pointed to a revival of the SA economy, Small Business Development Corporation MD Ben Vosloo told the Business Revival Conference in Johannesburg last night.

Although signs of a recovery were tentative, several causes for optimism had surfaced, he said. These included long-term structural changes, as well as short-term cyclical changes.

(49)

SA had been hampered for decades by four constraints — sanctions, political uncertainty, unrest and declining per capita incomes. These were the major structural problems limiting growth.

While the lifting of sanctions would not lead to a large inflow of foreign investment, it had removed artificial constraints on the balance of payments, he said.

If SA business was successful in competing in newly accessible markets, it would ease the foreign reserve position even further, alleviating pressure on domestic financial markets. As a result, interest rates would decline further and spur on small and medium business.

"The interest rate decline is indeed the first benefit derived from the lifting of sanctions," Vosloo said.

The artificial economic climate under the apartheid system was on its way out, but uncertainty over what would replace it was hampering business.

Violence was also retarding the economy, Vosloo said. "We can only hope that the same energy wasted in senseless killings and violence will be used to develop our economy."

He said the fourth structural problem, that of the divergence between the growth of the population and the economy, would need the joint efforts of politicians and business leaders.

However, short-term cyclical changes were encouraging. He said the economy had already experienced two consecutive quarters of growth, most of which originated in the agricultural sector. There were also signs of growth in production and manufacturing.

New passenger vehicle sales were up and merchandise exports had increased. At the same time world commodity prices were firming.

Real income slump forecast

ARG 2/11/93

□ And population expected to grow faster than economy

ALIDE DASNOIS
Business staff

(128) (49)

REAL income is likely to drop further next year, forecasts the Stellenbosch Bureau for Economic Research.

The Bureau says there is no sign of a turning point in the business cycle before next year. The economies of South Africa's trading partners are sluggish, commodity prices are low and political conditions inside the country are still putting the brakes on the economy.

The Bureau expects zero growth this year and only 1,9 percent next year — and that wiped out by population growth.

Violence should ease after the April elections, but not enough to lead to sharp increases in gross domestic fixed investment. Total fixed investment is expected to drop by 3,9 percent this year and to rise by only 2 percent in 1994.

Consumer spending is likely to remain depressed. Manufacturers have plenty of idle capacity on hand and high levels of violence and crime are scaring potential investors away.

The Bureau estimates 46 percent of the labour force is unemployed.

With real incomes expected to drop by 1 percent in 1993 and to rise by only 0,7 percent next year, households will still be under pressure, in spite of slightly cheaper credit.

An estimated surplus of R6,5 billion this year and R5,5 billion next year on the current account of the balance of payments, as well as smaller capital outflows, should make possible a further cut in interest rates in 1994, particularly since inflation is expected to stay low at 8 percent next year.

Further Bank rate cut possible — Absa

KELVIN BROWN

A FURTHER cut in Bank rate and other lending rates is still possible in the near future, says Absa in its latest Quarterly Economic Monitor.

"The continued easing in inflation, slow growth in money supply, static demand for bank credit, high real interest rates, a healthy current account surplus and an expected improvement in net reserves conspire towards a gradual easing in liquidity in the money markets."

An improved trade performance increased the surplus on the current account to R2,9bn, which was enough to increase net reserves by R1,2bn.

The bank was hopeful that a fragile upswing was in the offing after recent data provided evidence the protracted decline in the business cycle had bottomed.

"The 0,4% negative growth forecast for 1993 is likely to move into real growth of 1,5% in 1994, followed by 2,5% in 1995." BDay

But any increase in per capita growth was unlikely next year as the annual population increase was currently more than 2%. 31/11/93

The economy grew 5,1% in the second quarter of this year after a first quarter increase of 1,4%. During this period exports also peformed well, rising by 45,4%, while real imports fell 11,1%. (49)

The improved trade performance, which increased the surplus on the current account to R2,9bn, was enough to finance the capital outflows and to bolster net reserves by R1,2bn, the bank said.

On the demand side the situation was still bleak with seasonally adjusted and annualised gross domestic expenditure falling 11,5% in the second quarter, following an increase of 8,9% in the first three months of this year.

A budget deficit of R30,2bn for the 1993/94 financial year was still expected, said Absa.

This was more than 8% of GDP and R5m more than budgeted.

Government expenditure remained a problem as it exceeded the budget by 8,8% in the first five months of this year.

The deficit would have been higher had it not been for a higher gold price in the first half of this year and improved tax collections, which bolstered government revenue.

Absa expected there to be little difficulty in funding a higher deficit as a great part of the necessary finance had already been obtained.

Bureau predicts GDP rise of 1,9%

B/Day 3/11/93

LINDA ENSOR

CAPE TOWN — Despite substantial improvements in the agricultural sector this year, GDP can be expected to shrink 0,1%, but it will grow 1,9% in 1994, the Stellenbosch Bureau for Economic Research forecasts in a report on economic prospects released yesterday. (119)

The bureau believes it is premature to speculate that the recession has ended, and adds that a formal turning point in the business cycle is unlikely before next year.

The bureau suggests unstable political conditions will continue to dampen growth this year and next, with violence not subsiding enough after the election to result in a sharp increase in gross domestic fixed investment. Unemployment is expected to soar, consumers are expected to become poorer and consumer confidence to remain low, with little hope of major tax relief.

The bureau forecasts private consumption expenditure growth of -0,3% this year and 1% next year; government consumption expenditure growth of 0% and 1% respectively; fixed investment growth of -3,9% and 2%; gross domestic expenditure growth of -0,3% and 2,1%; export growth of 2,1% and 3,4%; and import growth of 2% and 4,5%.

A surplus of about R6,5bn and R5,5bn on the current account of the balance of payments is forecast for 1993 and 1994 respectively. Net capital outflows will diminish from R5,9bn this year to R1,8bn next year in short-term capital and R3bn (R1,2bn) in long-term capital, resulting in a substantial improvement in gross foreign exchange reserves to R15bn (R11,43bn).

A surplus of R19bn on the trade account this year and R19,2bn next year is forecast.

However, the bureau says the capital account will continue to be inherently weak, putting downward pressure on the external value of the rand, which is expected to depreciate 15% against the dollar this year and 6,8% next year.

Gold production will grow 1% this year and decline 0,5% next year. The bureau forecasts an average gold price of $356 in 1993 and $363 in 1994.

It says an average inflation rate of 9,7% this year and 7,9% next year will facilitate two additional cuts in Bank rate.

Government spending will remain under pressure, with the budget deficit likely to be higher than planned, the bureau says.

In real terms disposable income is expected to decline 1,5% this year and grow 1,1% next year.

● See Page 8

Star 3/11/93

BER takes grim view of prospects

■ BY CLAIRE GEBHARDT

In one of the grimmest economic forecasts to date, Stellenbosch's Bureau for Economic Research (BER) paints a bleak picture of post-election South Africa.

It debunks speculation that SA's longest-ever recession has ended — a formal turning point in the business cycle may only be reached in 1994, it says.

Among its concerns are burgeoning population growth, "one million persons added each year", and the high level of unemployment, "structural rather than cyclical".

(44)

With 46 percent of the labour force unable to find jobs in the formal sector, the bureau predicts:

■ Unemployment will rise to a higher level and the probability of a significant fall in violence and crime will recede.

■ The disparity between skills distribution of whites and blacks is likely to cause severe friction.

■ Demand for housing and education is likely to increase, with government un able to meet the demand;

■ Consumers are likely to become poorer.

■ Business will feel an acute shortage of adequately trained employees.

■ Demographic imbalances are likely to lead to higher taxes and a general shift to greater state intervention.

■ Investors will continue to maintain a wait-and-see attitude.

On the positive side, the bureau says, the end to sanctions and the more positive stance of foreign governments could go a long way to improving confidence.

Aid programmes are likely to get off the ground with the normalising of relations with the European Community, the World Bank and the International Monetary Fund.

An improved agricultural sector could also result in sharper overall growth.

Positive spin-offs from investment projects nearing completion and the decrease in the inflation rate could also spill over into improved confidence.

For 1994, inflation could be as low as eight percent.

'Budget could be delayed until July'

(49) CT 3/11/93

By AUDREY D'ANGELO
Business Editor

NEXT year's Budget will probably be delayed until July because of the April elections — and will be a holding operation largely prepared by the present government, Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, says in his Economic Prospects

"Any major policy changes which might be favoured by the government in waiting will therefore not be proposed before the March 1995 Budget."

Stuart expects violence to increase during the run-up to the elections. This, together with the fact that inflation in SA is substantially higher than that of our main trading partners, will mean a continued depreciation of the rand against other currencies.

"The average 1993 depreciation of the rand against the dollar is forecast at 15% while next year's depreciation is projected to be 6,8%."

Pointing out that the world economy is still in an unhealthy state, Stuart says this is impacting negatively on SA exports.

"The outlook for 1994 is, however, much better and the demand for SA exports is expected to improve as the year progresses.

"World inflation appears to be under control and should not add much to SA's inflation by way of imports."

But demographic factors in SA "suggest that the composition of the labour force, according to skills, is very skewed. This is likely to continue increasing the work load of the highly skilled while adding to the numbers of the non-skilled.

"The implication of this is a movement towards greater poverty (on average) and a high propensity to consume."

Stuart says the BER expects violence to subside after the April election, but probably not to a sufficient extent to lead to sharp increases in domestic fixed investment.

There are no clear signs of a lower turning point in the business cycle having been reached. "In our opinion these signs are likely to come to the fore in 1994 and not before then."

He forecasts a surplus of about R6,5bn on the current account of the balance of payments (BoP) this year "followed by a further R5,5bn in 1994

"On a net basis less capital is expected to flow out of the country during 1994, and as a result the positive change in the gross reserves should be substantial."

He expects inflation to continue to fall in 1994, with another 1% cut in the bank rate in the second quarter of 1994 (See next page).

Government finances are likely to remain under pressure with revenue less than budgeted for and expenditure higher. "The government in waiting will not be in a position to do much to rectify matters in 1994."

Real wages are likely to grow slightly in 1994.

Star 4/11/93

Cheering news from Southern

BY CLAIRE GEBHARDT

The Reserve Bank has scope for two further Bank rate cuts over the next 12 months, Southern Life says.

Chief economist Mike Daly says this will provide considerable relief to the economy, boosting growth to between 1,5 percent and 2,0 percent in 1994.

"This scenario, however, is based on the critical assumption that the April election is successful."

Daly says SA is on the brink of an economic recovery, with official figures for the second quarter indicating the major category of domestic expenditure, namely private consumption expenditure (PCE), is returning to positive growth.

"An important influence here is the sharp decline in the inflation rate, which is supporting real personal disposable income growth."

Next year, he expects the effect of a sharp drop in inflation "to an average of 7,5 percent", to have a bigger effect on real consumer spending power, giving rise to a 1,5 percent pick-up in real PCE. (49)

Fixed investment spending (GDFI), however, is expected to decline for the fourth year in succession, bringing the ratio of GDFI to GDP (gross domestic product) to another new low of 15,7 percent.

"Given that the Reserve Bank will want to permit a rate of growth of domestic expenditure over the next few years roughly in line with present productive capacity in order to avoid overheating, it is vital that GDFI undergo the most rapid relative expansion of all components of GDP."

Daly says state fixed invest may be the focus of the build-up in GDFI over the next couple of years

"For this, business confidence must improve and a successful election for a representative, accepted government of national unity will be an essential first step."

'Public must own economy'

49

~~238~~

CT 4/11/93

JOHANNESBURG. — The ANC PWV region reaffirmed its belief in a clause of the Freedom Charter which is largely seen as supporting the nationalisation of some key sectors of the South African economy

A resolution passed at the weekend congress called for: "A reconfirmation of the demand in the Freedom Charter that 'the mineral wealth beneath the soil, the banks, and monopoly industry shall be transferred to the ownership of the people as a whole'."

However, a member of the commission which drew up the resolution, Mr Ben Turok, said the clause did not specify a mode of public ownership, although he did not rule out nationalisation.

The resolution contradicts the stance of the ANC's department of economic planning. — Sapa

TIM COHEN

Bid to beat IMF's $850m loan deadline

THE Economic Technical Committee meets today to finalise SA's application for the IMF's $850m contingency facility loan in an effort to beat an effective month-end deadline for the application to be lodged.

Trade union leaders have expressed concerns over the conditions of the five-year reserve-buffer loan, questioning the application's undertaking on wage restraint.

The loan, considered critical for SA's economic growth, also includes a specific deficit target. BDay 4/11/93

The committee, an informal group of politicians brought together by Finance Minister Derek Keys to discuss economic issues, will discuss a new draft of a letter of intent, which forms the basis for the application, after discussions with the IMF in Washington last month.

The letter, which will not be made public, is understood to include a commitment to a programme of financial discipline. It has already been agreed to in principle by all major parties. (451)

Former Cosatu general secretary Jay Naidoo said Cosatu welcomed SA's access to the loan facilities but it was important that all loans should fit into a "clearer developmental framework".

"These funds should be used as part of a definite programme and should not be used

☐ To Page 2

Loan

B/Day 4/11/93

☐ From Page 1

merely to support government's consumption expenditure," he said. (49)

Cosatu was also concerned that loans applied for now should not tie the hands of a future government. Before SA tapped international reserves, a development programme should be in place. "There must be direct benefit to the people on the ground."

This did not mean that Cosatu was against this particular application and the organisation appreciated that there was an urgency in applying for it.

The application, which arose from SA's balance of payments difficulties caused by the drought, must be agreed to by the IMF before the end of the year otherwise a different set of time scales would come into operation. The result would be a reduction in the amount of the loan by about $400m. The application must reach the IMF by month-end to be approved in time.

ECONOMIC OUTLOOK

FM 5/11/93

A knife's edge

(49)

Reserve Bank Governor Chris Stals's decision last week to lower Bank rate could be described as a calculated gamble. The one-percentage-point move will trigger a shift in the entire pattern of interest rates and, if past experience is anything to go by, will encourage borrowing and spending.

Though it could prove a healthy stimulus in a subdued economy, an increase in imports always follows at this stage of the business cycle. At the same time, borrowers will raise more funds domestically and less offshore because of the relative change in interest rates. Both developments will drain official reserves of gold and foreign exchange.

These are already disturbingly low and further big outflows will prove disastrous, unless the expected loan from the IMF materialises. It is a drought-related compensatory and contingency financing facility. The amount, US$850m, was determined by formula and will be paid in a lump sum. SA is expected to apply by the end of next month to allow the IMF to respond by January.

Without the loan to shore up reserves, the current pattern of interest rates will prove too low. With further foreign debt repayments due in February, and other sources of foreign capital probably drying up, the central bank will have to act to protect reserves. And instead of further falls in Bank rate, Stals will have to consider raising them. FM

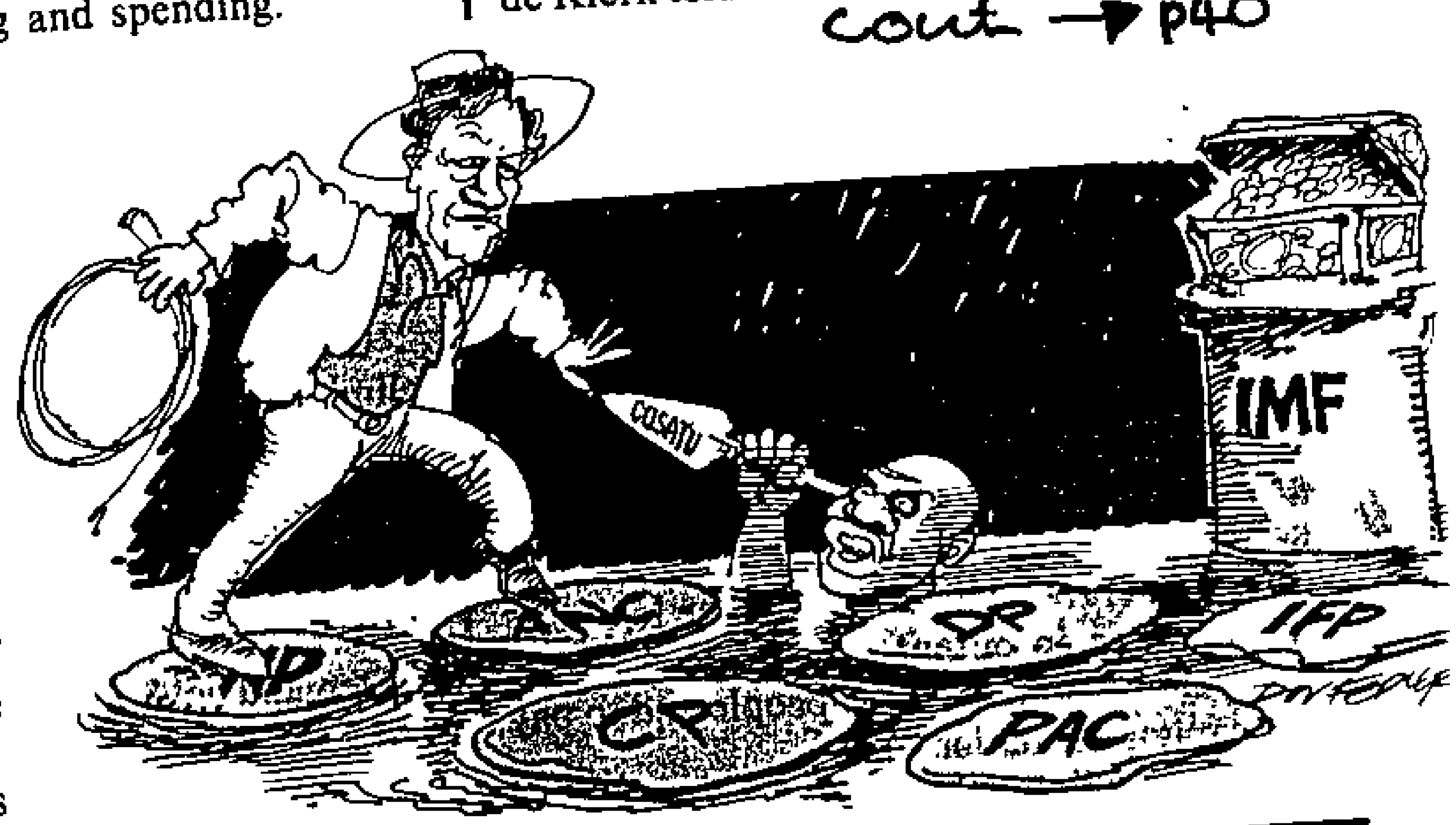
This situation seems unlikely. Stals's recent intervention in the foreign exchange markets has slowed the rand's sharp fall against other currencies. The cut in Bank rate has been a psychological boost and will eventually prove a financial stimulus. So his gamble appears to be paying off. 5/11/93

But the situation is delicately balanced. The economy cannot grow without foreign funds — from the IMF, World Bank and, more importantly, the private sector. The only way to ensure they are available is to continue on the path outlined by the country's chief negotiating parties. (49)

The immediate challenge is to confirm the IMF loan. The application has to be accompanied by a letter of intent, intended to reassure the IMF that economic policies will be conducive to growth. In the IMF's view this will mean that the Budget deficit should be kept within certain limits and that the labour market should be more flexible to allow for an increase in employment. Though the loan has a maturity of five years, the conditions are not expected to apply for the entire period.

The letter is being framed, President FW de Klerk told the *FM* Investment Conference

cont → p40



Reserve Bank role attacked

49 ~~88~~ CT 6/11/93

JOHANNESBURG. — An ANC-aligned economic policy group yesterday attacked the independence of the SA Reserve Bank from central government.

In a speech at a memorial meeting for the late ANC national chairman Mr Oliver Tambo, Macro Economic Research Group (MERG) co-ordinator Mr Vella Pillay said the policy approach of the central bank would have to fall in line with the economic imperatives of a new democratic state.

MERG had conducted intensive research over the past year to formulate economic policies a new government could follow to redress structural economic inefficiencies.

"Our research conclusions suggest that the SA Reserve Bank should be subordinate to the government," Mr Pillay said.

This was necessary "to allow monetary, interest and exchange rate policies and the flow and direction of credit in the economy to be consistent with the democratic state's policies".

This contradicts sharply the policy approach of the Reserve Bank with Dr Chris Stals as governor.

Dr Stals has repeatedly argued that the primary role of the Reserve Bank is to protect the value of the country's currency, and that to do this the central bank has to remain autonomous from central government.

Analysts regard the achievement of single-digit inflation figures earlier this year as a result of the Reserve Bank's independence from government and its ability to refuse to print more money.

However, Mr Pillay said MERG's conclusions, which are to be released fully within the next three weeks, were "much the most exhaustive and innovative in terms of . . . placing the economy on a path of sustainable growth".

He said the MERG report would shortly be presented to the ANC and Cosatu. — Sapa

ANC wants Bank under control

S/Times (Buss)

By CHERILYN IRETON

THE Reserve Bank should fall under government control, says Vella Pillay, head of the ANC macro-economic research group (Merg).

The economic policy think tank has completed an 18-month "exhaustive" study of the economy.

The results — Mr Pillay says they will help to overcome the economic crisis and place South Africa on a path of sustainable growth — will be presented to the ANC as a framework for macro-economic policy for SA in the next three weeks.

Mr Pillay says monetary, interest and exchange rate policies and the flow and direction of credit should be consistent with State policies. This applies to expenditure and taxation, trade, industrial diversification and development, employment generation and social and economic infrastructural investment.

Earlier this week, ANC economics chief Trevor Manuel said the ANC wanted to re-examine the way the Reserve Bank conducted monetary policy.

7/11/93

He says businessmen often complain about the effects of monetary policy on their competitiveness.

Mr Pillay says Merg will change its name to the National Institute of Economic Policy. It will be headed by Max Sisulu and will train black economists. They will be available for government service.

(49)

Research suggests that export expansion is possible through value-added processing of raw materials and basic commodity exports.

Mr Pillay says: "We believe there are compelling arguments to broadly maintain present protection for at least five years while immediately simplifying and rationalising existing import tariff structures.

"Our studies also call for strong legal sanctions against transfer pricing and other capital export practices which breach the exchange-control regulations."

Thirteen research teams have been modelling SA's economy to assess the possible effect of different economic policies on the growth and distribution of income, output, employment and the balance of payments.

"We have studied and identified the types of policy initiatives which could be pursued to diversify the economy and transform our mining, farming, manufacturing and service sectors through higher value-added processes and thereby to create more jobs, higher incomes and increased foreign exchange inflows from our exports.

"We have studied the labour market and assessed how this can be reformed with a view to creating an expanding force of labour skills to meet the ever-newer technological challenges in the work process."

Mr Pillay says the policies should ensure minimum wages.

Affirmative-directed training for large segments of the workforce have been explored with "meaningful policy conclusions".

Also under the spotlight was fiscal policy. Merg has identified how resources could be released for improvement in the social and economic infrastructure, generating jobs and economic growth.

Mr Pillay says: "Mechanisms for reforming the composition of public expenditure and increasing the efficiency of the system of revenue collection have been explicitly articulated.".

Merg also studied the possibilities of reform in the rural economy, including the need to redistribute land.

Bid to nationalise Reserve Bank rejected by ANC

Star 8/11/93

The ANC might oppose a recent proposal that the SA Reserve Bank be nationalised, the organisation's department of economic planning said yesterday. (49)

It was responding to a Macro-economic Research Group (MERG) suggestion that the Bank would have to fall in line with the economic imperatives of a new democratic state.

MERG co-ordinator Dr Vella Pillay said on Friday that recent research showed the Bank should be subordinate to the government. MERG was started in 1991 by the ANC and other organisations with the purpose of conducting economic policy research and submitting recommendations.

"Their (MERG's) reports do not constitute ANC policy," the organisation's economic department stressed. "We believe the primary objective of the SARB shall be to protect the internal and external value of the currency within the context of co-ordinated macro-economic policies and in the interests of sustainable growth."

The ANC added that the Bank should be constitutionally bound to consult with the Minister of Finance. It also said its position had been formulated after studying central banking and monetary policy throughout the world and, in particular, the relationship between monetary and fiscal policy. — Sapa.

Concern for the economy prevails

THEO RAWANA

CONSIDERATION for SA's economy had outweighed public wrath and the threat of taxi blockades against the recent petrol price rise, a fuel industry leader said at the weekend. B/Day 8/11/93

In reaction to government's refusal to roll over the 7c price increase, a Liquid Fuel Price Summit decided last month that pickets, protests and taxi blockades would begin in the eastern Cape on October 24, move to the Free State the following week, then to the Transvaal (this week) and to Natal after that. (49)

But at least one major taxi organisation, the National Federated Transport Organisation (Nafto), has come out in favour of holding fire until the liquid fuel task force of the National Economic Forum (NEF), whose proposal to suspend the price increase was initially rejected by government, reports to the forum in December.

Protest action in the eastern Cape was confined to reducing speed to conserve fuel. The Free State reported no action.

In line with the NEF decision that government's 2c reduction in the fuel price served to reopen discussions, Nafto national vice-chairman Simon Mathysen said his organisation felt it should contribute to the task force rather than embark on action. "We have no doubt such action would harm the economy."

Cosatu and Nactu spokesmen could not be reached on Friday.

More evidence of upturn, says Nedfin

BDay 8/11/93

EDWARD WEST

THE instalment credit book of SA's banking sector grew 11,14% to R36,9bn in the third quarter over the same period last year, providing further evidence that the economy might be turning, a Nedfin analysis showed.

Nedfin CE Christopher Beatty said although it was unwise to read too much into one set of figures, the increased credit activity reflected in the July to September quarter showed business confidence could be picking up.

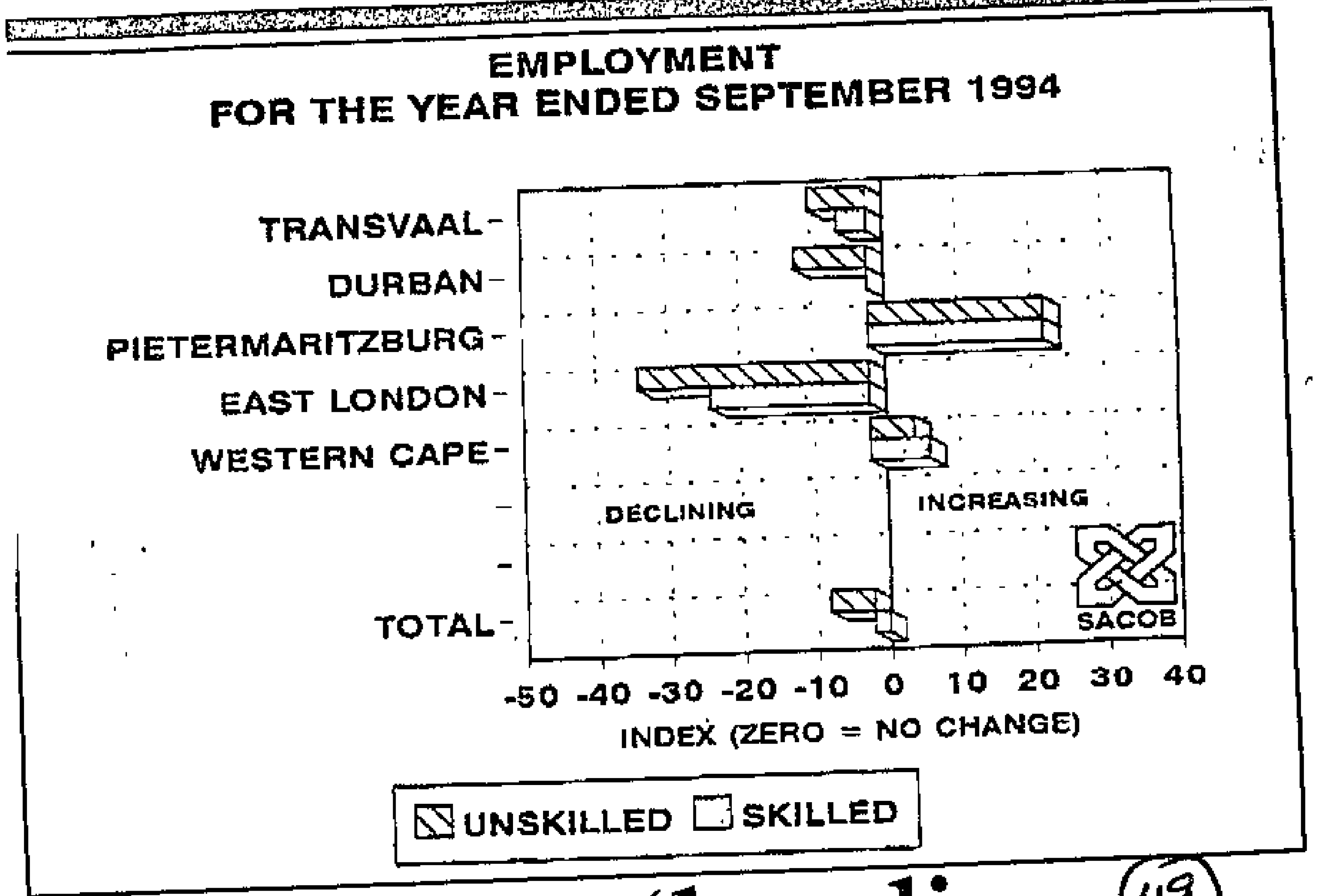
The analysis showed banking business for the third quarter was up 5,9% on the previous quarter. A year ago, there was a modest 1,5% increase.

Instalment credit growth also easily topped the third quarter seasonal fluctuation charted in the early '90s. In 1991 there was 4,2% third quarter growth over the previous year and in 1990 it was 4,5%.

(449)

However, an upward trend in commercial vehicle sales would provide fuller confirmation of indicators that the economy was turning.

Car sales had been stronger for the second consecutive quarter and the fall in recruitment advertising had bottomed out. Business failures had not fallen, but traditionally there was a one-year lag between an upswing and a drop in bankruptcies, Beatty said.



W Cape 'leading SA out of recession'

(49) CT 9/11/93

those in the Eastern Cape and Maritzburg regions are, in relative terms only, the the least optimistic."

But, he continues, in view of the fact that consumers are likely to remain hard-pressed financially "the improved outlook probably stems from expectations of higher investment and exports."

However, he says, "it is significant that 59% of those polled actually experienced a higher volume of new orders in September than was originally anticipated."

This, together with the fact that 58% of manufacturers expect activity levels to rise further in October, "means that the volume of new orders received has now grown steadily for six months."

Countrywide, 72% of respondents "now expect sales volumes to increase in the coming year."

"In the manufacturing sector, at least, the early stages of a recovery are already under way."

Colin Boyes said the results of the survey confirmed feedback the CCI had been getting:

"More of our industries are focused on the international market than is the case on the Reef, where they serve the market on their doorstep."

Public Works gets R20m from oil sales

B/Day 9/11/93

ADRIAN HADLAND

PRETORIA — The Public Works Department has been allocated R20m from the sale of SA's strategic oil reserves to maintain and upgrade government buildings and infrastructure.

The amount is part of the R255m secured by government from the sale of reserves in July, R180m of which was earmarked for labour-intensive projects and job creation schemes identified by the National Economic Forum (NEF).

The remaining R75m was retained by government for expenditure outside the ambit of the forum, said Economic Advisory Council spokesman Ernst van Eck.

Of the R75m, R25m would be spent on establishing small farmers, R25m would be used by the Manpower Department for training, R5m would be used to establish a place of safety for children in the northern Transvaal and R20m would go to the Public Works Department.

Public Works director-general Derek du Toit said oil reserve funds given to his department in 1992 had been used mostly for "the accommodation needs of the SADF and SAP".

Van Eck said this amount was about R15m. (49)

Du Toit said oil reserve funds had been granted for labour-intensive construction or maintenance projects. Funds had also been spent on providing work for small building contractors, who were battling to survive economically.

He said that out of all departments granted funds in 1992/93 from the selling of oil reserves, Public Works was considered to have made the best use of the money.

Van Eck said about R460m of profits from the sale of reserves during 1992/93 had been spent. An NEF technical committee was considering how to distribute the forum's portion of the additional R255m granted in July.

Economists expect 2% growth

B/Day 10/11/93

KELVIN BROWN

THE economy is expected to have firmed at least 2% in the third quarter of this year as the recovery in agriculture spread to other sectors.

Economists said yesterday the increase in GDP was unlikely to be as high as in the second quarter as most of the effects of the end of the drought had come through earlier in the year. Figures for the third quarter are due for release tomorrow.

In the three months to June, GDP firmed at a real seasonally adjusted annualised rate of 5,1%, largely because of a 232% improvment in the agricultural sector.

Old Mutual chief economist Dave Mohr said recent improvements in vehicle sales, manufacturing production and retail sales suggested the non-agricutlural sectors of the economy had turned around in the second half. He predicted GDP on a seasonally adjusted annualised basis would grow in excess of 2% in the third quarter.

"It would be difficult to maintain a further improvement in the growth rate of 5% seen in the previous quarter as this was largely a result of the end of the drought."

He expected a small improvement in GDP for the rest of this year and next year. He predicted the overall growth rate would reach 0,5% this year and 2% in 1994. (49)

Econometrix economist Tony Twine also predicted a quarter-on-quarter growth in GDP of 2% in the third quarter.

He said there was little reason to expect the absolute GDP level in the third quarter would be any worse than it was earlier in the year.

"The decrease in pressure on the farming sector should begin to have a marked effect in the third and fourth quarters of this year."

Sacob economist Keith Lockwood was more optimistic about GDP, expecting a 4% growth rate for the three months to September.

"The downturn appears to be a thing of the past with an improvement in the mining, manufacturing and financial services sectors likely."

Star 11/11/93

Economy set to expand

(49)

BY CLAIRE GEBHARDT

Supply side factors are boosting economic activity and could lead to a 0,6 percent real GDP growth rate in 1993, rising to 2,5 percent in 1994, says Frankel Pollak Vinderine's latest Asset Allocation report.

Favourable factors include rising fixed investment on the back of tax incentives; a reported R30 billion spending on new projects; an improved agricultural sector and greater export activity.

The demand-side of the economy is more problematic, however, and only a modest improvement in effective demand is anticipated.

"Real gross domestic expenditure is flat and wage increases are now declining to average levels less than the inflation rates.

"Unemployment continues to rise and both monetary and fiscal policy have a restrictive bias at present."

Economist Mike Brown says other critical determinants of future economic performance include:

- The current account — surpluses of around R6 billion now appear possible in both 1993 and 1994.
- The capital account — the lifting of financial sanctions and improved sentiment towards South Africa could limit the capital account outflow in 1994.

Final agreement on the interim debt arrangements and the receipt of an IMF loan in late-1993 should also improve capital flows.

- The exchange rate — depreciation over the forecast period is expected to be far less pronounced than in early 1993 given expected favourable trends in the capital and current accounts and some rise anticipated in the gross foreign exchange reserves.
- Inflation — the consumer price index should average under 10 percent in 1993 and fall to 7 percent on average, in 1994.

Once the VAT increase drops out of the index in April 1994, the CPI should decline to around 6 to 7 prcent for the remainder of 1994, unless further VAT or other official price increases distort the index.

Short-term interest rates, including the prime rate, are expected to decline by between one to two percent over the next 15 months.

Monetary policy, however should remain restrictive and with an anti-inflation bias.

Economic recovery will be slow and hard

Sowetan 11/11/93

By Mzimkulu Malunga

SOUTH Africa's economic recovery will be a slow and difficult process, says the South African Chamber of Business.

"It is still difficult to interpret where we are in the economy," says director of economic policy Dr Ben van Rensburg.

Though the recession is over this does not automatically mean an economic upswing.

Despite continued uncertainty, Sacob's Business Confidence Index improved 2,8 percent to 102,1.

(49)

The BCI has been on an upward trend for the past six months, which prompted Sacob to be "cautiously optimistic".

Eleven of the thirteen economic indicators which show the level of business confidence were positive in September.

A stable gold price and better prospects that SA will get the R2,9 billion concessionary loan from the International Monetary Fund boosted morale. Price stability, a fall in registered unemployment, rising sales of passenger vehicles, strengthening of the commercial and financial rand and a decline in the number of company bankruptcies contributed to a rise in the BCI.

SA competitiveness near bottom

CT 11/11/93

PRETORIA — South Africa slipped from eighth to 11th place in a year in a 15-state comparison of emerging industrial nations, says the latest World Competitiveness report

Addressing the National Quality Conference here yesterday, Iscor chief executive Mr Hans Smith said South Africa appeared at or near the bottom of the list in the categories of people, government, worker motivation and education.

Despite South Africa's gaining acceptance in the world trading arena, the country would continue to appear at the bottom of the international competitiveness scale until there was an improvement in literacy and education and a stable government capable of tabling policies conducive to foreign investment was installed, said Mr Smith

People responsible for productivity were the country's greatest asset

He said Pacific Rim countries — world leaders in improved productivity and quality — such as Japan, Taiwan, Singapore, Korea and Hong Kong, had virtually no natural resources and had gained their competitive edge through their people.

They had invested heavily in education and training and were reaping the rewards, he said. — Sapa (49)

Deficit will not exceed target, says govt

BiDay 12.11.93

GRETA STEYN

GOVERNMENT is sticking to its guns that its deficit will not exceed budgeted targets despite a surge in spending in October and a below-budget increase in revenue.

In a statement yesterday, Finance director-general Estian Calitz said Exchequer issues rose 15% in the first seven months of the fiscal year, against a budgeted 8,8%.

dev [illegible] the amount included "extra- [illegible] issues of R2bn-R3bn to [illegible] for expenditures within their budgeted allocations for the rest of the year. He said Exchequer issues were not a reliable indication of actual expenditure as they did not represent funds actually spent.

(49)

The State Expenditure Department was satisfied control measures were in place to ensure expenditures would not result in a

☐ To Page 2

Deficit

BiDay 12.11.93

☐ From Page 1

higher budget deficit. A more comprehensive picture of the pattern in expenditures for the 1993/94 year would be available when the "adjustment budget" was presented to Parliament this month.

The rate of increase in Exchequer receipts continued to rise but, at 15,1% for the seven months to October, had not yet reached the budgeted increase of 17,3%.

Inland Revenue receipts were lagging behind budget, but Customs and Excise was well over the targets set in March.

Economists said company taxes had probably not yet caught up with the budgeted levels. The breakdown up to September (the latest available) showed total income tax receipts (including company and personal taxes) were less than 5% against a budgeted 11,7%.

(49)

Government has all but completed its borrowing programme. More than 95% of the net financing programme had been completed by the end of October.

More good news boosts economy

BRUCE CAMERON
Business Staff

49

ARG 12/11/93

A FLOOD of sound economic indicators are showing a stronger than expected performance in the economy as the year draws to an end.

Although individual incomes are still shrinking the business and manufacturing sector can look for improvement.

The annualised 8,2 percent surge in the gross domestic product for July to September caught most economists by surprise. The latest figure came on top of the 1,5 percent and an upwardly revised 5,5 percent for the previous two quarters.

Old Mutual chief economist Dave Mohr said today the major surprise has been "non-farm" GDP

"This provides evidence of a wider spread recovery than anticipated up to now."

Other figures released today show a dramatic improvement in the State's finances.

Director General of Finance Dr Estian Calitz said in a statement that it appears the budget is on track with the possibilities of last year's overspend receding.

Revenue is on an upward trend, he said, while the Department of State Expenditure is satisfied control measures are in place to ensure expenditures will not result in a higher budget deficit.

Although total income tax receipts for the first six months of the financial year were 4,9 percent higer than the corresponding period of the last financial year they are well below the budgeted increase of 11,7 percent.

