

BALANCE OF  
PAYMENTS

1986

Third World scenario not far off

# Primary goods remain SA's trade lifeline

BUS-DAY  
14/1/86  
74

ANDRE VAN ZYL

SOUTH AFRICA'S terms of trade, which have shown a downturn over the past decade, continued to improve marginally after it levelled in 1982, largely due to the stabilisation of world commodity prices.

The picture is still not very far from the typical Third World scenario — reliance on a few primary products and deteriorating terms of trade.

A country's terms of trade, which is a ratio of the index of export prices divided by the index of import prices, shows how a country is placed vis-à-vis world markets.

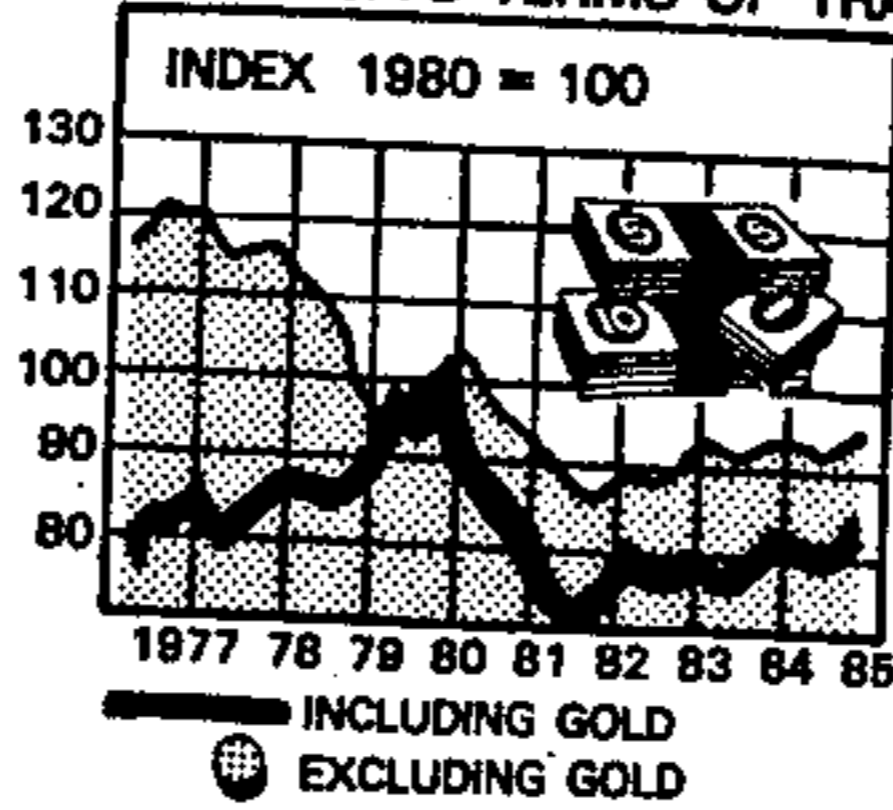
It deteriorates if the price of imports rises more than the price of exports because relatively more local goods have to be sold to pay for the same amount of foreign goods.

The graph showing the country's terms of trade, including and excluding gold, illustrates SA's dependence on the export of primary products. These have shown a downtrend in recent years.

As Standard Bank economists point out, the overall deterioration in SA's terms of trade have left the country with a badly balanced economy.

"Significant changes in technology in the Western industrialised world have substantially altered the pre-

SOUTH AFRICA'S TERMS OF TRADE



Source: BARCLAYS BANK

viously stable relationship between the rate of growth in world industry, and the rate of change of consumption of primary commodities," the bank says.

The result is that the international economy could remain unhelpful to SA's longer-term growth.

Indeed, argues the bank, the SA economy has long relied on the mining sector as a major growth generator and as an initiator of domestic expansions, but now the benefits felt are substantially less than during past growth periods.

What SA needs is to restructure its economy. It needs to sell more manufactured goods on world markets. When primary products fetched high prices this structural problem was masked and removed the urgency of developing a manufacturing sector capable of penetrating overseas markets.

# SA trade surplus up 266%

Cape Times

25/1/86

74

**THE latest preliminary trade statistics show that South Africa lifted its trade surplus by 266 percent in 1985, to R13 485,1m.**

The Minister of Trade and Industry, Dr DJ de Villiers, commenting in Cape Town yesterday on a record 1985 trade surplus of R13,48 billion against R3,68 billion in 1984, said he hoped the figures marked the start of an export drive.

## Opportunity

He described the figures as outstanding, saying the weak rand had curbed increasingly expensive imports and made South African exports more competitive on world markets.

"It is gratifying to see that our exporters have grasped this golden opportunity to increase their sales to foreign countries, and I trust that this achievement is the beginning of a sustained export drive," he said.

He said that in 1985 goods valued at R22 989,1m were imported, which represented a year-on-year increase of

only 6,3 percent.

This was appreciably less than the 33,8 percent increase in the corresponding period of 1984.

"The value of merchandise exports reached R36 474,2m in 1985. This represents an increase of 44,1 percent. All the main commodity groups showed increases.

"In respect of volume, exports also increased by about 22 percent.

"Although minerals and metals again made the largest contribution towards South Africa's export achievement, exports of prepared foodstuffs and vegetable products also improved appreciably," Dr De Villiers said.

Textiles, machinery and vehicle exports also did well, with Europe remaining the most important buyer of South African products.

The drop in the effective exchange rate of the

rand protected local manufacturers and also strengthened the competitiveness of manufacturers in the world market.

A breakdown of the world trading zones showed that Europe remained South Africa's largest trading partner.

Exports to Europe totalled R9 213,8m, compared with R6 570,6m in the same period last year, while imports from Europe stood at R10 871,8m (R9 684,1m).

Asia remained South Africa's second largest export partner, with a total of R5 190,4m (R3 453,1m).

## US imports

This was followed by the United States, with R3 500,7m (R2 456,8m), Africa with R1 577,2m (R891,2m), and Oceania with R265,2m (R186,2m).

After Europe, American imports rated second, with R3 861m (R4 122,5m).

Asia was next with a total of R3 368,6m (R4 043m), followed by Africa (R453,2m (R404,2m), and Oceania with R276,9m (R302,6m).

Other unclassified goods and balance of payments adjustments totalled R16 671,3m for exports (R1 1726,9m), and R4 157,6m for imports (R3 079,4m). — Sapa

Top interest rates slashed

BUS DAY

# Govt acts to force down cost of loans

11/2/86

74

8/8

**MAXIMUM** interest rates on loans are being reduced substantially from today.

This is partly to force down the cost of borrowing.

The reductions were announced by Finance Minister Barend du Plessis in the House of Assembly yesterday.

He said in his mini-Budget speech the maximum rate would be 29% (previously 32%) for money-lending, credit, hire purchase and leasing transactions of R2 500 or less, and 24% (30%) for transactions of more than R2 500.

**CHRIS CAIRNCROSS  
and JOHN TILSTON**

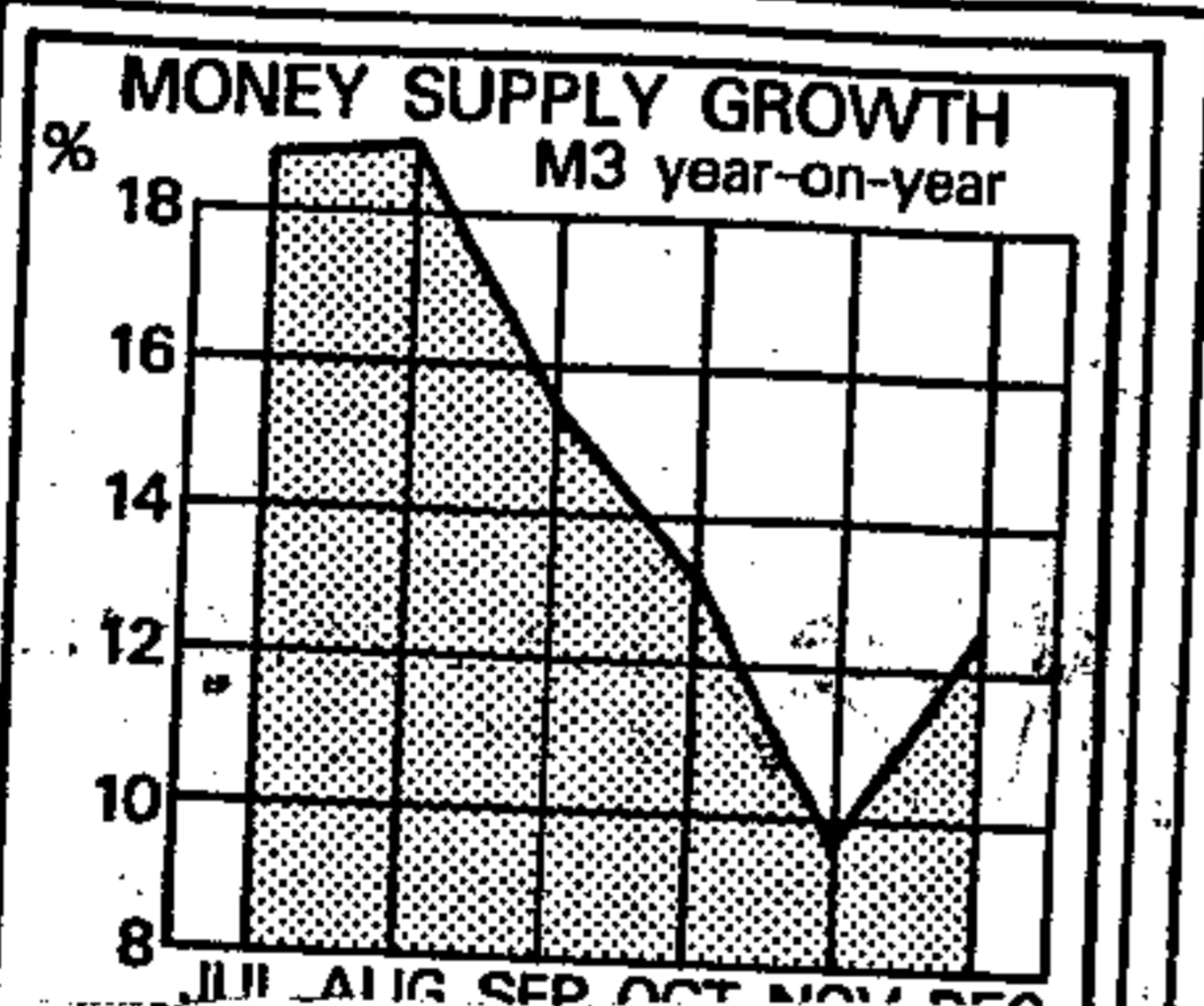
Transactions involving more than R50 000 have been excluded from the provisions of the Financial Charges Amendment Act, previously known as Ladofca. The distinction between money-lending and other forms of credit has been scrapped.

Du Plessis said the step had been taken in accordance with the decline in interest rates and in order to force a general rate cut by all institutions, some of which had been slow to make the necessary adjustments.

Commercial bankers in Johannesburg said the ceiling cuts, which had been expected, were in line with the general trend in short-term interest rates. Very few customers were being charged rates above the new ceilings, they said.

General banks, which do a lot of hire purchase and leasing business where rates for the man-in-the-street are much higher than the prime overdraft rate, said the cuts had been discounted.

A banker said: "Many traders will be hit by a significant cut in their so-called



● To Page 2 →

74 5

# Volkas deficit plea

EITHER cut government expenditure, or increase taxes, but don't finance the larger expected 1986/87 deficit by borrowing, Volkas recommends in its latest *Economic Spotlight*.

The bank says that, given the present level of government expenditure and assuming that there will not be an increase in the real expenditure in the 1986/87 financial year, provision may have to be made in the coming budget for government spending amounting to R40bn.

Assuming that there will not be any increases in tax, receipts are unlikely to increase at the same rate as expenditure and consequently predictions are that such a

Business Day Reporter

deficit before borrowing will be considerably larger for the present financial year.

The most favourable solution would be to reduce expenditure. Otherwise taxes would have to be increased.

Failing this, greater amounts will have to be borrowed on the capital markets, which in all probability means that the exercise of financing a part of current expenditure by way of borrowing will be continued, which will keep capital market rates under pressure and must be regarded as highly undesirable.

Dealers start to show misgivings

# Close watch must be kept on rand

74  
BWDAY  
11/3/85

**IMPORTERS** and exporters must watch the rand and their forward-cover positions closely.

The forex market is becoming increasingly wary of the value of the rand and dealers who previously were optimistic about the currency's future are now looking ahead with some misgiving.

A forex manager who a week ago spoke confidently about a \$0,66 rand said yesterday he could see it dropping to \$0,47 in the next two months. The Reserve Bank has been giving considerable support to the currency and he questions whether the central bank has the resources to continue to do this, bearing in mind the foreign debt repayments which fall due in April/May.

Signs of an underlying weakness in the currency were apparent last week when it broke below the \$0,50 level, only to be buoyed up by Pretoria.

It is doubtful whether the currency will receive any assistance from the dollar, which is also looking distinctly weak. Both the Standard Bank and Barclays report this week that the dollar outlook remained bearish and that its "downward trend is expected to remain intact in the weeks ahead".

This means that traders must take care whether they are dealing either in

**HAROLD FRIDJHON**

the dollar/foreign currency markets or in straight dollar/rands.

Standard Bank's view is that importers with payables in currencies such as the Deutschmark, Swiss franc and the yen can take advantage of current dollar levels to cover their short-term commitments forward. Exporters with foreign currency receivables are advised to stay out of the forward market.

Barclays senior financial economist Laretta Gell advises importers with foreign currency payments due in the next month to take 60% forward currency on the dollar/foreign currency leg. Exporters on this leg should take 40% cover.

Standard Bank, forecasting a trading range for the rand this week of \$0,48 to \$0,51, emphasises that the downside risk of the rand is still a reality.

It recommends that importers with dollar payables consider an element of cover on short-term commitments. Exporters could consider staying out of the forward market on goods not yet shipped as narrow trading ranges do not expose them to too high a risk.

Barclays' Gell suggests that importers take 40% cover on dollar payments due in the next month.

24/3/76 BDAY (74) (37) (58)  
**'Debt repayment to proceed'**

LESLEY LAMBERT

THE agreement by creditor banks to delay a major review of SA's debt repayment by three months may have been a trade-off in the plan to extend repayment on nearly \$14bn (about R28bn) of foreign debt.

According to leading banking sources, the repayment package, drawn up last month by Swiss debt mediator Fritz Leutwiler,



LEUTWILER

will proceed now that both sides have resolved certain obstacles.

Creditor banks which were looking for a large front-end cash payment after the moratorium on repayments expires at the end of this month, have apparently agreed to accept SA's offer to pay nearly \$500m (about R1bn) of frozen debt, in mid-April.

Originally the repayment was to be

spread over four quarters.

The banks have apparently also agreed to extend the review period to June 30. The extension was requested because the timing of the original review date would have been hindered by the opening of Parliament and the Budget.

Trust Bank MD Chris van Wyk said creditor banks had probably insisted on the plan because they were faced by certain political and economic pressures.

He said the early repayment should not have any serious impact on the cash flow of the SA economy.

Approached for comment on the agreement, Finance Minister Barend du Plessis said it was speculation. He said the public would be informed once his department had received information regarding the sensitive debt repayment issue.

# BUSINESS DAY

C (45c + 5c tax) For other prices, see Back Page

**PS**  
perma stamp<sup>®</sup>  
self-inking stamps  
INKED FOR 20,000  
CLEAR IMPRESSIONS  
See standard & customised  
perma stamps at all  
leading stationers and  
instant-printers

TEL: (011) 838-7866  
PILSBERGER STAMP & ENGRAVING CO.  
Telere: (914-500121)

## No funds-withdrawal risk after foreign debt repayment

**YESTERDAY'S** foreign debt deal does not necessarily mean funds will be withdrawn from the country if borrowers are able to make rollover arrangements with foreign banks, says Finance Minister Bar-  
end du Plessis.

Confirming the agreement in a statement issued late yesterday, he said that potential new borrowers of foreign funds would also be in a better position to negotiate for new loans.

He emphasised that the Reserve Bank would not need any additional foreign exchange from the local market to facilitate the earlier withdrawal of funds.

All outstanding issues had been discussed at a London meeting yesterday between the major creditor banks and

day, he said that potential new borrowers of foreign funds would also be in a better position to negotiate for new loans.

He emphasised that the Reserve Bank would not need any additional foreign exchange from the local market to facilitate the earlier withdrawal of funds.

All outstanding issues had been discussed at a London meeting yesterday between the major creditor banks and

SA's Standards Co-ordinating Committee, he said. The Leutwiler proposal would now come into effect on April 1, as envisaged.

Two important modifications had been agreed upon:

- The termination date of the interim arrangement would be extended from

March 31, 1987, to June 30, 1987.

Major creditor banks would maintain their exposure to South African borrowers at not less than 95% of the present level until the end of June 1987, and South Africa would lift the repayment restrictions on 5% of the "affected debt" that had already reached maturity or would mature up to June 30, 1987.

- The 5% of all debt already matured or maturing before April 15, 1986, would now be released in one amount on April 15, 1986.

"The South African Reserve Bank has, in the meantime, made the necessary arrangements to provide for any withdrawals of released funds on or after April 15, 1986," Du Plessis said.

"It will not be necessary for the bank

● To Page 2 →



LEUTWILER

RUSDWY 25/3/87 "THE VITAL VIEWPOINT"



25/3/86  
SPAR  
74

# Agreement reached on all aspects of foreign debt

CAPE TOWN — South Africa and its major creditor banks reached agreement yesterday on all outstanding issues regarding repayment of the country's foreign debt, the Minister of Finance, Mr Barend du Plessis, announced.

The agreement included two important modifications to the original repayment proposal.

These were extension of the termination date of the interim arrangement by three months to end June 1987 and payment on April 15, 1986 of five percent of all debt maturing on that date or already matured by then.

The major creditor banks had agreed to maintain their exposure to South African borrowers at not less than 95 percent of the present level until the end of June 1987.

## MAJOR REVIEW

In the case of debt maturing between April 15, 1986 and the termination date of the arrangement, the five percent would be released on the original maturity dates.

A meeting between the major creditor banks and South Africa would be held in September this year to review progress made and a major review of the situation would take place in April next year.

Mr Du Plessis said the South African Reserve Bank had arranged to provide for any withdrawals of released funds on or before April 15 and would not need to acquire any additional foreign exchange capital from the local market.

Mr Du Plessis said the arrangement stipulated that existing South African borrowers whose foreign loans had already matured must renegotiate their loan arrangements with their creditors.

# R7,1bn current account surplus

26/3/86  
BUDGET 74

ALAN SENDZUL

THE surplus on the current account of the balance of payments for 1985 was R7,1bn, 6% of the gross domestic product. This compares with a deficit of R1,4bn (1,3% of GDP) for 1984, according to the latest Reserve Bank Quarterly Bulletin.

The sharp rise in the value of total exports to R35,478bn in 1985 from R24,379bn is largely attributable to a weak exchange rate, which increased export proceeds in rand terms.

The capital account of the balance of payments is less satisfying. The Bulletin indicates a net capital outflow of R10,4bn. The figure excludes unrecorded transactions which leapt 34% to R10,2bn.

In the first quarter, exchange rate expectations and repayment of short-term debt caused large short-term outflows. Net outflows of R440m in the third and R156m in the fourth quarter occurred.

The tempo of short-term capital leaving the country declined after the reintroduction of the financial rand in September. Thereafter, securities listed on the JSE merely changed ownership.

The influx of long-term money, which had been enhanced by public corporation borrowings abroad, dried up in the fourth quarter after the debt

freeze. This inflow was R104m in the first quarter, R469m in the second and R243m in the third quarter.

On the trade balance of the current account, exports for the year (excluding gold) accelerated to a pinnacle of R22,5bn in the fourth quarter from a low point of R12,6bn in the second quarter to average R15,5bn.

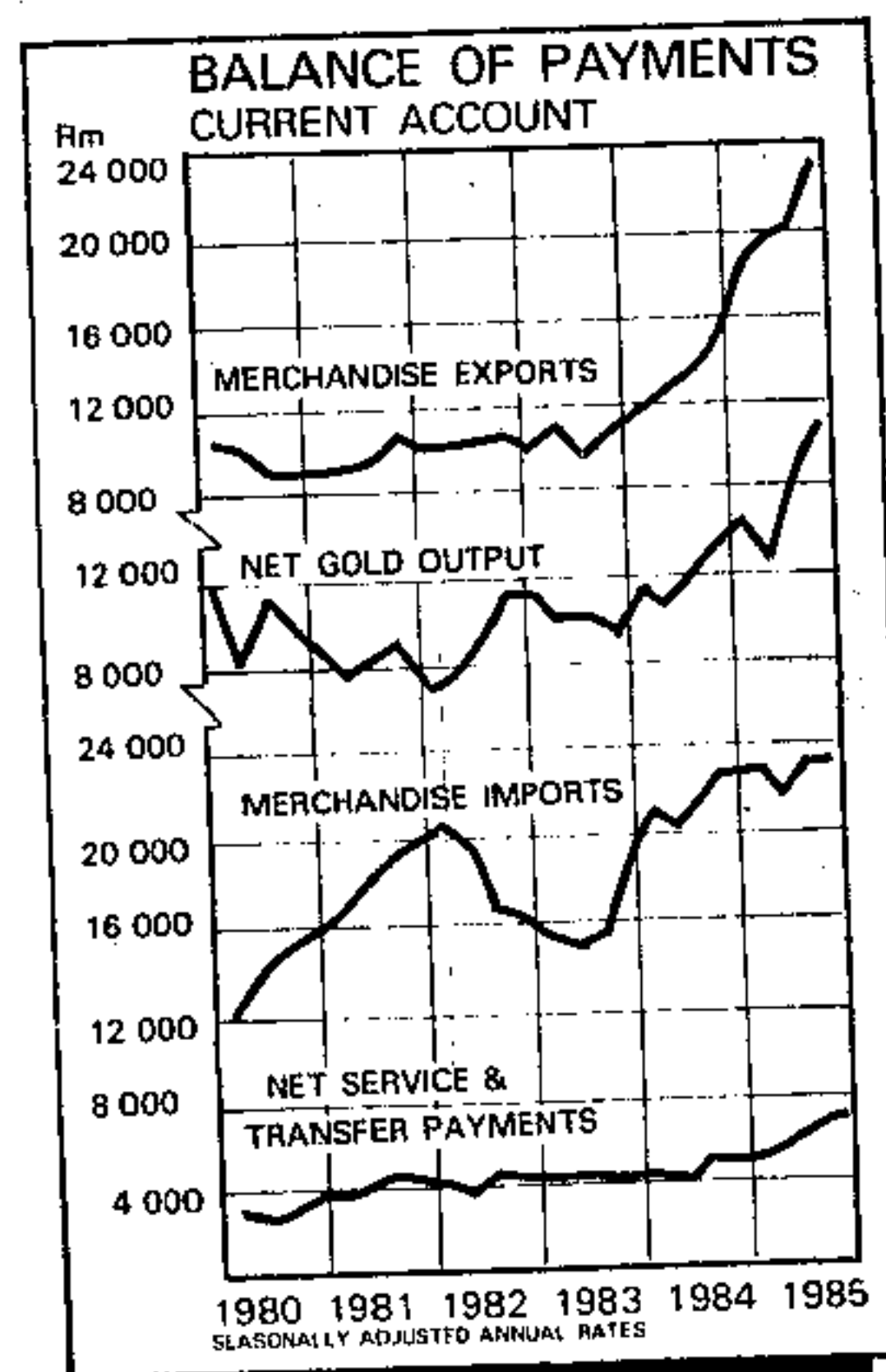
Net gold exports accounted for 44% of the total. The value of gold output for 1985 was 32% up although the volume mined fell 2%. The rand price of gold shot up 35% to R711/oz. from R527/oz in 1984.

Imports, reflecting sluggish demand, averaged R22,5bn for the year, but despite the low exchange rate this figure was 6% up on last year.

The steadily increasing balance on invisibles, which refers to service and transfer payments, continues to pressurise the trade balance. At the end of 1985 it took up 45% of net exports.

And, because it consists largely of debt servicing, SA's commitment to pay foreign creditor banks a higher return above the London interbank offered rate on frozen debt might shoot up the balance on invisibles.

The improved rand value over the first three months of 1986, however, could damp the effect of the present



weak exchange rate which seems likely to raise the value of foreign debt and its servicing.

The Bulletin reports that all main categories in the export sector enjoyed a good rise in 1985, reflecting cheaper-priced goods to foreigners from a weak exchange rate.

The biggest increases were evident in agricultural products, mineral products, wood, and paper products and base metals. Absent from this list is the traditionally large contribution which the chemical and textile sectors usually make.

The effect of sanctions on some of SA's minerals — coal in particular — and the possibility of imports rising is there is to be some economic expansion, might threaten the size of the 1986 first-quarter surplus.

300044  
27/3/88



# Rand's instability is a tale of woe

IT is a sad comment on the state of the rand that it is, by definition, a relatively unstable currency.

The accepted definition of currency instability is where it moves in excess of 1% in a day. We have seen this magnitude of movement in both directions since the rand was allowed to float. It is not a new phenomenon although there have been times when relatively stable conditions pertained.

One could guess at the reasons: perhaps the market never really had the chance to mature, perhaps South Africans are gamblers by nature or perhaps they are not. Perhaps the role of the Reserve Bank is misunderstood by themselves or the market or both. Or maybe as a semi-third world country with many importers and only a few exporters the balance is not right for us to have a floating currency.

## Satisfactory

A currency that is inherently unstable has significant consequences for the country. Not only does it become a nightmare for the corporate sector but it tends to scare off foreign investors.

That area of the corporate sector which never knows whether it will be able to cover its risk at a satisfactory level tends to add a premium to its prices. And we all know the inflationary consequences of that!

The attitude of foreign investors who do invest has the same implication — they want to maximise their return and repatriate that return as soon as possible to avoid and minimise the exposure to further risk.

In SA our attention always seems to be focused primarily on the political risk side and rarely on the aspect of economic risk and its currency risk component.

*Slow down, you move too fast*

*You got to make the morning last*

*Just skipping down the cobble stones*

*Looking for fun and feeling groovy.*

59th Street Bridge Song,  
sung by Simon & Garfunkel

Perhaps we need a relook at the total currency picture in this country to answer the following questions:

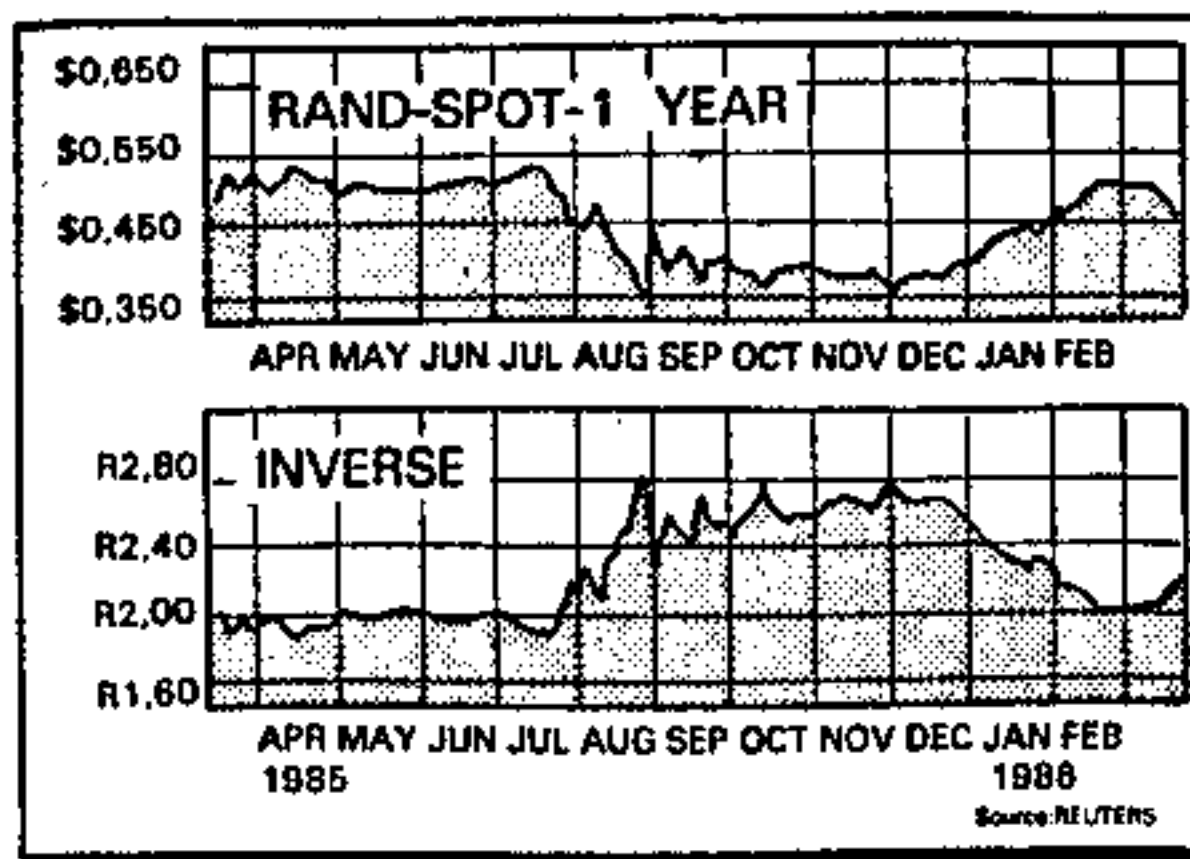
1. — Why is the rand unstable?
2. — Could instability be avoided?
3. — What is the role of the Reserve Bank?
4. — What role should banks play?
5. — Is there an education deficiency?
6. — Can we afford a floating currency?
7. — What are the alternatives?

Many more questions would arise in the course of investigation and, of course, a similar investigation was undertaken in the past. The results have proved to be unsatisfactory, probably because it assumed Utopian free market principles.

We don't live in Utopia, we live in SA, and a more enigmatic country would be hard to find. As we have seen on the political front, we need a unique solution and the same applies in the currency market.

Our Reserve Bank does not play the role of a normal central bank in managing the currency. It has — since having taken control of the dollar proceeds of the gold mines — become the largest exporter in the country. Its role should therefore incline more to that of exporter than central bank.

And what of exporters who are legally obliged to cover forward within seven days of shipment? They can't be



too happy with the present fall in the rand — why should they pay the opportunity cost? And by the way, does the same legal obligation apply to the Reserve Bank, which has become the nation's biggest exporter?

I doubt it, for even allowing for the leads/lags and partial loan repayments we have a large enough current account surplus for it to be supportive rather than detrimental for the rand.

## Currency

No, we really have a sorry state of affairs in the rand market. It moves too fast, too much and too often to be any good for SA.

We need to slow down, look around and re-establish what we really need in this country from a currency viewpoint. One thing we don't need is instability.

How do we set about avoiding instability?

I don't know. Perhaps we need a full-time professional group to investigate the whole set-up. Full-time, because we need to move fast, we cannot afford to wait years for the results.

David de Kock is MD of Forisk Currency Management



Bishop Desmond Tutu calls for punitive sanctions against South Africa this week

WEDNESDAY 4/14/76

# Enter the era of the 'Tutu Rand'

By LOUISE LATEGAN

THE financial markets emerged from the balmy long Easter weekend to confront a number of interesting developments. Not only had oil prices dropped dramatically on the international markets, but the local foreign exchange market had fashioned a new guru for itself.

Now, market operators — dealers, traders and even the more humble econometricians — are notoriously sexist, with delinquent and alcoholic tendencies, not to mention an inclination towards exceedingly right-wing views. But one charge they previously escaped was succumbing to astrological predictions. Yet coursing through the market this week was the forecast by a young, blonde, female astrologer that the rand will be much weaker in April and end the month close to last year's record lows.

Initial nervousness at the opening snowballed after the bullion price took a tumble in the wake of disinflationary predictions unleashed by the lower oil prices, and was further entrenched by Nobel Peace Prize laureate Bishop Desmond Tutu's call for immediate punitive sanctions against South Africa. Analysts confided that talk of a "Tutu rand" had already begun.

The beleaguered rand drifted down below the 47 US cent level, and new forecasts of 43 cents within the next few weeks emerged from the markets.

Aiding the bearish sentiment was the impending outflow of about \$430-million on April 15 as partial repayment of South Africa's external debt.

But dealers stressed that the rand's prospects remained determined by local supply and demand conditions and the activity of the Central Bank in the market. Importer demand for dollars to cover their positions was the technical reason why the rand continued to soften in the absence of an inflow of dollars from repatriated export proceeds. The nation's foreign exchange reserves, which are already at uncomfortably low levels, will be the deciding factor in the local market in months to come, currency analysts stressed.

The big news on the money market was the dramatic drop in the central bank's direct accommodation to the discount houses and the banks to below R1-billion from record levels last week above R3-billion.

After tight liquidity conditions threatened to push rates up, despite special pact aid from the Reserve Bank totaling R920-million, a flood of government spending heralded the start of the new fiscal year and the beginning of a traditionally liquid month.

A reduction in the banks' cash reserve requirements held against short term assets to five percent from eight percent released an additional R181-million into the system. Market dealers reported a resurgence of talk that the Reserve Bank could cut its base rediscount rates later this month in line with economic policy designed to stimulate economic growth.

A further reduction in the base rates

would open the way for the banks to lower their prime overdraft rates below the current 16,50 percent.

The capital market continued to exhibit little more than dull lethargy, with most operators working half-days. Rates on the long end of the market were moved for the most part of the week by the jobbers who punt their own books in accordance with movements in the main economic indicators such as the inflation rate, the rand and the gold price.

## OFFICES SUBU

22

a new generation built  
• self con

• architecturally stunning  
• we will meet the fr  
• excell

MONDAY, 7 APRIL 1986

+Indicates translated version.

For written reply:

General Affairs:

Advertisements

119. Mr D J DALLING asked the Minister for Administration and Economic Advisory Services:

(1) What was the total amount spent in 1985 by the (a) Central Economic Advisory Service, (b) Central Statistical Services and (c) Economic Advisory Council on placing advertisements for any purpose in newspapers in the Republic;

(2) what amount was paid in each case to each specified newspaper in the above regard in that year?

The MINISTER FOR ADMINISTRATION AND ECONOMIC ADVISORY SERVICES:

(1) (a) R11 198,88.

(b) Nil.

(c) Nil.

(2) Publication: Amount (R)

National and Sunday Newspapers

Rapport 5 322,24

Sunday Times 5 876,64

Total 11 198,88

Q 202861

Std 10 examinations  
HANNSARD 7/4/86  
P R C ROOERS asked the Minister of Education and Development Aid:

151. Mr P R C ROOERS asked the Minister of Education and Development Aid:

(a) How many Black pupils at schools in the (i) East London, (ii) Cathcart, (iii) Queenstown, (iv) King William's Town, (v) Komga and (vi) Stutterheim area entered for the Std 10 examinations in 1985, (b) how many entrants in each category (i) passed, (ii) failed, (iii) obtained matriculation exemption and (c) how many such entrants passed in (i) mathematics and (ii) physical science in that year?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

Includes only schools under the jurisdiction of the Department of Education and Training.

	Entrants	Actual number written
(a) (i) East London	131	9
(ii) Cathcart*	None	None
(iii) Queenstown	79	None
(iv) King William's Town	52	35
(v) Komga*	None	None
(vi) Stutterheim	67	5

	(i)	(ii)	(iii)
(b) East London	0	9	0
Cathcart*	None	None	None
Queenstown	0	0	0
King William's Town	18	17	4
Komga*	None	None	None
Stutterheim	1	4	0

	(i)	(ii)
(c) East London	0	0
Cathcart*	None	None
Queenstown	0	0
King William's Town	None	None
Stutterheim	0	0

\*No senior secondary schools.

Foreign loans  
HANNSARD 7/4/86  
P R C ROOERS asked the Minister of Finance:†

(1) With reference to each of the latest specified three years for which figures are available, (a) what was the value of the foreign loans raised by the State, (b)(i) in what currency was each of these loans raised and (ii)

what was the average interest rate per currency and (c) what amount was payable in respect of (i) repayment of capital and (ii) interest.

- (2) whether the State has repaid any loans since the freezing of the repayment of foreign debt; if so, to what agencies?

The MINISTER OF FINANCE:

- (1) (a) 1982/83—R1 466 165 488.05;  
1983/84—R 731 527 260.26;  
1984/85—R 602 728 163.22.

- (b) (i) Number of loans per currency—

1982/83  
2—German Mark  
6—U.S.A. Dollars  
2—British Sterling  
3—Swiss Franc  
2—Special Drawing Rights

1983/84  
2—German Mark  
1—British Sterling  
2—Swiss Franc  
4—U.S.A. Dollars  
1—European Currency Units

1984/85  
2—German Mark  
3—Swiss Franc  
2—British Sterling  
2—U.S.A. Dollars

- (ii) Average rate of interest per annum—

1982/83  
German Mark 6.56%  
U.S.A. Dollars 13.34%  
British Sterling 11.50%  
Swiss Franc 7.44%  
Special Drawing Rights 7.0%

1983/84  
German Mark 8.52%  
British Sterling 8.0%

Swiss Franc 5.81%  
U.S.A. Dollars 10.48%  
European Currency Units 11.25%

1984/85  
German Mark 7.75%  
Swiss Franc 5.93%  
British Sterling 11.89%  
U.S.A. Dollars 10.45%

- (c) (i) 1982/83—R398 866 498.67  
1983/84—R626 254 868.96  
1984/85—R371 402 831.10

- (ii) 1982/83—R171 524 959.54  
1983/84—R194 892 283.28  
1984/85—R288 675 124.47

- (2) Yes; loans not subject to the repayment obligations of the Standstill were repaid to agent banks, investors and the International Monetary Fund.

*CCR 864*  
*WANSWAP 71485*  
327. Mr L F STOPBERG asked the Minister of Finance:†

- (1) Whether his Department has any information on the countries in which accumulated stocks of diamonds of South African origin are kept; if so, (a) in which countries are such stocks kept, (b) at what total amount are the stocks in respect of each such country valued, (c) what is the total (i) product cost and (ii) selling price of these stocks in each case and (d)(i) in which currency is the interest in these stocks paid, and (ii) on what value is this interest paid, in each case;

- (2) whether his Department sees to it that control is exercised over these matters; if so, what control is exercised; if not, why not;

- (3) whether his Department takes any steps to ensure that the bookkeeping in respect of these stocks is administered to the benefit of the South African taxpayer; if so, what steps; if not, why not?

The MINISTER OF FINANCE:

- (1) No.

- (2) No control is exercised apart from the provisions of Section 22 of the Income Tax Act, 1962, which provide for the inclusion of stocks on hand.

- (3) Problems with the effective application of the existing legislation viz:

The Diamond Control Act, Act 39 of 1925;

The Diamond Export Duty Act, Act 16 of 1957;

The Diamond Cutting Act, Act 89 of 1979;

will be removed by proposed legislation to be tabled during the current Session. The proposed legislation will provide for the creation of a central body, viz the Diamond Control Board, which will be responsible for control over the entire diamond industry and this legislation will fall within the jurisdiction of the Minister of Mineral and Energy Affairs.

*CCR 865*  
*WANSWAP 71486*  
332. Mr B B GOODALL asked the Minister of Mineral and Energy Affairs:

- (1) What was the average annual landed rand cost per barrel of crude oil in 1980, 1981, 1982, 1983 and 1984, respectively;

- (2) what was the (a) average quarterly landed rand cost per barrel of such oil in 1985 and (b) landed rand cost per barrel of oil as at the latest specified date for which information is available?

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

- (1) 1980 R30.21;  
1981 R33.09;  
1982 R40.11;  
1983 R34.89;  
1984 R45.86.

- (2) (a) 1st quarter R56.51;  
2nd quarter R57.45;  
3rd quarter R60.80;  
4th quarter R73.80.

(b) January 1986 R67.21.

*WANSWAP 71486*  
*CCR 866*  
336. Mr B B GOODALL asked the Minister of Finance:

What amount in general sales tax had been derived from (a) individuals, (b) companies, (c) the (i) building and construction, (ii) retail, (iii) wholesale, (iv) manufacturing and (v) services sectors and (d) any other specified sources in the 1985-86 financial year as at the latest specified date for which figures are available?

The MINISTER OF FINANCE:

Statistics which distinguish between payments of sales tax by individuals and companies are not maintained. For statistical purposes collections of sales tax are analysed under the groups specified below. The analysis for the period 1 April 1985 to 31 October 1985 was as follows:

1. Building and Construction.....	R 919 946
2. Retail.....	R 2 462 235 110
3. Wholesale.....	R 829 791 171
4. Manufacturing.....	R 729 057 099
5. Services.....	R 299 902 352
6. Agriculture and Mining	R 42 317 510
7. Catering and Accommodation.....	R 173 869 768
8. Advertising.....	R 58 876 535
9. Unclassified.....	R 2 759 838
Total.....	R 4 599 729 329

General sales tax

370. Mr R M BURROWS asked the Minister of Finance:

What total sum (a) was obtained by the State from general sales tax levied on (i) books and stationery and (ii) school books

\$90m swap deal estimated

# Gold swap hits SA reserves

few days \$14/16

74  
29



● DE KOCK

HAROLD FRIDJHON

THE Reserve Bank's gold and foreign exchange reserves fell by only R532m to R3,804bn at the end of March, in spite of the bank's stock of bullion being diminished by 366 863 ounces.

It is improbable that all this gold was involved in the swap agreement announced last week by Governor Gerhard de Kock because the February holdings of bullion was 93 000 ounces above the December and January numbers. It seems likely that between 250 000 and 300 000 ounces was used in the deal, which might have raised about \$90m.

This is estimated on the assumption that 300 000 ounces were pledged to the foreign lender at a price of around \$300/ounce. This is far short of the maximum \$420m which must be paid to foreign debtors by next Tuesday, but Reserve Bank assets would not show the amount of dollars held by the Public Investment Corporation (PIC).

The PIC collected the interest due by SA debtors, payable in dollars, since the start of last year's standstill and which presumably was invested abroad pending last month's interim repayment settlement.

The Reserve Bank also appears to have dipped into its own holdings of dol-

lars to meet the first repayment tranche because, according to the bank's statement, its holding of dollars dropped from R1,051bn at the end of February to R571m at the end of March.

The Reserve Bank's Other Foreign Assets were also reduced by R48m. The reason why the total gold and foreign reserves showed a decline of only R532m was that the reduced gold holdings were valued at R661,30 an ounce, compared with R613,28 in February and R729,97 in January. It reflects how tenuous is the valuation of bullion in the vaults, because it depends not only on the movements in the gold price but also the exchange rate of the rand.

In spite of the draining away of the gold holdings, the value of the Reserve Bank's gold was R3,033bn at the end of March, compared with R3,037 at the end of February.

Bearing in mind that any financial statement reflects a position at a given point in time, the Reserve Bank has probably increased its foreign currency reserves this month — particularly since import demand appears to have been light and yesterday's reports tell of the foreign exchange market having a surplus of dollars.

**Slipsliding**FIN MAIL  
11/4/86

In the semi-annual credit ratings published in the March edition of the US journal *Institutional Investor (II)*, SA sticks out like a sore thumb; a sad reflection on a country which had lenders knocking on its door not too long ago. *II*'s ratings are based on those of 75-100 leading international banks. Countries are graded on a scale of zero to 100, the former representing the least creditworthy.

SA is described as having "critical social-cum-financial problems." Its global rank has fallen from 33 to 45 between September 1985 and March 1986. *II* gives it a credit rating of 43,5, down 9,9 on six months ago and 12,1 from a year ago — the largest fall of any country surveyed.

There is some consolation in that SA is still ranked second in Africa, after Algeria, but perilously close to Tunisia, Gabon and Cameroon. But to put SA's position into stark focus, Trinidad, Bulgaria, India, Iceland, Czechoslovakia and Hungary all have higher ratings.

*II* writes that SA "has finally entered the end game in its domestic struggle. Continuing political unrest has exacerbated fundamental economic problems, and what was once the continent's dominant financial force seems caught in a vicious cycle from which few can discern an easy exit." *II* goes on: "South Africans face stalemates in their borrowing as well as in their domestic social life." A New York banker dampens any complacency by showing surprise that the credit rating did not drop more than 10 points. ■



15/1/74 BUS DAY

# Rand seen at \$0,50 and stable in near future

IN the near future the rand looks as if it will remain reasonably stable at a point close to \$0,50.

This means that importers could relax their attitude to forward cover. But not entirely.

While Standard Bank in *International Comment* says that "importers with short-term dollar payables could stay out of the market for the time being," Barclays' Loretta Gell recommends 30% forward cover on dollar payables in the next month.

Trust Bank economist Ulrich Joubert makes a compromise suggestion, with which I agree, and that is that importers can relax on *some* of their cover.

My reasons for supporting the Ulrich view is that traders buy and sell goods and, that unless they have the technical resources, they should not gamble.

And taking a firm line on the future of the rand is a gamble because there are many imponderables facing the currency, including the gold price and the international value of the dollar.

The current account of the balance of payment and the internal political position — and foreigners' perceptions of it — must all be taken into account.

Superficially, the immediate outlook for the rand is more favourable than it has been for many months past. The current account payments look healthy and the foreign debt negotiations appear



**HAROLD FRIDJHON**  
looks at the foreign  
exchange market

to have achieved an equilibrium between what SA can afford to pay without structural damage, and what creditors are prepared to accept as a minimum in the next 12 months.

But reassurance is still needed on what payments will sidestep the standstill net, what other capital might be drained out as foreign parents of local subsidiaries repatriate loan accounts, and what is the *real* state of the reserves.

In other words, can the country sustain a cashflow problem in spite of the current account showing a bookkeeping surplus?

Joubert says that sentiment is changing from "stormy" to "fair weather" on the sentiment barometer — and sentiment is an important abstract input in every market. And a very fickle one.

If there is a major flare-up in a key township a favourable sentiment could be destroyed with the petrol-bombed houses or the first hail of birdshot.

At present the mood in the market is reasonably bullish.

FOREIGN EXCHANGE

**Less nervous**

With debt repayment jitters now over, the market is very quiet, volumes low, and looking for new influences. Dealers report little importer and exporter demand. Exporters are probably covered. One dealer notes that corporates are sidelined waiting for loan developments. This, he says, reflects "the increasing sophistication of market participants. No longer are corporates simply following their noses, there was no stampede as in the past." It also seems that most trade was interbank position squaring.

The Reserve Bank has come out pretty even over the week. It must be remembered that the Bank accumulates around \$21m a day from mining exports.

**Reassurances**

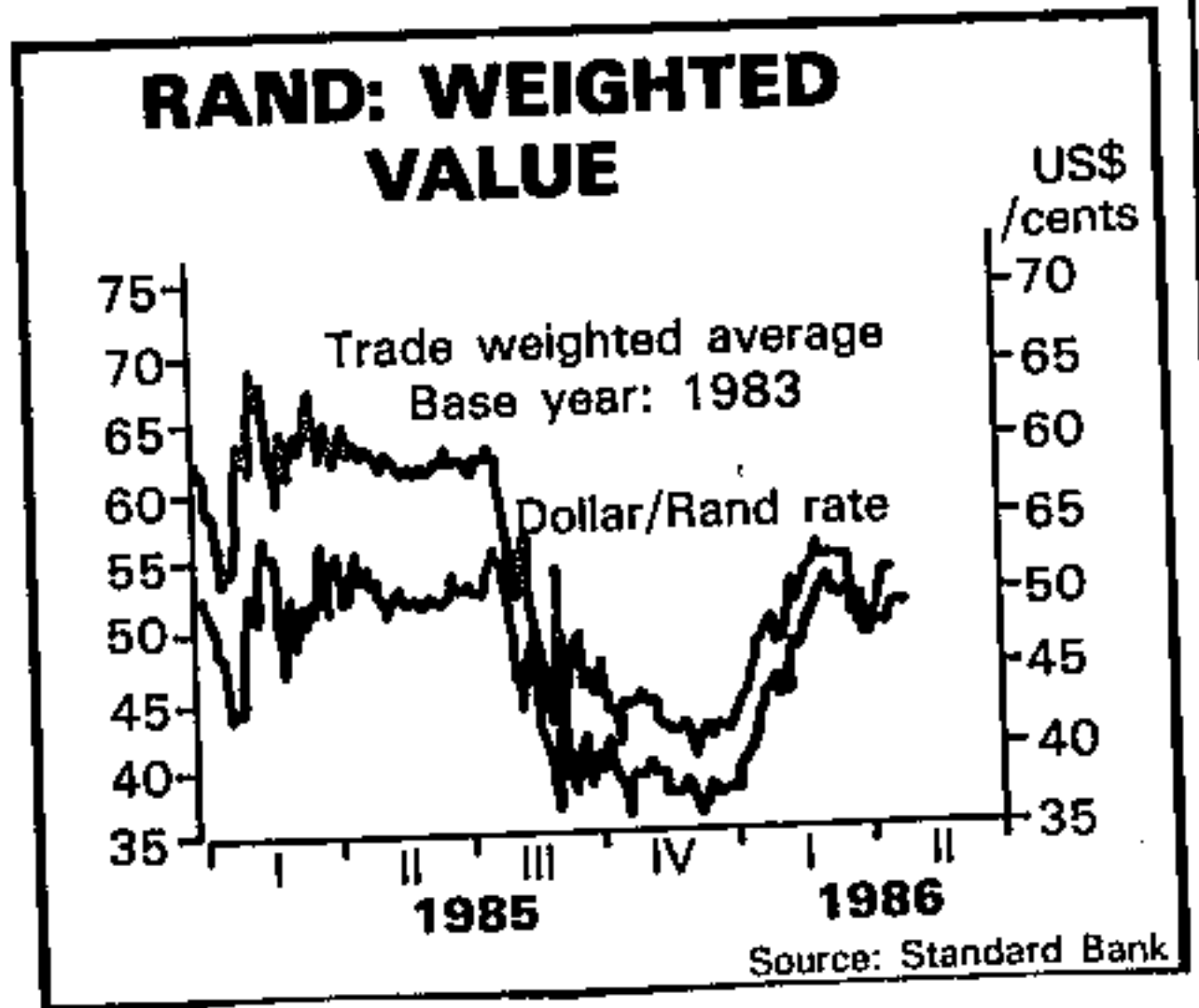
The rand firmed slightly against the dollar over the week ending Tuesday to hover within reach of US50c (US49,2c), thanks to Reserve Bank reassurances that the April 15 foreign debt repayment should not pressurise the currency and optimism that some foreign banks may re-lend the 5% they are eligible to receive. Barclays notes that "while this can

be favourably interpreted as a first step towards normalisation, it does have a rather unsettling implication should local political conditions deteriorate in the eyes of lenders."

Last week the rand fell against other major currencies, but had recovered by Tuesday to trade around DM1,14, SwFr0,96, Fr3,63 and Y88,3; £1 is worth R2,98.

According to Barclays, the short-term outlook for the rand is "broad stability." However, the bank cautions: "A deterioration in the political environment could have an impact on the rand. The effect could be felt not only because of the action of anxious local importers, but also because of foreign banks recalling the 5% they are entitled to." Barclays advises importers to cover 30% of dollar payments due in the next month.

Citibank expects the rand "to stay firm in light of the weak dollar and strong gold price."



**No euphoria**

Even though the first partial repayment of foreign capital has passed relatively smoothly, there seems little reason for euphoria. Although the Reserve Bank is not disclosing the exact amount, it is believed as much as 75% of the \$420m due on April 15 was repaid. The deals were completed by last Friday as transactions are completed two working days before payment. Friday saw no mass purchases of dollars.

Almost all the \$700m due to be repaid by June next year (5% of the \$14 billion in the net) is likely to be handed over. Add to this debt outside the net and SA will probably repay some \$2,2 billion to foreign creditors by then.

Barclays highlights the concern in its weekly foreign exchange wrap-up. "Should local political conditions deteriorate in the eyes of lenders, they could recall the 5% that they are entitled to.

"This could occur at a time when foreign exchange reserves are low as a result of a maturing business cycle, or lower dollar gold price." The bank warns that although the potential exposure may only be a fraction of that which existed in August, it could place pressure on the rand.

The rand is not the only problem, growth is severely restricted as long as SA has to pay out current account surpluses to foreign creditors. This, in turn, could further undermine political stability. ■

# Third World capital flight worries bankers

## Floating exchange rates seen as potential answer

STAR  
22/4/86 (74) (18)

By Dr Roger Gidlow

The South African monetary authorities have been castigated by some observers for the huge floated devaluation of the rand in recent years, yet it is being recognised more and more that fixed exchange rate systems do not protect debt-burdened Third World currencies.

Reports are circulating that international bankers are trying to convince the Mexican authorities that the continuing haemorrhage of funds from that country can only be effectively dealt with, among other things, by allowing the peso to float.

Up to now developing countries in general have been reluctant to adapt such reforms.

This debate, which is now focused on some developing countries, has relevance for South Africa, which is also contending with large capital outflows despite the presence of strict exchange rates.

The motivation behind this capital drain and the kind of funds leaving the country are somewhat different from those in the cases of developing countries.

The foreign debt servicing problems faced by South Africa pale into insignificance compared with those of some Third World countries.

Even so, the South African monetary authorities have consistently argued that a floating exchange rate regime is the most appropriate mechanism for dealing with the adverse external pressures which currently afflict the country.

The recommendations of international bankers for flexible exchange rates in the case of some developing countries is in

the interest of greater economic stability and strengthened balance of payments which dovetail neatly with existing exchange rate practices in South Africa.

In the four years since Mexico first shocked the financial world by revealing its inability to pay its foreign debt, finance ministers in industrialised countries have been adept in holding together the global banking system. The problems surrounding the international debt mountain of more than \$700 billion have been managed.

In the case of some developing countries their balance of payments and external debt positions have shown some improvement.

Even so the foreign debt crisis, while managed, has refused to go away.

### DEBT IMPASSE

Some leaders in Latin America are beginning to declare openly for the first time that the foreign debt accumulated by these nations since the early 1970s, in the wake of the first oil crisis, will never be repaid. It will only be managed on a short-term basis amid crisis conditions of varying intensity.

Some leading financial analysts are increasingly arguing that the debt impasse will never be solved as long as the flight of capital abroad and government excesses continue to plague Third World economies. There are still hopes that the Baker Plan to channel \$29 billion of commercial bank funds into the leading debtor nations will get off the ground.

Nevertheless, it is becoming increasingly accepted that the

channelling of new bank resources into these countries amounts to throwing good money after bad unless at the very least the flight of capital from debtor nations is arrested.

A recent study by an American bank which examined the fortunes of twenty three debtor nations from 1978 to 1983 found that their foreign debts increased by \$381.5 billion while the flight of illegal capital abroad amounted to \$103 billion.

The dominant cause of these outflows from debtor countries is the lack of confidence on the part of investors in the management of their economies, but corruption could be another cause as indicated by recent events in the Philippines.

From 1978 to 1983 the Philippines borrowed an estimated \$19.6 billion from foreign sources but critics allege that approximately \$9 billion left the country with part of the outflows attributed to former head of state Marcos and his associates.

The staunching of these capital outflows from depressed Third World economies is becoming a dominant concern among international bankers; confidence in the efficacy of exchange controls in preventing capital exports has withered completely, and there is a growing consensus that one necessary policy change in certain developing countries should be the adaption of floating exchange rates.

In other words, accommodating and dampening the incidence of capital in some countries will require market forces to be fully reflected in exchange rate movements.

**Q 231 1319**  
**HANS SWARD** 23/4/86  
 Vagrancy/drunkenness  
 354. Mr K M ANDRÉHW asked the Minister of Law and Order:

How many (a) males and (b) females of each race group were arrested in 1985 for (i) vagrancy and (ii) drunkenness in the Cape Town police station area?

The MINISTER OF LAW AND ORDER:

	(a)	(i)	(b)	(ii)
White	57	12	511	37
Coloured	662	255	2 738	855
Asian	—	—	—	—
Black	63	15	223	26

**HANS SWARD** 23/4/86  
 Mineral products  
 438. Mr L F STOFFBERG asked the Minister of Finance:†

- Whether there were any fluctuations in the rand prices of mineral products recently; if so,
- whether his Department exercises control over the indicated (a) selling prices, (b) tonnage in relation to such selling prices and (c) yields in respect of mineral products; if not, why not; if so, what control in each case;
- whether the exchange receipts in respect of mineral products are realised in accordance with the actual selling prices abroad; if not,
- whether he intends taking steps to ensure that exchange and tax receipts in this connection are maximised; if so, what steps?

The MINISTER OF FINANCE:

- Yes. The value of the rand has also fluctuated against other currencies.
- (a), (b) and (c) No. The sales of minerals takes place on the free market. As these are highly competitive

HOA

markets the Government cannot prescribe selling prices or yields to anyone.

(3) In terms of the Exchange Control Regulations 1961 no person may export goods at a price less than the value thereof.

(4) Control over the receipt of export proceeds is exercised by the banks by way of a prescribed export declaration form, which must be completed by exporters at the time of shipment, and on which *inter alia* is stipulated the amount to be received and the date of receipt. Any person failing to comply with the requirement to transfer to South Africa the full proceeds of exports within a period of seven days of payment is guilty of contravening the Exchange Control Regulations and liable on conviction to a fine of up to R250 000. Spot checks on the receipt of the proceeds of exports are undertaken by inspectors of the South African Reserve Bank.

In terms of section 103 of the Income Tax Act losses arising from the sale of minerals (particularly precious stones) at less than their market value, can be disregarded in calculating taxable income.

As is evident from the above-mentioned information, the Government through the enforcement of section 103 of the Income Tax Act and the exchange control regulations, seeks to maximise exchange and tax receipts.

**Q 231 1319**  
**Bheki Zacharia Myulani** 23/4/86  
 448. Mr P G SOAL asked the Minister of Law and Order:

- Whether, with reference to his reply to Question No 14 on 11 June 1985, the inquest into the death of Bheki Zacharia Myulani has been completed; if not, why not; if so, (a) when and (b) what were the findings;
- whether any action has been taken as

a result of the findings; if not, why not; if so, what action;

(3) whether he will make a statement on the matter?

The MINISTER OF LAW AND ORDER:

- Yes.
- 11 February 1986.

(b) The presiding magistrate could make no finding as to whether the death was caused by an act or neglect which includes or constitutes a crime on the part of someone else.

(2) No, the inquest docket has been referred to the Attorney-General for his decision.

(3) No.

**Q 231 1321**  
**Stack theft**  
**HANS SWARD** 23/4/86  
 450. Mr P R C ROGERS asked the Minister of Law and Order:

- How many cases of theft of (i) small stock and (ii) large stock were reported in the police station area of Komga during 1985 or the latest specified period of 12 months for which figures are available and (b) how many persons in the said area were charged with theft of (i) small stock and (ii) large stock during that year or period?

The MINISTER OF LAW AND ORDER:

January to December 1985:

- |     |      |    |
|-----|------|----|
| (a) | (i)  | 55 |
|     | (ii) | 6  |
| (b) | (i)  | 41 |
|     | (ii) | 3  |

451. Mr P R C ROGERS asked the Minister of Law and Order:

Stock theft

(1) How many cases of theft of (a) small stock and (b) large stock were reported in the police station areas of (i) East London, (ii) King William's Town, (iii) Stutterheim, (iv) Cathcart and (v) Queenstown during 1985 or the latest specified period of 12 months for which figures are available;

(2) how many persons were charged with theft of (a) small stock and (b) large stock in each of these police station areas during the said year or period:

The MINISTER OF LAW AND ORDER:

January to December 1985:

	(1)	(a)	(b)	(a)	(b)
(i) East London	37	34	16	8	
(ii) King William's Town	27	5	3	—	
(iii) Stutterheim	124	29	77	2	
(iv) Cathcart	28	5	11	2	
(v) Queenstown	139	13	32	—	

**Q 231 1322**  
**Trespass**  
**HANS SWARD** 23/4/86  
 467. Mrs H SUZMAN asked the Minister of Law and Order:

How many (a) Whites, (b) Coloured persons and (c) Indians were arrested for trespass by the South African Police in 1985?

The MINISTER OF LAW AND ORDER:

- |     |         |
|-----|---------|
| (a) | 929.    |
| (b) | 11 097. |
| (c) | 723.    |

HOA

# Little upside potential for the rand

24  
 BUSY DAY  
 24/4/85

THE view is held in some quarters that the rand does not subject itself to technical analysis.

The basis of this opinion is that there are not enough chartists and therefore the so-called "self-fulfilling prophecies" will not materialise. I have stated before that technical analysis is not dependent upon itself for its success.

Rather, the positive results derive from the fact that each point on a chart indicates an equilibrium level — a supply/demand interaction. The imperfection of the market is also taken into account in this interaction.

## DISTORTION

Only when the efficiency of the market moves significantly towards or away from perfection can you have a distortion of the charts. And then the distortion is relatively short-lived, as the price tends to absorb all available information almost immediately.

So now let's look at the rand chart from a technical viewpoint. On the one-year graph we have a downward-sloping channel which is the long-term trend. At present it shows a range of R1=\$0.30 to \$0.4850. We burst out of this channel in February, came back into the channel during March and in recent days we have exceeded the top side of the channel once more.

This tells us one of two things. Either the move out of the channel is an overshoot response to the December 9, 1985, exchange control

arrangement which required exporters to cover within seven days of shipment or we have the potential to reset the long-term direction of the rand into an upward direction.

At the present time, we have too little information to prognosticate on a fundamental turn-around of the rand's trend. In fact, if anything, the available information does not support much further up potential for the rand on either a fundamental or a technical basis.

From a fundamental point of view, we have some support from the trade account, but any appreciation of the rand would negate this support by narrowing the trade surplus through higher imports and lower exports. In addition, the problem of international competitiveness is severe, given our higher rate of inflation vis-à-vis the rest of the world.

A deterioration of the trade account could have been offset by capital flows, but these (even if they were positive) have been nullified by the introduction of the financial rand. By using financial rand, which is in effect a share arbitrage transaction, investment and disinvestment has no impact on reserves.

This is fine when we have a net disinvestment situation, but it helps nothing when foreign investment funds are introduced into the country. And then we have the problem of the standstill and foreign lender attitudes to SA.

Over and above all of this we have a central bank which takes in 67.8% of export proceeds, leaving only 32.2% to meet almost 100% of import demand. I will grant that they do make some of the export proceeds available to the market to keep excess import demand, but

this would only serve to keep the rate steady — and then only if the banks avail of the dollars offered by the Reserve Bank.

This detour into the fundamental background of the rand is necessary if we are to understand the charts. So, now turning to the four-month graph, we see a band which runs between R1=\$0.45 and 0.5060. This trading range has prevailed since February and is probably indicative of the bounds within which the Reserve Bank would like to keep the rand. At the moment, we are just off the top of the range, which also places us over the upper limit of the long-term downward channel.

The momentum of the rand's movements has also slowed down significantly. It had fairly strong momentum up to the beginning of March and it was a signal for importers to cover at that point. You would have achieved a spot rate in

excess of R1=\$0.50 and the rand would have remained at that level for the next two weeks before it fell to \$0.46. A pretty good advance warning, wouldn't you say?

Right now, the momentum is still negative even though it is not as bad as it has been. For the time being then, there is still no signal for importers to be uncovered and this signal would only occur if the rand were to maintain a steady upward track from the 50c level.

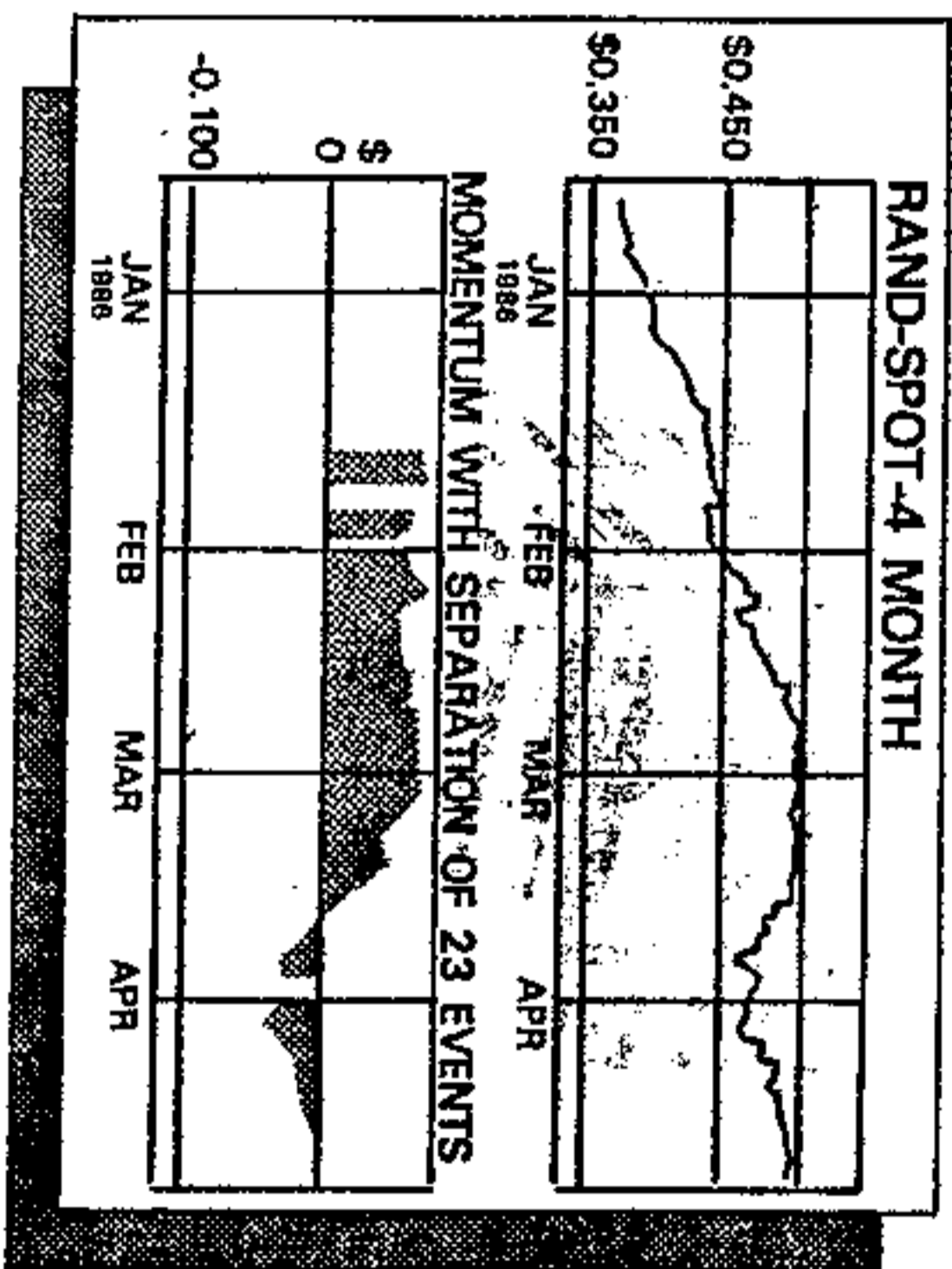
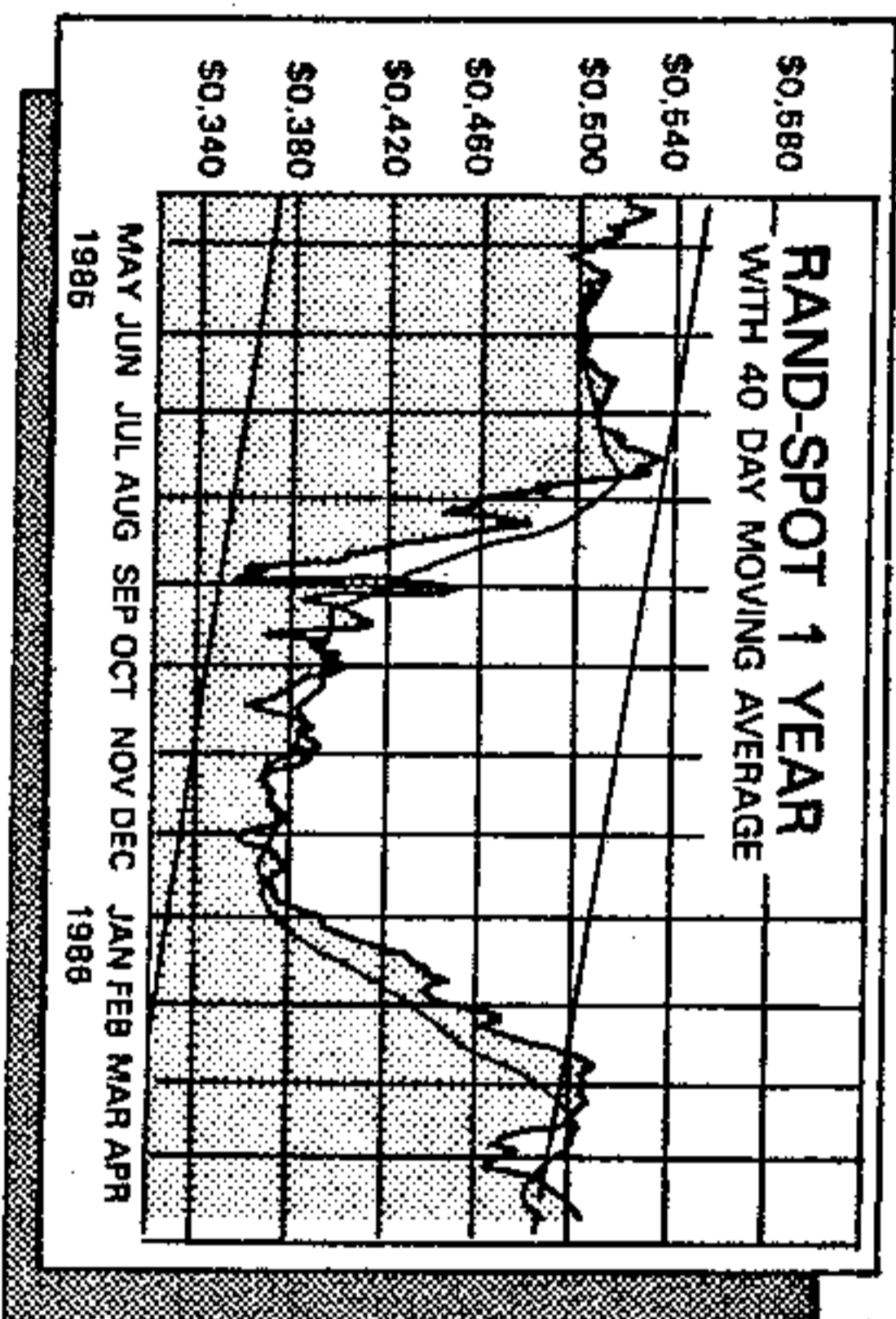
Given that we have developed a double top at just around 50c, it is unlikely that we will have a turnaround of the longer-term trend in the near future. Rather, it seems that the rand will exhaust its momentum over the next few weeks and the rate will retrace back into the long-term channel.

## Problem

At that point you would need to carefully watch for a break of the \$0.56 level, which would indicate that the inverted shoulder-head-shoulder formation is aborted. If this level holds intact, the chart would indicate a further recovery to R1=\$0.62 within the next 12 months.

The problem, however, lies in the short term when the rand is likely to soon rebound off the cyclical low, we could see the rand at marginally lower levels in the near future.

□ David de Kock is MD of Foreign Currency Management.



BW DAY  
74 ~~75~~ 24/4/86

# Part of SA debt crisis blamed on complacency

THE complacent attitude of monetary and political authorities, after SA's foreign exchange markets were liberalised, contributed to the country's foreign debt problem, according to economist Louis Geldenhuys.

Speaking this week at a Mercabank seminar on the debt standstill, Geldenhuys said the increasing reliance on market-related exchange and interest rates had underplayed the importance of discipline and prudence in monetary policy.

The authorities had applied an "ad hoc approach to situations which had developed" over the past decade.

However, the Reserve Bank's intervention in the foreign exchange market since the tightening of exchange control regulations had shown the authorities' ability to stabilise the rand exchange rate without applying rigid controls.

## Exchange rate

"The SA situation, given the potential volatility of the gold price and the political uncertainty, is not totally conducive to successful free market operation. However, we need to distinguish between the management of the exchange rate and the imposition of a fixed rate," Geldenhuys said in an interview after the seminar.

He said the fall in the exchange value of the rand had also been a major factor in the accumulation of debt, as it had led to substantial short-term borrowing to replace capital which had flowed out of the country. Failure to invest this capital in areas of potential growth had exacerbated the problem.

Geldenhuys disagreed with the view that the debt standstill resulted from political rather than economic factors.

"The political situation may have been the final straw which forced the authorities to impose a debt moratorium, but to blame it entirely is simplistic," he said.

"We need a co-ordinated economic plan to engineer a climate to attract foreign capital to a changing SA and to improve the private sector's trust in the ability of the authorities to handle the economy."

While there were no instant solutions to the debt problem, Mercabank economists, in their latest *Focus on Key Economic Issues*, saw the promotion of domestic savings and rebuilding of

LESLEY LAMBERT

foreign reserves as major prerequisites.

Geldenhuys argued that attempts now to generate savings by increasing interest rates would destroy any industrial recovery which had occurred. It would be more appropriate to use existing savings more efficiently.

High on the list of vital economic priorities were increased productivity to stimulate international competitiveness, a more diversified export mix and the promotion of domestic activities with a low import component and high labour intensity.

Mercabank has published some sobering statistics on the increase in SA's foreign debt over the past decade.

The figures show that the debt — particularly short-term — grew six times in dollar terms and more than 20 times in rand terms from 1970 to 1985.

The debt in rand terms reached a record level of R65,8m by August.

Short-term debt (repayable within 12 months) rose sharply, from about 34% of total debt in 1979 to more than 50% in the past three years.

September's debt freeze could not prevent a leak of short-term reserves, including import/export credit, which amounted to R5bn during the last quarter of 1985. Since then this outflow has stopped and started according to the leads and lags situation.

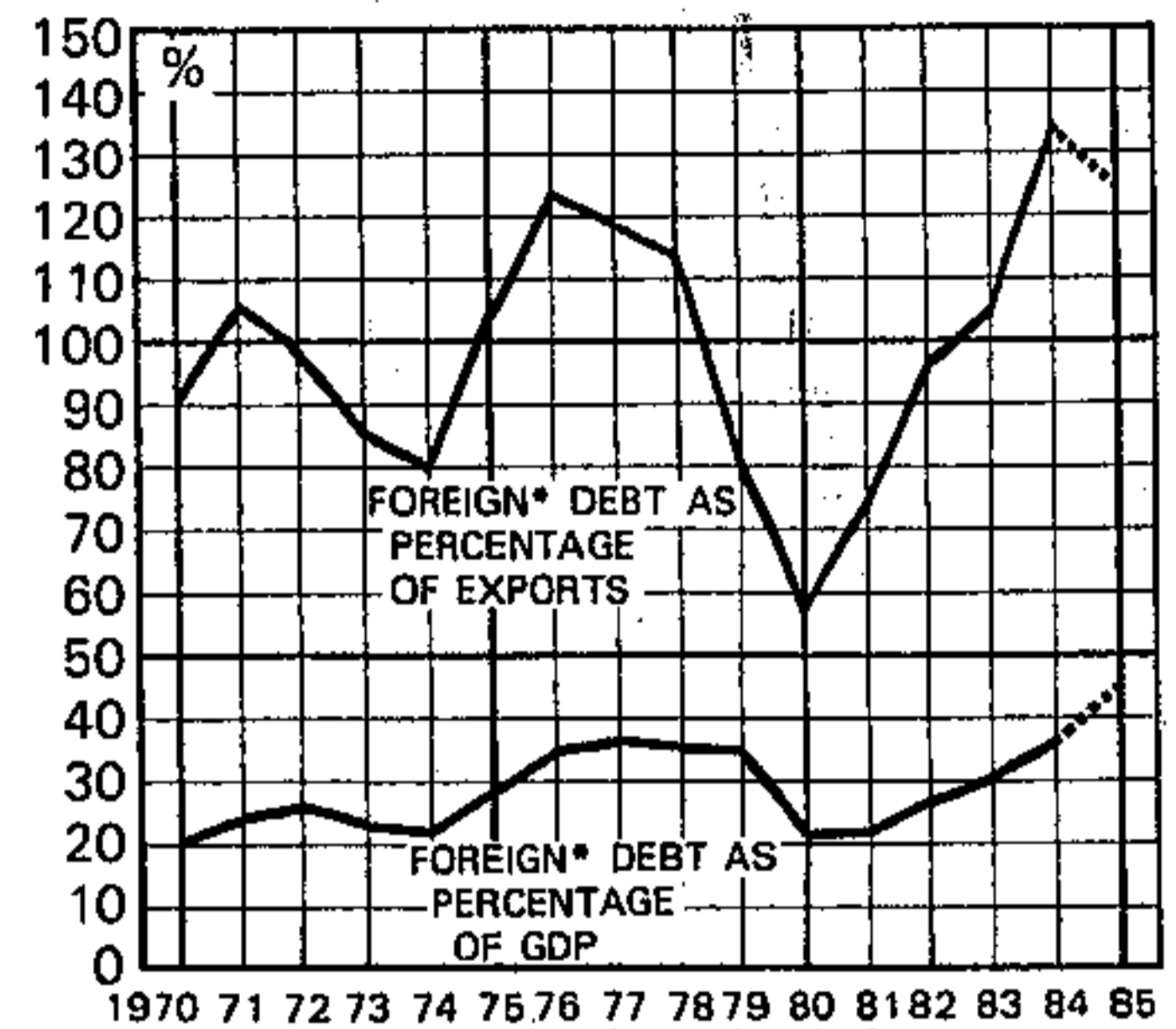
## Further loans

Efforts to negotiate further loans or to conclude further gold swaps were hampered by the already high level of foreign loans to the monetary authorities and the low gold reserves in 1985. Suspicion about SA's liquidity prevented the authorities from approaching other foreign banks to substitute the funds being withdrawn by American banks.

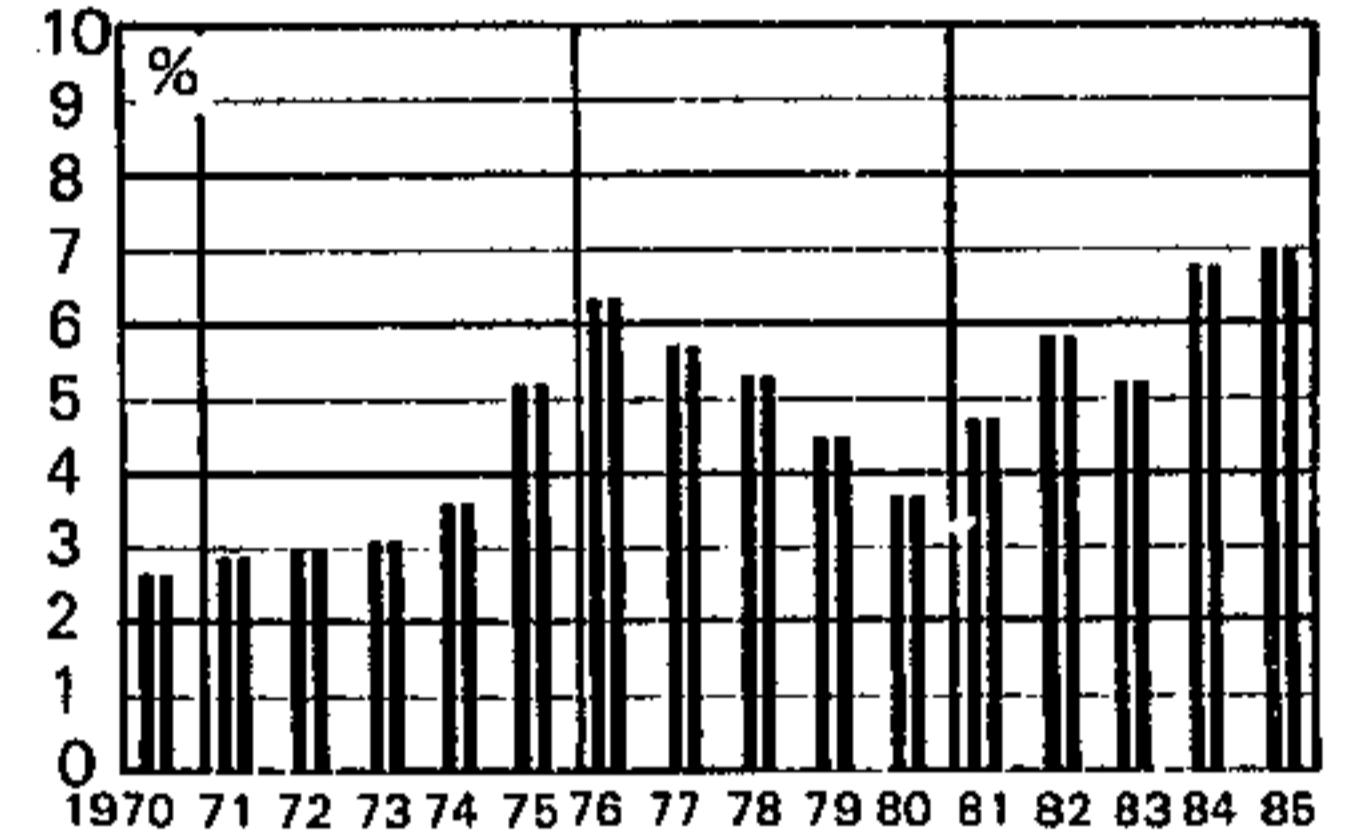
The IMF, which would normally have provided bridging credit in view of SA's current account surpluses and limited debt and interest commitments, apparently refused to assist.

Mercabank said in addition to blemishing SA's foreign payments record, the standstill implied considerable costs to the economy in the form of higher inflation due to the weaker exchange rate, lower domestic growth, lower living standards and more unemployment, while the debt was being repaid.

FOREIGN DEBT AND INTEREST PAYMENTS AS PERCENTAGE OF GROSS DOMESTIC PRODUCT AND EXPORTS, 1970 — 1985



INTEREST PAYMENTS AS PERCENTAGE OF EXPORTS



BUD 29/4/86  
74

JOHN TILSTON

A SIGNIFICANTLY higher import bill dented SA's trade performance in the first quarter of the year.

According to official figures released yesterday, the cost of imports in March was R1,93bn. Imports in the first three months totalled R6,79bn, 22% higher than in the corresponding period last year when the rand was at a similar level.

Much of the higher import bill is accounted for by January's R2,8bn and there has been speculation that most of the increase resulted from oil purchases.

Exports have also increased, but by a less impressive 14%. Last month, export receipts reached R2,71bn, the lowest since April last year, taking cumulative

## Import bill dents surplus

exports to R9,24bn. In the first quarter of last year, export receipts totalled R8,05bn.

March's trade surplus narrowed to R782m, from February's R938m. The cumulative trade surplus for the year is R2,45bn (First quarter 1985:R2,51bn).

After service payments, interest on foreign loans and other "invisible" trade transactions are taken into account, the cumulative current account surplus is likely to be about R1bn. Last year, net service payments totalled R6,18bn.



# Seriousness of debt issue not grasped, say experts

It is now almost eight months since South Africa slumped bankers at home and abroad with the declaration of a freeze on the repayment of a multi-billion-rand mountain of debts owed to overseas creditors.

Hard on the heels of the declaration of a State of Emergency, it came as yet another crisis to be added to a chain of woes.

South Africa's faultless record in international financial markets was shattered and its global credit-rating went into a tail-spin.

Yet most newspaper readers still look blank over accounts on how the financial wizards go into regular huddles in distant capitals and in turn issue terse statements — often obscured by economic jargon — on piecemeal agreements to renegotiate the terms of the loans and stretch out the timetable of settlements.

Most of them are still in the dark about both the size and degree of seriousness of the debt issue.

Merchant bankers at Mercantile have tried to dispel the fog and put the crisis into focus with a study undertaken by the Bureau for Economic Policy and Analysis at the University of Pretoria. The main points are made in the accompanying graphics.

But even among the gurus, opinions differ on the root causes of the crisis.

**Last straw**

Most lay the blame on politics, and trace the chain of events triggered when Chase Manhattan Bank of New York, the first of a long list of banks in the United States, announced it was slashing its credit lines to South Africa as it came under increasing pressure from anti-apartheid lobbies.

They are convinced the US

banks considered it the last straw when the State of Emergency was clamped down in a vain attempt to calm the wave of black unrest.

However, Mr Louis Geldenhuys, a prominent Johannesburg economist, argues it is far too simplistic to blame it all on politics.

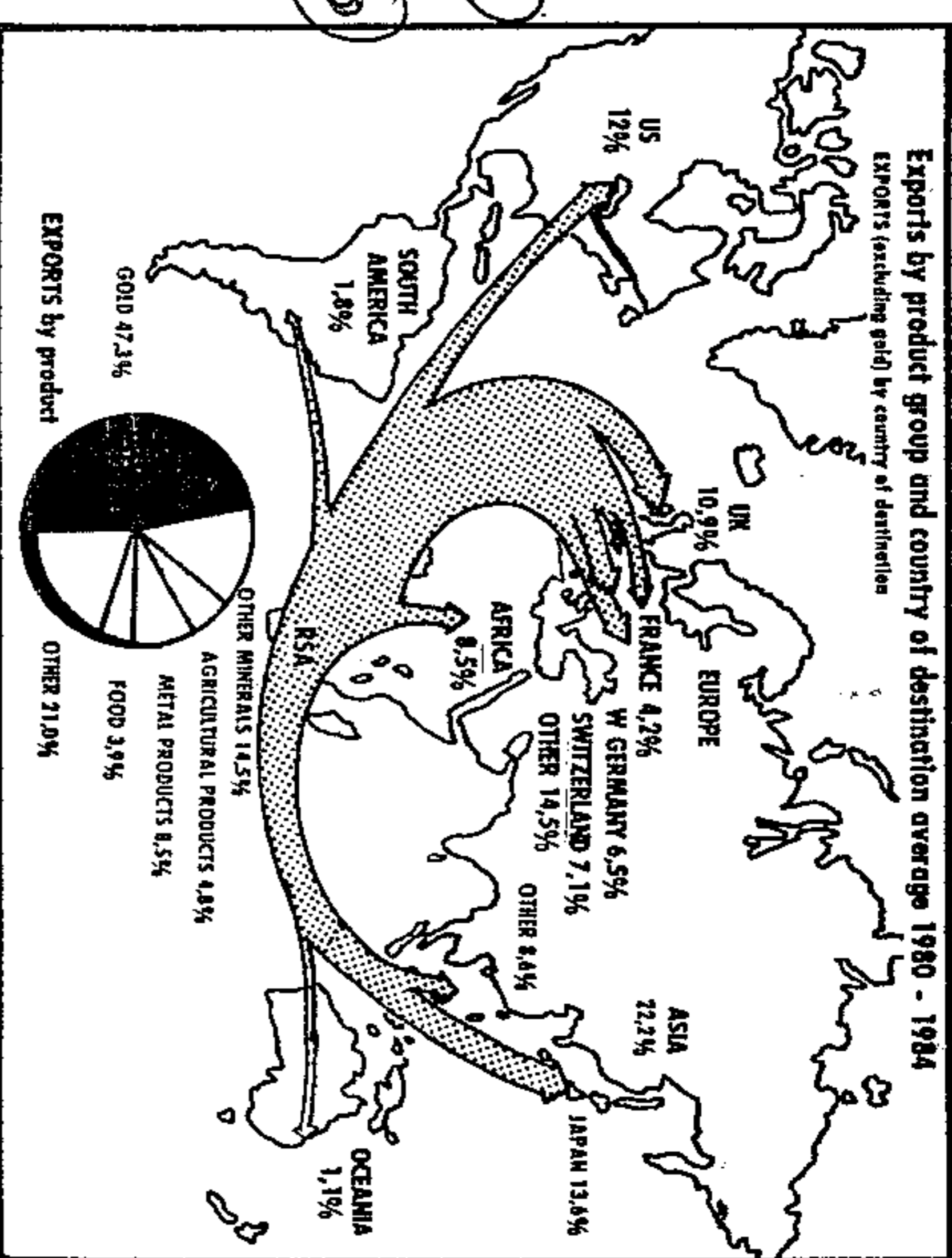
Overseas banks, he believes, turned off the credit taps because they had become fearful about South Africa's poor economic performance in recent years.

There are also divisions about the seriousness of the standstill. Certainly South Africa is not alone in having severe international debt problems.

Even Dr Fritz Leutwiler, the Swiss banker called in as mediator between SA and its creditors, has conceded that hardly a single country on earth could repay all its short-term loans in one go.

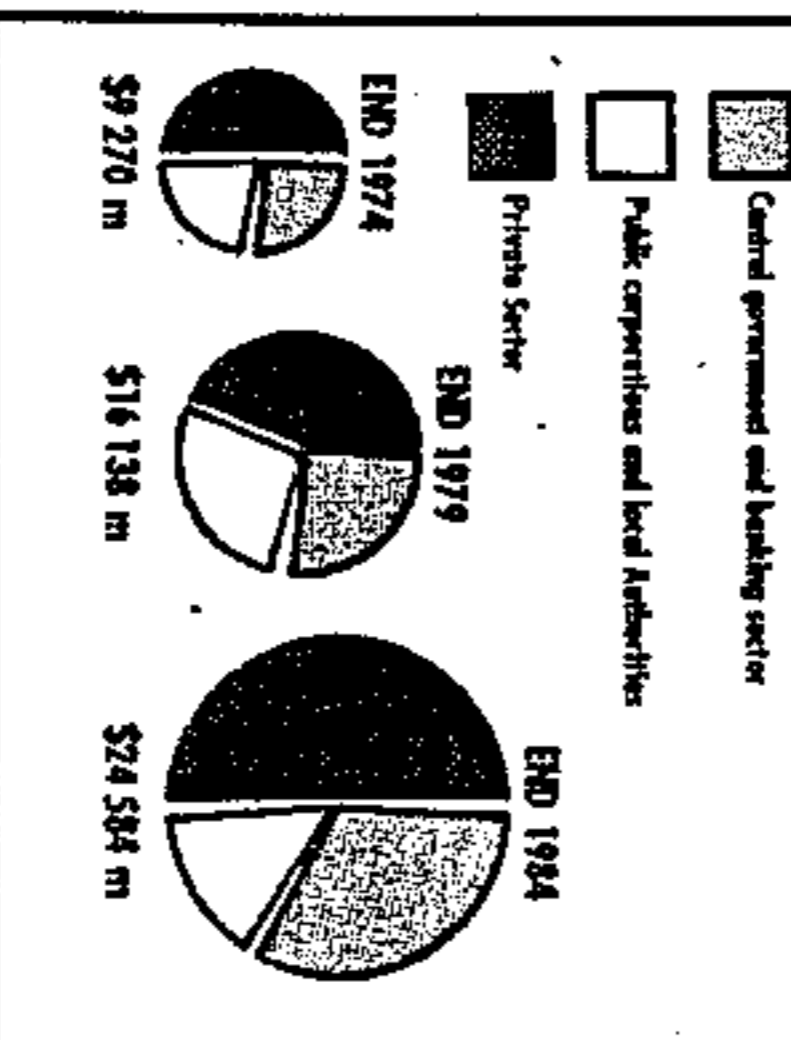
The academics at Pretoria University take another angle. They have worked out that to clear all foreign debts, every man, woman and child in South

## Where SA exports go



From 1980 to 1984, no less than 80 percent of South African exports came from the mines — gold, platinum, uranium and other minerals — and basic metals. Mercantile argues it would be logical to put

## Who Shares Debt Bills?



The pie charts show the run into deeper debt by the central government and banking sector, the private sector, public corporations and local authorities.

Africa would need to chip into the kitty about US\$760 (around R1 500).

However, they found there were lots of other countries with even deeper debt problems. If analysed on a per capita basis, for instance, in South America, infamous for the debts, the comparable burden in Chile amounted to \$1 230 and in Argentina is was \$1 180.

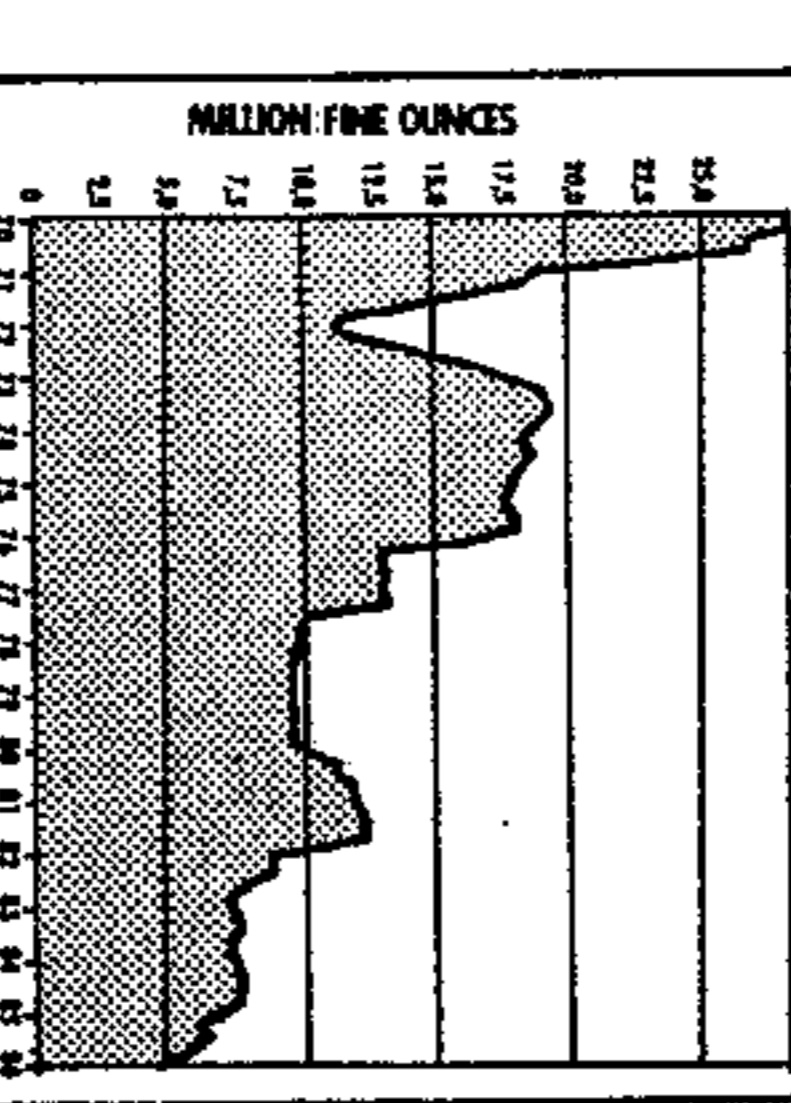
But even Australia, which stays well away from the debt headlines, would need no less than \$1 920 from everyone to settle with its creditors.

There are also divisions about the seriousness of the standstill. Certainly South Africa is not alone in having severe international debt problems.

Even Dr Fritz Leutwiler, the Swiss banker called in as mediator between SA and its creditors, has conceded that hardly a single country on earth could repay all its short-term loans in one go.

The academics at Pretoria University take another angle. They have worked out that to clear all foreign debts, every man, woman and child in South

## Shrinking gold stockpile



The dramatic shrinkage in the gold stockpile held by the SA Reserve Bank as bullion has had to be sold to try to ward off economic problems.

Mr Geldenhuys prefers another perspective. He estimates that the debt dilemma will strip at least 1.4 percent from South Africa's annual economic growth rate — causing the loss of a potential 90 000 new jobs being created every year.

Cur for the problem?

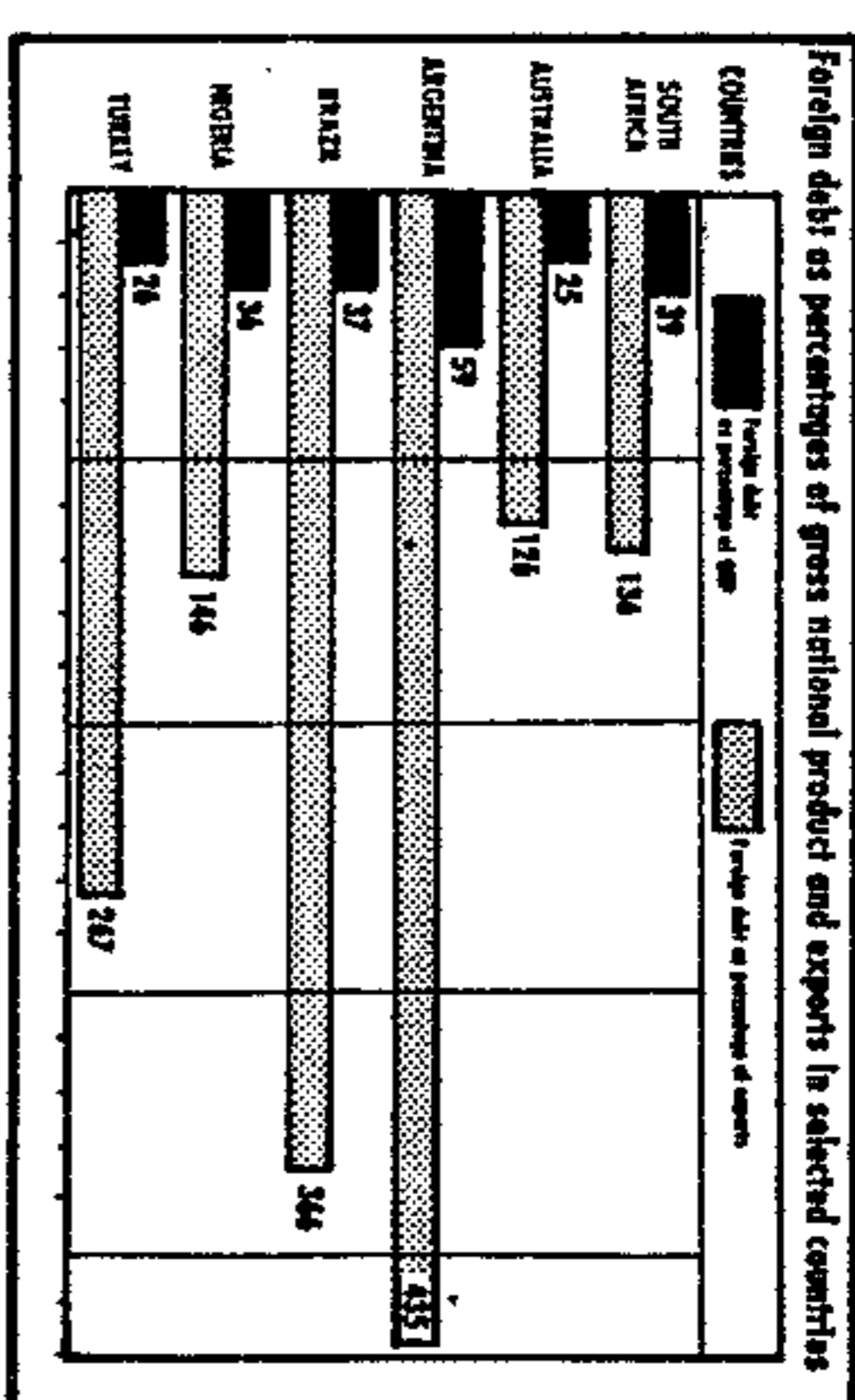
"The more reform policies appear in positive headlines", says Dr Leutwiler, "the more banks will be prepared to do business again".

Says Mr Geldenhuys: "Political progress will be vital to future strategies, but it will not be sufficient by itself.

"The debt standard has forced South Africa into uncharted waters and what has become absolutely crucial is an entirely new masterplan to put much more muscle into the entire economy".

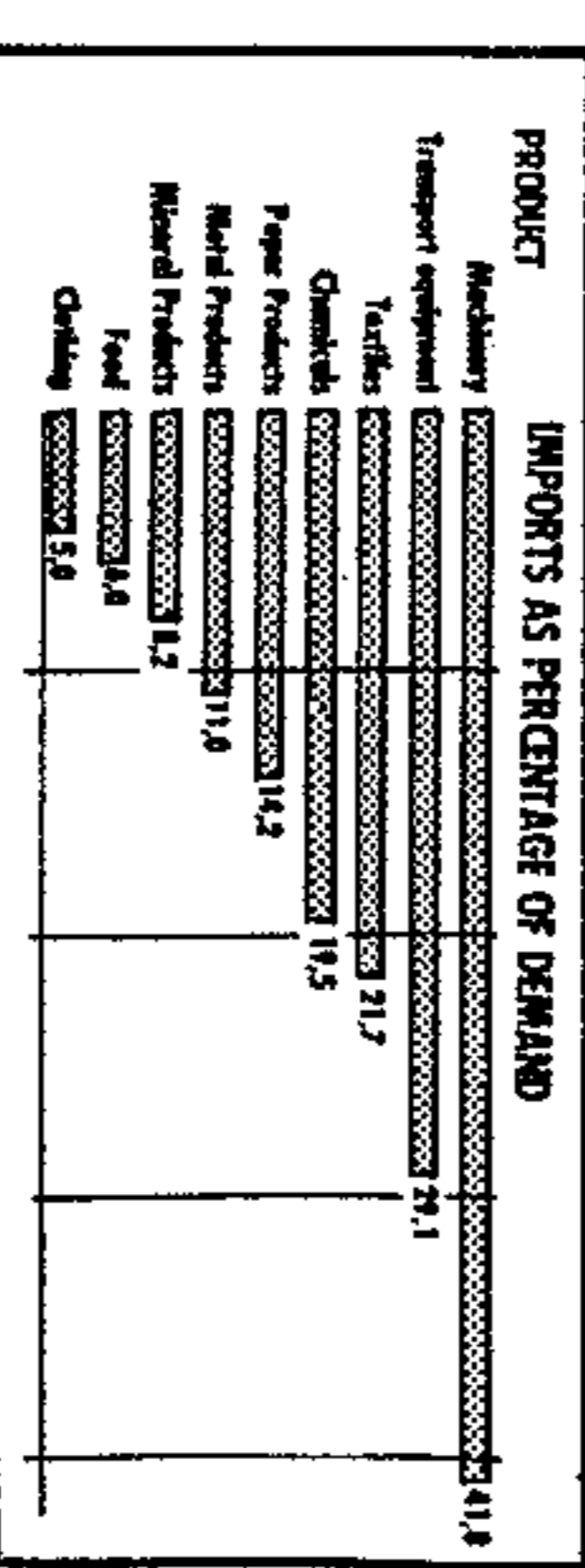
Bankers and politicians alike stress assurances that South

## Can exports cover debts?



A bar chart gives a breakdown of the products that are typically imported and whose costs have added to the debt problem.

## What raises import bill



The Mercantile study sets out to show that "the long-term solvency of South Africa is above suspicion", with its total foreign debts equal to less than 140 percent of its annual exports.

## Foreign debt crisis diary

A diary of key political factors in the foreign debt crisis:

- 1984** July: Gold tumbles under 350 dollars an ounce.
- August: Austerity economic package unveiled.
- September: Serious unrest erupts in Vaal Triangle.
- 1985** July: State of Emergency declared.
- France prohibits new investments in South Africa.
- United Nations votes for voluntary sanctions.
- European Community countries recall envoys.
- August: Chase Manhattan Bank cuts credit lines.
- President P W Botha's Rubicon speech.
- September: Standstill on foreign debt payments.
- December: Foreign exchange controls lightened.
- 1986** January: State President opens Parliament.
- February: First agreement with foreign bankers to delay repayments.
- April: SA repays five percent of blocked loans.

Stock Exchange and foreign exchange markets closed temporarily.

December: Foreign exchange controls lightened.

January: State President opens Parliament.

February: First agreement with foreign bankers to delay repayments.

April: SA repays five percent of blocked loans.

Africa will honour all its foreign debts — if given time.

But the costs of speeding up repayments under global pressures will add heavy new burdens to the economy.

Among the costs listed by the Mercantile study: higher inflation caused by a weaker rand; exchange rate; slower domestic economic growth, more unemployment — and lower living standards all round.

Now more than ever, says Mr Wim Hakes, head of the SA Foreign Trade Organisation, South Africa must concentrate on a far better export performance. "We simply have to learn we must earn more than we spend".

Flight of  
capital  
squeezes  
the rand

25/4/86  
74  
STILL

Financial Staff

South Africa's foreign exchange restrictions over the transfer of money abroad do not appear to be coping with the present flight of money out of the country.

As a result the rand has come under strong selling pressure recently.

The currency has fallen back to 48 US cents from 50 cents this week after having shown some stability around 50 cents.

Banking sources say it is very difficult to pinpoint exactly how the money is flowing out.

If a foreign owner of a business here were to sell his interest then this cash when moved through the foreign exchange market would put pressure on the rand.

STANDS TILL

Equally it is noted that local companies that have foreign loans repayable within the current debt standstill restrictions are not rolling these over when allowed to do so by foreign banks.

Because of the present economic climate they are repaying them whenever possible.

Bankers say that under the present circumstances there is little likelihood that the rand will trade much above the 50 cent level in the immediate future.

FINMAIL 25/4/86  
**Down on crosses**

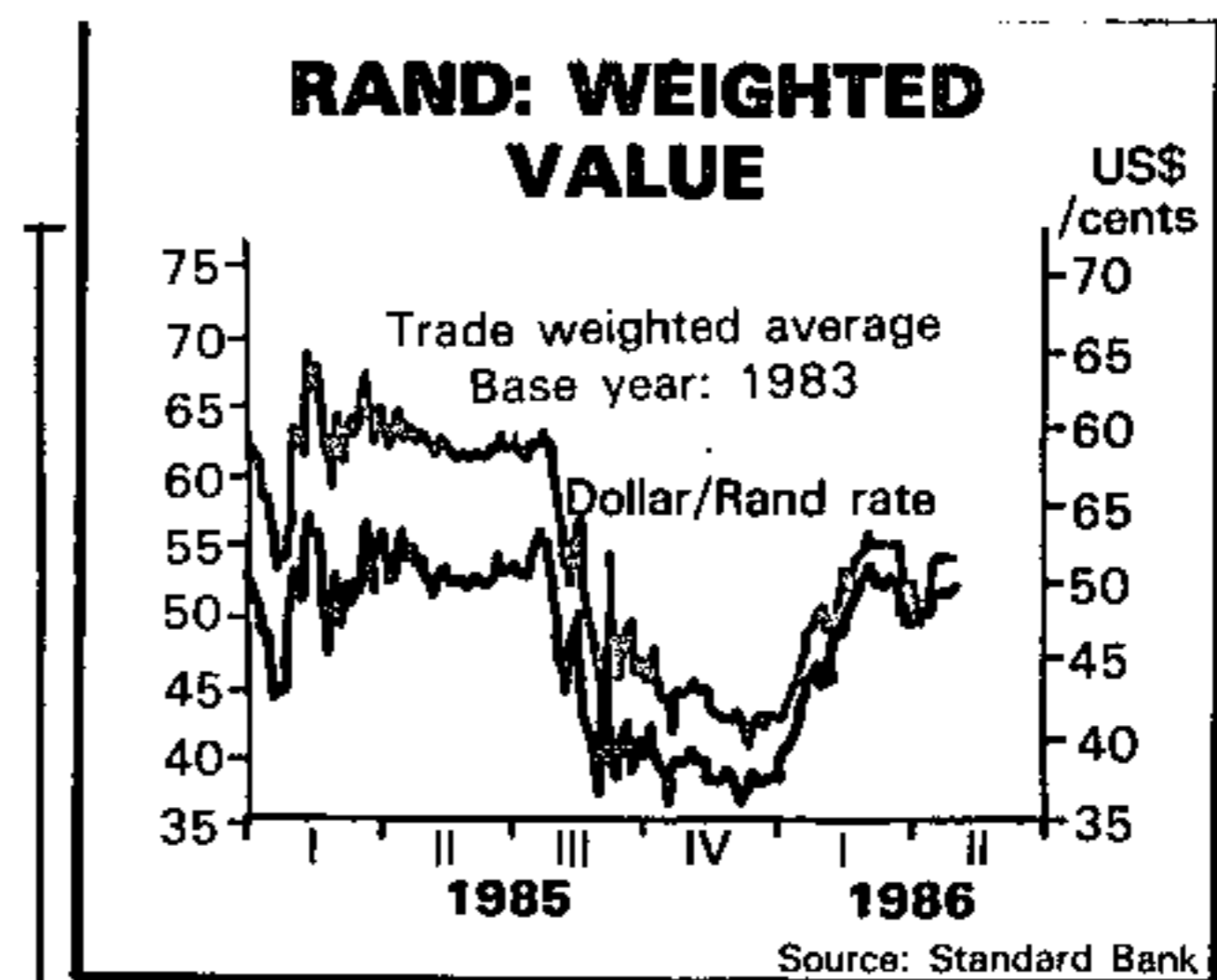
Despite a plunging dollar and rising gold price, the rand fell at one stage on Tuesday to below US50c — “trading” (or being quoted) as low as US49,8c. Dealers, who report very light volume, explain that importer demand is putting pressure on the currency as the month-end approaches. It is difficult to find out what is going on as it appears the rate is down on no trading. Despite reports to the contrary, the Reserve Bank is in the market trying to keep the currency above US50c and, by press time on Tuesday, succeeded in pushing the currency just above this level.

The rand rose above the psychologically important level of US50c several times during the week. This rate, dealers note, encourages importers to take cover, thereby putting further pressure on the currency. The market’s attitude towards a rand above US50c, Citibank says, “appears extremely cautious and considerable reassessment seems to be taking place.”

The rand has weakened considerably against other major currencies. It has fallen over the week from DM1,14 to DM1,09 (4,4%), Fr3,635 to Fr3,43 (5,64%), SwFr0,953 to SwFr0,91 (4,5%) and Yen 87,9 to Yen 84,3 (4,1%).

Citibank notes: “With the overall balance of payments virtually in equilibrium (given expected capital outflows) US50c might represent an equilibrium level.” The bank adds it is a question of expectations: exporters “seem to have a view of the rand’s inherent weakness and are reluctant to sell dollars forward above US50c while importers seem to regard rates above US50c as good buying

Financial Mail April 25 1986



territory. Thus we have a stalemate.”

Barclays expects the rand “to make further headway against a declining dollar this week.” The bank says the currency is not likely to keep pace with other major currencies, and anticipates a weakening on the crosses. It advises importers to cover 30% of dollar payments due in the next week. ■

BUS DAY

AY, Thursday, May 1 1986

3

# Renewed confidence in SA's ability to pay

JOHN TILSTON

THE financing of international trade by SA companies has just about returned to normality, according to Johannesburg-based bankers.

Immediately after the shock of the foreign debt standstill imposed last September, many foreign companies selling goods to SA insisted that they received payment for goods at the same time as the order, despite the fact that trade credits were excluded from the standstill net.

Gradually the companies have regained confidence in SA's ability and determination to repay credits and to keep them outside the net.

But Standard Bank's international manager Manfred Schutte says, while there is a definite improvement in foreign banks' attitudes to SA, this has yet to extend to a willingness to increase credit lines to the country.

And while he confirms that trade finance has become easier since the standstill, he says there has been a greater reluctance on the part of SA companies to take foreign loans.

SA companies have had their fingers badly burnt by foreign exchange losses and by being caught in the whole standstill imbroglio.

In addition, the depressed state of the economy is not encouraging borrowing, and so while there are certain foreign banks willing to re-lend the 5% repaid to them in terms of the Leutwiler agreement, some cannot find borrowers.

Schutte notes, however, that the disinclination to increase exposure to SA has resulted in credit terms for SA borrowers being generally limited to 90 days. Previously importers could get up to 360 days' credit.

Hill Samuel's Roly Boardman says that this restriction has not applied to local companies with overseas affiliates. These companies have traded on "open accounts", and generous credit terms. These have not been affected by the standstill and subsequent events.

# Threat of more controls on leads and lags may lead to outflow of capital

By Frank Jeans

Further exchange controls aimed at suppressing leads and lags in South Africa's trading pattern might only aggravate the situation and result in an outflow of capital because of fears of even more controls.

This is the view of Dr Roger Gidlow, who looks at the leads and lags phenomenon and its effect on the rand in the latest issue of the Bank of Lisbon's *Economic Focus*.

South Africa is particularly vulnerable to leads and lags — changes in the timing of payments for imports and exports — because of the structure of the balance of payments.

## MARKEDLY AFFECTED

"This has normally incorporated a current account deficit counter balanced by net capital inflows which reflect the developing nature of the economy," says Dr Gidlow.

"Consequently, the foreign reserves and or the exchange rate can be markedly affected by retardation of capital inflows because of fears of a depreciation of the currency and conversely boosted by greater inflows on

expectations of an appreciation of the unit."

The economy is an open one, with about one third of the gross domestic product emanating from exports while a similar proportion of gross domestic expenditure is accounted for by imports.

## LARGE FLUCTUATIONS

This openness is magnified by the large presence of foreign-controlled companies.

"In these circumstances," says Dr Gidlow, "the scope for large fluctuations in capital flows through leads and lags exist despite strict exchange controls."

There have been strong suggestions that further measures should be taken to reduce the incidence of leads and lags through the tightening of exchange controls with the aim of speeding up the repatriation of export proceeds and slowing down payments for imports.

Dr Gidlow argues, however, that in view of the present stringent controls there is limited scope for action in this direction.

There is, for instance, no possibility of shortening the time

limit for exporters to sell their foreign exchange proceeds to local banks.

The present seven-day rule, he believes, is harsh by international standards and severely limits the flexibility of exporters.

"It can be argued that the incidence of leads and lags in South Africa is partly the product of pervasive exchange controls which prevent pure speculation in foreign exchange as well as movements of hot money and therefore divert speculative activities into the channels of leads and lags," he says.

"Parties which could otherwise have speculated in the foreign exchange market may well have turned to the alternative of changing the timing of their foreign trade and other foreign transactions."

## IMPORT CONTROLS

While several possibilities exist for the tightening of exchange control, it would seem that they would introduce only new distortions and at best, would exert only a limited benefit.

Dr Gidlow has strong doubts, therefore, concerning the efficiency of import controls and their ability to alter expectations about the future value of the rand.

"Even assuming adverse leads and lags could be reversed to some extent via this route they could quickly turn negative once again.

## RETALIATION

"The danger partly stems from the risk that import controls will foster higher inflation and harm exports.

"Any retaliation by foreign powers against South African exports would only strengthen the potential for a return to adverse leads and lags movements."

Traders might well agree with Dr Gidlow's conclusion that import control could create an even larger bureaucracy, leaving the business community more insular, thus blunting sustained export efforts.

Indeed, such controls might also run the risk of inviting retaliation by foreign powers as well as fostering even more inflationary pressures.

7/5/86 BUS DAY

# Reserves hit seven-year low

74

SOUTH AFRICA's gold and foreign exchange reserves took a pounding in April. By month-end they had declined by 14.7% to R3,24bn, the lowest level since 1979.

Reserve Bank figures released yesterday showed gold holdings had declined to R2,6bn from R3,0bn in March. The decline was partly the result of a decline in the average price used to calculate the reserves to R638,13 per fine ounce from March's R661,30 an ounce.

But there was also a reduction of about 400 000 ounces in the Bank's physical stock, suggesting there was some selling or swapping of gold in April to bolster reserves.

Physical gold holdings, at just over 4-million ounces, are at their lowest level since at least 1977.

JOHN TILSTON

The Bank reported that its reserves of foreign currencies fell nearly 18% to R633,9m at the end of April from R771m a month earlier.

The perilous state of the nation's reserves indicates the pressures exerted by the repayment of foreign debt and the Reserve Bank's support of the rand.

Although the level of reserves, as reported, represents only a "snapshot" of the situation and they may have recovered since the end of last month, the overall trend is down.

They have declined for the first four months of this year, and must now cast serious doubts on the authorities' ability to support the rand at present levels in the medium term.

to 11,2% as demand picked up at the higher rates. Call rates are trading around 10,75%, similar to a week ago.

The average rate at the weekly Treasury bill (TB) tender rose 14 points to 10,99% — R112m was bid for the R100m on offer. In line with the TB, Monday's Land Bank tender edged up to 11,18% from the previous 11,05%. It was more than three times over-subscribed, attracting R165m for the allotted R50m. This over-subscription, one dealer notes, does not reflect bullish sentiment, but rather the demand for paper at the higher levels.

The Land Bank's offer of R100m 12,5% 1987 debentures attracted R192m at an average 14,2%. The paper does not qualify as a liquid asset.

Negotiable certificates of deposits (NCDs) are at the same levels seen last Tuesday. One-month NCDs are 11,95%, two-month NCDs 11,85%, three-month NCDs 11,8% and 12-month NCDs 12,5%.

The market shortage has been in the R1 billion to R1,2 billion range all week. Corporation for Public Deposits deposits with discount houses remain at R600m.

FIN MAIL 16/5/86  
FOREIGN EXCHANGE

74

## Reserve rumbles

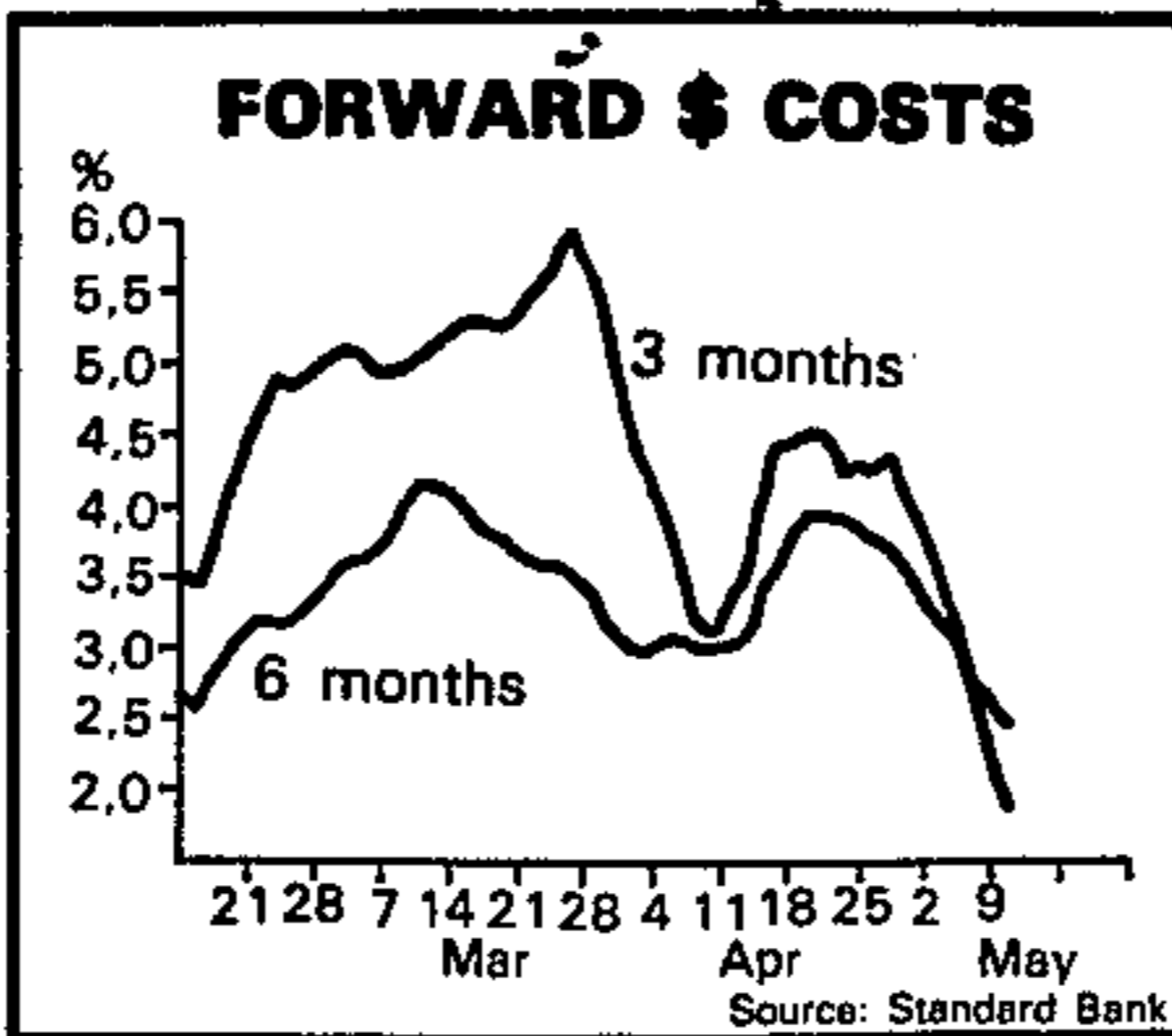
The further decline in official gold and forex reserves to R3,24 billion at the end of April (of which forex reserves fell from R771m in March to R634m in April) renewed concern that the Reserve Bank's ability to support the rand is limited (see *Economy*).

Mainly on such fears, the rand has continued to slump against all major currencies. But, to be sure, the reserves have been lower. As one dealer notes: "With confidence at a low ebb declining reserves are not exactly

## RAND'S PRICE

May 13 1986	R1 equals	One foreign unit equals (R)
SDR .....	0,403	2,483
UK £ .....	0,513	1,951
US \$ .....	0,303	3,301
Canada \$ .....	0,405	2,489
Switzerland Fr .....	0,470	2,128
France Fr .....	0,511	1,957
Germany DM .....	0,614	1,629
Japan Yen .....	0,700	1,429
Italy Lira .....	0,843	1,188
Zimbabwe \$ .....	1,315	0,780
Austria Schil .....	3,239	0,309
Holland Guilder .....	4,765	0,210
US \$ value of SDR .....	1,017	0,983
Financial Rand	1,582	0,640
Cost in US \$ .....	75,500	0,013
Discount (%) .....	128,000	0,008
	898,000	0,001
	999,250	0,001
	0,768	1,302
	0,780	1,282
	7,150	0,140
	10,975	0,091
	1,146	0,873
	1,764	0,567
	0,991	1,188
	n/a	0,302
	n/a	35,745

Year ago figures in light print.  
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.  
The above rates are for guidance purposes only.



what the market wants to hear." It is in this context that the reserves have impacted on the rand.

Against the dollar the rand is down from US47,63c to US46,6c by press time on Tuesday and Standard Bank's trade-weighted index has fallen to 50,7 (against 51,8 last Monday). The local currency has lost against sterling (from R3,21 to R3,29) and the yen (Y79,8 to Y76,1).

Says Citibank: "There is little depth to either the spot or forward market, which is symptomatic of the lead on export proceeds sold forward, the removal of gold and oil payments from the interbank market, the removal of capital flows via the financial rand mechanism and the low foreign financing activity."

"The option of official forward (as opposed to spot) dollar sales in support of the rand is not open," says Barclays, adding that "corporate dollar demand has been heavy following the announcement that the current account recorded an annualised surplus of only R2 billion in the first quarter, down from R11,9 billion in the final quarter. Although the decline has been attributed to a once-off restocking of the strategic oil stockpile, market participants are anxious that, in the short term at least, such a policy will not allow a build-up of foreign exchange reserves."

The forward market has taken on a semblance of normality after going haywire last week. In the three-month market the cost to importers is 22 points on Tuesday after importers were actually benefiting some five points at one stage last week. At that time it was actually costing exporters 20 points. By Tuesday exporters were benefiting once again (to the tune of 15 points). According to dealers, the Bank was selling on the short forward market and buying in the longer end of the forward market.

Citibank explains that the persistent shortage of dollars is evidenced by both the spot and the depressed level of the forwards. "This latter feature indicates that market participants are creating dollars through swaps by buying dollars spot and selling forward, and the reduction of the swap to parity in the short dates indicates that participants are paying domestic rand interest rates for dollars. This highlights the problem of the forex market at present, namely no

liquidity."

The forward points, Barclays notes, are already way out of line with US-SA interest rate differentials; heavy forward dollar sales would exacerbate the situation. "So little can be done by the Bank in the short term to reverse the rand's downward course. With the local currency paying hardly any attention to the declining dollar, no help can be expected from this source. It is only via a changing demand-supply balance in the local forex market that the rand could begin to strengthen, and while politically motivated violence continues, sentiment is unlikely to facilitate such a change," the bank gloomingly concludes.

Both Barclays and Standard advise importers to maintain a high level of forward cover on dollar payments. Standard recommends exporters to consider staying out of the forward market.

Citibank feels "the decline in the spot over the past few weeks has possibly weakened importer demand for the next few weeks, but the market still needs supply for the rand to appreciate."

## LONDON

### Crooks at work

Organised rings of professionals spanning several City institutions, such as merchant banks, solicitors, accountants and fund managers, have been carrying out large share transactions on the basis of inside information through offshore dealing companies, the London Stock Exchange (LSE) believes.

About 80% of the suspected insider deals are purchases of shares in a company which shortly afterwards is the subject of a takeover bid at a sharply marked-up price.

Of the 284 full-scale investigations carried out since insider dealing was made a criminal offence in 1980, the LSE says about 50 have been frustrated by the use of offshore companies.

The LSE fears that, since insider dealing became a criminal offence, it has been more difficult to punish offenders than under its previous internal disciplines because of the standard of proof required in a law court. The LSE has referred 93 cases to the Department of Trade and Industry over the past six years, of which only five have led to prosecutions and three to convictions.

LSE officials say privately that they are surprised that the Director of Public Prosecutions has brought so few cases to trial. In several investigations they believed the evidence was overwhelming.

## THROGMORTON STREET

### Sell in May?

It may be no more than coincidence that the London equity market peaked at the very end of the last tax year, but the proud new

# International attitudes to debt rescheduling could harden SA raids lead to despair

By Neil Behrmann

LONDON — The South African raid has been greeted with despair by international bankers and brokers.

Some said it seemed the police and military were effectively running the South African show from behind the scenes.

They came to this conclusion because the raid happened during the Commonwealth group's visit to South Africa, and ran counter to the Government's diplomatic moves.

South African shares in London were marked down between five and 10 percent in London, and in line with the Johannesburg market there were far more sellers than buyers of rands.

"The rand was weak anyhow, but this is yet another major political shock," said a London banker. "You would have thought that after Rubicon 1, they would have learnt something about public relations."

"The military has no idea about the political and economic repercussions of its actions," said the banker "Now poor old

Gerhard de Kock has to run around picking up the pieces."

Bankers say the raid could harden attitudes when South Africa's debt rescheduling is reviewed in the next few months.

"American banks and others already annoyed by slow progress and violence, will try and squeeze more out of South Africa," a London banker said.

A foreign exchange trader said that The rand had weakened from its first quarter peak of 52 cents because of the poor performing gold price, debt repayments and a cut in SA interest rates. The raid added another dimension.

"Economic factors are against the rand, now sentiment is affecting it too," he said.

Importers were "leading payments" by paying for imports swiftly, while exporters were "lagging" by delaying conversion of currency receipts into rands.

Since February, the rand has fallen by 18 percent against the dollar. But it has weakened even further against other major trading partners. The pound, for instance, has appreciated by 25

percent on the rand.

An American broker said that Americans were steady sellers of SA shares since the peak early this year. Swiss, French and Belgium institutions bought. But the raid illustrated that the market was basically vulnerable, said the dealer.

Jobbers had to mark down prices sharply to attract the few buyers that were around, he said.

Mike Gordon, mining analyst at James Capel, said that in dollars the *Financial Times* gold share index was 348 points, only 43 points above the trough in November last year.

"People thought that there were genuine government efforts to improve the situation during the past two months," said Mr Gordon. The raid was a major international setback for South Africa, similar to events in the second half of last year.

A report in the *Wall Street Journal* says that white South Africans are becoming increasingly uninformed about events in South Africa. Besides the censorship by radio and television, there is effective censorship by

newspapers owned by the major publishing houses.

"Big city editors often play down grim news from the black townships in special editions printed for whites," says the report. "Important black township news often doesn't appear at all in those editions."

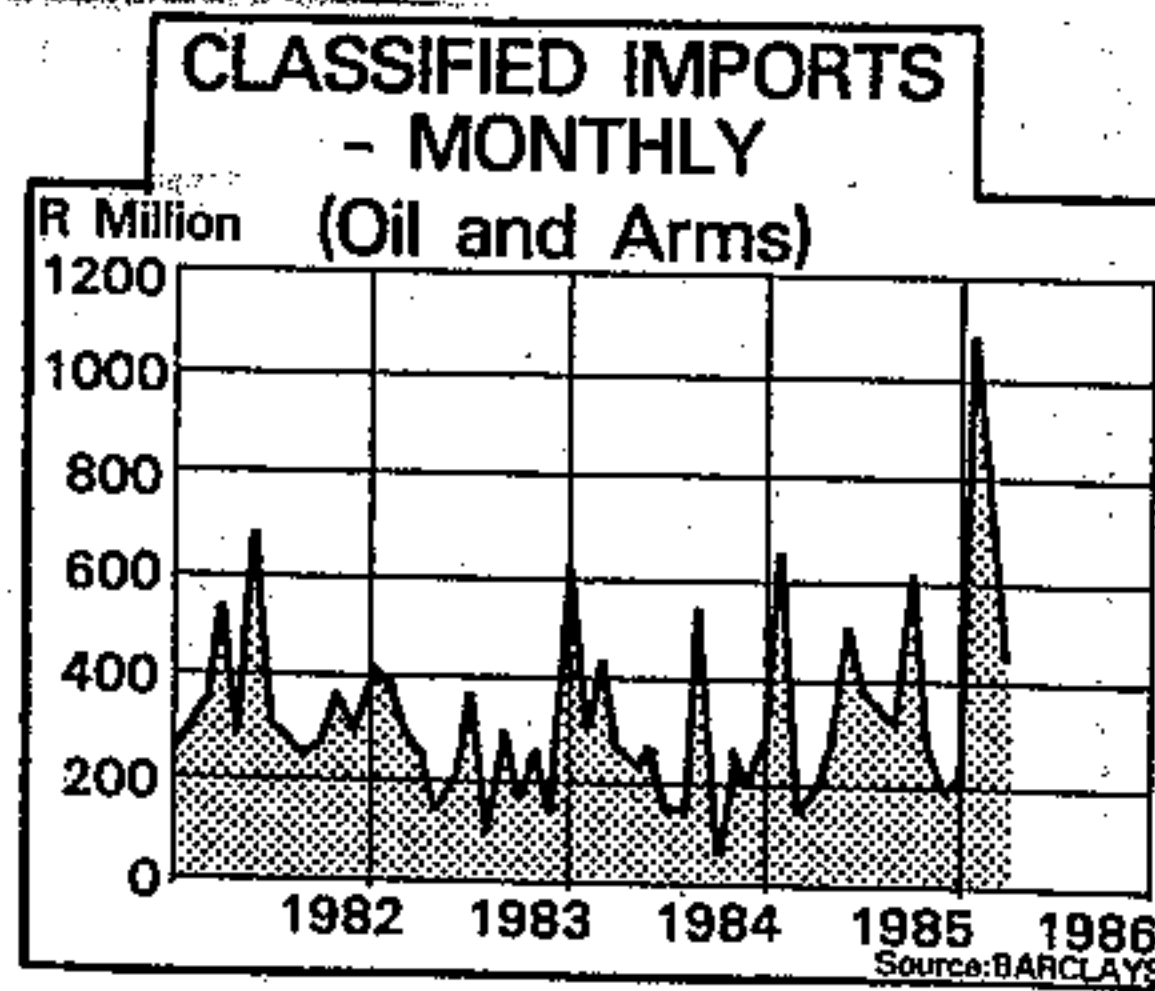
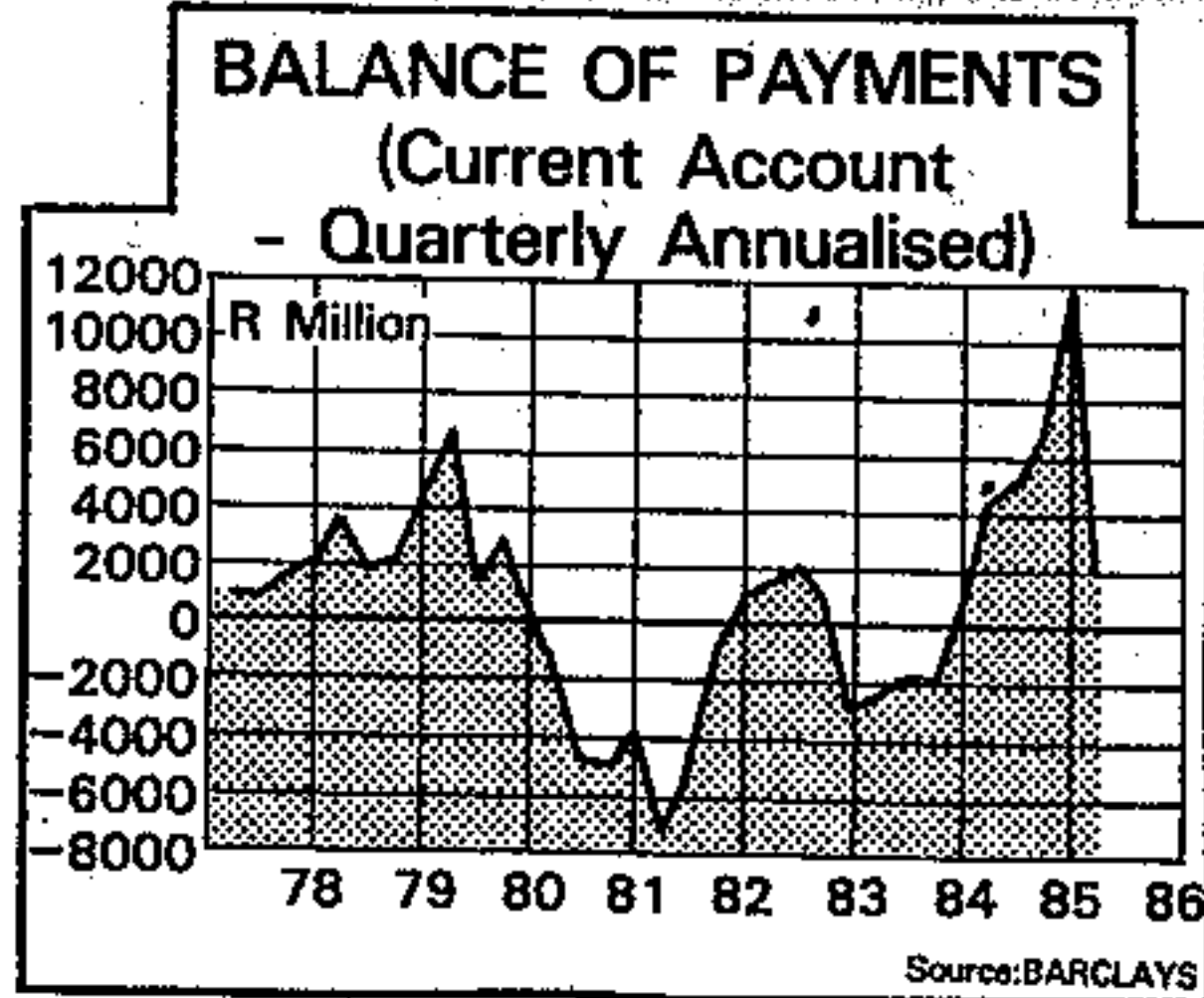
"Some editors call the practice good marketing... others say the split image of South Africa shelters whites from real news about black townships, while blacks remain ignorant of white concerns."

The report in the *Wall Street Journal*, a conservative newspaper, illustrates growing fears abroad that the isolation of the white community is worsening.

The information gap between South African and foreign businessmen increases, says a London analyst. That is why the foreign debt situation took the South African business and banking community so much by surprise.

If more information had reached the community, many problems that ultimately had an impact on the economy could have been averted.





**GERALD PROSALENDIS**

THE R2bn annualised surplus on the current account of the balance of payments has been questioned by Barclays Group economist Cees Bruggemans in the bank's latest *Business Brief*.

He does not question the Reserve Bank so much as he does the flow of information reaching Central Statistical Services and the Bank from other government departments.

"There can be no doubt that the R2bn estimate put out by the Reserve Bank is very real indeed. Of course, the Reserve Bank, in turn, is dependent on other sources for data on which it has to base its calculations, and there is no way of knowing just how unreal those figures have become," says Bruggemans.

Central to his argument is that the rand did not depreciate in the face of a substantially reduced current account surplus and that outflows on the capital account are reported to have exceeded the current account inflow.

"One is left gasping for explanations as there surely were no hidden reserves or unused foreign bank lines to solve such an unequal equation," he says.

The drastically reduced current account surplus has been attributed to a topping up of the strategic oil stockpile.

But, says Bruggemans: "What makes

# Current account surplus queried

74  
BUS DAY  
22/5/86

this reasoning less than plausible is the physical reality of taking in such an enormous amount of oil (estimated at 25-million barrels) in such a short period of time in combination with a total absence of shock in the foreign exchange market.

"February and March were extremely sensitive months when it came to foreign debt negotiations. To have shown a massive current account surplus would only have whetted the appetite of foreign creditors."

Few really know the true picture, however. Oil imports are included in a large unclassified item in the trade statistics and are difficult to quantify.

**F**OREIGN BANKERS have yet to make up their minds about the implications of this week's SADF raids into Botswana, Zimbabwe and Zambia. Although there have been no immediate repercussions for the debt agreement negotiated in March between the SA authorities and SA's foreign creditor banks, foreign banks are closely watching for effects the raid might have on the SA economy.

Clearly, their overriding concern is how the raid will affect SA's ability to repay debt.

"We have reserved judgment but will assess the raid's impact on the economy. This includes examining the possibility of sanctions, which is closer, and internal political stability," says a foreign banker.

Says Finance Director General Chris Stals, who is SA's chief debt negotiator: "We should not exaggerate the influence this event has so far had on foreign bankers. It may not have a severe long-term effect on their thinking.

"So far, few of them have referred to it," he adds.

"The raid did create a lot of emotion immediately after the event. And politics are always in the background in our negotiations with these bankers. The event will obviously affect their decisions.

It will not, however, have a significant affect on negotiations in September."

That is when the SA authorities and creditor banks are scheduled to meet to discuss SA's economic situation, and more particularly whether the country could speed up repayment of its debt commitments.

But political developments will not be easily pushed aside.

"The meeting in September is only intended as a report back on economic developments, and by that time we will have many positive things to say politically.

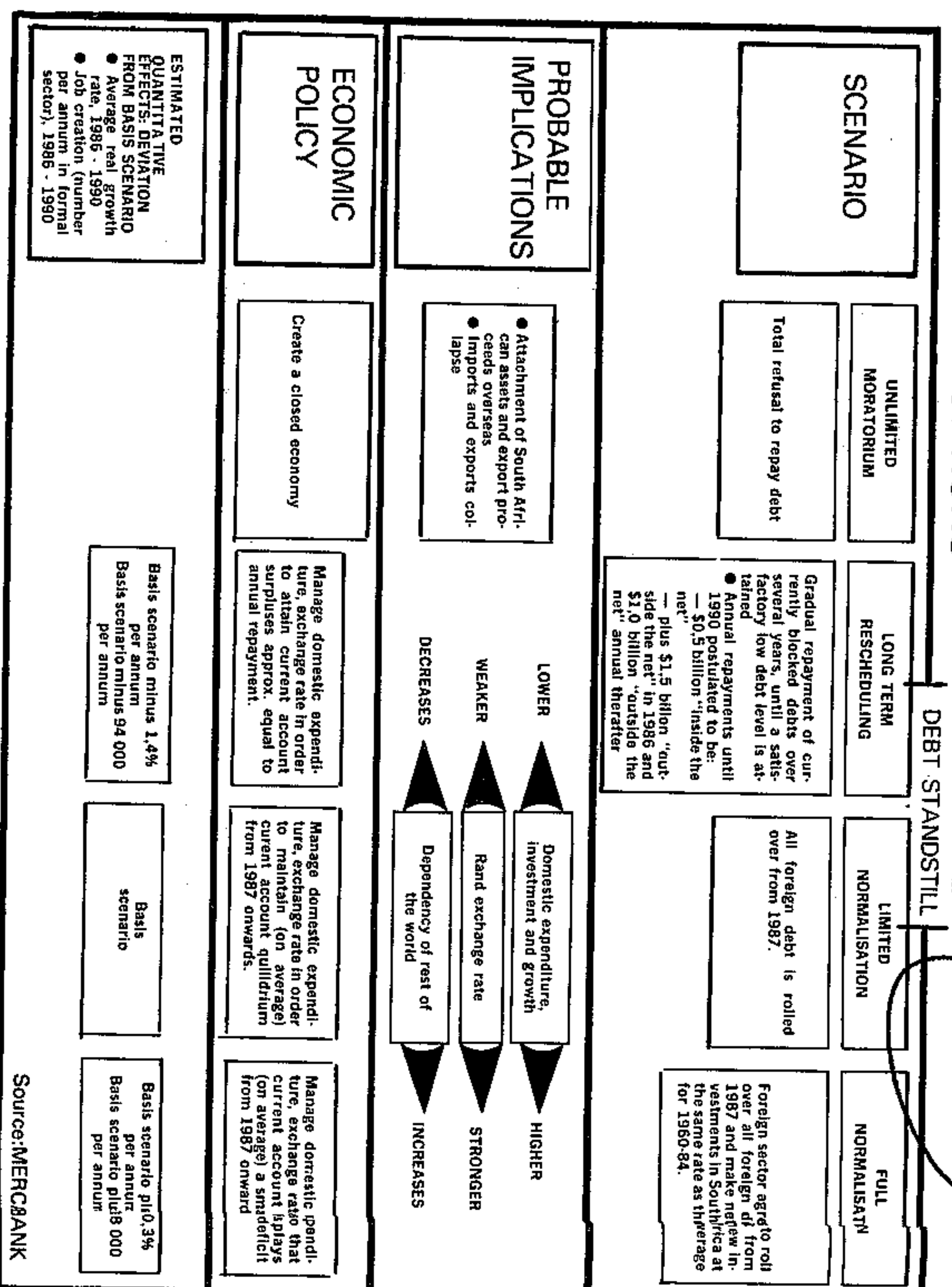
"The banks hopefully will take a more balanced view. The raid was only one event in a whole chain of events," says Stals.

Nonetheless, many feel the raid, and the ensuing foreign condemnation, will undermine Stals' credibility with foreign banks.

"No doubt it is going to make it more difficult for Stals to negotiate," says a local banker.

There is also the possibility that Stals could be used as a punch bag

## AFTER THE RAID: WEIGHING THE OPTIONS



□ STALS... "It may not have a severe long-term effect on their thinking"

for banks, particularly those in the US, to vent their frustrations because of further shareholder pressure, they say.

It is unlikely, however, that creditor banks will attempt to torpedo the present agreement. Unravelling the ensuing legal nightmare — which could involve the

# Raids could dent debt agreement

**GERALD PROSALENDIS**

UK courts — would not be for the fainthearted.

In any case, the authorities point out that foreign creditor banks are locked into the agreement at least until June next year.

Says one official: "That agreement cannot be changed fundamentally until next year — any

changes would have to be mutually agreed to."

However, foreign bankers disagree that the present truce is quite so castiron.

"My understanding is that the March negotiations resulted in more or less a tacit agreement which depends on both sides con-

tinuing to negotiate rather than being one which is legally binding," says a foreign banker.

But the real danger is that overseas condemnation and the threat of sanctions could force the exchange rate to collapse. It has already done this to a degree.

And this, in turn, would weaken SA's reserve position, already at a seven-year low, and accelerate the flight of capital from the country, which would weaken the rand even further.

This would certainly give foreign banks something to worry about.

Already, there is a very real danger that SA debtors may find it more difficult to roll loans outside the standstill net. The long-term health of the SA economy is dependent on the amounts of foreign debt that can be rolled over.

This could mean that the Reserve Bank's initial estimate of a total of capital outflow of R5bn for the year — more than R3bn has left so far — may have to be revised upwards.

Repayments outside the net due to be rolled include trade credits, export guarantee credits and bond issues by public corporations.

If one takes a pessimistic view, our ability to roll these could be eroded by the raids and there could be a large outflow of capital this year, though not as much as last year," says one official.

Stals, however, is more optimistic. "The amount outside the net has already been substantially reduced," he says.

There is also the possibility that dividend payments by local subsidiaries of foreign companies could be stepped up. There is already a tendency for these companies to run down dividend cover quite illegally.

Perversely, the short-term effect of the raid could be helpful in future negotiations. Consumer and entrepreneurial confidence will take yet another knock.

Both consumer spending and fixed investment spending could be further reduced. And this will reinforce the downward trend of imports, which will benefit the balance of payments.

Concludes one foreign banker: "Our business is to invest in stable situations — we do not run the country. What we are looking for is a return to some sort of normality."

474  
R233333

IN THE management of currency risk it is essential to have a control system to measure the success rate of the overall programme as well as, to a lesser extent, the success rate on individual exposures. There are two approaches to this: one the accounting approach, which must measure the rand amount at the costing or pricing rate against the current value of the liability or accrual; and the other, which measures the performance against the least risk or forward cover option.

In most instances the second alternative is preferable, as the costing or pricing rate may have been set at unrealistic or unachievable levels for strategic reasons.

In the second alternative the company would measure the success rate as the difference in the rand amount at the initial forward cover rate and the current rand amount of the liability or accrual.

In this measure of the current rand amount, cognisance should be taken of any cash flows that have been created in the interim through trading the amount of the exposure in the foreign exchange market.

### Considerations

Closely allied to the measurement of success in currency risk management are two considerations relative to the overall impact of the risk management operations of the company. These may be classified as:

1. — Profit considerations; and

2. — Liquidity considerations. **PROFIT CONSIDERATIONS:** earlier, we examined the measurement of the success of the currency risk management operation. It was pointed out that, of the two alternatives, the more preferable measurement of success was to relate the initial rand amount to be paid or received at the forward cover rate with the anticipated or actual and amount paid or received, including the impact of cash flows derived from trading the exposure. This is a measure of the profitability of the currency risk management operation, but it does not re-

# Success in currency risk management

veal actual profitability of the company.

Actual profitability arises from rand cost versus rand selling price and, as mentioned earlier, these may differ from the underlying exchange costs used in measuring profitability of the risk management operation.

We now approach the economic risk aspect of currency risk management. The company needs to have developed a strategic plan, whereby any difference between the cost/price relationship and the exchange cost relationship is accounted for by the anticipated increase in the market share as, i.e., a promotional cost or by some other strategic reason, such as competitive pressure, sale of redundant stock or possibly some form of government subsidy which takes care of the difference.

Nonetheless, it is imperative that the company has absolute knowledge of its foreign exchange costs and its actual costs in order that a break-even exchange rate may be identified. As such it would then become almost impossible to lose more than a fraction of its break-even profit position, even in an extremely unstable exchange rate environment.

The currency manager would merely set a stop loss limit to allow a small adverse movement in the exchange rate from the break-even level and would automatically lock in at that level of profitability through a forward exchange contract once the stop loss level is breached. A similar consideration would apply to foreign loans or foreign investments. A company investing overseas at a lower

cost than that which prevails locally has a "cushion" in the interest rate differential.

The "profit" on the transaction is the difference between the interest rate differential and the cost of forward cover.

The longer the company remains in an uncovered position, the greater the so-called profit as the cost of forward cover reduces over time.

This profit may be enhanced or reduced by changes in the spot exchange rate, so the currency manager needs to be aware of the move in the exchange rate required to eliminate the benefit of off-shore borrowing at the forward rate versus the cost of local borrowing.

**LIQUIDITY CONSIDERATIONS:** the main liquidity concern for the company arising from currency risk management, provided the profitability considerations are well taken care of, is that which emanates from active trading in the currency.

### Advantage

The buying and selling of the currency exposure always created cash flows between the company and the bank.

**EXAMPLE:** an importer purchases \$1 000 000 at \$0,40 for value December 31 — therefore on 12/31 he must pay R2 500 000.

The exchange rate begins to rise strongly, and he decides to sell the position to take advantage of the favourable move in the exchange rate.

**EXAMPLE:** importer sells \$1 000 000 at \$0,44 for value December 31. He will have to

bank will be debited with the difference — i.e., R2 500 000 - R2 439 024 = R60 976.

Has he actually reduced his profitability? No. On December 31, provided the exchange rate remains static, he will pay R2 439 024 to his supplier and R60 976 to the bank to settle his total liability of R2 500 000.

If the exchange rate were to continue to move in his favour his profitability would be enhanced and vice versa if the exchange rate were to move unfavourably.

The liquidity problem arises when settlement with the supplier is later than December 31, the exposure used to purchase and sell the turnover, because of slow stock around times.

In this instance he will still have to meet the R60 976 debit if the bank on December 31, and not yet stock turnaround time has not yet regenerated sufficient cash flow to meet the debit, the company experiences a classic liquidity squeeze.

To overcome this problem it is always advisable to match the forward cover date and the maturity date of the commitment so that the company is in no worse a liquidity position than it would otherwise have experienced.

The point being that a currency risk management operation should not add further to the company's risk profile.

Some unavoidable problems can, however, arise. For example, a company has a five-year loan, but forward cover is only available at realistic exchange rates for periods up to one year. The company has no option other than to foregoise that an option will have to

prior to settlement of the loan, even if it chooses to remain in a covered position right up to maturity.

**EXAMPLE:** A company has a \$1 000 000 loan due in three years. On day one it covers for one year at \$0,40

At the end of year one it extends the cover for another year at \$0,50

**CASH FLOW DEBIT** R 500 000

At the end of year two it extends the cover for another year at \$0,60

**CASH FLOW DEBIT** R 333 333

At the end of three years it settles the loan at \$0,60

The company appears to have an effective capital gain of

R2 500 000 - R1 666 667 = R833 333

### Unchanged

But at the end of the year one it faced a cash demand from the bank of R500 000, and at the end of year two a cash demand of R333 333. A total of R833 333.

In fact the company has no capital gain — hence profitability is unchanged. But the company could have been placed under severe liquidity pressure at the end of years one and two.

In summary, success measurement in currency management is as important as meeting budget limits for the company as a whole. And just as a company can meet budget profitability and at the same time run into cash flow problems so it is with currency risk management.

Both profitability and liquidity are essential criteria for success in currency risk management. **David de Kock is MD, Foris Risk Currency Management (SA).** **NEXT WEEK: Interpreting Currency**

74 RUSDA1

# Success in currency risk management

IN THE management of currency risk it is essential to have a control system to measure the success rate of the overall programme as well as, to a lesser extent, the success rate on individual exposures. There are two approaches to this: one the accounting approach which must measure the rand amount at the costing or pricing rate against the current value of the liability or accrual; and the other, which measures the performance against the least risk or forward cover option.

In most instances the second alternative is preferable, as the costing or pricing rate may have been set at unrealistic or unachievable levels for strategic reasons.

In the second alternative the company would measure the success rate as the difference in the rand amount at the initial forward cover rate and the current rand amount of the liability or accrual.

In this measure of the current rand amount, cognisance should be taken of any cash flows that have been created in the interim through trading the amount of the exposure in the foreign exchange market.

## Considerations

Closely allied to the measurement of success in currency risk management are two considerations relative to the overall impact of the risk management operations of the company. These may be classified as:

1. — Profit considerations; and

2. — Liquidity considerations. **PROFIT CONSIDERATIONS:** earlier, we examined the measurement of the success of the currency risk management operation. It was pointed out that, of the two alternatives, the more preferable measurement of success was to relate the initial rand amount to relate received at the forward cover rate with the anticipated or actual and amount paid or received, including the impact of cash flows derived from trading the exposure.

This is a measure of the profitability of the currency risk management operation, but it does not re-

veal actual profitability of the company.

Actual profitability arises from rand cost versus rand selling price and, as mentioned earlier, these may differ from the underlying exchange costs used in measuring profitability of the risk management operation.

We now approach the economic risk aspect of currency risk management. The company needs to have developed a strategic plan, whereby any difference between the cost/price relationship and the exchange cost relationship is accounted for by the anticipated increase in the market share as, i.e., a promotional cost or by some other strategic reason, such as competitive pressure, sale of redundant stock or possibly some form of government subsidy which takes care of the difference.

Nonetheless, it is imperative that the company has absolute knowledge of its foreign exchange costs and its actual costs in order that a break-even exchange rate may be identified. As such it would then become almost impossible to lose more than a fraction of its break-even profit position, even in an extremely unstable exchange rate environment.

The currency manager would merely set a stop loss limit to allow a small adverse movement in the exchange rate from the break-even level and would automatically lock in at that level of profitability through a forward exchange contract once the stop loss level is breached.

A similar consideration would apply to foreign loans or foreign investments. A company borrowing overseas at a lower interest

cost than that which prevails locally has a "cushion" in the interest rate differential.

The "profit" on the transaction is the difference between the interest rate differential and the cost of forward cover.

The longer the company remains in an uncovered position, the greater the so-called profit as the cost of forward cover reduces over time.

This profit may be enhanced or reduced by changes in the spot exchange rate, so the currency manager needs to be aware of the move in the exchange rate required to eliminate the benefit of off-shore borrowing at the forward rate versus the cost of local borrowing.

**LIQUIDITY CONSIDERATIONS:** the main liquidity concern for the company arising from currency risk management, provided the profitability considerations are well taken care of, is that which emanates from active trading in the currency.

## Advantage

The buying and selling of the currency exposure always created cash flows between the company and the bank.

**EXAMPLE:** an importer purchases \$1 000 000 at \$0,40 for value December 31 — therefore on 12/31 he must pay R2 500 000.

The exchange rate begins to rise strongly, and he decides to sell the position to take advantage of the favourable move in the exchange rate.

**EXAMPLE:** importer sells \$1 000 000 at \$0,44 for value December — therefore on 12/31 he must receive R2 439 024. In effect, his account with the

bank will be debited with the difference — i.e., R2 500 000 - R2 439 024 = R60 976.

Has he actually reduced his profitability? No. On December 31, provided the exchange rate remains static, he will pay R2 439 024 to his supplier and R60 976 to the bank to settle his total liability of R2 500 000.

If the exchange rate were to continue to move in his favour his profitability would be enhanced and vice versa if the exchange rate were to move unfavourably.

The liquidity problem arises when settlement with the supplier is later than December 31, the date used to purchase and sell the exposure, because of slow stock turnover times.

In this instance he will still have to meet the R60 976 debit by the bank on December 31, and if the stock turnaround time has not yet regenerated sufficient cash flow to meet the debt, the company experiences a classic liquidity squeeze.

To overcome this problem it is always advisable to match the forward cover date and the maturity date of the commitment so that the company is in no worse a liquidity position than it would otherwise have experienced.

The point being that a currency risk management operation should not add further to the company's risk profile.

Some unavoidable problems can, however, arise. For example, a company has a five-year loan, but forward cover is only available at realistic exchange rates for periods up to one year.

The company has no option other than to recognise that any negative cash flows will have to be met

prior to settlement of the loan, even if it chooses to remain in a covered position right up to maturity.

**EXAMPLE:** A company has a \$1 000 000 loan due in three years.

On day one it covers for one year at \$0,40

At the end of year one it extends the cover for another year at \$0,50

At the end of year two it extends the cover for another year at \$0,60

**CASH FLOW DEBIT** R 333 333

At the end of three years it settles the loan at \$0,80

The company appears to have an effective capital gain of

R2 500 000 - R1 666 667 = R833 333

## Unchanged

But at the end of the year one it faced a cash demand from the bank of R500 000, and at the end of year two a cash demand of R333 333. A total of R833 333.

In fact the company has no capital gain — hence profitability is unchanged. But the company could have been placed under severe liquidity pressure at the end of years one and two.

In summary, success measurement in currency management is as important as meeting budget limits for the company as a whole. And just as a company can meet budget profitability and at the same time run into cash flow problems so it is with currency risk management.

Both profitability and liquidity are essential criteria for success in currency risk management.

David de Kock is MD, Forisk Currency Management (SA).

**NEXT WEEK:** Interpreting the currency environment.

300 DAF 20/5/86

# African Bank forex deals barred

AFRICAN BANK is barred from foreign exchange dealing.

The Reserve Bank yesterday cancelled its appointment as an authorised dealer after alleged contraventions of regulations.

Finance Minister Barend du Plessis said that, subject to steps to protect the regular outflow of currency, arrange-

ment would be made for the execution of uncompleted transactions.

Trust Bank will take over management of Africa Bank temporarily from today.

A statement from Du Plessis did not specify the alleged contraventions but

● To Page 2 →

300 DAF

# African Bank loses forex status

said police were asked to investigate further.

It said the bank's other activities would not be affected and the Reserve Bank hoped the African Bank would return to normality and independence as soon as possible.

Du Plessis said the appointment of a curator to the African Bank was not

70 22/5/86

envisaged because depositors did not appear to be at risk as a result of the alleged contraventions.

The statement added that the African Bank would continue to have normal access to Reserve Bank financial accommodation. — Reuter.

● From Page 1 ←

# Net tightens as SAP seize bank records

74  
38

POLICE have opened a docket on allegations of foreign exchange contraventions involving "millions of rands" after the monetary authorities suspended African Bank's foreign exchange licence on Wednesday.

"Six or seven" staffers at the bank are understood to be under investigation but the possibility that more will be investigated has not been ruled out.

The head of the South African Police (SAP) commercial branch in Johannesburg, Colonel Daan le Roux, said police had taken possession of certain bank documents and were sifting through them with assistance from the Reserve Bank.

No arrests had been made. He said the alleged irregularities involve trading financial rands as commercial rands. Financial rands stand at

**GERALD PROSALENDIS and DOMINIQUE GILBERT**

a large discount to commercial rands at present.

This could rake in huge profits, but is in contravention of foreign exchange regulations.

"If the allegations are true, the people who knew what was happening did African Bank and black business a disservice," said one banker.

Said Le Roux: "It appears these irregularities occurred before the bank obtained the proper licence to deal in commercial rands and while they were still operating on a limited licence."

Until April, African Bank could only deal in trade finance and travel allowances, both conducted only in commercial rands.

Attention was earlier focused on the bank with talk of "exorbitant salaries

and expensive cars and houses".

But the matter was probably brought to a head by the exceptional half year profit of R5,9m to March this year, compared with R169 000 in the 12 months to September 1985 — with only a modest growth in deposits and assets.

The imbroglio has, however, brought to a head the sensitive issue of banking supervision.

Recently a committee chaired by Senior Deputy Governor Japie Jacobs forwarded recommendations that the supervision of banks be transferred from the Treasury to the Reserve Bank. The committees' recommendations are with Finance Minister Barend du Plessis awaiting a cabinet decision before being referred to Parliament.

It is expected that legislation effect-

● To Page 2 ➔

## Police seize bank documents

ing the change will be passed during the current session.

The collapse of African Bank's foreign exchange division raises a number of thorny questions. For example, how was the bank able to trade in financial rands without a licence?

"If this did happen without a licence, there must have been something very queer going on," said a banker.

BUD DAY  
23/5/86  
From Page 1

"It is all a question of trust. A rupture of this trust by one bank reflects badly on the banking industry as a whole," another said.

The investigation is expected to last at least three months.

FOREIGN EXCHANGE

# Raid ruins rand

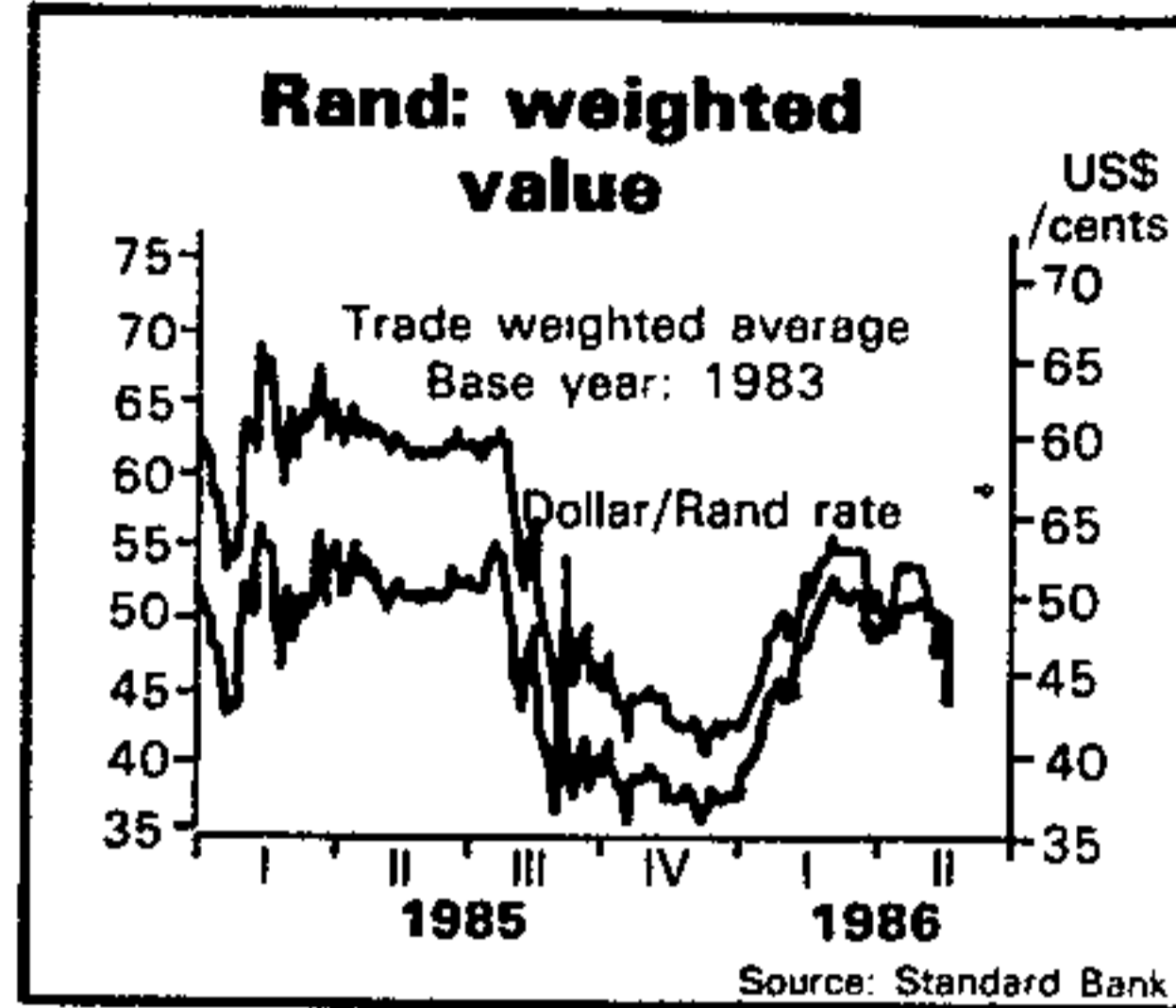
74  
FV MAIL  
23/5/86

It took only half an hour early on Tuesday for the rand to crash some US2,5c from Monday's US45c close. Dealers remember only too clearly the events that followed the Durban Rubicon speech. This time panic — and panic it was — was provoked by SA's raid on neighbouring states. But it boils down to the same theme — the rand is highly vulnerable to political factors.

After touching US42,35c, the Reserve Bank managed to get the currency up again by creating, it is thought, dollars in the swap market. Some estimates say the Bank put in \$100m for the day. Exporters, taking advantage to cover forward, also provided support. Demand was eventually exhausted and the market calmed down, with most trade taking place in the interbank market. The currency closed above US44c.

Such a run comes on top of fears that the Bank has limited scope to support the currency. The market now awaits (or dreads) further international reaction. The rand remains "extremely vulnerable," one dealer says. Adds another: "The upside is remote, the downside is vulnerable." Says a third: "There are still plenty of uncovered nervous importers who can come in and pull the rand down further, while plenty of happy exporters are not rushing into the market."

To be sure, the rand had been falling all week, because of a "lack of dollar liquidity in both the spot and forward markets," says one dealer.



Citibank says the dollar rally and weaker gold price aggravated nervousness. "Weakness in the financial rand, which fell below US30c, didn't help either." Barclays reports that the forex market "remains concerned about the limited room for manoeuvre on the balance of payments," adding that there was "disappointment at the apparent lack of progress in negotiations between the Eminent Persons Group and the government."

Writing before the raid, Barclays said: "Technical factors suggest that a bottoming out of the rand, at least in the short term, may be in prospect." It noted export interest "is on the increase," and the recent spate of import forward covering "appears to be on the wane."

Barclays, bearish in the past few weeks, concluded that "this changing demand/supply balance indicates that the momentum of the rand's decline is slowing down. In the absence of new negative factors it appears unlikely that sharply lower levels will be seen in the immediate future."

Just as well it made that caveat. ■

## RAND'S PRICE

May 20 1986	R1 equals	One foreign unit equals (R)
SDR .....	0,386	2,589
ECU .....	0,507	1,972
UK £ .....	0,444	2,251
US \$ .....	0,688	1,453
Canada \$ .....	0,289	3,465
Switzerland Fr .....	0,390	2,566
France Fr .....	0,441	2,268
Germany DM .....	0,499	2,004
Japan Yen .....	0,607	1,647
Italy Lira .....	0,681	1,468
Zimbabwe \$ .....	0,815	1,227
Austria Schil .....	1,263	0,779
Holland Guilder .....	3,111	0,321
US \$ value of SDR .....	4,647	0,215
US \$ value of ECU .....	1,459	0,685
Financial Rand	1,523	0,657
Cost in US \$ .....	73,800	0,014
Discount (%) .....	124,500	0,008
	669,000	0,001
	974,250	0,001
	0,772	1,295
	0,780	1,282
	6,825	0,147
	10,725	0,093
	1,100	0,909
	1,720	0,581
	0,999	1,167
	0,740	0,871
	n/a	0,272
	n/a	38,322

Year ago figures in light print.  
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.  
The above rates are for guidance purposes only.

26/5/86 BUS DAY  
74

Debt dampener highlighted

# Foreign relations vital to economy

FOREIGN relations will have a fundamental effect on the general course of SA's economic activity, says Sanlam's latest *Economic Survey*.

It says SA's foreign debt liabilities make it essential that a large surplus be maintained on the current account of the balance of payments, which places a serious dampener on growth

GERALD PROSALENDIS

potential.

There are, however, other factors which have a detrimental effect on medium-term growth prospects:

- A high inflation rate, which compares unfavourably with the rates of SA's trading partners and which affects competitiveness;
- Consumers are in a poor financial position. Salary and wage adjustments in 1986 are expected to be below the rate of inflation and unemployment will initially rise further;
- Consumer and business confidence has been dented.

This state of affairs could affect economic activity in the next 18 months through:

- A further decline in private consumer spending in 1986, especially on durables such as motor vehicles and semi-durables such as clothing and footwear;
- A mere marginal increase in consumer spending by government;
- A continued steady fall in real fixed investment in 1986;
- A turnabout in the falling trend in inventories later in 1986.

Gross domestic product is expected to rise by slightly more than 3% in 1986 and by 4% in 1987, says Sanlam.

AREA: Within a radius of 56 km from the Welkom Railway Station, excluding that portion of Kroonstad falling within this area.



BUSDPA,  
26/5/86

# Those 'free' market forces . . .

FOLLOWING on my article last week — which seems to have sparked a storm of controversy — I must point out that I agree with my antagonists.

Yes, the market does rule — but who rules the market?

Those who disagree with the view that the dramatic changes in the rand exchange rate are caused by inter-bank position-taking are all confined to the banking sector.

Those that agree with the view, judging from telephone calls and comments received, are from the corporate sector and some bankers.

## Nervous

At a seminar in Cape Town last Thursday the point was raised with the panel of speakers, including a spokesman for the Reserve Bank.

It was said that, if banks were taking positions against the rand, then it was only because they were smart in anticipating a fall which would have happened anyway.

A dubious point. The taking of those positions in a relatively sizeable amounts in a thin market is what caused the fall.

The positions are taken prior to official trading, and when the market opens at 9.00am with the rand a cent or more down from the pre-

vious close, what can a nervous corporate sector do but buy in dollars in anticipation of the worst? This then feeds on itself, and the rand keeps falling in the face of dollar demand.

Let's look at an example of this.

Last Friday the rand closed at R1=US\$0,4048. The following schedule shows the events on Monday morning:

08.22	0,4010/20	STANDARD BANK
08.24	0,3980/90	STANDARD BANK
08.57	0,3980/90	VOLKSKAS MERCHANT STANDARD BANK
08.58	0,3955/65	STANDARD BANK
09.00	0,3940/50	CITIBANK NA

SOURCE: Reuters

What happened? Between Friday and Monday the rand fell US\$0,14.

Who was buying dollars over the weekend? It appears very much like substantial dollar purchases are taking place outside of trading hours when the Reserve Bank is not available to meet the demand, even if it is for bona fide commercial transactions.

One person called me and asked: "If I have to supply my documentary evidence to the banks, to whom do they show theirs?"

1Y Wages: R	24.57
1Y Wages: R	31.27
1Y Wages: R	71.03
1Y Wages: R	78.40

A good point, but we must remember that banks, as authorised dealers in exchange, are not always able to set off deals with their clients in the market and are then obliged to carry the position in their books.

The problem is, however, that these official position limits are too large.

In fact, the total banking sector position limits are probably larger than the level of the Reserve Bank's holding of foreign exchange (excluding gold). This is a ridiculous situation.

## Desperate

How can the Reserve Bank be expected to fight Goliath with a few pebbles and a sling-shot?

They need to reset those limits to better embrace market reality. We can then avoid the type of instance where a bank operating within its limits can buy \$25m or more in the thin conditions that prevail prior to opening.

The rand drops. The sellers — in a desperate attempt to liquidate a long rand position — also buy more dollars. And the rand drops further.

Yes, it is the market at work — that's how markets operate. But is that the intention of the "free mar-

1Y Wages: R	88.89
1Y Wages: R	103.51
1Y Wages: R	25.41

ket principle" in SA? Another point. Did you realise that the fall in the rand between Friday and Monday was equivalent to the fall in DM of 870 points?

The 140 points that we saw appears small, but that's only because that rand is quoted the wrong way around — i.e., R/\$ instead of \$/R.

This allows for much greater volatility in the exchange rate than would otherwise be the case, because we are fooled by the illusion of an inverted rand.

In the DM market a move of 870 points is only caused by major events; in the rand market it's no big deal (no pun intended).

Furthermore, the points spread between the buying and selling rate is 10 points in the rand and 10 points in the DM.

But if the rand were quoted the same way as the DM, the spread would be equivalent to 65 points.

Only the French franc and Italian lire, which have much bigger numeric formats, have this kind of spread.

Speaking to a leading foreign exchange dealer the other day, I asked him what spread he would quote if the rand were to be inverted. He replied that it would stay at 10 points, perhaps 15, but certainly not more.

1Y Wages: R	34.03
1Y Wages: R	25.88
1Y Wages: R	52.01

Do you know what that does to bank foreign exchange profits derived from the spread? It cuts them by 70%.. And who benefits? No one but the consumer, and with much reduced volatility the risk is also diminished.

By the way, did you also know that many imported goods are still costed at US\$0,40?

Few price decreases were seen when the rand was above this level, and many importers are now considering price increases to reflect a costing rate of US\$0,35.

## Colonial relic

This kind of inflationary impact arises out of volatility in the exchange rate, which in turn stems from the way we quote the rand.

It's a relic from the colonial days, and we see the same problem in other ex-colonial countries such as Australia, New Zealand and Canada.

The problem with our currency is not that the market rules, but rather who rules the market.

In that sense we do not have a free market — we have an oligopoly.

David de Kock is MD, Currency Risk Management (SA).

1Y Wages: R	29.63
-------------	-------

29/5/85 BUS DAY

# Interpreting currency environment

THE EXCHANGE rate environment in which the company operates can have a significant impact on both profitability and liquidity. Two environments are defined and strategies developed for each.

A relatively stable exchange environment implies that, while fluctuations do occur, the amplitude of the fluctuation rarely exceeds 1% and basic economic fundamentals are still pertinent.

The moves are not necessarily slow or orderly, but if the currency manager happens to miss one of the moves, there will, more likely than not, be future opportunities in which he can regain what has been lost.

## Fluctuations

Most forms of currency analysis will, in this environment, give a measure of success — on the fundamental side, from a simple reading of economic journals to a highly sophisticated econometric model; and, on the technical side,

from a basic moving average of closing exchange rates to fully-fledged chart analysis involving momentum, relative strength, oscillators and the various chart formations.

In this scenario the currency risk strategy is relatively simple. The currency manager merely develops a stop loss level based on the recent past history of exchange rate fluctuations and the profitability of the exposure and acts accordingly.

The development of the stop loss can be more sophisticated, but this is not really necessary.

The analysis used for interpreting trends would give a general idea of the currency's direction and the stop loss would obviously have some bearing on this.

Where the stop loss level is significantly breached, particularly in an overnight situation, the currency manager should not act mechanically, but should reassess the situation to decide whether any action at that stage is too late and whether it would merely com-

pound the error. Clearly, this environment is the most suitable for corporate treasurers. The risk of major error is minimal and he really has no driving need for constant surveillance of the currency markets.

Generalised strategies can be set in place and he can get on with other aspects of his job.

It is also the most suitable environment for countries as a whole and the achievement of this type of environment is one of the stated objectives of the G-5 (now G-7) group of countries.

## Dangerous

A relatively unstable exchange rate environment is one in which movements are large and/or erratic and economic fundamentals or even technical analysis cannot explain the moves.

For the currency manager, this is the most dangerous market, in which profitability and liquidity become crucial considerations.

The most difficult aspect of this type of environment is that the currency manager can have no concept of its duration nor can he expect, even in the violent fluctuations, that he will be able to cover or uncover the position at the desired exchange rate.

Furthermore, the moves can very often be unidirectional — i.e., major one-way movements in the exchange rate.

In this environment, strategy must be based entirely on profitability and liquidity considerations.

The currency manager, now more than ever, needs to know breakeven levels, profitability at the current exchange rate and the liquidity impact if a covered position were to be bought or sold.

He will need, upon entering such an environment or the creation of new exposures in such an environment, to take a one-time decision to cover a position or leave a position uncovered based on the assumption that the unstable environment will not resolve itself. Whichever decision he takes im-

pacts on the profitability of the company, perhaps adversely, and whilst it is a one-time decision at the outset, it should not be one which cannot be changed if the dynamics of the market should alter.

## Implications

In general terms, one could argue that at the present time we live in a relatively unstable exchange rate environment and this is applicable to virtually all currencies, including to some extent, the precious metals markets.

The implications are clear — one must be wary of the currency market, one must operate with due prudence and one needs to keep very close to the profitability, or not, of the company's currency exposures.

David de Kock is MD, Forisk Currency Management (SA).

NEXT WEEK: tactics in currency trading.

30/5/86  
THE RISING YEN

FIN MAIL  
**Crunch for imports**

With the rampant yen forcing even mighty Japan to re-align its economy, it is easy to understand the concern of the SA companies which last year imported Japanese goods worth R2,1 billion, particularly when the rand hovers around US43c.

However, SA is still one of Japan's few trading partners to show a surplus last year on its balance of trade figures. Other major trading countries, including the US and West Germany, are pressuring Japan to import more goods to redress the balance.

The fact that SA scored overall by increasing exports to R2,5 billion, leaving a surplus of R400m, should not, however, mask concern about the rapidly rising cost of Japanese imports.

One banker points out: "Imports depend on demand, and with consumer demand having fallen over the last couple of years, import volumes have dropped." He reckons this is due mainly to the recession, exacerbated by the higher cost of imports caused by the depressed rand.

This week, the rand traded at around Y74,6. Compare this with the good old days when each rand bought nearly Y175 and there is reason enough for importers to cry.

Vehicles and other transport-related equipment dominated SA's Japanese imports last year at R686,3m. Machinery, chemical and electrical appliances were worth R647,4m, optical, photographic, medical, television sets, image and sound recorders

were worth R178,4m, and base metal imports cost R25,7m.

The soaring cost of vehicle kits and spares is one of the reasons for the SA motor industry's malaise. Toyota group financial director Bill Hewitt says imports account for about half the cost of a vehicle, and they have gone up some 500% in the last 10 years. "Adverse exchange rates have an enormous impact on our costs," he adds.

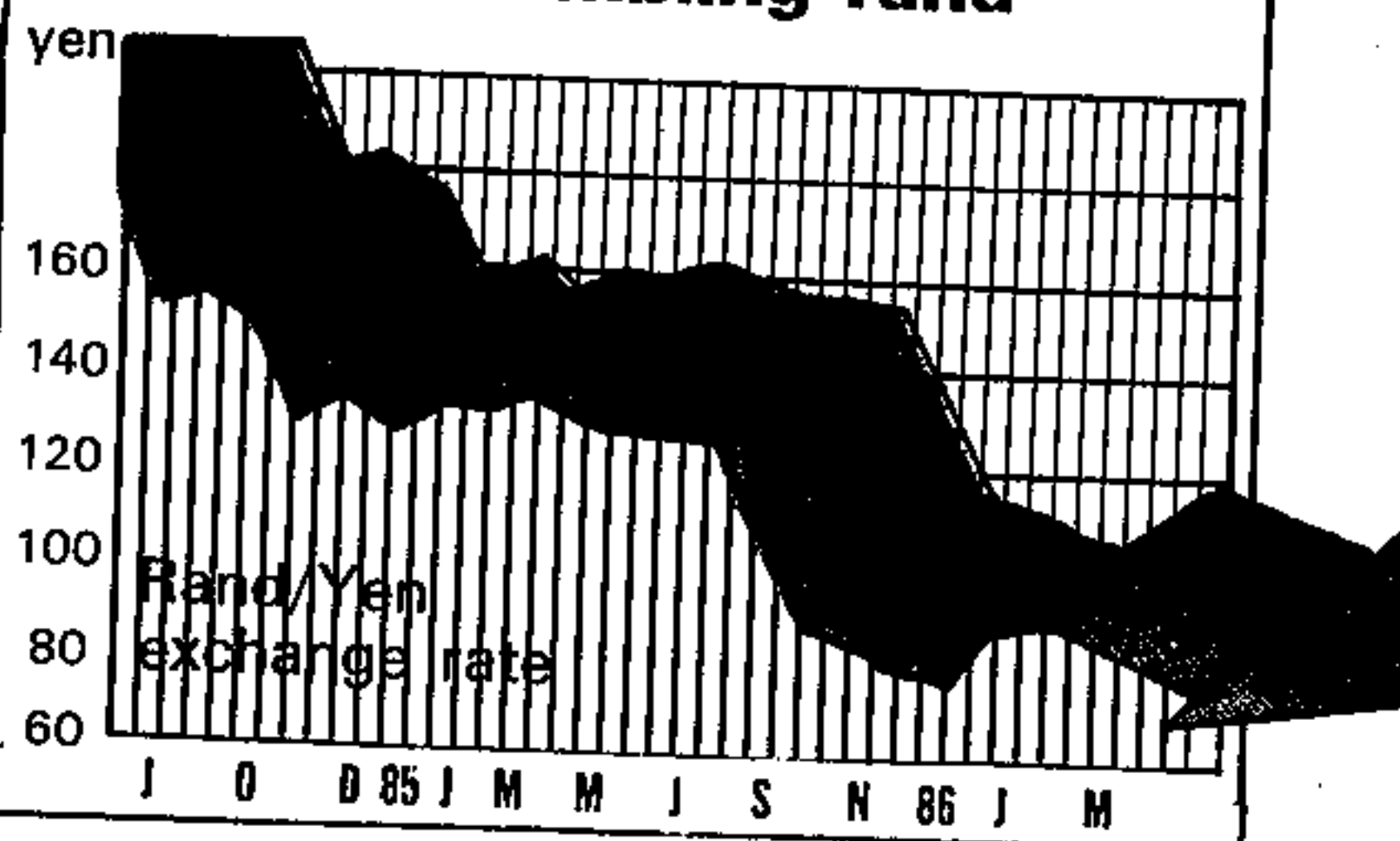
It seems, however, that Japanese companies are keen to help SA buyers. Goldstar Electronics' Gavin Koppel, for example, tells the *FM* that it has been possible, although "tough-going," to negotiate the import of VCRs at competitive prices.

"While we have to commit ourselves to large quantities, it's still possible to do profitable business with Japanese companies," he says.

However, Tek Electronics, which has the lion's share in SA's white and brown goods markets, is battling to keep prices in kilter.

Says group TV and video products manager Richard van der Merwe: "There are big differences in prices, depending on when the goods are imported. This instils a wait-and-see attitude among consumers, and stalls

**The tumbling rand**



buying."

He points out that it can take up to five months for items to land on the shelves after the order is placed and the rand/yen rate can swing dramatically over this period.

One result is that, in an attempt to keep prices more stable, Tek has turned from Japan to Europe as a supplier for TV tubes, for instance.

Frank & Hirsch, agents for several Japanese consumer lines, finds serious problems in forward planning.

Helmut Hirsch points out: "Our turnover may be the same as it was before the rand's fall, but volumes are lower." He complains that it has become "impossible to target the business with no continuity in pricing." ■

# Struggle intensifies

Calm might have returned to the market after last Tuesday's panic in the aftermath of the raids on neighbouring states, but the rand remains under severe strain. It was again languishing under US43c at press time Tuesday (trading as low as US42,6c) on importer demand and the absence of exporters; dealers report that the Reserve Bank appears content to let the rate slide.

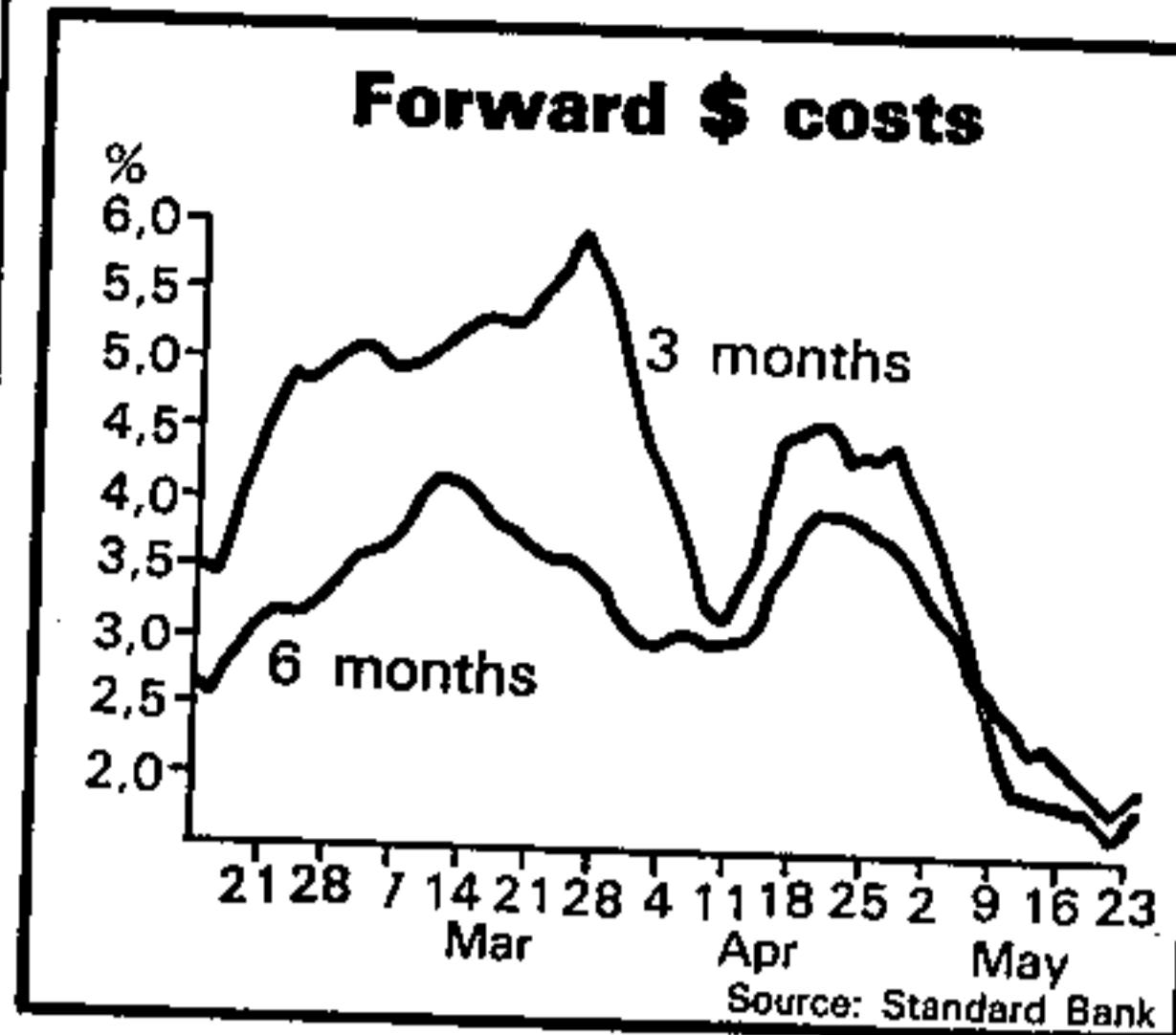
Since mid-April, Standard Bank's trade-weighted value of the rand has dropped from just over 54 to 47,95. £1 now costs R3,40 (R3,04 in mid-April) and the rand is at parity with the DM (DM1,15) and worth 74,6 yen (Y87,7).

Standard Bank remarks that "by weekend the local currency had recovered to US44c, but was still below its US45c opening level last Monday. Recovery was aided by aggressive Reserve Bank support, coupled with local exporter interest as dollar proceeds were sold forward."

Citibank comments that the rand "rallied quite well."

Banks agree, however, that this in no way implies strength. Firming from a pathetic base (last week's low was US42,35c) is hardly encouraging. Gloomy scenarios emerge from all the weekly reviews.

Says Citibank: "Sentiment appears unfavourable." Barclays reports: "The initial shock impact of the raid appears to be wearing off, but market sentiment remains extremely bearish." Standard envisages: "In-



herent dollar demand in the local market is likely to continue to undermine the rand."

Explaining, Citibank says: "Negative sentiment is based on month and half-year-end considerations, political difficulties and the prospects of an unsettled June 16."

Barclays elaborates that "events such as the raids and the rising fervour of the right-wing, as evidenced by Thursday's National Party Pietersburg meeting (or lack thereof), are likely to accelerate this trend (of pressure)."

Citibank notes that most importers with commitments in this time period are probably fairly well covered, so demands on the spot rate might not be as heavy as anticipated. "Pressure on the reserves is, however, likely to be quite heavy, so unless there are unexpected events which unsettle the market we anticipate a period of trading in a band between US43c-US45c, but there is virtually no chance of a breakout on the upside. If it occurs, it should be seen as a buying opportunity for importers."

Barclays expects "usual month-end pressures to be evident, and in the absence of continued aggressive official support the rand must be seen as vulnerable." It advises importers to cover 70% of dollar payments due in the next week. Standard's advice to importers with dollar payables is to cover forward future import commitments, while exporters who have yet to ship goods could consider staying out of the forward market. ■

## RAND'S PRICE

May 27 1986

	R1 equals	One foreign unit equals (R)
SDR .....	0,381	2,627
ECU .....	0,505	1,980
UK £ .....	0,461	2,168
US \$ .....	0,688	1,454
Canada \$ .....	0,289	3,460
Switzerland Fr.....	0,395	2,532
France Fr.....	0,433	2,309
Germany DM.....	0,498	2,008
Japan Yen.....	0,591	1,692
Italy Lire.....	0,684	1,462
Zimbabwe \$.....	0,816	1,225
Austria Schil.....	4,596	0,218
Holland Guilder.....	3,143	0,318
US \$ value of SDR.....	4,705	0,213
US \$ value of ECU.....	0,986	1,014
Financial Rand	1,542	0,649
Cost in US \$.....	73,250	0,014
Discount (%).....	125,000	0,008
	675,250	0,001
	983,500	0,001
	0,725	1,379
	0,780	1,282
	6,925	0,144
	10,875	0,092
	0,986	1,014
	1,742	0,574
	0,994	1,157
	0,721	0,941
	n/a	0,270
	n/a	37,644

Year ago figures in light print.

Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.

The above rates are for guidance purposes only.

FOREIGN EXCHANGE

(74) FEN MALL 6/6/80

# Rand troubles deepening

The rand must now be a cause of great concern, if not alarm. As the FM went to press on Tuesday, the currency was struggling at just over US41c. Capital appears to be pouring out of SA from unknown sources. Even more ominously, leads and lags have re-emerged.

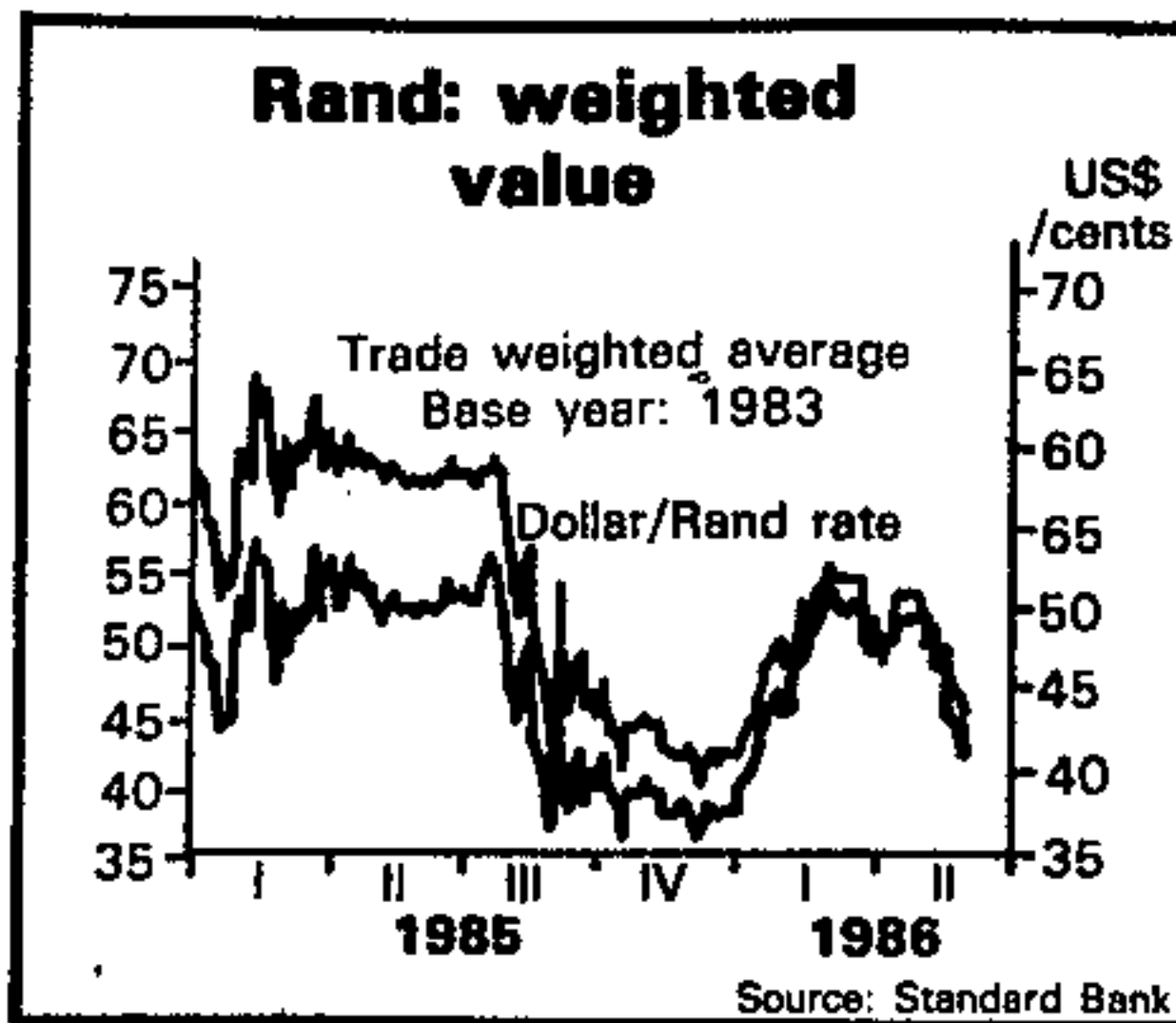
Pressure has intensified since late April, as capital outflows sap the current account surplus. Not only has the Reserve Bank limited reserves to meet the persistent demand for dollars, but its manoeuvrability is curtailed — it has already introduced the financial rand, forced exporters to cover forward within seven days of shipment and is paying mining houses in rands for gold.

Short of direct intervention or pegging, precious few measures remain that the Bank can use to bolster the rand.

It aggravates the problem that part of the crisis — the political element — is not in the Bank's hands. Confidence is rock-bottom, and until government addresses grievances the crisis shows little sign of abating.

While the rand slipped from US44c last Monday to this Tuesday's low of US40,98c (6,9%), Standard Bank's trade-weighted index dropped from 47,95 last Tuesday to 45,88 this week (6,4%). This marks a decline of more than 15% from over 54 in mid-April.

A pound now costs R3,62 (R3,40 last week and R2,99 in mid-April); the rand is DM0,9413 (it was at parity last week and DM1,159 in mid-April) and 70,81 Yen



(Y74,6 last week and Y88,68 in mid-April). So since mid-April the rand has dropped 18% against the dollar, 21% against the pound, 20% against the yen and 19% against the D-mark.

Once again, major banks are pessimistic in their weekly reports. Barclays devotes much discussion to the capital account. There is concern, it says, about debt repayment outside the standstill net. Barclays notes that while the \$500m repayment on (largely private-sector) debt inside the net was made in mid-April with little disruption to the forex market, there are rumours of heavy public sector repayments.

"It is believed that some \$3,5 billion outside the net matures in 1986, of which \$2 billion was expected to be rolled. There are fears, accentuated by recent raids into nearby states and the growing militancy of the rightwing, that foreign creditors may not be as willing to roll this as had been hoped," says Barclays in its weekly comment.

Despite this, the cause for immediate concern is not capital outflow related to foreign debt repayment. "Attention is focusing on other outflows, relating to disinvestment (rumours of such a move by Lonrho highlight this issue) and other unidentifiable outflows. The leading of import payments and lagging of export receipts (is) also effectively a capital outflow."

Explaining why Reserve Bank support seems ineffective, Standard cites low forex reserves "insufficient to provide consistent support," and suggests Bank officials may not be "unhappy with the rand at current levels."

Barclays points out that bearish sentiment has again led to an adverse leads and lags situation: "The problem of the capital account is an additional reason to stimulate growth. When profitable avenues for investment are opened up locally, investors could be less tempted to withdraw."

From the short-term point of view, Stan-

dard explains this week's decline in the rand as "month-end pressures undermining the spot rand."

Barclays concludes that "the rand looks set to register further declines pressurised by dollar strength and the 1976 Soweto riots anniversary on June 16. Against such a background there appears to be little hope of the adverse leads and lags position reversing." Consequently it advises importers with dollar payments due in the next month to take 80% forward cover.

Standard also cites Soweto as a reason to expect additional pressure. "Despite the elimination of month-end pressures, the underlying trend remains essentially bearish." It advises importers with dollar payments to cover forward and exporters to consider staying out the forward market.

As far as Citibank is concerned, "it seems the rand might move in line with the dollar, which implies a downward bias." The bank anticipates a US41c-43c range. ■

## WALL STREET

### Lacking enthusiasm

Records are tumbling again. The Dow Jones industrial average and all major broader indices reached new highs last week, but, with volume remaining modest and the credit markets still stuck in the doldrums, the renewed rally appears to lack enthusiasm if not conviction.

Investors returned from their extended Memorial Day weekend — which kept markets closed on Monday — in a cautious but expectant mood. With the first-quarter results season now petering out, attentions have turned to the state of the economy and future prospects. Those hopes received a big fillip on Thursday when the Commerce Department announced an unexpectedly large 1,5% jump in the April leading economic indicators, the biggest since October 1983.

### Bullish report

That number, coupled with a bullish report from the National Association of Purchasing Managers, which hints at economic growth picking up pace in May, helped wash out fears that the previously reported upwardly revised 3,7% gain in first-quarter GDP — fuelled mainly by inventory accumulation — could imply a more modest second-quarter gain.

Nevertheless, while Wall Street is looking for a stronger economy in the second half, investors and administration officials remain unusually cautious. For example, Malcolm

## RAND'S PRICE

June 3 1986	R1 equals	One foreign unit equals (R)
SDR	0,367	2,725
	0,506	1,978
ECU	0,456	2,193
	0,684	1,461
UK £	0,279	3,582
	0,389	2,568
US \$	0,415	2,410
	0,502	1,992
Canada \$	0,578	1,730
	0,685	1,460
Switzerland Fr.	0,791	1,264
	1,282	0,780
France Fr.	3,082	0,327
	4,650	0,215
Germany DM	0,955	1,047
	1,525	0,656
Japan Yen	71,000	0,014
	124,500	0,008
Italy Lira	654,000	0,002
	975,750	0,001
Zimbabwe \$	0,730	1,370
	0,780	1,282
Austria Schil	6,700	0,149
	10,725	0,093
Holland Guilder	1,075	0,930
	1,720	0,581
US \$ value of SDR	0,999	1,138
US \$ value of ECU	0,738	0,934
Financial Rand		
Cost in US \$	n/a	0,243
Discount (%)	n/a	41,446

Year ago figures in light print.  
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.  
The above rates are for guidance purposes only.

must be a bottom line as the currency nears last year's all-time low against the US\$ (see Markets).

Says Jacobs: "There is no use trying to maintain the rand exchange rate at a certain level at all costs. The adjustment mechanism in the forex market is working well and is aligning the rand to sentiment."

## THE ECONOMY

### CAPITAL ACCOUNT

# Fright at the flight

74  
FINANCIAL  
13/6/86  
200

Speaking to local bankers these days is no fun. Their message is scary. As if in chorus, banker after banker repeats that while flight money pours out the situation regarding loans to SA has, if anything, deteriorated. The remedy, they agree, is political measures to satisfy the grievances of most South Africans.

Not only foreign institutions are blamed for disinvesting. There is growing concern in financial markets that locals are exporting capital. The amount of unaccounted money leaving through unorthodox channels is worrying, particularly since forex control is already tight.

The authorities do not appear to be in full control. In an attempt to address the problem, the Reserve Bank last week tightened the administration of the financial rand pool. This week there is a notice informing exporters that they must maintain their contracts — one institution was approached by the Bank last week concerning profits from cancelling a reported \$70m forward export contract.

Says Reserve Bank Senior Deputy Governor Japie Jacobs: "Exporters must take forward cover within seven days of shipment and must remain covered for the full term until they receive their foreign currency." These moves are in addition to the recent suspension of African Bank's forex trading licence and clamp on gilt-stripping.

While such action might slow the outflow it is unlikely to plug the leaks as capital flight is routed in many ways difficult to monitor and ascertain. Says a banker: "There are unending opportunities, used increasingly as

uncertainty deepens." Adds another: "There is an attitude of take-out-what-you-can as bodies clamour to get money out. No money is coming in to offset this."

Jacobs is not as worried: "The amounts are not substantial. Leads and lags are again operative, exerting pressure on the rand. But there has been a gain in reserves in recent weeks." (See Box.)

Ways to circumvent exchange control include non-cash trade and barter, mainly with countries lacking hard currency. Some ex-South Africans who have left blocked rands behind use cash to finance an exporting business — thereby transferring cash offshore, often at a substantial personal discount.

Jacobs responds that such actions are "highly unlikely" without the authorities knowing. "All transactions are recorded. Exporters must complete returns and we keep a close watch." He assures: "There are no plans to introduce tighter exchange controls."

Nevertheless, the dual exchange rate lends itself to all sorts of abuse — providing as it does a great incentive to "inventive behaviour." Outflows through manipulation of dividend policies and over/under-invoicing, seemingly the major source of unidentifiable outflows, cannot be materially reduced.

Regarding the financial rand, Jacobs explains that "only authorised banks may hold financial rand accounts for non-residents. Local banks cannot deal in financial rands for their own account nor take positions in the financial rand."



Reserve Bank's Jacobs ... not too worried

The seriousness of SA exporting capital has been stated often enough. As a developing country it has to build up a wealth-creating base. More importantly, we desperately need to alleviate unemployment — which some estimate at 4m.

Capital flight is not going to be compensated for

by foreign loans. There is, bankers agree, no chance of local companies being granted new loans. At best they might secure trade credit facilities. Worse still, tougher sanctions by the European Economic Community and US, and limited sanctions by Commonwealth countries appear likely.

The speculation is that, contrary to the authorities' expectations, money was not rolled in mid-April when the first partial debt repayment under the standstill was made. "Officials have been too optimistic in their assumptions about replacement funds," says one banker.

Jacobs explains that part of the payment was subjected to foreign exchange cover at that stage, which became repayable after the contracts expired.

Also, there is concern about the repayment of debt outside the net. Last week Barclays noted: "It is believed that some \$3,5 billion outside the net matures in 1986, of which \$2 billion was expected to be rolled. There are fears that foreign creditors may not be as willing to roll this as hoped."

Jacobs expects a net outflow of \$2 billion this year against a current account surplus of \$2,3 billion. "We are still on target."

The draining of foreign currency is reaffirmed in the Bank's assets and liabilities statement for May. Foreign currency holdings have fallen to R479m (R634m), reflecting the Bank's limited flexibility to defend the rand. The poor reserve position is a major reason for the pressure that has built up against the currency since mid-April. The bank has no choice but to build up reserves rather than support a high rand. But there

## RESERVES IMPROVE

Gross reserves, after hitting a seven-year low of R3,2 billion in April, show a marginal R300m (8,9%) improvement in May. Of the R3,5 billion reserves at month-end, gold contributed R2,9 billion (R2,6 billion), thanks to the increase in average price used to value gold holdings to R719,57/oz (R638,13). Physical gold stock, at 4,06m oz, is virtually unchanged (4,08m oz), suggesting that recent gold swaps ceased in May.

The Reserve Bank's June Quarterly Bulletin, due next week, is unlikely to show net reserves changed substantially in the first quarter from end-1985. The first quarter's expected R2 billion deficit on capital account should be offset by a similar surplus on current account.

Given this scenario, are further measures to tighten exchange control likely, as rumoured in the forex market? Moves in January, September and December last year practically exhausted options. In any event these measures show how difficult it is to stem outflows when there are such strong incentives to take money out.

It is possible to allocate foreign currency to banks, strengthen direct import controls, reduce travel and emigration allowances, and further curtail the ability of exporters and importers to take forward cover. While these steps could reduce the volatility of the rand, they will hardly help strengthen the currency. Another (drastic) option would be to extend the standstill net.

FOREIGN EXCHANGE

# New non-dollar lows

~~SP~~ ~~AF~~ ~~74~~ FIN MAIL 13/6/86

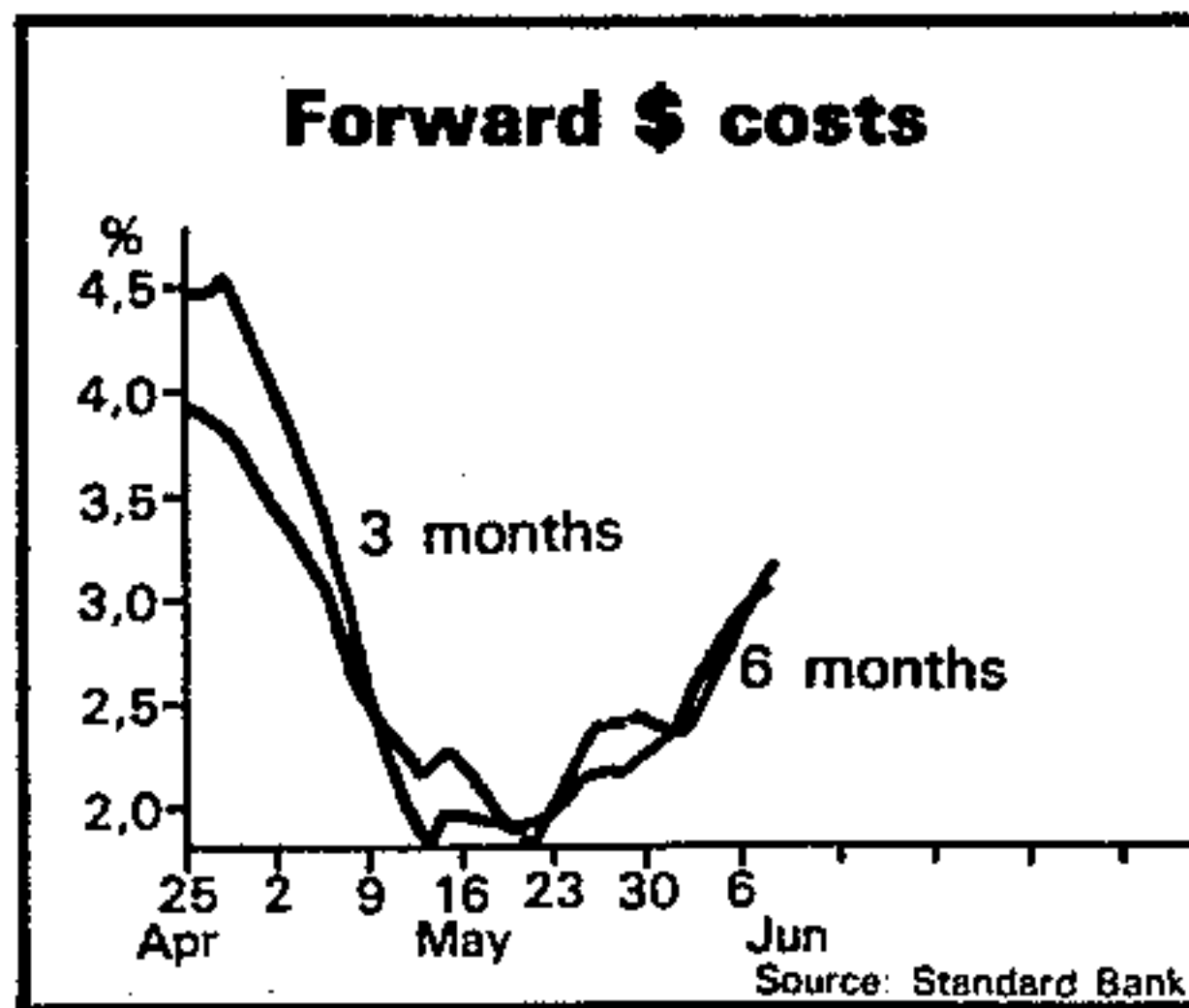
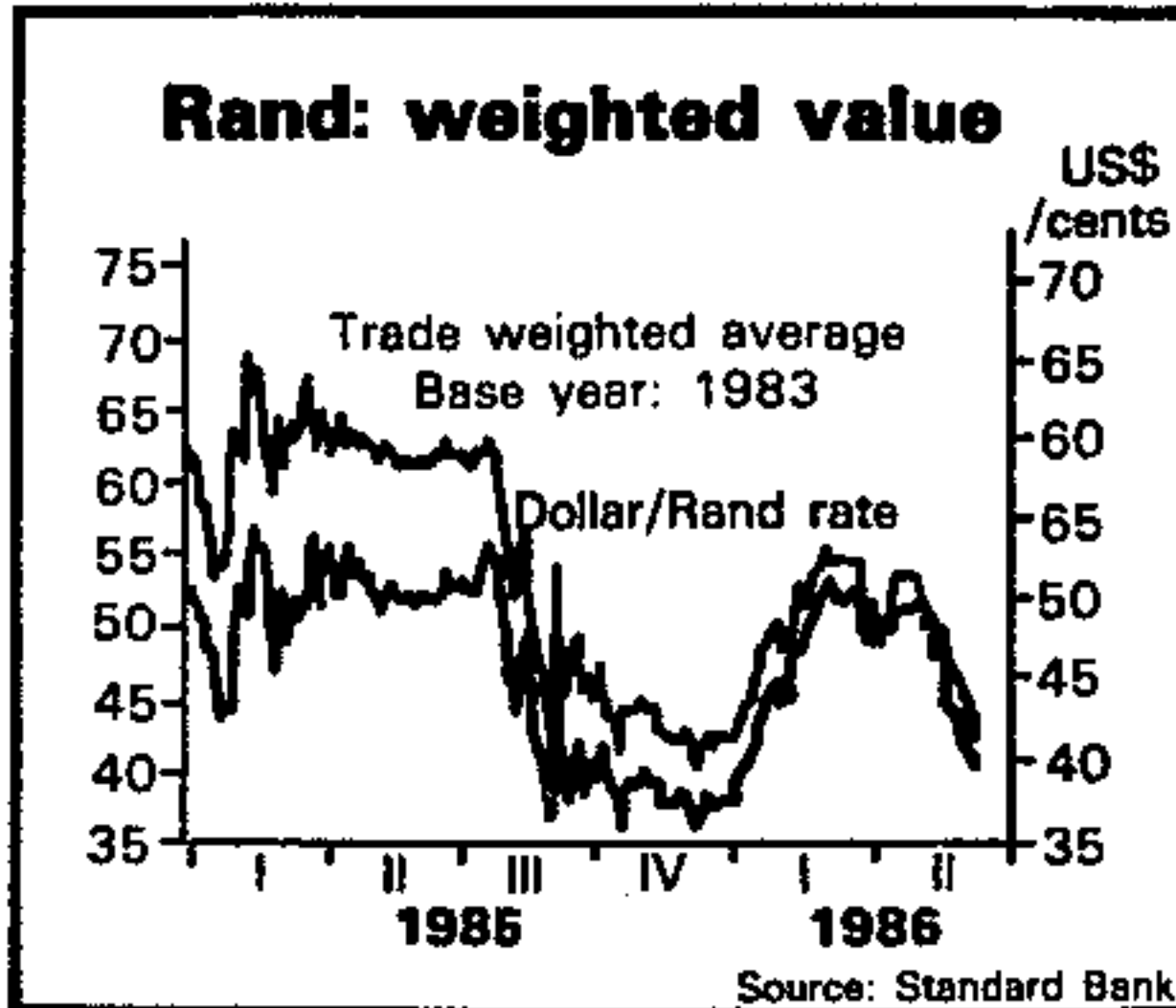
Almost in unison banks make it clear that the rand is likely to experience a rough ride for some time and is highly vulnerable — and this after one of the most bruising weeks ever in forex markets, reminiscent of the crisis days before the closing of the market at the end of last August. Barclays talks of a “turbulent week,” Standard describes “panic dollar buying” and Citibank perceives “extreme nervousness.”

Occupying minds is “where will it bottom.” As the rand hit record lows against major non-dollar currencies the only certainty seems to be that it has not bottomed.

The market fears forthcoming political developments, starting with Monday’s Soweto anniversary. Sanctions certainly appear more than a threat. Tougher security measures at home will not help. Then, June traditionally is a month of high dollar demand as mid-year dividend and interest payments are remitted abroad.

Given this, as Citibank notes, “it is not surprising that dealers and corporations are keeping their view extremely short, and exporters are not prepared to sell dollars forward until orders are confirmed because of fears of boycotts, sanctions and consequent cancellation of orders.”

Thursday saw the rand hit its lowest dollar level this year. It picked up slightly from a US38,7c low to around US40c on exporter interest at the lower levels, but by Tuesday was down again to a new 1986 low of 38c,



disturbingly close to the all-time US34,8c low last August — remember when one rand was \$1,33 at the end of October 1980, its record high?

The weakness of the rand is even more dramatic against other currencies, as the decline has been against a background of a sharply falling dollar: new lows were realised against the DM and yen, among others.

Standard Bank’s trade-weighted index, a basket of 15 currencies with the dollar 50% of the weight, is at 42 — its low was 41,45 on December 2. This is below the 42,91 when the markets closed last August. One pound is now R3,94. It was R3,95 in August and at its all-time high in 1978 (R1,67). On Tuesday the rand was DM0,8495 (DM0,89 in August and a DM2,57 high in 1981) and Yen 63,87 (Y82,53 in August and a high of Y290 in 1980).

With the financial rand discount widening to record levels, that is a sorrier story still (see *Fox*): the financial rand is now close to seven to the pound.

The Reserve Bank is clearly in a difficult position (as the market realises only too well), although Senior Deputy Governor Japie Jacobs says reserves have improved in the past few weeks (see *Economy*). Standard, in its weekly market comment, says the “reticence of the Bank to provide support for the

rand was once again very evident.” Explaining the latest pressure, Citibank says: “Lack of response to the weaker dollar, shortage of dollar supply, lack of influence from the Bank and political and economic uncertainty all played a role.”

Aggravating the situation were rumours of a tightening of exchange controls. Barclays found “this lured some exporters into taking forward cover while selected importers cancelled forward contracts, enabling the rand to recover to US40c.” Jacobs assures the *FM* that “no further measures are planned.”

Barclays concludes: “In the absence of new exchange controls the outlook for the rand looks bleak. The blanket ban imposed on commemoration meetings until the end of June has failed to alleviate market concern about unrest related to the tenth anniversary of the Soweto riots. Market perception of deteriorating security conditions and increasing isolation from the international community is likely to ensure continuing pressure on the capital account.”

Barclays and Standard advise importers to maintain cover on dollar payments due in June, while Citibank believes: “Unless there is a physical increase in the supply of dollars to the market it is unlikely that sentiment will be affected to any major extent. Certainly we are not witnessing importers who have cover showing any enthusiasm to cancel.” ■

## CAPITAL MARKET

### Bears growl

Rates, especially in the long end, have shot up since Monday as the market reacts (at last) to negative perceptions surrounding June 16, sanctions and the falling rand. A dealer says “it’s a roaring bear market.” Most dealers speak of rates going up further.

RSA 13% 2005 was trading on Tuesday at 17,54% — 49 points up from Monday’s 17,25% low. A week ago, the stock was at 17,18%. Likewise, Escom 11% 2009 traded on Tuesday at 18,14%, compared to Monday’s 17,92% low and 17,84% a week ago. Sats 7,5% 2008, 17,54% a week ago, increased to 17,86% by Tuesday (it was 17,65% at one stage on Monday).

Still looking good is RSA 11,5% 1990, which fell to 14,7% last week from 14,92% two weeks ago, and fell further to 14,65% on Tuesday. The differential to RSA 1992 has widened to 155 points, a 180-point swing in three months. The 1990 stock is popular because it becomes a liquid asset in February. It also has a low coupon, which has tax advantages. A dealer adds that with call

### RAND'S PRICE

Jun 10 1986	R1 equals	One foreign unit equals (R)
SDR .....	0,333	3,000
	0,504	1,983
ECU .....	0,386	2,591
	0,499	2,004
UK £ .....	0,255	3,921
	0,395	2,531
US \$ .....	0,383	2,611
	0,500	2,000
Canada \$ .....	0,532	1,880
	0,685	1,460
Switzerland Fr .....	0,707	1,414
	1,299	0,770
France Fr .....	2,732	0,368
	4,704	0,213
Germany DM .....	0,857	1,167
	1,543	0,648
Japan Yen .....	65,000	0,015
	124,750	0,008
Italy Lira .....	588,750	0,002
	984,250	0,001
Zimbabwe \$ .....	0,670	1,493
	0,783	1,277
Austria Schil .....	6,025	0,166
	10,850	0,092
Holland Guilder .....	1,453	0,688
	1,741	0,574
US \$ value of SDR .....	0,992	1,162
US \$ value of ECU .....	0,726	0,983
Financial Rand		
Cost in US \$ .....	n/a	0,228
Discount (%) .....	n/a	40,470

Year ago figures in light print.  
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.  
The above rates are for guidance purposes only.

## FINANCIAL RAND

## How low . . . ?

74  
 (scribble)  
 FINM 18/11/86

Little did we suspect, when exchange control was abolished with the financial rand (finrand) at US78c, that the finrand would be re-introduced and would collapse to 22c. Even less did we expect it to fall so precipitously. At the 1986 peak on March 5, the finrand was 37,25c, 40% higher than current levels. Even two weeks ago, it was 18% higher. What has caused the latest collapse?

There seems to be a consensus among stockbrokers that the slide started with the ban on interest stripping. Foreign bond purchases had created demand for finrands, and in addition to the original demand, the bonds were bought cum-interest and sold ex-interest; this involved a capital loss and reduced the finrand market. But foreign investors see no reason to keep bonds now and sales have been creating finrands again. A net demand for finrands has thus been turned into a net supply. Added to the constant trickle of shares being sold from overseas, this has intensified pressure on the finrand rate.

The pressure could have been worse. Bobby Johnston of broker Lurie Johnston says the bond holders have not sold out in full, and another broker says he has seen some tentative interest in the bond market from overseas investors again. But, as he puts it, foreigners see this market as being for "extreme risk-takers."

There is also agreement that the major sell-off of equities by foreign holders has already occurred, and only one arbitrageur reports that overseas investors were net buyers last week. All others have seen them as fairly small but steady sellers. Still, "our shares are now in much stronger hands than nine months ago," comments a broker.

Any fluctuations in the finrand rate can have a sharp impact on certain share prices. Colin Buchan, South African resident director of S G Warburg Rowe & Pitman Akroyd, points out that a 1c change in the finrand moves the price of Randfontein, for example, by R12 — or around 4% of its present share price. Brokers are therefore reluctant to run currency positions where they are exposed.

Another factor in the fall of the finrand was the African Bank. Full details of its dealings are not known, but it was buying large quantities of finrands, and, as the bank can no longer deal in foreign exchange, this demand has been removed.

There is disagreement among brokers about the present size of the finrand market. One estimates foreign sales of shares have created finrands at a rate of about R100m a month and that the market could now be as big as R1 billion. This is disputed by another broker, who feels that cash balances of fin-

rands are considerably less than this; but if foreign-held shares are included, the total amount would be substantially bigger.

Most observers hope the worst of the finrand fall is over, but fear they are wrong. Johnston sees it falling further before improving, a sentiment echoed by those who expect violence and adverse publicity on June 16.

A number of brokers consider that, in the short term, the fall has been overdone and that all the bad news, except for June 16, is known. There is even the possibility that some currency positions have been taken ahead of this date, which could be an adverse factor in the short term.

But a major fear is that further exchange control measures could be introduced. The finrand pool can only be reduced by foreign purchases of South African shares (no emigrants are going to buy them at this price, points out one trader) and tightening of exchange control could eliminate foreign demand. Even at the present finrand discount to the commercial rand, which makes returns on our shares to non-residents very high, the yield is not enough to tempt foreigners to buy.

But, in the end, it is all political and the finrand must wait on next week and on decisions about sanctions.

Pat Kenney

## LIBERTY LIFE

## Making a bid

As presaged in last week's *FM*, Liberty Life has made a bid for control of **Continental and Industrial Trust**, a UK investment trust listed on the LSE. Liberty's UK subsidiary, TransAtlantic (TA), announced this week that, "subject to the fulfilment of certain conditions," it will offer £110m to acquire the 75% of Continental it does not already own.

The deal will be easily funded by TA, which has successfully raised £137,5m by way of a rights issue. Liberty says the rights issue, which closed on May 23, was fully subscribed, and raised TA's shareholders' funds to more than £460m. This is before taking into account any other increases in its net assets since December 31.

Thanks to the success of the rights issue, TA now has over 300 shareholders and Liberty's stake in TA has been reduced from 75% to 58%. The restructuring of the shareholding — there is a broader international and institutional base — paves the way for the listing of TA on the LSE "in the medium term."

Continental is described as a "major UK investment trust with net assets in excess of £150m." It is said to have high-quality investments in a wide range of listed companies, primarily in the UK and US.



Liberty's Gordon . . . another big overseas move

The basis of the offer is that, for each Continental share, TA will pay an amount equal to 96,5% of the formula net value of Continental stock. Continental's formula net worth is estimated at 894p, which sets TA's likely offer at 863p per Continental share.

For shareholders in Continental, this amounts to a handsome premium over the 825p trading price; while, from Liberty's point of view, it is acquiring quality assets at a discount.

Although it trades at a discount to net worth, Continental is by no means badly rated, says Liberty director Farrell Sher. "It is common in the UK for investment trusts to trade below their asset values," he says.

Although Continental has a successful record in investment management, says Sher, its investment strategy will be changed to fit in with TA and Liberty's philosophy. This entails "taking strategic shareholdings in a small number of leading companies with outstanding growth prospects." These investments, he says, will be centred mainly in life insurance, real estate, investments and banking — all areas where Liberty has considerable expertise.

That Liberty should have sought out an investment trust should surprise no-one. The insurance group is regarded locally as having on board some particularly astute investment managers, and its overseas operation is no exception. Aided by the management expertise of TA, Continental could move into a new growth phase.

Neville Glaser



24/6/86  
STAR  
Exports increase  
and imports fall 74

South Africa recorded a favourable trade balance of R1 496,6 million in May, and R4 919,9 million in the first five months of this year, according to preliminary trade statistics released by the Commissioner for Customs and Excise.

In May exports totalled R3 437,7 million compared with R2 977,2 million in May last year. Imports totalled R1 941,1 million (R1 967,5 million).

During the first five months of the year exports totalled R15 765,3 million, compared with R13 749,4 million for the same period last year, with imports at R10 845,4 million (R9 371,9 million). — Sapa.

---

## New debt plan needed <sup>(74)</sup> Barend <sup>BUDDAY</sup>

FINANCE Minister Barend du Plessis said yesterday that SA would again have to reach an agreement on foreign debt repayment next year.

Speaking at a Cape Town Press Club lunch he said SA continued to face the problem of foreign debt which restrained government in stimulating the economy as much as it would like to.

"But this is better than giving too much and having to apply the brakes again," he said.

There had been a major change in fiscal policy and government now intended to spend "increasing amounts" on socially-orientated programmes, he said.

"However, we face the problem of foreign debt and at the end of next year we will again have to agree on a programme of repayment. We have to stimulate our economy in such a way as not to endanger our repayments." — Sapa.

● See Page 6

**W**ITH EVERY turn of the screw, both politically and economically, the chances increase that SA may throw down the gauntlet to its foreign creditors.

Nobody is yet talking of reneging on the debt, but the thought in the back of everybody's mind is that, pushed too far, SA may refuse to pay part or all of its commitments.

The SA authorities and foreign bankers are still engaged in a delicate game of cat and mouse where the threat of action is a more powerful weapon than action itself.

However, there is a growing danger of a ratchet effect, where action taken by one party would lead to a reaction by the other. Ultimately, this is a process which could degenerate into a free-for-all where there would only be losers.

"The odds on this possibility have risen from 2% to 20%," says a senior banker.

With 1985 behind us, the most difficult year for repayment of foreign debt is 1986, when a total of \$6.602bn of foreign debt matures. Of this, however, only \$3.58bn is outside "the net" and therefore repayable — presuming, of course, that it is called up by creditor banks.

In 1987 a total of \$2.26bn of debt matures, of which \$1.06bn is outside the net and therefore payable; in 1988 a total of \$1.5bn matures, of which \$532m is outside the net; in 1989 a total of \$1.07bn matures, of which \$534m is outside the net; in 1990 a total of \$1.1bn matures, of which \$973m is outside the net; and from 1991 onwards a total of \$2.2bn matures, of which \$1.78bn is outside the net.

It is, of course, fallacious to think that maturity dates can tell when the money will flow out of the country. They give no indication of what amounts will be rolled over or replaced by new credits.

Also, these debt figures include trade credits which are still freely available.

The authorities have given assurances that SA will be able to repay the amount which they calculate will be called up.

Originally, SA had hoped not to repay any debt caught inside the standstill net. It was the intention of the authorities to only start repaying the capital amounts in the net in five years' time.

But in February this year foreign debt mediator Fritz Leutwiler countered this proposal with one that would have seen substantial repayments of capital within the net starting immediately.

Somewhere between the two stances a deal was struck and 5% of maturing debt inside the net became payable this year.

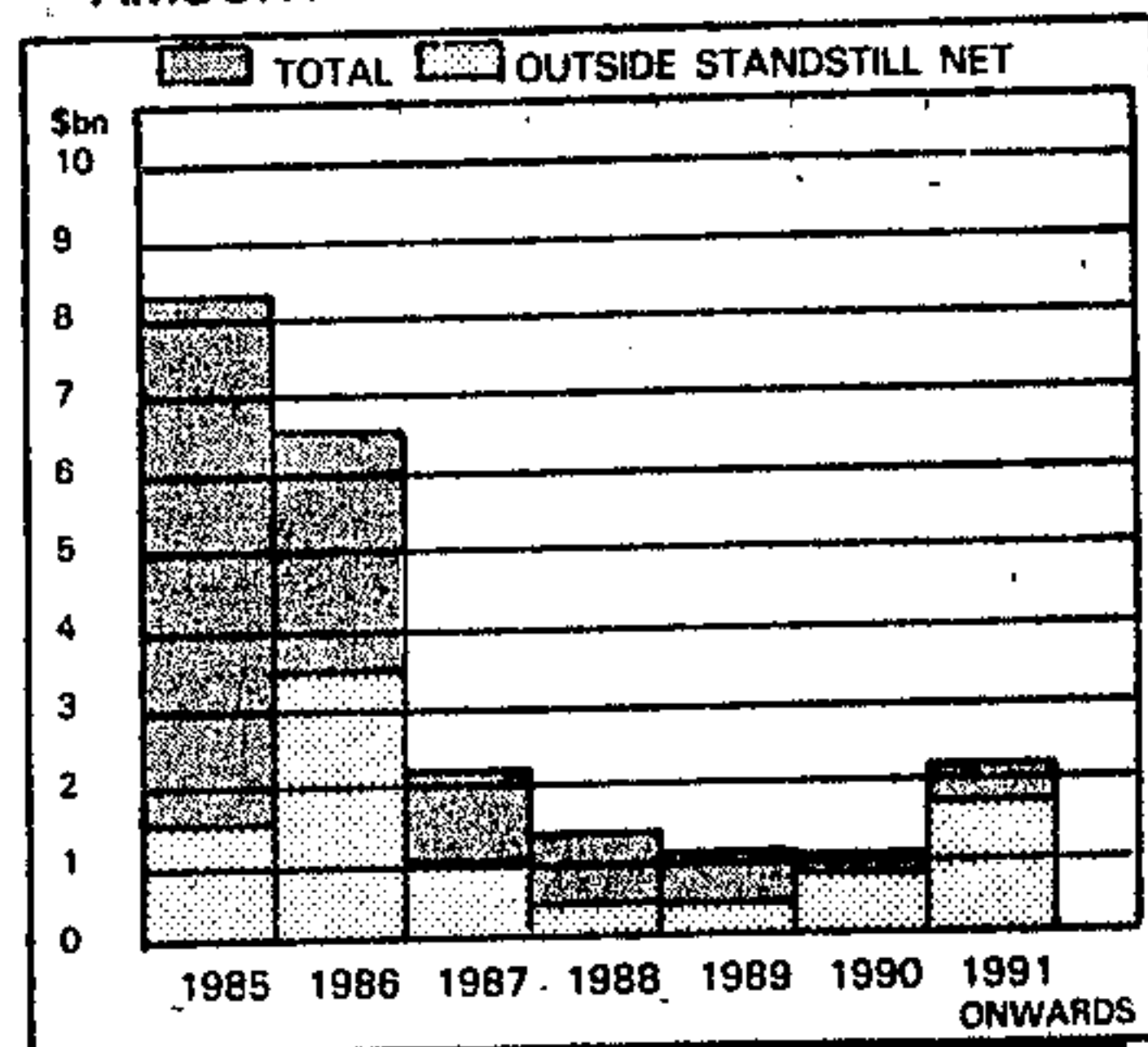
Oddly enough, SA's stance did have support from some bankers who, fearful of yet another rescheduling of debt, felt it would be better to reach a more realistic

# When does SA decide to thumb its nose at creditors?

*BUSINESS*  
79  
26/6/86

GERALD PROSALENDIS/Economics Editor

AMOUNT OF SA DEBT MATURING



agreement that would stand the test of time.

But it was the US banks which balked at being seen to be locked into a fixed agreement with SA.

The SA team, however, had hoped for "one great agreement" and not a series of on-going negotiations. In this sense, the present agreement suits the US banks more than the SA authorities.

"This is an agreement that keeps up constant pressure, but not on the monthly basis as US banks would have liked," says a senior banker.

"US banks wanted to be in a position where they were seen to be constantly applying pressure," he adds.

The next round of this soft-shoe shuffle is set for September, when the SA authorities and bankers are due to meet to assess "the economic situation in SA".

**M**ore specifically, the foreign banks will want to be assured that SA is not salting away reserves rather than repaying debt.

But it is only in June next year that the entire debt rescheduling agreement comes up for review and both parties get down to some hard bargaining.

What do foreign banks really want from SA?

Presumably, in June next year they will be angling for maximum political leverage and an accelerated repayment of debt by SA.

To a degree, foreign banks would support a ban on imports to SA — in other words, certain kinds of sanctions — in the hopes that an inflated current account surplus would make it possible to repay

more debt. Foreign bankers, however, would be reluctant to become party to attempt to bar exports from SA to world markets. The less SA exports, the less chance, to put it crudely, they have of being paid.

It is a simple matter of deduction to see that foreign banks have an interest in SA's present recession continuing.

Traditionally, it is during recessions that this country runs a current account surplus on the balance of payments — and it is this surplus that is used to repay debt.

But as long as SA is forced to run a surplus to repay debt, economic growth will be stunted and SA will merely continue to transfer capital to the industrialised world.

In other words, the cost of debt repayments is local stagnation.

Yesterday, Finance Minister Barend du Plessis said SA continued to face the problem of foreign debt, which restrained government from stimulating the economy as much as it would like to.

Hence in June next year the stakes will be high. But for both parties, between rhetoric and intention lies the possibility of compromise.

Presumably at that time both will angle for the impossible, be prepared to accept the workable and avoid the unthinkable.

SA, which desperately needs economic growth, will approach the meeting with a stance that will help lessen the rupture of the capital account.

Their initial stance is likely to be that SA will continue to pay interest on debt but will hold back re-

payments of capital. This would enable foreign banks to maintain SA's debt in their books as performing loans.

Classifying SA debt as a non-performing loan would force these banks to write off amounts owed by SA against profits. With exposures of \$600m for large banks, that is a prospect foreign banks do not relish.

The SA team will back their argument for no capital repayment by detailing the cost of political demands and sanctions.

On the other hand, foreign banks will probably pitch their opening shot at a further 5% repayment on the capital amount of debt within the standstill net together with full interest repayment.

What is likely to emerge is a capital repayment in the order of 2% on amounts inside the net, and interest payments on all debt.

**T**here is a rider, however. As long as both parties face a further downside risk — the threat of further sanctions in SA's case, and the threat of SA reneging on portions of its debt commitment in the foreign bankers' case — they will tread carefully.

Already there is a danger that SA may be left without a back door in the negotiations. Pinned against the wall, the SA negotiators could take a far harder line.

The classic Brazilian solution to foreign debt repayment — which is to reduce imports to keep a surplus on the current account which can be creamed for repayment — could be ditched.

This would leave SA with a number of alternatives.

Firstly, there is the Peru option, which links repayments of debt to a percentage of export earnings.

This is a double-edged sword: not only does it protect the balance of payments but it also creates a powerful argument against sanctions on SA exports.

The equation is simple: no exports, no dollars — therefore, no repayments.

**T**he SA negotiators could also refuse to pay interest on loans, forcing creditor banks to take a huge knock to profitability.

Ultimately, they could refuse to pay any money at all and batten down the hatches against the retaliation that followed. Then there would be no winners.

These are scenarios all would rather avoid.

The SA authorities appear to be working on repaying all foreign debt by 1994. But the cost would be high — particularly for economic growth.

Therefore, they are hoping for a normalisation of links with world financial markets somewhere along the line.

Most predict that the present standoff will continue, with both sides jockeying for advantage. SA will reduce its foreign debt to "manageable proportions" roughly in the order of \$12bn to \$15bn.

At this level of debt the pressure exerted by foreign banks will be reduced substantially and the country could then perhaps hope to become again an attractive proposition to bankers — whose bread and butter business, after all, is dealing in credit.

# Reserve Bank still in forex market

The Reserve Bank says it won't, for the time being, withdraw from the forward foreign exchange market.

It was originally envisaged that the Reserve Bank's obligation to supply forward cover to authorised exchange dealers would fall away on August 31 this year.

The net forward forex exposure limit for all authorised dealers with the Reserve Bank will remain at \$3 350 million in view of the exceptional circumstances regarding the standstill in the repayment of the country's foreign debt.

Explaining the background, a statement said that considerable progress had been made in the evolutionary development of South Africa's foreign exchange market since January 1979. This involved development of both the spot and forward foreign exchange markets.

The development of the forward foreign exchange market, however, lagged behind that of the spot foreign exchange market, mainly because of the continued willingness of the Reserve Bank to provide exchange rate cover to the market.

In 1983 it was announced that the forward facilities provided for the bank should be phased out over a period of three years to bring about the eventual establishment of an independent forward exchange market outside the Reserve Bank.

At that date the total limit for all authorised exchange dealers was fixed at \$10 000 million. This was reduced in 1984 to \$6 700 million and to the present \$3 350 million in 1985.

"With the (debt) standstill in force, the final elimination of the forward limit of the market with the Reserve Bank is not deemed to be feasible at this stage."

FIN MAIL 4/7/86  
 FOREIGN EXCHANGE 74 (USA)

### Steadier movement

Volatility seems to have steadied, as does the sharp gap between the pre-opening price and the previous evening's close. As noted last week, such movements fuelled talk (strongly denied by banks) of large inter-bank position-taking. There is talk that the Reserve Bank might take measures to ease such problems.

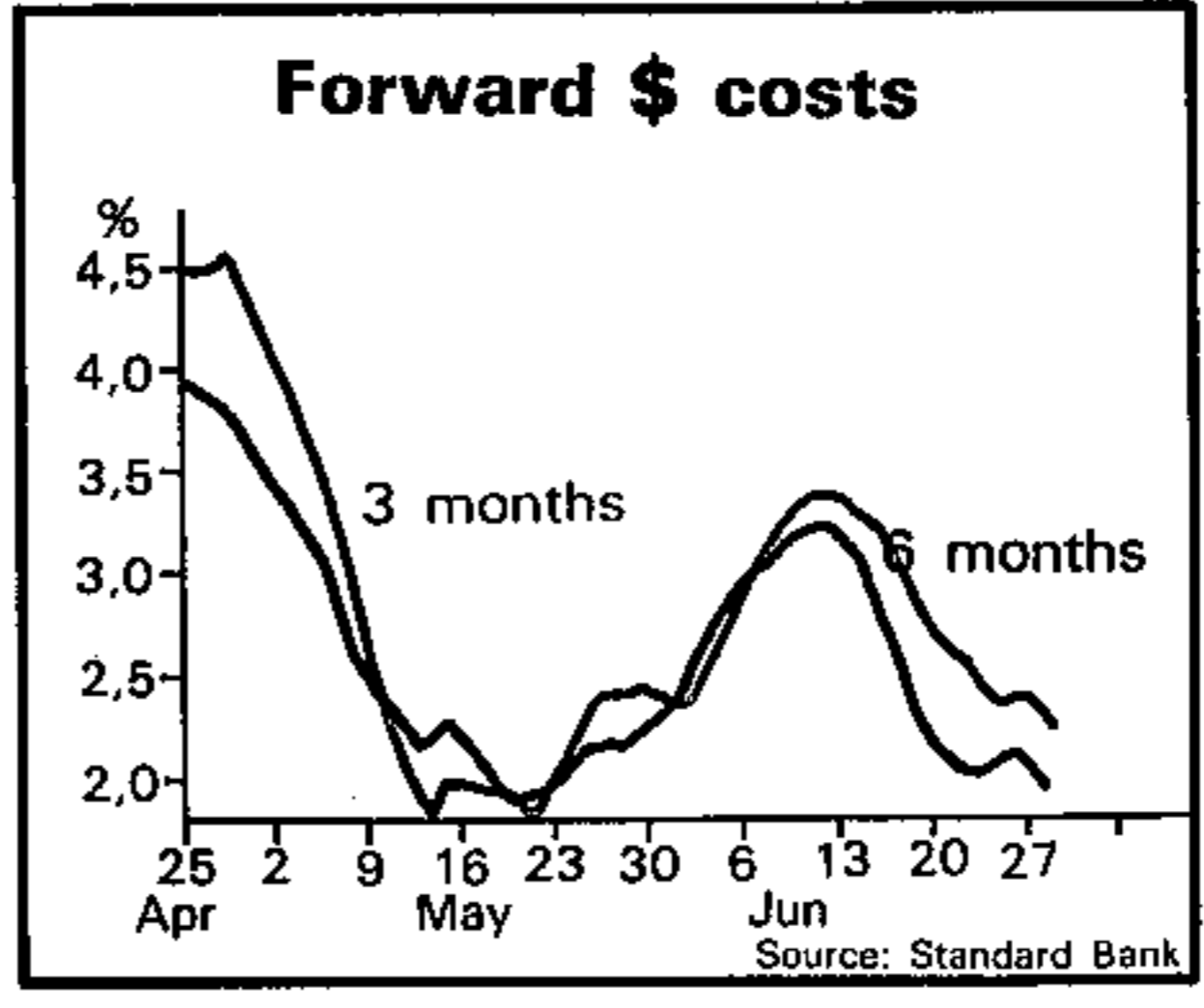
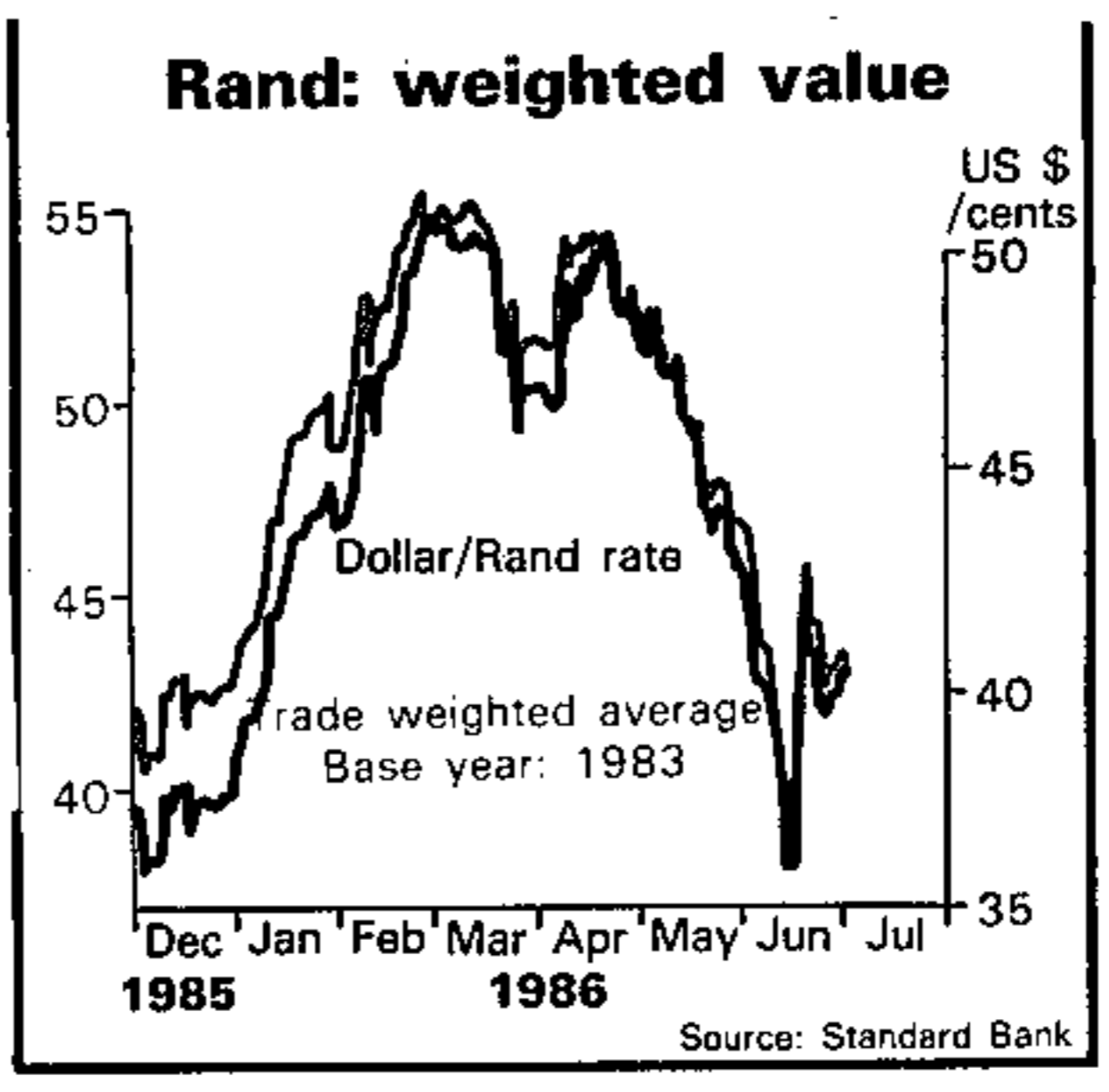
Currency Risk Management MD David de Kock reckons many dollar purchases take place outside official trading hours. The Reserve Bank naturally cannot meet demand at such times. He also claims that position limits within the total banking sector exceed the Reserve Bank's reserves. He suggests these limits be lowered.

The rand appreciated some US1,5c over the week by the time of going to press on Tuesday after falling to a low of US38,68c last Tuesday on a combination of month-end factors, exporter interest at lower levels and a higher gold price. Over the week ending Monday, the rand also firmed slightly against the DM (DM87,5 to DM88,7) and yen (Y65,65 to Y66,1). Last Monday £1 cost R3,83; R3,80 a week later. This trend was reversed on Tuesday mainly because of a weaker dollar.

Standard Bank explains: "Many importers had secured forward cover when the rand traded at US42,5c, which tended to reduce importer activity last week and consequently lessened the normal downward pressures at month-end."

In their weekly reports, major banks make the often-repeated point that politics remain a crucial influence on the exchange rate.

Standard comments: "With the threat of sanctions the rand is unlikely to stage any dramatic recovery. . . Limiting South African export markets would severely curtail the ability to generate an ongoing trade surplus sufficient to offset capital outflows anticipated during the remainder of the year."



As for Citibank: "Once the month-end is past the market will again focus on the issues that might arise up till the end of August. Politics will dominate and importers will probably be keen to cover 90-day commitments on any rallies. Accordingly, we anticipate a range of US38c-US42c over the near term."

Citibank is confident that "the rand appears to be finding near-term support at US38,8c and, in the absence of significant corporate interest, some sort of equilibrium around US40c."

Standard advises importers to cover part of short-term commitments and increase cover levels with rand appreciation. It suggests importers cover forward on very short-term dollar receivables. Barclays advises importers to take advantage of any firming toward US40,5c to cover 50% of dollar payments due in the next week. ■

Yes, you can take it with you . . . but financial rands will cost you an arm and a leg

# The chicken run blues

The chicken run out of South Africa has become one of the costliest routes on earth. But immigrants using the reverse route are cock-a-hoop.

The cause of the phenomenon is the prolonged slide of the exchange rate of the rand against all the main overseas currencies — made even steeper for migrants by the re-introduction of the financial rand hard on the heels of the foreign debt crisis.

The difference between a commercial rand and a financial rand becomes clear when prospective migrants start to calculate the cash implications of a move.

John X first had notions of quitting South Africa in 1976 when unrest hit Soweto and caused jitters in suburbia.

The United States sounded attractive. At least he was assured of picking up a handsome \$1.20 for every R1 he could muster from a modest bank balance, income from the sale of a house and car, and other assets.

Two years ago, with recession taking hold, salaries falling behind inflation and unemployment spreading, he brought out his pocket calculator again.

To his horror, he found that R1 was worth little more than 70c US — only two-thirds of its value back in 1976.

So the migration idea was shelved again until the state of emergency was declared on June 12. John X examined the situation again and was stunned to find not only was R1 now down to 40c US but in terms of the new financial rand it had nosedived to 22c or 23c US.

And it was now in financial rands that he had to work out the size of the family fortune. Nearly R5 to buy a single US greenback? R2 to buy a DM that cost only 50c two years ago? More than R6 to buy a British pound?

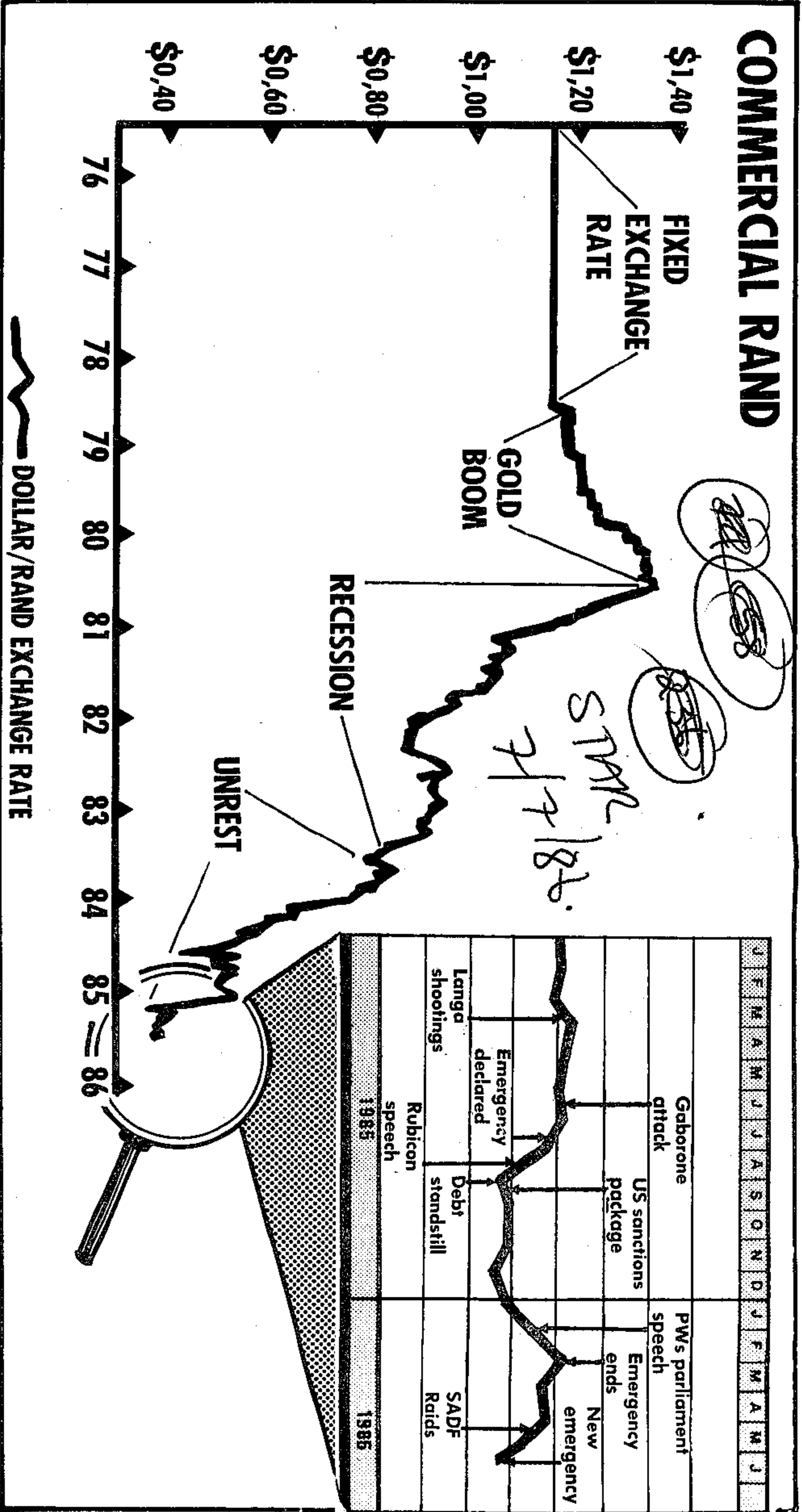
The only item to escape the financial rand is an annual travel allowance of R6 000 for an adult and R3 000 for a child under 12, which can be taken out in ordinary commercial rands.

Jewellery and household effects to the value of R20 000 can be shipped overseas. So too can the family car . . . as long as there is proof of 12 months' ownership.

Under the new exchange control laws, a family can leave with R100 000, calculated in financial rands. (The Reserve Bank can raise the ceiling in special circumstances, but the argument needs to be convincing.)

All remaining assets — such as savings accounts and investments, perhaps even property that the emigrant decides to

## COMMERCIAL RAND



By Michael Chester

hang on to while he awaits a good offer — must be declared and transferred to the safekeeping of what the Reserve Bank calls an authorised dealer, usually a bank.

The assets are parcelled into a "blocked account", which stays pinned under exchange control laws — *ad infinitum*, as things now stand.

The only tepid comfort is that income from assets is credited to the emigrant on commercial rand valuations and goes into a separate non-resident account, which is transferable — though

there may be income tax to come off it.

The emigrant, from his new country, can instruct his bank to move the assets around — savings into stocks or shares, or income from a property sale into a building society account, for instance — but certain transactions outside of the banking sector or the Johannesburg Stock Exchange need to be approved by the Reserve Bank.

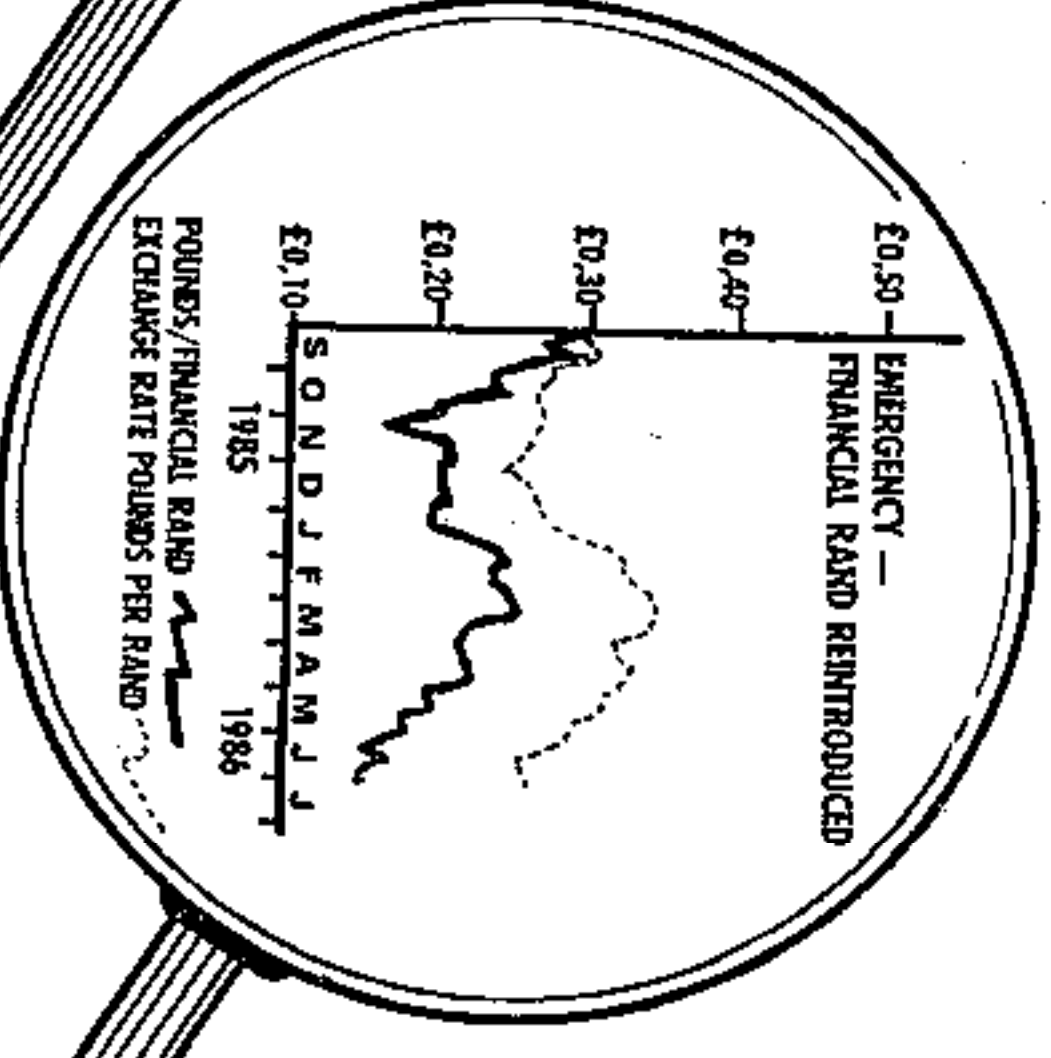
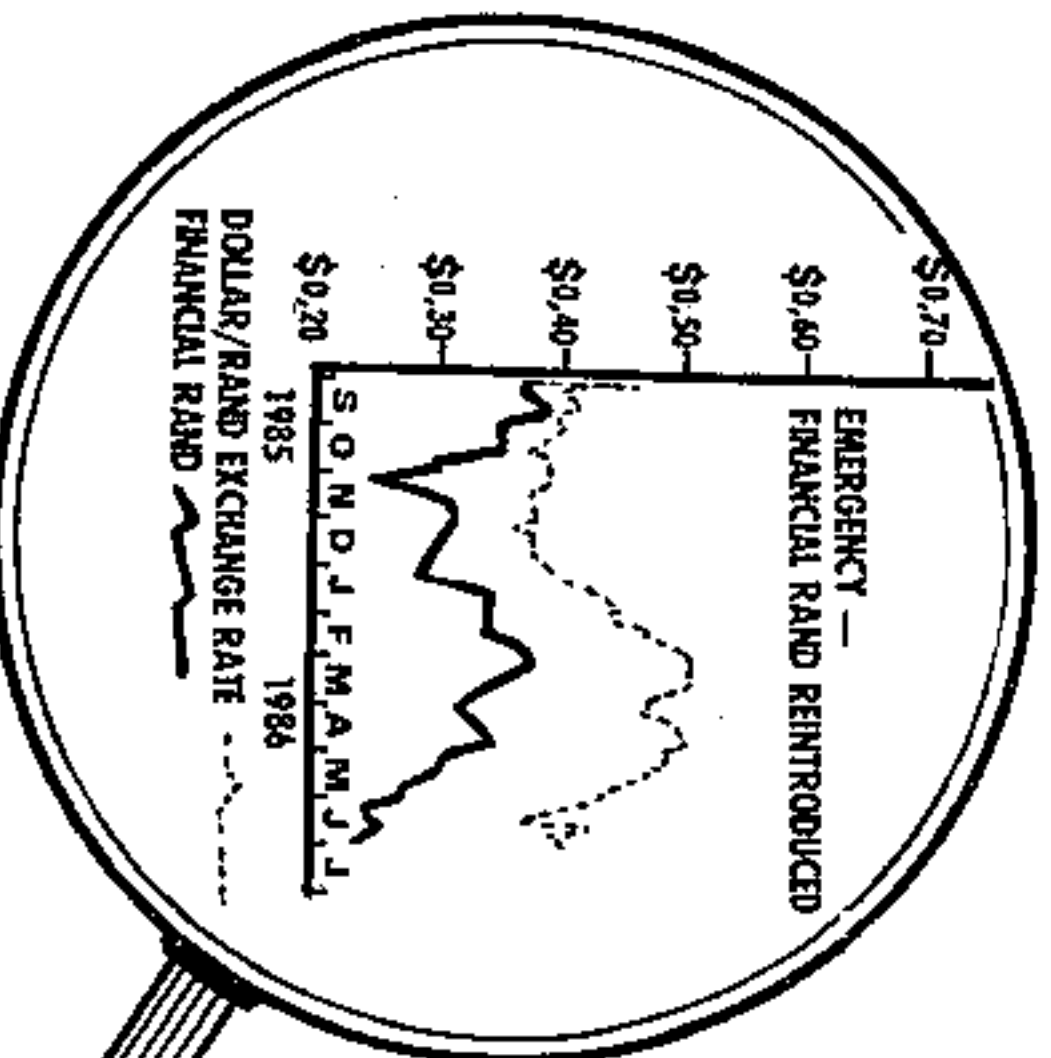
Are there any loopholes? "There were a few when the financial rand temporarily made an appearance in the late 1970s", says one bank manager. "Complicated stock market 'bond washing' schemes escaped for a while. But the gaps have

all been sealed by the new rules.

"The reasons for the re-introduction of the financial rand last year were purely to discourage disinvestment and capital outflows, and discourage a brain drain from the emigration of skills and talent.

"The risks of trying to skirt the rules are enormous". The penalty for scams that break the exchange control rule-book can run to fines as high as R250 000, or five years in jail. Even both. John X has shelved ideas about migration . . . again. Instead, he has written to his uncle in England telling him how worthwhile it would be for him to come to South Africa.

## DOLLAR/RAND EXCHANGE RATE



8/7/76. BUS DAY.

74

In midst of forex uncertainty.

# Sideways move seen for rand

THE foreign exchange market is nervous and somewhat uncertain, dealers say. But the main banks feel the rand could continue to move sideways this week.

There is, however, a caveat. There must not be any shocks such as the Worrall incident, the dust raised by the Leutwiler misunderstanding, and, above all, no outbursts of bravado from politicians.

Standard Bank sees the rand moving in a band of \$0,38 to \$0,41. Barclays feels the rand could move between \$0,3925 and \$0,4025. Other banks, not keen to give an indication, say the rand is benefiting from a weak dollar, although it is losing ground on the cross-rates.

Looking ahead, Standard's view is that if the rand moves towards \$0,41 with some certainty, it could go higher. But if it breaks below \$0,38, it could continue downwards and test the \$0,35 base.

Fundamentally the rand is weak because of a belief in the steady drain on reserves by payments outside the "net" and perhaps because

HAROLD FRIDJHON

of fewer foreign debts being rolled over than the authorities had originally envisaged.

The uncertainties, mostly political, dictate that importers should take forward cover.

Standard advises covering a portion of their short-term dollar commitments, with levels being increased with any rand appreciation. Cover is essential for commitments in currencies such as the yen, the mark and the Swiss franc.

Barclays' view is that importers should cover at least 50% of dollar payments due before mid-July.

Nedbank's recommendation is that cover must be matched to the transaction and adjusted to delivery dates. The market must be watched and stop/loss management is essential.

Exporters, says Standard, should consider covering forward very short-term dollar receivables, but they could remain uncovered against hard currencies.

**INVESTCOR**

2nd Floor, Killarney Mall

646-5414

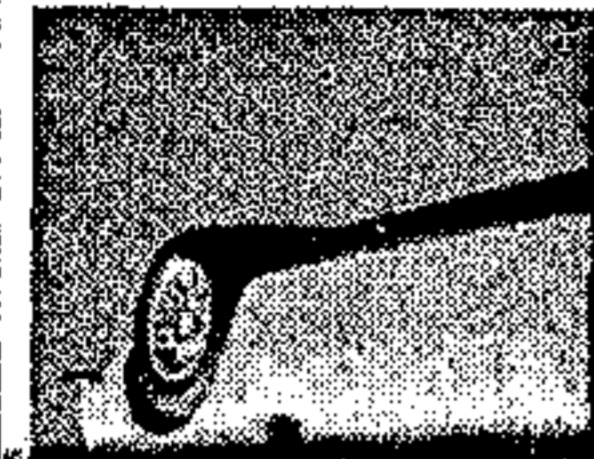
Minimum R50 000  
Maximum R250 000  
For full details  
phone

\*fully approved  
chaos  
social or economic  
protection against  
falling Rand  
\*hedge against  
\*66% tax deductible  
potential  
\*over 300% profit

**INTERNATIONAL INVESTMENT**

UNIQUE

ONID 94



guaranteed cheque

d  
their  
ough  
d in  
ncil  
vice  
y to  
all  
eign  
g to  
had  
of  
SA  
and

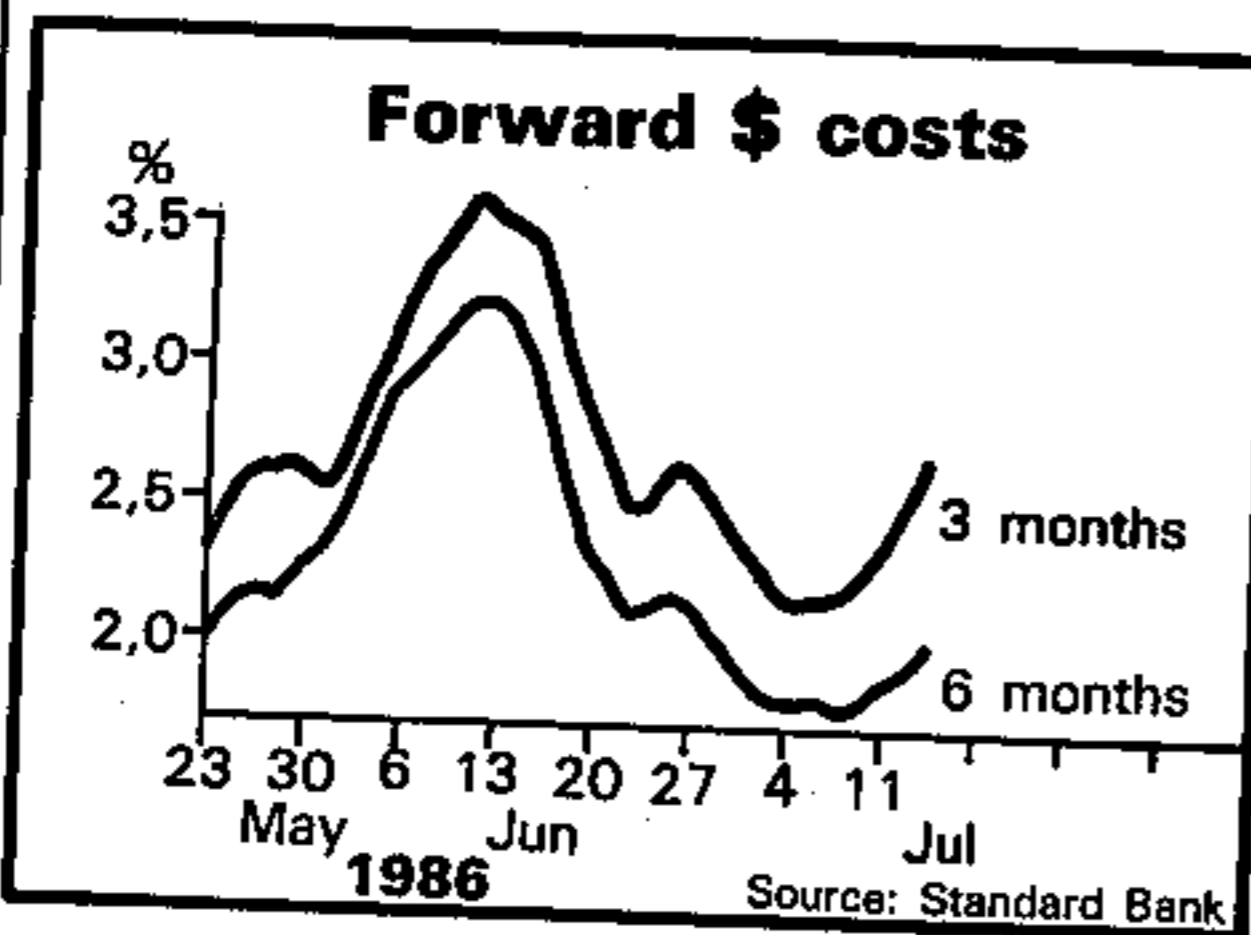
London to Johannesburg

FIN MAIL

FOREIGN EXCHANGE

## Downward drift

For no apparent reason, sentiment appears more negative than last week. One dealer even apologised at having no news. "There's nothing going on," he said. In quiet, lacklustre trade, the rand has been dropping against most major currencies. As the FM went to



press on Tuesday it was US38,5c, down by about US1c from a week ago.

Standard Bank says "continued dollar demand exerted renewed pressure on the spot rand." This demand appears to be a result of reluctant exporters, not through lack of importer interest.

Reflecting the nervousness, on Tuesday a message about SA Defence Force raids into neighbouring states was flashed on Holcom's "Quick quote." The rand immediately fell from US38,4c to US38,12c before it was realised that the message was an old story which had been re-printed by a faulty disk. The Reserve Bank put in dollars, which took the rand up to US38,5c. This proved costly for those who rushed to buy dollars earlier.

Citibank says the "slightly firmer dollar and a few orders for dollars caused the rand to ease last week. Any break of this level (US38,8c) might signal danger on the downside, and already on Monday renewed weakness has emerged."

Barclays talks about concern over labour developments, citing Cosatu plans for a "national day of action" on Monday and the

dispute between the National Union of Mineworkers and the Chamber of Mines, where a strike is possible.

Barclays says that "unfavourable leads and lags are unlikely to unwind until political and economic conditions turn out to be better than expected. A foreign exchange market that has been caught off-guard and short of dollars all too often, considers the policy of better-safe-than-sorry the best bet." It advises importers to cover 50% of dollar payments due in the next fortnight.

Citibank expects that "unless support materialises from an inflow of currency, the downward drift will continue."

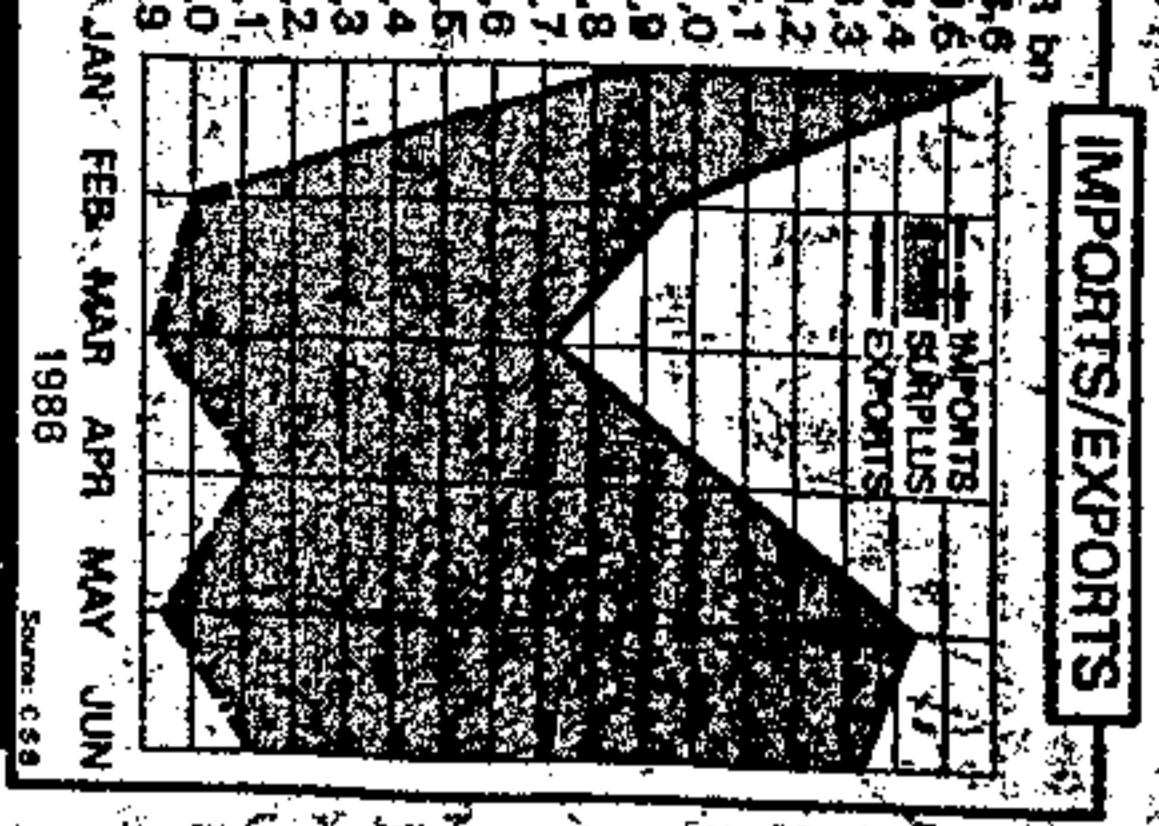
Taking a closer look at the balance of payments, Standard comments that the "inability of the rand to appreciate against a background of a generally weaker dollar suggests that foreign currency earned through the trade account is probably offset by corresponding outflows on the capital account."

Noting the "current weak rand undertone arising from a constant shortage of dollars," Standard draws two conclusions. First, the bulk of the R1,6 billion unfrozen debt may have been repaid in the first half of 1986. Alternatively, more than R1,6 billion will be repaid in 1986. "Whatever the reason, the R1,2 billion projected current account surplus during the first six months seems to have been totally offset by capital outflows, hence the failure of the rand to benefit from an ailing dollar."

Standard concludes that if no more than R1,6 billion foreign debt outside the net is to be settled during 1986 and the bulk has already been made, the shortage of dollars should lessen and pressure on the rand "may be greatly reduced." But it warns about the possibility that more than R1,6 billion is to be repaid, exerting pressure on the rand. "The degree of uncertainty surrounding capital repayments makes rand forecasting particularly hazardous," it says. ■



74 BUS DAY 23/7/86



# SA HAS R6,13bn balance of trade for first half

SA ACHIEVED a favourable balance of trade amounting to R6,13bn for the first half of this year. This is estimated to provide a surplus of about R2,73bn on the current account of the balance of payments (about \$1,09bn).

In 1985, the first-half balance of trade surplus was R5,35bn, which resulted in a current account surplus of R2,71bn (about \$1,1bn).

Exports for the six months amounted to R19,08bn against R16,57bn for the comparable period of last year, while imports rose by R1,8bn from R11,124bn to R12,957bn.

HAROLD FRIDJHON

Most of the imports increase came from "unclassified" items which, at R3,68bn, were R1,59bn higher this year. "Unclassified" items include oil and military equipment.

It is believed that during this year, oil imports have been considerably stepped up and, as one commentator said: "We have transferred dollars from the current account of the balance of payments and converted them into oil in storage." Imports have been boosted in rand terms

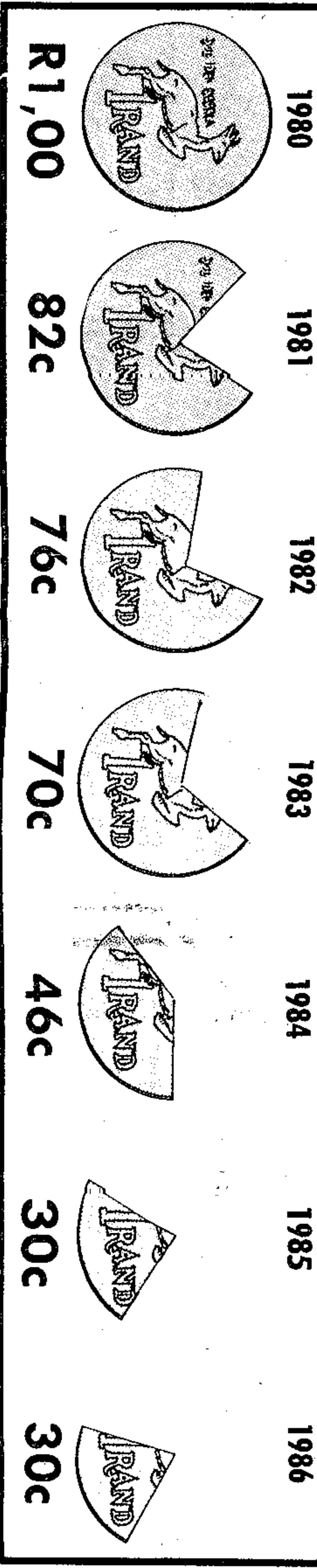
because of the low value of the currency against the dollar. In volume terms, imports are probably at an ebb, with the motor industry and other major importers suffering from the recession-retarded low demand. By the same token, exporters have been receiving "bonus" for their goods.

In June, imports amounted to R2,11bn, higher than average but well down from the year's peak of R2,8bn in January. The export pattern is uneven, ranging from R3,59bn in January to a low of R2,7bn in March and R3,3bn in June. Exports of "unclassified" goods jumped

from 1985's R7,1bn to R8,48bn this year, these include precious metals other than gold, diamonds and uranium. SA's major trading partners are in Europe where total imports amounted to R5,47bn (R5,27bn) and exports earned R4,88bn (R4,33bn). These figures suggest a diminution of volumes both ways.

The Asian connection is the next most consequential with imports at R2,65bn (R1,59bn). From the Americas, SA bought goods worth R1,65bn (R1,86bn) and sold merchandise amounting to R1,75bn (R1,62bn).

# THE SHRINKING VALUE OF THE RAND ON CURRENCY MARKETS



1. A five-year overview shows how exporters have enjoyed a bonanza in profits from the shrinkage of the rand while the costs of imports — though lower in volume since 1982 — have soared by more than 140 percent.

## How the weak rand costs millions, helps exports

2. Examining the currencies of all South Africa's main trading partners, one sees that on average the value of the rand has shrunk from R1 to only 30 cents. The recovery that was seen in the first few months of 1986 has been snuffed out and the rand is now back where it was at the end of last year.

By Michael Chester

South African exporters have been jubilant over the plunge in the value of the rand on world markets — reaping fortunes from overseas buyers paying their bills in stronger currencies.

Income counted in rands has grown as fast as the exchange rate has shrunk.

Through the volume of merchandise exports so far into 1986 is below the total for 1980, income has more than doubled in rand terms.

Importers, however, have been shaken rigid by the steepness of increases in the number of rands needed to settle the bills coming in from overseas suppliers whose prices are fixed in their own currencies.

Between them they are now paying as much as 140 percent more — for 20 percent fewer goods.

Any item marked "Made in Britain" with a price tag of £10 cost R17.65 in rand terms five years ago.

Even if by a miracle the UK price has not increased, it now costs R39.06.

A \$10 pair of sneakers imported from the United States in 1981 cost R8.78. Today they will cost R26.18.

A bottle of perfume imported from Paris, priced at 100 francs, cost R16.16 in the early 1980s. Today it costs R37.90.

WITHDRAWAL

Japanese suppliers who wanted R3.97 for a 1,000-yen roll of special camera film five years ago now want R16.69 for it.

The plight of companies relying heavily if not totally on imports was fully demonstrated last week when Duracell Batteries of the UK announced its withdrawal from South Africa — not because of political pressures but because its local operation was being throttled by exchange rate problems.

"We found ourselves trapped in a vicious circle that made commercial nonsense," Mr Derek Bamber, a company spokesman, said. "There was no escape, so the company is winding down."

Duracell first switched its sources of supplies from Britain to Belgium, but found exchange rates as bad as ever. Nor was it able to avoid having to pay its shipping bills in US dollars.

And its multinational parent company insisted that all final accounts used Swiss francs.

"The currency trap is taking a tremendous toll inside the business world," says Mr Paul Edwards of Dun and Bradstreet, which monitors the financial health of SA companies.

"The clout is not only being felt by companies that operate solely as importers. Research shows that 50 percent of all SA manufacturing firms are forced to rely on imports to varying degrees for items that range from components to high technology capital goods.

"Exchange rate problems have been at the root of many of the financial ailments that have hit huge chunks of the industrial as well as commercial sectors."

The motor industry, which has to import 50 percent by value of all the components that go into the assembly of new passenger cars, is one of the hardest hit.

RECESSION

The National Association of Automobile Manufacturers has begun a special analysis of the causes of combined losses that amounted to R600 million or more last year.

Cuts in consumer spending caused by the recession carry much of the blame. But the most mischievous gremlins splattering red ink all over corporate financial results have come from the currency markets.

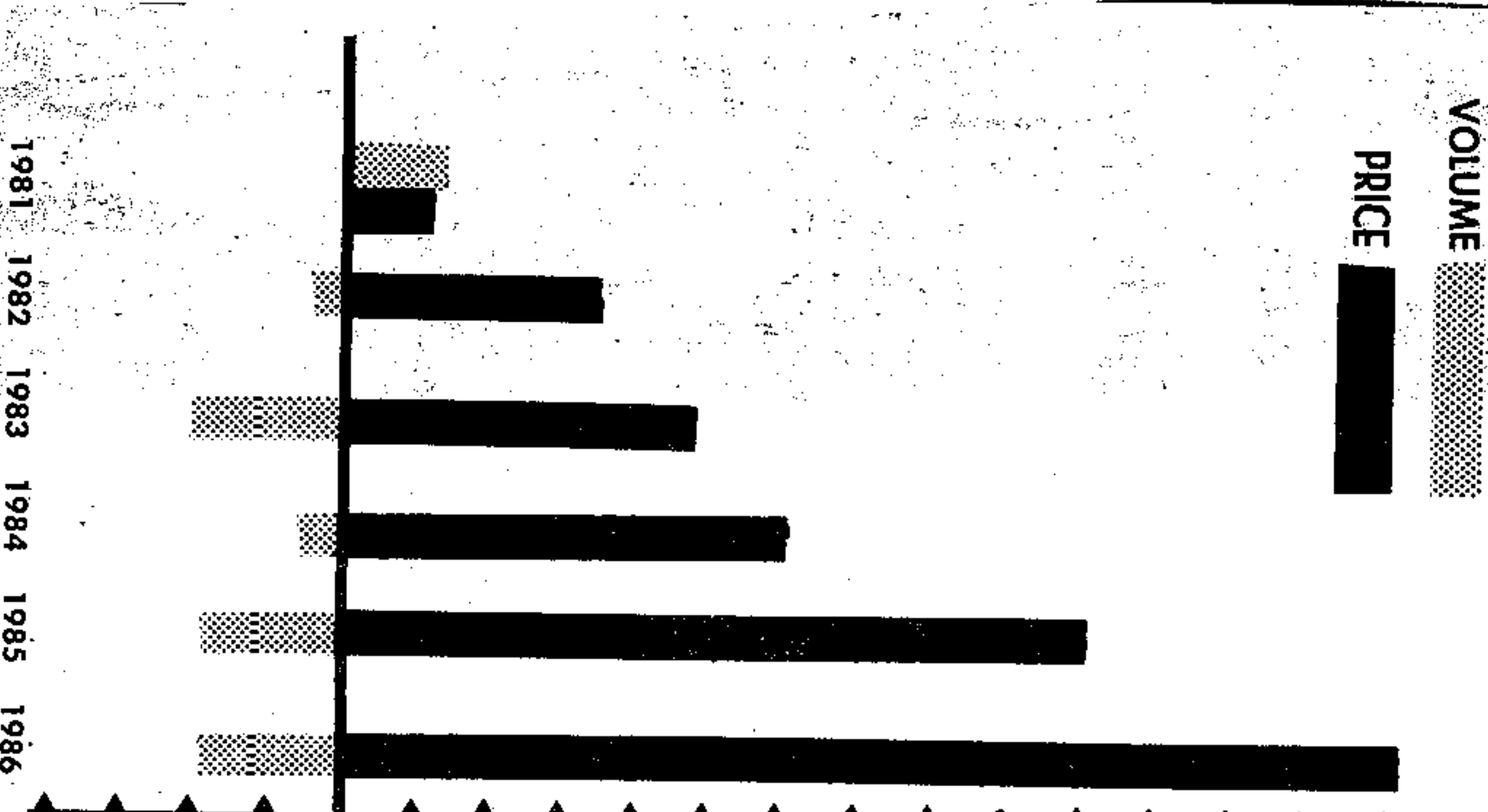
All of the top motor manufacturers need to bring in components from either Japan or West Germany — the two countries whose currencies have climbed the fastest of all.

One of them has calculated that every single 1 percent decline of the value of the rand against the Japanese yen makes its production costs leap by at least R7 million.

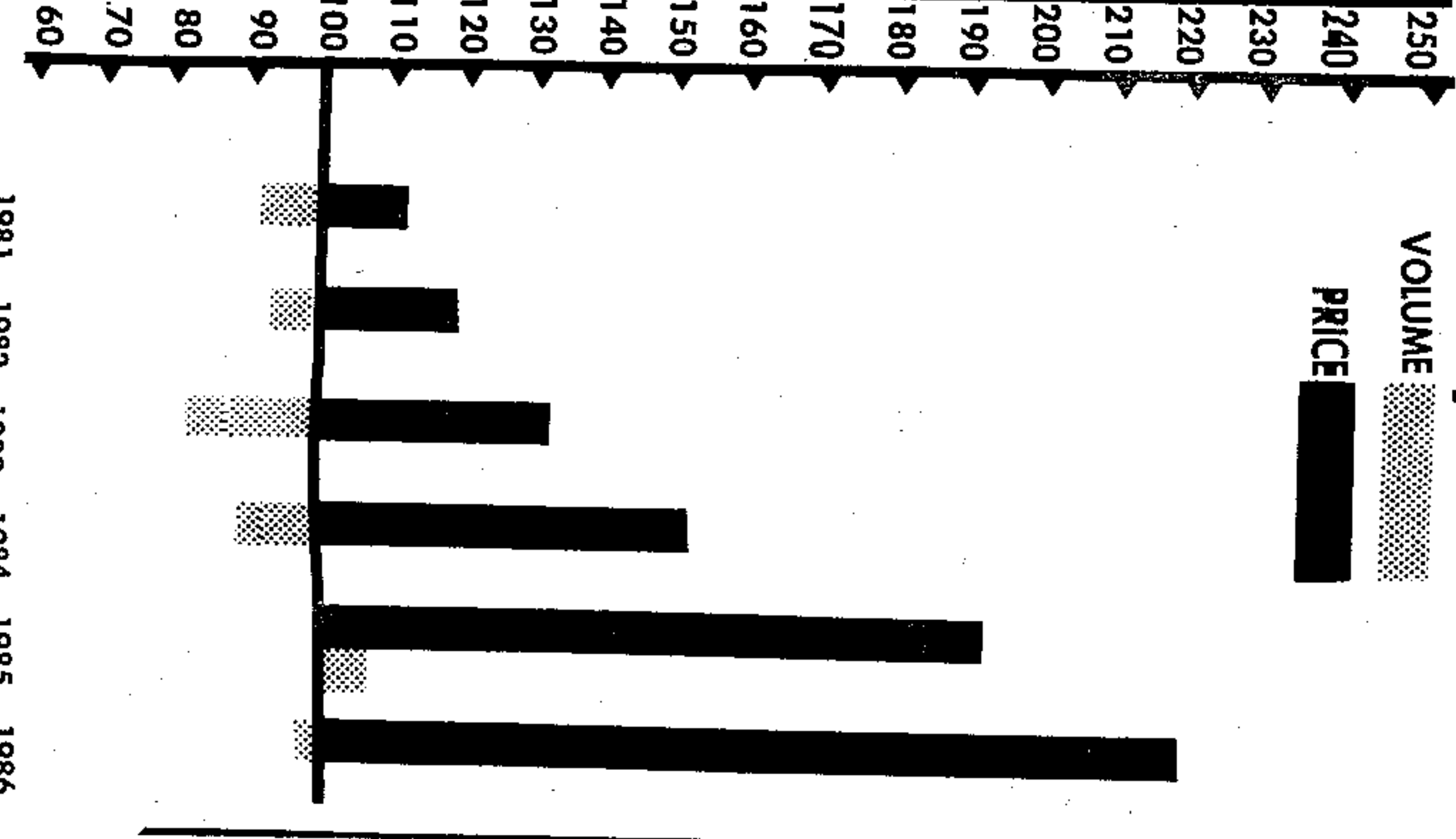
All of them count the extra cash burden in millions of rands.

Nor do local manufacturers of other key components escape the currency trap.

### Imports



### Exports



Imports

Exports

Naamsa estimates that the average cost of vital imported raw materials jumped by another 28 percent in the past three months alone.

The landed cost of zinc, as an example, shot up by as much as 48 percent in rand terms.

Even with the relatively sharp price increases on vehicles over the past two years, few if any of the main manufacturers are keeping pace with foreign exchange losses," says Mr. Mico Vermeulen, executive director of Naamsa.

"They have used their own shock absorbers to hold down prices as much as possible. But there are limits to how far and for how long the losses can be carried. More heavy losses are inevitable for the industry again this year. It's one hell of a dilemma."

Also, among the vicissitudes of the exchange rate squeeze, are companies such as Tedelex, with a heavy reliance on imports for the production of items ranging from TV and hi-fi sets to microwave ovens and sewing machines.

"We have cut our profit margins to the bone," says managing director Mr Jack Cohen. "Now we are looking at the alternatives of using more and more local content where possible."

## Sensing sanctions

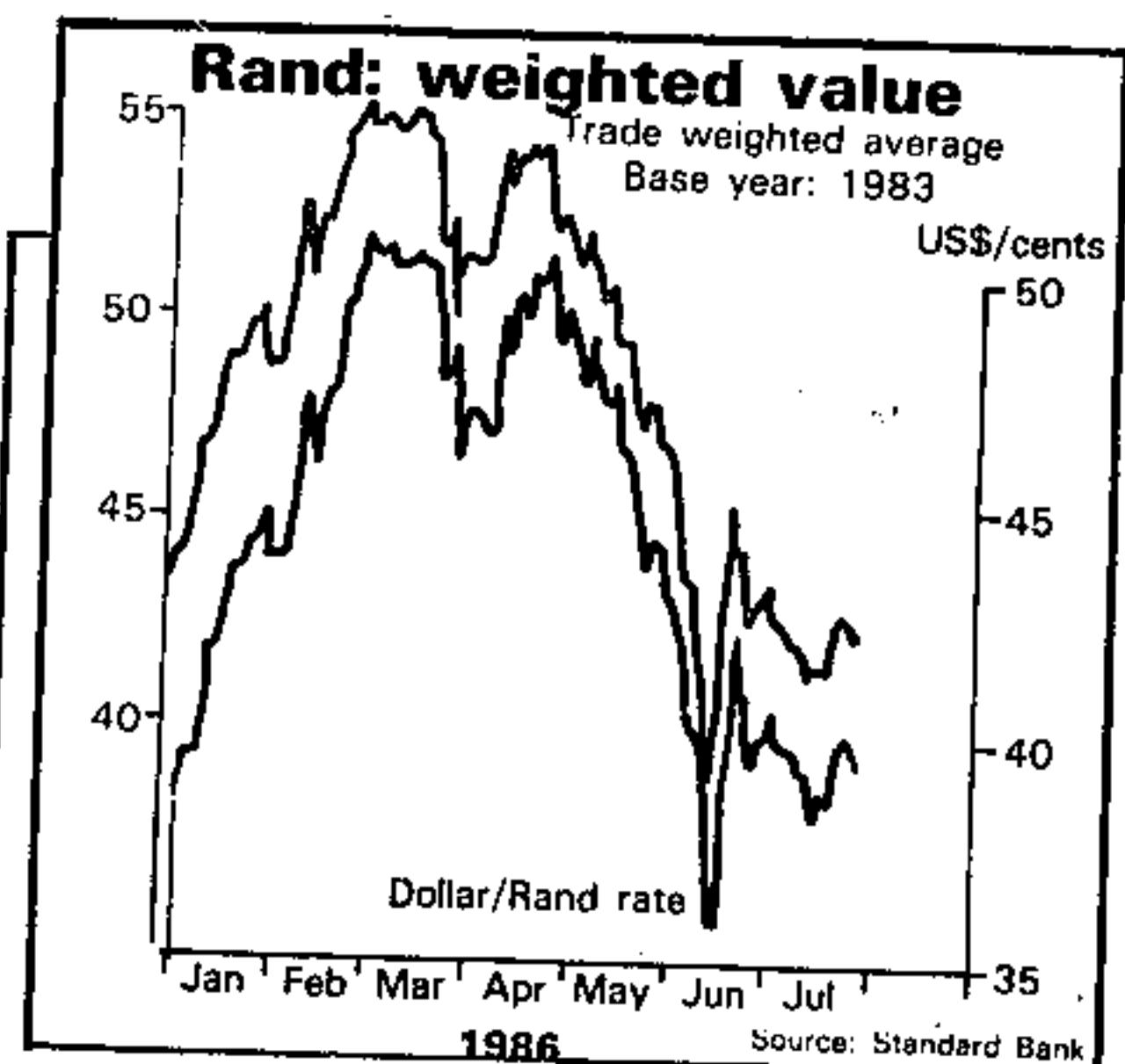
Under renewed pressure, the rand has been unable to maintain a foothold above US40c "despite," Barclays says, "fairly aggressive Reserve Bank support and an extremely pro-SA speech by President Reagan." (Standard Bank says Friday's low of US38,67c activated Reserve Bank intervention).

Pressure over the week (the underlying weakness is well known) is partly attributed to month-end dollar demand, which coincided with a bearish dollar trend. Over the week ending Tuesday, the rand fell from 62,22 yen to Y61,36 and DM84,78 to DM83,5. At press time on Tuesday, £1 could be bought for R3,75 (R3,77 last Tuesday).

Citibank feels "the US40c level is a strong resistance and demand for dollars at that level for both importer and debt repayment (outside the net) saw the rand fall back."

Interestingly, dealers report that Reagan's policy speech had no impact on the rand, reflecting growing expectation that both the US and UK governments will eventually have to impose some economic pressure against SA. Their strong stand against sanc-

61



tions is looking increasingly untenable, especially as they are unlikely to get significant concessions from Pretoria.

None of the banks is optimistic. Says Standard: "While adverse political issues continue to dominate the news, the currency is unlikely to stage any sustained recovery." Citibank says that given the precarious state of sanction negotiations, market participants are very cautious. "Unless something dramatic occurs to change prospects, we anticipate a trading range of US38c-US40c."

The Australian central bank intervened in the forex market for the first time in three years on Monday as the A\$ plunged to US57,15c. After the Bank acted (introducing other measures as well, including a rise in the rediscount rate) it recovered to US63,4c. An Aussie dollar is now R1,55, after falling to R1,38 on March 3. It was R1,98 when the forex market closed on August 27 last year. ■

# Floating exchange rate regimes do seem to help stem flight of capital

13/8/86  
74  
SMR

By Dr Roger Gidlow

The flight of capital from an economy is likely to be most effectively stemmed by flexible exchange rate arrangements. That is one conclusion which some economists are making on the basis of the recent experiences of developing countries.

It is a viewpoint which has obvious relevance for South Africa, which is grappling with large net capital outflows of one kind or another.

In recent years roughly a dozen countries in the Third World category have adopted floating exchange rate systems in an effort primarily to deal with their balance of payments problems.

They are not a panacea, and any inferences which are drawn must be tentative because the experience from operating such arrangements in developing countries is still limited.

## Encouraging results

Nevertheless, the results so far have been encouraging. Floating exchange rate arrangements need to be supported by the sustained pursuit of appropriate domestic economic policies to ensure their efficient functioning over time.

Floating exchange rates cannot be a substitute for appropriate economic policies.

Assuming this condition is fulfilled, however, specific benefits

flowing from such arrangements can become visible fairly quickly, such as in the area of capital movements.

**Nature of Capital Flight.** It is widely recognised that developing countries, and especially those in Latin America, have faced a serious autonomous flight of capital, emanating from residents and non-residents, for some years.

This has been estimated at roughly \$120 000 million during the past decade in Latin America alone, and with some countries the capital outflows have exceeded new foreign borrowings.

The days of dollars being carried in suitcases over borders or flown across in light aircraft have gone, but the problem is pervasive and persists with the use of more sophisticated techniques, and is aided in some instances by corrupt bureaucracies in these countries.

The foreign assets acquired include currency, bank deposits, securities, businesses and real estate.

According to a report issued by the American bank Morgan Guaranty Trust the capital outflows from Latin America since the peak of the foreign debt crisis in 1982 have totalled \$30 000 million.

The flight of capital is a primary factor contributing to the current foreign debt impasse of

\$370 000 million in the region.

As foreign debt has accumulated so other capital has flown out. The balance of payments position of these countries would be materially improved if the flight of capital ceased, and funds returned to the region.

Developing countries in general have found ever tighter exchange controls, and the stricter monitoring of foreign trade and foreign currency operations, yield dubious benefits in stemming capital outflows.

In contrast there is some tentative evidence that developing countries which have adopted floating exchange rates in recent years have benefited from some improvement in their capital account positions, even though data is incomplete, and the prolonged balance of payment problems of these countries mean confidence is understandably slow to return.

## Risk removed

Three factors account for this outcome. Firstly, private capital flows can be expected to respond positively under floating rate condition to the reduction or removal of the risk of substantial sudden devaluations of domestic currencies which previously occurred under the pegged exchange rate arrangements.

Short-term capital movements, moreover, become less

affected by leads and lags operations.

Secondly, some of these developing countries have relaxed exchange controls alongside the resort to floating rate systems. These measures have encouraged inward investments by foreigners, while creating a more favourable environment for the rescheduling of foreign debts with creditors.

Thirdly, the impact of floating rates on capital account positions has been strengthened where monetary policies have caused domestic rates to be more attractive vis-à-vis foreign rates.

**Implications for South Africa.** South Africa differs in some respects markedly from developing countries. Many of these countries have suffered from both current account deficits and autonomous capital outflows as well as contracted debt repayments. In contrast, the Republic's politically related problems on capital account are counterbalanced by large surpluses on the current account of the balance of payments.

Even so, the experiences of those developing countries in recent years which have adopted floating exchange rates suggest South Africa could be faced with even greater problems on capital account if some form of pegged exchange rate system was restored.

Another warning over debt

BUD DAY  
14/8/86

# Banks turn screws on credit lines



74

SOUTH Africa's prospects of raising further foreign credit have significantly deteriorated as relations with international banks worsen.

Senior banking sources say foreign bankers' attitudes to this country have hardened over the past three months.

Says one: "It is true that the position has become more difficult since May."

"This includes banks that previously were favourably disposed to the government," says another.

"The last few months have seen a significant deterioration in the services international banks are prepared to provide in trade-related facilities and dealing lines," he adds.

In particular, the relationship between government and German banks, traditionally well-disposed towards SA, have suffered.

One major European bank has now tightened up on all its dealings with SA, including letters of credit and dealing lines, after circulating a letter to commercial banks explaining the move.

"This bank used to be very sympathetic to SA. They have cooled down towards

GERALD PROSALENDIS  
Economics Editor

SA to ease domestic pressure but this has not meant much in rand terms because they have not lent much since the standstill," says a source.

"Overseas perceptions, which improved dramatically in January, February and March this year, have deteriorated again. One has only to look at the discount on the financial rand to realise this."

However, the monetary authorities say the harder attitude has not affected the availability of trade finance. "Any order from Escom for finance for capital goods will be met. Credits guaranteed by overseas agencies will continue," says an official.

And for a third time SA warned that sanctions could compromise its ability to meet its foreign debt commitments.

Yesterday Finance Minister Barend du Plessis said at the National Party federal congress in Durban that sanc-

● To Page 2 →

P.T.O

e-  
al  
0c  
15.  
es

congress

# Smaller banks fill gap in dealing lines

RESTRICTION of foreign exchange dealing lines by some foreign banks has had little practical effect on the general availability and cost of trade financing to SA companies, banking and trade sources say.

In fact, several smaller European banks, who historically have not taken part in such lending, have recently begun to offer dealing lines, filling the gap left by larger banks that have cut back on such activity.

But the identities of these new players in the SA foreign exchange business have not been determined.

Currency dealers at major Johannes-

Economics Reporter

burg banks said forward trade credit was still available, but that fewer foreign banks were offering such lines.

A banker said: "We certainly can get forward cover. It just may not be as available from as many banks."

As well, the spreads charged on dealing lines, which usually range between five and ten points, had not increased.

SA Foreign Trade Organisation GM Ann Moore said export financing had not been affected by the tightening of trade finance. She said: "The big multination-

als aren't hurt because of their wide banking connections. I'm sure they can raise cash through overseas connections."

And smaller companies could easily find export financing facilities through local banks.

The Electricity Supply Commission (Escom), which depends on dealing lines to support export business, has had "no one say to us that export financing would not be available," finance GM Larry Harper said.

"I'd be surprised if banks don't want to do business, because they don't have to carry the risk if they get guarantees."

# Bank tightens daily forex report-back

19/86 BLS DAY 74  
ALAN SENDZUL

THE Reserve Bank has finalised a draft to ensure tighter report-back on foreign exchange holdings after several weeks of discussions with bankers.

The report was initiated to iron out ambiguities in the way banks were disclosing their daily foreign exchange holdings to the central bank. It arose after allegations that widescale speculation against the rand had contributed to its poor performance.

After meeting with all the major banks, Senior Deputy Reserve Bank Governor Jan Lombard said that the overnight

dealing limits on the revamped BB15 form would still operate.

"We have now issued a glossary tightening our interpretation of foreign exchange limits, and this should eliminate confusion which has allowed banks to operate under different foreign currency limits," he said.

The idea is to test the new report-back method which, it is understood, requires virtually the same input as banks use for

their own analysis and then to evaluate whether the limits need adjusting.

Emphasis will be placed on seeing that the returns arrive daily at the Reserve Bank, since the time factor to prepare them has been significantly reduced.

Banks have been guilty of bunching several day's returns, making it difficult for the Reserve Bank to determine whether a speculative position is being run.

Lombard says that if all goes according to plan the dealing limits will be evaluated within a month's time.



□ JAN LOMBARD

FOREIGN EXCHANGE

# Up, but no happy birthday

74 FINMAIL 5/9/86

The rand celebrated the first birthday of the temporary closure of the forex market by edging towards US41c on the back of Reserve Bank support, a higher gold price and unwinding of unfavourable leads and lags. The banks too — barring Standard — celebrated with newfound optimism (relative, that is, to their previous deep pessimism). But longer-term, the picture is less happy.

Over the week the rand firmed from just over US38c (where it had been trading for some weeks) to US41c on Tuesday, and also against non-dollar currencies. Standard Bank's index rose from 40,23 on August 27 to 42,76 on Tuesday. Dealers attribute the rally to an easing of dollar demand, a higher gold price, consistent (Barclays talks of "heavy") Reserve Bank support in a thin market, and the unwinding of long positions held by banks in anticipation of a stronger month-end.

Dealers say the Bank has been following through well and catering for the light dollar demand. It opened with a US40,6c quote on Tuesday: "The fact that the Bank is defending the rand prompted exporters to push dollars into the market in anticipation of further rises," says one.

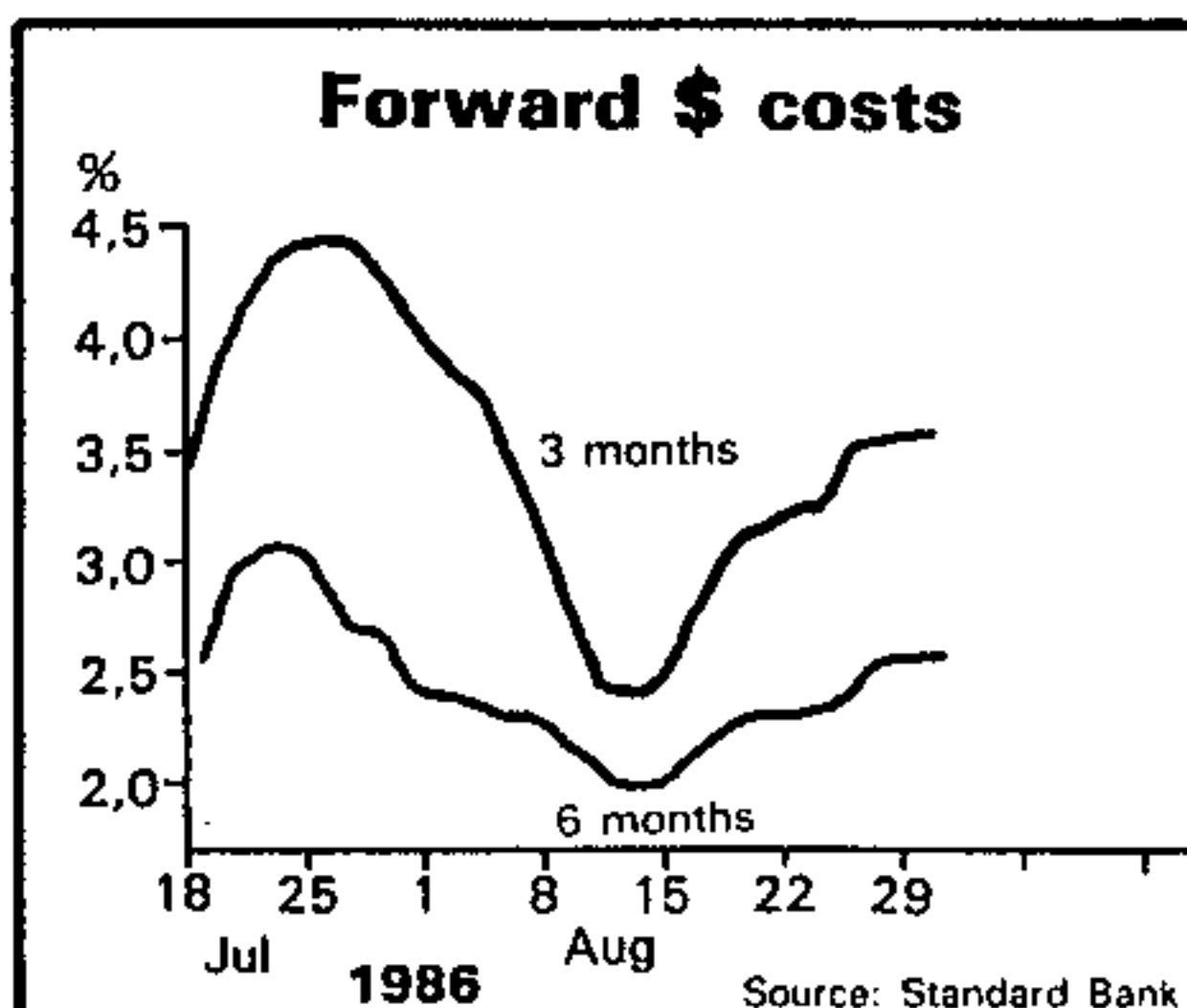
Citibank detects "more optimistic sentiment after a stronger showing of the rand last week," considers the breaking past US38,6c "technically important," and feels the most important determinant will be the gold price.

"A strong boom in precious metals is under way and platinum is leading the way, gold has broken out of a congestion area and appears set to test the previous \$395 high," it says, adding that if this occurs, dollar demand will probably be withheld and confidence boosted by higher stock market levels caused by foreign and local buying of SA gold shares. This could also lift the financial rand.

Barclays too is more optimistic: "There exists strong upside potential should the dollar continue its decline, and gold continue to make advances. The latter remains a strong possibility."

Citibank feels that "a rand gold price in the region of R1 000/oz seems to be an objective of the authorities." It agrees that this makes sense.

It will be important to analyse the source of dollar supply. If importers start cancelling cover the rally will be short-lived, as they will have to buy it back. But if there are genuine exporter sales of expected foreign currency proceeds, Citibank expects a higher range to emerge. It cautions never to "lose sight of the fact that there is still considerable foreign debt to be paid and the authorities have



commitments to the market."

Barclays advises importers to take advantage of forward cover facilities "should the rand trade at the upper end of its range." Exporters who have not yet shipped goods "would do well to consider delaying forward cover."

Despite recent gains, the rand is far from strong. Rather than having anything to celebrate on the anniversary of the closure of the market, one is left considering how weak the rand remains — indeed the currency is trading considerably below a year ago's levels against most major currencies, including the DM, Yen and pound.

Standard Bank's trade-weighted index of 15 currencies was 44,88 on August 27 1985. When the market closed R1 was DM1,02 or

Yen 87,07, and £1 bought R3,76. A year later R1 is worth DM0,78 or Y59,01, and £1 buys R3,88. The dollar — itself weak — is the only major currency against which the rand has firmed.

Commenting on the anniversary, Standard Bank reminds that the "ongoing erosion of the rand" against major non-dollar currencies "underscores the low confidence in the currency, both locally and abroad."

One favourable aspect is that SA has, since August 1985, repaid \$2 billion of the estimated \$2,3 billion of foreign debt due by June 1987 (see *Economy*). Finance Director General Chris Stals says "this should ease pressure on the rand."

He correctly emphasises that this is theoretically what should occur — being no doubt aware that due to political turmoil the rand is structurally weak. Despite an easing of capital outflows — indeed the current account surplus in the third quarter (and future quarters) should exceed capital outflows — the rand is unlikely to show significant strength until real stability returns. Sadly, this is as far off as a year ago.

Though he will not elaborate, Reserve Bank Deputy Governor Jan Lombard tells the *FM* he is "considering proposing that the dollar proceeds from gold be given back to the mining houses under somewhat different game rules."

Commenting on changes in banks' reporting procedures on foreign exchange transactions, Lombard says the "practical aspects will take a few weeks to deal with fully." He says discussions with the banks have been "conducted in a very positive spirit" and hopes to introduce a system which will be "not onerous to the banks and more useful to us than the present system."

## RAND'S PRICE

Sep 2 1986	R1 equals	One foreign unit equals (R)
SDR	0,324	3,083
ECU	n/a	n/a
	0,379	2,640
UK £	0,967	1,034
	0,271	3,690
US \$	0,323	3,099
	0,405	2,469
Canada \$	0,445	2,247
	0,561	1,783
Switzerland Fr	0,612	1,634
	0,661	1,513
France Fr	1,038	0,963
	2,688	0,372
	3,850	0,260
Germany DM	0,820	1,220
	1,261	0,793
Japan Yen	62,000	0,016
	106,250	0,009
Italy Lira	565,250	0,002
	843,500	0,001
Zimbabwe \$	0,648	1,543
	0,635	1,575
Austria Schil	5,775	0,173
	8,525	0,117
Holland Guilder	0,925	1,081
	1,418	0,705
US \$ value of SDR	1,035	1,207
US \$ value of ECU	0,800	1,034
Financial Rand		
Cost in US \$	n/a	0,208
Discount (%)	n/a	48,642

Year ago figures in light print. Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved. The above rates are for guidance purposes only.

## MONEY MARKET

### Too much money

Though excess liquidity is pushing rates some 150 points below rediscount levels, the Reserve Bank seems hesitant to lower rediscount rates further. Not needing the Bank for funds the market also seems indifferent. Says a dealer: "With too much money the market is not Bank rate-orientated." Another adds: "As long as the Bank's sentiment is as now the market has nothing to fear." There are no signs that the Bank is about to change its easy policy.

The market is so flush that the Bank has an unusual and interesting problem. It can issue tax bills for November and February to provide the market with badly needed assets.



## DEBT REPAYMENT

## Ahead of the game

74  
 FUNNY  
 5/9/86

Only a year after the unilateral freeze on certain foreign debt repayments, SA has already repaid about \$2 billion of an estimated total foreign debt commitment of \$2,3 billion due over the period April 1986-June 1987.

Revealing the figures, Finance Director General Chris Stals says the repayment has "worked out roughly as expected." SA made its first post-moratorium \$400m repayment in April. Other repayments include instalments of two IMF loans, certain repayments of short-term credits of the Reserve Bank and repayments on foreign bonded debt on foreign stock exchanges.

This covers debts both inside and outside the standstill net, and follows the interim debt deal reached in February this year for the period April 1986-June 1987. The total debt at the end of August was \$24 billion, of which \$8,8 billion was owed by private banks at the end of August 1985. Of the total debt, \$14 billion was inside the net, and it was agreed that SA would pay 5% of the portion that matures by June 1987.

Although total debt figures at the end of June will be available only within the next few weeks, at least we know that only some \$300m remains to be repaid by June next year, in terms of the debt rescheduling agreement.

Overall, the current account surplus in the next few quarters should exceed capital outflows. But it cannot be assumed that the debt is now around \$22 billion because part of it is in non-dollar currencies, most of which have appreciated against the dollar since August 1985.

While this is an admirable performance, it nevertheless signals the extent to which banks refuse to roll over debt and indicates the way any potential future growth will be severely stymied by repayments.

Stals will head SA's team which is due to meet a technical committee representing SA's major creditor banks in London later this month. Says Stals: "It is a technical review meeting and no matters of principle will be discussed."

Negotiator Fritz Leutwiler, he adds, will not attend "as he is not really needed. Leaders from both delegations will conduct procedures." But he does not rule out the possibility of Leutwiler being called in nearer to the April talks.

Changes to the present interim agreement are unlikely, as SA's current account shows a similar surplus to the estimate around which agreement was reached. Creditor banks will thus not be in a position to claim that SA underestimated its current account surplus and could therefore repay more debt.



**Finance Director General Stals  
 ... an unenviable task ahead**

But the position is far from rosy. Stals has an unenviable task ahead of him in negotiating SA's debt repayment beyond June 1987 — and the politicians are not making his life any easier.

It has been stated often enough that the "agreement" in February merely put SA on probation. Financially, SA has passed the test with honours; but it is seen by some as having failed politically.

Stals says he has not yet begun to consider what he will propose next year, but acknowledges that the pressure banks are exerting against SA has not eased.

It also emerges that the official current account surplus for 1985 is R1,2 billion less than initially estimated — R5,9 billion and not R7,1 billion. But the surplus for the first quarter of 1986 has been upwardly revised from an annualised R1,8 billion to an annualised R4,3 billion.

The Reserve Bank explains: "The counterpart of the downward revisions of 1985 and earlier years naturally has been commensurate with downward revisions of the extent of capital outflows, in particular of non-bank private sector outflows of short-term capital not related to reserves which incorporate unrecorded transactions."

Accordingly, the total outflow of short-term capital not related to reserves during 1985 has been revised downwards by R1,5 billion from R10,3 billion to R8,8 billion. Such outflows in the first quarter 1986 have been revised from an annualised R234m to

R1 billion.

While it is usual to adjust the BoP figures about this time of year, the adjustments are extraordinarily large. Why?

Firstly, on the current account, it now seems that oil imports initially recorded as having entered the country in January actually arrived in SA in December, thus increasing imports in December and reducing imports in January.

In addition, the Bank says a recent survey of interest payments made to foreigners "has caused upward revisions to be made to the current account item "payments for services" for the past several years."

Some economists, notably Barclays' Cees Bruggemans, have criticised the monetary authorities for probably overstating the current account surplus by not identifying some private sector interest payments correctly — thereby overstating short-term capital outflows.

Now, interest payments previously recorded in the capital account have been transferred to the current account. This is a further reason for the downward adjustment in both the capital account outflows and the current account surplus.

Implied interest paid on items such as banker acceptances and bank onlending (the arranging of credit for clients) is now being shown under "interest payments" on the current account. These changes, says one economist, "are neither here nor there" but do explain why interest on foreign debt has appeared low, having previously been reflected in lower current account inflows.

Anglo economist Jim Buys says that while the balance of payments is not affected, these adjustments "more accurately reflect the surplus funds available to meet capital repayments. Previously the available funds were overestimated."

The portion of the adjustments that can be attributed to oil imports and interest payments is unclear. The Bank declines to disclose the amounts involved but says figures will be available in its September quarterly bulletin to be published at the end of the month.

The Bank has also revised certain other balance of payments statistics, some of which go back to 1981.

Officials will provide no other details yet, saying that "other revisions of a more routine nature have been made to other items, making use of the availability of more recent and complete data."

The Bank says that the net effect of these revisions has been to reduce "somewhat" the current account surpluses, recorded in the four quarters of 1985. ■

# Prospects on debt payment look good 74

JOHANNESBURG — Prospects for the rest of this year on South Africa's debt repayment "look good," says Trust Bank's latest currency report.

The report says that according to the Governor of the Reserve Bank, Dr Gerhard de Kock, total capital outflow for the first half of 1986 was R4,9 billion and total debt repayments for the second half of this year are expected to total about R1 billion.

The expected larger surplus on the current account against the net capital outflow for the second half of this year could have a positive effect on both the gross and net official gold and foreign exchange reserves.

Gold holdings rose to R3,36 billion in August from R2,98 billion in July. Total gold and foreign assets rose to R4,55 billion from R3,88 billion in July with foreign exchange reserves rising to R1,19 billion from R894 million.

Gold output improved to 3,81 million ounces in August from 3,67 million ounces in July. Gold was valued at R882,85 an ounce (the highest since

DD 12/19/86  
the beginning of the year) compared to R812,56 in July. With gold valued at these high levels, the rand could benefit in the longer term, says the report.

The year-on-year producer price index rose to 19,7 per cent in July from 19,03 per cent in June. The monthly increase in the index was 1,4 per cent following a 0,38 per cent rise in June. This figure showed no significant change from the previous two months, which proved that inflation was not yet under control.

The rand remained fairly stable at its higher levels. It came under immediate pressure at the start from a firmer dollar and a retreat in the gold price. The Reserve Bank intervened from time to time.

The political pressure on South Africa, the sanctions issue, the immense difference between inflation in South Africa and its trading partners, and the substantial foreign debt outside the net are factors that could keep the rand under pressure and limit any upward potential. — Sapa

# Bankers' eyes on SA gold bonanza

DD 23/7/86

Dispatch Correspondent

**JOHANNESBURG** — A major fight is shaping up as international bankers try to get their hands on South Africa's recent gold bonanza.

South Africa's creditor banks are widely expected to demand a payment of another 2.5 per cent on debt caught inside the "standstill net" at this week's meeting in London with the Standstill Co-ordinating Committee (SCC).

This amount would come on top of the five per cent — roughly \$400 million — that South Africa agreed to repay by June next year in terms of the interim debt arrangement negotiated in April this year.

Originally billed as a mid-term economic review — to gauge South Africa's economic performance six months after the April deal was struck — this week's London meeting has taken on a new significance in view of the dramatic rise in the gold price in recent weeks.

It is understood, however, that the South African delegation, led by the SCC chairman, Mr Chris Stals, will stick to the interpretation that the meeting is "merely technical".

An official source said: "They will resist pressure from bankers for any additional payments."

But a London banking source said: "The negotiations will be pretty tough."

Gold closed yesterday in London at \$438.50 — \$437.50 — \$8.50 higher than Friday's close — in a day of hectic trading that saw the metal fixed in the morning at a three-and-a-half-year high of \$442.7 and rise above \$445 before falling back.

Yesterday's rise in the gold price clearly has not made things easier. Every one dollar in the gold price earns South Africa roughly an additional \$20 million in foreign exchange a year.

Although South Africa's official gold and foreign exchange reserves have increased in past weeks to above \$2 billion, they are still lower than before the imposition of the standstill in September last year.

A South African official said: "South Africa is merely replenishing reserves lost last year."

But it is understood that the creditor banks will point to strategic stockpiling of oil which, they believe, should be included in calculations of South Africa's reserves.

## Aid plan for frontline states

**JOHANNESBURG** — Extensive US and Allied economic aid to the frontline states, aimed at reactivating the beleaguered Beira Corridor, is set to be included in President Ronald Reagan's response to Congress's anti-South African sanctions bill this week.

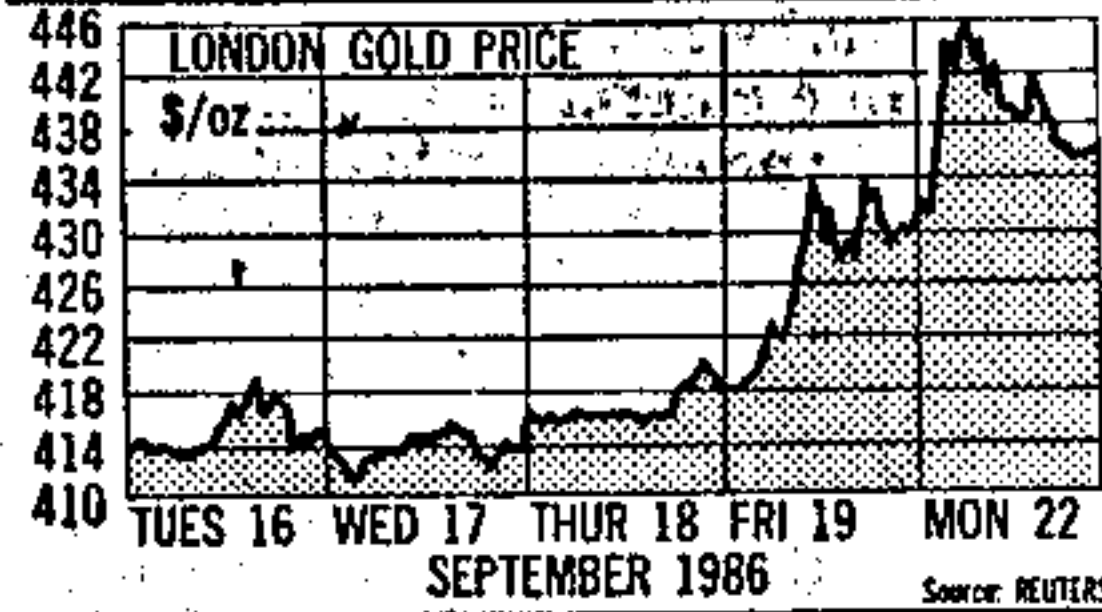
The move is part of a new programme worked out between Washington and its European partners to reduce frontline state dependence on South Africa.

It was foreshadowed in July by the Secretary of State, Mr George Shultz, who said in testimony to the Senate foreign relations committee that the corridor linking Zimbabwe and the Mozambican port of Beira was "an economic if partial alternative to dependence on South Africa for states as far away as Zaire, which now sends 43 per cent of its mineral and metal exports through the South African road and railway system".

The Deputy Minister of Foreign Affairs, Mr Ron Miller, last night described as "totally inappropriate" the Re-



## SECOND PHASE BULL RUN?



**GOLD** closed yesterday in London at \$436,50/\$437,50 — \$6,50 higher than Friday's close — in a day of hectic trading that saw the metal fixed in the morning at a three-and-a-half-year high of \$442,75.

Platinum was set at \$599 in the afternoon, \$17 above the previous day, but \$10 down on yesterday morning's setting.

**GERALD PROSALENDIS**  
Economics Editor

A MAJOR fight is shaping up as international bankers try to get their hands on SA's recent gold bonanza.

SA's creditor banks are widely expected to demand a payment of another 2,5% on debt caught inside the "standstill net" at this week's meeting in London with the SA Standstill Co-ordinating Committee (SCC).

This amount would come on top of the 5% — roughly \$400m — that SA agreed to repay by next June in terms of the interim debt arrangement negotiated in April this year.

Originally billed as a mid-term economic review — to gauge SA's economic performance six months after the April deal — the dramatic rise in the gold price in recent weeks has upped the ante of this week's meeting.

It is understood, however, the SA delegation, led by SCC chairman Chris Stals and including Reserve Bank Deputy Governor Jan Lombard, SCC secretary J C Y Kruger and legal adviser Willem du Plessis, will stick to the interpretation that the meeting is "merely technical".

An official source said: "They will resist pressure from foreign bankers for any additional payments."

But a London banking source said: "The negotiations will be pretty tough."

Yesterday's rise in the gold price — the metal was trading at just above \$445 in London at one stage — clearly has not made things easier. Every one dollar in

the gold price earns SA roughly an additional \$20m in foreign exchange a year.

A London banking source close to the creditor banks said: "When Leutwiler worked out the original proposals he did his calculations at a gold price of \$340. The price is now above \$400 and holding up well."

"This clearly indicates a substantial excess over what was originally expected. At the time, the SA Minister of Finance Barend du Plessis indicated that gold was SA's main earner of foreign exchange. Clearly, if the SA delegation sticks to the original agreement, it will make more money available for foreign creditors."

It is understood that the SA delegation will disagree, however, on legal inter-

● To Page 3

## SA, foreign banks meet

pretations of the April agreement.

A local banker said: "SA has no legal obligation to repay more before the next round of negotiations in June."

Although SA's official gold and foreign exchange reserves have increased in past weeks to above \$2bn, they are still lower than before the imposition of the standstill in September last year.

An SA official said: "SA is merely replenishing reserves lost last year."

But, it is understood that the creditor banks will point to strategic stockpiling of oil which, they believe, should be included in calculations of SA's reserves. The original agreement focused on SA's

reserves as a key indicator of SA's economic health, and a substantial rise in reserves would have been a powerful argument for an additional payment.

Foreign banks to be represented on the technical committee which will meet the South Africans are: Barclays Bank, Citibank, Commerzbank, Credit Suisse, Deutschebank, Dresdner Bank, Manufacturers Hanover, Morgan Guaranty, Stanchart, Swiss Bank Corporation, Union Bank of Switzerland and Natwest.

# SA refuses to up debt repayment

25/9/86 BUSDAY 74

SOUTH AFRICA yesterday turned down demands for an additional repayment on its foreign debt commitments at a meeting with international bankers in London.

The meeting — held amid the strictest security — ended after only one day. Initially, some foreign banks had expected it to continue today as well.

Earlier in the week international bankers had indicated that in the light of SA's recent gold bonanza, they would ask for a further repayment on the \$13,6bn debt caught inside the standstill net.

However, chairman of the Standstill Co-ordinating Committee Chris Stals, who headed the SA team, said from London last night: "All parties agreed that nothing would be changed to the existing arrangement. There will be no further repayments on debt inside the net at this stage.

"An additional payment was proposed

GERALD PROSALENDIS  
Economics Editor

by the technical committee representing creditor banks. We told them the timing was not right to concede to their request and they accepted our argument.

"We told the bankers that if the gold price remained high for some time, the situation would be different."

The SA delegation was "very happy" with the way the meeting had turned out, he said.

"The creditor banks also expressed satisfaction with the way the interim agreement was working."

SA threw a "standstill" net around repayment of about \$13,6bn short-term debt in September last year.

At a meeting in London in April this year, SA agreed to repay 4% — about \$400m — on debt inside the net.

## **Debt: no change**

JOHANNESBURG — South Africa yesterday turned down demands for an additional repayment on its foreign debt commitments at a meeting with international bankers.

The chairman of the Standstill Co-ordinating Committee, Dr Chris Stals, said from London last night: "All parties

agreed that nothing would be changed.

"We told the bankers that if the gold price remained high for some time, the situation would be different."

The SA delegation was "very happy" with the meeting, he said. — DDC

Earlier report page 15

74 00 25/7/86 (74)

# SA won't raise debt repayment

By Neil Behrmann

LONDON — South Africa will not increase its repayments to foreign bank creditors in the next six months, following a meeting here.

A bland statement issued by South Africa merely said a technical committee of 12 banks had received information on the economy and would review the situation.

The meeting reviewed the estimated \$22 billion foreign debt following reports many major creditor banks planned to press for stepped-up repayments.

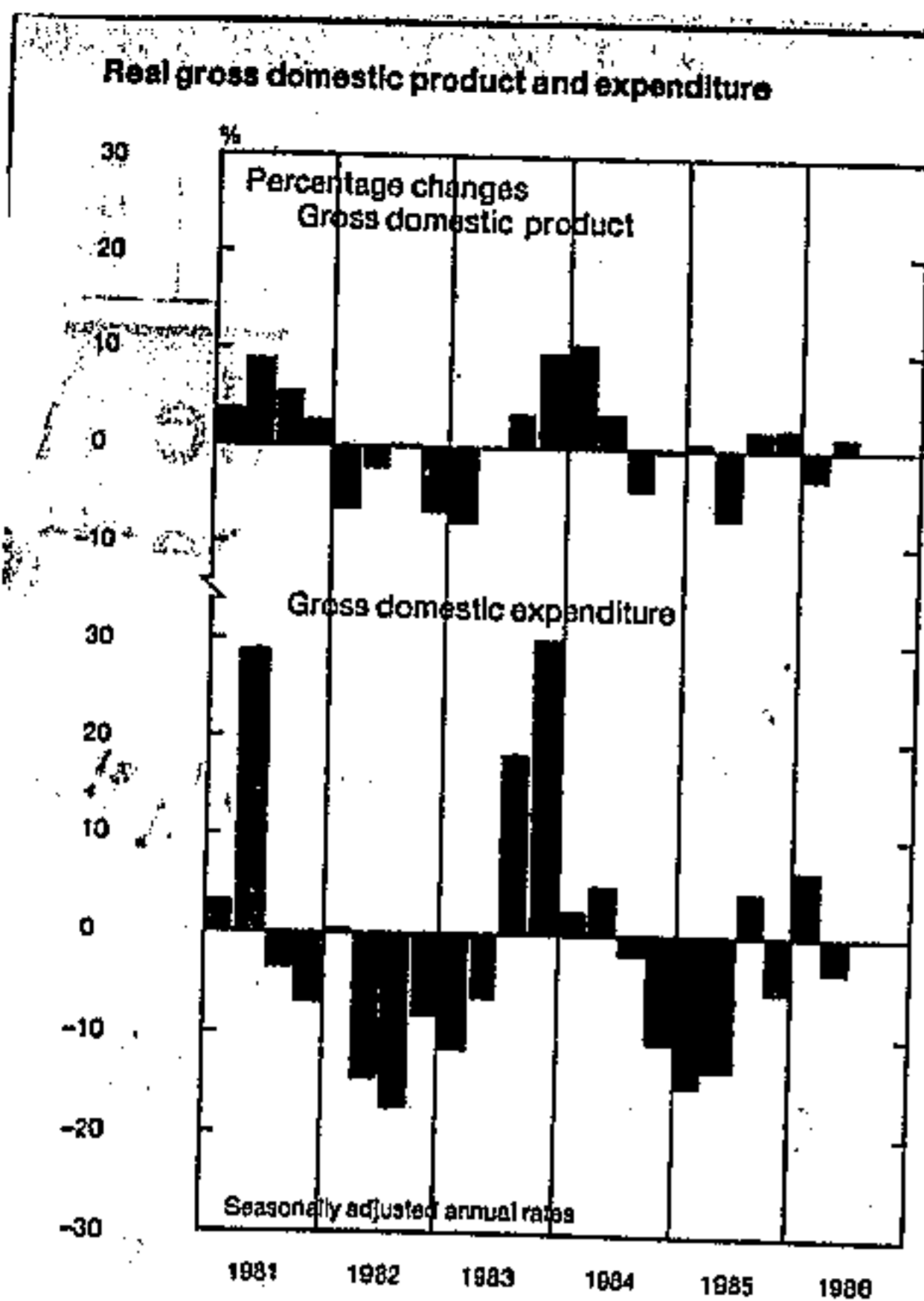
London banking sources said several American and British banks wanted South Africa to increase its foreign debt repayments because the surge in the gold price had boosted the balance of payments and economy.

But they said that it was unwise to demand more money on the back of short-term price movements.

"When oil prices rallied temporarily in 1985, bankers thought that oil-producing countries would find it easier to repay debts, but they soon realised that they had made a mistake when the market slumped this year," said a source.

Dr Chris Stals, Director-General of Finance and head of the debt negotiating team, said the meeting was merely "a technical review".

He said the debt repayment schedule would be discussed again at a key meeting next April.



# Rosy outlook for debt repayments

29/9/86 BUS DAY 74

ALAN SENDZUL

THE outlook for SA's foreign debt repayments, as well as its foreign reserve position, look more encouraging, says the Reserve Bank in its latest *Quarterly Bulletin*.

The Bank also expects a decline in net capital outflows for the rest of 1986.

It ascribes the improved prospects to a higher projected current-account surplus and rising business confidence from a "marked surge in the dollar price of precious metal exports from late August this year."

"This holds out prospects for a more comfortable management of South Africa's foreign indebtedness and debt-repayment obligations, and of its foreign-reserve position generally," the Bank says.

The bulletin shows that SA's real gross domestic product grew at an annual rate of 1,5% for the first six months of 1986 after dipping in the first quarter.

The more optimistic outlook also reveals that second-quarter real output levels were higher compared with the

same period a year ago.

"This appears to confirm the economy's move off the bottom of the economic cycle after a lower turning point for real (after inflation) economic activity in the second quarter of 1985."

On the trade account, a surge in merchandise exports, together with a lesser rise in imports, moved the balance on the current account up above its 1985 quarterly average to an annualised surplus of R6bn for 1986.

Net gold and foreign exchange holdings rose by R500m over the preceding quarter, the first quarterly increase since the debt standstill was announced in September last year.

The Bank says a further reduction in short-term capital outflows and the reduced pace of long-term outflows, as well as the favourable balance on the current account, have helped the

● To Page 2

## Reserve Bank optimistic

29/9/86 BUS DAY

foreign-reserve position.

It points out that economic recovery is taking place despite economic signals which are in contrast with earlier cyclical upswings.

"The volume of merchandise imports has not responded upwards for the first three quarters of the recovery, registered unemployment is still rising and new bank-credit demand has continued to slow down," the report says.

Spending remains problematical. The difficult circumstances with which the present recovery has had to contend have influenced the composition of spending.

"After decreasing in the fourth quarter of 1985, total real domestic spending

increased to an annual 7% in the first quarter of 1986 before contracting to 3% for the next quarter," the Bank says.

It believes growth in real gross domestic spending (GDE) has been dampened by low business confidence, poor consumer sentiment, and foreign perceptions of SA.

GDE continued to decline in the second quarter as a result of weaker domestic investment and accelerated drawing-down of inventories.

The downward adjustment of real private consumption was, however, more than reversed in the second quarter this year.

● From Page 1



# Stals says SA aims to lower foreign debt by \$2-b in '87

By Neil Behrmann

London — South Africa intends lowering its foreign debts by a further \$2 billion in the coming year, according to the Director-General of Finance, Dr Chris Stals.

"We want to show international bankers that we have kept our word and intend repaying our borrowings," Dr Stals said.

He added that using August 1985 exchange rates, South Africa had lowered its foreign debt outstanding to \$21,4 billion at the end of June this year from \$23,7 billion at the end of August 1985.

Although South Africa had done well to repay debts during the past year, it had been hurt by the sharp appreciation of currencies such as the Deutsche mark and Swiss franc.

Since part of the foreign borrowings were denominated in

marks and Swiss francs, the actual debt calculated at current exchange rates had only fallen by \$500 million to \$23,2 billion, Dr Stals said.

But the rise in the gold price meant South Africa had a surplus of \$2,5 billion on the current account of the balance of payments and the inflow of money would be used to repay foreign debt, Dr Stals said.

Because of the debt moratorium imposed in September last year, the country has slipped to number 60 from 31 in country risk ratings of *Euromoney*, a banking magazine.

South Africa wanted to improve its credit rating, Dr Stals said, but it would take a long time before bankers began lending the country money again.

"We desperately need an inflow

of money, instead we are a capital exporter," said the Minister of Finance, Mr Barend du Plessis, at a Press conference here.

He said the annual real growth rate of South Africa averaged one percent in the past five years. Population growth was two percent a year, so ideally South Africa should grow at six percent, Mr du Plessis said.

Dr Stals denied reports South Africa had repaid gold swaps negotiated during the past few years.

Gold reserves were 3,67 million ounces against 12,15 million ounces in 1981, Dr Stals said. Gold reserves declined because the Reserve Bank deposited gold as collateral for loans from Swiss and German banks, Dr Stals said.

"We haven't repaid the swaps, nor have we sold the gold," Dr Stals said.

7/10/86  
7/10/86  
BUS DAY

# SA's creditors optimistic about future, says Barend

LONDON — South Africa's foreign creditors were positive about South Africa's economic potential, Minister of Finance Barend Du Plessis said here yesterday.



Du Plessis is in London after attending the annual meeting of the International Monetary Fund (IMF) and the World Bank in Washington.

He said that while bankers were concerned about the poor performance of the SA economy in the short-term, they were satisfied with the way the debt standstill was being handled.

Du Plessis said, however, it was impossible to speculate about when SA would be able to negotiate new loans on the international capital markets.

He said bankers were generally opposed to political disruptions but he had found them well-informed on economic and political developments in SA.

Reacting to the US Congress vote on sanctions, Du Plessis said SA was "as well-prepared as one could be".

"We have been coping with sanctions

JOHN BATTERSBY

for more than 20 years. We were well aware that there were further measures to come ... we were not caught un-awares," he said.

The extent to which the US sanctions would have a direct impact on the SA economy depended on the extent to which South Africa was unable to fill the trade vacuum left by the US moves.

"If it should happen that our economy is injured then it will have an impact on internal spending patterns including the socio-economic spending directed towards underprivileged communities and areas," he said.

He said SA did not wish to find itself in a siege economy.

However, its commitment to a market economy meant a certain measure of direct controls were necessary.

SA would prefer to be a net importer of capital rather than a net exporter as it was at present.

"We would like to resume normal funding as soon as possible but it is extremely difficult to speculate when this will happen," he said.

# Call for fair deal on debt payment

## Barend accuses IMF of victimisation

Dispatch Bureau

WASHINGTON — While it was a "basic principle of debt rescheduling arrangements that debtor countries should treat all creditors on a fair and equal basis", the principle did not always apply in reverse, the Minister of Finance, Mr Barend du Plessis, told the annual meeting of the International Monetary Fund (IMF).

South Africa had experienced "an abnormally large withdrawal of foreign capital and credits during the past two years", and by contrast with other developing nations facing debt problems, had "received no support whatsoever from foreign governments or from any specialised international lending institutions engaged in this field".

The minister contrasted the lack of support with South Africa's repayment record, observing "we continued punctually to meet all capital redemption and interest commitments on outstanding loans to such creditors from our own domestic resources" and that "more than 40 per cent of our outstanding foreign debt ... remained free of any repayment restrictions".

The lack of support from the IMF was especially disturbing because "compulsory repayments on outstanding drawings from the fund are absorbing a substantial part of the scarce domestic savings of the country at a time when there is a great need for increased domestic expenditure on social reform."

South Africa's "success" in reducing its foreign debt by \$2,3 billion to \$21,4 billion between August 1985 and the end of June "placed a heavy burden on the domestic adjustment process and could only be achieved through an unsustainably low level of domestic absorption".

South Africa was "coping with its difficulties the hard way — that is, by applying monetary and fiscal discipline ... by producing large surpluses on the current account of its balance of payments in adverse world conditions, and by transferring real resources to the rest of the world.

"The fact that the country has already repaid about three billion dollars of foreign debt since the end of 1984 bears testimony to the success of this approach. A substantial part of this net repayment accrued to the banks of the world.

"The total amount of the net redemption of debt by South Africa over this period equals the net increase in 1985 of the total amount of new loans extended by the international banks to all the developing nations of the world put together."

Instead of being victimised, South Africa, with its "special skills and techniques", should be seen as having an important role to play in its region's development.

15/10/86  
Government must curb demand

BURDA

# Imports will rise sharply — BER

74

IMPORTS will rise sharply in 1987, forcing government to slow domestic demand and increase dependence on gold production to maintain a balance of payments surplus, Stellenbosch University's Bureau of Economic Research (BER) says.

The BER said in its latest *Economic Prospects* that it expected merchandise imports to climb by 24,1% next year, after rising by 15,3% in 1986. At the same time, exports, limited by the imposition of foreign trade sanctions, would grow by just 1,3% in volume terms and 13,3% in value next year.

As a result, export gains will not offset the rise in imports, putting pressure on the capital surplus that SA must maintain in order to pay off its foreign debt.

BER said: "There can be no doubt that the position around SA's debt repayment — which means among other things the current account must be kept in surplus — is inhibiting growth prospects." It also predicted a "marginal further relaxation in monetary policy" in the next year.

## Economics Reporter

Still, the BER predicted that SA's current account surplus would jump to R6,4bn for 1986 and R6,2bn next year. The trade balance is forecast to rise to R16bn in 1987, largely on the strength of a 21,9% increase in net gold output.

The BER said: "It would appear as if gold — as has been the case so often in the past — will once again come to our rescue. Unfortunately, however, it will make the country more dependent on gold revenue."

At the same time, slightly higher demand for goods should encourage manufacturers and retailers to start rebuilding inventory stocks in 1987, pushing real gross domestic expenditure up by 4,4% from 1% this year.

But the sharp upturn in imports will dampen gross domestic product, forecast to grow 3,3% in real terms next year.

The BER said: "The outlook for real private consumption expenditure and real fixed investment is not promising."

Total fixed investment, including public sector expenditures, was expected to decline by 10,6% this year.

# Trade balance in good surplus 79

TRADE figures for the nine months to September give promise that this year should produce another healthy surplus on the current account of the Balance of Payments.

Total exports for the three quarters were R30,61bn, against imports of

R20,81bn, resulting in a surplus of R9,8bn, compared with a surplus of R8,34bn for the same period of last year.

Figures for last month, released by

● To Page 2

28/10/82  
BUSIDAY

Customs and Excise yesterday, show exports rose to R4bn from R3,67bn in August, while imports fell to R2,46bn from R2,55bn.

The figures suggest the surplus on current account could be of the order of R4,5bn.

The repayment of foreign debts outside the standstill net and the other outgoings stemming from initial payments on debts inside the net have, until recently, resulted in a large outflow of funds through the capital account.

The last statement from the Reserve

74 75 76 77 78 79  
● From Page 1

Bank suggests the loss of funds through the drain on capital account has been slowed down and that the year will close with a strengthening of the Reserve Bank's foreign exchange reserves.

Governor of the Reserve Bank Gerhard de Kock said recently the Bank might use some of its foreign currency holdings — now believed to exceed R2,2bn — to redeem some of the gold swaps made to raise currency to pay foreign debts.

## Import indications

Figures released this week by Customs and Excise seem to contradict the view that SA is experiencing a mild economic upturn. They show the value of imports as declining since July: imports in September were R2,4 billion compared to R2,6 billion in August and R2,9 billion in July.

But on a seasonally adjusted basis imports are rising, says an economist. "Unadjusted numbers produce an erratic pattern. Seasonal adjustments are vital to inter-temporal

comparisons. On this basis, imports touched bottom in February, after a sharp drop from January. A three-month moving average reached a low point in March and since then has been rising steadily.

"In fact, in the third quarter imports have gone up substantially from the level of the second quarter. In real terms, the increase is even higher, because of the appreciation of the rand in September."

### Unadjusted figures

While unadjusted figures are irrelevant when considering broader economic trends, the underlying propensity to import may still not be increasing. Reserve Bank Governor Gerhard de Kock has noted that the increase in value of imports in the third quarter of 1986 was "partly in response to fears of sharpened international trade sanctions."

So — adjusted or unadjusted — import figures are misleading in isolation.

Price movements are another distorting factor. Yet another is whether the figures reflect a flow of goods — the real value — or payments made for those goods. The two do not necessarily coincide.

On the export side, September showed R4 billion earnings, to bring the accrual for the first nine months of the year to R30,6 billion. The trade surplus for September came to R1,55 billion, and for the nine-month-period R9,8 billion. This compares to a surplus of R537m for September 1985, which brought the overall nine-month surplus to R8,3 billion for 1985.

# Trade balance improves by more than R1 billion

South Africa recorded a favourable trade balance of R9,8 billion at the end of September, compared with R8,3 billion at the same time last year.

Figures released by the Commissioner for Customs and Excise in Pretoria show that trade in September netted South Africa R1,55 billion, R425,6 million more than the R1,12 billion recorded for August.

September exports were R334 million up on August's R4 billion bringing the exports total for the first nine months of this year to R30,6 billion (R25,4 billion).

Imports decreased by R91,6 million from the August figure to R2,5 billion for September, bringing the total for January to end-September to R20,8 billion (R17,1 billion).

The statement for September reincorporated a breakdown of world trading zones and materials, after these details had been omitted from the statement for August.

Customs Commissioner Mr Daan Colesky said that these breakdowns had been reintroduced because it had been "decided that the report can continue in this form".

It is thought that the authorities believe that since the breakdown does not list trade with individual countries but only with continents, advocates of sanctions will be un-

able to glean sufficient information from the report to jeopardise the country's interests.

The report shows that Europe remained South Africa's largest trading partner, with exports from SA for the first nine months of this year totalling R7,8 billion (R6,5 billion), while imports to SA totalled R9,1 billion (R8 billion).