However, indirect taxes are considerably higher than expected with receipts for VAT 50,1 percent higher than the corresponding period last year against the budgeted amount of 43,1 percent. Customs and Excise receipts are also higher than budgeted.

The financing programme of R32 billion is 95,6 percent complete which has resulted in an easing of pressure on the financial markets.

CAPITAL EXPENDITURE

Green shoots to green fields

Consumer confidence is only the first step

FM 12/11/93

In these days of consumer uncertainty, it is easy to forget that South Africans are compulsive spenders — in good times and bad.

In 1980-1981, private consumption spending grew by an average annual 8%. This was largely funded by receipts on gold exports, as the price reached historic highs of over US$800/oz. But, even in the most depressing circumstances, consumers are prepared to borrow — provided that real interest rates are negative — to keep themselves in the lifestyle they believe they deserve.

In 1987-1988, for instance, when SA was marooned on an ideological island, cut off from international credit and with no escape in sight, consumption spending grew at an average annual rate of about 4,5%. It took four years of recession for people to cut living standards to the point where private consumption was shrinking — by more than 2% in 1992.

What is needed now is a recovery in consumer confidence. Though exports, which often drive the upside of the cycle, are performing well, SA producers need domestic buyers in addition to offshore customers. So there is anxiety in the business community — especially in the service sectors, which depend on the local market — about the level of spending in the months ahead.

But looking at the record of SA's spenders, it is easy to imagine a swift revival as higher earnings in the primary agricultural and mining sectors flow through and lower interest rates encourage borrowing. Politics will be a restraining factor, at least until the April election, but the need to replace consumer durables will provide momentum.

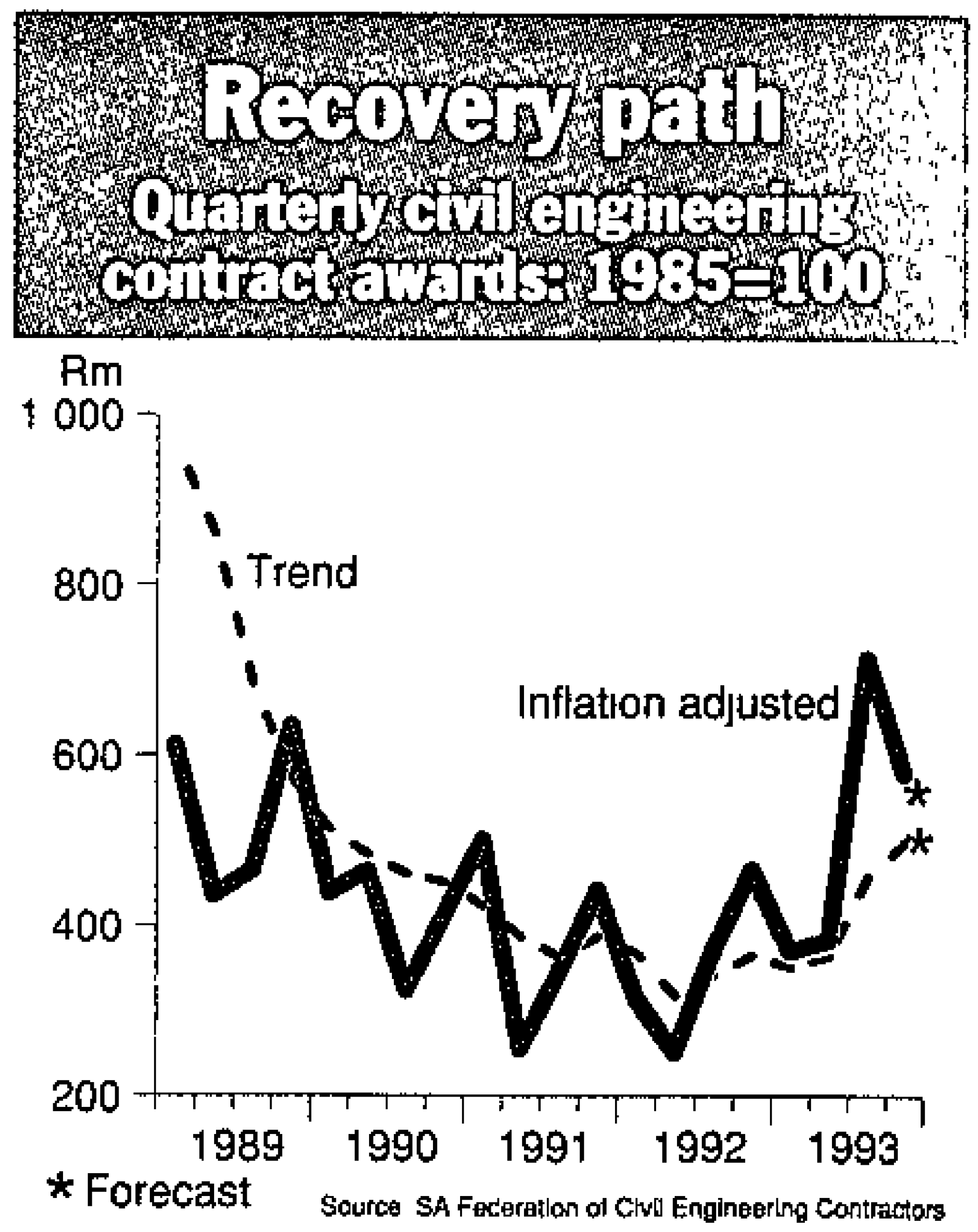
So, elusive as consumer confidence may seem now, getting people to buy is the easy part. More difficult is producing the goods to meet their needs.

49

Mossgas helped

Without a balance between supply and demand, economic recoveries are destroyed by inflation. Imports can meet domestic needs, of course, but export earnings play a vital part in funding them. One way or another, the capacity to produce is critical to sustaining an upturn.

Unfortunately, SA's capital base has been seriously eroded for a decade. Since the early Eighties, fixed investment grew only in 1988-1990. But this, as Nedcor Bank's Liz Farquharson points out, "was largely attributable to the Mossgas project, which had an estimated cost of R11bn."



As result, capital stock has risen at little more than 1% a year, in real terms, for about 10 years. Despite this, capacity utilisation — nearly 90% in 1981 — fell below 79% in 1992. So the immediate impact of renewed consumer demand will be absorbed by excess capacity.

But this figure is deceptive, because companies have been slow to replace, and existing plant and machinery presumably have only a limited life. This will shorten the normal lag between a revival in consumer spending and the need to spend on new industrial capacity — otherwise known as capital expenditure, or capex.

Important promise

But something more is needed if the declining trend in capex is to be reversed — access to foreign investment and credit, and healthy export earnings to fund the purchase of imports, especially of capital goods. (Which is why the successful conclusion of negotiations and the promise of sound economic policy are so important.)

It will also need a continued will on the part of local businesses to expand and grow. Contrary to the perceptions of many critics, here and abroad, SA entrepreneurs have invested actively in adverse circumstances (*Leaders* May 7.) Despite recent international recession and turbulence at home over the past 10 years, private gross domestic fixed investment fell from R16bn in 1985 to R15,2bn in 1992, in constant 1985 rands — a real fall of only 5% — while government and State corporation capex plunged.

Now the Reserve Bank *Quarterly Bulletin*

STARTING TO FLOW

A number of major projects, announced in 1991-1992, are now under way. They include:

☐ Alusaf, a R7,2bn aluminium smelter, the main shareholders of which are Gencor and the IDC. Financial director Paul Snyman says most of the R600m cash flow projected for 1993 will go in the second half of the year. And he estimates spending of about R2,5bn in 1994;

☐ Columbus Stainless Steel, a R3,3bn joint venture by Highveld Steel & Vanadium, the IDC and Samancor. GM (finance) Andrew Smith says 1993 expenditure of R1,3bn has been evenly divided between the two halves. About R1,7bn is projected for next year;

☐ Moab, Anglo American's R3,1bn new mine. Financial director of Anglo American's gold and uranium division Keith Hosking, says about R103m will be spent in 1993, approximately equal amounts in first and second halves. About R150m is due to flow in 1994;

☐ Sasol's six chemical projects worth R1,6bn, almost all of which was spent in 1993. New projects costing R1,5bn are scheduled for completion in 1994;

☐ Namakwa Sands, a R1,4bn investment by Anglo American and De Beers in a mine concentration and separation facility, followed by beneficiation of ilmenite.

Project manager George Brown says Phase One, costing R785m, will be completed early in 1995. Of this R180m was spent in the year to October. Another R40m will go by the end of the year;

☐ The R800m expansion of Engen Refinery. In the first half, R130m was spent, R200m will have gone by the end of the year and R430m is projected for 1994;

☐ Sappi's R1bn expansion of Saiccor's dissolving pulp project. In 1993, R171m will have been spent, 60% of it after July. And in 1994, R600m;

☐ AECI's R280m lysine animal feed stock plant due for completion by 1995. Land reclamation started in July. Spending in the second half of 1993 will amount to R40m and in 1994, R180m;

☐ AECI Aroma & Fine Chemicals is to build an R18m plant in Richards Bay.

☐ There are plans for a R400m revamp of AECI's PVC plant, in a joint venture with Sasol. Spending starts in 1994.

FM 12|11|93

refers to a second-quarter increase in "fixed investment outlays by private enterprises engaged in mining, manufacturing and commerce."

For the most part, the spending is not cyclical. But the projects to which it relates are an indication of long-term confidence in SA; so, too, is the fact that decisions to invest have been taken at a low point in the world commodity cycle.

Some of the major projects relate to structural changes in international markets, which are encouraging local companies to add value to commodities before exporting them. Many are driven by tax incentives: Section 37 of the Income Tax Act allows for accelerated tax write-offs, which reduce cash outflows in the early years of a project.

Cash has started flowing only this year on most of the projects. This has slowed the rate at which gross domestic fixed income has been falling, to only 1,3% in the second quarter — after larger falls in 13 consecutive quarters. And there will almost certainly be growth in fixed investment by 1994, if not sooner (see box).

While these are long-term projects which will filter money into the economy over a period, the agricultural machinery sector is experiencing a full-blown boom (see graph). Good rains after the drought of 1991-1992 have boosted demand. This can be seen, says consultant to the agricultural machinery industry Jim Rankin, in tractor sales.

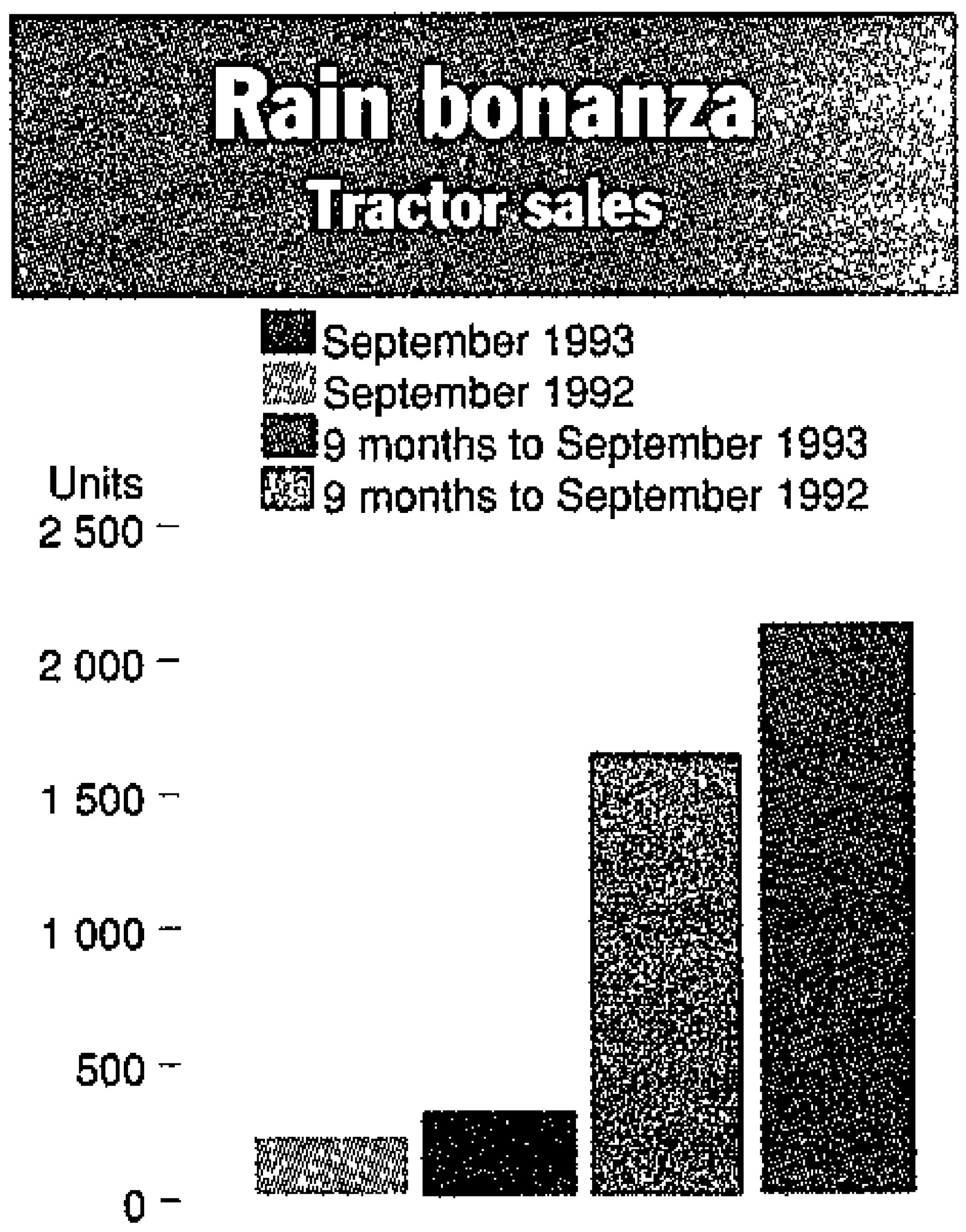
"Tractors are a good indication of the market because they make up 55%-60% of total sales values. Figures from the SA Agricultural Machinery Association show that, in the nine months to September, sales are up nearly 30% on last year (see graph) and in the 10 months to October, up 35%."

Next year should see a significant revival in spending by local authorities. The recent increase in population density is putting pressure on infrastructure and this trend will continue; municipalities are attempting to cope with the additional load.

"A conservative estimate shows civil engineering contracts awarded rose dramatically in August-October," says Federation of Civil Engineering Contractors economist Henk Langenhoven (see graph). Only about 15% of this is from the private sector. A substantial proportion of the contracts is being awarded by local authorities. Langenhoven cites for January-September:

- ☐ R645m tender awards for sewerage schemes; (49)
- ☐ R518m for water schemes; and
- ☐ R717m for township services.

Work should start on these early next year. Adds Langenhoven: "We are aware of a great deal of work coming in over the next year." Alusaf and Columbus, for instance, are ventures into beneficiation; mining projects reflect the need to tap new sources of ore to maintain production; agricultural recovery is climate-related; and public-sector infrastructural spending is a response to a sharp increase in population density.



Source SA Agricultural Machinery Association

Even though these are not signs of cyclical recovery, they have a multiplier effect. Langenhoven estimates that, in civil engineering, the direct impact is 50 jobs for every R1m in capex. Including the indirect effect, 350 jobs are created.

As to cyclical factors, there is a simple signal that the time is right for a company to invest in new capital projects

Yale University economist James Tobin, who won the Nobel prize for economics in 1981 for theoretical formulations of investment behaviour, called it the Q ratio. This represents the relationship between market and net asset value and the signal comes when the former is larger than the latter (that is, the ratio is more than one).

Figures for net asset value of companies listed on the JSE haven't been collated, so the ratio can be determined only after exhaustive examination of financial statements. But, put another way, says Deloitte & Touche corporate consultant Andrew Hunt, "the private sector should be investing in projects that provide returns in excess of their cost of capital"

An indication that this is the case comes from new capital raised through the JSE. Rights issues rose record-breaking amounts of R6,5bn in 1991 and R7,9bn in 1992. And R5,9bn was raised in January-October 1993. This is a reasonably consistent picture, indicating that more capex is likely.

While the market waits for cyclical signals, estimates for 1993 gross domestic fixed income remain pessimistic and those for 1994 more bullish:

- ☐ Anglo American's Jim Buys: -3%, 2%;
- ☐ RAU's Roelof Botha: -2,9%, 4,6%; and
- ☐ Econometrix's Azar Jammine: -3,8%, 4,4%.

So 1994 should be the year in which SA's seedcorn is replenished and the foundations are laid for future growth. ■

P.T07

ECONOMIC POLICY

Still in the dark

FM 12/11/93

If the ANC accepts these weird proposals, hardship will be multiplied

For some years now the old order of apartheid economics has been changing in SA and important policies aimed at economic utility — if not uncompromising growth — rather than ideological convenience have emerged. Whether these more sensible policies will be allowed to fructify in the new order is obscure and has become the centre of economic debate.

This debate is as vigorous within the ranks of the ANC as in the halls of commerce and industry or the ranks of the trades unions. In a normal society the outcome of such endeavour should be salutary.

But SA society is not normal, though the ANC's intelligentsia has moved substantially from its old policy of public ownership and soaking the rich towards greater realism. Those who have been force-fed economics in recent years by the likes of Goldman Sachs and J P Morgan realised the need for an unequivocal commitment to private ownership of property, freedom of trade and exchange and the inviolability of the law of contract. They discovered that stable prices are essential for continuing investment, growth and prosperity.

This is not the view of the ANC's Macroeconomic Research Group (Merg), which has prepared a 350-page draft policy document that is due to be released on December 3. It does not advocate a return to Marxist economics, but it qualifies free market concepts to such a degree, proposes policies which are inimical to its own objectives and recognises so little of proven orthodoxy, that its economic credibility has been opened to question.

Essentially, it plans to nationalise the marketing of minerals and the banks, stimulate growth through State spending and interference and direct the allocation of capital resources by fiat.

Despite difficult world and domestic conditions, Merg says it has produced a feasible and affordable programme to achieve in the decade ahead major economic gains — which correspond explicitly to the published objectives of the ANC and Cosatu.

Required to achieve this, it says, are: effective State intervention; a vigorous private sector; the active involvement of men and women in all spheres of society; and a carefully designed, implementable and well supported macro-economic strategy for transition.

The aim of the Merg framework is to secure rapid improvement in the quality of life of the poorest and most disadvantaged. Its policy recommendations stress projects to initiate job creation and training programmes, improve the status of the poorest and of women and the availability and quality of education, health, housing and electrification. It wants to raise minimum wages and improve the skills of the employed. Key data from the Merg economic model illustrate how these objectives are supposed to be achieved.

(49)

Merg's objective is for GDP growth to rise steadily through the Nineties to just under 5% per year in the early years of the 21st Century. It says this should create about 300 000 jobs a year — or 2,5m between 1992 and 2004, compared to zero net jobs created in the past decade. It believes that this growth projection is feasible as it requires a GDP increase of only 1,1% in 1994, rising to an average of 3,8% between 1995 and the year 2000.

In education, Merg proposes a minimum of R5bn (in 1992 prices) in annual recurrent teacher training and a lifting of annual education capital expenditures from the current R0,5bn to R1bn, to offer universal access to a minimum of 10 years of schooling.

In adult basic education, a four-year programme is proposed for those already in the workforce at the rate of 50 000 new trainees a year and is coupled with a programme for the unemployed to be engaged on physical infrastructure projects, receiving similar training, at the rate of 100 000 new programme entrants a year.

In health, a programme is set out to provide 2 000 clinics at a cost of R300m and a recurrent cost of R1,5bn a year, plus a basic health care and nutrition programme at a cost of R1bn a year.

In housing, it proposes the tripling of the number of housing sites from the current 100 000 to 300 000 a year. The number of formal houses completed should rise from around 38 000 to 350 000 a year by early next century. For rural development, Merg proposes that the State intervene to redistribute land to benefit adult females in the rural areas.

The proposed industrialisation and trade strategy is based on increasing export revenues by extending existing natural resource advantages, but it avoids the danger, says Merg, of getting stuck in a new rut and falling prey to fluctuating primary commodity prices. So it emphasises production of manufactured goods for both the local and export markets.

Trade policy stresses institutional reform and phased tariff reductions, together with new export support programmes, for exporters and renegotiated trade preference arrangements.

Industrial policy emphasises technological

PRIVATE SECTOR SECOND

The growth path that Merg's econometric model envisages may be divided into two phases — the initial, public investment-led phase (between 1993 and 1999) and the sustained growth phase (1999-2004) "which is characterised by the private sector playing a role equal to its potential in the growth process."

Two features (see table on page 34) are highlighted: first, says Merg, even with a high rate of fixed investment growth, it is only at the end of the first phase that fixed investment returns to Eighties' levels; second, employment growth is only marginally higher than the growth rate needed to absorb new entrants to the workforce.

The high employment growth rate (compared to the GDP growth rate) in the second half of the Nineties is attributable to Merg's proposals for new labour market policies.

The proposed GDP growth rate in the first phase is achieved in the model because more than half of it (54%) is accounted for by social and physical infrastructure spending. Overall, the growth target requires that social infrastructure expenditure increases from R14bn (in 1985 prices) in 1992, to R26bn by 2004. This means that its share of GDP increases from 11% last year to 13% in 2004 and the share of general government (excluding public enterprises) capital expenditure rises from the current level of 1,3% of GDP to 3% by 2004.

The critical assumptions of the model's fiscal policy settings are that: the real long-term interest rate is reduced to 2%; ordinary government revenue rises only moderately as a share of GDP; and non-interest government outlays grow at no more than 3,5% a year on a trend basis.

In the model, the real rate of interest is brought down steadily to the target range, which requires that the inflation rate should not exceed 8%. Also required is that the nominal aggregate wage increase is held at an average of 10% a year — which in turn sets the real pre-tax wage increase at about 1% a year on average over the whole period.

P.T.O

PPI hits lowest point in 21 years

Strong surge in economic growth

Star 12/11/93

(49)

BY CLAIRE GEBHARDT

South Africa's economy has confounded experts by notching up growth of more than eight percent in the third quarter.

Latest figures from the Central Statistical Service (CSS) show that gross domestic product (GDP) surged to an annualised 8,2 percent in the period July to September — it's third consecutive quarterly increase.

GDP growth was 1,5 percent and 5,5 percent respectively in the previous two quarters.

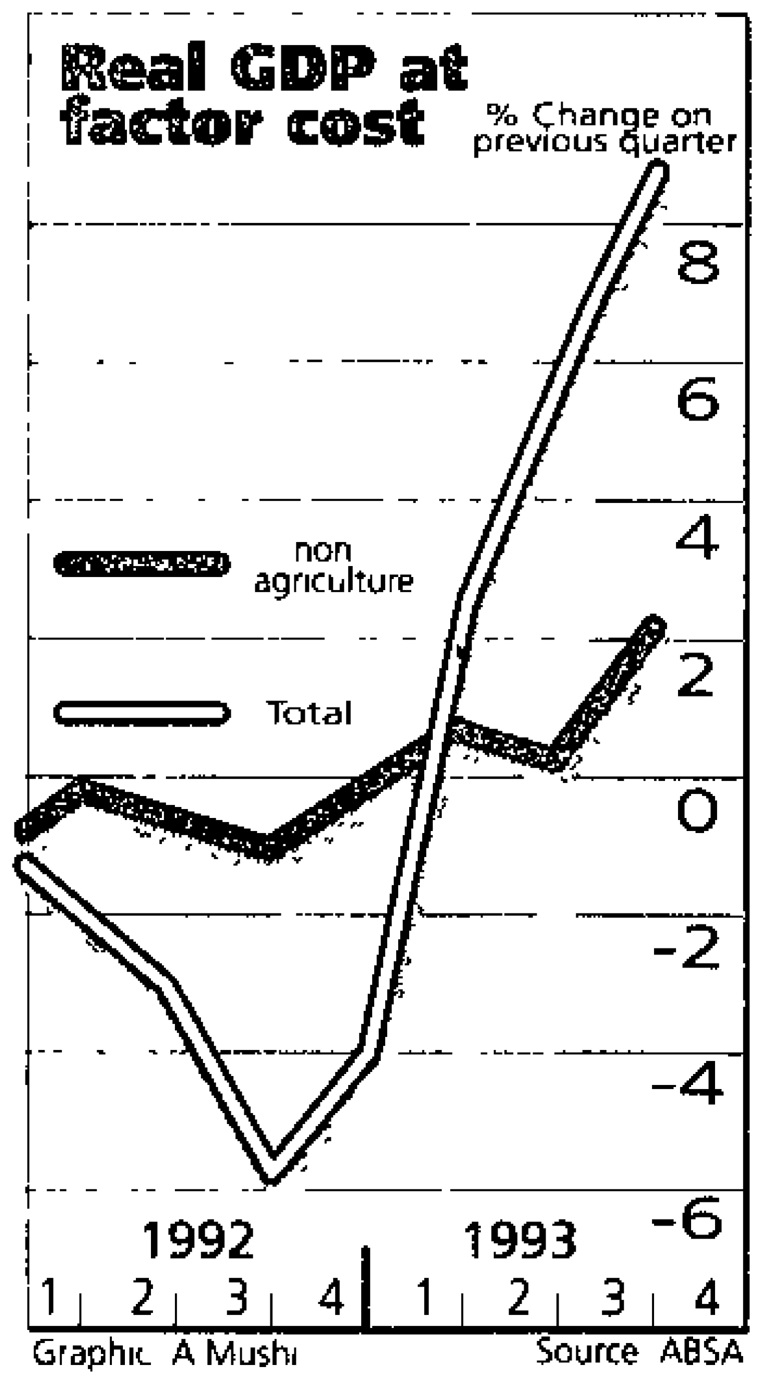
The economy's strong showing came on the back of improved agricultural production and encouragingly positive growth in the non-agricultural sectors.

Real agricultural production grew at an annualised rate of 196 percent compared with increases of 53,9 percent and 235,9 percent in the first two quarters respectively.

Real non-agricultural GDP grew by an annualised two percent in the third quarter on the back of strong growth in manufacturing (5,5 percent), electricity (5,5 percent) and transport (5,4 percent).

Mining and construction contracted by an annualised two and 2,8 percent respectively.

The figures have led many economists to revise their 1993 overall growth figures upwards to close on 1 percent from previous estimates of zero or negative growth of 0,5 percent.



Chances of another bank rate cut before the April 27 election next year have also been enhanced.

Absa economist Adam Jacobs says the "better-than-expected" figures indicate that exports fared better and that some restocking has taken place.

He anticipates strong positive second half growth as the economy turns up after the negative first half growth performance.

Producer price index (PPI) figures also brought good news.

The PPI touched its lowest level in 21 years with a 0,4 percent fall from August to an annualised 5,5 percent in September.

This indicates a sustained period of lower consumer price inflation for the next 12 to 18 months.

Nedcor economist Edward Osborne says the economy is back on track for an earlier forecast of a one percent GDP increase for the year.

"The sharp drop in mining was disappointing, but gold production slipped back in the third quarter by about 5 percent on an annualised basis."

Osborne sees the declining PPI inflation rate as heavly influenced by declining food prices following the sharp increases last year in the wake of the drought.

Old Mutual's Dave Mohr says the major surprise has been "non farm" GDP.

"This provides evidence of a wider-spread recovery than anticipated up to now.

Mohr is forecasting overall growth of one percent for 1993, rising to 2 percent or more in 1994.

Govt defends spending growth

(49) CT 12/11/93

From GRETA STEYN

JOHANNESBURG. — Government is sticking to its guns that its deficit will not exceed budgeted targets despite a surge in spending in October and a below budget increase in revenue.

In a statement yesterday, Finance director-general Estian Calitz said Exchequer issues rose 15% in the first seven months of the fiscal year, against a budgeted 8,8%.

However, the amount included "extraordinarily high" issues of R2bn-R3bn to departments as advances for expenditures within their budgeted allocations for the rest of the year. He said Exchequer issues were not a reliable indication of actual expenditure as they did not represent funds actually spent.

The State Expenditure Department was satisfied control measures were in place to ensure expenditures would not result in a higher budget deficit. A more comprehensive picture of the pattern in expenditures for the 1993/94 year would be available when the "adjustment budget" was presented to Parliament this month.

The rate of increase in Exchequer receipts continued to rise but, at 15,1% for the seven months to October, had not yet reached the budgeted increase of 17,3%.

Turnaround in manufacturing

SA on track for growth as GDP surges

BDay 12/11/93

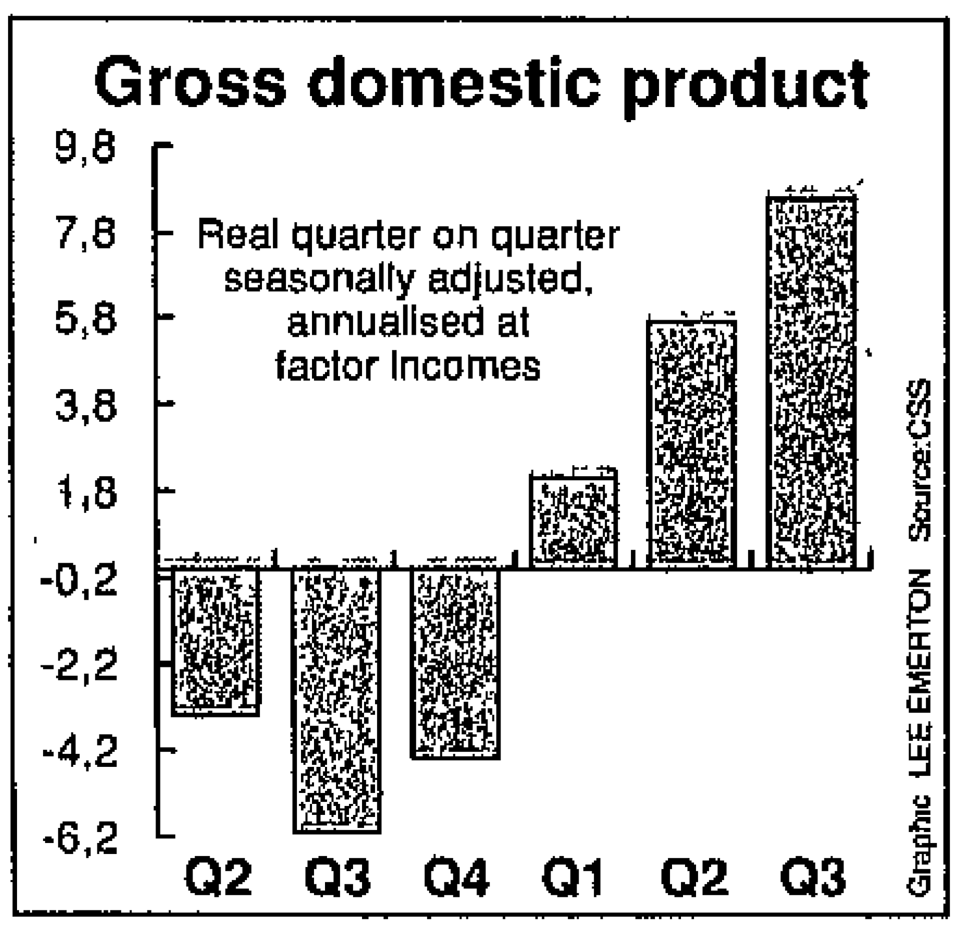
KELVIN BROWN

IN A strong signal that the economic recovery was becoming more firmly entrenched, gross domestic product (GDP) rocketed more than 8% in the third quarter from the 5,7% recorded in the second quarter. (L49)

The figure surprised economists who had forecast a growth rate of about 2%. They said SA could expect the first positive annual growth rate in three years.

Figures released by the Central Statistical Service (CSS) yesterday showed that the strongest recovery outside the agricultural sector was in manufacturing, which grew 5,5% in the three months to September after shrinking -0,2% the previous quarter. The figures are measured at factor incomes and are at real seasonally adjusted annualised rates.

A return to more normal agricultural conditions remained an important factor behind the latest figures. The agricultural sector grew 196% in the third quarter after rising 236% in the second quarter.



Growth in the non-agricultural sector surged to 2% from a revised 0,1% in the second quarter. The CSS said this was the first significant growth rate in the non-agricultural sector — with the exception of insignificant growth rates in the first two quarters — after declining continuously since the first quarter of 1991.

Sanlam senior economist Pieter Calitz said: "These are the kind of figures one would expect only from the economies of East Asia."

It was now safe to assume that the cyclical downturn of the past three years had ended. "The future looks much brighter than it did at the end of the previous quarter." But he estimated that the rise in GDP would not be as high in the fourth quarter, as production in the agricultural sector had returned to pre-drought levels.

Calitz predicted that the recovery would be slow and sluggish. Political uncertainty and heightened political tensions in the run-up to elections would prevent any large pick-up in investment and spending levels. The country could also not expect a strong growth in exports next year as the economies of Japan and Germany had not yet recovered, while the economies of SA's other major trading partners were improving at a slow pace.

Nedbank chief economist Edward Osborn said that, although the return to more normal agricultural conditions was the main reason for the good figures, it was encouraging to see a recovery in the non-agricultural sector.

☐ To Page 2

GDP

BDay 12/11/93

☐ From Page 1

But he was surprised to see the mining sector slump 1% after growing more than 2% in the first half. This appeared to be due to a fall in gold production. (L49)

SA was on track for a 0,6%-0,9% rise in GDP for the year. "It would not be difficult to achieve these growth rates. Even if there was zero growth in the last quarter, the economy would still rise 0,6%."

Standard Bank chief economist Nico Czypionka said individuals still had to feel the effect of the recovery. Consumer spending would not improve dramatically until employment levels picked up.

SA was also unlikely to see a growth rate higher than 1,6% next year as the effect of the turnaround in the agricultural sector would no longer be a factor.

The economy could not expect much help from the international front as political uncertainty would prevent any large pick-up in foreign investment.

Growth in non-farming sector heartens economists

By MAGGIE ROWLEY (49)

Deputy Business Editor

ct 12/11/93

THE third quarter's 2% growth in the non-farming sector — the highest quarterly growth in this sector for almost five years, was one of the most heartening indicators of the economy having turned, says Old Mutual economist Terence Moll.

Moll pointed out that the strength of the increase was deceptive due to the weak performance of this sector in the second quarter when it registered a 0,1% improvement in the wake of the Hani assassination and strike action.

However, it was still a "significant" increase over the first quarter's 0,5% growth and the continuous quarterly declines registered since the first quarter of 1991.

He said the excellent GDP figures confirmed other recent positive data, including the surge in new car sales, real retail sales "not being too bad" and a significant pick up in industrial production.

In addition, recent company results indicated a much improved situation: "Although no one has noticed it because the recovery has been so slow, it is possible that in retrospect the Reserve Bank may very well pinpoint December 1992 as having been the end of the recession."

The turnaround in the non-farming sector was driven by strong growth rates in manufacturing, which rose by 5,5% after registering a 0,2% decline in the previous quarter; electricity which was up 5,5% and transport which grew by 5,4%.

Other sectors, bar mining and construction which contracted by 2% and 2,8% respectively, also showed some positive growth.

September's favourable PPI figures also released by CSS yesterday follow a 0,5% month on month rise in August.

Economists said that the 0,2% month on month increase (5,9% year on year) in the locally produced component was particularly encouraging and showed domestic producers were trying to keep costs down. This should lead to further reductions in inflation, which should average around 7,5% next year, says Sanlam chief economist Johan Louw.

The 0,3% decline in the imported component in September (an increase of 3,8% year on year) against a rise of 0,3% in August (4,5% year on year) had been expected and was partly due to the lower oil prices and a more stable rand.

Moll warned however that this could be the last month of a decline in PPI due to an expected rise in the imported inflation component.

FM 12/11/93

Between perception and reality

If reviews by bank and other economists were any guide, you would think we were already in a boom. The flood of pessimism that characterised most commentators earlier this year has been replaced by an equally pervasive optimism.

Yet in annual report after annual report, company chairmen have been at best guarded in their projections for the current year (which now generally extends to next June). The immediate future is "uncertain" or "clouded by political uncertainty" and for every profitable turnaround, like Rainbow Chicken, there is an OK Bazaars. (49)

Sacob itself this week projected a 2,2% decline in the Christmas retail trade — which will also affect the manufacturers who supply that trade. True, that's better than last year's 4,9% decline, but it's a funny sort of recovery.

There is still no hard evidence that real recovery has extended much beyond the primary mining and agricultural sectors — and there thanks to George Soros and Jupiter Pluvius rather than Chris Stals and Derek Keys. The slow rate of money supply growth also, sadly, attests to the slackness of the economy rather than financial discipline.

Of course, in part it's just a reflection of the herd instinct. In economic analysis, as in so many areas of life, it can be more comfortable to be wrong with the majority.

And given that turning points are always more difficult to predict (and rarer) than continuations of an existing trend, it may well be that the change in perception is more significant than arguments whether next year's GDP will grow by 0,5%, 1% or even 1,5% — especially given statistical error.

The fact is that what businessmen hate most is uncertainty and you have to be an Anglo American or a Gencor to be prepared to consider major investment while the shape and philosophy of the government that will be in place after April 27 are so uncertain. Much as the ANC may protest its conversion to the free market, business is not convinced. The Merg document (see page 33) may be a draft, has already been repudiated in part by the ANC and could change much before its public release next month, but it displays a touching surviving belief in the merits of a centrally directed economy that won't encourage local or foreign investors.

Confidence is a fragile blossom. All we've had so far is a tentative revival in confidence. There's a long way to go before it can be converted into new factories — and jobs. ■

1% growth marks end of recession

49 CT 12/11/93

By MAGGIE ROWLEY
Deputy Business Editor

THE country's longest recession has finally ended with the economy looking set for positive growth of around 1% this year for the first time in four years, according to economists.

They said this good news had forced them to revise their previously lower economic forecasts.

Yesterday's release of "excellent" economic data showed that Gross Domestic Product (GDP) jumped by an annualised seasonally-adjusted 8,2% in the third quarter — its third consecutive rise this year.

Although it could be some time before consumers feel it in their pockets, figures released yesterday by the Central Statistical Services (CSS) showing growth in GDP having been buoyed by significant gains in most sectors — including manufacturing — were the first solid signals that the country was now out of recession and the upswing had started.

Economic growth has been underpinned by lower production price figures for the seventh consecutive month with the Producer Price Index in September rising by only 0,2% from August and 5,5% compared to September last year.

This in turn bodes well for a further drop in inflation.

Third quarter GDP growth follows rises of 1,5% and 5,5% in the first and second quarters respectively. Both these figures have been revised upwards from provisional figures which is a sure sign the economy has turned, economists said.

Last year the economy contracted by 2,1%, by 0,4% in 1991 and 0,5% in 1990.

Among economists who have revised their economic forecasts upwards in the light of the surprise surge in GDP, are Old Mutual's Mr Terence Moll, Sanlam's Mr Johan Louw, Nedcor's Mr Edward Osborn and Mr Ockie Stuart, director of the Bureau for Economic Research in Stellenbosch.

Mr Moll and Mr Osborn both say economic growth of around 1% against previous forecasts of 0,5% is now attainable for 1993 while Mr Louw and Mr Stuart are forecasting growth "in excess" of 0,5%.

However, economists cautioned that economic growth over the next three quarters could be curtailed by consumer income remaining under pressure with wage increases being below inflation, continued weak international economies and uncertainties on the political front ahead of next year's election.

Mr Louw said for these reasons no strong improvement in the economy could be expected before the second half of next year but he forecast GDP growth of 1,5% to 2% for 1994.