Second was Asia, with exports at R4,7 billion (R3,7 billion) and imports at R3,6 billion (R2,4 billion).

America was third, with exports totalling R3 billion (R2,4 billion) and imports R2,8 billion (R2,7 billion).

Fourth was Africa, with exports at R1,3 billion (R1,2 billion) and imports of R425,3 million (R322,7 million).

Oceanian exports totalled R232,8 million (R185,2 million) and imports R219,2 million (R217,4 million).

Other unclassified goods and balance of payments adjustments totalled R13,5 billion (R11,5 billion) for exports and R4,6 billion (R3,4 billion) for imports.

Ships and aircraft stores exported amounted to R49,8 million (R39,5 million).

The figures have been adjusted to bring them into line with the requirements for the compilation for the balance of payments. — Sapa.

Banks anticipate US ban

RAW DAY  
31/10/76  
74

# SA ready to move dollars to Europe

THE SA Reserve Bank is set to switch its US dollar accounts to Europe should it be barred by recent US legislation from holding balances with American banks.

And some large SA commercial banks have already opened accounts in Europe in case they are forced at a later stage to close their US accounts.

Sources say European banks have been offering their services to the SA Reserve Bank and Johannesburg commercial banks.

"They have indicated they would welcome the business and could easily do SA's dollar transactions in the US through Europe," says a source.

SA's public corporations have already been switching their accounts out of New York to European banks.

In terms of recent anti-apartheid legislation passed by Congress, US deposit-receiving institutions may not receive or hold deposits for the SA government, any of its agencies or organisations it controls, except for diplomatic purposes.

US banks have 45 days from October 2,

GERALD PROSALENDIS  
Economics Editor

the day the Act took effect, to close these accounts.

So far the ban does not affect SA commercial banks that hold balances with US banks in New York.

Although the US Treasury has not made a final decision, Pretoria expects clearing bank facilities may be denied to the Reserve Bank.

The bank has taken legal opinion on the scope of the ban, and has made preparations to shift its accounts if forced to do so. It has also taken up the matter directly with the US Federal Reserve.

There are two reasons why the Reserve Bank may be excluded from the ban. First, the bank is not owned by government, nor is it a government agency. And second, the US legislation defines US deposit-taking institutions as those institutions covered by Federal Deposit Insurance. The Federal Reserve, where the SA Reserve Bank holds some

● To Page 2 ➡

## SA set to move dollar accounts

of its reserves, is not covered by this definition.

Commercial banks are already probing the possibilities in case they are denied banking facilities at a later date.

"We know this possibility is hanging over our heads and will not be caught unawares," says a banker.

"Various measures have been taken to ensure that our balances in New York are not frozen," says another.

One way of handling the situation, should it arise, would be for SA banks to

74 ← ● From Page 1

deposit dollars in the Zurich account of a Swiss bank, which would, in turn, place dollars with another bank in New York. The US authorities would be unable to seize the account because it would be held legitimately by a foreign bank.

However, this method would be less convenient because the systems for electronic transfer of funds are in place in New York.

"But everything is possible," says a banker.

Th  
lei  
fo  
hi  
en



## Rules of the game

74

SA's exchange control regime, oddly enough, traces its legal parentage back to the UK exchange controls erected around the old sterling area at the outbreak of World War II. Subsequently SA constructed its own inner fence of exchange controls around the Rand Currency Area, which has by now shrunk to SA itself, Namibia, Swaziland and Lesotho.

Legally, the system comprises a set of rules and regulations framed under the governing Act: the Currency and Exchanges Act No 9 of 1933.

### Special department

Effectively, the minister of finance has delegated administration of the system to the Reserve Bank, which has a special department to handle exchange controls. The role of the Bank is decisive in running the system because the Regulations themselves amount to blanket prohibitions against dealings in foreign currencies.

Its rulings comprise a number of exemptions from the generalised prohibition and provide the actual working arrangements for residents and non-residents to have access to foreign currency. Generalised rulings provide for access to foreign currency to pay for imports, remit interest and dividends to non-residents, provide settling-in allowances to emigrants, and so on.

The rulings also provide working arrangements for structures like the two-tier currency system of commercial rand ("normal banking channels") and the financial rand. They also contain provisions under which exporters have to hand over foreign currency earnings and other governing topics like forward cover.

The rulings fall into two broad groupings — those of general application and specific decisions allowing, for example, a local company to export capital against the general tenor of the rulings to set up an overseas operation.

### Confidential book

But whether the rulings are general or specific, they are contained in a confidential book to which only the Reserve Bank itself and the exchange control departments of commercial banks have access. Most everyday procedures — like paying foreign currency to importers or non-resident shareholders — have been delegated by the Reserve Bank to authorised dealers. But any specific application to be granted foreign currency over and above the general provisions has to go to the Reserve Bank itself.

These arrangements are characterised both by near-total secrecy and arbitrariness. The Reserve Bank has unfettered discretion to grant exemptions. Neither characteristic is conducive to public confidence or economic efficiency as the allocation of foreign currency by officials on a case-by-case basis cannot be as efficient as a market mechanism.

Some countries have operated versions of exchange controls based on pools of foreign currency, the exchange rate for which was governed by supply and demand, just as in the case of the financial rand.

Such a system might operate as follows: every year (or every three or six months) the Reserve Bank would establish an allocation of dollars for foreign investment and similar purposes over and above the regular right of access by residents to foreign currency. The right of access to pay for imports, generally allowable travel allowances and so forth, would stand.

The quota of extra dollars could be offered periodically on tender, or a market established in which "investment dollars" could be traded between resident companies and even individuals. The quota would be set from time to time according to scarcity or plenitude of foreign currency. The profitability of a possible overseas venture would allocate foreign currency resources between possible purchasers, with the most profitable ventures able to bid the most. ■

7/11/86 BUSIDM (74)

# Substantial rise in reserves

SA'S GOLD and foreign exchange reserves rose by R2,4bn in rand terms to R5,59bn at the end of October from R3,23bn at the end of April.

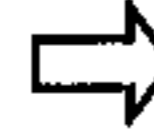
In September alone, they rose by R550m. And, despite a further repayment of R240m to the IMF today (the country makes quarterly repayments on its loan), the reserves are continuing to

GERALD PROSALENDIS  
Economics Editor

rise.

It is understood the reserves have also risen substantially in dollar terms, which means the increase is not "artifi-

● To Page 2



## Rise in reserves linked to gold swap policy

cial" and due merely to a depreciation in the rand.

SA's gold holdings have risen to R3,79bn (4,54m oz) from R2,6bn (4m oz) in April. They rose by about 623 000oz in October alone. The gold stocks were valued lower at the end of October at R835/oz, down from R858/oz at the end of September.

More important, other assets — mainly holdings of foreign exchange — have risen threefold to R1,79bn from R528m at the end of April.

Reserve Bank Governor Gerhard de

74 ← ● From Page 1

Kock said the rise in gold holdings was partly a result of Reserve Bank policy of not renewing all its gold swaps on maturity, but taking back some of the gold into its reserves.

Some of the swaps were negotiated in March and April this year, before the initial \$400m repayment on foreign debt caught inside the standstill net. SA's gold holdings dropped to 4,08m oz at the end of April from 4,59m at the end of March.

# SA debt swapped for Mexican debt

BUSINESS  
20/11/74

ALAN SENDZUL

SA DEBT is being swapped for Mexican debt on European financial markets by American bankers sensitive to anti-SA political pressures in the US.

To European bankers, SA loans are regarded as performing: interest on debt caught in the standstill net is serviced regularly, at a generous rate. But Mexico, which recently needed a \$5.75bn IMF injection, is seen as more politically acceptable.

Local bankers estimate the swap market is worth several hundred million dollars. But a precise valuation is impossible because deals done by London merchant bankers are private and rarely disclosed.

Finance director-general Chris Stals said he was aware an informal market in international debt paper was operat-

ing in London.

He said: "We have been offered SA paper by certain London merchant banks at an extremely attractive discount to redemption value but our policy is not to become involved."

Participation in the informal market could jeopardise SA's return to the world capital markets. As well, it was not good for SA's creditworthiness to be seen to be formally rescheduling or converting debt.

Stals said: "SA is also not prepared to use up its foreign exchange by retiring existing debt prematurely from the market."

However, foreign bankers say the SA authorities are restricted by the interim debt arrangement from buying back their own paper from the Americans before maturity.

This would be viewed as a breach of the agreement's terms specifying "fair and equal treatment to all creditor banks".

The attraction to deal in low quality debt paper is strong. The discounts are large and the returns are potentially high. Swap transactions offer US bankers a short-cut towards reducing their highly politicised SA exposure to which European bankers are relatively immune.

Standard Bank's international division GM Manfred Schutte said he was not aware of any SA bank having been active in the London paper-swapping market. However, because of the greater probability for repayment, debt which fell outside the net would trade at a smaller discount than debt in the net.

Out of a total foreign indebtedness of \$23bn, SA financial institutions owe US banks about \$7bn, most of it due by private sector borrowers. Public corporations, such as Escom, Sats and Iscor, have little exposure in the US.

## COMPANIES



EUREKA, EUREFIN AND Computer-matic — the three listed companies in the Ronnie Price group — have all exceeded their forecasts and produced bumper interim earnings and dividends.

□ □ □

PALABORA Mining (Palamin) has declared a well-received third interim dividend for the year to December of 80c, compared with 50c a year ago.

This brings the total of three interims to 160c compared with 95c for the first three interims a year ago, when the fourth or final dividend was 85c.



● See Page 12

# SA's trade surplus widens

SA's trade surplus widened in October to R2,28bn from R1,55bn in September, mainly on the back of increased exports, according to trade figures released yesterday by the Department of Customs and Excise.

The surplus in October last year was R1,96bn.

The trade surplus for the first 10 months of the year now stands at R12 077,8m, compared with R11 926,6bn for the same period last year.

Imports for the year to end-October

28/11/86  
BUSOM  
74

GERALD PROSALENDIS

totalled R23 039,4m, compared with R19 149,2m for the same period last year and exports R35 117,2 (R29 597,1m).

Imports in October dropped back to R2,23bn from R2,46bn in September. Imports in October last year stood at R2,14bn.

Exports in October rose to R4,5bn from R4,0bn in September and R4,1bn in the same month last year.

## SA trade balance hits R12-bn for first 10 months

South Africa recorded a favourable trade balance of R12 077,8 million for the first 10 months of this year.

Statistics show exports for the period totalled R35 117,2 million (compared with R29 597,1 million for the same period last year) while the total for imports was R23 039,4 million (R19 149,2 million).

The import and export figures have been adjusted to bring them into line with the requirements for the compilation of the balance of payments.

Europe remained South Africa's largest trading partner.

Exports to Europe totalled R8 717,7 million (R7 514,3 million) and imports stood at R10 206,8 million (R9 035,6 million).

Asia remained South Africa's second largest export trading partner at R5 339,5 million (R4 219,3 million).

These were followed by America, at R3 722,8 million (R2 802,7 million), Africa, with R1 508,3 million (R1 309,3 million), and Oceania, with a total of R276,7 million (R219,9 million).

After Europe, Asian imports rated second with a total of R4 129,8 million (R2 839,2 million), followed by America, with a total of R3 176,8 million (R3 052,9 million), Africa, with R480,7 million (R374,3 million), and Oceania, with R246,1 million (R243,2 million).

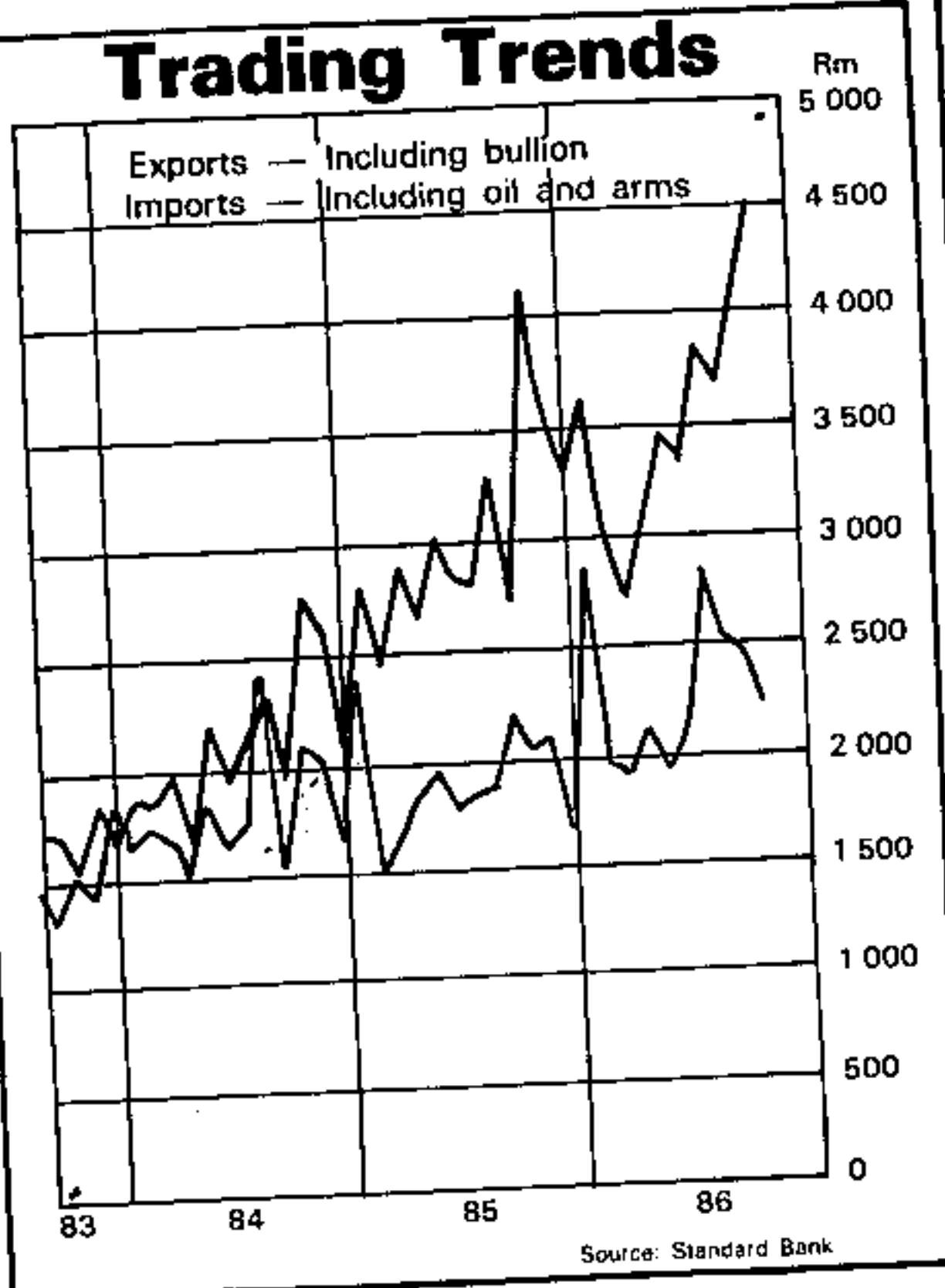
Other unclassified goods and balance of payments adjustments totalled R15 496,8 million for exports (R13 486 million) and R4 799,2 million (R3604 million) for imports.

— Sapa.

officially expected to show a surplus of around R6 billion for 1986 and much the same in 1987.

Meanwhile, concern that these figures at least would cease to be published, as part of the sanctions silence, appear to be unfounded. As the Commissioner for C & E, Daan Colesky, assures, monthly trade figures "will still be published in the same detail and format."

### Trading Trends



cate that the much talked about upturn is stuttering. "A major part of imports is capital equipment. That imports have been declining since the end of July shows the domestic economy is still weak," says an economist.

The high correlation between real GDE and imports was seen in the 26% GDE increase in the third quarter, against the 32% increase in imports in rand terms. Judging from October import figures, among other economic statistics, this trend in GDE is unlikely to be maintained and was, in any event, largely a technical consequence of the change in inventories.

The expectation of a rise in real imports is cited by Assocom as one of five "positive developments" that pushed its Business Confidence Index up by 0,3 points to 90,2 (1983=100) in November. The others were the decline in both the inflation and BA rates, plus increases in the rand, real retail sales and motor sales. These were offset by the small rise in registered unemployment, and drops in the JSE index, the dollar/gold price, and the number of new companies registered.

Looking at the trade figures on a quarterly basis, imports increased by 22,8% in the first quarter compared to 1985. The rate slowed to 9,7% in the second quarter, only to rise to a sharp 32,4% in the third quarter. Then, for October alone, the increase slumped back to 4,2%. The pattern is not as patchy for exports, which increased by 14% in the first quarter, 18% in the second, and 29% in the third.

To end-October, exports totalled R35 billion (R29,6 billion in the same period in 1985) and imports R23 billion (R19 billion). So the surplus for the first 10 months of R12,1 billion is only slightly up on 1985's R12 billion.

Coming on top of the rise in the Bank's reserves, the trade figures are, nevertheless, encouraging for the current account (broadly, trade plus services payments), which is

FIN MAIL 5/12/85

TRADE BALANCE

74

### The gap widens

A 10% rise in exports and 12% drop in imports (compared to September) saw the trade surplus widen further in October to R2,3 billion to total R12,1 billion for the year so far. However, such "promising" figures are unlikely to provide any clear evidence of the impact of sanctions.

Customs and Excise (C & E) figures show the October surplus reflected exports worth R4,5 billion and imports of R2,2 billion. This compares to a R1,55 billion surplus in September (exports R4,1 billion, imports R2,5 billion).

Imports have declined every month since July's big R2,85 billion. This peak, it is thought, largely reflected strategic imports, which also had a reduced impact on the following months. Economists explain that import bills during the third quarter were still relatively high, possibly reflecting a scramble to beat sanction deadlines.

Imports tend to be sensitive to local economic conditions, and the decline could indi-

# Weak exports blamed for <sup>74</sup> slow growth

ALAN SENDZUL 19/12/86

RISING imports and lower exports from tighter sanctions and sluggish demand by trading partners are restricting growth performance, says Sanlam in its December *Economic Survey*.

But a "perceptible improvement in sentiment with regard to immediate growth prospects" seems to be taking shaping.

The report cautions that the high import component in consumption, and capital spending as well as ever-spiralling replacement costs, are likely to squeeze the surplus on the current account.

It predicts an inflation rate of 17% for next year and an average of 18.5% for this year. Short-term interest rates should continue on a softer trend but harden gradually from the second half of 1987.

"Long-term rates should fall because of the decline in short rates, a slight oversupply of lenders and lower immediate inflationary prospects.

"Higher projected public sector borrowings during the second half of 1987, a pick-up in demand by the private sector for investment funds as well as a probable rebound in inflation could spur long-term rates to upwards," it says.

# SA pays - and pays - but debt shrinks slowly

2/12/86  
SUNTIMES  
74

**SOUTH Africa's obligation to repay foreign debt remains a millstone around the economy's neck — and could impede growth and employment prospects for years to come.**

In spite of the fact that SA has repaid \$3-billion of debt in only two years, economists are worried that continued erosion of the dollar against third currencies will mean that overall foreign debt — denominated in dollars — will not be reduced much.

The Reserve Bank will not disclose what part of the debt is in third currencies — Swiss francs, mark, sterling, yen — as opposed to dollars, but the amount is thought to be huge.

**By David Southey**

Nor is it known to what extent, if any, the Reserve Bank covers this part of debt against exchange-rate fluctuations, whether by way of buying currency options or whatever in the international markets.

What is worrying some economists, however, is that in spite of SA's repayment of well over \$1-billion between September last year and the end of June this year, the total *estimated* foreign debt dropped by only about \$500-million — from \$23,7-billion to \$23,2-billion.

Because in the international markets SA operates essentially as a dollar-linked economy, with exports and foreign debt denominated in dol-

lars, it is critical for the economy to build up its dollar reserves.

In the past six months or so, the net inflow of dollars has been much larger than the outflow. This is evident in the large increase in the gold and foreign-currency reserves which has enabled the Reserve Bank to redeem some of its gold swaps as indicated by the jump in the value of the bank's gold holdings. It has also been able to hold the rand steady at about \$0,45 in spite of volatility in the gold price.

Although the rand is widely expected to hold roughly its current level through the first half of 1987, economists are concerned that a smaller current account surplus under the weight of rising imports could reduce the Reserve Bank's

ability to support the currency in the latter half of the year.

Speculation is that the bank will resist demands by foreign creditors to up its repayments when the next round of negotiations takes place in March or April. Too much pressure on SA could force it to bring more foreign debt into the standstill net.

Economist Mike Brown of stockbrokers Davis, Borkum, Hare, says the \$13-billion of debt that has matured is made up of \$8,5-billion in the net. The remaining \$4,5-billion is made up of Reserve Bank and other public-sector debt that has been rolled over and trade credits outstanding to the private sector — all of which are vulnerable to call-up by foreign creditors.

Next year, \$2,26-billion of debt matures, of which \$1,06-billion falls outside the standstill net.

Recently Reserve Bank Governor Gerhard de Kock suggested that repayments outside the net in 1987 could be R2,9-billion. Together with repayments of trade credits and taking the leads and lags effect into account, Mr Brown estimates that total repayments inside and outside the net could amount to about R6-billion in 1987. He says: "This could severely limit SA's growth potential in 1987."



# 'Favourable' SA trade recorded

*CRK temp 24/12/86*  
*74*

PRETORIA. — SA recorded a favourable trade balance of R13 507,3m for the first 11 months of the year, according to figures released yesterday.

The figure for the corresponding period last year was R12 021,3m.

Preliminary statistics from the Department of Customs and Excise show imports from January to November this year totalled R25 001,3m (compared to R21 028,1m for the same period last year) while exports totalled R38 508,6m (R33 049m).

The import and export figures have been adjusted largely to bring them into line with the requirements for compilation of the balance of payments.

According to figures for January to October, the country recorded a favourable trade balance of R12 077,8m, showing the increase for November to be R1 429,5m.

The January-November figures' world trading zones show that Europe remained SA's largest trading partner. Exports to Europe totalled R9 473,8m (R8 425,4m) and imports stood at R11 206,5m (R10 013,9m).

Asia remained the Republic's second-largest export earner with a total of R5 906,4m (R4 734m).

It was followed by America, with R4 046,1m (R3 225,8m), Africa, with R1 638,4m (R1 450,6m) and Oceania, with R295,7m (R244,2m).

After Europe, exports from Asia to SA rated second with a total of R4 521,7m (R3 176,3m), followed by America, with R3 480,1m (R3 592,5m), Africa with R524,5m (R421,9m) and Oceania, with R271,4m (R260,4m).

Other unclassified goods and balance of payments adjustments totalled R17 087,7m (R14 919,3m) for exports and R4 997,1m (R3 563,1m) for imports. — Sapa

BALANCE OF

PAYMENTS

1987

---

# Breaking the myths

74

Forget everything you've ever been told about what Pretoria must do to pay off its US\$11 billion foreign debt.

Instead, consider this debt repayment plan offered by Wits business economists Richard Grant and Frank Vorhies:

Drastically cut taxes and government spending. "Decrease both, but decrease spending faster," says Grant. "That would reduce the burden on taxpayers, channel resources into the more productive private sector, and shift the brainpower of the public sector into the private sector — all of which would boost productivity and increase the tax base, while lowering the demand for taxes;"

Stop inflating the currency. Easy money distorts interest rates and investment, and debases the rand. "The Reserve Bank should focus on a narrow, simple monetary aggregate and, if they choose a positive growth

**The "problem" of SA's foreign debt repayments is ultimately one of the mismanagement of the rand. It should also not be forgotten that Pretoria created the "crisis" in the first place. These and other myths about foreign debt need to be dispelled and replaced by rational, free-market policymaking.**

rate, keep it very small and constant;"

Strike down regulations. An economy bogged down with licensing requirements, building standards, health and zoning regulations will never function efficiently and productively. "Setting free millions of workers and entrepreneurs would bring about an explosion of wealth," says Vorhies; and

Sell off State assets. By selling its trans-

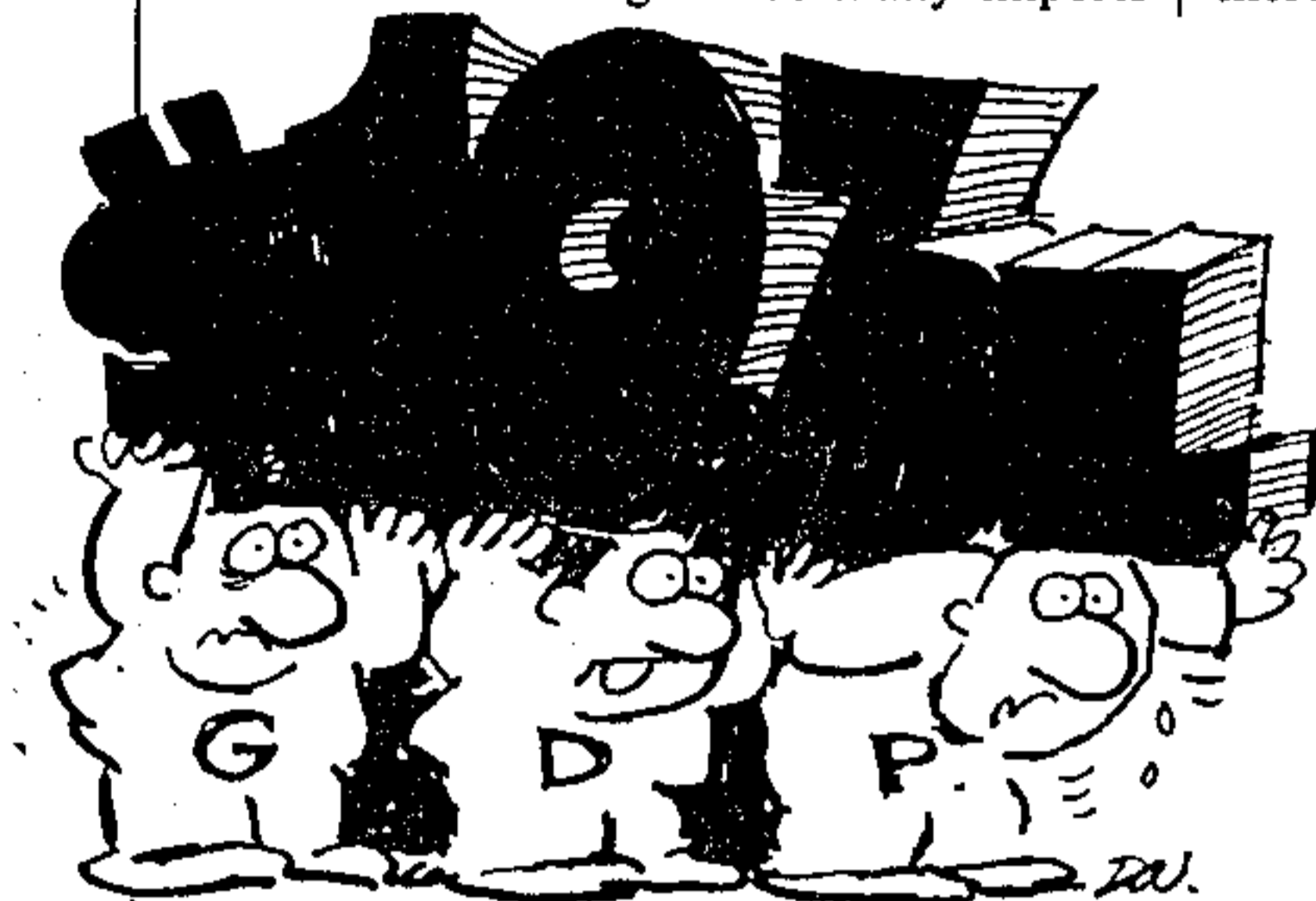
port, electricity, steelmaking, and post and telecommunications operations to private businesses, the government could raise billions of rands without raising taxes — and it would improve the efficiency of the economy by putting more of it in the hands of profit-seeking businessmen. "Poorly run corporations sell off their assets if they cannot pay off their debts," says Vorhies. "Poorly run governments should do likewise."

Privatisation, deregulation, and sane fiscal and monetary policies: what kind of plan is this for paying off Pretoria's foreign debt? Where's the mention of exports, imports, foreign exchange and balance of payment constraints? It could be that all the things we've been told are crucial to the debt debate, are not necessarily so.

The prescription outlined above is premised on the sensible notion that the more wealth the South African economy is al-

lowed to produce, the less of a burden the government's debt will be. Grant and Vorhies logically conclude that Pretoria will cause more hardship paying off its \$10,7 billion foreign debt in today's \$70 billion economy than it would if the economy were allowed to double or treble in size.

Contrast that to the current wisdom, which holds that Pretoria must restrict imports — by limiting growth, if necessary — to pay off its debt. This comment from a bank economist is typical: "If we allow the economy to race at too high a growth rate, we would be sucking in too many imports



**Only economic growth can ease ...**

and threatening the current account surplus and our ability to pay off debt. Pretoria may have to move interest rates up to suppress domestic demand."

Says another: "Because we have payment obligations for foreign debt, we have to run a trade surplus. Now the surplus is very comfortable. But unless the gold price increases and comes to the rescue, we might have to cool down the economy to dampen imports."

An economic forecaster argues: "Pretoria will have to allow interest rates to harden to slow growth, apply selective import disincentives in the form of tariffs and quotas, and exert downward pressure on the exchange rate."

They argue that it will be impossible for Pretoria to pay off its debt if the economy grows too fast. There's something wrong with this logic. They are saying that a person will have trouble paying off his debt if he becomes too wealthy, too soon.

They have fallen for two misconceptions:  
 That there is something special about Pretoria's foreign debt because it must be paid off in dollars or other forex; and  
 SA suffers from a "balance of payments constraint" that requires it to export more than it imports to pay off its debt.

The first myth holds that Pretoria must go out of its way to raise dollars. Yet Pretoria's foreign debt is basically no different from its domestic debt. The government must drain rands from the economy — most obviously through taxes — to pay off creditors. If the creditors happen to be overseas, it must then convert the rands into dollars, pounds, yen, or whatever. Pretoria should be worrying about raising rands, not raising dollars.

Grant concurs: "We have this illusion that

a special effort must be made to obtain dollars. But the rand can always be traded for dollars at some price. Any country that has a shortage of foreign exchange has a currency that is being mismanaged."

Fears that the rand would plummet against the dollar if the forex market were not controlled by Pretoria are unfounded. Indeed, it is Pretoria that causes the rand to plummet by inflating the currency.

Equally unfounded is the fear that the supply of forex would dry up when SA's imports exceed its exports. The US runs merchandise trade deficits with Japan, Germany and Canada, but there are no shortages of yen, marks or Canadian dollars in the US. Americans can always buy foreign exchange no matter what the US trade figures are.

This brings us to the second myth: the so-called balance of payments constraint, also known as the current account constraint. Economists are generally predicting that SA's current account surplus — that is, the trade surplus — will fall from an expected R6 billion this year to between R2 billion and R4,5 billion in 1988. Already this has them in an unnecessary panic.

They persist in misunderstanding the connection between the foreign debt and the trade surplus. They argue that SA must run a surplus to pay off its foreign debt. But they have it backwards.

SA will run a trade surplus because it pays off its foreign debt. That is simply what the balance of payments formula tells us. SA's exports will equal the sum of its imports and the amount of debt it pays off.

Pretoria transfers wealth — that is, purchasing power — from South African taxpayers to overseas creditors. That reduces the purchasing power of South African citizens — including their ability to buy imports — and the prices of goods in the domestic market fall to cope with the falling demand. Foreigners, on the other hand, are faced with greater purchasing power and lower prices of South African goods, so SA's exports rise.

This is *not* the same as saying that SA must run a surplus to pay off its debt. That's confusing a cause with an effect. "The idea that Pretoria must maintain a surplus to pay off its debt by holding down imports is nonsense," says Grant. "By stemming the flow of imports into SA, Pretoria will in no way help itself pay off its foreign debt. They have it backwards again. As the debt is paid off, demand for imports will be dampened."

Grant, then, dismisses those economists who worry that a flood of imports will threaten debt repayment — especially ones who say Pretoria must not allow the economy to "race at too high a growth rate."

There is a final point to be made whenever Pretoria raises the issue of paying off its

debt: the crisis is of its own making. Foreign bankers are only demanding to be repaid what Pretoria was lent in the first place — although, given banking practice, in a precipitate manner.

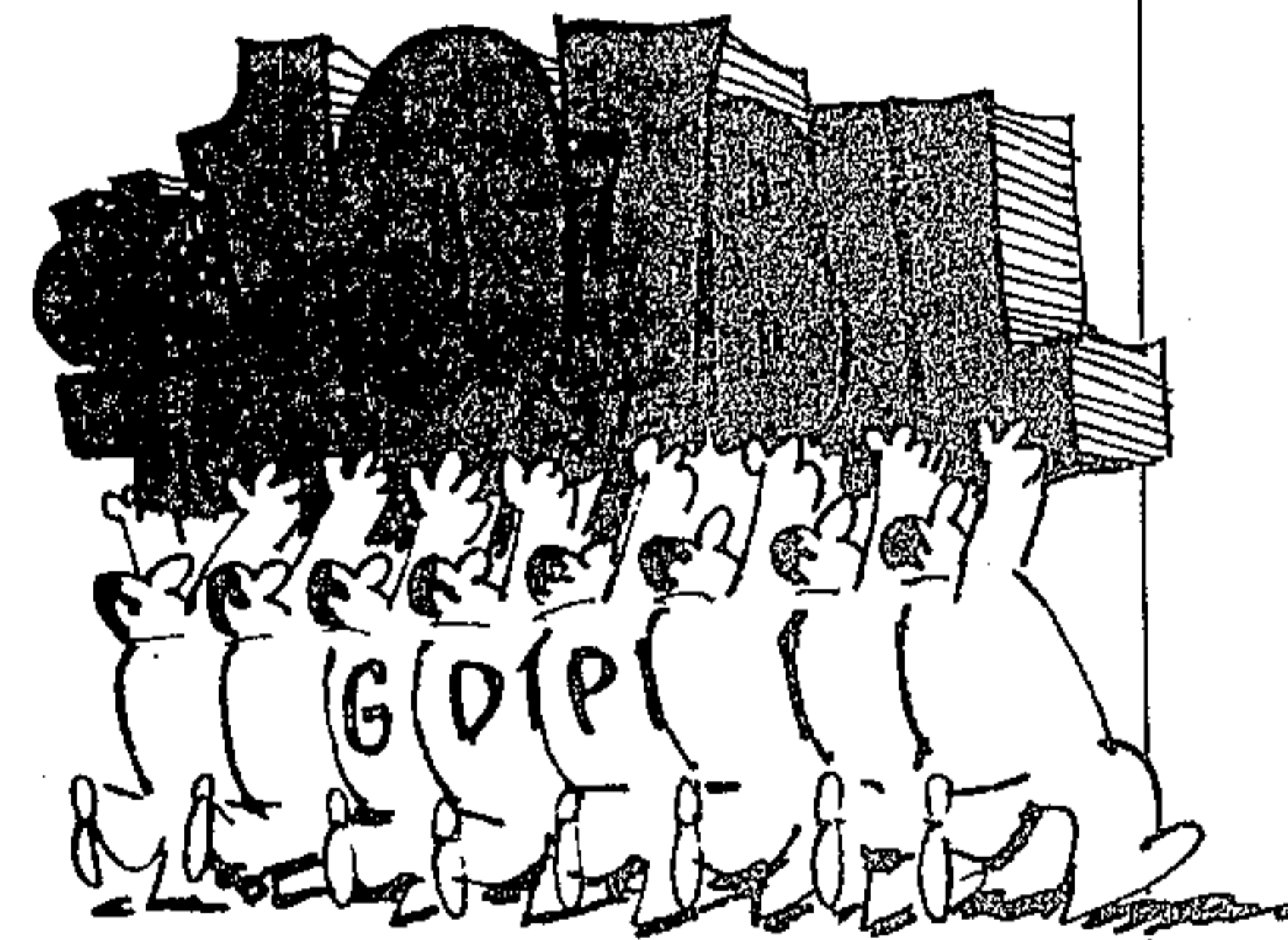
A logical economic case can be made that government's ability to borrow should be substantially circumscribed — even abolished, some would argue.

By borrowing money, the government shifts the cost of its largesse to future generations. To keep Pretoria from wasting money, taxpayers should demand that it only buy what it can pay for today. Allowing the government to borrow gives it the illusion of wealth and encourages it to spend more.

The government will resist a move to prevent it from borrowing, arguing that it uses the loans to pay for productive things like power plants and water projects. Don't be fooled.

All government revenue — taxes, fees, borrowed money — goes into a giant pot. Pretoria can say that it is borrowing to build a power plant. But it would be just as reasonable to argue that it uses taxes to build power plants and borrows money to enforce its day-to-day laws that wrap the economy in red tape. Certainly the weight of government spending in recent years has been to finance consumption rather than capital projects.

Borrowing lets Pretoria increase the size of its spending pot without incurring the wrath of today's taxpayers — and it wouldn't need loans if it didn't squander so much money on enforcing a battery of anti-capitalist laws that destroy initiative, dignity and wealth.



**... the burden of Pretoria's foreign debt**

There will be those who argue that economic views such as this do not take account of realities here. They mean by this apartheid. And they are absolutely correct. But the fastest way to get rid of apartheid — which is government's declared aim — is to implement radical free enterprise economic policies.

Even if the economic views expressed here are unlikely to be grasped by Pretoria as its salvation, their expression is important. Because too often economic reality in this country is obscured by mistaken social endeavours and special interests.

## INVISIBLE TRADE

### Undermining growth

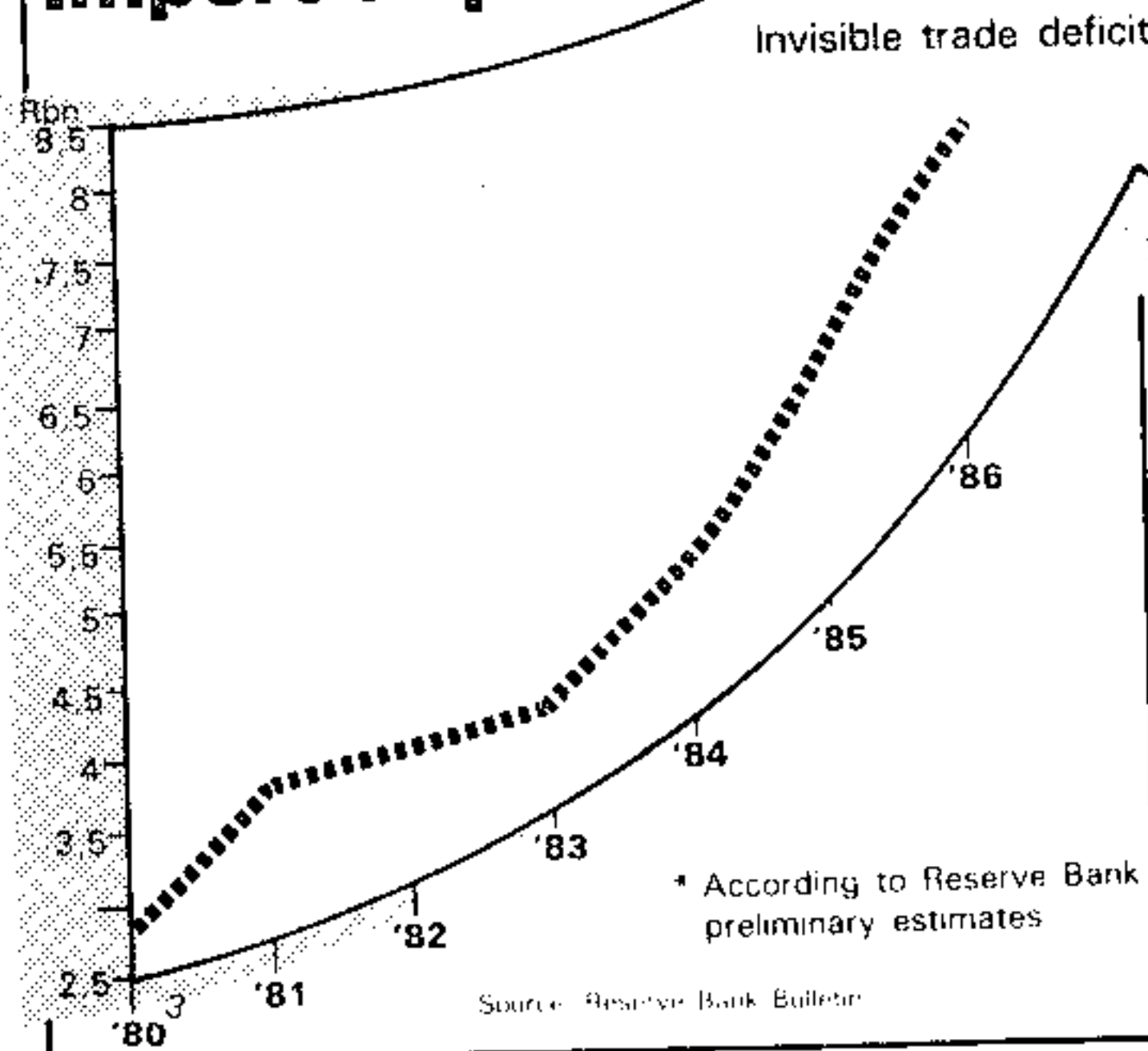
Though SA managed a record trade surplus of R14,9 billion for 1986, a rising deficit on invisibles continues to undermine the benefits. Invisibles consist of service payments and receipts such as interest, dividends, transport, travel and government.

The balance on invisible items and balance of trade make up the current account of the balance of payments (BoP). It is not unusual in SA for surpluses in the balance of trade to be eliminated by invisible deficits.

"This is not unusual for a developing country which is a net capital importer," explains Rudolf Gouws of Rand Merchant Bank.

Interest on direct and indirect investment is the single largest invisible outflow and has exhibited the highest growth since 1980, from R735m to a massive R4,5 billion in

### Import impact



1985. This indicates that until the debt standstill SA was attracting ever-increasing short-term foreign capital.

Another drain is foreign workers repatriating wages. In 1985 they took about R2,6 billion out, the second largest invisible import.

Dividends sent overseas, surprisingly, fell slightly from R1,2 billion in 1980 to R1,1 billion in 1985, reflecting a decline in company results after 1983.

The decline in the rand made repatriation of dividends to foreign parents unattractive. In many cases profits were re-invested locally. However, this item subsequently seems to have increased again (see "Flight of dividends?").

One of the largest invisible items in 1985 was freight and merchandise insurance, up from R873m in 1980 to R2 billion in a period when import volumes declined. But merchandise insurance is usually calculated on value. High inflation, a weakening rand and increased freight and insurance rates all contributed to the increase.

These four categories — interest, dividends, insurance and foreign workers' payments — made up 60% of total invisible imports in 1985. Increases in these areas were also largely responsible for the invisible deficit almost trebling from R2,9 billion in 1980 to R8,4 billion in 1985.

If the invisible deficit continues to grow at this rate it will have serious consequences for the current account,

and economic growth. However, Sankorp's Peet Strydom believes the rate of increase has already started to slow down and the deficit will actually fall this year.

"Foreign debt repayments should place less pressure on the interest bill. Local management buyouts of foreign companies will reduce the overseas capital to be serviced."

Gouws agrees that the rate of deficit increase should slow down, but does not see a decrease for some time. But is a reduced deficit necessarily a good thing?

Strydom believes not. "On paper, a reduced deficit will ease the pressure on current account. But a smaller deficit will indicate that repayments of short-term foreign debt are not being compensated for by inflows

of long-term capital. This will reduce growth potential and place greater pressure on exports to provide the necessary income." ■

...have been... yesterday: e NP and nning the party in

er, Arch- urley has Paul II to substantial urch's role

ollowed a press to the p's Confer- 3 represen- rn Africa, Mees, who should stay

s in Nami- reveal the an soldiers 'n southern ay, despite nek that 48 he clashes.

ikhail Gor- shed an as- r Kremlin hnev's rule, rked by de-

year-end with the aid of a major SA merchant bank.

BRITAIN'S state-owned British Airways will be sold to the public next month for £900m.

Hill Samuel, the merchant bank handling the stock market flotation, said yesterday 720,2-million ordinary shares would be offered at 125p each — to be paid in two instalments of 65p on application and 60p by August 18.

The sale is the latest phase in the government's denationalisation programme which has already seen state assets such as British Telecom and British Gas sold to the public.

FINANSBANK'S takeover by Nedbank Group was sanctioned in the Rand Supreme Court yesterday.

The court granted an order last month that sanctioned the convening of a meeting of ordinary Finansbank members to consider the takeover scheme.

The scheme was approved by 98,25% of the votes.

## SHARESPOT

REMGRO firmed 100c to a new peak of R86 on Diagonal Street yesterday, with 1 710 shares changing hands in nine deals.

The rise reflects the surge of industrial shares, with the JSE industrial index climb-

## Banks press for early repayments

# SA creditors push for new deal on debts

74

BUSDAY

28/1/87

GERALD PROSALENDIS  
Economics Editor

SA'S FOREIGN creditors are pressing to finalise a deal with government over the country's foreign debt commitments as soon as possible, to avoid embarrassment at their annual meetings which begin in April.

The interim debt arrangement, negotiated in March last year, which entailed SA paying 5% on its debts caught inside the standstill net, expires on June 30 this year.

A meeting in London between the SA Standstill Co-ordinating Committee (SCC) and the technical committee of 13 creditor banks is scheduled for the end of February, London sources say.

Creditor banks have ruled out a 10 year plan, mooted earlier, to finalise SA's debt repayment.

"We recognised that 1991 was a problem. In this year large amounts outside the net fall due. Creditor banks will try for a four year deal, though some banks thought two years would be more appropriate," a London source said.

It is also unlikely that creditor banks

will be willing to enter into a formal agreement with the SA government and will rather root for an informal agreement similar to the one struck in March last year.

It is understood they have come under pressure from the Anti-Apartheid Movement not to sign a formal agreement.



STALS

Yesterday an SA delegation consisting of Finance director general Chris Stals, Deputy Reserve Bank governor Jan Lombard and legal adviser Willem du Plessis completed a

European trip aimed at sounding out creditor banks.

A statement issued yesterday in London by National Westminster

● To Page

## Creditors want new debt repayment deal

28/1/87 BUSDAY

Bank, which is representing the creditor banks, said: "We can confirm that the SA Standstill Committee has been in London touring various banks. There has been no formal meeting with the SA delegation and a chairman has not been appointed. The SCC delegation will return to SA and report to the SA government. Obviously there were differences and nothing came out of our meeting."

Among issues the creditor banks dis-

- ussed in private were:
- Whether to demand repayment of 10% or 5% of the amount caught inside the standstill net imposed in September 1985;
  - Whether to consolidate the debt into one sum and work out more repayments on the total amount;
  - Whether to look merely at amounts owed in arrears by SA.

● From Page 1

74

Success should boost confidence

# SA breaks the back of foreign debt

B/Dey  
25/3/87

74

SA YESTERDAY struck a three-year deal in London with its foreign creditor banks effectively breaking the back of its foreign debt problem.

In terms of the agreement, which runs to June 30, 1990, SA will pay a total of 13% of the outstanding capital amount of debts caught inside the standstill net during the next three years — a total of \$1,42bn. Last year, SA paid 5% on its outstanding commitments of \$13bn in the net. Its total foreign debt now stands at \$23bn.

The London meeting — held behind a veil of secrecy and reported in yesterday's *Business Day* — and its unexpected success is likely to substantially boost confidence in the SA economy, effectively containing the capital haemorrhage.

Reserve Bank governor Gerhard de Kock said yesterday: "This is a good deal for SA and for the creditor banks. Both sides are very happy. A three-year agreement, as opposed to a one-year agreement, is of enormous significance."

He said SA was now underborrowed. While the country's exports were rising in dollar terms, its foreign debt was de-

GERALD PROSALENDIS  
Economics Editor

clining.

Added to this was a sharp rise in SA's foreign exchange and gold reserves in the past two months of about \$800m, a continued current account surplus and the appreciation of the commercial and financial rands.

De Kock said: "Given our reserves and current account surplus, SA should have no difficulty in sticking to the details of this agreement."

From the status two years ago of renegade debtor, SA creditworthiness has been upgraded — its debt is now considered to be some of the best business on the books of international banks which are not required to build up reserves against the loans because they are not classified as bad debt.

In terms of the agreement, announced by Finance Minister Barend du Plessis in Pretoria yesterday, SA will pay all interest due on outstanding loans at rates agreed upon in the previous agreement — roughly 1% above the going rate. Also,

● To Page 2 →

# SA breaks back of foreign debt

B/Dey 26/3/87

74

● From Page 1

the Public Investment Commissioners (PIC) will continue to absorb loans which are not rolled over. Funds paid into the PIC will continue to receive interest at 7/8 above the London Interbank Rate.

Foreign creditors will retain the right to cede their claims on debt inside the standstill net to other foreign creditors, or persons, under certain conditions.

Payments due in terms of the agreement on loans caught inside the net will be as follows:

- A down payment of 3% of the debt on July 15 this year followed by a further 2% on December 15 making a total for the year of \$508m;
- In 1988, 2% of the outstanding balances on June 15 and 1,5% on December 15, a total of \$400m;
- In 1989 a further 1,5% on June 15 and December 15, a total of \$346m;
- And a final payment in 1990 on June 15 of \$166m.

Du Plessis said yesterday that an "exit" clause was provided in the agree-

ment which offered foreign creditors the opportunity to convert short-term claims inside the net into long-term claims outside the net. Claims converted in this manner will be repayable over 10 years as follows:

- From date of conversion to June 30, 1990, 13% would be repayable, the same as for debt inside the net;
- In 1991 and 1992 no repayments would be made on these loans;
- The balance would be repayable in 10 equal half-yearly instalments between 1993 and 1998.

It is believed that foreign bankers were initially wary of committing themselves to a deal extending beyond a year. But, confronted by a Third World debt problem that is threatening to run off the rails, international bankers, particularly those in the US, decided to knuckle under to the inevitable criticism which would follow a longer-term arrangement.

THE Second Interim Debt Agreement reached this week between South Africa and 34 foreign creditor banks has been hailed as a major triumph for the South African negotiating team. One local newspaper even went so far as to claim it was "effectively breaking the back of South Africa's debt problem."

Certainly the agreement is favourable to South Africa. Instead of having to pay all the interest on the \$13-billion (about R26-billion) caught in the "standstill" net plus five percent of the capital in one year, which were the terms of the First Interim Debt Agreement, SA now has three years in which to pay back interest plus only 13 percent of the capital.

The main advantage of this arrangement is that it effectively gives the domestic economy a three year period of stability. The pressure on the capital account will be reduced, while more of the surplus on the current account will be available for domestic growth.

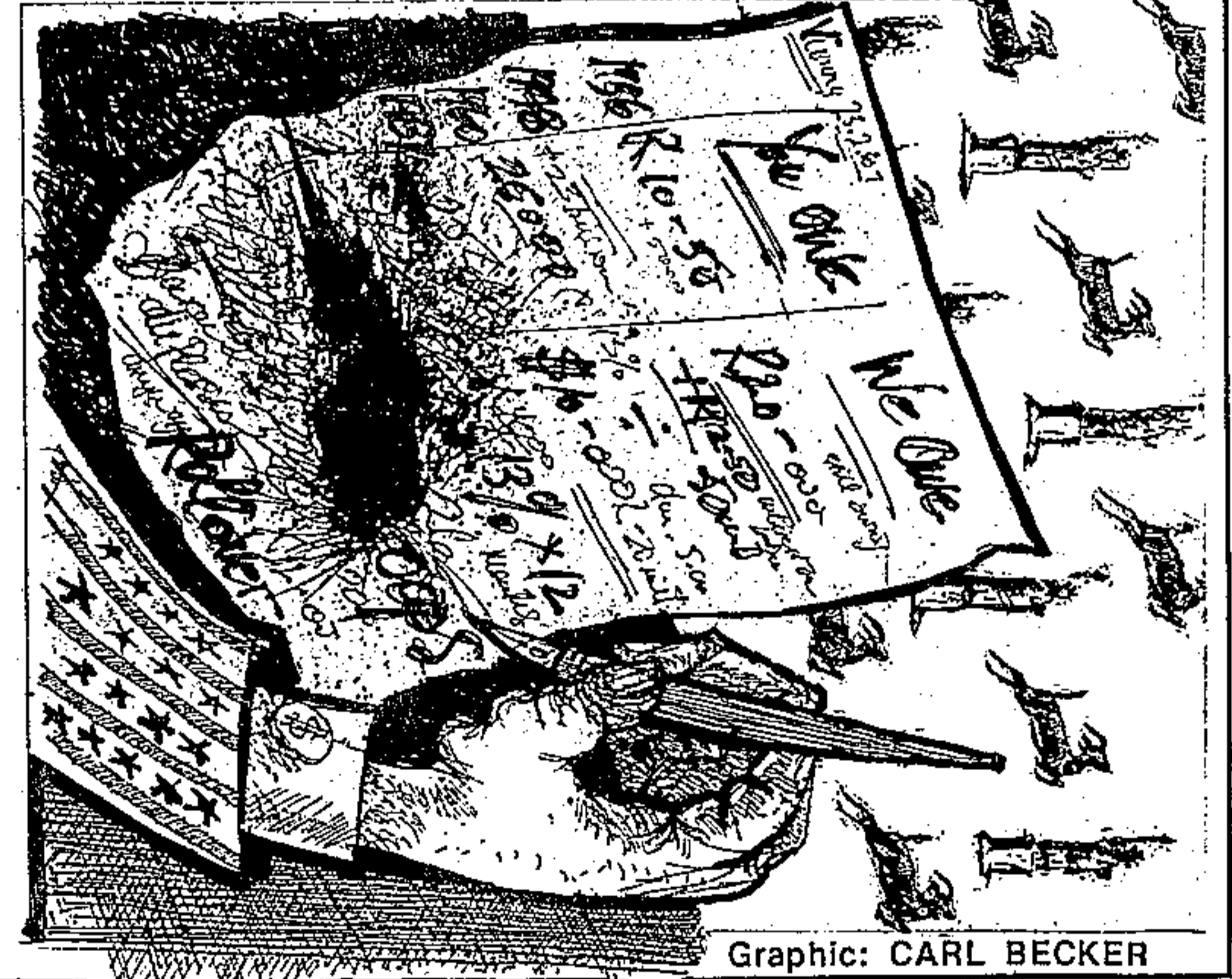
As a result we can expect to see a further easing in local interest rates, including long term rates, which will stimulate local borrowing and encourage growth. Put in a nutshell, it means the economic recovery we are currently experiencing has received a further boost from this agreement.

This in turn should cause business confidence — both internally and externally — to improve, which should lead to an upturn in investment. Stellenbosch University's Bureau for Economic Research (BER) revealed this week that 46 percent of manufacturers plan increased real investment in buildings, machinery and equipment during 1987, while only 21 percent expect to invest less.

The best at  
The highest  
was determined  
Industry,  
mination w  
The biggest  
June 1986  
previous  
determinat  
The highest  
was also  
Industry,  
mination v  
The biggest  
November  
down on t  
The highest  
labourers  
Transvaal.  
the previc  
The biggest  
23% for F  
the previ  
half years  
And final  
goes to th  
same agre  
Furniture

# What the bankers took away, they now return

The same foreign banks which spearheaded the get-tough-on-Pretoria campaign two years ago are now helping to restore international business confidence in South Africa. Why the turnaround? By DUNCAN INNES



Graphic: CARL BECKER

In this context it is interesting to note that one of the clauses in the debt agreement allows for short term debt which is held in the "standstill" net to be converted into long term loans or into financial rands for investment inside SA. The fact that these two possibilities were included in the agreement suggests foreign confidence in SA's economy is growing. Why else would they want to invest here or provide us with long term loans?

This thesis receives further support from the phenomenal rise in the financial rand. Over the past month it has risen by over 30 percent, adding 13 percent last week alone. Since foreigners wishing to invest in SA can only do so through financial rands, the rise in price means there is heavy demand abroad for the currency. Reports abound of foreigners investing in the JSE, buying gilts and grabbing property — especially in the coastal areas. There can, therefore, be little doubt that while newspaper headlines continue to focus on the trickle of companies still disinvesting, we are being confronted by a new phenomenon: foreign investors moving into this country.

One can argue that so far much of this new foreign investment is speculative in character and is not going into production. Be that as it may, it does represent a turnaround in investment sentiment towards SA and is a setback for the disinvestment campaign. In this context it is worth recalling that it was the foreign bankers who set the current wave of the sanctions-cum-disinvestment campaign in motion when they refused to roll over our foreign loans in 1985. Now it is these same bankers who, by extending favourable credit terms to SA, are

indicating their confidence in this country's economic future and thereby encouraging foreign investment to return. What has caused this sudden change of heart?

Part of the answer lies in the worsening international debt situation with Brazil recently unilaterally suspending interest payment on its \$68-billion (about R130-billion) commercial bank debt. In this kind of international environment SA appears as a model debtor — not only do we pay back the interest but we are repaying the capital as well. Since we are one of the few countries which don't give them sleepless nights, foreign bankers have become more amenable in dealing with us.

But the other part of the answer lies in the fact that, as far as the rest of the world is concerned, the State of Emergency seems to be working and PW Botha is back in the driving seat. Both press censorship and the Emergency itself are having the effect the government hoped for — restoring foreign and local investor confidence in this country.

It may be that the situation will not last, but it is working at the moment. And for the foreign banking community, SA is once again beginning to look like a place where a few bucks can usefully be made.

Which means that while some foreign companies continue to announce they are disinvesting, we can expect to see them hang onto their access to our markets — and we can expect to see other foreign investment moving in.

However, before members of the ruling party embark on an orgy of mutual backslapping, it is worth mentioning that all this does nothing to change our basic problem — which is that the South African economy remains heavily dependent on foreign investment to grow.

The Second Interim Debt Agreement has not broken the back of SA's foreign debt problem. Far from it. It has simply provided us with a temporary respite in our repayment schedule — while at the same time ensuring our continued access to foreign loans.

In signing this second agreement, the foreign bankers have not only provided the South African economy with a new opportunity for growth — they have also thrown a lifeline to PW Botha and his government.

And there's the rub. The South African economy needs that access in order to grow. Without it the government could not finance the many schemes it needs to give its reform strategy any hope of succeeding.



Controls have little effect

# R15,5bn has flowed out of SA in 2 years

26/10/87 (74)  
B/Daw

THE DEBT standstill and the tightest exchange control in SA's history have failed to stem the flood of capital leaving the country.

More than a net R15,5bn left SA in 1985 and 1986 — R11,5bn since the imposition of the standstill and exchange control in September 1985.

Reserve Bank Governor Gerhard de Kock said in his annual address yesterday the outflow of funds amounted to more than 6% of gross domestic product over that two-year period.

He said this, together with the other adverse developments, made it necessary to make far-reaching adjustments in the SA economy — in the form of some combination of exchange rate depreciation, higher inflation, slower growth and, in general, a lower average standard of living.

"These challenges were daunting indeed. It is, therefore, gratifying to be able to report the SA economy rose to the occasion and responded with an almost unparalleled demonstration of balance of payments adjustment, strengthening of the reserves, interest servicing and debt repayment, which has laid the foundation for renewed economic expansion."

De Kock said in addition to meeting all foreign interest and dividend payments, SA would by the end of 1987 have made

GERALD PROSALENDIS  
Financial Editor

net debt repayments of roughly \$4,8bn (R10bn).

Since the end of 1984 the country has repaid about \$4,3bn (close to R9bn) of its \$23,7bn total foreign debt.

De Kock said: "By the end of December 1986 this figure had declined to \$20,4bn, valued at the dollar-exchange rates that had prevailed at the end of August 1985."

But at the current exchange rate it was equivalent to \$22,6bn.

Examining the Governor's figures, it is clear there continues to be a transfer of real resources to the outside world which requires the country to export more than it imports. The resulting trade surplus is being used to repay capital abroad. All the country has to show for its effort has been reduced levels of foreign debt at great economic cost.

While the De Kock message was more sanguine than in previous years, if the country merely continues to export to repay debt the prospects for long-term growth look bleak. In effect, it would mean the Governor would, for another year, merely oversee the winding down of the SA economy.

Rather than setting "records" for debt repayment and achieving the approbation of international bankers, what the country does need is to set records for job creation and growth.

**IMMEDIATE** action is needed to restore better discipline in State financing and spending — otherwise SA could be on the slippery slopes of Latin American deficit financing policies, Davis Borkum Hare says in an economic review.

# Call to slow deficit

GRETA STEYN

The review says the increasing recourse to deficit State financing is becoming a critical problem. "The deficit before borrowing in 1984/85 was R3bn, this expanded to R6bn in 1985/86 and the current trend suggests a deficit before borrowing of over R10bn, and perhaps as high as R12bn for the current fiscal year."

Should an overrun of R2bn to R4bn ensue in central government deficit financing, the deficit for the entire Public Sector Borrowing Requirement (PSBR) would be close to about 11.5% of GDP.

"This is an unacceptably high figure, given the 3% to 5% of GDP for the PSBR

normally accepted in the major economies. Deficit PSBR financing requirements in excess of 10% of GDP would ultimately put unsustainable pressure on the economy as the State debt builds up, private borrowers become 'crowded out' of capital markets, and the inevitable consequences of upward pressure on interest rates begin to tell."

The review says a further disquieting factor is the increasing use of bank financing to meet the State deficit, evident over the first four months of the current fiscal year. According to SA Reserve Bank figures, banking sources accounted for R1,8bn — or 36% — of the deficit financing of R5bn in the first four months of the current year.

30/11/87

14

# MANAGING THE DEBT

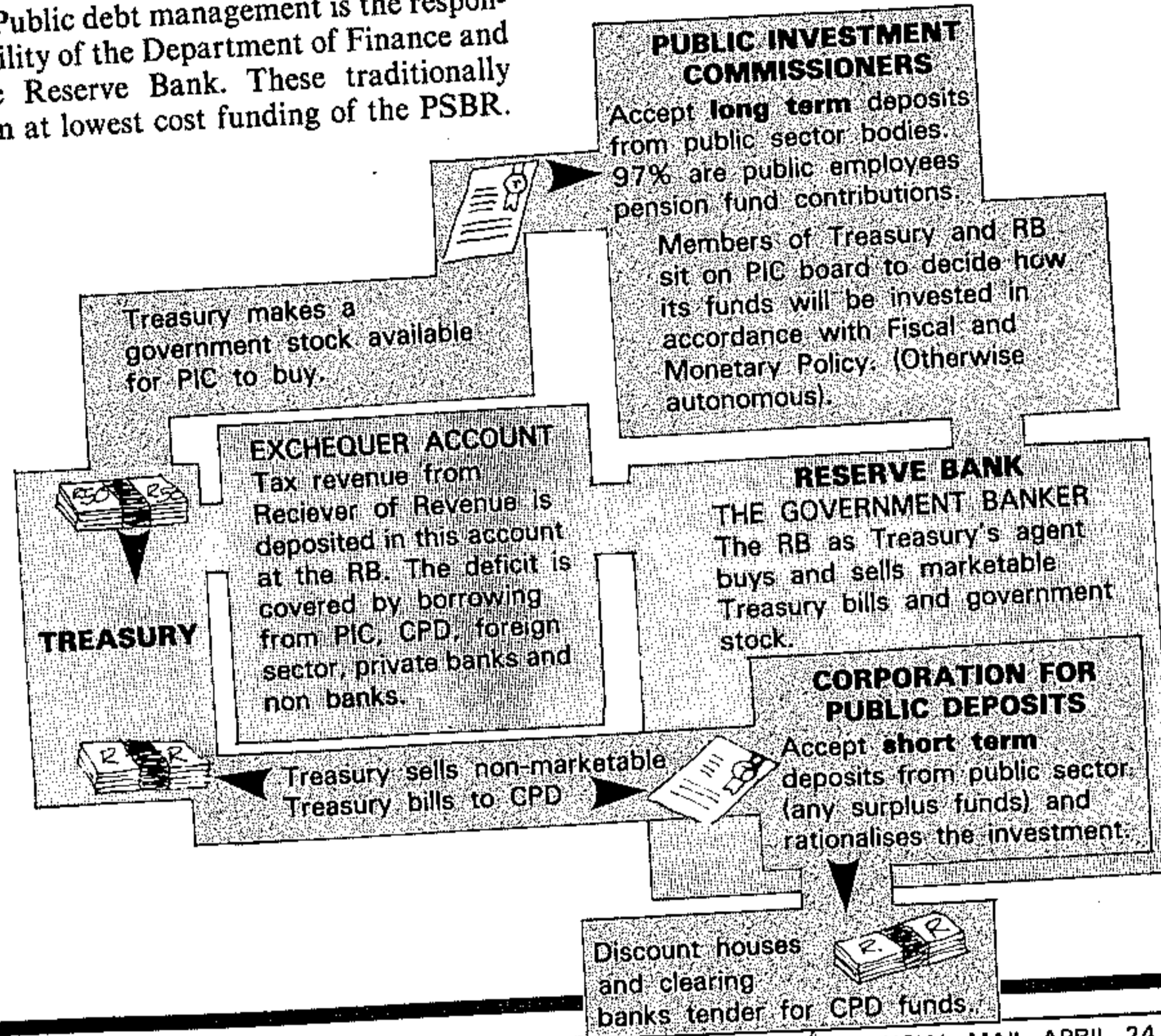
The ways and means of managing SA's R43,9 billion debt are shown in the diagram below — further to the FM's analysis (April 10). The main parties involved in the public sector borrowing requirement (PSBR) are the Reserve Bank, Corporation for Public Deposits, and Public Investment Commissioners.

Others involved in ownership of government debt include the foreign sector, non-bank private sector, and domestic private banking sector.

Public debt management is the responsibility of the Department of Finance and the Reserve Bank. These traditionally aim at lowest cost funding of the PSBR.

In the past few years, however, such aims have been extended to being an important instrument in reinforcing broad monetary policy.

Total PSBR differs from the budgeted deficit before borrowing because of loan redemptions, monetary policy activities, and running down of government cash balances. The FM's analysis relies on *Falkena et al, Mechanics of the SA Financial System* and *Dynamics of the SA Financial System*.



By Sven Liinsche  
The R1,4 billion improvement in South Africa's trade balance for 1986 is a strong indication that the country will continue to meet its foreign debt commitments and tackle the rising costs of imports.

Figures released by the Department of Customs and Excise showed that the trade surplus improved to R14,9 billion, compared to R13,6 billion for 1985.

Exports for the year were valued at

# Optimism over SA trade balance

Star 27/1/87 (70)

R41,8 billion, compared to R36,5 billion for the previous year, while the country's imports rose by R4 billion to R26,9 billion.

Analysts said that the improvement in exports indicated that the sanctions campaign had not yet had the desired economic effect, while the

comparatively low increase in the value of imports was ascribed to a stronger rand and the stockpiling of strategic commodities.

Estimates by major economists also indicate that the improved trade surplus should easily see the current account on the balance of payments match the 1985 figure of R5,9 billion.

However, in the January edition of its *Economic Survey*, Sanlam economists sound a word of warning about being over-optimistic on the country's growth prospects for 1987.

"As a result of higher

imports, together with the expected increase in domestic expenditure and the possible effect of trade sanctions, we think that the surplus on the current account of the balance of payments will be noticeably smaller this year than in 1986 — an estimated R4 billion to R5 billion," they said.

Also, the decline of the dollar against the rand has wiped out the benefits of the stronger dollar gold price and subsequently, the earnings per ounce of gold sold will not be significantly higher than in 1986.

"In view of this smaller surplus and the considerable foreign debt burden the Republic has to cope with, it is clear that the balance of payments position as a whole will significantly restrict the growth ability of the economy during 1987," the economists forecast.

Cape Times 27/11/87  
SA trade  
surplus 74

Own Correspondent

JOHANNESBURG. — SA increased its trade surplus for 1986 to R14,9 billion, compared with R13,6 billion the previous year, according to figures issued by Customs and Excise.

Based on this figure, the surplus on the current account of the balance of payments should match, if not better, last year's R5,9 billion. If the trend continues it augurs well for SA's ability to meet both its foreign debt commitments and to build up reserves.

Total exports for the year were R41,8 billion, compared with R36,5 billion, in spite of tighter trade sanctions on SA exports.

Imports rose to R26,9 billion compared with R22,9 billion the previous year.

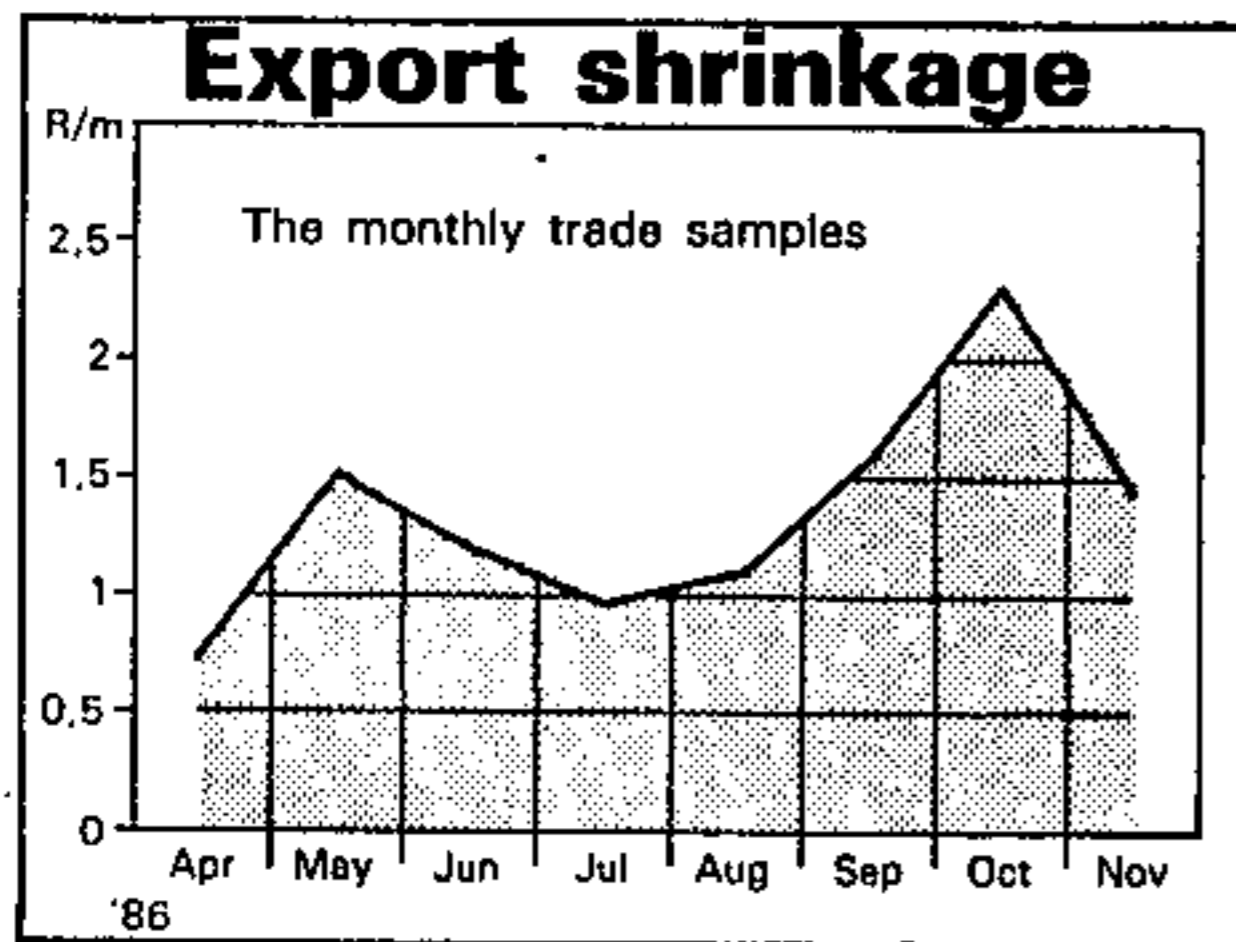
## Hitch in time 74

Economists doubt there is anything significant in the sizeable drop in November's trade surplus. For one thing, it comes after an unusual October; for another, monthly figures can be volatile.

The November trade surplus fell by no less than 37% to R1,43 billion from October's R2,28 billion. Overall, however, economists expect a continuation of the upward trend in the surplus that began last July. Since July the surplus (see graph) has risen from R999m to R1,1 billion in August and then R1,55 billion in September.

The large jump in October, to R2,3 billion, was the result of a bunching of exports towards month-end. Paper exports in particular were much higher than in either September or November.

"Paper exports do not tend to fluctuate greatly during the year, but a change in



shipping timetables could concentrate exports in one month," says an industry source. "This may have created the larger-than-average surplus for October."

The 24,7% fall in the November trade surplus reflects a reduction in exports to R3,39 billion from R4,5 billion. On the other hand, imports only fell by 11,7% to R1,96 billion from R2,22 billion. This was a drop for the fourth consecutive month on a month-to-month basis.

The surplus for the year to November at

R13,51 billion is 12,4% higher than R12,02 billion in the same 11 months of 1985. Exports in the same period were 16,5% up at R38,51 billion (R33,05 billion) while imports rose 19% to R25 billion (R21 billion).

In real terms, however, export performance to November 1986 was relatively weak. After peaking in early 1985 volumes fell considerably before recovering in the second and third quarters of 1986. Even so, November's volumes were still below the 1985 peak.

In the initial stages of a growth phase, of course, imports start to pick up. This is especially the case in SA which relies heavily on imports, as more products are sucked in to fuel higher economic activity. However, four months' decline in the demand for imports casts doubt on the much-talked-about economic recovery.

# SA debt 'being sold at discount'

2/11/57 HAROLD FRIDJHON

US banks are selling SA debt to foreign institutions at a discount of 43c in the dollar, according to American reports which suggest that investors and bankers in the US show no signs of regaining confidence SA.

An international banker based in Johannesburg says he has heard of deals in SA paper at about 57c, but that as far as he knows, the market, which is based in Europe and not in the US, is very thin and unrepresentative.

What deals there might have been probably involved small US banks whose exposure was very modest — between \$5m and \$10m — and which for their own reasons wanted to get the SA investments off their books.

Reputable banks are still holding SA debt expect to get their 100c in the dollar, the international banker believes.

The US report says that the going rate for SA debt is the same as that for Mexican debt and below the 79c of Brazilian paper.

The buyers are said to be German and Swiss banks.

74  
FIN MAIL  
16/1/87

## Doing the rounds

Another round of talks between SA's debt negotiators and foreign creditor banks is to take place this month.

Three members of the second Standstill Co-ordinating Committee (SCC) set up in April 1986, finance Director General Chris Stals, Reserve Bank deputy governor Jan Lombard, and legal adviser Willem du Plessis, left for Europe last week. According to a Reserve Bank official, they will "visit some creditor banks to discuss debt repayment arrangements."

Details of the trip are being withheld from the press. The issue is sensitive for creditor banks, which want to avoid publicity linking them to SA.

A temporary agreement with 34 banks was concluded in February 1986 at a meeting at Claridges in London. By it, the stand-

## RESERVES FALTER

Economists see no major significance in the decline in gold and foreign exchange reserves by R572m to R4,515 billion at end-December.

They point out that, overall, the trend is still upwards, indicating healthy accruals from the current account surplus. For the time being, at any rate, these surpluses continue to exceed the deficit on the capital account.

Nor does the decline in value of forex reserves, to R674m from R1,25 billion in November, reflect any major debt repayment; most of the commitment under the current repayment schedule is understood to have been paid already.

Gold reserves declined in value in December to R3,71 billion from R3,72 billion in November, and in volume to 4,82m oz from 4,84m oz.

FINANCIAL MAIL JANUARY 16 1987

still on interim debt repayments, in effect since August 1985, ended last March. Creditor banks (including 330 smaller banks not directly represented) were due to receive repayments by June 1987, worth 5% of the \$14 billion foreign debt subject to the standstill. This amounted to about \$700m — \$420m of which was to be repaid by April 15 and a further \$80m by the end of last year.

In the event, about \$380m was repaid in April 1986, foreign banks agreeing to roll over the rest for technical reasons. It has been widely reported that substantially more than the agreed \$500m was paid back by year-end and less than \$50m remains to be paid by June, but Reserve Bank officials will not confirm this.

Also to be repaid by June are bearer bonds and notes of \$89m and repayments to the International Monetary Fund of \$245,2m.

Arrangements for future debt repayments are due to be made this April, but with an election campaign coming to a head that month, it would clearly be to government's



**Finance Director General Stals  
... off to Europe**

advantage if preliminary talks paved the way for a favourable agreement.

The April meeting is expected to take place in London. British, European and American creditor banks were almost equally represented last February. Presumably the composition this year will be much the same. As major creditors, they are unlikely to have sold their debt at what, according to recent reports, is the going rate for Mexican debt — a discount of between 43c-57c in the dollar.

Who will represent SA has not yet been decided, but it is likely that the present four-person SCC (which includes senior deputy

governor of the Reserve Bank Japie Jacobs) will be enlarged. The contingent will be led by Stals.

Because US banks are reluctant to enter long-term arrangements with SA, debt is to be repaid in tranches — with the length of period and amount decided afresh each time. This gives SA flexibility. With no rigid long-term commitment, negotiators can assess the situation each year and plan accordingly. ■

A C



BUDDAY  
74

Walking a tightrope between exporters and importers

# Central bank expected to suppress rising rand

20/1/87

HAROLD FRIDJHON

**BULLISH** expectations for the rand are tempered by a strong market belief that the authorities will put a lid on its upward movement at about the \$0,50 level to protect exports.

The hand of the Reserve Bank was seen in the market yesterday when the rand opened at \$0,4935 from the weekend close of \$0,4840. The central bank dampened market enthusiasm stimulated by a plummeting dollar and a soaring gold price. It pulled the rand down to \$0,4895 and then allowed it to move up, slowly.

Standard Bank, in *International Comment*, says that in managing the rand, the Reserve Bank must also keep a watchful eye on the cross rates to ensure that a healthy current account surplus is built up in 1987 to meet foreign debt obligations.

Last week when the rand appreciated by 3% in terms of the US dollar it improved by only 1,9% against the basket of currencies. With the basket heavily weighted in favour of the dollar the rand has not made much headway against the other currencies.

The Reserve Bank forex managers have a high-wire task ahead of them. They will probably have to deal with a dollar flood if current perceptions about the currency are fulfilled. Dollars will flow in from gold and platinum. And Standard says exporters who have not covered future commitments might enter the forward market as sellers of dollars. This would tend to push the rand higher.

Exporters have, according to Standard, been reluctant to cover forward future dollar receivables because exchange-control regulations prevent the cancellation of covered export contracts.

Most banks are hesitant to predict the path of the rand this week. Volkskas sees it "trading above \$0,48". Barclays' view is that it will move between \$0,48 and \$0,49. Standard is bolder; it envisages a trading range of \$0,49 to \$0,53 based on the premise that the dollar will continue to lose ground against the Deutchemerk, the Swiss franc and the yen, with the gold price holding above \$420.

Most forex dealers see the crucial

area for exporters and importers as the dollar/other currencies transactions.

Banks warn that the recent steep fall of the dollar could bring a technical correction and this could affect traders' positions even if the adjustment is merely a hiccough.

Standard says importers with foreign currency payables against the dollar should consider forward cover even at current dollar levels. Exporters could stay out of the market. Barclays advises on this leg importers should take advantage of any dollar correction but confirms exporters could stay clear.

On rand/dollar commitments, Standard says importers would not be exposed to too much risk by staying out of the forward market, while exporters should take cover. Volkskas recommends at least 60% cover for exporters in the short term, but advises importers to maintain close contact with their bankers. Barclays suggests that, with negative pressures building up against the rand nearer to the April foreign debt negotiations, exporters could make use of forward cover facilities.

# Trade surplus <sup>74</sup> hits record high

GERALD PROSALENDIS  
Economics Editor

SOUTH AFRICA increased its trade surplus for 1986 to a record R14,9bn compared with R13,6bn the previous year, according to figures issued by Customs and Excise.

If the trend continues it should augur well for SA's ability to meet both its foreign debt commitments and to build up reserves in the months ahead.

Based on this figure, the surplus on the current account of the Balance of Payments for 1986 should match, if not better, the previous year's R5,9bn. In dollar terms, 1985 and 1986 look set to be roughly equal.

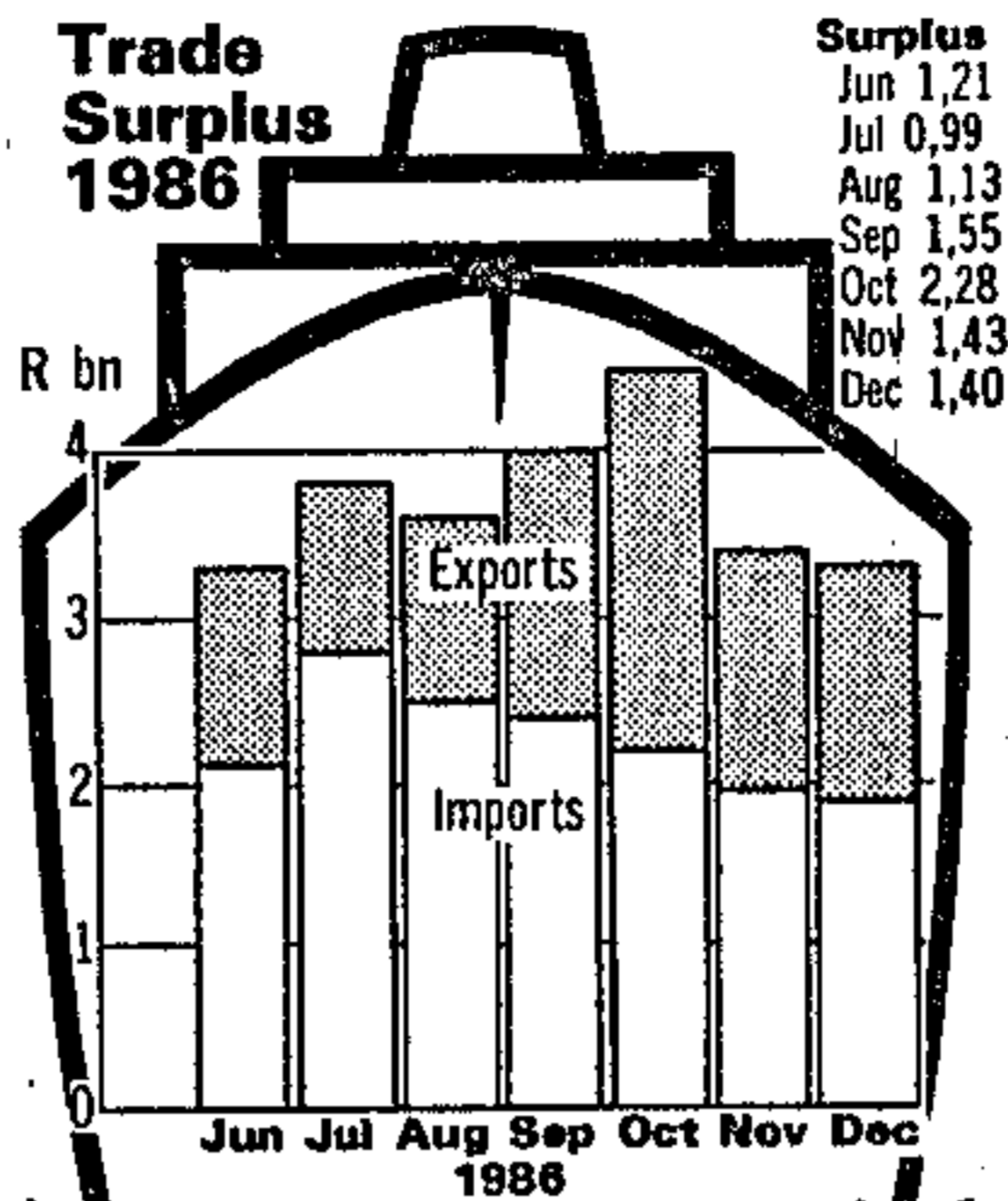
Total exports for the year were R41,8bn compared with R36,5bn the previous year, despite tighter trade sanctions on South African exports and a similar average exchange rate compared with the previous year.

Imports rose to R26,9bn compared with R22,9bn in 1985. Much of the increased import figure can be traced to stockpiling of strategic commodities, probably mainly oil and could well drop back again in the months ahead to levels more in line with the depressed state of the economy.

SA's trade surplus remained roughly stable in December at R1,4bn, marginally lower than November's R1,43bn. The surplus in December last year was R1,6bn. In December, exports stood at R3,29bn and imports R1,89bn.

However, economists have issued a

## Trade Surplus 1986



Total 1986: Exports 41,8 Imports 26,89  
Surplus 14,9

word of warning about being overly optimistic for 1987. Forecasts of the current account surplus for the year vary widely depending on projections for the gold price and exchange rate — some have been as high as R7bn.

Even with a higher gold price, however, the decline of the dollar against major currencies and the rand means that each ounce of gold is not earning more in either rand or third currency terms. Thus, the affordable level of imports this year does not look set to rise as much as a higher dollar gold price would seem to indicate.

... industrial gi-  
... ant Malbak has reported a

# '86 trade figures show gold still biggest income earner

By Sven Lünsche

South Africa's dependence on gold as a major earner of foreign exchange, is once again emphasised by an analysis of the 1986 trade balance.

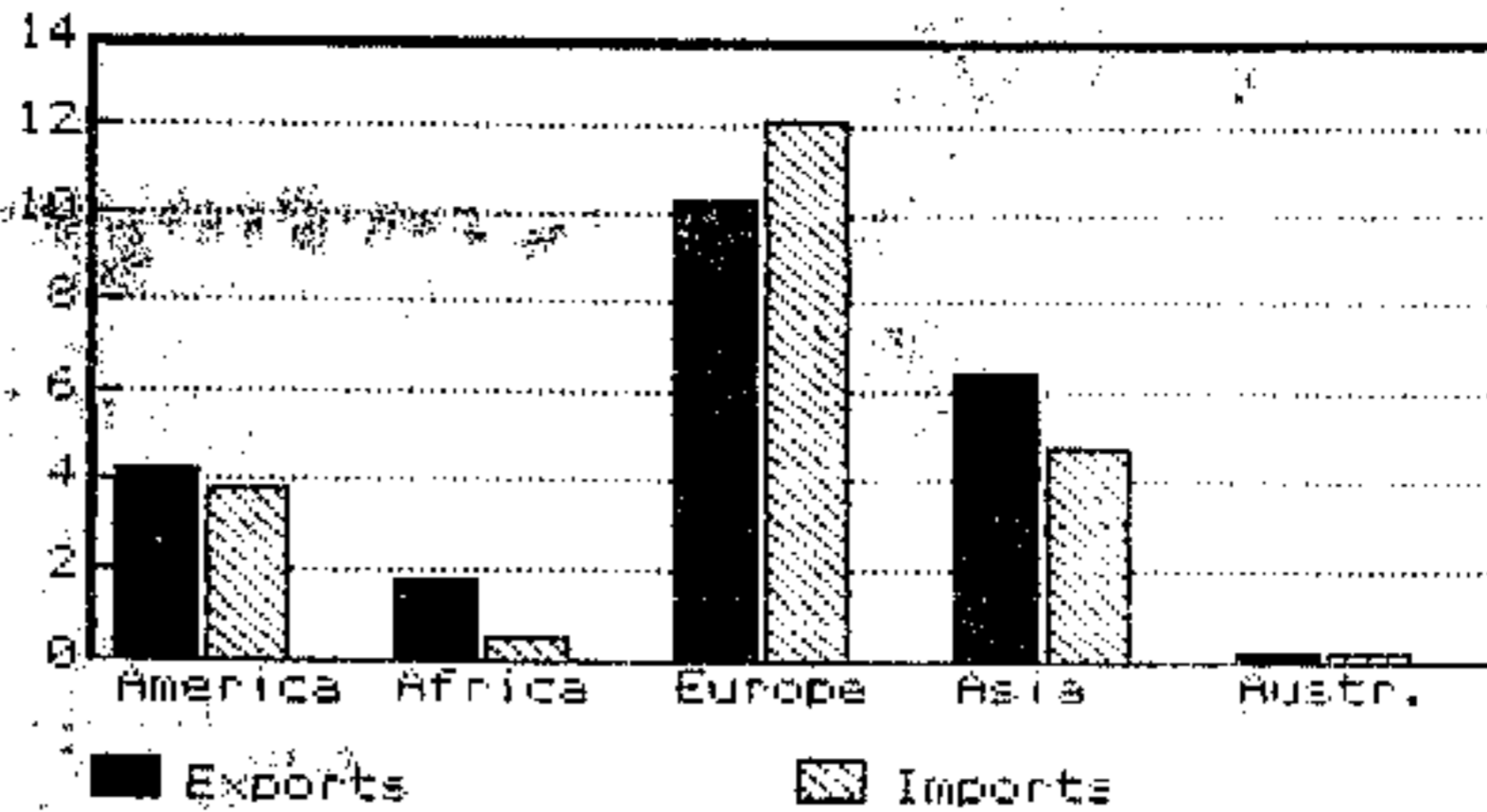
Of the total export earnings of R41,8 billion, almost 44 percent were derived from unclassified goods and balance of payment adjustments, which consists largely of the sale of gold bullions.

The export of manufactured goods and agricultural products remained fairly steady at 25 and 10 percent of total exports respectively.

On the import side the stockpiling of strategic minerals paid dividends, as the cost of importing oil and other unclassified goods and balance of payments adjustments was kept stable at R5 billion.

Industrial machinery, which includes high-tech equipment and spares, remained the bulk of the country's imports, followed by chemical products.

European countries remained South Africa's major trading partners and the only continent with which a negative trade balance was achieved — total trade between the country and Europe amounted to



SA's trade (in R/billions) on five continents.

R22,6 billion, of which R12,2 billion were imports.

But the emergence of new powerful industrial nations in the Far East is seeing South Africa's trade with this region gaining increasing prominence.

The trade balance with Asia was R11,3 billion, a significant improvement on last year's figure, while trading with African countries, had not yet been affected by the

sanctions campaign and remained steady at R2,4 billion.

However, tighter trade sanctions are expected in 1987, and South Africa will have to diversify its trading pattern to enable it to seek alternative export and import markets.

Last year trade with the US, the UK, West Germany and Japan amounted to almost 45 percent of total trade, and in the US and Britain the sanctions campaign is making an impact.

increase also reflects the price competitiveness of SA goods abroad coupled with steady economic growth among our trading partners.

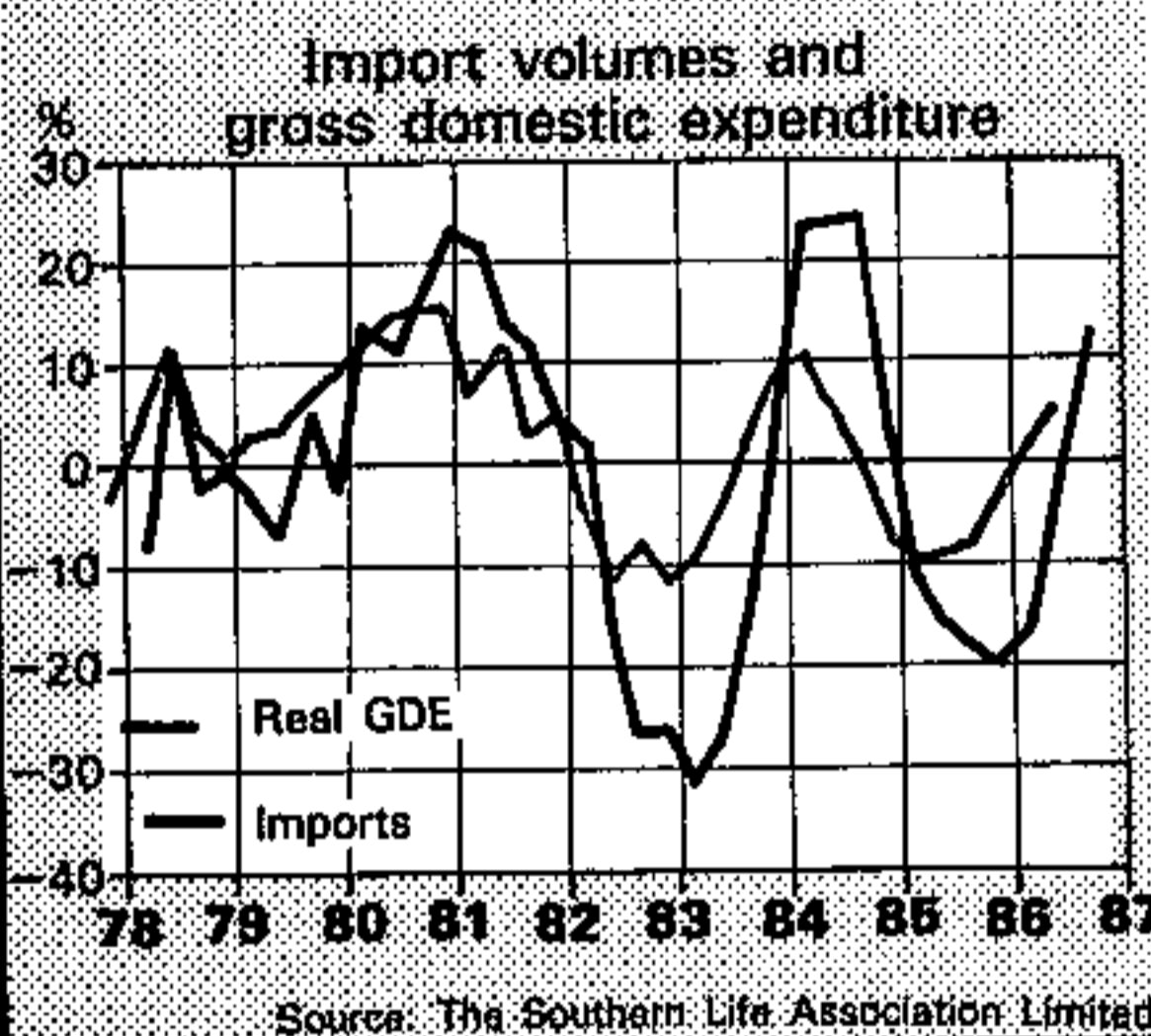
While exports showed an increase for 1986, imports also increased, rising to R26,9 billion (R22,9 billion). This must be explained by sanctions fears and resultant stockpiling of strategic commodities, including oil.

But the expected rising real gross domestic expenditure over the year ahead could take over as the main force behind a rising import bill.

Whether or not a trade surplus can be maintained in 1987 will depend greatly on the value of the rand against third currencies and the price of gold, as Adam Jacobs, economist at Volkskas Bank, points out.

The most important factor, however, will be the continuing foreign debt crisis and the

### Gauging the cycle



strain it puts on the capital account. As Southern Life's *Economic Comment* for January notes: "Whatever amount of the foreign debt is actually repaid during 1987, it will be close enough to the expected R5 billion current account surplus to prevent the sort of improvement in the net reserves required for strong and lasting economic recovery.

"While capital outflows have historically taken place during periods of current account surplus, the absorption of nearly the entire current account surplus is a unique phenomenon. Clearly, prospective capital outflows remain a millstone around the economy's neck."

### BALANCE OF TRADE FM

### Debt dirge (74/20/1/87)

Preliminary figures for last year's trading effort bear up expectations of a strong performance. Indeed, the surplus rose to a record R14,9 billion compared with R13,6 billion in 1985.

Merchandise exports managed a healthy increase, despite the adverse effects of sanctions, achieving a record R6,5 billion in the third quarter of 1986. Net gold exports were R4,6 billion, close to the record set in the final quarter of 1985, when the rand averaged its lowest value ever against the US dollar.

The decline in trade-weighted value of the rand in the third quarter is a major factor in the increase of exports. But the volume of

DEBT STANDSTILL (74) F/M

## Stals in the air 30/1/8

Negotiations in Europe that would make SA's foreign debt a more bankable asset for creditor banks appear to have floundered this week. Chris Stals, third in line to Finance Minister Barend du Plessis, was jetting back to SA as the *FM* went to press, after abortive debt standstill meetings.

The standstill rates, perhaps, as the most sensitive issue on SA's finance agenda. So

the *FM*'s attempts to secure comment from other finance officials were met with the caution that Stals would have to arrive and report first.

Subject to official confirmation, meetings between major creditor banks and the Standstill Co-ordinating committee appear to have been delayed from January 26-27 to February 9-10.

Why the postponement?

The *FM* understands that the major creditor banks want to go over to a multi-year rescheduling arrangement — MYRA, in banking lingo. The main effect would be to reduce the original time period negotiated for repayment of debt.

Even then, it appears there is disagreement about the period: UK creditors want it over seven years, while the US (and now Germany and France) are talking of three to four years.

Either way there is pressure on SA to bend a little on capital repayments. Overseas bankers are jealously eyeing SA's improving reserve position, suggesting it has US\$1,5 billion more than counted on when the original standstill and 5% upfront principal repayment was negotiated. Clearly, Stals could not agree to such a change without authorisation from his superiors.

But some settlement on new terms will have to be made.

US banks — in particular — want the issue cleared up before their AGMs around mid-year, to avoid the embarrassment of ongoing negotiations with SA. ■

# SA 'to stand firm on debts'

14 B1 Day 11/2/87



HELENA PATTEN

SA WOULD not allow itself to be committed to unrealistic demands from its creditors, Finance Minister Barend du Plessis said yesterday at the Frankel Kruger Inc investment conference.

The interim debt arrangement had to be reviewed before June 1987, but SA

● DU PLESSIS had honoured all its commitments during the past year, he said. The SA Standstill Coordinating Committee was in the early stages of negotiating with foreign creditors.

He said that despite a heavy redemption programme for commitments such as repayments to the IMF, and temporary leads and lags in short-term trade finance, no further exchange control or other restrictions had been introduced on the flow of funds.

SA inflation was complex, he said, but there was consensus on some points:

Inflation was dangerously high and every step should be taken to avoid escalation;

Current inflation was not caused by excess demand or by over-spending;

Although the large depreciation of the rand from the second half of 1984 to the middle of 1986 was still reflected in consumer prices, other factors of a cost nature also played an important role;

Sound financial disciplines in implementing monetary and fiscal policy should be applied at all times;

The solution to the inflation problem did not lie in introducing direct controls over prices or incomes.

Du Plessis said that having attained a trade surplus of R5,9bn in 1985, it was estimated that the current account surplus in 1986 would be about R7bn.

THE Reserve Bank is keeping a close watch on the conversion into medium-term loans of foreign debts falling within the debt standstill net.

In terms of the interim debt agreement — negotiated between SA and its international creditors last year — foreign banks are able to convert loans caught within the net to medium-term loans, which then fall outside the net. Any change to this clause would require the endorsement of SA's international creditors.

A circular sent out this month by the Reserve Bank to banks and dealers said where approval for these conversions had not been obtained from the exchange

# Govt watching

## debt conversion

LINDA ENSOR

control authorities, the deals would be null and void and the debt would still fall inside the standstill net.

Banks have been asked to submit details of all conversions to the Reserve Bank by February 28 — in time for the

● To Page 2



### Reserve Bank watching debt conversions

next round of negotiations with creditor banks.

Until now Reserve Bank approval for conversions had been readily obtainable, a banking source said.

Reserve Bank Deputy Governor Jan Lombard said the bank had the right to manage the maturities of loans to prevent a bunching of maturity dates.

"It is important for us to monitor the amount converted in order to manage our cash flow maturities," he said.

While he would not disclose the total

amount converted into loans, Lombard said it was "not a significant figure in relation to the total debt". He added that it might, however, grow as foreign banks considered their position.

Bankers pointed out the conversion option became increasingly attractive with each postponement of the repayment of the roughly \$14bn debt caught inside the net.

● From Page 1



ed  
p-  
ay  
r-  
or  
as  
ay

74

74

17/2/87  
B/Day

Whether it is the policy of the (a) South African Transport Services and (b) Department of Transport to (i) keep open the jobs of persons, and/or (ii) re-employ persons, who have been detained in terms of security regulations without being charged; if not, (aa) why not, (bb) what is the policy of the Transport Services and the said Department in this regard and (cc) who formulated this policy; if so, on what basis is this policy carried out?

THE MINISTER OF TRANSPORT AFFAIRS:

- (a) No employee of the South African Transport Services can or will be discharged and it will also not be regarded that the services of such an employee have been terminated merely because of the fact that he or she has been detained. The vacancy of posts or re-employment is therefore not applicable.
- (b) No officer of the Department of Transport can or will be discharged merely because of the fact that he or she has been detained. The vacancy of posts or re-employment is therefore not applicable.

Re-employment of detainees

493. Mr S S VAN DER MERWE asked the Minister of National Health and Population Development:

Whether it is the policy of his Department to (a) keep open the jobs of persons, and/or (b) re-employ persons, who have been detained in terms of security regulations without being charged; if not, (i) why not, (ii) what is the policy of his Department in this regard and (iii) who formulated this policy; if so, on what basis is this policy carried out?

THE MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

No civil servant can or will be discharged merely by the fact that he or she is being detained. The vacancy of posts or

re-employment is therefore not applicable.

Re-employment of detainees

494. Mr S S VAN DER MERWE asked the Minister of Law and Order:

Whether it is the policy of the South African Police to (a) keep open the jobs of persons, and/or (b) re-employ persons, who have been detained in terms of security regulations without being charged; if not, (i) why not, (ii) what is the policy of the Police in this regard and (iii) who formulated this policy; if so, on what basis is this policy carried out?

THE MINISTER OF LAW AND ORDER:

- (a) and (b) Concerning the members and civil employees of the South African Police, no such person can or will be discharged merely as a result of the fact that he or she is being detained. The vacancy of posts or re-employment is therefore not applicable.

Old-age pensions

495. Mr B B GOODALL asked the Minister of Constitutional Development and Planning:

- (1) (a) How many Black persons applied for old-age pensions in 1986 and (b) how many of these applications (i) had been (aa) granted and (bb) turned down and (ii) were still under consideration as at the end of that year;
- (2) what was the total number of Black persons receiving old-age pensions as at the latest specified date for which figures are available?

THE MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) (a) and (b) (i) (bb) and (ii). Special records are not kept of the information required. A new data system is being implemented which will provide for the supply of

such information in the near future.

- (b) (i) (aa). It is estimated that 38 116 black persons were granted social pensions in 1986. This figure reflects only pensions granted by the Department of Development Planning and does not include those granted by the self governing territories.
- (2) 285 853 as at 31 January 1987.

Petrol: transportation

496. Mr B B GOODALL asked the Minister of Transport Affairs:

What was the cost in cents per litre in respect of transporting petrol from Durban to the Reef as at the latest specified date for which information is available?

THE MINISTER OF TRANSPORT AFFAIRS:

Approximately 1 cent per litre by pipeline for the 1985/86 financial year.

Fuel pipeline

497. Mr B B GOODALL asked the Minister of Transport Affairs:

- (1) What was the total revenue collected in respect of the South African Transport Services fuel pipeline (a) in the 1985-86 financial year and (b) from 1 April 1986 up to the latest specified date for which information is available;
- (2) what was the total maintenance and running cost in respect of this pipeline in the 1985-86 financial year?

THE MINISTER OF TRANSPORT AFFAIRS:

- (1) (a) R240.4 million.
- (b) R192.1 million till December 1986.
- (2) R60.1 million.

Petroleum products

498. Mr B B GOODALL asked the Minister of Finance:

What total amount was collected in net excise duties in respect of petroleum products in the 1985-86 financial year?

THE MINISTER OF FINANCE:

During the financial year 1985-86 net excise duty in the sum of R289 209 414.55 was collected on petroleum products.

Loss of foreign exchange

499. Mr H H SCHWARZ asked the Minister of Agriculture:

What is the estimated loss of foreign exchange suffered by the Republic in 1986 in respect of (a) additional imports and (b) loss of exports attributable to drought conditions in the Republic?

THE MINISTER OF AGRICULTURE:

- (a) Approximately R60 million until July 1986.
- (b) Approximately R199 million until July 1986.

Foreshore Board

500. Mr S S VAN DER MERWE asked the Minister of Public Works:

Whether the Foreshore Board is still in existence; if not, (a) (i) when and (ii) why did it cease to exist and (b) in which institutions are the powers of this Board now vested?

THE MINISTER OF PUBLIC WORKS:

- No.
- (i) With effect from 1 April 1979;
- (ii) The Cape Town Foreshore Act, No 26 of 1950, provides that if the Board has achieved the object for which it has been estab-



# SA trade surplus falls to R906,2m

HELENA PATTEN

SA'S TRADE surplus fell to R906,2m in January from R1,4bn in December, customs and excise figures show.

SAPA reports this was still up from a surplus of R756,3m in January 1986. A sharper decline in imports than exports since January last year resulted in the favourable trade balance. Last month's surplus surpassed January 1986 by R149,9m.

Exports rose to R3,31bn in January after falling in December to R3,29bn.

Exports totalled R3,61bn in January 1986. In January, imports amounted to R2,41bn after falling to R1,89bn in December. A year ago, imports stood at R2,86bn.

Mineral exports decreased sharply to R289,6m from R396,0m in January 1986.

## Growth inhibitions

The recent upward revision of estimated growth in real GDP to 3% this year, if realised, may have far-reaching implications for the balance of payments (BoP). As growth in an economy accelerates, the current account comes under pressure as additional demand starts to suck in more imports. Statistics show that in SA between 1952-1984, whenever growth exceeded about 3%, the current account moved into deficit.

Will this happen this time around?

Economists are divided. Johan Cloete, former economist at Barclays, points out that with low capacity utilisation, which should reduce demand for capital imports, 3% growth should not push the BoP into deficit for say a year.

Rudolf Gouws, of Rand Merchant Bank, agrees, adding that import substitution will also reduce demand for imports. "A 3% growth rate will narrow the surplus, but

should not create a deficit," he says.

Ockie Stuart, of the Stellenbosch Bureau for Economic Research, believes growth this year will be in the region of 3%-3,5%, if there is a successful agricultural season, and will result in a Bop deficit. He dismisses the influence of excess production capacity on the level of imports. "Capacity utilisation is not that low. A lot of capacity has been written off and fixed investment has been declining for almost four years."

At most, he sees excess capacity as having a temporary delaying effect on an increase in imports. Nor does Stuart believe that import substitution will have a significant effect on imports.

If the current account moves into deficit, what will be the consequences?

Traditionally, a deficit on current account, which reduces money supply and in turn increases interest rates, is counteracted by a net capital inflow. However, with sanctions and debt repayments, the capital outflow is expected to continue no matter how high interest rates rise.

"To attract foreign capital in the present political climate, interest rates would have to rise to such a level that they would effectively strangle domestic business," says Cloete. He believes, however, that in the absence of a foreign capital inflow, SA could afford a moderate current account deficit — up to R1 billion — which could be financed by a combination of accumulated foreign reserves and extensions of trade credit.

Stuart agrees with this scenario, but

adds: "The authorities can't allow the deficit to get too large and will probably move to constrain growth as the deficit starts to increase." Restraint would probably come in the form of import control and further promotion of exports.

Gouws believes a BoP deficit is unlikely. The inability to finance both a BoP current account deficit and capital repayments will result in the authorities preferring to prevent a deficit from developing.

Stuart suggests that if a deficit does appear, foreign creditors will view this as a normal cyclical part of the growth phase, and that this will be taken into account in determining future debt repayments.

Cloete warns, however: "Creditors outside the debt net may increase their demands for early repayment as they see the current account head for a deficit."

So SA appears to be in a Catch 22: increased growth is vital to get the economy going, yet the BoP implications of rapid acceleration in the growth rate may force the authorities to take measures to contain economic growth. (See Trade figures). ■

Stals will be in a strong position

# More talks to thrash out SA debt

24/3/87

B/Day

74

**THE STEERING** committee of 34 foreign creditor banks will meet an SA delegation in London this week in an effort to thrash out a new agreement for SA's foreign debt commitments.

This is believed to be the third meeting this year between SA and the creditor banks. Afterwards, the committee of creditor banks will report to the more than 300 foreign banks with funds caught inside the standstill net.

The SA delegation, led by Finance Director-General Chris Stals, who is also chairman of the Standstill Co-ordinating Committee (SCC), and including Reserve Bank Deputy-Governor Jan Lombard, and legal adviser Willem du Plessis, will present to the creditor banks balance of payments forecasts for the SA economy. Various proposals for repaying debt, once the present arrangement expires on June 30 this year, will also be aired.

It appears Stals will be negotiating from a position of strength, given the turn for the worse that the Third World debt problem has taken in recent months.

Also, in a new development, SA im-

**GERALD PROSALENDIS**  
Economics Editor

porters and exporters — who traditionally have financed trade with credit provided by foreign banks — have been switching to cheaper domestic funds provided by banks in Johannesburg. Given low demand for credit, SA banks see this as an opportunity to prevent their balance sheets shrinking.

When SA exporters grant credit to overseas importers, or when foreign credit lines for SA importers are paid up, these transactions show up in the balance of payments as a short-term capital outflow. In the fourth quarter of last year alone, SA experienced an outflow of capital — excluding liabilities related to reserves — of R3,5bn, according to preliminary Reserve Bank figures. It is understood much of this amount can be explained by these events.

A local banker says: "Because of the disparity that exists between the cost of offshore funding and domestic funding — funds loaned in SA are between 0,25% and 0,5% cheaper than comparable

● To Page 2



# More talks on SA debt

B/Day

24/3/87

foreign loans — offshore lines are not being renewed when they mature. We would like to keep foreign credit lines in use, but this is proving increasingly difficult."

When SA exporters, in particular, grant credit to foreign importers, they are in effect building up short-term assets abroad because the money from these deals will only flow into the country in six months.

This is believed to have irked foreign creditor banks, who argue that while SA's current account surplus remains large, and the country continues to beef up its foreign exchange reserves, the proceeds due to SA exporters amount to a "hidden reserve".

Their reasoning, likely to fall on deaf ears, is that if SA can afford to build up assets abroad — a kind of second line of defence — it can also afford to up the payments of the capital portion of debt caught inside the standstill net.

More than likely, the SA delegation will turn the argument on its head, and

74



● From Page 1

say that only when foreign banks promise to provide increased credit for imports, will more funds be repaid.

The cancellation of the double-tax treaty between the US and SA, effective from June 30 this year, has also created uncertainty for SA companies with US credit lines. Without the treaty, the cost of US credits to SA could rise because tax will be due on interest payments.

When credit lines are not renewed, the money owing to foreign banks is paid into the Public Investment Commissioners (PIC) in terms of last year's interim agreement.

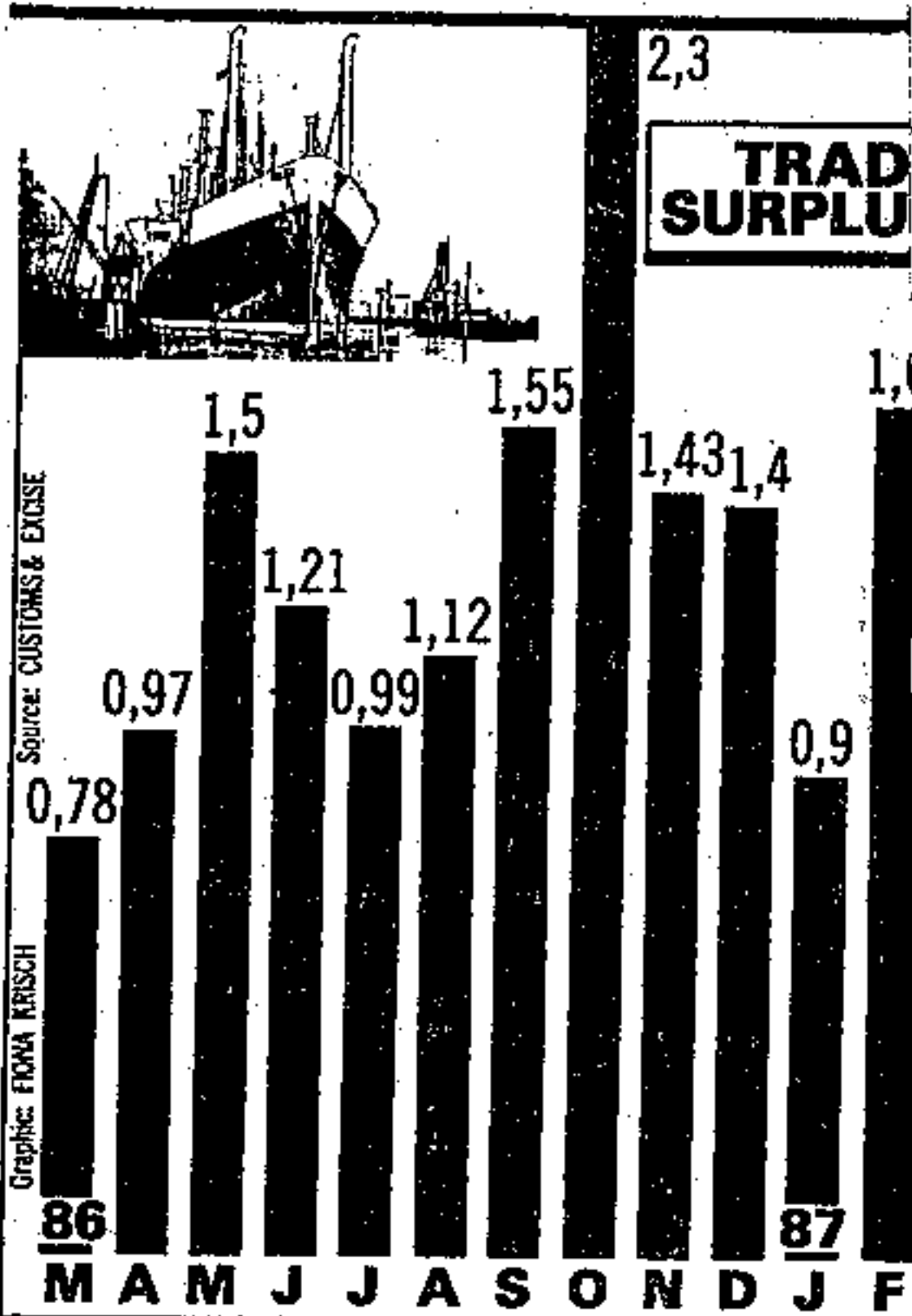
It is believed the PIC has funds from this source of more than R700m, though the balance fluctuates from day to day as private sector borrowers are found to take up credit.

A banker says: "Banks are now net suppliers to the PIC rather than net takers."

Thank-ya

Dearest Ash

Monday, 14/10/85  
5pm



## Trade surplus up in February

HELENA PATTEN

FEBRUARY'S trade surplus soared to R1,6bn, reflecting a sharp drop in imports.

Last month's imports were valued at R1,7bn, compared with R2,4bn in January.

The value of exports dropped marginally to R3,29bn from R3,31bn.

Old Mutual's chief economist Rob Lee said yesterday February's low level of imports suggested the economy was not showing many signs of life. However, one should not read too much into one month as trade figures were volatile.

He said the trade surplus would continue to shrink this year because exports would not increase, and might even decline if sanctions were successfully applied. Imports would climb as the economy recovered.

Group Economist for Rand Merchant Bank Rudolf Gouws was wary of drawing conclusions from one month's figures, but said the surplus indicated that the economy was not roaring ahead.

He said SA would probably remain in large surplus in 1987, tailing off at the end of the year. Exporters faced a world economy that was not expanding and commodity prices were not about to leap.

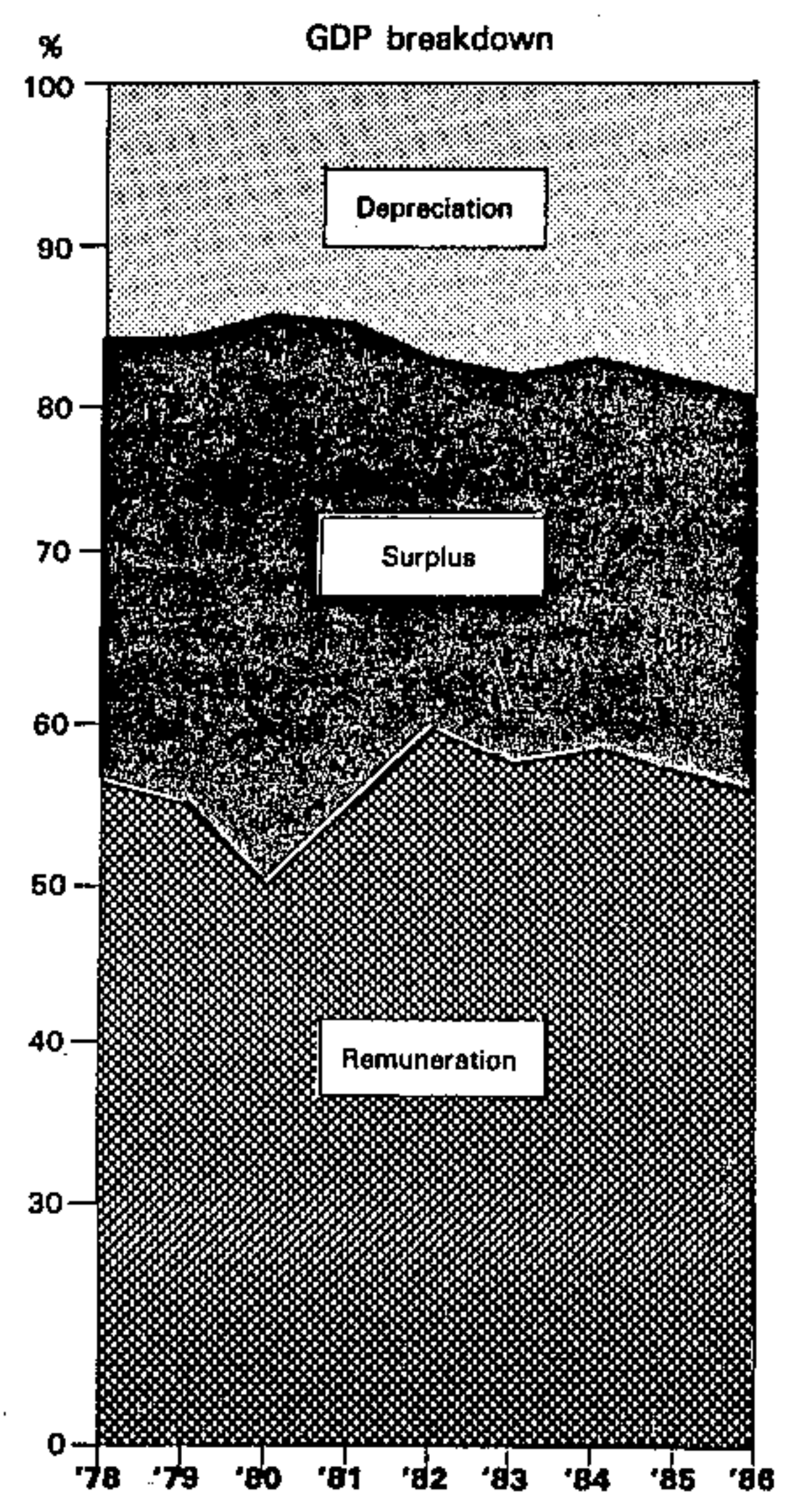
Head of the Nedbank group's economic unit, Edward Osborn, said there was a longer-term upward trend for non-gold exports and a possible upward trend for imports.

74

B/Day

31/3/87

## Surpluses squeezed



was healthier in 1981, when provision for depreciation was 14,9% of GDP and employee remuneration 55,5%; while the surplus was a glowing 29,6%. Since then the squeeze on company profits has been tightening, only to ease in the second half of 1986.

Econometrix's Azar Jammine points out that provisions for depreciation can be viewed as just "bookkeeping." Given that, company cash flows and profits actually improved at the expense of wages in 1986. That is not to say that individual wage rates did not increase; there is sectoral differentiation in wage increases, while employment levels may have been lower.

Rand Merchant Bank's Rudolf Gouws expects real GDP growth of 3% in 1987 to be spread evenly between company profits and labour remuneration.

Jammine agrees: "Average wages should increase in nominal terms by 14%." Though the GDP pie will be larger, he expects little change in the relative shares of the three components, company surpluses, depreciation and remuneration.

Trust Bank's Ulrich Joubert believes that increased spending in 1987 will be directed to the non-durable and semi-durable sectors.

Joubert argues that many GDP forecasts are based on a good year for the agricultural sector. He believes that though farm outputs may be lower than initial post-drought assessments anticipated, 1987 will be a more "normal" agricultural year.

"Heavy rain that fell through the summer was not evenly distributed. ■

## DEBT STANDSTILL

### Boosting confidence

The repayment schedule of the second interim arrangement on foreign debt has been welcomed with cautious optimism by most economists. A three-year period, as opposed to one year, is a major advantage, removing an element of uncertainty over the size of future repayments.

Rob Lee, of Old Mutual, believes that removal of this uncertainty will boost confidence in the business community. "Now the agreement has been finalised, on relatively favourable terms, 3% growth should be possible this year."

Peet Strydom, of Sankorp, points out that the agreement fits in well with the debt maturity structure of the public sector, with debt due to mature declining in each year of the new agreement.

Azar Jammine, of Econometrix, believes the debt repayments will have little adverse effect short-term.

The option of converting short-term loans inside the net into long-term loans outside the net is also seen by Jammine as one of the most important aspects.

"If this option is taken up it will improve SA's debt maturity structure and make us less vulnerable to withdrawals of short-term capital."

Finance Director General Chris Stals confirms that the Reserve Bank is investigating the feasibility of the provision for converting debt within the net into equity outside the net. However, it is likely that this provision will only come into effect long-term.

Some economists doubt, in the present political climate, if this proposal will attract many takers. But it is believed that certain foreign creditors specifically asked for the provision.

This suggests that they perceive an improvement in the international perception of SA long-term. It is likely that the debt conversion is structured around the Chilean example, where acquired equity cannot be sold for 10 years.

Although the debt agreement appears favourable it may still have adverse effects. In the last 15 months of the previous agreement SA repaid about \$500m against \$712m in the first 12 months of the new arrangement.

Lee believes that together with two IMF payments the total capital outflow in the second half of the year should be about \$1 billion.

The expected depreciation of the rand against the dollar, D-mark and Swiss franc (the major currencies in which SA foreign debt is denominated) over the next 12 months will increase this repayment in rand terms. However, it should be well within the scope of an expected payments surplus of R5 billion-R6 billion.

It is difficult to estimate how big the total capital outflow will be over the life of the agreement. Debt outside the standstill, which should mature before June 1990, has

been estimated at between \$3 billion-\$6 billion. However, the success of this latest agreement may result in most being rolled over.

The agreement does give a three-year breathing space but suggestions that debt problems are over and SA is now underborrowed are criticised as irresponsible and premature. "SA still has a debt problem which will effectively constrain potential growth," warns Lee.

Indeed, interest payments as a percentage of gross export earnings have been increasing since 1982, from 6,2% in that year to about 10,5% in 1986. This goes against world trends where interest payments have been falling among developing countries. According to IMF statistics interest payments in these countries, as a percentage of gross export earnings, have declined from 14,5% in 1982 to 12,7% in 1985. ■

## BUSINESS CONFIDENCE

### Vast improvement

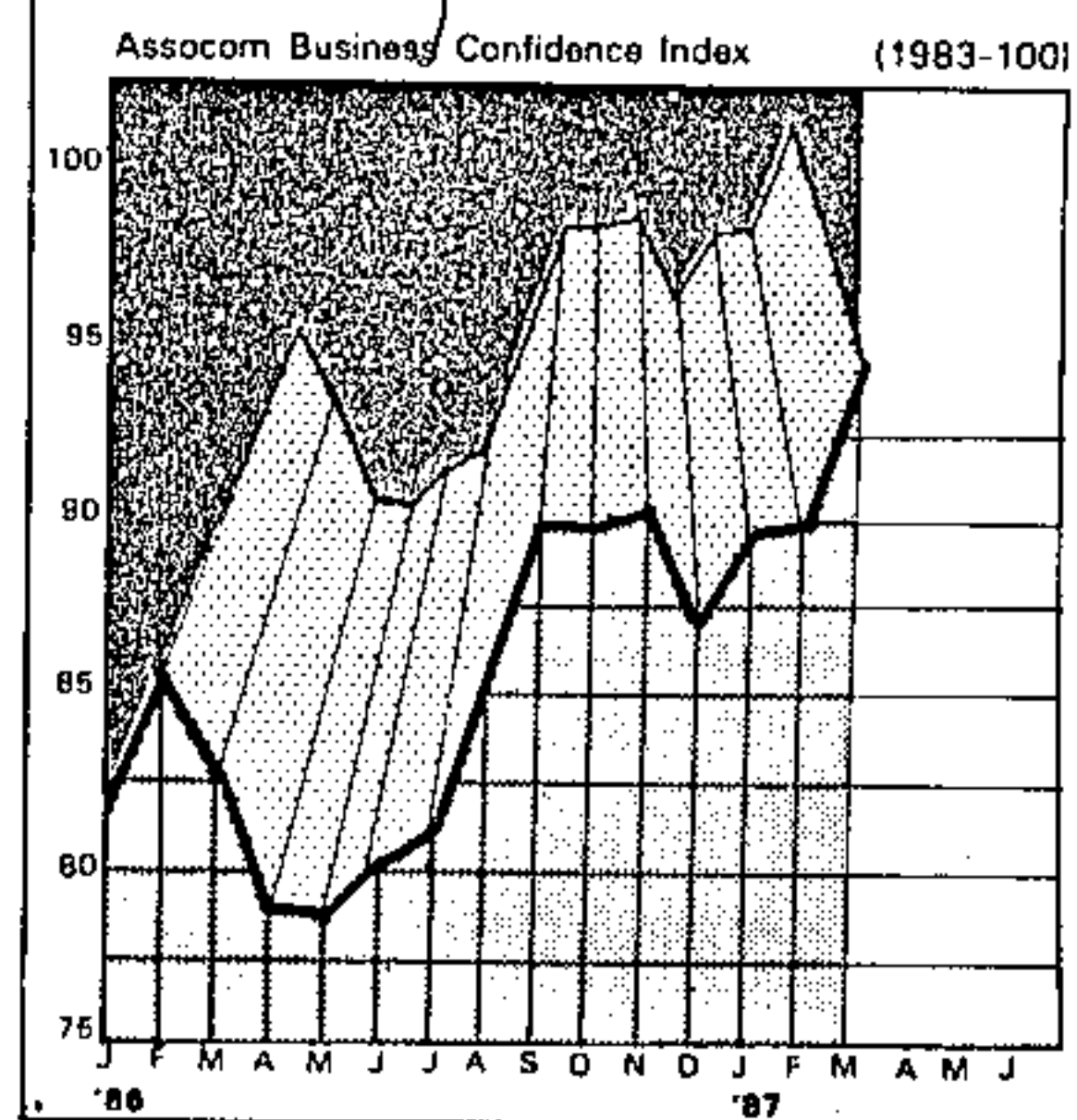
Strongly positive factors dominated economic perceptions in March, according to Assocom. Its Business Confidence Index (BCI) for that month leaped to 93,5, well up from 89,8 in February. This is the third consecutive month of improvement, and the highest the index has been since Assocom began the monitor in January 1985.

BCI is based on the behaviour of certain key markets identified as important to business confidence.

Positive developments included a stronger rand-dollar exchange rate, a decline in the number of registered unemployed, increased motor car sales, a growth in retail sales, and a decline in net emigration. The number of insolvencies also declined, indicating improving credit conditions in the corporate sector.

Negative developments included a slight increase in the latest year-on-year inflation rate, a slight decline in the overall price of quoted shares, and a slowing down of the number of new companies registered.

### Reaching for the sky



## BALANCE OF TRADE

### Surplus boost

The surge in the trade surplus from R906,2m in January to R1,6 billion in February was largely owing to the trend of declining imports reasserting itself after a one-month hiccup (see graph).

Imports declined by 26% from R2,41 billion to R1,79 billion; exports rose marginally from R3,31 billion to R3,39 billion.

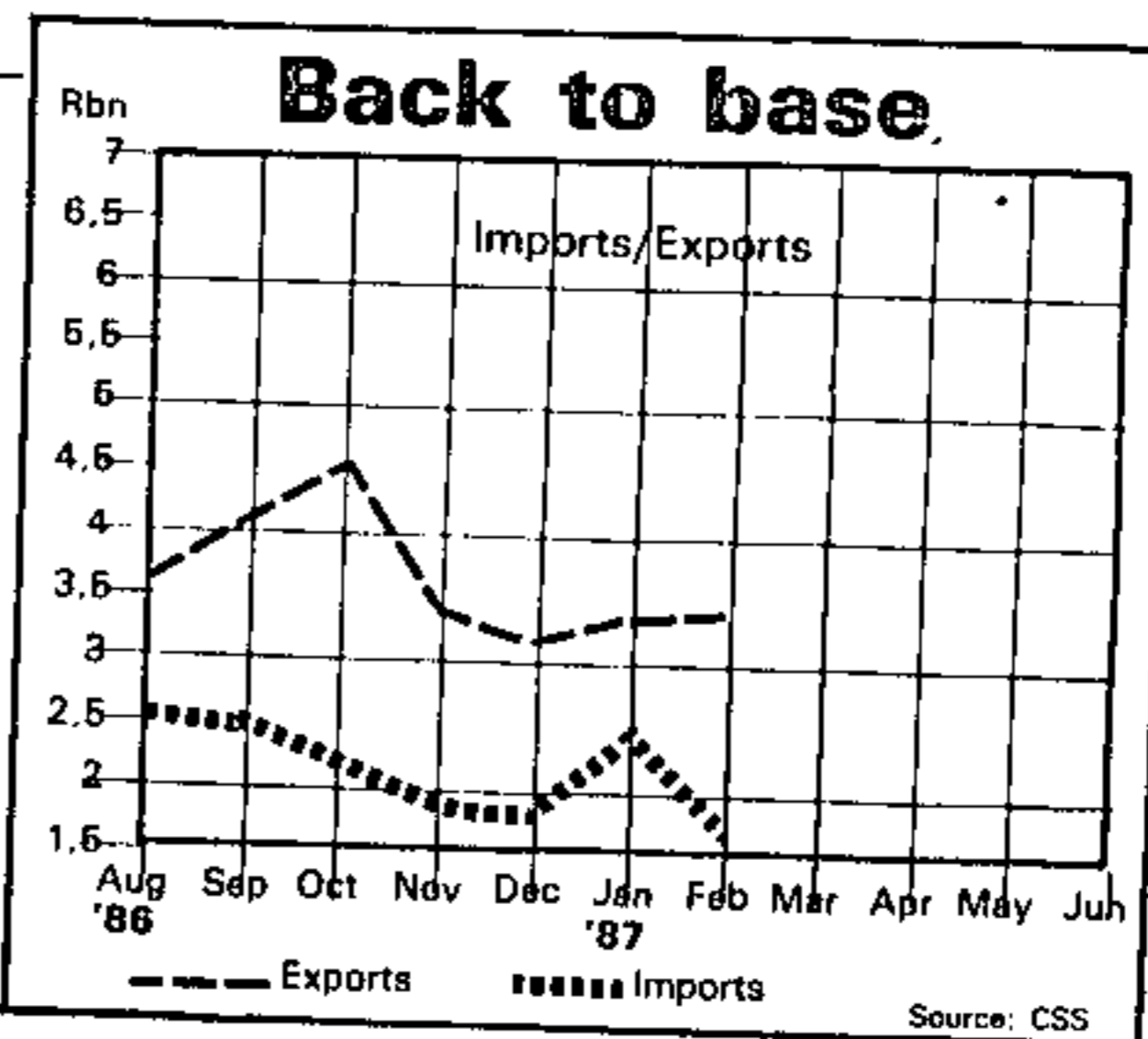
In January, imports increased 28%; the first increase since July last year. However, it is believed that this was because of seasonal oil imports. With this influence absent, imports in February fell below December's R1,89 billion, continuing the downward trend begun last year.

The trend could cast doubts on the strength and timing of economic recovery. Import substitution and excess production capacity have reduced the demand for imported goods, especially capital goods. But imports normally rise as recovery gains momentum.

Preliminary figures from the Reserve Bank *Quarterly Bulletin* indicate that the balance of payments (BoP) surplus on current account last year was R7,2 billion against R5,9 billion in 1985. With the BoP trade surplus at a record R14,9 billion this implies a reduced invisible deficit of R7,7 billion for 1986, 8% lower than 1985's R8,4 billion.

Capital outflows in 1986, surprisingly, were lower at R6,14 billion (R9,23 billion), giving an overall BoP surplus of R1,06 billion. This compares favourably with 1985, when a surplus on current account was wiped

FIM 3/4/87



out by capital outflows to give an overall deficit of R3,33 billion.

The short-term capital outflow in the fourth quarter of 1986 was a massive R2,75 billion, 45% of the total for the year. This was caused by a shift in financing by importers from overseas to cheaper domestic funds, which is believed to have had only a temporary effect. The outflow for the first quarter of this year is expected to be substantially lower.

Disinvestment by foreign companies and sales of South African shares by non-residents resulted in long-term capital outflows rising from R445m in 1985 to R2,2 billion. Most — R1,4 billion — left through the financial rand.

# BoP surplus is sign of a 'weak economy'

JENNY BOBERG

LAST year's massive surplus of R7,2bn on the current account of the balance of payments was a reflection of a weak economy, Southern Life Association says in its latest Economic Comment.

It says the fact that a current account surplus will have to be maintained at least until 1990 remains an obstacle to economic growth.

The recent debt agreement between SA and its foreign creditors concluded in March brought more certainty. It also showed a return to a financial, rather than political, evaluation of SA as a debtor.

However, the agreement had implications for the potentially large drain on the capital account in the form of repayment of debt outside the net. It was probable that about \$2bn could be called in by creditors each year for the next three years.

Economic Comment says import volumes declined last year by 3,2%, and the gold price was unlikely to be much higher on average compared with the 1986 average of \$365.

## Exports up, imports down

# Trade figures a shot in arm for economy

28/4/87 B. Day (14)

ALAN SENDZUL

PROSPECTS for a sustained economic recovery strengthened yesterday with the news that the trade balance had improved to R3,46bn for the first quarter, compared with R2,47bn in the same period last year.

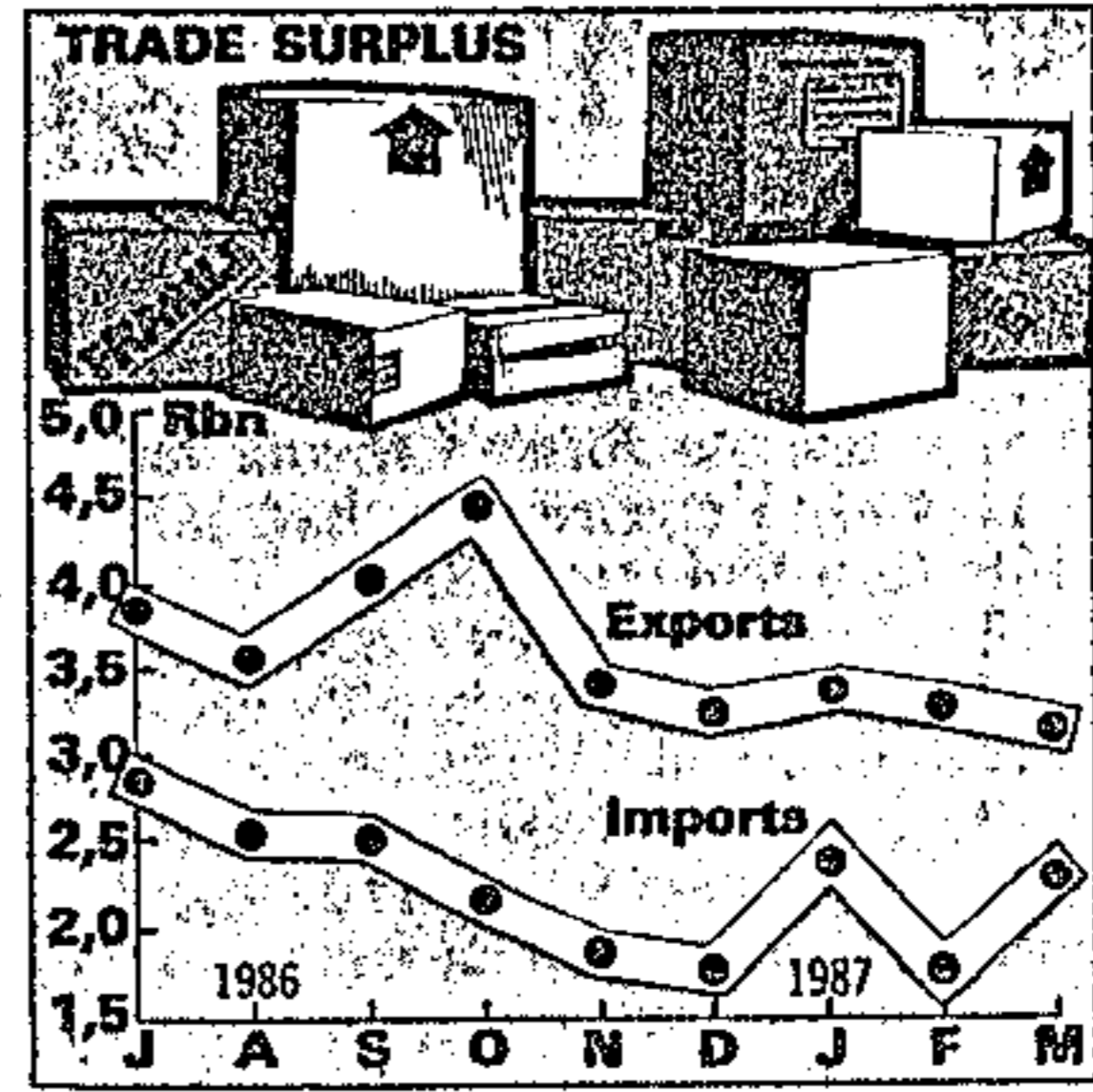
Exports for the quarter rose to R9,92bn from R9,26bn last year and imports dropped to R6,45bn (R6,79bn last year).

The improvement in quarter-on-quarter inflow of foreign currency makes the authorities' projection of a R5bn current account surplus for the year appear within reach.

The appreciating rand, given impetus by the rising gold price, also means that less foreign currency is needed to support the rand, leaving a wider choice for the repayment of foreign debt.

However, on a month-on-month basis, imports rose by 34% in March, compared with February, while exports dipped 4% over the same period.

The higher import figure pointed to



brisker demand for durable goods such as cars and furniture, Simpson Mackie economist John Banos said yesterday.

"Most of these goods are either wholly imported or have a large percentage of their components sourced abroad."

Customs and Excise figures show that the trade surplus widened 25% to R942m.

To Page 2 →



Call Times 28/4/87

# SA records favourable trade balance 74

PRETORIA. — SA recorded a favourable trade balance of R3 466,2m for the first three months of 1987, according to figures released here yesterday.

Preliminary statistics from the Department of Customs and Excise show exports for the period January to March totalled R9 919,6m compared to R9 257,9m for the same period last year) and imports R6 453,4m (R6 789,9m).

The import and export figures have been adjusted largely to bring them into line with requirements for the compilation of the balance of payments.

A breakdown of the

world's trading zones shows that Europe remained SA's largest trading partner.

Imports from Europe totalled R2 296,2m (R2 440,5m) and exports stood at R2 852,6m (R2 663,2m).

Asia was SA's second largest export earner with a total of R1 614,9m (R1 380,5m).

These were followed by America, with R747,9m (R854,4m), Africa, at R359,1m (R395,8m) and Oceania, standing at R64,8m (R99,5m).

After Europe, Asia was also SA's second biggest import partner, with a total for January

— March standing at R1 271,5m (R944,7m). This was followed, as in the trend for exports, by America, at R854,5m (R767,1m), Africa, at R127,8m (R140,6m), and Oceania, with R61,1m (R54,5m).

Other unclassified goods and balance of payments adjustments totalled R1 285,9m (R2 219,8m) for imports and R4 821,6m (R4 070,1m) for exports. Ships and aircraft stores exported totalled R15,1m (R17,1m). — Sapa

## Money to finance growth needed

# Borrow overseas, Stals urges SA

*Cape Town 15/5/87*

JOHANNESBURG. — SA exporters and importers have been urged by the Director General of Finance, Chris Stals, to help obtain more foreign currency for the country by borrowing overseas.

He explained at the annual congress of the Federated Hotel, Liquor and Catering Association yesterday that this would lessen the need to maintain a large surplus on the balance of account and free more money to finance growth in this country.

Stals said short-term trade finance had not been placed under any restrictions in terms of the second interim debt arrangements and there were many opportunities open to SA importers and exporters to finance or partly finance their foreign trade with or through foreign banks.

### R2 billion

"In the past two years a substantial part of this type of finance was switched to SA banks partly for economic reasons and partly because of the adverse perceptions of the SA situation abroad."

He said SA exporters directly or indirectly held more than R2 billion in short-term claims on foreign buyers. This was partly financed by SA banks.

There was therefore an immediate potential to switch this financing back to foreign banks, providing an injection of R2 billion in foreign exchange for SA.

"The road back to the longer term financial and capital markets of the

world will be an arduous one. But also in this case the road has not been completely blocked.

"Potential borrowers should continue to remain in contact with these markets and should make use of possible opportunities to raise new loans not directly linked to trade sanctions," Stals said.

### Reduced growth

He thought the surplus on the balance of payments account should continue to be large enough to cover SA's capital redemption commitments for the next three years.

These repayments however absorbed part of the country's savings and therefore reduced its potential economic growth rate.

"We should not be complacent about the situation and should continue to make all efforts to raise new foreign financing facilities."

Turning to the broader economic picture, Stals said the recovery phase had been sluggish. The rate of economic expansion had been mild and at times erratic.

"The total gross domestic expenditure in real terms changed course in each of the seven quarters from the second quarter of 1985 to the end of 1986.

"This inconsistency complicates forecasting and planning in a world that is already characterized by increasing volatility in important economic variables such as interest and exchange rates." — Sapa-Reuter

CAP 7m 75 4/6/87

74

# Swoop on forex fraud suspects

PRETORIA. — The Reserve Bank invoked for the first time last night a newly promulgated exchange-control regulation to seize several million rand and properties allegedly accrued through irregular transactions by former senior African Bank employees.

The bank gave notice in a special edition of the Government Gazette that the monies and properties, allegedly gained through irregular foreign-exchange transactions, were to be forfeited to the State.

The former employees named in the Gazette are Mr Alan Young, Mr Henry Alexander Harper, Mr Arthur Edward Ferreira and Mr Young's wife, Mrs Judy Rona Young.

Monies accredited to two close corporations are also to be forfeited. The notices are of im-

mediate effect and the monies and proceeds from the auctioning of the properties are to be deposited into the State Revenue Fund.

The bank's action follows alleged acts of fraud and contraventions of the exchange-control regulations, whereby financial rands were bought but allegedly paid for with commercial rands.

Mr Young, Mr Harper and Mr Ferreira are to face charges in the Rand Supreme Court on August 17 in a trial that may last six to eight weeks.

The Trust Bank of Africa Ltd lost its authority to operate as a foreign-exchange dealer in the wake of the affair.

Its former managing director, Mr Moses Mobane, was also to be charged but died recently. The Reserve Bank may take similar action against his estate.

According to last night's gazette, the following sums of money — deposited in accounts at the Commissioner St, Johannesburg,

branch of the African Bank — and properties are to be forfeited to the State:

□ R377 762,07 plus interest, accredited to Mr Young, 36, and a lot held by him in Florida Park;

□ R409 897,36 plus interest, accredited to Mr Harper, 43, two lots held by him in Westdene and Fairlands, and two half-shares registered in his and his wife Rita's names — in two Sections of Bronze Paradise at Leisure Bay;

□ R2 176 271,98 plus interest, accredited to Mr Ferreira, 40, and two lots, at Glenvista Ext 5, and Gerdview;

□ Two half-shares held by Mrs Young in the same two sections of Bronze Paradise as held by Mr and Mrs Harper;

□ R1 005 565,09 plus interest, accredited to Afsek close corporation; and

□ R5 814 410,16 plus interest, accredited to Young and Harper Investments close corporation. — Sapa

FIM 5/6/87

TRADE FIGURES

14

### Surplus widens

The trade surplus rose to R1,24 billion in April after falling to R941m in March, and indicates low import growth, a symptom of a sluggish economy.

"High excess capacity, high tax rates and lack of long-term confidence in the upturn are holding back capital investment through imports," says Azar Jammine, director of Econometrix.

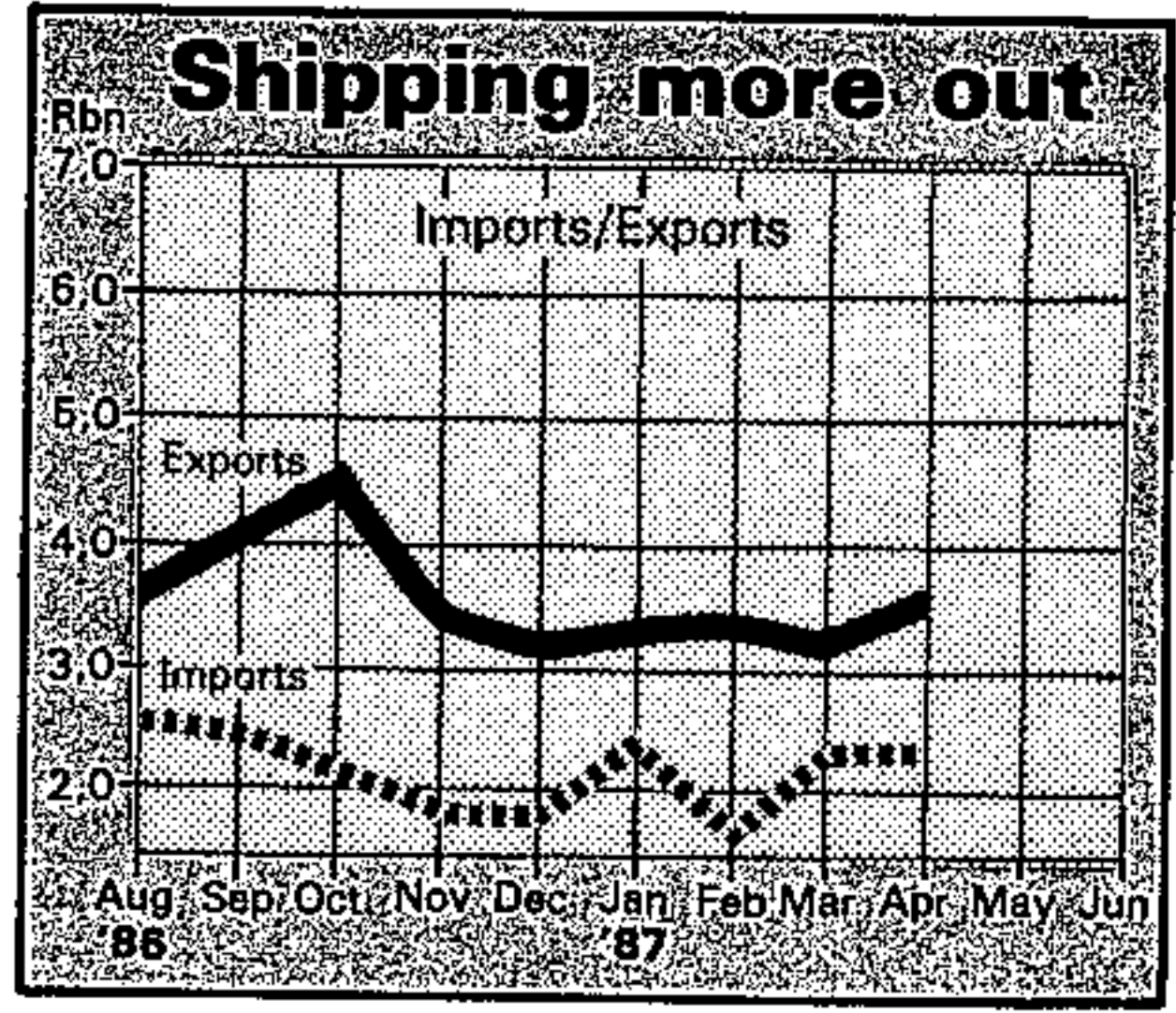
April's surplus increased by 18% on last April's surplus of R1,05 billion.

Exports rose by 11% to R3,59 billion from R3,24 billion in March. Sources indicate that the main contribution to this rise was from "unclassified goods" which includes, among others, gold, oil and strategic minerals. But the mystery surrounding the breakdown of unclassified goods makes it difficult to gauge the performance of these important exports.

Imports rose by only 2% in April to R2,34 billion from R2,30 billion in March, with no significant increases in any specific commodity.

Total exports for the first four months of 1987 now stand at R13,51 billion and imports R8,80 billion, a surplus of R4,71 billion, up from R3,51 billion in the same period of 1986.

Jammine believes that the continuing



strength of the trade surplus was widely expected. It will allow SA to continue to build up reserves and stabilise the rand.

"Capital equipment is expensive to replace as much imported capital is from Japan and Germany. The rand has not risen against the D-mark or the yen," he says.

## BALANCE OF PAYMENTS

For the ninth consecutive quarter there was a surplus on the current account in the first quarter of 1987, while there was a net capital inflow for the first time since the second quarter of 1985.

The Reserve Bank's *Quarterly Bulletin* reports a R7,4 billion annualised current account surplus, still large but way down from the fourth quarter's record R12,9 billion. The *Bulletin* attributes the squeeze to a "marked decline" in value of merchandise exports (both volume and average prices dropped) and a "significant rise" in value of merchandise imports (volumes increased but average prices dropped).

Annualised, merchandise exports fell 9% from R27,3 billion in the fourth quarter of 1986 to R24,9 billion in the first quarter of 1987. Over this period merchandise imports rose 10,5% from R23,6 billion to R26,2 billion.

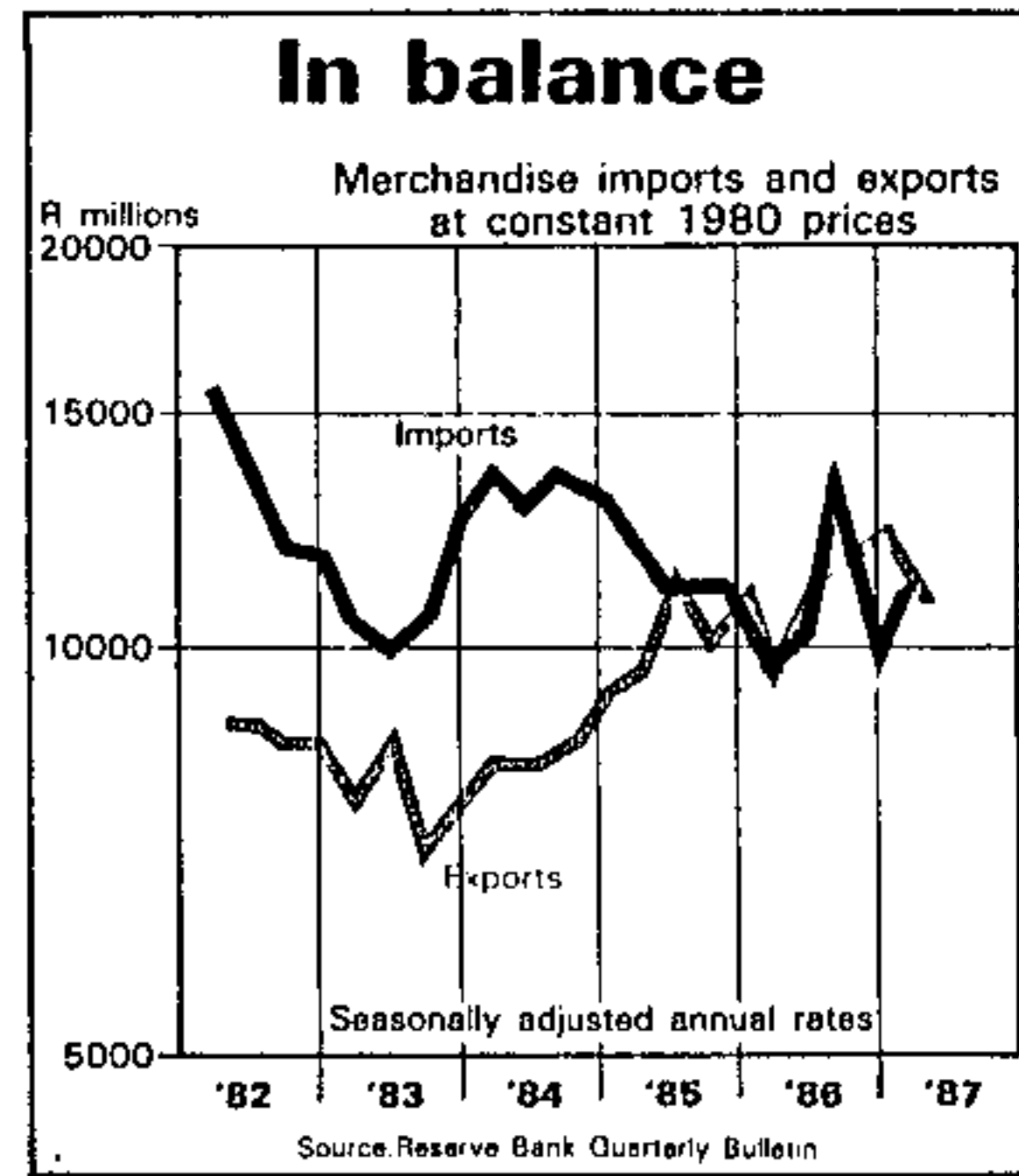
With the decline in average rand gold price (from R904/oz to R844) net gold exports slipped from R17,9 billion to R17,7 billion.

A net R533m capital flowed in during the first quarter, a sharp turnaround from the fourth quarter's R3,5 billion net outflow. Both long and short capital movements were positive — a net R120m long term and R413m short term. There was, the Bank notes, a "considerable" flow of

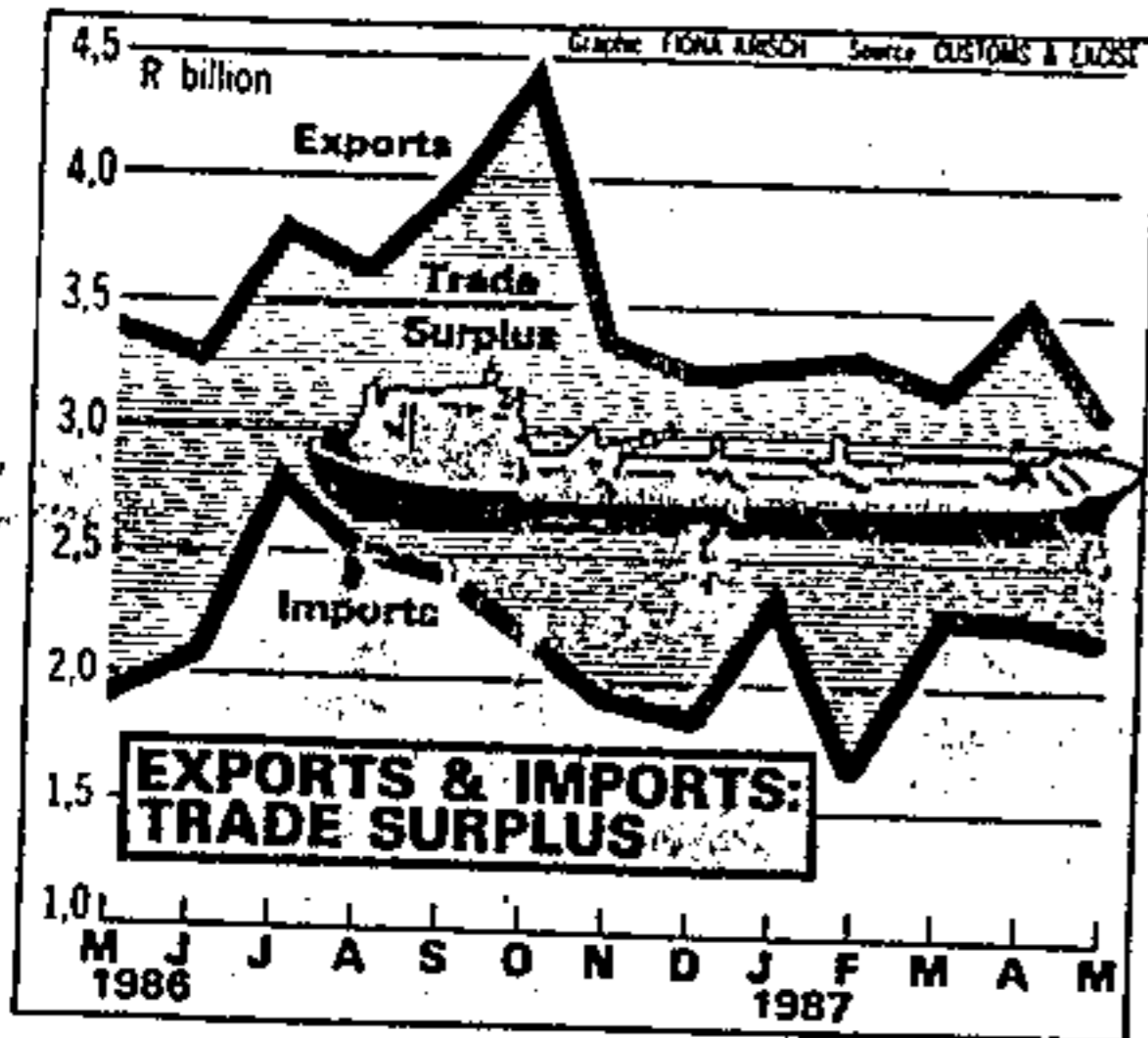
foreign funds to public corporations, comprising "drawings on existing loan facilities for project financing as well as a taking-up of new long-term foreign loans."

Also helping was the drop in net sales by foreigners of JSE-listed securities from R566m to R209m.

These surpluses partly account for the R1,8 billion rise in gross reserves (held by the banking system and the Reserve Bank) to R7,5 billion at the end of the first quarter. This is worth some two months' imports.



F/M  
20/6/87



# SA trade surplus rises to R5,65bn

*B/Day* 3/7/87  
HELENA PATTEN

SOUTH Africa's trade surplus for the first five months of this year rose to R5,65bn compared with R4,92bn for the same period in 1986, according to preliminary trade figures released by Customs and Excise yesterday.

Subtracting net service payments, the figures suggest an annualised current account surplus of around R6bn for the year, compared with the R7bn surplus in 1986.

The trade surplus for May decreased to R901,8m from R1,29bn the previous month, and R1,55bn in May 1986.

Exports for the first five months of the year totalled R16 627,1m, up from the R15 755,3m for the comparable period in 1986 while accumulated imports came to R10 973,6m compared with R10 835,4m last year.

In May alone, exports showed a R468,3m decline compared with April (R3 119,6m in May, down from

74 ● To Page 2 →

# SA trade surplus increases to R5,65bn

R3 587,9m in April).

The decrease in export revenue probably relates in part to a decline in the sale of gold bullion and Krugerrands, since export figures include sales of these. From the Reserve Bank's gold holdings, which rose by 200 000 ounces in May, it can be assumed some of the country's gold output is being withheld from the market, affecting export revenue proportionally.

Volkscas economist Adam Jacobs said the May export performance had not been as favourable as forecast.

*B/Day* 3/7/87  
74 ● From Page 1 ←

Among the reasons was the slow-down in the world economy and the consequent slackening in demand for SA exports, reports GERALD REILLY.

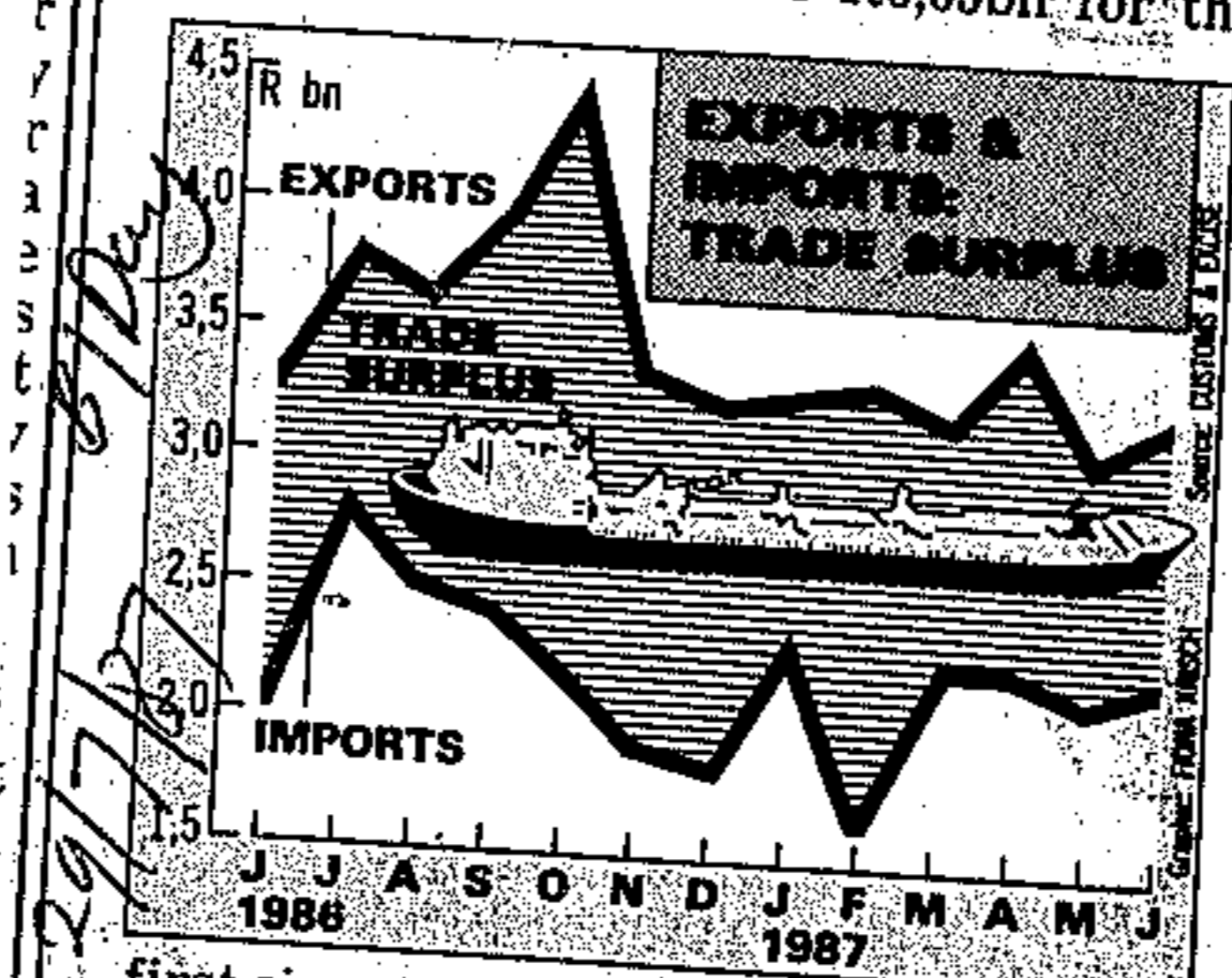
Jacobs said another factor was the marginal impact of boycott actions and sanctions on some SA exports, including coal and steel.

Imports in May totalled R2 217,3m, down R84,6m from April's R2 302,4m. These figures include the country's purchases of oil and strategic equipment.

# SA trade surplus reaches R6,67bn

GRETA STEYN

SOUTH AFRICA'S trade surplus for the first half of this year is R6,67bn — marginally higher than the R6,65bn for the



first six months of 1986, preliminary Customs and Excise figures released yesterday show.

Exports totalled R19,92bn in the first

● To Page 2 →

## SA's trade surplus is slightly up at R6,67bn

half, marginally higher than last year's corresponding figure of R19,6bn. Imports, at R13,24bn for the first six months of this year, were R290m up on the R12,95bn recorded in the same period last year.

From May to June this year, the trade surplus increased to R1,02bn from R942,4m in May. Exports rose to R3,29bn in June from R3,12bn in May and imports increased to R2,27bn from the previous month's R2,18bn.

Old Mutual economist Dave Mohr welcomed the increase in imports, saying

74 ← ● From Page 1 B Day

this was an indication of increased domestic demand.

Sanlam economist Johan Louw points out one should bear in mind price increases when looking at the rand increase in imports. He said that though there had been a substantial increase in import volumes since the beginning of 1986, the rate of increase in imports had slowed.

"The upward tendency in imports has slackened," Louw said.

Political comment in this issue by Neil Jacobsohn. Newsbills by Kevin Davie. Headlines and sub-editing by Michael Allwright. All of Times Media Ltd, 11 Diagonal Street, Johannesburg.

FOREIGN DEBT

74 F/M 21/8/87

# Stancha's compliment

SA has been paid a back-handed compliment by Standard Chartered Bank in the £400m additional charge against its £2,38 billion problem cross-border loan book.

Solely because of government's "unilateral" and arbitrary decision to extend the debt repayment period, says group MD Michael McWilliam, the bank has decided to make a "nominal" 5% provision against the £691m owed by SA.

On all other debt-service criteria, "SA is extremely strong and able to handle its obligations," he said in London this week at the unveiling of Stancha's interim figures. These showed a net loss of £279m (profit £70m), but a maintained dividend for the first half of 1987. But SA is on the doubtful side of Stancha's book for the first time.

Following the line set by other major US and UK international banks, Stancha has provided 31% against £944m owed by a dozen Latin American countries and 27% in respect of loans to 21 elsewhere. In all, provisions have been raised from £115m to £515m. On top of that, "ordinary" bad debt charges (in the US, Canada and Malaysia) leapt from £67m to £103m.

The sale of Stanbic is not included in the first-half figures. Its contribution to Stancha rose from £12,6m to £16m, ranking it among the only three regions of operations to register an improvement. The £153m — which after capital gains tax will result in a net loss of £60m on the £194m book value — will be dealt with in the final accounts.

Chairman Sir Peter Graham said the withdrawal from SA after 125 years "was not done without a great deal of sadness." Business will continue as usual, on the basis of his comment: "We hope to see the South African connection continue on the same levels and patterns as before."

Meanwhile, Stancha is setting about repairing the ravages to shareholders' funds, down by 33% to £860m, and capital ratios. Primary capital has fallen from 7,5% of total assets to 5,2%. It needs to find some £300m — possibly less, if Inland Revenue allows relief against the provisions — and will do so without a rights issue.

As Graham said: "Fortunately we have an ample supply of family silver to sell off." He would not be drawn on which were up for grabs or whether the two major shareholders, Sir Y K Pao and Robert Holmes à Court, had ruled against a cash call. ■



# Shrinking trade surplus, rising imports set alarm bells ringing

By Alta Dent

The surplus on the current account of the balance of payments is shrinking, despite the low value of the rand against the dollar.

The situation will be further exacerbated by an expected rise in imports, which have been at a low level for some time.

This is the view of Mr Richard Kern-Martin, director of Latam International Trade, who says the beneficiation of mineral exports will add to what already amounts to an over-dependence on that sector.

"The contribution of our manufacturing industry has, at best, reached a plateau. Failure to export has led to our inability to meet international financial commitments, greater social unrest due to excessive unemployment, and the decline of the economy."

The June trade figures show a surplus of R1,02 billion, about 10 percent above the May results, but R570 million down on the surplus achieved at the time last year.

Almost 50 percent of

the gross national profit (GNP) depends on exports, as against 30 percent and 20 percent respectively for Japan and the US.

Exports should, therefore, be commensurately greater than those of more developed countries.

But such direct comparisons with the First World are misleading because the local export pattern is more like that of developing countries, characterised by over-dependence on commodities and by lack of diversification.

The economies of many Third World countries are dominated by one product.

The world price of coffee is of as much concern in Colombia, as are the fluctuations in the price of gold in South Africa — each happens to provide about 44 percent of the foreign exchange income of the country.

In the first four months of 1986, the last period for which detailed export figures by destination are available, unclassified goods (gold, strategic minerals and sensitive items) account-

ed for 50,8 percent, classified minerals for 13 percent, chemicals and plastic material for 16 percent and base-metal products for 12 percent.

Raw materials and semi-processed raw materials made up 91 percent of exports in that period. At the other end of the scale, equipment and machinery of every kind contributed only 0,007 percent.

Mr Kern-Martin says South Africa is historically import/production, not export/marketing, orientated.

## COMPETITION

"Our industrial revolution sprang from the need to replace imports, which the Allies were unable to supply to our mining industry in the early 1940s. There was no need to sell, demand was assured, competition was non-existent. That tradition has persisted.

"Exports tend to be regarded as something done by big companies, undertaken by smaller ones only when times are bad, and abandoned as soon as the situation improves," he says.

Moreover, an acute

lack of middle management has affected the export sector more than others.

Criticism levelled at exporters at a recent meeting of the Federation of Bi-National Chambers of Commerce in Johannesburg included slowness to respond to telexes, ignorance of foreign trade and an apparent reluctance to export to certain markets.

While large export industries train staff in-house, from the outset small and medium businesses must rely on outsiders for assistance.

The brain drain is reducing the numbers of effective export consultants available to provide marketing and administrative services.

Solutions to these problems will have to be long-term, with the emphasis on education and training to provide a capable middle management.

Finally, to minimise political disadvantages, Mr Kern-Martin suggests South Africa's international trade promotion activities be put into the hands of the private sector.

# Foreign credit position easing

HELENA PATTEN

THERE ARE signs that foreign trade credit will be more freely available to SA in the near future, says Trust Bank's latest Economic Report.

It says this indicates that the damping effect of the balance of payments on economic growth, because of a stricter monetary policy, will be felt later than anticipated.

"While the continued sanctions campaign against the country and the only-moderate growth in the major industrial countries are having an adverse effect on SA exports, the trade account is expected to show a healthy surplus again this year. The gold price, on average higher than last year, will definitely make a stronger contribution to the surplus."

The report says the growth of the domestic economy is still sluggish, while private consumers, because of existing debt, remain wary of bank credit, and companies are deterred by poor growth prospects in both the local and international economies.

"The environment, nevertheless, remains favourable for the growth of the local economy" because of current political tranquility, room to manoeuvre with the balance of payments and an inflation problem which doesn't restrict monetary policy.

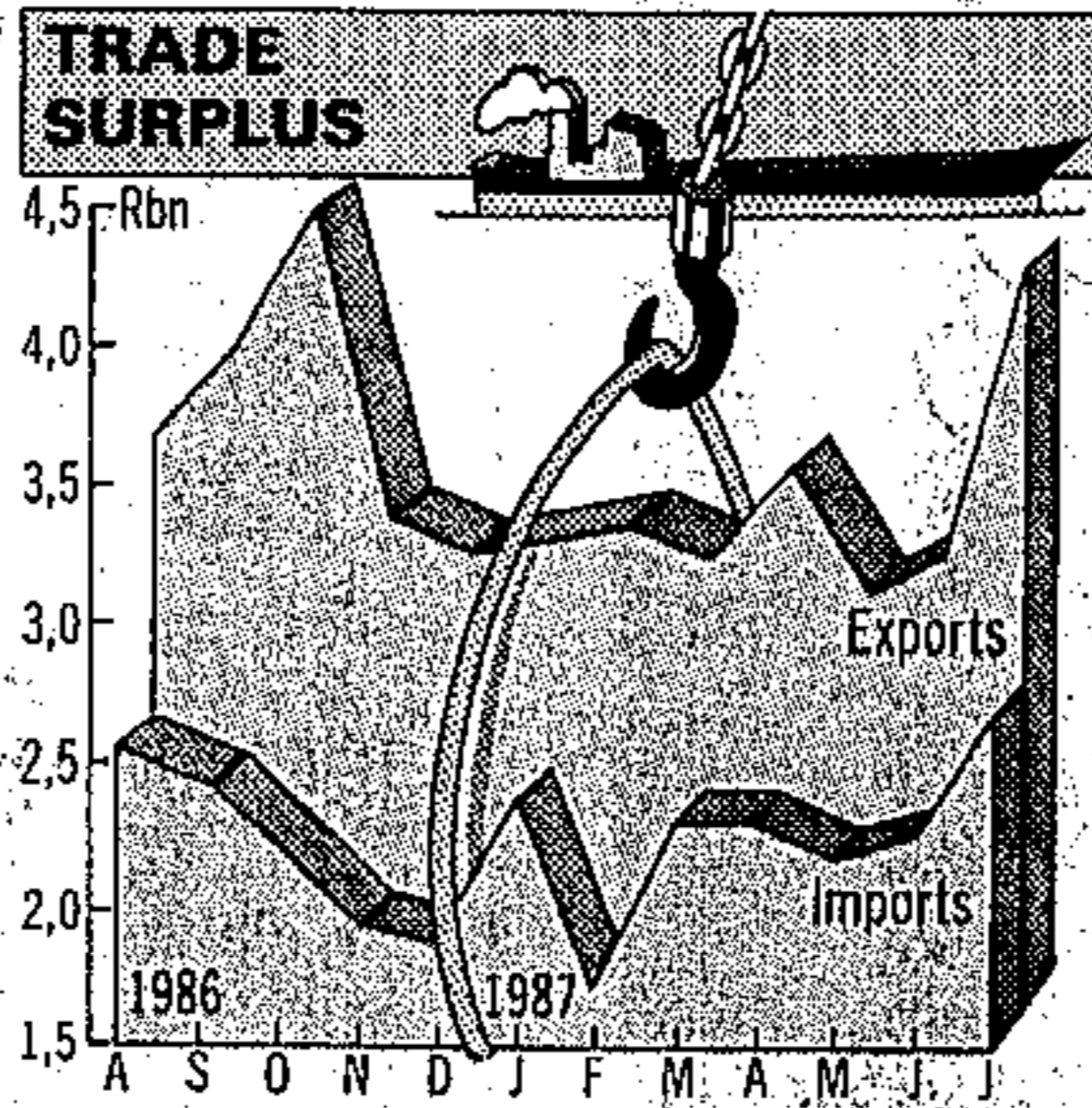
Trust Bank says inflation is expected to show further slight drops in the coming months, although remaining one of the most serious problems confronting the country.

# SA trade surplus shows sharp rise

GRETA STEYN

SOUTH AFRICA'S trade surplus rose sharply to R1,63bn in July from R1,02bn in June, Customs and Excise figures show.

Imports increased by about R400m to



Source: CUSTOMS AND EXCISE Graphic: JOHN McCANN

R2,67bn from June to July, and exports by about R1bn to R4,3bn.

Thus total exports for the first seven months of this year amounted to R24,22bn and total imports to R15,91bn, for a surplus of R8,30bn. This compares

● To Page 2 →

# Trade surplus R1,63bn in July

with a surplus of R7,73bn after the first seven months of 1986.

Exports increased in July from June mainly as a result of a R991m jump in the "unclassified" category, which includes gold, platinum and uranium.

Gold exports, recorded under "unclassified", probably rose in volume terms in July — indicated by the fact that the rand price of gold was not much higher from June.

In classified categories, exports rose marginally by R20m, due largely to precious stones.

Economists yesterday described the export figures as "nothing exciting".

On the import side, an increase of about R100m was notched up in the

← ● From Page 1 (M)

vehicles and aircraft category.

The rise reflects increased demand for vehicles and parts — a positive sign for the economy.

Another positive sign is the R64m rise in machinery imports, which indicates a slight pick-up in investment spending. July was the second month in succession that this category recorded an increase.

The unclassified category in imports increased by about R223m from June to R429,2m in July. July's increase was expected, since June's figure was unusually low. Unclassified imports include oil and military equipment.

## Bankers forgive slowly. And SA is not forgiven 74

By HILARY JOFFE

INTERNATIONAL bankers do not easily forgive those who default on their debts. And countries which do so, even just once, will be regarded with suspicion for a long time. W/Mail

South Africa's financial authorities have been announcing with pride their successful efforts to repay foreign bankers, after the debt moratorium declared in 1985. Reserve Governor Gerhard de Kock said recently that South Africa had repaid a net \$4.8-billion of foreign debt in three years. 470/12/87

But it appears British banks, at least, continue to treat South Africa with circumspection. South Africa is keeping company with some of the world's most debt-ridden countries on a list recently issued by The Bank of England, which earlier this year issued guidelines to commercial banks suggesting the level they should adopt when making provisions for troublesome Third World debt in their accounts.

According to the London-based newsletter, *Front File Southern Africa*, the guidelines were accompanied by a list of 28 countries whose debt problems were sufficiently serious for the Bank to have done its own calculations. Only half-a-dozen countries in sub-Saharan Africa were understood to be on the list and only two in Southern Africa — Zambia and South Africa.

The Bank of England suggests the commercial banks make provision of between five and 15 percent against their loans to South Africa, *Front File* reports. This doesn't place the country as high risk compared with Zambia, for example, for which the bank suggests provision of 60 to 100 percent be made and Mozambique (56 to 70 percent) by the commercial banks. But some of South Africa's neighbours, such as Zimbabwe, are not mentioned on the list.

The Bank of England guidelines suggest countries be scored on three sets of criteria. The first and most heavily weighted relates to the immediate past record of debt moratoria, rescheduling and arrears on payments. On this, South Africa scores 10 out of a maximum 51 risk points. Zambia by contrast scores a very high risk 47 points.

South Africa is judged reasonably well in terms of its ability to meet its debt obligations. But it scores badly in terms of its over-dependence on a single export and its risk profile is judged high too on the "other factors" taken into account, understood to relate to political considerations.

Standard Chartered Bank apparently bowed to the guidelines when it made a five percent provision against its £691-million South African debt exposure, *Front File* writes.

But African countries are given little attention in the Bank of England's risk list: far more problematic are the Latin American countries. "Africa is very much of a side show in the international debt crisis," says the newsletter.

Including South Africa the 40 countries of sub-Saharan Africa account for little over 10 percent of world debt as against Latin America's 40 percent at over \$400-billion. Sub-Saharan borrowing from commercial institutions (as opposed to government agencies) is a little over \$20-billion, a figure which doubles if South Africa is included, according to *Front File*.

62/91  
16/25  
Laps

62/91

Sapa-Ar

Blom 10/11/87

63  
74

AMERICANS are once again showing interest in buying up SA's foreign debt, said Reserve Bank deputy-governor Jan

# US banks renew interest in SA debt

Lombard yesterday. And indications are that sellers are successfully achieving lower discounts for their wares than was the case at the beginning of the year.

## Banking circles

Lombard said that until some months ago, only non-US banks were interested in holding SA debt. "Now I get the feeling American banks are also interested," he said.

Reports early this year suggested SA's debt was regarded in

HELENA PATTEN

international banking circles in a similar light to that of Mexico, and was flogged at similar discounts — around 43%.

However, Lombard said although the market for SA debt was not particularly active and no discount was universally applicable, discounts fluctuated between 30% among American buyers and "much smaller margins" in Europe.

He said international confidence in this country's economy

had definitely taken a turn for the better.

"Banks generally are feeling far more relaxed about holding SA debt; it has been performing tremendously well."

He said some banks were swapping SA debt for South American debt, but he indicated such transactions were probably motivated by political factors rather than by commercial considerations.

Lombard said he could not divulge the names of banks involved in the purchase of SA's debt or any details of these deals.

AP Wirephoto Service  
AP Wirephoto Service  
AP Wirephoto Service

# Koornhof bail 'excessive', court rules

Copy to News

26/11/87



## Supreme Court Reporter

BAIL set at R150 000 for Mr Anton Koornhof, nephew of ambassador to the United States, Mr Piet Koornhof, was described as "excessive" by the Supreme Court yesterday, and reduced to R50 000.

Summarizing the record of proceedings in the Regional Court where 34-year-old Mr Koornhof appeared on November 18, the day after his arrest, Mr Justice P Tebbutt said it consisted mainly of "factual averments" made by counsel.

Mr Koornhof was not asked to plead and in fact no charge had been formulated. The prosecutor said only that the charge would "probably be fraud".

The factual background which emerged from the averments was that R1.4-million in financial rands was made available for importing certain machinery to a company called Hollyear SA

(Pty) Ltd, of which Mr Koornhof is a director.

The State averred that the machinery was not purchased — except for R100 000-worth of Hong Kong computer parts — and that an amount of R670 000 is outside the country and that Mr Koornhof is somehow involved in this.

## Bought machinery

Mr Koornhof's counsel told the Regional Court the machinery had been bought. He said it was in Atlantis and earmarked for a company called Welgelegen Investments in whose employ Mr Koornhof was.

The prosecutor retorted that this machinery had been attached by the liquidator of a company called Tiger's Eye and that Welgelegen Investments was "an empty shell".

He said police and the Reserve Bank had not yet had a chance to check whether the machinery had been bought or not, adding that the whole transac-

tion was "a bit complicated", taking place "between and through companies".

Noting that among the factors to be weighed in such appeals were the prospect of the accused failing to stand trial and the strength of the State case, Mr Justice Tebbutt said the allegations against Mr Koornhof were "extremely vague" and the strength of the State case was not known at all.

Mr Koornhof's counsel had said Mr Koornhof's family were "scraping together" R20 000 towards bail, adding later that friends were prepared to add another R30 000.

To fix bail higher than this would amount to denying it, Mr Justice Tebbutt said.

Bail conditions imposed by the magistrate, including that Mr Koornhof reports twice a day to Camps Bay police station, remain.

Mr J Reebein appeared for the State. Mr J E H Smith, instructed by Truter and Partners, appeared for Mr Koornhof.

BALANCE OF  
PAYMENTS

1988

25/1/88 (34) B/day

# De Kock favours foreign borrowing

IMPORTERS would have to make more use of offshore trade credits this year if the foreign exchange reserves were not to be over-strained by the expected increase in demand, said Reserve Bank Governor Gerhard de Kock.

Little use had been made of foreign facilities last year although they had been freely available. Local borrowing was cheaper, De Kock said in an interview.

However, conditions were now changing. SA interest rates had started to rise because of increased demand and the narrowing gap between local and foreign credit.

Trade credits were of considerable importance, with other foreign borrowing facilities denied to SA. The current account must not be allowed to go into deficit, as other countries which experienced difficulties were able to do.

The Reserve Bank had not been manipulating forward cover to send borrowers offshore, he said, giving the impression that he was unwilling to use this mechanism, preferring to depend on the expected upward movement in SA rates.

He would not say just where he thought Bank Rate and prime would reach in 1988. This depended not only on the fiscal policy which would emerge

HAROLD FRIDJHON

from the March Budget, but also on the demand for credit in the private sector. But he hinted that Finance Minister Bar-end du Plessis' borrowing programme for the fiscal year beginning April might be curtailed by privatisation proposals which had yet to be revealed.

He was not averse, however, to an upward movement in interest rates because of the need for real interest rates to become more positive. The timing of rates increases was critical. They could not be allowed to move up too rapidly or prematurely.

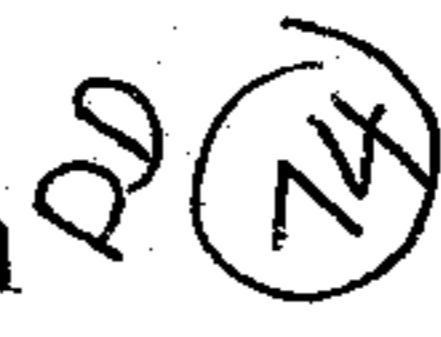
He stressed the drastic steps taken in 1984 to correct a critical situation should not be allowed to happen again.

Long-term strategy must be to achieve positive interest rates so as to encourage savings and the building, not the destruction, of capital. The present negative rates were tantamount to "stealing money from people", said De Kock. Living standards could not be maintained with negative interest rates.

It was encouraging that yields on long-term government bonds, which had been negative for the past two years, were now turning positive.



# Trade surplus up by R418m



PRETORIA — Increased exports and reduced imports boosted South Africa's trade surplus for November, 1987 to R1447,2 million — R418,1 million more than October.

But preliminary figures released by the Commissioner for Customs and Excise here yesterday showed that the surplus for January to November last year was, at R13 202 million, R686,8 million less than the same-period in 1986's R13 888,8 million surplus.

November's exports totalled R4 037,4 million, up from October's R3 749 million.

Imports decreased to R2 590,2 million, from October's R2 719,9 million.

Exports for January to November 1987 totalled R39 282,3 million, a R417,4 million increase compared with the same period in 1986.

But imports for this period, at R26 080,3 million, represented a R1 104,2 million increase compared with the same period in 1986.

The figures have been adjusted largely to bring them into line with the requirements for the compilation of the balance of payments. — Sapa

26/1/88

8  
1  
5  
1  
91  
91  
91  
40  
60  
60  
40  
40  
60  
60  
4  
4  
4  
4  
6  
6  
4  
4  
8  
5  
1  
9  
9

Exchange rate quotes to be changed

# Forex trade: two-day shut-down

74  
B/day  
27/1/88

SA WILL shut down currency trading for two days next month to enable the foreign-exchange market to absorb a change in the way the rand/dollar exchange rate is quoted.

In terms of a Reserve Bank directive to the major banks, the domestic foreign-exchange market will close on February 26 and 29 while computer programs in electronic dealing rooms across the country are changed. Trading will resume on March 1.

The Reserve Bank maintains the switch will bring the rand/dollar quotation into line with international quotations of other major currencies against the dollar.

The Standard Bank said: "The rand will be quoted like most other currencies on a direct basis. That is it will be expressed in terms of one unit of the US dollar — one dollar equals 1,9782 rand."

But local bankers cautioned the changeover could plunge the currency market into chaos when trading resumed.

A Standard Bank senior trader said: "It's going to be a hell of a switchover. All foreign-exchange contracts we hold for customers have to be changed as well as the computer programs, graphics and historical data bases."

The new system will replace the current rand/dollar quotation which is expressed indirectly — one rand equals US\$0,5055.

Reserve Bank officials privately confirmed the switch and the two-day trading suspension, but the Reserve Bank has so far made no public statement on dates of the changeover.

A senior Reserve Bank foreign exchange trader said: "It's something that we've always wanted to do. With trading volumes at a low ebb because of sanctions and a cut-off of foreign loans, we feel now is the time to do it."

Reserve Bank officials said all forward currency contracts maturing on February 26 and 29 would be swapped to valid dealing dates, but acknowledged there could be confusion in the market.

A banker said: "They couldn't have done this in a major market like London. Even here it's going to result in pandemonium even though it's only an arithmetical exercise."

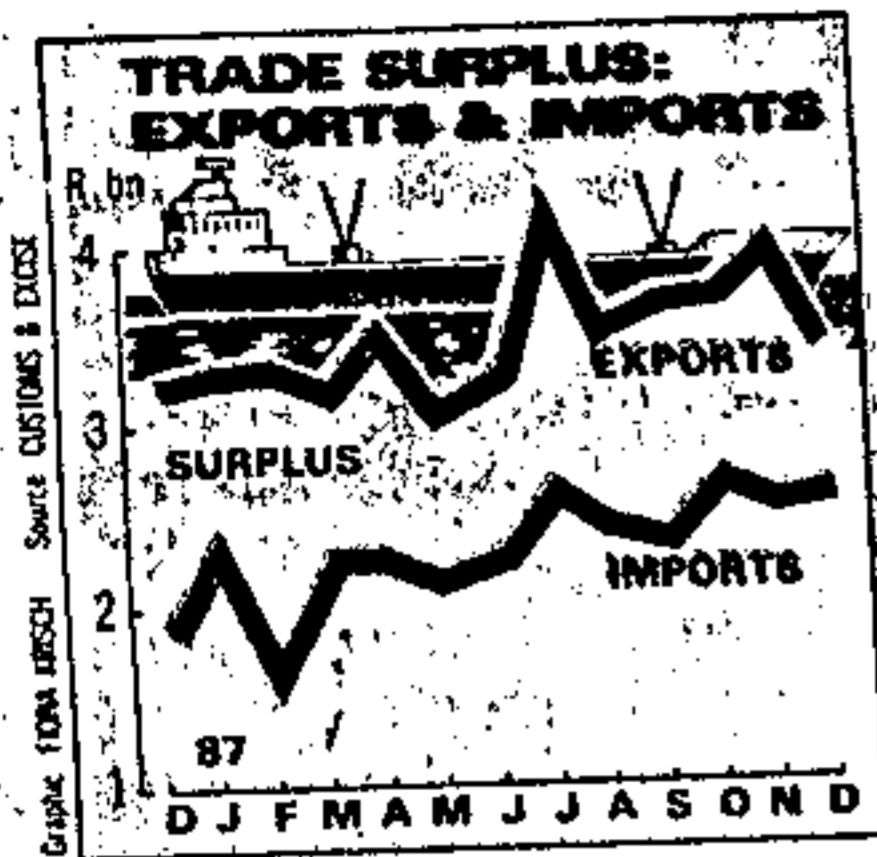
Some bankers are concerned the switch could trim profit margins on currency trading because the new quotation will effectively narrow the spread of points offered between buy and sell rates. The banks make their profits on the difference between these rates.

A Standard Bank trader said: "If the spread narrows, profitability will be less. But it just depends on the market. If it's busy the spread shouldn't narrow that much."

Others think the change will cut the cost of trading rand against dollar and could attract new players into the market. — Reuter.

# Trade surplus shrinks in 1987

74  
Bibby  
5/2/88



AS ECONOMIC recovery got under way last year, the demand for imports increased, causing SA's trade surplus to shrink to R13,98bn in 1987 from R15,31bn in 1986.

In December, the trade surplus dropped sharply to R779,2m for the month after a significant increase to R1,45bn in November.

"The trend in the surplus is definitely down — November's sharp hike was an upward aberration aided by diamond exports," Standard Bank chief economist Nico Czipionka says.

He notes that December's surplus is the lowest since March 1986, saying it

GRETA STEYN

could lead to concern that the current account surplus would come under greater pressure.

"But one should not read too much in any one month's figures. November's surplus was too high and December's low can be seen as a downward correction," he says.

The trade balance for 1987 indicates that the surplus on the current account of the balance of payments should be about R5,51bn for the year, which is more or less in line with economists' predictions. Most forecasts put the cur-

rent account surplus for 1987 at about R6bn.

Reserve Bank Deputy Governor Jan Lombard says the shrinking trade surplus reflects the economic upswing, which has led to heightened demand for imports. Exports in 1987 increased by only R555,9m to R42,7bn while imports surged by R1,9bn to R26,7bn.

The trade surplus, and with it the surplus on the current account, is expected to continue narrowing this year, Lombard says.

"We do not expect it to cause difficulties in meeting our foreign debt commitments, which are much smaller this year than they were in 1988."

1 700 to be laid off at Stilfontein gold mine

ALAN FINE

GENCOR'S Stilfontein gold mine is to reduce its workforce this month by at least 1 700 employees — 18% of the present 9 485 complement.

And the National Union of Mineworkers (NUM) is expecting at least another 3 000 to be made redundant by mid-year.

NUM assistant general secretary Marcel Golding said yesterday the union had been told that 3 977 underground and 1 106 surface workers would have to be made redundant by June —

## J Bibby buys US laser maker

MIKE ROBERTSON

LONDON — Barlow Rand's UK-based international flagship, J Bibby and Sons, has acquired 90% of US laser maker Melles Griot in a \$38m cash deal.

Melles Griot manufactures and distributes high-quality lasers, electro optics and related products for telecommunications and medical markets.

It has six factories in the US as well as in Taiwan and France, and has sales offices in the US, Canada, Japan, the UK, Holland, Germany, France and Sweden. The deal will expand Bibby's science

division, which contributed £5,8m of last year's £34,8m pre-tax profit, to between a quarter and a third of the entire group.

J Bibby Science Products already manufactures laser products through its Isle of Man subsidiary, Technical Optics Limited.

Melles Griot had sales of \$32m in the year ended December 1986 and earned

● To Page 2

## SA Embassy consultant's fee cut

SIMON BARBER

WASHINGTON — William Keyes, the SA Embassy's black consultant, has had his firm's fee slashed by two-thirds from \$360 000 to \$120 000 a year.

The lobbyist ascribed the cut to the departure of his two partners, Jay Parker, formerly Venda's Washington representative, and James Kendricks, a one-time adviser to the SA Consulate in Los Angeles.

Other sources cited the embassy's dis-

appointment at the firm's lack of success in establishing wider contacts within the black community, its principal assignment.

They say the two partners departed after the fee was reduced.

Keyes's firm, International Public Af-

● To Page 2

# Pointless panic

The shrinking current account surplus has a lot of people in a panic. They say Pretoria must do something about the falling surplus — promote exports, restrict imports, or slow down the economy.

But the concern is often unfounded. The following questions and answers may clear up some confusion surrounding exports and imports, the balance of payments (BoP) and government's US\$10bn foreign debt.

**There is widespread belief that SA has to run a current account surplus to repay its foreign debt. A recent economic review, for example, speaks of "the need to maintain a surplus on the current account to meet foreign debt commitments." Is the belief correct?**

No. Pretoria can pay off foreign debt at anytime, just as it can domestic debt. It must tax South Africans or sell assets. When the creditor is overseas, government simply has to convert rands into a foreign currency to pay off debt.

"The trade deficit is irrelevant to the ability of government to pay off foreign debt," says Wits business economist Dan Leach. It should worry about how to raise rands, not forex — which may be a big reason behind State President P W Botha's New Economic Policy.

**Why, then, is there misleading talk surrounding the current account and foreign debt?**

The confusion stems from two things. The first is the mistaken belief that government can make an automatic claim on the surplus — that it can pay creditors once there is a surplus. As University of Fort Hare economist Carl Bauer, says: "We can't look at the current account as a government fund to pay off its debts. That current account is generated by private sector activity." Surplus or no surplus, Pretoria must drain resources from the private sector — through some form of taxation — to repay debt.

Secondly, people tend to get the relationship between the current account and foreign debt repayments backwards. All else being equal, SA will run a current account surplus

because the government pays off foreign debt. To say that SA must run a surplus to pay off debt confuses a cause with an effect. **Should government pay attention to trade statistics?**

No. "Trade surpluses are no more desirable than deficits," says Wits business economist Richard Grant. "They don't cause anything. They simply reflect what was happening. They're not only useless as a policy indicator, they're downright dangerous."

Trade figures tell us how much South Africans have been buying from and selling to people overseas. Government should maximise consumer choice, not some arbitrary level of exports and imports.

**What if imports soar and SA runs a trade deficit?**

No problem. For one thing, SA imports a lot of plant and machinery. Increased demand suggests better times ahead. "When imports rise, it is a sign of health," says Natal University economist Merle Holden.

Secondly, trade statistics are just a mirror image of capital flows. "If you have a capital inflow and a trade deficit," she says, "why get upset about it?"

**So government should neither subsidise exporters nor restrict imports to influence the current account?**

Right. Subsidising exports takes from the average taxpayer and gives to overseas consumers and politically favoured exporters. Restricting imports restricts consumer choice and protects inefficient local companies. Both moves make the economy less productive.

**But if the authorities do not ensure a current account surplus, won't the rand plummet as government pays off its debt?**

Trade flows and debt repayment do not cause the rand to collapse in the long run. The rand will fluctuate as the flow of trade and capital changes. A surge in imports may cause the rand to weaken temporarily, but a later surge in exports will bring it back up. In the long run, we would see a fairly stable

rand.

All the talk of debt and trade deflects attention from the real reason that the rand has been plummeting — debasement of the currency. By inflating the money supply by 15%-20% a year — and thus fuelling price inflation nearly that high — the Reserve Bank ensures that the rand will fall against the currencies of countries with lower inflation.

**What about a BoP constraint?**

There isn't a BoP constraint. "That sort of terminology belongs in the fixed-rate era," says Holden. "There's no constraint if you have a floating exchange rate." Pretoria can pay off debt no matter how fast or slow the economy grows.

**Why does the myth of a BoP constraint persist and who benefits?**

Exporters like the myth, because they can convince politicians and taxpayers to subsidise them to "protect" the trade surplus. Inefficient local industries demand protection from imports by arguing the same.

Pretoria benefits too. "Government likes to point to a BoP constraint to turn attention away from the poor growth of the economy," says Holden.

**Is the BoP confusion widespread?**

Yes. Consider this typical passage, from Assocom's January Business Confidence Index: "The question must be posed whether — given the BoP constraint — the economy is likely to 'overheat' this year, especially through a significant surge in imports ... While there does not appear to be any immediate danger to our foreign exchange position, a real growth rate of about 3%-4% is probably the maximum SA can afford at the moment."

The last sentence reveals the inconsistency — and absurdity — of the BoP constraint argument. Assocom says SA should not grow too fast, too quickly, because it has foreign debt. That is like arguing that a person who takes out a car loan should not earn too much money, too fast, to pay it off.

## Shrinking surplus

The current account surplus on the balance of payments (BoP) could fall by almost half this year, from a combination of flat exports and higher imports. Economists predict it will decline to between R3bn and R4,6bn from about R6bn in 1987.

"Essentially it's higher imports," explains one bank economist. In line with the economic upswing, he expects the value of imports to rise by about 16% this year — resulting from an 8% volume increase and an effective 8% fall in the rand.

The importance of the gold price on the value of exports is reflected in his two predictions for the 1988 current account surplus. If gold averages US\$495 this year — \$50 more than last year — he puts the surplus at R4,6bn. But if gold averages just \$470, he cuts R1,2bn off the projection.

Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, predicts a R3,8bn surplus, as the local economy picks up and the world economy slows down. "There will be a sharp increase in domestic demand for consumer goods and investment goods, many of which are imported, especial-



**Governor de Kock . . . surplus will fall**

ly investment goods. And a lower growth rate in the rest of the world will push down demand for exports." He projects a 1% volume increase in exports and up to an 8% volume increase in imports.

Southern Life economist Mike Daly, who projects a R3,5bn surplus, says the outlook for imports depends on whether economic growth exceeds the 3% or so economists predict. "If it surprises us with its strength,

companies will be replacing plant and machinery and you could see the volume of imports rising by 8%-10%."

And exports? "We don't see a substantial rise in exports; there could even be a slight decline in their value," says Ann Moore, a GM of the South African Foreign Trade Organisation. "I don't think that in the March Budget there will be any startling announcements on export promotion. There will be nothing to make non-gold exports take off."

The United Building Society's latest *Economic Monitor* sums up the situation in explaining its R3,7bn projection for 1988: "The anticipated slowdown in the world economy should act as the most important drag on the export sector, although factors such as the slump in the platinum price, depressed international agricultural prices, economic sanctions and high inflation are also expected to leave their mark on export earnings. The expected higher import level is a direct result of increased domestic economic activity."

The trade surplus — which makes up part of the current account surplus — narrowed in 1987 to R13,98bn from R15,31bn in 1986. The rand value of exports rose by about 1% (to R42,7bn) and the value of imports increased by 7% to R28,7bn.

The current account — including services receipts and payments, exports and imports — stood at a R6,3bn surplus at the end of the third quarter of 1987. The year-end figure is to be published in the Reserve Bank's *Quarterly Bulletin* in March.

Governor Gerhard de Kock says the latest estimate shows the current account surplus was running at a seasonally adjusted annualised R5,5bn in the fourth quarter and predicts a R6bn surplus for the year. He projects R3bn-R4bn for 1988.

The surplus was R7,2bn in 1986 and R5,9bn in 1985, following deficits of R2,2bn (1984); R78m (1983); R3,3bn (1982) and R4,1bn (1981). ■

FIM 19/2/88

P/D 3/3/88  
**R550m**  
**trade** (74)  
**surplus** (248)

PRETORIA — South Africa recorded a trade surplus of R550,3 million in January this year, down from December's surplus of R779,2 million and a R930,0 million surplus in January last year, the Commissioner for Customs and Excise reported here yesterday.

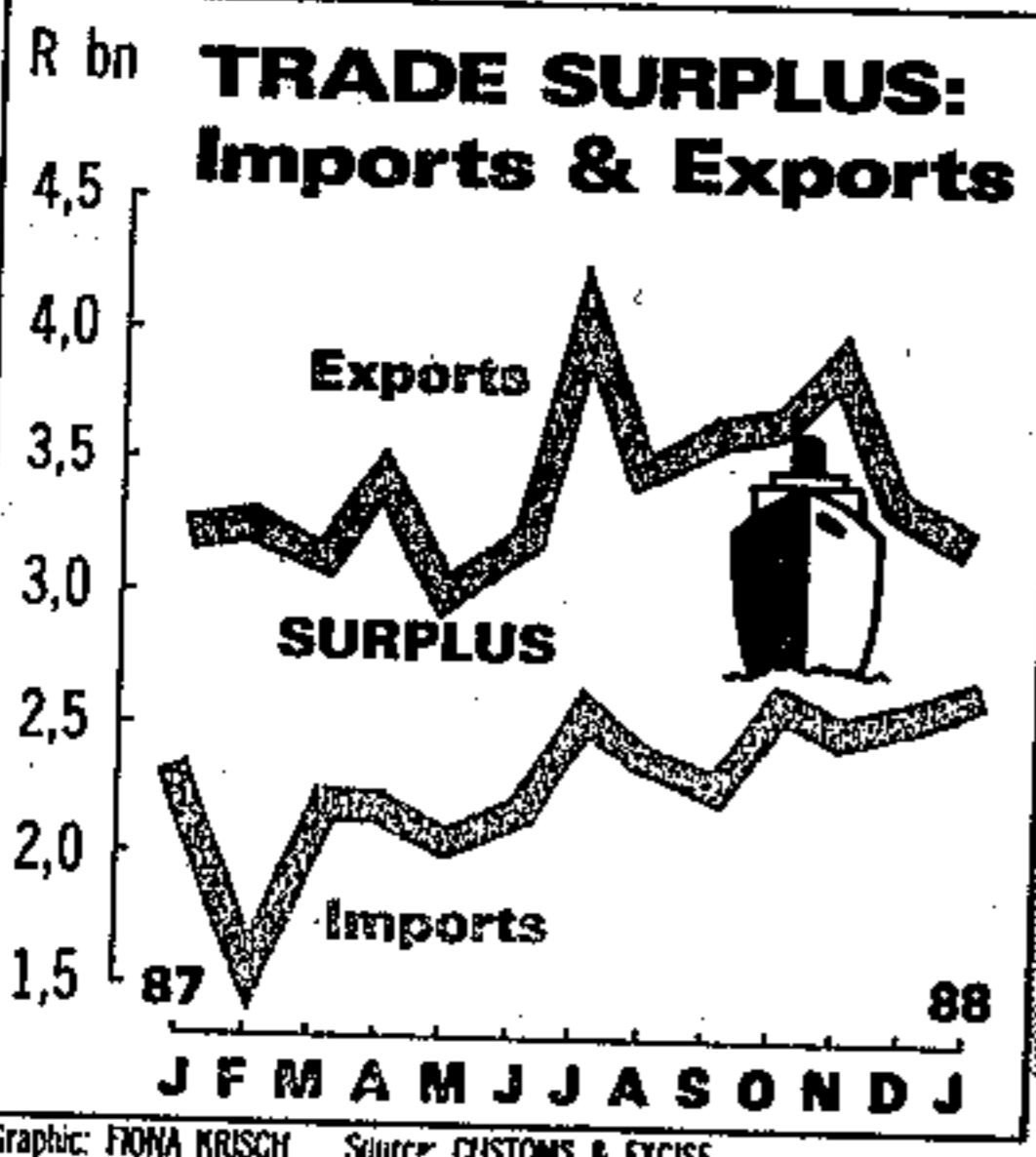
Exports during January decreased to R3 268 million, from R3 435 million in December and R3 337 million in January last year.

Imports increased to R2 718 million, from R2 655 million in December and R2 407 million in January last year.

The figures are not seasonally-adjusted, but have been adjusted to bring them into line with the requirements for compiling the balance of payments.

The export figures include gold bullion sales and the import figures purchases of oil and petroleum products. —Sapa

(74) 5/day 3/3/88



Graphic: FRONA KRISCH Source: CUSTOMS & EXCISE

# Balance of trade takes knock

HELOISE HENNING

THE balance of trade showed a reduction in January with imports rising 2,3% to R2,718bn while exports fell 4,8% to R3,268bn between December and January, giving a trade surplus of R550,3m compared with R779,2m in December.

In January 1987, the surplus was R930,0m.

According to the latest Customs and Excise figures, exports during January decreased to R3,268bn, from R3,435bn in December and R3,337bn in January last year.

Imports increased to R2,718bn, from

R2,655bn in December and R2,407bn in January last year.

The rise in imports is not unexpected, because of the recovery in the economy — notably in the last quarter of 1987 — putting obvious demand on imports of raw materials, machinery and car components and accessories.

The last time exports went so low was in December 1986.

Imports in January exceeded last year's high of R2,719bn reached in October.

# Higher import bill slashes trade surplus

Star 3/3/88

74

By Sven Lünsche

The upswing in domestic demand continues to put pressure on South Africa's trade surplus and could in the long run place a serious restraint on the balance of payments situation.

The Commissioner for Customs and Excise announced in Pretoria yesterday that South Africa's trade surplus in January declined to R550,3 million from the December 1987 figure of R779,2 million. The surplus in January last year was R930 million.

Exports during January decreased to R3,268 billion, from R3 435 billion in December, but imports showed a substantial increase of R63 million to R2,718 billion from December to January.

The decline in South Africa's trade surplus started in earnest towards the middle of last year and by the fourth quarter of 1987 the surplus had declined by 30 percent on the final quarter of 1986.

Most of the deterioration was due to increased imports which were more than 30 percent higher than in the same period of 1986, while exports last year were static, rising only 1,3 percent above 1986 levels.

The current account of the balance of payments, which includes the negative service balance, should now be just over R6 billion for 1987, compared with R7,2 billion in 1986.

It is not yet a major headache for the country's monetary authorities and economists generally estimate that a surplus of about R4 billion will still be achieved this year, thanks to the reasonable terms of the second standstill agreement with overseas bankers.

However, difficulties might arise because of an expected decline in exports and a too rapid growth in domestic demand for goods and services. The Reserve Bank is not expected to act upon the signals as yet, but a continuation of the rapid decline in the trade surplus could well see the introduction of measures to boost South African company's competitiveness overseas.

But there is certainly no stopping the improvement in domestic spending on all fronts. During 1987, imports rose by seven percent, despite a 15,6 percent fall in imports of unclassified items (mainly oil and arms), underlining the growth in demand by the private sector.

The rise in imports has been mostly related to a strong growth in the durable sector — motor car and furniture sales have soared, while credit demand at the banks has also shown tremendous increases.

A rise in fixed investment, as well as higher inventory levels, also leads to imports of overseas machinery and equipment and this is expected to continue during 1988.



(74)

**Dangerous dip**

Latest trade figures are setting off alarm bells. Statistics released by Customs & Excise last week show a significant dip in January's trade surplus.

With imports rising 2,3% to R2,718bn and exports falling 4,8% to R3,268bn, the trade surplus fell to R550,3m. This compares with R779m in December and R1,4bn in November.

Monthly trade figures, of course, are volatile. Says Rand Merchant Bank economist Rudolf Gouws: "Extrapolating November-December-January figures over a longer

FINANCIAL MAIL MARCH 11 1988

period could be dangerous. However, the January figure is certainly cause for concern."

When the services component is added in, it translates into a deficit on current account.

Says Nedbank chief economist Edward Osborn: "This can be calculated by analysing an estimated R6,3bn surplus on current account in 1987." According to his calculations, this was composed of a trade surplus (including gold) of R14,8bn, a deficit of R8,9bn on services (largely outgoing interest, dividends and profits, transport and travel) and a surplus of R400m for transfers (net receipts, reflecting the tax charge on dividends and profits from abroad.)

The deficit on services can be expected to remain; the balance of trade can be expected to deteriorate. So the outlook for the current account is not encouraging.

Based on an average gold price for 1988 of US\$445/oz, Osborn projects a reduction of the R6,3bn surplus in 1987 to a small and vulnerable R2,5bn. ■

DID 26/3/88

## Drought cost R1bn in exchange

CAPE TOWN — The drought cost South Africa more than R1 billion in loss of foreign exchange last year, the Minister of Agriculture, Mr Greyling Wentzel, said yesterday.

Mr Wentzel, who was replying to a question by the PFP MP for Yeoville, Mr Harry Schwarz, said R374,1m was lost in foreign exchange in respect of additional imports and R669,8m through loss of exports attributable to drought conditions in South Africa. — DDC

AD 28/3/88 (74) (55)

# Interest rates to remain steady?

Daily Dispatch Correspondent

JOHANNESBURG — Interest rates are expected to hold at current levels for the next eight to 10 weeks but what will happen in June will depend on three major factors:

- The trade figures and balance of payments;
- The foreign exchange reserves; and
- The money supply aggregates.

The January trade figures sent shivers down some spines with the increase in imports, the fall-off in export earnings and the possibility that after accounting for invisibles, the current account of the balance of payments might have shown a marginal deficit.

The delayed February trade figures could show whether January was the start of a trend or whether it was an aberration.

The cash content of the foreign exchange reserves has declined since last October — and so has the stock of bullion which the Reserve Bank had been assiduously building up from a low of 3,6-million ounces in July 1986 to 6,3-million ounces in September last year. In February the gold reserves were down to 6-million ounces.

The money supply aggregates for January and February certainly overshot the target but the central bank is not expected to act too precipitately in tightening the screw.

If the balance of payments come under undue pressure, the monetary authorities have two lines of action to dampen a too-rapid rate of growth which could weaken a convalescing economy: using the foreign exchange mechanism or the Bank Rate lever.

Adjusting downward the value of the rand would boost rand export earnings and retard imports — which would raise prices across the board. — DDC

## BUSINESS

# SA's trade surplus up <sup>D/D 29/3/88</sup> <sup>74</sup>

PRETORIA — South Africa's trade surplus increased in February to R647,1 million after dipping to R550,3 million in January.

Preliminary figures released yesterday by Customs and Excise show that the February surplus however fell short of the December level, when a R779,2 million surplus was recorded.

Taking into consideration the services account and making adjustments for other variances, it is believed that a favourable balance on the current account of the balance of payments for the first two months of 1988 is in jeopardy.

Exports for February were up 2 per cent on January's figure to R3 340,3 million (January R3 267,9 million), and imports amounted to R2 693,2 million, down from R2 717,6 million.

Exports were R65,7 million down on last February's R3 406 million, while imports were R952,2 million higher than a year ago, when imports amounted to R1 741 million.

February's surplus was 61 per cent down on last February's surplus of R1 665 million.

Exports for the first two months of the year totalled R6 608,2 million, compared with R6 743 million in the same period last year, while imports for January and February amounted to R5 410,8 million compared to R4 148 million in 1987.

Improved exports were not attributable to sales of gold and other strategic goods sales as the "unclassified" category in which these goods are reflected are down from R2 129 billion in January to R1 617 billion in February.

The decline in imports is the result of fewer unclassified imported goods, such as oil and arms, being brought into the country.

This figure fell to R296 million in February from January's R614 million.

Imports in the remaining categories actually rose from R2 104 billion to R2 397 billion. —DDC-Sapa

# Constraints facing SA?

(14)

SA's foreign debt and balance of payments (BoP) can always generate a good debate. Wits business economist Richard Grant, JCI economist Ronnie Bethlehem, Free Market Foundation administrative director Eustace Davie and Frankel Kruger economist Gill Raine offer a wide range of views on the issues. *FM* senior writer Don Caldwell asks the questions.

**FM:** Is there a BoP constraint?

**Grant:** As far as economics is concerned, no. It's strictly in people's minds.

**Bethlehem:** We live in a socio-political as well as an economic world. But even in terms of economics, there is a constraint.

**Davie:** No. A BoP for an individual tells you something. But when it's an aggregate, it doesn't tell you much about the group.

**Raine:** At a price you can do anything. There isn't really an economic BoP constraint, but it'll cost you something in another area. If you give up the constraint on BoP, you'll have to accept increases in the price level or reductions in income — whatever the spillover is into the internal economy.

**What is the constraint?**

**Bethlehem:** The constraint focuses on the availability of gold and forex reserves to the authorities in macro-economic management.

**Do all countries have BoP constraints?**

**Raine:** The US doesn't because the dollar is the widely held international currency. If it runs a BoP or trade deficit, people will hold dollars. The problem is, if SA has a BoP deficit, people aren't willing to hold rands. **Does SA have to run a current account surplus to pay off foreign debt?**

**Grant:** It doesn't have to. It's quite possible to run a deficit and for government to pay back debt.

All it has to do is to tax, raise the rands, buy dollars and send it overseas. That will certainly lower the amount of the surplus — or, if there is a deficit, increase it. But they can still do it.

**Bethlehem:** The evidence suggests it must run a surplus. If the exchange rate against the dollar was a market-clearing price, I'd go along with what has just been said. But I don't think that's so. We can't get away from the fact that the Reserve Bank is the custodian of the gold and forex reserves. It's not

private corporations or private individuals who manage the reserves. The Bank has to have regard to the impact of changes in the reserves on all sorts of things, including foreign perceptions of SA.

We are not in a world where we can allow the currency to do anything. If we were talking pure economics, then let the rand fluctuate up or down to any extreme and at some point it will clear the market. It will regenerate a capital inflow if it falls. But government can't stand idly by when the rand collapses, because it has other consequences.

**Grant:** Government causes the rand to fall in the first place. Because it has a monopoly on the supply of money, it feels it can freely create more money. That's why the rand is really falling.

Sure, the rand would temporarily fall if we were running a current account deficit, but it would be self-dampening; it would stop.

Ultimately it's the Bank that causes the rand to fall — and that's totally independent of trade matters.

**Bethlehem:** We have very specific obligations in terms of the debt standstill agreement. We have to cough up a certain amount of forex on a periodic basis.

If we don't generate a surplus on current account to do that, we would have to use assets, firstly our gold and forex reserves. If those decline,

the rand becomes vulnerable to attack in exchange markets.

**But you'd still be able to pay off the debt?**

**Bethlehem:** Yes, but then you have new problems. We live in a world of continuous process.

**Economists say there can be a shortage only at a price. Does this hold true for forex? Can South Africans not get dollars to pay off their foreign debts at some price? If so, is there a BoP constraint?**

**Grant:** A lot of the argument is backwards. We don't have to run a surplus to raise forex to pay off debts.

If government simply taxes people, thereby lowering their incomes, it would dampen imports automatically. They will have the funds, they can convert them into dollars at whatever the going price is and pay off debt.

They don't have to worry beforehand about any surplus. In fact, government should ignore all trade figures. It doesn't

know how to interpret them.

**Raine:** If the rand were to fall, sure, you could get dollars at a price; but we have a debt liability fixed in dollar terms. The proceeds of our major exports are fixed in dollar terms.

So it depends on whether the elasticity of supply of exports exceeds the increase in our rand-denominated debt liability. The problem is that we are so dependent on the export of gold.

If the dollar price of gold were to fall, we would have more of a constraint than if it remains strong.

**What policies should government have to pay off its foreign debt and allow the private sector to do the same?**

**Bethlehem:** We come back to objectives. The first is to remain on good terms with foreign bankers. If SA just pushes ahead with a growth strategy regardless of the BoP consequences, the whole thing could turn viciously against us.

I don't fault the monetary authorities in wanting to keep on good terms with our foreign bankers and that means operating within the constraint.

**Grant:** Government should cut spending so it reduces the deficit to zero, thereby no longer increasing debt, local or foreign.

Secondly, it should deregulate everything right down to where government does nothing but supply military security.

Thirdly, stop expanding the monetary base — stop inflating.

**How does this all help pay off debt?**

**Grant:** People think the problem is forex, but that's just money. What you need to repay debt is wealth. If you have trouble paying off debt, it isn't because you can't raise forex, it's because you don't have the income or wealth.

**Bethlehem:** Government should set clear goals for itself in both fiscal and monetary policy — for example, reducing public sector wages and salaries as a percentage of GDP.

**Davie:** Two very different courses have been followed by developing countries.

The protectionist policy to cut imports through quotas and tariffs and have forex control has been a desperate failure.

The other policy has been to abandon protectionism of any kind — not to interfere in foreign exchange — and those countries, like Hong Kong and Singapore, don't talk about forex or BoP constraints. Free the economy and these problems disappear.

**A typical BoP discussion concludes that "a real growth rate of about 3%-4% is probably the maximum which SA can afford." Does it make sense to talk about being able to afford only a certain growth rate?**

**Grant:** The sentence is meaningless. There's so much untapped potential, the economy would explode if government simply freed the entrepreneurial energies.



**“If reserves decline, the rand becomes vulnerable to attack in exchange markets.”**  
— Bethlehem

**Would it be easier to pay off debt with 10% growth than 3% growth?**

**Grant:** Yes, it certainly would be.

**Bethlehem:** With a sustained growth rate of, say, 10% per annum the problem of repaying debt would disappear because money would be flowing into SA, not out. Money follows growth and shuns socio-political instability.

Reduce such instability and increase growth, and the capital account of the BoP will return to surplus.

**Davie:** High *real* growth, not pseudo-growth brought about by printing money. Does foreign debt preclude a high growth rate? That's the conclusion many draw.

**Bethlehem:** In the short term, SA has been able to generate economic recovery notwithstanding specific debt repayment obligations.

But if these obligations were imposed in the long term, if SA became a capital exporter for 20 years, it would seriously harm the growth rate.

**What are the implications of your debt repayment plan for the rand, growth, foreign reserves, inflation?**

**Grant:** If government stopped inflating the rand, the rand would become one of the strongest currencies in the world. The trade pressures on the rand are insignificant compared to the monetary pressures.

Deregulating the economy and stopping monetary disturbances would allow a high, sustained growth. You wouldn't have loose monetary policy causing booms and recessions.

**Bethlehem:** We need to take a leaf out of Mrs Thatcher's book. We need a medium-term financial strategy which clearly specifies policy objectives and instruments. But we mustn't expect results overnight. It took Thatcher seven or more years.

If we set realistic fiscal and monetary objectives and are seen to achieve them, we will re-establish confidence, our growth rate will improve, so will the BoP, and inflation will come down.

**Davie:** Stop printing money, remove tariffs, cut government spending, balance the Budget, reduce taxes, abolish exchange control, privatise and deregulate, including the financial markets.

Do these things and the whole view of the economy would change. And what is now perceived to be a problem would not be a problem.

**A Reuters story said Finance Minister Du Plessis "is also acutely aware of the need to curb rising imports and shield the BoP" if Pretoria is to meet debt repayments. Will curbing imports help?**

**Davie:** No. That's exactly what India did and it had a very detrimental effect on the economy, the opposite of what they wanted. It reduced the availability of forex.

**Bethlehem:** The critical question is how you curb imports. Import control doesn't solve the problem. You must lower the

growth of domestic demand in the short run, which may give the best chance of growing faster in the long run.

If we don't want higher interest rates later, we may have to accept high interest rates now.

**I see no difference between directly controlling imports or controlling them indirectly by slowing the economy. If imports are bad, let's restrict imports.**

**Bethlehem:** You must adjust policy to encourage saving and discourage consumption. That strengthens the current account and makes it easier to handle debt repayments.

**Grant:** That's nothing more than behaviour manipulation. Government seems to think it can control people like robots — force them to buy less from outside and sell more outside, when in fact the whole purpose of exporting is so that we can import. If you take it to the logical conclusion, cut off imports altogether and all incentive for exporting disappears.

Any time import restrictions are put on, they fail in their stated objective. Like any government intervention, it always backfires. The hidden costs are always higher than any perceived benefits.

**Bethlehem:** We owe something like US\$22bn, government and private sector together. The question is, if we decided to, could we repay \$22bn just like that?

**Davie:** It could be done, yes.

**Bethlehem:** What would have to happen?

**Davie:** You'd have to split it between government and private local debtors. Government would have to find rands to buy forex. The private debtors, if they have the rands, buy forex and pay it off.

**Bethlehem:** What would that do to private consumption spending and real growth?

**Davie:** If government taxes to pay debt, it would reduce growth.

**Bethlehem:** In other words, it would depress the growth rate. We're not being asked to repay \$22bn overnight, but slowly over a period of time — but the effect is the same.

**Grant:** To pay back \$1 would have the same effect, just a smaller magnitude. As long as we have the assets, we could pay it off if we have to.

**Bethlehem:** We could. But the consequence — and we're coming back to constraints — is that this constrains growth.

**Grant:** So it's not a BoP constraint at all. It's a constraint on wealth. We're just not rich enough to have everything we want — so

there is no BoP constraint.

**Bethlehem:** There is a BoP constraint in this sense: we want to grow at more than 4% per annum because that's the rate at which urban population is increasing. Once we set that kind of long-term objective we have constraints, because we live in a world of scarce resources. Wants and needs exceed the availability of resources and we have to manage scarce resources.

**Grant:** I would like to have a Lear jet at my disposal every day, but can't afford to — that's the same kind of constraint. It's got nothing to do with BoP.

**If you believe there's a BoP constraint, where do you fault the logic of those who don't, and vice versa?**

**Raine:** The constraint is what we were getting to a few moments ago — a growth constraint. I think we all agree on that.

**Sure. When you pay off foreign debt you have a real transfer of wealth overseas and less wealth or less growth. But that's not the same as saying you have to slow down growth so that you can pay off debt.**

**Raine:** You will have less wealth unless you introduce policies that allow higher rates of growth and that's where you start the long-term structural change.

**So how would you fault the logic of those who argue that there is no BoP constraint?**

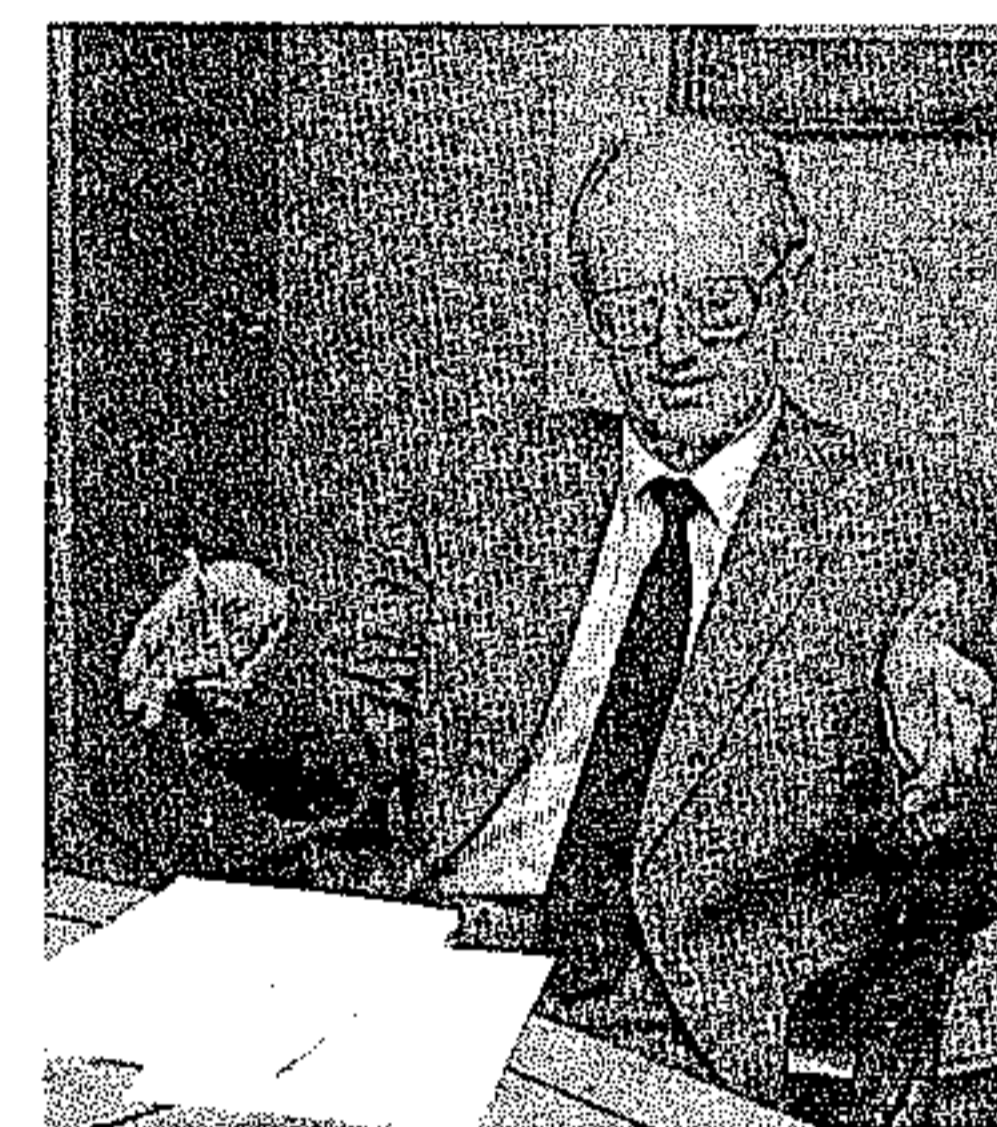
**Raine:** Usually, when people say there's no BoP constraint, especially non-economists, the implication is that if we just let the rand go through

the floor, everything will be fine. I think it's not quite that simple.

**Davie:** We're talking about problems caused by bad policies. The answer is to abandon those policies. There should be general rules applicable to everyone, including government, not specific rules meant to obtain what are thought to be desirable outcomes.

**Bethlehem:** If you say there is no BoP constraint, you are also saying there is no constraint on the availability of goods and services and that's nonsense. The BoP constraint is a financial manifestation of the constraint imposed by the limited availability of real goods and services.

**Grant:** The real constraint is that imposed by government on individuals, preventing them from acting in their own best interests. That's where all these problems come from. When government responds to statistics, it just makes problems worse.



**“We're talking about problems caused by bad policies. The answer is to abandon those policies.”**  
— Davie

**Currently low**

The latest trade figures confirm that the current account has returned to deficit. Preliminary statistics from Customs and Excise show a February trade surplus of R647,1m — but a deficit on services will probably, as in January, produce an overall deficit on current account.

Nedbank chief economist, Edward Osborn, says: "Based on last year's first quarter deficit for services, which was R2,1bn, one could assume a per month deficit in the order of R700m. And this would mean a small current account deficit in each month: R150m in January and R50m in February."

Despite this, however, gross reserves rose in the period — "by R300m in January and R75m in February. I have calculated the R375m by measuring the month-to-month change in forex reserves and the physical change in gold holdings — valued at the average rand price of gold for that month."

The increase in gross reserves implies a net inflow in capital account in both months — possibly due to leads and lags on the trade account. Imports rose steadily in 1987 and are expected to continue upwards into 1988 — despite a small drop in February.

"There is usually a favourable capital inflow when imports rise sharply," says Osborn.

The estimated current account deficit comes after surpluses of R6,2bn in 1987, R7,2bn in 1986 and R5,9bn in 1985.

According to the March edition of the Reserve Bank *Quarterly Bulletin*, the decline between 1986 and 1987 was mainly due to the 11% rise in the value of merchandise imports.

Offsetting this, however, was "a significant decline" in net service and transfer payments to foreigners. ■

fm 8/4/88 35

# Weaker trade figures signal tougher economic restraints

Star 4/15/88

74

By Sven Lünsche

The release of first-quarter trade figures could well be the signal the monetary authorities have been waiting for before implementing a package of economic restraint measures.

The figures, published by the Commissioner of Customs and Excise yesterday, show the trade surplus in the first three months of this year was almost 50 percent down on the R3,6 billion surplus in the first quarter of 1987.

Trade exports from January to March amounted to R10,573 billion and imports to R8,680 billion, resulting in a reduced surplus of R1,894 billion.

News of the diminishing surplus comes on the eve of an expected monetary and fiscal package, which should help curb rampant consumer demand and prevent the economy from overheating.

As a result of buoyant consumer spending, combined with a weaker rand, the value of imported goods has been rising, placing the current account of the balance of payments under pressure.

This is confirmed by the figures. The diminished surplus was largely the result of a rise in the value of imports to over R2 billion, while exports between the first quarters of 1987 and 1988 remained largely stagnant.

A further indication of this trend is the fact that imports of machinery, mechanical and electrical appliances and accessories soared by almost R1 billion to R2,696 billion over the period.

South Africa needs to maintain a viable surplus in order to meet its foreign debt commitments and finance local infrastructure developments in the absence of foreign investments.

Says Old Mutual's chief economist Dave Mohr: "It is unlikely that the cur-

rent upswing in the economy will match that of 1978 to 1981, because of balance of payments constraints."

Writing in the groups latest *Economic Monitor*, he says: "With the painful experience of correcting the balance of payments and inflation problems that followed the 1980/81 and 1983/84 upswings still fresh in minds of policymakers, a change in the overall fiscal and monetary policy stance has become apparent."

"The balance of payment position is going to play a major role in monetary policy decisions and it is likely that short-term interest rates will continue rising in the coming months."

## Wage restraint

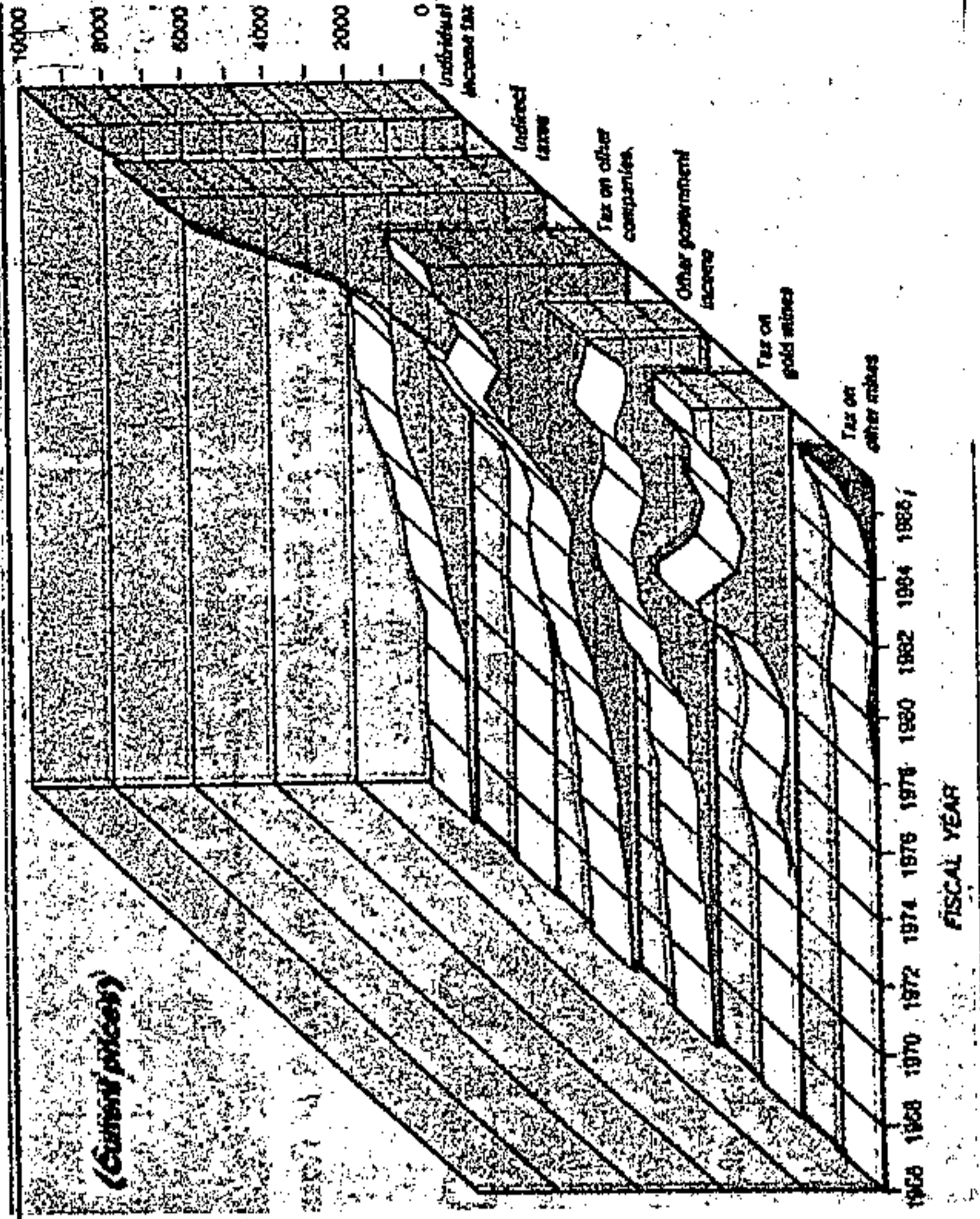
Mr Mohr believes the change in the authorities' fiscal and monetary policy, coupled with wage restraint in the public sector, will have an impact on the economic outlook.

"Although the 1987 private consumption expenditure growth of close to four percent now seems unlikely to be exceeded, we still expect to see further growth in consumer spending in 1988."

"The growth stimulus in 1988 is also likely to come from fixed investment activity. The adverse influence which the shift in economic policy will have on economic activity probably will not be felt as soon as this year."

On prospects for inflation Mr Mohr writes: "Inflation is approaching a bottom area and could start rising again during the year. This rise will be caused by a weaker rand, a tighter labour market and a continued recovery in domestic demand."

"Government action to curb inflation, such as no general salary increases to civil servants and freezing of postal and telephone tariffs, reduces the possibility of a sharp rise in inflation at least during this year."





Improved exports avert a crisis

# SA's trade surplus drops to R1,89bn

74  
Bloddy  
4/1988

**SURGING** imports coupled with slow growth in exports caused SA's trade surplus to plunge to R1,89bn in the first quarter of this year compared with R3,6bn in the first three months of 1987.

But the trade balance has not shrunk to crisis levels yet, thanks to an improvement in exports in March. Exports increased by R630m from February to R3,96bn last month.

The trade surplus for the month was R696,5m — up from February's R647,1m. But imports surged in March, rising by R578m from February to R3,27bn.

Though the current account on the balance of payments (BoP), which includes payments and receipts for services, is not yet known, economists' esti-

**GRETA STEYN**

mates range from a small surplus to a small deficit.

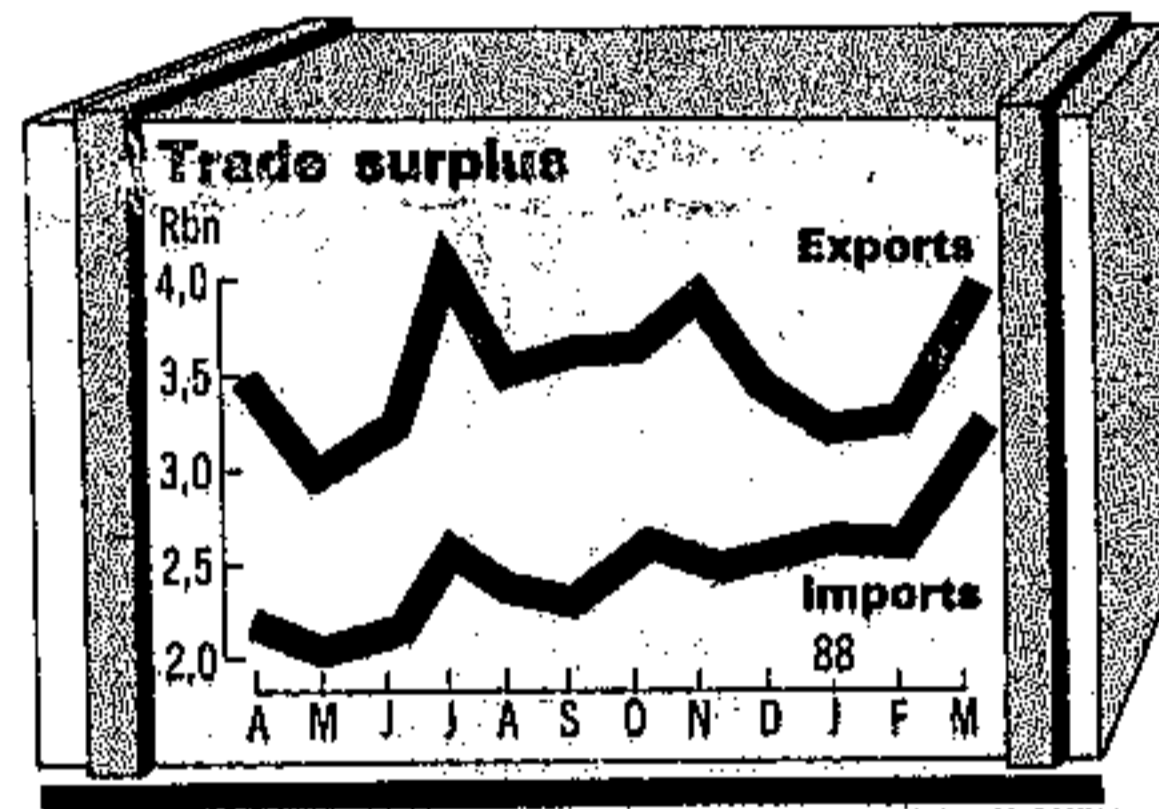
The monetary authorities are unlikely to tolerate the situation, even if the current account is not yet in deficit, and are expected to announce a comprehensive package to protect the BoP this week.

Southern Life economist Mike Daly says: "The surplus on the current account is in a classic squeeze situation and the position, crucial for interest and exchange rates and the duration of the economic upswing itself, will need to be closely monitored."

Sanlam economist Johan Louw believes the current account could be in deficit to the tune of R350m — the first quarterly deficit since the end of 1984. In his view, the authorities are in a difficult position.

Louw says: "They have to cool down the economy but would like to avoid an 'overkill'."

Old Mutual's David Mohr says the "painful experience" of correcting the BoP and inflation problems that followed the 1980/81 and 1983/84 upswings are still fresh in the minds of policy-makers. Thus the BoP will continue to



● To Page 2 →

## SA's trade surplus drops to R1,89bn

play a major role in policy decisions.

As the economy moved into a higher gear this year, there was strong demand from manufacturers for intermediate goods such as motor-vehicle parts and electrical equipment.

The value of imports in the category machinery and mechanical appliances

← ● From Page 1

rose by about 57% in the first quarter of 1988 compared with the same period last year. Exchange-rate fluctuations alone could not have accounted for this dramatic rise, which clearly shows strong domestic demand.

6/5/85 (74) FM

## BALANCE OF PAYMENTS

### Will controls help?

If Pretoria wants to see where import controls lead, some say it should just look north.

"If you want a disastrous example, look at Zimbabwe," says Standard Bank's Nico Cypionka. "Zambia's the same. I don't know why they'd want to follow that lead."

Cypionka says import controls in Africa have led to shortages and disrupted production:

"They distort the economy, they're difficult to administer and they lead to corruption. It's an artificial interference into the workings of the economy."

And controls would raise a whole set of questions: What kind of imports will be allowed? Why should some people be allowed to import and others not? Who will decide what's good or bad?

Cypionka says government must take other steps to ensure a current account surplus. First, it must not keep the rand artificially high, because that encourages imports and discourages exports.

Secondly, it must slow down the economy so that imports fall as total domestic demand falls.

"If you had a 2% rise in Bank rate now, maybe even 3%, the economy would slow down and the import requirement would slow across the board. It would send a strong signal to consumers and investors alike that the Reserve Bank means business."

Cypionka is also perturbed by suggestions that Pretoria may curb credit demand and money supply growth by, for example, restricting HP credit or outlawing some consumer lending instruments. He believes rises in interest rates are the route to go, because

then the market allocates credit, rather than government. Controls allow some people to borrow at low rates — businesses and farmers, for example — at the expense of others, such as consumers, who find borrowing very difficult.

But other economists fear direct controls may be necessary if the need to curb demand for credit and imports becomes urgent.

"Though such measures will certainly reduce the burden on interest rates and the exchange rate, they are no substitute for the price mechanism," says Leon Steenkamp of stockbroker Senekal, Mouton & Kitshoff. "Some direct control is probably justified, but should be secondary to adjustments via interest rates and the exchange rate."

Steenkamp cautions: "We applied similar policies in the past and they didn't work — probably because they were seen to obviate the need for significant changes in interest and exchange rates. To impose direct controls and at the same time prevent interest and exchange rates from adjusting to market pressures is downright stupid."

Sanlam economist Johan Louw says government should raise interest rates and restrict hire purchase. Then, if demand for imports continues strongly, it could impose import controls.

"Curbing imports indirectly is a slow process," Louw says. "If you're in a serious situation, you might have to act more directly. If government believes the balance of payments is in a very serious condition, it'll have no option but to go for selective import controls as a temporary measure."

Economists who argue there is no balance of payments constraint condemn proposals to control imports, saying that the way to pay off debt — local or foreign — is to generate more wealth. Import controls, by making the

FM 6/5/85 (74)

economy less competitive and less productive, are self-defeating: they raise the cost of paying off debt.

These economists argue that people who say that rising imports are a problem will have no grounds to complain if government slaps on direct controls. "If you buy the initial argument," says Dan Leach of Wits' Department of Business Economics, "you've got to buy action to restrict imports. Government is just taking it to its logical conclusion."

Leach says the Bank must meet its money supply target but this should have nothing to do with restricting imports or manipulating economic growth. He argues that the Bank should control money supply, not react to trade statistics. ■

(77) 8/10/88 11/5/88

**T**HE MONETARY authorities' belief that SA will be able to finance rising imports with foreign trade credits, thus easing the balance of payments constraint, is about to be tested.

Until November last year, depressed import levels and low local interest rates have meant the demand for foreign trade finance has been minimal. In fact, rather than raising funds abroad, SA corporations and banks have been closing down foreign credit lines because the same facilities have been available cheaper in Johannesburg.

But rising import levels and lower than expected export revenue have now made foreign funds the key to economic growth.

**M**onetary officials are confident that foreign trade finance is readily available. This is not a new-found conversion. For some time they have said that, should the SA economy grow, funds will be obtainable to allow a rise in imports.

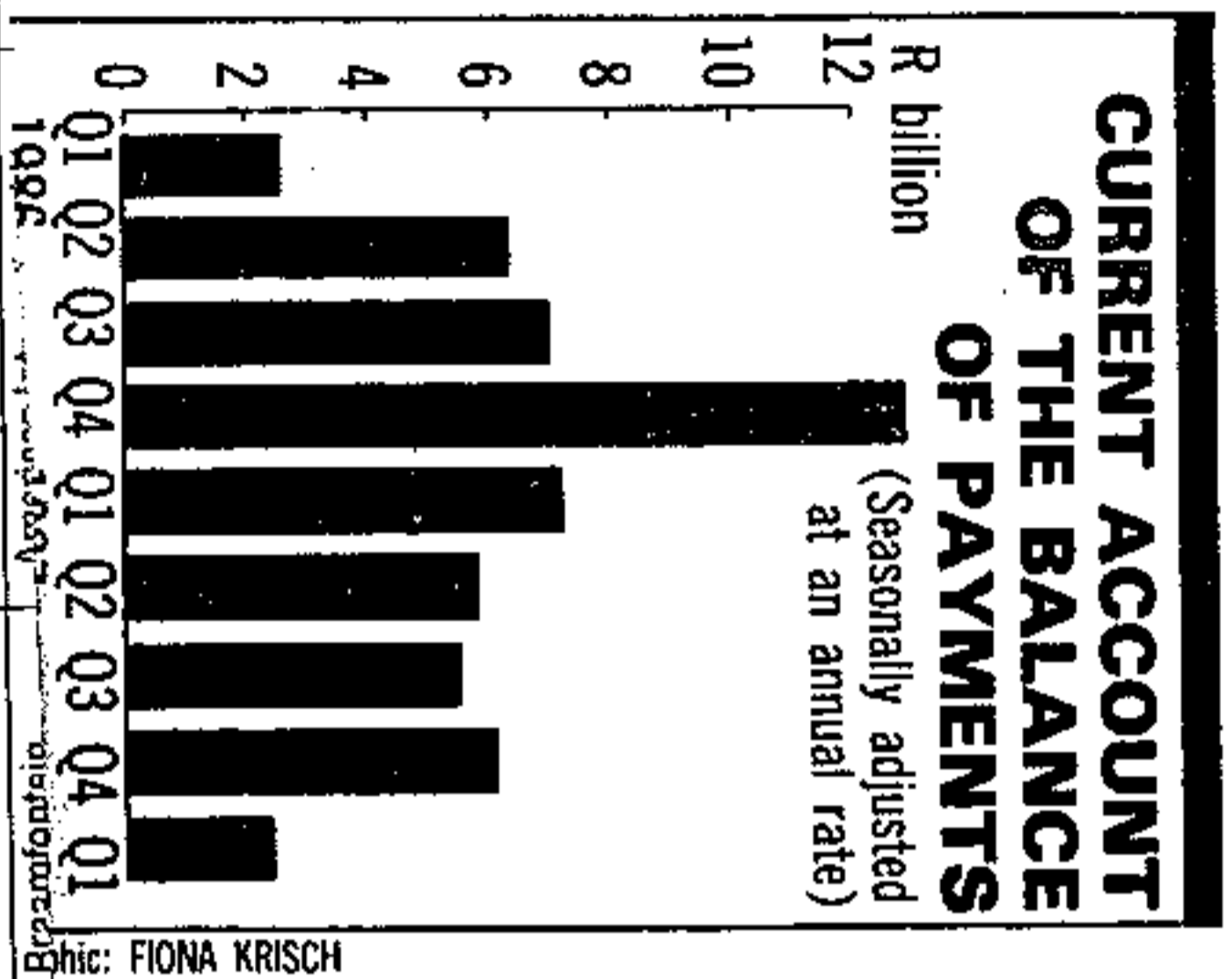
Bankers, however, are more circumspect. And last week's changes to the Reserve Bank's rediscounting procedures — making it more difficult for banks with cash shortages to balance their books — will force them to test the water.

Much rests on the outcome. SA's ability to grow, repay debt, control inflation and maintain stable currency and interest rates are inextricably linked to its ability to fund trade with foreign rather than local credits.

Address	Value	Value	Value	Value	Value
Zambesi House	9 645	9 645	9 645	9 645	9 645
56 Von Wielligh	8 937	8 937	8 937	8 937	8 937
Southern Life Centre	55 000	55 000	55 000	55 000	55 000
Samancor House	106 11	106 11	106 11	106 11	106 11
Nunmerley's Building	2 000	2 000	2 000	2 000	2 000
JCI House	20 750	20 750	20 750	20 750	20 750
His Majesty's	10 085	10 085	10 085	10 085	10 085
Edura	18 915	18 915	18 915	18 915	18 915
32 Diagonal Street	9 300	9 300	9 300	9 300	9 300

# Foreign funds are the key to SA's economic growth

**GERALD PROSALENDIS/Financial Editor**

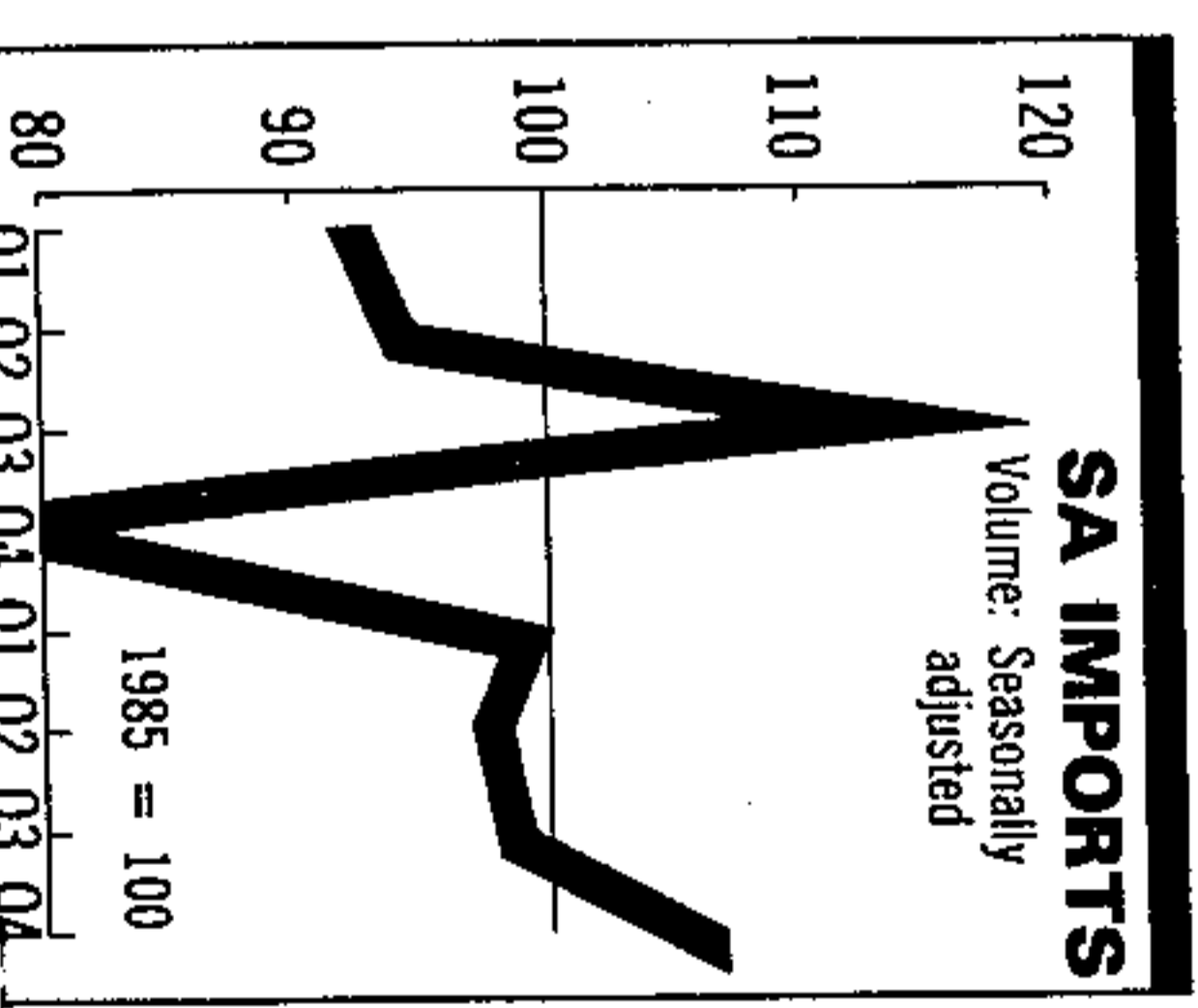


By: FIONA KRISCH

until recently bankers in SA were reluctant to see borrowers go directly to foreign sources. Instead, they themselves were able to look after their clients' interests at below prime rate.

"With this month's credit squeeze corporations may have to pay prime rate for funds raised locally, and find that even on a covered basis, loans from offshore are cheaper."

Banks unable — or unwilling — to act as intermediaries for clients seeking foreign funds could find themselves cut out of the deal as corporate borrowers go directly to overseas sources.



By: FIONA KRISCH

Switching loans onshore, with a local company or bank closing a foreign credit line and opening a local one, was responsible for a sizeable proportion of the capital outflows in official figures last year. There are larger forces at play, however.

The recent current account surplus was the consequence of depressed economic activity and a higher gold price. But now the country is faced with pent up replacement demand, especially for capital equipment.

**S**ays a banker: "In April we believe the current account position was a disaster, hence the need for this month's package of credit curbs. The trade position was not too bad, but it is the service payments that were the real horror story."

The stakes are high. Should official belief in ready foreign credit be misguided, the consequences for the SA economy will be severe, say local bankers.

The country would be locked into the need to generate real savings and would permanently be condemned to being a net exporter of capital.

"The end result of this for a developing nation is impoverishment," says another.

## Vandals hit Shell stations

The matter could face further scrutiny should General Cinema increase its holding. — Sapa-AP.

rent shareholding.

And it will be the exchange rate that will be the exchange rate...

of the preference shares in issue. This represented 33% of the total number of preference shares or terms of the rights attaching to such shares. Those shareholders who have not converted their preference shares into ordinary shares will be afforded the opportunity to convert their preference shares into ordinary shares during April 1989, falling which preference shares not so converted will, at the discretion of Houston any preference shares not so converted will, at the discretion of Houston be redeemed or redesignated either as redeemable preference shares or non-redeemable preference shares.

14

## Balancing trick

In one area, at least, the consumer seems to be exercising a measure of self-control. Statistics released by the Commissioner for Customs & Excise last week show that, though imports in the first quarter increased nearly 34% over the same quarter last year, one category fell sharply. The value of "works of art, collectors' pieces and antiques" dropped from R13m to R9,8m.

Though of interest to social commentators, this is of little significance to the balance of trade.

Overall, imports increased from R6,5bn in 1987 to R8,7bn. "About 9% of this was attributable to an effective depreciation of the rand against principal currencies," says

13/5/88/5/13

Nedbank chief economist Edward Osborn. "So import volume rose about 25%."

A significant increase occurred in the category which includes machinery and electronic equipment — from R1,7bn to R2,7bn. "In volume terms the increase is probably close to 50%. We no longer have a breakdown so can't calculate how much will go into capital formation and how much simply into private consumption."

Also 50% up by volume is the category which includes vehicles. This rose in value from R734m to R1,2bn.

Exports were up only 5% on the previous

first quarter, at R10,6bn. The small gain was due mainly to improved prices on international markets, says Osborn.

The value of "base metals and articles of base metal" increased by nearly 23% to R1,4bn, which he attributes to higher prices of nickel and ferro-alloys. Similarly, "mineral products" rose R150m, probably almost entirely thanks to improved coal prices.

Gold, a major component of "other unclassified goods and balance of payments adjustments," increased by 4,6% to R5,8bn. "However, this masks a reduction in volume of production of some 5%," says Osborn. "The rand gold price was 10,2% higher in the first quarter of 1988, compared to 1987, a reflection of the average dollar gold price, which went up from \$406 to \$455."

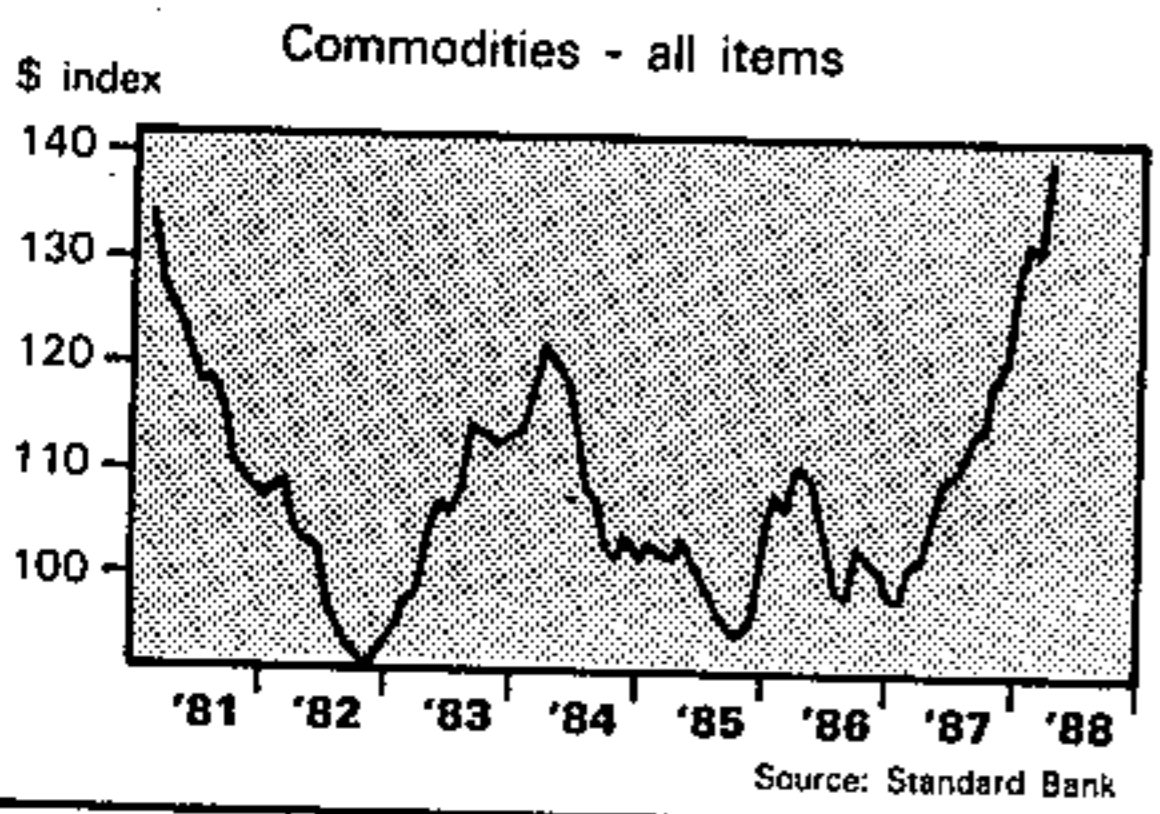
The net effect of the relative import-export increases was a 47% decline in the surplus on the trade account from first-quarter 1987 to R1,9bn by end-March.

Given a quarterly deficit of perhaps R2bn in services and transfers, the trade figures imply near-balance on the overall current account, in contrast to the R2,6bn surplus in the first quarter of 1987.

"This tightness on the current account has made the money market extremely interest-rate sensitive to credit demand pressures and accordingly is a main factor behind the relentless upward pressures on interest rates," says Osborn.

"Moreover, the implications of the trade figures for growth are not good. On the minister's preliminary estimate of a 10% hike in first-quarter GDE in 1988 over 1987, the decline in gold exports and 25% rise in imports imply a GDP rise of only 2,2%." ■

## International prices



# Rand slide puts strain on prospects of growth

STW 13/5788

74

The rand's slide to record lows against most major currencies this week has kindled fears of a slowdown in domestic growth as the strain begins to tell on the economy.

The gold-linked rand plummeted to an all-time low of 4,18 against sterling this week and dropped steeply against the Deutschemark and the Japanese yen.

The sharp declines sent ripples of concern through financial markets and prompted the Reserve Bank on Monday and Tuesday to intervene heavily in the local currency market by selling dollars to prop up the rand.

Despite the intervention, the currency sank to R2,2300 to the dollar on Monday — its lowest level in more than a year — before recovering slightly to R2,1950 on Wednesday.

"These levels are the lowest I have ever seen against sterling, the mark and the yen," said Willie Potgieter, chief foreign exchange dealer at Standard Bank.

"We believe the rand is likely to weaken further because of the country's inflation problems and balance-of-payment difficulties," he said.

South Africa derives nearly half its export earnings from gold. The bullion price is therefore a major factor in determining the rand's value and it has remained relatively soft recently at around \$450.

Economists worry that any further weakening in the rand will push the 13,4 percent inflation rate higher and slam the brakes on the import-dependent

economy by making foreign goods and services more expensive.

But some analysts argue that the currency should be allowed to fall further to help protect the dwindling surplus on the current account of the balance of payments.

Over the past two and a half years South Africa has been obliged to run huge current account surpluses to repay foreign debt under a rescheduling agreement with major international creditor banks.

It has repaid about \$5 billion of its original \$24 billion foreign debt since mid-1985 when international banks, alarmed by anti-apartheid protests and unrest in black townships, refused to roll over loans.

"Import costs have risen because of the weak rand and flagging exports have been weighed down by losses in the gold price," says Standard Bank in a currency comment.

"These twin factors have already seriously affected the current account on the balance of payments where a healthy surplus is vital to the servicing of outstanding foreign debt," the bank says.

"It is appropriate for the economy to slow down and for the rand to fall in order to shield the balance of payments," says Rudolf Gouws, chief economist at Rand Merchant Bank.

"It would be silly for the Reserve Bank to try and protect the exchange rate. They don't have the means to support the rand

anyway," he says.

As the rand continues to slide, economists are rapidly scaling down their estimates of real growth for the year to below the Government's target of three percent.

"Many traditional signs of a genuine economic upswing are not showing up," says Ockie Stuart, director of the Bureau for Economic Research at Stellenbosch University. "This is a worrisome trend since it is a situation that is symptomatic of a fortress economy."

"It seems realistic to expect that once again the balance of payments will damp down economic growth, contributing to a lowering of living standards and further increases in unemployment," Mr Stuart says.

Leading economists, including Reserve Bank Governor Gerhard de Kock, admit that intensifying trade sanctions and the freeze on foreign bank loans have forced South Africa to become a capital exporter and seriously inhibited the scope for sustained domestic economic growth.

Last week the Reserve Bank demonstrated its concern about the deteriorating balance of payments and fears of accelerating inflation by raising its discount rates to the banking sector for the second time in little more than a month.

"Things would have looked a lot worse if the Reserve Bank hadn't raised interest rates," says Mr Gouws. "And they will probably have to do it again before too long." — Reuter.

## Warning of slow growth rate

# Signs of siege economy 'now more obvious'

Political Correspondent

South Africa is showing dangerous signs of slipping further into a fortress economy, economists and politicians have warned.

Stellenbosch University's Bureau for Economic Research has warned that the symptoms of a fortress economy are becoming more and more apparent.

And Mr Harry Schwarz, Progressive Federal Party economics spokesman, said yesterday that the Government's recent credit squeeze showed that because of financial sanctions, the existing economy could not grow beyond 3 percent a year without over-heating.

### Unemployment

This was because foreign credit was being denied and meant that the economy could not attain the 5,5 percent annual growth rate needed to wipe out unemployment.

Bureau for Economic Research director Dr Ockie Stuart said the economy was showing signs of an "economic cyclical upswing in its mature phase" but the signs of a genuine upswing were missing.

"This is a worrisome trend, since it is a situation that is symptomatic of a fortress economy."

The impact of trade and financial sanctions would be felt in the coming months — compounded by a general slowdown in the world economy.

Dr Stuart warned businessmen that although South Africa was riding relatively high on "a vigorous wave of consumer activity", the time had come for consumers to start tightening their belts.

Once again the balance of payments problem was dampening economic growth, which would contribute to a drop in living standards and further unemployment.

Mr Schwarz said upswings in the South African economy normally caused the current account of the balance of payments to go into deficit because the increase in imports was not compensated by a corresponding increase in exports.

In the past this problem had been solved by acquiring long-term foreign loans but these were not available now because of a lack of investor confidence in the long-term future of the country.

Mr Schwarz said the only way of coping with this "siege economy" was to adapt it through "inward industrialisation".

The way to do that was to concentrate on producing food, clothing and housing in the country itself.

By Teigue Payne

Of paramount concern for the economy at present is its serious balance of payments constraint, which has emerged much earlier and more swiftly than had been anticipated, according to the May edition of the Standard Bank Review.

It says the seriousness of the economy's current position is clearly reflected by out-of-kilter foreign trade, credit growth and money supply.

The net balance of the current account of the BoP in the first quarter is likely to have been small compared with the large surplus achieved in the last quarter of 1987, and was certainly inadequate to cover foreign loan repayment obligations. These must amount to well over R2 billion this year.

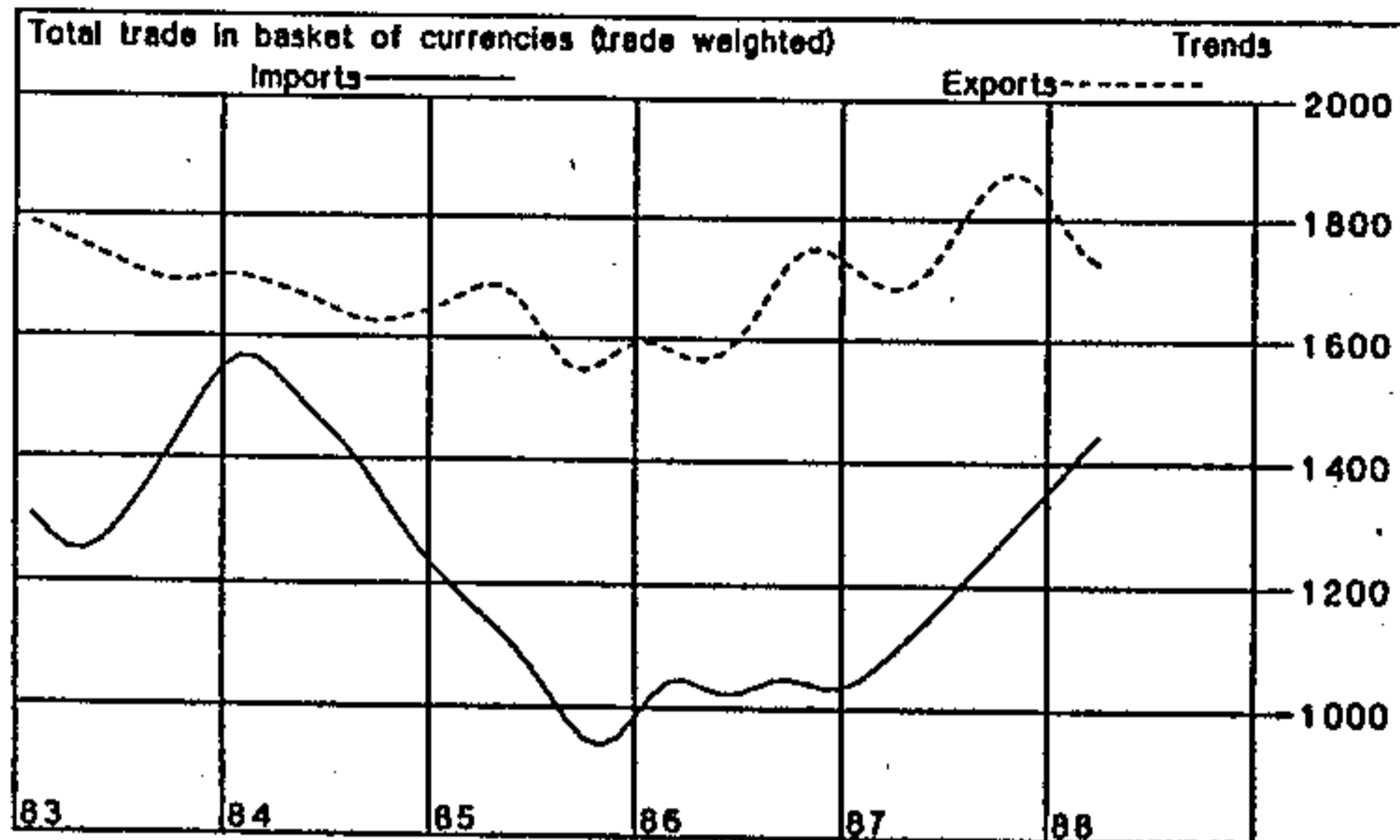
The result of booming imports and sluggish exports was that the merchandise trade surplus of only R1,89 billion in the first quarter of 1988 was 47 percent lower than the R3,6 billion in the same period last year.

The poor foreign trade trend means that in the absence of capital inflows, the authorities must tighten up on fiscal and monetary policy, impacting on liquidity and interest rates.

Reduction in the growth of credit despite strong demand for it will put further upward pressure on interest rates, the review says.

It says the money market's view is that the Reserve Bank's recent one percent increase in the bank rate was not an adequate response to the problems facing the economy, and that interest rates must rise further.

# Pressure on BoP unlikely to let up



This Standard Bank chart shows the narrowing gap between the value of imports and exports.

Thus financial institutions are now trying to borrow longer term, which will itself exert upward pressure on interest rates.

It says a large increase in the bank rate — by two or three percent, for instance — could have prevented a continuous upward creep of interest rates this year. But it would have been politically less acceptable because it would have resulted in much more rapid slowdown in credit growth and economic activity.

The economy may have to pay for this later.

The review says the trade surplus is unlikely to become a deficit this year given the recovery trends in certain export categories and the probability of an

economic slowdown.

However, the situation will become very uncomfortable if South Africa's imports continue to rise faster than its exports.

Gold and forex reserves have already been declining slowly because capital outflows have exceeded the current account surplus. The Reserve Bank's gold and forex holdings now cover less than two months' imports.

To prevent serious pressure on foreign reserves the trade surplus must be increased through reduced imports and higher exports.

A clampdown on imports is difficult because about 80 percent are of capital or intermediate goods. And in the absence of higher prices for minerals, which comprise 80 percent of exports, it is also difficult to raise them.

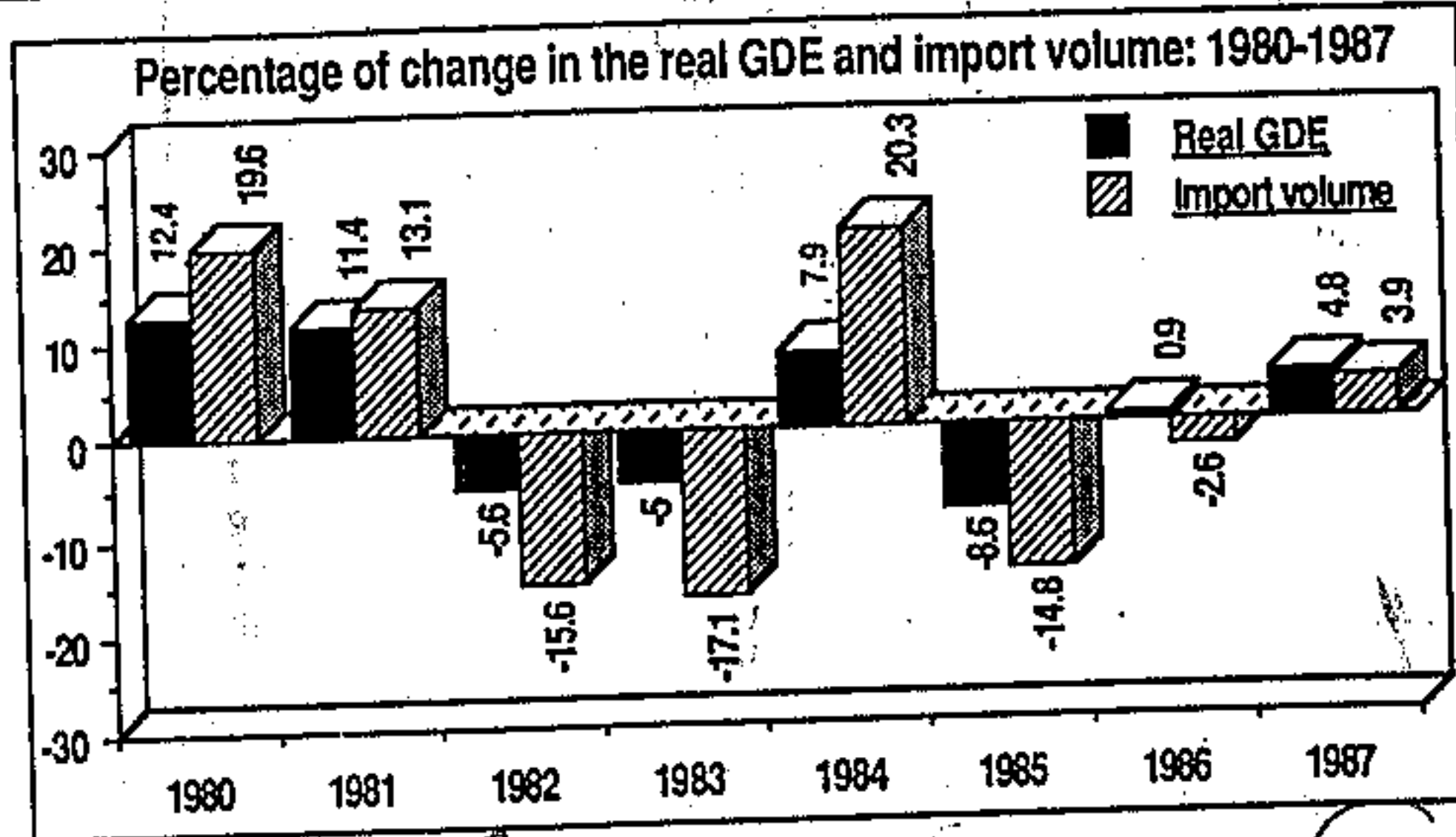
The authorities thus have little alternative but to let the rand slide. Although this will push up inflation, there is no sense in wasting valuable forex propping up the currency.

A further softening of the rand would increase competitiveness of key non-gold exports, particularly coal, and help dampen imports by making them far too costly.

Inflation dipped last year largely because the appreciation of the rand reduced the cost of imports. But this pattern is now beginning to reverse.

Higher local wage settlements add to the inflation pressure. The authorities' postponement of administered price increases will not be ultimately effective and could cause major problems in the future.

The review concludes that while inflation may decline a little further in the short term, it is likely to increase gradually in the second half of this year.



Star 19/5/88

## Imports threaten BoP, (74) says Volkskas economist

By Sven Lünsche

While increased economic growth is a matter of urgency, the need to maintain a substantial surplus on the balance of payments (BoP) places restrictions on what could be achieved, says Volkskas economist Adam Jacobs.

In the bank's latest *Economic Spotlight* he says that in view of foreign debt obligations, an excess of R2 billion to R3 billion has to be obtained on the current account, both this year and in 1988.

Owing to the weaker export performance, imports cannot be allowed to rise too sharply. This, in turn, means domestic demand factors cannot be allowed to rise too rapidly — gross domestic expenditure is related closely to the volume of imported goods as seen in the graph.

In view of these developments, Mr Jacobs generally welcomes the Government's recent economic restraint measures, which were built around higher interest rates and stricter hire-purchase conditions.

"These measures will help to protect the balance of payments, prevent exorbitant increases in interest rates and help force down the inflation rate."

But he adds that attention should be given to measures to increase the growth rate, given the existing restraints.

"For this purpose, the introduction of selective import control measures should be seriously considered and purposeful efforts made to increase the productivity of production factors," Mr Jacobs says.



# Trade 74 surplus declines

Star 28/5/88  
SVEN LUNSCHÉ

South Africa's trade surplus declined by 60 percent from March to April as surging consumer demand pushed up the cost of imported products.

Figures released by the the Commissioner for Customs and Excise in Pretoria yesterday showed that exports for April were valued at R3,132 billion, while goods worth R2,859 billion were imported, leaving a surplus of R272 million, compared with R696,5 million in April.

For the period January to April, the surplus declined to R2,166 billion from R5,08 billion in the same period last year.

Imports in the first four months of this year were R11,751 billion (1987: R8,751 billion), while exports totalled R13,705 billion (R13,831 billion).

The staggering decline in the surplus could well lead to another round of stabilisation measures to curb imports because South Africa needs to maintain a substantial surplus on its current account to meet its foreign debt commitments.

---

**A lower surplus**

Though South Africans exported more than they imported in April, the resulting R398m surplus was lower than January's R550m, February's R648m and March's R696m.

Imports, which totalled R8,68bn in the first quarter, were R2,86bn in April. Exports, R10,57bn in the first quarter, were R3,26bn in April. Exports of R13,83bn in January-April were marginally higher than R13,71bn in the same period last year, but imports of R11,54bn were up about 32% from R8,75bn in January-April 1987.

Nedbank chief economist Edward Osborn predicts export figures will pick up in May given the firmer price of gold — SA's biggest export. "The gold price in April was poor, and that's reflected in the export figures."

Osborn says the apparent deficit on the balance of payments current account — which includes service accounts as well as trade — probably continued in April, as Reserve Bank gold and forex reserves fell more than R200m. Reserves have fallen

R500m since December.

The rise in imports is a traditional sign of higher growth in SA, because consumers can afford more imported goods and companies can buy plant and equipment overseas as they step up investment. Imports are expected to tail off this year as higher interest rates slow the economy and curb demand.

Osborn says GDP, which was rising during 1987, apparently peaked in the first quarter of 1988, so import demand should slow. However, fearing that Pretoria will slap on import controls, some people may continue to import now rather than risk not being able to get goods at all later.

He expects no immediate reduction in imports after the May moves on Bank rate and credit restrictions. "Incoming imports reflect orders placed anything up to three months earlier, so there is always a lag."

He said he was also satisfied that the damage went beyond December 1986. The judge said he had to weigh up the evidence of the six distributors and con-

"One teaspoon of a woman's common-sense is worth a gallon of a man's the-

● To Page 2 →

# Rand in slide as BoP weakens

14/6/88  
74  
B/day

GRETA STEYN

THE rand has been on a downward slide against most major currencies, reflecting SA's weak balance of payments (BoP) situation while adding to inflationary pressures.

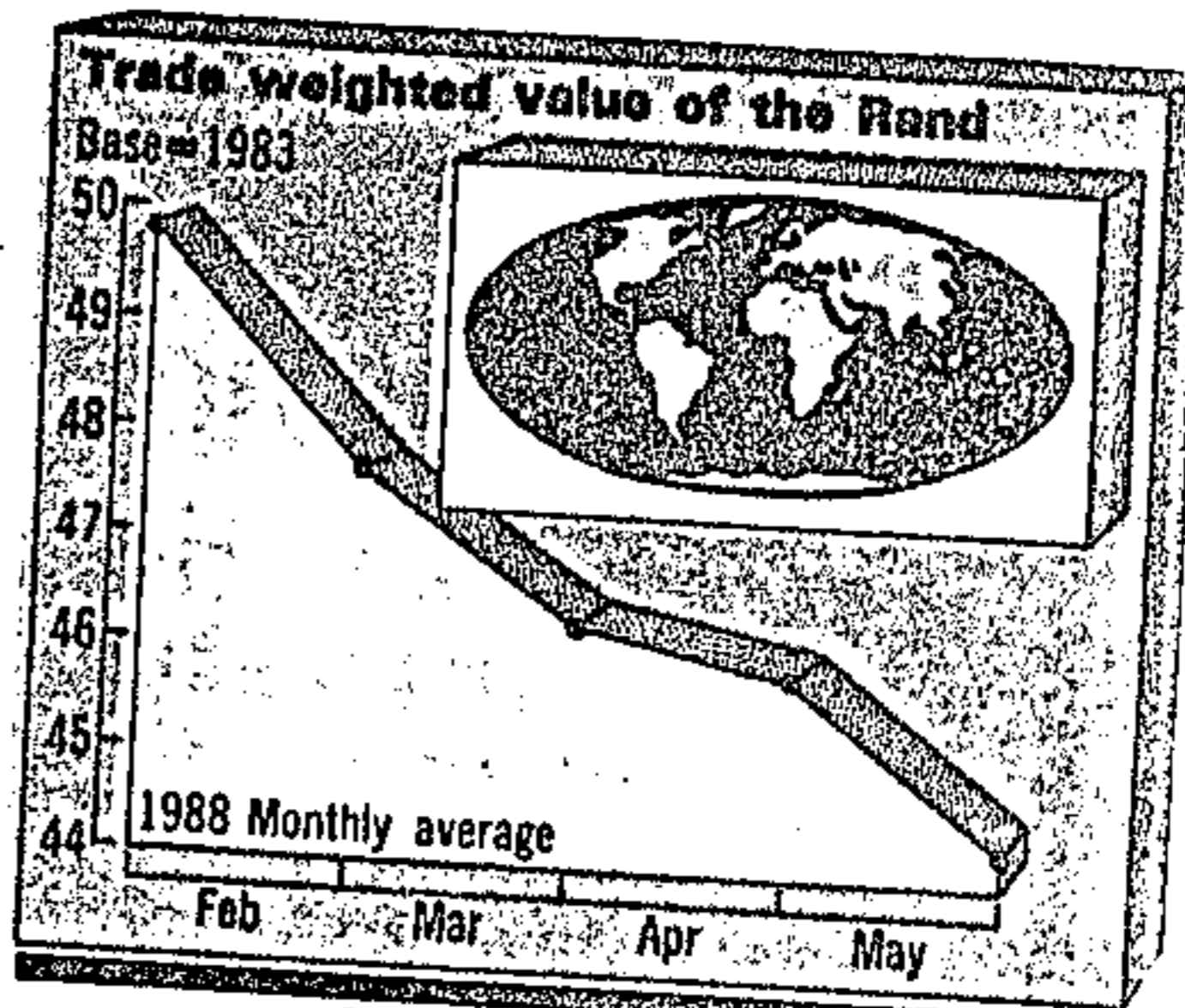
On a trade weighted basis, which is a measure of the international purchasing power of the rand, the currency has declined by more than 10% from the beginning of the year.

Against the Deutschemark, the decline this year has been 13% from last year's average of DM0,8825 to the rand. Yesterday, the rand was trading at around DM0,768.

The drop against the Yen has been even more rapid with the rand losing over 20% from last year's average. Similarly, the rand has lost ground against British sterling and the US dollar, and is trading at about 10% below last year's average of R2,03 to the dollar.

The weaker rand reflects SA's deteriorating BoP, which has been hit by a shrinking trade balance. SA's trading partners' demand for rands has dropped as the demand for SA exports diminished, putting downward pressure on the rand.

First National Bank said in its Financial Round-Up: "It has become clear that the rand has been swung into action



Source: STANDARD BANK Graphic: JOHN McCANN

as a policy tool along with interest rates in an attempt at stemming the trend in aggregate demand growth in the economy."

First National said the authorities were apparently willing to risk greater exchange rate volatility for the sake of tempering the interest rate cycle.

It said the Reserve Bank's accommodation of the money market in recent weeks provides strong support for the argument.

On the issue of inflation, the Standard Bank said in its Review: "It is not sur-

● To Page 2 →

## Rand deteriorates against currencies

prising that producer prices are already providing evidence of the renewed currency weakness (car prices, for example, have risen sharply), and the year-on-year change in the PPI has now almost certainly bottomed."

The rate of increase in the prices of imported goods would accelerate — eventually feeding through to consumer

← ● From Page 1

price inflation figures, the Standard said.

The Trust Bank expects the rand to strengthen "modestly" once the BoP improves. But in the short-to-medium term, it should remain under downward pressure.

## Reserving judgment

A welcome improvement in holdings of gold and foreign reserves in May is good news.

Bad news, though, is that it is not nearly as impressive as it sounds. Much of it is due to increased valuation of gold in terms of the rand, which depreciated in the month.

Says Nedbank chief economist Edward Osborn: "Though the balance sheet shows the total is up R314m from April to R1,3bn in May, when you remove the distortion created by the fall in the rand, the increase is less than R31m."

He arrives at this figure by multiplying the 259 000 oz drop in the physical quantity of gold holdings by the average price of gold

FINANCIAL MAIL JUNE 17 1988

(R998) and subtracting the resultant figure of R258,3m from the R289m increase in foreign assets.

A Reserve Bank official, however, does not entirely accept this interpretation. "If you are going to take into account the increased valuation of gold you must also take into account the increase in the gold reserve value — which means you must subtract the R258,3m from the total increase of R314m which gives a total of R55,7m."

Whatever the method of rand calculation, a realistic assessment of changes in reserves can be made in terms of US dollars.

"This shows a US\$112m increase in foreign assets, a \$117m decrease in gold holdings and a net decline of \$5m and, accordingly, a net decline of \$5m of reserves on a transactions basis," says Osborn.

Encouraging, however, is that the figure is a distinct improvement on previous months. Using the same method, Osborn calculates declines in April, March and February of R253m, R410m and R129m. Or in dollar terms, of \$124m, \$201m and \$94m.

Without figures on foreign liabilities, which will not be available until the next Reserve Bank's *Quarterly Bulletin* is released in June, it is not possible to assess the net position. However, the overall balance of payments has apparently deteriorated since August last year, when gross foreign reserves went into decline, with pauses in October and January, and now again in May. Since August, the overall effective decline on Osborn's basis was R1,36bn or \$699m. ■

FM 17/6/88

74

## BALANCE OF PAYMENTS

(74)

### Into deficit

As expected, the current account of the balance of payments (BoP) ended the first quarter in deficit. The June Reserve Bank *Quarterly Bulletin* reports a seasonally adjusted annualised deficit of R400m, down from a R6,1bn surplus in the fourth quarter of 1987.

The decline was due to the joint effect of a 20% rise in value of merchandise imports and 4% decline in value of merchandise exports. Net gold exports rose by 4%, while net service and transfer payments to foreigners fell by 0,5%.

The decline in merchandise export earnings "was more than fully accounted for by a decrease of some 7% in export volumes. Substantial declines . . . were recorded in chemicals and agricultural products . . . The average level of export prices, however, was about 3% higher than in the final quarter of 1987, reflecting a marked further strengthening of international commodity prices and a decline in the average effective exchange rate of the rand."

Against the steep increase in import volumes and rand depreciation against currencies of major trading partners, it was fortunate that average import prices rose only marginally, thanks to "continued relatively low inflation rates in trading partner countries and to a sharp weakening of oil prices in the international markets."

There were increases in all principal categories of goods imported, most notably machinery and electrical equipment, transport equipment and mineral products.

According to the *Bulletin*, the 4% increase in net gold exports was "entirely due to an increase in volume," with the average fixing price slipping from US\$473-\$454.

Fortunately for the BoP, the capital account eased, with the total outflow of capital not related to reserves shrinking to

FINANCIAL MAIL JUNE 24 1988

24/6/88 (74) FM

R700m from R1,8bn in the previous quarter. The outflows of both long-term (R300m, down from R700m) and short-term (R400m, R1,1bn) capital fell. This "could be attributed partly to the fact that no lump sum repayments were made . . . on the matured outstanding debt inside the 'standstill net.'"

However, public corporations had a net outflow of R140m capital, after importing a total of R817m in 1987. "This mainly represented repayments of debt outside the standstill net in bearer bonds and notes."

Overall, the picture is not encouraging. The current account deficit, combined with both short- and long-term capital account deficits, led to pressure on the rand, bringing it down sharply in the first quarter against the currencies of all major trading partners.

# Exports boost trade surplus

74  
**SVEN LUNSCHÉ**

South Africa's trade surplus in May improved by 62,5 percent to R650 million, following a welcome boost in exports over the period.

The Department of Customs and Excise reported yesterday that the value of exports increased from R3,26 billion in April to R3,82 billion last month while imports rose by R295 million to R3,15 billion over the same period.

The monetary authorities will certainly welcome the brief respite. The overall current account of the balance of payments ended the first quarter with a seasonally adjusted annualised deficit of R400 million, compared with a surplus of R6,1 billion in the fourth quarter of 1987 and economists predict that this trend will largely continue in the current quarter.

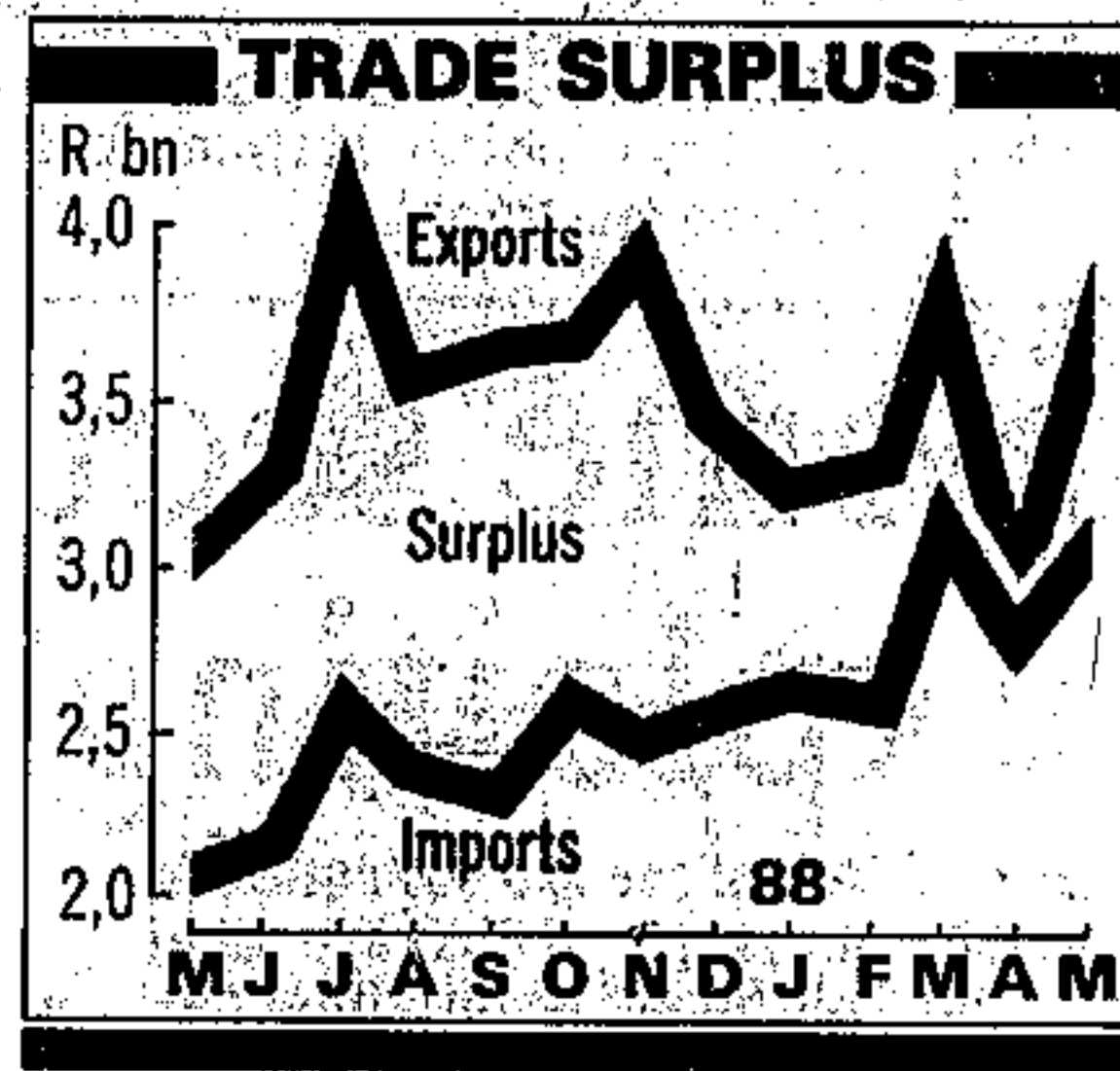
Trade figures for the first five months of the year verify this assessment. The R2,96 billion trade surplus for the

5/25/6/88  
period January to May was less than half the level it was last year over the same period. Imports for the first five months rose by 34 percent to R14,69 billion, while exports increased a mere 4,5 percent to R17,65 billion.

Economists expressed surprise at the continued strong growth in imports during May, despite a drop in the rand and the economic restraint measures introduced by the monetary and fiscal authorities early last month.

"While the rise in imports is obviously a reflection of the surging consumer demand, it also shows that companies are restocking ahead of possible sanctions and the perceived depreciation of the rand in months to come," says Simpson McKie's economist John Banos.

He notes that the level of inventories soared by a seasonally adjusted R2,9 billion in the first quarter this year, after registering an increase of only R129 million for the whole of 1987.



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

## Trade balance up to R670m

HAROLD FRIDJHON (74)

SA'S balance of trade widened to a favourable R670m in May 1988 compared with a surplus of only R310m in April.

Exports rose by R654m to R3,824bn, while imports resumed their heady growth, rising by R294m to R3,154bn.

Figures issued by the Department of Customs and Excise show that in May 1987 the trade surplus was R949m from exports of R3,166bn and imports of R2,217bn. The depreciation in the value of the rand tends to increase the monetary value of both imports and exports.

For the first five months of the year, exports, which include gold, earned R17,655bn, compared with R16,871bn in the same period last year. Imports recorded a steep increase, rising to R14,693bn from R10,968bn during Janu-

B/day ● To Page 2 → 27/6/88

## SA's trade balance widens to R670m

ary-May last year. Included in imports are oil and other strategic goods.

The trade surplus for the first five months has halved, compared with 1987, falling from R5,9bn to R2,96bn. This sug-

gests that the current account of the balance of payments is still in deficit to the extent of about R652m.

← ● From Page 1

(74) B/day 27/6/88

(74) B/day 28/6/88

Situation healthier, figures show

# SA's foreign debt reduced

SA'S foreign debt stood at R43,6bn at the end of last year, sharply down in rand terms from R65,8bn at the end of August 1985 and R49,5bn at end-1986, figures in the Reserve Bank's latest Quarterly Bulletin show.

At the same time, SA's ratio of foreign debt to exports dropped from 170,7% in 1984 to a much healthier 93,2% last year, indicating an increased ability to service the debt.

Nedbank economist Edward Osborn said: "The ratio of foreign debt to exports is relevant because it indicates the ability of the balance of payments (BoP) to redeem or service the debt. A ratio of around the 100% level is an acceptable level.

"SA's level of exports relative to its debt is far healthier than that of most developing countries."

However, the rand value of SA's foreign debt is probably rising, as the rand has lost ground against the dollar and most major currencies this year. Last year's drop in SA's foreign debt in rand terms was largely attributable to an improvement in the rand/dollar exchange rate, coupled

GRETA STEYN

with substantial debt repayments.

But economists said a weakening exchange rate did not necessarily worsen the foreign debt picture. A drop in the currency should protect the balance of payments by boosting the rand value of exports while depressing the demand for imports.

The extent to which the rand would be allowed to weaken, raising the rand value of foreign debt on the one hand, while on the other hand protecting the BoP, would depend on the authorities.

SA's foreign debt commitments did not put pressure on the BoP in the first quarter of this year — no lump sum repayments were made on the matured outstanding debt inside the "standstill net".

The Quarterly Bulletin said repayments in terms of the Second Interim Arrangements with foreign creditor banks in the first three months of 1988 were limited to small repayments on individual debts as they matured.

This month, a lump sum repayment of about R400m was made on debt inside the net.



## Debt/export ratio healthier

# SA's foreign debt drops in rand terms

*Govt Analyst  
28/6/88  
74*

By GRETA STEYN

JOHANNESBURG. — SA's foreign debt stood at R43,6bn at the end of last year, sharply down in rand terms from R65,8bn at the end of August 1985 and R49,5bn at end-1986, figures in the Reserve Bank's latest Quarterly Bulletin show.

At the same time, SA's ratio of foreign debt to exports dropped from 170,7% in 1984 to a much healthier 93,2% last year, indicating an increased ability to service the debt.

Nedbank economist Edward Osborn said: "The ratio of foreign debt to exports is relevant because it indicates the ability of the balance of payments (BoP) to redeem or service the debt. A ratio of around the 100% level is an acceptable level.

"SA's level of exports relative to its debt is far healthier than most developing countries."

However, the rand value of SA's foreign debt is probably rising as the rand has lost ground against the dollar and most major currencies this year. Last year's drop in SA's foreign debt in rand terms was largely attributable to an improvement in the rand/dollar exchange rate, coupled with substantial debt repayments.

But economists said a weakening ex-

change rate did not necessarily worsen the foreign debt picture. A drop in the currency should protect the balance of payments by boosting the rand value of exports while depressing the demand for imports.

The extent to which the rand would be allowed to weaken, raising the rand value of foreign debt on the one hand while on the other hand protecting the BoP would depend on the authorities.

SA's foreign debt commitments did not put pressure on the BoP in the first quarter of this year — no lump sum repayments were made on the matured outstanding debt inside the "standstill net."

The Quarterly Bulletin said repayments in terms of the Second Interim Arrangements with foreign creditor banks in the first three months of 1988 were limited to small repayments on individual debts as they mature.

This month, a lump sum repayment of about R400m was made of debt inside the net.

Substantial repayments last year did not succeed in reducing SA's total foreign debt in dollar terms, which was vitually unchanged in December last year from end-1986 at \$22,6bn. The bulletin said this reflected the dollar's decline against major European currencies in which SA's foreign debt had to be repaid.

217 2/1/88 30/6/88

**T**HE INCREASED use of foreign trade credits by SA importers has eased the balance of payments constraint and provided more latitude for monetary officials in their policy decisions.

Spurred by negative real interest rates, importers last year switched their foreign credit lines for cheaper domestic ones. This development, which was reflected as a short-term capital outflow in official balance of payments statistics, was funded by the current account surplus.

It was the measures of March and May, together with adjustments of forward exchange rates, that succeeded in pushing importers offshore for their financing requirements.

"At the time we surmised the trade credits would be available if local borrowers had an incentive to move offshore — and we have been proved right," said Reserve Bank Governor Gerhard de Kock.

**R**ight now we feel more relaxed about monetary policy. If anything, the results of this change in policy have been proof that higher interest rates do work."

Monetary officials say the growing use of international trade credits by local importers was confirmed two weeks ago in discussions with bankers attending the annual meeting of the Bank for International Settlements in Basle, Switzerland.

"Bankers said they were pleased to see South African borrowers once again using their facilities," De Kock said.

The European bankers' comments did confirm that it was perceptive SA borrowers, rather than reluctant overseas lenders, who were responsible for local funds being used to

# Change in policy leads to easier offshore credits

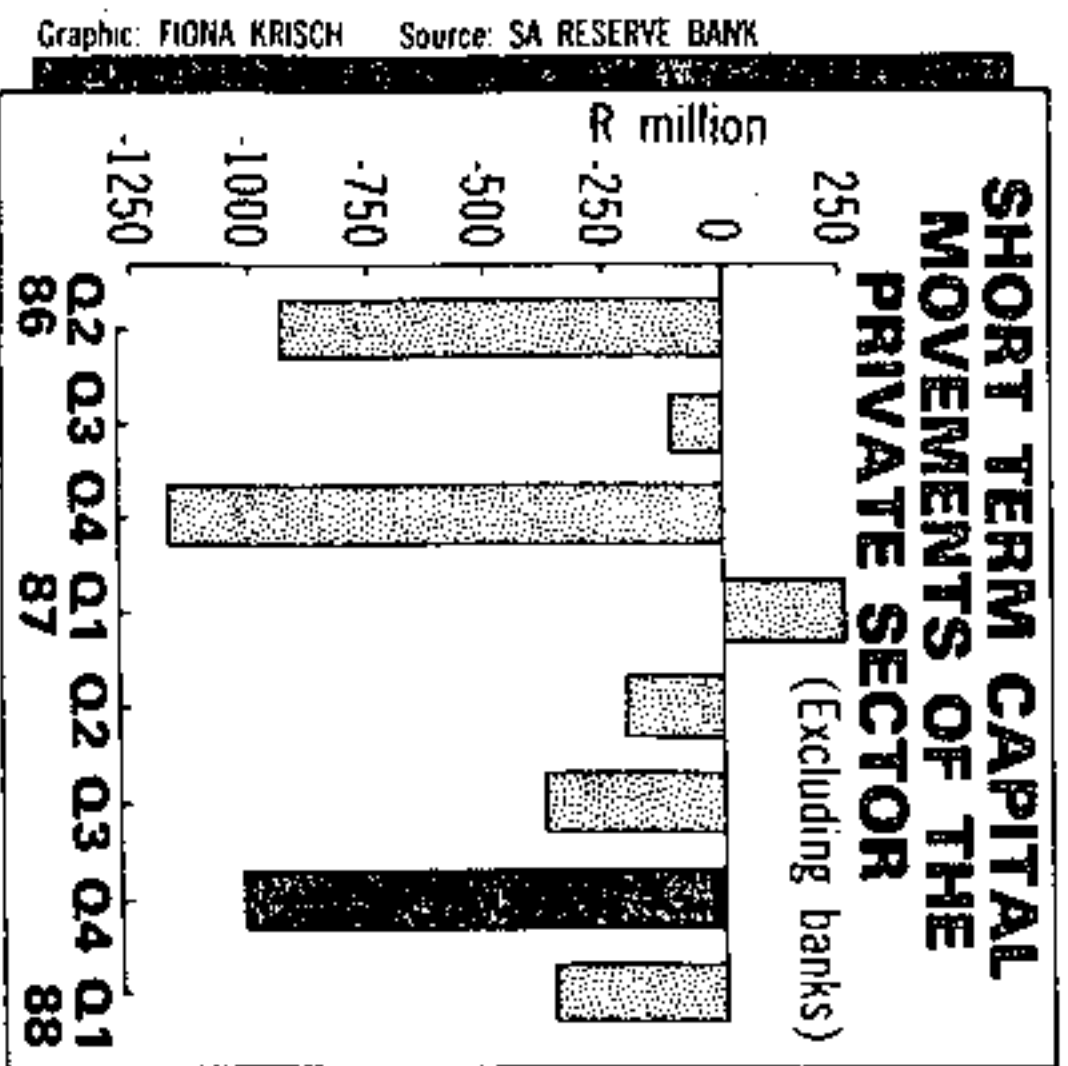
GERALD PROSALENDIS/Financial Editor

finance imports. Officials stress, however, that South African borrowers are only able to negotiate trade related and suppliers credits.

"We are still not able to obtain syndicated bank credits or issue bonds in foreign markets."

Although increased availability of trade credits does not directly affect the current account calculation, what it does mean is that the balance of payments ceiling has been raised, even if marginally. Said De Kock: "This is a significant development, even though the amounts involved are relatively small."

When last month's credit squeeze was announced, entailing among others a rise in Bank rate, officials made it clear that its aim was twofold: to damp demand and to push South African importers offshore as local finance became more expensive.



If importers, faced with higher local interest rates, had been unable to negotiate foreign credits, it would have condemned SA to perpetually maintaining a surplus on the current account, effectively making more-

tary policy the slave of our international relations. Said one official: "The disappearance of the surplus on the current account has been accompanied by an improvement on the capital account. This has eased the pressure on the reserves."

"Trade credits have been flowing in, enabling us to keep up the level of reserves. If there had not been an improvement in the capital account in the past six months, the rand would have depreciated even further."

Rather than being a fundamental change, the new development represents a loosening of the noose. It was last week's surprisingly strong performance of the rand that gave the first hint that importers had changed their method of funding.

Asked one dealer at the time: "An anomaly appears to have emerged in the South African authorities' man-

agement of the rand. To have the rand almost holding its own against the dollar while other currencies are weakening makes little sense. "If higher interest rates have been excluded as a policy option to curb imports, which many believe, why is the Reserve Bank supporting the rand in the face of the sharp appreciation of the dollar?"

However, an important piece of the puzzle had fallen into place. The reversal of the outflow of short-term capital due to switching foreign finance onshore had given the authorities that little bit of extra room to manoeuvre.

**V**es, the figures involved are relatively small. As bankers point out, fresh in importers' minds is the catastrophic effect of the depreciation of the rand in 1984 and 1985. But more latitude on the balance of payments means more latitude on exchange and interest rates, less likelihood of import controls and the opportunity for higher growth.

Said an official: "Based on past performance, market-makers have been preoccupied with Doomsday scenarios in which they expected the currency to disappear and interest rates to skyrocket. The market is beginning to realise that neither of these will occur."

The heading of the first chapter of the latest Bank for International Settlements annual report is oddly apt for this country: "Looking back with consternation, but some relief."

With the capital rupture of the mid-80s receding, importers moving towards more normal methods of financing and the initial fears of interest rates topping their 1984 levels proving unfounded, we will just have to learn to live with less exciting times.

# Inflation is here to stay

THIS is the last article in our series on inflation. In this article we will drop the assumption of a closed economy. Instead we allow our economy to participate in world trade. In other words we now have an economy which imports and exports goods and services.

By opening up our economy we also allow ourselves to become part of the international flow of funds. Because our economy is now "open" one of the major economic variables we have to contend with and indeed understand is the balance of payments.

The balance of payments is in fact the country's balance sheet. Essentially there are three sections in the balance of payments: The first section is called the current account and it provides a record of all trade related transactions i.e. imports and exports.

The second section is called the capital account and it is here that all capital inflows and outflows (inflow and outflow of foreign investment and foreign

borrowings).

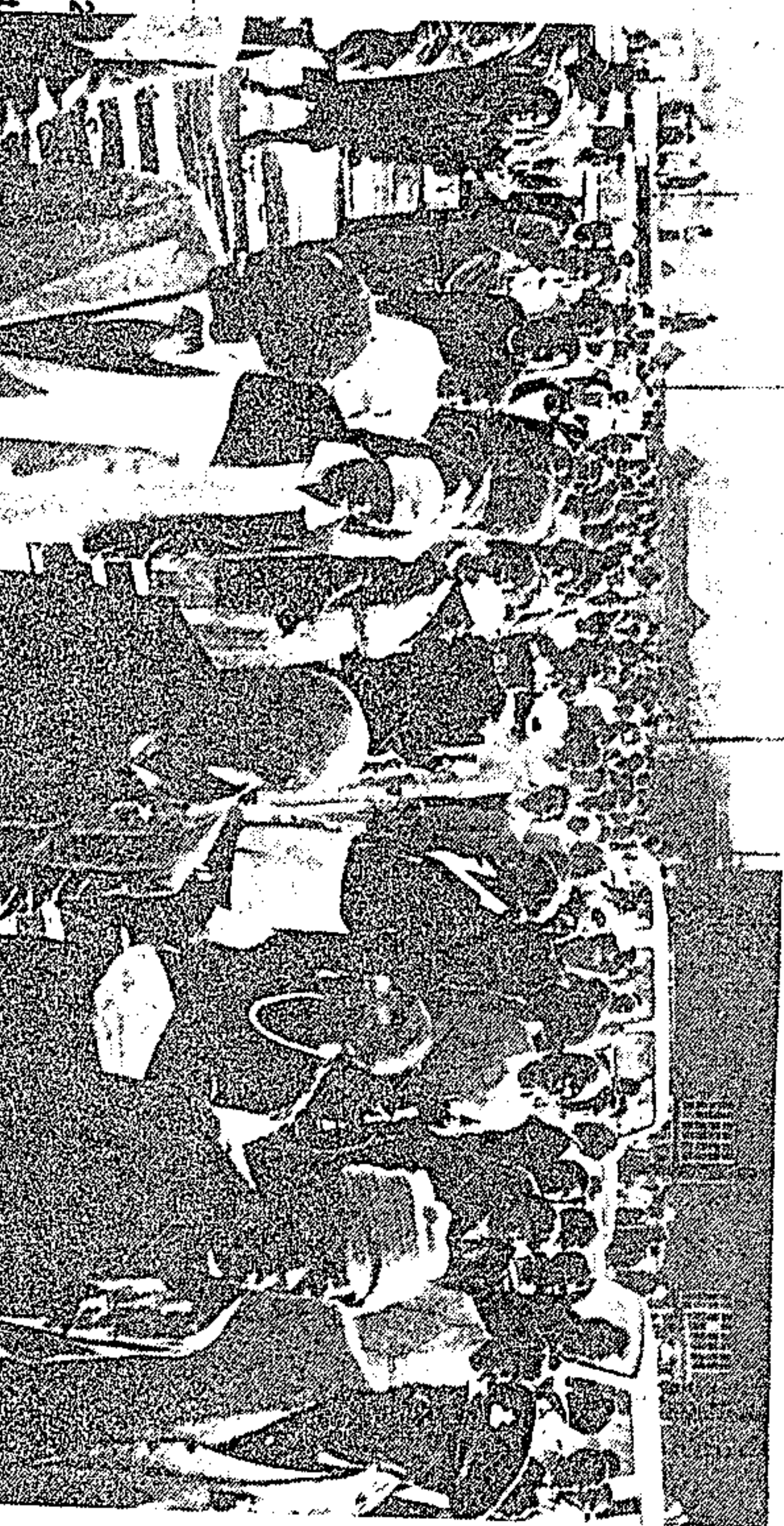
The third section reflects the country's gold and foreign exchange reserves (this is a balancing item i.e. the current account minus the capital account).

As a Third World economy, South Africa is a net importer of goods and services. More specifically we tend to import large quantities of capital goods (machinery and equipment), a practice which is becoming more widespread as management unwisely decide to go the capital expansion route.

## Movement

What we need to understand is where the movement to capital intensive production started and the industrialisation policies which encouraged it. The Reynders Commission (1972), argued that inflation is a structural problem arising out of the policies of import substitution, the increasingly sophisticated process of industrialisation, and some aspects of world post war inflation.

We now turn to a discussion of the historical developments which allowed inflation to become part and parcel of the economic structure.



THE wages of workers are always the first to be affected by inflation. Hence the importance of trade unions in wage bargaining.

In fact machinery and transport equipment comprises approximately 45 percent of total imports. This tendency towards capital intensive production means that in terms of economic growth the balance of payments comes under severe pressure. During boom periods demand increases, to meet this increase in demand manufacturers and producers have to increase their output.

For this they require additional equipment and machinery which is imported. At the same time bottlenecks start emerging in the economy as demand outstrips production capacity. To meet the higher demand producers start importing. The outcome is that in times of economic booms the balance of payments comes under pressure as the demand for imports decreases.

During the 1950s and 1960s South Africa followed a policy of import substitution and inward industrialisation. In essence the objectives of this type of policy was to allow the local industries to develop while at the same time allow the country to become self sufficient. To do this the State put in place a set of economic measures which favoured certain sectors of the economy.

- Provision of cheap foreign exchange, in other words the rand was relatively strong compared to other currencies. This meant that capital equipment could be imported relatively cheaply, a practice which was encouraged.
- Import controls such as tariffs and quotas. These controls made it more expensive to import goods which the State deemed unnecessary and for which a local industry could be developed.
- Direct State subsidies were paid to agriculture as well as to those firms which embarked on import substitution programmes.
- Legislation which prevented black workers from organising themselves into unions. White workers were, however, organised and politically strong. This had far reaching ramifications for education and skills shortages, the inflationary aspects of this were discussed in part one of this series.

The results of these policies were far reaching and indeed allowed for the development of an economic structure which would prove to be highly distorted and in

Historical Perspective

During the 1950s and 1960s South Africa followed a policy of

Among the policies introduced to promote import substitution were:

- To page 29

P.T.O.

# because of bad policies

30/6/88

74

From page 28

which inflation would thrive.

Firstly because of the strong exchange rate the practice of importing large quantities of capital equipment was encouraged and the bias towards capital intensive industrialisation was put in place.

Secondly, the existence of subsidies and the protection offered by tariffs and other import controls attracted manufacturers to the protected sectors.

After all they were assured of large profits in these sectors. Thirdly, government policy did not actively encourage exports, so that the net outflows of foreign exchange needed to pay for imports were not matched by net inflows from the sale of exports.

## Profits

Firms embarking on import substitution programmes were guaranteed profits through the mechanism of protection set in place by the State, there was no need for them to compete on an inter-

national level by exporting their goods. Furthermore, the exchange rate was too strong to make exports worthwhile.

To summarise, we can say that the policies of import substitution and inward industrialisation resulted in excessively capital orientated policies which have proved to be costly and have had a crippling effect on growth.

## Policy

It must be noted that throughout the period under discussion the policy followed was one of direct controls and intervention. The rand was allowed to remain relatively strong. For what turned out to be mainly political reasons devaluation policies were not followed. Indeed it was only in the last six years that currency devaluation as a policy measure was introduced.

In fact in the last two years we have seen the rand devalue quite substantially against other major currencies such as the British Pound, US Dollar, Japanese Yen and German Deutschmark.

However, given the distortion in the economic system created by the misguided and politically motivated policies of the past this currency devaluation is in itself inflationary.

South Africa remains a net importer of goods and services and is in the past booms are accompanied by rapidly growing imports. The weaker currency means that these imports are expensive. Given the high levels of demand during these boom periods, the higher costs of imports are quickly transmitted to higher domestic prices.

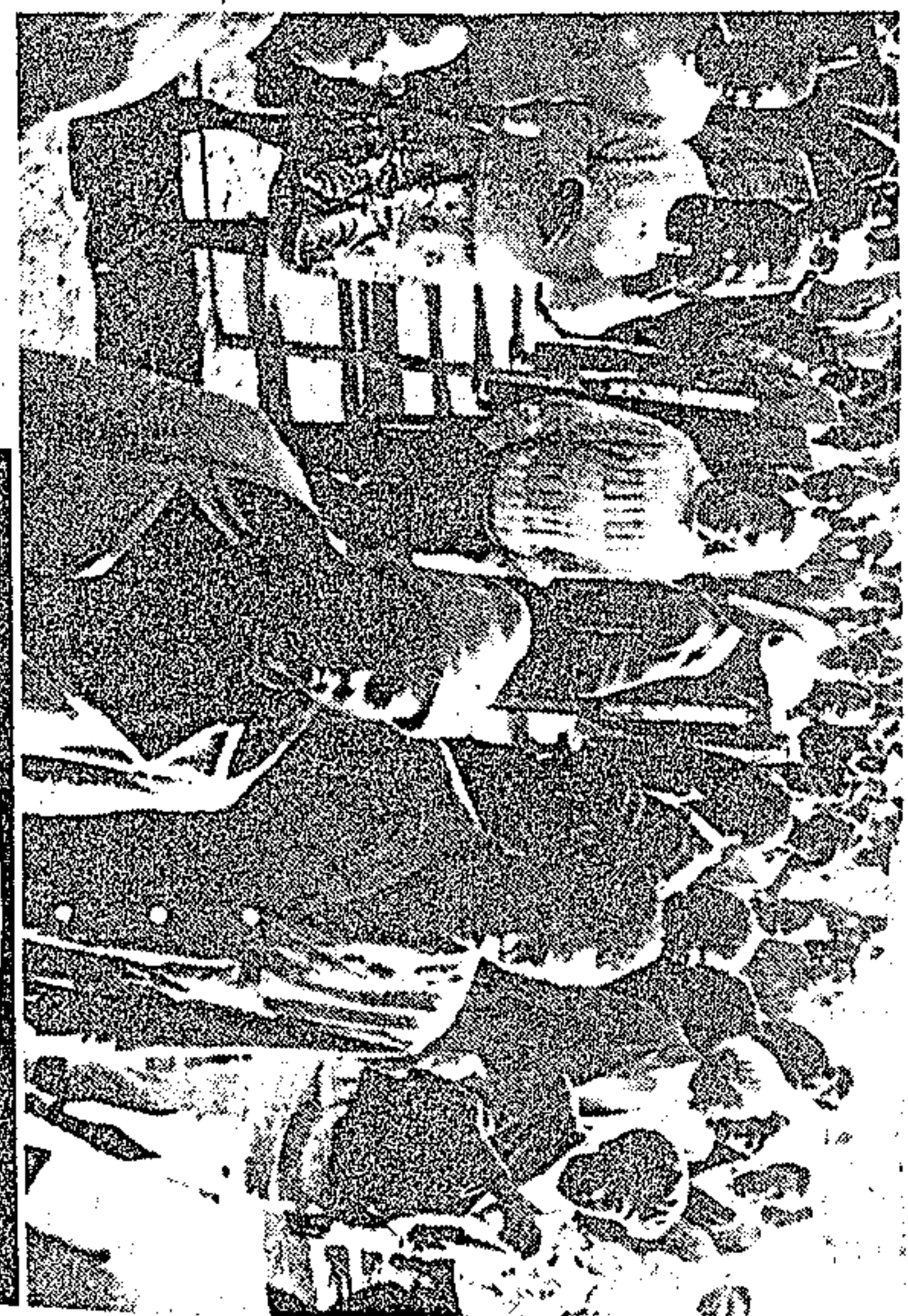
## Problem

On the other hand the weaker rand makes our exports more competitive. The problem, however, is that past policies did little to promote exports. Therefore, even with a lower rand not enough export volumes are generated so that foreign exchange inflows from exports are at best inadequate.

Furthermore, South Africa has an inflation rate which is far higher than that of its trading

partners. To remain competitive it therefore needs a lower rand to neutralise the higher output costs. However, given the structure of the economy, a lower rand has inflationary implications as discussed above. In fact the policy of currency devaluation followed in the last six years has resulted in a vicious circle where the depreciating currency has led to inflation, and inflation in turn fuels the need for an even lower currency.

In conclusion we can say that inflation is a structural problem in the South African economy. The policy prescriptions of the past have resulted in an economic structure which does not allow for growth without inflation. Unfortunately it is not sufficient to follow policies which theoretically and indeed given a different set of economic structures would have the desired results. Sound policies in a bad structure ultimately become unsound policies. Given the structure of the South African economy inflation is here to stay it cannot simply be willed away.



THE effect of inflation on wages plays a major part in negotiations.

74

**Off balance**

Exports worth more than R3,8bn against imports of nearly R3,2bn created a trade surplus of R670,5m in May, bringing the surplus for the first five months of the year to nearly R3bn, according to figures released last week by Customs & Excise.

The monthly surplus is the second highest this year and improves prospects for the current account after the surplus sank to R398m in April.

Based on this, however, the current account could have been more than R500m in deficit at the end of May — given an estimated R700m deficit on services.

But as first-quarter figures in the Reserve Bank *Quarterly Bulletin* indicate, substantial adjustments are made to Customs & Excise figures. Exports (including gold) were adjusted up from R10,6bn to R11,3bn and imports down from R8,7bn to R8,6bn. This turned an apparent current account deficit of R36m into a surplus of R839m.

To add even more confusion, the seasonally adjusted annualised current account balance swung to a deficit of R400m in the year to March, according to the *Bulletin*.

In the year to May, the greatest contribution to import costs — R4,6bn — came in the category which includes machinery and mechanical appliances, electrical equipment, sound recorders and reproducers, television image and sound recorders and reproducers. This figure is up nearly 57% on the same period last year.

Also ranking high — R2bn — is the category vehicles, aircraft, vessels and associated

transport equipment (up nearly 60% on last year), while R1,4bn was spent on products of the chemical or allied industries (up 21%).

Another important factor is other unclassified goods and balance of payments adjustments, which includes oil and other strategic imports, amounting to more than R2,1bn. This is, however, down more than 4% from last year, partly a reflection of lower international oil prices.

This category (including gold sales) is also the biggest export earner, at R9,4bn — up only marginally on last year.

Base metals earned R2,1bn (up 22%) while mineral products contributed R1,8bn (up 23%). The category which includes precious metals and precious and semi-precious stones earned R1,3bn (up 10%). All these improvements are the result of higher prices on international markets. ■

AP/11/18  
PM  
74

1  
7  
V  
K  
C  
D  
B

JIA

Oct 1980



**Gidlow ... boost exports**

imports because "if successful it will simply stimulate further demand for imports."

Import controls would be just as ineffective and could do more harm than good.

"They would have a marginal effect on the trade balance because at least 80% of imports are capital and intermediate goods which are indispensable to further growth. So the benefits are small and the cost in international trade relations could be great."

Controls would contravene GATT rulings, strengthen incentives to impose further sanctions and, by reducing the supply of imports and competitive pressures, lead to higher prices. This, in turn, would reduce the competitiveness of exports.

Research on economic development over the 65 years 1920-1985 shows that SA's propensity to import was stable — averaging about 25% of GDP — despite recurring import substitution policies. It is unlikely that any policies would be more successful now in reducing imports than in the past.

So, whatever the obstacles, it is essential to boost exports to fund the increasing level of fixed investment spending now taking place.

Gidlow looks to "fungible items" — goods which are identical and therefore cannot be traced to source.

"Mineral exports form the base of our economy. If we are to succeed in increasing exports it may be by stimulating the mining sector. Despite volatile prices and low price

TRADE

## Focus on fungibles

Whatever the political deterrents, an increase in export volumes is essential if balance of payment problems are to be relieved, says Roger Gidlow, economic adviser to the Reserve Bank. Speaking at a seminar organised by the Institute of International Affairs in Pretoria last week, he pointed out that other solutions have limited value.

Spontaneous inward industrialisation, for instance, which encourages labour- rather than capital-intensive methods of production, can't materially reduce dependence on

and income elasticity of demand for some commodities, this is the area where we have a comparative advantage and where exports will be less hindered by sanctions."

He suggests two ways of boosting mineral exports.

The first is beneficiation — the processing of metals to be sold with value added. Chief of these would be the manufacture of jewellery.

The second is exploration, following the route of Canada and Australia, which have successfully stimulated mining exports by creating a favourable tax environment. "As investment in mining, particularly gold, involves low import coefficients, this would not add materially to the import bill." ■

8/7/88

74

**Steady decline**

The rand has now entered "a long period of steady decline" against the US dollar and will decline even further against the Yen and Deutschemark, says the Bureau for Economic Research (BER) in its latest analysis of manufacturing activity.

38

8/7/88 FM

BER director Ockie Stuart believes the balance of payments (BoP) is heading for trouble.

"Export earnings are dwindling, while import costs are rising rapidly. The authorities have already introduced steps to curb consumer demand and thus protect the BoP, but the best we can hope for is a very moderate build-up in reserves." Moreover, trade sanctions will continue to dampen export performance and this will be aggravated by a further fall in non-gold exports.

The BER found that most manufacturers expect their investment in machinery and equipment to rise over the next 12 months, in spite of economic troubles.

In a survey of economic trends, the BER predicts that employees will earn about 16,5% more after-tax in 1988 than last year. "We estimate the inflation rate will average 13% this year, which means an increase of about 3% in real disposable income for Mr Average SA Consumer," says Stuart.

Total spending by private consumers is expected to increase by 4,1% this year, but by only 2,3% in 1989. Stuart says both the ability and willingness of consumers to spend "will dwindle from now onwards." ■

## CAPITAL ACCOUNT

# Credit where it's due

The capital account of the balance of payments (BoP) is a riddle wrapped in a mystery inside an enigma. What little information is available comes from the Reserve Bank *Quarterly Bulletin* and pronouncements from time to time from the authorities.

So the speech to the Durban Rotary Club this week, by Reserve Bank Governor Gerhard de Kock, gives a welcome insight into this beleaguered area — though it would be naive not to think that De Kock was concerned as much with influencing the broad control-free market political battle as with informing his immediate audience.

It seems, from De Kock's account, that whatever the public pressures on SA and ever-increasing high-profile sanctions may be, a measure of relief has come in those transactions which take place out of sight, hidden by client confidential relationships.

Which means, despite the avalanche of bad publicity surrounding SA, international bankers and suppliers are making independent assessments. "They recognise a good balance of payments adjustment performance when they see one," says De Kock.

In our favour are good and improving debt ratios.

The ratio of foreign interest payments to

exports of goods and services, which amounted to 10,7% in 1985, declined to 7,1% in 1987; while the ratio of foreign debt to total exports of goods and services declined from a peak of 171% in 1984 to 93% in 1987.

Moreover, says De Kock, SA has "met all foreign interest and dividend commitments and fully complied with both the First and Second Interim Debt Arrangements."

The result has been "a marked improvement in the capital account . . . during 1987 and, to an even greater extent, the first half of 1988."

Compared to the net outflow (excluding liabilities related to reserves) of R9,2bn in 1985, and R6,1bn in 1986, a net outflow of only R3,1bn was experienced in 1987.

And the outlook for 1988 is even better. "The net outflow amounted to only R677m during the first quarter and, according to preliminary calculations, remained moderate during the second quarter despite further large debt repayments."

While this is encouraging news, it is not clear what its implications are for the future.

Standard Bank chief economist Nico Czipionka believes that the improvement was due in part to technical and temporary factors.

"It's true our impeccable repayment record, as well as an improved growth performance, have earned some brownie points. However, by their very nature, supplier trade credits are product-related and dependent on import volumes. When import demand falls, so too will credits and this source of relief will fall away."

He also makes the point that debt repayments falling due in 1988 are very much lower than in previous years. "A potentially serious repayment bulge is starting to build up in terms of long-term repayment obligations in 1990 and even more in 1991."

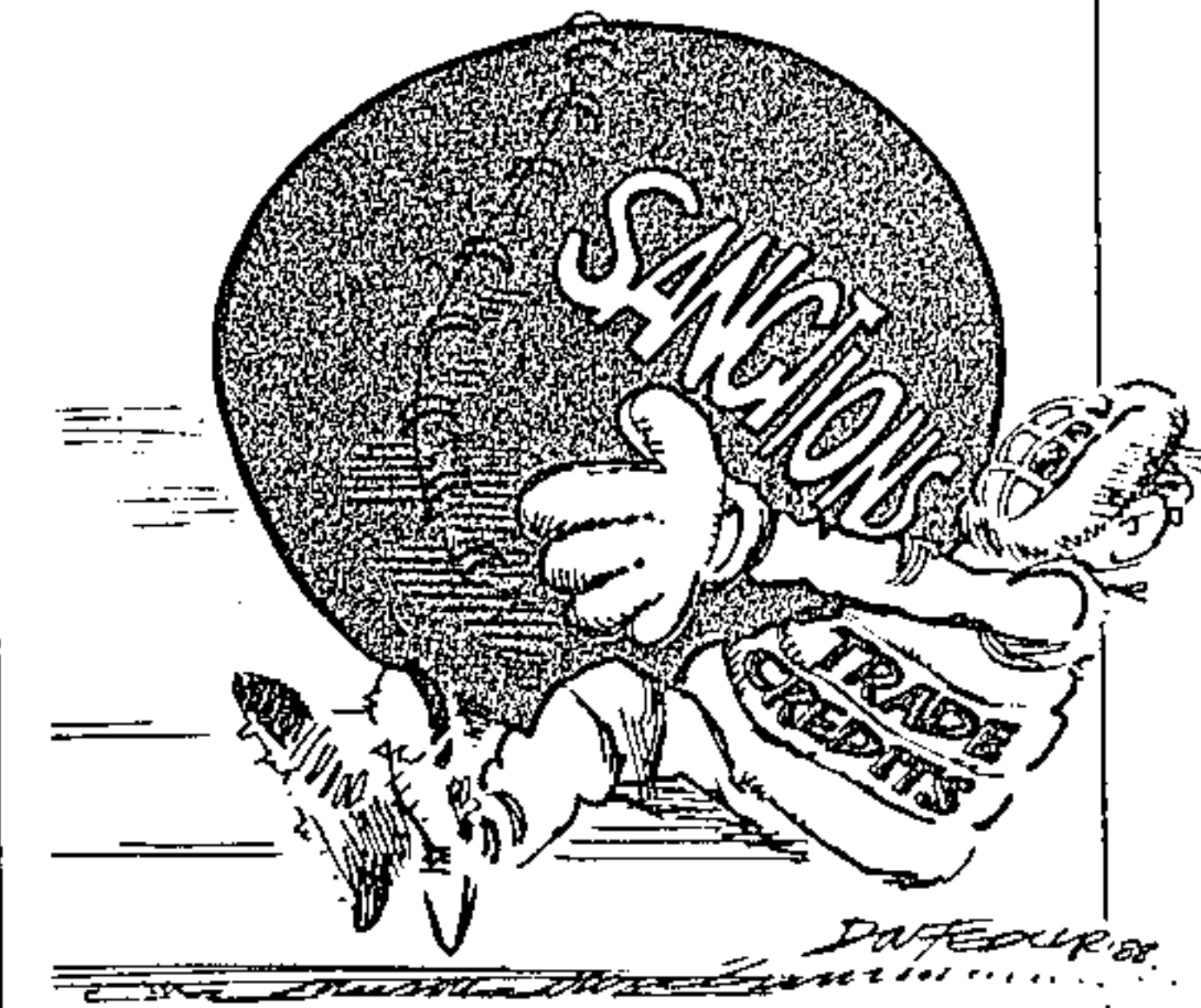
Whatever the outlook in the longer term, however, there is no doubt that easier access to short-term credit has come at a good time.

As De Kock points out, rising domestic demand has, "for the moment, virtually eliminated the surplus on current account." And "public bond issues by SA entities on overseas capital markets are unlikely to be successful. Even syndicated foreign bank credits will be difficult to obtain at acceptable interest rates."

So better availability of trade-related, gold-related and suppliers' credits is crucial.

It is, however, a very small plus in a world full of negatives.

Says De Kock: "The road to solving the basic problems that threaten to isolate us from the rest of the world and to undermine our economic growth is a long one and much



remains to be done."

It would be naive of SA to attempt to solve its problems by yielding to "the ever-changing list of outside political demands . . . But it would be equally naive to believe that SA can maintain the domestic political status quo indefinitely and still achieve optimal economic growth and stability.

"Particularly fallacious is the notion, rightly rejected by government but surviving in certain circles, that these economic ideals can be attained by telling the world to go away and turning the country into a siege economy through the imposition of direct controls such as quantitative import restrictions, bank credit ceilings and price and wage controls.

"Such an approach would be a recipe for disaster.

"In the long run economic isolation and a siege economy will most certainly mean lower economic growth and a lower standard of living for all population groups than would otherwise have been possible."

He concludes: "The crucial interrelationship between political and economic reform makes it essential for SA to move forward on these two fronts simultaneously."

## TAX PLANNING

### Ashes to ashes

In tabling the Income Tax Bill last week, Deputy Finance Minister Org Marais took tax planning to its depths. The new move, which follows numerous precedents, involves hitting "new tax avoidance" schemes with retroactive law.

The move, unusual in any tax jurisdiction, is a striking example of how officialdom attempts to cope with the symptoms of defective law, rather than reform the cause.

## TAX COMMITTEE

The most important post-Margo body, the Tax Reform Committee, got down to its first serious week of work with extensive meetings with the life offices.

The committee, recommended by Margo in recognition that tax reform is never really complete, comprises Margo alumni, businessmen and officials.

It has nine members:

- Chairman, Chris Stals (DG Finance);
- Vice-chairman, Michael Katz (attorney);
- D G Franzsen (previous tax reform commission chairman);
- Jannie De Villiers Graaff (farmer and economist);
- Herc Hefer (chairman UBS Holdings);
- Daan Colesky (Commissioner for Customs and Excise);
- Derek Keys (CEO Gencor);
- Clive Kingon (Commissioner for Inland Revenue); and
- Prof John Morris (UCT).

The other two main topics on the committee's agenda are mining taxation and formulation of value added tax.



# Forex priorities questioned

Finance Staff

The international economic scene will not be conducive to economic growth in South Africa, warns Volkas in its latest Economic Spotlight.

For the next few years the country will have to face a net outflow of foreign capital.

"This is a thorn in our side as South Africa has indicated very frankly in the past few years that it is prepared to allow the standard of living to decline so that foreign debt can be repaid.

"The country is far from being over-borrowed at this stage and can easily meet its interest and dividend obligations. In fact, our position in this respect appears very favourable, even if measured against the standards of certain first-world countries."

"A cause of increasing concern, however, is the increasing disruption of normal trade channels owing to political interference by countries".

The bank goes on to state: "The question is now whether South Africa can continue under such circumstances to spend its foreign currency reserves on imports that are not absolutely essential or where locally produced products or substitutes for imports are available.

"If so, the eventual consequences will be an even further substantial drop in the standard of living and yet greater unemployment."

# Fears over BoP deficit

THE weakness of the Reserve Bank's foreign reserves, underscored by last week's gold swap to repay foreign debt, has sent warning lights flashing about the current account of the balance of payments.

It is widely believed that the current account is now in deficit. Unless there is a significant slow-down in imports a further austerity package may be necessary, says Southern Life economist Mike Daly.

This was confirmed by other economists who see further hikes in interest rates or import controls as a possibility. Latest figures show imports growing

KAY TURVEY

at 42% which, unless moderated, could result in the reserves dipping further, considering the repayment of R400m at the end of the year to foreign debtors within the net.

Reserves to cover imports are running at a worrying two-month cover as opposed to the three-and-a-half month cover in June last year.

The position of the current account has been exacerbated by the under-performance of the gold price, substan-

● To Page 2

## Warnings on current account deficit

tial re-stocking as well as the stockpiling of imports in expectation of a weakening rand.

However, Standard Bank economist Nico Czypionka expects the current account to perform better in the second half as he says the machinery and car component of imports are falling as exports of coal and steel pick up.

As always, much depends on the gold price.

A firmer gold price above \$450 could lead to a modest surplus in the current account at the end of the year.

A strengthening in the gold price to \$500 could result in a growth in GDP between 2% and 3% next year, given the balance of payments constraint.

Yet, if gold continues to trade between \$400 to \$450, growth of 1% is anticipated.

● From Page 1

# Current account <sup>74</sup> deficit could total R1-bn in first half

By Sven Lünsche

The steady decline in South Africa's gold and foreign exchange reserves indicates a current account deficit of R500 million in the second quarter this year.

But an improvement is expected in the second half as most of the country's debt commitments for the year have now been met.

Provisional calculations by Trust Bank economists indicate that the net capital outflow in June would appear to have been around R400 million indicating a current account deficit of about R200 million.

In its latest *Currency Report* the bank writes that for the quarter as a whole its provisional calculations indicate a current account deficit of some R500 million, and a net capital outflow of the same order.

The balance of payments deficit before valuation adjustments for the second quarter — and indeed for the first half of the year, as the first quarter saw the account virtually balanced — would therefore appear to be in the region of about R1 billion.

The bank's chief economist

Ulrich Joubert, expects a slight improvement both in the trade figures and on the current account on first half levels, as most of the country's debt repayments this year were met in the first six months.

"Also, we could see a slight reduction in imports, following on the government's economic restraint package in May, while exports are expected to maintain their current levels.

"The gold price is, of course, the big variable, but it has been doing very well against most currencies, except the US dollar," Mr Joubert says.

## Forex pressures

The pressures on the gold and forex reserves were highlighted last week when the Reserve Bank acquired the necessary foreign exchange to meet large-scale debt repayments with a substantial interest bill, by executing an unusually large gold swap, which caused its gold reserves to fall by almost R1 billion.

The reserves subsequently declined to R5,65 billion at the end of June from R6,19 billion at

end-May resulting from large-scale debt repayments together with substantial interest payments.

Additional currency was, however, acquired via the utilisation of short-term foreign credit facilities, contributing to a rise of some R450 million in foreign exchange holdings for the month.

The bank writes that the weak balance of payments situation was largely responsible for the steady depreciation of the rand in recent months. The currency dropped a further 2c yesterday, closing at R2,3960.

The report says the increase in the Producer Price Index (PPI) inflation rate to 13,3 percent in May suggests that the rand's depreciation has "begun to exert an upward effect on price levels.

"Import prices showed a particularly high monthly increase of 1,9 percent — lifting the year-on-year rate for import price inflation to 10 percent from 8,2 percent in April.

"In coming months the latter rate, and the PPI rate as a whole, will move towards 14,5 percent," the bank estimates.

Reuter  
in glob  
ed an  
world  
regula  
mers,  
in bod  
lost fl  
suppl  
ee of  
DON  
fee  
this  
exp  
with  
eca  
serv  
SHI  
S  
st  
of  
III  
S  
er  
no  
a  
an  
e  
n  
H  
I  
p  
E  
C

# SA fares best in the debtors' line-up

STW 27/7/88 (TU)

By Sven Linsche

In nominal terms South Africa is sub-Saharan Africa's second biggest debtor, but the country's is undoubtedly in a much better financial position to meet its foreign debt commitments than any other African country.

As a percentage of exports of goods and services, foreign debt fell to 93 percent in 1987 from 108 percent in 1986 and 156 percent of total export earnings in calendar 1985.

However, substantial debt repayments in the course of 1987 did not succeed in reducing the total amount of South Africa's foreign debt outstanding in dollar terms, which stood at \$22,6 billion at the end of both 1986 and 1987.

This was the result of the sharp depreciation of the US dollar against all other currencies.

The repayments, coupled with the appreciation of the rand against the American currency in 1987, how-

ever, caused the foreign debt outstanding in rand terms to contract from as much as R65,8 billion at the end of August 1985 to R49,5 billion in December 1986 and R43,6 billion at the end of last year.

But pressures on the surplus on the current account of the balance of payments have made it more difficult this year than previously to meet the repayments.

Under the terms of the second debt rescheduling agreement hammered out by South Africa and 34 creditor banks in March last year, South Africa still has to pay about half of its \$1,42 billion debt commitment by July 1990.

Once these payments are met, the country still has about \$10,5 billion "frozen" under the August 1985 debt standstill agreement, while about \$10 billion of official debt outside the net will have to met on the original maturing dates. Nevertheless, this position looks

comfortable, when compared with the debt situation of the other 44 countries in sub-Saharan Africa.

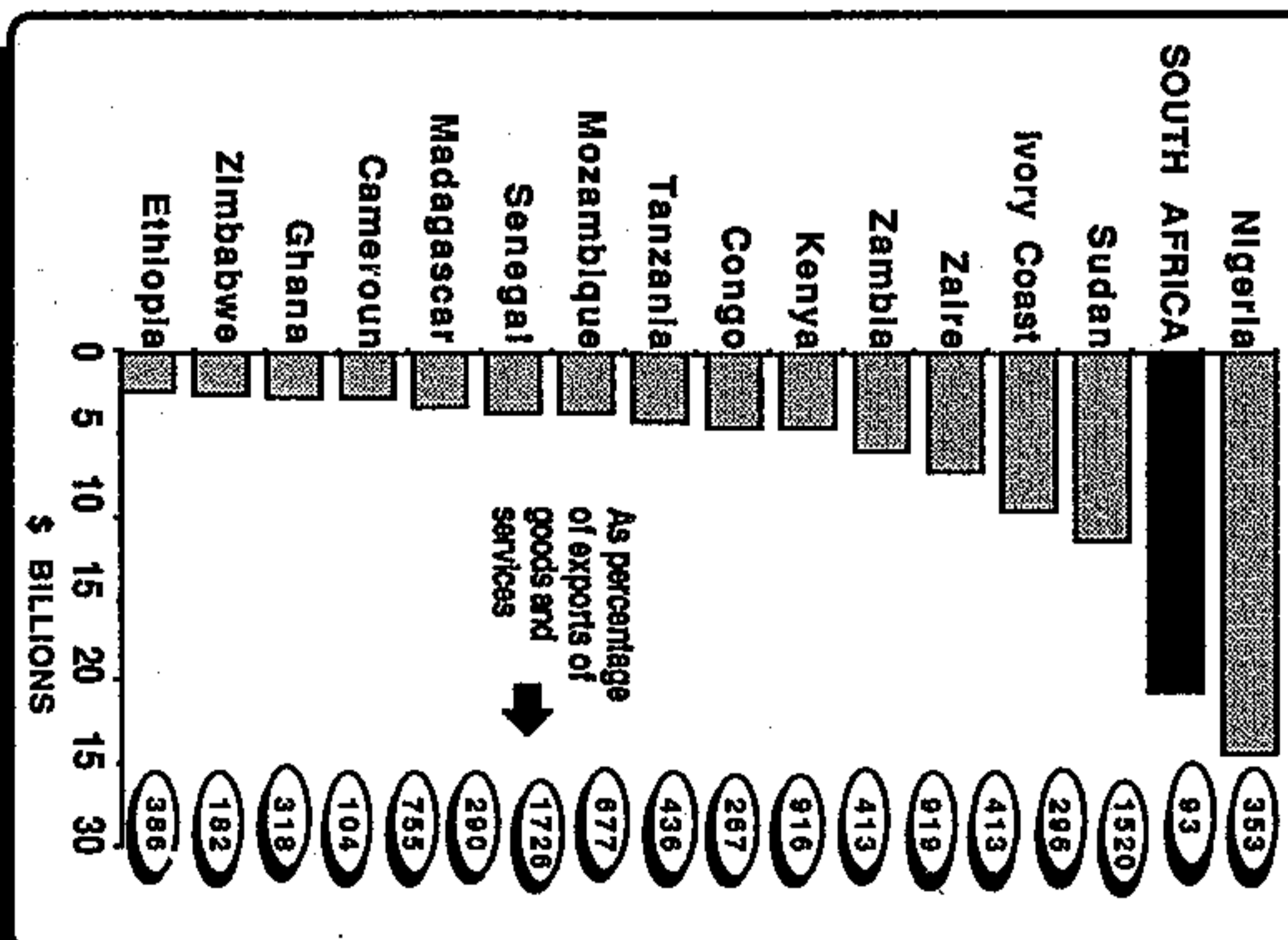
According to the International Monetary Fund (IMF), since 1980, low commodity prices, shrinking real output per head and bad policies have created a position which is "without parallel".

The Economist writes in its latest edition that by the end of 1987 sub-Saharan Africa, excluding South Africa, had a tenth of total debt of capital-importing developing countries: a total of about \$120 billion, plus \$11 billion in arrears and \$7 billion of outstanding IMF credit.