According to the CSS, a continued increase in agricultural production was registered in the third quarter. Real agricultural production grew at an annualised rate of 196% against 235,9% in the previous quarter and 53,9% in the first quarter of 1993.

● Non-farming sector growth — Page 11

Report warns of spending shock

S Times

By CIARAN RYAN

A DRAFT World Bank report puts the cost of funding the backlog of services in black townships at between 4% and 8% of GDP. 14/11/93

The shock to the revenue and expenditure base of the four major cities is such that upgrading will need to occur over a lengthy period, says the report, entitled Financing the Metropolitan Areas of SA.

"Even with such phasing, the investments may not be possible without access to capital markets, prioritisation of existing expenditures and increases in revenues from both the black communities and white local authorities," says the World Bank.

"The ability of SA to create non-racial governments, reduce poverty and sustain economic development will hinge on the successful integration of the racially divided cities."

(49)

Cities will play an important role in redistribution and poverty alleviation through amalgamation of white and black towns. The unified cities must be underpinned by an equitable tax system and transitional arrangements for local government must not undermine the economic foundations of the cities.

While white cities have a strong fiscal base and a high standard of urban infrastructure, black local authorities have a weak tax base and a poor urban infrastructure dependent on Regional Service Council transfers to finance basic services. The causes of under-funding in black areas are low incomes, poorly-defined property rights and the difficulty in enforcing rent and service payments.

The Bank says because the formal sector is located in white areas, fiscal resources will have to transferred back to black communities. This will be partially achieved by redrawing boundaries and merging municipalities.

The narrow redrawing of municipal boundaries would not provide a sustainable fiscal base for the enlarged cities and would encourage migration from higher to lower taxed areas.

The time to spend has come

S/Times (Buss)

14/11/93

By TERRY BETTY

INVESTMENT is urgently needed if the momentum of economic growth is to be maintained, say industrialists and economists.

The economic growth recorded for the third quarter — which confirmed the end of the longest recession this century and led to an uptick in manufacturing activity — has set the platform for further growth.

But business must now invest, train, expand and export, says Sankorp chief executive Marinus Daling.

Growth is likely to continue at a slower pace after the impressive 8,2% rise in GDP in the third quarter as 5% of it was from agricultural activity returning to pre-drought levels.

Instead of waiting for a political settlement business must act now, says Nedcor chief executive Richard Laubscher. "Investment must come from South African companies — we cannot wait for foreigners to do it for us."

The strong surge in GDP follows other encouraging economic signals in the past few weeks. Producer inflation for September slowed to a 21-year low of 5,5%, retail or consumer inflation fell to a 20-year low of 9,1%, and the Bank rate was reduced to a five-year low of 12%.

The Reserve Bank is heartened by the positive indicators, but cautions that the poor balance of payments is still a growth constraint.

"The Bank would like to do its bit for the recovery, but does not have the room to do so," says Reserve Bank deputy governor Jaap Meijer.

"Especially encouraging is that the economy is sticking to a typical business cycle, instead of allowing itself to be derailed by social and political problems and future uncertainties."

Now is the time to get real restructuring under way, says Frankel, Pollak, Vinderine economist Mike Brown.

While the recovery will be slow, the economy will not "overheat and hit the wall", as is happening in some east Asian economies.

With low growth in money supply, inflation under control and a sizeable surplus on the current account the economy has room to grow. Excess capacity and unemployment means the economy will not be held back.

The corporate sector has the cash to invest, says Old Mutual economist Dave Mohr.

"Companies which have survived the last four years have become lean and mean, and have stronger balance sheets than at the end of the last recession."

(49)

Econometrix economist Tony Twine says the business sector will have to learn how to operate without running to the authorities every five minutes to get laws enacted to protect them.

"Business must learn to swim in a bigger ocean than our puddle, because a highly protected economic upswing will be short-lived."

But the challenge also lies with a future government. Mr Twine says a new government will have to temper political ideology with economic reality.

"It is easy in the short term to let ideology run away by paying the voters with huge fiscal deficits or overtaxing the productive sector to give handouts to the unproductive sector.

Although the foreign community is rooting for SA, and has a desire to see it succeed, they will not invest until SA business shows faith in its own country, says Mr Laubscher.

"The collective psyche has to start moving into the positive mode, and a couple of things suggest this is happening — we have received outstanding international recognition for our political progress, negotiations are proceeding well and the economy is starting to move in the right direction. The pain business has gone through will produce sustained economic growth."

'Enough to satisfy SA's creditors'

Govt plans for major cut in Budget deficit

B/Day 15/11/93

GRETA STEYN

A CUT in the Budget deficit to 6% of GDP from the present 7% was feasible in the next fiscal year, Finance director-general Estian Calitz said yesterday. (49)

Speaking in an interview, he said a larger reduction in the deficit did not appear to be possible.

The whole budgetary planning process was geared towards significant cuts in current expenditure, he said.

These cuts would be in line with Finance Minister Derek Keys's announcement earlier this year that R5bn could be saved over two fiscal years in current expenditure.

Economists said a reduction in the deficit to 6% of GDP translated into a R3bn-R4bn cut — enough to satisfy SA's international creditors that the country was moving in the right direction, Calitz said. It was a difficult move in the first year of democratic government.

These calculations would be available once the finance subcouncil of the Transitional Executive Council was in place, he said. The next government would therefore have them as a basis for preparing its first Budget.

The present government would, however, have to communicate to the financial markets a projected and provisional borrowing requirement at the beginning of the next fiscal year, as borrowing would have to begin months before the new government was able to draw up a new Budget.

The Finance Department had also been studying the fiscal effects of lifting import surcharges, as required by GATT

The international trade watchdog had given the country until the middle of next year for its next report-back on the feasibility of such a move.

Studies showed that the abolition of surcharges would be equivalent to a one percentage point increase in VAT.

Issues such as these would have to be discussed by the TEC subcouncil and "certainly by the next government".

A new government would also look at the balance of payments implications of scrapping surcharges, especially when the economic upswing gained momentum and imports started rising rapidly.

Drawing up next year's Budget would be more complicated because regional governments would get more functions and a greater slice of revenue.

However, SA had a "window of opportunity" to follow a zero-based approach to budgeting rather than automatically increasing existing expenditures.

Although it was possible to raise customs and excise duties and the VAT rate without a Budget, the present calculations of budgetary figures for 1994/95 were on a "no-policy-changes" basis — assuming all existing tax rates remained the same in projecting revenue totals for next year.

He was confident that this year's revenue would be close to the budgeted totals. He said concern that company taxes would fall short appeared unfounded.

In addition, revenue from VAT, customs and excise and the gold mines was running above budget.

High economic growth forecast

B/Day 15/11/93

CAPE TOWN — The economic growth rate could shoot to more than 3% in 1994 if political conditions were favourable, Boland Bank economist Louis Fourie said at the bank's annual economic conference at the weekend.

In the absence of such a "surprisingly favourable" political environment, Fourie forecast a growth rate of about 2,5%. This would be generated mainly by a turnaround in fixed investment and more favourable external circumstances.

Fourie did not foresee a depreciation in the average value of the rand of more than 7% over the next year and forecast a rand/dollar exchange rate of R3,50 by the end of 1994. Inflation should be between 7% and 9%.

Were the pressure on SA's foreign exchange reserves to ease, then Bank Rate could fall by a percentage point in the period before the election and by a further percentage point within months thereafter.

The correction in industrial shares over the past two years left room for price rises this year, a view supported by indications that the bull market in foreign share markets had not yet reached its end.

Afrikaanse Handelinstituut economist Nick Barnardt identified the two major economic challenges facing SA for the rest of the decade as being higher economic growth through a dramatic improvement in international competitiveness and wideranging domestic socio-economic development and redistribution of wealth.

Barnardt believed that the

LINDA ENSOR

medium-term economic strategy should focus on the existence of international opportunities, strong internal financial discipline and low inflation. He believed that consensus-seeking economic and development forums would play an important role in the economy for the rest of the decade.

(49)

Inequalities would be reduced with the emphasis on socio-economic upliftment and development. And although unemployment would rise at a slower rate, the numbers without jobs would remain high.

Political consultant Jan du Plessis said there were two dominant tendencies in the political process, fragmentation and disintegration.

He noted that political dialogue had become more fragmented as more participants and more opportunities for differences came to the fore. Du Plessis forecast that the process of fragmentation would persist for many years. However, this did not need to be detrimental for SA as it would lead to a devolution of powers, participation in decision-making and accountability.

He warned that the danger of future instability lay not in the process of fragmentation, but in disintegration which would make it impossible for government to exercise its powers.

Du Plessis advised that to survive SA would have to move quickly from the expected settlement between the political groups to the management of a disintegrating community.

Budget deficit cut to 6% of GDP 'in reach'

(49) CT 15/11/93

Own Correspondent

JOHANNESBURG. — A cut in the budget deficit to 6% of GDP from the present 7% was feasible in the next fiscal year, Finance director-general Estian Calitz said yesterday.

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Drawing up next year's Budget would be more complicated because of regional governments.

However, SA had a "window of opportunity" to follow a zero-based approach to budgeting rather than automatically increasing existing expenditures.

Financial discipline means the latest upturn is sustainable

BiDay 15/11/93

SIMON WILLSON

(49)

WHEN SA's GDP jumps by the margin reported last week for third-quarter output, it has usually been a tell-tale sign of incipient overheating and a discouraging portent of severe monetary tightening.

Some hearts may therefore have sunk at the 8,2% quarterly annualised rise in GDP in the September quarter and at the upward revision, from an initial 5,1% to 5,5%, to the rise in second-quarter GDP. This follows the 4,3% fall in GDP in the fourth quarter of last year and the modest 1,4% rise in the three months to March.

Several past upturns have been doomed from the start to abrupt and brutal termination in a regularly enacted pastiche of the classic stop-go, boom-bust, peak-trough economic cycle that has so disrupted the SA economy in recent decades.

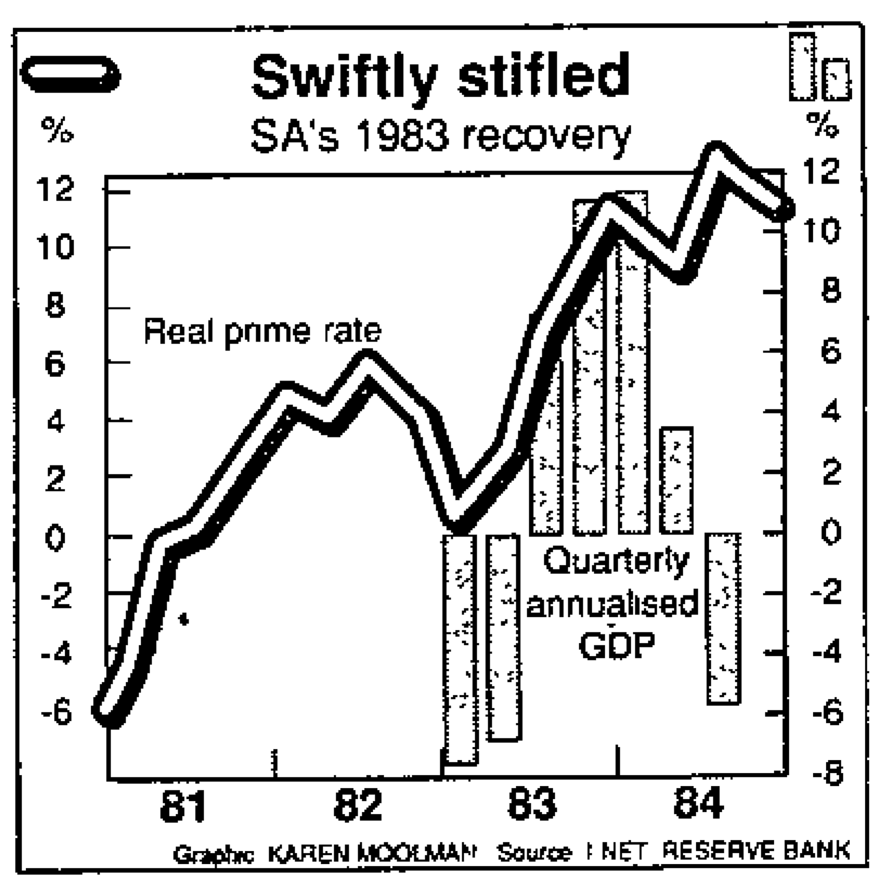
The third-quarter surge in GDP is the biggest in nearly 10 years, since the double-digit quarterly GDP leaps at the end of 1983 and the beginning of 1984. Memories of what followed the 1983-84 acceleration in output growth may be prompting a sense of foreboding and a concern that it is all about to happen again.

But the economy's financial circumstances are very different now from the way they were a decade ago. It is this difference that gives ample hope that the current sharp increase in the growth rate is not a harbinger of the bad old days when economic policy seemed to consist of alternately standing hard on the accelerator and hard on the brakes.

The essential asset the economy now has that it lacked 10 years ago is a rising degree of financial stability. The authorities' dogged pursuit of medium-term monetary objectives during the past five years has produced an almost unrecognisable docility among previously rogue financial indicators.

The first chart shows the volatile financial background to the last cyclical upswing to feature quarterly rises in GDP of more than 8%. Hugely negative real interest rates in the early '80s stoked up a roaring furnace of demand. Monetary policy was tightened as the recovery became a veritable conflagration, but from such a loose and expansionary starting point that real rates were barely positive as quarterly GDP growth topped 7% in the September quarter of 1983 and burst into double figures in the three months to December and the following quarter.

Within 12 months the current account veered from a surplus of R1,5bn in the second quarter of 1983 to a deficit of R3bn in the first quarter of 1984. The effective exchange rate of the rand slumped by 15% and its dollar value by 19% in the three months to September 1984. The savings ratio collapsed from 11% in 1980 to -1% in the second quarter of 1984.



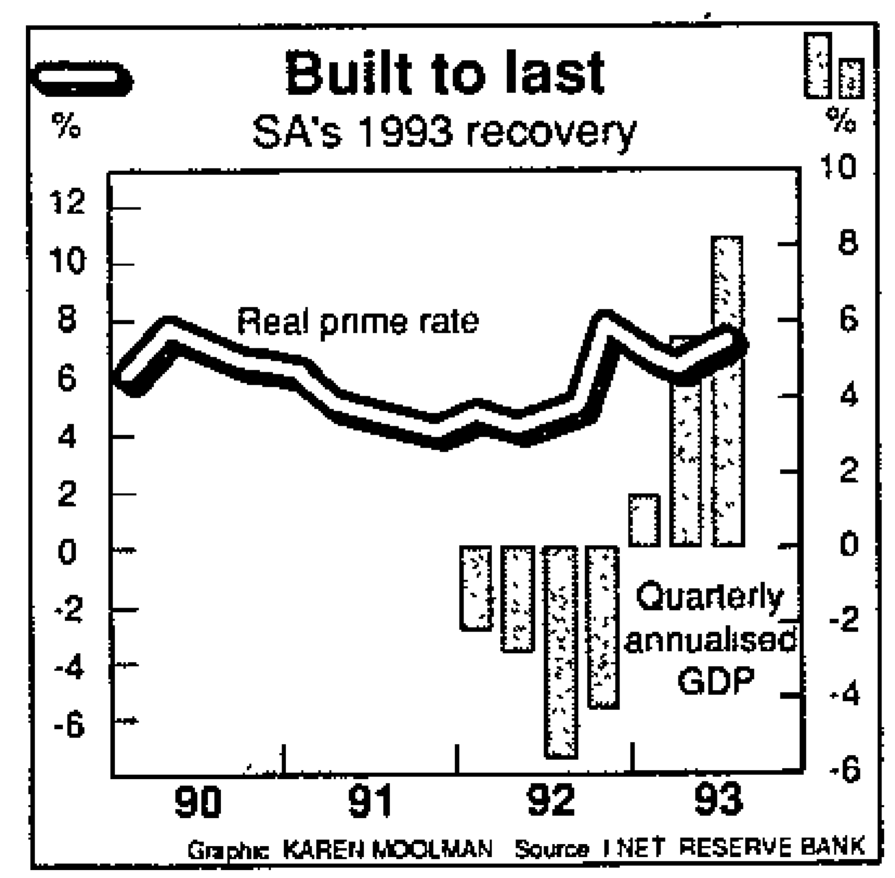
The prime overdraft rate doubled to 20% in the year to March 1982, dropped to 14% a year later and skyrocketed from 14% to 25% in the 14 months to August 1984.

By today's standards this was roulette-wheel monetary policy which made purposeful nonsense of any kind of investment planning and budgeting. At 14 months long, the 1983-84 recovery was the briefest in 25 years as the authorities rushed to choke off the burgeoning demand that had been generated by the negative real rates in the preceding two years. Ad hoc credit policies produced a coconut-shy economy of hit-and-miss growth that eventually imploded into the chaos and dereliction of the mid-'80s.

This was the Dante-esque vision that may have swum before the eyes of 1983-84 veterans last week when they beheld the 8,2% third-quarter GDP outturn.

But the restoration, during the intervening period, of a large measure of basic financial stability to the economy has given the 1993 recovery an image entirely different from the fickle and wayward features of the 1983 version. The contrast is visible initially in the second chart, which depicts a smooth and gradual restoration of growth after the 1989-93 recession — SA's longest postwar downturn.

The most notable feature of the second chart is a real interest rate profile for 1990-93 that, by comparison with its 1981-84 predecessor, is so featureless as to be positively dull. But the chart's relative uniformity is a by-product of the markedly greater financial stability that prevails as the current upswing gathers momentum. And when it comes to investment and budgeting, dullness and uniformity in the financial system are often viewed as assets.



Real interest rates have been solidly positive for the past six years, offering no quick fix to the 1989-93 recession but making it feasible that the recovery, now that it seems to have arrived, could be moderate and sustainable. Neither the election of 1989 nor last year's referendum evoked any premature relaxation in the monetary stance, unlike the easier credit policies that hastily preceded the election and referendum of the early '80s.

Part of the limited financial instability that remains can be linked to the effects of the 1991-92 drought, which had adverse consequences for inflation and the balance of payments. Similarly, part of the magnitude of the growth rebounds in the June and September quarters can also be traced back to the impact on earlier output of the drought-induced collapse of agricultural production that is now unwinding.

But the relentless discipline of positive real interest rates has driven inflation, however measured, down to its lowest level for a generation. Expansion of the monetary aggregates remains within the scope of the increase in nominal GDP and is therefore inherently non-inflationary. And the Reserve Bank is safely — and is soon to be constitutionally — installed as an autonomous superintendent of the level of interest rates and of the exchange rate.

These facets of financial stability are so alien to the circumstances that surrounded the 1983 recovery as to make the 1993 upswing totally different in origin and character. For once there is good reason not to blanch at a quarterly GDP growth rate of more than 8%, and to celebrate instead.

Keys drafting Budget for new government

TIM COHEN

FINANCE Minister Derek Keys celebrated the recovering economy yesterday, predicting government revenue would exceed budgeted spending and a real GDP growth of 1% this year, but he also underlined the desperate need for more jobs. B/Day

He said a full Budget was being prepared even though there were no plans for a parliamentary sitting next March.

He also welcomed the ANC's move to distance itself from the Macro Economic Research Group's (Merg) report, expected to be released soon. 16/11/93

Listing government's achievements during the "De Klerk era", Keys said fiscal integrity had been restored with independent predictions that government income would amount to R90bn compared with a budgeted expenditure of R89bn. (119)

This compared with the 1991/92 Budget in which spending of R84bn was recorded against a R76bn Budget, which was the major reason why SA's deficit had shot up.

The predicted real GDP growth of 1% this year followed a seasonally adjusted and annualised 4%-5% rise in GDP in the fourth quarter.

Keys said he was hoping to present a "totally complete" Budget to the Transitional Executive Committee's finance subcouncil before the elections. This would determine spending patterns at least until it came before the new government, probably in August, and he hoped it would be attractive enough to be largely accepted by the new government.

Despite many improvements, SA shared the problems of Western nations, primarily the lack of jobs for new job seekers. "Unless a country achieves its social objectives, whatever economic policy it follows is not valid. The social objective of this country has to be job creation."

On economic relations in the new regime, Keys said government had made it clear that the Normative Economic Model was not SA's economic policy. "It is advice we get from government economists. I am very happy to see the ANC taking exactly the same line as far as Merg is concerned."

Reuter reported that Keys said he envis-

☐ To Page 2

Keys

B/Day 16/11/93

☐ From Page 1

aged a drop in the Budget deficit before borrowing for the fiscal year starting in April to 6% of GDP from 6,8%. This would be realised through government spending cuts and economic growth. (119)

"There are no new taxes in that."

He said one could deduce an underlying Budget deficit of 3,7% by deducting 2,3 percentage points from the expected overall shortfall for pension fund allocations which distorted comparisons with budgetary provisions elsewhere.

Asked what economic growth assumption such predictions were based on next year, he said: "It would be fairly moderate at around 1,5%."

There was room for a further interest rate cut if reserves continued growing, but he would not be drawn on its timing

SA Budget 'will balance'

(49) CT 16/11/93

FINANCE Minister Mr Derek Keys predicted yesterday that government revenue would exceed budgeted spending in the coming year.

He also predicted a real GDP growth of 1% this year, but underlined the desperate need for more jobs.

He said a "totally complete" Budget was being prepared for consideration by the Transitional Executive Council's finance sub-council before April 27

The Budget would determine spending patterns at least until an elected government considered it, probably next August.

Mr Keys said that during the "De Klerk era", fiscal integrity had been restored. He cited independent predictions that government income would grow to R90bn compared with a budgeted expenditure of R89bn.

He said that in 1991/92, spending of R84bn was recorded against a R76bn Budget, which had pushed up the country's deficit.

But Mr Keys cautioned that South Africa had an acute lack of jobs for new job-seekers, saying: "The social objective of this country has to be job-creation."

Keys upbeat on economic growth

ARG 16/11/93 (49)

Political Correspondent

KRUGERSDORP. — The economy has shown positive growth for the first time in nearly two years, said finance minister Derek Keys.

Noting a continuing drop in government spending and inflation, an upbeat Mr Keys announced a 8,2 percent rise in gross domestic product (GDP) in the third quarter of the year, up from 5,5 percent in the second quarter.

But major problems remained — a 4,5 percent decline in employment, lack of jobs, decline in government revenues, increased deficits and domestic debt and weak investment.

Mr Keys said at a briefing yesterday that while high business and consumer uncertainty remained a key feature of the economy, there were many positive indicators.

In the period from 1989 to 1993, the decline in GDP had been confined to less than 4 percent, more than half of which was due to the drought.

This year, however, GDP had been on the up, increasing in the first quarter by 1,5 percent.

"It was the first time in almost two years that the economy recorded positive growth."

Growth in government spending had dropped from 5,2 percent in 1991 to 0,26 percent last year "and we have a programme to continue this".

The downward pressure on inflation — now running below 10 percent — was expected to continue.

On-going commercialisation and privatisation, promotion of small business and the informal sector and deregulation and reform of the financial sector were expected to yield positive results.

Global planning route for SA

(49) CT 16/11/93

SOUTH Africans must think and plan in global terms to overcome the constraints holding them back, Philip Spies, executive director of the Institute for Futures Research, said at the BER conference yesterday.

"A country at the development stage of SA requires high rates of economic growth. Can we realistically believe that it is possible for South Africans to turn their fortunes around?

"In my view the most dominant constraint towards a better future in this country lies in the way we plan, the way we think about the future and the way we perceive the threats and opportunities."

It was true there were obstructions to welfare, stability and development. But for each of these there was a positive side which could emerge with a switch in conditions.

"For example, the problems we are experiencing with capital outflow, currently in the region of R9bn to R10bn a year, can improve drastically with the stabilisation of conditions in SA and a return of domestic investors' confidence.

"Moreover, SA's access to the commercial capital markets of the world and the likelihood of increasing donor support over the next few years could produce a distinctly more favourable investors' climate over the short term.

"Corporate reinvestment, with the associated inflows of technology, is a distinct likelihood for the near future."

Foreign investment would have a multiplier effect on the confidence of domestic investors.

And foreign trade opportunities were "now so expansive that it is understandable that SA business, which had to function inside isolation and sanctions, will struggle to understand and fulfil the promise they hold."

Spies said that instead of being discouraged by present levels of activity in Southern African countries "we should look beyond the present towards what can be."

'Basic needs must be met'

(49) ARG 17/11/93

ALIDE DASNOIS
Business Staff

SOUTH AFRICA'S future economic policies would have to be people-friendly as well as market-friendly, Tito Mboweni of the ANC warned today.

Addressing a conference in Cape Town on taxation under a democratic government, Mr Mboweni said a future government would have to respond to the basic demands of the population — or its policies would fail.

Demands for housing, street lights, recreational facilities, electricity; telephones and jobs were often described as "unrealistic".

"On the contrary, these are basic and realistic needs which must be met if we want to a build a genuinely democratic and humane society."

Mr Mboweni said the issue of a wealth tax could not be avoided.

"This may not be the best method, but it can't be rejected without an alternative."

The question was likely to be submitted to the Financial and Fiscal Commission to be created in terms of the new constitution.

The ANC was sensitive to calls to phase out the Marketable Securities Tax — which at 1 percent was one of the four highest in the world — and to reduce the effects of income tax on the middle class.

Differentiated VAT rates were likely to be introduced, with low rates for basic foods and children's clothing, higher rates on most goods and top rates on luxury items.

The ANC was also under pressure to lower company taxes further in line with world trends.

"But we have to consider what all this implies for the revenue side of the budget," said Mr Mboweni.

ANC rejects Budget claim

LLOYD COUTTS

FINANCE Minister Derek Keys' claim that government was already preparing the 1994/95 Budget was "clearly untrue", the ANC said yesterday. B/Day

The organisation said Keys had denied himself the right to draft a budget for democracy by his past performances. 17/11/93

"The 1994/95 Budget will be the first budget of a democratic government and must therefore be prepared by the majority party in such a government. It is highly unlikely that the NP, whom Minister Keys represents, will be the majority party in such a government." (49)

The current Budget retained all the contradictions of apartheid budgeting. It gave precedence to defence over social goods like housing (the allocation for housing was only 15% of the defence allocation), the ANC said.

"In fact, the allocation to the Defence Secret Account was almost two-and-a-half times that of the total housing allocation."

Keys' praise for the gains made in the De Klerk era were ludicrous, as even a cursory examination of economic indicators would show, the ANC said.

Percentage GDP growth had gone from 2,3% in 1989 — the year President F W de Klerk took office — to -2,1% in 1992, while the projection for 1993 was -1%.

ECONOMIC OUTLOOK

FM 19/11/93

Come on summer, come on!

49

Over a decade, South Africans have become accustomed to static or falling GDP, double-digit inflation and the straitjacket of financial sanctions — with the economy blighted further by recurring droughts and a low and often falling gold price.

Now GDP is rising sharply and Finance Minister Derek Keys predicts growth of more than 4% annualised in the fourth quarter and 1% in the year. Inflation is in single digits and still falling. Sanctions have officially ended, with only formalities standing between SA and an inflow of foreign funds. Rain is falling steadily and the gold price is rising, though erratically. As a bonus, the oil price is at recent record lows and the US recovery seems to be gaining ground.

The background to many of these developments appears in other reports in *Economy*. But they need to be put in a broader perspective, to see just what the combined effect could mean for South Africans.

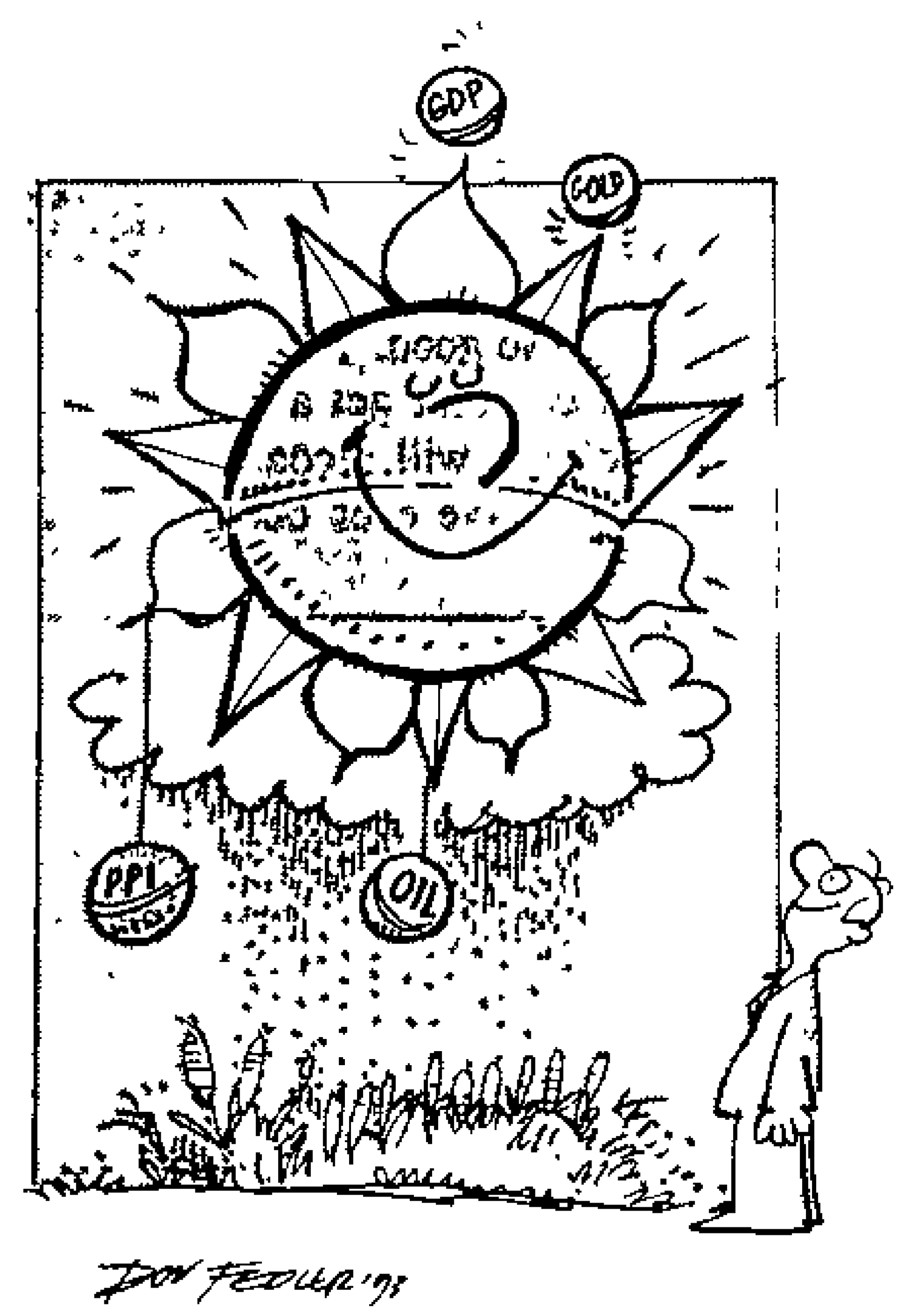
Third-quarter growth in GDP is the highest growth since the second quarter of 1984. Producer inflation, which has been in single digits for 23 consecutive months, fell to 5,5% in September — the lowest since the 4,8% in January 1972. Figures published a few weeks back showed a similar trend in consumer inflation; at 9,1% in September, it has resumed its decline after absorbing a four percentage-point increase in value added tax on most items earlier this year.

The fall in inflation allowed the Reserve Bank to reduce its official Bank rate. At 12% last month, the rate is at its lowest level since July 1988. Mortgage rates have fallen by about 25% over 30 months to the present level of 15,25%. This has increased the disposable income of consumers and cut the costs of businesses wishing to expand.

Even better, the latest move was made without any relaxation of the Bank's tight monetary policy — real rates remain steady if nominal rates fall in line with inflation. So there is no inflationary spin-off. Testimony that inflationary expecations continue to diminish comes in the fall in the rate on the benchmark government stock, the RSA150, to 12,16% this week. This level was last seen in May 1983.

The fall in long bond rates may also reflect improved sentiment about the Budget outlook for fiscal 1993/1994. Though not good, the prospects are far better than they were earlier in the year. And the budgeted deficit of R25,3bn may be overshot by "only" R1bn-R2bn. This is a major achievement after the recent record of ever bigger overshoots.

The prospects for the trade account are good. Southern Life economists Mike Daly and Sandra Gordon point out that the terms of trade — the index of export prices relative to import prices — appear to have turned up. "This indicator has traditionally led a sustained local economic upswing." The relative movement in the oil and gold prices clearly



has something to do with the improvement.

Say Daly and Gordon: "If the admittedly accident-prone IMF and OECD forecasts for the industrialised economies of 2,2% real growth next year come to pass, a modest upswing in metal and mineral prices in dollar terms can be expected."

There are some clouds on the horizon — and they won't disperse until gross gold and foreign reserves recover. There is some evidence that the steep fall in the rand has been halted by recent Reserve Bank intervention (see box). This is moderately reassuring. But what SA desperately needs is the capital inflow that will come with final confirmation of the US$850m drought-related IMF facility. And that depends on the installation of the Interim Government of National Unity.

Daly and Gordon warn there is no clear evidence the commodity price cycle has finally bottomed. "Stock levels of some key metals, such as copper, aluminium, zinc and steel are still high internationally and a robust recovery in industrial production will need to occur before these can be drawn down to any meaningful extent."

Then there are all the other caveats which have become so familiar in this time of political transition.

But the most important factor now may be psychological. After the long recession and the political stresses, many people are reluctant to be optimistic. Especially since an expected recovery in 1991 failed to materialise. Recent forecasts have been conservative and few analysts were expecting more than 2% third-quarter growth.

RAND HOLDING STEADY

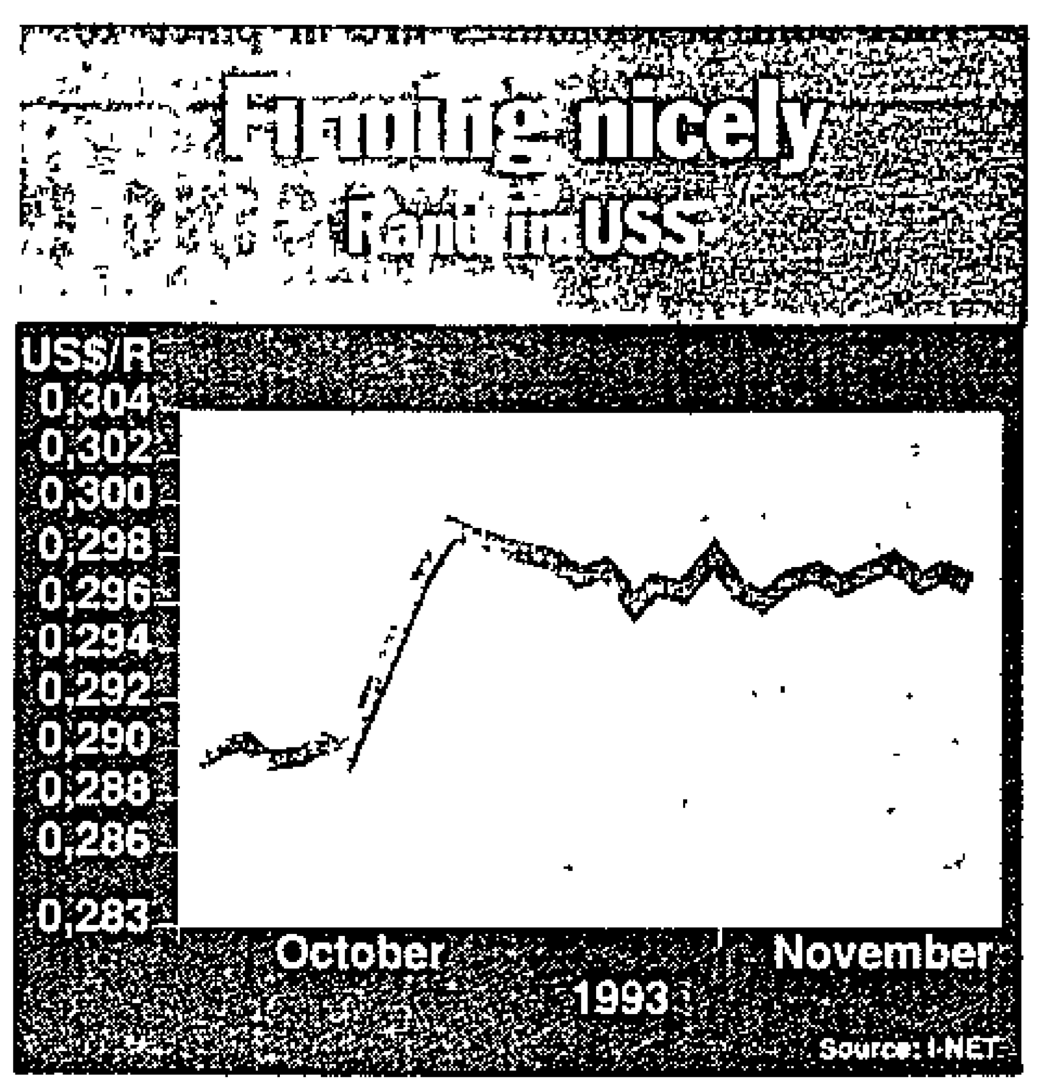
It's been a fairly smooth ride for the rand since the Reserve Bank intervened so heavily in mid-October to strengthen the unit. From a close of US$0,2924 on October 12, it rose quickly to close at $0,2975 on October 14 (see graph). On Monday this week it ended at $0,2977.

Though the Reserve Bank has remained in the foreign exchange market, it has not been operating on the scale seen in mid-October. This makes it likely the unit is fundamentally improved as leads and lags improve, capital outflows decline and the trade surplus remains healthy.

Against other currencies, the rand has fared even better. It strengthened:

- ☐ From Japanese Y30,7 on October 12 to Y31,5 on Monday this week;
- ☐ From DM0,463 to DM0,502 on Monday; and
- ☐ From £0,189 to around £0,20 on Monday.

On a trade-weighted basis, the rand gained nearly 4,5% between October 12 and Monday this week.



P.T.O.

GDP Fm 19/11/93

Yes!

Economic activity leapt nearly 2% in the third quarter, Central Statistical Service reports. With the figures seasonally adjusted and annualised, quarter-on-quarter growth was 8,2% at market prices — the highest since the 8,6% recorded in the second quarter of 1984. At factor incomes, which includes subsidies and excludes taxes, growth was 8,6%.

Both increases represent the third consecutive quarter of growth and confirm that SA's longest recession — 12 quarters in which the economy shrank, interrupted by minimal growth in the third quarter of 1991 — is over. (49)

A sectoral breakdown, provided only at factor incomes, reveals a number of developments, which promise continued and increased future growth. The breakdown:

☐ Establishes the turn in the business cycle. Nonagricultural GDP rose 2%, after growth of 0,1% and 0,5% in preceding quarters. Favourable second-quarter GDP figures were almost entirely due to improved agricultural output;

☐ Shows 5,5% growth in the manufacturing sector. This is a quarter-on-quarter rise, seasonally adjusted and annualised, as are all other quarterly GDP figures below.

The upturn in the manufacturing sector, which started with growth of 2,6% in the first quarter, seems well underway. A second-quarter decline of 0,2% was the result of the many public holidays in the second quarter, combined with work stayaways in the aftermath of the Hani assassination;

☐ Confirms strong growth in the sector electricity, gas & water — 5,5%. This is likely to continue as infrastructural projects by the public sector increase in 1994;

☐ Includes a number of favourable revisions. Total GDP growth, at factor incomes, in the first and second quarters has been revised from 1,9% and 5,4% to 2,1% and 5,7%. At market prices, they have been revised from 1,4% and 5,1% to 1,5% and 5,5%.