Only 12 of the 44 countries have paid promptly without rescheduling or falling into arrears. The top five of these debtors owe more than half the outstanding money. Of the 24 countries that rescheduled their debt between 1980 and 1987, Madagascar, Senegal, Sudan and Zaire did so five times or more.

## Finance

AFRICA'S BIG DEBTORS - end 1987



T  
art  
ent  
er,  
ind  
No  
aid  
MD

# SA's trade surplus drops by over 50%

Copy from  
27/7/88

Own Correspondent

74

ink  
as  
of  
he  
y is  
oss  
for  
w's  
me  
low  
the  
en-  
phn  
ara

JOHANNESBURG. — SA's trade surplus plunged by more than 50% in the first half of this year from the same period a year ago, to stand at R3,43 billion compared with R7 billion in June 1987.

Imports surged, while exports rose moderately in June this year, bringing the surplus for the month to R463,8m — the second-lowest monthly surplus in 1988. In May, the surplus was R670m.

The trade figures spell trouble for the current account of the balance of payments (BoP), which is estimated to be in deficit for the second quarter of this year, before adjustments by the Reserve Bank.

However, after adjustments by the Bank, the picture could change from a deficit to a small surplus — as occurred in the first quarter:

SA needs a current-account surplus of about R2 billion for the year to meet its foreign debt commitments without running down reserves. Based on customs and excise figures, the current-account surplus for the first half of the year was about R400m.

The current-account surplus dwindled as imports surged. Imports jumped by almost R400m in June from May, to R3,552 billion, and was 57% higher than June 1987. Exports rose by only R192m between May and June this year to R4,016bn.

Nedbank economist Dennis Dykes said the soaring imports painted a grim picture for the current account.

"Import volumes have picked up sharply because of strong domestic demand."

d  
10  
15



# Trade surplus slumps by 50%

By Sven Lünsche

A 38 percent rise in the value of imports saw the trade surplus decline by over 50 percent in the first half of the year, compared with the same period in 1987.

Preliminary statistics from the Commissioner of Customs and Excise released yesterday show the surplus fell from R6,996 billion to R3,426 billion, a decrease of 51 percent.

Exports were 7 percent up to R21,671 billion, while the value of imports rose from R13,23 billion to R18,245 billion, reflecting a

surge in domestic expenditure and a consequent rise in import demand.

This trend is mirrored in the decline of the monthly trade figures from R671 million in May to R464 million in June. But economists maintain that important seasonal figures should be taken into account.

Rand Merchant Bank chief economist Rudolf Gouws said yesterday: "Taking into account seasonal adjustments, there is actually a marginal improvement in the monthly surplus and, seen on its

own, the June figure is no cause for concern." Mr Gouws said the declining rand played a large part in the surge in the value of imports, while a rise in fixed investment, inventory accumulation and an increase in strategic imports reflected the surge in domestic expenditure.

"The June figures alone don't justify a new economic restraint package, but interest rates should be raised and fiscal discipline maintained to curb spending and protect the current account of the balance of payments," he said.

## Trade figures spell trouble for BoP

# 50% drop in trade surplus to R3,43bn

GRETA STEYN

THE TRADE surplus plunged by more than 50% in the first half of this year from the same period a year ago to stand at R3,43bn compared with R7bn in June 1987.

Imports surged while exports rose moderately in June this year, bringing the surplus for the month to R463,8m — the second lowest monthly surplus in 1988. In May, the surplus was R670m.

The trade figures spell trouble for the current account of the balance of payments (BoP) which is estimated to be in deficit for the second quarter of this year, before adjustments by the Reserve Bank.

However, after adjustments by the Bank, the picture could change from a deficit to a small surplus — as occurred in the first quarter.

SA needs a current account surplus of about R2bn for the year to meet its foreign debt commitments without running down reserves. Based on Customs and Excise figures, the current account surplus for the first half of the year was about R400m.

The current account surplus dwindled as imports surged. Imports jumped by almost R400m in June from May to



R3,55bn and were 57% higher than June 1987. Exports rose by only R192m between May and June this year to R4,01bn.

Nedbank economist Dennis Dykes said the soaring imports painted a grim picture for the current account.

He said: "Import volumes have picked up sharply because of strong domestic demand. It seems economic growth is not yet abating and it would not come as

● To Page 2

## 50% drop in trade surplus to R3,43bn

a surprise if interest rates are raised to cool demand."

But, he noted that importers, expecting the rand to remain on a declining trend, had probably stocked up ahead of further depreciation in the currency. The demand for imports could drop as the weaker rand hit home.

Dykes said: "But we are running down reserves and cannot afford a current account deficit."

However, he noted that Customs and Excise figures were subject to change by the Bank and that the current account had not necessarily been in deficit in the second quarter. Other economists pointed out that Customs and Excise figures were not seasonally adjusted and should not be regarded as an accurate indicator of the BoP.

● From Page 1

# R1,5-bn trade surplus forecast

STW 27/7/88

## Finance Staff

The surplus on the current account of the balance of payments could slump to R1,5 billion in 1988, compared with R6,15 billion last year, says Sanlam in its latest *Economic Survey*.

Chief economist Johan Louw says the expected decline can largely be attributed to sluggish growth trends in the economies of SA's main trading partners. "This will have a detrimental effect on our export performance and make it more difficult to maintain a significant surplus on the current account."

Sanlam estimates that the account yielded a surplus of about R600 mil-

lion in the first five months of the year — considerably less than an estimated surplus of almost R3,45 billion in the same period last year.

But a better export performance in May, compared with April, contributed to the higher surplus that month, Mr Louw says. The strong trend in the value of merchandise imports also continued in May, which reflected the sustained growth of the economy.

With reference to the savings effort, Sanlam says this has declined steadily since 1980.

A solid savings effort is essential because of the importance of mobilising funds for the financing of

vital investment projects. It is also essential because of the problems "we are experiencing in obtaining foreign capital and in combating the consequences of continued disinvestment".

Net saving by the private sector has shown a sustained falling trend since the early Seventies and the recent poor personal savings effort could to a large extent be attributed to the sluggish growth in real disposable income.

"The deterioration in SA's total savings effort is largely due to a decline in the personal savings ratio and dis-saving in the government sector."

It is necessary for the authorities to take steps to create a more favourable climate for saving that includes maintaining positive real interest rates by decreasing the inflation rate and reducing the tax burden of individuals, Mr Louw says.



## STILL TRADING DOWN

74

With imports at R3,55bn and exports at R4,02bn, the trade surplus in June was R463m, according to figures released this week by Customs and Excise. It was the second-lowest surplus this year, higher only than April's R398m.

Exports for the year to June were R21,67bn (7% up on R20,23bn in the same period last year), imports totalled R18,24bn (up nearly 38% on last year's R13,23bn), and the surplus for the first six months was R3,43bn (down 51% from R7bn).

Unclassified imports were R2,53bn (R2,44bn) and unclassified exports R11,42bn (R10,86bn).

The figures indicate a likely deficit on the current account of the balance of payments, because of an estimated R700m monthly deficit in the services account.

However, they are unadjusted for seasonal variations.

Says Reserve Bank Governor Gerhard de Kock: "Provisional figures show that on a seasonally adjusted basis the current account showed a small surplus in the second quarter."

Until final adjusted figures are published in the next Reserve Bank *Quarterly Bulletin*, it will be difficult to assess the current account accurately.

Seven-month drop of 28%

# Gold, forex reserves in further slide

74 B/Pay  
8/8/88

GRETA STEYN

SA's gold and foreign exchange reserves fell by R83,9m to R5,57bn in July, reflecting the precarious state of the balance of payments.

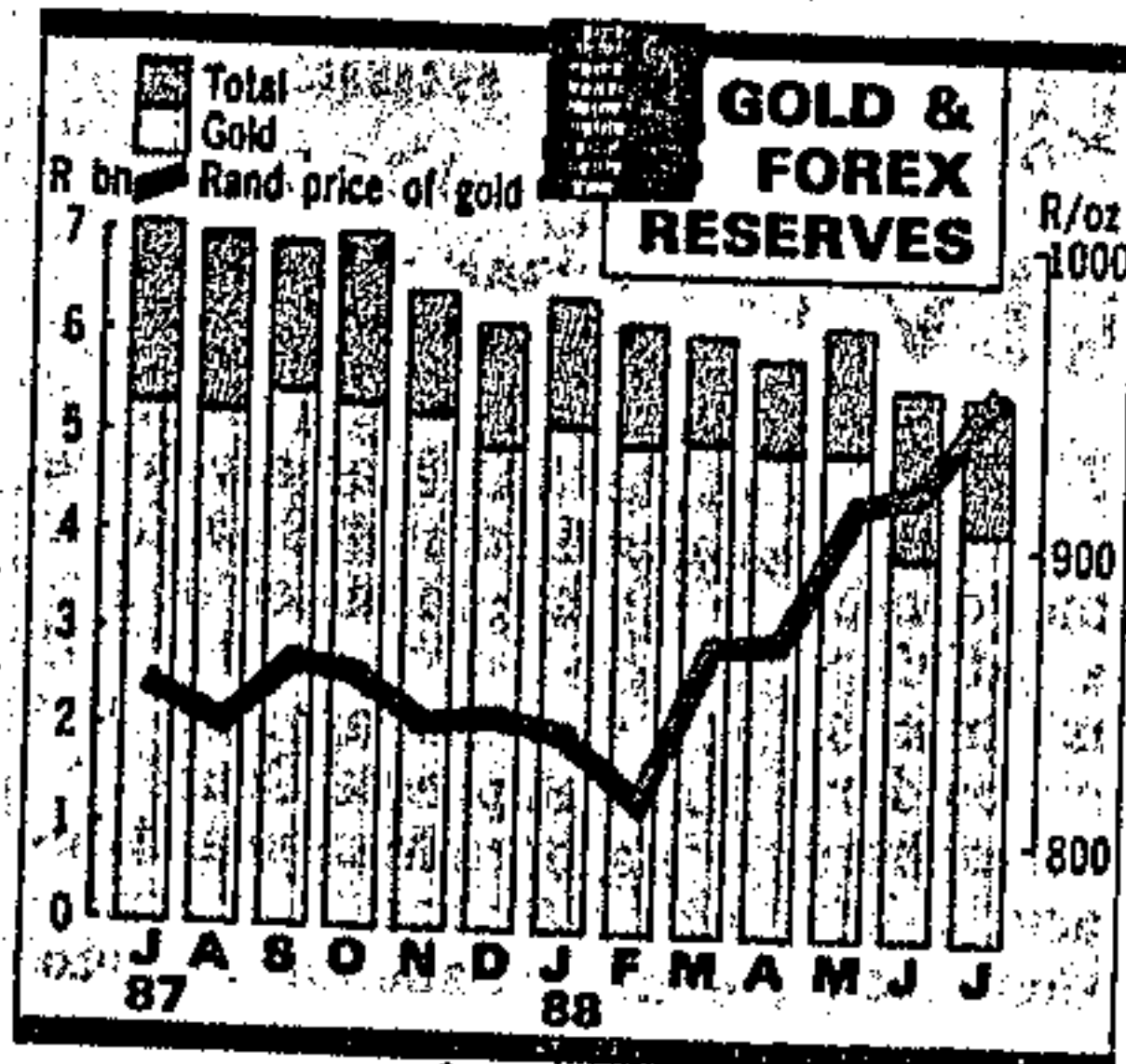
The reserves, a cushion of currency enabling the country to meet its foreign payments when export earnings are inadequate, have dwindled steadily as SA's surplus on the current account of the BoP disappeared.

In dollar terms, the reserves now stand at about \$2,28bn, down from June's \$2,42bn and a far cry from \$3,175bn held by the Bank in gold and foreign currency in December 1987. This represents a drop of 28% in dollar terms over seven months.

Reserve Bank Governor Gerhard de Kock said: "Obviously we are not pleased with the present level of the reserves, which reflects the balance of payments situation. But the reserves are much higher than the previous low point in 1986."

In April 1986 the Reserve Bank's holdings of gold and foreign exchange reserves stood at R3,24bn, significantly lower than July's R5,57bn.

On the BoP, De Kock said: "The trend on the current account improved in the



second quarter, when there was a small surplus, seasonally adjusted, after a small deficit in the first quarter. But the trouble lies with the capital account — it is estimated that capital outflows in the second quarter amounted to more than R2bn."

He reiterated that further policy measures could be announced to protect the BoP.

The foreign exchange component on the Bank's balance sheet dropped by

● To Page 2 →

## SA's gold, forex reserves slide further

R345m to R1,25bn. However, physical gold holdings rose in July, by about 93 300 ounces to almost 4,4-million ounces.

In rand terms, gold assets increased by more than R248m between June and July to R4,2bn. The rand gold price was higher, at R956,54 a fine ounce compared with R919,29 in June.

Trust Bank economist Nick Barnardt says the higher rand gold price in June brings in a valuation factor which "dis-

guises" the true level of the reserves. If this factor is taken into account, he calculates that the Bank's total reserves dropped by an effective R200m. Standard Bank's Nico Cypionka said: "The reserves are still under pressure, with the problem a combination of dollar demand from importers and capital outflows. But the Bank is clearly managing the situation well."

74 B/Pay  
From Page 1

# Weak rand 'will worsen surplus'

11/28/88 B1 Day  
THE weak rand's first impact on the ailing trade surplus would be to aggravate the situation instead of improve it, the Standard Bank said in its latest Review.

The question could be asked why the plunging rand had not come to the rescue of the current account — since a falling rand should benefit exports and curb imports.

Instead, the trade surplus continued to weaken.

Perversely, the plunging rand appeared to have been partly responsible for the sharp deterioration in the trade balance in June, compared with May's level, the bank said.

## Positive effect

However, the positive effect of the softer rand on the current account balance could be expected only after a few quarters.

In the short term, exchange rate depreciation first caused the current account balance to worsen before bringing about an improvement in the long term.

Import and export volumes did not respond at once to a weaker rand but the rand value of imports rose immediately when the exchange rate fell.

GRETA STEYN

The next few months' imports were already in the pipeline and the only effect of a softer currency would be to raise the rand value of imports — to the detriment of the trade balance.

On the export side, the problem was that more than 80% of SA's exports were commodities, particularly precious metals and diamonds.

Demand for these exports did not always respond to changes in the exchange rate or did so only slowly.

The weaker currency would also halt an encouraging improvement in the services account of the balance of payments (BoP) by driving up the rand amount of interest and other payments to the rest of the world.

## Severe strains

While the rand could not immediately come to the rescue, it was obvious that severe strains were going to be placed on SA's gold and foreign exchange reserves for the rest of the year.

However, the authorities should not be tempted to use direct controls to protect the BoP, as the economy was not far from reaching the phase when import volumes would start falling.

# More curbs on domestic spending to be enforced

By Sven Lunsche

The Government is likely to announce a package of fiscal and monetary measures later this afternoon to protect South Africa's balance of payments, which has deteriorated rapidly this year.

An extension of a surcharge on imports and measures to curb individual credit demand is likely. Selective import controls on luxury goods are not likely to be on the agenda this afternoon, but could be added at a later stage if imports continue to rise in spite of the measures.

Soaring domestic expenditure and an increase of about 20 percent in imports on last year's figures, has resulted in South Africa's balance of payments surplus deteriorating dramatically. This threatens the country's ability to meet its \$22 billion (R55 billion) foreign debt commitments.

The announcement of today's package is expected after close of trading on the Johannesburg Stock Exchange at 4 pm.

# Forex control to ease BoP

THE drain on the current account of the balance of payments would be eased by tighter foreign exchange control over emigrants' income from assets held in SA, Reserve Bank senior deputy governor Jan Lombard said yesterday.

In terms of the economic package unveiled on Friday, emigrants' returns on blocked assets held in SA which may be transferred abroad via the commercial rand have been limited to R300 000.

"Provisional calculations show that the saving on the current account will run into a few hundred million rands," Lombard said.

~~16/88~~  
GRETA STEYN

14  
The surplus on the current account for the first half of the year was R430m.

Emigrants had been freely transferring the full return earned on assets via the commercial rand system, Finance Minister Barend du Plessis said. However, transfers of income over and above the R300 000 limit would now have to be via the financial rand and only with the approval of the exchange control authorities.

16/88  
The authorities are still to provide banks with full details of the new rules.

## Hump ahead

SA will face a hump in the repayment of foreign debt outside the net in 1990-1991: about \$800m-R1bn (gross) will become repayable in each of these years, dropping to around \$500m a year thereafter.

However, much of the repayments reflects the winding down of project finance to public corporations like Eskom, Mossgas and Sats. If those are then committed to further expansion, new off-shore export credits will probably be available, resulting in an effective roll-over.

Since the debt standstill, there has continued to be a net surplus on the flow of trade credits. It should be appreciated, though, that the benefit to foreign reserves from trade credits is vulnerable to a shift in relative interest rates — the recent rise in local interest rates was designed to reverse a tendency to switch trade finance in the wake of higher interest rates overseas.

Also to be considered is that the Commonwealth, at its latest meeting, examined trade finance and announced its intention of pressuring international bankers to cut SA off from this source of finance too.

One component of debt outside the net that cannot be rolled over is bearer bonds and notes. Outstanding amounts within this category are widely dispersed in Europe, many in the hands of individuals in small amounts. In practical terms, the authorities have little choice but to repay these on due date, with no chance of making a fresh issue.

Even given balance of payments problems at the time, it is unlikely SA would freeze any of these foreign repayment obligations by bringing them within the net. The problem could be addressed in various ways — for example by selling gold forward, as other producers have done in recent years.

In the last resort, it would be less damaging to external creditworthiness to take any strain on the capital repayments schedule for debt *inside* the net. Though they may not be willing to admit it, foreign bankers whose money is frozen in the net are actually quite happy about its status. Interest is paid scrupulously on due date, so the debt does not have to be put into the embarrassing category of "default," like so many billions lent to developing countries.

And the standstill itself (though operating through *force majeure*) protects them from pressure from protest groups opposed to doing business with SA. ■

# Pushing the panic button

What is the truth behind the latest moves to protect the balance of payments (BoP)? Two answers come to mind, given that the measures announced by Finance Minister Barend du Plessis last Friday focus on symptoms — but compound the real problems of inflation and international isolation.

One is rooted in political considerations, which naturally weigh heavily with politicians, particularly Cabinet ministers like Pietie du Plessis (Lydenburg) and Sam de Beer (Geduld), whose constituencies have large pockets of CP support.

The theory is that, after the last increase took Bank rate to 12,5% — three percentage points higher than it was in January — a trade-off was needed. The package was designed to placate those who suffer first when interest rates rise. Farmers, who collectively owe more than R13bn, spring to mind, as do blue-collar workers, who rely heavily on variable-rate HP finance.

Perhaps a 60% surcharge on goods like Perrier water, perfumes and collectors' pieces, truffles and handwoven tapestry, decorative candles and glacé cherries, worked ivory bones and hot air balloons, will satisfy the Puritan ethic and comfort voters now paying interest rates several percentage points higher than at the start of the year.

However little it will help the current account to cut back on such imports (and however serious the damage to sectors that deal in them), one can believe that many politicians would press for them.

But presumably this is not the only reason for resorting to panic measures.

Is there more to the situation than published figures reveal? Friday's announcement fuelled speculation that the BoP is approaching a critical condition. Like a col-

lapsed star, the problem is not visible but its dimensions can be deduced from the behaviour of bodies in the vicinity.

A combination of factors could be causing a dangerous drain on already depleted reserves: the end of a meaningful surplus on current account (and the constant threat of deficit); the failure of trade credits to provide adequate short-term capital flows; and unexpected debt repayments outside the net.

There is some evidence to support this theory, though how much offshore creditors are failing to roll

over loans is difficult to establish. But the state of the current account is a matter of record. And the shortage of trade credits is well known by bankers and was referred to by Barend du Plessis at his Friday press conference. It was the reason, he said, that Bank rate was increased last month ahead of this week's measures.

What is clear is that, having failed to stem demand with market-related interest rate rises earlier in the year, financial policy planners are hitting the panic buttons.

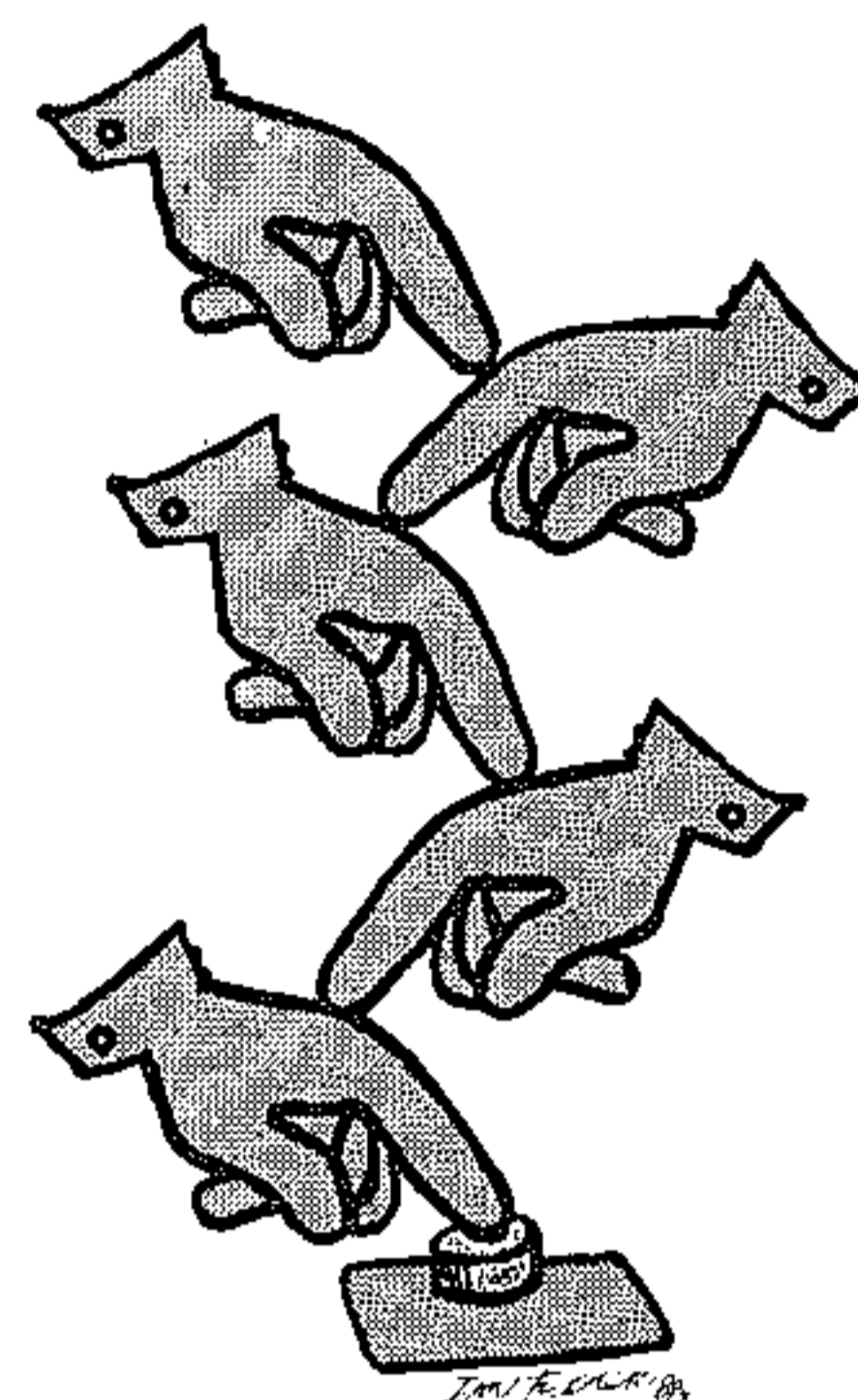
The three-pronged package comprises:

- 10%-60% increases in import surcharges and an increase in import duty on assembled motor cars from 100% to 110%;
- Increased deposits for HP, leasing and rental agreements relating to goods with a high import component and shortened repayment periods; and
- Tighter exchange control regulations, preventing emigrants from freely transferring more than R300 000 earnings on blocked assets a year. More will now go via the finrand and only with permission.

This will have an effect. If nothing else, it will halt huge speculative ordering ahead of the expected measures. Having compounded the problem, the authorities will be able to claim some credit for a quick fix.

However, longer-term effects are uniformly counterproductive — as we pointed out last week. Import curbs distort resource flows, accommodate inefficiencies, restrict supplies and add to inflationary pressures.

Interlinked are credit curbs. Says Standard Bank chief economist Nico Czipionka: "They are not particularly harsh — furniture and motor cars for instance aren't affected. They're designed to tell individuals the spending spree must come to an end."



An unfortunate byproduct, however, is that some sectors are disproportionately affected and will be needlessly damaged. Gradual interest rate increases since the start of the year would have dealt with the problem more effectively and — in the long run — damaged the economy less.

What is needed is a willingness by politicians to heed early warnings. From the start of the year, there were clear indications that runaway consumption was on course. While the authorities hesitated, it developed momentum. Now they've had to devise a host

of complicated curbs to do what could then have been done simply and effectively.

"The problem," says Assocom head Raymond Parsons, "is that we have little room for manoeuvre. Normally, if the authorities miscalculate, they can fall back on IMF standby credit, gaining time to retrieve the situation. But in these circumstances, we can't afford to be out by a few months. We don't have that kind of time."

## COMMODITIES CARRYING A 60% SURCHARGE

Horses; fish such as trout and salmon; coconuts and other nuts; tinned meat and fish; sugar confectionery; chocolates; pastrycooks products such as cake, biscuits, bread, etc.; preparations of mushrooms and truffles, crystallised fruit, glacé cherries, jams, tinned fruit; ice-cream; mineral waters, cool drinks, beer; cigarettes, cigars, snuff, pipe tobacco; perfumery, cosmetic preparations, hair lacquers, etc, but not toothpaste; decorative candles; statuettes and ornaments of plastic; handbags, suitcases, etc, with outside surface of leather; statuettes and ornaments of wood; decalcomania; woven fabrics of silk; handmade carpets; handwoven tapestries; clothing and handkerchiefs of silk; artificial flowers, fruit and foliage; decorative articles of ceramics; glassware of lead crystal; jewellery and certain articles of precious metal, coins; spoons, forks, plated with precious metals; ornaments, statuettes and picture frames of base metal; tape recorders (excluding dictating machines); video machines (VCRs), radio receiving sets, inter alia hi-fi sets, television sets; hot air balloons, gliders and hang-gliders; lenses and mirrors; watch cases and straps of precious metal; worked ivory and bone, scent sprays; works of art, collectors' pieces and antiques.

Govt action 'appropriate'

# Sanlam says BoP surplus is unlikely

CAPE TOWN — SA was unlikely to attain the surplus of between R2bn and R3bn on the current account of the balance of payments (BoP) it needed to meet its foreign debt repayment commitments, Sanlam chief economist Johan Louw said.

Pointing out there was a surplus of only about R400m in the first half of 1988, he said in Sanlam's latest Economic Review: "A considerable depletion of the gold and other foreign exchange reserves, presently at worryingly low levels, therefore seems unavoidable."

The steps taken by government to curb domestic spending were necessary due to the low level of the reserves and the fact that SA could not rely on an inflow of foreign capital in the foreseeable future.

Louw said it must have been a difficult decision for the authorities, considering the divergent tendencies of indicators in the real and financial sectors of the economy.

These created great uncertainty about the actual state and probable direction of the economy. The latest tendencies in sales of new vehicles and manufacturing pro-

duction indicated it had already entered a slower growth phase.

However, expansion in the money supply (nearly twice as high as the target rate of 12% to 16%) and the sustained strong increase in credit extension by banks indicated the economy was on its way to overheating.

Louw said he considered the economy might well enter a downswing during the last few months of 1988. Upward pressure on interest rates might accordingly lessen.

Statistics indicated that depreciating the rand was not a particularly successful way of protecting the current account of the BoP because the price elasticity of the demand for imports as well as the international demand for SA exports was low.

"Furthermore, weakening of the rand is usually accompanied by a flow of capital out of the country, as at present.

"It is clear the balance of payments is currently a serious bottleneck, creating great problems for the policy-makers. The latest package, which contains specific measures to save scarce foreign exchange, must be regarded as appropriate." — Sapa.



80c (71c + 9c tax)

# Solving foreign debt problem would bring on recession

CAPE TOWN — The only way SA can avoid being forced into defaulting on its foreign debt repayment obligations in three years' time is for government to impose conditions and deep-seated recession. This is the view of economists spoken to in the past few days.

They are not confident the most recent restrictive measures announced by Finance Minister Barend du Plessis will be sufficient to avert a balance-of-payments crisis.

Sanlam's chief economist Johann

Low believes "SA is not yet in a crisis situation", but in Sanlam's latest monthly Economic Review, he says SA is unlikely to achieve the required surplus on the current account of the balance of payments to meet the country's foreign debt needs to meet the depletion of the gold repayments.

A considerable depletion of the gold and other foreign exchange reserves already at alarmingly low levels, consequently appears to be unavoidable.

CHRIS CARNCROSS adds that the institutional view expressed by various spokesmen in the past week have no option but to impose other more restrictive measures to curb the pressure on the BOP.

They could include tighter credit restrictions and direct import controls. PPF finance spokesman Harry Schwarz feels SA will not have too much

difficulty in rescheduling foreign debt commitments even though the current situation suggests it is in a weaker negotiating position than it was three years ago.

He believes government should do all it can to boost export performance, and concentrate on stimulating those aspects of the economy not related to imports, particularly those concerned with food, clothing and housing.

Total outstanding debt is now about \$22bn, of which about half is inside the

standstill net. The "net" agreement requires that SA pays \$1.4bn over the next three years, which still seems within the country's capacity.

The issue creating some nervousness now, however, relates to more than \$2bn of bearer bonds that also have to be met by the parastatals over a median of about 10 years.

See page 3

Ballard KIMBLE MEDIA PUBLICATION

# economists

# Insufficient reserves to meet foreign debt commitments

By B Day 2/28/88

A TIMES, ...

IT WAS highly unlikely SA would be able to accumulate sufficient reserves to meet its all of its foreign debt commitments in the current circumstances, Finance Director-General Chris Stals conceded yesterday. These reserves have declined to a worrisome level, where they are barely enough to cover imports for two months, he said. He said the country could not depend too much on exports to bring the reserves back to a more healthy level.

He stressed that SA remained firmly resolved to honour its debt obligations included in the standstill net. This commitment amounted to six-monthly repayments of about \$150m, through to 1990/1. There was no question at this stage of seeking to reschedule these payments with the major foreign debtor banks. Stals said it was also still to deal with speculate on how SA would deal with

CHRIS CAIRNCROSS  
its foreign debt problems in two years, when the current interim arrangement was terminated. He said it was obvious the debt which fell outside of the net — about \$11bn — had not been ignored and had also been the subject of discussions with the overseas banks. This included the looming problem of how to deal with the \$2bn in SA bear-

er bonds, which are due to mature at about the time the standstill ends. These bonds were the subject of discussions with the banks last year, but no decision has been taken yet on how to handle them. Stals indicated he was reasonably confident the recent "conservative" measures taken to protect the balance of payments would be effective, noting that there were early signals that imports were slowing. But he could not discount that fur-

ther restrictive measures would be necessary to ease the strain on the BoP. He declined to say what these measures might be. Economists appear to be unanimous that the monetary authorities will have no option but to cause interest rates to climb still further. There is also a possibility the surcharge umbrella will be extended and ultimately that some sort of quota system could be placed on foreign exports. Change levels granted to importers.

## Stals

# SA debt default tipped

CAPE TIMES 23/8/88  
By CHRIS CAIRNCROSS

IN the current circumstances it is most unlikely South Africa will be able to accumulate sufficient reserves to meet its total foreign debt commitments, director-general of finance Dr Chris Stals conceded yesterday.

These reserves have now declined to a worrisome level, where they are barely enough to cover two months' imports.

Dr Stals said the country could not depend too much on exports to bring them to a more healthy level.

He indicated that he was reasonably confident the recent "conservative" measures which

were taken to protect the balance of payments will be effective, noting there are early signals that imports are slowing.

But he could not discount that further restrictive measures will be necessary to ease the strain on the balance of payments (BoP), and would not be led on what these could be.

Economists now appear to be unanimous that monetary authorities will have no option but to cause interest rates to climb still further.

There is also a possibility the surcharge umbrella will be extended — and ultimately, that some sort of quota system could

be placed on foreign exchange levels granted to importers.

Dr Stals stressed that South Africa remained firmly resolved to honouring its debt obligations included within the standstill net.

This commitment amounted to six-monthly repayments of about \$150 million (R340 million) through to 1990-1.

There is no question at this stage of seeking to reschedule these payments with the major foreign debtor banks.

Dr Stals said it was also still too early to speculate on how South Africa would deal with its foreign debt problems in two years' time, when the current interim arrangement is terminated.

(14) b Day 24/8/88

# July's trade surplus scales new heights for the year

SA'S trade surplus bounced back in July to notch up a record for the year at R974m — more than double the dismally low R463,8m in June.

Customs and excise figures show imports were down by R291m to R3,26bn between June and July, while exports were up by R218m to R4,23bn.

The rand value of imports dropped in July in spite of the weaker rand, indicating the volume of imports was down from June. This is in line with the trend in imports noted by the Reserve Bank, which said the volume of imports had

could signal the start of a recovery in the trade surplus and the balance of payments. However, it was early days yet and the trend in the surplus would only be evident after a few months.

They note that the longer-term view is still worrying — the surplus for the first seven months of 1988, at R4,4bn, was only 51% of the R8,6bn surplus achieved in the same period last year.

The performance of export volumes, especially, was worrying, economists said. Between July 1987 and the same

month this year, export volumes have not improved. This is obvious from the rand value of exports, which was slightly lower in July this year than in July 1987 — in spite of the marked weakening of the effective exchange rate.

Bureau for Economic Research economist Glenn Moore said: "Export volumes have not picked up as they should when industrial production in the major industrial countries expands. This could indicate that sanctions are biting or that SA is not exporting the right goods."

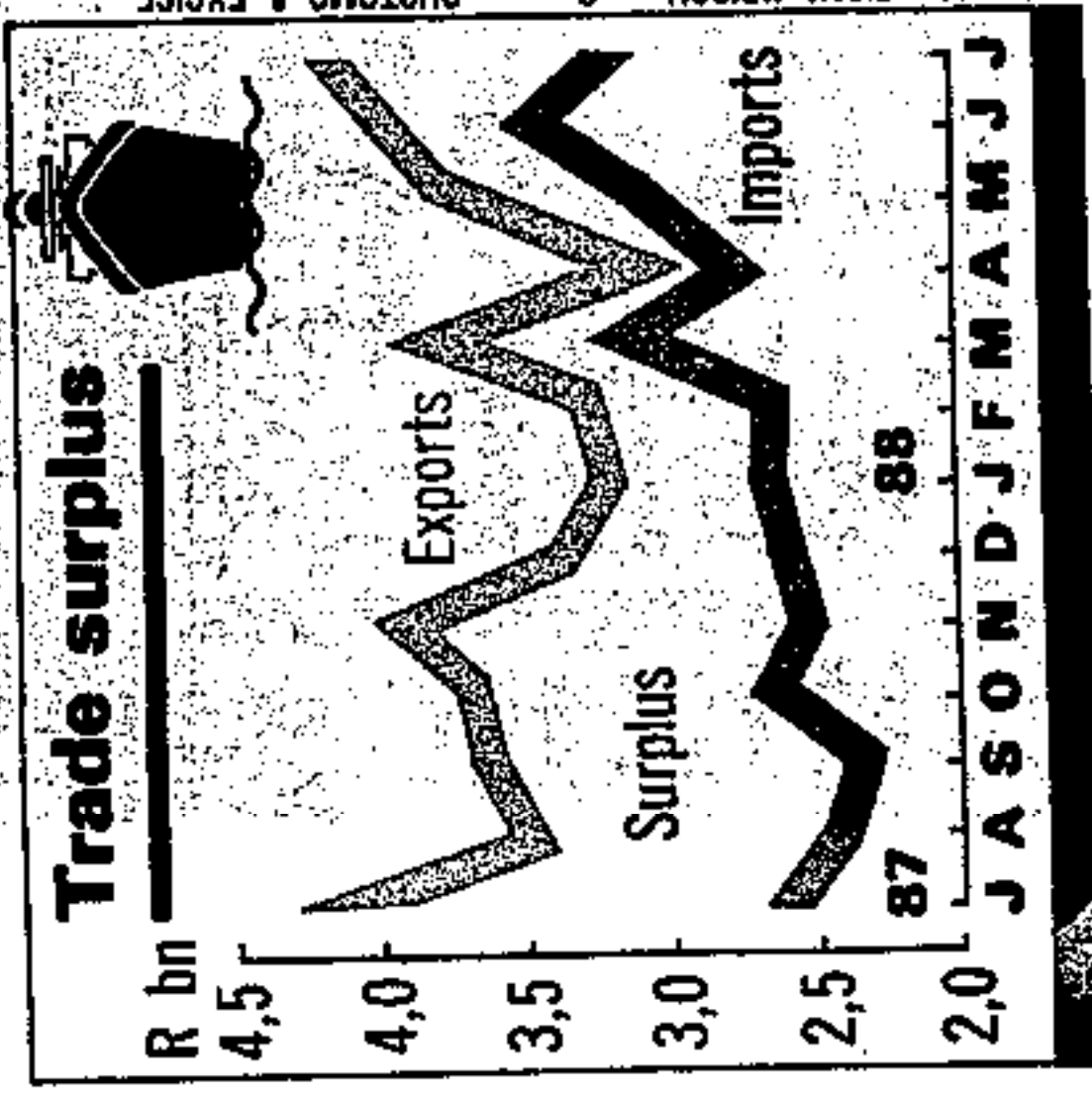
GRETA STEYN

started levelling off in the second quarter.

Bank economists said the drop in import volumes was "in accordance with the slowdown of growth in domestic demand".

The improved trade surplus helped the ailing rand to a better performance yesterday, with the currency closing at R2,4573 to the dollar after opening at R2,4707.

Economists said July's trade figures



Graphic: FONNA KRISCH Source: CUSTOMS & EXCISE

Current account affects trading

B/D Day  
2/18/88

# SA debt value drops sharply on UK market

(74)

LONDON — The marked deterioration in SA's current account has caused the value of its foreign debt to fall sharply on the secondary market.

The price in July fell four percentage points to \$0,65-\$0,67, from \$0,69-\$0,70 in June, figures released by Shearson Lehman showed.

Analysts here linked the fall to the sharp deterioration in the balance on the current account, with a surplus of R940m being recorded in the first half of 1988, compared to a surplus of R5,8bn in the first half of last year.

The one-third discount at which the SA debt is trading on the secondary market is much greater than the provisions which Britain's leading banks have made against their lending to the country.

Standard Chartered has made an 8% provision against its £634m exposure to SA, while Barclays and National Westminster have made a

MIKE ROBERTSON

5% provision to cover their SA exposure.

Their sensitivity to this discrepancy can be gauged from the fact that spokesman for all three banks yesterday refused to comment on the trading of SA debt on the secondary market, although all three banks are believed to engage in it.

Most of the demand for SA debt paper on the secondary market comes from investors who buy debt to swap for rands under an unofficial conversion scheme.

The London-based magazine, South, reported that, under the terms of the scheme, investors have to buy rands at the commercial rate, but this has been worthwhile because of the significant discount obtained when purchasing debt on the secondary market.

However the slippage of the financial rand has altered the calculations.

# Loopholes 'are costing SA billions'

By Sven Forssman

Billions of rands are leaving South Africa illegally every year because of severe irregularities in imports and exports, claims Professor Jeremy Keenan of the University of the Witwatersrand, who has been researching the flow of capital out of South Africa.

"Through my research and access to major international auditing firms in London, I have ascertained that about 50 percent of all imports to the country are over-invoiced to the tune of 25 percent.

"This practice ... would result in a drain on the country's funds — fixed capital has been declining since 1980 — lower productivity and an adverse effect on inflation."

Economists and relevant officials contacted by The Star yesterday said they were aware that "over-invoicing" was taking place but they could not comment on the accuracy of Professor Keenan's figures.

Regarding the extent of "under-invoicing", Professor Keenan said figures were more difficult to obtain.

When goods are exported from the country, say at R50 an item, the person on the other side would receive an invoice for R30 and bank the remaining R20 for his contact in SA. But this practice is even more difficult to trace as it usually operates on a "gentleman's agreement".

# BoP could turn into a surplus quite sharply

The overall balance of payments could turn into a surplus quite suddenly and quite sharply says Trust Bank economist Nick Barnardt.

"This could — as the Governor of the Reserve Bank intimated — stabilise the domestic financial markets and produce a slightly firmer rand towards the year-end."

On the balance of payments, Mr Barnardt said: "The position would have been far worse if the Reserve Bank had not drawn on its overseas credit facilities to the tune of R1,6 billion in the second quarter.

"It is clear, however, that the balance of payments deficit was largely caused by artificially high imported inventories and a large scale technical outflow of short term capital.

"The latter factor was especially prominent around mid-year, with an estimated further net out-

flow of R700 million in July. Fortunately the markedly higher trade surplus of almost R1 billion in July prevents further decimation of our reserves."

Mr Barnardt said he felt that the domestic economy is peaking and that from October there will be a noticeable levelling off in domestic spending, credit creation and monetary expansion.

He feels, however, the the August figures will show a last upsurge in imports, credit creation and M3 money supply.

From November there will be a cooling off in these figures and a stabilisation of foreign exchange reserves.

He added that bearing in mind current circumstances, the tight fiscal and monetary controls could be made even more severe next year. He said expansionary policies would be out of the question in 1989. — Sapa.

# Lombard looks at invoicing fiddles

THE Reserve Bank is thinking of ways to get auditors to help eliminate or curb illegal over- and under-invoicing by many importers and exporters.

The practice is considered a major factor in the serious deterioration of foreign exchange reserves, according to Reserve Bank Deputy Governor Jan Lombard.

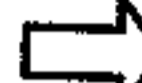
He said in an interview it was virtual-

CHRIS CAIRNCROSS

ly impossible to quantify losses on SA's reserves caused by these, and other forex swindles, but he believed the figure was considerable.

Lombard said he was aware of recent auditing studies which estimated about

● To Page 2



B/Day

# Lombard looks at export-import fiddle

50% of trade, to the UK in particular, has been in been subject to over- and under-invoicing.

He added one of the ideas being looked at to check these activities was to seek the corroboration of auditing firms in determining the true valuation of goods brought into the country or exported.

Another form of forex fraud was highlighted recently by the conviction of bank officials whose long-running swindle cost the country more than R100m in losses to the reserves.

Lombard said police had confirmed that another investigation involved R140m. He described these incidents as particularly disturbing.

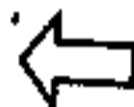
Lombard believed these practices could be virtually eliminated by greater vigilance in commercial banks.

Lombard stressed the invoicing fiddles had not led to a panic and several ideas were being considered to pull SA out of its foreign exchange problems.

He had no doubt that improvement can and are being effected to the current account of the balance of payments.

The status of the capital account was a more complicated and worrisome issue and was clouded by issues of a political nature over which the Reserve Bank had no control.

● From Page 1



B/Day



Payments dropped by R1bn

# GNP boosted by lower interest on foreign debt

SA'S interest payments on its foreign debt dropped by more than R1bn to R3,5bn in 1987 resulting in stronger growth in real gross national product (GNP), the Reserve Bank's latest estimates show.

The drop in interest payments was largely the result of a decline in the capital amount of SA's foreign debt as well as the stronger rand last year.

From the beginning of 1985 to end-1987, R11,5bn of SA's total foreign debt was repaid, excluding valuation

GRETA STEYN

adjustments arising from exchange rate changes.

Included in this amount is R2,3bn of debt caught inside the standstill net.

Reserve Bank governor Gerhard de Kock this week said lower interest payments on SA's foreign debt had contributed to the "impressive increase" in real GNP since 1986.

On the performance of GNP, De Kock said: "From the second quarter of 1986 to the second quarter of 1988 it increased at an average annual rate of about 5%. Per head of the population this represented an increase of almost 3% a year."

GNP is regarded as an indication of a country's welfare, as opposed to gross domestic product, which is a measure of output.

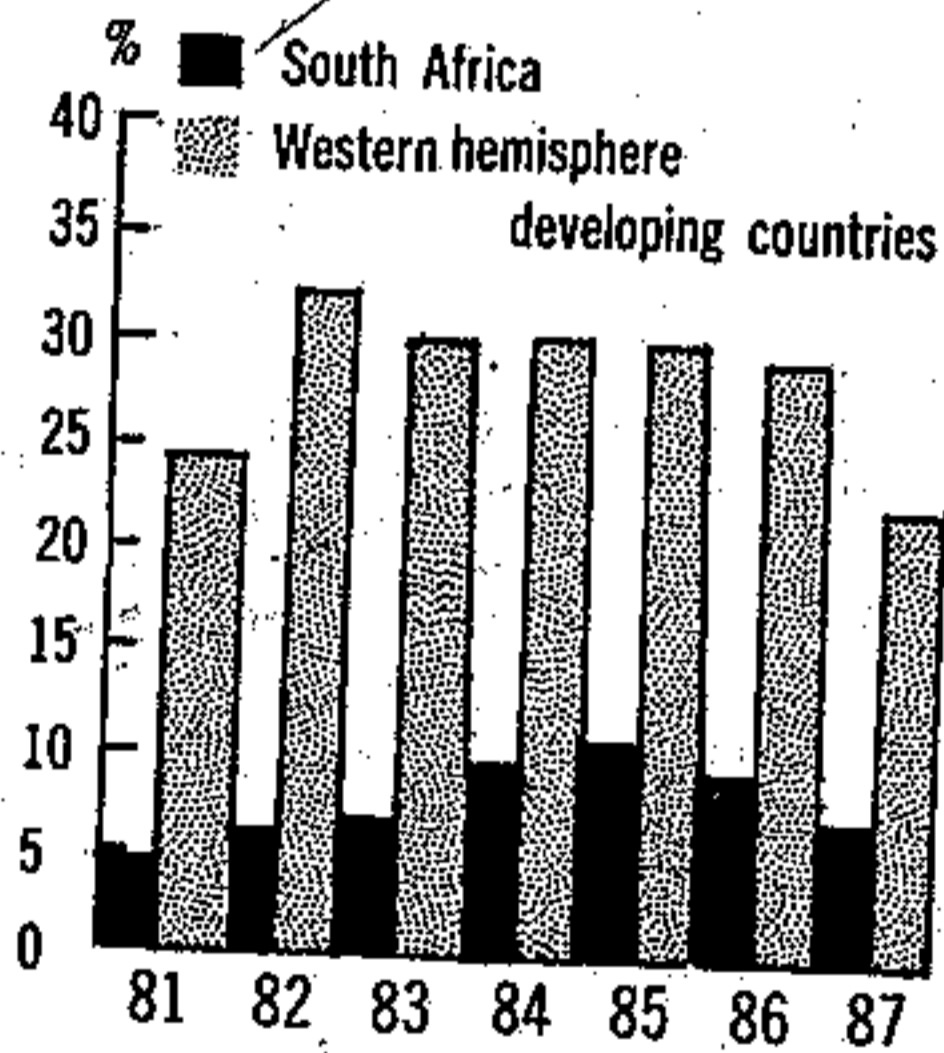
Interest payments represent a drain on the current account of the balance of payments.

Final figures for foreign interest payments will be released only in the Bank's next Quarterly Bulletin.

However, in the Bank's latest Economic Report, it notes that interest payments in relation to export earnings had declined from 10,7% in 1985 to 7,1% in 1987.

"The 1987 counterpart of this ratio in Western hemisphere developing countries amounted to 22%," the Bank said.

Interest payments as a % of total export proceeds



Graphic: LEE EMERTON Source: JSE

## TRADE SURPLUS UP

After rapidly diminishing monthly surpluses for most of this year, July saw a substantially larger trade surplus — over R973m. From a high of R696,5m in March, this dropped to R463m in June.

A release from Customs & Excise shows that, for the year to July, exports were R25,9bn (compared with R24,5bn last year) and imports R21,5bn (R15,9bn), a surplus for the seven months of R4,4bn (R8,6bn).

This reflects an improvement in export values as well as a decline in import values. Though more than 50% down on the corresponding surplus last year, the improvement on past months is good news for the current account.

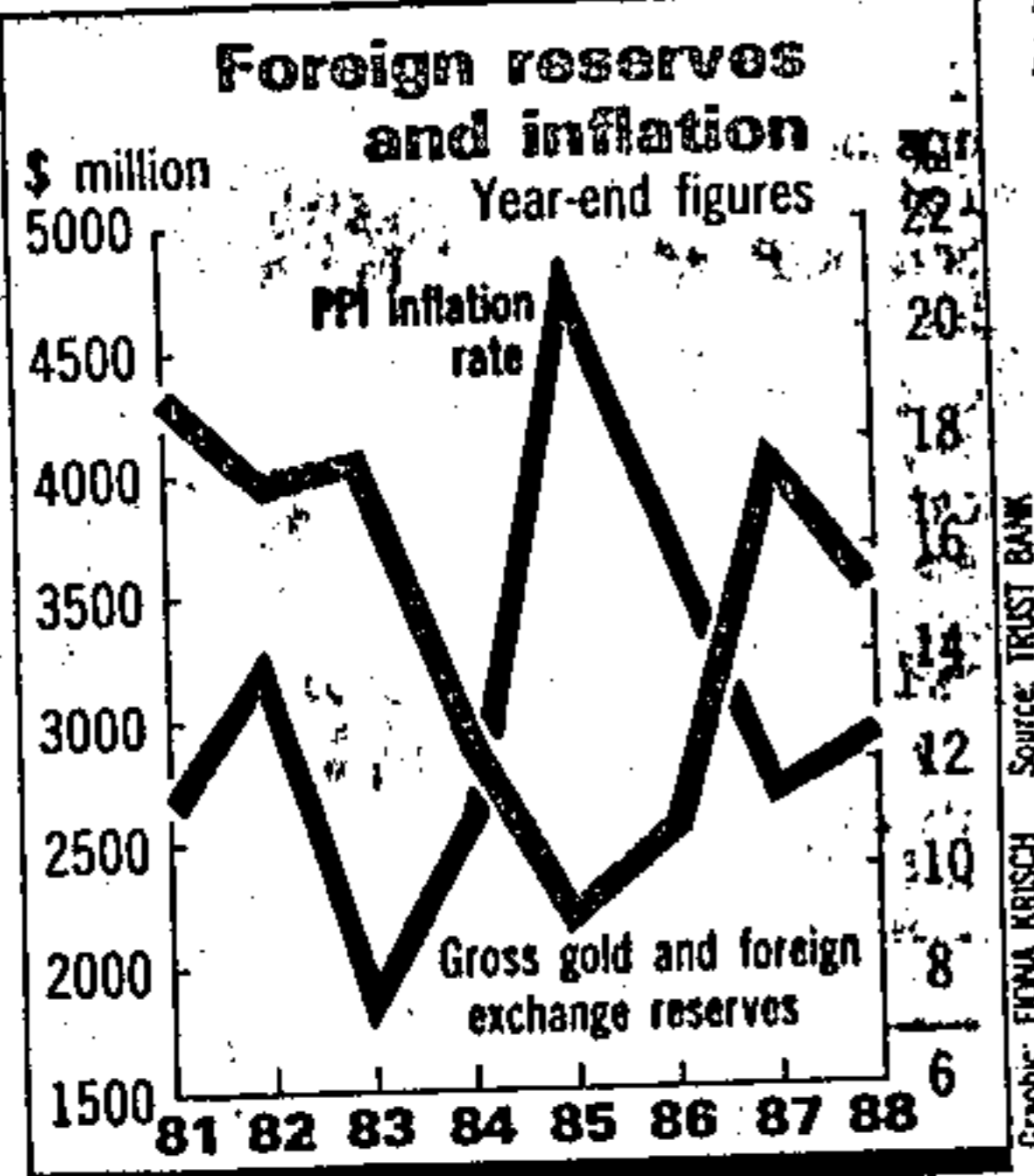
Says Nedbank chief economist Edward Osborn: "The decline in import values could be an early sign of a welcome downswing in imports. Recent measures should reinforce that trend.

"We will have the combined impact of increased interest rates and currency depreciation on inventory accumulation as well as the impact of import surcharges and HP restrictions on private consumption and consumer durable spending.

"If they are effective, we can look forward to a surplus on current account in the third quarter and a larger surplus in the fourth quarter, which could restore the balance of payments surplus to just under R2bn for the full year.

"This should meet debt obligations both inside and outside the net."

26/8/88  
FY  
70



CIENCE

SR

# SA living above its means — bank

GRETA STEYN

DWINDLING reserves are a precursor to a higher inflation rate, says Trust Bank in its latest economic report.

It says a drop in reserves is a symptom of a country living above its means and implies a future rise in the rate of inflation.

SA gold and foreign exchange reserves have been on a downward trend because of balance of payments (BoP) difficulties. BoP has dropped by more than \$1bn since September 1987. BoP deficits, exchange-rate depreciation and domestic price rises are all simultaneous symptoms of a country living above its economic means, the bank says.

"A drop in the exchange rate usually reflects a BoP deficit, which, in turn, reflects the real cause of inflation — excessive financial demands and overspending relative to available resources."

A rising inflation rate is a message that state spending, business profit margins, wage increases and credit extension have grown at a more rapid pace than the country could afford. Demands on the economy often develop a momentum of their own, tending to exceed the country's financial resources.

"This forms the core of the inflation

*Handwritten: To Page 2 5/9/88*

J  
1  
JI

# SA living above its means says bank

process together with the tendency of the monetary authorities to continuously accommodate these increasing financial demands via money creation.

Since consumer prices usually react with a lag to macro-economic factors, a BoP trend can be seen as a precursor of inflation-rate movements.

The BoP deficit of the past year and the declining exchange rate indicate an impending turn-about in the inflation-rate trend. Before the end of the year, a renewed rise in the CPI inflation rate is on the cards.

*Handwritten: From Page 1 5/9/88*

Probably the simplest and most difficult forex scam to detect involves a family member or friend living overseas who comes to South Africa on holiday, where the South African resident pays for the trip and expenses and the guest pays the host back into a foreign account.

Although this transaction is illegal, the amounts involved are insignificant in terms of its effects on foreign exchange reserves. A modified version of this scam might involve donations from a local individual or corporation to a South African organisation, prevented by law from receiving overseas funding, which is then reimbursed in an overseas bank account by an overseas donor.

The yacht-into-the-sunset scam involves leaving the country and selling the boat without bringing the money back. Again, the forex content of a yacht is relatively small, but this move still depletes the country's reserves.

### Illegal profits

Since the reintroduction of the financial rand in September 1985, the Reserve Bank has been faced with a number of massive fraud investigations arising from illegal profits made on the differential between the financial and commercial rand.

Wits University economist Mr Joseph Labia says abuses arising from dual exchange rates are not limited to South Africa.

Britain experienced similar problems with the investment dollar, which it has scrapped. Belgium is still experiencing these problems with its dual exchange system.

According to Mr Labia, simply put, the alternatives to a dual exchange system are a complete government freeze on capital outflow or potentially large losses in forex reserves that would be incurred under a unitary exchange rate if foreign investors suddenly withdrew.

# Unmasking the swindles depleting our reserves

The finrand system is devised to protect the balance of payments from capital outflow, while at the same time allowing the foreign investor to invest and disinvest in South Africa at will.

Because there is no government intervention in the finrand market — and the finrand is determined solely by foreign investors' supply of and demand for finrands — the foreign reserves are unaffected by foreign investment and disinvestment.

Overseas investors can only buy and sell finrands among non-residents and if another foreign investor wants to buy them.

So, if there were large-scale disinvestment, there would be no net loss for the reserves, only a fall in the value of the finrand.

The methods employed by unscrupulous forex swindlers are many, but most involve profits made on converting finrands into commercial rands.

Here are some of the most popular:

● Method 1: An overseas "investor" says he is starting a company in South Africa. He buys finrands, with dollars or sterling, which are then invested in a South African bank. With Reserve Bank approval a new or expanding company can convert the finrands into commercial rands to import goods. This money is then used to fictitiously "import" some product. The "imported" product is then paid for at the

Foreign exchange (forex) fiddles are bleeding South Africa's reserves. Johannesburg Commercial Branch investigations into this rich man's crime over the past two years have involved in excess of R360 million including the R250 million involved in the African Bank affair. CLARE HARPER investigates the modus operandi of those involved in the various scams.

commercial rand rate, but no product ever arrives. Importing, for example, a machine can take up to 12 months. Only when the machine fails to arrive will the swindler be discovered.

In order to succeed with this scam a swindler must either forge import documents or skip the country before discovery.

● Method 2 involves buying finrands overseas and using a bank "insider" in the forex division to convert them directly into commercial rands by providing false documents. Economists say this can be done with the stroke of a dishonest pen. In the recent African Bank case, Mr Justice G Gordon noted that the commercial rand cheque-form used for transferring finrands might be inadequate.

African Bank employees used method 2, buying finrands from brokers in London using foreign ex-

change in the form of dollars they had bought from Santambank.

The London brokers then asked Barclays to move R6 million from their financial rand account to the African Bank's account at TrustBank.

The money was then released to the African Bank as commercial rands at a huge profit.

● Method 3 involves the South African importer "over-invoicing" by paying more than he should for imported goods, for example paying a supplier \$15 (about R38) for a product that costs \$10 (about R25). The difference is banked overseas in the supplier account.

Although the swindler still pays for the dollars or pounds with his own money, the country pays more than it should for the imports.

This forex scam is not as easy to detect.

An importer caught "over-invoicing" could lose his import licence or go to jail.

● Method 4 involves a South African exporter under-invoicing for goods he sells overseas and the buyer abroad putting the rest of the payment into a foreign account.

● Method 5 involves applying to buy forex to pay for non-existent imports. A bogus overseas exporter is paid and the money banked overseas.

South Africa's latest alleged swindler, Mr Dimi-

trios Monokandilos (31), is understood to have used method 1 to move R67 million in illegal funds abroad. The businessman headed a one-man company, International Trade & Export International (Pty) Ltd, in Auckland House, Braamfontein.

He allegedly imported finrands through his company to buy goods in South Africa to export to southern African states.

The bulk of the funds were then transferred into other local bank accounts as commercial rands and used to buy forex to pay for bogus imports. The money was deposited in foreign banks, mostly in Belgium, but no imports arrived.

In terms of Reserve Bank regulations, no money can leave the country without "Form A", a declaration of foreign currency, which asks the purchaser what the money is for, who is remitted, the rand amounts and the foreign amount. The form is then submitted to the Reserve Bank, although authorised banks can release funds without Bank approval.

### Customs documents

Form A must be accompanied by supporting documents, including invoices proving payment is due, and stamped customs documents.

If an importer has to pay for capital goods (used in the manufacturing process) still to be shipped, the banks are authorised to pay for 33,3 percent without Reserve Bank approval.

Reserve Bank approval is needed for full payment in advance for capital goods and advance payment for imports that are not capital goods and first-time orders.

The onus is on the bank to make sure the goods arrive, by requesting proof from suppliers. Banks have refused to make payments when insufficient documentation is supplied.

It is up to the bank to ensure the companies exist and to check signature specimens and shipments.

## 'SA set to fall R800m shy of commitments'

24 B/000 19/9/88  
THE balance of payments current account is unlikely to exceed R1,2bn this year, leaving government at least R800m short of the R2bn needed to meet SA's capital commitments.

Explaining this in their latest Economic Research letter, brokers Franke Kruger says in a newsletter timing will be "of the essence" in meeting the country's commitments.

"The schedule of debt repayments is tight and outside the control of the authorities and the markets.

"As things stand, only short-term financing is available from offshore and political factors are making that evermore scarce.

"Economic fundamentals are not helping. Growth is low, inflation high and rising, and local real interest rates remain a fraction of the 5% or 6% available on almost any Euro-bond. Even our friends are unwilling to lend to SA companies at 2% real terms."

The newsletter says the interest rate is being asked to perform a difficult task. It is expected to cool demand and promote saving without discouraging investment. At the same time political problems make it almost impossible for high interest rates to attract funds from overseas.

### Rates' fall

"In its efforts to ease the problem, government has imposed surcharges and credit restrictions. It is thus unlikely that the bank rate will be raised again before the end of the year. A wait-and-see approach is likely as the two-edged attack on the balance of payments is allowed to bite. 1989 will bring accelerated inflation and slow growth.

"In this environment, it is likely that the interest rate will be allowed to fall to 11,5%, accompanied by a fall in the prime rate to 14%."

Given government's commitment to honour the debt agreement, Franke Kruger expects the rand to fall to close to \$2,63 by year-end. Its researchers forecast more than R3 to the dollar by end-1990.

The rand gold price is expected to move from last year's R918 average to R1 560 an oz by the end of 1990 and inflation is expected to climb from an average of 13,35% this year to 16,6% next year and 17% in 1990. — Sapa.

# Trade surplus continues to improve

23/9/88 Stan  
14

By Sven Lünsche

The stringent economic measures introduced by the monetary and fiscal authorities earlier this year to curb domestic expenditure are showing the first signs of success.

South Africa notched up its second successive trade surplus in August when it recorded R1,094 billion compared with R974 million in July. July's figure was more than double the dismally low R463,8 million in June.

And a further rise should be expected in September when the import surcharges will take full effect and the stricter hire-purchase conditions on most items, excluding cars and furniture, will be introduced.

One worrying aspect, however, is the rapid decline in the gold price, which is the most serious threat to the country's foreign exchange reserves, as an average \$10 decline reduces the country's export earnings by about \$250 million.

On balance, however, economists expect August's surplus to be maintained during September, but an increase in interest rates could be on the cards if gold stays well below the \$400 level.

"The slowdown in domestic expenditure is expected to continue and this will be the decisive factor in restricting imports," one economist said.

August's surplus of R1,094 billion was slightly down on the R1,135 billion recorded in August last year. Exports for August totalled R4,734 billion while imports valued R3,64 billion. The respective figures for July this year were R4,23 billion and R3,26 billion.

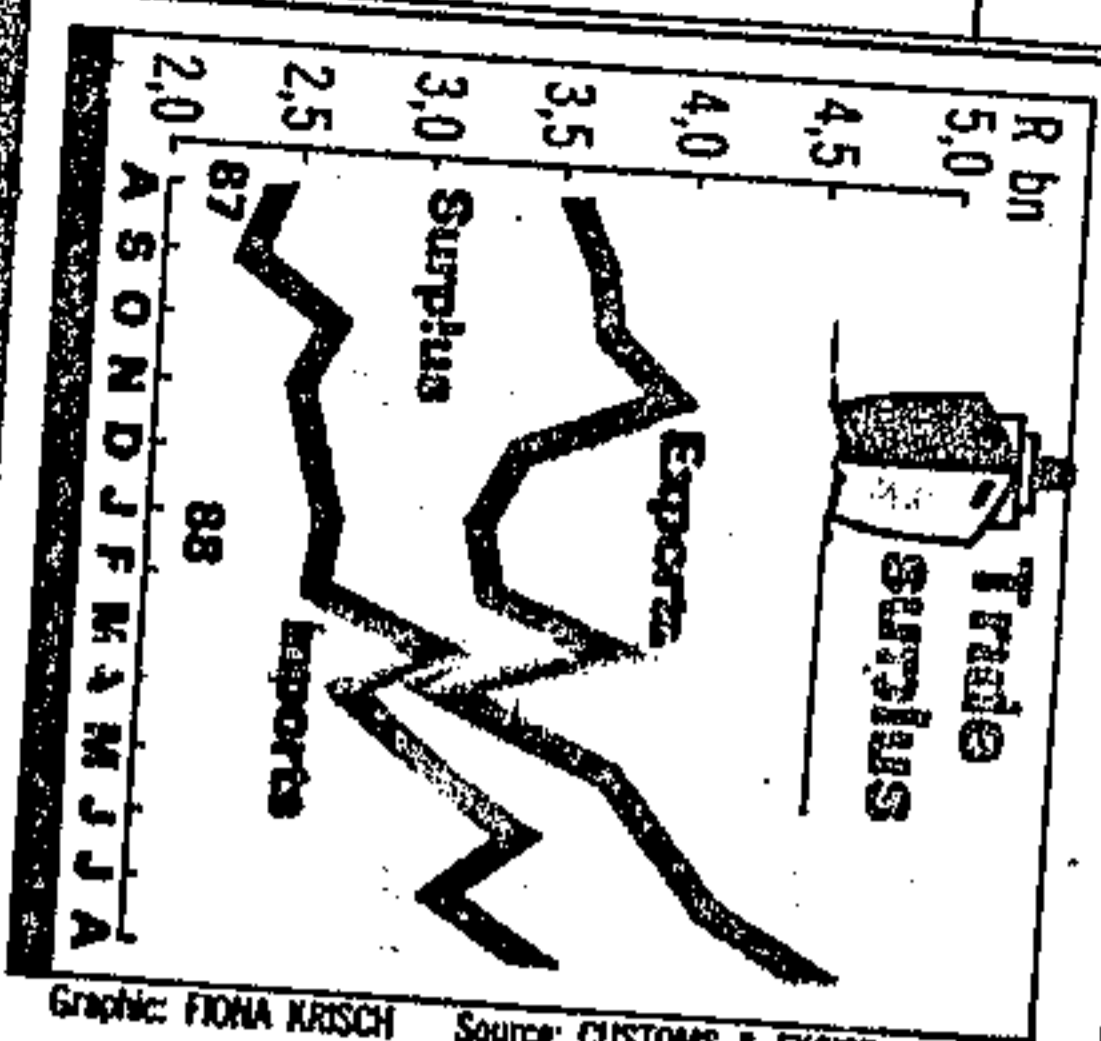
The surplus for the first eight months of the year, at R2,494 billion, is still worryingly low and could cause further headaches unless the upward trend of July and August is maintained.

Exports for the first eight months of this year were R30,639 billion compared with R28,075 billion last year, while the total import bill was R28,145 billion compared to R18,329 billion for the first eight months of 1987.

8/1/89 23/9/88

A TIMES MEDIA PUBLICATION

U than a sw



# Sharp upturn in SA's trade surplus is continuing

KAY TURVEY

SA's trade surplus edged up to R1,09bn in August, continuing the sharp upturn experienced in July, when the surplus reached R974m.

Customs and Excise figures released yesterday show an encouraging rise in exports from R4,23bn in July to R4,74bn in August. Imports were also up from R3,26bn in July to R3,65 last month.

This brought total exports for the first eight months of 1988 to R30,64bn

and imports to R25,15bn, for an accumulated surplus of R5,49bn against R9,75bn in 1987.

This widening in the trade surplus for the second successive month spells good news for the current account of the Balance of Payments, although the decline in reserves suggests a continued outflow of capital.

The 11,8% increase in exports from July indicates better dollar prices for exports and improved volumes, as

little advantage was gained from the weakening in the rand where the effective exchange rate dropped about 1% between July and August.

The R385m rise in imports to the highest figure in money terms for the year disrupted the trend noted by the Reserve Bank where imports had started levelling off in the second quarter.

The surge in imports which came after a 8,9% fall in July, is interpreted

by Bureau for Economic Research economist Glenn Moore as a result of stockpiling ahead of the anticipated measures to curb imports.

Import surcharges introduced in mid-August are expected to curtail imports. However, Anglo economist Aubrey Dickman says these alone will not settle the underlying robust demand and interest rates must rise.

"We have to get to grips with credit demand," he says.

# SA trade surplus rises

Chl. Times  
23/9/88  
74

By AUDREY D'ANGELO  
Financial Editor

SA'S balance of payments (BoP) surplus rose in August to R1,09bn from R937,5m in July. But it still lagged behind the surplus of R1,14bn achieved in August last year.

Economists point out that unless the gold price rises from its present low levels it will be hard to achieve bigger surpluses in the coming months, since earnings from SA's principal export will be lower.

However, some believe that a rise in imports to R3,64bn in August from R3,26bn in July was due to stockpiling in anticipation of stiffer sanctions and import surcharges and that September figures will be lower.

Exports rose to R4,73bn in August from R4,23bn in July. In August last year exports were R3,58bn.

In the first eight months of this year total exports were R30,64bn and imports R25,15bn. The trade surplus was R5,49bn compared with R9,75bn in the first eight months of 1987.

Professor of business economics at the Stellenbosch University Graduate School of Business, Attie de Vries, said the growth of 27,56% in the money supply in the year to August 31 suggested credit demand was still high and, for that reason, interest rates should be raised.

"But," he cautioned, "at the same time we have to be careful not to over-kill."

He thought the measures taken to cool the economy were already beginning to work and the spending in August was "a last fling — a sort of early Christmas — when people went out and bought in expectation of higher prices. I think that is starting to peter out.

"We may see another half percent rise in the prime rate before the end of the year but not more than that."

Although he expects imports to come down De Vries said: "Unfortunately we shall probably not see the

improvement in the balance of payments that would normally result from the cooling down of the economy because of the decline in the gold price."

The lessening of inflationary expectations overseas, combined with high interest rates, meant there was little prospect of an improvement in the gold price.

But market sentiment was impossible to predict. It could turn round and push the gold price up again but he did not expect a rise above \$410 an ounce.

Boland Bank economist Boet Zaaiman said he knew there had been stockpiling of luxury goods, as well as investment in machinery, and believed this accounted for the rise in imports in August.

"It is difficult to judge from one month's figures but I hope the higher trade surplus in August compared with July is the start of an upward trend."

However, "the declining gold price will make it difficult to build up the BoP."



# Favourable trend seen for BoP

By Sven Lünsche

Both the current and the capital accounts of the balance of payments (BoP) are expected to show a more favourable trend in the remainder of the year as demand slows down.

Writing in Sanlam's *Economic Survey*, chief economist, Mr Johan Louw, expects the current account to record a surplus of R1,5 billion this year.

For the first seven months of the year it yielded an estimated surplus of R600 million, against R4,5 billion in the corresponding period of 1987, he says.

However, he expects the slow-down in imports after the introduction of curbs to go some way

to alleviating the situation in the next few months. This is supported by the more favourable trade surplus recorded in July and August.

"Real imports are still maintaining a strong rising trend, but the annual growth rate reached a high in the past month or so and is currently showing a welcome downward tendency," Mr Louw says.

"We expect this falling growth trend will gather momentum as we move farther into the downturn and that it should in time contribute to a more favourable balance on the current account."

On the capital account there was a noteworthy increase in net outflows in the second quarter of

1988. Moreover, the trend appears to have continued into July and August. Mr Louw says this is linked to:

- The resumption of the switch from foreign to domestic sources for the financing of trade transactions because of increases in overseas interest rates and fears of a further decline in the rand.

- Repayments of R520 million under the second debt agreement.

"We think that the capital account will be more favourable in coming months because of a more stable performance by the rand, higher domestic interest rates and the fact that the next foreign repayment within the net needs to be made only in December this year," Mr Louw says.

'Improved sentiment among bankers'

# SA wins more time to settle foreign debt

74  
SPAC  
30/9/88

By Magnus Heystek and Sven Lünsche

South Africa has received a significant reprieve in its international debt repayments, but a new rescheduling pact will have to be worked out to enable the country to meet its commitments from 1991 onwards.

This was said by leading South African financial officials at the annual conference of the International Monetary Fund (IMF) in Berlin yesterday.

Finance Minister Mr Barend du Plessis announced at a press conference that the repayment period for \$3 billion (R7,4 billion) of foreign loans has been substantially extended by transferring them from within the "standstill net" to longer term loans. He said the move indicated an improvement in sentiment towards South Africa among foreign bankers.

Mr du Plessis also said South Africa would have no problem in meeting its foreign debt obligations under the "second interim arrangement", which expires in mid-1990.

But the Director-General of Finance, Dr Chris Stals, said South Africa would seek a further pact to extend repayment limits on about \$10 billion (R24,9 billion) of foreign debt when the current arrangements expire.

## Optimism

Dr Stals, chairman of the debt standstill co-ordinating committee, threatened that a unilateral halt on payments would be imposed if an agreement was not reached, because South Africa could not meet its repayments otherwise.

But he was optimistic that the 34 creditor banks would grant an extension when the pact expired.

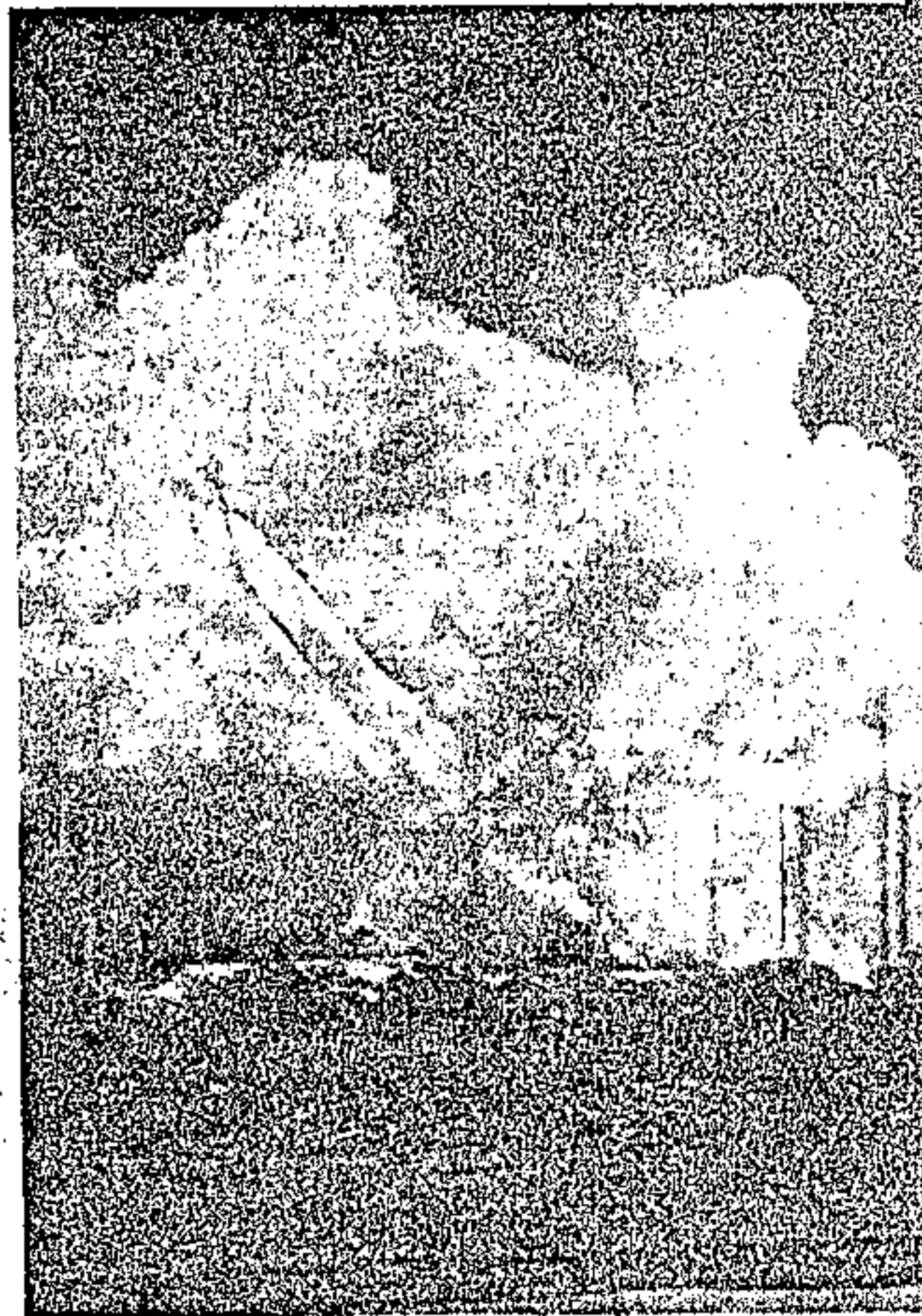
Many economists have recently questioned South Africa's ability to meet its debt commitments, given the shrinking surplus on the current account of the balance of payments.

Frankel Kruger's chief economist, Ms Gillian Raine, said recently that the account was unlikely to exceed R1,2 billion this year, leaving the Government at least R800 million short of the R2 billion necessary to meet the country's capital commitments.

South Africa is to repay a total of R800 million of debt inside the net this year, followed by R600 million next year and R300 million in 1991.

Mr du Plessis said the IMF had criticised South Africa for its low level of real interest rates.

Mr du Plessis said the country would still be cut off from new foreign loans for the foreseeable future.



Lift off . . . the space shuttle Discovery rises from the Kennedy Space Centre. Crew members Hilmers (left), Dick Covey, George Nelson,

## Discovery crew la

CAPE CANAVERAL — Nearly three years after the Challenger disaster, American astronauts blasted into space yesterday on a crucial mission, aimed at reviving the manned US space programme, and successfully launched a tracking satellite.

The space shuttle Discovery and its five-man crew lifted off from the Kennedy Space Centre yesterday, ending a long string of frustrating launch delays.

Six hours after launch, the astronauts carried out one of their most important objectives — the deployment of a \$100 million (R250 million) tracking satellite.

When ground ported the satellite motor had fired. Captain Frederick H. ... commander, radiated the best news I've

"America is back in space," President Ronald Reagan said from the White House.

The last shuttle launched was Challenger, after a long delay after lift-off in January 1986. The shuttle carried a spaceship and seven.

About 500 000 people gathered in Florida's

Second sprinter

FOREIGN DEBT

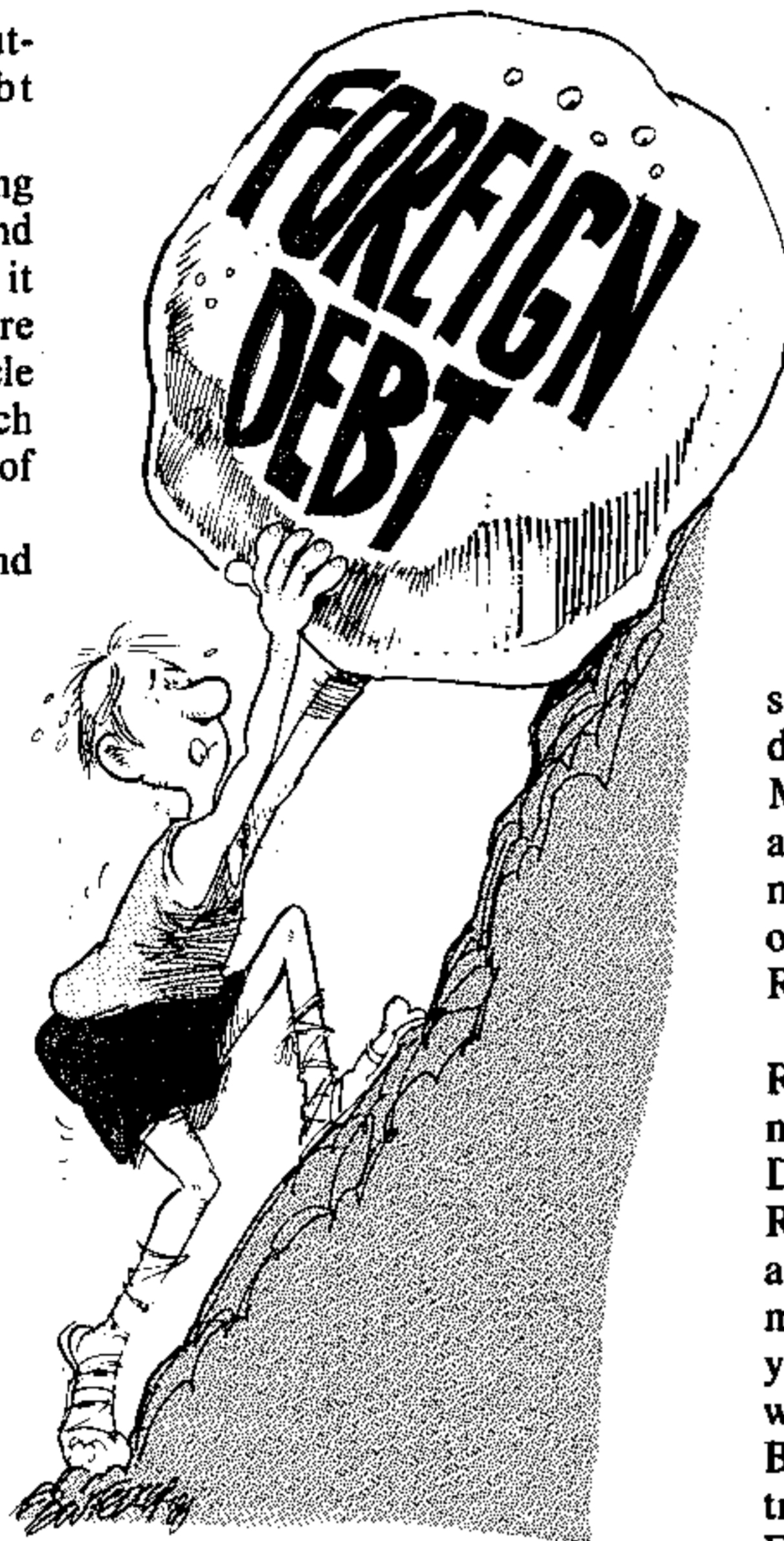
# The Sisyphus syndrome

As the rand falls, so outstanding foreign debt mounts.

With repayments placing pressure on reserves and eroding the rand further, it seems at times that we're trapped in an endless circle of debt repayment which simply boosts the value of outstanding debt.

Between January 4 and the start of the week, the rand declined by 22,8% against the dollar, 9,3% against the D-mark, 15,9% against the Yen, 15% against the pound sterling, 5,2% against the Swiss franc and 10,2% against the French franc.

In the context of these declines, a currency breakdown of certain categories of debt, largely outside the net, published last week in a *Govern-*



ment Gazette, are of particular interest. A statement of "foreign currency commitments in respect of guarantees, indemnities or securities furnished by SA" dealt with central government debt, export credits and debt of public corporations. It showed outstanding debt of R16,7bn on March 31 this year and, with interest payments, a total amount outstanding of nearly R22bn.

Of this, more than R10bn was in US\$, more than R4,5bn in D-marks, nearly R2bn each in French and Swiss francs and more than R1bn in yen. Smaller amounts were owing in sterling, Belgian francs, Austrian schillings and ECU (see table).

Equivalent information on total outstanding debt of \$22bn is not available. So this information, published annually as required by the Exchequer & Audit Act, on the government-backed portion of debt provides a useful insight into currency components of foreign obligations.

The weighting of the dollar in the total mix is important because the rand has declined more sharply against the US currency than against the other currencies. The result is the rand value of government-backed debt increased by 25% from R17,5bn to R22bn between January and October, while the rand value of its dollar component increased by nearly 30%.

Maturity structures of loans reflected in the statement show large repayments in the second quarter.

This is followed by much smaller repayments in the third quarter and a substantial rise in the fourth quarter.

The crunch is in 1990, with a bulge in capital repayments of about R4bn, based on present exchange rates, and 1991 with a repayment of R5,27bn.

Much will depend on how much due debt can be rolled over; that, in turn, will depend largely on SA's political profile. Without inflows of compensating capital, debt repayments are likely to continue draining reserves and depressing the economy for many years.

## FOREIGN CURRENCY COMMITMENTS 1988 — 2000

Scheduled repayments on debt backed by guarantees, indemnities or securities furnished by the SA government

'000s	\$	DM	Sw Fr	Fr Fr	Sterling	Yen	BFR	ASCH	ECU
Total capital payments plus interest payments:									
1988									
II .....	310 433	117 393	88 619	383 791	5 163	5 816 141	22 642	11 176	—
III .....	82 292	45 629	66 233	12 475	16 202	869 601	—	—	—
IV .....	174 735	77 738	76 629	403 482	4 116	5 041 335	26 217	10 695	1 516
1988 (Totals — 3 quarters) .....	567 460	240 760	231 481	799 748	25 481	11 727 077	48 859	21 871	1 516
1989:									
I .....	94 275	49 851	118 924	13 003	4 290	841 425	—	—	—
II .....	246 199	99 714	104 493	348 677	7 475	5 504 631	24 504	10 596	—
III .....	144 326	32 174	10 868	12 545	11 178	819 020	—	—	—
IV .....	185 368	64 186	21 712	340 585	5 272	4 742 594	24 137	9 802	1 516
1988 Total .....	670 168	245 925	255 997	714 810	28 215	11 907 670	48 641	20 398	1 516
1990 .....	659 838	1 005 764	566 179	670 587	128 183	10 738 567	463 640	—	1 516
1991 .....	1 404 541	1 071 670	184 256	621 115	7 053	10 062 304	—	—	1 516
1992 .....	460 285	491 881	1 770	577 760	1 724	9 405 166	—	—	1 516
1993 .....	89 094	495 891	666	507 764	—	6 663 480	—	—	1 516
1994 .....	66 261	3 634	656	446 873	—	3 401 091	—	—	1 516
1995 .....	50 184	2 625	646	174 761	—	9 032 003	—	—	1 516
1996 .....	35 053	2 302	539	—	—	559 548	—	—	1 516
1997 .....	18 703	—	—	—	—	—	—	—	—
1998 .....	9 545	—	—	—	—	—	—	—	14 557
1999 .....	5 875	—	—	—	—	—	—	—	—
2000 .....	5 833	—	—	—	—	—	—	—	—
Amount outstanding as 31/3/88 .....	4 042 840	3 560 452	1 242 190	4 513 418	190 656	73 496 906	561 140	42 269	29 717

BoP 'to dominate' economic path

(74)  
B/day  
11/10/88

# World facing slower growth

ry  
t a  
a-  
of  
s  
ey  
s"  
on  
w-  
ed  
id  
re  
th  
n  
e  
s  
d  
a  
g  
s  
e  
t  
e  
e

**THE** path of the economy for the remainder of this year and 1989 will be dominated by the balance of payments situation.

In spite of some cyclical rise in inflation, the macro-trend of deflation remains in force in the economy, says Mike Brown of Davis Borkum Hare, in his latest economic review.

A slower growth trend is anticipated in the major world economies. For instance, real GNP growth in the US is expected to fall from an average 3% in 1988 to 1.5% in 1989.

The current declining trend in the US\$ gold price could be reversed during the latter part of this year or early next year due to uncertainties associated with the US presidential election and the new US administration. Subsequently, in line with the assumption of lower world economic growth, the gold price should assume a falling trend as inflation risks recede in the major economies.

A balance of payment current account surplus target of between

LIZ ROUSE

R3bn-R4bn will be adopted by the authorities for 1989. This would enable foreign reserves to be rebuilt by about R1.5bn/R2bn ahead of the early 1990 debt negotiations. Running a balance of payments surplus in excess of this figure (given a \$400 gold average) would have unpalatable consequences of domestic growth.

The M3 money supply target will be maintained at 12%-16% growth for 1989.

Government consumption expenditure is assumed to rise by about 2.5% in real terms in both 1988 and 1989. The rising trend in state revenue will confine the budget deficit to R11bn in 1988, but the deficit could rise to R12.5bn in 1989 5%, 2% of GDP in 1988 and 5.5% of GDP in 1989).

The fiscal reforms recommended by the Margo Commission (including VAT) will be introduced during 1989. The full effect and benefits will be felt in 1990.

1  
a  
e  
e  
de  
de  
de  
N  
T  
q  
e  
e

# Borrowing abroad hampered by bank rules, public opinion

stav 17/10/88

By Ann Crotty

Public opinion and central bank regulations are the two major factors continuing to militate against borrowers raising funds overseas, says Eskom Treasury manager, Mr Francois Botha.

Mr Botha, who recently returned from Europe where he met leading bankers, says that since the debt standstill of 1985, visits to overseas bankers have tended to involve an exchange of information, rather than requests for funds. This is in sharp contrast to the early 1980s when Eskom accounted for about 50 percent of the demand in the world's power station equipment market and had no problem raising funds at favourable rates.

Mr Botha said most foreign

bankers believed SA's problems were political, and not financial. As he saw it, there would be no significant improvement in its borrowing position until action was taken to convince the world it would broaden its democratic base and include other population groups in the political decision-making process.

But SA appeared to be facing a delicate problem because a number of foreign bankers had indicated a one-man, one-vote situation would not enhance SA's credit rating, but would put it on a similar level with other African nations.

Referring to adverse public opinion overseas, Mr Botha said that although the attitude of the

media had been tempered recently, no foreign bank could afford to be seen doing business with SA.

In addition, the major central banks had issued guidelines to banks stating that they must hold provision for outstanding loans made to a country involved in a debt-rescheduling programme.

This meant that although SA had an excellent record in terms of servicing its debt, banks making loans to SA had to make costly provision.

Because of the delicate state of the foreign exchange reserves, there was increasing concern among foreign bankers about SA's ability to meet the R2 billion repayment due in 1990 that was outside the rescheduling programme.

produced almost double the yield for the next two years. No 10 Shaft was commissioned during the quarter and development has started from it. So far "not good

full production. Bracken had a taxed income of R1 772 000 (R1 575 000).

STAR 20/10/68

## Copper and zinc prices surge to record levels

LONDON — Copper and zinc prices on the London Metal Exchange yesterday moved to record levels amid concern about the impact of the miners' strike in Peru.

That country supplies about five percent of the copper mined in the non-Communist world and 10 percent of the zinc.

Copper prices yesterday jumped above the peaks reached in January with grade A metal for delivery in three months rising £62 to £1 632,50 a tonne.

An analyst suggested there was probably a great deal of shortcovering so that there might

be a correction, perhaps as much as £160 a tonne.

Even without the Peruvian factor prices would have been high, fueled by strong demand from Japan and the US and moderate demand from Europe.

High grade zinc established a new record during trading yesterday and touched \$1 532 a tonne for metal to be delivered in three months.

Traders pointed out that the Peruvian strike had come at a time when physical demand for zinc was building up back to the high levels seen earlier this year and when stocks were low. — Financial Times

## BA rate at its highest in 3 years

By Sven Lünsche  
The 90-day Bankers Acceptance rate soared to its highest level in over three years in reaction to reports that interest rates would be increased after the October 26 municipal election.

The BA rose from 14,05 to 14,45 percent in hectic trading, as bankers indicated after a meeting with the Reserve Bank on Tuesday that the Bank rate would be raised shortly.

The BA rate has now risen by almost 2,5 percentage points in four months, an increase which is also reflected in other short-term money market

instruments. Treasury Bills have risen by almost 1,20 percentage points since mid-July.

The increase in the Bank Rate would inevitably be followed by a higher prime rate, deposit and HP rates and most probably higher mortgage rates.

Other measures to cool down the economy even more, are likely as evidence mounts that economic growth in the third quarter was significantly higher than expected.

The package will most probably include further import controls, tougher hire-purchase conditions and tighter control of housing bonds.

Step 2 F/10/88

# Trade surplus continues to decline

By Sven Lünsche

If, as expected, the authorities announce a package of measures to restrain consumer expenditure over the next few weeks, it will be just in time because the trade surplus is again showing a substantial decline.

The trade surplus for September slipped to R840,1 million, compared with a R1,09 billion surplus for August and a R1,21 billion surplus for September last year, according to trade figures released by the Commissioner of Customs and Excise yesterday.

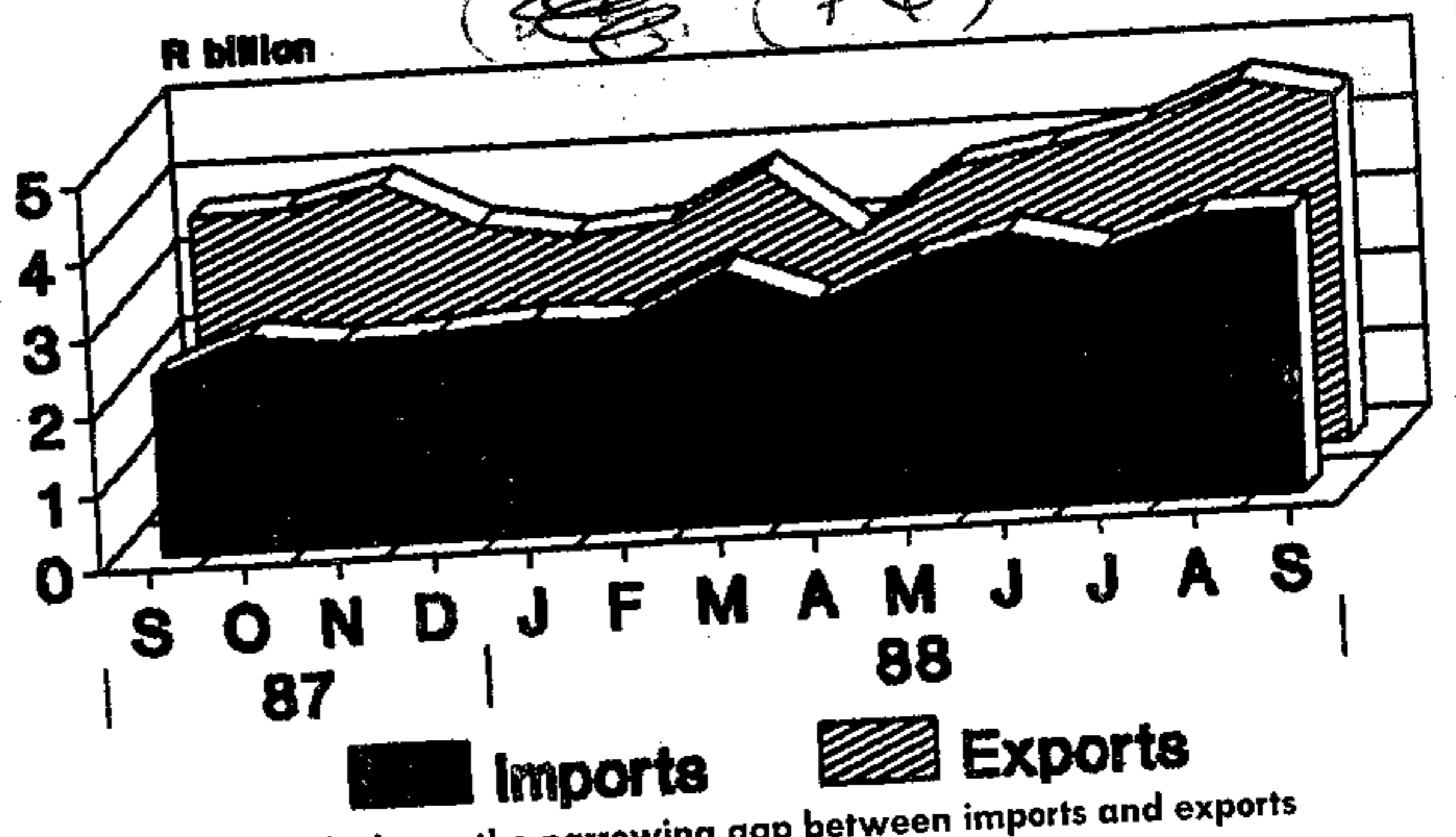
The most worrying aspect of these figures is the fact that imports in September declined by a mere R5,6 million to R3,63 billion from Au-

gust's figure, despite the introduction of the import surcharges on September 1.

Import volumes have now grown at the rate of over 27 percent over the past year and are 32 percent above the level of two years ago when the economy was in a trough.

While the recent measures, which, apart from import restrictions, include higher interest rates and tighter HP finance conditions, have yet to achieve their full impact, economists are almost unanimous that a new package is urgently required to protect the flagging current account of the balance of payments.

Exports in September



The graph shows the narrowing gap between imports and exports

slumped by R259,9 million to R4,48 billion from August figures, which totalled R4,73 billion.

The figures brought imports for the period January to September

this year to R28,78 billion, while exports totalled R35,11 billion.

Imports in the same period last year amounted to R20,73 billion and exports to R31,69 billion.

Thus, the trade surplus for the first three quarters of the year amounted to R6,33 billion — a 42 percent decrease, compared with the same period last year.

# Cut your spending

Money Matters

Magnus Heystek



Star  
29/10/84

## — we're in big trouble

WITH THE year rapidly heading to a close (we all know December doesn't count), thoughts are increasingly focusing on economic prospects for 1989.

As this column warned months ago, the South African economy has been heading for turbulent waters for some time. Subsequent events have done nothing to alleviate these fears.

In fact, they've become more pronounced in the absence of appropriate action by the monetary authorities.

Simply put, the economy has grown far too rapidly this year, considering the constraints imposed by the international financial community. The result has been a rapid deterioration of the surplus on the current account of the balance of payments.

This has led, among other things, to sharp pressure on the rand exchange rate as well as eating into the country's gold and foreign exchange reserves.

Gold and foreign exchange reserves are now equal to less than

two months' imports (roughly the same as that of Botswana).

If nothing is done to curb excessive spending in the economy, we will soon run out of foreign exchange to pay for imports.

The Reserve Bank has declined to allow a further rise in interest rates. The result, say economists, will be an eventual and unavoidable sharp rise in the prime lending rate sooner or later.

Perhaps with the municipal elections out of the way, we can expect an increase in interest rates as well as an increase in GST.

The prime rate has already risen from 12,5 to 16 percent, with HP and mortgage rates following suit. Many analysts are now talking about a prime rate of 20 percent in the not-too-distant future.

With the debt level of the average South African close to record levels, a return of prime to 20 percent or higher is going to impact severely on many households. Already there are signs that insolvencies and liquida-

tions have started an upward trend.

A further drop in the gold price would almost definitely leave the monetary authorities no alternative but to slam the brakes on severely, even perhaps to force a repetition of the restrictive economic package of 1984.

Those curbs plunged the country into economic recession and political crisis.



GST stays 12%: imports unaffected

(Handwritten initials)

# No fiscal move planned to aid BoP, says Stals

3/10/88

FINANCE director-general Chris Stals has scotched rumours among bankers and economists of an imminent package of fiscal measures to protect the balance of payments.

Financial markets were abuzz with talk of new fiscal initiatives last week, sparked by bankers' reports of their recent meeting with Reserve Bank officials to discuss economic policy. Bankers had said they expected more curbs on imports and a hike in General Sales Tax (GST) to be included in a package which would combine monetary and fiscal measures.

Stals said in an interview fiscal measures such as a hike in GST, a possible increase in import surcharges or quantitative controls on imports were not being considered. Last week's rumour of an increase in GST by two percentage points was entirely without foundation.



● STALS

"From the fiscal side, we currently see no reason for any action. The package implemented in August must be given time to work, but it looks as if there will be no new fiscal develop-

GRETA STEYN

ments until next year's Budget".

The possibility of another package hit both the capital and money markets last week, with the money market hoping a new economic package would include a higher Bank rate. However, Stals said he could not speak on interest rates, as that was the domain of the Reserve Bank.

Capital market analysts said the possibility of a package had added to volatility in the market. Trust Bank said in its market report: "Uncertainty and nervousness in anticipation of a new economic package, likely to be announced after the municipal elections, continued to dominate the bond market." In an erratic week on the capital market, rates on Eskom's Loan 168 broke the crucial 16,5% level last week before falling back.

However, Stals allayed market concern over government finance. He said funding the civil servants' salary increase would not be problematic because of additional revenue from import surcharges, the phasing out of debtors' allowances on GST and higher than expected revenue from the new Marginal Tax on Companies (MTC). Treasury needs R700m to fund the larger salary bill in the current fiscal year.

### The good news

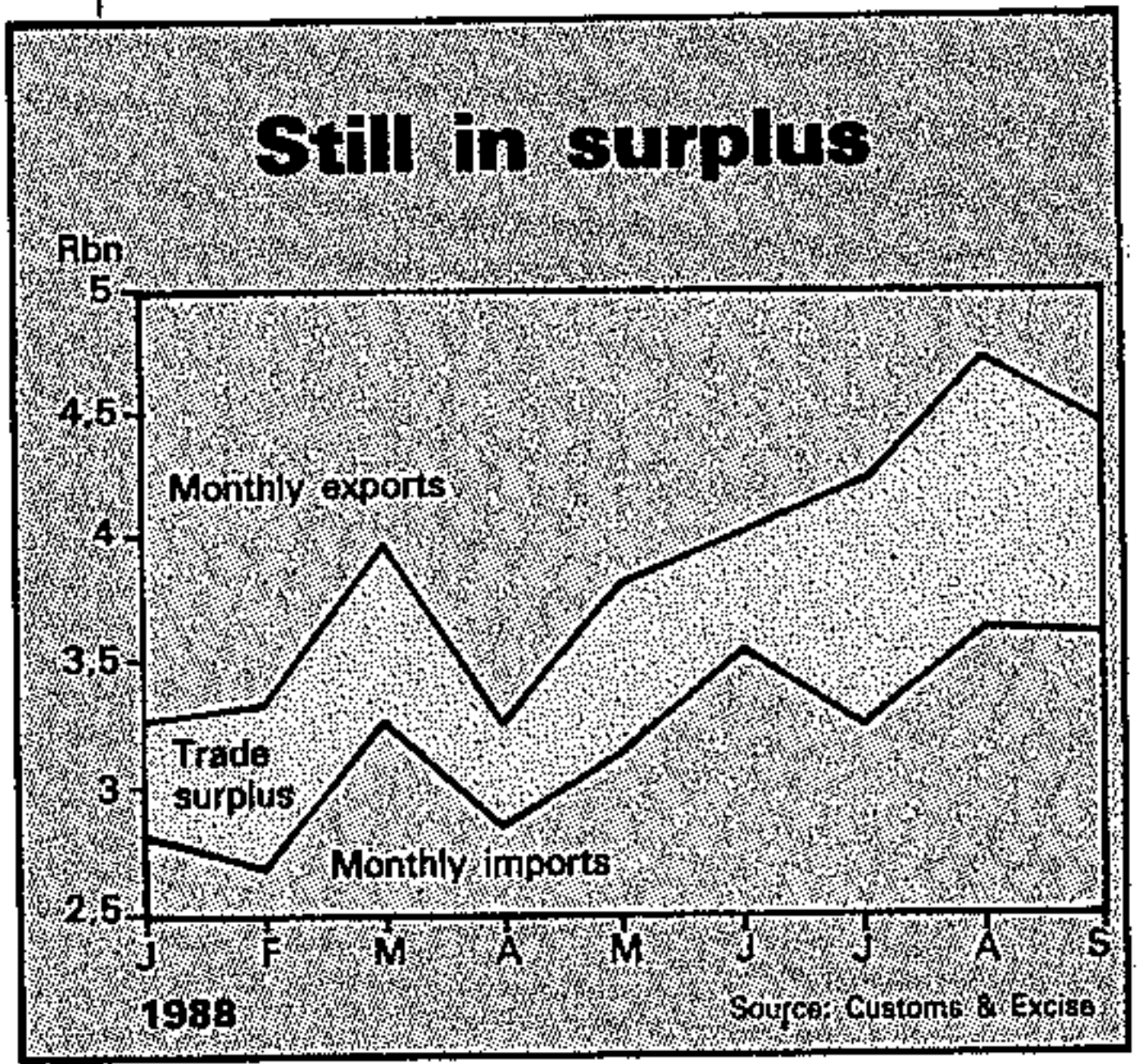
Increased export earnings, boosted by a weaker rand, pushed the trade surplus sharply higher in the third quarter. In July-September, exports exceeded imports by R2,91bn, following surpluses of R1,53bn (April-June) and R1,89bn (Jan-March).

In September, imports of R3,63bn and exports of R4,47bn produced an R840m surplus — down from R1,09bn in August, but higher than any January-June month.

South Africans continue to buy imports briskly — September's R3,63bn was just a bit down from R3,64bn the previous month. The authorities, believing it important that exports exceed imports, may be tempted to curb import demand with controls. But Reserve Bank economic consultant Roger Gidlow says it makes more sense to allow the exchange rate to adjust to trade flows — falling when import demand soars.

He warns: "Import controls, besides being a bureaucratic nightmare, discourage exports. To some extent, they're self-defeating."

How so? First, he says, controls keep the exchange rate above what it would otherwise be, which prices exports out of foreign markets. Secondly, controls restrict trade with the world and keep out the cheapest inputs for SA manufacturers. "This makes exports less competitive." Thirdly, controls make businessmen look inward: behind a wall of import protection, inefficient manufacturers



OUT

(74)

can profitably sell at home, without worrying about looking for overseas markets. "There's reduced orientation toward exports." ■

# Another interest rate rise likely by year-end

Star 4/11/88

74  
145

By Sven Lünsche

The prime rate could rise by a further percentage point towards the end of the year, as the authorities need to maintain a viable surplus on the balance of payments.

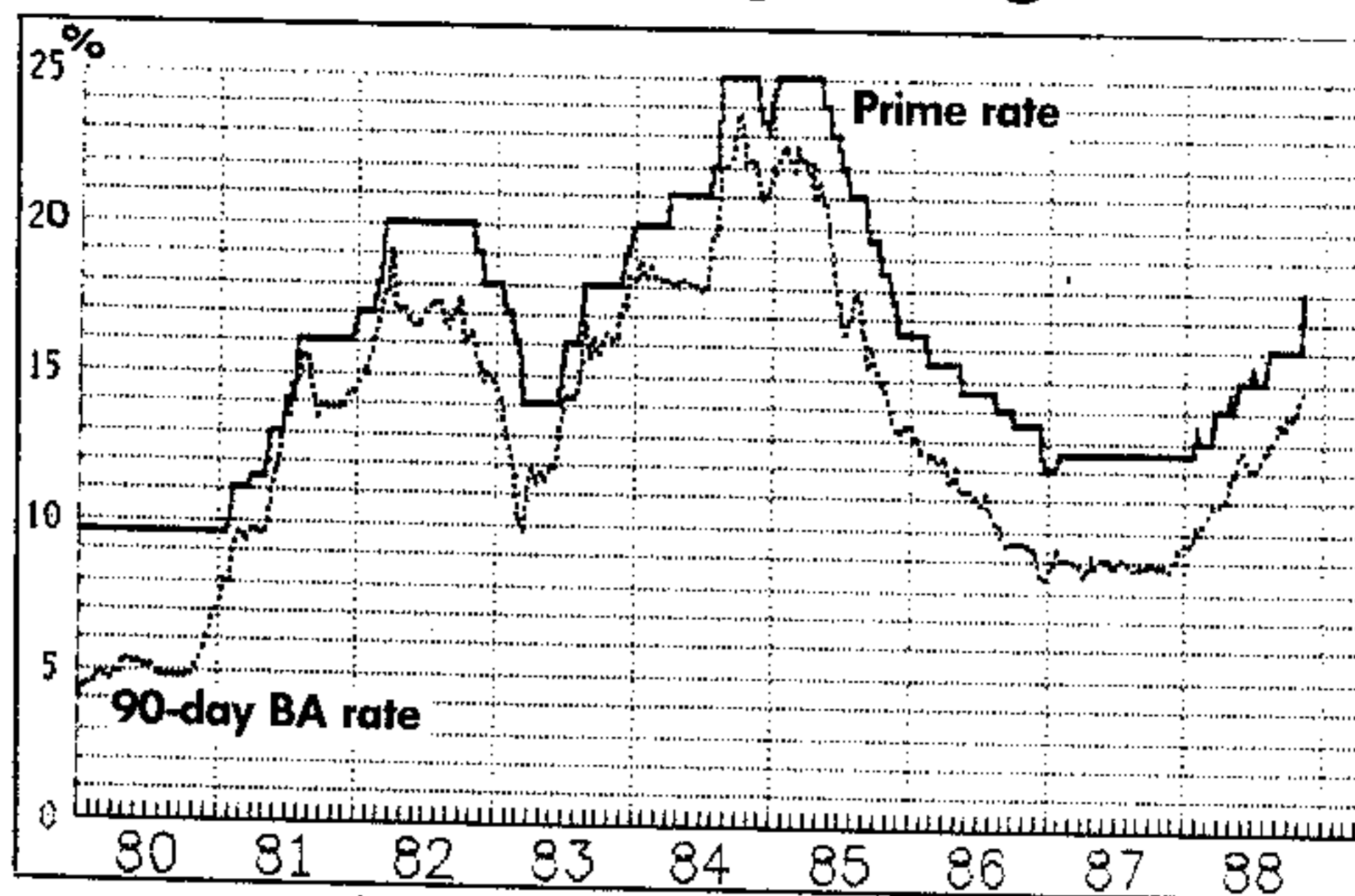
The BA rate yesterday rose from 14,55 to 14,9 percent in the wake of Wednesday's two percentage point rise in the Bank rate, with dealers suggesting that the money markets had already discounted the Bank rate increase a few weeks ago.

Confirms Simpson McKie's John Banos: "Economic fundamentals affecting short-term rates are still serious."

Underlying the problem is the fact that economic growth is stronger than had been anticipated by the authorities, a development stressed by Reserve Bank governor Dr Gerhard de Kock when he made the announcement.

"In retrospect it is clear that from the third quarter of 1987 onwards the upswing in the South African economy gained much more momentum than most observers had expected. Present indications are that the rate of growth of real gross domestic product will again reach 2,5 percent in calendar 1988.

"Moreover, preliminary esti-



Graphs shows the steady rise in rates this year.

mates suggest that real consumer spending showed a further marked increase during the third quarter of 1988, at an annual rate approaching six percent. In addition, real fixed investment spending appears to have risen at an annual rate of around 13 percent during the third quarter," Dr de Kock said.

In view of the extent of South Africa's foreign debt obligations, the authorities will, however, have to ensure that the current account of the balance of payments shows a considerable surplus in 1989 and

total domestic spending will therefore have to be prevented from increasing too rapidly.

Gold and foreign exchange reserves have dropped to levels where they cover only one and a half month's of imports and against the background of the recent volatile performance of the gold price, the need to restrain imports has become even more pronounced.

The upward trend in expenditure could be bolstered next year by spending as a result of the salary adjustments for workers in

the public sector.

"An early boost to purchasing power in the nearly two million strong public sector will boost confidence and replacement demand for durable goods as well as anticipatory buying before inflation rises next year," says Southern Life's Mike Daley.

He adds that credit use could stay high for somewhat longer than anticipated, and the situation regarding interest rates and import levels would be monitored

To prevent a continuation of the credit-spending boom economists therefore consider a further one percentage point rise in the Bank rate likely, possibly before Christmas.

After that a mix of fiscal and monetary measures will probably be applied, the ratio depending on whether the government will announce an early general election.

Further interest rate hikes would most likely be avoided in the case of an election, but a package of fiscal measures would substitute for this.

A rise in GST from 12 to 14 percent around Budget time has already been speculated upon and this could be supplemented by further import controls and hire-purchase financing measures.

# Gold and forex reserves still showing rapid decline

(74) (188)  
SJEV  
8/11/87

**By Sven Lünsche**  
Economists are calling for more measures to protect rapidly declining gold and foreign exchange reserves.

In October, total gold and foreign assets fell by R477 million to R4,615 billion, figures released by the Reserve Bank yesterday show.

The situation looks worse for gold reserves, which fell by R640 million to R2,966 billion.

The gold reserves are valued at R910,08 per ounce (R890,17 in September).

It is the first time total gold and foreign exchange reserves have fallen below R5 billion since Au-

gust 1986. In dollar terms, the situation has been aggravated by the declining rand exchange rate and reserves are now \$1,87 billion.

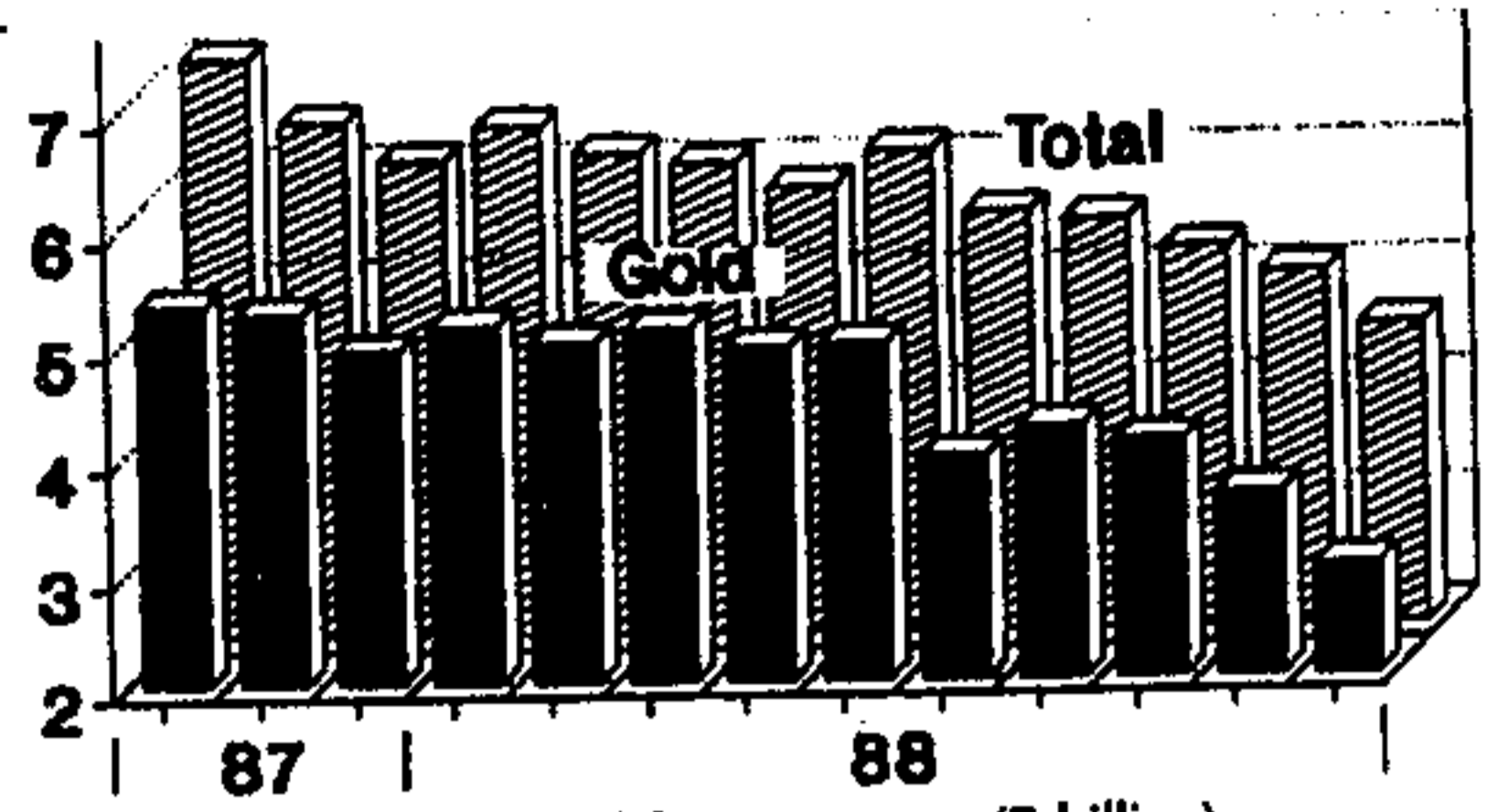
The reserves cover imports for the next one and a half months, a situation the authorities hope will be alleviated by import surcharges and higher interest rates.

The impact of surcharges and the recent encouraging rise in export revenue is likely to be reflected in a more favourable current account surplus in the fourth quarter after a R4,5 billion surplus in the third quarter.

The Bureau for Economic Research (BER) at

Stellenbosch University says in its latest report: "Despite the fact that a current account surplus of R1,3 billion can still be generated this year, it is not sufficient to meet expected foreign exchange debt obligations of close on R4 billion. This means net reserves will decline by R2,6 billion this year."

The current account, however, could again produce a substantial surplus next year. The BER estimates a figure of R4,9 billion. It is responding fairly well to monetary and other policy measures introduced earlier this year and, as such, does not constitute a grave problem.



Gold and forex reserves (R billion)

The weakness in the overall balance of payments remains the capital account. The net outflow of foreign capital amounted to R700 million in the first quarter of 1988, but rose to R2,1 billion in the second and third quarter.

The BER projects that capital outflows will hit

R4 billion next year, which, given a current account surplus of R4,9 billion, might be too high to replenish some of the foreign exchange reserves lost this year.

Economists say urgent action is needed and feel it should be taken on the interest-rate front.

# Financial crunch looms as SA faces \$12-bn debt repayment

South Africa will soon be back on the financial rack for the first time since it suspended repayments of its short-term debts in September 1985. This year and next it will have to pay its foreign creditors \$3 billion to \$3.5 billion in interest and principal.

That is mild compared with what follows: in 1990-91 South Africa is due to repay almost \$12 billion, equivalent to roughly half of export earnings. The director-general at the Department of Finance, Mr Chris Stals, admits this cannot be done.

The problem is that SA has two incompatible needs. To service its foreign debts it needs to run a current-account surplus. At the same time, its real GNP needs to grow by five per cent a year to create enough jobs for a population that is growing at three per cent a year. But, at its current level of domestic savings, it cannot manage much more than three per cent growth a year without triggering an import boom.

South Africa is now stamping hard on the economic brakes after imports increased by 20 per cent in the first quarter of 1988, compared with 1987's fourth quarter.

This year it is forecast to run a current-account surplus of only R2 billion, a third of last year's R6 billion. A gold price as low as \$420 has not helped. Gold accounts for 40 per cent of its exports.

South Africa's problems are compounded by its friendliness. Since 1986 there has been a \$5 billion net outflow of capital as foreign banks and corporations, under pressure from anti-apartheid groups at home, have pulled out.

There are few places that it can turn to for financial help. Its last loan from the IMF raised a storm; both the IMF and the World Bank have a strong and steady majority on their boards against loans to South Africa. Western

credit agencies shun it and few foreign banks are willing to lend new money. Its only financial friends in the West are Switzerland and West Germany.

Swiss banks have been behind most of the gold loans South Africa has arranged this year. Gold loans enable it to use its gold reserves (worth less than \$1.2 billion) to produce scarce foreign exchange: the gold is used as collateral for foreign borrowing that boosts hard-currency reserves. So far this year the Government has raised \$600 million this way.

Useful as gold loans are, they will not enable South Africa to meet the \$12 billion of debt repayments due in 1990 and 1991 — mostly money owed by SA banks to 400 or so foreign commercial ones. The rest — about \$18 billion — is due to holders of bonds.

The bunching of repayments was caused by 1985's debt standstill arrangement, designed to stretch out the repayments of short-term debts.

In 1985 the Government thought it would not be able to renew \$6 billion of short-term debt that was falling due. So it stopped repayments before agreeing eventually (in March 1987) to a longer-term repayment schedule for these and other government and private-sector bank debts. Under the agreement, \$14 billion of the \$24 billion foreign debt was mostly frozen (ie, only interest would be paid) until 1990.

The rest of the debt — including \$1 billion due to the IMF — was to be repaid on schedule.

It is that frozen lump that is again causing worries. The Government has tried to thaw it out by cleverly exploiting foreign banks' distaste for South Africa as well as their greed. At the beginning of the year it offered bank creditors the option of exchanging their foreign-currency loans into a different sort of rand in its two-tier currency system.

In the standstill arrangement the

loans were valued in commercial rands. The South African authorities offered to switch them into financial rands. This rand can be held only by foreigners and is used for investing in South Africa. It trades at a varying discount to the commercial rand: in March this year the discount was 20 per cent; now it is closer to 40 per cent, following the worsening of SA's current-account balance.

Although switching rands cuts the loans' value, it makes them more sellable. Perhaps as much as \$200 million of South African debt has been consumed in this way. The buyers of the banks' financial rand are international investors who want to buy South African assets — usually gold shares. The advantage of this sort of deal to the Government is that it reduces its foreign debt and converts it from a hard-currency liability to a domestic asset.

Another scheme, this time swapping frozen loans into new debt, has proved more popular. It appeals to banks yearning for secure, high-yielding assets. Bankers estimate that \$3 billion of the debt thawing in 1990 and 1991 has been swapped for ten-year debt.

This debt will be repaid in ten six-monthly repayments starting in 1993. By converting their loans into this debt, banks can improve their returns. The frozen money pays banks 0.88 per cent over their cost of funds. Depending on the borrower, the new stretching out loans will pay banks 1.62 to 1.88 per cent over Libor (London Inter-bank borrowing rate). In addition banks get a fee of 0.38 per cent.

Several bankers believe that far from delaying the eventual repayment of their loans, such a swap will in fact speed it up since they will have their money back by the end of 1998. US banks, which are SA's second-largest set of creditors after the British, have been especially eager to swap their debts for the ten-year paper.

They reckon such a swap will at least fend off a nasty confrontation with anti-apartheid shareholders over a rescheduling. It may even save them money. US banks worry that their authorities may not allow them to take part in a rescheduling.

If they do not reschedule, South Africa might simply not pay them at all.

Some banks are so confident that these ten-year loans will get repaid on schedule that they are prepared to swap Latin American debt for South African paper. One British bank, which has lent too much to Argentina and not much to South Africa, has been buying South African debt for a mixture of Argentine debt and cash.

However, this debt shuffling will deal with, at best, only half of the debt lump falling due in 1990-91. Several banks remain optimistic that SA will manage a rescheduling to handle the rest. They say that the South Africans have become better negotiators than they were in 1985. On this reasoning, Mr Stal's claim that SA cannot pay may merely be a good opening gambit. Yet, without big South African concessions, US banks in particular will find it politically impossible to agree to a rescheduling. That really means that rumours of the imminent release of Mr Nelson Mandela need to turn out to be true. Otherwise the anti-apartheid lobby is likely to prove too strong.

Even if South Africa does manage to put off the days of reckoning in 1990-91, it will soon run into political problems caused by its slow growth. Its debt burden is not yet particularly heavy: this year little more than 10 per cent of its export revenues will go to service its debts. The basic problem is that without fresh foreign capital, South Africa has little chance of quickening its economic growth. It is unlikely to get much of that needed capital until it changes its political system. — The Economist.

# All signs are that the rand will continue to depreciate

By Neil Behrmann

LONDON — London brokers and bankers expect both the commercial and financial rand to remain under pressure for the next few months, despite the recent rally in the gold price and yesterday's upward rise in interest rates, which helped boost the rand by about 4c against the US yesterday.

The rand closed at R4,458 against the dollar and also firmed against other currencies.

The only hope for a longer-term recovery is that the sharp rally in the gold price over the last two days continues. If both gold and platinum remain buoyant, pressure will lessen on both the commercial and financial rand. Leads and lags could reverse if the commercial rand rallies. Importers will reduce foreign currency payments and exporters will begin to repatriate funds.

Yet gold appears to be stuck within a trading band of \$390 to \$425.

With gold, so far not helping, the most bearish long-term in-

## Only hope is that gold price rally continues

fluence on the commercial rand is the inflation differential between South Africa and its main trading partners.

SA inflation of around 13 percent compares with four percent in the United States, 0,6 percent in Japan, 1,2 percent in West Germany, 2,8 percent in France and six percent in the UK.

The average inflation rate of the 24-member Organisation For Economic Cooperation and Development nations is 3,9 percent.

Markets both home and abroad perceive that South African inflation will accelerate and the 15 percent increase in civil servant salaries has certainly affected expectations adversely.

"Markets are saying that the SA Reserve Bank is not independent of the Government, this is bad news for the currency," says

Robert Weinberg an analyst at James Capel, stockbrokers.

Further bearish factors are South Africa's low foreign exchange reserves and gold reserves that have shrunk to 4,3 million ounces worth \$1,8 billion at present gold prices against 12 million ounces in 1980.

South Africa must also pay interest and repay part of the \$22 billion foreign debt. And in rand terms the debt has surged because about \$13 billion is borrowed in hard currencies such as Deutschmarks and Swiss francs.

The defence document of Consolidated Gold Fields illustrates long-term perceptions of the rand.

The rand price of gold is currently R33 100 a kilogram.

Yet in its own projections of Gold Fields of South Africa,

Consgold bases gold prices on \$431 an ounce and R48 400 a kilo in 1991. That means, the mining house is expecting the rand to be worth R3,5 per dollar in 1991 against its current level of R2,505. In sterling the rate would be R6,1 against the current rate of R4,43.

In terms of Consgold's forecast, the rand will thus fall from 39,9 US cents to 29 US cents, a devaluation of 28 percent. If the gold price declines, depreciation is likely to be quicker. With costs escalating by 15 percent per annum, mines need a gold price above R1 000 an ounce.

The rand at the beginning of the year was 51 US cents, for example. In only ten months it has fallen by about 25 percent.

The market believes that Consgold will sell its stake in GFSA and various gold mines. There will thus be an excess supply of more than R2 billion in the financial rand market, enough to depress the volatile thin market markedly. Yet if George Bush wins the elections, the financial rand market could recover.

# Lower GDE will ensure soft landing for economy

By Sven Liinsche

A slight fall in real gross domestic expenditure (GDE) projected next year should ensure "a soft-landing for the economy", when the current growth rate begins to falter.

Writing in Standard Bank's latest *Economic Review*, chief economist Nico Czypionka says that given the high rates of expansion that have occurred over the past two years, the setback was not too serious and the cutback required to restore balance was not too drastic.

Mr Czypionka says that while both government expenditure and private expenditure are expected to continue rising, fixed and inventory investment are expected to provide the brake on total GDE, as they are more sensitive to higher interest rates and a weaker rand.

"Given the probability that there will be little or no growth in real GDE next year, the country's trade and current account balance is likely to improve considerably," he writes.

The growth in import volumes had already begun to taper off and is expected to intensify next year. Mr Czypionka expects import volumes to decline by 5,5 percent next year, which stands in sharp contrast to the projected huge rise of 16 percent in volume terms this year.

## Falling imports.

Unfortunately given current circumstances, the source of improvement in the trade balance will be a fall in imports, as export volumes are not expected to benefit from the weaker rand.

Mr Czypionka warns that two aspects of the unfolding economic environment give rise to concern, namely the trend towards a larger share of the country's financial resources being absorbed by the government and the greater intensity of private consumption expenditure.

"These militate against growth and employment creation in the future and viewed in this light, the enforced repayment of foreign debt can be regarded as a blessing in disguise.

"While an ability to borrow from abroad would undoubtedly have resulted in an extension of the current growth phase, it is arguable whether borrowing from abroad in order to finance a growing budget deficit and rising consumption expenditure would have been in the country's best interests".

He indicates that rising government expenditure could work against the current monetary policy, if it is not monitored properly, and if this happens "the slowdown may well turn out to be more severe than envisaged."

CAPITAL ACCOUNT

# Time for a tourniquet

74 FMM 18/11/88

With the current account of the balance of payments (BoP) no longer of immediate concern, Reserve Bank Governor Gerhard de Kock is focusing on this year's accelerating net capital outflow — R700m in the first quarter, R2,1bn in the second, and an estimated R2,4bn in the third.

Despite a current account surplus of more than R1,4bn in the September quarter, net reserves declined by over R1bn net. "So there must have been a shocking outflow of capital," De Kock told the *FM* Investment Conference in Johannesburg last week.

The flow, he said, included much more than planned debt repayments — in the third quarter there were no repayments in the net.

"A substantial part consisted of unfavourable leads and lags in foreign payments, including a shift of trade financing from foreign to domestic funds."

He blamed this on "increased real interest rate differentials." Since the second week in June, when perceptions about the strength of the dollar "hit us very hard," these differentials have widened considerably.

The chain of events started on June 14, on

news of a US April trade deficit of a seasonally adjusted US\$9,89bn (later revised to \$10,3bn), substantially below the expected \$12bn-\$13,5bn. In the month to mid-July, *The Economist* records, the US dollar rose 8% against the D-mark and 7% against the yen. By then, publication of a smaller than expected \$10,93bn (revised to \$9,76bn) May deficit had the dollar safely launched. Those countries, previously constrained by the Louvre Accord to support the dollar, were able to leave it to its own resources.

In Britain, Margaret Thatcher was able to get her priorities in the order she prefers. Leaving sterling to seek its own levels, the authorities took action against inflation with a series of upward adjustments in interest rates. Between early June and August, Britain's nominal prime lending rate increased five times, from 8,5% to 13% — "a rise of 53%," said De Kock.

"Pro rata this represented a much greater increase than the rise from 12,5%-16% in the prime overdraft rate of SA banks between January and August 1988 — an increase of 28%. After correcting for inflation, the gap between real interest rates in SA and the UK widened enormously and this in turn strengthened expectations that the rand would depreciate further in terms of sterling and the other main currencies.

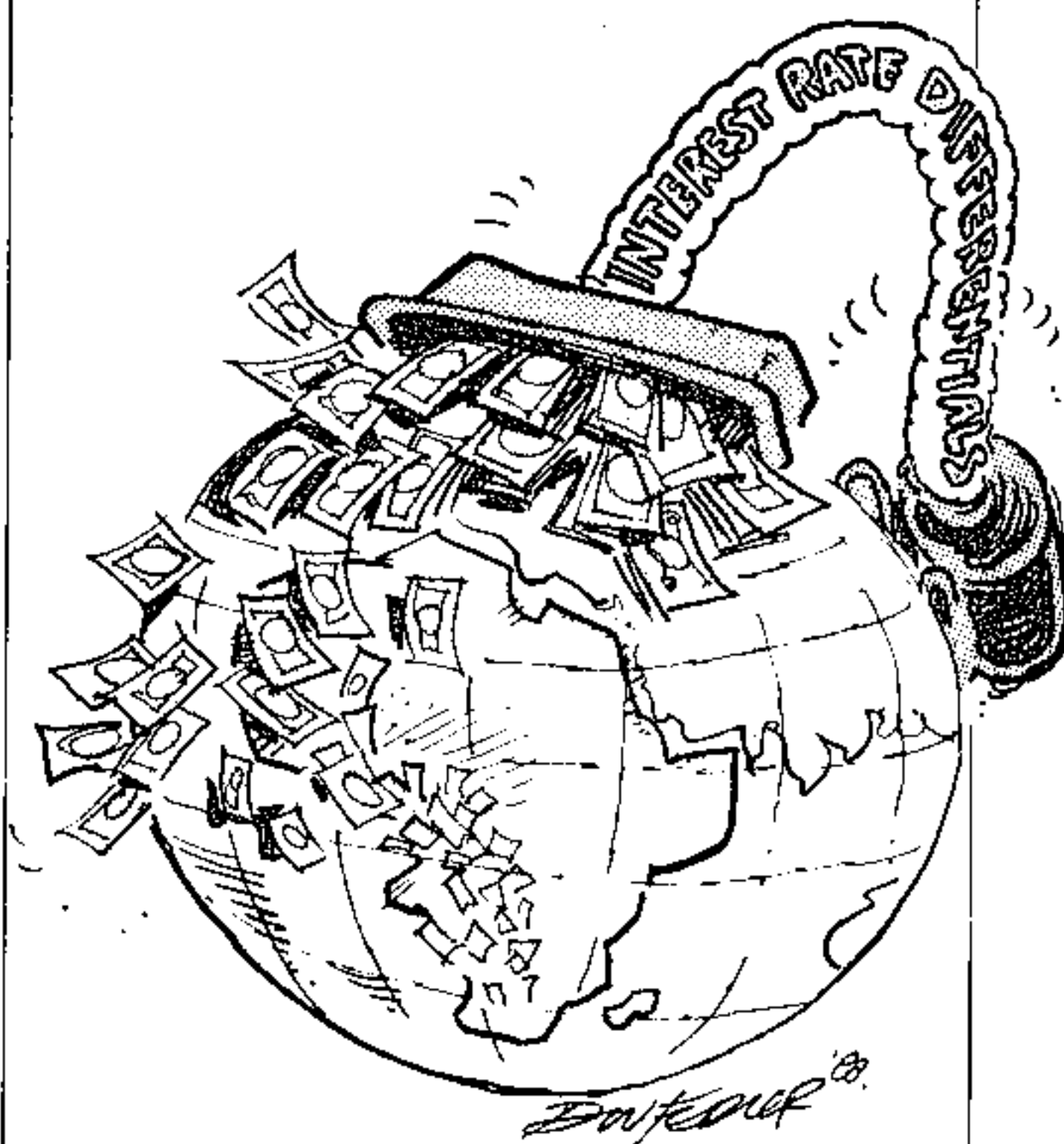
"After the second week in June we became a sitting duck. There was no way the rand could move up with the dollar against all other currencies in the world, given our very low real rates of interest and given the rise in real rates of interest — not only in the UK. Even Greenspan and the German Bundesbank, followed by most other European countries, created a problem for us."

The impact was felt immediately. The rise in prime to 16%, originally intended, said Finance Minister Barend du Plessis in August, as part of that month's package of measures which included import surcharges, was announced by end-July.

Further movements, however, were stalled by the municipal election campaign. Only with the elections out of the way, was prime allowed to rise again. And the move of two percentage points to 18% is testimony to how concentrated pressures built up.

In the UK, where policy is more flexible, prime had moved 11 times — up and down — by August. In SA, this key lending rate is more vulnerable to political pressures.

Just how vulnerable, can be seen by comparing interest rate movements with a statement by De Kock at the time of the first one percentage point Bank rate increase to 10,5% in March: "The Reserve Bank, after consultation with the minister of finance, has



decided to accept a further recommendation made in respect of Bank rate policy by the Commission of Inquiry into the Monetary System and Monetary Policy.

"That is the proposal that 'to the extent warranted by changing conditions in short-term financial markets, Bank rate be changed frequently, by small margins, in a low key and as a technical matter, of interest principally to money market experts.'"

Subsequently Bank rate moved only three times — on each occasion, long after the markets dictated. Failure to implement this recommendation contributed significantly, it seems, to capital outflows.

## DEPOSIT RATES

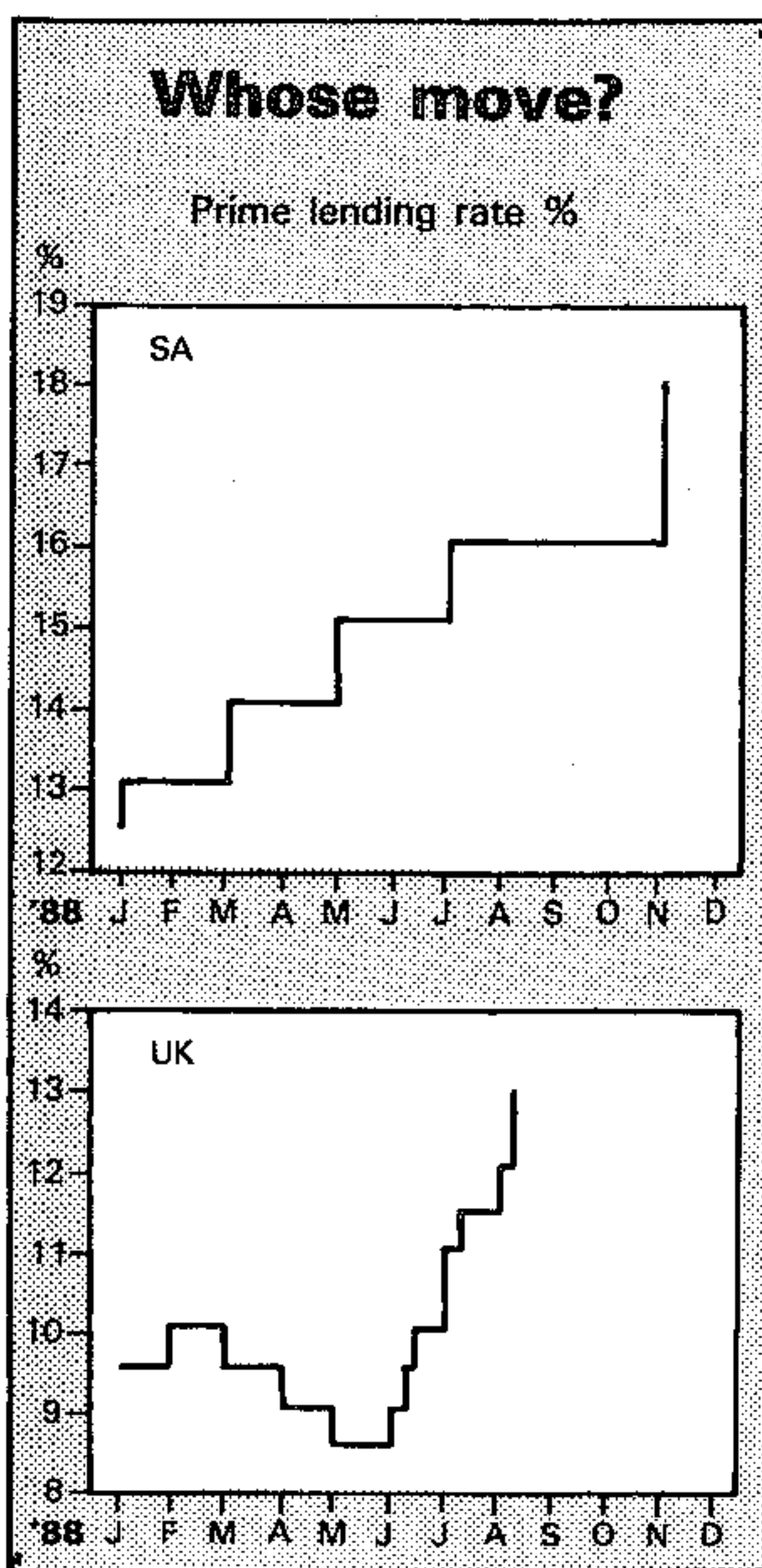
### Trust bonus

Trust Bank is offering senior citizens an effective return of 17,58% on savings deposits of R75 000-R100 000. From November 17, an annual bonus of 20% on total interest will be added to the 13,75% nominal rate — calculated daily and compounded monthly, to give this return. Only investors over 65 are eligible. Those aged 55-64, with a 10% annual bonus, will get an effective 16,1%.

Effective rates offered by other institutions range between 11,75% and 15,9%.

Rates on deposits of over R75 000 offered by other institutions are as follows:

- Allied — 13,75% (14,65% effective) irrespective of amount;
- UBS — 13,5% (14,37%), while on the Help U Plus account clients are offered an annual 2% bonus on interest for deposits held





21/11/88 (74) B/dony

# Big BoP drop forecast but 1989 looks better

CAPE TOWN — The current account of the balance of payments (BoP) is likely to reflect a surplus of only R1,6bn at the end of this year — barely 25% of the R6,2bn surplus recorded in 1987, forecasts Sanlam's chief economist Johan Louw.

In his November economic survey, Louw expects this situation to improve during 1989, with the surplus building up to about R4,4bn at the end of the year.

This is based on expectations of:

- A modest rise in gold exports, on the assumption the average gold price will range around \$415 an ounce, and the R/\$ exchange rate will average 2,70;
- An encouraging non-gold export effort as a result of favourable growth in world trade;
- A relatively sharp decline in the volume of merchandise imports in conjunction with the expected deceleration in domestic economic activity;
- A limited rise in net foreign services

## CHRIS CAIRNCROSS

and transfer payments.

Louw foresees the country's real economic growth will slide to 1%-1,5% over 1989, compared to the average rate of growth of 2,5% estimated for this year.

He says government is far too optimistic in looking for growth of 2%, particularly as real gross domestic expenditure is expected to show negative growth in 1989. This will mainly be reflected in possible sharp declines in expenditure on durables and semi-durables.

## Indirect

Louw has no doubt government will have to adopt an even tighter economic policy next year in an effort to protect the BoP. He forecasts that more direct measures are inevitable to combat excessive consumer spending and to discourage imports.

Owing in part to the salary increases granted to the public sector, the financial position of the state may become so tight that Louw believes there is a good chance that indirect taxes will have to be increased once again.

"It will require strong discipline in respect of government expenditure to limit the deficit before borrowing to 5% of gross domestic product — and even this is substantially higher than government's target of 3%," Louw says.

On inflationary prospects, Louw believes there will be several factors which could exert considerable upward pressure on costs during 1989 with the average rate expected to rise beyond 15%. These include:

- The sharp deterioration of the rand;
- A slower rate of expansion in the economy, leading to a rise in unit costs;
- Higher, though still strained, adjustments in administered prices;
- More costly house bonds.

where possible.

had also added to the inflow.

# BoP problems not due to rise in imports alone

CAE Tint 21/11/88

Financial Editor 74

THE sudden deterioration in SA's balance of payments (BoP) since the start of 1988 is not due to a rise in imports alone, Boland Bank chief economist Louis Fourie points out in his November Economic Review.

The weakness of the rand and SA's inability to produce some manufactured goods, increased production of minerals by some other countries and the compulsory outflow of capital are also to blame.

Fourie says the SA economy recently completed the ninth quarter of an upswing phase which was characterized by the immensely restrictive impact the (BoP) exerted on economic growth.

"When one analyses the most important developments on SA's current account of the BoP over the past three years it is clear that cyclical factors played a detrimental role although the influence of certain structural factors cannot be ignored.

"On the capital account, however, the effect of serious structural deficiencies was evident, while sharp movements in the rand exchange rate influenced both the current and capital accounts."

Fourie says that from the first quarter of 1985 until the middle of 1986 the surplus on the current account of the BoP "was mainly generated by an

overall strengthening in SA's merchandise exports and a simultaneous moderation in domestic spending affecting merchandise imports.

Pointing out that the value of SA's foreign trade is determined by both prices and volumes, he says that the volume of imports in the first half of 1988 was 36% higher than the lower turning point of the import cycle in the first half of 1986.

"Factors such as fears of intensified sanctions against SA, the weakening in the exchange rate, and concern about the possibility of higher import surcharges stimulated import demand even more during the first half of 1988. "Seen from a structural point of view it became increasingly evident that although SA's import propensity gradually declined in the past two decades relatively little progress was made in the development of the country's manufacturing sector, with the result that SA still imports various products which can be produced domestically.

"A comparatively mild rise in import prices has also played a role in the rising import bill of SA since the beginning of 1987.

"The slight improvement of the weighted value of the rand exerted a major influence in this respect. Import prices rose by only 6,5% in 1987 compared with a 16,5% rise in 1986."

of Gant's shares was funded by an increase of 24,3% (assuming that the cash portion of the...)  
39,4 cents, an increase of 24,3% (assuming that the cash portion of the year ended 30 June 1988)

# October trade surplus R1,05bn

9/11  
T.M.S.  
24/11/88  
74

Own Correspondent

JOHANNESBURG. — Higher exports buoyed SA's trade surplus to a sound R1,05bn in October, signalling that the current account on the balance of payments is in good shape.

Exports bounced back to R4,72bn for the month from R4,48bn in September. But imports also rose to hit a new record for the year at R3,67bn after R3,63bn in September.

Economists said the weak rand disguised the levelling-off in the actual volume of imports.

Standard Bank economist Nico Czypionka said: "The current account is no longer a problem. The trend is obviously higher, and it is particularly pleasing that exports are the driving force."

Significantly, the export performance was not merely the result of a lucky break — such as an increase in the gold price.

Improvements were notched up across the board with good results from coal, agricultural products, wool and even industrial products.

The Trust Bank's Ulrich Joubert expected exports to take off once domestic demand had slowed down significantly.

"Producers will rediscover international markets when local demand for their products shrinks."

Another spin-off from the expected slowdown in domestic demand will be declining import volumes.

Czypionka said it was not surprising that imports were not yet lower — the downturn was not firmly in place.

"The economy still has to react to the recent hike in interest rates. But in time, economic activity will slow down and the demand for imports will diminish. With exports already performing well, we can expect bigger things on the current account when imports start dropping."

The trade surplus is still running well below last year's figures. The surplus for the 10 months to October was R7,38bn, sharply down from R12,12bn in the same period last year.



ECONOMY

MGS 24/11/88

74

# Exports lift trade surplus above R1-bn

## Business Staff

THE country's trade surplus rose back above R1-billion in October while the rate of growth in imports slowed down considerably as import surcharges and other restraining measures began to take effect.

Figures issued by the Department of Trade and Excise show that the October surplus rose to R1,045-billion, up on September's R840-million but down on August's R1,09-billion.

The figures also show that October's export figures were R4,718-billion (September R4,48-billion) while imports stood marginally higher at R3,673-billion (R3,63-billion).

But total imports for the year to end-October are substantially above the R25,563-billion notched up for the same period in 1987 and the R7,379-billion surplus for

the first 10 months of this year shows a 40 percent decline on last year's total of R12,163-billion.

Exceptionally large gains in imports have been recorded in machinery and electrical equipments, transport equipment and other durable goods and to a large extent could be ascribed to a continued willingness of the household sector to incur a higher level of consumer debt.

This is confirmed by the commercial banks' September quarter BA9 figures which show that total domestic credit is still growing at a year-on-year rate of above 30 percent, and would most probably only start slowing in the early months of 1989.

Trust Bank, in its latest economic report expects the M3 broad money supply growth rate to slow to 25 percent only at year-end. By March 1989 it will

have eased to 21 percent and in June to 17 percent, the bank adds.

"Continued growth in private sector fixed investment will prevent any dramatic collapse in overall credit demand, and the single-digit M3 growth rates witnessed late in 1986 will not be repeated," the bank writes.

Obviously the Reserve Bank would like to see a further decline in imports and this may come about when the recently imposed restraining measures impact fully on domestic spending.

A further rise in the bank rate cannot be ruled out but the latest increase in the trade surplus — and the assurance it gives of achieving a surplus of around R2billion this year on the current account of the balance of payments has removed some of the urgency for this.

# Trade surplus is <sup>(74)</sup> back above R1-bn <sup>(89)</sup>

By Sven Lünsche

*Start 24/11/88*

The country's trade surplus rose back above R1 billion in October while the rate of growth in imports slowed down considerably as import surcharges and other restraining measures began to take effect.

Figures released by the Department of Trade and Excise yesterday showed that the October surplus rose to R1,045 billion, up on September's R840 million but down on August's R1,09 billion.

The figures also show that October's export figures were R4,718 billion (September — R4,48 billion) while imports stood marginally higher at R3,673 billion (R3,63 billion).

But total imports for the year to end-October are substantially above the R25,563 billion notched up for the same period in 1987 and the R7,379 billion surplus for the first ten months of this year shows a 40 percent decline on last year's total of R12,163 billion.

## Durable goods

Exceptionally large gains in imports have been recorded in machinery and electrical equipments, transport equipment and other durable goods and to a large extent could be ascribed to a continued willingness of the household sector to incur a higher level of consumer debt.

This is confirmed by the commercial bank's September quarter BA9 figures which show that total domestic credit is still grow-

ing at a year-on-year rate of above 30 percent, and would most probably only start slowing in the early months of 1989.

Trust Bank, in its latest economic report expects the M3 broad money supply growth rate to slow to 25 percent only at year-end. By March 1989 it will have eased to 21 percent and in June to 17 percent, the bank adds.

"Continued growth in private sector fixed investment will prevent any dramatic collapse in overall credit demand, and the single-digit M3 growth rates witnessed late in 1986 will not be repeated," the bank writes.

## Further decline

Obviously the Reserve Bank would like to see a further decline in imports and this may come about when the recently imposed restraining measures impact fully on domestic spending.

A further rise in the bank rate cannot be ruled out but the latest increase in the trade surplus — and the assurance it gives of achieving a surplus of around R2 billion this year on the current account of the balance of payments — has removed some of the urgency for this.

74

FMAI

## BALANCE OF PAYMENTS

### Widening surplus

The current account surplus is expected to widen in 1989 as exports stay firm, but import volumes fall following this year's upsurge. Nedbank, Sanlam, Standard Bank and the Reserve Bank all see the current account surplus at around R4bn next year, after approaching R2bn this year (1987 R6,2bn):

- Nedbank's *Guide to the Economy* sees R1,2bn this year and R5,2bn next;
- Sanlam's *Economic Survey* projects R1,6bn this year and R4,4bn next;
- *Standard Bank Review* sees R1,4bn and R4,3bn; and
- Governor Gerhard de Kock estimates R2bn and R4bn.

"Notwithstanding sanctions, a modest real growth in exports is likely," writes Nedbank's Edward Osborn. "Gold production is now on an upward trend, having reached its lowest level in 1987. Other major commodities such as coal, platinum and diamonds could also show positive increases and in volume terms exports for 1989 could well rise by 1,5%."

25/11/88

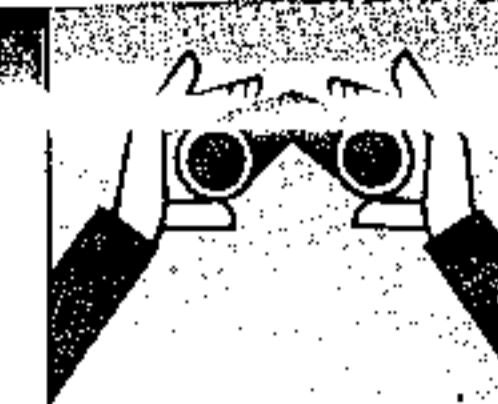
74

But Osborn believes that with only a small improvement in exports, the economy will be able to grow strongly only if imports are curbed.

"Large current account surpluses will have to be achieved by suppressing imports. The arithmetic suggests that imports will have to be reduced by 12,5% or so from the level they have been running during 1988." This seems possible since imports this year "have been heavily inflated by inventory accumulation to forestall sanctions difficulties, currency depreciation, and the threat of import control." Osborn projects 1989 GDP growth of 1,9%.

Sanlam's Johan Louw, who sees 1,3% growth, expects a modest rise in gold export earnings next year (based on an average gold price of US\$415, average exchange rate of R2,70/\$ and a marginal increase in gold export volumes). He also says non-gold exports will pick up as local firms switch to exporting as SA's growth slows. Also, Louw sees a sharp decline in import volume as growth slows and a small rise in net foreign services and transfer payments.

Louw warns that government may impose more direct controls on imports and raise indirect taxes next year. ■



# The 'Bop Constraint': RIP

The phrase "balance of payments constraint" appears to be falling into disuse — though the fallacies that brought it into vogue are still widely believed.

Talk of the "constraint" was relevant only as long as it could be used to justify government policy with respect to the "generation" of foreign exchange to pay foreign debt. But apparently, believers in the "constraint" have given up on its monetary aspects — while pathetically clinging to its trade aspects.

I have two points to make: first, government policy should pay no attention to any balance of payments or foreign exchange figures; secondly, the "BoP constraint" has no basis, even with respect to trade.

It may seem a waste of time to refute a discredited idea, but until the roots are pulled out it will continue to reappear whenever the trade surplus shrinks. An ignored fallacy will sit like a dormant virus waiting to produce disastrous policies. Meanwhile, it continues to be passed on to unsuspecting university students.

It is now widely recognised that our BoP problems are caused by mismanagement of the rand. Government debases the rand by pumping up the monetary base and then sells off the forex reserves to prevent the rand from falling to its new market levels.

Due to expectations of future debasement, and upward pressure caused by drawing down the finite forex reserves, the rand is perceived as overvalued. Consumers may not understand international finance, but they do respond to prices — and will buy imports. Thus, government encourages imports and discourages exports — the opposite of its intention. The result is a smaller trade surplus than would have occurred naturally.

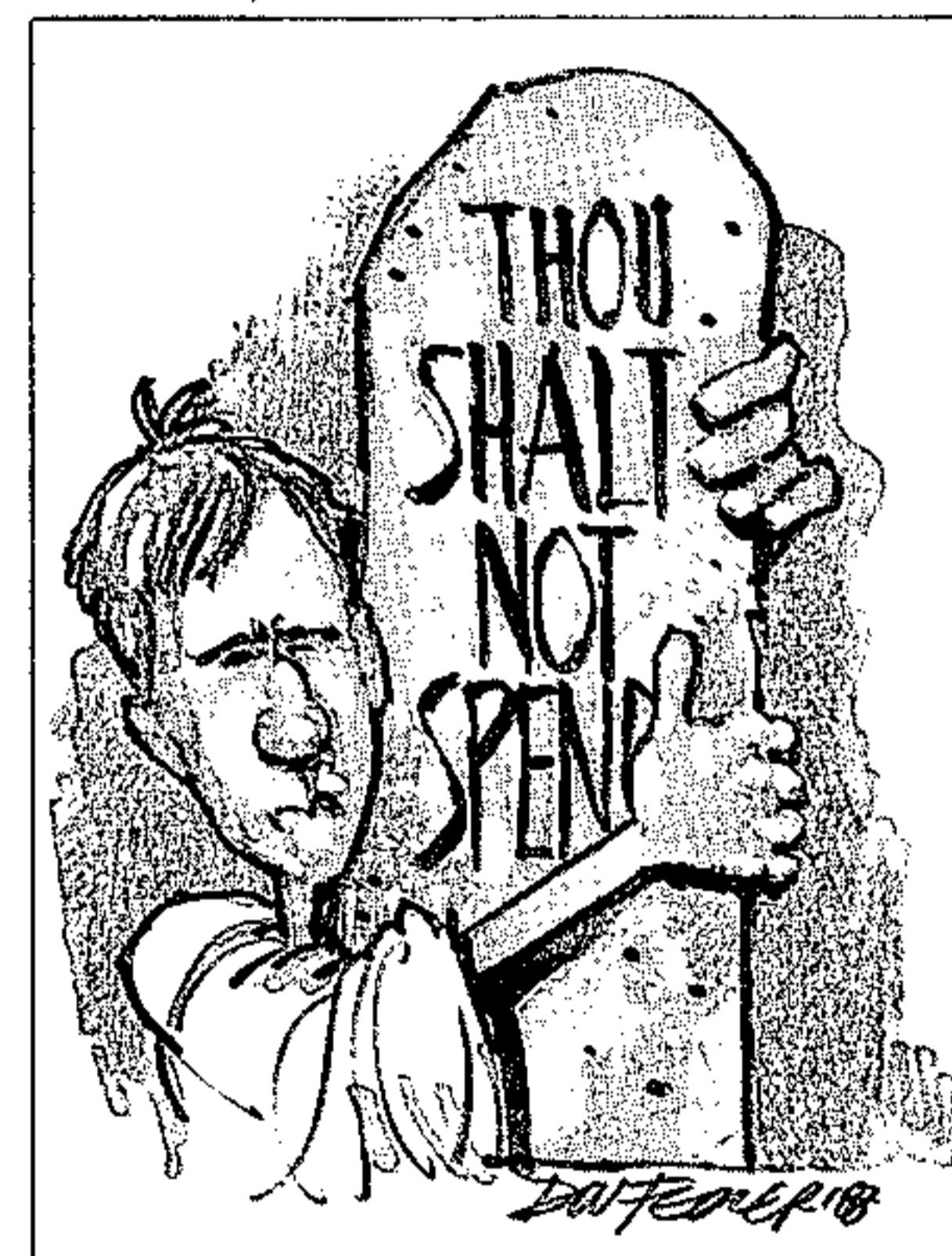
Typically, government tries to blame consumers for buying "too much" (whatever "too much" means). Government does this all the time. It pushes interest rates down and then gets upset when people borrow. It raises taxes and then wonders why people leave the country.

Fortunately, the new consensus appears to be: stop debasing the rand and stop manipu-

lating the exchange rate.

Still, confusion remains over trade. The BoP constraint argument now rests on an equation that shows exports equal imports plus net borrowing. This is just a tautology — it holds by definition. Contrary to popular belief, it has no operational policy content.

A balance of payments account can be drawn up for any number of people. For an individual, the account would show all the



transactions he makes. The BoP account of a group of two people would record transactions of either of them with anyone outside the group — but say nothing about transactions between them.

The larger the group, the less the account tells about it. It is also less likely that the group is an economic unit. For example, SA is a political unit — not an economic unit.

This distinction is too subtle for most people. Government itself operates as an economic unit, but the country does not. Government has the power to regulate and tax people and companies residing within its jurisdiction, but this is not voluntarily accepted. Government is not considered to be part of the business or household.

Government cannot co-ordinate or even

monitor the economic activities of its residents — and to the extent that it succeeds, it hinders those activities.

This is perhaps the most basic reason for rejecting the notion of a national balance of payments constraint. No national economic entity can be subject to such a constraint.

One danger of aggregation is that we fall into the trap of talking about countries trading with one another, when in fact individuals and companies make the decisions and the trades. If my neighbour owes Citibank US\$1m, that is his responsibility. It does not follow that I have any patriotic duty to help him pay it back; there is no reason for me to cut back on my imports.

People who fail to recognise this tend to be locked into a collectivist mechanistic paradigm that is unrelated to human action.

This leads to another dangerous aggregation error — the mercantilist classification of national balance of payments surpluses as good and deficits as bad. Such classifications are meaningless with respect to economic activity. Individuals and companies should be concerned only with their own balances.

Is there any reason to worry about the trade balance? Not in and of itself. People should worry, not because the trade balance has any direct relevance to them, but because government will impose some restriction to "correct" the balance.

SA's monetary and regulatory policies have been perverted in the name of rescuing the economy from the "balance of payments constraint". But balance of payments problems are not free-market phenomena. They are always and everywhere products of government intervention.

Sanctions, unrest and the expensive security situation are certainly not desirable, but are also not causes of balance of payments problems. With or without sanctions, the only way to have a prosperous economy is to have a free economy. Government should jettison its stable of collectivist fallacies.

To those who still cling nostalgically to their "constraint," I have one last thing to say; you can be either a mercantilist or an economist. You can't be both.



**BUSINESS**

# Another month for old debts

SOUTH AFRICA has been forced to live within its means by its commitment to paying back its foreign debt. And this month it's time for another debt repayment.

Payments of debt, both inside and outside the standstill net, will be about \$260-million. Dividend and interest payments could increase the dollar commitments to about \$400-million, or about R1-billion. The strain on the balance of payments will be enormous and the net result will be depleted gold and foreign exchange reserves.

The obligation to pay off debt has placed a permanent constraint on the capital account of the balance of payments, forcing South Africa to become an exporter of capital — an anomalous situation for a developing country.

North Korea, for instance, used billions of dollars in foreign capital inflows to develop as a strong export

nation. Its success story is often held up as an example for South Africa to follow. But South Africa will have to develop without foreign capital, and part of its savings cannot be used for its own development — available savings are reduced by net capital outflows.

South Africa obviously has to earn more than it spends, to be able to repay its debt. If the country produces more than it spends, it will have a surplus on the current account of the balance of payments.

In the first quarter of this year, however, it was spending more than it was producing. The result was a small deficit on the current account — resulting in swift action by the financial authorities to damp spending by raising interest rates and curbing credit.

## It's another of those sobering months when South Africa digs deep into its pockets. JEAN MACDONALD reports

Put differently, if South Africa is to meet its commitments to foreign creditors, its savings must exceed investment spending. And savings must exceed investment to such an extent that the surplus on the current account covers what it has to pay out on the capital account. If that is not achieved, the country has to dip into its foreign exchange reserves.

The strain on the capital account can be exacerbated by short-term capital movements related to trade credit, or leads and lags. When importers see

the rand on a downward trend, they speed up (or "lead") foreign payments, while exporters lag the receipt of foreign currency. Unexpectedly large short-term capital outflows can neutralise the surplus on the current account and cause a depletion of the reserves.

That is exactly what happened in the third quarter of this year. Capital outflows were a surprisingly large R2,4-billion at a time when no major foreign debt repayments occurred. During this period, South Africa should have been building up reserves comfortably to meet its December commitments. Instead, as foreign payments continued to exceed foreign receipts, reserves declined month after month.

The healthy R1-billion surplus on

the current account during this period was inadequate to cover the extraordinarily large outflows on the capital account.

Even though the current account has continued to strengthen in the current quarter, capital outflows, including debt repayment, cannot be financed without dipping into the reserves.

South Africa's gold and foreign exchange reserves stood at R4,9-billion in November, the first month to see a strengthening after six months of successive decline. This figure will probably decline by about R1-billion after December.

Conceptually the reserves are similar to a bank account — which is fast running out of funds. But economists are hoping for an improvement next year, as exports increase, imports drop, and short-term capital investments turn in South Africa's favour.



w/maile

74

9-15/12/88

## Foreign debt to top billion dollars

SOUTH AFRICA's foreign debt commitments will be \$1,1-billion (R2,3-billion) next year, more than \$2-billion in 1990 and about \$2,5-billion in 1991, Nedbank chief economist Edward Osborn estimates in the bank's latest Guide to the Economy.

The figures include debt both inside and outside the "standstill net" imposed by South Africa's financial authorities in 1985. Debt inside the net is being repaid in terms of the second interim agreement negotiated with foreign bankers following the standstill, an agreement which runs until June 1990 when it has to be renegotiated. Much of the debt outside the net is in the form of government issued bearer bonds and loans raised by public corpo-

rations such as Eskom.

The government will want to try to persuade its foreign creditors to roll over or convert its debt as 1990 approaches. Otherwise South Africa will have to achieve dollar surpluses on the current account of its balance of payments of at least \$2,5-billion a year over the next three years, according to Osborn. And this means imports will have to fall at least 12,5 per cent below this year's levels.

The total value of debt outside the net was \$7,1-billion in March, according to government figures. While only \$770-million is due for redemption next year, \$1,8-billion is due in 1990 and \$2,2-billion in 1991.

Of the debt inside the net, \$346-million must be repaid in 1989,

# Bank acts to help bolster reserves

PREFERENTIAL forward exchange cover for importers and exporters will be provided by the Reserve Bank to help bolster gold and foreign exchange reserves by smoothing out the distorting effects of the "leads and lags".

Leads arise when importers pay in advance for their importation, while exporters lag — delay — remitting their receipts from the sale of merchandise.

If successful, the move could relieve

74  
KAY TURVEY 9/12/88  
b/day

pressure on the foreign exchange value of the rand by lubricating cash flows, said Standard Bank deputy GM (international division) Rocco Rossouw.

An important step in this direction was the Reserve Bank's decision to revert to paying gold producers in dollars

● To Page 2



# Reserve Bank moves to bolster reserves

instead of rands, increasing the supply of dollars to the foreign exchange market.

Mines would also be allowed to sell their dollar yield of their known future gold production within specified limits.

Forward cover would be provided through banks at preferential rates for credit lines for importers, provided documentary evidence matched the maturity date of the cover, said Reserve Bank Governor Gerhard de Kock yesterday.

Similarly, exporters would be encouraged to use pre-export finance through the forward market, also at preferential rate and with the furnishing of the relevant documents.

De Kock also announced the use of longer-term finance for imports of capital goods would be considered with im-



● From Page 1

mediate effect.

SA businesses have long been criticised for not making use of all lines of foreign trade credit, which could be remedied by this move towards longer-term forward cover.

Cover would be denominated in any freely transferable international currency in addition to the dollar and would match the maturity date of the underlying finance transactions.

To facilitate the conversion of funds caught in the debt standstill to longer-term loans, the Bank would will also entertain requests from SA borrowers for long-term forward cover to coincide with the maturity profile of such loans.

Political factors account for poor showing against dollar

# Survey shows rand to be badly undervalued

Star 14/12/82

By Derek Tommey

If the rand were valued in world markets on the basis of its domestic buying power, it would be worth 79 US cents, says the Union Bank of Switzerland.

As it is currently quoted at 43 US cents, its exchange rate is 45 percent below its buying power parity.

The bank's valuation is based on the 20 000 items of information produced in a survey conducted earlier this year of prices and earnings in major cities worldwide.

With traditional Swiss thoroughness, it employed two unrelated organisations in each city to conduct the survey in parallel.

The questionnaire contained 141 questions on prices and 96 on salaries, salary deductions and hours worked in 12 professions.

The survey shows that South Africa is not the only country with an undervalued currency.

The majority of the world's major currencies are at least slightly undervalued.

This is understandable because most countries, as a matter of policy, aim for a slightly undervalued currency to improve competitiveness of exports and to give their economies some protection against imports.

The following table shows the extent to which the currencies in the cities listed here are undervalued or overvalued against the American dollar.

**Percent Overvalued:**

Tokyo.....	98	Copenhagen...	28	Toronto.....	13
Oslo.....	44	Geneva.....	27	Dublin.....	1
Helsinki.....	38	New York.....	0		
Stockholm.....	30	Zurich.....	25	London.....	0

**Percent undervalued**

Chicago.....	-1	Houston.....	-14	Istanbul.....	-35
Vienna.....	-1	Amsterdam....	-15	Nicosia.....	-36
Madrid.....	-3	Montreal.....	-15	Cairo.....	-39
Frankfurt.....	-4	Sydney.....	-16	Manila.....	-39
Paris.....	-5	Luxembourg...	-16	Jakarta.....	-40
Abu Dhabi.....	-6	Singapore.....	-17	Bogota.....	-40
Jeddah.....	-8	Panama.....	-23	Kuala Lumpur	-41
Brussels.....	-9	Athens.....	-25	Buenos Aires..	-41
Manama.....	-10	Hong Kong....	-28	Johannesburg	-45
Los Angeles...	-10	Lisbon.....	-30	Bombay.....	-46
Milan.....	-11	Caracas.....	-33	Rio.....	-46
Seoul.....	-13	Nairobi.....	-33	Mexico City...	-50
Tel Aviv.....	-13	Logos.....	-34		

Living standards in South Africa have already fallen significantly in recent years. Further declines could cause unpleasant repercussions.

As the Scandinavian countries have discovered, it is far better to have a rising exchange rate. It means imports and domestic goods become cheaper and living standards rise. Savings increase and capital starts to accumulate, thereby providing a platform for further economic growth.

However, not everyone welcomes such a development. One usually gets a major outcry from exporters whenever the exchange rate rises.

Their usual claim is that it is pricing them out of their foreign markets.

But looking at the experience of Japan and Germany, which today have the world's two strongest currencies, this is not inevitable.

Summing up, it seems that South Africans have a strong inclination to find a political solution that will take the heat off the rand. A strengthening of the rand from its current 45 percent depreciation to even 20 percent would result in a marked improvement in living standards, which seems well worth working for.

But the survey shows that few countries have a currency as undervalued as South Africa's.

When it comes to categorising degrees of undervaluation, SA ranks with the worst — Argentina, India, Brazil and Mexico City — as is clear from the accompanying table.

However, while the poor rating of currencies of the other countries in the group is the result of poor economic prospects (most are major debtors), the low rand is mainly the result of political factors.

Therefore there is always the

**P**OLITICAL perceptions, both here and abroad, make exchange control an imperative barrier against the outflow of funds from South Africa's gold and foreign exchange reserves.

Control on the movements of foreign exchange imposed during the Second World War were progressively relaxed during the decade which followed peace and post-war reconstruction. But they were slapped on — fiercely — in 1961 when Prime Minister Hendrick Verwoerd took SA out of the British Commonwealth and led the country along the road towards republican status.

These events were perceived as indicating an unyielding application of apartheid principles which would ultimately fracture the economy and isolate SA from the world community.

**T**he heralding of a whites-only republic precipitated a massive outflow of foreign funds and investments and the authorities had little option but to staunch the haemorrhage. Controls were set in place and they have been with us ever since, except for a brief, idealistic aberration in 1983 when Reserve Bank Governor Gerhard de Kock temporarily eased them for non-residents.

In spite of foreign exchange controls, however, over the years there has been a steady leakage of billions of rands out of the foreign exchange reserves as South Africans have created nest eggs in foreign banks and offshore investments. Some have been approved; others have been clandestine, undeclared, because effectively policing this outflow has been impossible.

Without a brigade of highly skilled auditors and clerks checking every

xxx  
Album 15/12/88

# Reserve Bank has mighty weapon to stop control abuse

HAROLD FRIDJHON

invoice, and with access to the international prices of every single import brought into the country, the practice of over-invoicing — with the excess retained abroad — is impossible.

A cent or two on every metre of cloth, an additional rand on bigger-ticket items, or a few hundreds on capital goods brought into this country cannot be detected. Nor can hidden commissions paid to a name-plate company established in a foreign company — with, say, a Swiss bank account — be discovered.

In any event, setting up a fine-screening organisation to plug these petty leakages out of the reserves — although they might aggregate to many millions during a year — would not only be cost-ineffective but they would also be totally disruptive to the business of the country. The delays added to those at ports of entry — and exit — where invoices

and bills of lading have to be checked, would be intolerable.

Presumably the attitude of the authorities is not to concentrate on the tiddlers — although they might try to keep an eye on them — but to look for the big fish, those whose deals involve millions of rands. But whose is the responsibility for trawling in the deep?

**U**ltimate responsibility is the Reserve Bank's. It is the custodian of the gold and foreign exchange reserves and its duty is to protect the reserves against the predators who try to plunder them for their own gain and purpose.

But in practice the central bank's responsibility is macro, not micro. It can only function if it delegates its micro responsibilities to the banks

which enjoy the privilege of being permitted to deal in foreign exchange.

As dealers in foreign exchange they are, in some respects, the Reserve Bank's agents and therefore have a dichotomy of interests and of responsibility. They must serve the needs of their customers and they must support the central bank in its role as the custodian of the country's foreign reserves.

Their position is not unlike that of the auditor who checks and certifies a client's accounts. On the one hand he is a public officer with a duty to the authorities, and on the other hand he has a duty to his client from whom he earns a living.

The banker, if he wants to survive in the highly competitive banking market, must use his skills, his wits and ingenuity to give his customer the best possible service and advice in the management of his foreign

exchange business. And at the same time he has to be meticulous in his handling of the Reserve Bank's business.

There is a fine line which neither the auditor nor the banker dare transgress. In tax matters that fine line is the difference between evasion and avoidance.

The Receiver of Revenue and the creditors are entitled to expect that an audited accounts is a true reflection of the state and condition of a business.

The chief executive of the Reserve Bank's foreign exchange department is entitled to expect that a bank's application on behalf of a customer for foreign exchange is all that it is purported to be, with supporting documents vouched and checked. And, particularly when very large sums of money are involved, counter-checked by senior officials of the banks.

**U**nless there is a relationship of complete trust the system will break down, creating havoc and disruption in ever-widening circles.

Just as the Receiver probably makes random checks on returns submitted to him, the Reserve Bank, too, spot checks forex applications. And both the Receiver and the Reserve Bank Governor can apply punitive sanctions on those who try to buck the system.

The revenue authorities can indict transgressing accountants before the Public Accountants Board. But the Reserve Bank has an even mightier weapon — it can withdraw a bank's foreign exchange licence. That would hurt right down to the bottom line of the income and expenditure account.

The threat of such a sanction would be sufficient to bring an offending bank smartly into line.

# SA lands R88m Swiss bank loan

(74) B/day, 9/12/88

GRETA STEYN

GOVERNMENT sources yesterday confirmed the SA government had received a R88m loan from a group of Swiss banks — believed to be the country's first foreign loan since 1985.

However, finance officials declined to comment on the report, saying, "These rumours have been flying around in Switzerland for some time. But the less said, the better."

Reuters reported that a group of Swiss banks had arranged a 55-million Swiss franc private placement for the SA government.

Bankers involved said Swiss Volksbank was paying agent for some 10 banks, which placed the 55-million francs of 7% three 10 year notes with customers about three weeks ago. Issue price was par and redemption will be at 102%.

No official comment was immediately available from Volksbank. The identity of the other banks was unclear.

Burdened by a \$22bn debt, SA has been shunned by most Western banks since 1985 when they implemented a foreign credit freeze on the country following of mounting political violence.

Bankers said the latest deal was the first publicly known Swiss capital market transaction for an SA borrower since a 50-million franc private placement arranged for Sats in 1985.

That deal carried a coupon of 6-3/8% and was for five years.

Asked about the timing, bankers said the banks involved may have been encouraged to go ahead with the deal when President P W Botha visited Zurich in October.

During his week long visit, Botha met bankers and businessmen to urge them to relax their lending freeze.

Switzerland has never imposed a lending embargo on SA. Instead, the Swiss National Bank has imposed a total annual limit on Swiss lending to SA, known as the *courant normal*.

## Wide margin

This is currently set at 300-million Swiss francs a year.

A spokesman for the National Bank said approval was required for the new private placement under recently introduced new regulations governing credit transactions.

"The 300-million franc limit has not been reached by a wide margin for a long time. This is one reason why this transaction could be made without any problem," he said.

Bankers here said that with a coupon of 7% on the new deal, SA was paying a large premium over the approximately 4 1/4% which a sovereign borrower would usually have to pay for a three year placement.

# Government sitting on R2,5-bn nest-egg

By Derek Tommey

The Government is refusing to confirm reports that it has borrowed R88 million from Swiss institutions. But there is no such beating about the bush at the Treasury.

At the bottom of the list of "other receipts" in its November statement appears in glorious isolation the entry "Foreign loans and credits; 1988-91 . . . R88 240 013.

The statement shows the Government is fairly flush with cash, which tends to contradict reports that it is having difficulty meeting its commitments.

At the end of November, the Exchequer balance with the Reserve Bank was R2,51 billion, which is almost R1 billion more than at this time last year.

One reason for the large Exchequer balance has been the sharp increase this year in customs and excise receipts, mainly a result of the 10 percent, 20 percent and 60 percent customs surcharges from August.

Customs and Excise receipts in November were R822,0 million, which was R343,5 million (71 percent) more than a year ago. In the eight months to November they were R4,2 billion, more than double the year-ago figure.

Inland Revenue has also shown a satisfactory increase, rising 17,8 percent to R25,6 billion in the first eight months of the tax year.

Government expenditure appears to be within budget, except at the Bureau for Information. This department spent R36,2 million in the eight months to November. This was R16 million more than it spent last year and R4,6 million above its R31,6 million budget.

It was probably pretty expensive taking the press around Africa and elsewhere in the world for the various Angolan-South West Africa conferences.

# Country's balance sheet has improved

By Sven Forssman

A marked further improvement in South Africa's foreign debt ratios was achieved for the year to September 30, NedPerm chief executive Piet Liebenberg says in Nedbank's annual report.

He says present indications are that while continuing to meet all foreign interest and dividend payments, South Africa by the end of this year will have made net repayments over four years of approximately \$6 billion of foreign debt, value at constant US dollar exchange rates.

"South Africa's ratio of foreign debt to total exports of goods and services improved from a peak level of 171 in 1984 to 93 in 1987. In contrast, the comparable ratio for Western hemisphere developing countries deteriorated from an average 273 in 1984 to 332 in 1987.

"While the country's cash flow situation has not been comfortable, its balance sheet has improved."

Mr Liebenberg says the progressive tightening of fiscal and monetary policy over the past five months, curbs on credit availability and the imposition of import surcharges should improve the external trade position during the latter half of the year.

"The official reserves, therefore, which had fallen from a peak of R7 billion in August 1987 to R5,6 billion in July 1988, at which level they represent only two months' import cover, can be expected to increase again soon, particularly as less onerous capital repayments are in prospect."

Trade sanctions and boycott actions intensified during the year but they have not materially reduced the wide geographical area in which South African businesses operate, continues Mr Liebenberg.

"While South Africa is denied access to foreign capital markets and is unable to obtain loans from international financial institutions, new credit lines for trade-related needs continue to be available.

"The group, through its domestic branch network and offices abroad, is fully able to meet the varied needs of its clientele engaged in the country's international trade transactions."

● Privatisation and deregulation are essential to free and transfer large scale funds, both capital and revenue, from the public to the relatively more productive private sector, Nedbank chairman Professor Owen Horwood says in the annual report.

He says this would allow a significant economy in government spending as well as a possible reduction in the excessive incidence of taxation.

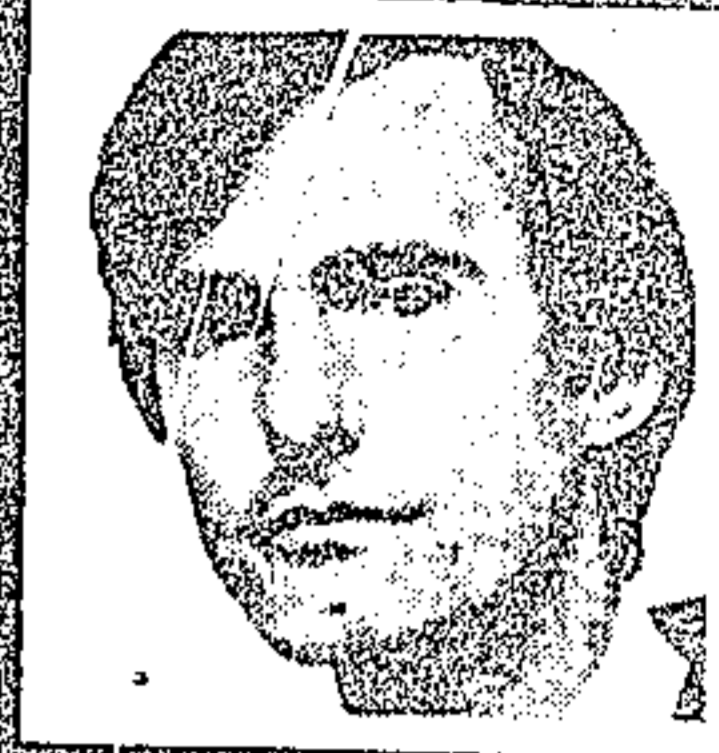
This in turn would provide incentive for both initiative and productivity.

# The heat's on and set to continue

S/Times 25/12/88

## REX

Cees Bruggemans reviews the local and world scene



THE Reserve Bank Quarterly Bulletin says the economic upswing appears to have levelled off, the business cycle having either reached an upper turning point or being about to do so.

It concludes that the economy will move gradually downwards. In spite of firm rates of output growth, the Reserve Bank interprets recent trends in activity as evidence of a levelling out.

The main reasons for its view appear to have been the recent behaviour of leading business cycle indicators, some loss of buoyancy in the business mood, the view that the "packages" of demand-restraining measures have been in place for some time and should impinge gradually more strongly on spending plans, and the view that 1988's "pre-emptive" buying may well have masked some of the early effectiveness of the measures.

## DIFFERENT

These are all legitimate observations which could indeed mean that the downswing may be upon us. The emphasis, however, should fall on "could". The observed loss of buoyancy may not be enough to truly "turn" the economy. The policy measures implemented so far may not be strong enough to affect near-term spending plans, and 1988's pre-emptive buying may prove not to have been exhausted.

Different assumptions, different outcomes. It is in this respect interesting to follow the bank's analysis where it points out the unusual.

For when it "assumes" that the economy is near its turning point, it encounters phenomena that it would not expect to see if the history of cycles is anything to go by.

In particular, inventories should

be ballooning rather than declining, the current account should be going deeper into deficit instead of bouncing back into strong surplus, and there should be heavy associated capital inflows not outflows.

The obvious alternative conclusion would be that the economy is not near an upper turning point, but that it is merely consolidating, shifting gears, taking a breather, before pushing ahead once more in 1989.

It is remarkable how consistent the strength of the growth in consumer spending has been.

A case can be made that this forward momentum has not finished, and that indeed it has some way to go, whatever the leading indicators may purport to show. Reinforcing the individual consumer is Government consumption spending.

For two years in a row, there has been remarkable fiscal discipline in the first half of the financial year. But it has all been thrown overboard in the second half. It was this concern that led to recent public statements and an increase in the petrol price — to finance it, not to prevent it.

## STUPOUR

The consumer may not be finished with the serious business of spending himself into a stupour. The Government is certainly not prepared to give up such spending pleasure either.

As if this continuing consumption binge were not enough, we now also find the corporate sector getting in on the act.

The contribution of its fixed investment to overall domestic spending in the third quarter was nearly as much as private consumer spending, from a third of the spending base. Needless to say, real investment spending is turning up — sectors such as mining, manufacturing and real estate being 20%

higher than in last year's third quarter.

That is a good old-fashioned investment cycle, currently coming out of its sixth quarter and about to enter its seventh.

Ask any businessman: two out of three plan to increase their investment spending next year. The Reserve Bank seems to think that most of this investment increase is being financed by the banking sector, and that rising interest rates are about to damage such spending intentions. At this stage, it does not look likely that much damage will be inflicted.

Corporate balance sheets remain healthy, gearing is not increasing by much, cash flows are healthy and are financing the initial upturn in investment spending.

## WORRYING

In spite of the fundamental strength in key spending areas mentioned above, we find that total domestic spending started to decelerate from the second quarter 1988 and went into a nosedive in the third quarter.

The entire phenomenon can be attributed to the annual slowdown in Government spending (which we know is about to be reversed) and a reduction in stocks which inspection should tell us can only be temporary. Show me a truly overstocked company and we are probably looking at an endangered species.

Companies are not overstretched or about to cut their spending in a major cyclical manner. If, therefore, the stock adjustment is behind us, the underlying spending momentum should be surfacing any time now.

But that is not all. What is worrying is the import position. The increase in imports equalled 80% of the rise in total domestic spending in the first quarters of 1987 and 1988,

and even outstripped it in the fourth quarter of 1987.

But on the way down in the third quarter 1988, imports were equal to only 10% of the decline in total domestic spending, and an even smaller fraction of the change in the stock trend.

Seeing that the key import categories continued to grow while strategic purchases were down, there is hardly any reason to assume that a domestic slowdown is bringing in its wake an actual decrease in import volumes.

If anything, the domestic momentum remains intact, and so does basic import growth. There was a distinct improvement in key export volumes at midyear because of the falling rand.

Apparently, some of it came out of stockpiles, which represents a temporary contraction of overall domestic spending while showing up as an increase in exports and gross domestic product.

## SWITCHING

That is good, but unfortunately temporary. In spite of serious reservations about largely unchanged export capacity, and the potential switching of export volumes back to the domestic market if conditions there remain buoyant, it looks as if recent international growth is translating itself into platinum, diamonds and base metal pluses that may remain with us next year.

Will it, however, be enough to stabilise the balance of payments cash flow in 1989-1990 when assuming continuing domestic momentum, import growth and foreign debt redemption?

Everyone for himself on that one — and on whether we will still see higher interest rates and taxes and a lower rand before this business cycle really tops out.



BALANCE OF

PAYMENTS

1989

By Edward Osborn,  
chief economist, Nedbank

74

In my article on interest rates a year ago I forecast fairly serene prospects for 1988, although recognising the likelihood of steadily mounting pressure on rates.

The situation turned out to be anything but serene and the fundamental cause of this was the sharply deteriorating balance of payments which tended to drain the money market of liquidity.

The market was thus hypersensitive to credit demands and interest rates were pushed up strongly, with prime rising from 12.5 percent to 18 percent over the course of the year.

The balance of payments worsened, not so much because of higher economic activity, but because of morbidity. The spectre of Dellums, and subsequently the related decline in the rand and speculation on prospects for import

control, resulted in a scramble for inventories to make up depleted stocks and to prepare for the expected siege.

Some increase in capital formation on plant, electronic equipment and heavy vehicles and an upsurge in corporate renewal of passenger car fleets also contributed significantly to the demand for imports. Import volumes over the year have probably been more than 25 percent greater than in 1987.

There was no alleviation of the balance of payments stress through better gold prices — in fact the reverse — and accordingly the balance of payments swung from a surplus of some R6 billion in 1987 to at best R2.5 billion in 1988.

The baleful influence of Dellums was unexpected, and interestingly it would appear is still not recognised, as generally there is the supposition that the balance

of payments problems were due to excessive domestic demand.

This supposition has also obviously influenced the authorities in devising measures to "cool" the economy, such as tightened hire purchase restrictions, import surcharges, higher interest rates and exhortations.

Inventory accumulation, I feel, was the root cause, but this cannot carry on indefinitely because of the increasingly discomforting cost of holding inventories, that of higher rand cost, import surcharges and high interest rates. A sharp downturn of the cycle must ensue.

With the resulting downturn in imports there must be a corresponding improvement in the bal-

## OUTLOOK '89

# BALANCE OF PAYMENTS

ance of payments situation and, coincidentally, pressures on the rand and interest rates. In essence, this is my forecast for 1989.

Forecasting being a hazardous exercise it is as well to show as much detail as possible, rather than resort to Delpheic brevity. Unfortunately, limitations of space preclude complete exposure and a compromise as shown in the table has to be made.

The procedure adopted in the balance of payments forecasts is that of estimating in dollar terms and then converting to rands by means of one's best guess on the rand/dollar exchange rate. Accordingly, there are two dimensions of error, namely the basic category forecasts and the conversion rate.

Crucial to the issue of the exchange rate, and also the gold price, is what will happen to the US dollar during the course of the year. This is very difficult to forecast as the dollar has become the plaything of the forex markets. It would appear, though, that the G7 are comfortable with a \$/DM range of 1.70 to 1.99, at which extremes there will be aggressive intervention. On the other hand, the fundamentals of the US deficit problem require a further 20 percent or so depreciation of the dollar. For example, this has been strongly advocated by Martin Feldstein, an economic advisor to President-elect Bush, as necessary for the correction of the US balance of payments deficit.

On the assumption then of a \$/DM range of 1.70 to 1.90 and

given the chronic gold over-supply position in the world, the dollar gold price is likely to lie in the range R400 to \$450 an ounce with an average of, say, \$425 per ounce. Furthermore, it is imperative for the rand gold price to rise in step with production costs and the rand/dollar exchange rate must be forced down to about 2.50 average for the year. One must recognise, however, that with the new system of dollar payments to the mining houses for gold production, that the exchange rate could be somewhat firmer.

The export volumes of most commodities are expected to increase, with gold up by two percent, platinum by three percent and coal up to 44 million tons, in particular. Imports are forecast to contract by 12.5 percent on the

levels of the first three quarters in 1988.

These assumptions lead to a forecast of the current account surplus recovering to some \$2.6 billion in 1989, or at the assumed exchange rate of R2.50 to the dollar, a surplus of R6.45 billion.

The 1989 surplus on current account will be more than adequate to meet the expected capital redemption payments of \$350 million "inside the net", ie on affected debt by the Standstill Arrangements, and \$770 million "outside the net."

The surplus, over and above the capital payments, will be of the order of \$1.5 billion, but part of this could well be dissipated in the form of "leakages" or euphemistically, errors and omissions. The

remainder will be available firstly, for repayments by the Reserve Bank of the substantial foreign borrowings during the course of 1988 to meet debt commitments and bolster reserves, and secondly, for building up foreign reserves.

Foreign reserves have to be accumulated in anticipation of extraordinary high levels of capital redemption commitments in 1990 and 1991. Without satisfactory alternative re-negotiations, the country will be facing capital redemption payments of between \$2 billion and \$2.5 billion in both years.

The process of accumulating reserves during 1989 will assist in easing the domestic monetary situation, and given the more relaxed demand for credit likely during the year, there should be a steady decline in interest rates.

# Debt payment dents reserves

FOREIGN exchange and gold holdings increased by 0,7 percent, or R33 million, during December in spite of exceptionally heavy debt repayments.

The Reserve Bank said yesterday that the figure rose to R4 932 million (R4 898 million) during the month.

It said total debt repayments and interest payments for December came to R2 125 million in December alone.

The bank said the buoyancy of the gold and foreign exchange reserves in spite of the heavy outgoing payments indicated a strong performance of the balance of payments during December.

The Reserve Bank said: "Preliminary estimates suggest this performance reflects both a con-

*star 7/11/89*  
tinued surplus on the current account and a net inflow of certain forms of short-term capital, including private sector pre-export financing and other favourable movements on leads and lags in foreign payments and receipts.

## Interest rates

"This inflow, in turn, was partly induced by the rise in domestic interest rates after early November and the Reserve Bank's preferential rates of forward cover for certain types of import and pre-export financing".

Other factors were the decline in the dollar value of the rand which resulted in a foreign exchange gain of R44 million and an increase in the value of gold holdings by R62 million.

The Bank said the foreign exchange component of the reserves decreased from R1 905 million to R1 853 million in December while the gold component rose to R3 079 million (R2 993 million).

This represented an increase from 3429 million ounces, to 3468 million ounces.

Identifiable debt was R308 million inside the net and R675 million outside the net — a total of R983 million.

Ratio of gold reserves to liabilities to the public less foreign assets is 39,5 percent.

The gold reserves as at December 31, 1988 were valued at R887,75 per fine ounce, compared with the valuation price of R872,85 per fine ounce as at November 31, 1988.— Sapa.

# The big shakedown

Star 2/11/89

**MAGNUS HEYSTEK**  
FINANCE EDITOR

WITH THE economy likened to a "mad train out of control" evidence is mounting that the option of a soft landing for the economy is rapidly disappearing and that the country is heading for a repeat of the "crash landing" experienced in 1984/85.

For the man-in-the-street this means even higher interest rates and possibly higher tax rates, forcing spending on consumer durables to come down to more manageable levels.

But all this can be avoided should Government manage to cut down drastically on its own spending, particularly on consumption expenditure as government expenditure on capital goods has, in fact, been declining in real terms over the last couple of years.

Economists, however, consider this unlikely in the face of a general election next year which is bound to prompt the Government to open the purses once again in a vote-catching exercise.

Surveys released this week by both the Bureau for Economic Research at the University of Stellenbosch and the Federated Chambers of Commerce revealed the high level of confidence amongst consumers and industrialists.

The FCI survey, in particular, recorded a mood of ebullience amongst the country's manufacturers with most of them expressing indications of higher sales and volumes in the year to come. A large percentage have also indicated that they are considering expanding manufacturing facilities in order to cope with the expected increase in demand.

## Capacity utilisation

This factor is reflected by the increase in capacity utilisation which in November rose to record levels. Output can, in most instances, only be increased if new investment in plant and machinery is made. But this, unfortunately, is bound to push up the import bill.

And as we all know, the country cannot afford higher levels at this stage.

The bullish mood among industrialists prompted Dr Gad Ariovich, economic consultant to the FCI, to compare the SA economy with a "mad train out of control", predicting that further increases in interest rates and possibly higher levels of taxation will have to be introduced soon to regain control over spending.

Under normal circumstances the optimistic mood among consumers and manufacturers would have been wel-

comed by both the private sector as well as Government, as this would have led to higher growth rates and the creation of employment opportunities. However, South Africa now finds itself in the Catch-22 position where good news concerning the economy is equally bad news.

Strange as it may seem, indications of a reduction in spending (and ultimately job creation) are now considered by the authorities and most economists to be a "positive sign", while "bullish" signs about the economy are greeted with gloom and dismay.

## Debt repayments

This is all due to the convoluted political-economic scenario in which the country finds itself in. With no new loans forthcoming from the Western world, which financed previous economic booms in South Africa, and faced with massive debt repayments on foreign loans, the economy has to be artificially restrained from growing too fast.

But, further increases in taxes and/or higher interest rates can be avoided by government slowing down its spending and reducing its share of the economy. This seems remote, however, as most economists are expecting a further acceleration of government expenditure in the 1989/1990 fiscal year.

Latest available figures reveal the extent to which government expenditure as a percentage of Gross Domestic Product (GDP) has grown, rising from 21 percent in 1970 to an estimated 29 percent this year.

For the 1988/89 fiscal year, government spending is set to amount to R57 billion, exceeding the budgeted figure by R3 billion. One major contributing factor is the 15 percent increase in civil servant's wages and salaries, which will cause the wage bill to rise by 22 percent.

In 1989/90 government expenditure is forecast to rise by a further 22 percent to R69 billion, a rise of 7 percent in real terms.

While government revenue has been rising rapidly in the last year due to the higher levels of economic activity, the import surcharges and tighter surveillance by the Receiver of Revenue, the growth in revenue is set to slow down in the next fiscal year.

This means either a higher budget deficit before borrowing or increased levels of taxation.



# SA's reserves 74 looking healthier

42 9/11/88  
By Sven Forssman

South Africa's foreign reserves remained virtually unchanged at R4,93 billion in December, despite an outflow of R2,1 billion in debt and related interest payments.

Dr Gerhard de Kock, governor of the Reserve Bank, said at the weekend "it was particularly gratifying we weathered the debt repayment so well, as it indicates a strong performance by the rest of the balance of payments. Hopefully, South African can now start building up its reserves."

However, the Reserve Bank's holding of gold and foreign exchange is still short of the peak of R7 billion recorded in the third quarter of 1987.

Identifiable debt repayments during December 1988 consisted of R308 million (\$130 million) inside the net and R675 million (\$286 million) outside the net — a total of R983 million.

In addition, interest payments of about R1,14 billion were made.

# SA reserves hold up well against debt

B/Dam 9/1/89

74

GRETA STEYN

SA's foreign reserves held up astonishingly well in the face of huge foreign debt and interest payments in December.

In spite of an outflow of R2,1bn in debt and related interest payments, the Reserve Bank's holdings of gold and foreign exchange remained virtually unchanged at R4,93bn.

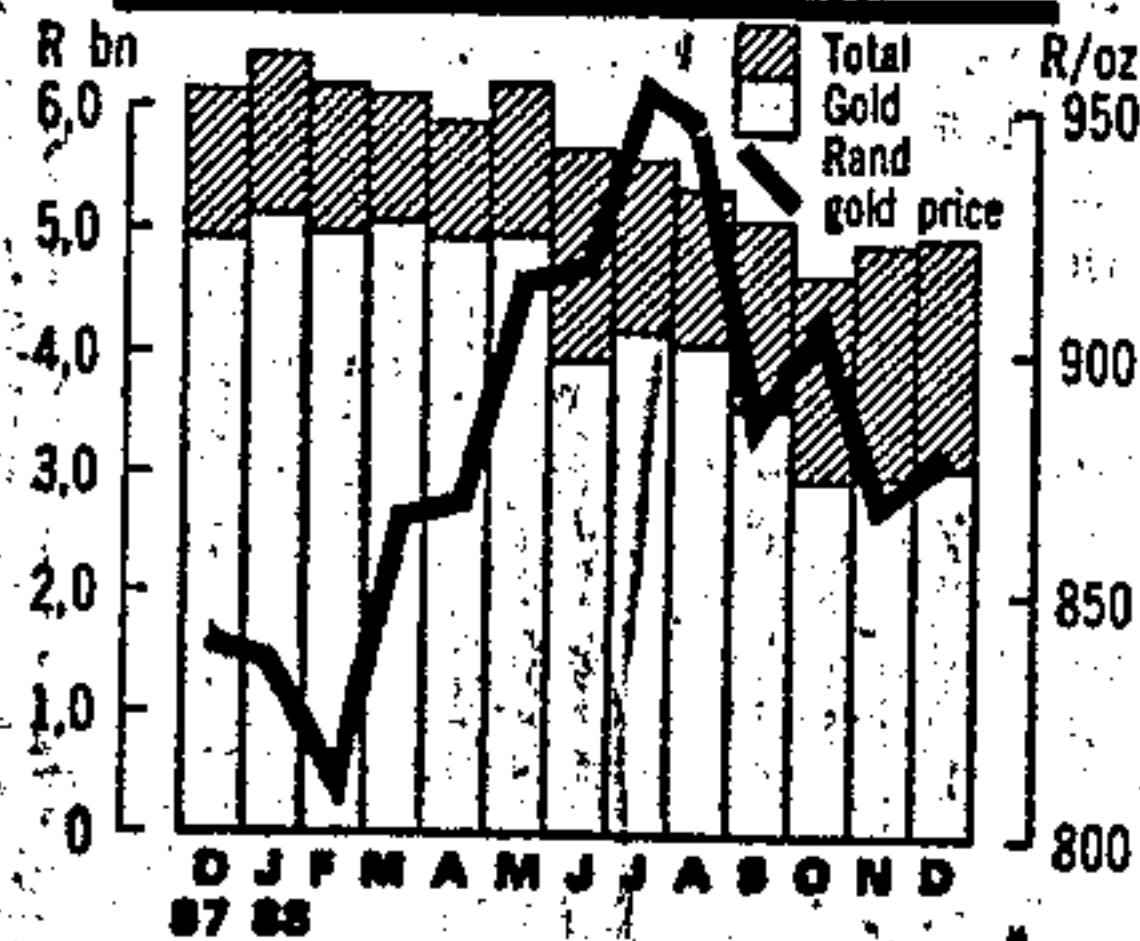
December is always a difficult month for the reserves, and a decline was widely expected.

Bank Governor Gerhard de Kock said at the weekend: "It is particularly gratifying we weathered the debt repayment so well, as it indicates a strong performance by the rest of the balance of payments (BoP). Hopefully, this is the turning point and SA can now start building up reserves."

The performance of the BoP reflected a continued surplus on the current account and an inflow of short-term capital, including foreign trade credit. Leads and lags in foreign payments and receipts were also turning favourable.

"The inflow of short-term capital was

## Gold and forex reserves



Graphic: FIONA KRISCH Source: SA RESERVE BANK

triggered by the last increase in Bank rate and the Reserve Bank's preferential rates of forward cover for certain types of foreign pre-export and import financing. As foreign trade credit became more attractive than domestic borrowing, short-term capital movements turned positive," De Kock said.

But he stressed the level of the reserves was still too low and warned against complacency. He said 1989

● To Page 2 →

## SA reserves hold up well against debt

would be a difficult year, especially if SA was to meet the objective of building up reserves while repaying foreign debt.

"Our interest rates and exchange rates must remain realistic, otherwise there is a risk of short-term capital outflows."

Economists pointed out that the Reserve Bank's holding of gold and foreign exchange was still a long way from the peak of R7bn reached in the third quarter of 1987.

December saw a slight increase in the reserves in rand terms, but this was due to valuation factors. The reserves were valued higher because of a decline in the rand/dollar exchange rate and the higher rand price of gold: R887,75 per fine ounce compared with R872,85 in November.

The foreign exchange component of the reserves decreased from R1,91bn in November to R1,85bn in December, while the gold component increased

from R2,99bn to R3,08bn. In volume terms, this represented an increase from 3,43-million ounces to 3,47-million ounces.

In dollar terms, the Reserve Bank's stock of gold and foreign exchange was virtually unchanged.

A Reserve Bank statement said identifiable debt repayments during December 1988 consisted of R308m (\$130m) inside the net and R675m (\$286m) outside the net — a total of R983m (\$416m).

In addition, interest payments to foreign creditors were exceptionally large in December. This largely reflected a tendency for foreign creditors to reschedule their interest and capital roll-over dates to the repayment dates specified in the Second Interim Debt Arrangements. Interest payments were estimated at R1,14bn (\$482m) in December.

B/Dam 9/1/89 ← ● From Page 1 74

# Higher taxes or higher rates, says Old Mutual

By Magnus Heystek  
Finance Editor

Short-term interest rates are bound to remain at high levels for most of 1989 and could, in certain circumstances, rise substantially, Old Mutual warns in a report released yesterday.

The viewpoint conflicts with the widely held opinion that interest rates are close to the top of the current cycle and that a downward movement will begin in the second quarter of this year.

Interest rate movements will be determined by the state of the balance of payments, in particular, and by the level of foreign exchange reserves, Mr Dave Mohr, chief economist at Old Mutual, says in the report.

Sustained pressure on the low level of gold and foreign exchange reserves will leave the authorities no choice but to increase interest rates more.

"It must be borne in mind that large amounts of foreign debt falling outside the debt standstill net are repayable in 1990 and 1991. In the light of



Mr Dave Mohr

these commitments, a premature decline in short-term rates could lead to the recurrence of an exchange-rate crisis in this period.

"We feel that the authorities will not allow interest rates to fall substantially until the level

of foreign reserves has improved considerably from its present levels," he says.

"In the light of the known restrictions on the capital account of the balance of payments, the rebuilding of foreign exchange reserves will require a considerable improvement in the current account, even taking into consideration the large surplus recorded in the third quarter," says Mr Mohr.

Another factor indicating that monetary policy will have to be tightened even more is the sharp rise in demand for credit and the concomitant rise in the money supply.

Preliminary statistics point to continued growth in money supply in October and November, substantially exceeding official targets.

Most of the faster growth in money supply can be attributed to a considerable acceleration in credit extension to the private sector, he says.

After an annual rate of increase of 23 percent in the second quarter, it accelerated to a

58 percent in the third quarter.

Total outstanding credit to the private sector at end-October was 40 percent higher than a year before.

"This sharp increase in credit extension increased the risk of a further weakening of both the current account and inflation, leaving the authorities with no choice but to increase interest rates further," says Mr Mohr.

He is critical of the Government for once again overspending its budget substantially.

Government spending for the full fiscal year is expected to be 18 percent higher than in the previous financial year, substantially higher than the budgeted increase of 12.5 percent.

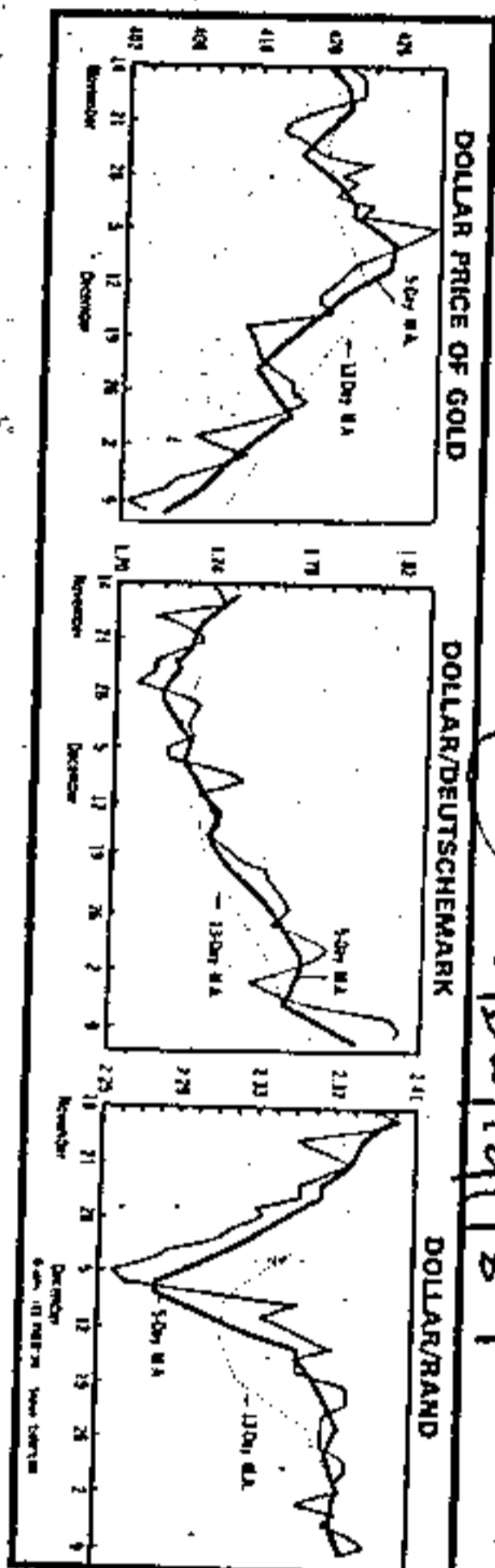
A further rise in government spending can be expected in the 1989/90 financial year. Unless it is fully financed by taxes, the increase will place considerable pressure on interest rates.

Mr Mohr advocates tax increases, apart from the recently announced rise in the fuel levy, to reduce the likelihood of higher interest rates.

FOREIGN EXCHANGE/David de Kock

Looking about the market

*Blair 12/1/59*



poses completely ignored the movements in both gold and the dollar.

After its sharp appreciation in November and equally sharp deterioration in early December, the rand has moved steadily sideways. Its stability is shown in the fact that the five-day and 13-day moving averages are moving in concert, a relatively unusual phenomenon.

The essence of the rand's strength has, however, been seen in the appreciation of the unit against the other major currencies and gold. The rand has gained almost three pence against the DM and nearly R30 against the gold price. This gives an average appreciation of more than 3% against the currencies of SA's major trading partners in a little more than a month.

Undoubtedly, this is a response to the turnaround in the balance of payments apparent from the December gold and foreign exchange reserve data. SA met debt and interest repayments in December of R2,1bn and yet the reserve position was virtually unchanged from December.

Part of this must be the result of the weakening in the rand between end November and the end of December, but it also suggests a fairly massive improvement in the current account.

If this trend can be sustained — and there is no reason to suppose otherwise — then one must expect the rand to continue to gain against the trade-weighted basket of currencies of her major trading partners. It is appropriate that this should occur given the unwarranted decline of the unit against these currencies in the past year and the expected rise of the dollar later in this year.

LAST WEEK I suggested that although the US dollar had started the year on a somewhat bearish note, I did not believe that there was reason to be too pessimistic. Little did I know that the US unit would, the very next day begin to rise to levels not seen in the last three months.

There were a few factors that gave impetus to the rise:

1. — The shooting down of two Libyan jet fighters by US planes which, as on the previous occasion, led to a flight into the safety of the dollar.

2. — A remark by Bundesbank vice-president Helmut Schelesinger that he saw no immediate signs of the dollar weakening, which contrasted with earlier remarks by Bundesbank spokesman that they did not welcome a rise in the dollar.

3. — A drop in the US employment rate to the lowest level in 14 years. This signalled a still buoyant US economy and gave rise to the possibility of a hike in US interest rates.

4. — The death of Japanese Emperor Hirohito which could, it was initially feared, lead to a sell-off on the Tokyo Stock Exchange.

Each of these factors, unfortunately, tends to have a fairly limited timeframe. In other words, they soon lose their significance in the fickle foreign exchange market.

The shooting down of the two Libyan MiG fighters has almost been forgotten, remarks by central bank officials on foreign exchange rates seldom (never?) have a lasting effect. The hike in US interest rates has been, and still is, widely anticipated. When it finally happens it is likely to be a let down. Finally, the expected sell-off

on the Tokyo Stock Exchange never did materialise.

This implies that the current rise in the dollar is likely to be short-lived. Not only has the unit soared into a critically over-bought situation in the last few days, but it has met with considerable central bank intervention.

I am not in favour of central bank intervention. Not only is it a clear distortion of the market mechanism but it also only works when the market will allow it to work. It has also now become so predictable that market leaders are almost able to trigger intervention at will, and generate huge profits in the process.

Nonetheless, the concerted intervention of the central banks in the last few days has come at a time when it is likely to meet with considerable success. The dollar is overbought, the temptation to take profits is strong and there

remain some fundamentals which still do not yet favour a stronger dollar.

So however one may dislike intervention by the central banks, it is a fact of life — and it is in times such as the present when it is likely to meet with the most success.

From the accompanying charts one can see that the dollar has turned slightly down from the peaks, and even though it is merely one day's data in the reversal it comes after a very sharp rise since last week. As usual, one must look for confirmation from a crossing of the five-day moving average, which has not yet occurred but which could happen within the next three days according to current ultra-short-term projections.

An interesting aspect of the dollar's recent rise has been the response of the South African rand. The local unit has to all intents and pur-

REVIEW

he proves incapable of being a mover.



**E**CONOMIC policy in 1989 will be geared towards building up foreign exchange reserves. It is a make-or-break year, a period in which SA has to top up its reserves to meet its huge foreign debt obligations in 1990/91.

The year got off to an encouraging start, as evidence emerged that the hike in Bank rate had ended the balance of payments crisis. Short-term capital movements, a major problem in 1988, turned positive in December and neutralised the strain of foreign debt and interest payments. The current account deficit was turned into a comfortable surplus towards the end of the year — an annualised R4.5bn. Export volumes have increased, boosted strongly by diamond sales.

The balance of payments is poised for a strong performance. Reserve Bank Governor Gerhard de Kock believes SA can achieve a healthy surplus of R4bn on its current account, enough to build up reserves while meeting its foreign debt repayments of about R2.5bn.

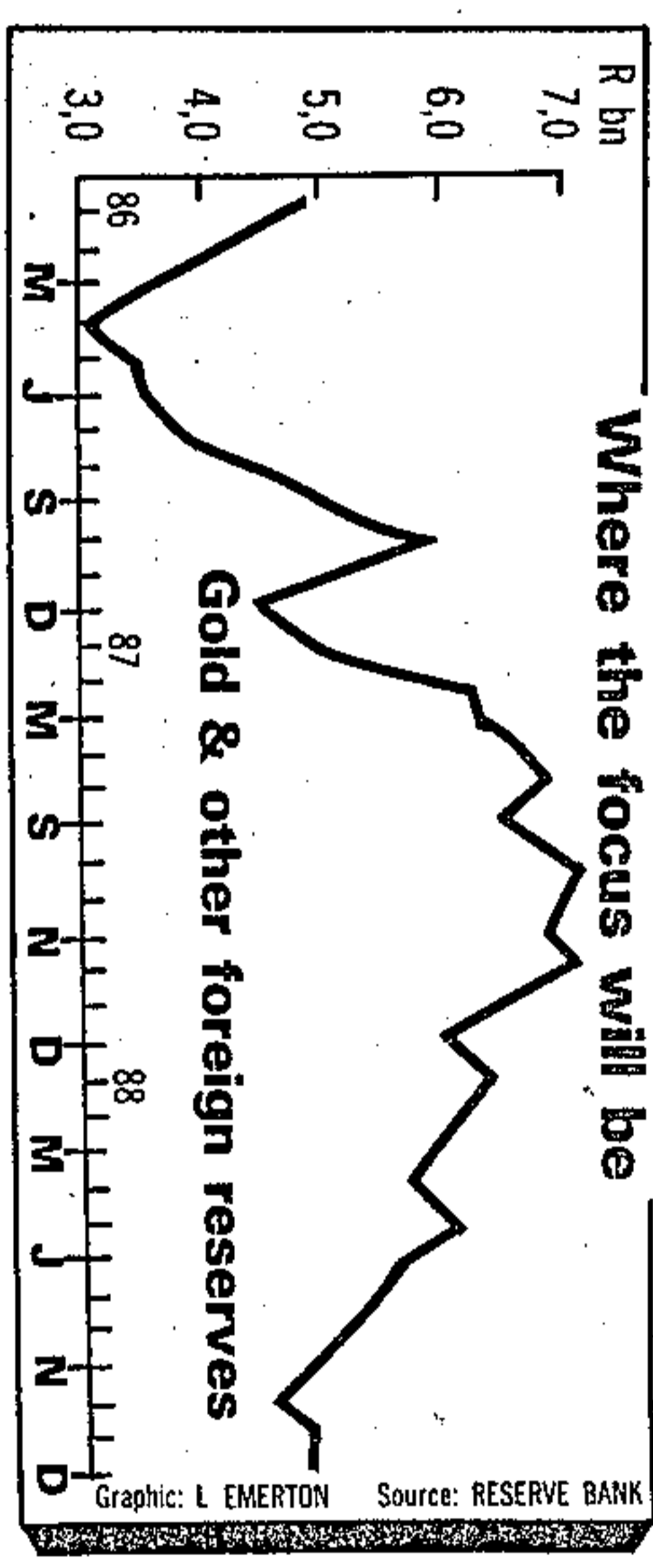
8/Dec 13/1/89

(14)

**P**ositive signals emerged after the belated Bank rate increase in November. No longer are economists calling for higher interest rates to save the nation. There is caution over the issue, for once both the Reserve Bank and the army of economists are adopting a "wait-and-see" approach.

No one has ruled out the possibility of another increase in Bank rate, least of all the Reserve Bank. De Kock said: "Our interest rates and exchange rates must remain realistic." But few would wager anything on when, if at all, the Bank will lift its rediscount rates. Much depends on government spending, which will boost domestic spending.

The recovery of the balance of payments could be scuttled if domestic spending runs wild — a possibility if fiscal policy is too expansionary. But there are signs that the economy has turned and that domestic



# Make-or-break for foreign reserves

GRETA STEYN

spending is increasing at a slower rate. The Reserve Bank, in its last Quarterly Bulletin, saw evidence of "a levelling off of the current economic upswing". It said that the "continued downward drift" of its leading indicator also pointed towards an imminent downturn and noted a "loss of buoyancy in the prevailing business mood."

The leading indicator dropped to 94.5 in September last year from 94.8 in August, after peaking at 101.4 in August 1987. The performance of the indicator suggests that the upswing peaked in the second half of 1988.

Against that background, the Bank's current actions in the money market are interpreted as a signal that interest rates had to stay put — unless there was firm evidence that

domestic demand was still too strong. As Bank senior deputy Governor Jacobs put it: "We cannot act on suspicions and impressions; we need firm figures."

There is proof of the suspicion that the economy slowing down, but the Christmas spending boom complicates the interpretation of data. However, seasonally adjusted figures hold the clues. Central Statistical Services' adjusted spending figures for November and December show a real decline of 1% from the previous two months.

Wholesale sales, also seasonally adjusted, dropped by a real 1.5% in the three months to end-November from the previous three months-period. And according to a Bureau for Economic Research poll, retail-

ers and wholesalers are bearish on 1989, expecting only a slight real increase in sales this year.

However, complicating the issue is manufacturers' optimism, also recorded by the BEIR. After the biggest boom in seven years in 1988, manufacturers are bullish about the coming year and expect to increase spending on plant and equipment.

Imports indicate domestic demand is still strong, with the November figure of R3.8bn a record for the year. The level of imports was not just the result of a weak exchange rate — the rand strengthened in November.

The rate of growth in the money supply remains high. At 25.05% in November, this is down from October's 27.71% but growth was off a high base. December's figures will provide the latest clues on credit demand. But even if credit demand is still high, most economists now argue the last increase in Bank rate must be given time to work. Monetary policy will probably only be tightened if government spends too much.

To quote the Quarterly Bulletin: "The most suitable stance of monetary policy will... depend in considerable measure on the nature of fiscal policy in the months ahead."

There is a saying that "Monetary policy starts in the Treasury". The size of the deficit complicates monetary management. The Reserve Bank sets money supply growth targets but it has no control over the budget deficit.

United Building Society economist Hans Falkena believes a deficit larger than 2% of GDP is inherently inflationary in the case of SA — and there is a "distinct danger" the budget deficit may exceed the level of 6% of GDP during the next fiscal year.

**S**ays Falkena: "The inflationary dangers of a large budget deficit, as well as the fact that the foreign debt standstill arrangement has closed the international capital markets for SA, will virtually force the government to take drastic steps to limit its budget deficit to some R1.3bn (which is still 5.5% of GDP)."

Falkena does not mention the possibility of a general election, but 6% of GDP might be closer to the mark if South Africans have to go to the polls again this year.

The impact of government's deficit on domestic spending will eventually be reflected in the reserves. If an expansionary deficit is not countered by higher interest rates, strong domestic demand will knock the surplus on the current account of the balance of payments. The capital account will feel the strain of adverse leads and lags. And the bottom line will be a slide in SA's reserves.

# Taxpayers may have to pay 'protection money'

W/C ARGUS 14/1/89 (94) 300

From CLAIRE GEBHARDT

THE estimated R4bn lost "protecting" importers against a falling rand is one of the factors why taxpayers may have to fork out an extra R2bn this year.

And the only way the Reserve Bank could possibly cut its losses on the provision of forward cover, say economists, is to hike prime to 22 or 24 percent.

But such a step would raise an outcry from debtors as well as be politically unacceptable because of the government's concern for farming interests.

The catch-22 situation is that either government puts up with foreign exchange losses, or puts up interest rates which would probably bankrupt the farmers, say economists.

Whether the Reserve Bank's claims on the Treasury will be dealt with in this year's Budget is cause for speculation.

Governor of the Reserve Bank, Dr Gerhard de Kock, interviewed last year, said the debt wasn't an issue in March 1988 "but is building up to becoming an issue in March 1989."

At that stage he was optimistic that the rand would stop declining, thereby reversing the consistent losses.

He subsequently announced the Bank would resume an orderly withdrawal from the



Dr De Kock

market by paying gold mines in dollars once more.

But economists are pessimistic about the Bank being able to withdraw from the forward exchange market in the foreseeable future.

And in the wake of a currency said by most to be in a cyclical long-term depreciation, see little chance that the consistent losses on the forward cover book will be reversed.

These losses were spotlighted once more this week by United's Dr Hans Falkena.

He predicted that government expenditure would climb by 22 percent to R69bn in the coming financial year "Because of the accumulated losses by the Reserve Bank on its forward cover, and the upcoming civil service pay increases."

Other economists echoed his concern.

Volkswagen's Adam Jacobs regards the forward cover losses as highly alarming, "Leading to money creation and being tantamount to subsidising of imports."

But huge losses on forward exchange cover are not inevitable, say economists, and depend solely on the rate the Reserve Bank is quoting for its forward cover.

If the rate is totally market-related there is no reason for the Bank to make a loss, but that implies it cannot set interest rates, they explain.

To cut losses, the Reserve Bank would have to quote forward rates which are fully in line with the rest of the world.

And this would mean bringing the forward market in line, interest rate-wise, with the rest of the world.

Real interest rates of major trading partners are averaging about four percent while in South Africa the figure is zero or one percent.

Central banks in the Netherlands, France and Germany would absolutely refuse to absorb any of these forward cover costs, but in South Africa it is a political decision, economists believe.

And though the rand is a weak currency and likely to remain so, they believe this should not imply that the Reserve Bank be involved in a loss-making process.

# Reserve Bank to reduce forex role

BIDUN 16/1/87

THE Reserve Bank wants to reduce its role in the spot foreign exchange market as early as next month.

Bankers said at the weekend that February 1 was the date the Bank had provisionally set for ending its control over the dollar proceeds of gold sales. The Bank said late last year it intended to pay the dollar proceeds directly to the gold mines, leaving them to put the dollars into the market.

The Bank held talks with the mining

GRETA STEYN

houses on Friday to finalise the plan.

The move has been hailed as a step to free the market, with bankers saying it will much improve the balance between the demand for and the supply of dollars. It also frees the market by reducing the Bank's ability to manipulate the rand/dollar exchange rate.

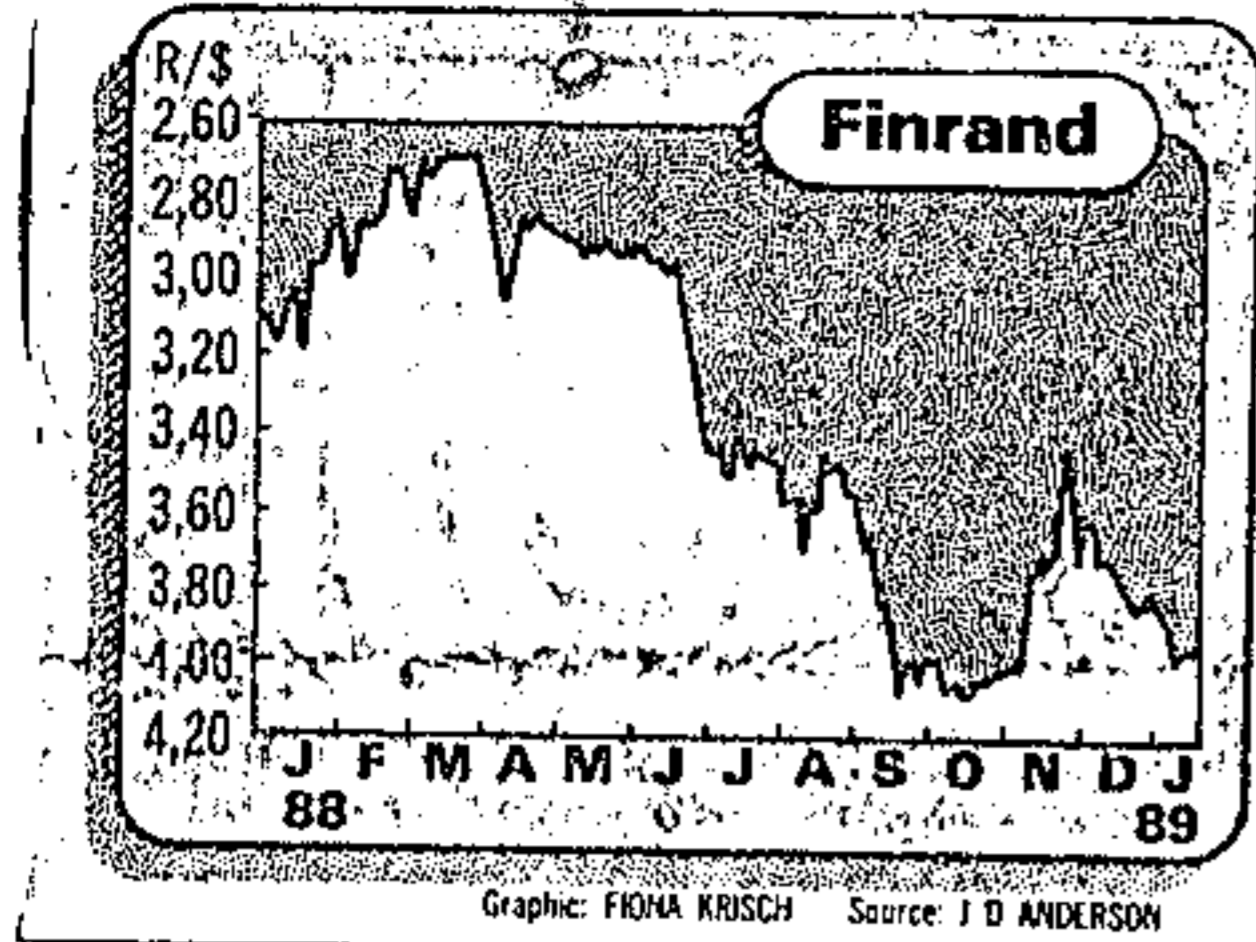
However, bankers remain sceptical about the Bank's intention to withdraw

from the forward exchange market. Doubts about its ability to free that market were conveyed to the Bank at a meeting to discuss the issue last week.

A banker said: "While the rand continues on a downtrend, the demand for forward dollars from importers far exceeds the supply from exporters. The Bank will battle to reduce its rôle as long as this imbalance exists."

© See Page 5

# Pressures mount against finrand



THE financial rand has come under pressure since the start of the year with sentiment hit by a weak gold price, perceptions of further disinvestment, and a combination of foreign sales and local buying of currency-linked stocks through the JSE.

The currency — reflecting overseas perceptions of investment in SA — traded as low as R4 (25c) to the dollar before firming on Friday to close at R3,9606 (25,2c) after bottoming at R4,0800 (24,5c) in October.

16/1/89  
MERVYN HARRIS

The slight firming in the finrand on Friday came as gold — which is testing the \$400 level, rose to \$405,75 in London, but later retreated to close in Hong Kong on Saturday at \$401,85.

Overseas investors tend to go short on finrands when the gold price weakens. Sentiment has also been affected by news that RTZ is likely to sell its 40%

© To Page 2 →

## Pressures mount against the finrand

stake in gold mine Oryx and its 33,6% holding in Unisel following its R10,3bn deal to acquire BP's mineral interests.

A further dampener was the report that two UK firms, textile group Tootal and Cable & Wireless, plan to sell all or part of their SA holdings worth a combined value of almost R200m.

These developments have prompted dealers to adopt a negative short-term outlook on the currency.

Dealers say a narrowing of the discount between the commercial and financial rands to its current level of around 40% has encouraged finrand sales as offshore loans caught in the debt net are taken out through the finrand

16/1/89 ← From Page 74

mechanism.

Some of the funds caught in the net will, however, be switched into Eskom stock as German and Swiss banks are known to be attracted by the yields.

□ ROBERT GENTLE reports from London that stockbroker James Capel says finrand weakness could also be a reaction to the value of the commercial rand which, it feels, should be lower given the beating it took in the last six months.

Consensus among stockbrokers is that the finrand will probably bottom at between 23c and 24c.

SA is in for a jolt as bullion slides to the \$400 mark

Star 18/11/89

74

# Facing up to the crunch

Butteted by sanctions and a weaker gold price, South Africa faces another jolt as bullion slips towards the psychological \$400 an ounce mark.

"Gold is so important for this country. We're always anxious about the gold price level, especially when it approaches \$400. It has very serious consequences," said Mr Edward Osborn, chief economist of Nedbank, the country's third biggest bank.

Gold accounts for some 45 percent of export earnings and economists say a sustained \$10 price drop in the bullion price costs about \$200 million a year in lost revenue.

The metal was trading at about \$402 an ounce in Europe yesterday compared with almost \$500 a year ago.

"The trouble with the gold price is that it's not something that's amenable to easy prediction and certainly not something the South African authorities can control," said Mr Ronnie Bethlehem, chief economist at Johannesburg Consolidated Investment Co. "It's the joker in the pack."

The South African Reserve Bank never reveals what gold price it has budgeted for in setting mone-



Gold bullion . . . analysts say if gold stays at current levels or drops again, the rand will weaken and the balance of payments surplus will shrink as gold exports bring in fewer dollars.

tary policy, but it is understood to take a conservative view.

Bullion analysts say if gold stays at current levels or drops again, the rand will weaken and the balance of payments surplus will shrink as gold exports bring in fewer dollars.

South Africa needs to generate a surplus on its balance of payments — a rough measure of trade in

goods and services — to make repayments on its estimated \$22 billion foreign debt.

It has had only one new foreign loan since international banks cut credit lines in 1985 amid anti-apartheid pressures.

Mr Osborn said a dip in imports plus healthy exports in minerals other than gold had strengthened the balance of payments position in recent months.

"Everything in the garden is rosy, except for the gold price," he said. "We're facing an enormous crunch in 1990-91. We've got to put money aside for those two years."

The Government and the Reserve Bank could also be forced to take unpopular policy decisions to keep the economy on an even keel.

"If the gold price continues to decline or remains so low that it substantially affects South Africa's export earnings, we will have to take the necessary policy decisions," a senior Reserve Bank official said.

He did not rule out a further rise in interest rates to shore up the rand and compensate for increased State spending.

The Reserve Bank steeply increased its discount rates last year, prompting commercial banks to raise their prime lending rates five times, from 12.5 percent to 18 percent.

JCI's Mr Bethlehem questioned whether the Government would let interest rates rise further in a year which could see a general election.

"The economic situation could provoke an early election," he said. "In South Africa, rather more than anywhere else, economics have to be traded off against political considerations." — Reuter.

Alper 1/18/89  
74

# All is not roses

AFTER STARTING the year on a rather poor note — a feature that I have previously commented upon — the dollar has surged ahead in a euphoria of expectations for higher interest rates in the US.

These expectations are well-founded — the US economy is getting itself into a logjam again which can only spell disaster for the trade balance unless spending is slowed down.

Unemployment is down, capacity levels are up, order books are lengthening and consumer spending is rising. All of these are signals of an economy entering the over-heating phase and which needs to be cooled down.

The US has been in a growth cycle ever since Ronald Reagan entered office eight years ago.

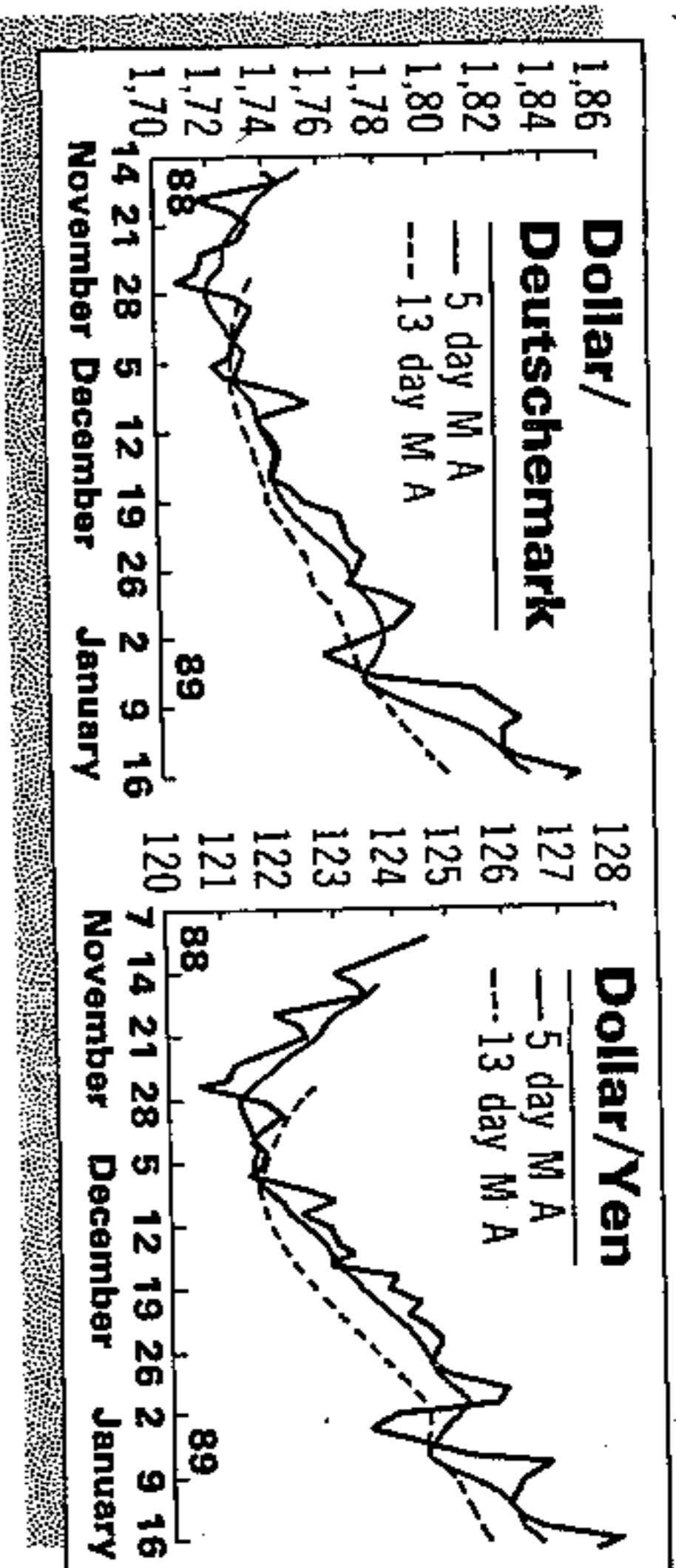
There is nothing wrong with extended growth cycles in the main, but in this instance too little was done to engineer a reduction in the fiscal and trade deficits out of the cycle of growth.

## Tombstone?

Many things will be remembered about President Reagan's term of office, but unfortunately its monument (or tombstone?) will be the fact that he, in eight short years, increased the Federal deficit to three times the level achieved in the nation's whole lifetime.

It will take decades — possibly centuries — to redress this situation. After that short aside, back to the matter at hand.

The US fiscal and monetary authorities really only have two options — raise taxes or raise interest rates. Either way, they have to get the man-in-the-street to stop spend-



ing, in particular to stop spending on imported goods.

(This is actually a familiar scenario for SA).

President-to-be George Bush has already indicated that he will not raise taxes — which leaves a tightening of money, and hence the raising of interest rates, as the only alternative.

Personally, I think this is the right strategy. The time will come when taxes must be raised, but now the burden should be on interest rates.

It is in this kind of analysis that the foreign exchange market sees reason for a buoyant dollar. With interest rates rising in the US there is much demand for higher yield US investments.

And it is right that this should be so. The inflow of capital funds will help the balance of payments by offsetting the outflow through the current account and, at the same time, contribute fund availability to the fiscal borrowing programme. However, all is not roses. At the

end of the day, someone must pay the piper.

What I have illustrated above is merely a neat way of juggling the books so that the stark reality of a massive debt burden is hidden from view.

## Higher rates

The US is now the world's largest debtor nation — can it afford to borrow more? Can the world afford to lend it more?

These, surely, are questions that pass through the minds of the Group of Seven nations every time they meet. They must agree that the US needs to slow down and also that higher interest rates may be the best option at this stage.

However, this will lead to an increase in the value of the dollar which, in part, will defeat the objective. Imports into the US will become cheaper, thus possibly offsetting any inhibition to spend because of higher interest costs. US domestic

industry could be hurt by this measure.

Also, while America's trading partners will benefit from increased exports they could also see a disproportionately higher level of capital leaving the country.

The solution is that American consumption expenditure must be reduced but in a manner that does not affect the value of the dollar disproportionately higher.

## Slowdown

One way of achieving this is to have a simultaneous rise in the interest rates of America's trading partners. This may not suit every country, who would have to accept some form of slowdown in their own economies — and not all have enjoyed the same extended growth cycle as America.

Perhaps President Bush will have to go back on those words that sprang from his lips about no new taxes. Perhaps some form of higher consumption tax possibly — but im-

probably, given GATT rulings — related specifically at imports. We must wait with eager anticipation for Washington to get over the inauguration celebrations to find out which way the wind blows.

Meanwhile, the expectations for a stronger dollar must persist (barring anything untoward in the latest batch of US trade figures announced yesterday), especially given the technical importance of the rise above the DM3,8420 level.

## REVIEWS

74

# Huge forex frauds under investigation

B/Dan 23/1/89

THE Reserve Bank is investigating foreign exchange fraud cases totaling hundreds of millions of rands, Reserve Bank Deputy Governor Jan Lombard said yesterday.

He would not say exactly how many cases were involved but said they ran "into double-digit figures, but not more than 50".

A special internal investigation team was established in December under Lombard's direction to investigate forex frauds and other problems relating to the use of the financial rand after disclosures by the Harms Commission that Pretoria attorney Albert Vermaas allegedly moved at least R100m in foreign exchange last year.



● LOMBARD

The committee's members include the Bank's forex department GM John Postmus — who on several occasions handled Vermaas's applications — an SAP commercial branch representative and a treasury department representative.

Reserve Bank Governor Gerhard de Kock said yesterday an urgent meeting was called on December 9 after reports about the Reserve Bank's role in the

MANDY JEAN WOODS

Albert Vermaas case. It was decided to establish a special committee to investigate cases of forex fraud reported to it.

De Kock said the Bank had been tipped off about a number of alleged forex fraud cases in early December, but he could not say if this had been a result of the evidence to the Harms Commission on Vermaas's activities.

Lombard told the commission on Friday that over-invoicing was "the biggest evil in forex fraud" and that SA suffered its greatest losses through this practice.

De Kock said there were no controls to prevent over-invoicing, other than the good faith of a client and the intuition of a foreign exchange official.

"Without tip-offs or other factors which arouse our suspicions, there is no way we could know if over-invoicing is going on. Over-invoicing is the most difficult thing to check on."

Lombard said one indication of over-invoicing was a dramatic increase in the unit value of imports.

He told the commission on Friday the Bank was preparing a number of adjustments to the current system to limit the possibility of false invoicing.

One measure being contemplated was to have an accountant certify invoices

● To Page 2 →

## Huge forex frauds under investigation

attached to forex applications before the client received the money from the bank.

B/Dan 23/1/89

● From Page 1 ←

74

"I have already had talks with the accountants association and some bankers. I have also made enquiries about other forms of control," he said.

The Bank had in the past few weeks initiated an investigation into forex applications made by Vermaas and his companies, to see if there had been any contraventions of the exchange control regulations.

Lombard told the commission he was

satisfied with the conduct of Bank officials who processed Vermaas's forex applications.

Under cross-examination by the commission's chief investigating officer, Advocate Frank Kahn, Lombard admitted that in hindsight Bank staff could have been negligent. However, he was adamant there was nothing in the applications which would have aroused the suspicions of forex officials.

# Bank move to curb vanishing millions

AK64S 23/1/89 (8) 74

By TOM HOOD, Business Editor

THE Reserve Bank is planning a clamp on importers to prevent false invoicing — a practice blamed for heavy foreign exchange losses to the country.

Currency fraud cases involving hundreds of millions of rands are being investigated by the bank.

The number — “no more than 50” — includes investigations that have been going on since the beginning of last year, said the deputy governor, Dr Jan Lombard, in Cape Town today.

Dr Lombard said over-invoicing was a major problem internationally but its extent was not known in South Africa.

“It would not show up in the balance of payments,” he said. “It would masquerade as imports. It is only when unit values of imports rise strongly that over-invoicing can be detected.”

The bank was changing the system to limit the possibility of false invoicing. This would include accountants having to certify invoices attached to a foreign exchange application before the client received the money from the Bank.

The Reserve Bank has established a special investigating committee under Dr Lombard to probe currency frauds and other problems connected with the financial rand.

This step followed disclosures by the Harms Commission that Pretoria attorney Albert Vermaas allegedly moved at least R100-million out of the country last year.

Allegations of foreign exchange fraud reported to the committee will be investigated.

Dr Gerhard de Kock, governor of the bank, said over-invoicing was difficult to pick up without tip-offs or other factors to arouse suspicions.



# Police probe R550-m forex frauds

24/1/89  
By Craig Kotze, Crime Reporter

Johannesburg Commercial Branch detectives are investigating foreign exchange contraventions totalling about R554 million, a spokesman said today.

The shock statement comes after an announcement at the weekend by the Reserve Bank that a special investigation team set up by the bank was investigating foreign exchange contraventions totalling hundreds of millions of rand.

Foreign exchange is regarded as the "lifeblood" of the South African economy.

Amounts involved in investigations being conducted by other offices of the Commercial Branch are not yet known.

## INVESTIGATING

Witwatersrand police spokesman Lieutenant-Colonel Frans Malherbe confirmed today that

John Vorster Square detectives were investigating 20 cases of foreign exchange fraud involving about R554 million.

He said over-invoicing formed an "integral part" of the amounts involved but he did not say exactly how much. The Reserve Bank has identified over-invoicing as a great "evil" in foreign exchange contraventions.

"Over-invoicing forms an integral part of the John Vorster Square Commercial Branch foreign exchange investigations," said Colonel Malherbe.

He added that some of the cases being probed by Johannesburg detectives were also being investigated by the Reserve Bank.

Most of the Reserve Bank investigations are also concerned with over-invoicing.

According to deputy Reserve Bank Governor Dr Jan Lombard, cases being investigated by his team run into "double-digit" figures, but not more than 50.



Lieutenant-Colonel Frans Malherbe . . . 20 cases.

74

# Opposition slams govt forex probe

B/Dam 25/11/87

THE Reserve Bank has come under heavy criticism from opposition parties for appointing Bank officials to a special internal committee to investigate cases of forex fraud.

The CP and PFP have called for an independent inquiry into the Bank's handling of forex transactions.

The Bank has already handed 20 cases involving more than R554m to the police for further investigation.

Two members of the special internal committee are the Bank's Deputy Governor Jan Lombard, who is responsible for the foreign exchange division, and the Bank's foreign exchange department GM, John Postmus.



● DU PLESSIS

In evidence before the Harms Commission, Postmus admitted he handled several forex applications made by Pretoria businessman Albert Vermaas who is alleged to have contravened forex regulations by over-invoicing and round-tripping.

The commission heard in December the Bank approved 10 commercial rand transactions totalling more than R100m, and finrand transactions totalling R92m, over an 18-month period without verifying the deals.

MANDY JEAN WOODS

CP finance spokesman Cas Uys said it was ridiculous to appoint a Bank official to investigate contraventions arising from the Bank's own "inadequacies and its lackadaisical approach to applications involving millions of rands in exchange control".

"Fortunes were made overnight through forex deals and this state of affairs must receive the urgent attention of Parliament. We want a parliamentary commission of inquiry to investigate the whole Bank operation with specific reference to the currency exchange control — or the lack of it."

● Comment: Page 6

He said questions must also be asked regarding Bank officials accepting invitations to Vermaas's game farm where certain Cabinet ministers were present.

PFP justice spokesman Dave Dalling said the investigation must be independent of the department and must be carried out by people with no history in these dealings.

He said: "It would be strange indeed if matters were being investigated internally in the forex department by the people who were involved in the original transactions."

Finance Minister Barend du Plessis

● To Page 2 →

## Reserve Bank forex probe under fire

said he had been aware for some time of a number of schemes which were being used by certain people in the abuse of the financial rand system.

He said: "At the appropriate time, I shall provide more information about the steps being taken to investigate past transactions and to adjust control measures where necessary."

Lombard yesterday confirmed reports the Bank had handed over at least 20 forex fraud cases — in which over-invoicing formed an integral part — involving about R554m for investigation and prosecution.

He said these figures only applied to those cases which had already been handed over to the police.

He said: "We may still have some

cases on our books which we are still going to refer to the police. The Bank is adamant it will prosecute people involved in forex fraud."

□ The Harms commission heard yesterday that Vermaas served for a year on the board of an Armscor subsidiary without a security clearance.

Armscor executive GM Johan Janse van Vuuren said Vermaas was appointed on November 1, 1987, as a director of Eloptro, an Armscor subsidiary, subject to him obtaining a security clearance.

He said: "A positive security clearance was not issued and Vermaas was notified last November 10 that his appointment would not be confirmed."

← From Page 1

B/Dam 25/11/87

74

# Horwood sees hope of inflow of foreign funds

By Sven Forssman

The declining volume of corporate and government bonds available to European investors, especially big institutional investors, could result in a flow of foreign funds to South Africa, says Nedbank Group chairman Mr Owen Horwood.

Star 26/1/89

He told the French Chamber of Commerce and Industries of Southern Africa earlier this week he believed falling supplies of government and corporate bonds in a situation of rapidly rising investible funds augured well for creditworthy countries like South Afri-

(74)

ca, which were willing to come onto the market at above-market interest rates.

"South Africa has recently tested the water by successfully raising a modest 55 million Swiss franc loan with a consortium of banks.

"I must note too that

there has been a turn of the tide with regard to sanctions sentiment against South Africa in Europe.

"I believe this largely due to a revulsion against being dictated to by a hysterical and ideological US Congress," he said.

# Checking out the rand

WHEN measured against the dollar, the rand seems to be in a state of paralysis. It has barely moved out of the US\$1 = R2,37 to US\$1 = R2,39 range since mid-December. Against the other major currencies and gold it has, however, shown remarkable strength.

For example, in mid-November a rand bought only DM0,73; now it buys DM0,77. It took R4,35 to buy £1; now £1 costs only R4,20.

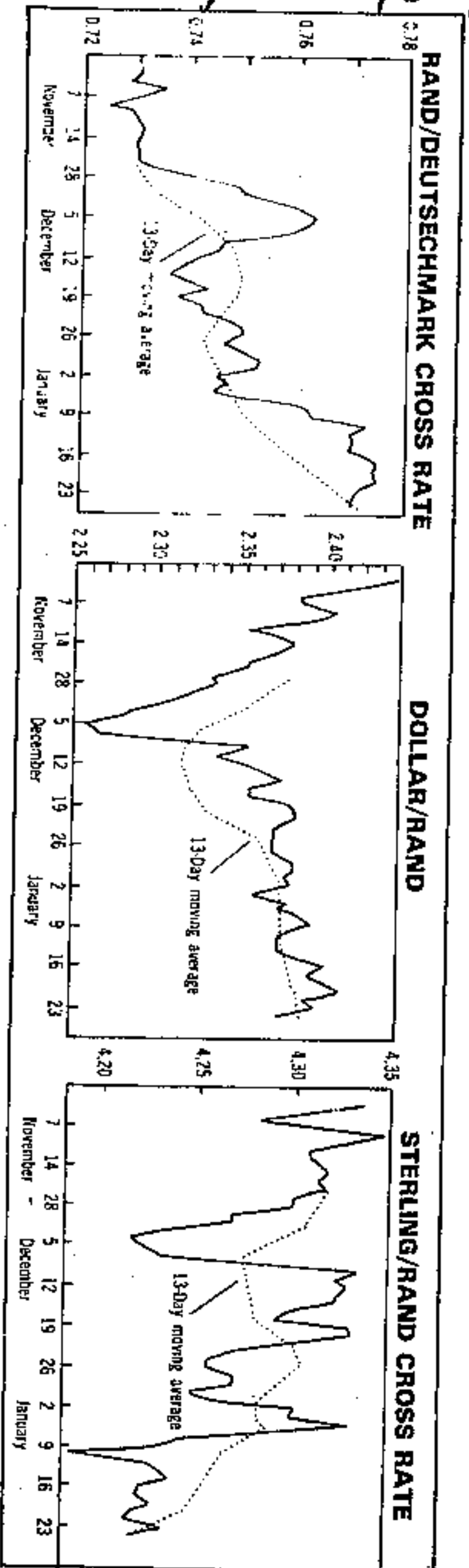
Looking at the US dollar/SA rand chart we see that the rand is essentially unchanged against the dollar between these two periods, even if a surge of strength was apparent in late November/early December. The movement of the rand against the other major currencies has therefore taken place as a response to movements in the dollar versus these currencies rather than any movement of the rand versus the dollar, or vice versa.

## Conflicting

The brings us to an interesting question: how should we measure the strength (or weakness) of the rand? Should it be against the US dollar? Or against the other currencies? Depending which you choose, the rand is either firm or weak — it is showing conflicting signals from each. I would suggest that measurement against the US dollar has almost become redundant. The first reason is that much of the corporate sector has always measured the value of the rand against other currencies — i.e., the currencies in which they trade.

The second reason follows on from this, in that trade denominated in US dollars is dimin-

B/Daily 26/1/89



ishing. There are a number of reasons for this, not the least of which is the anti-SA sanctions campaign in the US, which has meant that trade with that country has been largely substituted by trade with other countries.

An argument against this view is that the US dollar is still the world's numeraire — i.e., we are on a US dollar standard, and the professional dealers will therefore continue to insist that measurement must be against the US dollar.

For the moment, however, it is much more interesting to review the outlook for the rand against other currencies, although we will have to interweave the position of the US\$/rand rate to give some perspective.

Some would argue that having to do that is sufficient justification to measure the rand against the US dollar, but I would counter that

it is merely a relic of habit.

As mentioned earlier, the rand has been on a positive trend against the major currencies since mid-November. In late November/early December it experienced a surge of strength against both the US dollar and the other currencies. This was largely a result of Reserve Bank intervention and was clearly unsustainable. The rand does not have that much inherent strength that it can rise against all currencies, including the US dollar, at the same time. It needs some weakness in the US dollar against other currencies to give substance to any exhibition of strength.

That point aside, it is clear from the charts that the rand is in a strengthening mode against the DM, sterling and other currencies. The 13-day moving average confirms the trend and has

proved to be a fairly good fit to the support level line of the rand.

This strengthening mode is not pure chance or a flash in the pan. It has substance in the fact that the balance of payments is improving, notwithstanding the large foreign debt payments that took place in December. In addition, the rand was technically very oversold in third currency terms. It is a very pertinent example of technical forces that even uninitiated importers were reluctant to take forward cover (third currency to rand) at the low levels, while exporters were all taking full advantage of the favourable cross exchange rates. Finally, we must also note the increase in non US dollar holdings in the Reserve Bank's gold and foreign exchange reserve position.

## Caught between

At present, though, the rand is poised close to the 13-day support level and, indeed, is very close to the longer-term resistance level as well. In colloquial terms, it is caught between a rock and a hard place and its future course is, for the moment, dependent on the future direction of the US dollar. In other words, it needs further substance from the US unit.

Given the still poor state of the US trade account and the massive extent of the national debt, it would seem that further weakness in the US dollar must be expected. Hence, the rand is likely to gain against the US unit and thereby develop the substance needed to break through the resistance against the third currencies and rise to higher levels.

# Forex workshop for bank personnel

By Day 26/11/89 MANDY JEAN WOODS

THE Reserve Bank has initiated a practical foreign exchange workshop for bank employees, the first of which takes place today with Trust Bank, after the exposure last year of forex fraud cases totalling millions of rands.

The workshop will host 78 Trust Bank employees and 10 Bank officials, under the direction of the Bank's forex department GM John Postmus.

Trust Bank MD Chris van Wyk said he had taken a personal interest in preventing forex frauds — such as the R100m African Bank case and the R60m Simon Samuels case — from happening again.

He said: "We have had a number of discussions with the Bank since October last year about the kinds of internal controls we could take to prevent forex fraud. At one of these meetings, Postmus suggested we hold a workshop which we decided to hold as soon as possible."

Van Wyk said another workshop with participation by all banks registered to deal in foreign exchange was planned.

Among the items to be discussed were: documentation requirements for forex; the financial rand mechanism; local borrowings of foreign companies; trusts; company forex requests; and the issue of exchange control in general with regard to immigration and emigration.

# Export surge sends surplus to R1,26bn

BIDM  
26/1/89 GRETA STEYN

74

THE balance of payments enjoyed a strong finish to 1988 with the trade surplus climbing to R1,26bn in December — its highest level for the year.

The rising trend in exports, which began in the second half of 1988, continued in December, while imports dropped to their lowest level in five months. Exports rose to R4,51bn in December from R4,46bn in November and imports dropped to R3,25bn from R3,83bn.

However, the trade surplus for the year as a whole was evidence that 1988 was a difficult year for the balance of payments. The trade surplus for 1988, at R9,3bn, was 36% down on 1987's surplus of R14,5bn.

Economists estimate that, after Reserve Bank adjustments, the current account surplus could be about R2bn — a far cry from estimates of about R4bn at the beginning of last year.

## Depreciation

However, the current account is much healthier than a year ago, when it slipped into deficit. The improved current account surplus towards the end of the year helped SA to hold on to its reserves while meeting foreign debt and interest payments.

Economists said the uptrend in exports was largely due to the weaker rand. Safto economist Bruce Donald expected further depreciation of the rand this year to continue boosting exports while curbing the demand for imports.

Trust Bank's Nick Barnardt said strong world economic growth was ensuring a demand for SA's exports, in spite of sanctions.

"I am surprised over the surge in exports in December, which is seasonally a slow month. It seems merchandise exports must account for the rise, as gold mines had fewer working days last month. The drop-off in imports might be purely seasonal," he said.

al-  
at  
ch-  
de-  
of  
ag-  
nd-  
in  
ous  
be  
will  
to  
wl-  
re-  
are  
de-  
e in

# Complex exchange plan

B/Day 30/1/89

LESLEY LAMBERT

SA'S financial markets are negotiating plans for an integrated electronic exchange that promises to facilitate future growth, liquidity and efficiency of the markets, and to cut through the costly development stages other major international markets waded through to implement changes.

During the next few months the bond and futures markets are expected to decide whether to go ahead with the Universal Exchange's (Unex) proposal for the new development.

The proposal — a weighty 7,5kg document put together by Standard Merchant Bank staff — aims to develop an exchange that will phase in the various non-equity markets and provide a computer-driven trading system with a fast and efficient flow of market information and centralised settlement.

## Reduce risk

In addition, it promises to be resilient enough to cope with a 500-fold increase in combined volumes and to enable the markets to plug into international trade networks if, in time, the opportunities arise.

There is little doubt, given the estimated volume growth in the bond and futures markets, that more sophisticated trading systems and more reliable clearing measures are needed to cope with the growth and to reduce risk.

To succeed, the project needs the backing of potential participants. There will have to be negotiation with competitors as well as market users who have already contributed to the cost of a physical exchange and resist the idea of a new electronic exchange.

Unex has invited the fledgling SA Futures Exchange (Safex), the Bond Market Association (BMA), Safcom and Sash (the two companies that will provide exchange facilities to the futures and bond markets respectively), the JSE and the Life Offices Association (LOA), to comment on the proposal and recommend any

changes they feel may be necessary.

While most have approved the proposal in principle, the more political issues of profit-making and independent ownership have been major causes of concern, especially for Safcom, which will be merged with Unexcor, a public company to be established if the Unex project is approved in its current form.

In an attempt to dispel some of these fears, Unex has proposed that during the first five years of Unexcor's existence it will limit its membership to market participants and plough all profits back into the exchange, said project manager Burgert Oosthuizen. After five years, it will decide whether or not to open up its membership and pay dividends.

In the meantime, Unex has set up a joint task team with representatives from the major participants to revise the proposal according to recommended changes.

Inevitably, though, final decisions on the project have been delayed by a more modest counter-proposal by Safcom officials for a central clearing house to serve the needs of the separate financial markets.

Safex, the Rand Merchant Bank initiative that has been operating an over-the-counter futures market since early 1987 and that hopes to begin official trade in June this year, has had to go ahead with its own plans, in spite of Unex's proposed incorporation of the exchange. Growing volumes have forced it to hasten the development of a sophisticated trading structure, said Safcom MD Stuart Rees.

Unex interprets this as a necessary interim development to facilitate trade in futures until Unex is ready to incorporate the fast-growing derivative market into its system. Safcom, however, proposes that it be given a mandate by the other markets to use Unex's blueprint to extend the clearing facilities it is developing to the other markets once futures are up and running. It claims its system will be less complex and less costly than Unex.

Whatever their final decision, most participants, including Unex and Safcom, agree the primary concern is to thrash out the solution for a common system that will serve their needs in the most efficient and effective way and to do it now, before the individual markets are forced to develop their own exchange facilities separately.

If they succeed, they will have leapfrogged the development stages that have incurred prohibitive long-term costs for major international markets, and achieved from the outset what many of these markets are battling to implement now.

## Research

After years of fragmentation and separate development in the UK markets, the International Stock Exchange (ISE) in London is now rationalising the internal functions of its equity, gilts and options markets and trying to establish co-operative links with external markets that have similar trading or clearing requirements, like the successful London International Financial Futures Exchange (Liffe).

The ISE has spent a lot of time and money researching the best ways of integrating the markets to reduce long-term costs and build up a strong compensating force against international competitors.

But, because markets like Liffe have developed as separate entities with separate management and systems, vested interests have placed a severe restraint on attempts at rationalisation.

Unex has based much of its proposal on the ISE's findings. Ironically, it will probably be easier to implement them in SA than in London because interests have generally not yet been entrenched by investment in computer systems or strong independent principles.

This is why it is so important that Safex and Unex, with the assistance of market participants, sort out their differences, even if it means a compromise.

## Mining houses paid in dollars

GRETA STEYN

THE Reserve Bank took a step towards freeing SA's foreign exchange markets yesterday by paying the mining houses in dollars instead of rands for their gold. *8/day 3/11/89*

The mining houses, instead of the Reserve Bank, will from now on sell the dollar proceeds from gold sales into the forex market. The central bank has effectively reduced its influence over the market by no longer controlling the supply of dollars.

Reserve Bank Governor Gerhard de Kock yesterday described the move as a return to normality.

"In the crisis days of 1985 we went back to the old arrangement of the Reserve Bank feeding dollars into the market. But we have now resumed the development of efficient spot and forward foreign exchange markets outside the Reserve Bank."

He said the Bank's planned withdrawal from the forward exchange market was a longer-term objective.

"If we move too fast, we run the risk of sharply higher interest rates and extreme downward pressure on the exchange rate. Nevertheless, we have already held discussions with the banks on balancing their forward purchases with their forward sales."



# NO rand safety net for gold

By Derek Tommey

Those who expect the latest fall in the price of gold to lead to a drop in the exchange rate of the rand against the dollar could be disappointed.

In the past the authorities have tended to let the rand slide whenever the gold price has dipped in order to maintain the rand price of gold at a suitable level.

Last year, when the dollar gold price fell 16,4 percent from \$486 to \$407, the rand was devalued by 20 percent from 195 US cents to 246 US cents.

As a result, the gold mines, far from suffering from a lower gold price, saw their revenue rise from R950 an ounce in December 1987 to R1 002 at the end of last year.

So, in spite of the lower gold price, they actually received a 5,4 percent revenue increase.

Since December, the dollar price of gold has fallen further, to reach \$390,45 yesterday afternoon. But this time around there

are indications the Government has told the mining industry enough is enough.

One gets the distinct impression the authorities have been weighing the cost of helping the mining industry by devaluing the rand and so maintaining the rand gold price, and have realised the resultant inflation, individual impoverishment and disincentive to invest make it a not particularly profitable operation.

## Mining industry

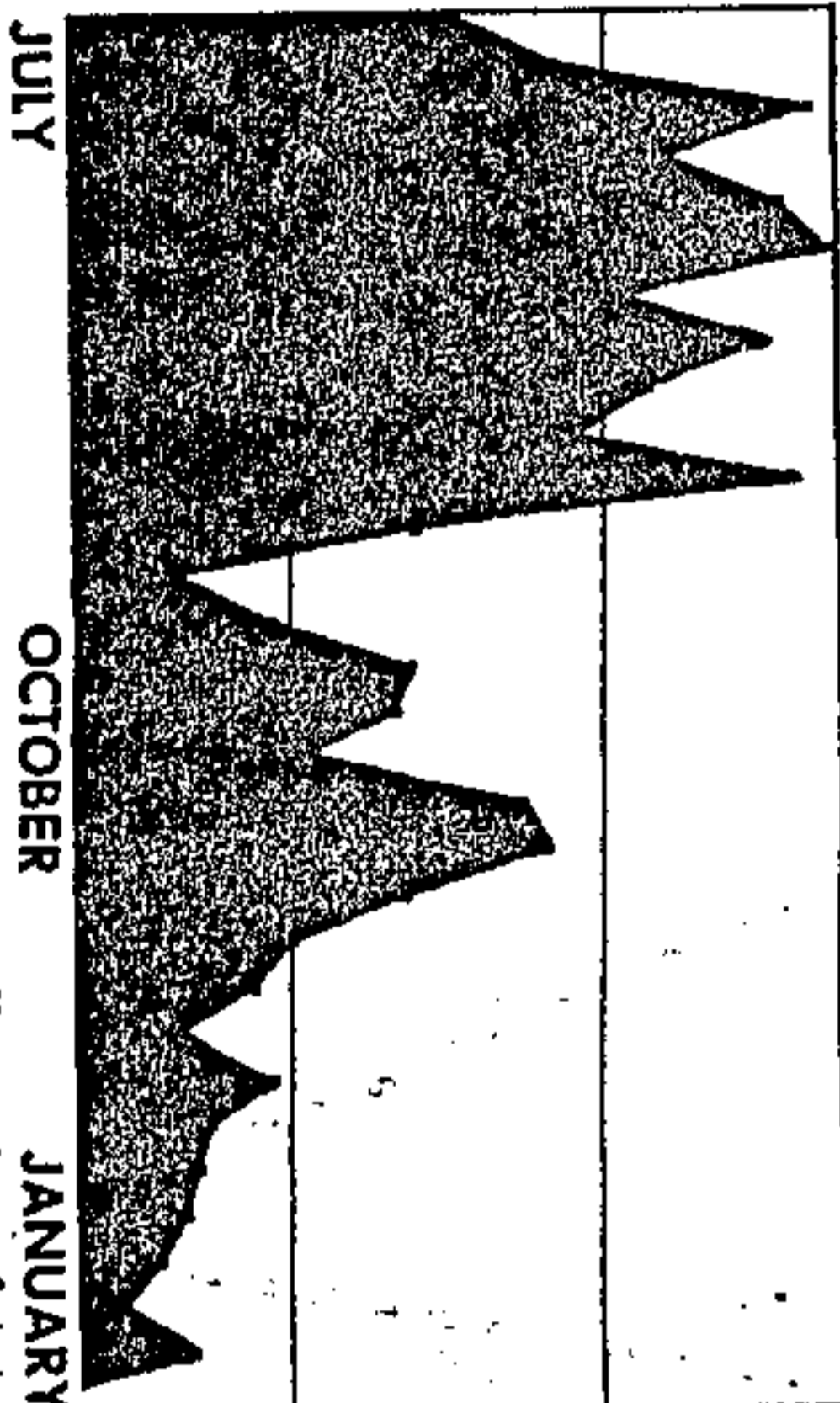
This time the exchange rate of the rand has not followed the gold price lower. The result is that the rand price of gold has fallen below R950 for the first time in 10 months and some marginal mines are probably having to fight for their lives.

One suspects the mining industry has been told it has to stand on its own feet from now on and to adjust to whatever the gold price may be.

R1090  
R1040

R990

R940



Some sections of the mining industry, especially marginal mines, might not like this.

But after the favourable treatment granted the mining industry last year, one must expect the authorities to draw the line somewhere.

And there are extremely good economic reasons why the rand should not be devalued any further.

Some mining industry sources, in fact, say the actual amount of gold produced by marginal mines

OCTOBER

JANUARY

is only a small portion of total output and that jeopardising the economy for these by devaluing the rand does not make much sense.

It is estimated that were all the five marginal mines which are members of the Chamber of Mines — Bracken, Durban Deep, FRPM, Marievale and West Rand — to close (a most unlikely occurrence), SA would lose 2 000 kilograms of gold a month worth R120 million, or about four percent, of its total output.

In view of the greatly improved foreign trading position, which produced a trade balance of R1,2 billion in December, this would be affordable.

In return, by not using the exchange rate to help the margins, the authorities in the next 12 to 18 months should get a marked drop in the inflation rate.

In all this one gets a glimpse of possible long-term economic planning.

In the past year or so it seems the intention of the plan was to improve the balance of payments, even if this meant large devaluations of the rand, in order to create a climate suitable for sustained economic growth.

## Foreign investment

The next stage, now about to begin, would be to reduce inflation by maintaining a stable rand and so again attract foreign investment.

Political factors have undoubtedly played a role in the disinvestment that has taken place in recent years.

At the same time, the slide in the rand has made it a most unprofitable country for foreigners to invest in because their dividends and interest have been shrinking at an frightening rate year by year.

If they could be promised a fair return on investment, they might be induced to put money in again.

If the inflation rate could be brought down, they might even help raise the R5 billion needed in the next few years to finance the new generation of gold mines.

The outlook is bright, but one must remember that the exigencies of the next election could damp long-term economic planning on its head.

## Nedbank tip-off (74)

### led to forex arrests

*Blair 6/2/89* GRETA STEYN

A TIP-OFF from Nedbank led to the arrest last week of three Pretoria bank employees in connection with illegal foreign exchange transactions amounting to more than R1,8m, a spokesman for the bank said at the weekend.

He said one of the suspects had still been in Nedbank's employ at the time of the arrests. Two others, who had previously worked for Nedbank, had already left the bank and were working for another bank when they were arrested. The name of the other bank could not be established yesterday.

Police said a fourth man, described by police as a "middleman", had also been arrested.

The bank employees allegedly purchased US dollars from travel agents on behalf of middlemen without official bank approval. The purchases were made possible because of the bank employees' presence at the travel agents.

Nedbank did not suffer any losses as the deals did not go through the bank's books, the spokesman said. He added that the suspects had been on a junior level in the bank.

Further arrests are expected.

# New clamps on forex flow not enough, says Schwarz 74

By Peter Fabricius  
and Sven Forssman

The Reserve Bank's latest clampdown on the illegal outflow of foreign exchange was given a qualified welcome today in opposition financial circles.

But Progressive Federal Party finance spokesman Mr Harry Schwarz said the steps taken did not go far enough.

## MEASURES

He said the measures announced by Reserve Bank governor Dr Gerhard de Kock failed to address the two main sources of forex leaks — the over-invoicing of imports, under-invoicing of exports and "round-tripping" with financial rands.

Dr de Kock announced that, after consultation with Finance Minister Mr Barend du Plessis, the following measures would be implemented:

- Dr Japie Jacobs, senior deputy governor, would assume responsibility for the co-ordination of activities.
- The Reserve Bank would expand its exchange control department, specifically

the inspection section.

- the banking supervision department would be expanded. More use would in future be made of qualified accountants.

- A working group, set up in the second week of December 1988 at the request of Mr du Plessis, would identify possible contraventions for further investigations and, where necessary, update and improve exchange control procedures in both the Reserve Bank and the other banks. The working group includes representatives from the Department of Finance, the Industrial Development Corporation and a senior officer of the SA Police.

- The Institute of Chartered Accountants would continue to help the Reserve Bank's exchange control department in devising techniques of curbing over-invoicing imports and other fraudulent ways of transferring capital abroad.

Mr Schwarz said all investments in financial rands, except on the stock exchange, should be frozen until adequate measures were introduced to prevent fraud.

# Bank reserves disappoint <sup>74</sup>

<sup>R1 Day 3/2/89</sup>  
THE Reserve Bank's holding of gold and foreign exchange reserves in January disappointed economists hoping for a strong recovery after December's remarkable showing.

The Bank's statement of assets and liabilities shows the reserves rose only marginally by R43m to R4,97bn. Increased gold holding accounted for the rise, as gold holdings rose by R44m to R3,12bn. Currency holding remained unchanged at R1,74bn.

If it had not been for the lower rand gold price at the end of January, the reserves would have looked somewhat stronger, as physical gold holdings rose by almost 150 000oz to 3,6-million oz. Gold was valued at R863,49 in January against December's R887,75.

Trust Bank economist Nick Barnardt said: "After adjustment for valuation

GRETA STEYN

factors, the reserves rose by about R140m in January. The performance is disappointing, as most indicators pointed to an improved balance of payments situation."

The rand/dollar exchange rate was virtually the same for January and December, and had a negligible influence on the rand valuation of the reserves.

Barnardt noted that technical factors such as the distribution of SA's total gross reserves between the banking sector and the Reserve Bank could have distorted the picture. The true reserve situation would only become clear once it was known how much of SA's gross reserves had been in the hands of the banks in December and January.

## Tighter forex checks please top bankers

8/10 Day 1  
8/2/89 KAY TURVEY (74) (95)

BANKS have welcomed tougher moves announced by Reserve Bank Governor Gerhard de Kock to tighten checks on foreign exchange dealings.

Nedbank MD Chris Liebenberg said they were happy with the Bank's intention to increase its staff and improve policing.

He also called for greater clarity on the commercial banks' responsibilities and emphasised that, while they welcomed moves to eradicate fraud and circumventions, they could not become part of a policing structure.

Standard Bank international division deputy GM Roco Rossouw said they supported central bank actions to clean-up operations.

He agreed with Liebenberg that, while authorised dealers should apply the rules and implement internal controls to avoid inefficiencies and fraud, it was not a bank's function to police exchange control regulations.

Rossouw said plans by the Reserve Bank to increase staff in the inspectorate division from 184 to 193 were a step in the right direction.

The banks declined to comment on the internal restructuring of the Reserve Bank. De Kock announced senior deputy governor Japie Jacobs would assume responsibility for co-ordination of activities and deputy governor Jan Lombard, who previously reported directly to De Kock, would now report directly to Jacobs.

# FOREIGN EXCHANGE/David de Kock

## Momentum cycles look bearish

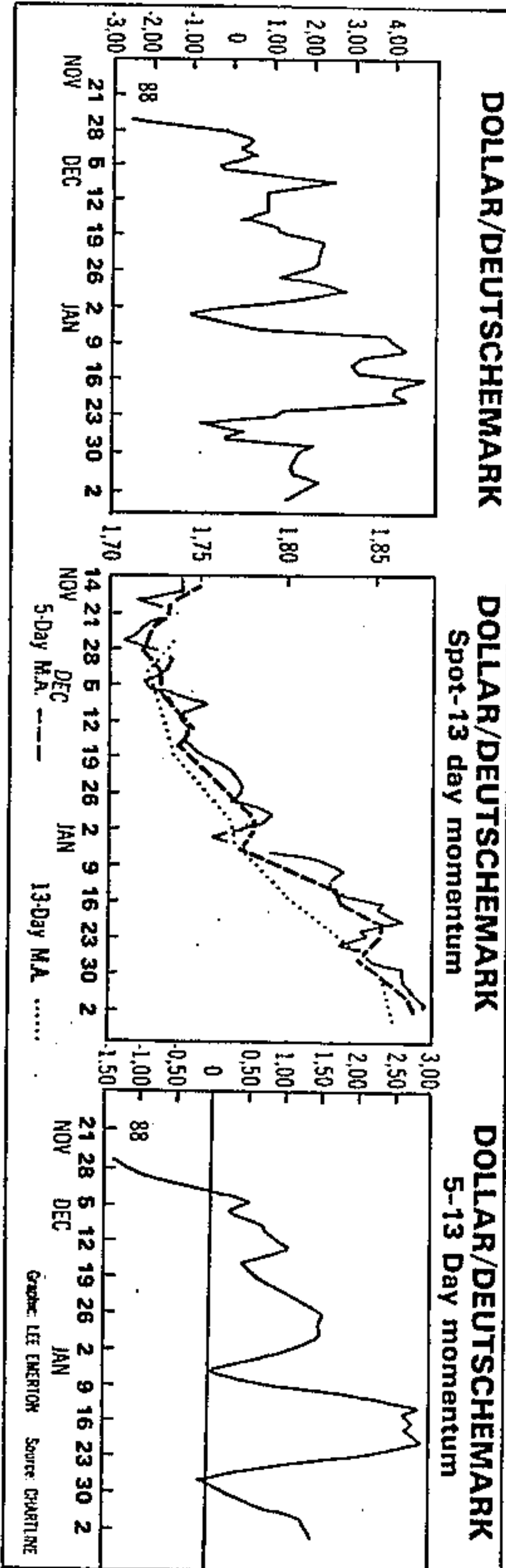
AS I was drawing out the charts for this article, seeking further confirmation of the start of the dollar's cyclical uptrend, I was struck by the interesting developments on the momentum charts.

Last week I did allude to the 5- and 13-day cycles which were expected to turn bearish for the dollar, but I failed to give full attention to the momentum of these cycles.

Despite the strong move of the dollar since late last week these momentum cycles have begun to look decidedly more bearish than I expected. However before we look at the momentum charts, let's begin by re-examining the current cycle of the \$/DM spot rate.

We see that the dollar has been rising since early December. More recently we have seen a mini head and shoulders bottom formation (Jan 23) which failed to halt the dollar's rise. In fact, the breach of the DM1,8750 level put us on notice that the dollar's cycle upturn was in the offing. This level is that to which I have referred in our daily Fintel commentary. In the last day or two central bank intervention has turned the rate away from that "final" resistance level.

Although I am not an advocate of central bank intervention, I fear that this time it may add to the



negative momentum that has already emerged. We need to examine whether this is indeed the case and, if it is, how far is the dollar likely to retreat before another attempt at establishing the cyclical uptrend.

On the 5 to 13-day momentum chart we see a massive head and shoulders formation which was well formed long before the central banks stepped in this week. In fact, the extent of their intervention is not even fully reflected on the chart.

The neckline of the formation is found at the zero level, or 150 points below the current momentum level. Interestingly, the zero level also indicates the point at which the 5- and 13-day moving averages will cross over. The cross over will be a significantly bearish signal for the dollar.

However, the cross over is not a foregone conclusion. At best this will take at least a week to develop and much could happen to intervene — we have President George Bush's

budget proposals for one thing!

Technically, however, there is a strong probability that the cross over, and the completion of the momentum head and shoulder top, will take place.

In the first instance the spot rate has fallen below the 5-day moving average — often a first confirming signal of a change in direction.

Secondly, we have a downturn in the spot 13-day momentum line, which incidentally is also showing a head and shoulders top formation.

This formation also reveals a neckline at the zero level, or the point at which the spot rate will cross over the 13-day moving average line — a second confirmatory bear signal. All these are still only "potential" signals (the exception is the cross over of the 5-day moving average) so what should we be looking for in the meantime?

The first would be two successive closes below DM1,87 beginning Tuesday. This will confirm the breach of the 5-day line.

The next important level is found at DM1,8630 — the expected cross over of the 13-day line. All things being equal the final signal, or perhaps the support level for the dollar, is found at DM1,8550 — the expected cross over point of the 5- and 13-day moving averages.

A word of warning. The projected levels will not be achieved for at least a week and therefore, unless the dollar moves consistently in the projected direction, all the projections will be aborted.

Remember, we have already been put on notice that the dollar is geared for a cyclical upswing. The turnaround discussed here could well be nothing more than a short term fluctuation as the dollar gathers steam for the push upwards.

### REVIEW

11/21/89 174

# Can SA just buy it? 74

Should government stop worrying about forex, foreign debt, and imports?

An *FM* story on January 20 argued it should, because the Reserve Bank can always buy, with rands, as many dollars as people need. "Some politicians and economists might not like the *price* of forex — that is, the exchange rate," the article said, commenting on the *Standard Bank Review*. "But that's different from arguing that *no* forex would be available."

We asked economists to respond. Some agree and some, vehemently, don't:

□ Wits' Dan Leach: "Correct. Those who say there is a balance of payments (BoP) constraint — that is, a forex shortage — must say what the fundamental difference is between buying peanut butter with rands and buying dollars with rands. The *FM* correctly argues there's no difference;"

□ Nedbank's Edward Osborn: "The *FM* argument is utter nonsense. The supply of dollars emanates from export efforts and non-residents willing to invest in SA; it is not unlimited like a vast mountain of peanut butter. Foreign debt commitments are a real-life liability denominated in foreign currencies which have to be met from current earnings or reserves. Standard Bank's arguments are fully supported."

□ Reserve Bank's Roger Gidlow: "If the Bank were to act as if no BoP constraint existed, the exchange rate would reach a level consistent with equilibrium in the market. Were the BoP under pressure, the rand exchange rate would decline and if the Bank were short of forex it could in principle enter the market as a buyer of dollars. But such a policy would not be free of problems."

"No country operates such an exchange rate system. It would not eliminate the need for SA to record current account surpluses as long as outflows of capital persist. Moreover, it may exert considerable upward pressure on domestic prices, which could mean higher interest rates than if more conventional monetary and fiscal policies were employed to deal with BoP problems. At the same time,

any marked fall in the exchange rate, while squeezing real per capita income due to higher inflation, may only be followed with a time lag by any material shift in resources into the BoP sector. The short-term effects of such a policy may therefore be contractionary;"

□ Old Mutual's André Roux: "Technically it's feasible. But conventional wisdom dictates sustained, large-scale buying like this would lead to massive depreciation of the rand and possibly, in turn, hyper-inflation;"

□ Econometrix's Azar Jammine: "In prac-

in the finrand market at a price that equalises supply and demand.

"It is wrongly believed that this finrand mechanism stops capital flowing out. But it certainly restricts the supply of capital coming in. Foreigners exchange SA assets among themselves at the right price, which is the market-determined finrand exchange rate, without in any way influencing BoP flows.

"Given these exchange controls, the only way South Africans can get dollars to repay frozen debt is by export surpluses. Improving the price of exports through a fall in the commercial rand does not necessarily bring a quick response. Therefore, the Bank likes to accumulate dollars.

"The solution: remove exchange control, the distinction between financial and commercial rands, so we can get all the dollars needed at a price that equalises supply and demand and attracts new capital to meet the capital flowing out;"

□ Volkskas's Adam Jacobs: "Theoretically the argument is correct in a well-developed and large forex market. That does not exist in SA. Moreover, the rand will have to drop sharply in price and the implication of this will have to be weighed up against measures to protect the rand;"

□ Free Market Foundation's Eustace Davie: "Rands can buy anything at a price — including forex. Exchange control confuses, but doesn't change, the economics: though *individuals* are not allowed to buy all the forex they want, the *Bank* itself can — if it's prepared to pay the price, for example, the finrand rate. It seems

like forex is special only because money has been nationalised. Government has monopolies both in providing a local currency and dealing in forex.

"It would be easy to see there's nothing precious about forex if it were privatised, and treated like buying and selling shares;" and

□ PE University's Pierre le Roux: "If you find a shortage there's something wrong with the price mechanism. You can't run out of something unless you have quantity controls, as in a planned economy.



tice, given the inflationary consequences of rand depreciation, monetary growth has to be curtailed to check imports and protect the reserves. The inflation resulting from a run-down of reserves would be horrific;"

□ UCT's Brian Kantor: "South Africans could buy all the dollars they'd like if you remove exchange controls. Given controls, in the form of the finrand mechanism, we can't attract extra dollars from foreign investors in exchange for our rands. If they want extra rands, they buy them from other foreigners

# Behind the bull run on the JSE

By David Carte

**STOCKBROKER** PLJ van Rensburg uses a graph (right) as evidence that the JSE bull market will continue.

It contends that as long as foreign creditors deny South Africa access to capital, it will have to run a surplus on the current account of the balance of payments.

The result, argues PLJ, will be a build-up of investment funds, which will bolster share prices. It contends that until SA can again run deficits on the current account the bull market should remain intact.

## Correlation

The broking house observes a close correlation historically between movements on the current account and stock-market indices.

The reason? According to PLJ, the surplus or deficit on the current account equals the difference between gross domestic savings and gross domestic investment.

If investment is greater than savings, a deficit arises. Conversely, if savings exceed investment, a current account surplus results. It can either be invested abroad or be used to chase existing assets in SA. PLJ believes that there is a chase for assets in SA.

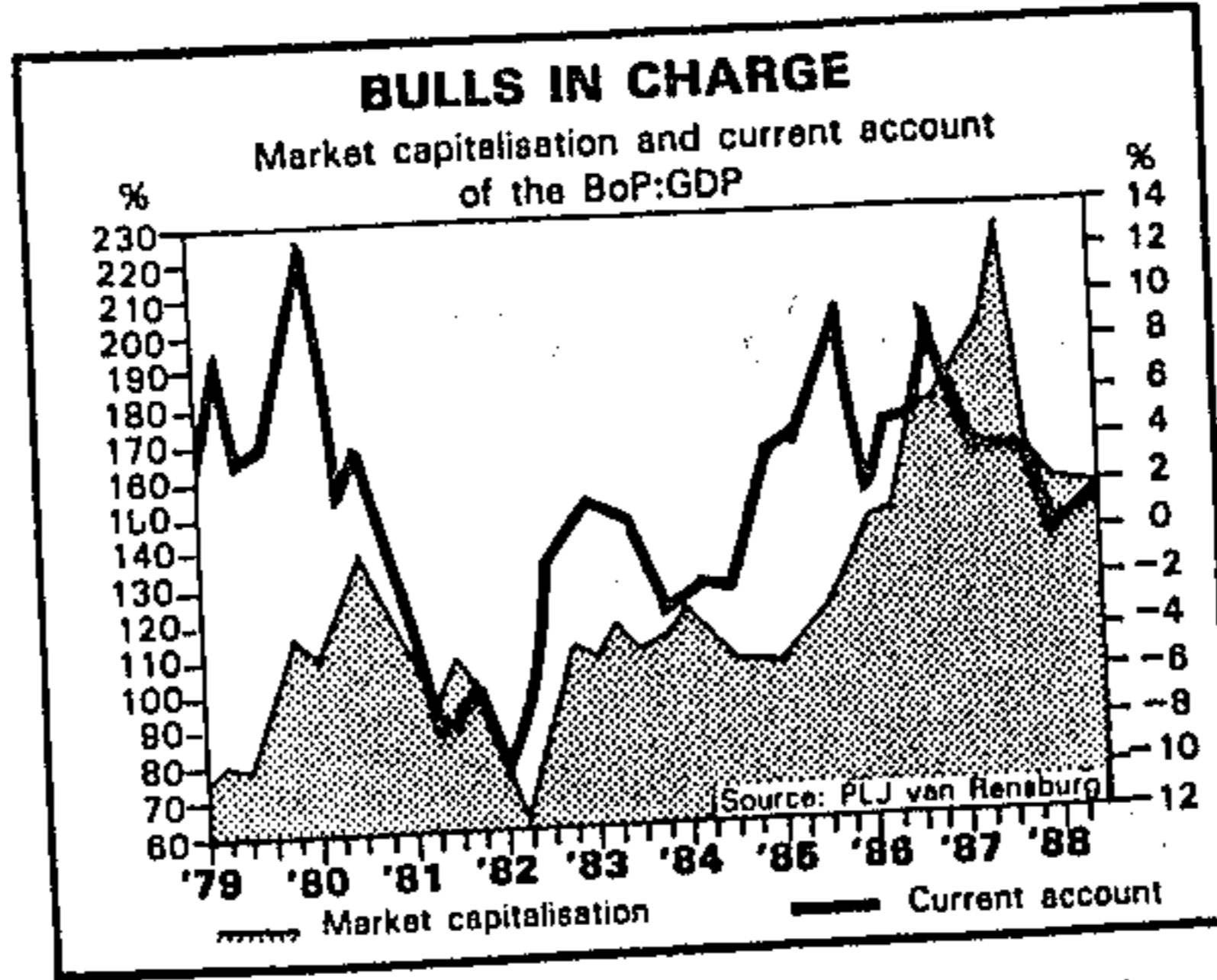
## Upwards

The graph plots the market capitalisation of the JSE and the current account of the balance of payments over a decade. To eliminate fluctuating growth, both are divided by gross domestic product.

The graph suggests that movements in the current account occur up to nine months ahead of those in the JSE market capitalisation. The graph would have given early warning of the October 1987 crash.

Right now the current account trend is steeply upwards, hence PLJ's bullishness for the stock market.

Does PLJ have the infallible tool for stock market prediction that investors have



sought for decades?

An institutional analyst is doubtful. He says it is true that the current account has been the tail that wagged the dog of the SA economy for years.

There is a fundamental explanation. When the current account has gone into deep deficit, the authorities have put the brakes on the economy in the form of higher interest and tax rates, bringing it and the stock market to heel.

Conversely, when domestic economic activity is low, depressing imports and lifting exports, the current account has gone into surplus. Interest and tax rates have been allowed to fall and the stock market has risen.

In the past, foreign capital inflows permitted SA to go deeply into deficit and it was thus possible to allow growth to rise to 8% before inflation necessitated brakes on the economy.

## Steaming

No longer. Now that the economy is steaming along at a growth rate of 3%, imports are sucked in and a deficit threatens.

Because foreign capital is no longer available to bolster the reserves, brakes have to be applied before the upswing can get going.

There has been a more hopeful trend in imports. They appear to be slowing, although it is still not certain whether the improvement reflects only lower arms and oil purchases. Exports have

been boosted by vigorous growth in major economies plus a fallen rand.

SA's economy is being permitted to run along at a fair clip, with the reserves as low as possible. Confidence in commerce and industry is running high and the stock market reflects it.

## Ignored

But, complains the analyst, the PLJ van Rensburg analysis seems to ignore that the current account surplus has been needed to permit repayment of foreign debt.

The capital account has also to be taken into account. As Finance Minister Barend du Plessis said this week, R25-billion of capital has flowed out of SA since 1985. (Imagine liquidity in SA had capital flows been positive.) Institutions are liquid be-

cause of exchange control, their domination of private savings and a shortage of on-the-ground fixed investment. As a result they have been obliged to chase the same small parcel of blue chips higher and higher.

But they are not too uncomfortable with their liquidity. They do like to match the length of their assets with the length of their liabilities, hence some pressure on them to acquire equities, properties and gilts.

But, together with the corporate sector, they are funding two-thirds of the banking system's liability base by way of wholesale deposits. They are receiving real returns on this money.

## Gold

The October 1987 crash showed that the weight of funds will not always underpin the market.

If real interest rates go even more positive, if privatisation siphons off a couple of billion at the time when the gold price is depressed, today's bullishness could evaporate.

Gold is the final determinant. If the dollar price weakens substantially, the already depleted reserves will require hard brakes that could suddenly dent the bull trend.

But right now, says the analyst, PLJ is probably right in being positive about the market, albeit for questionable reasons.



# United urges even more stringent curbs

Given the current state of fiscal policy, it is doubtful whether current monetary policy is stringent enough to curtail domestic spending significantly, says United.

In its latest *Economic Monitor*, the group says: "Fiscal policy is still too expansionary and, unless curtailed soon, the upward pressure on money market rates is bound to remain.

"Without a major hardening in fiscal policy, the economy will not be restrained sufficiently, which could endanger the already low level of foreign exchange reserves.

"Moreover, given the time lag with which monetary policy affects credit demand, interest rates are unlikely to start falling soon."

The bank says it expects the Bank rate to rise by about one per cent in the first half of this year and

that a decline in money market rates might only be seen in the third quarter of the year.

Although the surplus on the current account of the balance of payments is expected to increase to R5 billion in the course of the year, net capital outflows both inside and outside the standstill net are likely to be large and could reach \$1,7 billion.

United concludes that this means gold and foreign exchange reserves are likely to remain at a low level and that the rand will remain weak.

It estimates it could go as low as R2,60 to the dollar by the end of the year.

— Sapa

# Total govt debt rises by 22% to R56,2bn

8/Day 14/2/88

74

CAPE TOWN — Total government debt rose by 22% or R10,2bn to R56,2bn in the year to March 31 1988, Auditor-General Joop de Loor said in his annual report yesterday.



● DE LOOR

De Loor said of that, R50,7bn was long-term debt and R5,5bn temporary debt. The ratio of temporary debt to total debt on March 31 last year was 9,82%.

In the year under review, long-term debt rose by R8,8bn and temporary debt by R1,3bn. External debt comprised 2,02% of the total debt,

MIKE ROBERTSON

compared with 3,43% the previous year.

□ Sapa reports De Loor said Sats share of the debt amounted to R1,80bn after an amount of R32m was written off during the year.

Unrealised exchange rate losses on external debt amounted to R1,30bn at the end of March 1988.

Providing a statistical background, De Loor said government debt had risen from R1,55bn in 1950, to R5,45bn in 1970 and R19,75bn in 1980.— Sapa.

□ Reserve Bank figures have shown that total government debt stood at R65bn by September 1988.

● See Page 6

# SA surplus larger than expected

*B/ban 15/2/89*

SA HAD a larger than expected R2,8bn surplus on its balance of payments current account in 1988 after a R6,15bn surplus in 1987, Reserve Bank Governor Gerhard de Kock said yesterday.

De Kock told the Frankel, Kruger, Vinderine conference in Johannesburg latest estimates showed the current surplus recovered to a seasonally adjusted annual rate of about R5bn during the 1988 fourth quarter.

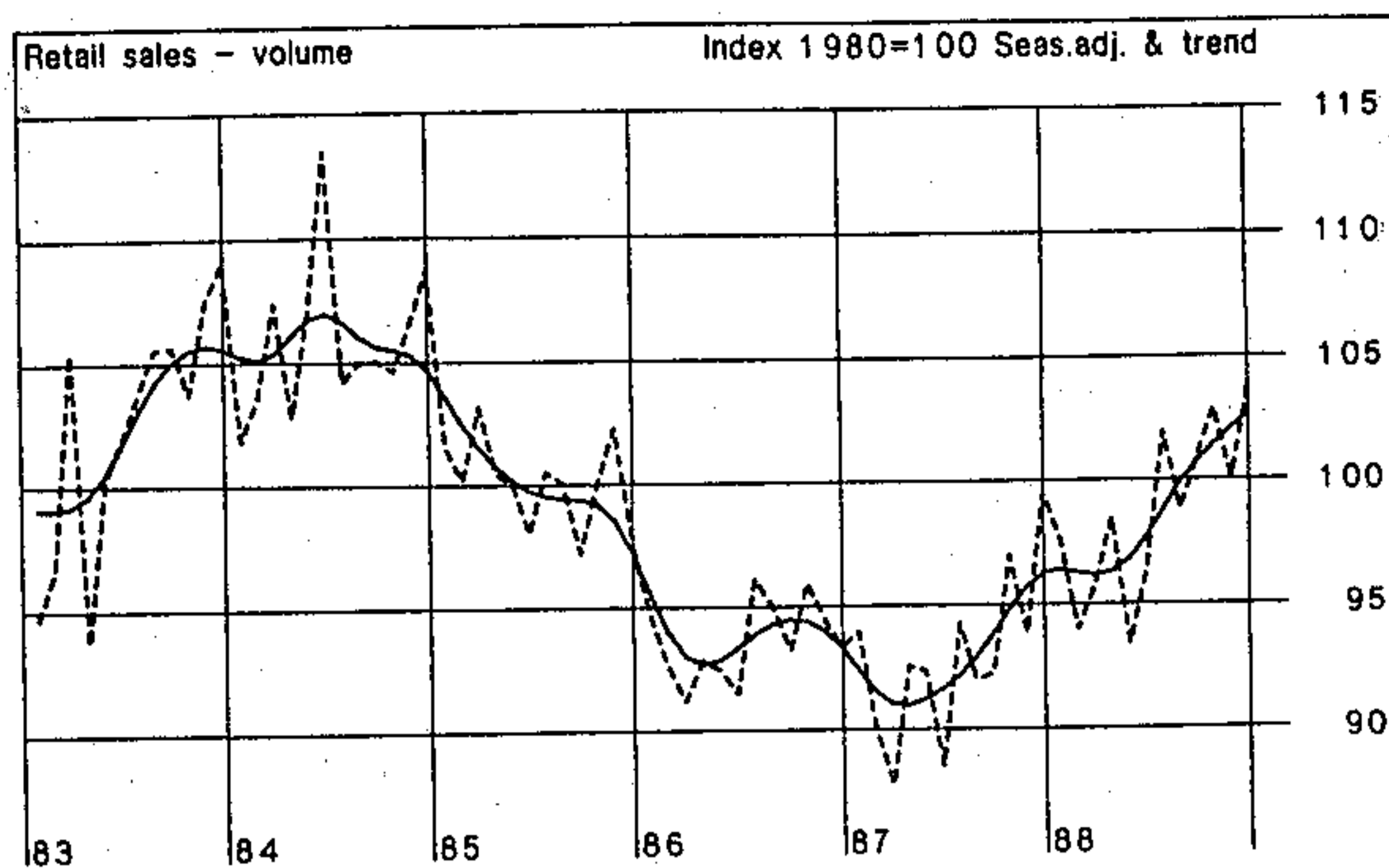
## Deficit

*(S) (74)*

"For the year 1988 as a whole, the surplus is now estimated at about R2,8bn, which is considerably higher than most estimates made during the course of the year," he said. Pretoria must run comfortable current account surpluses in order to repay its foreign debts, following a freeze on new foreign lending.

The current account slipped into deficit in the first quarter of 1988, prompting a series of interest rate rises and other import and economic growth curbs.

Commercial bank economists said the estimate released by De Kock, which will probably be close to the final total, was higher than the R2bn to R2,5bn estimates they had been working with. — Reuter.



Star 16/2/89

# Economy skating on thin ice — Standard

By Sven Lünsche

Although the economy put up a surprisingly strong performance in 1988, Standard Bank cautions that the foundation was not very firm and that there is a strong risk of failure.

The bank's economists maintain that a cautious approach to domestic demand management is essential this year, no matter how great the desire to see continued strength in spending and domestically oriented activities.

Standard points to many fundamental problems which could well reverse the good start to the year owed to the continuing boom in retail sales, manufacturing production volumes and the high level of business confidence.

"Among these is the repayment of foreign debt, which may return as a pressure point in 1990 when significant amounts of long-term loans fall due," the economists write in the February edition of *Standard Bank Review*.

"Paradoxically, improved short-term prospects in the form of firm domestic conditions now projected for 1989 may make it more difficult to meet debt repayments in 1990 and this undermines the medium-term outlook.

"Had the economy slowed significantly in the latter half of last year, and had domestic demand been soft at the beginning of this year, 1989 could have served as a period for generating very large trade surpluses and building up foreign reserves," the economists say.

Thus the price of relatively strong demand growth in 1989 may only be paid in 1990 when the problems of larger debt repayments need to be faced.

The economists hope, however, that the demand-dampening measures initiated last year will produce visible and lasting results, "so that the risk factor inherent in this policy will progressively diminish".

One of this risk factors is the prospect of a weaker gold price in the year ahead since there is not threat of serious international inflation or a major currency crisis.

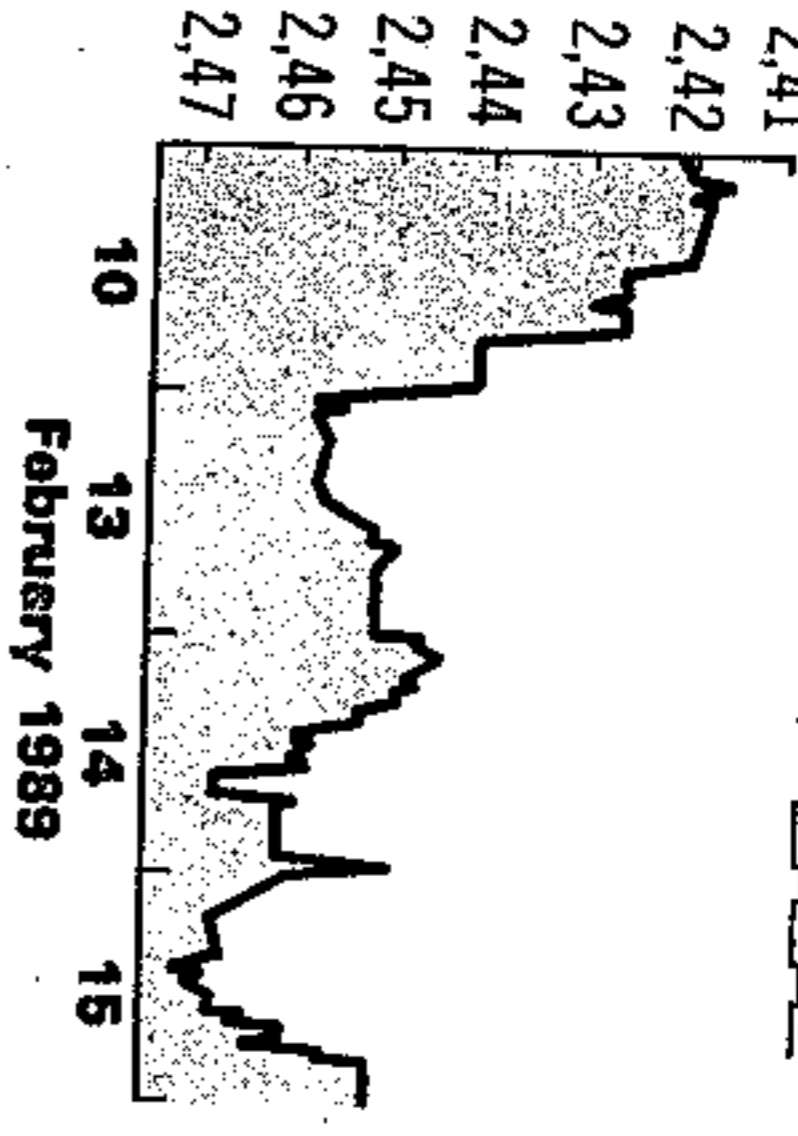
"Consequently, overall export growth is unlikely to be supported by a stronger gold price and gold could suffer a further setback at any time.

"This vulnerability to setbacks makes it imperative that domestic demand be dampened, even though a major pull-back is not called for at this stage," the economists say.

In conclusion, they say: "A problem faced by the authorities is that any serious setback, such as a sharp fall in the gold price, could see domestic confidence evaporate.

"Unless a reasonable cushion against such contingencies is created over the next few months by building up foreign exchange reserves, the economy would be vulnerable and the risk of major restrictive measures having to be applied never far away."

## Rand looking shaky



Graphic: FIONA KRISCH Source: REUTERS

# Bears rule local markets as relentless gold slide continues

BEARISH sentiment gripped local money, capital and foreign exchange markets yesterday as gold continued its relentless slide.

The metal was fixed at a 26-month low of \$381 in London — down \$3.10 from its previous afternoon fixing. The price touched a low of \$380.10 before the fix in London, putting pressure on the rand and sparking interest rate jitters.

The rand dropped quickly, sinking to R2,47 to the dollar after opening at R2,4583. The rapid drop prompted Reserve Bank intervention to stem the tide.

Blaney 16/2/89  
GHETA STEYN

Dealers said the central bank's intervention was "low profile", intended to slow the fall rather than boost a struggling currency.

With the help of the Reserve Bank and demand from exporters, the currency retreated from its lows to close at R2,4648 yesterday afternoon. The rand's weakness in the face of a declining dollar surprised some dealers.

However, Standard Bank deputy GM

Rocco Rossouw commented: "Economic fundamentals suggest that current exchange rates are a true reflection of the rand's value. This correction was bound to come, as the currency has been overvalued for some time."

The rand also weakened dramatically against other currencies, closing at R4,369 to the pound, compared with levels around R4,2315 at the beginning of the month.

Bearish sentiment also surfaced in the money and capital markets, with gold's weakness sparking fears of another in-

crease in Bank rate this year. Already, the key three-month liquid Bankers' Acceptance rate has moved up to 15,45% after a low of 15,20% last week.

Statements by Finance Minister Bar-end du Plessis and Reserve Bank Governor Gerhard de Kock that policy would remain restrictive aided the harder trend.

In the capital market interest rates on long Eskom stock ended the day at 16,56%, compared with Tuesday's close of 16,48% and levels below 16,40% at the beginning of the month.

# 'Sanctions-busting cloak' is used for forex fraud

CAPE TOWN — Most foreign exchange fraud was being carried out under the cloak of sanctions busting, Finance Minister Barend du Plessis said yesterday.

Replying to the debate on the Part Appropriation Bill, Du Plessis said as long as SA had international debt obligations it would have to continue with the financial rand system. In these circumstances preventing all foreign exchange fraud, especially round-tripping, would be impossible.

But he had appointed a special committee to look at all past transactions "to see if we can catch a few big fish. If we catch them we will nail them and nail them hard."

Du Plessis complained about the way the appointment of the committee, which had been disclosed during the Harms Commission hearings, had been reported.

Reports had been skewed to make it seem as if staff at the Reserve Bank itself were being investigated. "That's rubbish."



● DU PLESSIS

MIKE ROBERTSON

In appointing the committee he had enlisted the services of a police officer, an Industrial Development Corporation representative, the Inland Revenue Commissioner and the Customs and Excise Commissioner. These people would bring expertise to the investigative team that would not usually be available to Reserve Bank staff.

Once the committee had gone through all the old documentation to find the culprits it would suggest new procedures and regulations.

## Difficult

But Du Plessis denied the scale of foreign exchange fraud was as large as was being made out. If it was, the difference between the financial rand and the commercial rand would be smaller than it was.

He warned that catching those guilty of foreign exchange fraud was difficult. It had taken more than two years to bring the African Bank case to court.

There would never be a perfect solution to the problem, but government was doing its utmost to catch those guilty of fleecing SA.

□ Du Plessis also said SA fuel was totally under-taxed, Sapa reports.

Replying to debate he said the recent 10c/l increase in the petrol price had been aimed at dampening the growth in the use of fuel.

In the UK 67,5% of the petrol price was tax. In SA fuel consumption was growing at a rate 8% higher than the growth rate and the population increase.

□ The CP, PFP and NDM voted against the First Reading of the mini-budget yesterday, while all other parties accepted it.

Casper Uys (CP Barberton) said his party was opposing the measure because of government's inability to exercise sufficient control over the money supply; its inability to eradicate increasing corruption; its inability to keep down fuel prices; and its failure to make known its constitutional plans.

Harry Schwarz (PFP Yeoville) said as the present system of debate did not allow for the putting of amendments, his party would have to state in the declaration of vote what it would have asked the Finance Minister to have given assurances on.

Government had failed to address itself adequately to poverty; and to deal effectively with discriminatory social services and with the question of income disparity.

IT SEEMS that whenever one opens a newspaper these days one is faced with an article on the bearish outlook for gold.

First it was heading for US\$380 per ounce, and now that it is barely US\$5 from that level we are apparently looking for gold to only bottom out at US\$320 per ounce.

I still have misgivings about that chart validity of the US\$380 level, but it is quite easy to see from the accompanying chart where the south-sayers find their US\$320 per ounce level. It was the period of consolidation that occurred way back in 1985. Although this type of analysis is somewhat simplistic, it does tend to make a great deal of sense.

However, if one has to look for a bottoming out in the nether regions it would seem much more valid from a technical viewpoint to project the target which is determined by the head and shoulders top formation.

Here we have an outlook for a bottoming out at a level just below US\$300 per ounce. To all intents and purposes, this projection has already become feasible following the fall below the neckline at the end of January.

# Gold losing its glitter

14/02/89

34

One must, however, point out a few factors, both technical and fundamental, that run contrary to this projection.

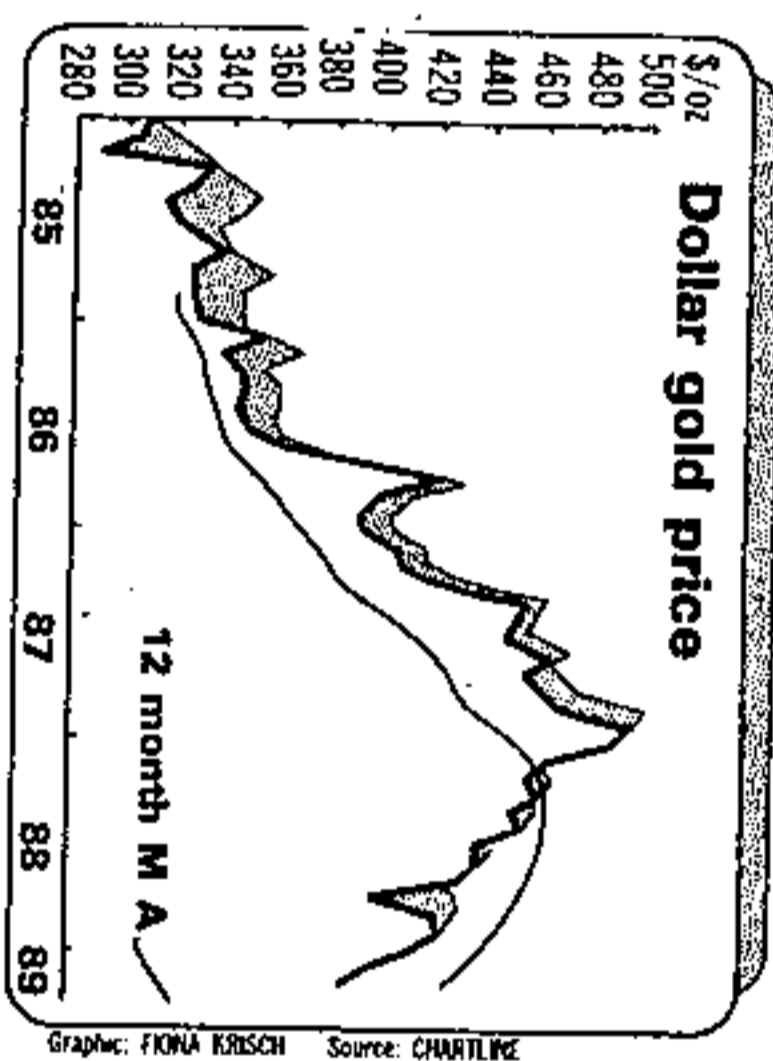
It must be remembered that the head and shoulders objective is not necessarily a foregone conclusion, especially when it is as weakly formed as the one we have on the chart before us.

## Comfortable

Indeed, it was only the last gold fix for January that took the price below the neckline — even the day prior to that it was still relatively comfortable above the neckline.

We also have no final February fix yet — I have shown Tuesday's pm fix on the chart, which tends to distort the result.

A final fix above US\$398 for February would have to cause a rethink



Graph: FIONA KESCH Source: CHARLIE

on the head and shoulders pattern, although it would only officially abort by a rise in the gold price above US\$420 per ounce. At this stage this seems a long way off.

In the short-term technical picture we have a much more exciting development. Here, in my favourite five- to 13-day period analysis, we find that, despite the recent relapse in the gold price to below US\$400 per

ounce, the oscillator has shifted upwards and is likely to hold this momentum and direction for at least another month and a half. Only a steady decline of around US\$3 per week cumulative would reverse this trend.

## In a squeeze

There is, of course, a possibility that this could occur — gold has certainly lost its glitter. In fact, trying to find something less negative to say about it is like poking around in a dark closet. Trying to find something positive is even more difficult.

Nonetheless, and despite the apparent gloom that would seem to surround the gold price, there is just not sufficient evidence to support further large falls, just as there is not enough support for a potential short-term rise.

The market is caught in a technical squeeze that will only unfold as the players begin to play out their hands.

We must, however, confirm at least one fact. Gold is presently in a bear phase and will remain so until it once again rises above the 12-month moving average.

It is the nature of these averages that it takes about twice the length of the period for the full oscillator cycle to work through, which means that we could only expect the gold price to rise above this average in the second half of the year.

The fact that gold is presently in a bear phase does not necessarily imply further continued losses and in the short run we could see the development of support at current levels as the price stabilises. This would fit well with the impasse that presently exists between the short-term and the medium-term outlook and would give the upper hand to a more positive future of the metal.

Meanwhile, we must wait for the daily developments to see whether gold will shine again, even if it's just a little sparkle or whether the tarnish will grow even duller.

# Task force out to nail forex crooks

Political Staff

The Government has set up a special task force to "nail" businessmen who are cheating the country out of millions of rands in fraudulent foreign exchange deals, the Minister of Finance, Mr Barend du Plessis, told the Assembly.

He instructed the Reserve Bank to set up the task force in December "to see if we can catch the big fish" making fraudulent profits from so-called "round-tripping", using the financial rand.

## Sanctions cloak

Much was being "done under the sanctions-busting cloak", he said. "We will nail them, and nail them hard. They have been robbing the country of valuable assets in a fraudulent manner at the expense of the ordinary person."

The task force was



going through documents of past deals "to find the culprits" and to identify procedures and regulations to make it more difficult for similar deals to be conducted in future.

Mr du Plessis was replying to a point raised in the mini-budget debate by PFP finance spokesman Mr Harry Schwarz, who warned that the financial rand was being abused by profiteering businessmen.

Mr du Plessis said that because of the debt standstill and the need to

attract foreign investment, South Africa could not afford to abolish the financial rand.

He sketched for parliamentarians a typical "round-trip" deal in which a businessman secured R1 million in foreign exchange from his bank, ostensibly to buy machinery overseas, but by channeling the money through a trust company in, say, the United Kingdom, the machinery could be bought at a fraction of that sum and be accompanied on its return with false invoices.

The remainder of the money would then be reinvested in South Africa at the higher financial rand rate.

He said the ultimate solution was to make South Africa an attractive permanent investment prospect by ensuring peace and stability.

Mr du Plessis said:

● Value Added Tax

would probably be introduced only towards the end of the year.

● Negotiations must be seen to have material benefits for those taking part, agreeing with a point raised by Mr Harry Schwarz.

● An investigation was being conducted into the theft of hundreds of inland revenue, maternity and unemployment benefit cheques, and said that it had already led to an arrest.

## Apartheid

● Simply scrapping "so-called apartheid" would not solve all South Africa's economic ills.

● Mr du Plessis paid glowing tribute to Mr Schwarz yesterday, saying his speech earlier in the debate was "outstanding, not only from an economic point of view, but was also an honest effort" to focus on matters of importance.



**No pointers** <sup>FMMML</sup> 17/2/89.

The rate of increase in money supply (M3) in the last quarter of 1988 was nearly twice the Reserve Bank target range and "gave rise to great concern," Finance Minister Barend du Plessis told parliament in his Part Appropriation speech this week. However, though the economy is still buoyant and total domestic expenditure is still expanding at a relatively fast, high rate, there are indications the economy is beginning to cool down, he said.

Du Plessis asked parliament for R18,3bn to cover State and provincial spending from the end of April until the main Budget is promulgated, probably in July. This is 16,9% more than the similar provision last year.

Du Plessis stressed that the Part Appro-

(74)

priation is no basis for a meaningful forecast of the main Budget, on March 15, but made some "preliminary and qualified remarks" about 1988 economic performance.

Preliminary estimates indicate that growth in non-primary sectors exceeded 3,5%, and could be even higher, according to some analysts who believe that not enough weight is given to the informal sector.

Du Plessis said the expansion in economic activity was even more pronounced if expenditure trends are analysed. Average real GDE was about 7% above 1987's. The major impetus came from the private sector. Real private consumption expenditure rose by 4% and total fixed investment by 5%. Government consumption expenditure rose by 2%.

Merchandise exports (excluding gold) were the main contributor to the estimated R2,5bn surplus on the current account of the balance of payments. Their value in the fourth quarter was more than 40% above the 1987 quarterly average.

But the capital account was "disappointing," with a net outflow of R6,5bn (compared to R9bn in 1985, R6bn in 1986 and R3bn in 1987).

Du Plessis regretted that importers and exporters sometimes show an "inexplicable reluctance" to use foreign trade finance in spite of the availability of forward cover on reasonable terms through the Reserve Bank. ■

# Bank: risk of restrictive measures

1104 171254  
34  
107

**SYLVIA DU PLESSIS**

UNLESS foreign reserves were built up there was the risk of major restrictive measures being applied this year, the Standard Bank said yesterday.

It said in its latest economic review the fall in the gold price could cause confidence to evaporate.

In spite of the comparatively strong overall performance of the economy last year and the positive implications this had for 1989, there was no room for complacency or elation.

Problems in the economy included the repayment of foreign debt, which may return as a pressure point next year when long-term loans fell due.

The Standard said: "Had the economy slowed significantly during the latter half of last year, and had domestic demand been soft at the beginning of this year, 1989 could have served as a period for generating large trade surpluses and building up foreign reserves.

"The price of relatively strong demand growth this year may thus be paid only in 1990 when the problems of larger debt repayment need to be faced."

# Trade figures add to gloom over gold

By Sven Linsche

January trade figures are bound to cause a few long faces at the Reserve Bank.

The R535,2 million surplus is 57,5 percent down on December's surplus of R1,26 billion, with the impetus coming largely from a R1,2 billion decline in exports to R3,315 billion.

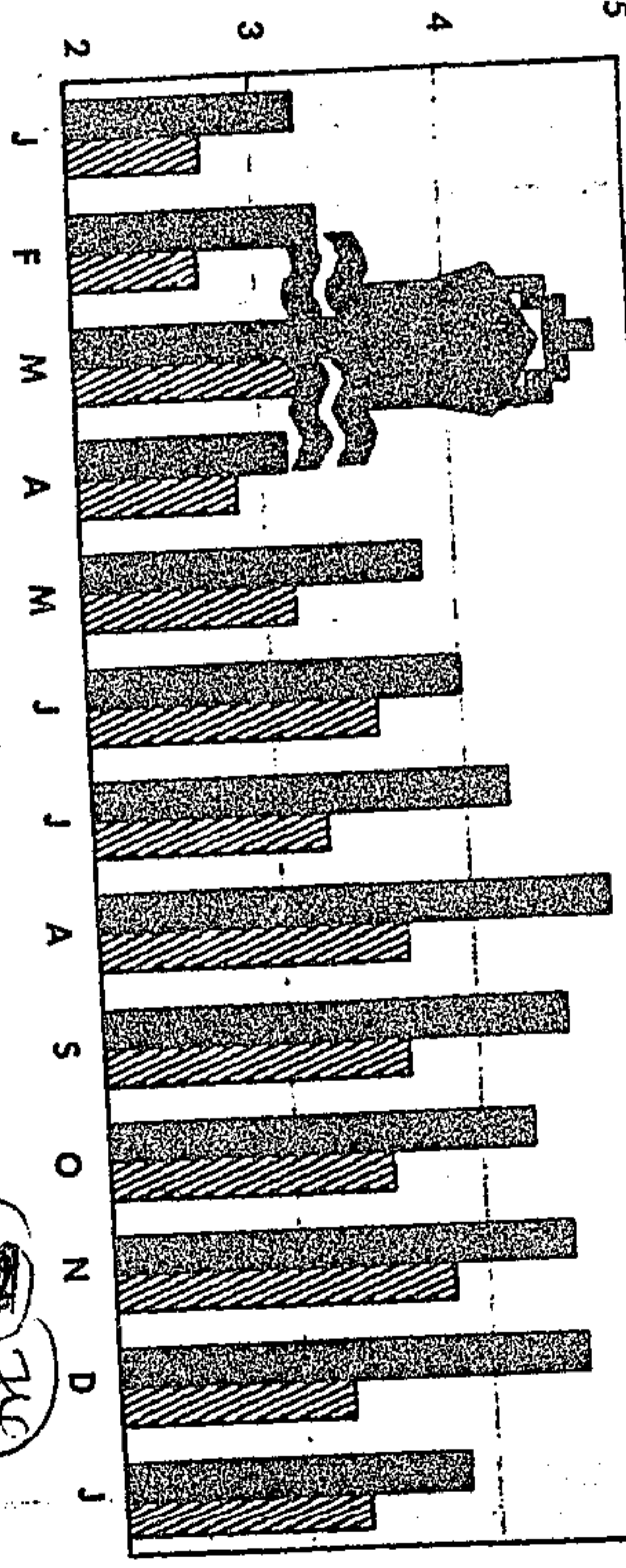
A surge in exports towards the end of 1988 boosted the year's surplus to a satisfactory R9,27 billion, but January's decline and the renewed downward pressure on gold — it hit a two-and-a-half year low yesterday — are once again raising the spectre of a severe foreign exchange squeeze.

Even more so, since imports were on the rise again in January. They totalled R3,315 billion, a slight increase on December 1988's R3,25 billion and this raises the question whether last year's restraining measures will suffice to cool down consumer demand and limit import spending this year.

But it is the staggering decline in exports that could spell greater danger in the months ahead.

Largely to blame in January was the decline in the gold price. This week's continued fall is bound to curb export earnings even more.

Rand billions



Exports

Imports

After selling by Australian producers depressed prices in Asia, bullion was quoted as low as \$377,90 in London, \$4 down on Thursday's close, before edging up to close at just over \$380 in Europe.

"Physical demand is not bad, but it's not good enough to offset the selling pressure," one Zurich trader told Reuters.

Australian producers took advantage of a weaker Australian dollar to sell from their stocks

of gold bars, traders said. A previously strong Australian currency has compounded the effect of a falling gold price on the country's mining industry.

"The Australians seem to have taken advantage of their falling currency to get shot of a bit of gold," a London analyst said.

A stronger US dollar and surging stock markets have attracted investors out of gold recently, driving it down by more than \$30 since the start of the year.

Investors seem to think that governments are serious about controlling inflation with higher interest rates.

The US trade deficit narrowed to \$11,89 billion in December, making a total loss for 1988 of \$137,34 billion, sharply down from the record shortfall of 1987, the US Commerce Department said yesterday.

November's deficit was \$12,2 billion.

# Surplus drop: squeeze on BoP

B/D ay 20/2/89

74

GRETA STEYN

FEARS of a renewed balance of payments (BoP) squeeze have been fuelled by the sharp drop in the trade surplus in January and by gold's decline to its lowest level in more than two years.

Customs and Excise figures show the trade surplus in January was R535,2m — 58% down on December's R1,26bn. A disappointing export performance accounted for the drop while imports remained at a high level.

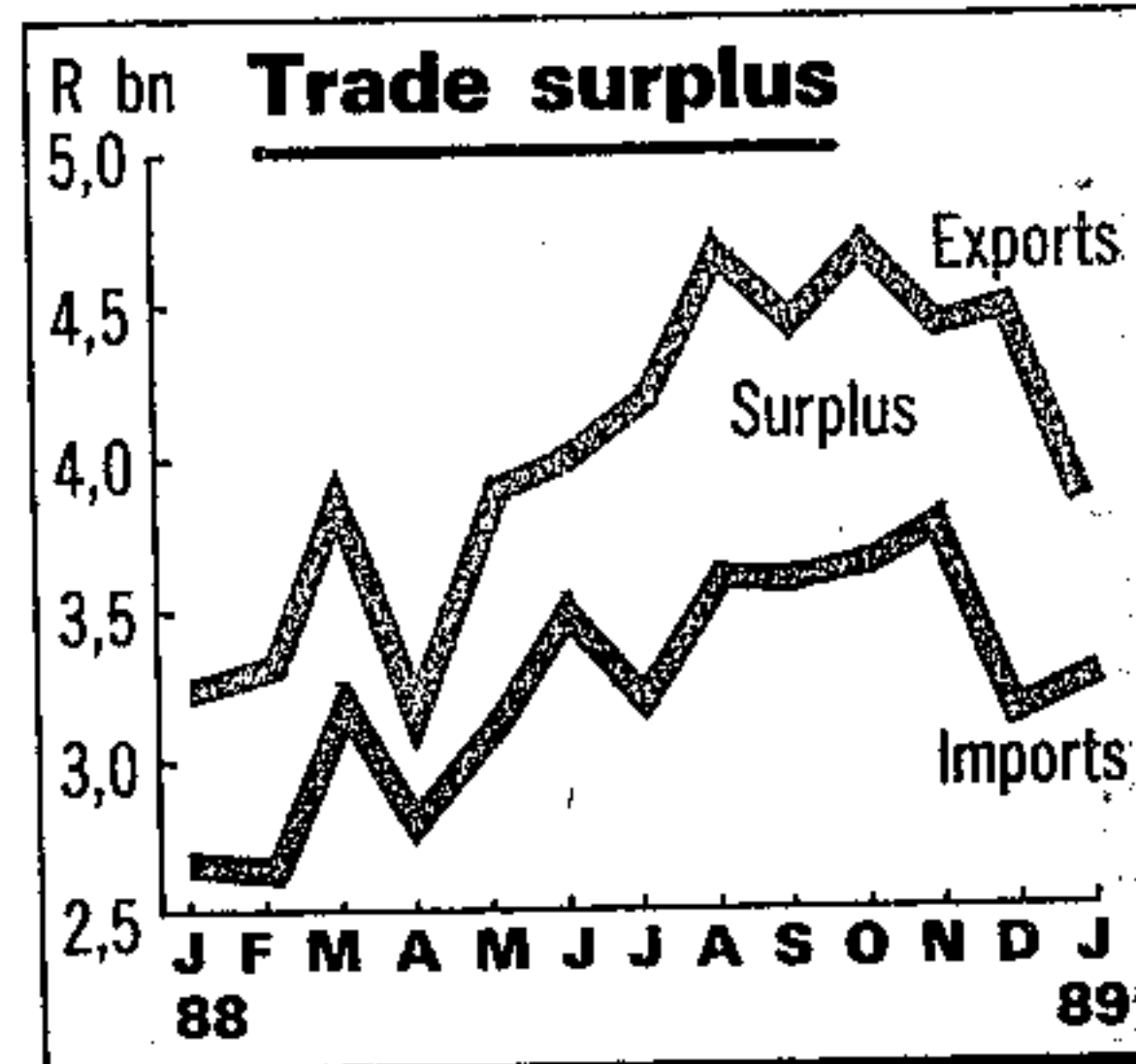
Exports slid by about R600m from December to R3,85bn and imports rose slightly to R3,32bn. The total surplus was down from last January's R550m.

The figures were released as gold hit a 30-month low of \$378,15 on Friday, spelling trouble for the balance of payments. However, the metal rebounded a little and the London afternoon fix was \$380,40 compared with a morning fix of \$378,95.

Bearish sentiment intensified on local markets because of gold's weakness and the worse-than-expected trade figures. In the capital market, Eskom Loan 168 climbed to 16,68% at the close on Friday from 16,55% on Thursday and 16,40% the previous week.

In the money market, the three-month liquid BA rate hardened to 15,65% from Thursday's 15,50%. The rate on Treasury Bills rose to 15,27% from 15,12% a week ago.

The markets see a strong possibility of another increase in Bank rate to protect the BoP.



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Economists agree Bank rate might have to rise, but not before economic indicators during the next few weeks present a clearer picture on the economy.

They note the weakening rand is cushioning some of the effects of the gold price fall and encouraging a better trade performance.

Rand Merchant Bank economist Rudolf Gouws cautions against reading too much into one month's trade figures. Although the surplus is weaker than expected, it came after an exceptionally strong December.

Trust Bank's Nick Barnardt says if non-gold exports rise while imports drop, an average gold price of \$380 will still yield an increase in foreign reserves.

## SA could lose R2,5bn in forex because of gold

B/D 21/22/89 GRETA STEYN 74

IF THE gold price remained around the \$380 level, SA could lose about R2,5bn in foreign exchange earnings this year, Reserve Bank Governor Gerhard de Kock said yesterday.

He said the sharp drop in the gold price and surging money supply growth were cause for concern.

"The combination of a lower gold price and the continued vigour of the upswing indicates a need for some adjustment of short-term stabilisation policy."

Asked whether that implied a shift towards a stricter monetary policy stance, De Kock said the Bank would not hold interest rates down artificially.

"We cannot base our policies on wishful thinking. Even though the gold price could improve tomorrow, we cannot continue with a wait-and-see policy for too long."

A lower gold price impacted on almost every SA economic variable.

On the money supply, he said the increase in M-3 was attributable to bank credit, and not to a strong rise in the reserves. He described the carry-over of the upswing into January as "quite remarkable".

● To Page 2



## SA could lose R2,5bn because of gold

De Kock said: "There is evidence that big corporate borrowers made extensive use of their overdraft facilities last month. The economy is still strong, as is clear from surveys among businessmen. We know the economy will eventually slow down, but it is taking a long time and we cannot afford to sit and wait while bank credit rises at this rate."

However, he stuck to his view the economy had started levelling out as a result of earlier demand-restraining measures. Imports were falling in volume terms and had started to level off in rand terms. De Kock cautioned against making too much of January's drop in the trade surplus, saying the underlying trend on the current account was strong.

Consequently, the rand had not depreciated substantially in spite of the weaker gold price. The decline in the

value of the currency was a positive factor in that it would head off the danger of adverse leads and lags.

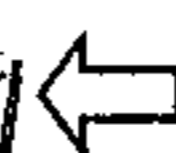
Although an adjustment in short-term stabilisation policy was obviously necessary, the Bank would assist the banking sector with repurchase agreements at the end of February.

"February is the biggest tax-paying month of the year and we will see a tremendous flow of funds from the private sector to government. The Bank will offer buy-backs to neutralise the seasonal shift in funds but will not keep interest rates down artificially."

Once the seasonal flow was reversed from government to the private sector in March, the Bank would cease offering buy-backs.

● From Page

B/D 21/22/89



74

# Sats slated for R3bn forex loss

8/10/89 22/2/89  
Chris Cairncross (74)

CAPE TOWN — Sats has been strongly criticised by the Parliamentary Joint Committee on Public Accounts for allowing foreign exchange losses to reach more than R3bn without taking timeous corrective action.

In its report tabled in Parliament yesterday, the committee says in view of the size of Sats' forex exposure and high risk profiles of these liabilities, as well as the considerable accumulated losses over the past few years, it is "extremely perturbed" that:

- Sats failed to establish timeously adequate administrative machinery to ensure efficient management of this risk and exercise control over it;
- Forward cover facilities were largely unused;
- Generally accepted accounting policy for losses was not followed, and
- There were considerable inadequacies regarding the timeous recording of forex transactions.

The timing of the release of the report is particularly inopportune for Sats, which is scheduled to table its 1989/90 Budget in Parliament today.

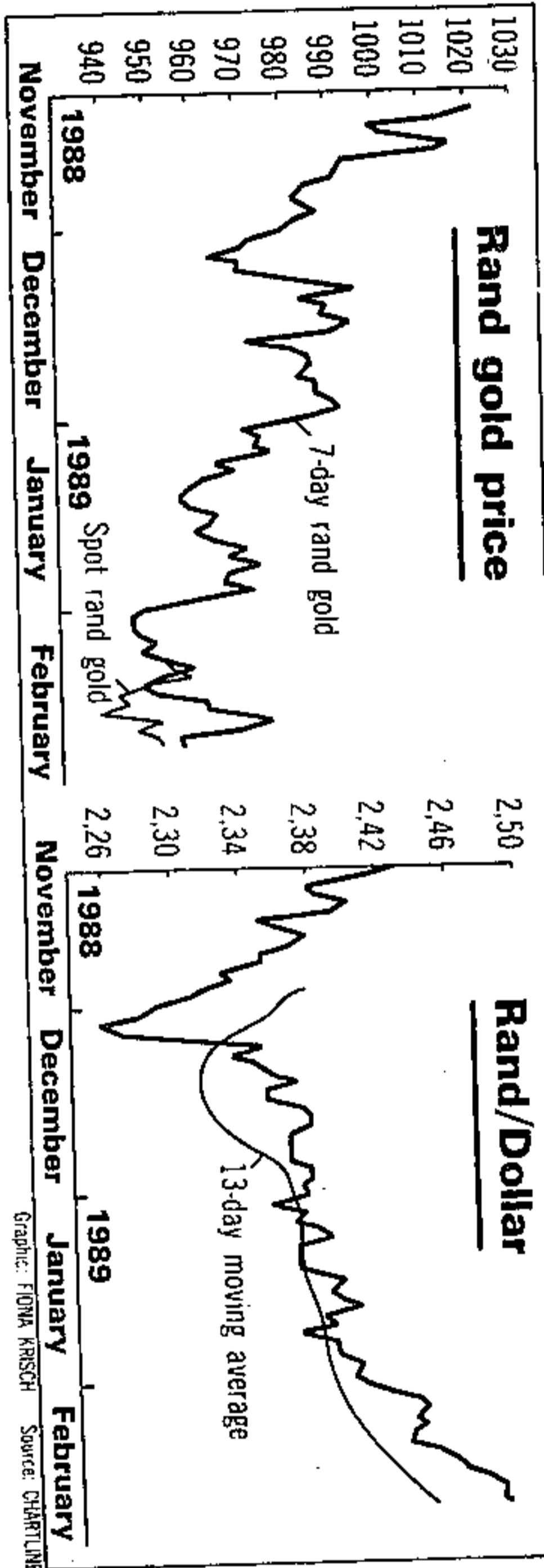
Expectations are it will be of record proportions.

Sats is also likely to give notice of the need to raise tariffs sharply.

# A dollar feast or famine

BJD 2/3/89

76



Graphic: FIONA KRISCH Source: CHARTLINE

ALTHOUGH the rand has had a weaker trend against the dollar since early January, this has become particularly pronounced, especially against the third currencies since the beginning of February, when the gold sales proceeds once again became payable to the gold mines in US dollars. Since then the rand has weakened from US\$2.39 to US\$2.49, from £4.22 to £4.38 and from DM0.7750 to DM0.7400. The rand gold price has meanwhile weakened from R960 per ounce to R950 per ounce.

Since nothing else of significance has changed, the sudden shortage of dollars now apparent in the market clearly derives from the change in the pattern of supply resulting from the gold mines receiving their proceeds in US dollars rather than rand. Previously, the Reserve Bank accrued the dollars from gold sales, settled with the mines in rand and gradually released the dollars into the market to ensure adequate supply.

To some this release of dollars was erroneously interpreted as "intervention", which it clearly was not. I doubt even whether one could term it as an interference in the market mechanism. To all intents and purposes the final customer of the gold mines is the Reserve Bank, and whether the mines are paid in rand or dollars is merely an aspect of their payment terms. The Reserve Bank continues in its role as custodian of the country's gold and foreign exchange reserves.

However, the motives of the two parties dif-

fer significantly. While it is the Reserve Bank's objective to ensure, amongst other things, an orderly exchange market within the confines of its ability as central banker, this is not the case for the gold mines. Their objective is to maximise the returns for their shareholders.

Previously, when they were paid in rand, this objective was limited. They have no control over the dollar price of gold and were therefore constrained in the achievement of this objective to output and the cost of production. Now that they are paid in US dollars another method has

been made available to them. They are now able to manipulate their rand income from dollar accruals.

Perhaps "manipulate" is too strong a word, but as the major dollar earners in the South African economy a cumulative withholding of dollars from the market would create a significant dollar shortage and create the kind of results we now see in the cross rates of the rand versus the currencies. The impact against the gold price is obviously less noticeable, because this has now become the most significant factor

in the determination of the rand's relationship with the dollar. The relative stability of the rand gold price illustrates this point decisively.

It is interesting to note that the seven-day rand gold price — i.e., the dollar gold price seven days ago converted at today's dollar/rand exchange rate — has consistently tended higher than the spot rand gold price. In the changed circumstances, this has now become the "effective rand gold price" reflecting the conversion of the gold mines' dollar proceeds seven days after accrual. This situation will not necessarily be maintained given the greater flexibility now afforded the gold mines, but given astute management the rand proceeds of the gold mines should consistently outperform the spot rand gold price.

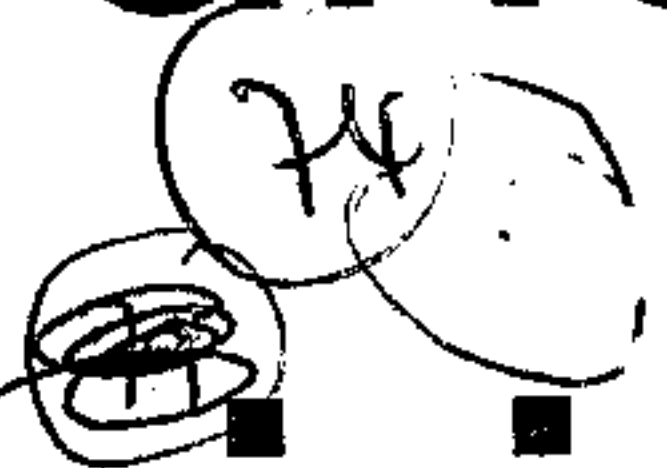
One aspect of the changed procedure is that, while the market will be starved of dollars from time-to-time — particularly when the gold price is weak — it will also be flooded with dollars the moment it appears that the newly instituted exchange profit element is likely to be eroded. The resultant feast or famine situation will bring much more volatility to the market and will require a greater degree of vigilance on the part of other operators in the foreign exchange market.

Given the dramatic decline in the weighted value of the rand to levels previously evidencing support for the local unit, I would not be too surprised to find a rebound as more dollars begin to find their way into the market.

## REVIEW

# Between devil and deep blue sea

S/Times 26/2/89



OUR policymakers have entered one of these haunting spells when things tend to go wrong.

January's money supply continued to accelerate with M3 growing 28%, while inflation picked up strongly to 13,3%. In addition, the abysmal trade surplus of R535-million was a shocker.

It showed December's R1 260-million to be a fake. The true trend is once again down, the national cash flow is in jeopardy, and the foreign-currency reserves could be more seriously eroded in coming months.

There is real trouble on the current account side of the balance of payments — and potential problems face the capital account.

## PINCER

It is one of these pincer movements that in war spells death. In the third quarter of last year, there was a major spurt in non-gold export volume. Fuelled by strong international growth and the depreciated rand, the export performance promised an easier time ahead.

Unfortunately, it did not last. The rand stabilised from August last year, but international growth this year looks likely to slow down, especially by the second half.

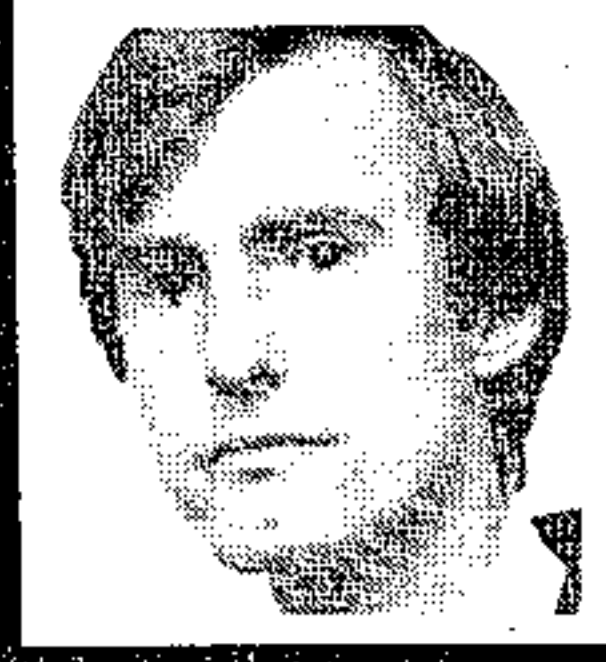
One counter to such gloom could be a bumper maize crop, of which up to 4-million tons worth \$400-million could be exported. But that will not fill the crevice that is opening up.

Gold is proving to be the weak link for the first time in four years. Gold was up and down in dollars, but that mattered little. Such gold price volatility has been mostly a reflection of the dollar's gyrations against key world currencies. Measured against traditional currencies such as the Swiss franc and the mark, gold has remained remarkably steady since 1985. Together with the lower oil price, it meant that our foreign trade account was not being unduly penalised by these price movements.

However, last week for the first time since 1979, gold fell through important price levels in non-dollar terms. This is serious.

## REX

Cees Bruggemans reviews the local and world scene



The weaker gold price reflects a fundamental re-orientation, which is unlikely to be a temporary phenomenon. Gold's risk premium is eroding anew and by the looks of things is unlikely to be restored soon.

International consensus on any subject usually takes a long time coming. Events in recent months suggest that the financial markets worldwide have completed such an exercise. They love the determined behaviour of the key central banks in slowing world growth to stem any resurgent inflationary forces before they can get off the ground.

We therefore encounter the strange spectacle of rising interest rates and booming financial markets as investors endorse the policy stance. US growth is to be slowed to a non-inflationary level, the slowdown also having a positive effect on the trade deficit in the longer term by slowing import growth.

## DERISION

The first inclination is to say that such a slowing may worsen the US Budget deficit. Apparently, the world does not take that proposition too seriously. For one, US unemployment is not expected to rise. For another, short-term US interest rates may be rising, but long-term rates on Government paper may have reached a cyclical high and may come off rapidly later in the year as American inflationary expectations fall sharply.

The Bush Budget proposals presented to Congress last month assumed much lower interest rates than those currently ruling. They were laughed off with derision, but that might have been premature. There might after all be a soft US landing, in which case its Govern-

ment spending does not have to be derailed.

The main negative which remains is on the revenue side where slower growth will cause reduced tax income. Overall, however, the deterioration may not be excessive, and the markets may continue to express their apparent enchantment with Bush's economics, no matter how disparaging the views of most analysts.

## ARTIFICIAL

It is this climate that has given rise to a vote of no confidence in gold. Will it last? It appears that there is a serious risk that it will — at least for this year and even next year.

That would be too long for us to do nothing. There is no way of knowing by how much gold's international risk premium is likely to decline compared with the relatively steady level of the past four years.

But even a small erosion of 10% on average would imply an annual loss of foreign-currency earnings of up to \$1-billion. Add next year's additional foreign debt repayment of nearly as much, and a potentially serious situation could present itself.

Add to this real trouble the potential lurking on the capital account. The rand's stabilisation in the third quarter of last year aided a favourable reversal of leads and lags movements in our payments process, later on reinforced by the two-percentage-point interest-rate increase in November and the December change in forward cover policy.

However, rising foreign interest rates since then, coupled to a renewed bout of rand depreciation, could reverse the leads and lags

process once more. It would appear that from the beginning of February, the rand has once more been on the march.

It has been steadily depreciating on a trade-weighted basis since the beginning of this month, and after last week's gold price decline more is likely to come. The parallel with 1988 could not be closer: a time of artificial currency stability followed by a major depreciation.

All of this is most unsettling. But few of us can fathom how unsettling it must be for the authorities in the run-up to a general election, assuming that there still will be one soon.

## BUDGET

A classic inclination would be not to assume the worst, and to do nothing hasty or premature. In other words, one continues to hope that the domestic economy will slow down of its own accord, pulling imports down with it, and that the gold-price decline will reverse shortly as international investors come to their senses.

However, with the Budget only three weeks away, the opportunity presents itself to apply the brakes by way of a large tax increase, presumably focusing on GST, allowing a real reduction in the Government's borrowing needs.

But that would not be enough on past performance. Money-supply growth remains too high, which is the macro-economic reason for supporting higher interest rates. Apart from such policy considerations, however, the money market is on the march because expectations have changed with a bang.

## PRESSURE

Rising money-market rates, coupled to an endemically high shortage by themselves spelled higher interest rates.

The Australians, in a similar pickle as us but without the complicating factor of a general election ahead, raised their interest rates last week as international confidence crystallised. This week our Reserve Bank followed suit, raising the bank rate to 16%.

Our interest-rate cycle is entering its most exciting stage.



# Call for high, stable rates

THE Reserve Bank's overriding objective should be the maintenance of high and stable real rates of interest, Reserve Bank Deputy Governor Jan Lombard said yesterday.

He was speaking at the conference on capital expenditure in Johannesburg.

Lombard said the international financial community was increasingly recognising the productivity of investment and capital expenditure in this country would depend on an interest rate policy geared towards stable real rates. However, he stressed that nominal rates would continue to change because of inflation arising from excessive government or private spending, or movements in foreign rates.



● LOMBARD

GRETA STEYN

Low and negative real rates of interest, coupled with the over-valuation of the rand relative to the rise in domestic wage rates was "a fundamental flaw in our market-related economic system."

"In such an economic system profits may be made from capital formation aimed at the replacement of manpower, rather than the production of larger output. The net result of all this for the economy is a drop in employment rather than a contribution to the Gross Domestic Product — a result which is, obviously, the opposite of what the people of SA and their economic condition require."

Ideally, the real value added to the national income from the flow of capital formation should have risen as the rapidly expanding supply of manpower was

● To Page 2

# Lombard calls for high interest rates

absorbed in the production process. Instead, the productivity of capital had been declining steadily, and in some industries rather rapidly.

Less real value had been produced per unit of capital invested while the ratio of capital to labour employed had increased heavily.

"These trends in the weakening contribution of capital expenditure to the growth of output and employment cannot possibly be viewed with equanimity. They are undermining the capacity of this economy to attract savings from within and capital from abroad and to provide the growing domestic popula-

tion with the chance to earn a decent income."

The disciplines of the market economy had allowed this trend to set so strongly, because SA had over two decades allowed the real remuneration of savings and the cost of capital expenditure to sink to very low levels.

As a result, SA was locked into a formula for structural stagnation, starting with a drop in employment and ending with political pressure to try to stimulate income growth through lower interest rates.

● From Page

34  
31  
30  
29  
28  
27  
26  
25  
24  
23  
22  
21  
20  
19  
18  
17  
16  
15  
14  
13  
12  
11  
10  
9  
8  
7  
6  
5  
4  
3  
2  
1

## Finrand falls on one R30m selling order

31 Dec 3/3/84 GRETA STEYN (74)

THE finrand suddenly came to life yesterday after weeks of stagnation to shed 1,5% of its value against the dollar on the back of a selling order estimated at a maximum of R30m.

The currency closed at a mid-rate of R4,04 to the dollar compared with R3,98 on Wednesday. The finrand has been trading in a band between R3,98 and R3,94 since the middle of last month. In the old way of quoting, a financial rand now costs \$0,2475.

Dealers said the selling order emanated in Johannesburg, which indicated possible disinvestment. Because of the thin market, a sell order of that size would move the price if there was no demand.

Surprisingly, the weaker finrand had little impact on the JSE. Usually a finrand move is matched by a move in the opposite direction on the JSE as overseas interest is sparked.

But analysts said the movement in the currency may have kept the all gold index from losing more ground. The index lost only 5 points to 1 407. The overall market index was unchanged at 2 273.

Dealers ascribed the quietness of the finrand market over the past few weeks to cautious trading by banks. Some noted the Reserve Bank's tougher scrutiny of finrand deals as another reason.

# Interest rates spiralling worldwide

By Neil Behrmann

LONDON — South African high because rates are likely to remain high because of the rate spiral worldwide.

High and rising rates of South Africa's major trading partners are precipitating a slowdown in world trade.

If such a slowdown does occur, prices of base metals and other key exports will decline. These factors will limit the authorities' ability to reduce rates.

The rise in international interest rates has been insidious.

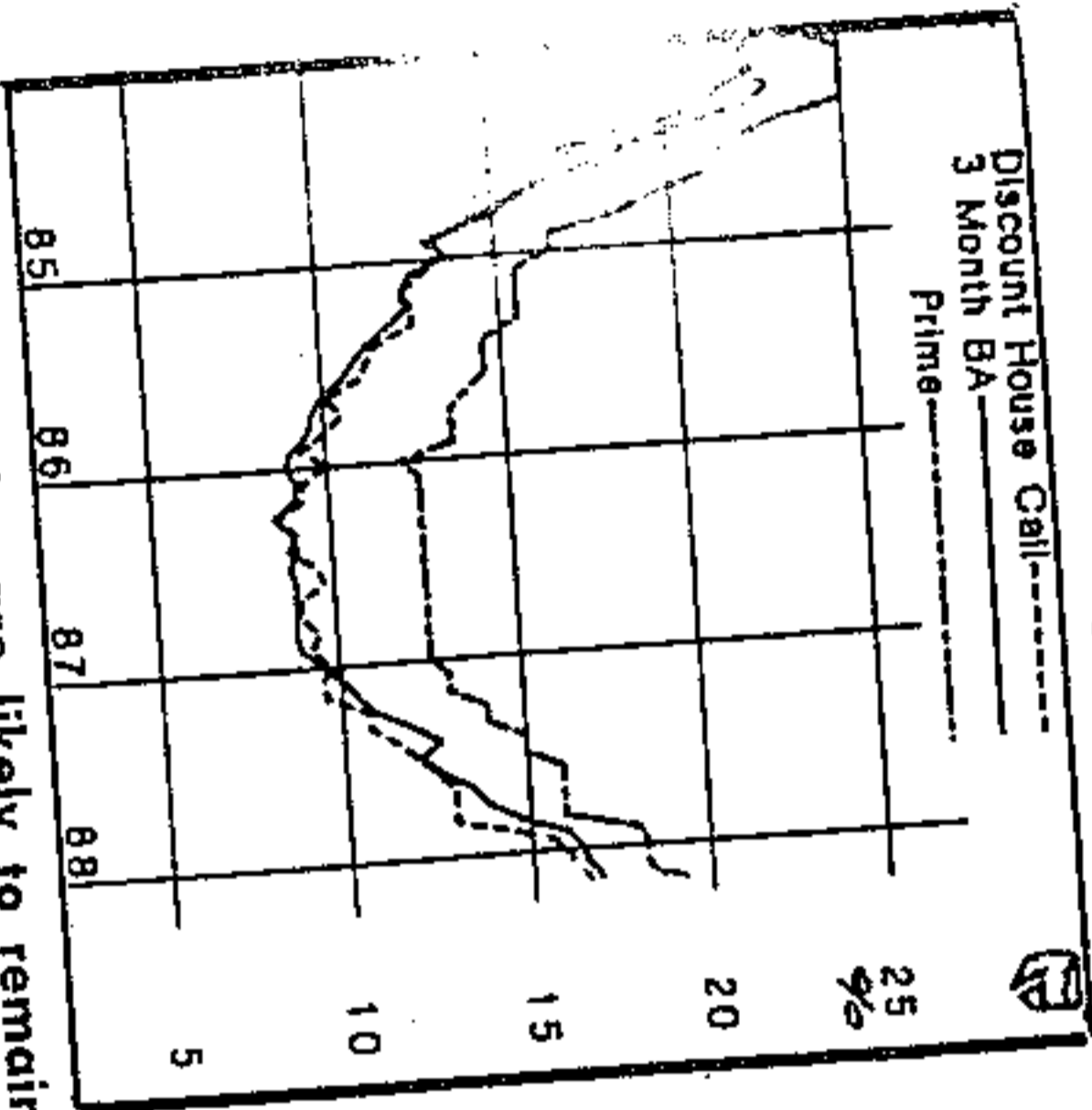
In only a year three month US dollar rates have risen to 10,13 percent from 6,9 percent and sterling to 13 percent from 9,1 percent.