Manufacturing GDP in the first quarter, at factor incomes, was revised from 1,8% to 2,6%; electricity, gas & water from 3,7% and 4,8% in the

Fm 19/11/93

preceding two quarters to 4,3% and 5,6%

Second-quarter shrinkage in trade & catering has been revised down from 3,6% to 2,1%;

☐ Demonstrates the strength of the multiplier effect arising from the improvement in agriculture. The GDP of the transport sector rose 5,4% after two quarters of negative growth. This is largely due to the surge in agriculture; and

☐ Agriculture continued to perform well with growth of 196% in the third quarter, 235,9% in the second and 53,9% in the first, after massive shrinkage due to drought in 1991-1992.

More benefits are predicted for the fourth quarter. This is partly because the seasonal adjustment effectively spreads the result of an increase in production through the remaining quarters and partly because the wheat crop, to be harvested mainly in the fourth quarter, is expected to be 1,9 Mt. Though still abnormally low, it is up on the 1,3 Mt last season. (49)

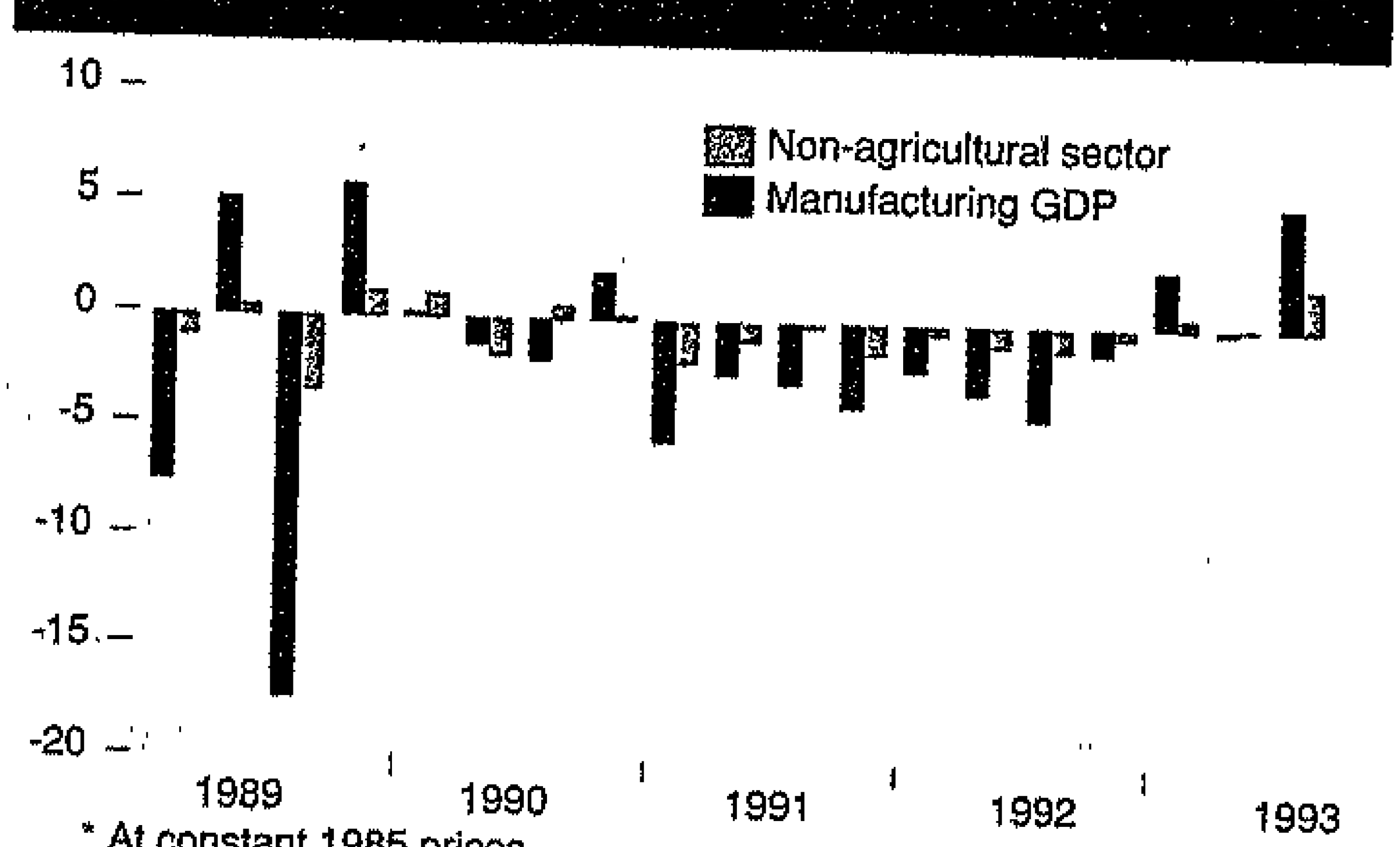
As rainfall this season promises to be even better than last summer, agriculture should continue to make a healthy contribution next year, though growth, of course, will be off a much higher base which will make percentage change less impressive; and

☐ One important sector showed shrinkage — mining with -1%. But this figure does not capture the rise in the gold price because real GDP is effectively measured in volumes. And a rising price frequently allows companies to lengthen the life of a mine by concentrating on lower grades of ore, which reduces production.

A better indication of the state of the industry comes from the Chamber of Mines which reports a 9,14% increase in gold mines' working revenue (in nominal terms) between the second and third quarters. The figure is not seasonally adjusted or annualised. As this works its way through to the rest of the economy, people will spend more on a variety of goods and services and output will increase to meet their needs. So the impact will be felt in a number of sectors. ■

Turn of the cycle

Seasonally adjusted quarterly % change at annual rates*



* At constant 1985 prices

Source CSS

Drought, low gold price hit economy

Sowetan 19/11/93

By Mzimkulu Malunga

■ FOREIGN RESERVES R9 billion decline as a result of money leaving the country:

The devastating drought and a drastic decline in the gold price has increased the pressure on the South African economy during the past few years.

According to an official document released by Finance Minister Mr Derek Keys this week, the gold price fell from $415 in 1989 to $326 in March this year.

Large amounts of money that had been leaving the country during the past seven months had resulted in a R9 billion decline in foreign reserves.

(49)

The document says "strategic" projects like the oil from gas plant, Mossgas, cost South Africa a fortune to complete. It is estimated that the Government spent R11 billion on that operation.

Mass action and continued political uncertainty are also blamed by the report as having worsened South Africa's economic problems.

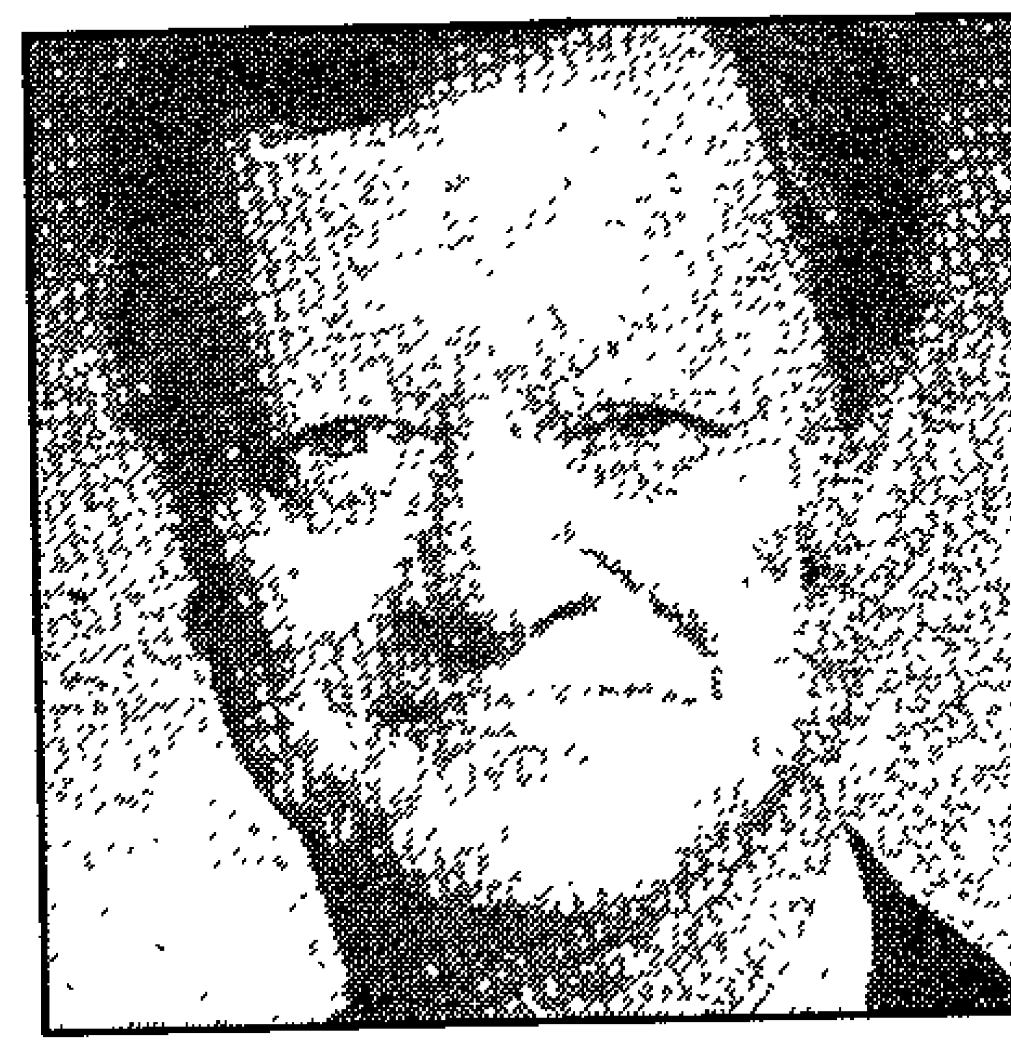
However, there had been a number of positive developments in the economy between 1989 and this year.

Economic decline was confined to less than four percent during those four years and for the first time since the recession, the economy started showing signs of recovery early this year.

Good rains which followed the drought have boosted confidence in the agricultural sector.

Also, the Reserve Bank's the long battle against price increases, through its stern money supply policy, have begun paying off as the inflation rate is now less than ten percent.

On the international front, the country's debt has reduced by R4,5 billion while relations have normalised with the International Monetary Fund, World Bank and the General Agreement on Tariffs and Trade.



Derek Keys

SA has net capital outflow of R7bn

74 (49) CT 19/11/93

By BARRY STREEK
Political Staff

SOUTH AFRICA has a net capital outflow of R7 billion a year at present

This was disclosed yesterday by Dr Japie Jacobs, special economics adviser to the Minister of Finance

He said the net capital outflow amounted to two percent of the gross domestic product (GDP) — currently estimated to be R350 billion a year

A further three percent of GDP — R10,5bn — was being lost in "dissaving" in the public sector — additional money borrowed to pay for the public sector.

Dr Jacobs' figures show that R17,5 billion could be available for socio-economic development if the net capital outflow and dissaving in the public sector were ended

Dr Jacobs said at a workshop at the Strand on Economic Structural Adjustment Programmes and the role of the International Monetary Fund, organised by the Centre for International and Comparative Politics at Stellenbosch University, there was an 8,6% deficit before borrowing in 1992 3, including 4,5% on public sector dissaving

This had been reduced to a 6,8% deficit before borrowing and 3% on dissaving in the public sector during the current financial year

Dr Jacobs said the first step to tackle in economic restructuring was the budget deficit

A new government would inherit an economy with no growth and huge unemployment. South Africa had exported capital for 10 years and this seriously affected the ability to manage the economy

'Growth in '94 won't produce jobs'

CT 19/11/93

49

By ARI JACOBSON

THE higher economic growth expected in 1994 will not be sufficient to increase job opportunities, Sanlam chief economist Johan Louw warned.

But better news coming out of the latest Sanlam economic survey was that productivity was improving rapidly and in addition the country could look forward to further declines in inflation and interest rates next year.

Sanlam is forecasting a 2% increase in real domestic product next year, with about 1% estimated for 1993.

Louw argued that "businesses are expected to continue rationalising, which will mean even fewer jobs, so dispite somewhat better economic conditions unemployment in the formal sector will continue to increase".

Louw said that the official fiscal policy should be "mildy stimulatory" in 1994, while relief in monetary policy will be "only gradual" as foreign reserves will remain relatively low.

As for interests rates he predicted that the bank overdraft rate would be at about 14% "towards the end of 1994" because of tight monetary discipline.

On other aspects of the local economy he said that productivity had "improved strongly" with the drastic fall in average wage increases over the the last six months.

On the major focal point of inflation Louw said that this measure would increase by about 9,7% in 1993 and will fall further to a 7,5% in 1994.

"This is substantially lower than the average rate of 13,6% for the two decades up to 1992."

Exporters gear up for fight

Govt plans drastic cuts in GEIS budget

B/Day 24/11/93

GRETA STEYN

GOVERNMENT wants to slash the general export incentive scheme (GEIS) budget by hundreds of millions of rands from next year in a move inspired by the need to cut the Budget deficit.

(49)

Exporters are deeply worried about the plans and intend fighting tooth and nail to hang on to GEIS benefits. They claim government is going back on a commitment to maintain the scheme until March 31 1995.

A spokesman for Trade and Industry director-general Stef Naude yesterday confirmed a proposed reduction in GEIS expenditure was under discussion. The department had briefed representatives from the International Trade Advisory Council (a private sector advisory body consisting mainly of exporters), Sacob and the AHI. He said alternative approaches to reducing the incentives budget had been discussed. It was decided that a joint business viewpoint would be formulated and would be handed to the National Economic Forum foreign trade task group. Government was waiting for a forum response.

The forum said the task force would meet tomorrow, and GEIS was one of the issues on the agenda.

The 1993/94 Budget provided for R1,67bn of spending on GEIS while a further R337m would be spent in terms of the export incentive scheme prevailing before April 1 1990. Industry sources said government intended to cut the subsidies by about a third from the next fiscal year.

The Trade and Industry spokesman said the GEIS budget depended on the availability of funds. "Government is under pressure to keep state expenditure within certain affordable limits. This has certain implications for the level at which export incentives can be pitched in future."

Seifsa economist Michael MacDonald said exporters had not had enough advance warning of government's plans. The move would affect long-term contracts, especially where capital investment was concerned. "GEIS is built into some major projects." He said business had declined to consider any of the proposed alternatives and would oppose the move at the forum.

Safto economist Carlos Teixeira said the organisation's export confidence index showed uncertainty over GEIS was the issue of most concern to exporters.

It is understood that Trade and Industry is under pressure from State Expenditure to cut GEIS spending. Industry representatives told government it was breaking a promise, but Trade and Industry said the commitment to continue with GEIS did not extend to the amount of money allocated.

It is understood that large cuts are in the pipeline for manufactured exports, while all subsidies on beneficiated primary commodities will be removed.

The biggest beneficiaries of GEIS are large corporations in base metals, paper and pulp and food and beverages.

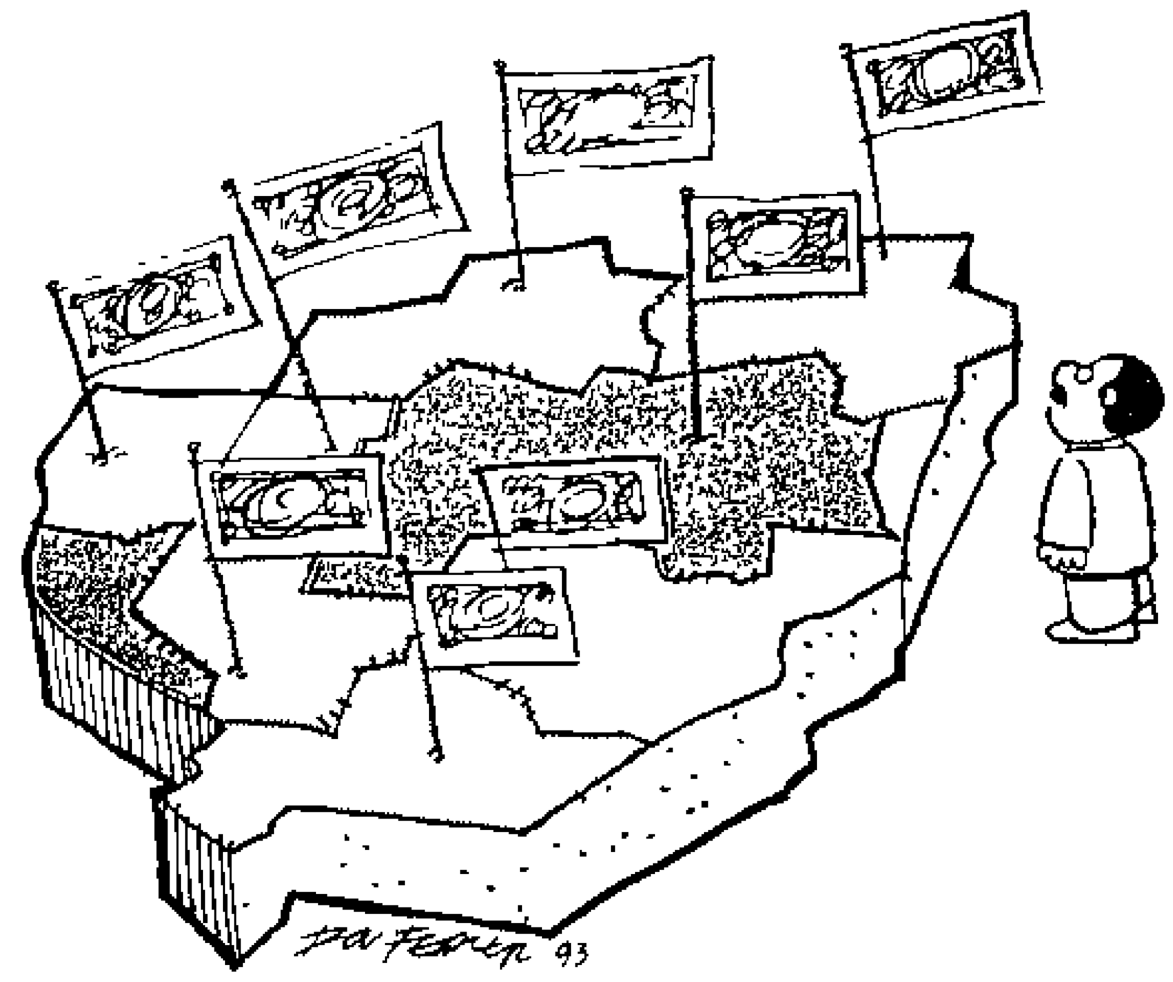
Economists said GEIS was not a cost-efficient way of stimulating exports, and had done little to encourage new exporters of manufactured goods. However, it had underpinned SA's export performance.

FINANCIAL & FISCAL COMMISSION

FM 26/11/93

Allocating the cash — federal linchpin

(49)



Whatever the framework of regional autonomy decided on by the Constitutional Court, the federal elements of the new constitution will thrive only if regions have independent access to revenue collected.

In a federal system, each regional authority has some freedom to impose its own taxes on residents and is expected to provide certain basic services. But, in SA, because of the geographical disparities in income and wealth, at least five of the nine regions will not be self-sufficient. This means powers to tax wouldn't ensure a measure of administrative independence from the central authority.

Financing regions has been a controversial issue as negotiators weighed up the principles of fiscal equalisation among regions vs fiscal responsibility by regional government. Though the need for equity has to be taken into account, regional competition on the fiscal front would be an economic stimulus and promote efficiency.

The Interim Constitution has now accepted the principle of revenue transfers from taxes collected nationally. One of its 27 principles, published last week (see *Currents*), is that each level of government "shall have a constitutional right to an equitable share of revenue collected nationally, so as to ensure (regions) are able to provide basic services and execute the functions allocated to them."

What has still to be decided is how much of nationally collected revenue will go to regions and how it is to be allocated. This job, as well as the definition of regional tax powers, has fallen to the Financial & Fiscal Commission.

Development Bank GM Deon Richter says objective decisions about allocations are vital. "Regional needs cannot be the only determinant of how allocations are made. One of the lessons experience in SA has taught us is that, unless a region has the capacity to use resources effectively, they are simply wasted. The commission can appraise this capacity without being influenced by political factors."

The commission has been appointed to "render advice and make recommendations," with no statutory powers to enforce its recommendations. But members of a Consultative Business Movement team, which investigated fiscal and financial aspects of federalism in August, believe it will have considerable influence.

The movement's team leader, Anglovaal's Clive Menell, points out that a similar advisory body in Australia has "enormous *de facto* authority."

JCI's Nick Segal believes the standing of the commission will ultimately depend on the quality of its work — "whether it is seen to be above political horse trading while operating in a highly politicised environment."

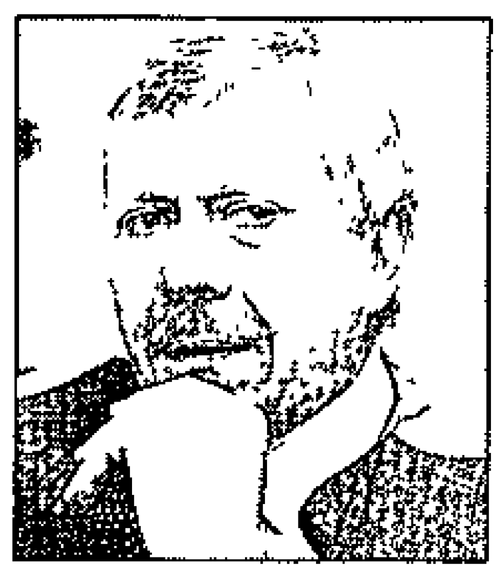
Sacob economist Ben van Rensburg says the commission's work will make or break the federal system. Anglo American group tax consultant Marius van Blerck says: "While only politicians (who are democratically accountable) should take political decisions, the commission will act as an arbiter between the centre and the provinces, between the provinces themselves and between the people and government as a whole. This fiscal honest broker role will be a critical element of the new democratic process."

In many cases, the balance of power between regions and the centre would ensure the views of the commission are not ignored.

Menell

Van Blerck

Segal



Van Rensburg

Wits University's economist Charles Simkins says the composition of the commission is designed to create this balance. Chapter 11 provides for an equal number of members to be appointed by central and provincial governments. The key posts of "chairperson and deputy chairperson, who will also be the CEO and deputy CEO of the commission's staff" will be appointed by the president, on the advice of the Cabinet, for seven years. Seven other members will then be appointed by the president and nine by provincial authorities for two years.

"While terms like equitable allocations are hard to define," says Van Blerck, "this arrangement does embrace the principle of balance between national, provincial and local issues and requirements." This is an improvement on the past fiscal arrangements, which have been dominated by the centre since Union in 1910.

One way to encourage policymakers to accept recommendations, says Neil Crafford-Lazarus, of Gencor and the Afrikaanse Handelsinstituut, would be to ensure transparency regarding the commission's recommendations. Chapter 11 doesn't specify whether these will be published. But the Development Bank's Richter suggests this is implicit in the fact that the commission will advise and make recommendations "to the relevant legislative authorities."

The commission will be appointed by the president, in terms of the interim constitution, "within 60 days of (the constitution's) coming into operation."

To promote impartiality, commission members may not hold office in any political party or organisation. It will also be an offence to influence or attempt to influence a member to act other than "fairly, impartially and independently." The person occupying the chair, and the deputy, will not be allowed to "perform remunerative work outside their official duties."

While nothing can ensure the impartiality of members, one requirement will ensure their professional suitability. It states that a member must, "by reason of his or her training and experience," have "expertise in economics, public finance, public administration, taxation, management or accountancy."

"What is not in Chapter 11," says Richter, "is provision for the horizontal and vertical co-ordination and harmonisation of financial, economic and functional management." Presumably part of the commission's work will be to propose ways in which this can be achieved. ■

NAFTA/GATT

Interest conflicts

Internationally, the consensus is that the North American Free Trade Agreement (Nafta) voted through the US House of

P.T.O →

GOVERNMENT DEBT

FM 26/11/93

Paper chase

(49)

The Exchequer Third Amendment Bill, tabled in parliament this week, will empower the Finance Minister to issue about R16bn in government stock in the current fiscal year to cover its debt to the Reserve Bank for forward cover losses, to help fund deficits in government pension funds and to create a pension fund for MPs and other political office bearers.

The Bank is owed nearly R9bn for forward cover losses but there is no provision in the Exchequer Act for government to acknowledge the debt and issue paper which does not

FM 26/11/93

entail an exchange of cash. The Bill aims to rectify the situation. The stock will be non-interest bearing but convertible to interest-bearing later.

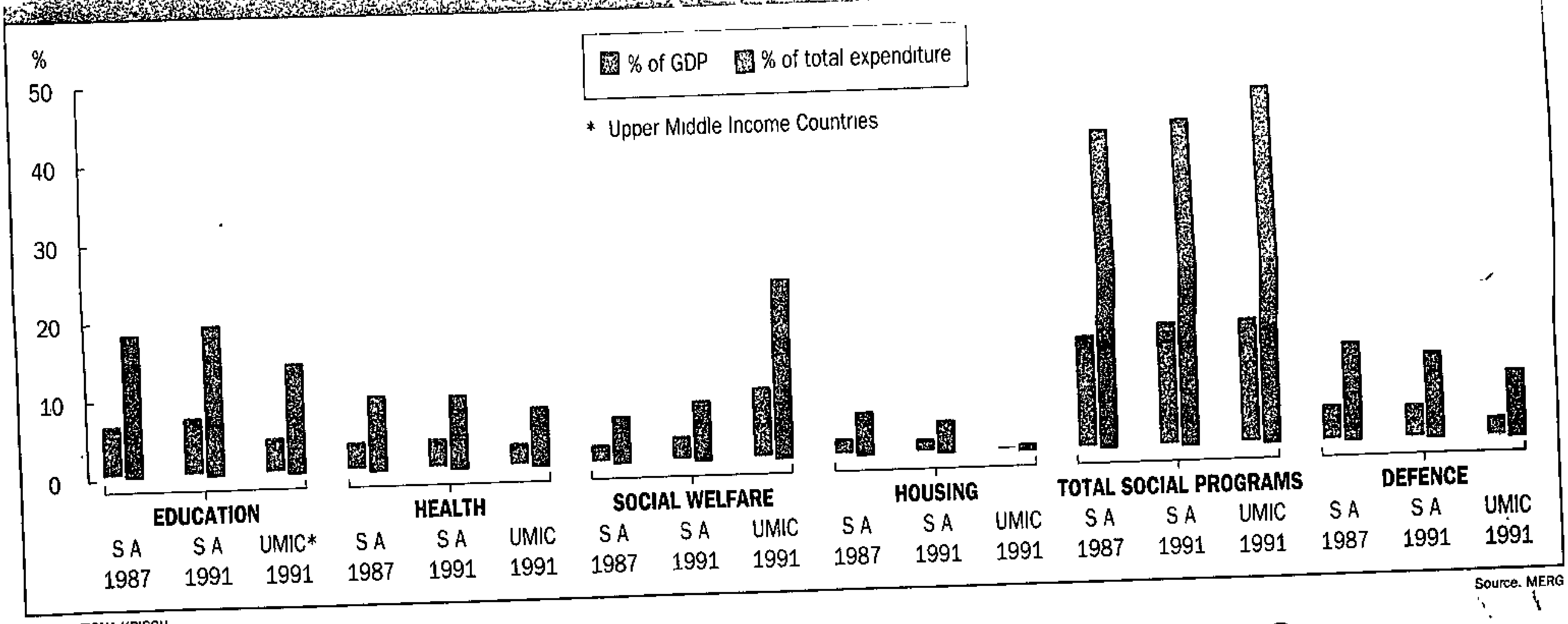
The first issue will total about R6,7bn in terms of an agreement reached by negotiators at the multiparty talks in Kempton Park.

(49)

Government debt is represented in the central bank's statement of assets and liabilities under "other assets" which, at the end of last month, stood at R13,1bn Once stock is issued, Bank "other assets" to that value will be reclassified as holdings of government securities. Initially this will be simply a book entry but, once the Bank starts selling the paper — at a discount — into the nonbank market, there will a reduction in the aggregate stock of money.

Government will use the measure to issue stock in three-year cycles to top up the shortfall below the funding target of 1% growth a year for government pension funds.

DP pensions spokesman Brian Goodall says he has reservations about the measure because it will push up public debt which is already too high. ■



Graphic FIONA KRISCH

Merg report's faint praise for wealth tax

S/Times (Buss) 28/11/93

The ANC's Macroeconomic Research Group (Merg) releases its major study, Making Democracy Work, this week. KEVIN DAVIE previews some of its findings

49

A DEMOCRATIC government should commit itself not to introduce a wealth tax during its first term.

Merg, made up of foreign-based economists and 13 SA research teams, says wealth taxes rarely raise much revenue.

Agencies from Australia, Canada, Sweden, the Netherlands, the EC and the UK provided funding for the 11-month study, the most detailed undertaken for the ANC to date.

Merg's 365-page report says the desirability and feasibilty of a reconstruction levy should be investigated.

"Germany after the war is usually given as an example of such a tax (but) there are many differences between Germany in 1950 and SA (now), one of which is that SA total tax revenue as a share of GDP is significantly higher than Germany at the time.

"The absence of a tax on capital gains and the weak taxes on capital transfers means that the rich can escape taxation on a large part of their income.

"A democratic government must commit itself to introducing capital gains tax. If phased in over ten years, this tax would generate revenue of R5-billion or 1% of GDP when fully implemented by 2003.

"The tax should be fully implemented in a much shorter time."

Merg says the SA government has increased personal tax to a share of GDP (8,7% in 1987) which far outstrips all comparable upper- and middle-income developing countries (UMICs).

Zimbabwe is the only country with a similar share, although SA has now overtaken Zimbabwe with a share of 11,5% in 1992.

Personal tax should initially be kept at more or less its current share of GDP (11,4%) and then gradually be reduced to 9% of GDP as the economy moves onto a sustained growth path.

VAT should be increased by up to 30% on luxury items (phased in over a few years). This will increase VAT revenue to about 9% of GDP from its 1993 proportion of 7,5%, raising an extra R105-billion over a 10-year period.

Political transformation will make it possible to achieve economic growth and to set realistic goals for improved living standards and economic security for all South Africans, especially the most disadvantaged.

The new economy can be achieved. "What is required is effective State intervention, a vigorous private sector, the active involvement of women and men in all spheres of society and a carefully designed, implementable and well-supported macroeconomic strategy for transition."

The State should be efficient and not absorb a high level of resources for its own functioning. "Unlike the present SA State, it should be a slim State, disciplined by mechanisms which provide incentives for efficiency."

If the private sector is prepared to co-operate with the State it "will reap handsome rewards within a relatively short period of time".

The establishment of a realistic statutory minimum wage, set initially at two-thirds of the minimum living level, is recommended. "Such a policy will have positive consequences.

'The primary aim of the minimum wage is not to achieve a rapid rise in general wages, but to improve the wages and productivity of the lowest paid members of the workforce, say the bottom 10% of earners."

Government expenditure should be contained at roughly its present level in real terms during the 1990s. Moderate growth in tax revenue should be achieved through changes in the composition of tax revenue.

The realisation of Merg objectives will be impossible without prudent and risk-averse fiscal, monetary and balance-of-payments management.

"Sound policies should ensure sustainability and increased capacity to deliver social goods and will facilitate rather than constrain the development."

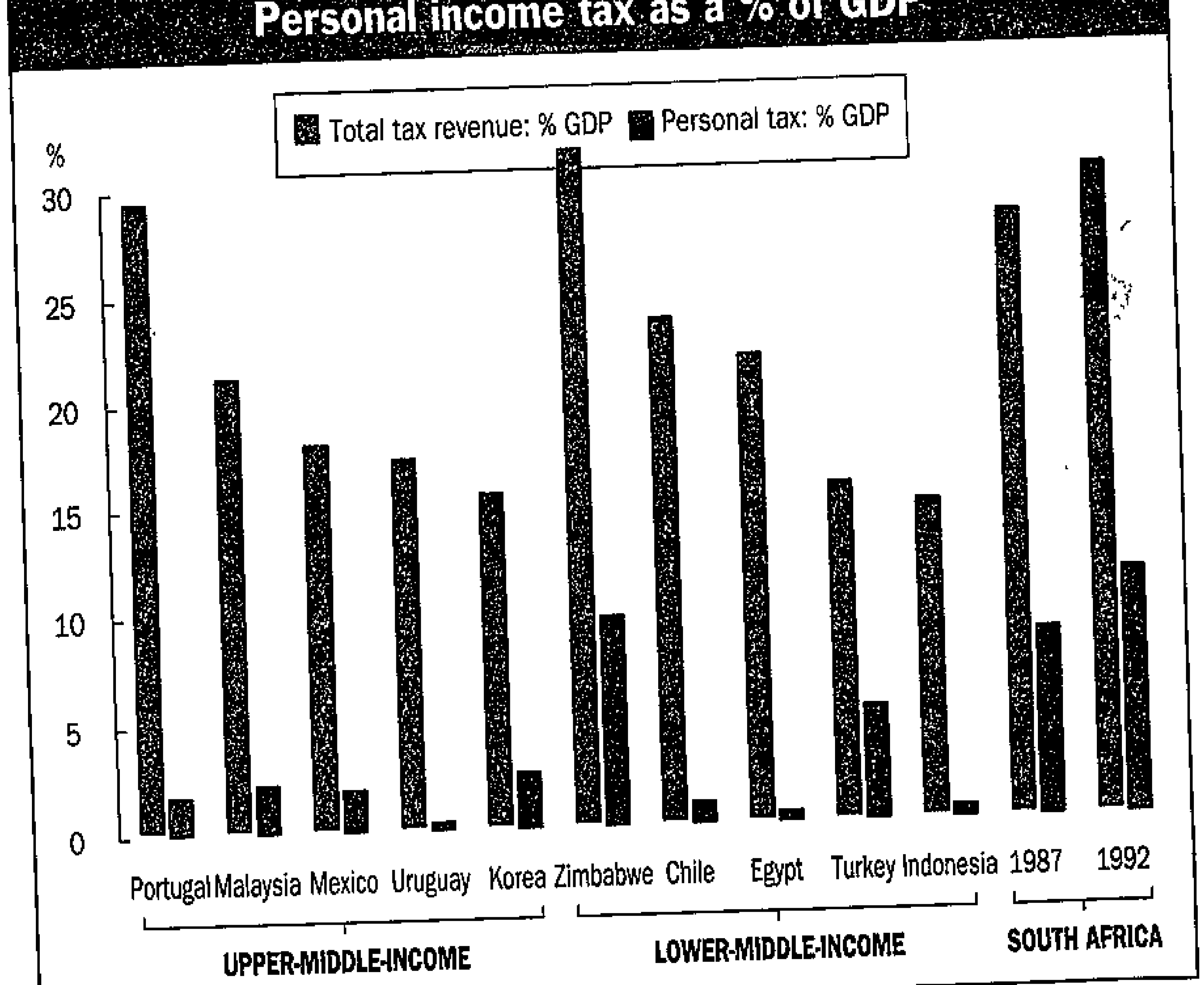
Macroeconomic mismanagement is largely responsible for the present economic crisis: the unprecedented fiscal deficit is partly a result of irresponsible expenditures in 1992/3 (amounting to over R3-billion) to benefit the largest grain farmers.

It will be necessary for the export growth rate to be between 3% and 4% a year in most years over the next decade.

"Imports will have to be monitored closely if the Merg strategy is to succeed. The dangers are illustrated by the experience of 1988 when GDP rose by 4% and imports by 20%; if this were to occur again the prospects for macroeconomic balance would be very bleak."

Discrimination in the tax system against women and low-income payers will go. The nominal rate of company tax should not be increased. New incentives should encourage investment.

Personal income tax as a % of GDP



Graphic. FIONA KRISCH

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But not all is lost

Perceptions of the different racial groups on economic issues differ like night and day. Is this an insurmountable problem, or can it be used to bridge the expectation gap? A City Press correspondent looks at the issue.

(49)

THERE is a huge gap between the economic expectations of white and black people in South Africa. And it does not stop there. Even general perceptions about the economy are worlds apart.

Now that the elections are approaching these differences stick out like a sore thumb – and are confirmed by one opinion poll after the other.

Can this "gap in expectations" be used as part of the solution for the country's economic problems, or is the dividing line between white and black simply too big?

SA has much counting in its favour. It has loads of natural resources, is prime territory for tourism, and has a great variety of people.

Can the differences between white and black really be that big when 62 percent of whites and 59 percent of blacks consider religion as being very important, while 24 percent of whites and 23 percent of blacks consider it to be extremely important? These opinions were expressed in a recent opinion poll conducted by Public Opinion Strategies.

Or has the political ideology of apartheid made people so recalcitrant that the common ground in society no longer suffices?

The POS survey shows that in the period since the release of Nelson Mandela all South Africans have been equally concerned about their lives, with whites (42 percent) somewhat more concerned about their situation during the last three years than blacks (35 percent).

But the sharp contrast is about the future: 73 percent of the black people surveyed expect their lives to improve, compared to 29 percent of whites.

Fifty-one percent of whites surveyed said they were permanently employed, compared to only 29 percent of blacks. While only 3 percent of whites indicated they were unemployed, 30 percent of blacks described themselves as such.

No white had indicated being unemployed for longer than two years. Up to 9 percent of the jobless blacks indicated that they had been unemployed for less than a year, 18 percent indicated they had been unemployed for longer than a year and two percent had been unemployed for eight years.

Job opportunities are considered priority number one by most South Africans. A government of national unity cannot underestimate this demand and the socio-economic backlogs in which so many black people are caught up will have to be used effectively to create more jobs.

Violence in the country undoubtedly affects all South Africans equally. In an Economic Landscape poll blacks as well as whites said that violence was the single largest problem confronting them. The unemployment crisis was closely linked to this. The POS poll's finding about job creation was confirmed by the EL poll – both polls saw job creation as a top priority.

The reality and the perceptions about the economy differ strongly. According to HSRC vice president Professor Lawrence Schlemmer, the average white household lived in debt. This was not the situation among blacks, although black families generally had lower incomes. Positive expectations normally cause people to incur debt, but at the moment reality does not correspond with expectations.

"Among whites there is a perception of exceptional constraint," said Schlemmer.

He attributed this to the fact that the cost of housing, transport and things like domestic appliances had increased out of proportion to the incomes of (mainly white) middle class people.

"The middle class is now being caught up in a lifestyle they cannot afford. The average black family is not in the same grip, because of, among other reasons, subsidised housing and services boycotts," he said.

Economic perceptions were distorted by inequalities.

Normally people make economic comparisons with the past and measure their progress in such a manner, but that does not apply here. People in South Africa tend to compare their progress with that of people in other (population) groups.

The comparison between different classes in SA is also mainly a comparison between races. The distorted distribution of income becomes clear when one considers the distribution of the per capita income of the population.

According to the 1991 census the per capita income of the white population amounted to R19 681 a year, compared to R2 089 for blacks.

How will the perceptions of whites change towards blacks?

"It can only change should the less privileged also become part of the privileged groups," Schlemmer said. Therein lies the challenge for the new government.

The economic policy used to boost the rate of economic growth above the rate of population growth, against the background of the correct development policy, will determine whether perceptions will still be drawn on a narrow racial basis.

Schlemmer said the divergent perceptions among white and black South Africans about communism and capitalism could partially form the solution to help bridge the gap in expectations.

"This must be read against the background of unanimity among whites and blacks on free entrepreneurship as the basis for a settlement in SA," he said.

The perceptions on what the different ideologies hold for the economy of the country mainly derive from the differing vantage points (due to apartheid) of the different groups in SA. The same experience can be noted in the transformation of the world's future economic giant – China. Although its economy (especially in the south) is still being developed on a free-market basis, statements from Beijing reassure those who cling to communism.

The success or failure will be determined by how South Africans collectively handle the economic challenges of the future. The preaching of socialist ideas by politicians will also have to be taken with a pinch of salt – provided the practical application of an economic system is characterised by and has the advantages of free entrepreneurship

Businessmen will therefore have to take note of what happens in practice – and not which ideology is being propagated – during the "phase of liberation".

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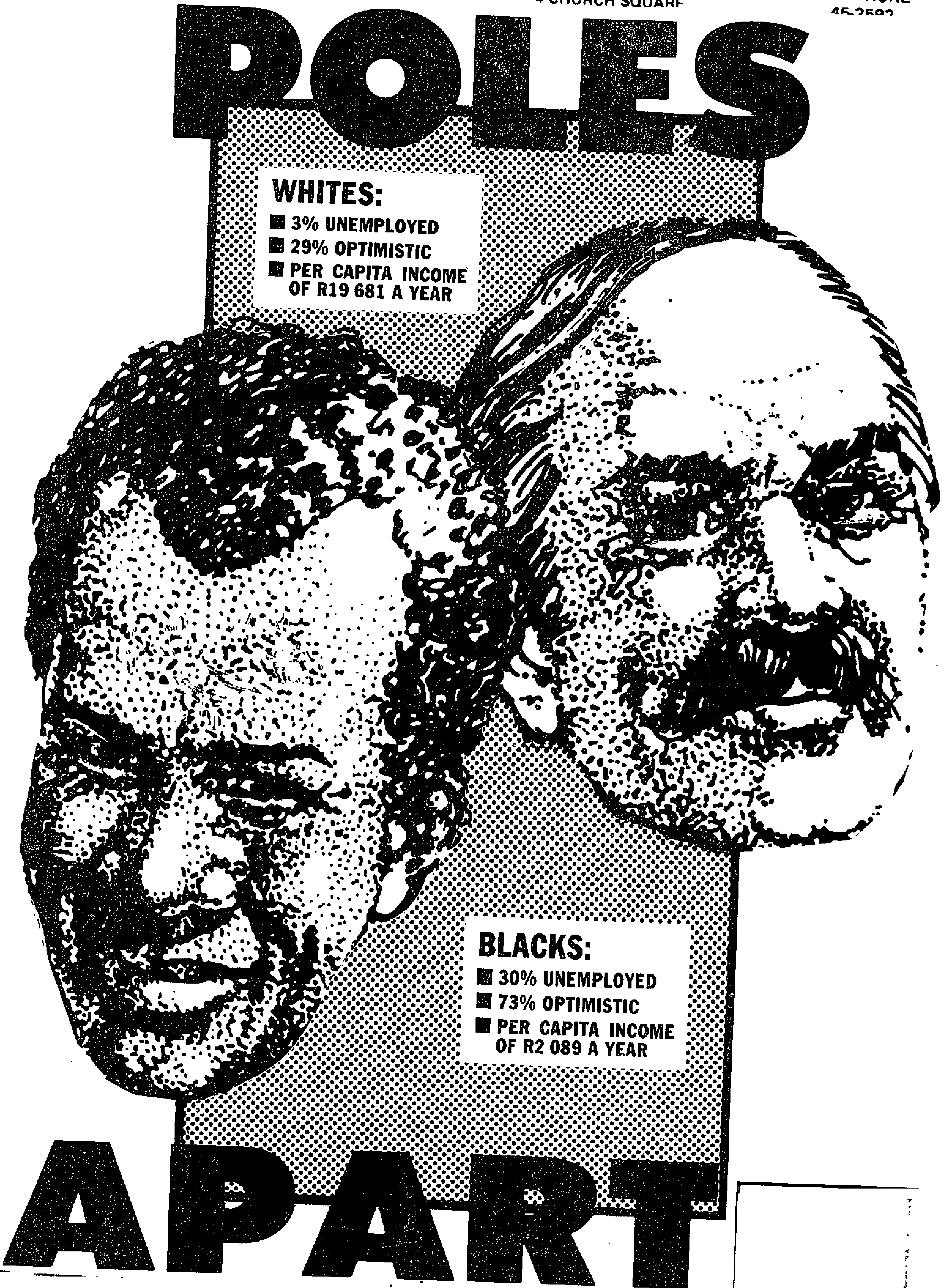


Govt debt close to 'danger level'

CT 29/11/93

49

Homelands, pensions add to load

Own Correspondent

JOHANNESBURG. — The **government's** debt will be pushed closer to **the danger** level of 60% of gross domestic product (GDP) next year when homeland debts are taken onto the books and pension funds are topped up by issuing stock.

In terms of the interim constitution, all debts and liabilities other than those linked to property "shall vest in the national government".

This means the state's debt will rise by billions at a stroke — with the last estimate of the homelands' (including TBVC) debt at R14 billion. Deputy Finance Minister Mr Theo Alant disclosed the figure during multi-party negotiations, but did not say how much was linked to property.

Adding to the debt mountain will be stock issued to address pension fund deficits. It is understood that almost R7bn in stock will be issued to state pension funds to bring funding to a more acceptable level. Sources said the government had placed a limit of R8bn on its guarantees for the homelands' overdrafts, and speculation was that the level was fast being approached.

Economists said the move to bring self-governing and TBVC debt onto the books would give a more complete picture of the real debt situation.

South Africa's debt-to-GDP ratio of almost 50% gave the wrong signals about the government's capacity to borrow. In Europe, a debt burden of 60% of GDP was regarded as the upper limit.

However, other than providing greater transparency, the adding on of homeland debt to overall debt totals would not have any practical impact on the fiscus.

The government could save on interest payments by converting more expensive overdrafts — which make up about half the debt — into lower-interest government stock. The plan to top up pension funds by issuing interest-bearing stock would raise the interest burden further, said Nedcor economist Mr Edward Osborne. A rising interest bill constrained the government's ability to spend as it was forced to borrow simply to service its debt. If the situation continued to deteriorate, the country could fall into a "debt trap".

The government's interest bill, at R22bn for the present fiscal year, amounted to more than 26% of the Budget from about 15% in 1992/93. By contrast, total capital expenditure was less than eight percent of the budget.

According to the constitution, re-allocation of homeland debts and liabilities linked to property would be decided by the Financial and Fiscal Commission. Property would be transferred to the government free and disputes about ownership would be settled after advice from the commission on provincial government.

A further move to clarify the state's debt will be the issuing of stock to cover the debt to the Reserve Bank incurred by subsidising forward cover to the market. The debt, about R9bn, is already included in the Quarterly Bulletin's debt-to-GDP figures.

According to the bulletin, the government has provided guarantees for R26,6bn of debt. While more than half of that was for the TBCV and self-governing states, the rest includes other tiers of government like black local authorities.

'Let National Economic Forum take charge'

South 29/10 - 2/11/93

(49)

THE National Economic Forum (NEF) should become the overall controlling body for all other socio-economic forums in the country, said Cosatu's Mr Jayendra Naidoo at a conference in Cape Town last week.

"This would ensure that the forums' work becomes effective and that there is democracy and accountability," said Naidoo.

The NEF is the country's premier economic negotiating body, with representatives from labour, business and government.

He said Cosatu had proposed at its last special congress that all forums should build links with the NEF.

The NEF should also become a statutory body which has more of a say in the economic issues of the country, he said.

With the petrol price increase earlier this year, it became clear the NEF was being treated as an advisory body.

"We are not saying that the NEF should replace the power of authority, but there should be a basis to reach agreement," Naidoo said.

Naidoo said state funding for such a body should also be considered as it was becoming expensive for labour and other players to sustain their involvement in the body.

He said Cosatu is also discussing strategies for reconstruction, which will culminate in a major conference in December. The conference will include the ANC and the SACP and will discuss:

- Socio-economic reconstruction: Development of urban and rural areas and how this will be funded.
- Rebuilding the economy: How to revitalize the industries in South Africa.Naidoo warned however that South African companies should not try to cut costs by lowering wages, a move which was likely to cause conflict with the trade union movement. He said wages would have to be linked to the level of workers' skills .
- Human Resource Development: He called for unity in this sector, which remained fragmented into bodies like the National Manpower Commission and the National Education and Training Forum.
- Restructuring the public sector: Cosatu was working on a programme that would involve making this sector representative of South African society.
- Cosatu would also send out 10 000 shopstewards and workers to become involved in the peace campaign next February, Naidoo said.

WAGHIED MISBACH

'Don't tinker with free market'

(49)
CT 29/11/93

JOHANNESBURG — If a future government's short-term objective was to redistribute wealth for political gain and therefore tinker with the rules of the free market, they would kill off the mining industry, Gengold chairman Gary Maude said.

"We must never lose faith in free-market principles. If we don't fight for what is right for the mining industry now, we will be in trouble next year," Maude told a colloqium on the future of the South African mining industry.

Third World countries had interfered with the free-market mechanism in the '70s by developing copper mines and then subsidising the operations when they started making losses in the '80s. As a result, copper prices have never recovered, he said.

Maude said mining differed from "selling popcorn" because a great deal of money and technology had to be put together before a company made any return on the investment.

SA had to develop a culture of responsibility and could not always blame the country's problems on somebody else or apartheid. — Sapa

Talks costs up R6m

Political Correspondent

THE government's Constitutional Development Service is asking parliament for R6,1 million more this year to cover additional costs arising from the bilateral and multilateral talksin the multiparty negotiations. This will be used to top up the department's R66,3 million budget for 1993/94.

Big rise in Home Affairs budget demand

MOST of the R137 million increase needed by the Department of Home Affairs for its budgeted "Services to Citizens" programme is for next year's election, and includes funds for the Independent Electoral Commission.

This is stated in the Department's budget adjustment estimate for 1993/94, tabled in parliament yesterday.

Other reasons for the rise are the special identity document project for which R13 610 000 has been carried over from the 1992/93 financial year, increased VAT, telephone and transport costs and the transfer of cleaning and gardening services from Public Works.

(41) ARG 30/11/93

In total, the Department wants an extra R197 851 000, including R4 483 000 under the immigration vote, R2 482 000 for administration, R11 149 000 under Entry and Departure of Persons, and R52 741 000 for internal peace institutions. — Sapa.

Uncertainty over
Star 30/11/93
Govt borrowing

BY CLAIRE GEBHARDT

Although the Budget will not be presented next April, some kind of decision will have to be taken on the deficit in order to give the financial markets an indication of the Government's borrowing requirement, says Mathison & Hollidge economist Tracy Ledger.

Ledger believes this will probably be handled by the finance sub-council of the Transitional Executive Council (TEC) and will be an important determinant of the supply of paper onto the capital market.

"Although the parties at the negotiating forum may have committed themselves to a policy of fiscal discipline, no fixed guidelines have been set."

Ledger says the best indications of fiscal policy under a new government come from Finance Director-General Estian Calitz who has suggested a budget deficit reduction to 6 percent of GDP to convince creditors that fiscal discipline intentions are serious.

But the fate of this recommendation depends crucially on the new government's first budget, says Ledger.

"Cutting the deficit by one percent of GDP may not involve just a reduction in government expenditure, but also an increase in indirect taxes.

"Whether this will be politically acceptable in prevailing high unemployment conditions is open to speculation.

"Assuming a 2,5 percent real growth rate in fiscal 1994/95, and a 6,5 percent inflation rate, we derive a basic budget deficit (before loan redemptions) of R23,8 billion to R24,2 billion in nominal terms." (49)

Ledger says this would represent a decline in both nominal and real terms from the basic deficit of R25,3 billion projected by the Government for the current fiscal year.

"Political and economic uncertainty make this no more than a tentative forecast and it doesn't take into account any increase in capital market financing for specific projects, such as Eskom's EPN issue."

She notes that such financing instruments may well form part of a prescribed investment programme and allow the Government to increase the level of social spending, while maintaining the level of fiscal discipline necessary to instil confidence in overseas creditors.

"These policies could have a marked impact on the supply of paper on to the market and exert upward pressure on capital market rates."

(49) 1/12/93

Merg poses serious challenge to govt's economic model

B/Day 1/12/93

GRETA STEYN

(49)

FINANCE Minister Derek Keys likes to say SA has only one model on the table for economic growth — government's normative economic model (NEM). When the ANC-aligned Macroeconomic Research Group releases its policy framework on Friday, he will no longer be able to say that. The Merg framework, for all its faults, presents a serious challenge to government's approach.

Merg got off to a bad start when co-ordinator Vella Pillay called for government control of the Reserve Bank on the eve of multiparty negotiations on the issue. In the ensuing furore, Merg was branded a bunch of lefties. But a few silly recommendations should not detract from the framework's overall approach.

The key difference in approach between government and Merg is the emphasis the latter places on public sector investment as a trigger for growth. Keys described the NEM as a supply-side approach; Merg gives a prominent role to demand.

It envisages a two-phase growth path: the initial public investment-led phase (1993-1999), and the sustained growth phase (1999-2004). In the second phase, the public sector's role diminishes as that of the private sector becomes increasingly important. The private sector responds to the increase in domestic demand spurred by public investment.

During the initial public investment-led growth phase, private fixed investment remains low as a percentage of GDP. "This occurs because it is assumed that during the initial phase domestic investors will remain uncertain about long-term economic prospects." But from the year 2000, private investment picks up. During the sustained growth phase, private (consumption and investment) expenditure contributes 60% to the overall growth rate, while the contribution of infrastructure expenditure is reduced to 20% (from 54% in the first phase).

The first phase is characterised by a major thrust to reduce or eliminate backlogs — for example, investment in 2 000 clinics, the building of 350 000 houses a year by early next century, and a doubling of annual education capital expenditure.

Merg recognises the balance of payments constraint resulting from the demand effects of a major public investment drive. Its strategy calls for a slow decline in the trade surplus as a percentage of GDP. An export growth rate of 3%-4% a year is projected. Exports should be encouraged through specific measures.

The NEM, by contrast, places greater emphasis on the BoP constraint and on the savings constraint. Far from giving a central role to government, a key element of Keys's plan is to free up savings by reducing government's role in the economy. The total tax burden would be reduced while massive cuts would take place in government's current expenditure. Investment would have to rise from about 15% of GDP to almost 26%, with private industrial investment playing a major role.

The essential difference between the NEM and Merg approaches lies in fiscal policy. Merg says expenditure should be redirected in favour of government investment, especially infrastructural development. "In a relatively short period of time, this spending should increase to at least 5% of GDP." (This figure should come down as the economy moves into the second growth phase.) By contrast, the NEM sees government investment at 2,25% of GDP in the second half of the current decade.

While Merg wants a commitment to keep government consumption constant in real terms, the NEM calls for an annual reduction of 2,5% in real terms from 1992-1997. Merg sees government spending growing as a percentage of GDP to 40% (before falling again), while the NEM sees it at less than 30%.

Is the Merg scenario affordable? Part of the financing is met because it does not propose tax reductions — though only a marginal increase in the overall tax burden is foreseen. The framework tackles the issue of affordability head-on, and concludes that an annual rise in total government spending of 3,75% is sustainable — provided there is economic growth and the real long-term interest rate is reduced to 2%. Within this scenario, the debt-to-GDP ratio never reaches the critical level of 60% and begins falling by 2003.

The standard criticism of this approach to generating growth is to say there will be serious BoP problems. Merg acknowledges "some pressure is exerted on the BoP". It adds: "If the foreign exchange constraint can be kept at bay, and if an appropriate national development strategy can instil in workers and investors alike a vision of improved economic conditions, so that the assumed GDP growth rates can be realised, the example of a fiscal plan presented will be realistic and sustainable."

This approach is also criticised for crowding-out private investment — government uses up resources that would be better employed by the private sector. Merg assumes slack demand for investment funds from the private sector and argues private investors will be "crowded in" by government activity.

The assumption of a lower interest rate is critical — Merg argues monetary policy since 1989 has been too narrowly focused on inflation. The assumptions of a 2% real interest rate, and an inflation "target" of 8%, are crucial to the fiscal policy stance advocated in the Merg framework.

On inflation, the document states wages should not be singled out as the cause of inflation. "Workers should not be forced to bear the brunt of reducing inflation." However, the framework's wage assumptions are moderate — real pre-tax average earnings are confined to an increase of 0,7% a year from 1993 to 1999, before increasing to an average 1,2% in the second growth phase. The "social wage" (improvements in workers' education, health, and so on) grows rapidly. There is a proposal for a "realistic" statutory minimum wage, set initially at two-thirds of the minimum living level.

So Merg, which has come under fire from orthodox economists, could find itself taking flak from the labour movement over its conservative wage assumptions.

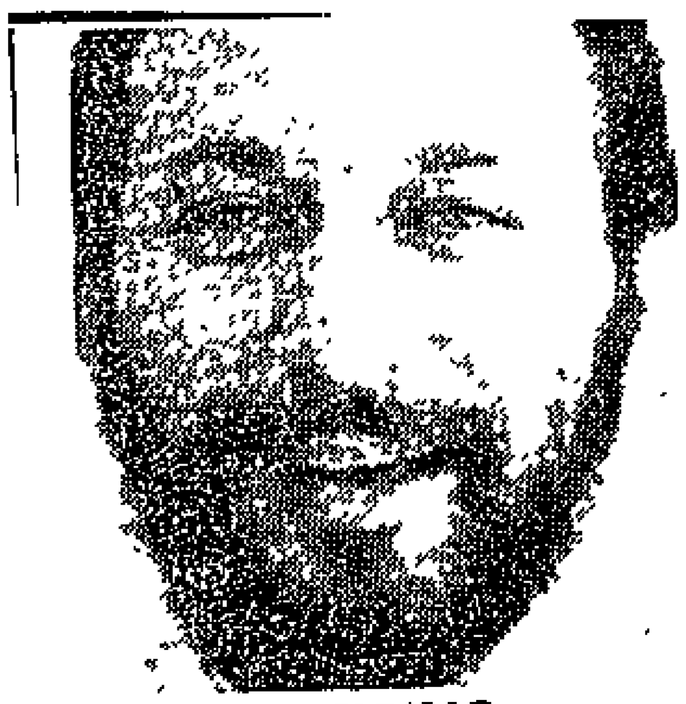
The sustainability of the Merg approach to fiscal policy depends crucially on economic growth — but it also relies on fiscal policy to act as the spur for growth. Can this virtuous circle be achieved?

If private investment demand is more buoyant than Merg expects, the result could be an explosion in the money supply as government and private investors scramble for funds. If interest rates are not raised in response, inflation could become a serious problem. The BoP, which Merg recognises as an issue, could plunge into crisis if demand is not properly managed. But Merg is probably right in its assertion that there is room for several years of demand-led growth — it just needs to be carefully managed, and care should be taken not to be too ambitious.

Government's model assumes a dramatic rise in private sector investment simply because the capital has become available. But, as Merg points out, the immediate problem is the lack of investment (both public and private) and not a lack of saving. The NEM's fiscal policy recommendations are too restrictive in the face of major backlogs and years of recession. The omission in the model of a programme to address backlogs makes it politically unpalatable.

The Merg framework by no means provides a coherent set of policies to induce growth. But it deserves to be taken seriously as an alternative to the NEM.

At the one extreme, government is promoting excessive financial discipline in a framework that fails to recognise that private investment is unlikely to surge in a climate of weak demand and uncertainty. At the other extreme, Merg is promoting an ambitious programme of government investment that could lead to an overheating economy and BoP crisis. A more eclectic approach than the traditional dichotomy between supply-siders and Keynesians is needed.



PROMISING ...
Trevor Manuel

World body honours Manuel

49

CT 9/12/93

TREVOR MANUEL, head of the ANC's economics department, has been named as one of four most promising global leaders of tomorrow by the Swiss-based World Economic Development Forum.

Confirming the award, Manual said he was notified by post last week.

"The Forum annually lists a group of people as global leaders of tomorrow and they have named me as one for 1994. This is very pleasing as it represents world recognition of ANC economic policy," he said.

Yesterday Nathalie Bays, a spokeswoman for the Forum, confirmed that Mr Manuel was one of the 100 people from all over the world who will be invited to the foundation's annual meeting in Davos, Switzerland.

This is a week long business and economic summit which, in January last year, was attended by 20 heads of state or government, ministers from another 180 governments, 850 chief executives of the world's leading companies and 250 experts from the sciences, academia and the media.— Busines Staff and Own Correspondent

Less than R1bn spending overrun

Budget deficit set to end year below forecast

BDay 1/12/93

CAPE TOWN — Government looks set to end the fiscal year with the deficit below budget after final spending figures for the current fiscal year were tabled in Parliament yesterday.

The small overrun on budgeted spending — less than R1bn — would be offset by the extra R1bn expected in revenue, officials said. This suggested the deficit would be substantially lower than the budgeted R25,3bn.

State Expenditure director-general Hannes Smit said in his 10 years in government, he could not remember the additional appropriation being less than it was this year. He noted that Finance Minister Derek Keys had said recently the Budget's estimate for revenue was R89bn, while the updated projection was R90bn. Consequently, barring absolute disasters, the deficit would be smaller than the budgeted figure.

Earlier this year economists were predicting a deficit of R30bn. Keys has steadfastly maintained that they would be proved wrong.

The total estimated expenditure in the Budget was R114,2bn, while the total revised expenditure would be R115,2bn, according to an explanatory memorandum tabled in Parliament on the "adjustment estimates" — a new form of parliamentary mechanism replacing the additional appropriations.

The total revised expenditure would increase by R998m while "unforeseen and unavoidable" overexpenditure would be R451m. The latter, at 0,4% of the Budget, is substantially lower than previous years.

TIM COHEN

The increase in expenditure was due to funds being made available for capital projects associated with the sale of state land (R50m), the sale of strategic oil reserves to finance drought relief and job creation (R724m) and R451m in overexpenditure.

(49)

From this total of R1,2bn should be subtracted expenditure which had not materialised, mainly the R224m in unrealised retrenchment costs, the memorandum indicated.

The R451m overexpenditure was mainly the result of the SAP increasing staff by 7 500 members to combat violence (R249m) and the re-employment of health service personnel (R144m).

The Adjustments Appropriation Bill indicated that the state's overall additional requirements this financial year would be R4,1bn.

The Cape, Natal, Free State and Transvaal provincial authorities registered additional requirements of R459m, R289m, R235m, R849m respectively.

The largest increased requirement of a government department was registered by Regional and Land Affairs, which tabled a requirement of R1,5bn, mainly for assistance to governments of self-governing territories. The assistance will consist of R348m for development assistance, R16m for project aid and R137m for "other assistance".

Other significant increases were for the Manpower Department (R241m), the Local

□ To Page 2

Budget deficit

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□ From Page 1

Government Department (R203m) and Foreign Affairs (R245m).

(49)

□ Law and Order's explanatory memorandum said 27 special investigation units were being established to investigate intimidation during the campaign for next year's elections.

The department said the prevailing circumstances made policing extremely difficult. "The ever-increasing violence, attacks on members of the SAP and on farms and smallholdings are reaching alarming proportions. Owing to this, projects are launched to keep the violence and crime under control."

These included the provision and safeguarding of emergency housing to police staff, and the setting up of special investigation units to identify weapon smuggling routes and combat the illegal distribution and possession of firearms.


Ami Venter

Tough curbs to discipline spending 'seem to have succeeded'

(49) ARGr 1/12/93

BRUCE CAMERON, Business Staff

THE government appears to be set to cut its coat according to the cloth supplied by the taxpayer.

Tough new budgeting measures introduced this year to curtail profligate bureaucratic spending appear to be working.

Minister of State Expenditure, Ami Venter has presented parliament with an adjustment budget which will add less than one percent to the budget approved by parliament earlier this year.

In the main the adjustment budget is a bookkeeping exercise which requires parliament to approve expected spending of R4 billion.

But effectively the government has spent R1 billion more than it had anticipated in the budget in March.

The additional expenditure has been caused by new programmes such as election costs and job creation rather than by government departments shooting over their budgets.

Mr Venter has given notice in parliament that he will ask for approval for adjustment spending of R4 billion.

After savings and sale of state assets the additional amount sought over the orginal budget estimates totals R998 million.

Last year the government overshot its budget by R4,5 billion — contributing to the enormous growth in the deficit, which reached almost R30 billion.

The expenditure budget is now expected to end the year at R115 billion.

The Department of Finance has already indicated that revenue collections could well be up by the end of the tax year in February, meaning that the deficit will not be pushed to new highs.

In an explanatory memorandum, the Department of State Expenditure pointed out that over-expenditure which could not be financed from other sources totalled R451 million.

This money was required to increase staffing and capability levels in the police force (R241,9 million); health services were given an extra R144,3 million; social services R52,2 million; and various other small amounts totalled R5,6 million.

The balance of the R4 billion in the adjustment budget was made up of expenditure already financed from the sale of assets but still needing parliamentary approval (R1,4 billion); declared savings by government departments (R545,4 million); carry-over of unspent money from last year (R1,4 billion); spending on budgeted retrenchment costs (R75 million); and election costs (R125 million).

The department said the adjustment budget of R4,1 billion, less the savings of R545 million and the carry-over of R1,4 billion by government departments from the previous year, meant the estimated final expenditure would be R115 billion.

The effective R998 million additional spending included capital projects of R50 million which had been financed from the sale of state land; and R724 million on drought relief and R255 million on job creation to be financed from the sale of strategic oil reserves.

'Economic Accord in place in four months'

(49) ARG 1/12/93

Political Correspondent

PRESIDENT F W de Klerk has predicted that an Economic Accord, designed to rid political decision-making of political controversy, will be in place within four months.

He told the sub-Saharan oil and mineral conference that this would boost South Africa's chances of attracting new investment, instil greater confidence in the economy and enable the country not only to create jobs and tackle poverty effectively, but to "realise our potential as the gateway to the sub-continent".

Delivering the closing address at the conference, Mr De Klerk departed from his prepared text to highlight the need for consensus on economic planning in the next few years.

"I believe that by the time of the election we will have an Economic Accord in place," he said.

It would, in effect, be an agreement between the government, the private sector and the unions to "lift economic policy, planning and management out of political controversy".

Economic negotiations were as important as constitutional negotiations and an accord would be desirable at least for the duration of the five-year government of national unity.

This would enable the country to chart a course towards economic growth and stability.

"We will play our part to unlock the full potential of the region on behalf of all the people."

Govt accounting 'incorrect'

THE Democratic Party has objected to the Adjustment Appropriation Bill.

Mr Geoff Engel argued yesterday that rosy figures on government revenue presented in Parliament were skewed by incorrect accounting of the proceeds from the sale of state assets.

He was reacting to the presentation of the Adjustment Estimates by Minister of State Expenditure Mr Amie Venter, who said the revised expenditure level would be only 0,9% more than the R114 billion envisaged at the start of the financial year.

Mr Venter said latest figures showed revenue for 1993/94 would be more than the budgeted amount and, taking into account financing from the sale of strategic supplies, the budget deficit could be less than R25bn. The budgeted deficit was R25,3bn.

However, Mr Engel said it would be incorrect to set off additional expenditure against additional revenue and claim there was a small expenditure overrun.

"The minister did that today and he knows that's not correct accounting."

Mr Engel said the National Party was seeking authority for R4,113bn in additional expenditure. (49) CT 2/12/93

ECONOMIC POLICY

Not less than R400 a month, say researchers

Star 4/12/93

A NEW report by an ANC-oriented economic research tank has some sensible as well as some controversial ideas — like the placing of the Reserve Bank more firmly under government control — writes DEREK TOMMEY.

A MINIMUM wage of R400 a month, the establishment of a people's bank and the redistribution of land to women living in landless households in the rural areas are among some of the proposals by an ANC-oriented research tank on economic policy.

The proposals are contained in a report entitled "Making Democracy Work", which was prepared by the Macro-Economic Research Group (MERG) for the ANC. (149)

The report was presented to Trevor Manuel, head of the ANC's economics department, yesterday. However, while welcoming it, he took pains to make clear that the report could not be regarded as final ANC economic policy.

He said it was an important input into the ANC's economic thinking and would be looked at closely. But at this stage it was not the policy of the ANC.

The report can be divided into two parts — social and educational proposals, and the economic proposals.

Few will quarrel with the first group of proposals. These are aimed at improving the availability and quality of education, health care, housing, electrification, at training the unemployed, improving the life of the poor (espcially women) in the rural areas and improving the skills of the jobless.

While there might be differing opinions on how to achieve these objectives, it is generally accepted that these are areas to which any government will have to pay attention.

The minimum wage proposal is somewhat more controversial, not that the proposed wage is high by Johannesburg standards. But an inference in the report, that it might be better to shut down employers who can't afford the minimum wages, won't help to create jobs.

More controversial is the proposal that the Reserve Bank should be more firmly under government control "to ensure that monetary policy is determined by and accountable to the democratic government".

Whether the Reserve Bank should be an independent entity is a matter for discussion. But the suggestion that it should be accountable to government is an extremely dangerous one as it implies that the fight against inflation and a stable currency should take second place to other government objectives.

This would not go down at all well with foreign lenders and investors, who would see their funds at risk It would also be a major discouragement to desperately needed investment by local entrepreneurs.

Most people will welcome MERG's comment that the rate of personal income tax is too high and has resulted in an unfair burden on the middle to upper-middle-class salary earners and on skilled and semi-skilled workers.

It suggests this burden could be alleviated by moving to only three tax bands and by "reducing allowances and tax breaks which allow the rich to avoid income tax". And here it recommends a tax on capital gains.

MERG calls for a multiple-rate VAT system togive VAT a progressive effect so that the poor will pay less and the rich more. On the other hand it rules against a wealth tax.

Perhaps the most disappointing feature of the report, and one that will generate the most heat, is that it visualises only a 1,1 percent growth rate in 1994, rising to an average of 3,8 percent a year for the remainder of the decade. This rate, MERG believes, will generate 300 000 new jobs a year. The report maintains that this growth will need to be primed by government spending and that private spending will take over only around 2000.

These growth rate figures are far too low for a country with South Africa's potential and needs. They will not make much dent in the huge pool of unemployment. They suggest that MERG is seriously underestimating the wealth-creating power of the private sector if it is given its head.

SA could still 'fly now, crash later'

WM 3-9/12/93 (49)

The danger of South Africa repeating the Latin American economic disaster is very real, reports **Reg Rumney**

LIKE some Fifth Horsemen of the Apocalypse the spectre of an oddly jargonistic phenomenon still haunts the country. There is a 50 percent chance of "macro-economic populism", or economic mismanagement of the kind that devastates economies, happening here, believes Unisa economics head Professor Philip Mohr. Without international pressure, he reckons the odds would be 100 percent on our duplicating the "fly now, crash later" policies of countries like Chile and Brazil.

The term was itself popularised by the Mont Fleur Scenarios, which contributed to a shift in the level of debate. That growing realism has seen the African National COngress, as Mohr remarks, tone down calls for nationalisation, socialisation, and large-scale redistribution, while embracing macro-economic stability.

"It would, however, be naive to think the danger of irresponsible policies aimed at large-scale redistribution and immediate growth is something of the past," writes Mohr in an occasional paper titled *Will South Africa fall into the populist trap?*

Mohr presented the paper, published by the Economic Policy Study Group, in Johannesburg last week. It is a summary of a longer paper presented at the biennial conference of the Economic Society of South Africa in October, in which Mohr debunks a number of received opinions about economic policy.

Mohr has drawn parallels between post-war South America and present-day South Africa and tried to distinguish factors common to all those Latin American countries which suffered the disaster. Common denominators were inequality, urbanisation, economic naievete and ignorance, and often, a society in transition to democracy as South Africa now is. And the most important trigger for macro-economic populism is economic stagnation and decline.

Crucially, Mohr points out that the level of economic debate in Latin American countries was higher than it has been in South Africa.

Bad economic advice, Mohr reckons, will come from local and well-intentioned but impractical visiting economists, bringing to mind the debate over the role of foreign economists in the ANC-sponsored Macro-Economic Research Group.

The Congress of South African Trade Unions, which has done a lot of homework on economic strategy, might opt for the populist route, and will be more than a match, Mohr thinks, for the ANC and business. If competent civil servants are replaced a powerful counterbalance to political shortsightedness will be lost.

"Fourthly, present policymakers should avoid forcing the country down the populist road by practising or preaching ultra-conservative economic policies.

"Discipline is always required but present policymakers should focus on the export imperative, about which there is a fair amount of consensu, rather than on naive textbook arguments about why inflation should be combated."

Mohr also notes that the kind of arguments that led to the Latin American catastrophes are alive and well and living in South Africa in, for instance, Cosatu's proposals for economic reconstruction.

Populist-type thinking is not confined to the ANC or Cosatu. The notion of "inward industrialisation" has been propagated in South Africa by free-marketeers as well as by interventionists, including by the late Simon Brand, head of the Development Bank of South Africa.

Surely South Africa has learned from the experience not only of Latin America but of African and Eastern European countries?

Mohr remarks that there will always be a tendency to argue that South Africa is unique and that other countries simply failed to do things correctly.

There is the prospect of a politically weak government succumbing to populist pressures.

Mohr adduced two things which could halt the march of macro-economic populism.

One is the collapse of communism and central planning, with the globalisation of the world economy and the prevailing economic orthodoxy epitomised by the two powerful international financial agencies, the International Monetary Fund and the World Bank.

The other is simply the balance of payments. South Africa does not now have the reserves of foreign exchange to stimulate domestic economy without running into problems with high inflation, the exchange rate and the balance of payments.

A populist experiment would be quickly aborted — or anarchy would ensue.

Growth at all costs

MACRO-economic populism can be defined as economic management which stresses growth and income redistribution and de-emphasises risks such as inflation, according to Unisa Professor Philip Mohr.

The typical populist cycle in Latin America starts with dissatisfaction with economic growth, which has either been moderate, stagnant, or even been declining because of external factors, natural disasters or attempts at macro-economic stabilisation.

A new party comes to power, usually an urban, multi-class movement led by a charismatic leader, with the support of the newly enfranchised urban proletariat.

The new government promises to deliver immediate benefits to society's underdogs. It inherits a low budget deficit and high foreign reserves. It goes on a spending spree, so stimulating economic activity.

"Wages are increased, boosting private consumption. To prevent inflation, prices are controlled and the exchange rate fixed. Output soars, excess capacity is taken up and employment expands.

"After a short period of economic boom and falling inflation, bottlenecks are experienced, especially in foreign exchange," says Mohr.

"There is a balance of payments crisis, massive depreciation or devaluation of the currency, galloping inflation, plummeting real wages and a collapse of the economic system.

"The workers who are supposed to benefit, are among those hardest hit. The democratic system breaks down. Either the existing government does a 180 degree turn or a new government takes office, usually through a military coup. "The economy is in shambles and a drastic stabilisation programme is implemented, often at the insistence of the IMF."

IMF urges bank independence

WM 3-9/12/93 (49)

Weekly Mail Reporter

THE International Monetary Fund has strongly advised "red" China to go for central bank independence. The irony is that Macro Economic Research Group head Vella Pillay — who recently caused a storm by advocating subordination of South Africa's central bank, the Reserve Bank, to government — cites as part of his experience in international banking being an advisor to the Bank of China for 35 years.

The November 8 issue of the *IMF Survey* contains a report about a joint IMF-People's Bank of China workshop in Beijing on financial reform.

The report outlines key policy issues for China.

The conclusion of the workshop was that central bank independence requires full operational autonomy as well as accountability and transparency in conducting central bank operations.

The report notes a growing global trend to adopt legal provisions to protect autonomy.

However, the report also says co-ordination of economic policy between the central bank and the government is critical.

Funds inflow to boost SA upturn

CT 3/12/93 (49)

By AUDREY D'ANGELO
Business Editor

PROSPECTS for a recovery in SA's economy "have further brightened", with the possibility of substantial capital inflows in a short time, says Board of Executors economist and senior portfolio manager Rob Lee.

He forecasts a growth rate of 2% or more next year and says in his Investment Outlook for December that "potential growth rates of 4% plus are achievable in 1995/96".

Sanctions

"Domestic economic prospects have improved further in recent weeks.

The ending of sanctions, and the negotiated agreement at the World Trade Centre, have awakened enormous international interest in the SA economy and investment markets.

"The equity market, and particularly the bond market, have already been powerfully affected by foreign buying. "Effective economic and political management could conceivably produce the 'problem' of excessive capital inflows rather than outflows within a relatively short period."

Lee points out that the Reserve Bank has been able to maintain the recent stability of the exchange rate, indicating that improvements on capital accounts have continued.

"The passage of the Transitional Executive Council legislation should ensure access to the International Monetary Fund $850m loan by year-end. Present indications are that additional foreign loans will be available to offset the bullet repayment of $500m required in early 1994 in terms of our foreign debt agreement."

Lee forecasts an average inflation rate of 7% in 1994. "Combined with improvements on the capital account and a record high current account surplus this gives scope for further reductions in interest rates

"We expect the prime rate to be 2% lower by mid-1994, with the timing of cuts dependent upon the degree of access to foreign loans at reasonable interest rates.

Investment

"There are an impressive number of large private sector investment projects planned or already underway, amounting to more than R30bn to be spent over the next few years.

"Increased public sector investment in infrastructure and housing can also be expected under a new goverment. We are therefore increasingly confident of an investment-led recovery."

Positive real economic rise — but slight

(49) ARG 4/12/93

JOHANNESBURG. — The economy would probably achieve slightly positive real growth this year after four years of recession, the Reserve Bank said in its quarterly bulletin yesterday.

The central bank said the economy had started to recover "somewhat" as economic developments in the first nine months of 1993, especially in the third quarter, indicated the 1989-93 recession had bottomed out.

The annualised rate of change in real gross domestic product not only turned around from negative to positive levels, but also accelerated from a low 1,5 percent in the first quarter to a high eight percent in the third.

"After having declined for three consecutive calendar years, real gross domestic product is therefore likely to show a small positive growth rate in 1993," the bank said in its review of the economy in the quarter to end September 1993.

The substantial improvement in agricultural production, after last year's drought, had been the mainstay of the better economic performance.

The higher agricultural output also made a large indirect contribution to total domestic product as a result of its linkages with other sectors of the economy.

Agriculture's performance combined with sustained export improvements and a higher gold price resulted in positive growth rates in nearly all the more important economic sectors, excepting gold mining, construction and the wholesale trade.

The bank said there were a number of developments which augured well for economic growth:

The lifting of sanctions, the establishment of new global trade links, the normalisation of relations with world financial institutions (like the International Monetary Fund and World Bank), and the final agreement on South Africa's affected debt with foreign creditor banks.

Furthermore, on the domestic front, there was greater financial stability (as reflected in lower inflation), and the prospect of increased investments because of the introduction of tax-deductible accelerated depreciation allowances and the need to replace machinery and equipment.

SA has the potential to surpass the US, says Young

(49) ARG 4/12/93

Weekend Argus Correspondent

DURBAN. — South Africa has the potential to surpass most of the United States economically and socially by the turn of the century, says United States civil rights activist Dr Andrew Young.

Addressing a business summit organised by the African National Congress in Durban yesterday, Dr Young said if SA could overcome discrimination and poverty, it would create a society that would be the envy of the rest of Africa and the United States.

"There isn't much choice for you here. We have to learn to work and live together. With violence, nobody wins."

South Africa had the potential to become "very much part" of a global economy, added Dr Young.