Three months Swiss franc Eurocurrency rates have risen to 5,9 percent from 1,9 percent in the same timespan. Deutschemarks to 6,6 percent from 3,4 percent and yen to 4,8 percent from 4,2 percent.

For the first time in a year, Australian short term money market rates at 17 percent are matching their South African counterparts. From an economic point of view the two nations are comparable because their main exports are raw materials.

The squeeze in the money markets has only just begun to place pressure on international bond prices.

During the past 12 months, the international bond market refused to be-



SA interest rates are likely to remain high for some time.

lieve that the rise in short term interest rates would last. As a result there are "downward sloping yield curves" in the bond markets, be they US dollars or sterling. Thus the long term US dollar bond yield is 9 percent, about 1 percent below short term rates and long term UK gilts and Eurosterling bonds are on yields 3 to 4 percent below short term rates.

Whereas the yield curve is on a marginal slope or flat in South Africa — ie short term rates are only slightly higher than long term levels — yields of long term Australian bonds are 2,5 percent below short term rates.

High and rising interest rates are also enabling central banks to keep

foreign exchange rates within a tight trading range. The proviso is that American political events, notably the potential flak from the Senator Tower affair, do not unsettle the US dollar.

Now that German, Swiss and Yen rates are rising, investors have become more reluctant to hold US dollars, sterling, Canadian and Australian dollars.

"Investors sold pounds because they were worried that high interest rates would not be able to underpin the currency," says Brendan Brown, head of research at Mitsubishi Finance International.

Interest rates of the so-called "hard currency" nations have been increasing, despite large balance of trade surpluses.

But central banks have stated that they intend curbing inflation by maintaining a high interest rate policy for the foreseeable future.

Economic expansion in the United States and West Germany continues at a rapid pace. West German inflation has risen to an annual rate of 2,6 percent in February whereas inflation was almost non-existent two years ago. Japan's inflation has increased to 1,1 percent from 0,3 percent in 1987 and prices in the United States are increasing at an annual rate of 4,7 percent compared with 2 percent in 1986. UK inflation at 7,5 percent compares with 3,4 percent in 1986.

Inflation rates are much lower than they were in the early part of the decade, but central banks have decided on preventative health measures to prevent further acceleration.

Since oil prices and commodity prices are firm, say analysts, the interest rate spiral could continue. At best rates could stabilise at high levels.

## Gold prices

Gold prices should be supported because of fears about inflation, but price rises are limited because interest rates are rising.

Many economists expect high interest rates to undermine equity markets and eventually reduce world economic growth.

"Set against interest rate developments, the stock markets' friendly tone is quite remarkable," says banker Julius Baer. "But they are now more susceptible to negative influences."

Historical trends show that interest rates rise to their peaks after economies start declining.

An example is the UK. Interest rates have stubbornly refused to fall even though there is evidence that economic growth is slowing down.

Rates follow the downward slope of economies, only after a time lag. Unfortunately, that means high interest rates are likely to remain a fact of life for some months to come.

14

GRETA STEYN

RESERVE Bank gold and foreign exchange reserves held up well in February in spite of a sharp gold price drop.

Its assets and liabilities statement released yesterday shows gold and foreign assets rose by R117m to R5,1bn.

Governor Gerhard de Kock told a media briefing the performance had been satisfactory given the gold price decline.

"Some existing gold swaps had to be renegotiated at the lower price, resulting in an outflow of gold. Reserves increased in spite of this."

The statement shows gold holdings remained virtually unchanged in volume at 3,6-million ounces. In rand terms

## Reserves of gold and forex hold up

they rose by R50m to R3,2bn with gold valued at a higher rand price of R870,80/oz from R863,49 in January. The currency component of the reserves rose slightly to R1,78bn.

De Kock said short-term capital outflows were partially arrested towards the end of last year.

"But the level of foreign reserves is still too low and must be rebuilt this year," he said.

Notes in circulation increased to R7,178bn from R7,151bn.

5/04/87

empowerment programmes. All agree that economic growth will be predominantly generated by the de-

Quite frankly, O'Malley is referring to divisions between "radicals" and "liberals". The DP is predomi-

carry out the case during the formation of the DP. Without such clarity on these

any disclosure or funding.

foreign

Northcliff

THE RAND is a strange currency in anybody's language — not least of all because it is subjected to forces that affect no other currency in the world. Like the country itself, it is torn between two allegiances — to the First World and the Third World.

Once one of the rising stars in the currency trading arena, it has now been relegated to the level of "exotics" — along with the Peruvian sol and the Mauritian rupee. Its place has been taken by the Australian dollar (now also quoted on the futures market) and the New Taiwanese dollar.

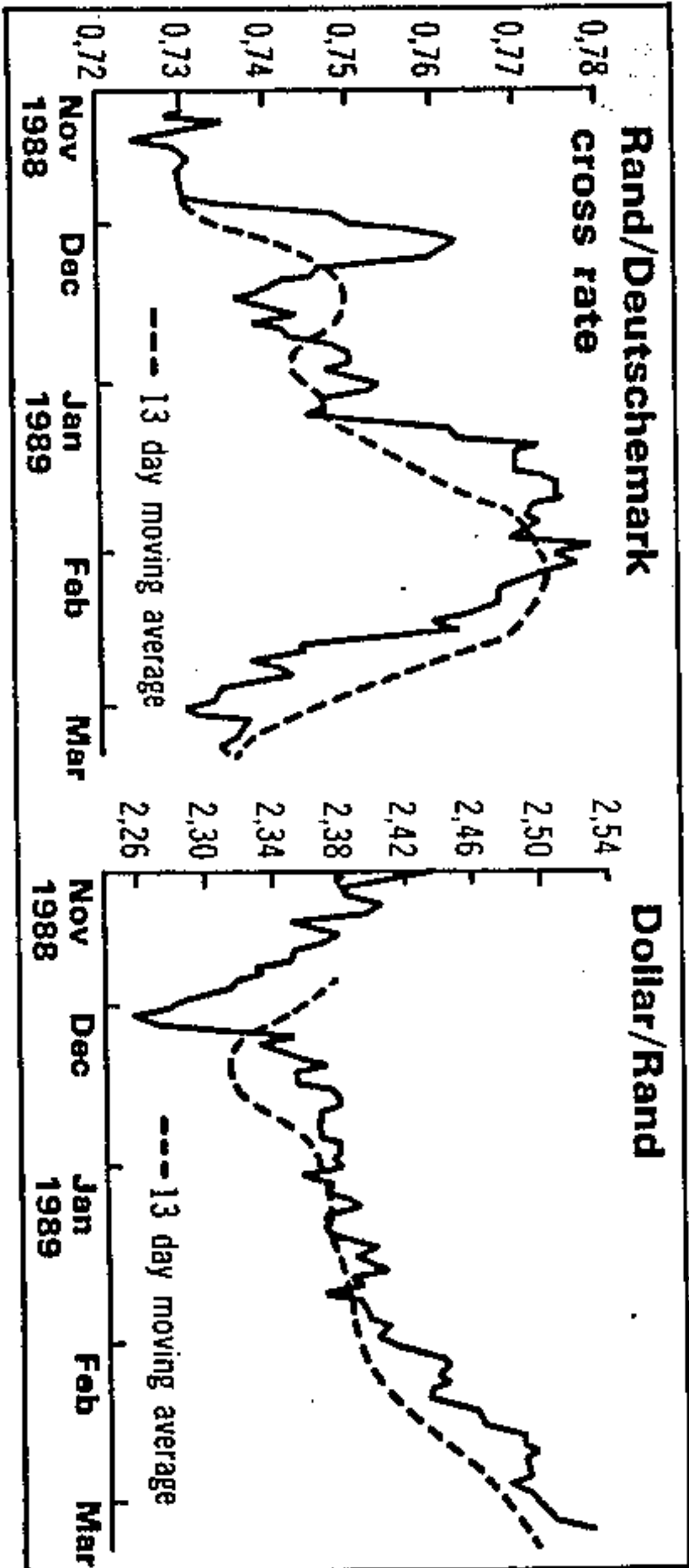
## Prolonged weakness

The rand's recent performance is characteristic of the movement usually attributed to the disdained "exotics". Its prolonged weakness since late January defies most explanations, other than that given in this column two weeks ago. Against the US dollar, the rand has shed more than 1 500 points — i.e., it now costs R0,15 more to buy US\$1.

Against the DM, the rand plummeted from R1 = DM0,78 to R1 = DM0,73. This may not seem much at first glance — a mere 500 points — but considering that the US dollar is the numeraire to both currencies, one would expect a much more stable relationship. Certainly not like the one depicted on the chart. The rand's relationship with the gold price has fared no better.

It is not true to say that movements in the rand are a result of the strength or weakness of the US dollar or fluctuations in the gold price. If this were so, one would find a much closer

# FOREIGN EXCHANGE/David de Kock An exotic turnaround



Graphic: FIONA KRISCH Source: CHARTLINE

relationship between the rand and these units. The wild movement against the DM in the past three months is a case in point.

Where does the rand go from here? Given what I have said above, this is not an easy question to answer. However, one thing is certain — the rand has become grossly oversold against the US dollar. Oversold means that the selling of the unit — i.e., buying of dollars with rand — is no longer supported by either technical or fundamental data.

The rand is very prone to oversold and overbought conditions, primarily because official restrictions imposed on the market also limit

the buffers that would otherwise exist in a free market. Its particular susceptibility to becoming oversold (rather than overbought) is aggravated by the general air of pessimism that exists in the group involved in currencies, including banks and the corporate sector. This is, however, a complete subject on its own.

Right now, the rand is oversold. From a technical viewpoint, we have spikes appearing on the momentum charts after the upturn that began back in December. The relative strength indices show the rand to have overshoot the optimal weakness limits and we now also have considerable overhead support showing on the

longer-term spot price charts. Against the other currencies and gold, we have already seen the rand move upward from the support levels — witness the rand/DM cross-rate chart.

From a fundamental viewpoint, very little has changed since December/January. If anything, the movement on the external accounts has gone in favour of a stronger rand rather than a weaker one.

In fact, the only change — and this is more a technical than a fundamental factor — was the change in the method of payment of the gold mine proceeds. But if everyone was playing according to the book, this should have worked itself out by now.

## WVW4 413184 Sucked along

I would like to suggest that the turnaround from this oversold condition is likely to be sharp and dramatic. Usually there is fairly good base support for the development of an oversold condition, but this time there is virtually none. Only the sympathy moves with the gold price give any inkling of support.

I see gold rising strongly if it can breach resistance at US\$392 per ounce and the rand will be sucked along in its wake once this barrier is breached. From the chart, we can see some resistance at R2,49, R2,44 and R2,40.

The first of these will offer no more than token resistance, because it will coincide with a breach of the 13-day moving average lines on both the US dollar/rand and rand/DM charts. Thus a movement towards US\$1 = R2,44 over a relatively short period of time would seem to be in the offing.

Sponsoring Broker

REVIEW

190/83820/70 Jaquaru uonenscau

## Finrand gains ground after wild early slide

*B/Dwy 19/3/84* RICHARD BARTLETT (X4)

THE finrand's wild fluctuations yesterday influenced the JSE as it slid to a low in the morning of R4,18 before rebounding to close at R4,12 late in the day.

In the old way of quoting, US\$0,2427 buy one financial rand.

The currency weakened on Wednesday because of selling of JSE stocks on the London market to aggressive local bidders. It was further weakened yesterday morning by a local selling order of about R7m.

However, buying of JSE shares picked up in London yesterday, pushing the finrand up to R4,0984 late in the day as demand for the currency strengthened.

Finrand swings were reflected in the movements in the JSE all gold index. The index rose to an early high of 1 548 points, but the rise was trimmed back to close five points up at 1 539 as the currency regained most of its losses.

The commercial rand closed at R2,49 to the dollar, down from Wednesday's close of R2,41.

# Firmer hand going on forex outflow 74

IN an attempt to curb forex abuses the Reserve Bank will standardise the transfer of foreign currency payments to non-residents and emigrants.

In a first step to implementing these safeguards the Bank will call from May for an auditor's report and supporting letter of representation from non-quoted companies confirming the nature and origin of the funds.

Requirements, drawn up with the aid of the SA Institute of Chartered Accountants,

KAY TURVEY

are part of an ongoing process by the Bank to ensure forex transfers are made within the scope of regulations.

Reserve Bank Deputy Governor Jan Lombard said yesterday arrangements, covering foreign currency interest, dividend and royalty payments, were not intended to interfere with normal commercial activities resulting from non-resident participation in the economy.

*15/11/89*

15/3/89

## Reserve Bank acts to curtail forex abuse

The Reserve Bank has decided to standardise the existing requirements for the transfer of foreign currency payments to non-resident and emigrant parties. The deputy Governor, Professor JA Lombard, said that the new arrangements were in no way intended to interfere with normal commercial activities but rather to ensure that abuse of the country's foreign exchange reserves was curtailed to a minimum.

As a first step in implementing these requirements, an auditor's report and supporting letter of representation from non-quoted companies confirming the nature and origin of the funds to be transferred, will be called for. The implementation date of these arrangements will be May, Professor Lombard said.—Sapa.



# Credit explosion could force interest rates up again

Star 23/3/89

By Sven Lünsche

The rate at which credit continued to explode during January and February suggests that the prime rate must rise above 20 percent in order to keep the economy on an even keel, Bankorp's new chief executive, Dr Chris van Wyk, said yesterday.

Addressing the Randburg Chamber of Commerce and Industry Dr van Wyk said that overall financial policy during 1989 will have to be tight enough to correct the country's present financial imbalances.

To achieve this both the fiscal policies announced in the Budget and the money supply targets set by the Reserve Bank recently would have to be strictly adhered to.

"Our calculations indicate that if the official target range of 14 to 18 percent in the broad money supply is to be achieved, domestic credit growth will have to slow from about 30 percent in February to 15 percent in December this year," Dr van Wyk said.

"In real or inflation adjusted terms, this represents a decline in the growth rate of credit extension from 17 percent to zero in just ten short months.

## Prime rate

"If such a dramatic reduction is to be achieved no room whatsoever will be left for interest rate declines this year.

"In fact ... it suggests that the prime rate must rise to 20 percent — later perhaps even higher — and remain at such higher levels for the rest of 1989," Dr van Wyk commented.

However, the continued surge in credit demand during the first quarter of 1989, was nevertheless expected to continued up to mid-year producing an average real GDP growth rate of some 2,5 percent for the year as a whole.

"Hence, it does appear that at least one further percentage point rise in official lending rates is quite possible in the near future, together with a further depreciation of the rand and possibly even more direct measures to tame the boom.

"The inflation rate is likely to rise to about 15 percent in the second half of 1989 in response to the weak exchange rate and higher GST and fuel prices," Dr van Wyk said.



Dr Chris van Wyk

"The depressing impact of a significant measure of monetary and fiscal discipline combined with other restrictive policy measures and higher inflation will be felt in the real economy from the second half of 1989, but particularly in 1990.

Dr van Wyk forecast that import volumes will drop noticeably — showing up in a growing surplus on the balance of payment in 1990, a measure which will be supported by the opportunities arising on the export side as a result of the weaker rand.

"Investing in ventures to increase exports is already making a lot of sense these days, as the risk of higher interest rates is more than compensated for by the accompanying weakness in the exchange rate.

"Indeed, for some sectors of industry the message for the next few years is clear: export or suffer!

"Acquiring an export culture and developing an export drive is really the only way in which the real economy can escape from the country's present financial strait jacket.

"In this regard an interesting new approach to official export incentives might be in the offing," Dr van Wyk said.

● Dr van Wyk has been appointed Chairman of the International Bank of Johannesburg (IBJ) with immediate effect, following the death of company chairman Dr Fred du Plessis last week. Mr Peter Gray and Mr Charles Stride continue as managing director and deputy chairman respectively.

Weak export trend threatens forex reserves

# Economists warn BoP may slip into deficit

THE current account on the balance of payments (BoP) was in danger of slipping into deficit in the first quarter of this year, economists said yesterday.

If the weak trend on exports continued into March, the country's hopes of building up foreign exchange reserves this year might be dashed. SA needed to achieve a current account surplus of at least R4bn this year comfortably to meet a maximum of \$1,7bn in foreign debt payments and build up reserves.

## Adjustments

On the face of it, the current account was in deficit in the January-February period. The cumulative trade surplus for the two months was R1,1bn and if net service payments were estimated at about R1,5bn, the current account was in deficit to the tune of R400m. However, Nedbank economist Edward Osborn cautioned against making too

GRETA STEYN

much of this rough estimate.

"The Reserve Bank's adjustments to the monthly figures for balance of payments purposes can make a substantial difference. Last year diamond exports, which are not included in customs and excise figures, made a R1,5bn difference."

He said total exports had been "unduly low" this year, but he expected a sharp upward adjustment in March.

The weak export performance so far was due to a 20% decline in the unclassified goods category, which included oil, arms and gold. Standard Bank's Nico Cypionka said this was partly the result of the weaker gold price.

"Obviously, we are not yet on track to meet the R4bn target, although we do not know yet whether the current account is in surplus or deficit," he said.

The Trust Bank's Ulrich Joubert

said: "We are worried about the current account because the trade surplus is even lower than over this period last year, when the current account surplus disappeared."

He said it was quite possible that a reduction in arms exports had combined with a weak gold price to knock the unclassified category.

## Forecasting

However, while there was no reason for complacency over the current account, economists saw positive signals for exports which could change the situation dramatically.

These included diamond sales and agricultural exports. Osborn noted that Shearson Lehman was forecasting large profits on diamond sales, while the larger-than-expected maize surplus was also encouraging. He said these factors could buoy the current account surplus as high as R6bn.

increasing export volumes but will ... production and/or reducing costs to

Handburg

## FOREIGN EXCHANGE/David de Kock

IT'S TIME, once again, to take a long look at the charts to determine whether the forecast made more than six months ago is still holding water. I suggested at the time that the US dollar had already bottomed out and that the bottoming out phase was likely to be prolonged — spiked peaks and wide valleys are the norm in the dollar's long-term cycle. The current valley was expected to extend into April, but more probably into May, with at least one significant down move before the surge into the upward cycle.

With the dollar currently pushing ahead for every apparent reason, it would seem that the upsurge is likely to come right on cue. The only missing element is the downshift expected to occur before the dollar moved into higher gear. The slight weakening of the US unit seen in February stopped short at the DM1,80 support level, whereas one would have expected the upsurge to begin only after the creation of a more solid bottom formation at the DM1,70 area.

Be that as it may, the dollar has held firmly above the one-year moving average since

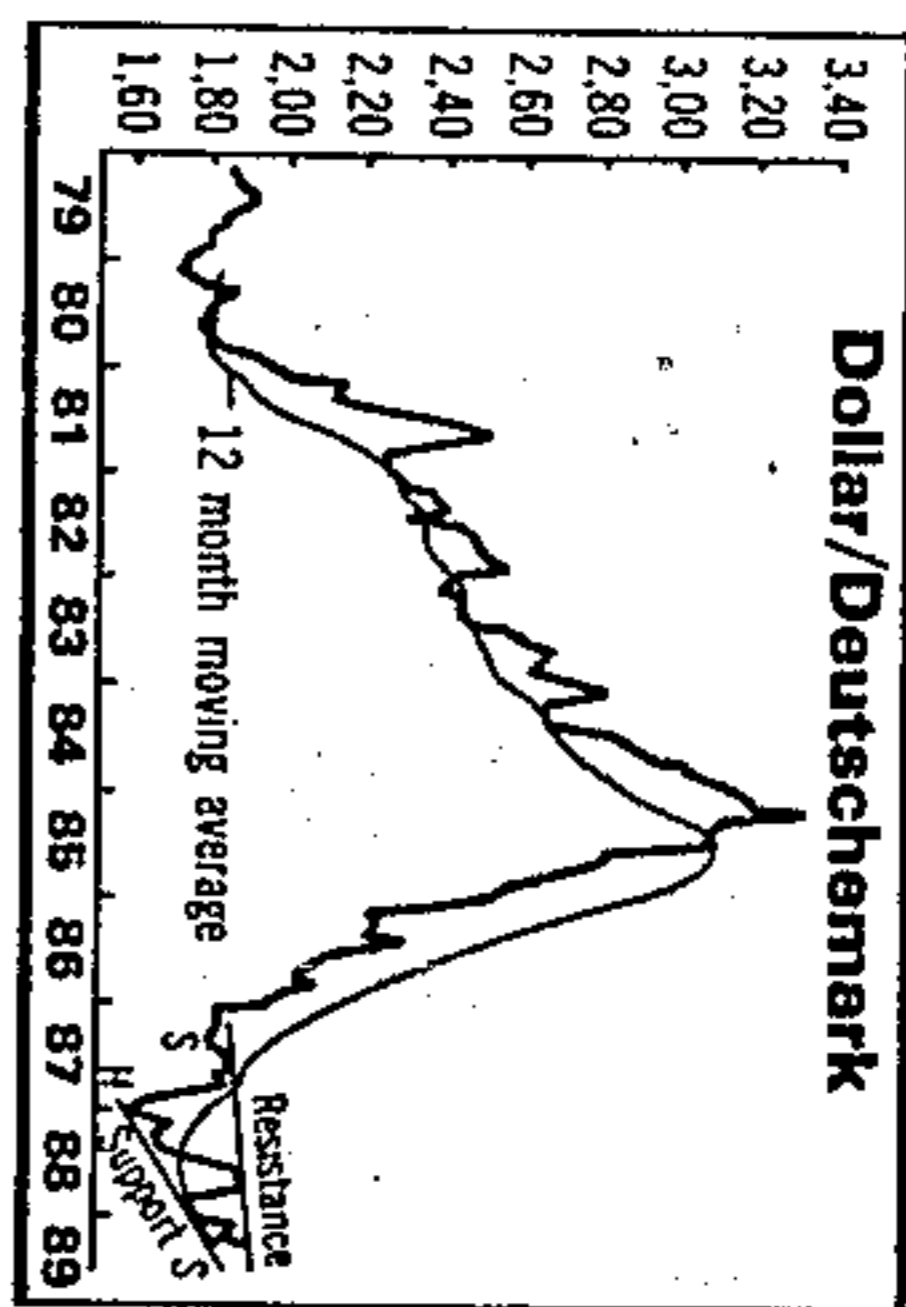
# A Long Look

breaking through in May/June last year. This is an extremely positive sign, particularly because the dollar has continued to find support on the one-year moving average line even though this line has itself been rising. By implication, and in fact, the dollar support level has been posted at higher and higher levels.

The question is whether we are to anticipate that the present rise in the dollar — still relatively mediocre — is likely to turn into the surge that will take the unit to the next resistance band found at DM2,10/2,20?

On the face of it, I would think not. There is just not enough underlying support for the unit to be able to sustain that kind of momentum. That, however, was the whole basis of my reasoning last week when I — it now seems wrongly — pointed to a possible weakening of the unit.

Earlier, I mentioned that the dollar was pushing ahead for every apparent reason — this is



exactly the kind of fertile condition for a breakout to occur. When the dollar rises because oil prices are higher and then rises further because oil prices have fallen, we see that market sentiment has taken over from analytical justification. And this is not just restricted to oil prices but also to inflation statistics, balance of payments data and so on.

In fact, at this stage the dollar has only one

## REVIEW

line of resistance to overcome — the slightly upward sloping line connecting the 1987 and 1988 tops. At present this line gives the resistance level at DM1,90, a mere 50 points away from the exchange rate prevailing at the time of writing. The weight of reason would suggest that this line should hold, especially with the central banks once again much in evidence, but this is no foregone conclusion.

It would be preferable to say that the DM1,90 level should hold, in which case the dollar may be expected to find support again near the DM1,80 level and thereby creating a very firm platform for a vault into the levels above DM2,10. However, if the DM1,90 level is breached we effectively have a completed head and shoulders bottom formation with a target objective at DM2,15 — exactly in the middle of the next resistance range.

Both views are tempting, and one will incline to one or the other depending whether one is moved by the mind or the heart. Logic determines that we have insufficient evidence for a decisive short-term view, but the longer-term would seem to have already been decided.

# Finrand weakens to R4,1650

74 LIZ ROUSE

THE financial rand came under pressure yesterday, weakening to R4,1650 to the dollar from R4,14 on Tuesday, mainly on heavy foreign offloading of De Beers shares on the JSE.

However, generally bearish sentiment about the finrand remains the basic factor depressing the currency. Dealers said no one was prepared to go long on the finrand because of lack of demand.

Meanwhile, this week saw large-scale creation of finrands in London through

heavy sales of De Beers. The value of transactions in De Beers on the JSE climbed to nearly R150m in seven days' trade. Biday 30/3/89

The result was a large pool of finrands for which there is no immediate foreseeable demand. There has been no local disinvestment factor to affect the finrand.

D/Dev 3/13/89

# INVESTEC ESTABLISHES FOREX DIVISION

INVESTEC has broadened its operations with the formation of a forex department, and has appointed Helmut Bahrs to head the international banking and treasury division.



● BAHRS

Bas Kardol, executive chairman of Investec Bank, has confirmed the appointment of Bahrs

(74) LIZ ROUSE

to the board. Bahrs is an authority on international banking transactions and forex and has more than 25 years' experience in SA, Europe and the US.

Investec acquired a licence to operate as a forex dealer almost three years ago, and this development is a culmination of a major strategic objective. It is a significant move for the bank, which is an international business with an established base in Europe.

## TRUSTBANK ANNOUNCES DISCOVERY OF R47M FRAUD

TRUSTBANK announced yesterday that it had uncovered a R47m fraud on Friday. BDM 4/4/89

The bank said in a statement the case also appeared to involve First National Bank.

However, no First National officials could be reached for comment.

Witwatersrand police spokesman

(74) MANDY JEAN WOODS

Col Frans Malherbe confirmed the Commercial Branch was investigating the case.

Trustbank said the fraud appeared to include only commercial rands and could involve a group of people.

Trustbank MD Kobus Roetz said

the bank was working closely with the Reserve Bank and the SAP.

No Reserve Bank officials could be reached for comment last night.

This is the second large fraud to rock Trustbank in the past seven months.

In August last year a R63m forex fraud was uncovered.

# Little comfort in level of gold and forex reserves

**SOUTH AFRICA'S gold and foreign exchange reserves continued to perform at a disappointing rate in March this year.**

The total reserves rose only marginally by 0,5 percent to R5,117 billion compared with R5,092 billion in February, according to figures released by the Reserve Bank yesterday.

Gold holdings, however, increased by 15 percent to R3,661 billion from R3,173 billion the month before, largely as a result of the R22,00 rise in the rand price of gold to R892,36 per ounce.

However, the figures show that other foreign assets declined by 25,26 percent to R1,328 billion in March from February's

R1,777 billion.

The ratio of gold reserves to liabilities to the public less foreign assets was 57 percent.

While March was the fifth month in succession during which the reserves showed an increase, the rise is seen as disappointing.

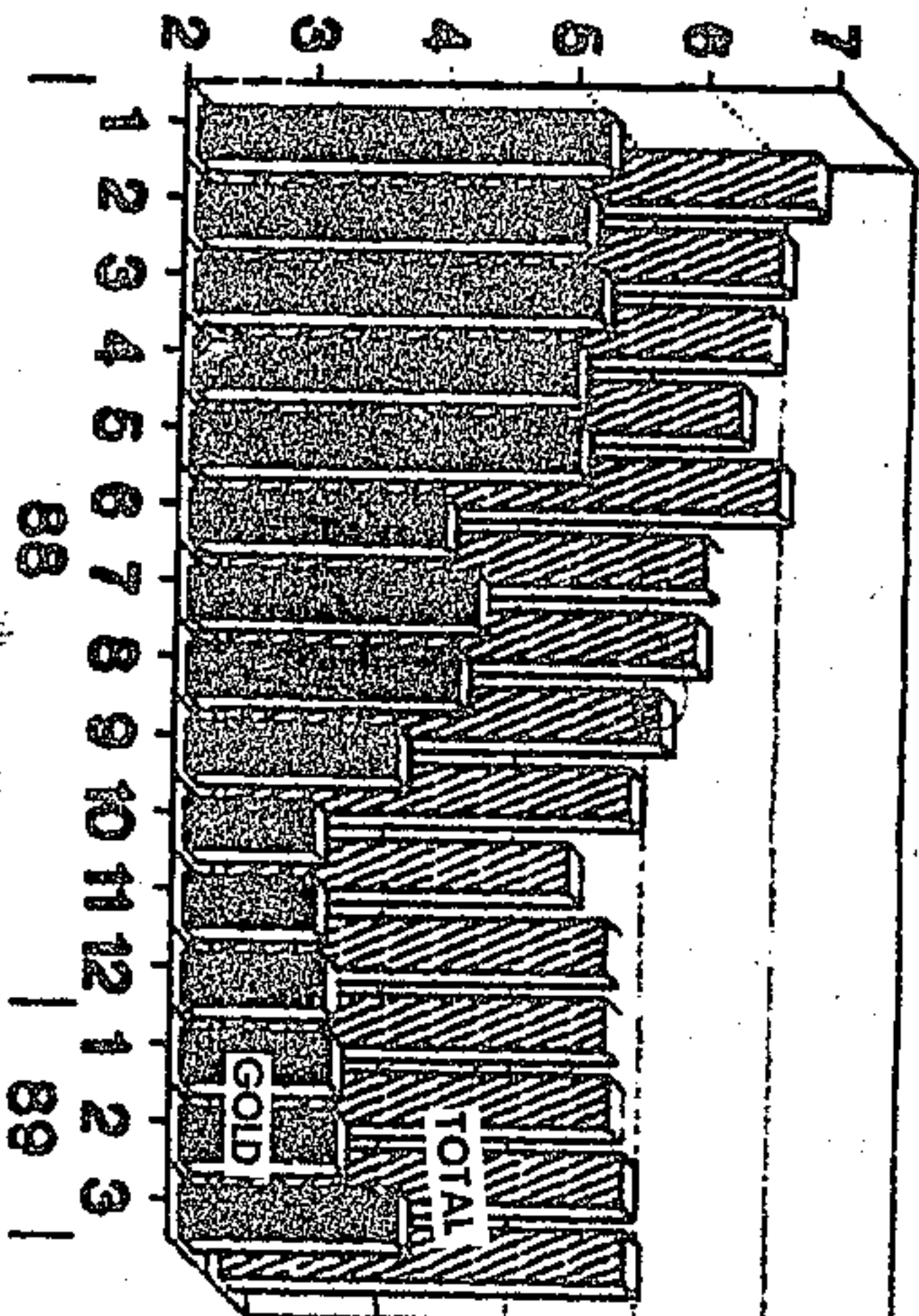
In November last year they were valued at R4,93 billion. Since then the reserves have improved only by about R20 million, which the financial authorities will not regard as sufficient to relax the stringent curbs on consumption expenditure.

In January 1988 the reserves totalled R6,43 billion, but through

the combination of a surge in imports and substantial debt repayments the reserves plunged to R4,62 billion in October.

Debt repayments will remain the major problem facing the reserves, although import spending is forecast to ease over the next few months.

Taken together with leads and lags on trade account, the total capital loss over the last four years amounts to around R25 billion according to the Reserve Bank and failing a resumption of foreign loans and credits, South Africa faces a repayment hump over the next three years when \$5,3 billion falls due.



Gold and forex reserves (R-billions).

# Gold reserves hold steady at R5,1bn

B. Day 10/4/89

74

KAY TURVEY

RESERVE Bank gold and foreign exchange reserves for March held steady at R5,1bn, relatively unchanged from February.

Physical gold holdings rose significantly to 4,1-million ounces last month, from 3,64-million ounces in February, as banks and other institutions took advantage of the Bank's offer to buy Kruggerands for cash on one-year repurchase contracts.

Market sources believed that, by means of this stratagem, the Bank acquired about 500-million coins, equivalent to 500 ounces of gold.

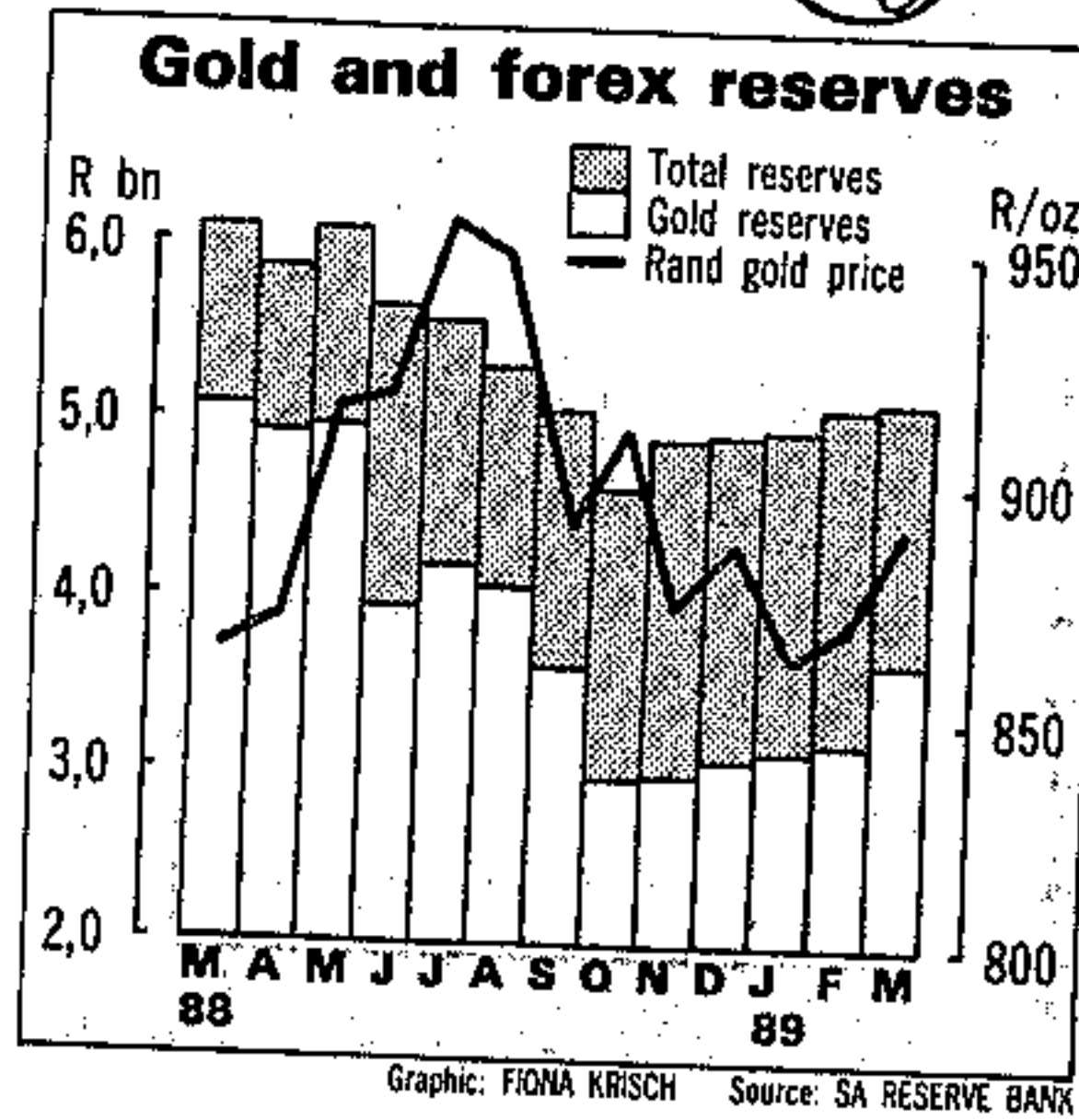
However, this figure could be an underestimate because the Bank's gold holdings increased to 4,10-million ounces from February's 3,64-million ounces after it probably disposed of some gold to top up the "collateral" provided for previous gold swaps. This was necessitated by the drop in the dollar price of the metal.

In rand terms, gold holdings climbed R500m to R3,7m with gold valued at a higher rand price of R892,36, compared with the valuation price of R870,80 in February.

The Bank's holdings of foreign currencies declined to R1,45bn from R1,78bn.

The gold component of the reserves is now 71%, having hovered around the 60% level since October last year.

The monetisation of the Kruggerands



could have been partly responsible for the sharp fall to R1,76bn from R2,68bn in bills discounted.

Trust Bank economist Ulrich Joubert said the state of the reserves was cause for concern as the underlying trade figures were disappointing and a better export performance was necessary to relieve pressure on the balance of payments.

He said domestic economic policy would still have to be carefully handled.

UAL economist Dennis Dykes said the purchase of Kruggerands was of only temporary assistance as capital outflows continued to exceed trade income.



# Harms criticises Reserve Bank <sup>74</sup>

STRONG criticism of Reserve Bank procedures by the Harms Commission would probably be discussed in Parliament this week by Finance Minister Barend du Plessis, Reserve Bank Deputy Governor Japie Jacobs said yesterday.

Jacobs would not comment further on the commission's findings, which included that the Bank had taken 14 months to take decisive action against Pretoria attorney Albert Vermaas.

In that time, according to the commission's final report released on Friday, Vermaas illegally collected R135m from "widows and orphans", earning himself R40m along the way.

The commission also noted that while one Bank section was trying to stop Vermaas's illegal banking business, another was approving his foreign exchange applications.

Mr Justice Louis Harms found, however, that while there were instances of negligence on the part of Bank officials, there was no evidence of impropriety.

Mr Justice Harms found Vermaas's ap-

MANDY JEAN WOODS

plications to the Reserve Bank were handled in an unsatisfactory manner in that:

□ He was allowed to conceal the identity of foreign buyers of his properties without giving good reasons;

□ While extensive documents were given in with the applications, it was clear the documentation was never read, or, if read, was never critically appraised;

□ The Bank neglected to attach proper and effective pre-conditions to the forex authorisations to ensure the goods Vermaas purchased actually came to SA; and

□ No controls existed to ascertain if conditions attached to such applications were met. b/dam 10/4/89

"If foreign exchange control cannot be strictly applied, does it make any sense to apply it at all?" the report said.

The Reserve Bank took literally the idi-

● To Page 2 →

## Reserve Bank under fire from Harms

om that the left hand should not know what the right hand was doing, Mr Justice Harms said.

"While the Registrar of Banks was grappling with Vermaas's illegal bank business, the foreign exchange control division was approving forex transactions and operating as if nothing was wrong," Mr Justice Harms said.

"This is not to say that the foreign exchange control division did not know about the registrar's investigation. Their point of view was simply that it was none of their business."

Mr Justice Harms said it was notable that the opinions of top officials in the foreign exchange control division differed substantially on the workings of control mechanisms.

There were also differences of opinion between the Bank and its agents (commercial banks) in that the Bank believed applications recommended by its agent confirmed the *bona fides* of the applicant. But commercial banks believed their recommendations did not have any influence on the Bank's decision-making.

The report also found that most of the investors whose money financed Ver-

maas's extravagant lifestyle were motivated by the fact that extraordinary returns on investments were paid.

"Greed remains extremely infectious and untreatable," Mr Justice Harms said.

While the fraud uncovered by the commission was exceptional, no evidence of corruption was found. What was found, however, was that alleged enrichment and influence uncovered by the commission impressed people no end, he said.

Mr Justice Harms likened Vermaas to Ali Baba, saying both had magic words which opened "solid doors" and got their hands on huge treasures.

Vermaas's magic words were the names of important people, which he used as an insurance premium against unfavourable action, the report said.

The commission found that according to evidence before it, neither Foreign Affairs Minister Pik Botha nor Defence Minister Magnus Malan were corrupted by their friendship with Vermaas.

● See Page 3

b/dam 10/4/89 ←

● From Page 1

74

THE abuses of the financial rand system which have been exposed might be the tip of an iceberg, the Bank of Lisbon says in its latest Economic Focus.

A substantial discount on the financial rand — which has exceeded 50% at times — strains the system, as economic agents are furnished with powerful incentives to engage in illegal transactions.

Any two-tier exchange rate system can only work smoothly if the gap between the two rates is relatively narrow, the report says.

Steps to tighten the control regulations have been taken, and further moves could be in the pipeline, the bank suggests. But this action could not be expected to eradicate the problem in the face of the large discount on the financial rand, currently more than

## Finrand is open to abuse, says bank

KAY TURVEY

30% to the commercial rand.

Attention has also been focused on administering the existing controls more effectively.

Commercial banks could exercise better control over foreign exchange transactions by more closely monitoring the release of financial rand balances to non-residents for the purchase of non-quoted equity investments. However, this would increase the administrative burden of banks.

The report states that it is widely assumed that the large discount on the financial rand largely reflects the political risks perceived by foreigners, but this could be open to question.

## ConsGold falls on new-bid worries

LONDON — ConsGold shares fell a further 22p yesterday to £13.15 amid increasing concern that the market has given Minorco's latest £3.5bn offer the thumbs-down.

About 360 000 ConsGold shares were traded in a selling bout just before midday.

Although it was well short of the 3.2-million shares which traded on Monday, as speculators baled out en masse after news of the bid, it underlines the City's caution.

The consensus view is that as long as the New York court action continues to cloud the outcome, there will be few takers.

More fundamentally, however, Minorco's new £15.50 a share offer is not considered attractive enough, in spite of the 150p increase in the cash element.

The other gripe being heard is Minorco's insistence on tying the cash element to a Minorco share. In spite of repeated reassurances by the Minorco board, investors remain wary of the Luxembourg-quoted, dollar-denominated paper.

ROBERT GENTLE

A County NatWest analyst said a straw poll conducted among 30 of ConsGold's major institutional shareholders showed fewer than half would accept the offer.

These views were echoed by the UK Press, which was almost unanimous in regarding the new bid as too little, too late.

The Times said Minorco may have delivered a punch to ConsGold's jaw, but it was no knockout: "By initially structuring its bid with a share element to it and sticking with it, Minorco has scored an own goal."

The paper added: "Whatever the temptation of £15.50, the case remains for sticking with the devil the market knows."

The Financial Times acknowledged the problems Minorco now faced, but cautioned that it was still too early to assume that ConsGold had won the day.

A Minorco spokesman said it was far too early to write off the bid.

## Nationwide forex swindle crackdown

FOREIGN exchange swindles of close to R1bn are being investigated by the SAP.

Top commercial detectives are involved in a massive crackdown involving more than 63 contraventions.

Almost R1m was involved in most cases under investigation by police and the Reserve Bank foreign exchange control department.

A spokesman for the Department of Finance denied the forex loss due to alleged frauds could be as high as R910m, as not all contraventions had led to a loss.

In most cases under investigation, false information was given to the authorities.

A police spokesman said it appeared that most of the investigations were centred around Johannesburg, but investigations were also under way in Cape Town, Durban, Pretoria and Port Elizabeth.

Many alleged culprits had been identified and were being charged.

Close co-operation between police and the Reserve Bank had led to the recovery of R1m. — Sapa.

# Top sleuths to probe R910-m forex frauds

Star 12/4/89.

74

One of South Africa's top detectives has been appointed to investigate foreign exchange swindles, involving almost R1 billion, now under investigation by the SAP.

Major-General Jaap Joubert is leading the investigation and is being assisted by Commercial Branch chief Brigadier Nollie Hulme.

General Joubert's appointment comes as concern at the extent of the swindles is mounting in political circles.

Mr Harry Schwarz, Democratic Party finance spokesman said today that when there was so much fraud, the system itself was obviously at fault. There was an urgent need for the system of exchange control to be reviewed, he said.

The ordinary man in the street, who applied for small amounts of foreign exchange for holidays and couldn't get it, was getting angry at the huge foreign exchange frauds some businessmen got away with.

## Apparent ease

Mr Schwarz said the least one would expect was that where large amounts of foreign exchange were applied for — for example to buy aircraft — that there would be a high level of checking, "at least to see they brought the aircraft home".

"It's startling how easily some of these frauds have taken place," he said.

He also suggested that:

- The Reserve Bank should take a closer look at its foreign exchange staff.
- Commercial banks should take a far greater responsibility for screening applications for for-

By Craig Kotze and Peter Fabricius

eign exchange and should recommend which customers should get it.

• Commercial banks should screen their own foreign exchange staff better.

"There is no fool-proof system to prevent foreign exchange fraud, but there must be something which can be done about these shocking figures."

General Joubert has achieved spectacular breakthroughs in several major police investigations over the past few months, including the Stompie Moeketsi case and right-wing violence.

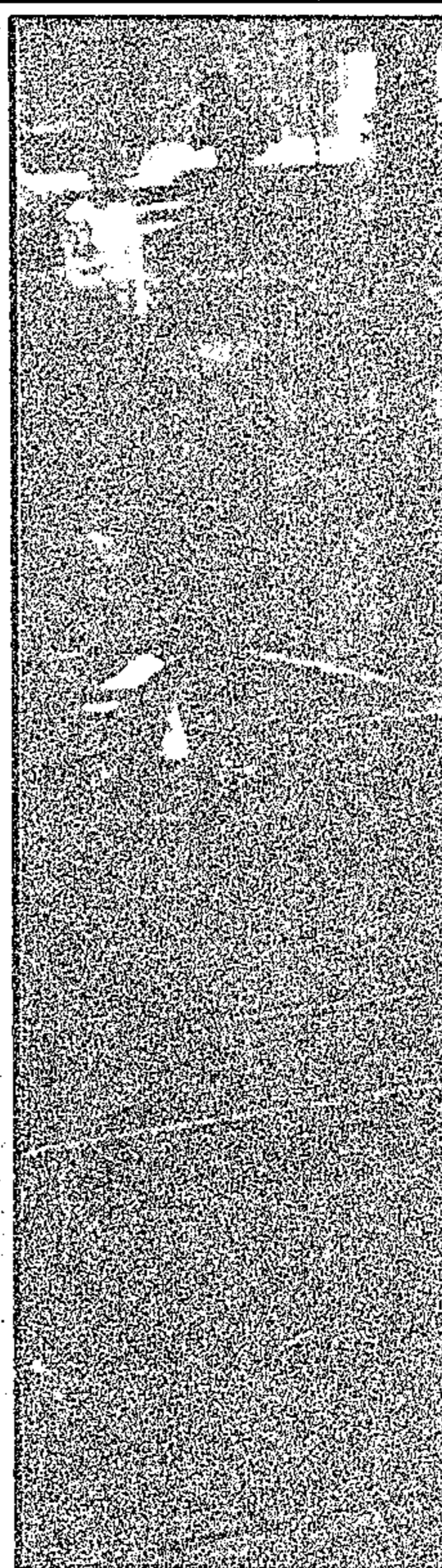
His appointment was the result of the magnitude of the crimes and an indication of how seriously they were viewed by the authorities.

Some of the cases under the umbrella of General Joubert's investigation include the recent R47 million Trust Bank fraud, the R157 million Trust Bank forex fraud and the R10 million Swiftsure scam.

The total amount involved is R910 million, representing more than 63 cases, six of which account for R730 million.

Police are not yet prepared to name institutions and individuals until the suspects were brought before court.

• The Department of Finance maintains that less than R910 million is involved because not all the contraventions had resulted in a loss.



Stricken whirlybird . . . con heavy air-condition

ER STOR

# Pessimism over Swapo

OSHAKATI — Official sources have indicated they are not very optimistic that large numbers of Swapo fighters will in fact present themselves at any of the nine neutral, UN-monitored assembly points in northern Namibia.

The assembly points started operating on Tuesday at noon under the blue United Nations flag, but nearly 24 hours later it was reported that not a single Swapo guerilla had presented himself at any of the points.

It has been pointed out that some of the points are fairly near the security forces' bases and this is a factor that tends to keep Swapo fighters

away.

Experienced observers of the 23-year bush war point out that insurgents who have come up against strong resistance

from the security forces often vary their weapons and uniforms, change into civilian clothing and lie low among the local population.

## Forex 'system at fault'

THE "startling" disclosure that police were investigating R910 million foreign exchange losses pointed to the urgent need for the system of exchange control to be reviewed.

Mr Harry Schwarz, Democratic Party finance spokesman said yesterday that when

there was so much fraud, the system itself was obviously at fault.

The ordinary man in the street who applied for small amounts of foreign exchange for holidays and couldn't get it was getting angry at the huge foreign exchange frauds that businessmen were getting away with.

Mr Schwarz said the least one would expect was that where large amounts of foreign exchange were applied for — for example to buy aircraft — that there would be a high level of checking — "at least to see they brought the aircraft home."

WHILE THE US dollar and gold are buffeted about by varying influences, the rand has remained relatively calm over the past month. To a significant extent this is a natural reaction to the oversold condition that has developed since the beginning of February, when the gold mines were once again paid in US dollars for their gold production rather than in rands.

The oversold condition raises many questions about the effectiveness of regulation in the local forex market. For example, who has been more effective in supplying the market with the dollars earned by SA's major export — the gold mines or Reserve Bank?

If the gold mines are supplying the dollars actively in terms of the Exchange Control requirement on exporters, then must we assume that the Reserve Bank had been doing more than that — that is, were they intervening to give unwarranted strength to the rand prior to February?

Judging by the performance of the rand against gold and the DM, I would guess not. The weakness of the rand during February has been exclusively against the US dollar. This suggests quite clearly that the weakness has been prompted by factors inherent in the rand rather than by any strength in the dollar or weakness in the gold price. In other words, either the demand for dollars against rands rose dramatically or the supply of dollars against rands fell sharply.

If this had not been the case we would not have

# Checkmate?

81 Day 13/4/89

(74)

The interesting fact, though, has been the recent stabilisation in both the US\$/R rate and the R/DM rate, which suggests that the oversold condition has reached a climax. This is further supported by the fact that the rand did not weaken in response to the latest drop in the gold price but instead we saw a sagging in the rand price of gold.

## Nervous State

The climax of the oversold condition does not necessarily mean that the rand is about to retrace its steps. The oversold condition, if it results from dollar demand, could dissipate merely by the efflux of time as these long dollar positions are used up in the normal course of international trade. On the other hand, if the oversold condition has resulted from a restricted dollar supply we could well see some retracement taking place.

My inclination is to assume that the recent weakness in the rand has followed from both a higher demand and a restriction in supply — a compromise assumption but one which has some

validity in the nervous state of the local foreign exchange market.

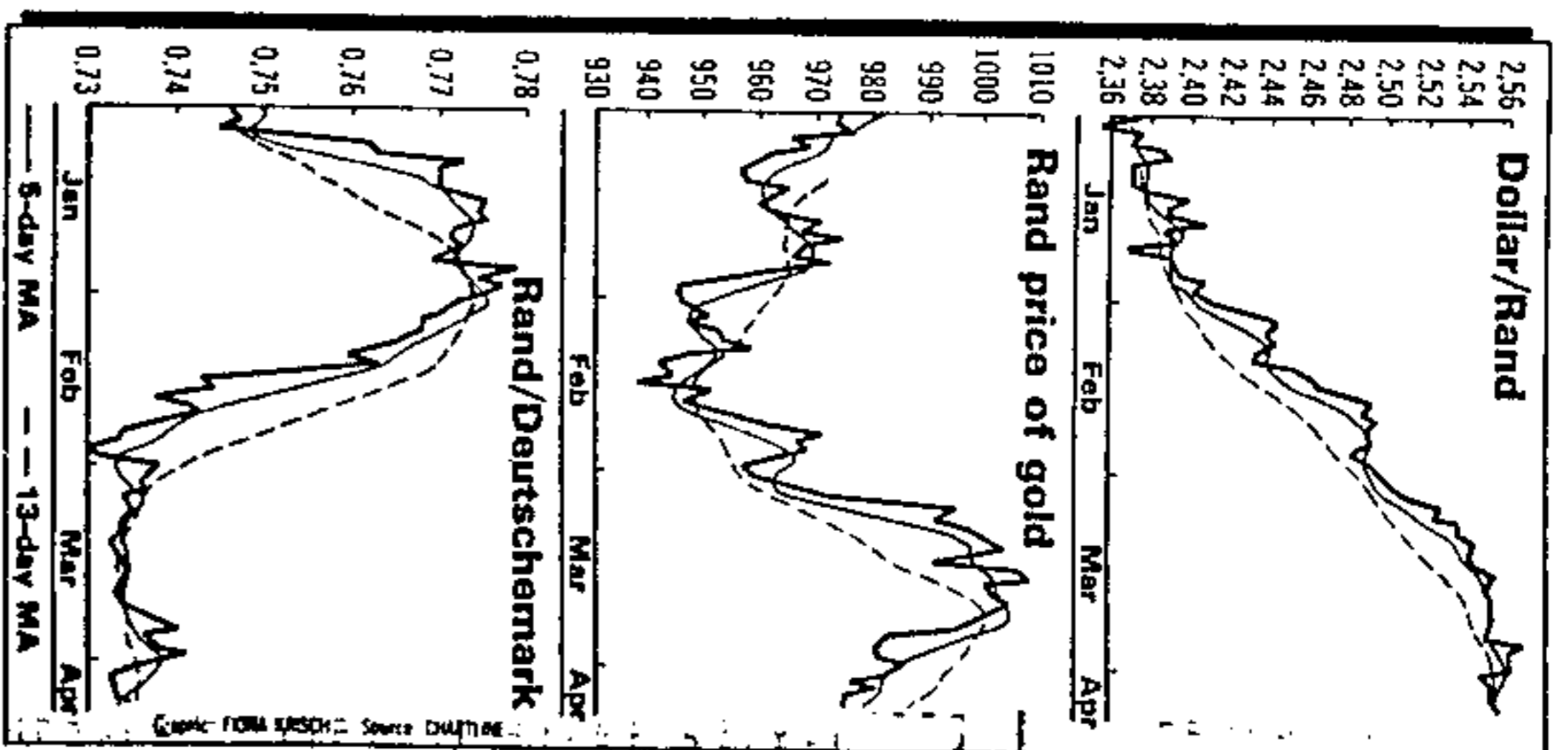
Given the still positive, albeit reduced, balance on the current account and the buoyant export sector we can also validly assume that in the main (and until the next debt repayment, but not before) the market has a potential net supply of dollars. This implies that the rand is not likely to weaken much further. This view also has much technical support, given the reluctance of the rand to weaken beyond the US\$1 = R2.56 barrier.

However, while the gold price languishes below US\$390 and the markets continue to try the patience of the G-7 keeping the dollar at relatively buoyant levels we are also not likely to see much strength in the rand in the immediate future. It was not pressured into weakness by a strong dollar, but any potential strength will be held in check by the buoyancy of the dollar and the weakness in gold.

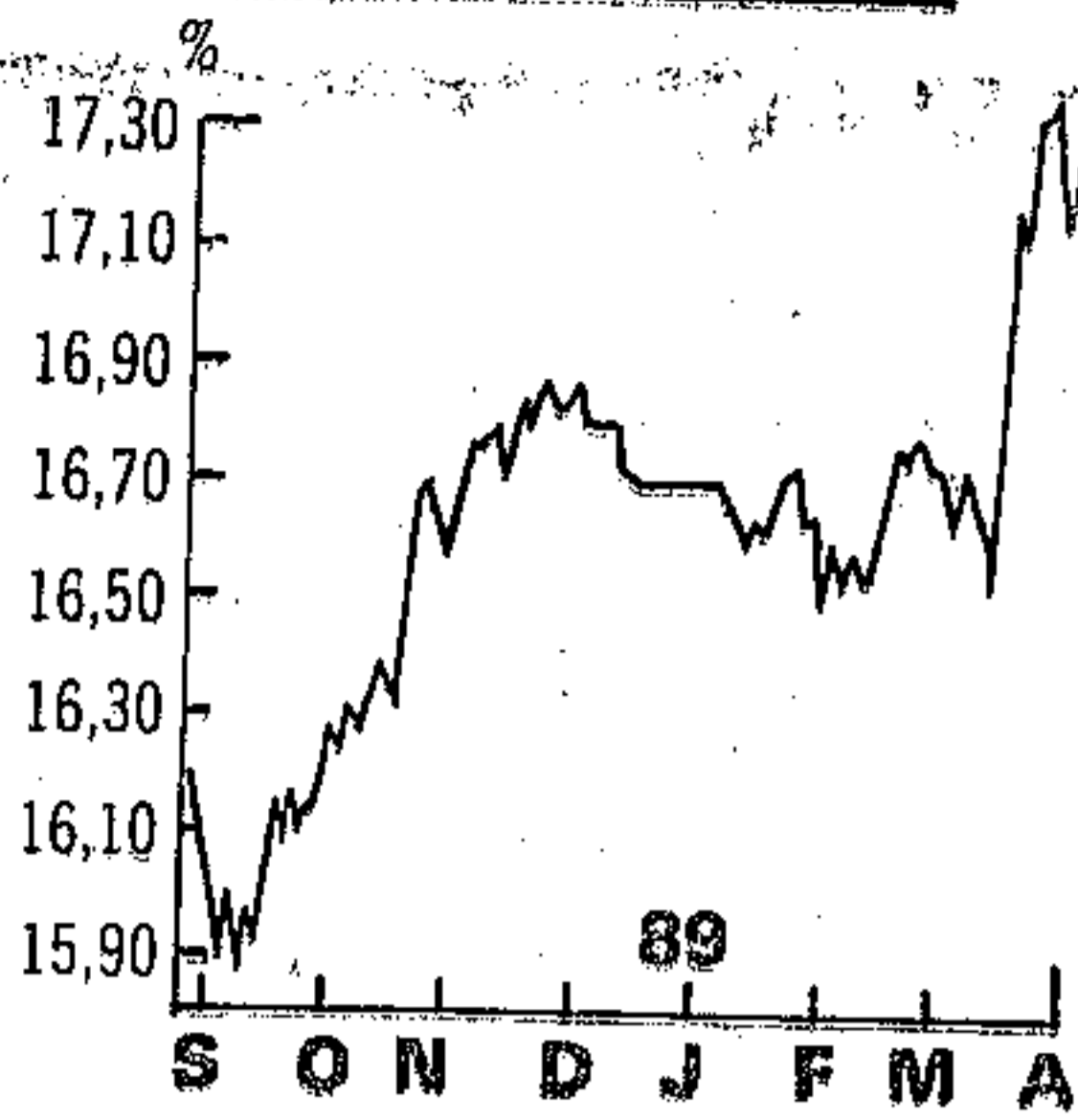
But we don't have checkmate yet. The factors supporting the dollar are transitory — a share scandal in Japan, a possible cabinet reshuffle in West Germany and the speculation that a possible first response to rising inflation in the US will be higher interest rates.

Should the market choose to ignore these factors in favour of the continued twin deficit problem in the US and growing pressures on the banking industry, we could well find that the rand responds strongly to the subsequent weakness in the dollar — especially from its present oversold condition.

## REVIEWS



## RSA-13% 2005



Graphic: LEE EMERTON Source: REUTERS

## Strong foreign demand for gilts pushes up finrand

GRETA STEYN

STRONG foreign demand for SA gilts has caused the financial rand to rally by almost 4% since Monday.

Market sources estimated foreign purchases of SA gilts, mainly Eskom Loan 168, totalled about R60m in the past two days. They said the high yields made gilts an especially attractive investment as investors' interest payments were made in commercial rands. *BID 13/4/89*

The rally in the finrand started on Tuesday and the currency strengthened further yesterday, from R4,08 to the dollar to R4,00 or US\$0,25, compared with Monday's R4,1450 (US\$0,2412).

Foreign corporate orders for SA investments other than gilts aided the stronger trend.

More 'deals' being investigated

B/Dan 14/4/87

# R650m fraud cases knock forex reserves

(74)

SA's foreign exchange reserves have taken a R650m hammering through fraud.

Reserve Bank deputy governor Japie Jacobs said yesterday the value of forex fraud cases — discovered by the Bank but not yet solved — totalled R850m.

He said: "Those outstanding cases which would have affected forex reserves total R650m."

Forex reserves declined from R6,14bn in December 1987 to R4,93bn in December 1988, a drop of R1,2bn.

This excluded the R100m Afbank case which alone accounted for a 4,9% loss in reserves in 1985/1986.

Jacobs said the Bank was investigating more cases — but those involving



● SAMUELS

R850m had been handed over to the police. The number of cases of forex fraud which had come to the Bank's attention had increased since 1988, compared with 1987.

The largest case being investigated was the case involving former Trust Bank corporate division assistant manager Simon Samuels, 32.

Police deputy CID chief Jaap Joubert said in earlier reports the alleged swindle involving Samuels totalled R157m.

Jacobs said most of the cases being in-

MANDY JEAN WOODS

vestigated by the Bank dated from last year. Other cases were the Eskom stocks fraud case said to involve "tens of millions of rands" and the alleged R47m Trust Bank fraud involving businessman Stuart Pegg and four others.

Trust Bank MD Kobus Roetz said he could not confirm a report that Pegg and Samuels were personal friends.

When asked how the investigation into the Samuels case was going, he said: "From what I know it is not going well." He declined to comment further.

Police are keeping a tight clamp on information relating to the Trust Bank case.

It was learned from sources yesterday that R3m in Krugerrands, allegedly purchased with falsified clearance vouchers (CVs), had been found. More than R19m in Krugerrands and R1m in uncut emeralds were purchased with false CVs.

Another R25m, which had been approved by the Bank for the purchase of a Falcon 50 executive jet, has been located overseas and frozen by Bank investigators.

Jacobs said forex investigations had been hampered because the police had limited resources. "The Bank does not have the power to prosecute and convict people. Such cases must be handed over to the police."

"It is time consuming following up these contraventions because they often take

● To Page 2



## R650m fraud cases knock forex reserves

(74)



B/Dan 14/4/87  
● From Page 1

place overseas and, therefore, it is not so easy to trace the transactions or individuals and it takes time to get prosecutions in the end."

After the exposure of flaws in the forex control system through the Vermaas case in December last year, the Bank had taken steps to strengthen its forex control

department.

Jacobs said: "We are looking into ways and means of monitoring over-invoicing and we are implementing a programme which will ensure export proceeds are transferred to SA."



## Shock at fraud damage to SA's forex reserves

ECONOMISTS were shocked at the extent to which fraud hit SA's foreign exchange reserves last year.

They described as "astonishing" and "appalling" Reserve Bank senior deputy Governor Japie Jacobs's disclosure last week that fraud knocked the reserves by R650m. The figure is more than half of the R1,2bn decline in reserves in 1988.

GRETA STEYN

Standard Bank economist Nico Cypionka said exchange control regulations were clearly not working, and increasing the number of officials to implement them would not help. The solution might be to abolish exchange control. The financial rand was "tailor-made" for abuse, he said.

BIDEN 7/4/89

74



BY KEN OWEN

74

# R650m frauds:

Cape Times 17/4/89

## Where are our moral standards?

THE extent of foreign exchange frauds in the past year is not yet known but we do know that probably half the loss during 1988 of the country's gold and foreign currency reserves, its accumulated national treasure, can be attributed to fraud.

Theft did us more harm than sanctions.

The disclosure last week that frauds cost us R650 million in foreign reserves — not quite as much as we paid off our foreign debt, but a sizeable sum anyway — has made nonsense of the theories put forward last year to "explain" why the national treasure was draining away.

Leave aside the fact that these frauds were of a magnitude to dwarf all other crime put together — all muggings, all thefts, all car thefts, all armed robberies, all bank robberies, all dud cheques — and ask instead the question that hovers constantly in South African minds these days: What has happened to the moral standards of South Africans?

Tax collector Clive Kingon, desperately contemplating the equally desperate attempts by major corporations to find loopholes in the tax law, accuses his victims of a "moral sickness", but it goes beyond mere tax avoidance or the illegal exports of capital.

### History of fraud

Corruption has rotted the very warp of South African life. This is not the place to recount the appalling, if half-forgotten, record of the past 20 years, but we all know what has been happening: Eschel Rhoodie and the crooked accounting in the government, the first-class "freebie" trips abroad; deputy minister Mr Hennie van der Walt stealing trust funds; the officials giving each other free Krugerrands at a party; the lavish parties to celebrate such mundane events as the opening of a toll road; the fleets of Mercedes-Benzes in the basement of the SABC; and so much more.

These are mere symptoms of a deeper rot. At the heart of all these examples lies a failure of the law to hold the allegiance of the people, a failure of the authority of the state. The people of this country, excepting a couple of million whites, hold the state and its agents in profound contempt.

That is, of course, the inevitable consequence of replacing the rule of law with the rule of men. It began, one suspects, when John Vorster destroyed what is loosely known in this country as the right of habeas corpus, permitting his policemen to lock people away without trial.

The trouble is not simply that the detention laws led, inevitably, to the complicity of the state in various murders. That was bad enough, but worse was that the law — the very idea of law — lost its hold on men's minds. First on the rulers, then on the keepers of the law.

We have descended so far that the state not only accepts the danger of its own complicity in unlawful killings, so that judges of the Supreme Courts must go from prison to prison to protect inmates against the fate of Neil Aggett or Steve Biko, but the state sets aside the law in order to protect people accused of outright murder. At this very time, the State President is doing all he can to pre-

vent the trial of six men accused of murder in Namibia.

When the law against murder is made subject to the judgment — or prejudice, or caprice, or malice — of one elected official, it is vain to talk of a government under law. In a real sense, there is no law.

Other laws besides the law against murder go unenforced. Some are simply so bad, like the pass laws, that they cannot be enforced, and must in the end be repealed. Others are simply too difficult, or costly, to enforce. At first, government tried to overcome the problem by giving officials discretionary powers to "regulate"; but that doesn't work any longer, and the escape mechanisms become increasingly bizarre.

As the law weakens, so does convention, and the concern for the decent appearance of things is lost. The Harms Commission has found that neither the Defence Minister nor the Foreign Minister, each of whom accepted a hunting rifle as a gift from Wessel Albertus Vermaas, did anything wrong.

That, in the present climate, is a welcome finding, but it does not entirely cover the appearance of things. The Defence Minister did, as it happens, recommend Vermaas for a position as a director of an Armscor company, and Vermaas was appointed.

A year later, on the very day of the appointment of the Harms Commission, Vermaas's directorship was terminated because, the commission was told, he failed to get a security clearance. The commission, more alert to the appearance of things than the cabinet ministers, was struck by the coincidence, but found it was just that — coincidence.

Nevertheless, the episode does demonstrate the need for public officials, if they wish to maintain moral authority, to be sensitive to appearances, and to be careful of gifts like hunting rifles or hunting trips. For one thing, lesser officials take their cue from the cabinet.

### Who you know

These days, it's not what you know, but who you know. Merchant bankers complain that there are people walking around Pretoria who claim, that, for a fee, they can get applications for foreign currency expedited. Certainly it is obvious, not only from the Vermaas affair, that Reserve Bank officials will intervene to assist those applicants who can marshal powerful support.

This brings us back to the forex frauds. They represent in part the determination — indeed, the desperation — of people to get money out of the country before the currency decays even more. They also represent, obviously, the efforts of criminals to exploit the existence of foreign exchange restrictions intended to prevent honest people from getting their money out.

During the Great Plague, the citizens of Milan are said to have cavorted drunkenly about the graveyards as they waited to die. Something similar happens when people lose trust in both the law and the currency: When your world is falling apart, cynicism becomes a refuge.

City Times 17/4/89

# Trust Bank fraud case: Focus shifts

Own Correspondent

JOHANNESBURG. — The focus of police investigations into the R47-million Trust Bank fraud has shifted from former Info agent Mr Stuart Pegg to the lesser-known Mr Hendrik Welman, with police disclosing that three of the warrants issued last week were for Mr Welman's aliases.

Mr Pegg said in an interview in yesterday's Sunday Star that he merely acted as an agent in the allegedly fraudulent R27-million bid to buy an American aircraft and alleged that Mr Welman had masterminded the deal.

Mr Welman is believed to be in West Germany, along with his co-suspect, former Trust Bank chief clerk Mr Gotz Guntenhoner.

Trust Bank managing director Mr Kobus Roetz agreed yesterday that efforts to retrieve the R47 million, obtained through the fraudulent issuing of bank clearance vouchers, now centered on Mr Welman.

Police were making encouraging progress, Mr Roetz said, adding: "I am sure we will have some good news soon."

Witwatersrand police liaison officer Col Frans Malherbe said yesterday that Harry Williams and Keith Green-

wood were aliases used by Mr Welman.

In an earlier statement police alleged that Greenwood, of Ponte City, Berea, acted as a go-between for a Londoner, David Smith, in the purchase of more than R1 million in uncut emeralds, of which there is a world shortage.

The police also alleged that Harry Williams, of Krugersdorp, operated a business in Norwood called Harry Williams Import and Export Company and that R130 000 was transferred unlawfully from a Trust Bank account into his account. The money has subsequently been transferred out and its whereabouts are unknown.

Col Malherbe said R2 million in cash and Krugerrands had been recovered.

Mr Pegg was reported yesterday to have protested his innocence and promised to return to SA before the end of this month. He denied that funds from the cancelled aircraft deal were transferred to bank accounts in his name in Luxembourg and Switzerland.

Mr Pegg reportedly claimed he earned \$100 000 (R253 000) commission from the National Airways Corporation for his part in the deal. This, he said, had been deposited in his account in SA.

Trade surplus of R1,67bn last month

# Exports give the economy a big boost

74  
B/Dan 19/4/89

GRETA STEYN

EXPORTS surged in March to push the current account into surplus in the first quarter of 1989 after fears it would slip into deficit earlier this year.

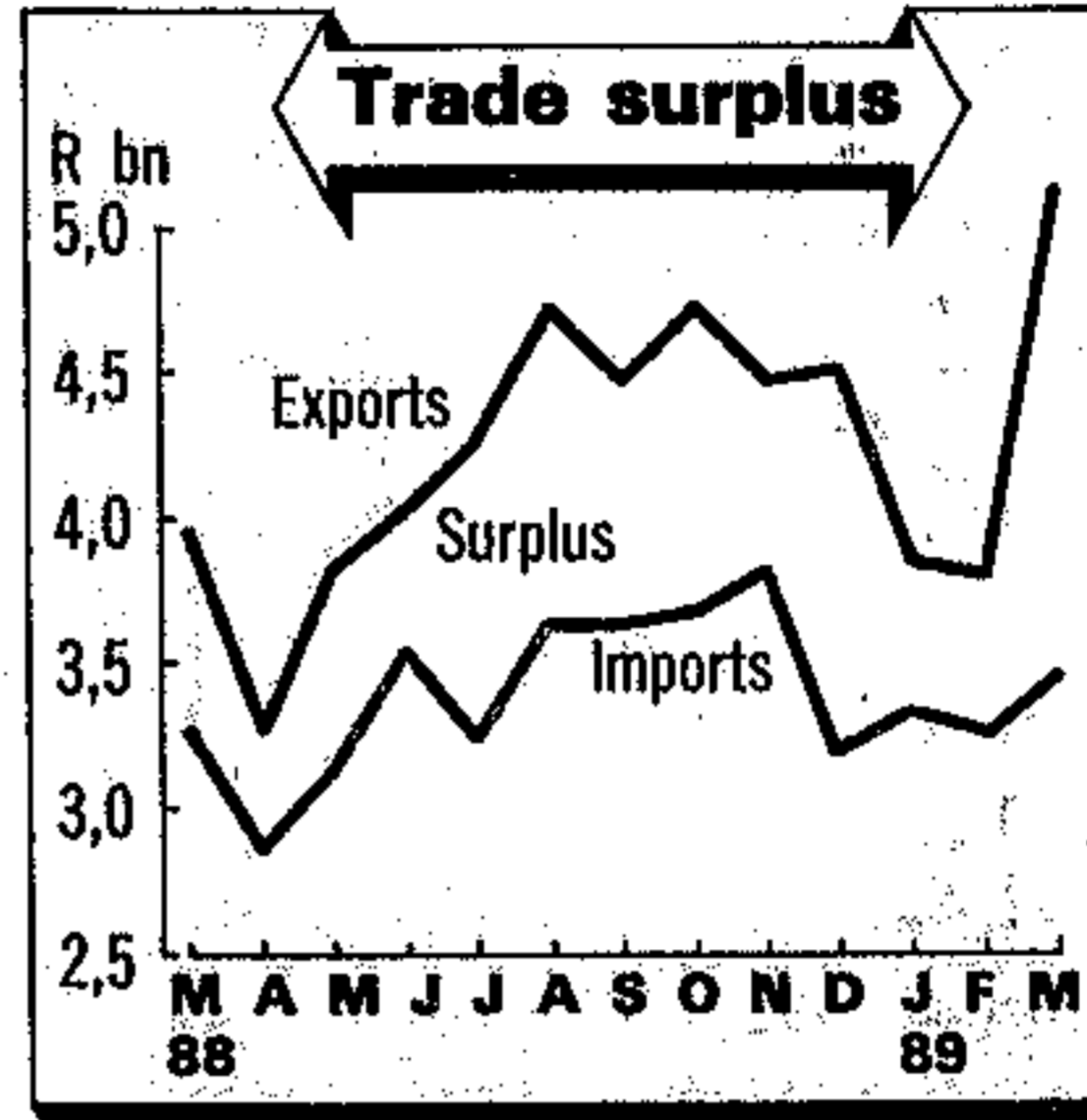
Last month's unexpectedly hefty trade surplus of R1,67bn came after a miserable R550m in February and R535m in January.

The strong improvement in the trade figures was the result of a 35% jump in exports, from R3,8bn in February to R5,13bn in March. The driving force behind the stronger performance was the "unclassified" category of exports, which surged by 40% from March — indicating possible arms exports. Unclassified exports accounted for R2,3bn of total exports.

Imports were slightly higher at R3,45bn compared with R3,25bn — but still significantly lower than November's record of R3,8bn.

A rough calculation showed the current account recorded a small surplus in the first quarter, based on a trade surplus of R2,76bn for the first three months of the year and estimated net service payments of about R2,4bn.

Estimates of the current account based on customs and excise figures might, however, be off the mark because Reserve Bank adjustments can make a substantial difference. But Trust Bank economist Nick Barnardt said if last year's experience was anything to go by, the trade figures would be revised upwards in the first quarter to yield a better surplus on the current



Graphic: FONIA KRISCH Source: CSS

account. Economists are now talking in terms of a R1bn surplus in the first quarter.

A tentative sign that a healthier current account could reduce upward pressure on interest rates was evident in the capital market yesterday. Long-term rates initially dropped three points on the news of the strong trade surplus before drifting back upwards as the gold price weakened.

Bureau for Economic Research economist Adriaan Mocke said a major factor behind the improved trade balance was the 6% decline in the average rand/dollar exchange rate since January.

The weaker exchange rate also has the effect of keeping the rand value of imports

● To Page 2

# Exports give the economy a big boost

at a high level even if volumes are dropping. The trade-weighted value of the rand dropped by 2,6% between February and March.

However, while the current account seems to have strengthened considerably, some economists fear the capital account of the BoP is looking sick.

First National's Cees Bruggemans said:

"There can be no doubt that capital movements in March were strongly negative. The reserves remained virtually unchanged in spite of a strong current account and the inclusion of Krugerrands in the gold reserves."

● From Page 1

B/Dan 19/4/89

74

Leading economists cautious . . .

# SA trade surplus rises to R1,67bn

74

Mike Daly  
19/4/89

By AUDREY D'ANGELO  
Financial Editor

A HUGE increase in exports in March pushed up SA's trade surplus to R1,67bn from R553m in February — even though imports were also higher.

Exports totalled R5,13bn in March compared with R3,80bn in February and R4,04bn in March last year.

Imports were marginally up at R3,45bn compared with R3,25bn in February and R3,27bn in March last year. At this time last year the trade surplus was R772,6m.

Total exports for the first quarter of 1989 were R12,78bn and imports R10,01bn making a total surplus of R2,76bn.

This compares with exports of R10,99bn and imports of R8,68bn in the first quarter of last year when the trade surplus was R2,31bn.

But leading economists warned yesterday that these figures did not mean that the country could relax in the certainty that repayment of foreign debt could be achieved without any further dampening down of the economy to curb import demand.

Attie de Vries, professor of economics at the University of Stellenbosch School of Business, said: "It is still too early to start celebrating. One cannot say anything on just one month's

figures — the surplus for the quarter as a whole is barely positive.

"This news is heartening. It is the kind of thing we need, especially in terms of export growth. But we cannot read too much into it at this stage."

Discussing the rise in import figures, De Vries said they did not show how much was due to an increase in volumes and how much to inflation.

But the increase in fixed investment meant that imports would probably continue at a high level for some time to come.

Oekie Stuart, director of the Stellenbosch Bureau for Economic Research, said: "We still have problems because the economy is growing at too rapid a rate.

"We cannot attach too much importance to one month's figures. The threat of another rise in interest rates has not receded."

Presenting his Economic Commentary for April, Southern Life economist Mike Daly said, before the trade figures had been announced, that he expected a dramatic improvement in the balance of payments in the second half of the year.

He thought an improved export performance would pull SA through, with trade surpluses large enough to meet the repayments of foreign debt.

# Further decline seen for rand

By Sven Lünsche

The rand exchange rate, which has already dipped by over nine percent against the dollar in the first three months of the year, is set to fall further in months to come.

It closed on Friday at R2,532, about 1c up on the day on the back of a weaker dollar, which was hit by rising interest rates in West Germany and other European countries.

But economists are virtually unanimous that the rand could fall to R2,70, or even further, before the end of the year.

A similar picture is forecast for the rand against other major Western currencies.

Behind its expected weakness are two major factors: the continuing low level of the gold price and SA's weak balance of payments position.

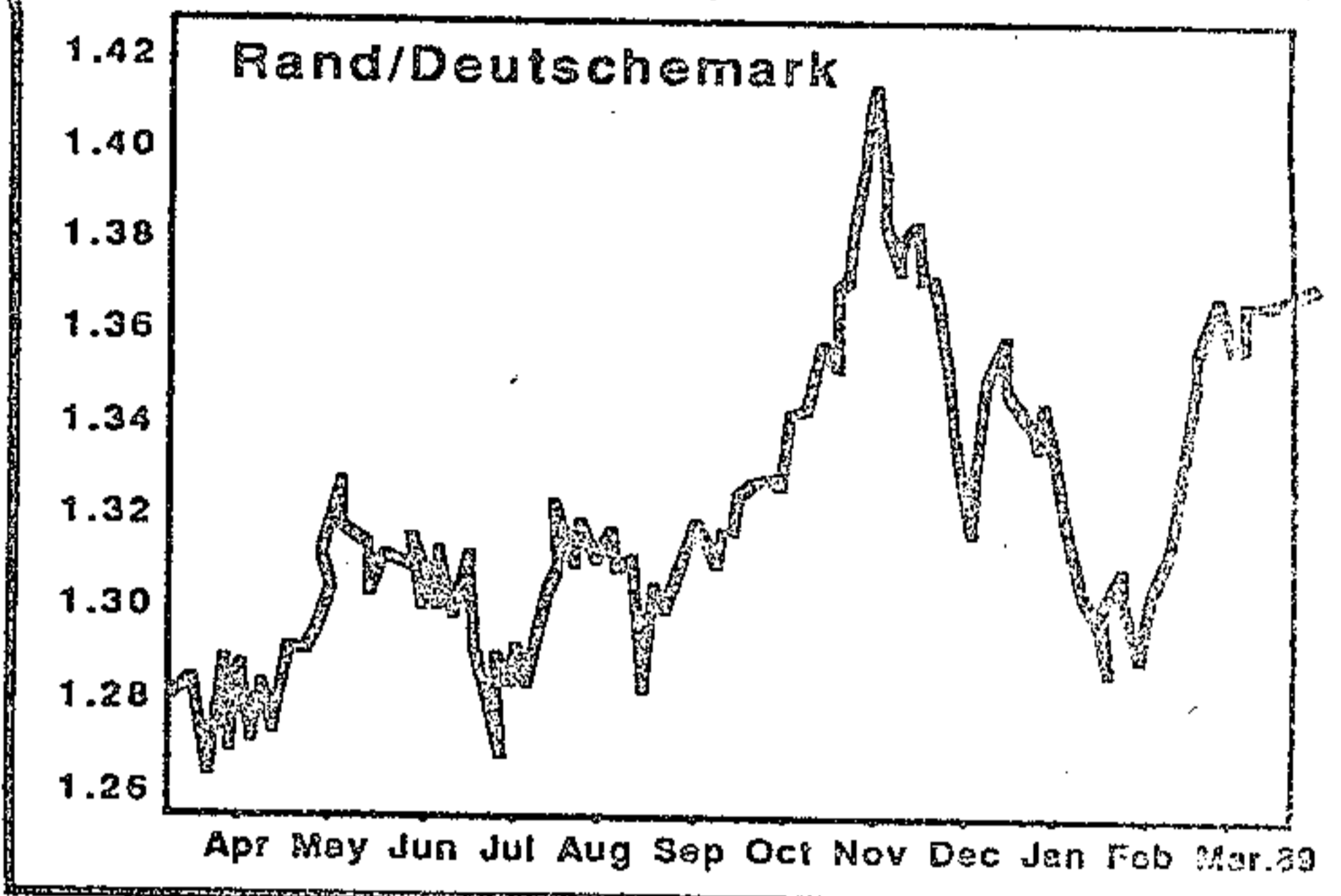
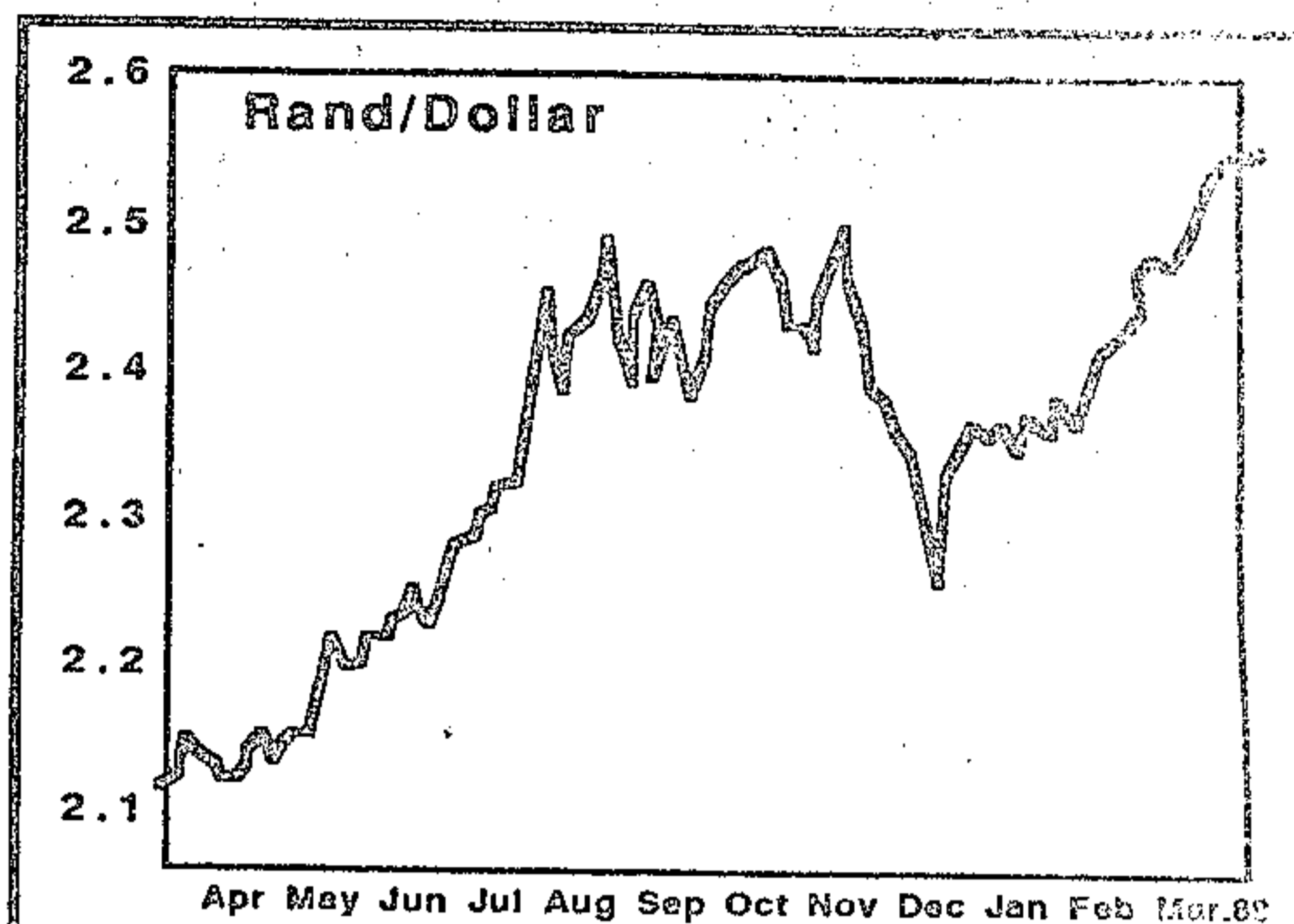
In a recent report, Trust Bank economists said the downward trend of the rand gold price suggested the rand exchange rate had definite downward potential if gold did not recover visibly.

"It would indeed appear that the monetary authorities are delaying the rand's decline during the first half of the year, possibly to contain inflation," Trust Bank said.

But it is doubtful whether this is effective, or whether it will be maintained in the second half.

Leon Steenkamp, economist at Senekal, Mouton, Kitshoff, says: "Reserve Bank intervention in the foreign exchange market will be without teeth in the absence of more effective measures to curb domestic spending.

"From the Governor of the Reserve Bank's statement on March 7, when he referred to 'the exchange rate implications of the need to maintain a large surplus on the current account, it has, however, to be concluded that the



currency will not be propped up artificially.

"In fact, my interpretation is that it has virtually been accepted that the currency will depreciate," Mr Steenkamp says.

There might be slight relief for the rand in an expected surplus on the current account during the first quarter of the year in the wake of the unexpectedly high trade surplus achieved in March.

Many economists, however, consider the trade surplus in March to reflect corrections of badly understated figures in Jan-

uary and February.

But more importantly, they expect the surplus on the current account in March to have been virtually wiped out by massive outflows on the capital account.

It is, therefore, not surprising that both Trust Bank and Mr Steenkamp expect a further fall in the rand.

Trust Bank's sees the rand declining to R2,70 against the dollar and to R1,43 against the D-mark.

Mr Steenkamp sees a weighted depreciation of ten to 15 percent over the next year.

JUST LIKE the steam engine of our childhood bedtime stories, the US dollar has huffed and puffed its way up the hill. Now it seems set to free-wheel down the other side again.

The dollar is hanging in the air, poised at the pinnacle of the rally that spanned the Easter long weekend. It now seems that any further rises will be limited until it can build up a new head of steam.

Meanwhile, the chart points on the various currencies are being breached with sharp retreats appearing as this happens.

Just prior to that holiday break the dollar was already set to show a retracement, as I indicated in Business Day of March 23. The chart points now being breached are identical to those I suggest in that article.

To refresh your memory, I suggested that "if the dollar is below DM1,87 when you read this, a change in the dollar's direction lasting three to four weeks and of at least 500-points in magnitude" would occur. At the time of writing we have had

# Huffin' and puffin'

11 Day 2014/89

276

major breaches of the dollar's support levels: firstly, against sterling (1,70) and then against the DM.

The dollar is still holding above its support against the Japanese yen (132,00) but its position is somewhat precarious. The rand has also — not surprisingly — shown some strength against the weaker dollar, but this has been very subdued in the circumstances.

## Slippage

One doesn't need to be a technical analyst to see the droop in the dollar. This is clearly apparent from the charts. There just doesn't seem to be enough huff and puff to push to dollar any higher. In fact, there doesn't even seem to be any immediate support to stop a steady continuation of

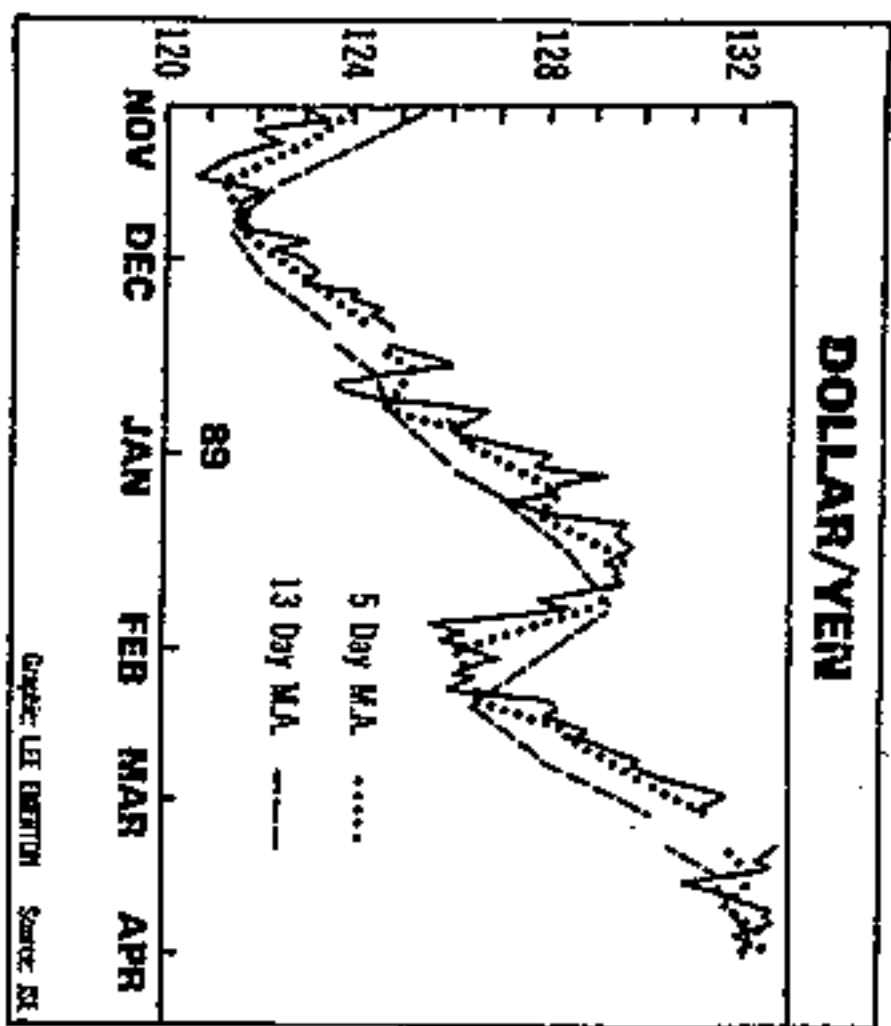
the slippage.

The first really good support appears at around the DM1,64 level, roughly in line with the target zone predicated by the head and shoulders top formation.

Versus sterling, this level is found at £1,7180. The yen has a different formation. Rather than a head and shoulders formation we have a double top, with supports at Y131,00 and Y129,75.

It is interesting that the yen is showing us a different pattern, particularly because the dollar has so far managed to hold its support level against the Japanese unit. If nothing else we should be warned that this is the currency to watch.

Oftentimes we see patterns appearing on the charts which would seem to indicate that the dollar is going up ... or down. But if we find



one particular currency — and it is usually the yen — which has not yet yielded to the apparent direction we would do well to pay particular attention to its movements.

Right now the yen has failed to penetrate dollar support at 132,00, but if it should do so soon then we are well on course for a continuation of the dollar retreat to the levels mentioned earlier, and probably even a bit weaker. But if the yen support level should

hold, then it is time to take action on the other currencies, because the potential further retreat of the dollar will rapidly disappear.

We must not, however, forget that despite all that I have said about a possible dollar retreat, the US unit is in a longer-term upswing. Any retreat is thus likely to be limited and short-lived.

According to my calculations, on the longer-term picture it would seem that the likelihood of the dollar weakening to below DM1,8225 is highly improbable.

If this were to occur, then it would put paid to any thought of a cyclical upswing and we would have to expect new lows for the US unit. No one expects this to happen.

And so we must expect the dollar to keep huffing and puffing along; it may have reached the top of a little hill but it still has a long way to go to reach the top of the mountain.

In the short run we may see a retreat, but the long-term upswing is and will remain intact.

# Foreign exchange reserves face renewed pressure

By Sven Lünsche

South Africa's foreign exchange reserves are coming under renewed pressure from outflows on the capital account of the balance of payments.

But economists say it was difficult to put an exact estimate on the figure as the huge trade surplus, reported by the Department of Customs and Excise this week, was obviously distorted.

"There were massive corrections on the trade surplus in March, as amendments of figures in January and February, which were badly understated, were put in cumulatively in March," says Nedbank's chief economist Edward Osborn.

However, the fact that the very good trade account was not in line with the poor foreign exchange reserves in March, points to massive capital outflows.

Exports in March soared to a record R5,13 billion, while imports were R3,45 billion — only R180 million, or 5,5 percent, more than a year ago.

This left the surplus at

R1,67 billion, tripling the surplus achieved in both January and February.

On the other hand the Reserve Bank's foreign exchange holdings remained virtually static in March at about R5,11 billion, with the figure in dollar terms actually showing a two percent decline to \$2,01 billion.

The foreign exchange component in particular showed a decline, confirming the forecasts of a huge outflows on the capital account, but given the distortions on the trade surplus it is doubtful whether they are enough to totally offset the generally expected surplus of about R800 million on the current account of the balance of payments.

Foreign exchange reserves are nevertheless expected to come under further pressure in months to come, a fact which was underlined by recent purchases of Krugerrands by the Reserve Bank and total debt repayments of \$340 million which have to be met this year — \$180 million due in June and the remainder in December.



**M**ANY believe that, for social, political and economic reasons, growth-oriented adjustment cannot be achieved by countries with serious foreign debt problems.

The SA economy was buffeted during the years 1984-89 by a unique combination of extraneous economic and political developments. One was the downward tendency of the dollar price of gold. Most devastating of all was the largely politically induced capital outflow of about US\$11bn (about R25bn) during 1985-88.

The SA authorities declared a partial debt standstill in September 1985 and reverted to exchange control over non-resident equity capital movements (financial rand system).

The SA economy was forced to effect a massive balance of payments adjustment. The extent to which SA succeeded in bringing about this transformation and servicing its foreign debt is evident:

□ Large surpluses were achieved on the current account of the balance of payments for four consecutive years from 1985-88. Substantial surpluses are expected in 1989 and 1990:

□ During 1985-88, SA made net foreign debt repayments of about \$6bn (about R13bn). About \$1,5bn (about R3bn) were payments "inside the net". The remaining \$4,5bn (about R10bn) included repayments "outside the net".

□ These large debt repayments strained SA's gold and foreign exchange reserves and the exchange rate of the rand. Both weathered the storm reasonably well.

This process was not painless. Real GDP declined by about 1% in 1985 and increased by only 0,5% in 1986, and unemployment increased.

The annualised rate of inflation increased from 12,8% in the fourth quarter of 1984 to 24,9% in the first quarter of 1986, declining to 9,2% in the first quarter of 1988.

In 1985 and 1986, real GNP per head of the population declined by about 2,5% per year, real personal

# SA paid its debt but maintained growth

GERHARD DE KOCK, Governor of the Reserve Bank

disposable income per head by an average of 5,5% per year and real private consumption per head by an average of nearly 4% per year.

The balance of payments adjustment process proved to be growth-oriented. Domestic economic confidence improved and a mild recovery commenced in the middle of 1985. After faltering in 1986, it changed into a true cyclical upswing and gained momentum, remaining vigorous throughout 1988 and into 1989.

This created its own challenges and problems. From October 1987, economic growth was accompanied by excessive increases in bank credit, money supply and imports and a reduction in the current account surplus in 1988. These were problems of prosperity and not of stagnation.

Monetary and fiscal policy was tightened in 1988. Prime rate rose to 19% in February 1989.

In retrospect, the "mix" of monetary and fiscal policy was not tightened enough during 1988. Initially, too little was done too late to curb the excessive increase in the money supply and in total spending.

During 1988, monetary and fiscal policy contributed to a surplus of \$1,3bn (R2,9bn) on the current account, further net foreign debt repayments of about \$1bn (about R2,3bn), a real GDP growth rate of more than 3%, and an average con-

sumer price inflation of 12,9%, compared with 16,1% in 1987.

There can be no question of relaxing monetary or fiscal policy for the time being. Provided an appropriately restrictive mix of monetary and fiscal policy is applied, the likely scenario for the economy in 1989 is:

□ A real growth rate of about 2%;  
□ Temporary acceleration of inflation to an annual average of around 15%, followed by a downward trend;  
□ A surplus on the current account of around \$1,5bn (R3,8bn);  
□ Repayment of foreign debt, likely to be between \$1bn and \$1,7bn (R2,6bn and R4,3bn at current exchange rate) in 1989, and;  
□ Gradual rebuilding of reserves.

Market-oriented policies were the key to success. The only direct controls were restrictions on capital movements. The authorities decided not to use direct controls, such as quantitative import quotas (with some exceptions), quantitative credit ceilings and price and wage controls.

Initially, economic adjustments were effected mainly via exchange rate depreciation and price inflation. Exchange rate depreciation and the accompanying temporary acceleration of domestic price increases

after mid-1985 formed part of the adjustment process. The average real standard of living had to decline. Exchange rate depreciation and price inflation were part of the method chosen.

In retrospect, a somewhat less "inflationary" adjustment would have been possible and desirable. Monetary and fiscal policy should have been more restrictive in 1988, but also in 1986 and 1987.

The fact that the rate of inflation was not reduced to a single digit during 1985-87 does not mean monetary and fiscal policy did not work. It was then not the purpose of short-term policy to lower inflation at all costs. The initial objectives were to survive the "liquidity crisis" of 1985/86, to protect the balance of payments and foreign reserves, to restore confidence and create a sound basis for economic growth.

Although generalised conclusions should not be drawn from one country, the SA "case study" of 1984-89 suggests:

□ Growth-oriented balance of payments adjustment is feasible and desirable for some developing countries with foreign debt or other capital outflow problems;  
□ A capital-importing country can transform its current account deficit into a surplus, become a capital-exporting debt-repaying country —

and return to reasonable growth within a relatively short time;  
□ Growth-oriented adjustment can be achieved without help from the IMF or other institutions;  
□ Growth-oriented adjustment and debt repayment entail a temporary decline in real disposable income, usually from some combination of exchange rate depreciation *cum* inflation and recession *cum* increased unemployment;  
□ Growth-oriented adjustment and foreign debt repayment can best be achieved by market-oriented monetary and fiscal policies involving realistic and flexible interest and exchange rates;  
□ As precondition for adjustment, excess demand in the economy must be eliminated by monetary and fiscal policy, even if this means significantly higher interest rates, reduced government spending and/or increased taxes;

□ Even if excess demand is eliminated, some degree of exchange rate depreciation, with a temporary acceleration of inflation, will form part of the process. The required temporary decline in real incomes would otherwise have to be attained by severe deflationary measures that could harm an economy probably already in a state of shock;  
□ It is vital to apply restrictive monetary and fiscal policies to minimise and reverse the acceleration of the inflation rate associated with exchange rate depreciation. Without such discipline the attempt at adjustment, partly via exchange rate depreciation, could result in a counterproductive inflationary spiral.

The performance of the economy in 1984-89 suggests some developing countries that have to finance large foreign debt repayments or other capital outflows can achieve growth-oriented balance of payments adjustment via market-oriented monetary and fiscal policies.

This is an edited version of Dr De Kock's paper: "Growth-oriented balance of payments adjustments via market-oriented economic policy: SA a case study".

**M**ANY believe that, for social, political and economic reasons, growth-oriented adjustment cannot be achieved by countries with serious foreign debt problems.

The SA economy was buffeted during the years 1984-89 by a unique combination of extraneous economic and political developments. One was the downward tendency of the dollar price of gold. Most devastating of all was the largely politically induced capital outflow of about US\$11bn (about R25bn) during 1985-88.

The SA authorities declared a partial debt standstill in September 1985 and reverted to exchange control over non-resident equity capital movements (financial rand system). The SA economy was forced to effect a massive balance of payments adjustment. The extent to which SA succeeded in bringing about this transformation and servicing its foreign debt is evident:

- Large surpluses were achieved on the current account of the balance of payments for four consecutive years from 1985-88. Substantial surpluses are expected in 1989 and 1990;
- During 1985-88, SA made net foreign debt repayments of about \$6bn (about R13bn). About \$1.5bn (about R3bn) were payments "inside the net". The remaining \$4.5bn (about R10bn) included repayments "outside the net";

- These large debt repayments strained SA's gold and foreign exchange reserves and the exchange rate of the rand. Both weathered the storm reasonably well.

This process was not painless. Real GDP declined by about 1% in 1985 and increased by only 0.5% in 1986, and unemployment increased. The annualised rate of inflation increased from 12.8% in the fourth quarter of 1984 to 24.9% in the first quarter of 1986, declining to 9.2% in the first quarter of 1988.

In 1985 and 1986, real GNP per head of the population declined by about 2.5% per year, real personal

About 21/4/89  
7x

# SA paid its debt but maintained growth

## GERHARD DE KOCK, Governor of the Reserve Bank

disposable income per head by an average of 5.5% per year and real private consumption per head by an average of nearly 4% per year.

The balance of payments adjustment process proved to be growth-oriented. Domestic economic confidence improved and a mild recovery commenced in the middle of 1985. After faltering in 1986, it changed into a true cyclical upswing and gained momentum, remaining vigorous throughout 1988 and into 1989.

This created its own challenges and problems. From October 1987, economic growth was accompanied by excessive increases in bank credit, money supply and imports and a reduction in the current account surplus in 1988. These were problems of prosperity and not of stagnation. Monetary and fiscal policy was tightened in 1988. Prime rate rose to 19% in February 1989.

In retrospect, the "mix" of monetary and fiscal policy was not tightened enough during 1988. Initially, too little was done too late to curb the excessive increase in the money supply and in total spending.

During 1988, monetary and fiscal policy contributed to a surplus of \$1.3bn (R2,9bn) on the current account, further net foreign debt repayments of about \$1bn (about R2,3bn); a real GDP growth rate of more than 3%; and an average con-

sumer price inflation of 12.9%, compared with 16.1% in 1987.

There can be no question of relaxing monetary or fiscal policy for the time being. Provided an appropriately restrictive mix of monetary and fiscal policy is applied, the likely scenario for the economy in 1989 is:

- A real growth rate of about 2%;
- Temporary acceleration of inflation to an annual average of around 15%, followed by a downward trend;
- A surplus on the current account of around \$1.5bn (R3,8bn);
- Repayment of foreign debt, likely to be between \$1bn and \$1,7bn (R2,6bn and R4,3bn at current exchange rate) in 1989, and;
- Gradual rebuilding of reserves.

after mid-1985 formed part of the adjustment process. The average real standard of living had to decline. Exchange rate depreciation and price inflation were part of the method chosen.

In retrospect, a somewhat less "inflationary" adjustment would have been possible and desirable. Monetary and fiscal policy should have been more restrictive in 1988, but also in 1986 and 1987.

The fact that the rate of inflation was not reduced to a single digit during 1985-87 does not mean monetary and fiscal policy did not work. It was then not the purpose of short-term policy to lower inflation at all costs. The initial objectives were to survive the "liquidity crisis" of 1985/86, to protect the balance of payments and foreign reserves, to restore confidence and create a sound basis for economic growth.

Although generalised conclusions should not be drawn from one country, the SA "case study" of 1984-89 suggests:

- Growth-oriented balance of payments adjustment is feasible and desirable for some developing countries with foreign debt or other capital outflow problems;
- A capital-importing country can transform its current account deficit into a surplus, become a capital-exporting debt-repaying country —

and return to reasonable growth within a relatively short time;

- Growth-oriented adjustment can be achieved without help from the IMF or other institutions;
- Growth-oriented adjustment and debt repayment entail a temporary decline in real disposable income, usually from some combination of exchange rate depreciation *cum* inflation and recession *cum* increased unemployment;
- Growth-oriented adjustment and foreign debt repayment can best be achieved by market-oriented monetary and fiscal policies involving realistic and flexible interest and exchange rates;

- As precondition for adjustment, excess demand in the economy must be eliminated by monetary and fiscal policy, even if this means significantly higher interest rates, reduced government spending and/or increased taxes;

- Even if excess demand is eliminated, some degree of exchange rate depreciation, with a temporary acceleration of inflation, will form part of the process. The required temporary decline in real incomes would otherwise have to be attained by severe deflationary measures that could harm an economy probably already in a state of shock;
- It is vital to apply restrictive monetary and fiscal policies to minimise and reverse the acceleration of the inflation rate associated with exchange rate depreciation. Without such discipline the attempt at adjustment, partly via exchange rate depreciation, could result in a counterproductive inflationary spiral.

The performance of the economy in 1984-89 suggests some developing countries that have to finance large foreign debt repayments or other capital outflows can achieve growth-oriented balance of payments adjustment via market-oriented monetary and fiscal policies.

This is an edited version of Dr De Kock's paper "Growth-oriented balance of payments adjustments via market-oriented economic policy: SA a case study".

De Kock confident about economy

# Foreign debt crisis fears 'unfounded'

74

B/Dum 21/4/89

FEARS that next year would see a foreign debt crisis were unfounded because the SA economy was sound and relations with foreign bankers were improving, Reserve Bank Governor Gerhard de Kock said yesterday.

That was the message he brought home after a trip to Europe and the US. He said in Pretoria yesterday: "I worry about a lot of things but I don't worry all that much about debt repayment in 1990/91. The \$2,1bn of bonded debt falling due in 1990 must be seen as an absolute worst case scenario. It has been proved we have not been without success in rolling over maturing bonds."

Foreign banks did not want to be seen to be increasing their exposure to SA, but rolling over was different.

"Foreign bankers are attaching enormous importance to recent political developments in the region.

It has now become possible for these banks to do things for us which they could not do a year or two ago. If we do not shoot ourselves in the foot, the international situation could improve to such an extent in the next 18 months that it has dramatic effects on the capital account of the balance of payments."

But even if SA had to repay every cent of the debt outside the standstill net, De Kock had no doubts the country would manage to do that. If SA had to run large current account surpluses in 1990, it would.



● DE KOCK

GRETA STEYN

"Of course, that will not be possible without some pain in the form of lower growth and stringent monetary and fiscal policies. But the media has been overplaying the danger of a possible debt default. There are other things which might be more dangerous."

The expiry of the Second Interim Agreement on debt inside the net next year was not a headache.

De Kock said: "I foresee no problems with our next foreign debt negotiations provided we can present a sound balance of payments picture."

● Comment: Page 8

Politically, it was important the country build on the gains in recent months — such as the settlement in Namibia and talks with British Prime Minister Margaret Thatcher. Economically, the country's balance of payments adjustment had been impressive.

"We have shown the world that a developing country can achieve a balance of payments adjustment and still grow at a rate of 3%. Foreign bankers and central bankers regard this achievement as impressive and the SA case study is cited in arguments against debt forgiveness for developing countries."

De Kock said there was also a growing belief that economic conditions in sub-Saharan Africa could not improve if the SA economy was not strong. The sanctions issue in the US was being reassessed from that point of view.

However, he stressed there was no question yet of new capital inflows into the country from foreign bankers.

De Kock confident about economy

74

# Foreign debt crisis fears 'unfounded'

15/Dec 21/4/89

FEARS that next year would see a foreign debt crisis were unfounded because the SA economy was sound and relations with foreign bankers were improving, Reserve Bank Governor Gerhard de Kock said yesterday.

That was the message he brought home after a trip to Europe and the US. He said in Pretoria yesterday: "I worry about a lot of things but I don't worry all that much about debt repayment in 1990/91. The \$2,1bn of bonded debt falling due in 1990 must be seen as an absolute worst case scenario. It has been proved we have not been without success in rolling over maturing bonds."

Foreign banks did not want to be seen to be increasing their exposure to SA, but rolling over was different.

"Foreign bankers are attaching enormous importance to recent political developments in the region. It has now become possible for these banks to

do things for us which they could not do a year or two ago. If we do not shoot ourselves in the foot, the international situation could improve to such an extent in the next 18 months that it has dramatic effects on the capital account of the balance of payments."

But even if SA had to repay every cent of the debt outside the standstill net, De Kock had no doubts the country would manage to do that. If SA had to run large current account surpluses in 1990, it would.



● DE KOCK

GRETA STEYN

"Of course, that will not be possible without some pain in the form of lower growth and stringent monetary and fiscal policies. But the media has been overplaying the danger of a possible debt default. There are other things which might be more dangerous."

The expiry of the Second Interim Agreement on debt inside the net next year was not a headache.

De Kock said: "I foresee no problems with our next foreign debt negotiations provided we can present a sound balance of payments picture."

● Comment: Page 8

Politically, it was important the country build on the gains in recent months — such as the settlement in Namibia and talks with British Prime Minister Margaret Thatcher. Economically, the country's balance of payments adjustment had been impressive.

"We have shown the world that a developing country can achieve a balance of payments adjustment and still grow at a rate of 3%. Foreign bankers and central bankers regard this achievement as impressive and the SA case study is cited in arguments against debt forgiveness for developing countries."

De Kock said there was also a growing belief that economic conditions in sub-Saharan Africa could not improve if the SA economy was not strong. The sanctions issue in the US was being reassessed from that point of view.

However, he stressed there was no question yet of new capital inflows into the country from foreign bankers.

# De Kock disputes reserves fraud report

*B/Dam 21/4/89 (74)*

THE claim that fraud cases had accounted for half of last year's R1,2bn decline in the reserves was a meaningless statement, Reserve Bank Governor Gerhard de Kock said yesterday.

He told a Press conference figures on foreign exchange fraud could not be used to analyse the balance of payments.

In a reference to Business Day's report that fraud cases had knocked the reserves by R650m in 1988, De Kock said the figure mentioned in the report was a "guesstimate" of cases over a period of two to three years.

"It is wrong to assume the full amount affected the reserves over this period, as it depends on the nature of the case.

"The full amount transferred overseas may not have been illegal

GRETA STEYN

in each case."

These figures referred to the total amounts involved in cases under police investigation and were not the amounts lost to the country through foreign exchange fraud.

"And even if it were true that R650m left the country last year due to foreign exchange fraud, it would be incorrect to say this explains the decline in the reserves. We might as well pick out the R1,8bn increase in vehicle imports and say this is the reason for the drop in the reserves.



● JACOBS

There are hundreds of individual items which can be isolated in this way and fraud certainly was not the reason for pressure on the reserves last year."

□ MANDY JEAN WOODS reports Reserve Bank Deputy Governor Japie Jacobs was recorded on April 13 as saying that of the R850m in foreign exchange fraud being investigated by the Bank, R650m would affect the foreign exchange reserves.

Asked on two occasions during the interview if this represented a loss to the forex reserves, he said "Yes."

Asked, also on two occasions, if it was accurate to say that the R650m represented more than half the decline in forex reserves from December 1987 to December 1988 — from R6,14bn to R4,93bn — Jacobs replied "Yes."

# Second major US bank rolls over SA debt

By Ramsay Milne, Star Bureau  
NEW YORK — In a major move that will help give South Africa a new measure of financial stability a second US bank has exercised a debt repayment option that will give the South African government until 1997 to repay its foreign debt.

John McGillicuddy, chairman and chief executive of Manufacturers Hanover, announced the bank's decision to a meeting of shareholders in New York.

He said the company had applied "a modest amount" of its outstanding South African loans to its new collection schedule and was considering further use of the option.

With some \$230 million in South

African debt still outstanding, Manufacturers Hanover becomes the second major US lender with Citibank to accept Pretoria's proposal, which was offered to all foreign lenders, to delay collection of the debt.

Citibank has put all \$666 million of its outstanding South African loans on the 1997 collection schedule.

The latest move is regarded as being particularly significant because Manufacturers Hanover and JP Morgan are the only two US leading banks on the international technical committee renegotiating South Africa's \$3 billion foreign debt.

Citibank had been the third US member but dropped out after it

accepted the 1997 repayment option.

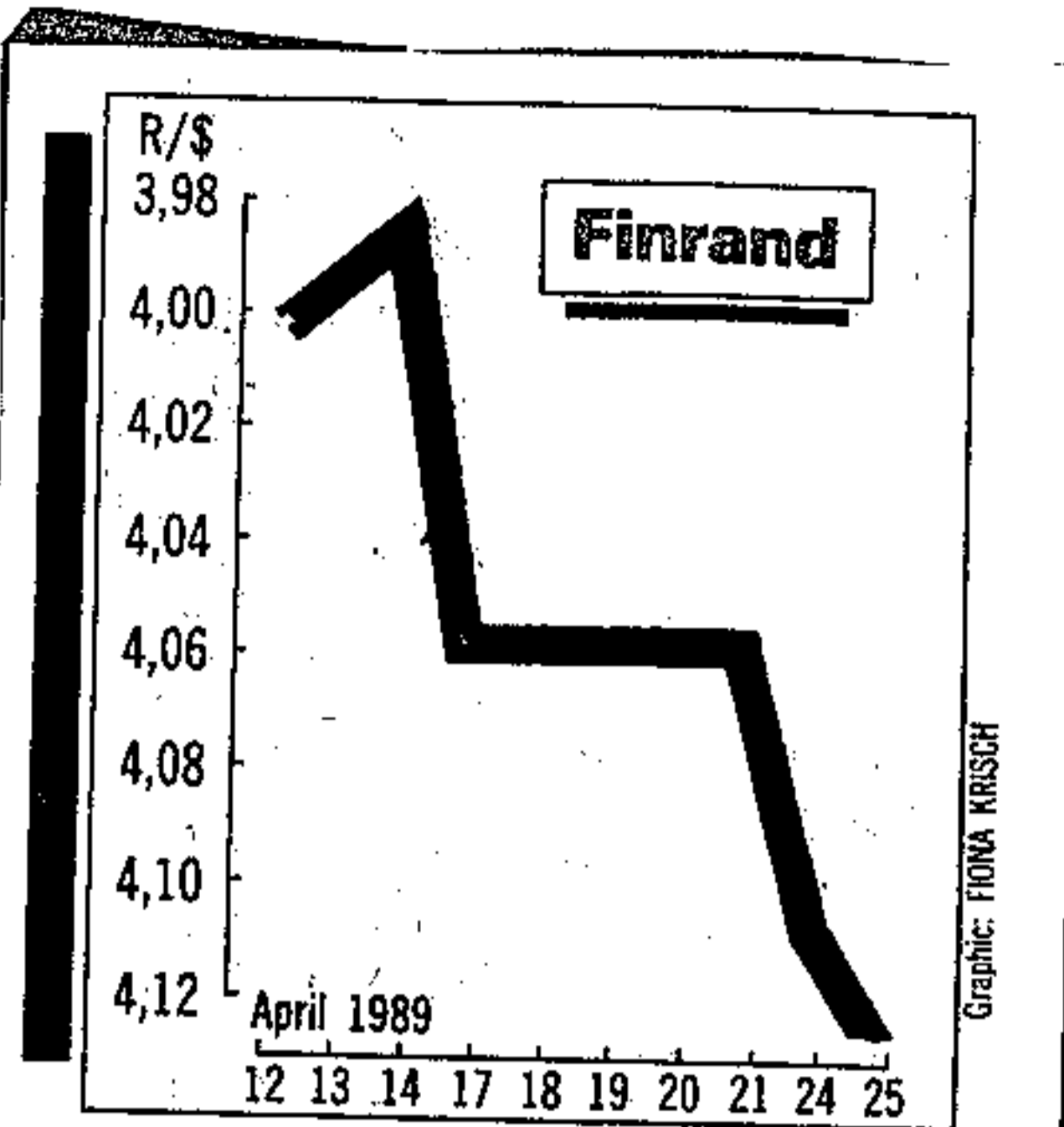
Anti-apartheid activists fear that more banks will follow the lead set by the two US banks, weakening the technical committee's bargaining position.

These activists, who came close to creating a major economic crisis when they campaigned strongly three years ago for US banks to "tighten the screws" against South Africa by calling up these huge debts for almost immediate payment — a move that, in the opinion of many, would have economically crippled the country — still favour immediate and total repayment of the outstanding South African loans. Delayed repayment of the loan

gives Pretoria a measure of economic stability, critics say, and Manufacturers' decision contains an implicit assumption of the government's continued existence — something its more radical enemies here thought was unlikely during the height of the 1986-87 township disturbances.

Mr McGillicuddy, in opposing a resolution calling for the immediate recalling of the South African loan, repeated the bank's abhorrence of apartheid, and said the bank would continue to explore all options "short of losing the shareholders' money."

He said he would not, however, adhere to a pre-determined negotiating position, such as demanding immediate repayment.



## Mobil 'source of weaker finrand'

74 GRETA STEYN

THE financial rand weakened 1,2% on a large selling order believed to be the first stages of the Mobil disinvestment deal.

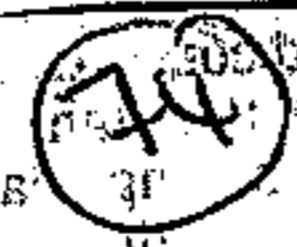
Finrand dealers said there had been a big seller in the market for the past 10 days — and they suspected it was Mobil disinvesting. However, foreign buying of SA gilts and other investments had kept the currency from depreciating dramatically. The finrand dropped to R4,1050 to the dollar from R4,050 on Monday but held at that level yesterday as some buying took place.

Although the spate of foreign buying of SA gilts has dried up, a dealer said there was still a steady finrand demand, which could keep it from sinking in the face of large disinvestments, such as Mobil.

The Mobil deal, said to be for \$150m, would come onto the market in separate deals over a period of time.

□ ZILLA EFRAT reports speculation of a Gencor takeover of Mobil Oil's SA interests caused the shares of Gencor's oil subsidiary Trek to soar 225c (15,3%) on the JSE to a new peak of R17 yesterday. Trek shares — which rose 25c on Monday — are tightly held and volumes have been low (reflected in an average monthly trade of fewer than 18 000 shares over the past year). However, 19 900 shares changed hands in 25 deals yesterday.

Gencor executive director Bernard Smith would not comment.



# Foreign trade blues

B/Dan 26/4/89

**CHRIS CAIRNCROSS**

CAPE TOWN — SA's foreign trade figures for the first few months of this year were anything but reassuring and raised the possibility the authorities would have to introduce more measures to protect the balance of payments (BoP), Sanlam chief economist Johan Louw said yesterday.

In his April economic review, Louw pointedly noted that SA was in line to make foreign loan repayments of R4bn this year, R5bn in 1990 and R6,5bn in 1991 — notwithstanding recent reports that some creditor banks had, in some instances, agreed to provide a roll-over facility.

SA's foreign trade account yielded a disappointing surplus of between R500m and R600m only in February

for the second month in succession, a level which did not stand up well since the country's net foreign service account was showing a monthly deficit of about R750m.

This implied the current account of the BoP reflected an estimated deficit of more than R400m in the first two months of the year, a long way short of the R4bn official targeted surplus required by the year-end.

## Plagued

In tandem with this focus, Louw recorded that credit demand still appeared to remain reasonably strong, in spite of the recent rise in interest rates. It followed that appreciable upward pressure on short-term interest rates was still being experienced

and another increase in prime overdraft rates must be on the cards.

Although the capital market was still plagued by uncertainty, because of the possible implications of the scrapping of prescribed investments, there was little doubt that long-term interest rates would also be moving to higher levels.

Louw predicted that inflation could be expected to fluctuate around an unacceptably high level of 15% during the next few years. This was mainly due to the continued persistence of prices of non-food items to reflect a rising trend.

He said he expected this trend to continue, but also to be accompanied by a rapidly rising trend in food prices — with the total consumer price index rising by an average 15,5% during 1989.



**CHRIS CAIRNCROSS**

CAPE TOWN — The comparatively strong recovery in SA's trade performance in March, which translated the first two months' cumulative deficit on the balance of payments (BoP) of R400m into a first-quarter surplus of about R500m, came as a surprise to Sanlam chief economist Johan Louw.

But it has not changed his convictions, based on SA's economic performance in the first two months (Business Day April 26), that the authorities may still have to take fiscal or monetary action to further cool down activity in order to protect the country's vulnerable foreign exchange reserves.

Louw said the situation was much better viewed over the three-month period, but one should not look for a continued longer-term trend just on a change around in the March figures.

# Tougher action 'still needed'

*By Louw 27/4/89*  
He again stressed that SA needed to reach a targeted surplus of R4bn on the current account of the BoP by the year-end. But, this would be difficult to achieve in the light of conditions in the domestic economy.

Louw noted that conditions had still not cooled down sufficiently and activity remained at too strong a level to be absorbed by SA's reserve position. He attributed this to stimulus on consumer spending by recent hikes in wages and salaries, particularly from the public sector; a still high level of confidence among consumers; and high inflationary expectations, which has held credit demand up to high levels.



*By Louw 27/4/89*  
**Top bureaucrats**

000 838 000

## Stals to play role in re-negotiating debt standstill


CAPE TOWN — In his new role as special adviser to Finance Minister Barend du Plessis, Chris Stals will play a leading role in re-negotiating the debt standstill.

Du Plessis is expected to announce this week Gerhard Croeser will take over as Finance director-

61049 2774187  
**MIKE ROBERTSON**

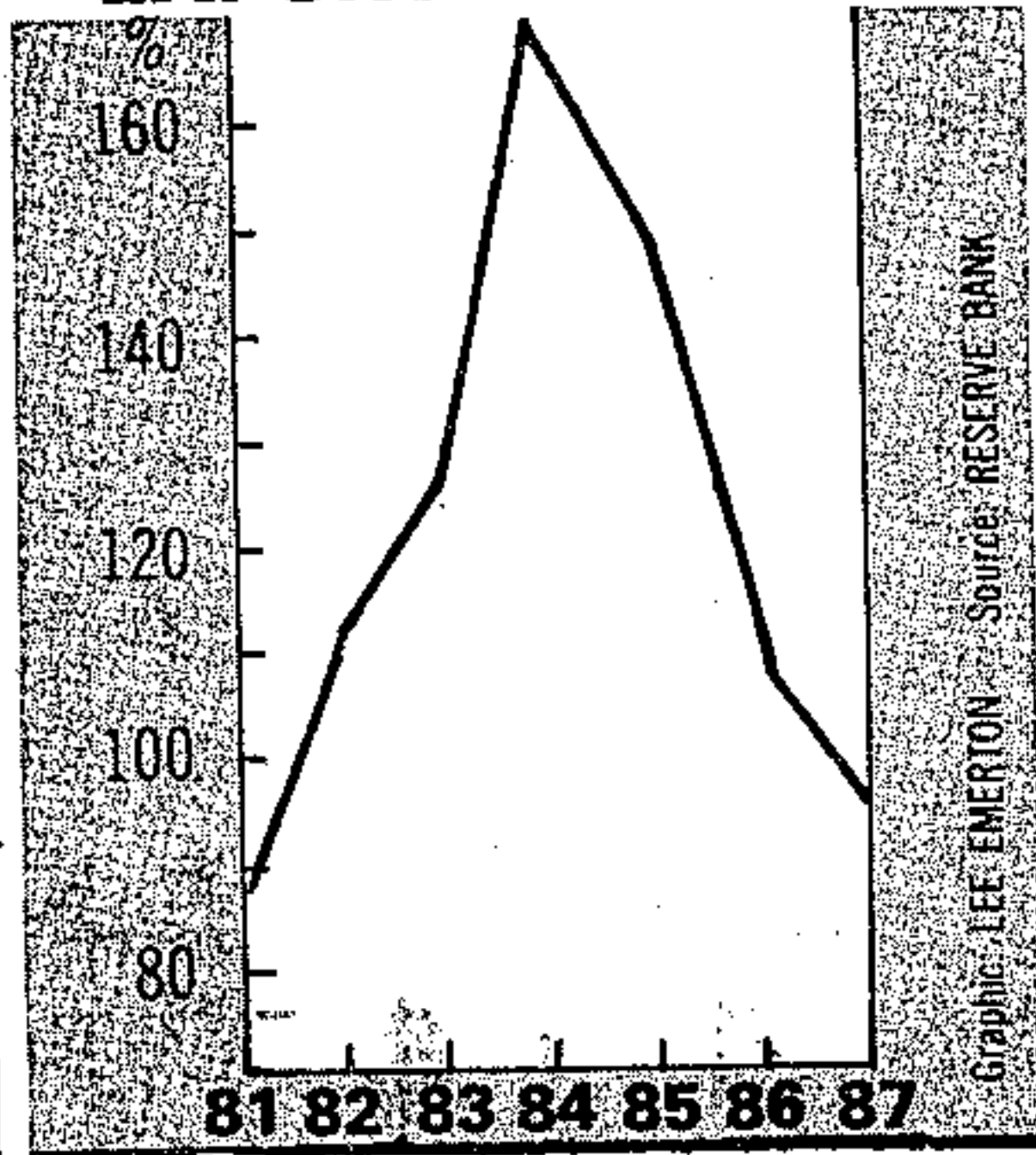
general, while Stals, who holds the job at present, will become a special adviser to the minister.

The debt standstill expires in June next year, but negotiations with foreign bankers are expected

to start soon. 

Stals will also concentrate on the activities of the tax advisory committee, in particular the introduction of VAT, and will continue to chair the committee on economic and financial relations between SA and the TVBC states.

## FOREIGN DEBT TO EXPORT EARNINGS



## SA's frozen debt 'down to \$8bn'

B/Dag 27/4/89

GRETA STEYN

SA's debt inside the standstill net has probably dropped to \$8bn from some \$13bn in 1987, mainly as a result of conversion of frozen debt to longer-term loans.

Nedbank economist Edward Osborn said the reduction of the debt inside the net gave SA more room to manoeuvre in the difficult period of 1990/91, because no capital would be repaid on these loans from mid-1990 to 1992. Apart from taking some pressure off the capital account of the balance of payments, it could also strengthen SA's hand when the debt standstill agreement expires in June 1990.

Osborn arrived at the \$8bn estimate of SA's frozen debt by taking into account conversions to long-term loans, repayments in terms of the standstill agreement and debt-to-equity conversions. He suspected the total amount converted to 10-year loans would be as high as R3,5bn after

the conversion by US banks, including Citicorp and Manufacturer Hanover. A further R300m left the standstill net in debt-equity swaps and R1,1bn was repaid in terms of the agreement with SA's creditors.

"If US banks yielded to stockholders' pressure to get out of SA, they could do so at tremendous cost through the finrand, or even write off the debt. But 'debt forgiveness' to SA would be embarrassing with many other Third World countries pressing for that. And ... SA has a good debt repayment record. So it makes sense for these banks to convert."

Allied MD Kevin de Villiers noted some US banks had swapped SA debt for South American debt and had lost. That trend was being reversed as they felt conversion was the best way to get their money back.

# Reserve Bank out to curb credit 34

THE Reserve Bank is leaning hard on the banks to curb their credit extension.

Bankers said yesterday Bank Governor Gerhard de Kock was using "moral suasion" in an effort to restrain the growth in the money supply. In telephone discussions this week with senior bankers, he had indicated his concern over the excessive growth in credit and asked for restraint.

The issue of punitive Bank accommodation rates for banks responsible for excessive credit creation had also been raised. This and other monetary policy matters would be discussed at a meeting between senior bankers and De Kock on May 5.

Bank economists said moral suasion would not restrain growth in credit. It failed as a policy measure because it disregarded that the nature of banks' business was to provide credit. One economist said a bank could not suddenly tell a major corporate client that it no longer had access to its credit facilities.

GRETA STEYN

Bankers said there were indications the growth in credit in April had exceeded the 1% benchmark set by De Kock earlier this year. However, it appeared everything

was being done to avoid raising banks' prime overdraft rates to 20% — especially with a poll pending.

Against a background of rising inflation, excessive growth in the money supply, stagnant reserves and a record-low personal savings ratio, some



economists believed another increase in Bank rate was warranted. However, bankers believed such a move — if it happens before the election — would only come in June.

RID 274/6

Reserve  
Bank to  
wield  
big stick

DEREK TOMMEY

People fiddling foreign exchange had better look out.

The Reserve Bank, stung by criticism of its poor policing of foreign exchange movements following recent revelations of major infringements involving tens of millions of rands, is at last going to wield the big stick.

It announced last night that two senior commercial bankers had been recruited to strengthen its foreign exchange division. It is also creating an Investigation Division to look into alleged exchange control contraventions, to give technical assistance to the SAP Commercial Branch, to identify exchange control contraventions and to attach assets in terms of exchange control regulations.

The bank is also seeking ways to curb malpractices such as over and under-invoicing as well as transfer pricing.

The bank says it is considering using, on an experimental basis, the services of private inspection companies which are engaged in trade audits, and also the services of chartered accountants and other specialists.

The commercial bankers joining the Reserve Bank are Mr Tom Eui-gen, executive general manager of Nedbank who becomes deputy general manager at the Reserve Bank in charge of the authorisation, guidance and inspection division, and Mr B E (Tickey) Gill, assistant general manager at First National Bank, who also will become a deputy general manager in charge of financial rand, foreign control companies and trusts.

THRU  
Mar  
race

S

SIN  
only  
Afr  
min  
S  
Nat  
torj  
mo  
N  
Afr  
R1  
S  
ter

W s  
n  
abl  
le  
d  
of  
n.  
ed  
is  
tak  
00  
TV  
SIN

# Reserve Bank in shake-up of forex division 74

THE Reserve Bank has restructured its Foreign Exchange Control division to combat serious flaws in the system exposed last November by the Harms Commission.

The restructuring includes the creation of three new departments and the realignment of duties of senior officials.

A new advisory panel consisting of prominent bankers has also been established to advise the Bank of private sector reaction to exchange control developments.

The Exchange Control Department will now consist of seven departments, each managed by a deputy or assistant GM who will be responsible for day-to-day decisions such as approving forex applications.

This job was previously administered by GM Exchange Control John Postmus, who will now concentrate on forward planning and co-ordinating his department's activities with those of other departments.

**MANDY JEAN WOODS**

Mr Justice Louis Harms strongly criticised Bank procedures in his report released last month on Pretoria attorney Albert Vermaas's foreign exchange dealings. He said the Bank had been "negligent".

## Warning

The commission heard that while the Registrar of Banks was investigating Vermaas and publicly warning people against investing with Eurobank, the Foreign Exchange Department approved R100m in commercial rand and R92m in financial rand transactions for Vermaas.

This, Mr Justice Harms said, was not because the forex department did not know about the investigation. Their point of view was simply that it was none of their business.

Three new divisions were created by the Bank to deal with these problems. The new divisions are:

□ The Bank Authorisation, Guidance & Inspection Division, which will closely monitor commercial banks' forex departments and enforce Bank regulations governing applications made through commercial banks;

□ The Investigations Division which will be headed by Bank Inspection Division chief Charles van Staden. It will investigate alleged forex fraud cases, liaising with the SAP commercial branch, and will handle civil law matters arising from these cases;

□ The Analysis Division which will co-ordinate and evaluate foreign exchange data to assist the Policy Committee — consisting of each of the seven deputy or assistant GMs, Postmus and Bank Deputy-Governor Jan Lombard — in making decisions.

# Govt makes borrowing breakthrough

81 Day 2/5/87  
GOVERNMENT had made a breakthrough with its borrowing programme by selling R1,7bn of new long-term stock on the private capital market, Reserve Bank Senior Deputy Governor Japie Jacobs said at the weekend.

The breakthrough followed talk after the Budget that government would never find buyers for its stock at the rates it wanted to pay.

Jacobs declined to disclose the rate at which government borrowed but said the Bank was not prepared to market stock while long-term rates were at levels of around 17,4%.

74  
GRETA STEYN

He said the borrowing requirement should not put upward pressure on rates in the capital market. "Government's claims on the capital market will be reduced by the use of R550m in Treasury Bills (TBs) to fund the deficit and the extra R200m saved from the last financial year."

Because of the high rates in the long-term market, government would make more use of money market funding and the size of the weekly TB tender would be increased.

The breakthrough in the borrowing pro-

gramme follows talk after the abolition of prescribed assets that government would have to pay punitively high interest rates. The signal from Treasury was that it wanted to pay 17% for long-dated stock — but the institutions had indicated they would buy at 17,5%-18%.

While government's borrowing programme was in limbo, bearish sentiment dominated the secondary market and rates were expected to break 17,5%. However, this did not happen as long-term rates peaked at 17,4%.

● To Page 2 →

## Govt makes borrowing breakthrough

81 Day 2/5/87  
Rumours that government had made a breakthrough with its borrowing hit the secondary market on Friday, causing rates on 2005 stock to touch a low of 17,29% from a 17,36% opening rate. However, as gold dropped below \$380 an ounce, sentiment turned bearish again and rates rebounded to a 17,37% close.

Analysts did not expect government's borrowing requirement to place any upward pressure on interest rates in the capital market. Its funding on the market is set to be reduced by at least R1,5bn

74  
● From Page 1  
through privatisation and it has already issued R1,7bn of stock. From a demand/supply point of view, government's borrowing would not exert pressure on rates, given a net budgeted requirement of R4,4bn and institutional cash flows of about R30bn.

However, the weak gold price, inflation, continued excessive growth in money supply and the stagnant reserves are likely to keep sentiment bearish.

# Mobil pull-out hits finrand for a SIX

3/Day 3/5/87  
Greta Steyn

THE financial rand is at its lowest level in more than two years as a result of Mobil's sell-out to Gencor.

Sources involved in Mobil's disinvestment said "a large proportion" of the finrand deal had been done in the past few weeks, but the entire sale was not yet completed.

They said the deal exceeded the original figure of \$150m expected by the market, but was "in that region".

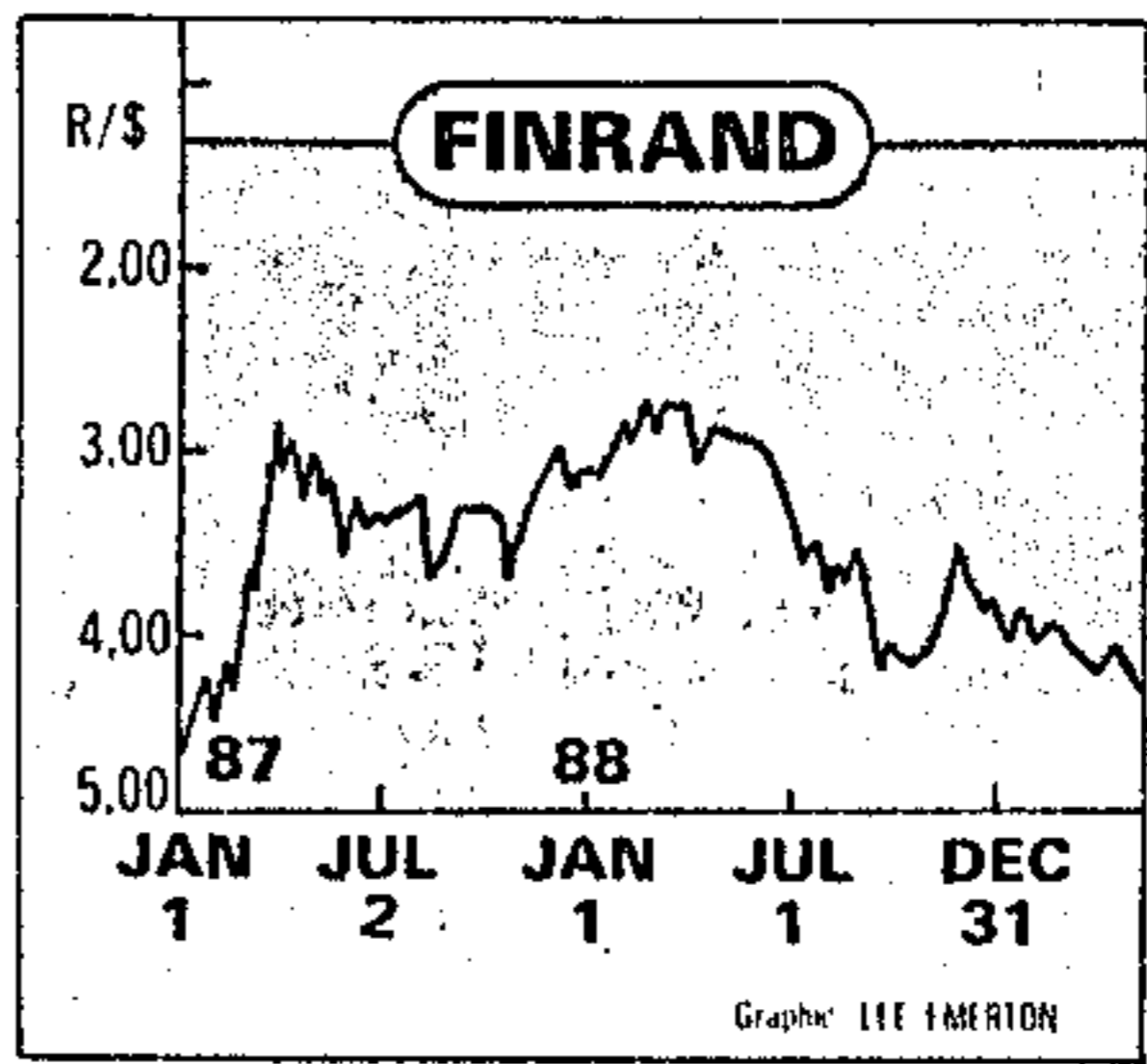
The finrand is now at \$0,2372, or R4,2150 to the dollar — a level last seen in February 1987.

Finrand dealers at banks said a large seller, believed to be Mobil, had been obvious in the market, but they doubted the deal had been completed.

One dealer said a deal of that size would have pushed the financial rand to US21c to the rand. Further downward pressure came from the selling of De Beers and Anglo shares in London because of the drop in the gold price.

But there is a lot of two-way trade on the currency, which has saved it from plunging because of disinvestment and the weak gold price.

Gold closed slightly higher in London yesterday at \$378,25 up \$0,50 on Wednes-



day's close. One banker said West German demand for SA capital market stock remained steady, as was Swiss and Dutch demand for SA property investments.

The commercial rand is in worse shape than the financial rand on an historical basis. The SA currency is at a three-year low to the dollar, surpassed only by the lows following the Rubicon speech in 1986.

The rand ended at R2,5773 to the dollar on Wednesday, under pressure from the dollar's upward march to DM1.89 and not getting any support from the gold price.



# R750-m sting

Star 6/5/89

74  
~~74~~  
~~74~~

**DEREK TOMMEY**

## Companies hit in bid to mop up liquidity

In a desperate attempt to cool down the economy and curb imports the Government yesterday announced a surprise package of tough economic measures.

The Minister of Finance, Mr Barend du Plessis said that South Africa could not afford to continue importing goods at the present rate, and added that if the present situation continued South Africa would end up as a banana republic.

Key components of the new package are: an increase in the bank rate from 16 percent to 17 percent — which will lead to the commercial banks' prime rate rising from 19 percent to 20 percent; tougher hire-purchase regulations; a 10 percent loan levy on companies which must be paid within the next 8 weeks; and a squeeze on commercial bank lending.

Previous action by the authorities has seen mortgage rates rise from 12,5 percent to 19 percent with similar increases in bank overdraft rates; GST up from 12 percent to 13 percent; sharp rises in the petrol price; swingeing imports on imports; and an 8 percent or so increase in income tax rates in real terms as a result of fiscal drag.

### Money supply

But with the money supply still rising at an annual rate of 27 percent it is obvious that these measures have not been particularly successful.

However, economists admit that it is possible that the latest measures on top of the old ones could actually lead to a slowing down in the economy and of inflation.

The new loan levy could bite fairly hard as companies not only have to pay a sum equal to 10 percent of last year's tax payment to the Government, but have to pay it within eight weeks.

The levy could cause problems for cash-strapped companies, especially as commercial bank accommodation will not be cheap or easily obtainable.

"The Government is mopping up liquidity," said Mr Jimmy

## REACTION

### Association of Chambers of Commerce

Chief Executive Officer Raymond Parsons: "While accepting that interim remedial measures may be necessary during the course of any fiscal year, short-spanned decisions as reflected in this package suggest a lack of coherence in the management of the country's financial affairs. Such action is also very disruptive of business planning and will have a negative impact on business confidence.

"The lack of timeous action earlier has made more radical steps inevitable, and it will be necessary to ensure that the economy does not now go from a situation of 'underkill' to one of 'overkill' in the months ahead. Assocom said it was concerned about:

"The inescapable fact remains that efforts to restrain overall private sector spending will have no meaningful or balanced impact unless they are accompanied by curbs on excessive public sector spending".

### The South African Agricultural Union

President Mr Kobus Jooste said pointed out that interest was agriculture's single highest cost item and was having an adverse effect on farm profits. Many farmers with a normal debt burden simply could not handle the problem.

The rise in rates combined with the flood of other recent price increases which also had an effect on the industry, has serious implications for the profitability, competitiveness and economic recovery in agriculture.— Sapa.

### The Afrikaanse Handels Instituut

Executive director Dr Martin van den Berg: "If the measures had been postponed, the steps that would have had to be introduced later would have been more painful for the recovery of the economy than those announced.

He said that the package was as effective as possible with the minimum amount of discomfort, and notwithstanding the serious implications for many AHI members, it must be accepted that higher short-term rates are an essential part of any control measures introduced in the light of current circumstances.

Mackenzie, general manager of First National Bank.

Altogether, the Treasury expects to collect about R750 million from the levy. In order to find this money some firms will have to at least postpone planned spending on stocks and capital works. This could have a chain reaction on other firms and could trim de-

mand throughout the economy.

Many firms are also likely to delay bringing in imports, or switch to foreign finance.

"Foreign financing is extremely attractive at the moment and the authorities are encouraging local firms to take advantage of it," said Mr Mackenzie.

The Government obviously

hopes that the resultant curb on imports and the increase in foreign borrowing will lead to an improvement in the balance of payments and to a firmer rand.

However, squeezing R750 million out of companies in eight weeks is just one side of the coin. It also means an increase of R750 million in the Government's coffers. As it is to be placed in the loan account, it means there will be a substantial reduction in Government borrowing this year. This will also lessen inflationary pressures.

At the same time it should reduce pressure on the bond market. This could lead to a significant drop in long-term interest rates in the months ahead.

It is not yet clear how the new measures will affect the stock exchange. Many institutional investment managers were on holiday yesterday while others did not know about the measures until late in the day so market reaction was limited.

Brokers said that the market had been expecting an increase in interest rates and that share prices had already discounted this part of the package.

But the loan levy was unexpected. In theory it could reduce taxed profits this year by anything up to 20 percent. This sort of impact on distributable profits should have some repercussions in the share market.

Brokers also pointed out that if the Government succeeded in slowing down the economy it would diminish company prospects. A firmer rand could lessen the attractiveness of some of the rand hedge stocks.

But an improvement in the balance of payments could lead to a greater gold retention by the Reserve Bank — and it requires only a small increase in South Africa's gold holdings to have a significant effect on the overseas gold supply.

# Finrand Index could boost foreign buying of Eskom

By Ann Crotty

International buying of Eskom stock could get a boost from the proposed Financial Rand Index which, along with the Sats Goldfin bond, would enable foreign investors to hedge against the currency risk and reap the benefit of attractive returns currently being offered on Eskom long-dated stock.

The recent relatively strong foreign buying of Eskom long-dated stock reflects the fact that Eskom is offering real returns of 13 percent when most other long-dated international government bonds are offering a real return of four or five percent.

London stock broker James Capel says: "Eskom gilts (which are both government-backed and highly liquid) are on a yield to the overseas investor of over 27 percent nominal. When you strip out the SA official inflation rate of 14 percent, one is being

offered a 13 percent real return.

"Surely this is more than discounting the potential political risk?"

As Capel says, the biggest risk in investing in an Eskom bond is definitely one of currency.

Charting the exchange rate of the financial rand against the dollar over the past 42 months, Capel says that in early 1986 and early 1988, the capital loss on Eskom bonds (due to the weak financial rand) would have negated the benefits of high-yield income.

"Up to now there have been very few ways in which one could protect against a fall in the currency.

"It has been possible to take forward cover in the financial rand or buy Eskom options, but these have been so prohibitively expensive it has hardly been worthwhile. But suddenly new vehicles have appeared."

The Financial Rand Index is one such vehicle and is expected to be introduced after the implementation of an equity options market planned for July.

The Financial Rand Index, which will be made up by a basket of overseas listed companies whose principal earnings are derived outside SA, will be used chiefly for futures trading.

The basket is expected to comprise Charter Consolidated, Minorco, Richemont, FIT, Cons-Gold and Lonrho.

To use this as a hedging device, Capel suggests: "At the same time as buying an Eskom bond, the strategy would be to buy a put option in this Financial Rand Index."

But Capel says that in the early stages these options are likely to trade at a considerable premium (which opens up arbitrage opportunities).

"Thus the criteria would be

whether the combined cost of this Finrand Index option and the cost of the bond would still offer a sufficiently attractive yield. So wait until the options market starts trading."

As Capel sees it, a further advantage of the Finrand Index is that it does not rely on the supposed relationship between gold and the financial rand.

Another important part of a trading strategy for an international buyer of Eskom stock is the Sats' two-year, gold-linked bond, which has been issued in a bear and bull tranche.

Capel believes Eskom bonds are currently an excellent investment, "with a major reservation being the current weakness in the gold price. But if you feel that the gold price has bottomed, just buy the bonds."

Those who do not take this view should buy the bonds and hedge their positions.

SPW 8/5/89

TC

# Clergy and bankers meeting on SA loans

ROBERT GENTLE

LONDON — The burning issue of Swiss loans to SA comes under the spotlight in Geneva today.

Swiss Protestant Federation representatives are meeting three major banks — Credit Suisse, Swiss Bank Corporation and Union Bank of Switzerland.

The SPF, an umbrella movement representing all the country's independent protestant churches, believes total withdrawal from SA would pressure SA into reform.

The Swiss Bankers' Association (SBA), umbrella organisation of the country's 600 banks argue such initiatives are counter-productive. *6/24/91/5/01*

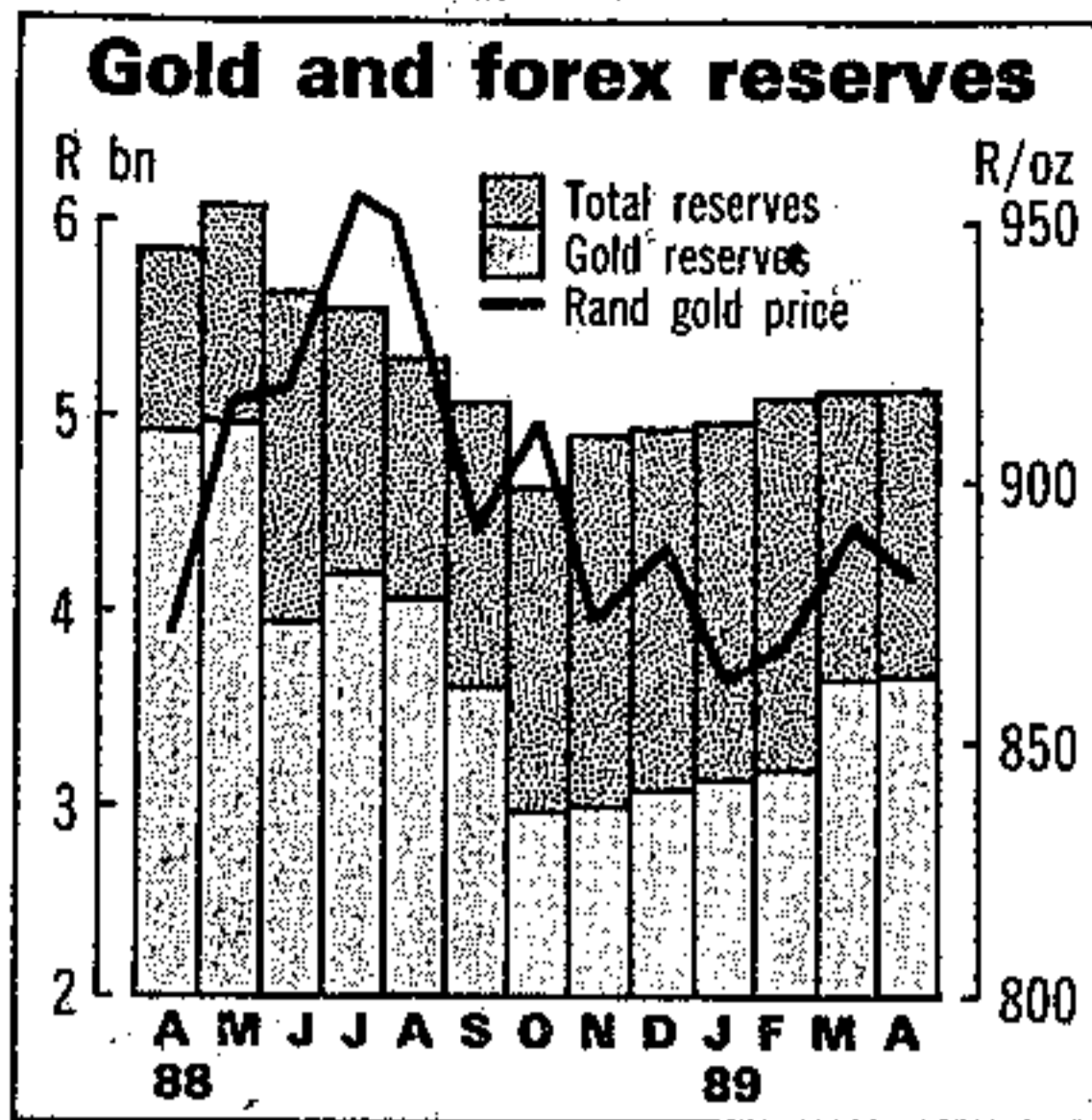
An SBA spokesman said the meeting would be more of a private exchange of views than a hard-nosed confrontation.

The SBA has met the Protestant church group several times.

Swiss loans to SA have fallen substantially over the past few years but the country is still perceived as generous to SA.

The French newspaper Le Monde reported this year a number of Swiss banks had been excluded from a consortium financing a major Canadian dam project because of their loans to SA.

At the end of January the SA government landed a R100m short-term loan in the form of a private placing of bonded debt. Only one month earlier an R88m loan had been arranged.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

## Reserves confirm need for rate hike

*B/day 10/5/89* **GRETA STEYN** (74)

CONFIRMATION of the need for last week's rise in Bank rate to 17% came with the release of April's gold and foreign exchange reserves.

In April, total reserves were R5,16bn or \$2bn — virtually unchanged from March's R5,12bn. They have remained under pressure for some months now in spite of a positive trend on the current account of the balance of payments (BoP) — indicating capital outflows are posing a problem.

The gold component rose to R3,71bn from R3,66bn, but included in this is the

● To Page 2 →

... would not be voted.

an important national asset, the state would be getting the maximum amount.

## Reserves confirm need for rate increase

value of an undisclosed number of Krugerrands. In volume terms, gold rose slightly to 4,2-million ounces and was valued at R882,96 a fine ounce (March: R892,36).

The currency component of the reserves, or "other foreign assets", stands at R1,33bn, the same as at the end of March.

The reserves have not yet recovered significantly from the critically low point of R4,6bn reached in October 1988 — in spite of a four percentage point increase in Bank rate since then. Some economists suspect the capital account is under severe pressure and that this has been obscured

*B/day 10/5/89* ← ● From Page 1 (74)  
by the inclusion of an estimated R300m in Krugerrands.

Foreign debt of \$1,7bn falls due this year and the Reserve Bank expects a maximum foreign debt payment of \$2,1bn next year. Against this background, the authorities are trying to minimise additional pressure on the BoP. Apart from raising Bank rate to counteract higher overseas rates, the Bank is offering cheaper forward cover to encourage the use of foreign trade finance.

● Comment: Page 6

## Bank sells into foreign market to support rand

6/Jan 14512  
GRETA STEYN

THE Reserve Bank sold \$100m into the foreign exchange market this week to support the rand, dealers said yesterday.

They said the Bank's action signalled it preferred the rand not to depreciate beyond R2,62 to the dollar. On the cross rates, it appeared as if the Bank became unhappy when the rand went below DM0,73.

Dealers said the Bank entered the market aggressively at any sign of weakness on the crosses. On the dollar, it was moderating the rand's depreciation, which was the inevitable result of the international bull run on the dollar.

"The Reserve Bank won't be able to sustain the intervention because it simply does not have the reserves," a dealer said.

The Bank was less aggressive yesterday than earlier in the week, allowing the rand to depreciate to R2,6098 from a R2,6048 opening. Pressure eased on the crosses after the Reserve Bank's strong presence and the rand traded at around DM0,7330 for most of the day.

Reuters reports the dollar was supported by news that US President George Bush wanted to send troops to Panama. Although the markets were cautious after the news, the dollar opened well above the DM1,91 level in New York.

□ To Page 2

### □ Continued from Page 1

Bush's announcement also benefited the gold price, which was fixed at \$378,35 an ounce — up from its morning setting of \$377,70.

□ The Reserve Bank has made good its vow to drain the money market of cash by selling R200m of special Treasury Bills into the market yesterday.

The tender of special tax TB's is part of the Bank's strategy to take cash out of the market. This strategy will put the squeeze on banks indulging in excessive credit creation.

## Bank support

6/Jan 14512  
The Bank's action comes at a time when the market is liquid — the shortage was only R670m on Wednesday. Sources said the liquidity was apparently due to an inflow of foreign exchange.

Further action to reduce liquidity will be taken today when R100m of TB's will be put on tender — more than double the usual size of the weekly TB tender. The market will take a keen interest in the rate realised on today's tender, as it will indicate the future direction of Bank rate.

# Seeds of discomfort festering in market

**SUPERFICIALLY** the money market is comfortable, as it should be midmonth; at depth, however, a measure of discomfort is discernible, largely generated by the uncertainty of whether the Reserve Bank will implement its policy of restraint as fiercely as Governor Gerhard de Kock indicated it might.

## Pay cheques

The market, and particularly the bankers, should get an inkling of how real De Kock's warnings were during the next two weeks when the month-end pressures start to build up.

In six trading days the Bank has taken R900m out of the market, R800m in tax Treasury bills and R100m in normal Treasury bills (TBs). This has had the effect of ensuring that the market does not swing into surplus and will remain in bondage to the central bank. At the time of writing, the market's deficit — its debt to the Reserve Bank — is R674m.



**IN THE MONEY MARKETS**  
**Harold Fridjhon**

Today liquidity to the tune of almost R1bn will flow into the market as public servants' pay cheques filter into the private banking sector. In addition the banks' balances will be eased slightly by the inflow of banknotes.

Already the banks have benefited by R800m from banknotes being returned so relief from this source will be negligible for the next week or so. And then

could temporarily put the market in surplus, will the Reserve Bank continue with its policy of mopping up so-called liquidity by issuing a further tranche of tax TBs? If it does, the market could be somewhat distressed by the end of the month and interest rates might be under pressure — as they appear to be at present.

The average rates for the last three tax TB tenders have risen from 16.6% discount to 16.98% to 17.17%. Granted that between the first issue and the second, Bank rate went up one percentage point.

And the same influence saw the TB rate move up to 16.99% from the previous, pre-Bank rise, 16.77%. The rate for 90-day liquid BAs have edged higher to 17.40% from 17.35%. And the Big Money call rate was a half percentage point higher last week, rising to a range of 16.75% to 17%. This is an agreed rate among the banks — unless one pressur-

ised bank breaks ranks and is prepared to pay more for the facility.

Rates for six months and 12 months negotiable certificates of deposit (CDs) are around 18.20%, almost a full percentage point higher than it was about 10 days ago. These rates are really

nominal because there are few issuers and there is a gap between what they are prepared to pay and what investors are demanding. After all, investors can earn 18.1% on a three months tax TB.

If the Reserve Bank persists in its policy of not entering into re-purchase agreements and will give overnight loans to the banks, at penal rates, only at the governor's discretion — as De Kock intimated to bankers — the squeeze will be on because the banks cannot reduce their lending overnight. They will have to balance their books by taking even more expensive short-term deposits, thereby increasing their provisions to meet liquidity ratios.

When money becomes a scarce commodity, the price will have to rise even in the face of an implacable Bank rate.

# 3½-year low for rand and big losses in gold shares

By Sven Lünsche

The rand has plunged to its lowest level against the US dollar in 3½ years in a day of hectic trading. It fell yesterday by 2,25 percent.

Gold was also a casualty of the booming dollar. In Hong Kong gold dropped by \$2 to open at \$375 today. In London yesterday, bullion fell by about \$4 to close at \$374.

The nervousness in the currency and metal markets spilt over to the Johannesburg Stock Exchange, where hectic trading saw gold shares in particular suffer heavy losses.

The crucial all-gold index dropped by 48 points to 1490, pushing down the overall index by 36 points to 2483. The industrial index was 21 points lower at 2522.

## INTERVENTION

Fuelled by fears of American intervention in Panama, the surging US dollar swept to new two-year highs against most currencies, rising by 2,3 percent against the Deutsche mark and by just over 2 percent against the Japanese yen.

The rand's decrease against the American currency was fuelled by the declining gold price.

At one stage, the rand had fallen to 37,4 US cents, before recovering slightly to a close of 37,5 US cents. On Friday the rand closed at 38,5 US cents.

Currency dealers said the Reserve Bank did not intervene in the markets, as the low gold price would not have supported any firm action.

● See Page 15.

# Agricultural exports to boost earnings <sup>74</sup>

GERALD REILLY

PRETORIA — SA's foreign exchange earnings will be boosted this year by record export earnings from the best agricultural season in a decade.

SA Agricultural Union (SAAU) economist Koos du Toit said a preliminary estimate based on current trends indicated these could reach, or even exceed, R4,5bn.

This was assuming, too, that the country's transport system could handle the five-million tons of maize available for export before the year's end.

The SAAU estimates about 25% of the estimated total value of agricultural production this year will be exported.

Total value is expected to exceed R16bn.

Maize Board estimates are that exports will earn R1,5bn.

The last biggest maize export surplus was in the 1981/82 season, when around five-million tons was exported, earning about R636m in foreign exchange.

Du Toit added that last season's record wool earnings of around R760m could be exceeded.

Sheep numbers were increasing and wool prices were stable.

Sugar earnings too could reach record levels, he said.

Exports from this year's record wheat crop of 3,5-million tons would amount to around one-million tons. Under current rand exchange value, this should realise between R380m and R400m, Du Toit said.

BID 11/1/78



# Rampant dollar <sup>(74)</sup> batters gold, rand

BID 18/5/89

GRETA STEYN

GOLD took a battering yesterday, sparking interest rate fears, pushing the rand closer to its record low and knocking JSE share prices across the board.

News of a 10% decline in the US trade deficit to \$8,86bn in March propelled the dollar to new heights of above DM1,9600. As a result, gold briefly dipped below \$370, causing extreme tension on local markets.

In the capital market, the rate on Eskom's Loan 168 shot up 6 points to 17,46%. Rates easily broke through previous resistance levels of 17,41% and 17,44%. However, trading was thin as nervous dealers chose to sit on the sidelines.

Discount House of SA economist Chris Greyling said: "The sharp movement in the capital market rates shows the market is by no means certain we have seen the last increase in Bank rate. The mood in the money market is also growing more pessimistic."

The money market is already nervous about interest rates as the Reserve Bank is putting the squeeze on banks in an effort to curb credit growth. The Bank yesterday sucked R500m out of the market by selling special short-dated Treasury Bills.

In the currency markets, the dollar is proving unstoppable. It gained more than a pfennig on the trade figures, sending the rand to its lowest close in almost four years. The local unit closed at R2,6908 to the dollar, shrugging off Reserve Bank intervention at R2,6850. However, its de-



preciation on the crosses was less intense with the currency at DM0,7290, only a touch below the DM0,73 level favoured by the central bank.

Dealers have been expecting a correction on the dollar, but more market participants are now seeing the US currency heading towards DM2,00 — which will be more bad news for gold, the rand and interest rates.

□ MERVYN HARRIS reports despondency deepened on the JSE with the negative sentiment on gold flowing over to other precious metals and industrials. The overall index eased 20 points to 2 457. The trade data eclipsed activity in Anglo-related shares, which had dominated trade in the morning after Minorco's failure to gain control of ConsGold. Dealers reported a lot of stock coming out of London.

Graphic: FONIA KRISCH Source: REUTERS

AFTER THE US dollar's surge over the past weekend, there can be few who would doubt that the dollar has confirmed its position in the upward path of the long-term cycle.

Indeed, the manner in which the US unit sliced through the last lines of resistance — especially against the Japanese yen — must come as very positive news for the dollar bulls.

No doubt there will be the inevitable fluctuations in the rates, but an appreciation of the dollar to levels around DM2,20 within this year is almost beyond doubt. This does, of course, then also carry some implications for the South African rand. Can the rand hold up at all against a rampant dollar?

It has only done so for an extended period once before — in its recovery from the grossly oversold condition that it found itself in at the time of the debt standstill.

Some special factors gave assistance at that time: exporters were required to bring their export earnings into the market (via the forward exchange mechanism) within seven days of shipment, debt repayments were frozen and it is clear to all and sundry that the rand had been unjustifiably depressed.

These factors will offer little solace this time. In fact, there is not even much else that can be offered in support of the rand in terms of legislation or economic policy. Undoubtedly, the

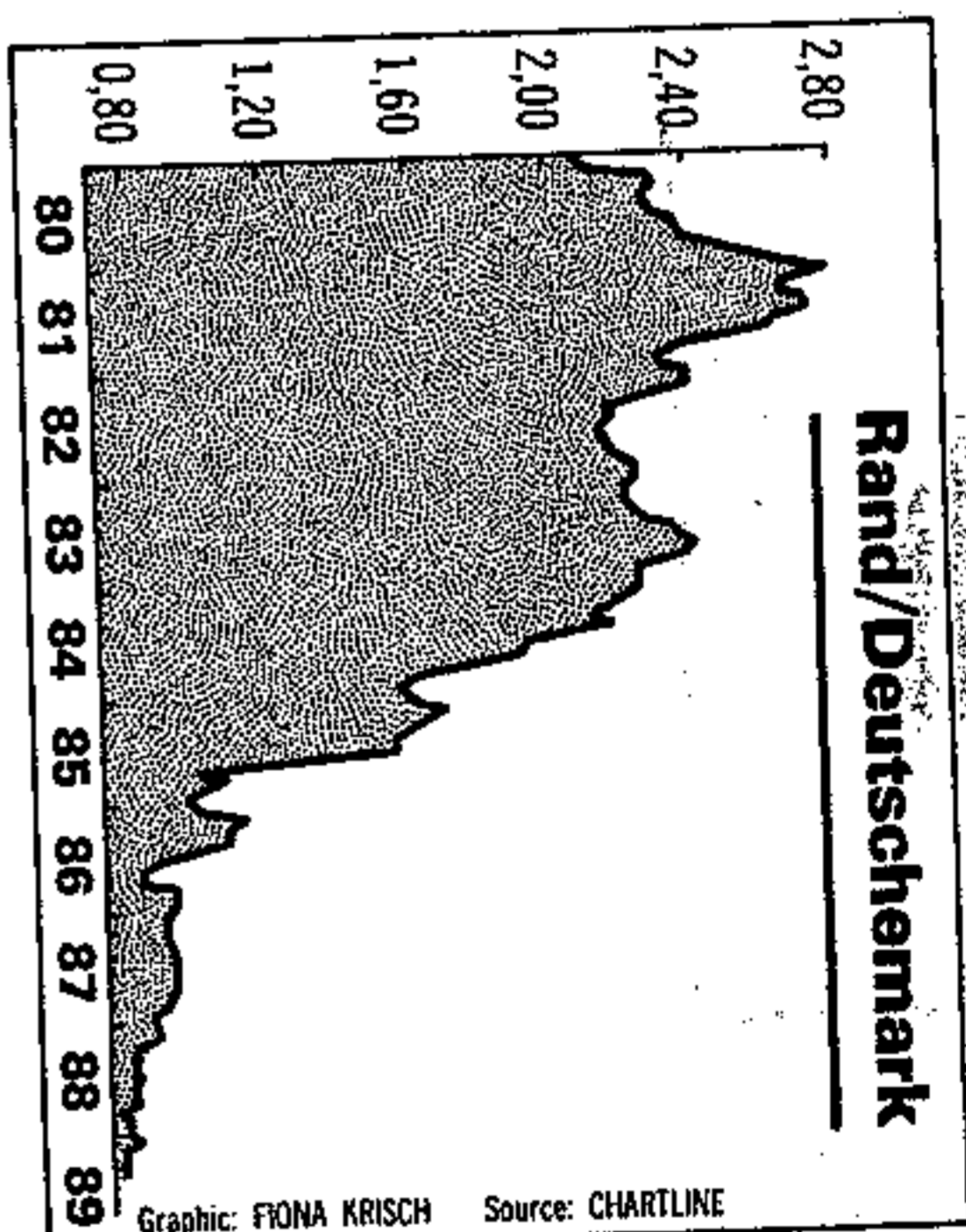
# An outlook for the rand

rand will fall against a stronger dollar.

Whether this is justified or not is a moot point. I don't think that it is justified, and I believe that we will find clarification on this point by watching the performance of the rand against currencies other than the US dollar. Since early 1988, the rand has been quite steady versus the DM, and with a stretch of the imagination you could trace this back to mid-1986.

I believe we could now be looking to some sort of recovery of the rand against the other major currencies, such as the DM, yen and sterling. Yes, the rand will weaken further against the US dollar: or, to put it more correctly, the dollar will strengthen against the rand. However, the rand will weaken at a slower pace than the other currencies, with the result that the local unit will actually rise against these currencies.

The reasoning is simple. The rand earlier



failed to gain any real benefit out of the dollar's cyclical decline because it had particular problems of its own — namely, the debt crisis. So why should it now respond fully to the cyclical upturn? The rand has actually got out of step with normal cyclical patterns.

While the particular problem of the debt standstill remains, it is of a far less pressing nature. SA is honouring all the arrangements, the lenders are earning good returns and some new money is flowing into the country. In other words, one of the major sources of pressure on the rand has lost some of its steam.

Another problem area has been the "big black hole" that I have alluded to in this column. Some people were very angry about what I suggested, yet we are now being confronted almost weekly with reports of yet another massive forex contravention.

These funds — now totalling hundreds of millions of US dollars — have been frozen in offshore bank accounts pending prosecution and will eventually flow back into the country. This will tend to rectify the oversold condition of the rand caused by the initial outflow.

And, of course, we continue to run a balance of trade surplus, with non-gold exports becoming an even greater earner of foreign exchange as the rand weakens against the dollar.

To summarise: the rand will undoubtedly weaken against the buoyant dollar, but its weakness will be limited by the fact that it did not gain in the earlier stage to give it enough slack for further weakness.

There are also some mildly positive developments still to take place through the balance of payments accounts which are likely to detract from, rather than add to, the rand's weakness.

In contrast to its performance against the US dollar, we must expect the rand to show an appreciation against the other currencies.

# Advancing dollar defies Bank action

BIDAY 1971 5787

74

LOCAL financial markets continued to reel yesterday as concerted central bank intervention failed to stem the advance of a rampant dollar.

With gold hovering precariously around the \$370 level and disappointing SA April trade figures further depressing sentiment, the rand remained under pressure, capital market rates maintained their uptick and the downturn of share prices accelerated on the JSE. The metal plummeted to \$367,95 at the New York close.

The dollar continued its meteoric rise, fuelled by Bundesbank's decision to leave its interest rates unchanged and a smaller than expected rise in the core US consumer price index (CPI). The CPI rose 0,7% in April against an expected 0,6% gain, but the core rise was 0,2% after analysts had seen a gain of 0,4%.

After reaching a high of DM1,98 before being driven back to DM1,9680 by massive intervention, the dollar renewed its rise to trade above DM1,97. Dealers said the intervention prevented the dollar from reaching DM2,00.

The dollar's early advance was partly due to falling expectations of an imminent rise in Japan's 2,5% discount rate. But traders said the aggressive central bank intervention indicated they meant business, and the Federal Reserve entered the market on at least three occasions yesterday to halt the dollar rising to 140 yen.

Although the rand held firm on the cross rates at above DM073, it touched a low of R2,7150 against the dollar before recover-

KAY TURVEY and  
MERVYN HARRIS

ing slightly with Reserve Bank support to end at R2,7030, down on Wednesday's close of R2,6900.