South Africans had to overcome their fears of the future: "The only thing you have to fear is fear itself," he told several hundred delegates.

The rest of the world was looking at investment in southern Africa, he said, adding that Natal could become the "gateway to Africa". — Sapa

Merg proposes anti-trust caution

Policy plan omits forced unbundling

BIDay 6/12/93

GRETA STEYN

THE ANC-aligned Macroeconomic Research Group (Merg) has signalled that caution should be the watchword in dealing with large conglomerates and anti-trust policy.

But Merg has applauded moves by Sanlam and Old Mutual to unbundle their interests, and is calling for the extension of "this process of deconglomeration".

Merg, which handed its policy framework to the ANC, Cosatu and the SA National Civic Organisation (Sanco) on Friday, unequivocally opposed breaking up conglomerates for the sake of it.

Although Merg's framework is not formal ANC policy, sources said the recommendations on anti-trust policy were likely to find favour as ANC deputy economics head Tito Mboweni had written parts of the chapter.

Merg supported "a more vigorous" anti-trust policy that would strengthen the resources and punitive power of an anti-trust authority.

"The dismantling of the conglomerates is not recommended, but Merg suggests that a commission to look into conglomerates be established," the report said.

The suggestion of a commission was added to the original proposals. Sources said the addition reflected Merg's decision to tighten up the approach after comments from Cosatu, the ANC and Sanco.

Merg's report said the factors causing firms to collude rather than compete should be addressed.

The key factors underpinning collusion were to be found in ownership structures — a small number of shareholders controlled a major slice of corporate SA.

Policy measures to encourage unbundling could be implemented, such as legally prohibiting pyramid companies, and tightening up and extending controls over corporate mergers and acquisitions.

The controversial recommendations on banking and finance have remained largely intact since the proposals were drafted, but the wording describing the Reserve Bank's role has been softened. (49)

The draft called for the Bank to be nationalised. The final document omits the word but still recommends the Bank should fall under the Finance Minister.

ANC economics head Trevor Manuel noted that the Merg report would serve as input into ANC economic policy formulation. Cosatu negotiations co-ordinator Jayendra Naidoo said many Cosatu members might regard the Merg proposals as far too modest.

□ Merg head Vella Pillay, in an article in Business Day today, says the group proposes a large-scale programme to promote skill acquisition and training, and enable workers to move from one skill level to the next "on the basis of competence".

"The provision of career paths enabling workers to achieve continuous training and gain skills which are transferable to other sectors will provide a new and important incentive to those who are currently the lowest paid."

● Picture: Page 2
● See Page 6

'High growth possible in SA'

(49) ARG 6/12/93

□ Investment crucial — World Bank

PETER FABRICIUS
The Argus Foreign Service

WASHINGTON. — The World Bank predicts that the South African economy could sustain high growth of above five percent a year while also re-distributing wealth — if the government pursues sound economic policies and private investment returns to the level of the 70s.

The key is increased private investment. Without it, government efforts to equalise social spending will briefly boost the economy — but will soon run it into excess public debt and recession.

These are the best-and-worst case scenarios for the new South Africa generated by a macro-economic model which the bank has just developed

It is part of a major study being conducted by the bank's Peter Fallon and Luiz da Silva.

An abstract of the study entitled *Paths to Economic Growth* has just been completed by Alun Morris, co-ordinator of the bank's South African team.

The economic model shows that if private investment returns to the level of the 1970s, and sound economic policies are followed, the government will be able to spend R71,7 billion on public investment between 1994 and 2005 — equal to 3,3 percent of gross domestic product (GDP) — mainly to upgrade black social facilities.

Without such high private investment, the economy will only be able to sustain public investment of slightly more than half of that amount — R33,2 billion or 1,8 percent of GDP — over that period.

To achieve the high-growth path the government will have to:

- Encourage rapid growth in skilled labour, especially by upgrading semi- and unskilled labour.
- Change the import-substitution bias of manufacturing and reorientate it towards exports, by rationalising import tariffs among others.
- Boost job creation in small businesses and agriculture.
- Restructure government spending by raising investment in infrastructure and public spending, targeting the poor and restricting recurrent spending. Where possible spending should be on labour-intensive public works projects.
- Maintain prudent fiscal and monetary policies — mainly by pursuing existing monetary policy and avoiding running up high fiscal deficits.

The study says that there is room for redirecting fiscal resources from white local authorities which have sustained "excessively high" service levels.

Initial bank studies show that several metropolitan areas command enough resources to address the backlog in black urban services without tapping money from the central government.

The bank says another key area where recurrent government spending can be cut is on "overstaffed" public service corps, noting that the numbers of public servants grew by 34 percent in the central and provincial governments between 1981 and 1991.

- Reshape urban fiscal and land policies to support the provision of basic services.

With these polices and 70s-level private investment, the model predicts GDP and employment will grow at above five percent a year, the fiscal deficit will first rise to about 12 percent of GDP but will move into surplus soon after 2000 and foreign debt will remain at the present manageable level of 15 percent of GDP.

In the worst-case scenario, a modest expansion of public investment not supported by a revival of private investment will lead to a brief rise in GDP from the present near-zero level to nearly three percent in about 1996 before dropping back to present levels because high government spending cannot be sustained.

Likewise, employment will first decline slightly then rise again to the present dangerous level, while the fiscal account will remain in deficit.

Economy on recovery path, says Reserve Bank

Prospects better for positive real growth

Star 6/12/93

(49)

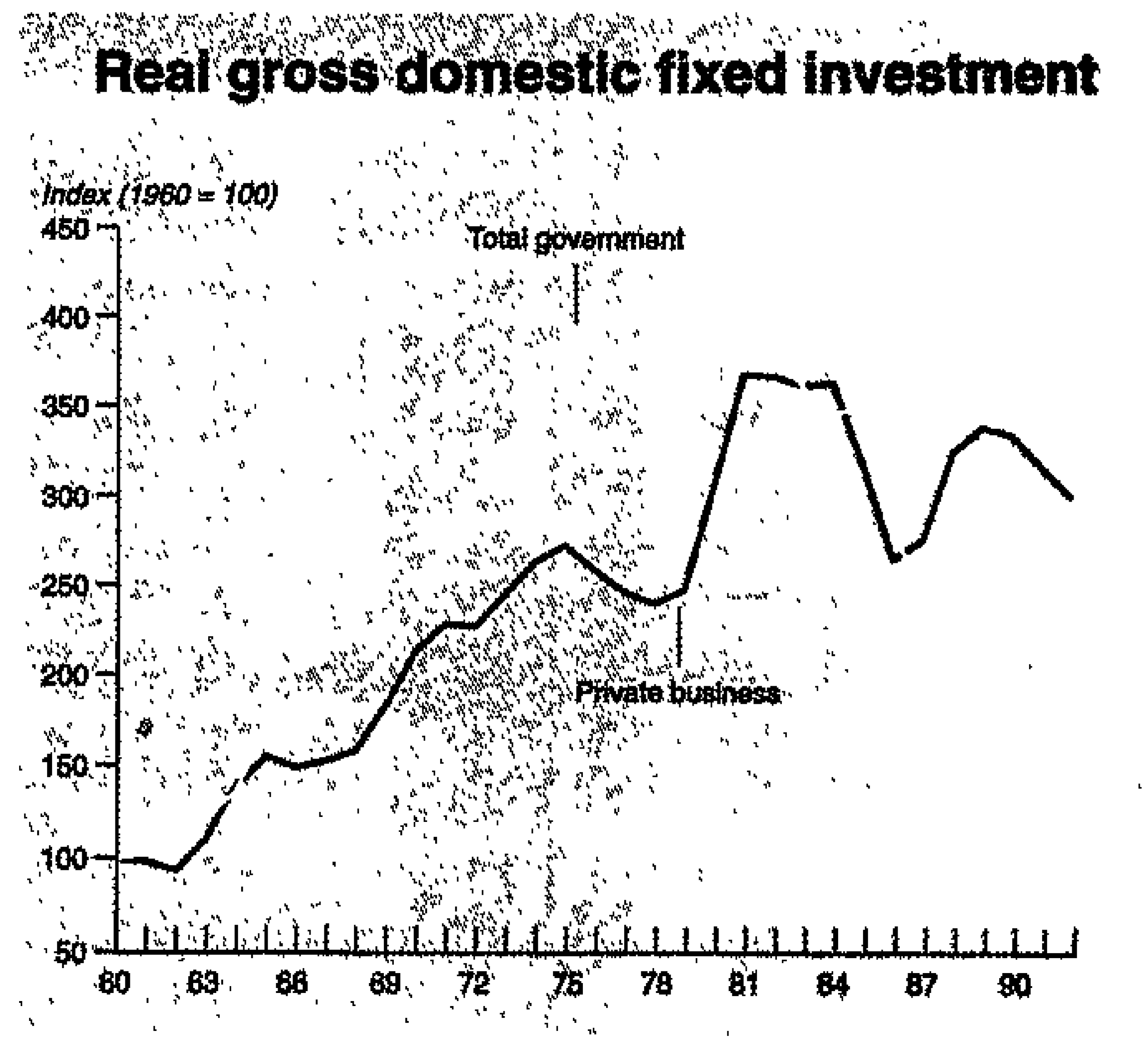
The economy will probably achieve slightly positive real growth this year after four years of recession, says the Reserve Bank in its Quarterly Bulletin.

The central bank said on Friday the economy had started to recover somewhat as economic developments in the first nine months of 1993, especially in the third quarter, indicated the 1989-93 recession had bottomed out.

The annualised rate of change in real gross domestic product (GDP) had not only turned around from negative to positive levels, but had also accelerated from a low 1,5 percent in the first quarter to a high eight percent in the third quarter.

"After having declined for three consecutive calendar years, real gross domestic product is therefore likely to show a small positive growth rate in 1993," the Bank said in its review of the economy for the quarter to end-September.

The substantial improvement in agricultural production, after last year's drought, had been the mainstay of the better economic performance.



The level of real gross domestic fixed investment (GDFI) rose in the third quarter after three-and-a-half years of uninterrupted contraction, the Reserve Bank says. GDFI increased an annualised 1,5 percent in the September quarter after moderate falls in the first two quarters this year and sharp declines since late-1989. The rise in aggregate real fixed investment took place in the public sector as the government, and three parastatals (Transnet, Telkom and Eskom) increased their capital outlays. SOURCE: ABSA.

The higher agricultural output had also made a large indirect contribution to total domestic product as a result of its linkages with other sectors of the economy.

Agriculture's performance, combined with sustained export improvements and a higher gold price, had resulted in positive growth rates in all the more important sectors, except gold mining, construction and wholesale trade.

The Bank said there were a number of developments that augured well for growth.

These included the lifting of sanctions, the establishment of new global trade links, the normalisation of relations with world financial institutions (the International Monetary Fund and World Bank), and the final agreement on South Africa's debt with foreign creditor banks.

Furthermore, on the domestic front, there was greater financial stability (as reflected in lower inflation), and the prospect of increased investments because of the introduction of tax-deductible accelerated depreciation allowances and the need to replace machinery and equipment.

But the Bank warned that a vigorous revival of activity in the short term could be hampered by some negative impacts:

- The growth in exports could be curtailed by the limited growth prospects at this stage in the world's industrial economies;
- Investment decisions could be delayed as a result of the uncertainty surrounding political negotiations and the ongoing social unrest;
- Large fixed repayments to foreign creditors might restrict a more stimulatory macro-economic policy stance and thus prevent increases in output if this external constraint was not alleviated by the inflow of new foreign capital;
- The structure of the domestic economy could also inhibit rapid economic growth and the sustainability of such growth.

The Bank's expected slightly positive economic growth in 1993 concurs with the views of most economists, who also expect the economy to grow more strongly next year and achieve real GDP growth of 1,1 to two percent. — Sapa.

'Strong upturn on the way'

ARG 7/12/93 (49)

Business Staff

SACOB has looked into its crystal ball and found that South Africa is standing on the brink of an economic upturn "that could be stronger and more enduring than any other experienced in the past two decades".

But it won't be all plain sailing.

"The economy, and the country, are not out of the woods yet and the road to peace and prosperity could still prove to be a long and difficult one."

The kind of economic performance to which South Africa aspires will not just happen.

"It will require a sound policy environment, good governance, political stability and hard work — not to mention a bit of luck.

"The biggest danger facing us in the quest for a prosperous and peaceful future is that we sacrifice long-term economic performance on the altar of short-term political expediency."

Sacob notes that in spite of the first positive growth in four years, unemployment levels are likely to continue to rise because the expansion in the economy and in job opportunities will not be sufficient to offset the additional influx of job-seekers on to the labour market.

Sacob's 1994 economic forecasts include:

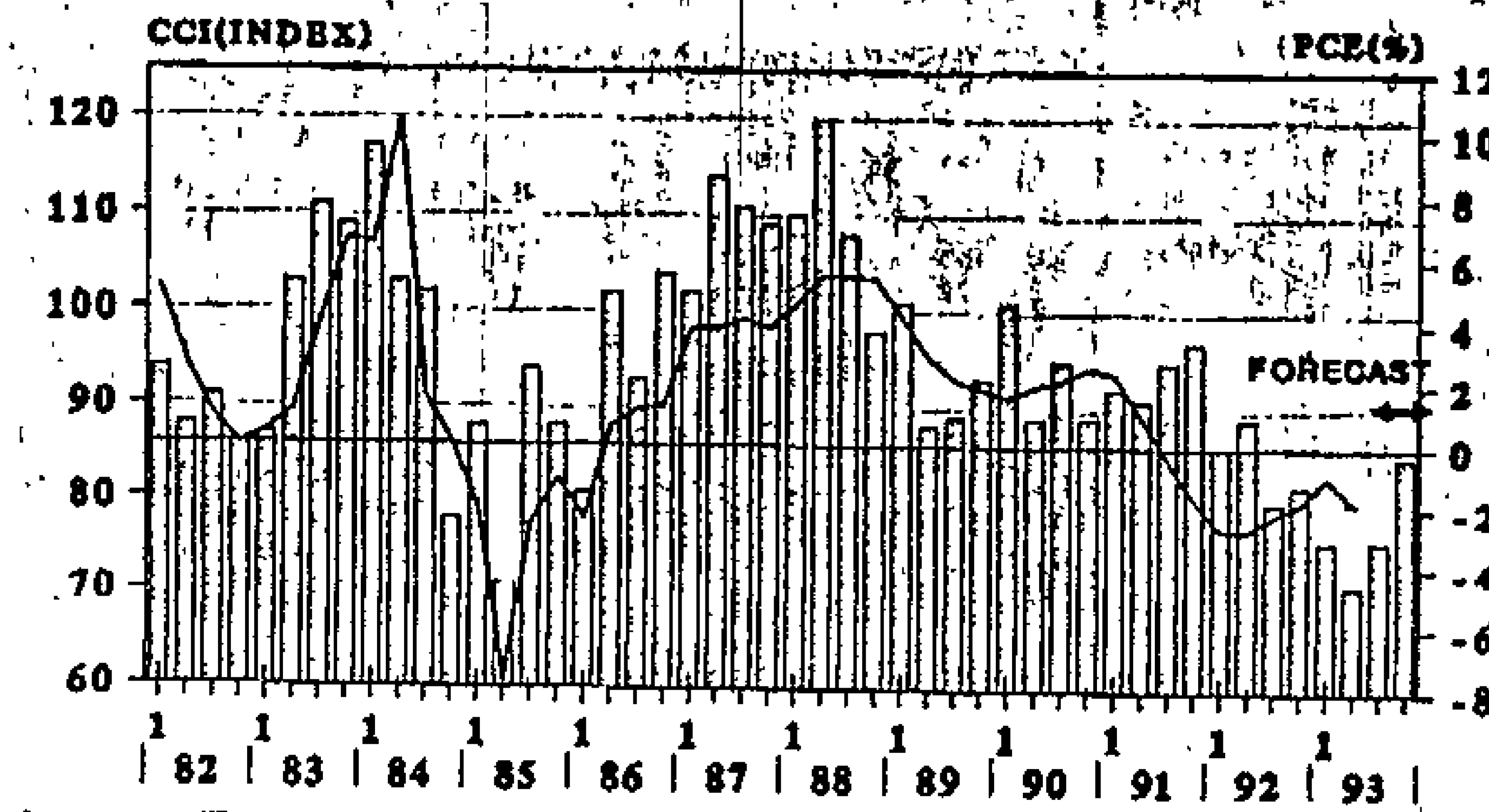
- A growth in export volumes — the economy's biggest driving factor — of 4,5 percent.
- Average wage and salary increases of between six and eight percent.
- An inflation rate of 7,5 percent.

‘Consumer-spending jitters into 1994’

(49) CT 7/12/93

AUDREY D'ANGELO
Business Editor

CONSUMER SPENDING VS CONSUMER CONFIDENCE (SURVEY DATA AND REAL % CHANGE)



ber

CONSUMER spending "will be hesitant well into 1994 until economic fundamentals are well established and the political situation has stabilised", says Nils de Jager of the Stellenbosch Bureau for Economic Research (BER).

But if the April general election goes well "a great deal of uncertainty will be removed and consumer confidence could be boosted.

"This will also coincide with a quarter of expected low inflation and an increase in real personal disposable income, and this could boost confidence levels greatly."

The BER's latest consumer survey shows that 38% of white consumers now expect the general economic situation to improve in the next 12 months, compared with only 25% who thought so in the third quarter of 1993.

On an index of 0 (extreme pessimism) to 200 (extreme optimism), white consumer confidence has now risen to 79 from a low of 57 in the second quarter and 61 in the third.

De Jager says this improvement "can be ascribed to positive news on economic growth, the recovery in various sectors and consequently better prospects for the year to come."

The political situation was also "markedly better" in November when the survey was carried out.

In spite of this 57% of white consumers still expect a further deterioration in the economic situation in the coming year.

"This must be seen against the background of a recession now in its fifth year" and poor employment prospects.

The BER forecasts that the labour force will rise by 442 000 in 1994, from 14,5m, to 14,9m while only 23 000 more jobs will be available in the formal economy.

"This relatively unfavourable picture must inevitably impact on the attitudes of consumers.

"In addition to the economic realities, the political situation and related crime and violence also impact on consumer confidence," says De Jager.

The survey shows that people with a monthly income between R5 000 and R7 999 are the most optimistic.

Afrikaans speakers, particularly those living in country areas, are less optimistic than English speakers.

Pointing out that wage settlements for 1993 averaged 10% in the third quarter of this year compared with 12% in 1992, De Jager says this is the most important single factor affecting consumer finances, although lower interest rates — particularly mortgage bond rates — will give some relief.

SA on brink of major upturn

CT 7/12/93 (49)

By AUDREY D'ANGELO
Business Editor

Business confidence level soars

BUSINESS confidence has soared to its highest level since January 1989. And SA Chamber of Business (Sacob) chief economist Ben van Rensburg says: "SA stands on the brink of an economic upturn that could be stronger and more enduring than any other experienced in the past two decades."

The monthly Sacob Business Confidence Index rose 1,8% in November to 103,9%. This is the sixth month in succession that it has risen, after Chris Hani's assassination caused a dip in May.

Van Rensburg says in his commentary that this is due to further evidence that the economic recovery is gaining momentum, and to progress on the political front.

But he warns that some of the sub-indices making up the BIC deteriorated in November, compared with October. "The rise in the BCI is therefore a response to larger improvements in some of the key sub-indices."

Van Rensburg also points out that "the message to political leaders is that businessmen are assuming that stability and political progress will be maintained in the period ahead.

"Prospective investors will probably also like to have a chance to assess the economic policies ithat will be adopted by a new government before committing themselves to large-scale investments."

Positive factors which lifted the BCI were:

- The exchange rate of the commercial rand strengthened against the US dollar.
- Short-term interest rates declined.
- Real retail sales were expected to be higher than in October.
- The dollar price of gold strengthened.
- The volume of merchandise imports and exports rose.
- Share prices on the JSE rose to record heights.

But negative factors were:

- The financial rand weakened against the US dollar.
- The rate of inflation, as measured by the CPI, rose.
- The seasonally adjusted number of registered unemployed rose.
- Fewer new passenger cars were sold.
- The number of individual and partnership insolvencies increased.
- The seasonally adjusted physical volume of manufacturing production, and the value of building plans passed, declined.

Sacob economists have also issued a forecast for the coming year which says that 1994 "promises to be a much better year for the SA economy".

But they warn that long-term prospects must not be sacrificed for short-term political gains.

"To reap the full benefits of such a recovery good governance will be required in order to reduce and remove the constraints on our longterm growth potential.

"The key to future growth lies in business and consumer confidence.

"It is a sobering thought that in spite of the first positive growth in four years the levels of unemployment are likely to continue to rise because the expansion in the economy and in job opportunities will not be sufficient to offset the additional influx of job-seekers into the labour market.

"We will need, on a sustained basis, to achieve economic growth of around 5% per annum if we are to make meaningful inroads into the present level of unemployment — estimated at around 45% of the economically active population.

"So while 1994 promises to be a better year it only represents the start of a greater challenge facing SA."

Shock squeeze on reserves

CT 8/12/93

(49)

From KELVIN BROWN

JOHANNESBURG. — Gold and foreign exchange reserves defied economists' expectations in November, falling R4,5m to R7,05bn.

Economists said although this was a marginal fall, they had expected an increase of about R100m. The figure indicated pressure on the reserves had continued after an improvement in October.

The squeeze was evident in the sale of more than 100 000 ounces of gold, which cut bullion holdings to their lowest level since the beginning of 1991. The Reserve Bank's November balance sheet indicated the value of gold holdings eased more than R36m to R5,06bn, despite a R17,55 rise in the gold price to R1 134,80/oz.

Foreign exchange assets were slightly up — by R32m to R1,99bn — languishing around mid-year levels.

Nedbank chief economist Edward Osborn said the Bank may have used foreign exchange inflows to reduce its short-term liabilities. If that was the case the picure was brighter than the figures suggested. "However, the Bank does not release figures for foreign liabilities on a monthly basis. It was even possible further borrowing to shore up reserves took place."

Pressure would mount on the reserves next year when R7bn in debt inside and outside the standstill net was due to be repaid, he said.

Old Mutual chief economist Dave Mohr said the Bank might have been forced to sell some gold holdings to avoid having to borrow more to shore up reserves.

The figures indicated the Bank's foreign liabilities shot up at the end of the third quarter to R2,6bn. "It appeared reserves were still hit by large capital outflows in November as there was nothing to suggest a fall in the trade surplus in the month."

The latest fall would not allow Bank governor Chris Stals to reduce interest rates in the short term, he said.

SA was not out of the woods yet as there were big loans to repay next year. But he was confident pressure on reserves from short-term capital outflows could turn around next year if the election went well.

Reserves were expected to receive a boost in December from the IMF's $850m loan. Excluding this amount, December reserve figures were predicted to fall. Mohr said this was traditionally a tough month for reserves as many interest and dividend payments to foreigners fell due.

State financial watchdog 'must have independence'

ARG 9/12/93 49

□ Auditor-General's role a vital part of democracy

MICHAEL MORRIS
Political Correspondent

CONSTITUTIONAL entrenchment of the independence of a single Auditor-General will be crucial to the accountability of government and the effectiveness of the State's financial "watch-dog" in the new South Africa.

This is the view of deputy Auditor-General Bertie Loots and is one of the key themes of the latest annual report of the Auditor-General's office.

Any attempts by the legislators elected on April 27 to water down clauses on the Auditor-General's independence in the final constitution would be strenuously opposed.

In a preface to the report, Auditor-General Henri Kluever says the new constitution "should, by way of unequivocal entrenchment, assure the key position of a single, independent Auditor-General".

"Only by having a single audit office will it be possible to audit transfer payments where they are spent and to collate the activities of the various levels of government."

The 1 000-strong Auditor-General's office — which audits all government, provincial and local government accounts and those of numerous parastatal bodies — is guaranteed its independence through extensive clauses in the interim constitution.

Mr Loots told a briefing yesterday that a single Auditor-General with regional offices in the provinces would "not impinge on the autonomy of the regions" but ensure greater accountability and a more efficient and effective auditing operation.

"If there was problem in a region, it might not come to light if it were not taken up at the highest level," he said.

"The audit should function to the benefit of the taxpayer and that is why it should be outside the civil service.

"It is a vital part of the checks and balances of a democratic system.

"The Auditor-General must be able to report without fear or favour on unsatisfactory matters found in audits."

He said the Press was a crucial partner in this process.

"Without the Press, there is no pressure for corrective measures to be taken ... and we would like to achieve that."

But equally the office itself was not above criticism.

Mr Loots also disclosed that many of the 350 auditing staff from the four TBVC homeland governments would probably be absorbed into the Auditor-General's office after the dissolution of the homelands, as part of an affirmative action programme.

New appointments would be made strictly on merit.

An affirmative action strategy was being "tested" with key players, including black auditors' organisations, outside State structures.

It included proposals for training and promotions on merit.

Mr Loots said affirmative action was "in the long-term interests of the office and the taxpayer".

"This is a reality in South Africa and we have no choice but to implement it," he said.

SA economy will improve

Sowetan 9/12/93

By Mzimkulu Malunga

■ LOOKING GOOD *Brighter news from business confidence index:*

(49)

THE continued improvement in business confidence signals that things will be much better in the economic sphere next year, says the South African Chamber of Business.

"It is going to be a much better year for the South African economy. We stand on the brink of a better upturn than we have experienced," says Sacob director-general Mr Raymond Parsons.

The organisation's Business Confidence Index improved for the seventh consecutive month in November by 1,8 percentage points to 103,9 percent.

Higher exports, a firm gold price as well as relaxation of measures to squeeze credit by the South African Reserve Bank are some of the factors which boosted morale in the business community.

Though the rate at which prices escalate — inflation — increased nominally and the number of registered unemployed rose, these did not cause a big dent in business confidence.

Sacob projects an inflation rate of about 8 percent next year and also expects salary increases to be around the same level as well.

Emmanuel Lediga's column, *At the Exchange*, will not be carried this week as he is down with 'flu. The column will be resumed next week when he returns to work.

Economic growth is expected to hover around 0,8 percent this year while a two percent growth is projected for 1994.

On the other hand, manufacturers polled in the Sacob survey indicated that they expect to increase the number of skilled employees.

Sacob chief economist Mr Keith Lockwood says this trend was sparked by increased sales volumes in the manufacturing sector.

However, many manufacturers did not expect to employ more unskilled workers. Only manufacturers in the Maritzburg expected to increase the complement of their unskilled employees.

"Many manufacturers will still adopt a wait and see attitude until after the elections," says Lockwood.

Although things are looking up says Parsons, the outflow of large quantities of money from the country is a source of major concern.

According to the latest quarterly bulletin from the Reserve Bank over R10 billion left the country in the first nine months of the year.

In fact, currently South Africa's foreign reserves are enough to pay for one month of imports only. Under normal circumstances a country has to have enough reserves to pay for three months of imports.

Sacob is hopeful that this problem could be offset by the pending low interest loan from the International Monetary Fund and the lifting of financial sanctions against this country

Political stability remains the overriding factor for any improvement on the economic front, say Sacob officials.

"The key remains stability. We need not two percent but a five percent annual economic growth if we are to make inroads into the unemployment problem in this country," says Parsons.

Different visions of reality

FM 10/12/93

The *FM* has remarked before that perceptions about what's going on in an economy can be as important as hard statistical data; indeed, given the margin for error in calculating statistics (as shown in the substantial revisions that can take place, years after the event), cynics might say that perceptions can be more real than the "reality" of figures.

The difference is that, whereas hard statistics provide a single base from which analysts of all persuasions can work, perceptions by definition vary from person to person. This does not prove that any particular perception is invalid; rather, it shows that there is no one, universal reality. (49)

The different perceptions revealed by this week's two major surveys of the economy are thus significant precisely because they're different. While it's encouraging that the Sacob Business Confidence Index is at a four-year high, we mustn't shrug off the Stellenbosch Bureau for Economic Research finding that white consumers are still pessimistic, because of poor employment prospects. Though almost 40% expect the economy to improve next year, only 25% expect this to help their own financial positions.

In a sense, this economic expectations gap mirrors the political expectations gap. While the party leaders at the World Trade Centre (and now TEC) cut up cosy deals among themselves, their followers (especially erstwhile supporters of the Nats) are confused and apprehensive.

So, too, while business leaders look forward to economic growth and a return to the world as the economic powerhouse of southern Africa, the masses (and we have no doubt that this is true of blacks as well as whites) are far less certain what — if any — benefits they will derive.

Given the nature of the Stellenbosch survey, this is a totally different problem from the long-term issue of satisfying the legitimate aspirations of the disadvantaged majority.

The moral is simple. Whatever political settlement is stitched up, we will not have a smooth transition unless the masses — white as well as black — feel that, if they're not gaining financially, at least they're not getting any worse off. Policies seen as punitive redistribution will backfire. ■

ECONOMIC OUTLOOK

Testing the limits

FM 10/12/93

Have we been underestimating SA'S growth potential?

(49)

Just how much growth can we expect in the economy in 1994? Three consecutive quarters of expansion have confirmed the cycle has turned and business activity is on the increase; but prospects for 1994 are not highly rated by most economists. They argue domestic demand is inhibited by unemployment, estimated at over 40%, and social disruptions. They believe uncertainty about interim arrangements and future economic policy will restrain real investment.

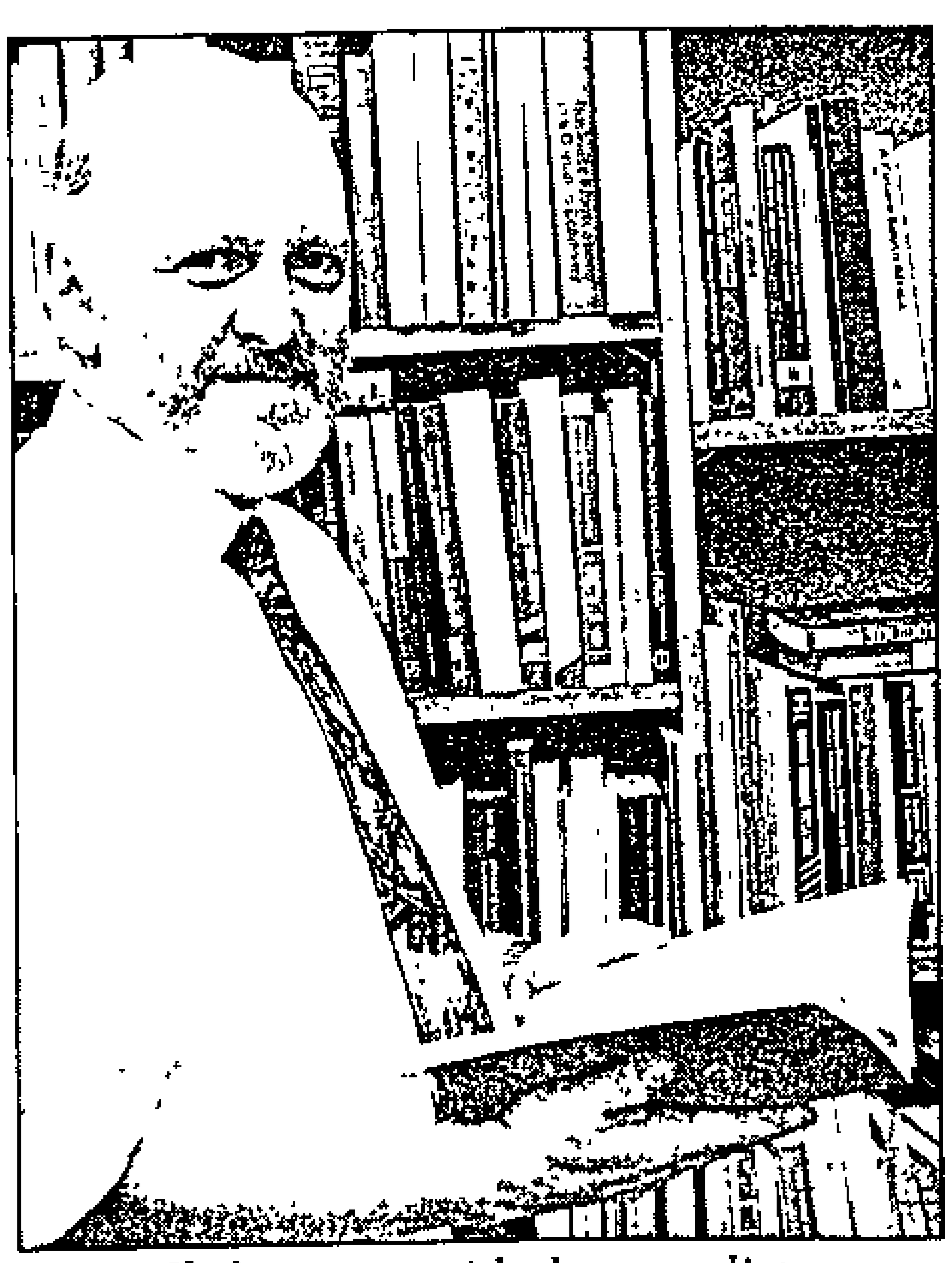
They also say export growth is restricted by problems in the industrialised countries — subdued recovery so far in the US, destabilising currency volatility in most major EC countries, and the disappointing performance of Japan over the past four years.

Moreover, business decisions will be made against the backdrop of an election campaign and will be hostage to aberrant acts which may damage consumer and investor confidence further. So most predictions of growth in 1994 are a modest 1,5%-2,5%, with Sacob predicting real growth of 3,5%-4,5% in 1995.

But there is a more upbeat scenario.

SA has been through the longest recession this century. Gross domestic fixed investment (capex) has fallen for 14 consecutive quarters. In real terms, capital stock has risen less than 7% since 1985. Inventories have been running at historically low levels for more than three years. And consumers have been reluctant to replace big ticket items; so sales of durable goods have been falling since 1990.

So, with a reasonably orderly pre-election period and the start of the new dispensation,



Mohr ... *avoid the populist trap*

The fruits of populism:

Economic growth

Country and period		-2	-1	0	1	2	3
				Year* / Percent			
Argentina	1973-76	3,4	1,9	3,2	6,3	-0,7	-0,2
Brazil	1985-88	-3,4	5,3	7,9	7,6	3,6	-0,1
Chile	1970-73	2,9	3,3	1,4	9,0	-1,2	-5,6
Peru	1985-88	-12,6	5,8	2,1	9,3	8,3	-8,2

Inflation

Country and period		-2	-1	0	1	2	3
				Year* / Percent			
Argentina	1973-76	34,7	58,4	61,2	23,5	82,9	444,0
Brazil	1985-88	142,1	197,0	226,9	145,2	229,7	682,3
Chile	1970-73	26,3	30,4	32,5	20,0	74,8	361,5
Peru	1985-88	111,2	110,2	163,4	77,98	5,8	667,0

*The populist government takes office in year 0. Years -2 and -1 are the two preceding years and years 1-3 are the years following.

Source: International Financial Statistics Yearbook 1992

pent-up demand could cascade through the economy, generating growth of perhaps 3%-3,5% in 1994.

Two important factors are working for it. One is cheaper loan capital — and the potential for further falls in nominal interest rates as inflation continues to fall. The other is cheaper equity capital. The JSE has been anticipating the upturn for some time; share prices, in line with those on equity markets in other countries, have been rising out of proportion to the country's economic performance. This is an inducement to business to expand and it has increased the relative attractions of investing in capex rather than in financial securities.

Meanwhile, third-quarter figures in the latest *Reserve Bank Quarterly Bulletin* show real personal disposable income has risen for three consecutive quarters — by a seasonally adjusted annualised 0,9% in the first, 1,5% in the second and 2,3% in the third — as has private consumption spending, which rose 0,3%, 0,6% and 1,1%, after seven quarters in which personal spending shrank.

The most encouraging sign is confirmation that there has been a recovery in capital expenditure (*Leaders* November 12). In the third quarter it rose 1,3%.

Most of the push came from the public sector, but the fall in private-sector investment slowed down to less than 0,5%.

Better things are expected in the next few quarters as cash flows, related to major capex projects such as Columbus and Alusaf, build up. This will be boosted by other capex undertakings as manufacturing activity gets under way. The 5% third-quarter growth in the manufacturing sector is evidence that the upturn, triggered by improvements in agriculture earlier in the year, is spreading.

The only disappointing third-quarter figure was for exports, which fell 9,4% (see *Economy*). Lower volumes were largely due to a fall in mineral and base metal exports. This highlights the most serious problem we face: poor commodity prices on world markets.

However, a number of things are going right for SA internationally.

Not only have sanctions been formally lifted, SA's attractions are relatively greater than a few years ago, partly because of the extent of reconciliation between former foes — at a time when Bosnia and Angola are self-destructing, clashes between Irish Protestants and Catholics figure prominently in world headlines, and Arabs and Israelis have achieved only an uneasy and unpopular agreement on a limited number of issues.

Whatever flaws the recent settlement may contain, investors concerned about the quality of decision-making in SA must be impressed by the way in which negotiators forged ahead, despite reluctance and obstruction from those on the Right and Left fringes. It says much about the quality of leadership to be found in all parties and organisations and testifies to the ability of South Africans to adjust dynamically to changing circumstances.

All this has happened at a time when it has become clear that the economies of the ex-Soviet Union and its satellites don't provide many immediate investment opportunities. After the fall of the Berlin Wall in 1990, unfavourable parallels were drawn between SA and the emerging economies of the former Second World, with its reservoir of skills. Now the balance is tipping against eastern Europe — and SA's chances of attracting capital are that much better.

Also helping SA is the fact that activity in world equity markets has driven prices to a point where shares in the main financial centres are losing their lustre. This has revived investor demand for gold — a trend reinforced by falling interest rates in the US and a number of other countries.

So far, benefits of international investment have been largely absorbed by the financial rand — inflows and outflows of nonresident funds move through the investment currency and only trade transactions through the commercial rand. So foreign buying of gilts and equities has a limited impact. But, as the barometer of international investor sentiment, an improvement in the financial rand is important If it persists, it will eliminate the need for a dual currency.

The commercial rand has held steady since the Bank reversed its sharp fall in October (see graph). Presumably sentiment has changed and importers are no longer paying for purchases as soon as possible, nor are exporters delaying settlements (a favourable turn in leads and lags).

Board of Executors economist Rob Lee foresees that "effective economic and political management could produce the problem of excessive capital inflows rather than outflows, within a relatively short period."

Positive economic trends in the US, a major trading partner, offer improved prospects for SA exports. Personal incomes rose in October for the third consecutive month, while consumer spending rose for the seventh consecutive month. Unemployment fell to 6,4% in November, after the biggest one-month improvement in a decade. The number of people filing first-time unemployment claims dived in the last week of the month

Also in November, the index of leading indicators — government's main economic forecasting barometer — rose for the third consecutive month. It seems growth is gaining momentum in the US, as it is in the UK.

The outlook for growth in most developing countries, which outstripped that in the industrialised world for the past two years, remains favourable The IMF's *World Economic Outlook*, published in October, projects 1994 growth of 7,1% in developing countries in Asia, 4,6% in those in the Middle East and Europe and 3,5% in the western hemisphere (mainly South America). Even prospects for Africa are up, at 2,6%, from 1,6% in 1993 (49)

This is good news for SA exporters.

What is important at this crucial stage of our economic cycle is that long-term planning must be based on the economy's capacity to generate funds needed to provide social infrastructure

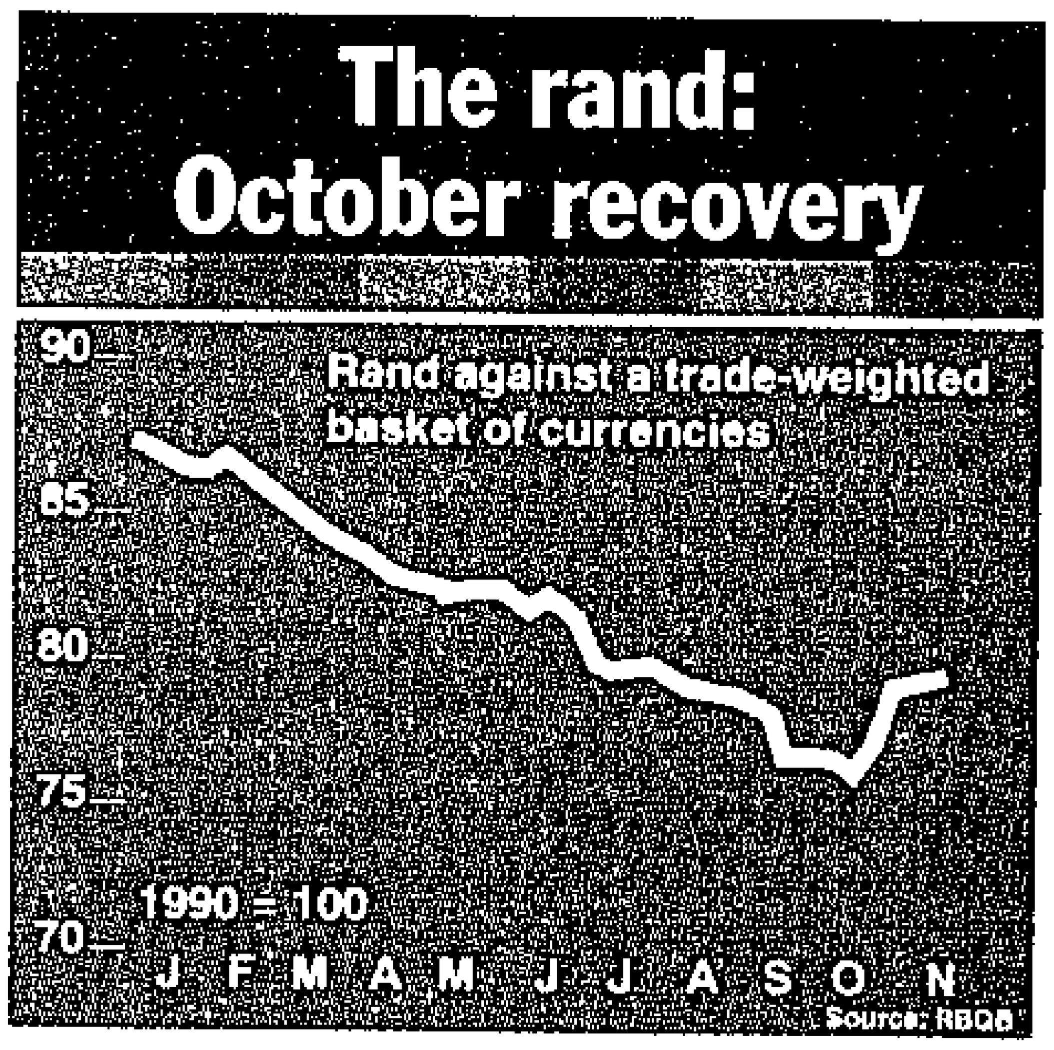
There is a danger in setting social targets and then relying on demand-led growth to finance them, as advocated by Vella Pillay of the Macro-Economic Research Group (Merg), which is ANC-linked (*Leaders* November 12). Growth that depends on people's needs, rather than their ability to produce, is fragile.

Unrealistic attempts to make good socio-economic shortfalls within a specified time will lead SA into the populist trap. The dangers were highlighted by Unisa's Philip Mohr at the biennial conference of the Economic Society of SA in October.

He looked at populist episodes in four Latin American economies (see table). In each case, strong growth occurred in the first year in which the policies were introduced In year two, the growth rate either declined or became negative and, in the following year, all the economies were shrinking Inflation, which in each country had been high to start with, accelerated and reached triple digits by the third year.

Pillay ... *stimulate demand*

If we are to attract foreign investment, this is the path to avoid. Merg's 10-year model predicts rising growth rates But experience shows that a programme which focuses first on needs, then on how they are to be paid for, is more likely to see growth crumble under the weight of demands



Populist episodes of the sort experienced in Latin America undermine all attempts to implement a consistent economic policy Far better to approach the problem from the supply side, generate growth by deregulation, trade liberalisation, privatisation and eventually the abolition of exchange control. Containing government revenue — as a percentage of GDP — would boost private-sector profits and increase the tax take. Then, having calculated potential revenue, funds can be channelled to social needs

That is for the long term Short-term, an important threat to strong recovery is that people will underestimate the potential of the economy — and therefore lose valuable opportunities Caution is best exercised by planning for the entire economic cycle

For a healthy expansion, we must make the most of any fat years and not waste the proceeds And, for only a brief and modest contraction when the economic cycle turns, SA must attract foreign capital over a long period That requires sound economic policy and consistent implementation ■

P.T07

R18m budget for TEC

(49)

Political Staff (35497)

THE Transitional Executive Council yesterday agreed to an R18,5 million budget to see it through to June next year.

The 19-member council also formally appointed top officials in its administration. The new chief executive officer is Dr Deon Rudman, an official of the justice ministry and member of the peace secretariat.

Others appointed were deputy directors: Miss Janet Love, an official from the Convention for a Democratic South Africa, and Dr Theuns Eloff, a member of the multiparty negotiations process administration.

The chief executive officer of the Independent Electoral Commission, which will over see the elections, is Dr Renosi Moketsi, formerly chairman of the technical committee on the demarcation of regional boundaries.

The TEC is to meet again on Tuesday. CT 10/12/93

BoP remains cause for concern, says Sanlam

Star 10/12/93

(49)

■ BY THABO LESHILO

Although the outlook is brighter after five years of decline, the balance of payments (BoP) continues to be a cause for concern, says Sanlam.

Chief economist Johan Louw says in a survey that the general economic climate should be better next year if the political situation continues to improve.

A real growth rate of one percent is possible this year, rising to about two percent next year.

"The significant drop in the inflation rate in recent years, on both production and consumer levels, is another factor that could contribute to the expansionary phase which the economy has now entered, being stronger and more lasting than previous upswings during the last decade," says Louw.

Sanlam expects the inflation rate, as measured by the year-on-year increase in the consumer price index (CPI), to rise this quarter. But it says the downward trend should, for technical reasons, recur in early 1994.

"As a matter of fact, we expect the inflation rate to drop sharply — to below 7 percent — next April when the effect of the increased VAT will disappear from the CPI."

Single-figure inflation should continue into 1995 if fiscal and monetary discipline are maintained and the weather remains favourable for the farming sector.

On the other hand, the net capital outflow of R50 billion from 1983 to date because of balance of payments transactions, puts a damper on growth potential.

This, however, shows that SA's trade account performed remarkably well through the sanctions era.

Satisfactory export figures were achieved, while imports remained high, despite the recession.

Unfortunately, says Louw, the large surpluses recorded on the current account of the balance of payments had to be applied in full to finance the massive net outflow of capital.

He says gold and foreign exchange reserves have come under strong pressure, with figures showing that current reserves can barely cover imports for one month.

"Sanlam expects the surplus on the current account to decline (and even go into deficit) as the upswing gathers momentum and imports increase," says Louw.

He says in view of the uncertainty surrounding the April election, financial markets could be unstable over coming months. He foresees no further cuts in Bank rate before the second quarter.

'SA growth rate at 2% next year'

Business Editor

SA IS in the early stages of an upswing and the economy is expected to grow by 2% next year, Sanlam chief economist Johan Louw says in his Economic Survey.

But, he warns, financial markets could be unstable in the next six months because of "uncertainties associated with the election".

Louw also warns that the surplus on the balance of payments (BoP) is expected to decline and even change to a deficit as the upswing gathers momentum and imports increase.

"On the other hand the lifting of the remaining sanctions, and the associated availability of investment funds once the political situation improves, should have a salutary effect on our foreign reserves, the value of the rand and eventually the country's growth potential."

Discussing interest rates, Louw says there is still an underlying downward tendency.

(49)

"Factors that could have an influence include: —

- the downward trend in foreign interest rates CT 11/12/93
- developments with regard to gold and other foreign exchange reserves
- the decline in the inflation rate
- the actions of foreign investors.

"However", he concludes, "a further lowering of the bank rate before the second quarter of 1994 seems unlikely because the position of the foreign reserves could remain a real problem.

"Reductions in longterm interest rates are also foreseen, but the uncertain political situation could limit the downward potential in the short term."

NEF approves first R45m for job creation

B/D94 13/12/93

JOHN DLUDLU

THE National Economic Forum (NEF) has approved the allocation of an increased R45m first tranche of the R254m it has put aside for job creation to a wide range of small business, community and infrastructure projects. (49)

The money will be spent on 195 new employment projects across the country. The NEF has received supplementary funding worth R110m from other institutions to finance parts of the approved ventures.

A spokesman said at the weekend a further R2,4m had been allocated for the financing of job creation training schemes, and further allocations would be made during the first nine months of 1994.

He said the forum's job creation package was so oversubscribed by business, goverment departments, non-government organisations and community-based organisations that it had increased the initial funding package from R30m to R45m.

The last day for applications for money from the NEF Job Creation Project was Wednesday, but the NEF had so far received more than 900 applications for funds totalling R2bn. The Job Creation Project has a total budget of R225m, while the training component has R29m.

A substantial part of the allocation — more than R31,3m — went towards financing 181 rural community-based projects in Natal, KwaZulu, the eastern and northern Cape, and the eastern, western and northern Transvaal.

Many projects entail infrastructural development like creches, community centres and schools, and the erection and maintenance of roads in these regions.

delegation to see models.

The Volksfront wants an independent state for Afrikaners, and is against racially integrated councils. Instead it wants municipalities to cooperate with each other through lo-

ANC members.

"Someone should ask the ANC about the 300 Inkatha leaders that have been killed," said Maninger.

He added the TEC's decision to send in troops would lead to resis-

still to be determined, Maninger said yesterday.

The Volksfront would have discussed attacks on farmers, and the PAC would have raised right-wing threats of civil war.

valour at rallies to commemorate Umkhonto's 32nd anniversary on Thursday.

Leaders divided on forum's chance of success — survey

B/Day 14/12/93

ADRIAN HADLAND

CAPE TOWN — Opinion is divided among political, public service and business leaders on whether the National Economic Forum will have any impact on the international competitiveness of SA's economy, a survey has found.

Conducted by Stellenbosch University's centre for international and comparative politics, the survey questioned 1 200 public service chief directors and director-generals, private sector MDs and CEs, and parliamentary and extra-parliamentary leaders on their attitudes to a range of issues. Entitled The Survey of Elite Attitudes and Values toward Political, Economic and Social Transformation, the survey found high levels of uncertainty regarding the forum.

While 57% of NP-aligned respondents, 64% of PAC members, 47% of DP members, 58% of ANC/SACP members and 43% of Inkatha Freedom Party members believed the forum would have a positive impact on SA's international competitiveness, 26% NP, 27% PAC, 30% DP, 36% ANC and 40% Inkatha respondents were uncertain of the forum's role.

Supporters of all parties, ranging from 92% among ANC supporters to 56% of the Inkatha respondents, thought the redistribution of wealth was likely to increase with a government of national unity. Most respondents expected an increase in free enterprise with only the DP (43%) and CP (69%) believing free enterprise would be adversely affected.

(44)

Supporters of predominantly white-supported parties, such as the NP, DP and CP, expected a decrease in the effectiveness of the public service, standard of education and medical services under a government of national unity. Supporters of the ANC, PAC and Inkatha expected an increase in the effectiveness of the same services.

Almost 90% of the respondents felt the SA population growth rate of 2,3% a year held dangers for the environment, and 43% of businessmen thought protection of the environment was more important than the protection of jobs.

One of the closest issues concerned the legalisation of prostitution — 45% were against this and 41% in favour. "It would appear to be one of the critical value choices of the future," the survey noted.

Right wing plans events

GAVIN DU VENAGE

THE Day of the Vow would be a religious and cultural event with little politics in evidence, Afrikaner Volksfront spokesman Steve Maninger said yesterday.

. AWB leader Eugene Terre'Blanche and CP leader Ferdi Hartzenberg would address services at the Voortrekker Monument outside Pretoria tomorrow and on Thursday while Volksfront leader Gen Constand Viljoen would speak at the Blood River Monument in Natal on Thursday.

Sapa reports Radio Pretoria called on Boer Commando members yesterday to report to the station's broadcast centre at Donkerhoek to provide security after post office employees, sent to seal the station's illegal transmitter, were refused entry. The station continued to broadcast programmes devoted to the Day of the Vow last night.

Bill 'designed to ensure free and fair elections'

B/Day 14/12/93

ADRIAN HADLAND

CAPE TOWN — The Electoral Bill marked a watershed in SA history, Home Affairs Minister Danie Schutte said in Parliament yesterday.

As the foundation for a free and fair election, the Bill would be instrumental in efforts to build a new SA on the principles of true democracy, freedom and justice.

Introducing the second reading debate on the Bill, Schutte said the code of conduct contained in the Bill would apply to all political parties whether or not they had registered for the election or intended to participate. "It shall apply to every other organisation . . . which supports or opposes the policies, candidates or cause of any registered party, or which propagates non-participation in the election."

The severe penalties and sanctions proposed by the Bill were necessary to create conditions for a free and fair election, Schutte said.

These included vote reductions, candidate disqualification, registration cancellation, termination of state funding and the prevention of parties entering specified electoral districts.

DP MP Ken Andrew said the Bill had been skewed to favour party leaders at the expense of the electorate. The lack of a constituency-based system meant new MPs would not be accountable to voters while the proposed single ballot paper for regional and national legislatures disallowed voters' free choice.

Inkatha Freedom Party MP Hennie Bekker said: "The paper has been wasted in the writing of this Bill." While it intended that political intimidation should end, that the SABC be unbiased and voter education neutral, all of these had been compromised, he said.

CP MP Daan van der Merwe complained that the standing committee considering the Bill had not been given sufficient time, that it signalled a triumph of ideology over ethnicity and that the Bill was simply "bad and dangerous".

Jannie Momberg (Ind-ANC) said tolerance had to be drummed into people at meetings leading up to the election, Sapa reports. He said the ANC fully endorsed the electoral code contained in the Bill. The election would not succeed unless there was a climate of tolerance.

Our Political Staff reports that the interim constitution was tabled in Parliament yesterday. The document will be discussed behind closed doors today and tomorrow by the parliamentary standing committee on constitutional affairs and debate on its contents is likely to begin on Friday.

Warning on knowledge gap

SA Republican

Leaders divided on forum's chance of success — survey

B/Day 14/12/93

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There can be no free riders to our future prosperity

(49)

JAY NAIDOO B/D 15/12/93

THE overriding concern of the recent ANC/Cosatu/Sanco conference on reconstruction and development was to develop policy that will ensure real delivery. In considering this, participants were asked to apply their minds to realistic targets and to consider means of financing. A host of proposals on financing was discussed and these now have to be considered and built into a coherent and simplified programme.

Our starting point is the legacy of apartheid — division, racism, poverty, unemployment, violence and an economy with severe structural problems. Unless we change this situation, the prospects for democracy, prosperity and peace are bleak. We have inherited a complex and very difficult situation to which there is no quick-fix solution.

For the ANC/SACP/Cosatu alliance, three fundamental objectives are prerequisites for our future. These are a massive attack on poverty and deprivation, the building of a viable and sustainable economy and a democratisation of our society.

To achieve these requires a strategic and programmatic conception. The current crisis cannot be solved unless we harness and mobilise all the people and resources of our country into a common and purposeful effort.

We must rely on and have confidence in the potential of our people regardless of race, sex, creed, class, and urban or rural location. Our people have shown a remarkable capacity to organise and struggle for their rights in mass organisations such as trade unions, civics and organisations of women, students, youth and rural people.

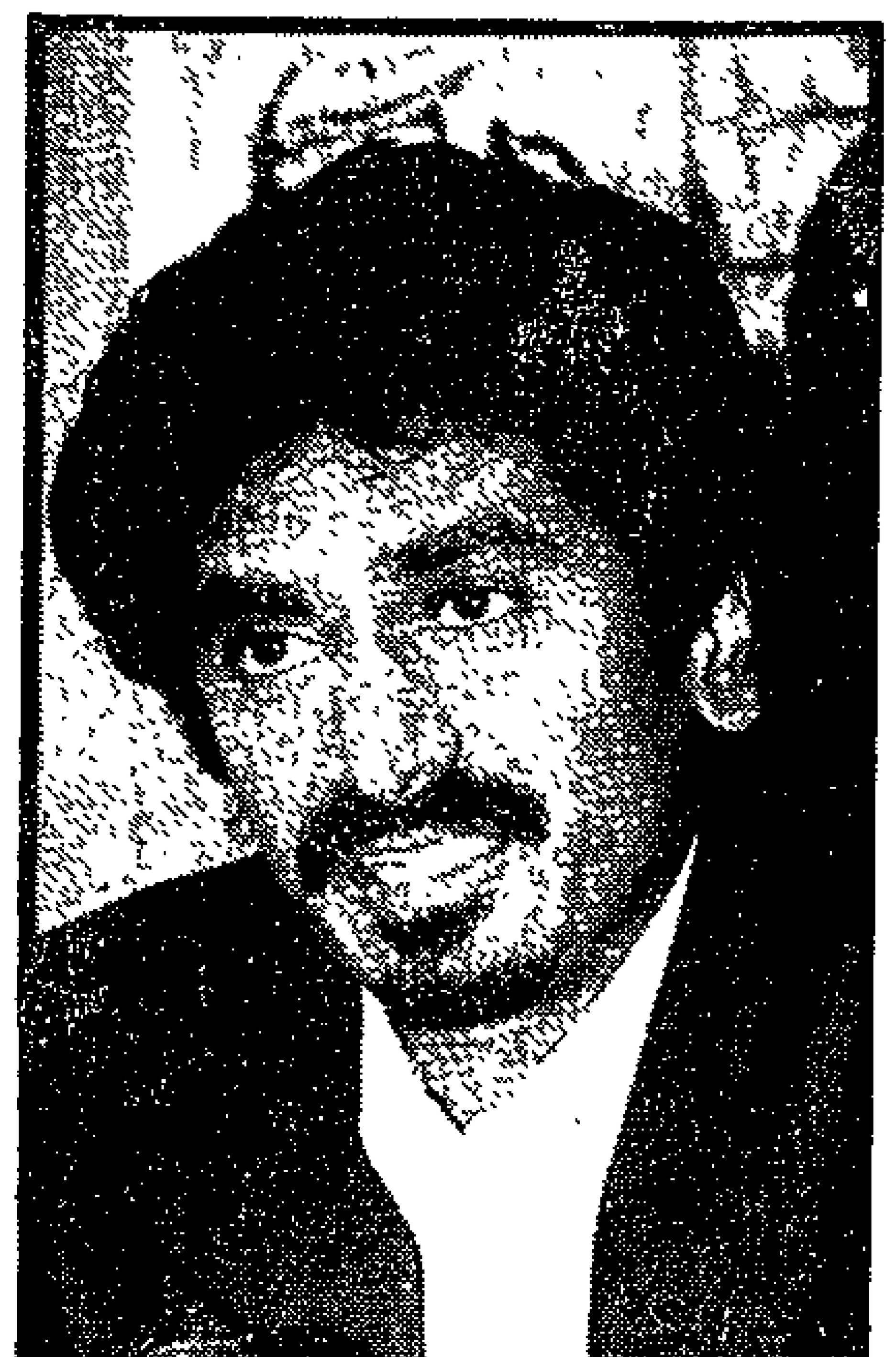
We can move away from statist conceptions of development and avoid populist pandering to a passive citizenry. The responsibility for development and growth will be shared and balanced between the state and organisations of civil society.

Such an approach will be based on a subcontinental development programme. This will meet basic needs and raise living standards and also provide new impetus to growth in the manufacturing sector. However, by itself such a demand-led revival of the manufacturing sector may not sustain growth.

We must restructure as we generate demands. Two factors are essential. First, we need to meet our basic needs in the most effective manner possible and here we look towards product innovation. If successful, such products will open new export markets in large economies in the developing world such as China, India, Brazil and Indonesia, because these could effectively meet their developmental needs.

Second, the importance of information technology in a modern economy is paramount. We must develop an advanced subcontinental electricity, telecommunications and information technology network.

Along with human resource development this will underpin a successful reintegration into a highly competitive world market. It will also allow us to treat our economy as an integrated unit in which an advanced infrastructural network will facilitate basic health care, education and business service needs. If we succeed



☐ NAIDOO

in such programmes, which are an exciting challenge to the private sector, we will reduce our current vulnerability to cheaper manufactured imports and will develop new export markets.

Dividing our society into so-called First and Third Worlds is a strategic mistake if we seek long-term, viable and sustainable growth. The reconstruction and development programme does not make this mistake but it accepts that if we are to integrate our economy and society and involve people in sharing responsibility for development growth and reconstruction, we have to democratise all institutions within the state and civil society.

This is a coherent strategic conception to be implemented by programmes such as human resource development, job creation, active labour market policies to deal with the inevitable disruption and dislocating effects of change, support for micro, small and medium enterprises and a coherent industrial policy.

Regarding the financing of reconstruction and development, it is imperative that, first, the programme consciously and consistently tries to ensure that its projects lead to sustained growth of the economy without excessive inflation or unmanageable balance of payment problems. This will benefit everyone in society and therefore all should be prepared to contribute.

All that the proposed reconstruction levy (or wealth tax as the media have referred to it) has suggested is the universally accepted principle that those who can afford to pay more will be required to do so. We have every confidence that all South Africans committed to our future would accept this. The hysterical attack on this proposal is merely an expression of selfish vested interests.

Second, if we examine the economics of such a proposal it is clearly not intended to and indeed could never finance reconstruction in its totality. At best it could make a contribution, and the extent and effectiveness of this is clearly a matter for careful consideration. But it is nonsense to dismiss the underlying principle of progressive taxation. There can be no free riders to our future prosperity.

Third, as ANC secretary-general Cyril Ramaphosa stated in his opening address to the conference, "the ANC believes that a reconstruction and development programme can be the biggest nation-building project which this country has seen. This is why we want to emphasise the need for an inclusive approach. We need to devote time to discussing how we will broaden this process so that all South Africans will be able to contribute towards it, recognise it and accept it as legitimate."

Accordingly, all proposals will be evaluated and ample scope will be provided for comment and contribution. We are committed to developing policy democratically and encouraging comment and informed debate. The role of the media in this respect is crucial.

The challenge we face is stark and simple — either we liberate our people from the legacy of apartheid or we allow the legacy to contaminate the future with its inherent racism, division, poverty and violence. This is a choice we will have to make as a nation — the reconstruction and development programme seeks to build that nation and offer a framework for a correct choice.

☐ **Naidoo is co-ordinator of the reconstruction and development programme.**

Healthy economic growth forecast

B/Day 15/12/93

KELVIN BROWN

IMPROVED local and international conditions, better overseas trading conditions and positive political developments could see the economy growing at least 2,5% next year after picking up around 1% in 1993, according to the latest profile of the Nedbank economic unit.

The outlook for next year appeared more positive as a result of the establishment of the Transitional Executive Council, the normalisation of international business relations, the improved agricultural season, signs of a general economic recovery in the major industrial countries and a possible increase in commodity prices.

"This, together with continued monetary and fiscal discipline, could provide the basis for an improvement in economic performance during 1994," noted the unit.

It forecast that overall growth for this year would be around 1% as exports, import replacement and domestic construction assisted the agricultural-led recovery.

But depressed domestic demand — due to substantially reduced personal disposable income after three years of recession and high unemployment — was hindering recovery.

"Companies have generally curtailed expenses during the prolonged recession, while consumers have been faced with higher indirect taxes and lower wage increases," it said.

The situation had improved in many sectors of the economy but conditions in sectors such as wholesale and retail, catering and accommodation were still somewhat mixed.

The recovery was best reflected in the manufacturing sector. The sharp recovery of agriculture had already led to a rising demand for industrial chemicals such as fertilisers and insecticides, the unit said. 49

Manufacturing output was also improving as a result of the pick-up in building and construction activity stimulating demand for materials.

"Furthermore, the massive investments in the synthetic fuels industry in recent years have begun adding significantly to manufacturing activity in replacement of imported fuels and in adding to exports."

The critical factor next year remained the balance of payments situation as the foreign reserve position was under constant pressure, the unit said. At present the country had less than one month's import cover.

"The external situation facing the country in 1994 is no less serious, with substantial debt commitments of nearly \$2bn and a likely rise in import demand."

The unit said that the forecasted one percentage point cut in interest rates next year, as a result of the expected sharp drop in inflation when the effect of the VAT rise fell out of the figures, would not occur if the country's reserve position continued to deteriorate.

Leaders optimistic about economy

(49) CT 16/12/93

JOHANNESBURG. — Most South African leaders believe the economy will grow modestly under a government of national unity, and the protection of the environment will be more important than jobs.

This is according to an attitude survey of political, business and civil service leaders by the University of Stellenbosch's Centre for International and Comparative Politics.

The preliminary results of the survey were released yesterday.

Most of the 455 respondents also believed there would be an increase in free enterprise once a new government was in place. Supporters of the Democratic Party and Conservative Party, however, largely felt there would be a decrease.

Supporters of all parties were unanimous in their support for the attitude that the redistribution of wealth would increase under a government of national unity.

This view was held most strongly by supporters of the African National Congress/-South African Communist Party and the CP, while Inkatha Freedom Party supporters were lukewarm.

Although most respondents believed there were more pressing problems than the environment, the survey found most placed greater importance on protecting the environment than on protecting employment opportunities.

The university's research centre said although care was taken to include a representative sample of "non-whites" in the survey of leaders, "non-whites" did not occupy top decision-making positions across all sectors of society.

"The main conclusion that can be drawn from this analysis of the social make-up of opinion leaders is that they are most definitely not representative of the larger South African society."

The full results and analysis of the survey will be released in February. — Sapa

Govt revenue above target

CT 17/12/93 (49)

From GRETA STEYN

JOHANNESBURG. — The government is receiving less income from personal taxation than expected as sluggish wage increases and continued retrenchments drag down Exchequer receipts from individuals.

Collections from companies have also been slow to pick up because of the lag in payment of secondary tax on companies and the squeeze on companies' profits.

However, booming VAT and customs and excise collections have offset the problem and the government looks set to end the fiscal year with revenue slightly above target.

The latest breakdown of receipts show income tax collections — from companies and individuals — rose by only 5,4% in the first seven months of the year.

According to a statement issued by the Finance Department yesterday, this was still substantially below the budgeted rise of 11,7%.

Slow growth in personal tax receipts

While the monthly statement does not distinguish between companies and individuals, the Reserve Bank noted in its last Quarterly Bulletin provided some details on the trend in the first half of the fiscal year.

It noted receipts from companies had been lower in the first six months of 1993/94, compared with the previous year.

A small increase had been expected in the Budget.

"This disappointing behaviour of income tax receipts from companies was probably related to the lower profits under generally depressed economic circumstances and the lag in the collection of the newly introduced tax on distributed profits (STC)."

The Bank added proceeds from individuals in the first six months had also been lower than envisaged in the Budget; probably because of lower-than-expected salary and wage increases and continued labour retrenchments.

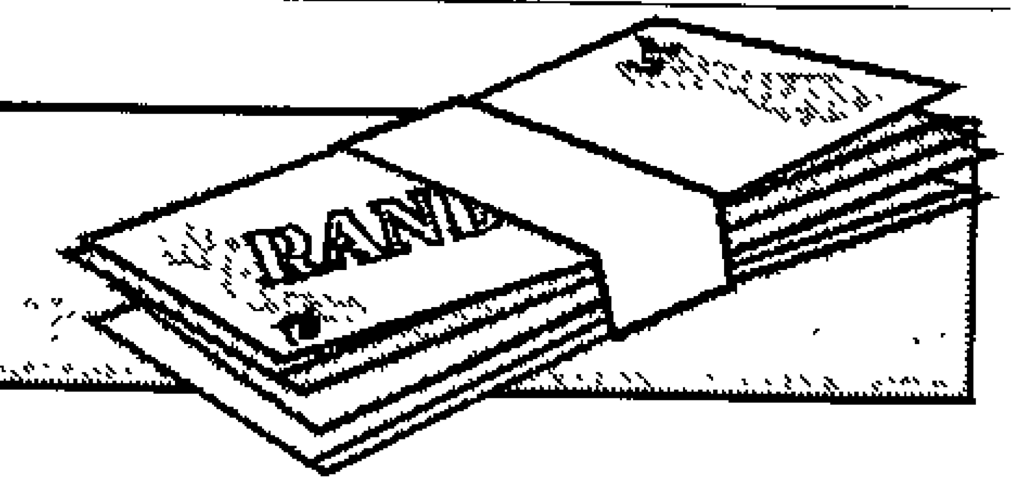
The latest figures show, however, VAT collections are still running above budget (45,7% versus a targetted 43,1%) while customs and excise revenue was also booming (up 16,4% in the first seven months against a budgetted 10%).

In the first eight months of the fiscal year, revenue rose by 17,4%, which is virtually the same as the budgeted rise of 17,3%.

The full breakdown is not available for thé period.

The statement also showed the government had virtually completed its borrowing programme for the fiscal year.

on Business



Credit control still firm

Sowetan 17/12/93

By Mzimkulu Malunga

ALTHOUGH prices are beginning to stabilise, the Reserve Bank is unlikely to relax the squeeze on credit until after next April's elections.

According to Sanlam's chief economist, Mr Johan Louw, the pressure on the country's foreign reserves prevents the Reserve Bank from relaxing interest on money loaned to commercial banks.

Presenting Sanlam's December economic survey, Louw joined other economists in an upbeat mood and added his voice to the chorus which has stated that the economy has finally moved out recession after almost five years of decline.

(49)

"If the political climate improves further, general economic activity should increase noticeably next year," he said.

While the rate at which prices escalate -- inflation -- rose during the last quarter of this year due to technical reasons, the inflation rate can drop to below seven percent next year.

If the government continues to exercise caution before going on a spending spree and the weather behaves normally, South Africa can experience the lowest inflation rate since the early 1970s. This can carry on right into 1995, says Louw.

Louw expects imports to increase and overtake exports as the economic upswing stimulates people's appetites for foreign goods.

Also, companies will need new machines to improve their productive capacity.

Economic growth to top 1,6% next year

(49)

ECONOMIC growth could top 1,6% next year, setting the scene for a rise of around 4% in 1995, Standard Bank Group economist Nico Czypionka said.

Writing in the latest Rode Report on the property market, Czypionka said 1994 could be a precursor to a period in which a number of long-absent positive factors could combine to "generate more meaningful growth magnitudes" in future.

It was difficult to predict 1994, a milestone in which the potential for "accidents, whether political or economic, materially limits the extent to which unrealistic optimism is possible".

But the past few months had produced a growing number of "statistical spring blossoms" such as the recovery in agriculture and higher mineral and metal prices.

CT 18/12/93

Czypionka said there was room for a drop in interest rates of between 2% and 3% over the next year. But this would not be big enough to restore consumer confidence. The spending power of individuals and companies was likely to remain under pressure and growth was set be "on the supply side of the economy and not the usual consumption-led recovery." — Sapa-Reuter

'Low world growth to affect SA'

(49) CT 18/12/93

Business Editor

THE world is entering a period of lower growth and lower inflation and this will have an effect on investment decisions, says Marinus Daling, new chairman of Sanlam and Sankorp.

Daling — who at 47 has become one of the most powerful and influential men in SA — was appointed deputy chairman of Sankorp in 1991 and of Sanlam in February this year. It was announced yesterday that he had succeeded the late Pierre Steyn as chairman of both organisations.

S W "Billy" van der Merwe, chairman of the law firm Hofmeyr van der Merwe, and of Sanlam Properties, has been appointed deputy chairman of Sanlam and a director of Sankorp.

Leading industrialist Dave Brink, non-executive chairman of Murray & Roberts and of Absa, succeeds Daling as CE of Sankorp.

Daling said yesterday that changes would have to come about in reaction to what was happening in the environment and in business.

There were four trends. "The first is the new SA. The new dispensation will create opportunities and obligations to develop people. There will be tremendous opportunities if we do it correctly."

In addition to this, changes were taking place in the international financial services industry. "We shall have to keep abreast of these — but, again, if we do it correctly it will bring opportunities."

Technological change, including the decentralised availability of computing power, made new products and new types of products possible.

And, said Daling, "the industrialised world is entering a period of slower growth".

This, combined with high rates of interest, would make bonds more attractive in comparison with the equity market.

Economy 'is set for a blastoff'

B Day 2/12/93

A VERTICAL takeoff for the economy is predicted from early 1994, says Seifsa's head of economics Michael McDonald.

In an interview yesterday McDonald said all the signs that commerce and industry had been waiting for were in place for a rocketing of output and employment.

Expectancy was being further fuelled by the major expectation that once a "legitimate" government was in place the sky would be the limit. "Everything is ready to go ... especially in the metals industry where pent-up demand has been showing signs of breaking out in the third quarter," he said.

Official figures for the current quarter were still being compiled.

"We see the takeoff off as being extended and not just a quick flurry."

Seifsa's current employment levels were about 280 000.

McDonald said the "boom" situation would obviously mean higher employment at all levels.

"Business in general is becoming more confident day by day as they see the advent of a free and fair election looming." However, he cautioned the elections must be seen both locally and abroad as free.

McDonald said the only concern was that a new ANC government might baulk at an IMF loan if the strings attached were too structured, but added such a loan was essential to prop up the balance of payments in the transitional stage.

However, the ANC was just as anxious to get the economy back on track and if the IMF loan was taken account of within "structural changes", there should not be a hitch.

MICK COLLINS

SA Federation of Civil Engineering Contractors said its sector was initially expected to grow 7% to 9% in rand terms in the 1994 first quarter.

Executive director Willie Vance said this was good news compared with what had been happening in the past few years. (49)

"We are getting new inquiries. The Transport Department has already indicated that it will have more money to spend on roads.

"One of these is the 150km toll road between Nylstroom and Pietersburg which is out on prequalification enquiry and could go ahead at a cost of between R300m to R400m.

"Our workforce, which is currently at a low of 57 000, is initially expected to shoot up to 60 000."

He said contracts in the third quarter had leapt 25% but fourth quarter figures were not expected to be as high. These were still being compiled.

Vance's only fear was that of a hiatus in the second quarter of 1994 when the elections were held. "But for now the picture is rosier than it has been for years."

Sacob's recently released BCI showed confidence levels at a four-year high. The chamber predicted a growth rate of 2,1% for 1994.

It said SA could be on the brink of an economic upturn that could be stronger and more enduring than any in the past two decades.

Sacob economist Keith Lockwood said the mood was boosted by the prospects of the lifting of remaining sanctions, which in turn had raised expectations of an increse in foreign investment.

Recession that refused to die

49 WM 23-29/12/93

REVIEW OF THE YEAR '93

Reg Rumney looks at some mistaken economic forecasts

The rule is jam tomorrow and jam yesterday, but never jam today — *Through the Looking Glass*, Lewis Carroll.

THE end of the year is somehow traditionally the time for economists to look at the tea leaves and predict the year ahead.

The seasonal cheer they habitually adopt in making the forecasts can't always be wrong. And people often forgive false bullishness far more easily than mistaken bearishness.

The long, drawn-out recession that seems (we hope) to be only now departing after more than three years — it started in the third quarter of 1989 — caught economists out year after year, however. Main problems were the devastating drought of 1992, a world economy that stayed mired in recession, a balance of payments constraint because of capital outflows and a commitment to fight inflation with relatively high interest rates.

Measured by the most common economic indicator of prosperity, South Africa's Gross Domestic Product, real growth over the past three years has been negative. For a developing country with a population growth rate of 2,5 percent this is bad news.

When it started in 1989 there seemed to be some hope of a brief downturn and a relatively "soft landing" some time in 1990. Some economists even believed 1990 would record real growth.

As1990 drew on, the hope of a soft landing disappeared.

Then 1991 was seen as the year of the turnaround. When that didn't happen, 1992 was the year things would get better.

By the end of 1992 even the most optimistic economist had had their sunny outlooks tempered. But they did venture some hope of recovery. That has, finally, happened. But don't ask me to predict for how long it will continue, how strong it will be, or when it will end.

Here are some of the forecasts economists made over the past few years, together with the actual outcome:

●In the December 19 1988 edition of *Finance Week* Trust Bank economist Nick Barnardt saw 1989 as being a bumper year, with real economic growth of three percent, while other economists were pessimistic.

●South Africans are "unduly pessimistic about short-term economic prospects." — Boland Bank's *Economic Review*, quoted in *Business Day* June 6 1989 (They were right. Economic growth in 1989 was 2,7 percent, despite it being the year the recession began.)

●It's hard not to feel good about the portents for 1990. — *Business Day* editorial December 15 1989

●... the economy is likely to experience a relatively soft landing (this year) — the SA Chamber of Business, quoted in the *Citizen*, January 31 1990.

●Old Mutual sticks to soft landing forecast —*Business Day* headline April 1990 (Real GDP declined by 0,5 percent, which is not a particularly soft landing, given that the economy did not show any signs of recovery for another two years or so).

●In December 1990 Sanlam chief economist Johan Louw was quoted as saying the downturn was expected to level out towards the end of 1991. "He remains confident its course will not be as severe as the previous two downturns in the 1990s." Louw forecast a slightly positive rate of 0,5 percent for 1991.

●The South African economy appears to have bottomed out in the first half of 1991, preparing the way for a new upswing which may already be under way. — *FNB Economic Review*, July 1991

●The present recession may be over by the end of the year, the *Citizen* quoted Syfrets investment analyst Matt Brenzel as predicting in July 1991.

●A recovery in the economy may come more quickly than expected, *Business Day* quoted various economists, commenting on the Reserve Bank's leading indicators, also in July 1991 (GDP actually declined for yet another year in 1991, by 0,4 percent. But 1992 was the year many got really wrong, when the so-far mild recession really began to bite.)

●A modest growth, two percent, is on the cards for next year. — Old Mutual economist Rian le Roux, the *Citizen* July 1991.

●... it can be predicted with a large measure of confidence that the South African economy will gradually move into a recovery mode from about mid-1992 ... In 1993 the upswing will gather further momentum, supported by the expected recovery in the world economy ... — *Econovision* 1st Quarter 1992

●All in all we envisage a real economic growth rate of about two percent for 1992 as opposed to an estimated negative one of 0,5 percent in 1991. — Sanlam Economic Survey January 1992

●Consensus among many economists is that after more than two years of mild recession South Africa should see the start of an upswing in 1992, and a true boom in the year after. — Reg Rumney, writing in *The Weekly Mail*, July 26 1991.

●After three years of negative growth, we should experience positive growth in 1992. — Old Mutual Economic Monitor 1st Quarter 1992 (Actual GDP figure for 1992: -2.1.)

●In 1991 it was still possible to see good growth in 1993. In May 1991 *Business Day* quoted the Stellenbosch Bureau for Economic Research as putting 1993 GDP growth at three percent. But other economists were also optimistic.

By 1992, economists were predicting a more sober economic outcome for 1993.

"Following three successive years of declining GDP, a tentative upturn, reflected in a 2 percent real growth rate, can be expected to emerge next year (1993)", said the *Standard Bank Economic Review* in September 1992

(For 1993 growth of 0,5-1 percent is estimated. That's a recovery, but even growth of 2 percent would merely take us back to where we were before the recession began.)

Finally, not only economists get it wrong. *Business Day* quoted Santam Insurance GM of investments Roy Justus as saying in April 1990 that the gold price would be \$500-\$600 an ounce in about two years time. It never got near that price.

Actual Percentage change in real GDP

1989:	**2.7**
1990:	**- 0,5**
1991:	**- 0.4**
1992:	**- 2.1**
1993:	**0,5 - 1 (?)**

WORLD ECONOMIES

Hardly sparkling

FM 24/12/93

The big picture is that 1994 should produce a mild improvement

(49)

After the false dawns of the past three years, it may be reasonable to hope that the world recession, which started as an Anglo-Saxon affair in 1990-1991, finally bottomed out in 1993.

It had never been expected to be anything but a leaden, lopsided period for the main economies as a whole, lightened only by the continued vigour of China, the Pacific Rim, India and some Latin American reformist States. But the past 12 months turned out to be far worse than foreseen by the Organisation for Economic Co-operation & Development (OECD).

Recovery by the Anglo-Saxons — the US, UK, Canada, Australia and New Zealand — was stronger than expected but the effect was swamped.

Japan, flattened by cumulative asset deflation which wiped off half the value of equities and as much and more in property, plus the 30% rise in the yen's effective exchange rate, did not experience a mere growth slow down. It fell over. So, too, did mainland Europe. Nothwithstanding the loosened ties of the exchange rate mechanism of the European Monetary System, those economies which clung to the Deutschemark anchor found it turned into a veritable millstone.

With the pain being felt most by Sweden and Finland, 11 European economies contracted as the German heavyweight shrank by 1,5%. Overall, OECD Europe registered negative growth of 0,3% — perhaps more on private estimates — in spite of the first signs of tentative recovery in Germany and France during the second half which may have marked the nadir.

Take the reweighted (using purchasing power parities instead of dollars) US out of the OECD's GDP aggregates for 1993 and growth in the sum of the 23 other industrialised economies was zero. That did not happen even in the depths of 1982.

After the batterings suffered over the past three years, when many projections turned out 100% wrong, the economists at the OECD secretariat took a cautious view about the future in their latest *Economic Outlook,* published this week (December 20). The big changes since the report's November 9 input cut-off have been the settlement of the Uruguay Round of Gatt — see cover story. That may help sentiment but it could be two years before any impact from the Round's implementation is felt.

In addition there has been the UK Budget with the substantial tax increases it ushers in next year — so that the OECD's 2,9% growth projection for the UK is much more optimistic than Treasury's 2,5%. There is, however, increasing confidence about the "increasingly solid expansion" in the US and Canada and "unspectacular" recoveries in the UK, Australia, New Zealand and the smaller Euro-economies, such as Ireland and Norway.

The big picture (see tables) is that 1994 should produce a weak improvement in the OECD. While the following year is complicated because North America, Japan and the Europeans will remain out of sync in their business cycles, the prospect is for a convergence in GDP growth rates to within half a point of the 2,7% total expected.

Outside the US, where the OECD's belief that it will want to lock on to disinflation is supported by recent Federal Reserve statements that real interest rates (of zero) are too low, and Japan, which with the discount rate at 1,75% has gone the limit in easing monetary policy, the cost of credit should continue downwards — most notably in Germany.

The main caveat concerns the speed at which the Bundesbank will move. The Bundesbank Council's last meeting of 1993 left interest rates unchanged (the discount rate at 5,75%, down 300 basis points in the year) but fixed a tighter growth target band for broad money supply (M3) in 1994 of 4%-6% compared with 4,5%-6,5%

Given that M3 growth in the previous six months was 7,5%, the Bundesbank's decision was no surprise. Nor was the M3 overshoot — in the past 19 years the target has been missed in 11 and achieved in eight — in the light of the German Budget deficit.

As a threat, inflation no longer commands serious alarm. Excluding Turkey (70%), the rate of price increases should continue to shrivel to levels last seen in the golden age of the early Sixties. And there is an increasing confluence around the OECD's posited average (apart from Turkey) of 2,3%.

In 1994-1995, about 21 economies should be showing inflation rates of less than 4% (six under 2%), compared with just 11 in the 1985-1987 period, which spanned the last low inflation year (3%) of 1986 when oil prices collapsed.

Certainly no pressure is expected on the commodity and energy front. The report's projections are posited on the OECD import price of crude staying at US$15,50 a barrel in constant terms — about 11% above the going rate last week. Prices of minerals, ores and metals, which are 15% down in real terms since 1991, are seen to rise by little over 2% by 1995, while export prices of OECD manufactured goods nudge up by just 1%.

Against this background, with much of the impetus continuing to come from the "dynamic Asian economies," growth in the volume of world trade is reckoned to accelerate from 2,6% to 6,4% over the coming two years — encompassing an even bigger swing within the OECD, where the European slump dragged imports and exports into negative figures in 1993.

Europe, in fact, is poised to receive the biggest boost of anywhere from external markets, with a net current account deficit of $6bn turning to a $40bn (0,6% of GDP) surplus.

The weak brethren of next year's limp turnaround will again be Japan and Europe. The OECD says that the asset deflation-yen appreciation factors, plus low consumer confidence, means "there is no convincing evidence that the recession is ending" — in spite of record low interest rates and a series of public spending packages.

From a surplus of 0,7% of GDP last year, the central government deficit is set to rise by a cumulative $230bn over 1993-1995, when it will run at 2,4% of GDP. Public

cont → p16

Growth embers glow in '95


GDP forecasts %

	1993	1994	1995
US	2,8	3,1	2,7
Japan	-0,5	0,5	2,3
Germany	-1,5	0,8	2,2
OECD Europe	-0,2	1,5	2,6
Total OECD	1,1	2,1	2,7

...inflation no dampener

Inflation forecasts %

	1993	1994	1995
US	2,6	2,4	2,6
Japan	1,0	0,7	0,7
Germany	4,0	2,9	2,0
OECD Europe excl Turkey	3,2	3,0	2,5
Total OECD excl Turkey	2,5	2,3	2,2
Total OECD	3,3	3,2	3,1

but little job joy

Unemployment
% of labour force

	1993	1994	1995
US	6,9	6,5	6,2
Japan	2,5	2,9	2,8
Germany	8,9	10,1	10,3
OECD Europe	10,7	11,4	11,5
Total OECD	8,2	8,5	8,4

sector investment growth of 33% over three years will help the economy, but not enough to offset the drop in private investment in both residential and nonresidential assets.

Japanese banks, assets of the 21 biggest clobbered by an officially admitted total of $132bn (4,5% of domestic loans) in bad debts, which, in reality, could be more than $300bn, are keeping their lending tight. The drop in short-term money market rates to 2,3% has not been matched by bank lending rates which are a full two points higher — compared with a quarter-point margin three years earlier.

The OECD calls for a "more balanced" stance by the banks towards lending, especially to small-medium sized businesses, as "a key to the revival of credit and money growth needed to support economic recovery." (Statistical note: the yen's rise has also sliced nearly a fifth off Japan's weighting in the OECD aggregate under the new purchasing power parity comparisons. Japan's weight declines from 19,1% to under 15,5%.)

Europe's prospects are precariously balanced. Structural adjustments — sensationally in reunited Germany — have seen it shed jobs faster than anywhere and unemployment soar and there is no sign yet that it will stop climbing. In the past three years, 9m Europeans have been added to the dole queues. By 1995, when OECD unemployment could be 35m, Europe's share will be 22m.

At the same time all governments are constrained by the imperative of reducing their deficits. These totalled 6,8% of GDP in 1993 and could be ground down but slowly to 5,6% in two years, an effort made all the harder by social security costs of unemployment problems (and the universally shared longer term one of pensioners).

Fiscal tightening is the order of the day. Britain's last two budgets will squeeze incomes directly and indirectly next year by the equivalent of 2,3% of GDP and that fiscal drag will rise to 4,4% by 1996.

Germany also has a range of increased burdens, which take effect from January 1 to pay for the reunification party in the shape of tax and other measures worth DM40bn, 1,4% of GDP. This year, when household disposable incomes increased by nearly 3%, private consumption fell 0,8%. In 1994, disposables will rise by only 1,6% and spending is slated to drop another 1,1% as the feel-good factor evaporates further.

It is not all bad. Eastern Germany, which now resembles a vast construction site, could add three-quarters of a point to overall GDP and the OECD pins a substantial slab of its slight recovery next year on a turnround in exports and increase in building. But a lot hinges on the Bundesbank attitude to interest rates.

Even if money costs do come down, the example of the US is not encouraging. It has taken three years of cheap credit finally to produce a growth recovery which is half as fast as the previous cycle.

As in Japan, the banks are critical to whether the balancing of a fiscal squeeze by easing monetary policy will work. The slowness of the UK recovery owes something to the hesitant rally in domestic property market — where negative equity still applies to about one in four mortgage borrowers — and the wariness of lenders, despite the fall in interest rates.

German banks are now feeling the asset pinch which earlier afflicted the British and Japanese. In October, Deutschebank reported a 9% drop in domestic earnings, as provisions for bad loans climbed by 54% to DM2,4bn — expected to reach a record in the full year DM3bn. Deutschebank chairman Hilmar Kopper was distinctly bleak, saying that the provisions are "a recession barometer and right now it is showing a storm warning."

Private-sector forecasts of zero or marginally negative growth in Germany next year are more in line with the Deutschebank's foreboding than the OECD's export-investment based scenario. If Germany's convalescence is clouded, the short-term outlook for its European partners will also remain in shadow The pivotal place of the German economy (30% of European GDP) has always been a menace in downturns.

The OECD's estimates for recovery are hardly sparkling — just 1,1% for France, 1,7% for Italy, 0,8% for Spain — and much is dependent on the confluence of lower interest rates, once the Bundesbank allows or the D-mark weakens, and growth in demand from the healthier economies. Within the OECD the only major members enjoying this condition are the US (3,1%), Canada (3,7%), and Britain (2,5%, maybe).

The real hinterland of promise remains in the East. Supporting earlier figures from the International Monetary Fund, the OECD sees GDP growth in the seven "dynamic" Asian economies accelerating from 5,7% to 6,1% next year, with 6,4% suggested for 1995.

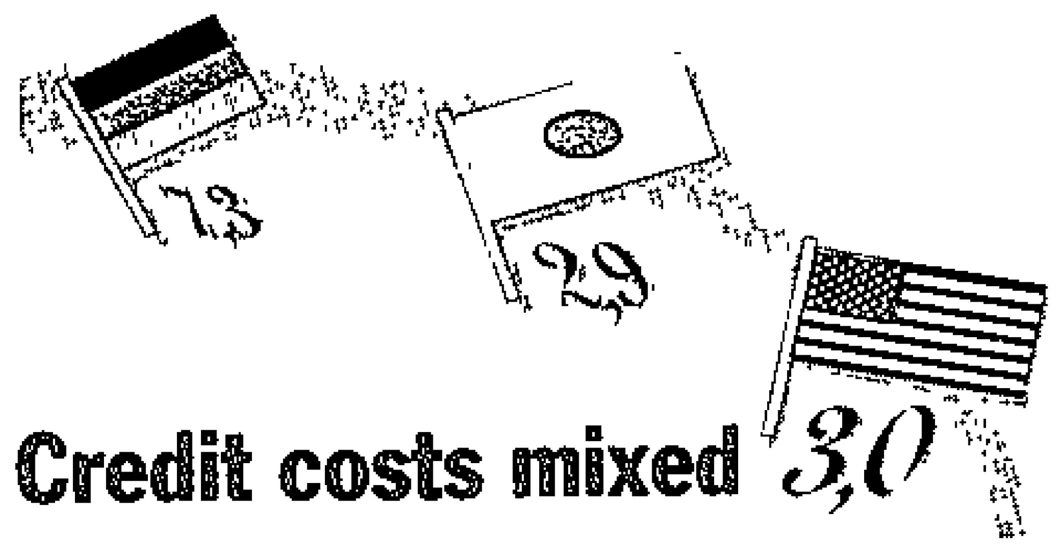
None of this would be happening without China's vaulting growth — 13% in both 1992 and 1993 — even after the mid-year austerity measures to put the brakes on inflation, which reached 23% in the urban conurbations.

The Chinese claim that 1994 will see a "soft landing" of enviable proportions: 10% expansion, and retail price inflation down from 14% to 10% on average, as the focus remains on long-term benefits rather than shorter-term stabilisation.

What has been christened the Chinese Economic Area (CEA), comprising China, Taiwan and Hong Kong, is assuming proportions unthinkable even five years ago. On a purchasing power parity (PPP) basis of calculation used by the World Bank, China's $424bn GDP in 1991 balloons to $1,9 trillion, making it the third biggest in the world after Japan, where PPP application deflates its economy from $3,3 trillion to $2,4 trillion. It is now central to the whole Asian region. CEA external trade has risen by 27% a year since 1986 to $244bn in 1992 and by 2002, according to the World Bank, that could total $1,3 trillion — with imports exceeding those of Japan.

Elsewhere, non-OECD improvement lies in Latin America, with steady growth averaging 3,6% — Argentina, star of the past two years with 15% expansion, will slow to a respectable 6%. Eastwards in Europe, the former communist command economies are slowly emerging from the initial devastation of market reforms. Another year of positive growth (4%) is estimated for Poland, the most advanced, with Hungary and the Czech Republic on 2% each. The big ones in the ex-USSR — Russia and Ukraine — have another year of implosion to endure. By the end of 1994 Russia's GDP will have shrunk by 34% in three years and that of the Ukraine by 38%.

That may change in 1995. The OECD estimates a 1% advance in Russia while the Ukraine halts the minus figures with zero growth. ■



Credit costs mixed

Interest rates %

	1993	1994	1995
US	3,0	4,2	5,0
Japan	2,9	2,6	2,7
Germany	7,3	5,0	3,8
Major 4 European countries	8,1	5,8	5,1

...imbalances stay

Budget deficits
% of GDP

	1993	1994	1995
US	-3,6	-2,7	-2,1
Japan	-1,0	-2,0	-2,4
Germany	-4,0	-3,5	-2,7
OECD Europe	-6,8	-6,3	-5,6
Total OECD	-4,6	-4,2	-3,6

Current balances
% change

	1993	1994	1995
US	-1,7	-2,0	-2,1
Japan	3,3	3,1	3,0
Germany	-1,1	-0,8	-0,7
OECD Europe	-0,1	0,2	0,6
Total OECD	0	-0,1	0

and trade blooms

World trade
% change

	1993	1994	1995
Total	2,6	5,4	6,4

Source OECD ECONOMIC OUTLOOK, DEC 1993

BUDGET DEFICIT Fm 24/12/93

Countdown

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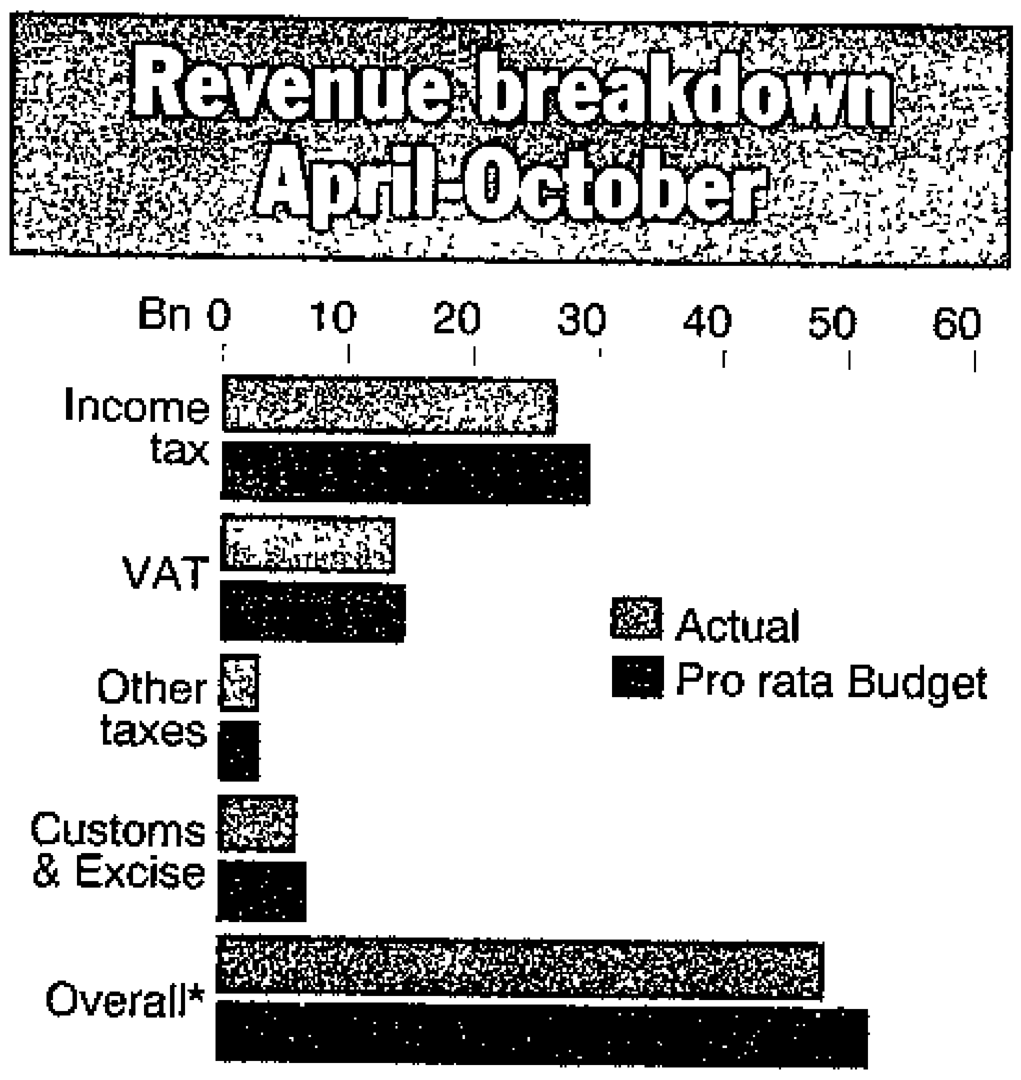
Government remains optimistic about meeting its Budget deficit target of R25,3bn for the fiscal year 1993-1994. Latest revenue



*Net of payments to TBVC countries and self-governing territories

Source Government Gazette

Fm 24/12/93

account figures put total receipts for November from Inland Revenue and Customs & Excise at R6,8bn. This is down from the previous month's R7,3bn and the worst month's performance since May's R5,3bn But a Finance department spokesman points out that November is traditionally a poor month for revenue: "The figure compares well with last November's R4,9bn "

Total receipts for the year so far are only R55,6bn, against a pro rata budgeted figure of R59,3bn. The recent upbeat projections by Finance Minister Derek Keys are based on expectations that growth rates of particular items in the revenue account will continue to accelerate. This trend is evident in the recently published revenue breakdown for the first seven months to October

Though Vat is still behind on a pro rata basis (see graph) because of a poor start to the fiscal year, the cumulative figure to October was 45,7% higher than over the similar period in 1992-1993. The extent of the acceleration is expected to carry income from this source into line with original forecasts.

Customs & Excise receipts are expected to beat, or at least match, Budget estimates. Net receipts, after payments to Customs Union countries, in the eight months to November, amounted to R7,7bn. This is up 15,7% over the comparable period in 1992-1993. In the first seven months net receipts were R6,9bn, up 16,4%. These increases compare well with the budgeted increase of 10%.

In addition, says Finance, extra unforeseen income should be derived from interest on Exchequer deposits placed with commercial banks earlier this year. This could bring in up to R350m extra.

Counter shortfalls

These items will counter the shortfalls on income tax receipts. Over seven months, only R26,7bn came in, 5,4% higher than in 1992-1993, against a budgeted 11,7%. This can be put down to poor performances in:

☐ Corporate taxes, partly because of lower profits, as well as a lag in the implementation of secondary tax on companies. Though introduced in March, first receipts were only recorded in July; and

☐ Personal income tax, following lower-than-expected wage and salary increases this year.

But, while economists remain confident that government will meet its revenue targets, they point a finger at expenditures. "I believe government's spending estimates may once again fall short of reality," says Econometrix's Azar Jammine.

Exchequer issues have totalled R75,3bn over the first eight months of the fiscal year, or 13% higher than over the similar period in 1992-1993, but against a budgeted 9,8% increase.

In addition, new expenditures were recently introduced in the Adjustments estimate. An extra R4,1bn was voted, the bulk of which went to Regional & Land Affairs (R1,5bn) and Agriculture (R582m). A

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spokesman for the Department of State Expenditure says the extra expenditures under Regional & Land Affairs relates to payments to the self-governing territories, already financed by the sale of assets and to the provinces (most of which involved a shifting of funds for health services originally included under National Health & Population Development), as well as a carryover of spending from the previous year The extra spending under agriculture was mostly drought relief.

"However, of the R4,1bn, about R1,5bn has already been financed by the sale of assets. There should also be declared savings and carry-overs of nearly R2bn," he says.

But Absa economist Pierre Morgenrood expresses concern about the amounts voted. "There is no reference to the added interest payments which the Director-General of Finance, Estiaan Calitz, referred to in a statement he made on October 15," he says.

Morgenrood believes this could push estimated expenditure up to R118,5bn-R119,2bn, not the R115,2bn which government now predicts. "That means revenue of R93bn-R94bn (against a budgeted R88,9bn) will have to be raised to meet the deficit predictions "

However, government doesn't believe spending will rise above R115,2bn. "Spending above that amount would need to be authorised by the Minister of State Expenditure and can only be of an exceptional nature, which cannot be postponed until an appropriation can be made by parliament, without serious prejudice to the public interest," says the State Expenditure spokesman.

Jammine says the issue of a potentially larger deficit is "not too important in the short-term. Rather we need to be careful in the years ahead So far government has been insulated by falling interest rates but this could change once the economy picks up. While revenues will rise, they will need to rise by enough to offset the effects of hardening interest rates." ■

Rate of up to 2,5% is predicted

Economists raise growth expectations

B/Day 24/12/93

(49)

KELVIN BROWN

ECONOMIC growth forecasts for next year have been revised upwards radically from less than 1,5% to 2%-2,5% following the release of better than expected economic indicators and improved growth forecasts for SA's main trading partners.

Nedbank and Old Mutual predict economic growth of 2,5%, Sacob 2,1%, and Southern Life and Sanlam at least 2%.

Even government economists have raised their forecasts to at least 2% after third-quarter figures showed the economy was stronger than first thought.

Earlier this year economists predicted that the economy would firm 1,5% in 1994 as the recession in the non-agricultural sector took time to bottom out.

They were surprised when third-quarter figures showed agriculture's recovery to be bigger than expected, a recovery in the manufacturing sector, and the start of a turnaround in gross domestic expenditure (GDE) and gross domestic fixed investment (GDFI).

In the three months to September the agricultural sector grew at a real seasonally adjusted annualised rate of 196% (235,9%), the non-agricultural sector recovered to grow 2% (0,1%), GDE turned around to grow at 3,7% (-3,1%) and GDFI crept up 0,3% (-0,5%).

There were indications that the trend continued in the fourth quarter. In November Sacob's business confidence index hit 103,9 — its highest level since April 1989.

The world's major industrialised countries were also expected to show healthier growth next year, averaging about 2% from this year's 1% — which would be good news for SA exports.

However, economists warned that most growth in the SA economy would occur in the second half, because local spending and investment was likely to pick up only later in the year as people waited to see what the new government would do.

Southern Life chief economist Mike Daly changed his 1994 forecast to just more than 2% from 1,5% earlier this year, as figures indicated the economy would be coming off a higher base next year.

"If the economy just maintained its present level the country would automatically experience a growth rate of 1,7% compared with this year's lower average growth rate."

Growth was likely to be higher as a combination of external and internal factors gave it a boost, he said.

The pick-up in overseas economies would see real growth in SA's exports. Commodity prices could average at a higher level next year as overseas industrial production firmed. "Commodity prices move in very close tandem with OECD industrial production which is still modest at the moment, but is expected to pick up later in the year."

The local economy would be stimulated by a rise in private consumption expenditure, higher fixed investment and a trend towards restocking.

Daly expected GDE to firm 4%-5% next year due to public authority spending on roads, bridges, housing and sewerage projects, while the effect of major projects'

☐ To Page 2

Growth

B/Day 24/12/93 ☐ From Page 1

construction, such as Alusaf and Columbus, came through.

(49)

Consumers would spend more if confidence improved after the elections, as low inflation increased real disposable income.

Old Mutual economist Ursula Maritz revised her forecasts to 2,5% from 1,5% after the release of third-quarter GDP figures. Exports were expected to improve as the G-7 economies were forecast to grow at least 2% in real terms from this year's 1%.

Old Mutual forecast a strong turnaround in GDFI growth to 2% from a decline of 4% this year. The growth rate in GDE was also expected to more than double to about 2,5% from this year's 0,5%.

Maritz predicted that growth in private consumption expenditure would surge to 2% after being virtually flat this year.

Lower inflation and fewer job losses forecast

Star - - 29/12/93

Good times ahead

(49)

BY CLAIRE GEBHARDT

Partially cloudy but clearing. That's the economic forecast for Mr and Mrs Average South African in 1994.

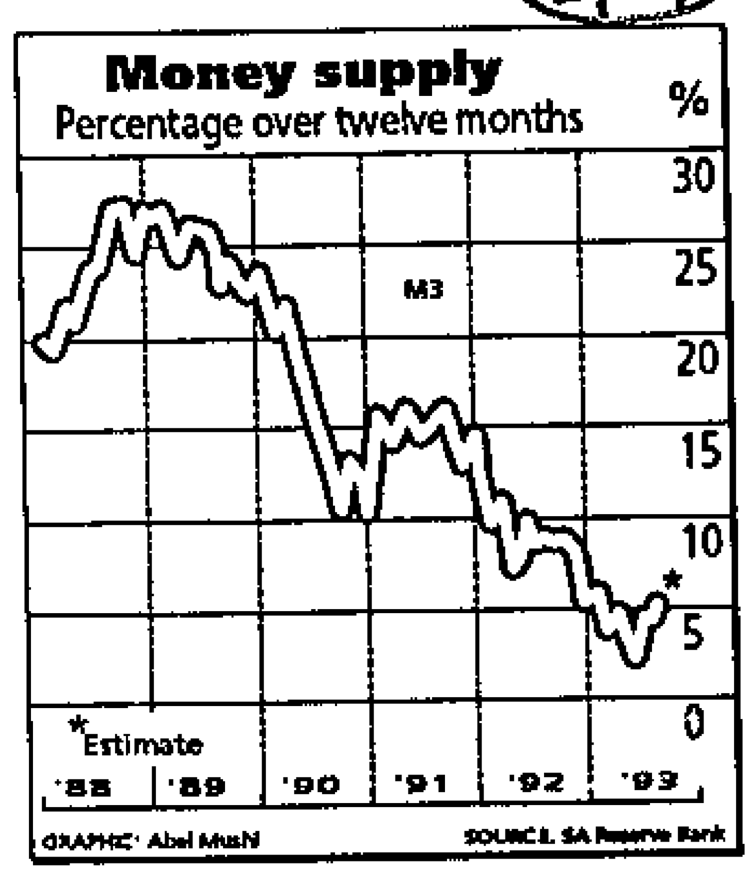
Positive factors waiting in the wings next year include higher than expected growth of between 2,5 percent to 3 percent, falling interest rates, lower inflation and a leaner and meaner corporate sector which may put retrenchment plans on hold.

Inflation has kept below the 10 percent level for some time now — November's rate was 9,2 percent and there are indications that the rate could be as low as 5 percent by year end.

Consumers appear also to have put to good use the disposable income which came their way in the wake of October's interest rate and mortgage bond rate cuts and lower food prices.

Credit Guarantee economist Luke Doig says civil debt figures are at their zenith, indicating that individuals are getting their financial affairs in order.

On the salary side, those fortunate enough to get an increase will probably find that few managers are looking at more than 10 percent in 1994, against an expected inflation



rate of 7 percent in April once VAT falls out of the figures.

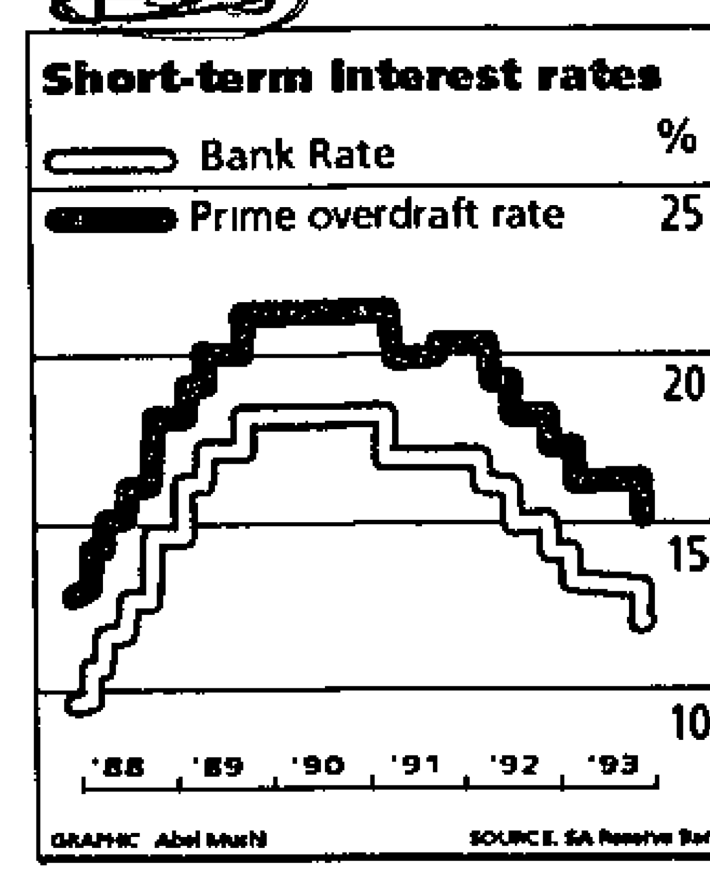
Employment is unfortunately a lagging indicator so there will probably not be a pick-up in jobs for a number of months.

Doig is opting for just one bank rate cut next year - "probably one percentage point at the end of March given concerns about the balance of payments."

"We'll have the usual round of prime rate and mortgage bond cuts but any increase in disposable income might have to be forked out on higher education costs."

UAL economist, Kau Msimango says the interest rate outlook depends on how independent the Reserve Bank will be after the elections.

"The Reserve Bank will



have to pursue its monetary policy with consideration to growth factors if a government of National Unity gives more emphasis to growth.

Msimango says this means that the Reserve Bank could be asked to set money supply targets at levels which would support growth targets.

"We're looking at two scenarios, the first being that government will have to spend immediately on education, health and housing which will give a boost to inflationary expectations and send inflation back to double-digit levels, if monetary policy is lax.

"The second assumption is that the governor of the Reserve Bank, Chris Stals, will still be in power and independent and will, to some extent, be able to offset the inflationary expectations with strict monetary policy."

Msimango says consumers will definitely be better off next year as job creation programmes get underway.

"Low cost housing, mass electrification and certain private sector projects coming on stream in 1994 will increase the consumer base enormously, dent the unemployment problem and give rise to enormous business opportunities.

"We're forecasting growth of probably three percent next year so the economic prospects are very good."

Economic think-tank, Econometrix, sees inflation declining further in 1994 because of the lagged effects of the recession but is predicting an increase again from 1995.

This will be in line with a booming economy and a turnaround in the downward trend of monetary growth.

"Although inflation should be lower in 1994, prime rate may not decline by more than another one percentage point because of the likely ongoing shortage of foreign exchange reserves."

Econometrix says this is the likely outcome of huge foreign debt repayments amounting to R6,8 billion and a reduced current account surplus resulting from higher imports associated with faster economic activity."

Money supply growth soars

49

CT 30/12/93

From GRETA STEYN

JOHANNESBURG. — Money supply growth roared ahead in November with a rise of almost R5bn from October, reflecting increased spending on credit as the economic recovery gained momentum in the last quarter of 1993.

Reserve Bank figures released yesterday showed that money supply growth — one of the main indicators of economic activity — would end the year firmly in the Bank's guideline range of 6%-9%. The spurt in growth is a turnaround from the situation earlier this year, when the stock of money remained virtually stagnant.

November shows R5bn increase

Target

After languishing below the target range, the annualised change in the stock of money in November from the fourth quarter of 1992 was 6,7%. This compares with less than 5% in the preceding three months and a shrinking money stock in July.

The stock of money is measured by adding up banks' balance sheets to arrive at a "broad" measure of money, M3 (narrower definitions are limited to only cash or short-term deposits). M-3 is affected by domestic spending and foreign exchange flows. Economists said stagnant foreign exchange reserves in November suggested the balance of payments effect was negligible, with credit spending accounting for the massive increase in money supply in that month. On a seasonally adjusted basis, the increase between October and November was 2,4%.

Economists said if the money supply continued to grow at about the same rate for the next year, growth would shoot well out of the present target range. It was not yet clear whether the Reserve Bank would announce a further reduction in the guidelines for next year. It would be difficult to curb the present momentum and a reduction in the targets would place obstacles in the way of further Bank rate cuts.

'Statistical'

They warned, however, that the M-3 figures could contain "statistical noise" as banks could be moving transactions back on balance sheet that had previously not been caught in the money supply net.

The credit figures accompanying the release showed advances to the private sector rose at an annual rate of 8,8% in October (the latest available month) — up from just over 7% recorded in June. Mortgage advances showed a sharp gain for the month, rising from R93,35bn to R94,57bn.

New Year boost for the economy

(49)

ARG 30/12/93

BRUCE CAMERON, Business Staff

A NEW Year bonanza is in sight as oil prices plunged, the gold price edged up and most world stock markets pushed to record highs today.

The gold price jumped almost $3 overnight to break through the $390 mark to open in Hong Kong today at $390,28. In London gold was $2 up, opening at $389.

The improving gold price led a charge on the Johannesburg Stock Exchange with the gold index gaining 52 points to 2 178 in morning trade.

At the same time the Reserve Bank disclosed key money supply figures which confirmed the economy was moving solidly back into a growth phase.

And with gold on the climb again and oil prices dropping there could be good news again for consumers early in the new year if the trends hold.

South Africa's gold and foreign reserves could strengthen considerably with the country earning more from its gold sales while paying out less for oil (the single most costly import).

The results would be:

- A drop in the cost of petrol.
- Another drop in interest rates.

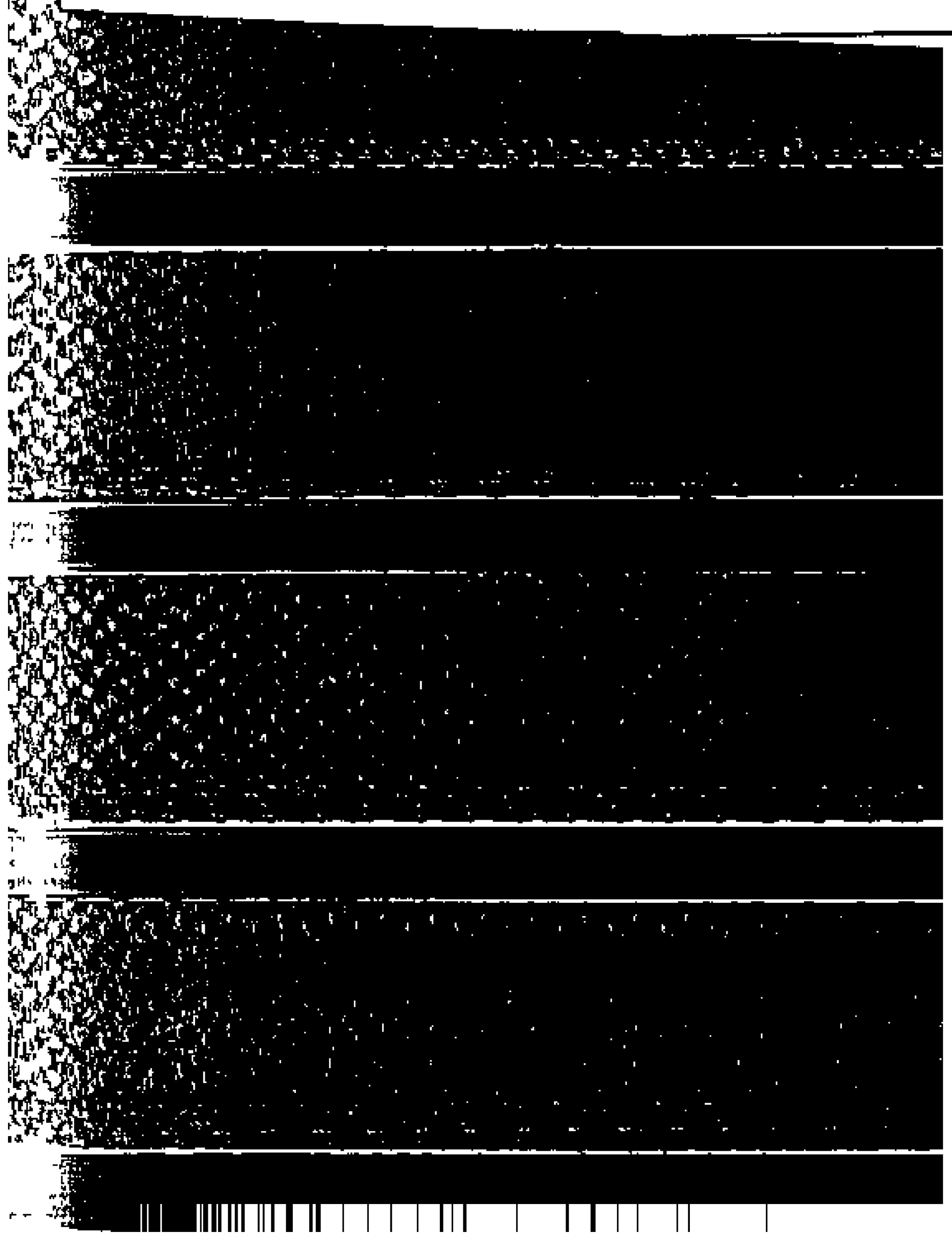
With the inflation rate continuing to drop South African real interest rates (the difference between the inflation rate and interest rates) are extremely high.

Economists are predicting the inflation rate could drop as low as 5 percent by the end of 1994. This would mean that three to four percent could come off current interest rates during the year.

The main factor holding Reserve Bank Governor Chris Stals from cutting interest rates is the low level of reserves.

Oil prices were testing five-year lows yesterday with the benchmark North Sea Brent blend trading in London at $13,25 a barrel and predictions were being made of the price dropping to $10 a barrel.

The reason for the fall is the increasing output of producers — up 12 percent in November — and the slower than expected world economy recovery



However, most world stock markets were reflecting confidence in economic growth with London, New York, Paris and a bevy of east Asian markets recording the third successive day of record highs.

The Johannesburg Stock Exchange hummed along with the world trend with the industrial index showing the strongest gains. The gold index set the pace when trading opened today (up 52 points to 2 178) with the overall index also gaining 52 to a new high of 4 853. After putting on 33 points yesterday the industrial index added another four points at 5 529.

The latest Reserve Bank indicators showed overall money supply, including bank credit, had pushed back into the target range of 6-9 percent for the year after being well below target range for most of the year.

Growth in money supply is a key indicator of increased economic activity.

The only bad news was the rand losing ground as the dollar gained — the rand falling from R3,376/86 to R3,386/90.

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