Gold dipped to a low of \$369,20 as it tracked movements in the US currency. The metal closed at \$370,75 in London but the rand gold price remained just above the R1 000/oz critical level at R1 000,36.

Platinum dropped sharply to seven-and-a-half-month lows of around \$491 in London yesterday before steadying to close at \$499.

The weaker gold price and poor trade surplus for April saw rates continuing an upward thrust on the capital market. Eskom's Loan 168 rose five points to 17,51 after reaching a high of 17,53.

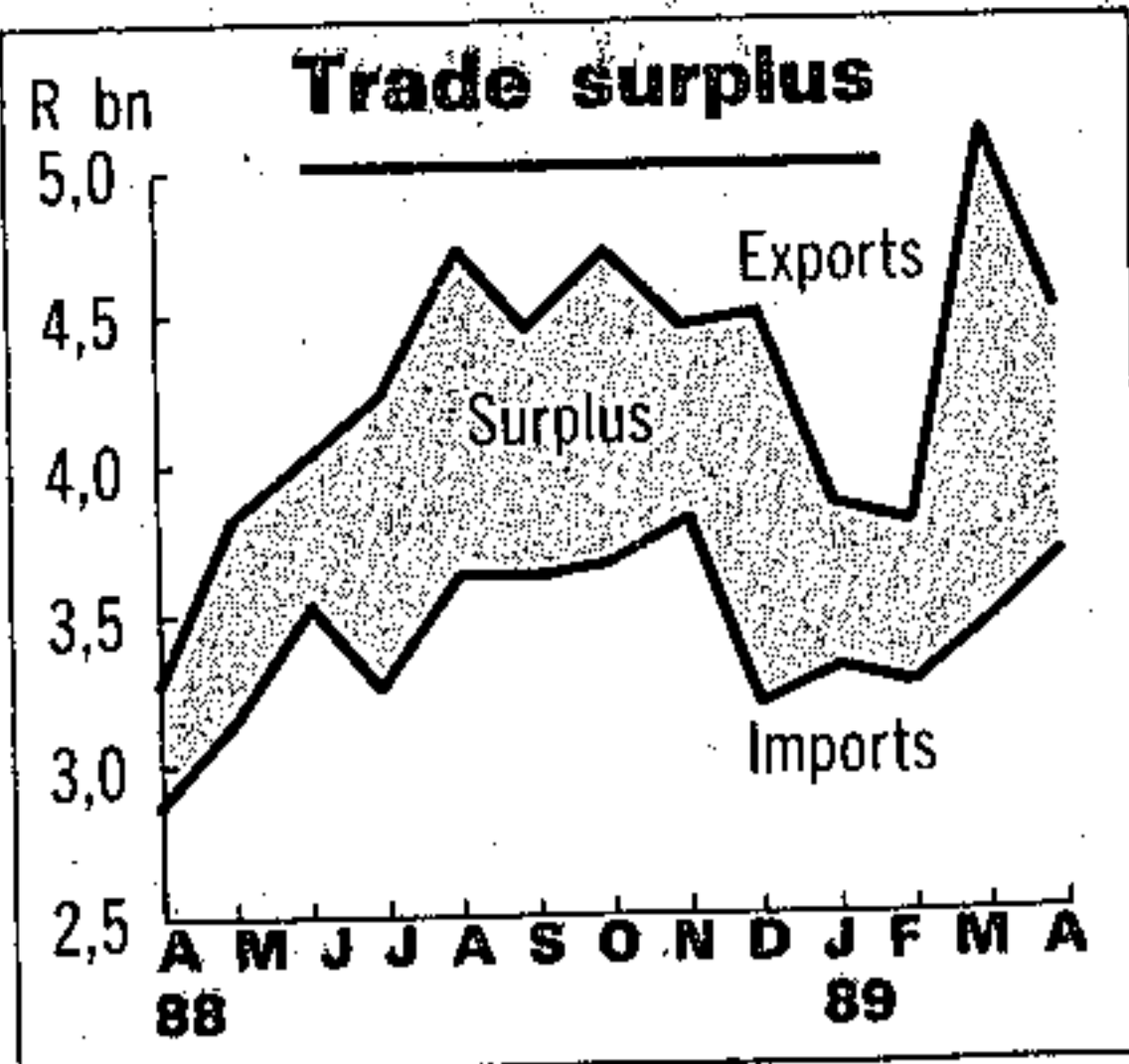
On Diagonal Street, the negative factors flowing through to the market continued to damp sentiment and dealers reported that many buying orders were being withdrawn.

The JSE overall index gave up 36 points to 2 418 points with the industrial index down 40 points to 2 426 as investors ignored the continuing spate of good results.

The bleak outlook for the market is reflected in the All Share March 190 futures contract falling from 2 600 at the end of last week to 2 350 yesterday.

Analysts expect activity on the JSE to remain at a low ebb over the next few months, with share prices continuing their downward drift.

● Comment: Page 6



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

## April surplus down by half on March

KAY TURVEY JK

RISING imports spurred by pre-emptive buying on expectations of a weaker rand resulted in the trade surplus for April dropping by half from March's figure.

The surplus narrowed to R817,4m in April from March's R1,67bn, when massive diamond selling buoyed exports to R5,13bn. Exports for April fell back to R4,51bn.

Imports climbed from R3,45bn in March to R3,69bn in April, touching the record levels recorded in October and November last year.

Imports, moving off a high base, have risen by 1% in real terms during the past year. However, Safto economist Bruce Donald believes import growth will now begin to slow as the anticipated economic downturn takes hold.

Economists warned of reading too much into the monthly figures, which were subject to cyclical distortions. However, they pointed out economic policy would continue to be driven by consideration for the balance of payments (BoP), with measures taken to protect the current account.

UAL economist Dennis Dykes said the BoP position was in a crisis and would remain so unless trade improved. The average monthly surplus for the first four months of the year was R8,95bn. He said if the surplus continued at this rate there would not be much with which to build reserves, if between R10bn and R11bn had to be paid in foreign debt this year.

However, Bureau for Economic Research economist Adriaan Mocke believed the trade surplus would recover strongly in the third quarter, when he predicted the rand would reach R2,75 to the dollar, boosting exports.

# April trade surplus goes into steep decline

Finance Staff and Sapa

Although South Africa's trade surplus in April showed a decline of 51 percent over the March figure, government officials are convinced that the austerity measures announced two weeks ago will soon start to exert downward pressure on imports.

They therefore expect the surplus to rise in the coming months.

A government spokesman pointed out yesterday that imports had shown no real growth for more than four months.

The increase in nominal terms was due to the downward trend in the rand against the dollar, in particular.

While April's R818 million figure was 43 percent up on April 1988's R462 million, it nevertheless was down on the March 1989 surplus of R1,675 billion.

## First four months

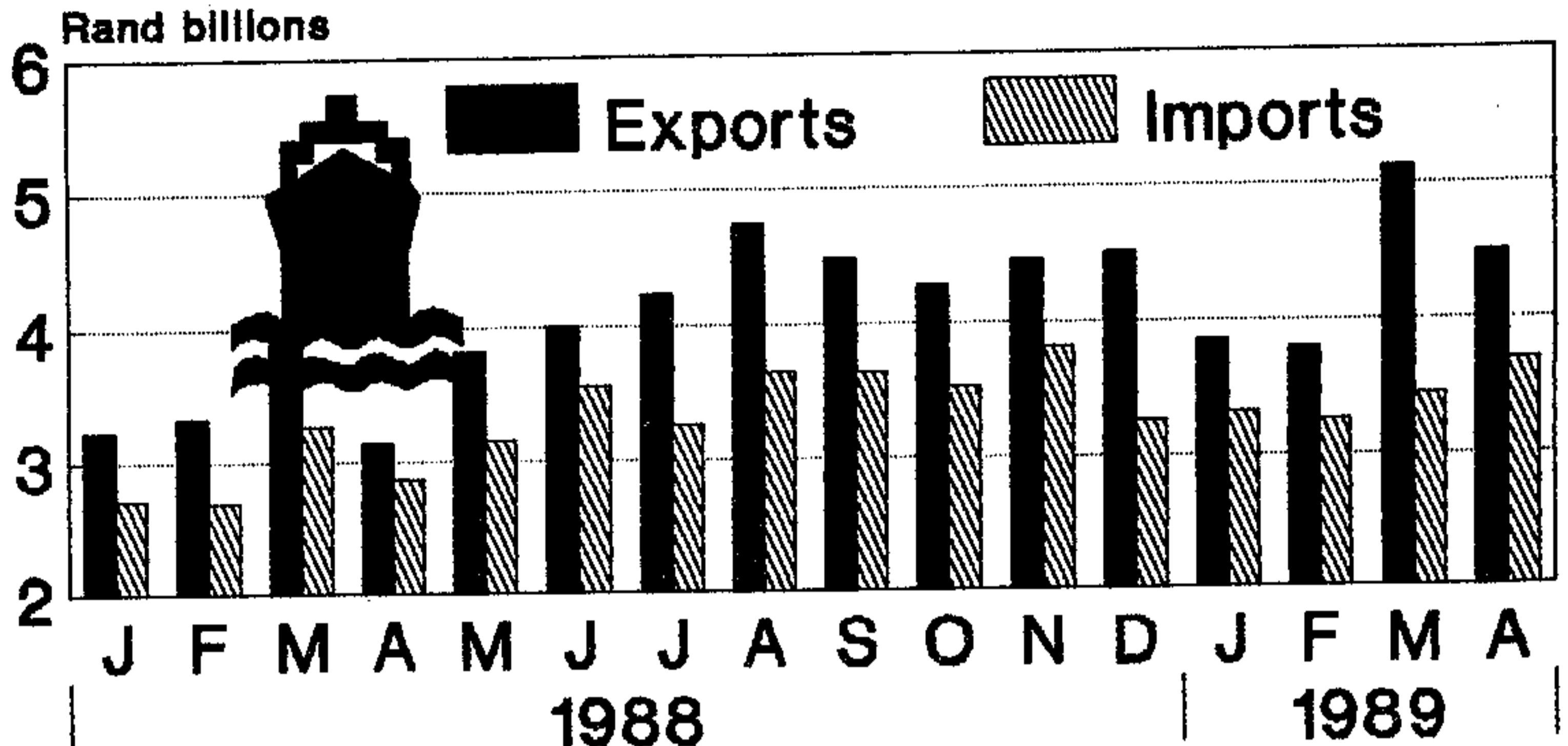
The surplus for the first four months of the year was R3,581 billion, compared with R2,778 billion for the same period last year.

Exports in April totalled R4,510 billion, against R3,321 billion a year earlier.

Imports amounted to R3,692 billion, compared with R2,859 billion in April 1988.

Exports during the first four months of 1989 amounted to R17,289 billion, against R14,313 billion a year earlier.

Imports totalled R13,707 billion, compared with R11,536



billion in the first four months of 1988.

Trust Bank economist Nick Barnard told Sapa yesterday that items such as diamond sales were not reflected in the Customs and Excise figures.

He said that last year they had amounted to about R200 million a month and that figures of the same order could be ex-

pected in the current year.

He said that an outflow of R10 billion a year could be expected on the services account, which meant that the total surplus for 1989 would have to reach R14 billion in order to hit the target of R4 billion on the current account of the balance of payments.

This averages out at about

R1,2 billion a month.

The average for 1989 so far is R895 million a month, plus an estimated R200 million for diamonds, giving a monthly average of just under R1,1 billion.

Mr Barnard said the second quarter of the year was generally quiet and that an improvement could be expected in the third quarter.

# SA trade surplus drops 51%

CMR Times 19/5/89

74

By AUDREY D'ANGELO  
Financial Editor

THE huge increase in exports achieved in March — which gave a badly needed boost to the current account of the balance of payments — has proved a flash in the pan.

Exports were down in April and imports slightly higher, resulting in a 51% drop in SA's trade surplus compared with March.

The sharp drop has come at a critical time, when both gold and the rand are continuing to fall against the rising dollar.

However, the trade surplus of R818m for April compared with R1,67bn in March, is still 43% higher than that achieved a year earlier.

Exports in April totalled R4,5bn compared with R5,1bn in March and R3,3bn a year earlier. Exports in February totalled R3,8bn.

Imports in April totalled R3,6bn compared with R3,4bn in March and R2,8bn a year earlier. Imports in February totalled 3,2bn.

The surplus for the first four months of this year totalled R3,5bn compared with R2,7bn for the first four months of 1988.

But the lower April figure explains the action taken earlier this month to tighten the economy and discourage consumer spending — and the insistence of Reserve Bank Governor Gerhard de Kock at a Cape Town conference last week that exchange controls were "a necessary evil".

The banks report that demand for credit is now coming mostly from man-

ufacturers importing machinery and expanding their capacity.

And Colin McCarthy, director of the Cape Chamber of Industries, said this week that the imports now being discouraged were of machinery needed to boost the export drive.

But Volkskas economist Adam Jacob pointed out yesterday that 70% of SA's exports still stemmed from mining. The second largest exporter was Iscor, and the third the chemical industry.

"The clothing and textile industries are important in the Cape, and the exports they are achieving may be large for them.

"But in the short term SA has no choice but to reduce domestic consumer demand in order to cut imports and improve the balance of payments.

"With falling domestic demand manufacturers probably have no need to increase their capacity to enter the export market."

Pointing out that the world economy is declining, Adam said this meant that demand for SA exports was certain to fall and that improvement in the balance of payments would therefore have to be achieved mainly through a reduction in imports.

"We cannot rely on exports to build up our balance of payments. We shall have to tighten our belts in the domestic market.

"I sincerely hope that the government will also stick to the expenditure provided for in the Budget. There is no point in the private sector tightening its belt if the public sector overspends."

# Barend sees some light at end of foreign debt tunnel

The latest figures on South Africa's foreign-debt position showed that the sacrifices the country had made and the fact that it had not been able to achieve a maximum growth rate had really been worth the inconvenience, Minister of Finance Barend du Plessis said at the weekend.

Replying to debate on the second reading of the Budget debate he said that if one calculated the debt at the end of 1988 at the September 1985 exchange rate, SA's total foreign debt had declined in real terms from \$24 billion in September 1985 to \$18,5 billion at the end of last year.

Figures compiled by the Reserve Bank on SA's foreign debt position at the end of 1988 showed how hard SA had worked over the past few years to get itself out of this difficult situation.

When the debt standstill was

instituted in 1985, a total of \$14 billion was caught in the standstill net, while \$10 billion were left outside.

Almost 60 percent of the total foreign debt was therefore subject to repayment restrictions.

At the end of 1988 the value of the total foreign debt was equivalent to \$21 billion, of which only \$9 billion, or 43 percent, was inside the net and \$12 billion outside the net.

These figures did not reflect the full effect of the repayments of debt made since 1985 because a net decline in the dollar exchange rate against other currencies over this period had raised the dollar value of the non-dollar debt.

It was for this reason that one could say the total debt had declined to \$18,5 billion in real terms.

On this basis, the debt inside the net had declined from \$14 billion to \$8,2 billion at the end

of 1988.

Over this period SA had also paid back about \$2 billion of the debt inside the net.

However, the most important reason for the drop in the netted debt was ascribable to the success achieved with the so-called optional rescheduling of short-term debt inside the net after the long-term loans outside the net.

In accordance with the Interim Arrangements, foreign creditors had got the right to convert short-term debt inside the net to a long-term loan, which would be repayable over a ten-year period.

Moderate repayments were to be made in the first five years and the balance was then to be erased in ten equal half-yearly payments.

Many foreign creditors had made use of this option and at the end of March this year the Reserve Bank had given approv-

al to so-called conversions for a total amount of \$3,6 billion.

In practice, not all these loans had been concluded.

The repayment of this amount, which was originally short-term debt, was now extended over a period which would run to 1999.

The highest amount of these repayments in any single year was \$700 million.

According to the most recent estimate of the Reserve Bank, SA's repayment obligation amounted to \$1,3 billion this year and \$1,9 billion in 1990.

Thereafter it would decline to \$1 billion in 1991 and even lower figures in years thereafter.

These figures indicated that the problem was getting gradually smaller.

However, the wagon was not completely through the drift and SA would still have to be very careful over the economic policy it followed.— Sapa.

Standard sees hopes of soft economic landing

By Derek Tommey

South Africa has serious balance of payments problems, but it does not have to endure a major recession to overcome the situation, says Standard Bank in its latest economic review.

In fact, a soft landing for the economy still seems a strong possibility, the bank contends.

It points out that in 1984 when SA was running a balance of payments deficit equal to two percent of gross domestic product (GDP), a recession was required to convert the deficit into a surplus.

But with SA already running a current account surplus of 1.5 percent of GDP, all that is required to cure the balance of payments headache is for the economy to produce a somewhat larger surplus than the one being realised.

The bank says that given present trends and provided government spending can be controlled, all the economy needs is a relatively modest further slowdown in domestic demand and import levels.

It says there is evidence such a slowdown is already under way and that the May 5 package will tend to accelerate it.

At the same time, activity in the real economy will be boosted by higher exports, which could grow by three percent this year after growing by 5.7 percent in 1988.

The increase in exports should help support domestic production, even while internal demand recedes.

It says the factors that will decide whether SA experiences a recession later this year and in 1990 will be:

- Whether government spending can be checked;
- What happens to the gold price;
- Whether foreign capital inflows occur.

If the gold price were to stabilise or rise in response to increased inflationary pressures overseas, or if SA were to be rewarded for accelerating political reform by an easing of sanctions, the outlook for 1990 would improve significantly.

Upward pressure on demand would also be eased if government spending were kept at budgeted levels.

But if none of these happens, the bank warns, SA would have to opt for austerity and low domestic expenditure next year.

Complied on a French line

Star 27/5/89

Handwritten initials and scribbles

Vertical text on the right margin: REPRODUCED FROM THE ORIGINAL SOURCE



# BUSINESS DAY

FAX

MONDAY, MAY 22 1989

60c (53c + 7c tax)

A TIMES MEDIA PUBLICATION

VITAL and CAPE 80c (71c + 9c tax)

## SA's foreign debt problem decreasing, says Du Plessis

CAPE TOWN — SA's foreign debt problem is steadily decreasing, Finance Minister Barend du Plessis says.

In the two months since the budget, loans totalling US\$1.1bn, which were to have been paid in the next three years, had been converted into long-term debt.

Du Plessis told Parliament that, according to the latest Reserve Bank estimates, SA would have to meet foreign debt repayments of \$1.3bn this year, \$1.9bn next year and \$1bn in 1991.

Just two months ago Du Plessis said in his Budget that foreign debt repayments this year would total \$1.7bn, \$2.1bn next

year and \$1.5bn in 1991.

Du Plessis said many foreign creditors were making use of facilities to convert short-term debt within the net into long-term debt, to be paid over a 10-year period, outside the net.

At the end of March the Reserve Bank had given approval for the conversion of \$3.6bn short-term debt in the net into long-term debt, which would be paid over a period up to 1999.

Negotiations to convert this debt had not

MIKE ROBERTSON

been finalised.

Du Plessis said that, at the time of the standstill in 1985, foreign debt totalling \$14bn had been caught in the net, with \$10bn outside.

At the end of last year total SA foreign debt had decreased by \$3bn, with \$9bn within the net and \$12bn outside.

These figures did not reveal the true picture of the repayment of debt as the net decrease in the value of the dollar against other currencies in the period had caused the dollar value of the debt to increase.

If the debt had been repaid at exchange

rates pertaining in September 1985, SA's foreign debt would have fallen from \$24bn to \$18.5bn at the end of last year.

Du Plessis said the largest loan converted from short-term debt to long-term debt outside the net had amounted to \$700m.

A further \$300m had been converted from short-term debt in the net into financial rands and invested in SA.

He added that, although SA's foreign debt position was improving, "the wagon was not completely through the drift" and the country would still have to be careful with the economic policy it followed.

17/10/89 21/5/89

74

bl Day 27/5/89  
**Chamber study on sanctions 'invalid'**

THE Chamber of Mines sanctions study, which found that more than 80% of black South Africans opposed sanctions and disinvestment, was invalidated by the fact that only inappropriate "either-or" questions were asked, Community Agency for Social Enquiry (Case) director Mark Orkin said.

Orkin said — Case has done a number of surveys on the subject — the findings of the chamber's Gallup poll only served to confirm previous ones which had also excluded the intermediate option of conditional disinvestment.

The conditional option had achieved majority support among blacks in a

ALAN FINE

1987 Case survey. Conditional disinvestment had received 44% support in a poll conducted by Professor Lawrence Schlemmer in 1984. This option also expressed sanctions policies of major union and church organisations.

Orkin said: "Denying respondents this choice forces their answers into categories to which they do not belong."

He defined conditional disinvestment as meaning that foreign firms should not be allowed to operate in SA unless they met requirements such as good working conditions, union recognition

and actively pressurised government to end apartheid.

Conditional sanctions were those of the comprehensive or selective variety which supporters believed should be lifted once certain steps — such as ending the emergency and unbanning organisations — had been met by government.

This distortion was worsened by the chamber survey's use of "leading" introductory questions. These questions would put respondents into a frame of mind which would make subsequent support for foreign pressure seem contradictory.

**Financial bodies warn on official spending** bl Day 22/5/89

**Govt 'must cool it too'**

RESTRICTIVE measures taken earlier this month to curb domestic spending and imports will succeed in cooling the economy only if government spending is held in check, financial institutions say.

They have welcomed the moves of May 5 in slowing the pace of money supply growth and credit creation, but warn a slowdown hinges on government spending.

Standard Bank in its latest review says the package has the influence to damp the "probably unduly optimistic mood" which previously prevailed.

This could be the package's most important benefit, because a slowdown in nominal growth has far less painful consequences for the real economy if it is widely anticipated, the review says.

However, the ultimate deciding factors over whether a recession later this year and in 1990 can be avoided, will be whether government spending can be checked, if the gold price recovers, and whether foreign capital inflows occur.

"If none of these happens, there would be little choice but to go for

SYLVIA DU PLESSIS  
and KAY TURVEY

austerity and very low domestic expenditure next year."

First National Bank (FNB) says in its April edition of SA Perspective that the general election promises continuing high government spending.

**Realities**

"The government's wish to maintain economic growth momentum for political reasons cannot be underestimated."

These realities are likely to support a continuing buoyancy in most sectors of the economy, through to at least the third quarter, FNB says.

"While the interest-rate sensitive sectors continue to give the impression of easing, especially the property market and furniture, it is as yet not a rout."

Sanlam in its latest economic survey notes that a marked drop in car sales in comparison with a year ago and a noticeable deceleration in the growth rate of real retail sales are signs that the

economy is "cooling down". Other indicators of a slowing down were the drop in the volume of merchandise imports and a more sluggish rate of increase in manufacturing production.

However, the level of general economic activity remained high and owing to substantial wage and salary adjustments, the continued high inflation expectations and the sustained favourable state of consumer and business confidence, it was possible that expenditure would continue to grow at a rate that would place excessive demands on the balance of payments.

Sanlam said it believed the latest action could bring about the necessary cooling down of the economy — provided it was supported by strict discipline as regards government spending.

Given the low levels of foreign reserves, it is clear that on the whole, the balance of payments will continue to be a problem area.

Sanlam estimated that the current account would achieve a surplus of roughly R4bn this year, but most of these funds would have to be used for the repayment of foreign loans.

GENEVA — More than five-million new cases of AIDS may develop between 1990 and the year 2000, according to estimates published by the UN World Health Organisation (WHO).

The American Director of WHO's Global Programme on AIDS Dr Jonathan Mann said the cumulative total of people infected with the HIV virus may increase to three or four times its present estimated total of between five- and 10-million.

The current reported number of AIDS cases is 151 000, but WHO says the real figure is nearer 375 000.

These projections served as a warn-

Own Correspondent

ing that the Aids pandemic has not plateaued or peaked, Mann said.

Most scientists agreed that a vaccine would not be available before the mid 1990's, and health and social services throughout the world would, therefore, need to strengthen their capabilities to respond to this projected increase in Aids cases, he said.

Mann added WHO expected more than 700 000 new cases of AIDS to occur in the period from now to 1991, from people already infected with the virus.

**Court gives lawful label to Mooi River toll road**

Own Correspondent

MARITZBURG — The operation of the Mooi River toll road between the Cedara and Frere interchanges by Tolcon has been declared lawful in a reserved judgment handed down in the Supreme Court last week by Mr Justice Combrink.

The judgment follows an application in March this year by the Public Carriers Association, Hultrans, Cargo Carriers, Tanker Carriers and Mainline Carriers challenging the legality of the toll road and the operation of the Mooi River toll plaza and levying of tolls by Tolcon.

Wimpie slated for

Report sought on ConsGold plans

# De Kock: no need to panic over gold fall

B/Dwy 23/5709

74

AS INTEREST rate jitters intensified on SA markets yesterday, Reserve Bank Governor Gerhard de Kock said there was no need for panic about the slump in the gold price.

He said: "The low gold price is obviously bad news for SA. But the big question is — how long will it stay this low? While I am not sanguine about the situation, there is clearly no need for more restrictive measures at the moment."

Gold was fixed at \$359,75 an ounce in London and the rand tested R2,80 to the dollar in yet another day of tension caused by the US currency.

Gold's slump raised the spectre of an imminent increase in Bank rate to protect the balance of payments. As a result, the BA rate jumped to 17,60% from 17,40% and long-term interest rates in the capital market continued their uptrend.

However, De Kock said there was no clear indication a shift in policy stance was necessary. "We implemented a strict package earlier this month and it must be given a chance to work."

Signs were emerging that the economy was slowing down and latest figures for

GRETA STEYN

bank credit and motor car sales supported that view.

The business community appeared to have responded to the message that spending had to be curbed.

De Kock said: "We want a soft landing for the economy but there is obviously no chance that our policy stance will be relaxed while the gold price is under pressure."

"Developments on the international markets vindicate our decision to tighten policy earlier this month."

On the rand/dollar exchange rate, it was in SA's best interests that the rand depreciated when the price of gold was dropping.

De Kock rejected suggestions the Bank had wasted reserves to defend the rand, saying Bank action in the forex market had been aimed at smoothing the SA currency's descent. With gold weak, it would be foolish to keep the rand strong.

"But the disadvantage of the rand's decline against the dollar is upward pressure on the inflation rate. We might find that latest developments will keep inflation

□ To Page 2

## Gold's fall

high for a longer period than anticipated earlier this year."

Economists said they expected the Bank to follow a wait-and-see monetary policy to avoid an overkill situation. But tension grew on the markets as the dollar crashed through important barriers, eventually surging beyond DM2,00 for the first time since 1986.

Discount House of SA economist Chris Greyling said: "Right now the markets are uncertain about the future of the economy. There is a growing fear that international developments might outweigh what is happening to domestic demand."

"Even if spending is slowing down, it might not be enough to avoid a balance of payments squeeze because of gold."

□ KAY TURVEY reports the dip in the gold price to below \$360 saw the rand also lose ground against other currencies.

□ From Page 1

The rand fell from a close of R4,3830 on Friday to R4,3895 against sterling and from 0,7250 to 0,7225 to the DM.

It ended at R2,7782 to the dollar after touching R2,7880 before Bank intervention, down from Friday's close at R2,7075.

The dollar, which traded at above the DM2,00 levels, could not be checked by strong central bank intervention.

Dealers said sentiment for the dollar remained bullish given the interest rate differential between the US and its major trading partners as well as the political turmoil in China.

However, the meteoric rise in the dollar during the past week has confused economists, who have read the underlying economic fundamentals and held that the US balance of payments situation could not support such a strong dollar or the need to finance the budget deficit.

Page 3

B/Dwy 23/5709

12/04/73/5787 (74)

# RESERVE BANK TO GRANT MORE AUTONOMY IN SALE OF GOLD

ANDREW BUDDEN

IN A hesitant step towards relaxation of its tight control over SA gold sales, the Reserve Bank will probably grant SA producers greater autonomy in the sale and delivery of their own gold.

If successful, negotiations between the bank and major mining houses will soon delegate the Reserve Bank from its position of financial intermediary in hedging transactions to that of agent.

The changes proposed are small. They will allow gold mines to effect delivery of a small portion of their gold production to foreign markets.

Nevertheless, success will give mines further access to international finance through so-called gold loans, which use the mine's future gold production as security.

Industry sources say the change will precipitate a move from the old "SA mining house" mentality to a more "finance house" one.

The scheme will also change the way mines hedge against the risk of falling gold prices.

Current regulations dictate that SA gold producers sell their entire gold output to the Reserve Bank. Within 30 days of smelting, they must deliver their raw gold bars to the Rand Refinery for refining into the familiar 99.95% purity bullion bars.

Rand Refinery delivers the refined bars to the Reserve Bank for export.

## Offset

The current state of the gold market places producers squarely in a potential risk situation — trying to meet historic, rising working costs with uncertain future gold revenues.

Exchange control permits those who wish to offset this risk to hedge by selling a portion of their future production to foreign customers at a fixed price decided today.

The hedging programme is strictly controlled by exchange control, which reviews its permission annually.

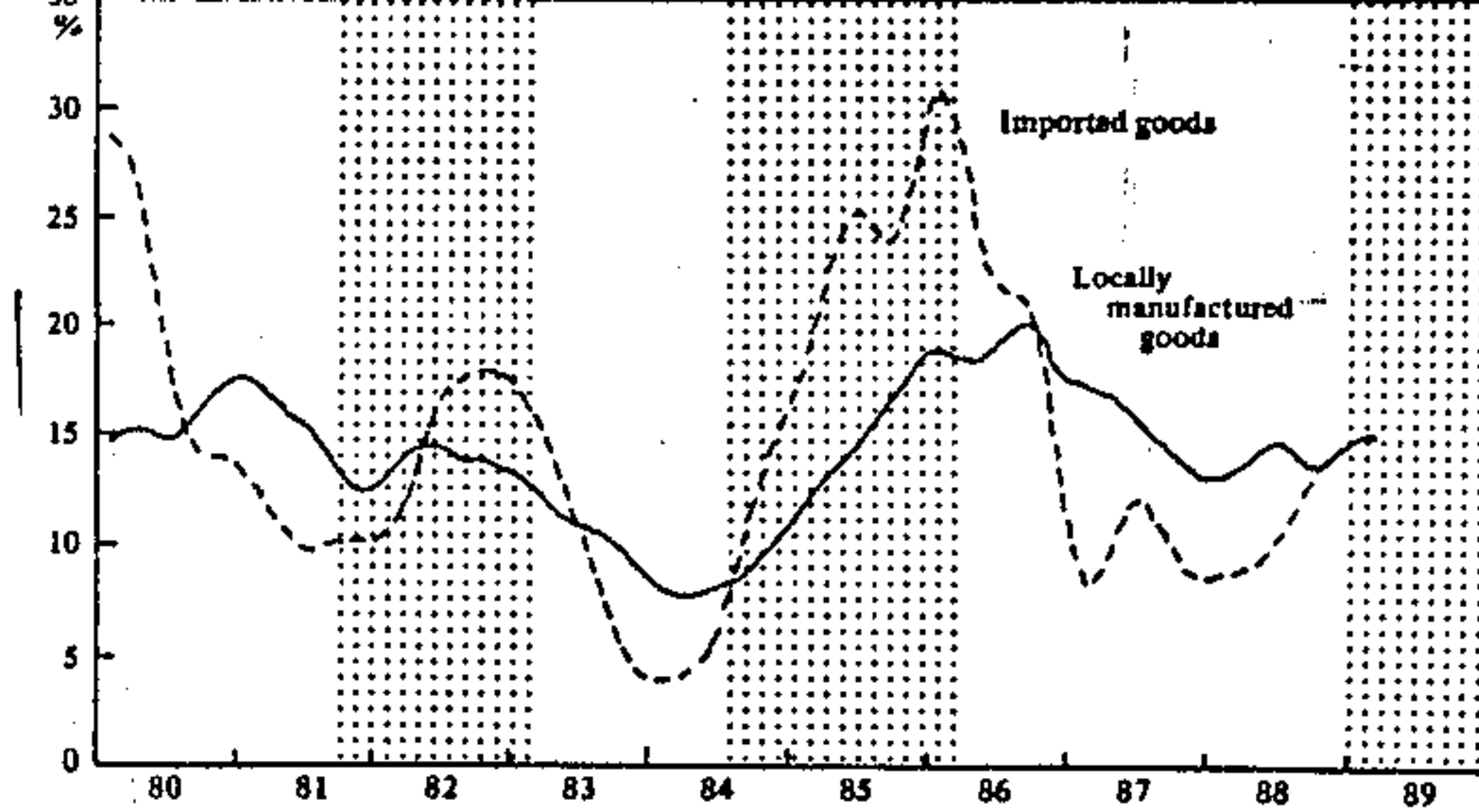
Until now, the Reserve Bank has not allowed mines to effect delivery of bullion sold against the hedge contracts, and contracts have had to be reversed prior to maturity (usually two days before).

Producers would do this by buying gold back from bullion dealers at the prevailing spot rate, which might in the intervening period have declined below the price stipulated in the futures contract.

This gold was immediately sold in "counter contracts" to the Reserve Bank at the same spot rate.

By now allowing producers to deliver some gold on their own account, the Bank will make them entirely responsible for their own hedging programme.

The break will not be complete. Mines will still have to get permission to hedge from exchange control and will continue to deal through the Reserve Bank.



Monthly percentage change in the Production Price Index as against the same month a year ago, seasonally adjusted. Shaded areas indicate downturns in the economy. Source Central Statistical Services.

# Rand continues to lose ground

## Finance Staff

The rand fell to a new low yesterday in hectic trading pressured by the lower gold price and the higher US dollar.

The rand closed at a mid-rate of R2,7908 to the dollar, weaker than its opening level of R2,7823. At one stage the rand fell to R2,795 and the Reserve Bank intervention.

A dealer said the Reserve Bank had offered dollars directly to commercial banks to halt the decline.

The rand is expected to remain under pressure as support for the US dollar shows no sign of disappearing and the outlook for the gold price is very bearish.

The financial rand also closed weaker. The unit finished at a mid-rate of R4,22 to the dollar, sharply weaker than Tuesday's close of R4,16.

The US dollar was stronger against most foreign currencies in active European trading, reports Sapa-Reuter. Gold prices

fell.

Dealers said the dollar remains well-supported above the Dm2,00 level, despite concerted central bank intervention yesterday and overnight dollar sales by the Bank of Japan.

The dollar rose 1,05 yen to a closing 143 yen, a 19-month high.

In London, the pound rose after the Bank of England signalled a one percentage point increase in base lending rates to 14 percent.

Sterling has weakened in the past 24 hours because of the dollar's strength, an annual inflation rate of eight percent and the likelihood that trade figures due today will be poor.

Shortly after the London financial markets opened, the Bank of England intervened to defend sterling, buying pounds for dollars.

The pound stood around \$1,56 and Dm3,14 before the rate rise. Soon afterwards it moved to around \$1,57 and Dm3,16.

*Handwritten notes:*  
 (circled) 2/24  
 (circled) 2/24  
 (circled) 2/24  
 (circled) 74

# Forex fund deficit now at R11bn (74)

CAPE TOWN — The deficit in government's foreign exchange contingency account was unofficially reckoned at about R11bn, Deputy Finance Minister Org Marais said yesterday.

He was replying in the Second Reading debate on the Finance Bill to DP finance spokesman Harry Schwarz, who said a billion rand of last year's budget surplus was being carried over into the account.

Schwarz said the deficit had reached "tremendous proportions", which represented a major error of judgment.

Most of this loss was a result of granting forward exchange cover to importers, who were in this way being subsidised by the

taxpayer, Schwarz added.

Such cover should in fact be sought from commercial banks and the authorities were beginning to realise this.

Forward cover by the Reserve Bank was costing taxpayers "billions and billions of rands that could be put to better advantage".

In his reply Marais asked Schwarz what he thought the effect on interest rates would be if the Reserve Bank were to finally stop all forward cover.

"Then our importers will be obliged to borrow locally, and he knows what the consequences will be. We can't end forward cover." — Sapa.

B/Ding 25/5/87

ALAS, THERE IS not much excitement being a gold bull these days. Whatever supportive reasons may be offered to justify an imminent upturn in the gold price, it just keeps on falling. This is disappointing for SA, but it is a fact that must be faced. The gold price cannot just keep going up — like every other price, it must be subject to cyclical fluctuations.

With the US dollar soaring through a number of significant chart points to set it confidently into its long-term cyclical upturn, it would be wishful thinking to expect the gold price to rise as well. Not that we should completely dismiss this possibility, it has been known to happen. However, this occurrence has never been a long-term trend and has always been fully justified by external reasons.

Right now there is an outside possibility that we could still see a

short-term rise in the gold price, lifting it back into the US\$380 area. This will be no big deal. But we will all be excited, having forgotten how miserable we felt when it fell to that level just a few weeks earlier. Ah, how short is the memory of the optimist.

If we do indeed see such a rise we should treat it with caution. The trend will remain downwards unless we see a really massive boost in the price to beyond the resistance level at US\$400 at least.

Meanwhile, we should rather set our sights on the support levels, which suggest still further declines. The possible lower turning point is to be found at US\$20 per ounce. We may see lower prices, but these are

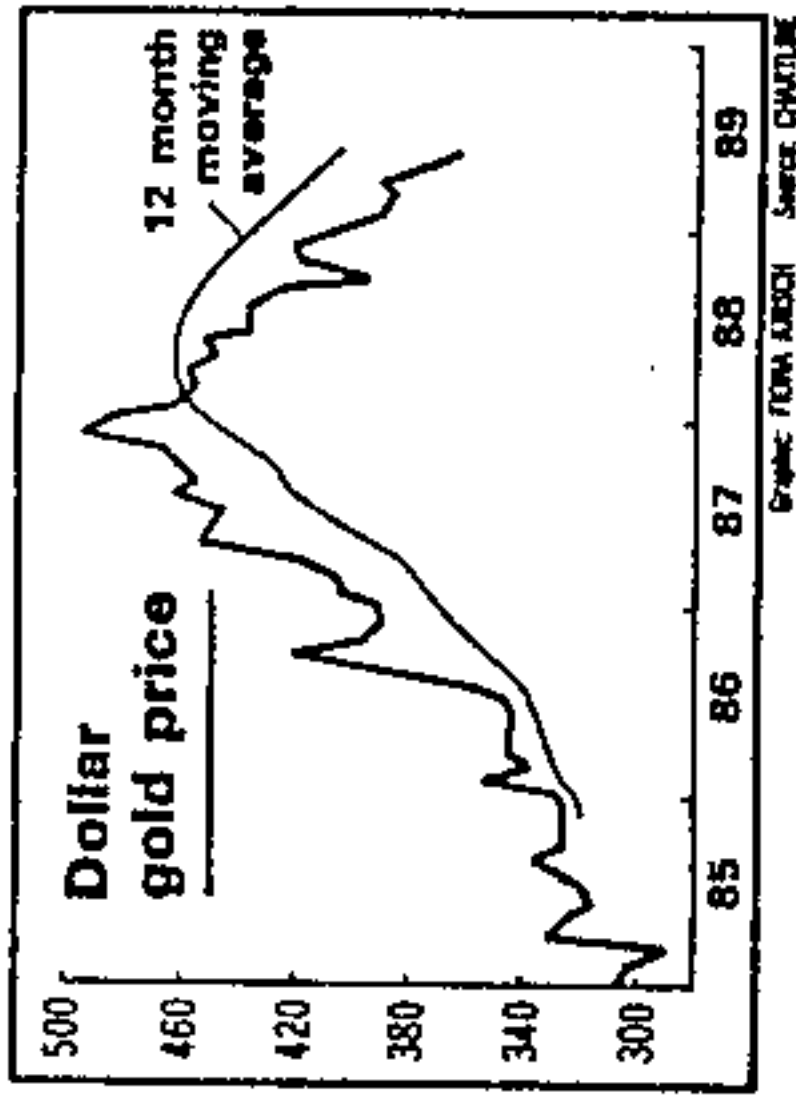
# Gold neglect

31 Jan 25.7.74

unlikely to be sustained.

I do not mean to suggest that we must expect that kind of price the day after tomorrow. It may actually take months to get there. The point is that it would be foolhardy to take anything other than a continued bearish outlook on gold. After all, the price has been falling for 18 months.

Thus far I have concentrated only on the dollar price of the metal. In other currency terms, we are likely to have a very different picture. Against the rand, for example, we have already seen a rise in the price as the dollar price fell. This appreciation should continue for some while at least, until the cost/price pressure on the gold mines has



eased. This suggests, as I pointed out last week, that we must expect further weakness in the rand/dollar exchange rate.

Priced in terms of the other major currencies, gold has languished at relatively low levels for almost four years — almost the full duration of the dollar's cyclical downtrend. We could, and should, expect the gold price to rise in terms of the DM,

Japanese yen and possibly also sterling as the metal once again becomes a hedge for these currencies.

Certainty is almost impossible with regard to the future. We will therefore no doubt find that some will prefer to hold gold rather than dollars. In effect, we will see the depreciation of gold against the dollar occurring at a lower rate than the appreciation of the dollar against the major currencies of the world.

This once again supports the contention discussed last week that, while the rand will continue to fall against the dollar, it will remain steady to slightly firmer against the currencies of its other trading partners. The local unit will, of course, tend to track gold rather than the dollar in terms of the day-to-day market determination of its price.

Actually, there is much excitement being a bear...

74

changes in relative values of currencies in which debt is denominated. Differences between Finance Minister Barend du Plessis' estimates last week of future debt repayments and estimates in his Budget speech have prompted speculation that about US\$1,1bn has been converted from short- to long-term since the end of March.

According to a Reserve Bank official, however, this is not the case.

He attributes the discrepancy largely to the rise of the dollar against other currencies between end-1987 and end-1988. The March estimate was based on the Bank's 1987 survey of debt, the latest estimate on the 1988 survey.

Moves in the dollar in 1988 brought about a revaluation of outstanding debt, which in terms of dollars against third currency terms is now lower.

At the same time there was the technical effect of rolling over forward cover contracts on the third currency leg, when the dollar was appreciating.

Because debt is denominated in various currencies it is difficult to get its measure. UAL economist Dennis Dykes says that debt of R57,2bn in August 1985 rose to R60,1bn in December 1985, fell to R49,5bn in December 1986 and R43,6bn in December 1987 and rose again to R50,5bn in December 1988. On the same dates, dollar values were \$23,7bn, \$23,5bn, \$22,6bn, \$22,6bn and \$21,2bn. He estimates that in D-mark debt stood at DM67,1bn, DM57,2bn, DM43,4bn, DM35,6bn and DM37,3bn.

Roll-overs from short- to long-term debt do not affect the total but alter the structure, as debt inside the net flows out. What proportion of the \$3,6bn roll-overs from short- to long-term debt took place since December is not known, so there is no way of calculating the impact on the relative proportions of debt in and out the net — at end-December \$9bn and \$12bn respectively.

□ Debt, repaid by borrowers but trapped in the net in the hands of the PIC, is available at rates considerably below those available locally, even to large corporate clients. The cost to borrowers this week would have been

DEBT REPAYMENTS (74) Finance

**Sliding scale** 26/5/89.

Attempts to track repayments and roll-overs of foreign debt are frequently frustrated by secrecy surrounding extensions of credit and

74

a nominal 9,375% plus 4% on forward cover. However the preferential rate available to importers who succeed in getting overseas credit (in this case debt in the net) reduces the cost by an undisclosed margin. This compares with overnight rates banks charge favoured customers, which range from 18%-19,5%, and a 90-day liquid BA rate of about 17,6% which with stamps and commission effectively comes to about 19,17%. ■



(74)

## Forex ration rumours dismissed

CHRIS CAIRNCROSS

CAPE TOWN — Speculation in Johannesburg banking and investment circles that government might be seriously thinking of reintroducing old-style forex rationing are totally without foundation, said Reserve Bank Deputy-Governor Jan Lombard.

Responding to rumours apparently fuelled by uncertainties over the state of the gold price, the value of the rand, and the tenuous nature of the country's forex cover which — now barely supporting 1,3 months' imports — Lombard stressed that neither the Reserve Bank nor the Treasury would support such a step.

He admitted that a rationing of forex reserves had been mooted last year, but had been rapidly discounted as too drastic a measure, and likely to create more complications than remedies.

Lombard believed sufficient provision had been made to take SA through the next two months, during which forex reserves would be placed under further pressure with repayments having to be made in respect of the debt standstill agreement and dividend and interest payments.

Economists agreed yesterday that government should not resort to direct measures to cushion SA's forex reserves.

It would be difficult to operate successfully and would undermine confidence both here and overseas, said Standard Bank senior economist Nico Czypionka.

He saw no reason to adopt panic measures at this stage.

He suggested that if affirmative action was necessary it could begin with government action to curb its own expenditure, such as on defence.

Old Mutual chief economist David Mohr also advised keeping away from direct measures to ease the strains on forex reserves.

# Spending curbs still needed, says OM

Star 26/4/89

74

By Sven Lünsche

Short-term interest rates are likely to remain at current high levels throughout the year and the authorities cannot afford to relax economic restraints until foreign exchange reserves are rebuilt, says Old Mutual's chief economist David Mohr.

In the latest *Old Mutual Economic Monitor* Mr Mohr says recently released economic data indicate that a considerable amount of buoyancy is still prevalent in the economy.

He says, however: "Certain underlying trends suggest the forces that will bring about a slowdown are already taking hold."

Mr Mohr says a large part of the expansion in real private consumption expenditure (PCE) had been financed through increased use of credit facilities.

Against the background of an expected decline in real disposable income and the higher cost of credit this year, the increased debt burden of consumers should therefore further restrict the scope for another sharp rise in PCE from current levels.

"Overall, PCE could still record a positive growth figure for 1989 as a whole, but is likely to be less than the 4.8 percent growth recorded in 1988," Old Mutual says.

Against this, real gross domestic fixed investment (GDFI), which is responsible for one fifth of total domestic spending, registered its first increase in seven years last year. Given the cur-

rent momentum of GDFI and high levels of confidence, this type of domestic spending is expected to rise even further this year.

Overall it would thus appear that the growth rate in real domestic spending could more than halve from the increase recorded last year and the underlying momentum should taper off during the course of the year, Mr Mohr says.

However, domestic spending should still register its fourth consecutive year of growth, with the result that some short-term pressure on interest rates is still evident.

Mr Mohr predicts another rise in the prime rate in the second quarter, given the sustained increase in general money market rates, but a further rise in rates can only be avoided if budget estimates are strictly adhered to, ensuring a slowdown in the economy.

"If this restrictive fiscal policy is adhered to, we believe that short-term interest rates have come close to their cyclical peak.

"However, in the absence of such fiscal discipline, a further significant rise in interest rates cannot be discounted."

The need for strict control of government spending was highlighted by the fact that two of the largest components of total government expenditure — the wage bill and interest payments on outstanding debts — were estimated to have expanded by more than the 15 percent budgeted increase.

fixed investment (GDFI), which is responsible for one fifth of total domestic spending, registered its first increase in seven years last year. Given the cur-

outstanding debts — were estimated to have expanded by more than the 15 percent budgeted increase.

# Pull-out now 'too disruptive'

74 GRETA STEYN

o  
p  
o  
19  
01  
sa  
The Reserve Bank will only be able to consider implementing its decision gradually to withdraw from the forward exchange market once the economy has slowed down considerably and interest rates are lower.

Reserve Bank Governor Gerhard de Kock said at the weekend that any steps now to phase out the Bank's role in the forward market would be too disruptive. He was asked to comment on reports that the Bank's losses on its forward book, for the account of the Treasury, now stood at R11bn. *D11bn 2115754*

"The rand would depreciate quickly and interest rates would rise to painfully high levels."

But once the balance of payments had improved to such an extent that there was no upward pressure on interest rates from that source, steps could be taken to phase out cover.

Treasury owes the Bank R11bn for losses on the Bank's forward cover book due to the depreciation in the rand. De Kock said this R11bn was, strictly speaking, not a loss. "It should be seen as the price SA is paying for the availability of forward cover."

The main disadvantage of the Bank's role in the forward market was that the central bank was forced to pump liquidity into the banking system when the spot rand was weaker than the forward rates. This facilitated growth in the money supply.

Economists said the forward "losses", through increasing the money supply, were fuelling inflation. Inflation was the price SA paid to keep interest rates down.

Sanlam MD Discrep. Data for various  
way on Table Minimum

Import and manufacturing trends show spending slowing down

# Economy on way to soft landing

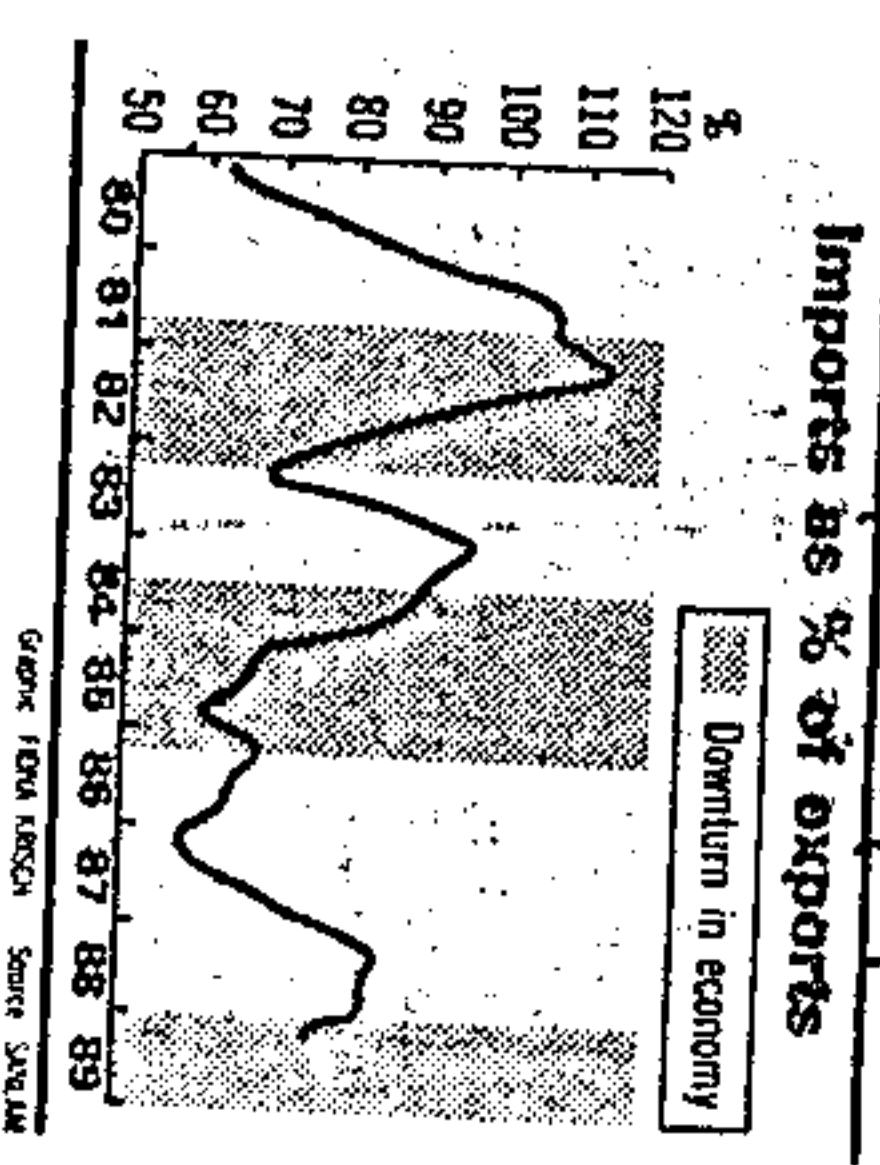
GRETA STEVY

THE economy has started its descent towards a soft landing as more signs emerge that the downswing is in place.

The latest trend on imports, manufacturing, retail trade and motor vehicle sales shows the rate of increase in spending is slowing down. This is confirmed by latest Reserve Bank statistics on the business cycle.

The Bank's coincident indicator, an index which shows the current level of economic activity, is no longer rising at a dizzy rate. The index rose by only 1.7% between October 1988 and January this year, compared with a much faster increase of 6% between July and October last year. The indicator stuck at 132.2 in December and January, the latest figures available.

The indicator is derived by combining the trend on statistics which show



the current point in the business cycle. These statistics, such as retail sales, manufacturing production and GDP, are grouped together to form a new index, but separately they exhibit the same cyclical trends.

Even if this indicator does not yet show a decrease — figures for more recent months are not yet available —

it does indicate some slowdown in the rate of spending growth.

An indicator showing the descent has probably already started is the ratio of imports to exports. In times of economic slackness, imports increase considerably more slowly than exports, and vice versa. Sanlam, drawing attention to the graph above, says in its latest Economic Survey: "By these standards the economy is already in the early stages of a downturn; the ratio of imports to exports should therefore decline further during the course of the year."

An area in which a slackening is apparent is manufacturing production. Latest GDP figures show the manufacturing sector registered a decline of 0.7% in the first quarter from the fourth quarter of last year, at seasonally adjusted annual rates. At constant prices, the contribution to GDP by the manu-

facturing sector was R7bn — down from R7.8bn in the third quarter last year and R7.3bn in the last quarter.

Retail sales shows spending has fallen back from the frantic levels seen a few months ago. Although retail sales are still at a high level, latest figures are a strong indication the top has been reached and a descent lies ahead.

CSS figures show real retail sales for May are expected to be 2.2% down from April. On a seasonally-adjusted basis, preliminary figures show a real decrease of 2.4% in the three months to May, compared with the previous three-month period.

The United says in its latest Economic Perspective that a rise in real spending in the second-half of the year is expected only from the government sector and foreign demand for SA exports.



AS THE US dollar proceeded ever upwards against the rand, I took some time off to examine the charts. In particular I was interested in the mid-1985 period, when the rand dropped to its weakest level of all time. At the time of writing, the rand was only fractionally short of that record low.

I have been suggesting in the past few weeks that we must expect further weakness in the rand against the US dollar, but I was nonetheless quite perturbed at this situation. The record low in 1985 was achieved in a sudden rush that culminated in the closure of the market. In a sense, then, we are already at record lows for the rand.

In the 1985 collapse I remember having to stick new graph paper at the bottom of the hourly chart every time it was updated. Eventually we wrote "no further" — and drew a solid black line at the bottom of the chart in a kind of forlorn hope that the retreat would end. It did, but only because the Finance Minister closed the market that evening. Otherwise who would know where it would have ended.

This time the weakness in the rand has been much more gentle — that is, unless it is directly affecting your bottom line. Probably this is because those who burnt their fingers last time have no intention of doing so again, and have gradually moved into the market since the beginning of the year to buy dollars.

I believe that we will see further weakness in the rand against the dollar and that new record

# A Pervasive

# Gloom

(74)

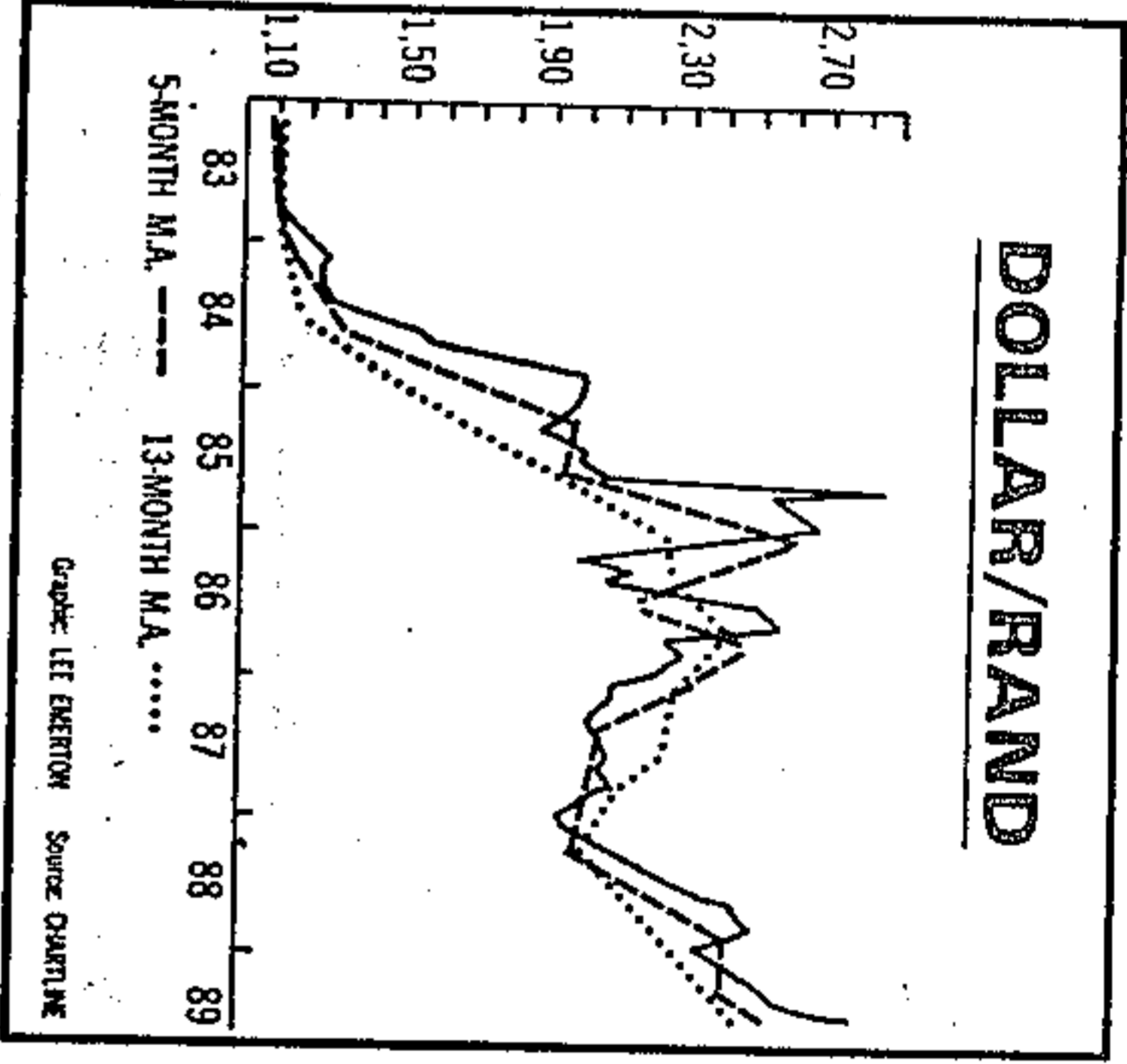
B1 Day 11/6/87

lows will be established shortly. But this is not to say that such weakness will be based on any justifiable fundamental reason. This weakness, which could take the dollar over the R3 mark, has its prime basis in attitude and sentiment.

I would suggest that if we had a Martian economist visit our planet, and if he reviewed the economic situation in SA, he would struggle to find grounds for further weakness in the rand, or even to substantiate the fall that has already occurred this year.

But we are dealing with realities and not with Martian visitors. And the reality is that sentiment is absolutely biased towards weakness in the rand. Inflation differentials, off-shore loan repayments, the political situation, sanctions, etc, are all bandied about as justification for this view. The fact that the impact of these factors cannot be quantified seems to add to their relative importance.

To a significant extent it is uncertainty that fuels the pessimistic attitude towards the rand,



and uncertainty only ever comes from two things: the unknown and ignorance (the stupid kind as opposed to the blissful kind). For a number of years now the South African foreign exchange market has experienced a trauma of uncertainty, with little or no official guidelines which could lift the fog even a little. If anything, official steps and pronouncements have done nothing more than settle the fog of gloom even more deeply.

I was listening to the radio the other day and was quite shocked to hear an apparently prominent person (I didn't catch his name) say that "there is no way that the banks would provide forward cover if the central bank were to withdraw from this market". Which other established foreign exchange market in the world has carte blanche to off-load their forward contracts with the central bank?

Do you see the irony in this? If even the banks, probably the greatest proponents of the free market, will only operate in a system that offers them a back door, then where does commerce and industry stand? The uncertainty and the fear of the unknown, and possibly the lack of confidence to handle such a situation, means that one must always be on the defensive against a weak rand. And until this situation is cleared up it will continue to be the case.

I don't know how the situation will be cleared up, except by allowing a proper free market to develop and not leaving the risk of loss only in the hands of the corporate sector and the taxpayer via the Reserve Bank. All players should enjoy the same potential risk of loss (and opportunity for gain). Of course, expertise and good management will determine how you can best put this potential to work.

Meanwhile, we must expect any recovery in the rand to be limited to its relationship with the third currencies and not in its relationship with the US dollar.

## REVIEW

(74)

Star 2/6/89

# Tutu urges banks to pressure SA

Archbishop Desmond Tutu and other anti-apartheid church leaders have urged foreign bankers to refuse to reschedule South Africa's debt payments unless the Government makes major political concessions.

An interim debt agreement expires on June 30 next year, and South Africa is faced with payments of at least \$8 billion (more than R20 billion) by 1991 unless new terms are established.

The four clergymen said bankers should negotiate a new agreement only in exchange for Government promises to lift the state of emergency, free political prisoners, lift bans on opposition groups, repeal discriminatory laws and begin talks on granting full political rights to blacks.

"Without such linkage, rescheduling will amount to an extension of time and credit to the apartheid regime to continue brutalising the oppressed majority in South Africa," said a letter released by the South African Council of Churches.

The letter was signed by Archbishop Tutu, head of the Anglican Church in southern Africa; the

Rev Frank Chikane, general secretary of the Council of Churches; the Rev Allan Boesak, president of the World Alliance of Reformed Churches, and the Rev Beyers Naude.

Two weeks ago, the governor of the Reserve Bank, Dr Gerhard de Kock, warned that the country's economy faced stagnation unless there was "adequate progress in the field of political and constitutional reform."

The loan freeze has had more impact on South Africa than have other forms of economic sanctions.

The four anti-apartheid leaders, on a visit to the United States last month, launched a new campaign seeking to target economic pressure more specifically.

"We did not go (to Washington) to ask for more sanctions," Archbishop Tutu said on Wednesday night.

"We went to ask for help to get negotiations going that would bring an end to apartheid and to usher in the new South Africa." — Associated Press.

# Minimal increase in reserves <sup>Star 3/6/89</sup>

South Africa's gold and foreign exchange reserves last month again showed only a marginal increase.

The latest Reserve Bank figures show that after rising by 0.8 per cent in April the figure for May was 0.9 per-

cent at R5,203 billion compared with R5,157 billion the previous month.

Total gold holdings rose fractionally by 0.5 per cent to R3,728 billion (April R3,707 billion).

The rise in foreign

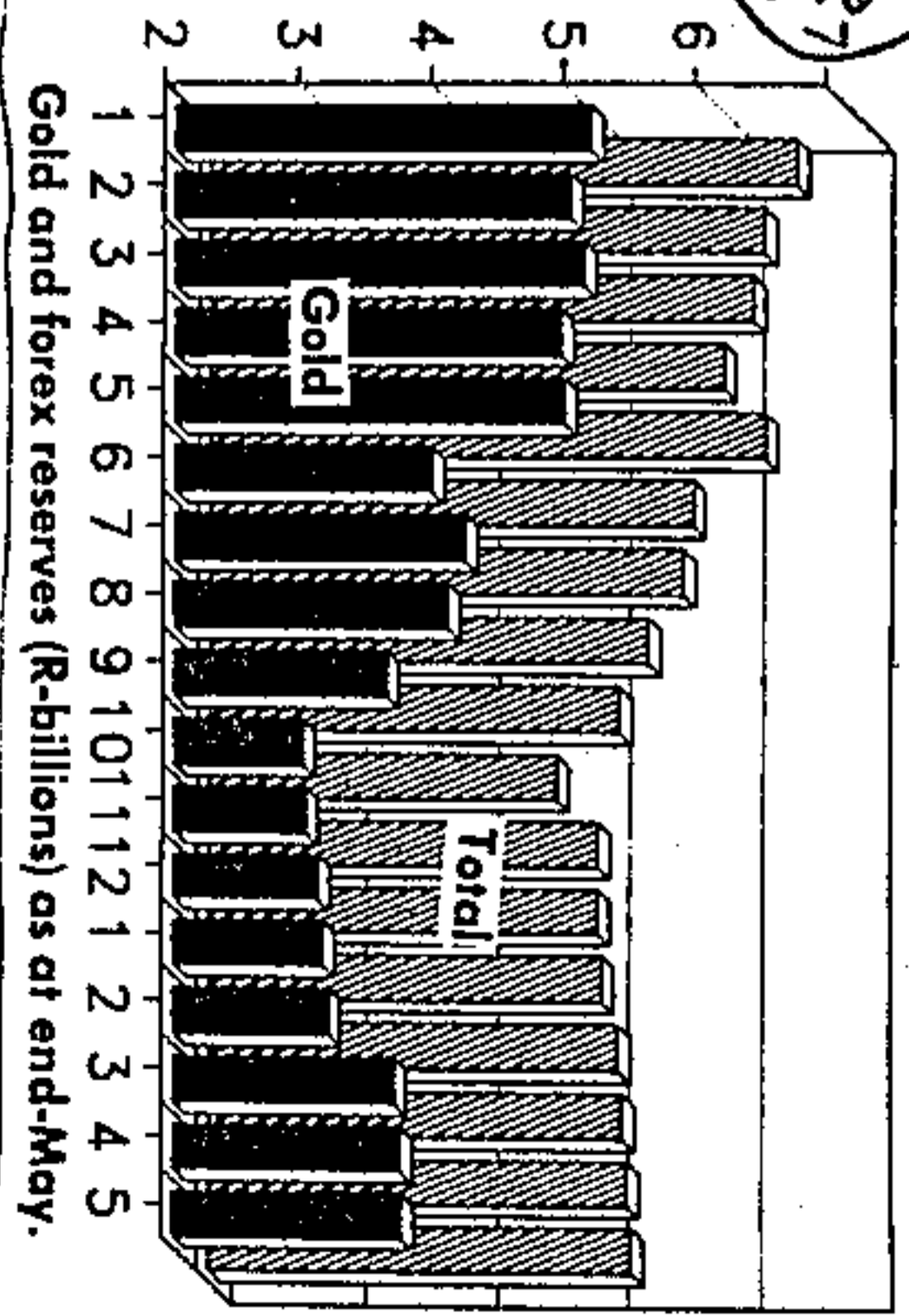
exchange holdings was minimal at 0.3 percent.

The figure rose to R1,334 billion from R1,330 billion. During March the foreign reserves fell by 25.6 per cent.

The ratio of gold reserves to liabilities to

the public less foreign assets was 50.9 per cent.

The gold reserves at the end of May were valued at R912,84 an ounce compared with R882,96 an ounce at the end of April.—



# Capital outflow Ster \$6.1529 totals \$11-bn

By Neil Behrmann

LONDON — Capital outflow from South Africa was a huge \$11 billion (R25 billion) between 1985 and 1988, said Professor JA Lombard, deputy governor of the Reserve Bank in a speech here.

Of this amount only "one half constituted identifiable debt repayments," he said.

This remarkable figure confirms impressions of local and international bankers that many South African companies and individuals have managed to circumvent exchange control by transferring massive sums abroad.

Following this massive haemorrhage on the balance of payments and a 40 percent decline in the gold price from average levels of \$613 in 1980, the performance of the South African economy has been a remarkable feat, said Professor Lombard.

## GROWTH RATE

The average annual growth rate between the second quarter of 1986 and the fourth quarter of 1988 was 3,5 percent. Real gross national product per head of the population rose by an annual rate of one percent per year.

Despite further credit restrictions, high interest rates and further debt repayments, the Reserve Bank estimates that real growth will be two percent this year.

The current account of the balance of payments will achieve a surplus of \$1,5 billion (R3,8 billion), forecasts the bank.

But inflation, which has remained high in the past few years will accelerate "temporarily" to 15 percent in 1989.

Speaking to bankers brokers and businessmen at the South African Embassy in London, Professor Lombard estimated that South Africa's foreign debt would fall under \$20 billion this year once more borrowings are repaid.

This compares with \$23,7 billion in September 1985.

Professor Lombard said that between 1985 and 1988, South African banks, other private enterprises and public entities made net repayments of foreign debt of \$6 billion (R13 billion).

Had the rand not depreciated during this period, foreign debt would have been \$18,6 billion at the end of last year.

Since a large proportion of the debt is denominated in Deutschemarks, Swiss francs and sterling the total was \$21,2 billion at the end of last year.

A further repayment of \$1 billion to \$1,7 billion this year, should reduce the total to nearer \$19 billion.



74

# Seeds of defeat in currency controls

Business Times Reporter  
**EXCHANGE** controls, in force in South Africa for nearly 30 years, have come under scrutiny in the wake of currency scams which have rocked the financial sector this year.

But the system has not been fully effective in its primary aims and it suffers from three inherent weaknesses.

Economic Focus, prepared by the Bank of Lisbon International, says developing countries have increasingly moved to exchange controls.

Mostly, they are used to support weak balance of payments positions.

## Insulator

Support for exchange controls in SA is based on the argument that they serve to insulate the economy from domestic political shocks which could be reflected in heavy capital outflows.

Capital flight could severely deplete foreign-currency reserves and result in a marked depreciation of the rand, lifting inflation, disturbing the growth pattern and undermining confidence in the economy. This would promote even more capital outflows.

Supporters of controls say they are less disruptive to the economy than the alternative of allowing the rand rate to depreciate.

But, says the Focus, a rand depreciation could help the economy to adjust to the

shocks which stimulate capital flight.

Currency controls cause distortions which may not promote economic stability. They encourage an overvalued exchange and lower interest rates, spurring capital outflow.

## Symptoms

Critics also argue that currency controls simply address the symptoms more than the problem, "which resides mainly in a lack of confidence in the political and economic position of the country".

Bank of Lisbon says the currency-control system has proved partly ineffective in protecting the foreign reserves and the rand — vividly illustrated in the devaluations of 1971 and 1975 and the debt crisis of 1985 and subsequent events.

"The controls have been proved to be 'fair-weather' arrangements which worked satisfactorily in times of subdued pressure on the exchange rate, but which have failed in important respects when they have been put to the test — when they were needed."

The review says there are many ways, legal and illegal, in which controls can be circumvented.

They include underinvoicing of exports, overinvoicing imports, false or excessive commissions and transfer pricing, all of which are "exceedingly difficult" to curtail.

"Even draconian controls to monitor all foreign transactions, which in any case are not practical, would not

solve the problem."

The cost of administering controls is already high — as shown by the increasing size of the Reserve Bank's department administering them.

International firms specialising in monitoring trade transactions for developing countries could be hired to do random checks, but the services are costly.

Again, they largely address the symptoms. They could stimulate greater capital flight by encouraging fear of more stringent measures.

## Weakness

Currency control has also been unable to handle short-term capital movements — leads and lags, which assume large proportions in SA's capital market.

The second inherent weakness of the system is that it is economically inefficient in rationing available foreign currency compared with the allocation which would take place in a free market.

Thirdly, it contains built-in incentives for violation, says the review.

"The greater the adherence by the majority, the more profitable violations can become for those willing to break the law.

"This is admirably demonstrated by the workings of the financial rand system where a large discount prevails on the financial rand compared with the commercial rand rate.

"Illegal arbitrage between the two markets is rendered profitable."

15/Dec

12/6/87

74

FINANCE

BANKERS are anticipating the end of June with that resigned feeling of painful inevitability which overcomes patients in a dentist's chair.

They expect they will have to pay dearly to fund a deficit which could reach as much as R3bn when the month-end balances have been ruled off.

Apart from this week's foreign debt repayment of \$600m which will diminish the foreign reserves by about R1.6bn and, therefore, the cash in SA's money "pool", the internal private banking sector's resources will be reduced by company tax

# Inevitable cost of deficit

payments, plus the new levy and platinum mines tax.

Although the market shortage has come down from R2bn at the end of May to R469m on Saturday, the banks are only temporarily comfortable. They have had the monthly inflow from government spending, but part of the reduction in the shortage, their debt to the Reserve Bank,

has been the return of banks notes which has released about R600m of their funds. Back that money, and more with the winter holiday spending, will go to the Reserve Bank at the end of June.

And there is no way out for the banks which are manacled by the Reserve Bank, a necessary disability which is also emasculating the money market.

Central bank policy is to keep the market short of liquidity so the banks are never entirely free of short-term debt which enables the Reserve Bank to exert an influence reaching beyond the 17% Bank rate.

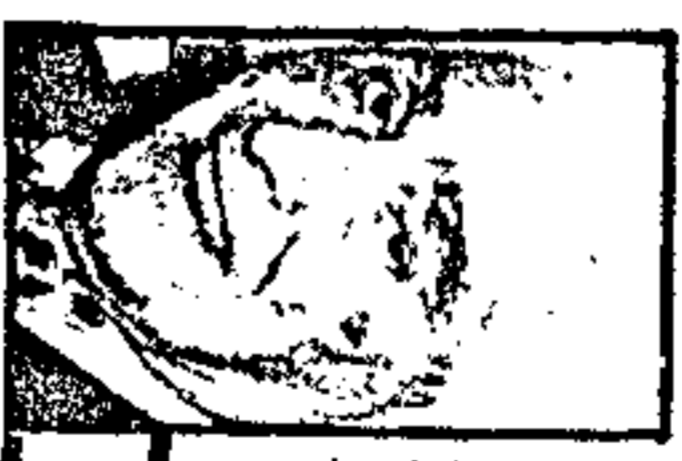
The result is a predictable seesawing of interest rates between the beginning and end of each month and the two weeks in between. During the easier mid-month weeks the Big Money call deposits are pitched around Bank rate.

## Crucial

Lenders know they can get 17% to 17.25% because the banks' only alternative source of funds is the Reserve Bank at 17%, provided they have sufficient liquid assets, which they do have at this period.

During the crucial first and fourth weeks wholesale call can reach beyond 19% — last month it was reported that some banks were paying close to 20%. The reason for the surge in the rate is that, in aggregate, the banks do not have sufficient surplus liquid assets to borrow at Bank rate and they must then pledge prescribed assets from the Bank at rates which could reach 21.5%.

This is likely to be a recurring pattern, possibly for the next three months or even longer, depending on internal factors



IN THE MONEY MARKETS  
Harold Fridjhon

which can be influenced or external forces beyond the control of the Reserve Bank.

The internal factors are mainly bank advances which largely depend on the strength of importer demand. Bankers reported on Friday that demand is slowing down but they question whether the slowing down is fast enough to bring the money supply aggregates back into the target range.

A new, unquantified, input factor affecting banks and building societies is the bond rate moratorium which could adversely affect their cashflows.

The external influences are, perhaps, more crucial and exacerbated by the present slump in gold, is the state of gold and foreign reserves. A depreciated rand could encourage exports and discourage imports — to the detriment of the CPI — and make the reserves in rand terms look better than they really are in dollar terms.

A favourable rand-based state of the reserves would, however, ease some of the pressures on the banks and have a positive effect on domestic perceptions but they would not deceive governor Gerhard de Kock and his colleagues in the Reserve Bank who have to think in dollar realities and not rand cosmetics.

# Rampant dollar skittles the rand

Stew 13/6/89



## Finance Staff

A soaring US dollar and the tumbling gold price sent the rand skittling to a three-year low of R2,8340 (35,08 US cents) on the local money markets yesterday as importers rushed in to cover their forward positions.

Currency dealers said last night that the rand could soon drop to as low as R3,00 (33,3 US cents) if the gold price did not recover soon.

The gold price tumbled below the critically important level of \$360 yesterday for the second time in less than two weeks as world financial markets witnessed an unprecedented flight into the dollar, a role normally assumed by the precious metal.

As gold slipped to an opening of just over \$357 in London yesterday the rand immediately fell to its lowest level since August 1986 in early trading, when it was being quoted at R2,85.

However, some of the lost ground was regained towards midday when the currency was quoted at R2,83 to the dollar a level it held until the close of trade, supported by a slight rise

in the gold price.

Gold eventually closed at \$359,50 in London and this morning in Hong Kong opened up almost \$2 higher at \$361,85.

In the week ahead dealers are nevertheless predicting a slight decline in the rand with Volkas forecasting that the currency will trade within a range of R2,81 to R2,86 against the dollar.

More pressure could be exerted on the currency towards the end of the week when a large slice of South Africa's debt repayment will have to go through.

The financial rand yesterday held steady at R4,21 against the American currency and the rand was also holding its levels against other major Western currencies, a continuation of the trend evident since the beginning of the year.

While the rand has already fallen by about 20 percent against the dollar it has eased by only five percent against the Deutsche mark.

This is also reflected in the rand basket of currencies to which the dollar contributes only about 35 percent — the annual

decline in the effective currency basket is slowing down from a peak of about 17 percent in November last year to about 10 percent at present.

On the JSE gold share prices were holding steady at their sharply lower morning levels at noon yesterday in thin and nervous trading, as the market awaited the next move in the bullion price.

The all-gold index was down by 57 points to 1428, while the overall index closed the day at its midday rate of 2431, 40 points down on the day. The industrial index eased 22 points to 2514.

The dollar powered ahead to close at a 30-month high in Europe on growing confidence that US interest rates would stay high for the time being, dealers said.

The dollar closed in London at Dm2,0260 and 148,88 yen after ending on Friday at Dm2,0055 and 146,30 yen, Reuter reports.

In early Tokyo trading today the dollar was holding steady at 148,90 yen and Dm2,0233.

Even concerted Central Bank intervention could not stop the rise.

Dealers said if US economic statistics due out later this week were reasonably favourable, the dollar had the potential to reach Dm2,05 or even Dm2,07.

Economists expect the US trade deficit for April, due on Thursday, to be \$8,6 billion after \$8,9 billion in March.

But some dealers in Frankfurt said there was a feeling in the market that the deficit could be smaller and perhaps even as low as \$6 to \$7 billion.

"If the figure really was that good, we'd go to Dm2,07," a dealer said.

# Forex reserves set to improve

74

star 14/6/89.

By Sven Lünsche

Despite the weak gold price and dwindling foreign exchange reserves, the country has been able to meet this week's \$250 million debt repayment without resorting to gold swops.

The Governor of the Reserve Bank Dr Gerhard de Kock said yesterday the debt repayment due tomorrow had been met and he was optimistic that the country's foreign exchange reserves would improve over the next few months.

However, he did not rule out the use of loans against gold to meet part of the dividend and interest payments due at the end of June.

Economists have been expressing concern over the recent disappointing performance of the gold price and foreign exchange position, believing it would force the Reserve Bank to use gold swops to finance the repayment due this month.

The total value of the reserves in May rose only one percent from end-April to a level of R5,2 billion, but the rand value of the reserves has once again been artificially inflated by the weakening rand/dollar exchange rate.

The dollar value of the reserves actually fell to about \$1,87 billion, the lowest in seven months and 10 percent lower than at the beginning of the year, mainly reflecting the lower dollar value of the gold reserves.

Trust Bank economist Nick Barnardt warned in a recent economic

report: "The concerning aspect of the disappointing foreign reserve performance is that foreign debt and related interest payments of about R1,4 billion in June, exceed the forex component of the reserve holdings, which amounted to a mere R1,34 billion at the end of May.

"The debt payments will be successfully met — but only through some gold swops, a drain on the forex reserves of the banking sector and further utilisation of short-term overseas credit facilities," Mr Barnardt said.

## Gold swops

But Dr de Kock, while admitting that earlier gold swops are maturing this month at a substantial cost to the economy (given the recent decline in the gold price), said no swops were necessary to finance the current \$250 million (R750 million) debt repayment.

In addition, he said, substantial repayments outside the net were made in previous months, "but we are now looking at a fairly quiet period until the next debt repayments inside the net are due in December."

Until then Dr de Kock is optimistic that the reserves can be built up to satisfactory levels.

"Imports are already slowing down. In real terms imports in the first quarter this year were down on the first quarter and the last quarter of 1988 and much of the current momentum derives from orders for

capital equipment which were made six to nine months ago.

"Seasonal debt and dividend payments to outside shareholders could well result in a slight decline in the reserves this month, but the curbing effect of the austerity measures on imports should ensure that figures in July and August will look much healthier," Dr de Kock said.

He admitted, however, that the latest plunge in the gold price, coupled with the higher US dollar and rising overseas interest rates, were a matter of concern and "dispel any thoughts of relaxing our monetary policy".

"For the moment there are no plans to tighten monetary policy, but if gold falls further we will have to take another serious look at the situation," Dr de Kock said.

Some relief could be forthcoming as most analysts predict that the rally in the dollar will not continue much longer given the renewed fall in the US current account.

The US government reported yesterday that the deficit in the current account jumped seven percent in the first quarter after falling the two previous quarters. The current account covers merchandise trade as well as trade in services.

In response the dollar, aided by large scale Central Bank intervention, fell against all major currencies in New York yesterday and the Far East today, pushing gold up by \$1,35 to an opening of \$363,15 in Hong Kong.

(74)

# De Kock: we will weather this storm

B/Dum 14/6/89

GRETA STEYN

SA'S foreign reserves are taking a hammering from the surging dollar, weak gold price and foreign debt payments.

Reserve Bank Governor Gerhard de Kock said yesterday: "The reserves are under pressure and that is cause for concern. But we will be able to weather the storm."

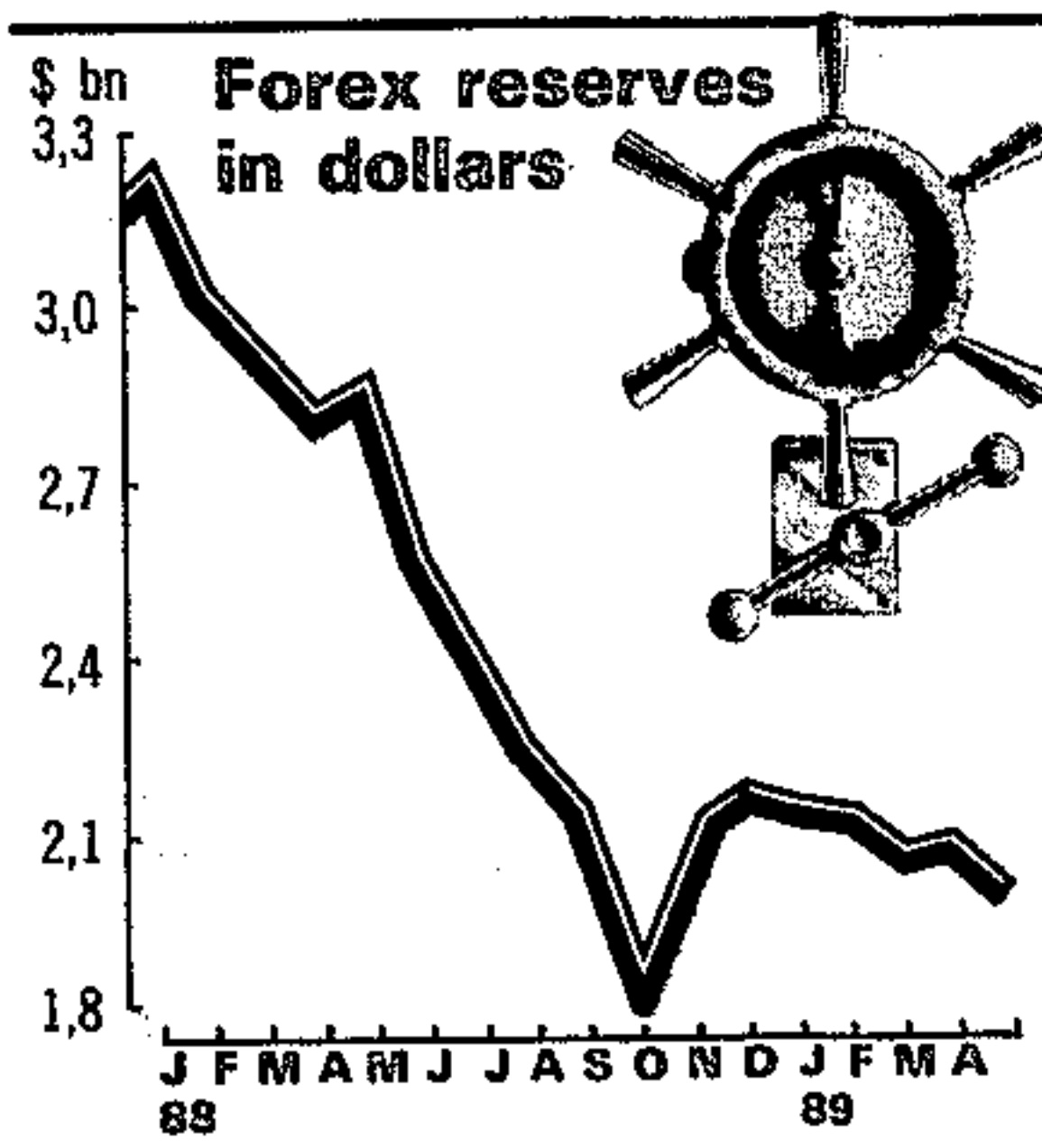
He noted SA had already repaid \$250m of foreign debt inside the net this week without the need for gold swaps. However, further pressure on the reserves could be expected as substantial foreign interest and dividend payments were due at the end of the month. In addition, the strong dollar and weak gold price were taking their toll.

Reuter reports the dollar has gained more than 7% against the DM since the beginning of May. The US currency held above DM2,00 yesterday, shrugging off central bank intervention and sparking fears of further increases in European interest rates. Dealers said the markets were anxiously awaiting the release of the US trade figures tomorrow.

Gold was fixed at \$358,70 in London yesterday afternoon and was still below \$360 at the close.

De Kock said: "A weaker gold price obviously affects the reserves through the current account. But the fall in the gold price has affected the capital account too. When maturing gold swaps are rolled over at the lower gold price, substantial short-term capital outflows occur."

He described the outflows as "technical" but said they had been a major factor putting pressure on the balance of payments.



Adding to the strain on the capital account was another technical outflow resulting from the roll-over of forward cover contracts on third currencies. Because of the dollar's appreciation against the DM and the Swiss franc, an outflow of dollars occurred when these contracts were rolled.

"These technical outflows result from the dollar's strength and do not indicate any fundamental weakening in the balance of payments. Provided there are no further dramatic movements, the strong dollar can have only a limited effect on the reserves."

SA should be able to weather the storm without further major policy adjustment. "We just have to sweat this one out," he said.

Bankers and economists expected a net

□ To Page 2

## Reserves hit

B/Dum 14/6/89

(74)

□ From Page 1

outflow of R700m this month and said a decline in the reserves was to be expected in June, seasonally a difficult month. Fears in the markets that SA would not be able to meet its debt commitments subsided yesterday, but bankers said the Bank might still have to enter into further gold swaps before the end of the month to bolster currency reserves.

The Standard Bank said in its latest Review: "Any unexpected shocks on the current or the capital account of the balance of payments are of concern, because the level of the Reserve Bank's gold and

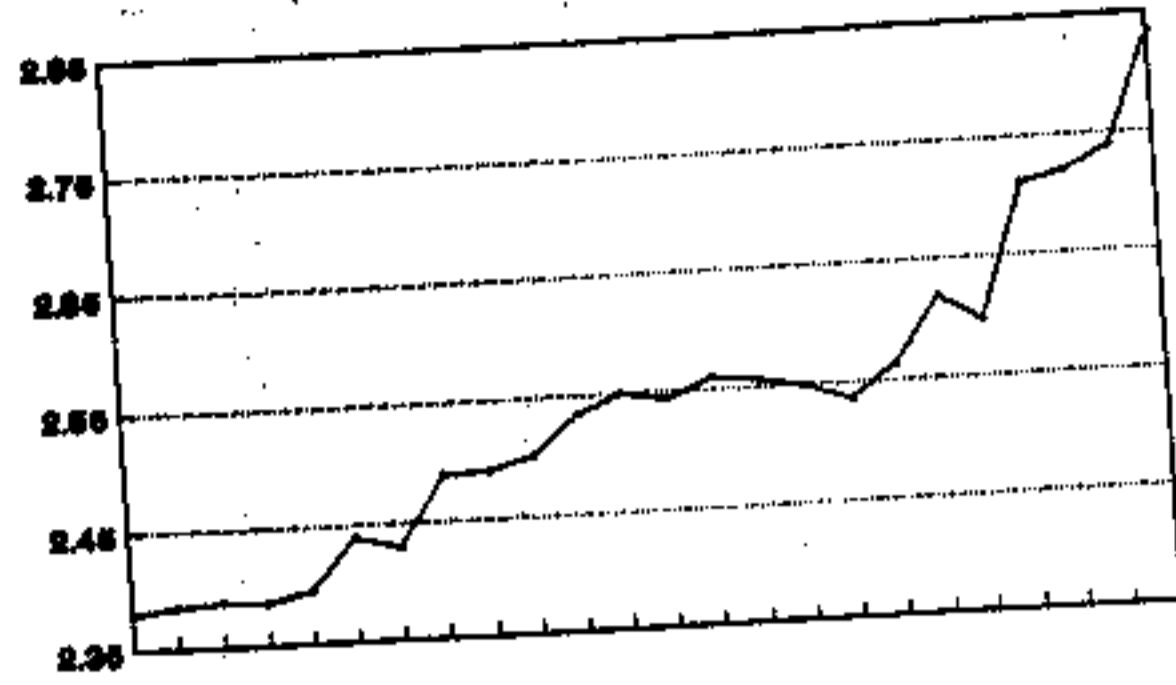
foreign exchange reserves is no more than adequate at this stage."

The weak gold price meant the performance of SA's non-gold exports would be the crucial determinants of the economy's performance this year and next.

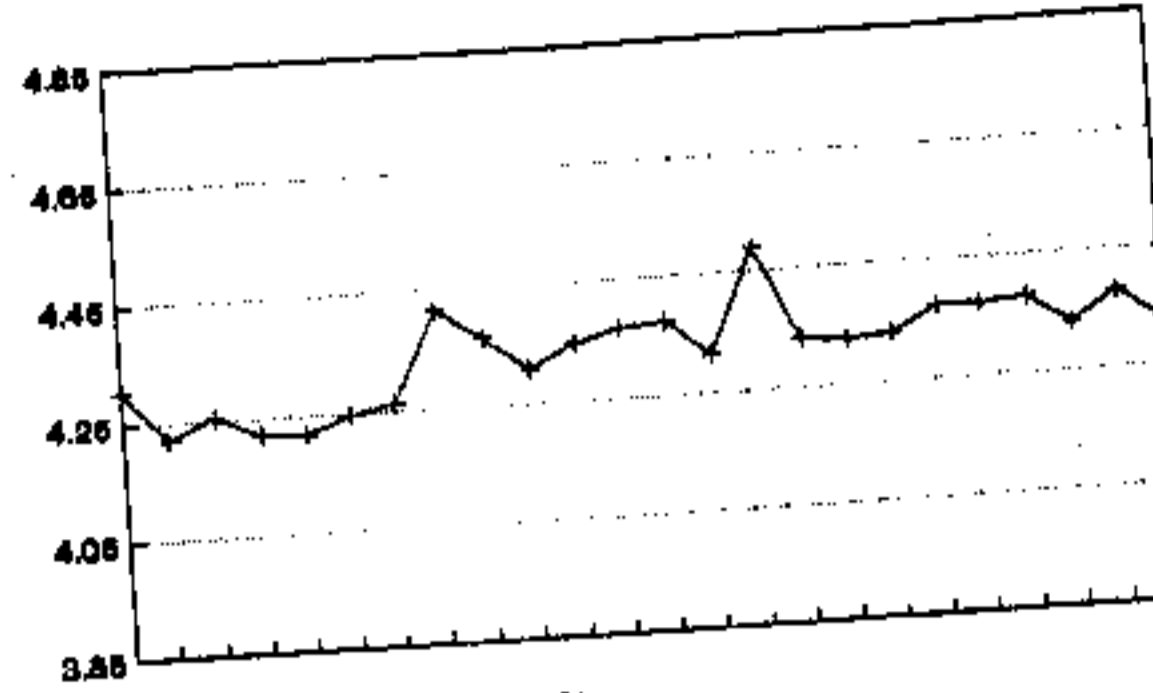
"If non-gold exports should continue to rise, while the gold price at least stabilises, a relatively gentle slowing of economic activity and import volumes should be sufficient for foreign debt repayments to be met," the Review said.

● Comment: Page 8

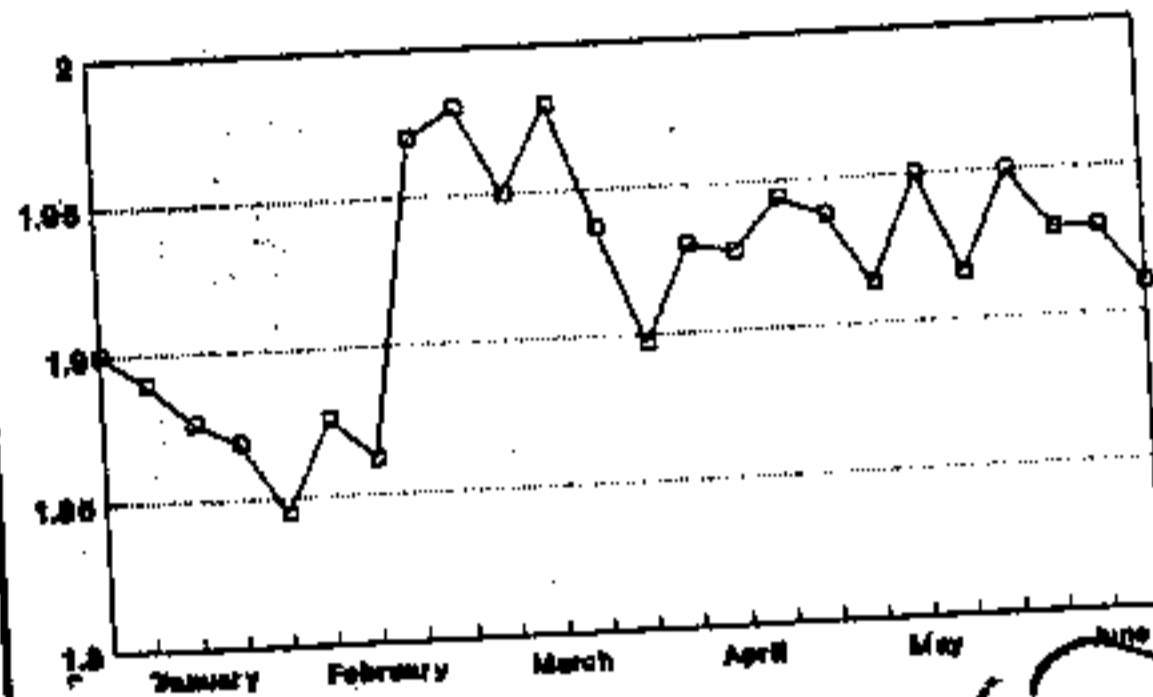
# The rand is faring well against all but the dollar



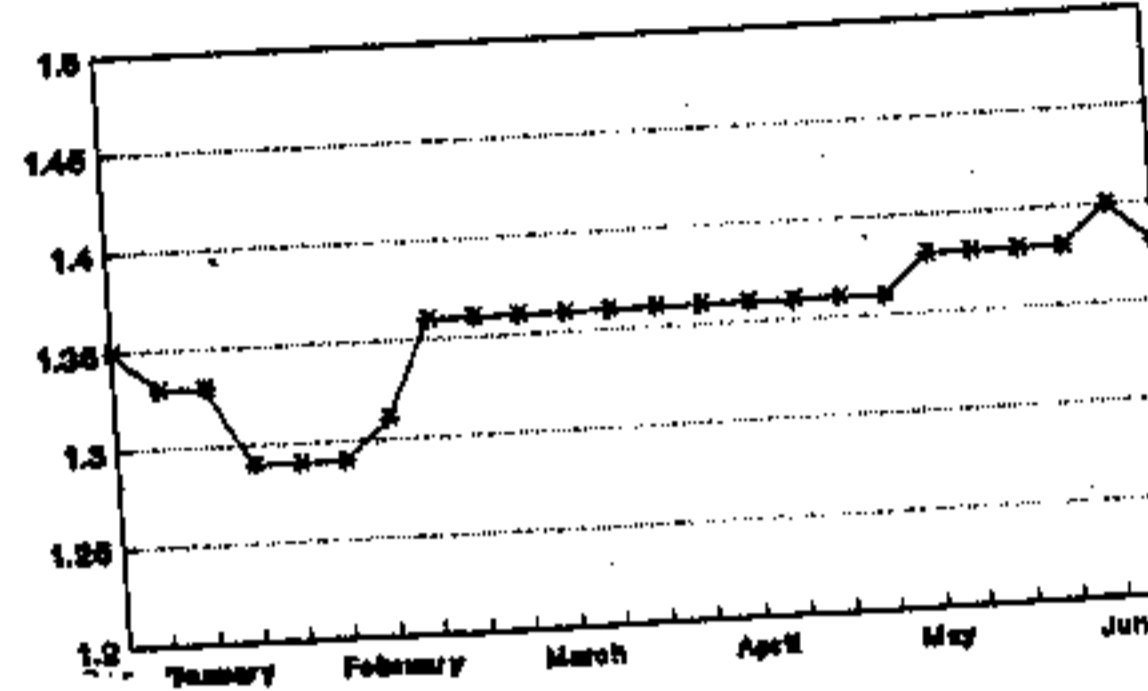
Rand/dollar



Rand/pound sterling



Rand/yen



Rand/D-mark

Star 15/16/89 (74)  
 Reports of the rand "plunging" against the dollar tend to give the impression that the rand is on its last legs.

But a look at how the exchange rate of the rand has moved against other currencies this year make clear this is far from the fact, writes DEREK TOMMEY.

Admittedly, as the accompanying graphs indicates, South Africans are having to pay 19 percent more for a dollar than was the case at end of last year. But most other currencies cost no more than they did six months ago.

A British pound yesterday cost R4,29 which was 1c less than last December. A yen cost 1,91c which was only fractionally more than last December's 1,90c.

Against the German mark the rand has lost some ground. The current price of a German mark is R1,40 which is an increase of 3,7 percent on the R1,35 it cost six months ago.

But given the way the world's major

currencies have fluctuated this does not by any means indicate a weak rand.

What is clear is that the dollar has gone into orbit while most of the world's other currencies, including the rand, have retained the same parities as they had in December.

The fact is that the rand has put up a much better performance this year than it has been given credit for. And as the economic curbs start to bite leading to an improvement in the balance of payments the rand should strengthen and perform even better in the future.

The authorities' admitted intention at this stage is to hold the rand at its present exchange rate.

Excess demand for the currency will be met by the sale of rands and the proceeds used to build up the exchange reserves.

But only time will tell how successful this policy will be.

# Central banks sell off dollars

LONDON — The dollar ended lower in Europe yesterday after a concerted morning round of central bank intervention.

Dealers were divided about the dollar's outlook for next week after the US currency was pulled off 2½-year highs touched on Thursday.

West Germany's Bundesbank caught foreign exchange markets by surprise by leading the round of dollar selling in early trading.

The dollar had slumped by six pfennigs in New York trade the previous day after the US Federal Reserve intervened heavily and investors took profits.

The dollar paradoxically

rose a pfennig on the sales but sank after US consumer price figures for May showed American inflation was higher than expected.

It fell in London to end at Dm1,9950 and 145,90 yen compared with Dm2,0235 and 149,45 on Thursday, and subsequently touching highs of Dm2,0470 and 151,80 yen in New York.

A week ago it finished in London at Dm2,0055 and 146,30.

Some dealers still had confidence in the dollar. "There is still great readiness to buy dollars, not just in the Far East but in Europe as well," one Frankfurt dealer said. Others, however, were not so sure.

The pound remained

vulnerable on foreign exchanges. It has been undermined by a lack of confidence in the British government's economic management and the dollar's strength.

But a rise in Britain's inflation rate to 8,3 per cent in May, as forecast, consolidated a view that the government would not raise interest rates for now, economists said.

"The feeling in Downing Street is that enough has been done on interest rates to cool the economy," said Peter Spencer, an economist at Shearson Lehman in London.

The price of gold fluctuated with the dollar in quiet trading. Bullion closed in London at \$363,75

an ounce compared with a final \$362,25 on Thursday night.

Gold shares in London were generally firmer in fairly quiet afternoon business in response to the stronger bullion price.

Vaal Reefs was \$1½ higher at \$71¾ with Randfontein a dollar stronger at \$43½. Ofsil rose \$¾ to \$17¾ with Southvaal 50c stronger at \$32¼. Winkels was 25c firmer at \$13¼.

Anglos was 18c firmer at \$20 with GFSA 60c higher at \$16½. De Beers gained 25c to \$15¼.

Platinum stocks Rustenburg and Implats were both unchanged at \$14,50 and \$12,45 respectively.—Sapa-Reuter.

# Gold slump slashes SA trade surplus

CM-Trade 19/6/89

74

Own Correspondent

JOHANNESBURG. — Gold's slump slashed SA's trade surplus to only R456m in May, putting severe pressure on the current account of the balance of payments (BoP).

The trade surplus is 44% down from April's R817m and is well below the average of about R1,1bn a month SA needs to achieve a comfortable surplus on the current account.

The weak current and capital accounts of the BoP in May dashed hopes of an improvement in SA's foreign exchange reserves.

Economists said a drop in earnings from gold exports seemed to have caused the sharp decline in the trade surplus. Customs and Excise's "unclassified category" of exports, which consists largely of gold and includes arms, dropped by 19,5% from April.

In the five months to May, unclassified exports rose by only 2,3% from the same period last year in spite of dramatic depreciation in the rand. The category accounts for 44% of SA's total exports so far this year.

Total exports were R4,36bn in May, down from April's R4,51bn. The non-gold component performed well with exports excluding the unclassified category rising by 9,96% from the previous month. Metals and minerals are the star performers.

In the first five months of this year, base metal exports were a massive 60% higher than last year (R3,65bn). Minerals other than gold were 29% higher than last year (R2,32bn).

Finance Director General Gerhard Croeser indicated at the weekend that no change in fiscal policy was being

contemplated to protect the BoP. "We must be careful not to overkill the economy," he said.

Economists said if gold fell to below \$360 an ounce and stayed there, SA would be in trouble. But, also fearful of overkill, they are not yet calling for further action to protect the reserves. Gold was fixed at \$365,35 in London on Friday afternoon.

SAFTO economist Bruce Donald believes SA can still achieve a current account surplus in 1989 sufficient to meet its debt repayments and build up reserves.

The weak rand would play a major role in achieving this, as the falling rand was helping SA exporters keep ahead of rising production costs.

Imports, more expensive because of the weak rand, hit a new record of R3,9bn in May. Vehicles, aircraft and transport equipment are driving up the import bill. In the first five months of this year that category rose by 40,9%.

At the beginning of 1989, the Reserve Bank said it was hoping for a current account surplus of R4bn for the year. In the first quarter, SA was on target with a current account surplus of about R1bn.

It is hazardous to draw firm conclusions on the current account, based on monthly customs and excise figures, as the Bank often makes significant adjustments to these trade figures.

However, even if substantial adjustments are made to May's R456m surplus, the current account (the trade surplus less net service payments) was under pressure or in deficit in that month. Net service payments are estimated at about R800m a month.

ed  
ith  
of  
er  
ve

of  
n  
d

Di  
at  
th  
te

80

70

60

50

40

30

20



# Gold slump hits SA's BoP account

B/Day 19/6/89

74

GRETA STEYN

GOLD's slump slashed SA's trade surplus to only R456m in May, putting severe pressure on the current account of the balance of payments (BoP).

But Finance Director General Gerhard Croeser says no change in fiscal policy is being contemplated to protect the BoP.

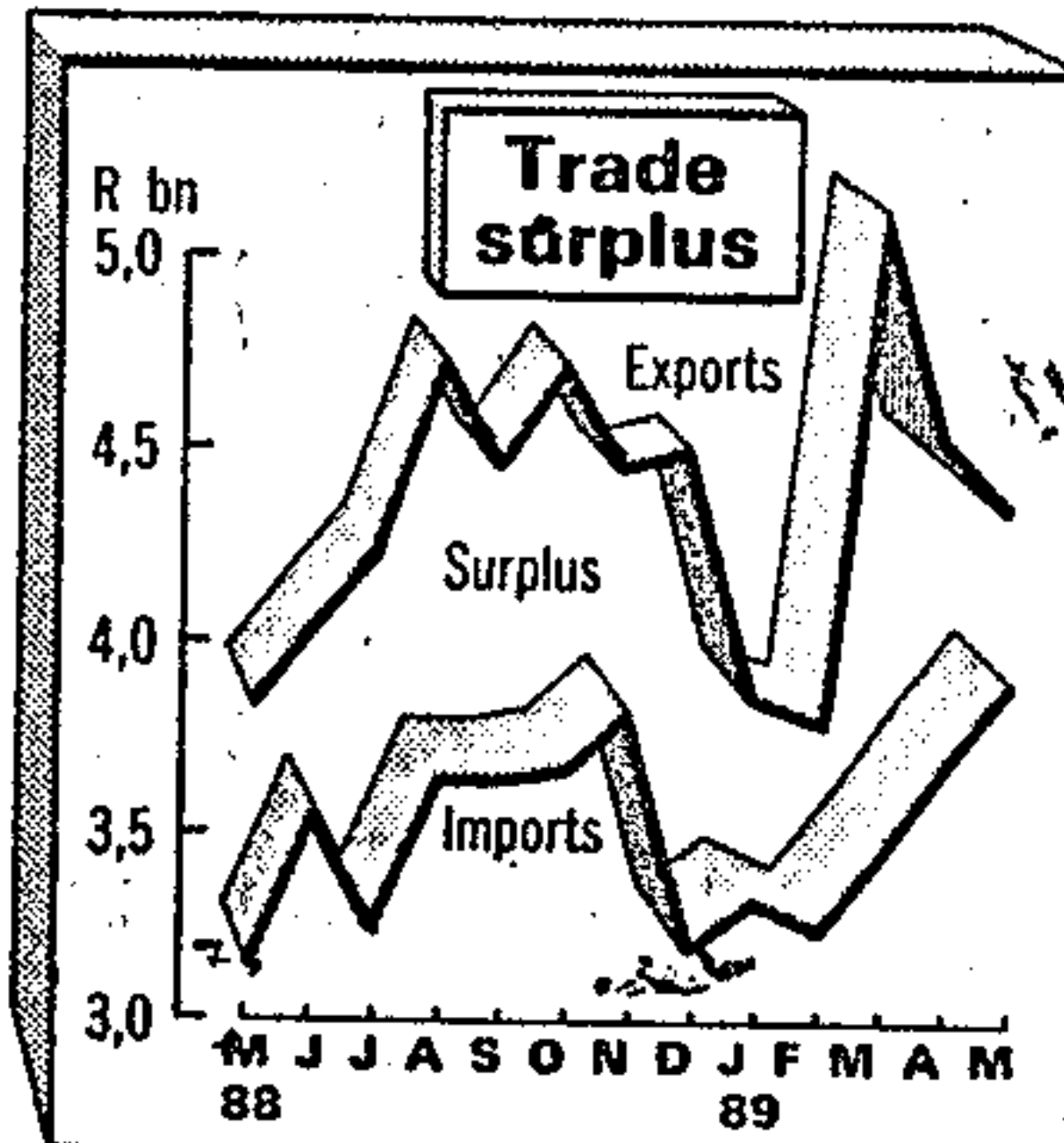
"We must be careful not to overkill the economy," he said.

The trade surplus is 44% down from April's R817m and is well below the average of about R1,1bn a month SA needs to achieve a comfortable surplus on the current account. The weak current and capital accounts of the BoP in May dashed hopes of an improvement in SA's foreign exchange reserves.

Economists said a drop in earnings from gold exports seemed to have caused the sharp decline in the trade surplus. Customs and Excise's "unclassified category" of exports, which consists largely of gold and includes arms, dropped by 19,5% from April.

In the five months to May, unclassified exports rose by only 2,3% from the same period last year in spite of dramatic depreciation in the rand. The category accounts for 44% of SA's total exports so far this year.

Total exports were R4,36bn in May, down from April's R4,51bn. The non-gold



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

component performed well with exports excluding the unclassified category rising by 9,96% from the previous month. Metals and minerals are the star performers.

In the first five months of this year, base metal exports at R3,65bn were a massive 60% higher than last year. Minerals other than gold at R2,32bn were 29% higher than last year.

Economists said if gold fell to below \$360 an ounce and stayed there, SA would be in

□ To Page 2

## BoP account

B/Day 19/6/89

74

□ From Page 1

trouble. But, also fearful of overkill, they are not yet calling for further action to protect the reserves. Gold was fixed at \$365,35 in London on Friday afternoon.

Safto economist Bruce Donald believes SA can still achieve a current account surplus in 1989 sufficient to meet its debt repayments and build up reserves. The weak rand would play a major role in achieving this, as the falling rand was helping SA exporters keep ahead of rising production costs.

Imports, more expensive because of the weak rand, hit a new record of R3,9bn in May. Vehicles, aircraft and transport equipment are driving up the import bill. In the first five months of this year that category rose by 40,9%.

At the beginning of 1989, the Reserve Bank said it was hoping for a current account surplus of R4bn for the year. In the first quarter, SA was on target with a current account surplus of about R1bn.

It is hazardous to draw firm conclusions on the current account, based on monthly Customs and Excise figures, as the Bank often makes significant adjustments to these trade figures.

However, even if substantial adjustments are made to May's R456m surplus, the current account (the trade surplus less net service payments) was under pressure or in deficit in that month. Net service payments are estimated at about R800m a month.

# Why SA <sup>74</sup> ~~73~~ <sup>1974</sup> ~~1973~~ <sup>B/Dav 19/6/89</sup> copped well by floating the rand

JOHN STEWART

IN AN assessment of a decade of floating the rand \*, Wits Business School senior lecturer Mark Addleson argues that the SA economy adjusted quite smoothly to the major dislocations and changes in the balance of payments underwent in the period since January 1979.

Any form of fixed rate or pegged rate system could hardly have coped with the stresses of the decade, more so because it is unlikely the authorities could have intervened frequently enough to adjust the rate. There would have been balance of payments crises, followed at irregular intervals by large devaluations.

Although movements of the exchange rate have created an unhappy environment for the business sector, Addleson argues that no other system would have provided the stability that eliminates uncertainty from forex transactions.

(Paraphrasing Churchill's famous dictum on democracy, Othmar Emminger, former President of the Bundesbank, said: "Floating may have been the worst system, except for all the other available cases".)

Addleson says even strong currencies show volatility when they float. It was therefore inevitable that the rand would react with great volatility to the pressures exerted on the balance of payments during the decade.

Only policies that could have prevented

disinvestment, sanctions and the demands of foreign creditors — nothing short of total abolition of apartheid or a complete change of government — might have reduced some of the variability of the rand.

## Vicious cycle

But the costs of adjustment have been high, and aggravated at times by inappropriate, excessively expansionary economic policy.

"The private sector cannot easily engage in foreign trade when the value of the rand is uncertain: exporters need to know more than the fact that they will be favoured by a weak rand before they can do business," Addleson says.

The weak rand has contributed hugely to

inflation, and the economy has become enmeshed in a vicious cycle of inflation, exchange rate depreciation and more inflation.

Addleson argues that some of the worst effects of the cycle would have been avoided if the monetary authorities had been willing to face the fact that a weaker gold price — as well as sanctions and disinvestment — do impose real growth constraints, and had not attempted to stimulate the economy artificially.

But the declining rand has taken its toll in another less visible, and possibly more pernicious, way. Addleson is tempted to take the view that the authorities found a declining rand to be a blessing.

"The weak rand 'protected' the rand earnings of the powerful mining sector — an important contributor to the State's coffers. The mining sector was certainly

better able to absorb the effects of labour cost increases (20% to 25% a year in recent years) while the rand drifted down and export volumes remained unchanged or declined.

"The 'protection' offered by the rand may be one reason why the authorities did not have a strong incentive to be more responsible as far as domestic monetary policy was concerned."

He points out, however, that such protection is largely illusory. A weaker rand contributes to higher costs of production throughout the economy, including the mining sector.

## More reliant

The higher costs make the manufacturing sector, for one, less competitive in international markets and prompts increases in government revenue to fund higher levels of monetary expenditure.

Inflation in the economy simply accelerates, the government demands more from taxpayers and the mining sector finds that it needs more protection.

The process may be doing irreparable harm to manufacturing, which is far more reliant on imported capital plant than the mining industry.

"We are witnessing a deterioration in the quality of the capital stock, in part because the business community lacks the long-term confidence to invest."

□ "Business Alert, No 10 — A decade of floating the Rand: an assessment," by Mark Addleson.

# Key rates move up

B/Day 19/6/84

74

THE countdown to the month-end has already started with the hardening of key money market rates, those for Treasury bills (TBs), 90-day liquid bankers acceptances (BAs) and the Big Money call deposits.

And Reserve Bank action last week — issuing a one-day special Treasury bill to drain a unique inflow of liquidity — is a grim reminder to the banks that the present restrictive monetary policy will be mercilessly enforced.

Ahead of the repayment of the tranche of SA's foreign debt last week, the Reserve Bank went into the market buying up every dollar it could lay hands on. Acquiring those dollars meant pumping rands into the market, and to offset this fortuitous inflow the central bank issued special one-day TBs at a rate of 17,37%.

A side effect was that on Thursday the market shortage leapt to R964m from R541m, unseasonably high for the middle of the month. And perhaps a grim indication of what the market's debt to the Reserve Bank will be on July 1 after company and other taxes have been paid, in addi-



## IN THE MONEY MARKETS

Harold  
Fridjhon

tion to the drain on the foreign exchange reserves as dividends, interest and half-year settlement payments are made abroad.

It is little wonder that the TB rate rose by seven points on Friday to a four-year high of 17,18%. The BA rate, after being static at 17,40% for two weeks, edged up to 17,50% while the Big Money call deposit rate ratcheted up to a range of 17,5%-17,75% from the previous week's 17%-17,25%.

These rates, and particularly the call deposit rate, will progressively harden as the month draws to a close and the banks battle to keep the month-end shortage down to R3bn — not that that is likely to be the dis-

closed total debt of the market to the Reserve Bank.

The "window shortage" — the borrowing from the Bank by the discounting of liquid assets on the Bank Rate scale of 17% to 17,30% — could be considerably lower because of a shortage of surplus liquid assets. A very large part of the debt to the Reserve Bank could be the pledging of prescribed assets at rates reaching 21,5%.

A few weeks ago the banks were believed to be holding surplus liquid assets to the tune of around R2bn. This figure is said to be much reduced because bankers consider the cost of investing in surplus liquids as uneconomic. They would prefer to pay penal rates for a day or two. Even at 17,18% TBs are yielding 17,9% compared with the banks' prime lending rate of 20%.

The market generally is nervous and is working on a day-to-day strategy, raising institutional cash on call to finance their requirements, as expensive as this is, because they must hold 5% cash sterilised in a Reserve Bank deposit and 15% in liquid assets on their short-term liabilities.

74

## BALANCE OF PAYMENTS

### Trading down

If economists needed any encouragement to cut projections for the current account they got it last week, from the May trade figures. Imports soared to a record R3,9bn, up R200m from April, despite tough curbs in the past few months to slow the economy and deter imports. And exports, supposed to be boosted by the sinking rand, dropped from R4,51bn in April to R4,36bn.

A narrowing trade surplus, R456m compared with R817m in April, raises concern that the current account surplus will shrink so much it won't meet debt payments this year. That could mean another tightening of the economy by Pretoria to reduce consumer spending further and limit imports.

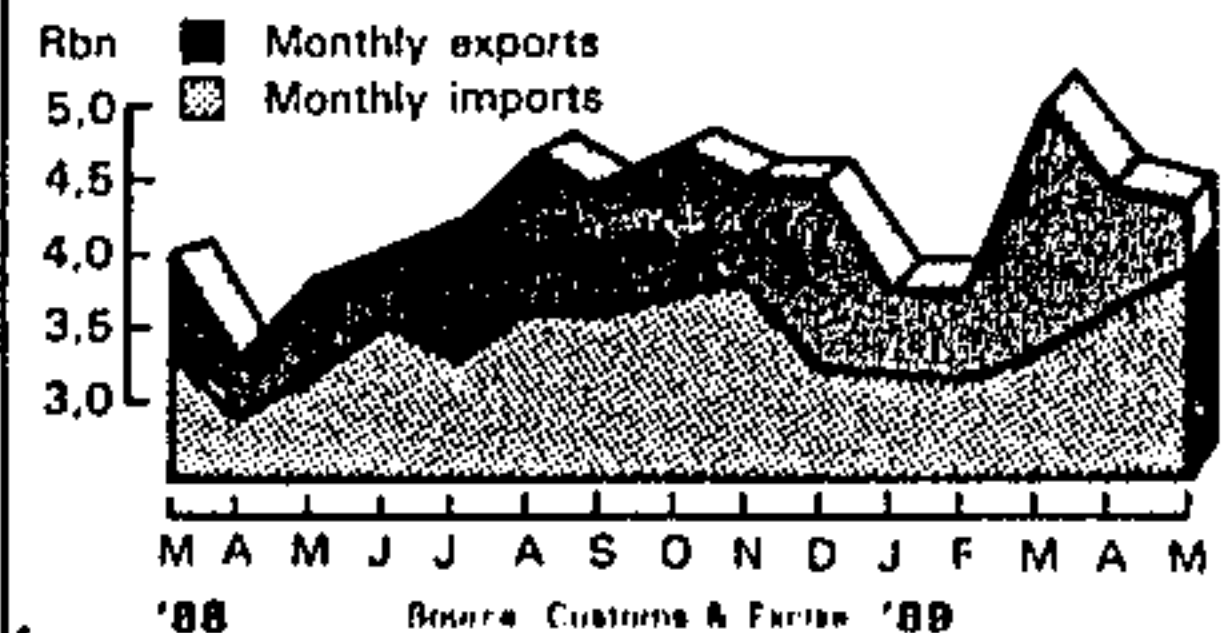
At the beginning of the year, Bank of Lisbon economist Fred Costa e Silva projected the current account surplus would top R3bn. Now he's projecting R2,5bn. "Devaluation of the rand is not helping exports as much as I thought it should. I expect agricultural and metal exports to be up but it's just not enough. If gold drops below US\$350, the surplus could drop below R2bn."

Sanlam's Johan Louw predicted a surplus of R4,4bn and has trimmed that only slightly. "We might still make R4bn, given a substantial cooling off in the economy later in the year," he says. "The only worrying factor is the gold price, but the rand is also weakening so that is making up for it. We still hope gold will rebound later in the year."

Econometrix was conservative in its projection — R2bn — and is sticking to it. "The rand is performing much as we expected," says economist Tony Twine. "But the abso-

## Surplus narrows

Trade accounts



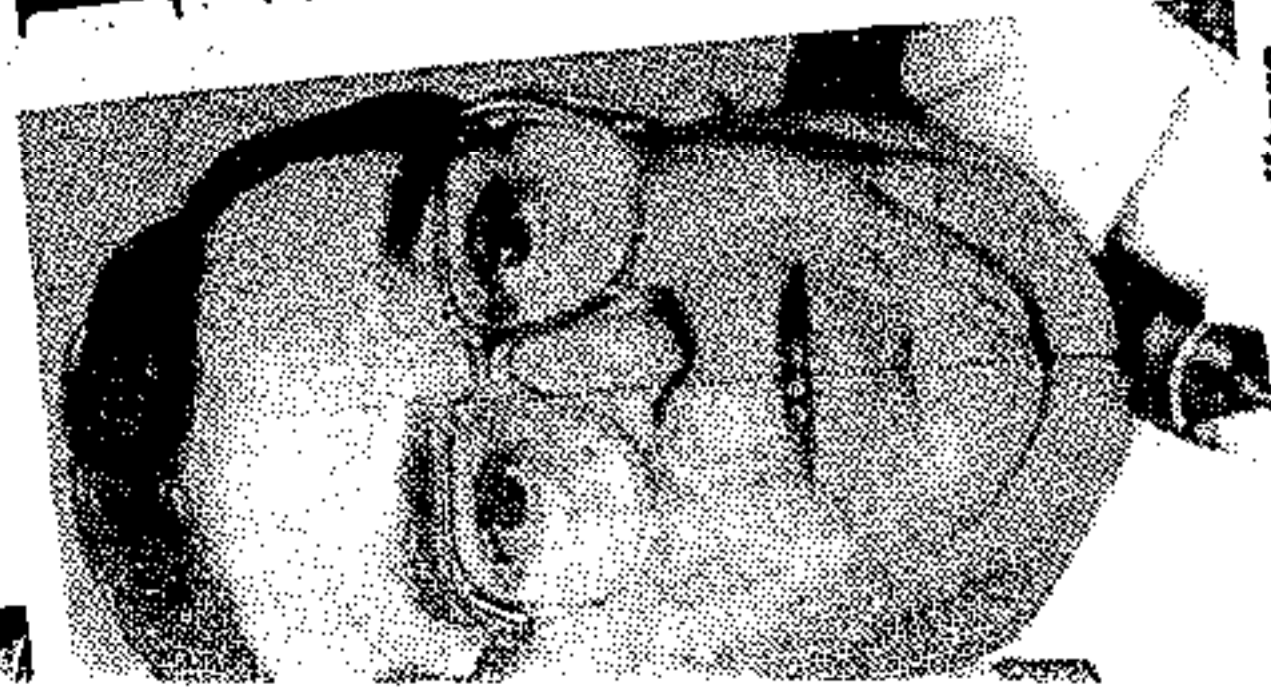
lute strength of the dollar against everything took us by surprise."

Twine says dollar strength helps the current account because exports are priced in dollars and most imports in D-mark, sterling or yen, which have lost nearly as much ground against the dollar as the rand. "Each dollar of export earnings is worth more in the D-mark we need to repay. So though the balance of payments remains under pressure, there are some favourable circumstances."

Southern Life economist Mike Daly predicted a surplus of R4bn-R4,5bn. Now he says: "We'll probably be lucky to make R4bn but we'll be from R3bn-R4bn, certainly not below R3bn."

He expects a "a big turnaround in the fourth quarter," with real growth in exports for the year reaching 3% and imports down by the same percentage. "It'll just cover known debt repayments, but capital leakages can't be forecast. It's a small margin."

Pessimism may be premature. The surplus for the first quarter was a healthy R1bn. The second quarter's may disappoint but patience is required: a weak currency does not make an overnight impact on exports, and consumers don't do a sudden about-face in buying habits when credit gets tighter. ■



STALS ... met creditors

FOREIGN debt and pressure on the balance of payments were SA's most worrying economic problems, said Reserve Bank Governor-designate Chris Stals.

Speaking after a trip to meet SA's foreign creditors, Stals said the level of SA's reserves and the country's isolation from foreign capital markets remained burning issues.

Stals will work closely with current Governor Gerhard de Kock for the next few months until he officially takes over on November 1. He envisages remaining chairman of the Debt Standstill Co-ordinating Committee at least until the end of this year.

"In the past three weeks I have met representatives from 40 banks in 10 countries as a

first step towards initiating a new debt agreement. I will continue preparing the ground for a new standstill agreement in the next few months."

He had sounded out bankers on what they would like to see in place of the current debt standstill agreement, which expires on June 30 next year. A new agreement on \$8.5bn of debt caught in the standstill net will have to be negotiated before then.

Stals said little concrete progress had been made in clinching a new deal other than putting

out feelers.

On his new role as Governor, he stressed he

was strongly market-oriented in his approach and believed Reserve Bank independence was crucial.

"No-one can realistically expect a central bank to be isolated from politics. But a central bank can build up a relationship with government that guarantees as much autonomy as possible."

He saw inflation and excessive growth in the money supply as major problems. "There are no quick solutions, but any central banker regards inflation as enemy number one."

He would develop his own style, but there would be no major change in policy.

"Economic policy involves teamwork, and I have been playing in that team for a long time. The teamwork will continue as we address the

## Debt and BoP pressures SA's biggest problems — Stals

immediate issue of a balance of payments problem."

Pressure on the BoP over the next few years has been reduced by the tendency of foreign creditors to convert debt inside the standstill net to longer term loans. By April this year, \$3.5bn had been taken out of the net. This has been spread over the next 10 years with the repayments not exceeding \$700m in any one year.

Stals, who chaired a commission of inquiry into futures markets, said he expected SA's financial markets to change radically in the next few years as futures markets became more prominent and the market for government stock developed.

"There are many challenges in the period ahead," he said.

State's share of GDP up to 33%

(S) (74) B/day 4/7/89.

# Government spending takes its largest leap in 10 years

GOVERNMENT'S use of loans to fund current spending in the first quarter of this year seriously hampered the country's savings performance and helped finance an increase in government's share of GDP.

Government spending as a percentage of GDP jumped to 32,8% in the first quarter of this year, according to figures in the latest Quarterly Bulletin — compared with 28,6% in the first quarter of 1988 and 29,8% in the same period in 1987.

Compared with the preceding three quarters, the increase is even more pronounced, but it must be borne in mind that government spending is seasonally heavy in the first quarter.

The growth in government's share of

GRETA STEYN

GDP contradicts its own stated policy of reducing its stake in the economy. It was the result of massive spending in the first quarter — at 31,5% the increase was the highest in any quarter in the past 10 fiscal years.

## Ill afford

Government also returned to a position of net dissaving — using loans to finance current spending — in the first quarter from a position of net saving in the fourth quarter of 1988. The bulletin notes the state's dissaving as the primary reason for a renewed worsening in the overall savings position of the country. Gross

domestic saving as a percentage of GDP dropped to 22,7% from 24,7% in the final quarter of 1988.

The bulletin says: "Renewed slackening of the overall domestic savings performance — which the economy can ill afford if stepped-up domestic investment efforts are to be reconciled with the continuing need for financing an outflow of capital — resulted primarily from a return by general government from net saving in the fourth quarter of 1988 . . . to net dissaving in the first quarter of 1989."

Economists say fixed investment is important because it raises the potential economic growth rate of the country. SA's investment effort depends solely on savings, because the country does not have access to foreign capital.

# 'NEED FOR INVESTMENT SELECTIVITY'

PROSPECTS of stagflation in the economy over the next 12 to 18 months increases the need for selectivity in equity investment, says the portfolio manager of Syfrets' two growth trusts, Anthony Gibson, in his June quarter report.

The SA economy could, as a result of foreign exchange problems as well as lower international economic growth, go through a period of stagflation with little or no economic growth and stubbornly high inflation.

The fall in the gold price, coupled with the drain on our foreign reserves through foreign disinvestment and foreign debt repayment, and our need to import plant and machinery and consumer goods has resulted in the current high interest rates and the authorities' struggle to cool the economic growth rate to a level which these constraints will permit.

"SA is highly unlikely to be rescued from this difficult sce-

LIZ ROUSE

nario by any significant rise in the gold price, as long as leading world economies continue their cycles of lower economic growth and deflation, and international stability prevails."

Syfrets Growth Fund maintained a nearly fully invested position during the June quarter. The net inflow of R7,1m was used to increase existing holdings with the introduction of Berzack Borthers Holdings. At June 30 the cash holding represented 11% of the portfolio.

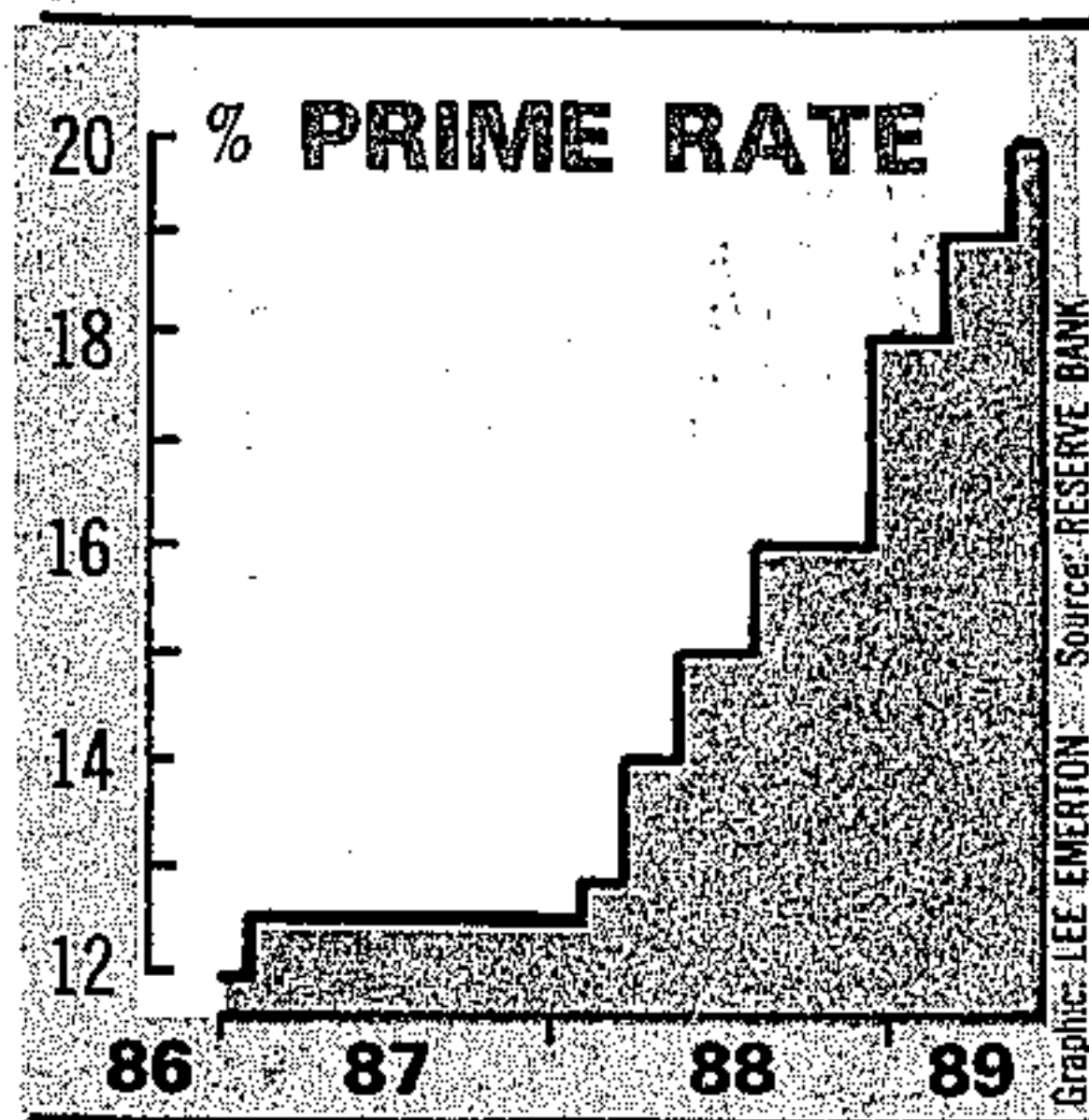
Unitholders have received a total return of 49,4% over the 12 months ended June. Income distribution for the past quarter is 1,74c a unit, which gives a total income distribution of 5,74c a unit for the past 12 months, a 16% increase over the previous comparable period.

The Syfrets Income Fund has over 1 000 investors representing R34,6m.

*8/Dec 4/17/89*

*(74)*

*(Handwritten mark)*



## 'Interest rates <sup>74</sup> could be reduced'

<sup>BIDM 5/1/89</sup> KAY TURVEY ~~EST~~

OFFICIAL interest rates could be reduced before September, given the cooling in the economy shown in the latest Reserve Bank Quarterly Bulletin, says Senbank economist Johan du Pisani.

He believes the need for the austerity measures imposed on May 5 can now be called into question because of the slow-down in consumer spending.

Du Pisani stresses the thrust of the 6% first-quarter rise in gross domestic expenditure (GDE) came from government.

Analysing the composition of GDE, he says annualised and seasonally adjusted quarter-on-quarter real government expenditure was 41%, whereas the rest of GDE actually decreased by 0.7%.

Most economists believe interest rates have peaked and should decline early next year. However, Du Pisani has stuck his neck out and revised his forecasts in the light of these Reserve Bank figures.

He says the economic fundamentals are in place for rates possibly to come down ahead of the election.

Announcing the May 5 package, Reserve Bank Governor Gerhard de Kock said the measures were aimed at containing the further expansion of domestic spending.

At the time GDE was provisionally estimated to have risen by about 6% in the first quarter, as it did.

Du Pisani argues that as this spending has not come from the consumer there is a case for lowering interest rates, although more stringent hire purchase and surcharge measures, which are targeted at imports and serve to protect the trade balance, should remain.

To Page 2

## Rates <sup>BIDM 5/1/89</sup>

<sup>74</sup> ~~EST~~

From Page 1

Other economists believe it is too early to reduce interest rates and do not foresee another "Primrose prime". The screws should remain in place to help rebuild reserves as the economy is still vulnerable and reserves weak, they say.

George Huysamer & Partners' Louis Geldenhuys says it would be dangerous to relax rates too soon. The public and private sectors both require the discipline.

Although consumer confidence has tumbled there is no reason to reduce rates, says Ockie Stuart of Stellenbosch University's Bureau for Economic Research.

Consumer spending, if measured against the final quarter of 1988, is still 4% up in the first quarter. Further, the strong rise in exports in this quarter could be expected to exert upward pressure on the economy after a time lag of a couple of months.



# Comeback forecast for the rand

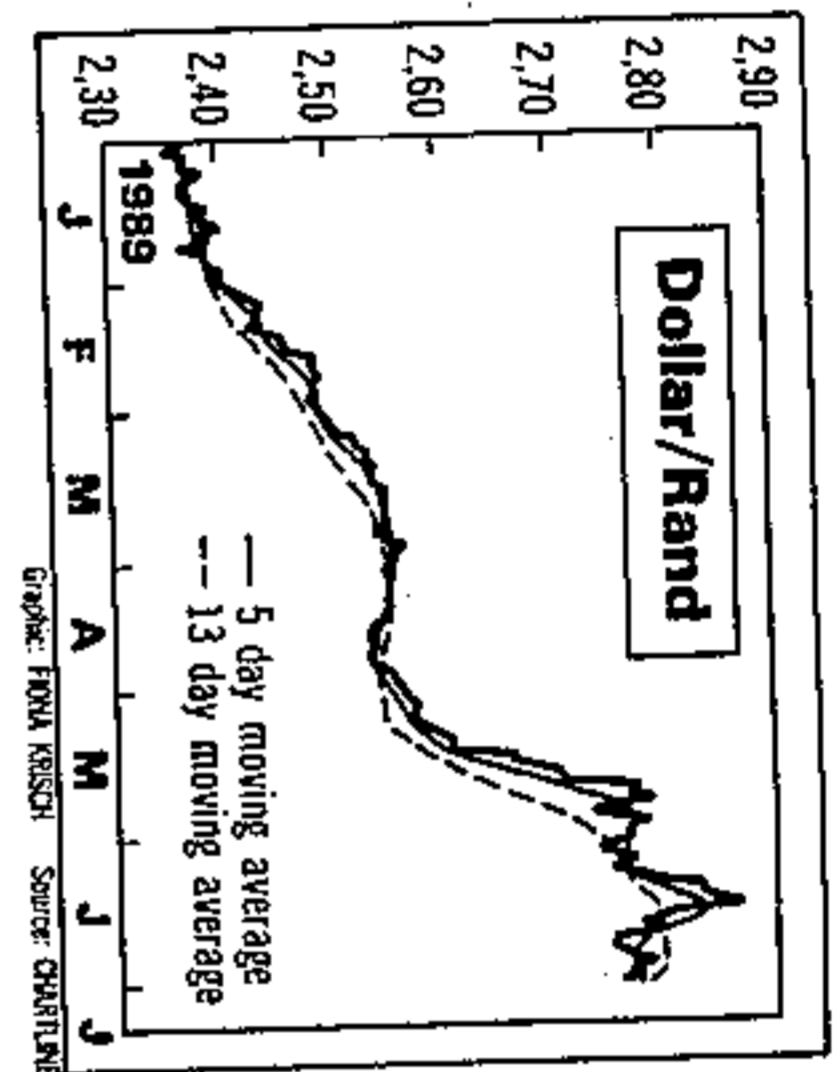
*B. van der Merwe*

SOME TIME ago I pointed out that the rand's sudden weakness since the beginning of February was a rather uncalled-for event at the time. Right now the weakening — from US\$1=R2,40 to a level around US\$1=R2,55 — has paled into insignificance beside the 30c jump in the value of the dollar against the rand since late April.

The rand is, in fact, quite a bit weaker now than could actually be justified by most criteria. Besides its steady weakening trend against the US dollar — almost 40c since early February — the local unit has lost R100 per ounce in terms of gold and has shed nearly 8-pennings against the DM.

And this is not about a weaker gold price or a stronger dollar. Indeed, if that were the case we could at the very worst expect to see the rand steady against both gold and the DM. But this is not what has happened. The rand has actually weakened right across the board, against everything that even slightly resembled a foreign currency.

The problem actually lies much closer to home. There is clearly a much greater local demand for foreign currency than there is an available local supply. Now it is true that we had a narrowing in the trade surplus in recent months. But the seven-day cover rule on normal exporters is absolutely geared towards a favourable leads and lags position, so there can't be too much net demand for foreign currency from the trade balance, even if a larger number of importers suddenly entered the market.



Graph: FROM RESCAP Source: QUANTUM

## More freedom

On the other hand, the gold mines have been allowed much more freedom than other exporters with respect to their dollar accruals, so their actions could have had a detrimental influence on the rand.

And then we must turn to the capital account of the balance of payments. The financial rand mechanism effectively masks any

disinvestment and investment that would normally take place via this account in commercial rand terms. Instead, foreign investment and disinvestment becomes an exchange of South African assets between non-residents and has no impact on the commercial rand.

We are left, then, with loan funds. We know that very little is coming in and that large amounts not tied up into the standstill arrangements do flow out. We also have a fairly rough idea about the magnitude and timing of the outflow of the amounts that are tied up in the standstill. And herein lies the problem — or the solution, whichever way you want to look at it.

I suspect that we have been leaking through the capital account of the balance of payments. This is not necessarily a bad thing. The pain of uncomfortable cash outflows is quickly overcome by the euphoria of a debtless position. Ask anyone who has just made the final payment of his home loan.

## Solid foundation

If this is indeed the case we can see some method in the apparent madness that has taken place in the rand exchange rate since early February. In the first instance, the level of imports has been drastically reduced because the high prices they

would have demanded on the local market have made them uncompetitive. And then we have the restraining factor that exists in the high level of import duties.

Secondly, the secondary sector of the economy. Even those who have been asleep to the export potential have hopefully been galvanised into action and are now actively canvassing the export markets. This puts a solid foundation to the rand as it responds to lower imports and higher exports and will limit much further weakness from an already unjustifiably weak position.

Add to this a much reduced foreign debt position and — viola! — we must expect the rand to show a strong rebound. For the technically inclined, we also have a head and shoulders top on the chart, suggesting a move back towards US\$1=R2,65.

But given the earlier analysis, the outlook for a rebound in the gold price and the fact that the rand has probably weakened more than it should have against the dollar, this move towards R2,65 may be only the beginning for a much more positive move before the election.

# Stals happy with debt repayment performance

Star 7/7/81 (74)

Dr Chris Stals, Governor-designate of the Reserve Bank, is satisfied with South Africa's position on its foreign debt repayments.

Dr Stals, chairman of the Debt Standstill Co-ordinating Committee, was in London last month for the annual review meeting of South Africa's foreign creditor banks.

Extracts of his statement to the meeting have been released by the South African Embassy in London.

"The first two years of the three-year period provided for in the Second Interim Arrangements have lapsed and we can again confirm our satisfaction with these arrangements," said Dr Stals.

"At some stage in the past year there was some unfounded speculation that South Africa would not find it possible to ad-

here to its commitments in terms of the arrangements, and that a deteriorating balance of payments would force an early revision of the existing agreement.

"In particular, it was suggested that the restrictive net would have to be extended to include certain items previously excluded from the redemption restrictions.

## Conflicting objectives

"The South African economy had to be steered between the often conflicting objectives of a need for higher growth in the domestic economy and, at the same time, the retention of a surplus on the current account of the balance of payments.

"Various essential adjustments to economic policy were, however, made timeously and a progressively more restrictive

monetary and fiscal policy approach succeeded in guiding the economy through another difficult year," he said.

"The predicted major collapse in either the balance of payments or the domestic economic structure did not materialise."

Dr Stals said South Africa's achievements over the repayment of its foreign debts had not been attained without sacrifice.

"Indeed, it required painful adjustments to the economy, particularly in the form of economic growth that will never be retrieved again.

"It should also be noted that the major burden, indeed the exclusive burden of this process of consolidation, was placed on domestic economic adjustment.

"No contributions came from any international assistance, either in the form of support from official international institutions

such as the International Monetary Fund or the World Bank Group, nor to any meaningful extent from any new private sector lending to South Africa."

Dr Stals said the consolidation of the foreign debt position was being managed the hard way.

## Economic costs

He said: "We are encouraged by the results achieved so far. We are also frustrated by the overall social and economic costs involved.

"We nevertheless remain determined to see the country through this difficult period, knowing very well that in the end South Africa will not only be fitter and leaner, but also in better shape for future economic development that will take place for the benefit of all the peoples of Southern Africa." — Sapa.

# Probe into R100-m forex scam

Police are investigating a syndicate of Reef businessmen allegedly involved in a foreign exchange scam involving at least R100 million.

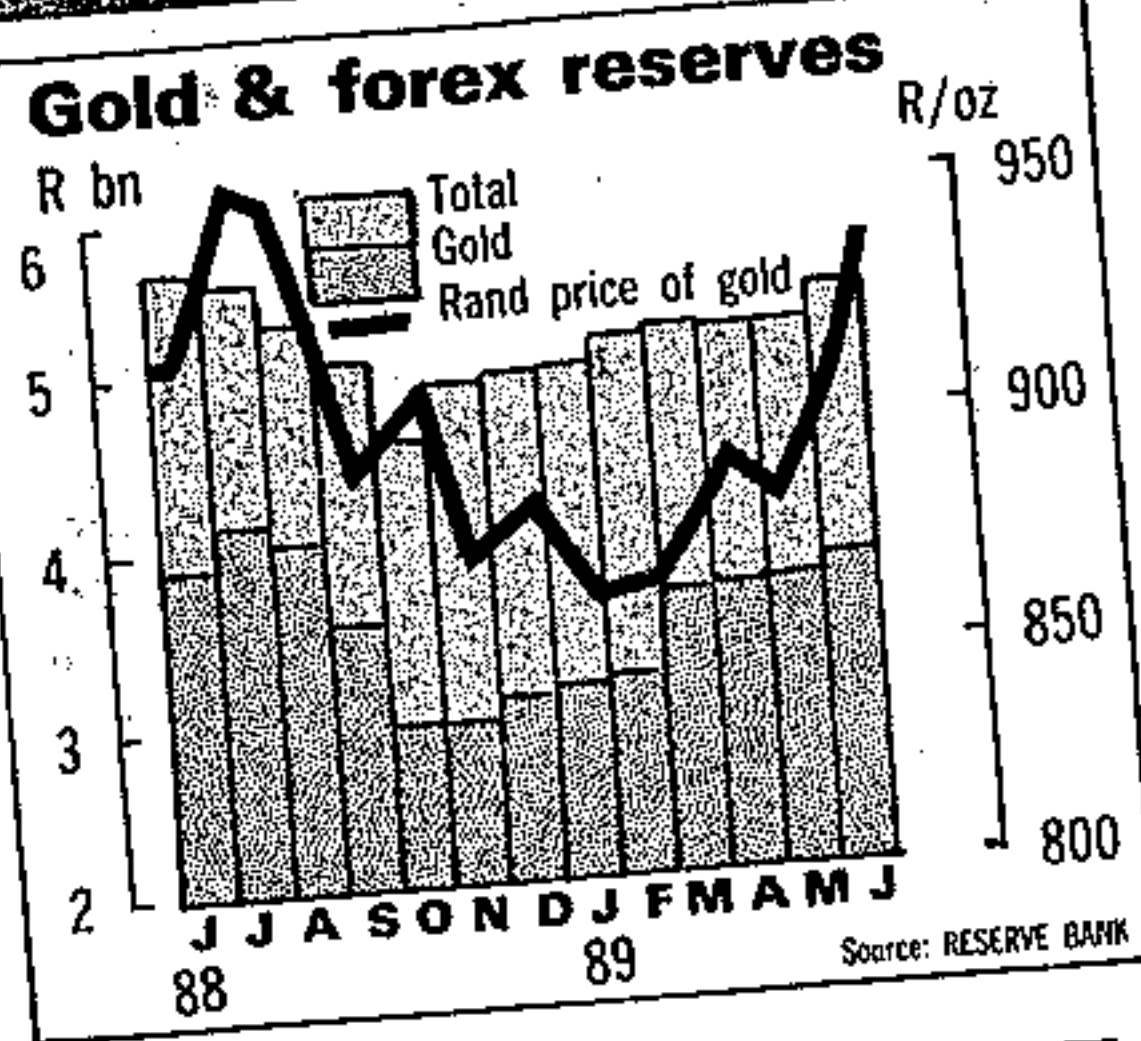
The investigation was initially conducted by the Reserve Bank and then handed over to the John Vorster Square Commercial Branch, a Reserve Bank spokesman said today.

Millions of rands were sent out of South Africa and then brought back as financial rands.

Several front companies were used in the alleged scam, including PU Manufacturing Associates Bophuthatswana, which has been liquidated.

Money was deposited in banks in Monaco, London, Paris and Zurich.

SA 717189



KAY TURVEY

**GOLD** and foreign exchange reserves remained steady in June in spite of SA meeting \$170m debt repayments.

The Reserve Bank's monthly statement shows total reserves at R5,2bn were unchanged from May. However this is mainly the result of the valuation of diminished gold holdings at a higher rand price, due to the depreciation of the rand against the US dollar.

Economists say the reserves are still disappointing having shown little improvement since January, when they stood at R4,97bn. Gold reserves were then valued at R863,49 an ounce against R936,76 for June. The more stringent measures which have been specifically aimed at boosting the reserves do not appear to have bitten yet.

Discount House of SA economist Chris Greyling said the Bank had made use of foreign loans and gold swaps to meet the debt commitments and artificially bolster reserves.

This is partly borne out by the over

# Reserves <sup>(74)</sup> are steady despite big payment

*B/Sun 10/7/89*  
 200 000 ounce decline in the Bank's holdings of bullion to 3,87million ounces and the increase in liabilities to R8,38bn from R7,44bn.

The June statement showed the Reserve Banks holdings of foreign currencies rose to R1,58bn from R1,33bn in May.

Gold holdings in rand terms fell slightly from R3,73bn in May to R3,62bn although the rand gold price was higher than the R912,84 average for May.

## Worrying

The average rand gold price for June was not included with the statement, however deputy governor Pierre Groenewald said this had been an oversight and would be included again as from July.

Trust Bank economist Ulrich Joubert said although figures were better than expected, the reserves were still worrying and left little room to ease fiscal or monetary policy.

He said fiscal policy was of concern and he hoped government would stay within its 15% budgetted growth.

# Forex reserves up slightly

By Sven Lünsche

Gold and foreign exchange holdings showed only a marginal increase in June, continuing the disappointing trend evident since the beginning of the year.

However, most economists expect a more substantial improvement in the reserves in the months ahead as the country has met its mid-year debt repayments and the gold price shows signs of recovering from its recent lows.

Figures released by the Reserve Bank on Friday show that after rising 0,8 percent in May, the reserves improved by only 0,11 percent last month to R5,209 billion (R5,203 billion).

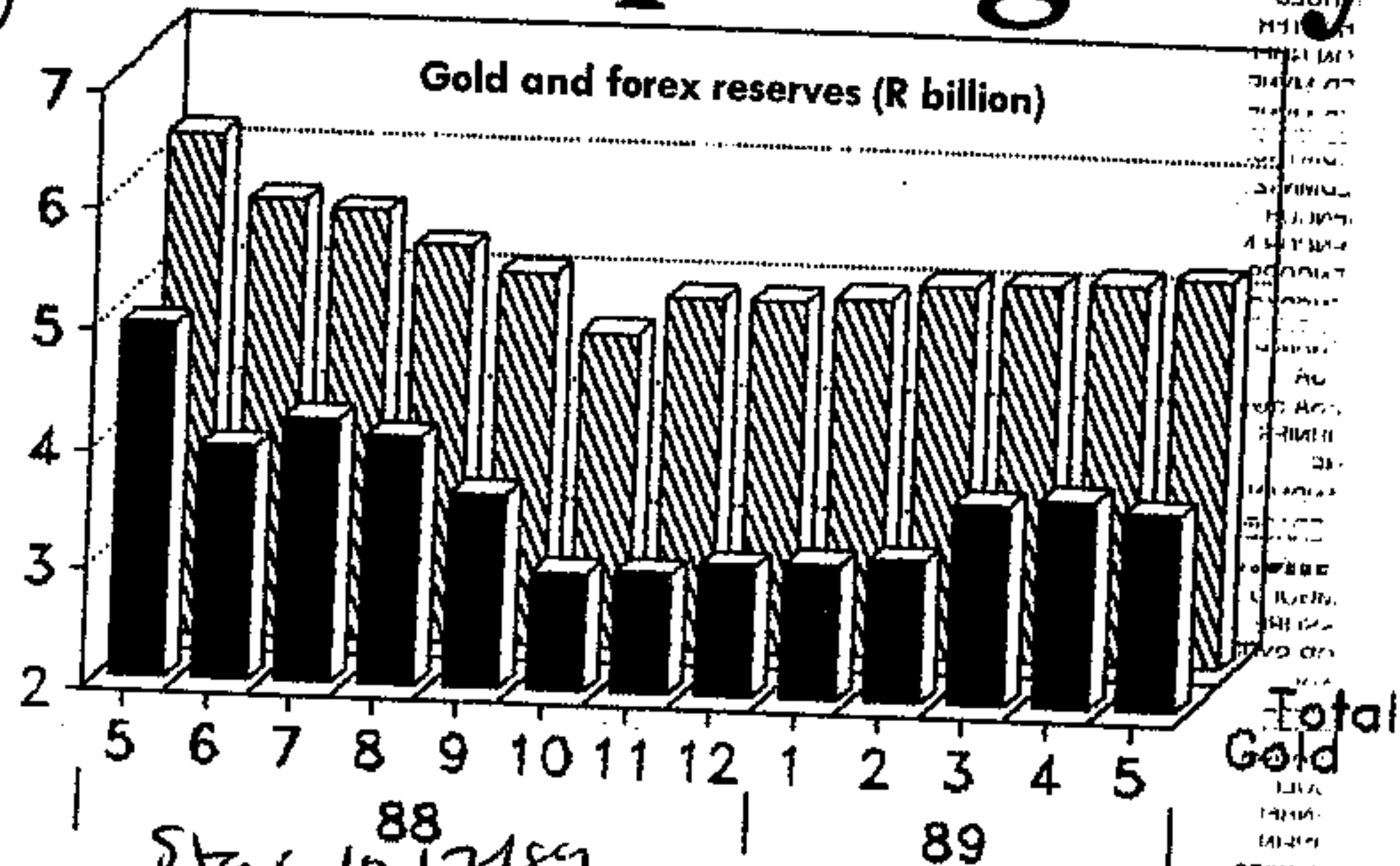
But even the minimal increase in the reserves in rand terms was only achieved as a result of the weakening rand/dollar exchange rate.

The dollar value of the reserves at the end of June was just over \$1,87 billion, the lowest in seven months, and 10 percent lower than at the beginning of the year, mainly reflecting the lower dollar value of the gold reserves.

Total gold holdings showed a decrease of 2,7 percent after rising by 0,5 percent in May. At the end of June gold holdings were R3,624 billion, compared with R3,728 billion in May.

While the average price at which the gold reserves were valued, the metal's price dipped sharply early in the month and has only recovered some of its losses over the last few days.

But for the most part the de-



cline in total gold holdings can be ascribed to the use of loans against gold to meet part of the dividend and interest payments arising annually at the end of June.

The one bit of good news emerging from the figures is that foreign assets, which are for the most part foreign exchange, rose by 7,46 percent in June, compared with the previous month's 0,5 percent rise.

At the end of June foreign assets totalled R1,584 billion, compared with R1,474 billion at the end of the previous month.

The improvement was achieved against the background of substantial foreign debt repayments, totalling about \$250 million.

No gold swaps were made to finance this repayment.

Reserve Bank governor Dr Gerhard de Kock is now optimistic that the reserves will improve at a higher rate over the

next few months.

At the time of the debt repayment last month he said that substantial repayments outside the net were made in the first half of the year, "but we are now looking at a fairly quiet period until the next debt repayment inside the net due in December and the reserves can be built up to satisfactory levels until then".

The decrease in imports is expected to continue towards the end of the year because much of the remaining momentum derives from orders for capital equipment made six to nine months ago and which are slowly coming to a halt in the wake of economic austerity measures.

Finally, economists are pinning their hopes on the expected recovery in the gold price after the recent weakening of the dollar and strengthening international investment demand.

# Dollar droop good for SA

61 Day 111 7/84

GRETA STEYN

THE weaker dollar spells good news for SA's embattled foreign reserves as the country's cash-flow problems were largely related to the bull market in the US currency this year.

Wide use has been made of short-term foreign credit as a temporary measure to bolster ailing reserves. A turnaround in the dollar will reduce the pressure.

First National economist Cees Bruggemans says once it is clear a firm downtrend in the dollar has been established, the reserves could recover without the need for further restrictive measures.

## Outflows

The dollar has depreciated by about 9% since its high of DM2,05 to about DM1,86 yesterday, resulting in an improvement in the gold price, from a low of about \$358 to its present level of well above \$380.

The stronger gold price reduces the pressure on the capital account of the BoP — because technical outflows associated with gold swaps will diminish or disappear. These outflows occurred because SA had to pay in dollars on gold swaps taken when the gold price was higher.

Another source of pressure on the capital account resulting from a stronger dol-

lar was the roll-over of forward cover contracts on third currencies. These contracts are for dollars against currencies such as the German mark. While the dollar was appreciating against these currencies, extra dollars were needed to roll over forward cover contracts.

Should the bull-run on the dollar be reversed, economists say, it could even result in a dollar inflow when contracts are again rolled over, and SA could see a much-needed improvement in foreign reserves.

Increases in foreign interest rates to stem the rise of the dollar has been another source of concern to policy-makers watching the reserves. However, upward pressure on foreign rates has subsided and there is mounting speculation that US interest rates will be reduced soon.

Economists hope SA's weak reserves will benefit from a dollar downtrend. The level of reserves remained largely unchanged in June (at R5,2bn) from the previous month, but it was probably topped up by wide use of short-term foreign credit, providing only temporary relief.

● Comment: Page 8

# Pigs can fly?

ON JUNE 22 I wrote that the dollar had firmly established itself in a long-term upward cycle that should last at least another two years. I suggested that we could ignore the slight downturn then prevalent in the charts and wait for the upturn. I suggested, further, that this upturn would only not occur if the dollar fell at least 15-pfennigs in the next two weeks.

Amazingly, to me at least, the dollar then proceeded to do just that. Perhaps pigs can fly! Has the upward cycle already ended? Not at all. We must avoid confusing the long-term outlook with short-term happenings. I am still content with the view that the dollar remains in a cyclical uptrend, and I will remain so while the caveats mentioned in that earlier article remain in force.

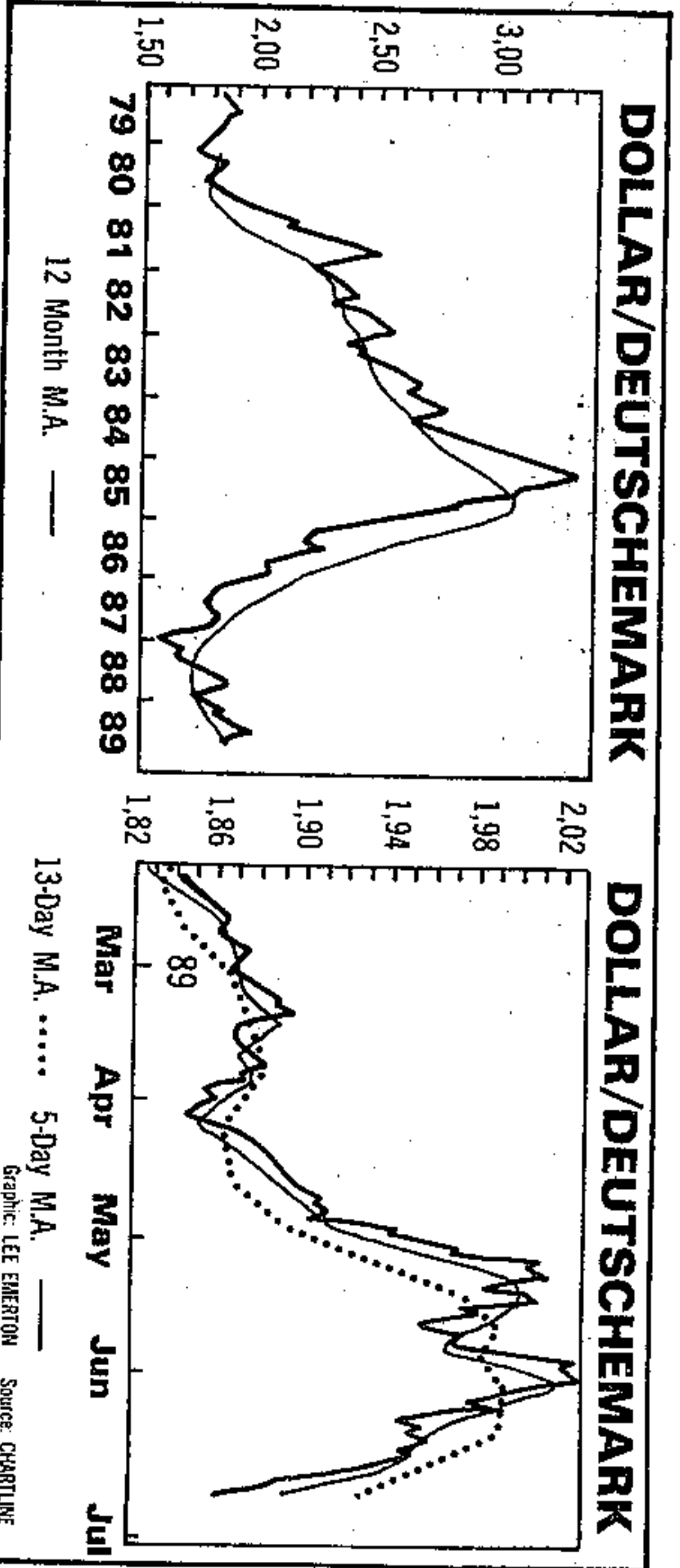
The first signal for an ending of the upward cycle was for the dollar to fall 15-pfennigs within two weeks. To all intents and purposes this has happened. Second, I indicated that the US\$/DM rate should hold above the one-year moving average line, with DM1.85 as the critical point to watch. So far this is still good. Third, I pointed out that the absolute low point for the dollar without leading to collapse was DM1.80. There seems little danger on this score. The long-term outlook is still very much

intact. In fact, I wouldn't be too surprised to see the dollar begin to rally again in the very near future. The support points on the long-term charts are good and solid. In the short term we see the dollar developing a massive oversold situation. This will soon force a buy-back of those positions in which the dollar has been sold short.

The dollar can therefore be expected to bounce back from the upward sloping support line, just as it did in December 1987 and again in November 1988. And the recovery is likely to be fairly substantial, taking the American unit upwards to the DM2.25 level before it again finds major resistance.

And how does this affect the gold price? Two weeks ago, when gold was still below US\$370 per ounce, I suggested that the metal must be expected to rise to a level around US\$390 to US\$395 before it meets resistance. With Taiwan back in the gold market, this is still possible — but we must be cautious.

If would be technically very coherent for the dollar to bottom out now and for the gold price



to falter. However, gold does have a few pointers in its favour.

Firstly, it has shown a strong breakout of a bear trend. We could be more comfortable with prices above US\$385 but its behaviour suggests that the metal does have good underlying support. Secondly, the dollar's rapid retreat in the last two weeks is not exactly a vote of confidence. We could well find that some hesitancy

towards the unit, with some investors preferring to repose in the yellow metal while the market finds its feet. A rising dollar does not, at this stage, necessarily imply a falling gold price.

While the long-term trend for the dollar may be a bit dented it remains intact. There is still no reason to suggest that it will give way and... as far as I know, pigs still can't fly.

Star 17/7/89

74

# Anti-apartheid groups want issue on Commonwealth agenda

## Plan to squeeze SA on foreign debt

The Star Bureau

LONDON — The African National Congress and representatives of other anti-apartheid groups met in London at the weekend to mount an international campaign opposing efforts by South Africa to reschedule £7,5 billion (about R32,25 billion) owed to foreign banks.

The London meeting, the first of its kind, is expected to draw up proposals ranging from threatening consumer boycotts of banks which agree to reschedule, to lobbying the US Congress and putting the issue on the agenda at the Commonwealth conference next October.

Delegates believe that without such a campaign, a rescheduling agreement could be in place by the end of the year. They argue that the recent visit to Europe by Mr F W de Klerk, South Africa's president-in-waiting, and increased speculation about the release of Mr Nelson Mandela, are part of Pretoria's efforts to raise its standing abroad and improve the prospects for a favourable rescheduling.

### Debt crisis

The ANC campaign is expected to urge banks to call for repayment as it falls due and to refuse new loans to South Africa. This action, say the delegates, would precipitate a debt crisis for South Africa and add to pressure for change in the country.

South Africa's external debt difficulties go back to mid-1985 when the country's political crisis prompted foreign banks to call in £14 billion (about R56 billion) outstanding loans. An estimated 260 banks were affected, with 30 banks accounting for 70 percent of the debt.

South Africa negotiated two interim rescheduling agreements in 1986 and 1987. The latter expires in June 1990, and South Africa has been stepping up efforts to renegotiate its debts on terms as favourable as possible.

### Exit clause

An important feature of the second interim agreement was the "exit clause", under which short-term debt covered by the standstill can be converted into 10-year loans, which become due for repayment between 1993 and 1997.

Banks have so far exchanged some £3,5 billion (about R14 billion) of loans for special exit securities, almost 25 percent of the debt falling within the interim arrangements.

But at least £7,5 billion (about R30 billion) of South African debt has to be renegotiated by mid-1990. The ANC apparently hopes to persuade banks to make no further use of the "exit clause" provision.

Privately, delegates to the London meeting acknowledge that radical action from the banks is improbable. But they plan to make them targets for consumer action.

African Ministers meeting in Ethiopia for the annual summit of the Organisation of African Unity, which starts today, are expected to seek tougher global action to force South Africa to scrap its policies.



Here is Michele Sparks, one of the semifinalists in the Miss Johannesburg Pageant. The pageant is associated with the Johannesburg Child Welfare Association, and the winner will promote the association during her reign. The finalist will be chosen on August 4.

### UN chief will be told of trouble in Namibia

LONDON — The Secretary-General of the United Nations, Dr Javier Perez de Cuellar, arrives in Namibia tomorrow for his first visit since the independence process began in April.

He will be briefed on progress so far by his special representative, Mr Martti Ahtisaari, who is having a hard time of it.

On the one hand, the South African counter-insurgency unit, Koevoet, is still allegedly behaving as though a war is in full swing in northern Namibia, despite undertakings to the contrary.

On the other, Mr Ahtisaari has his problems with Swapo, which he accuses of irregularities in the registration of voters for November's elections. — The Independent News Service.

### Teenager raped at city station after Ellis Park 'Pyramid of Light' show

A 17-year-old Roodepoort girl was gang-raped after she and a friend were held up by a gang armed with screwdrivers at a Johannesburg station early yesterday, police said today.

The gang-rape is the second attack on a teenage girl in the city within a week.

A Witwatersrand police spokesman said the girls were attacked at the Ellis Park stadium station at 1.25 am on Sunday.

The girls, one 17 and the other 16, were waiting for a train after attending the "Pyramid of Light" concert at Ellis Park.

They were accosted by six men who dragged them to a subway, where the 17-year-old was raped by four of the men. Her companion was not raped, said Lieutenant Eugene Opperman.

Security guards found the two victims. Last week a 16-year-old Kempton Park girl was raped in Hillbrow after being costed by three men armed with screwdrivers.

Police have appealed to parents not allow their children to be on the street in dangerous vicinities at night.

"It would seem that many parents not interested or don't care about what happens to their children. If they are allowed, children must always be picked up by parents or lifts must be arranged," Lieutenant Opperman.

No arrests have been made in connection with the latest attack.

Anyone with information is asked to contact the police. — Crime Reporter.



# Trade surplus surges to R1,3-bn

8/20/74 18/7/87  
Finance Staff (74)

A massive surge in diamond and precious metal exports more than doubled the trade surplus during June.

The trade surplus soared to R1,3 billion in June, about 180 percent up on May's disappointing surplus of R456 million.

Exports during the month rose from R4,36 billion to R5,72 billion, a record for the

year, and were boosted by a R553 million increase in the exports of diamonds.

Exports in the unclassified category, which include gold and arms, rose by a similar amount to R2,18 billion, as the gold price lifted itself from recent bottoms during the month.

Agricultural exports also firmed and vegetable exports alone firmed by 41 percent to

R271 million.

However, the authorities will still be disappointed with the level of imports, which rose by R540 million to R4,44 billion.

Machinery imports were up by 20 percent to R1,4 billion, ahead of an expected further weakening of the rand, while unclassified imports, mainly oil, surged by 44 percent to R616,6 million.

# City directors on exchange control charges

CPM 7/15 18/7/87

Court Reporter

THREE Cape Town company directors pleaded not guilty in Cape Town Regional Court yesterday to fraud and contraventions of the exchange control act involving millions of rands.

They are all directors of Electra Sea Products in Station Road, Woodstock: Mr Frederick Ronald "Pat" Chambers, 35, of Killarney Road, Oranjezicht, Mr Malcolm Stanley, 40, of Corbrooke Avenue, Claremont, and Mr Russel

Lancaster Penny 35, of Garfield Road, Claremont.

They are charged with 53 counts of contravening the exchange control regulations to the extent of about R2,7m by allegedly making incorrect statements about transaction values.

They are also charged with defrauding SATS to the order of about R30 000, contravening the Sea Fisheries Act to the order of about R128 000, and with illegally exporting perlemoen, failing

to declare the true value of goods exported, and making a false statement. All the alleged offences took place between 1986 and 1988.

Giving evidence yesterday, Sea Fisheries control officer Mr Herman de Waal said he found documents relating to illegal exports in the company's Station Road office.

The directors allegedly unlawfully exported about 21 000kg of perlemoen. They also allegedly made a false state-

ment by declaring that they were exporting frozen kingklip when they knew the container also contained squid and perlemoen.

The alleged contraventions of the Sea Fisheries Act involved allegedly possessing 21 000kg of perlemoen without proof of purchase.

The hearing continues today. Mr M J Langenhoven was the magistrate. Mr F Silber prosecuted. Mr G D van Schalkwyk SC and Mr R D McDougall instructed by Norman, Wink and Stephens appeared for the accused.

Finance Staff



US banking sources allege that Swiss banks have taken responsibility for repaying \$3.5 billion of South Africa's foreign bonded debt, it was reported today.

However, the report was denied by a Reserve Bank spokesman, who described it as "speculation".

According to the report, the debt was in the form of Euro-bonds due to mature in 1990 and 1991 and South Africa got the Swiss banks to buy them, securing them with gold. The holders of the bonds would now be paid on time by the Swiss.

The news could strengthen the

## Swiss banks alleged to help SA with debt repayments 74

resolve of anti-apartheid activists in Switzerland, who have recently intensified a campaign against the three major Swiss banks still doing business with South African companies. *SAV 19/7/89*

South Africa has to repay \$5.5 billion of foreign debt over the next two years and has been trying to convert most of its debt into 10-year loans due for repayment between 1993 and 1997, in terms of an exit clause estab-

lished by the second interim debt agreement in 1987.

This exit clause in particular is under attack by the ANC and anti-apartheid groups in both the UK and Switzerland ahead of new debt rescheduling talks expected later this year.

Banks have so far exchanged about \$5 billion of South African loans for special exit securities, almost 25 percent of debt falling within the interim arrangement.

# UK bank pledges only 'conditional' SA loans

The Star Bureau

LONDON -- Britain's largest bank, National Westminster, says it deplores apartheid; will not lend money unconditionally to the South African Government; and has taken care to ensure that loans are not for projects which support apartheid.

It has also denied that it will chair the 13-member "technical committee" which is to negotiate with the South African Government on the rescheduling of its debts.

This is the bank's reply to news that it is to become a target in a major international campaign by anti-apartheid groups to stop the rescheduling.

A bank spokesman said it was not policy to restrict activities on political grounds. The bank lent money to countries with a wide variety of political systems.

The campaign against rescheduling was announced at the weekend after a conference convened by the ANC.

74

SIMON BARBER

WASHINGTON — Swiss banks have quietly taken responsibility for repaying \$3.5bn of SA's bonded foreign debt, forestalling a major credit crunch next year, US banking sources say.

The debt, which was outside the standstill net, was in the form of Eurobonds due to mature in 1990 and 1991.

"SA got the Swiss to buy them in and then secured them with gold," a bank official said. "The holders are being paid on due date." *B1 par 19/7/89*

However, GRETA STEYN reports that senior officials of the Reserve Bank and Treasury last night denied all knowledge of any moves by the Swiss to help SA out of

## Swiss banks 'ease SA's debt burden'

its looming foreign debt problems. Officials believed "mischief-making" could be behind the reports, which emerged just as pressure on Swiss banks doing business with SA intensified.

Chief debt negotiator and Finance director-general Chris Stals, who is in Namibia, could not be reached for comment. He and Reserve Bank Governor Gerhard de Kock, who was also not available for comment, are at the centre of the speculation.

SA has to repay foreign bondholders


*74*   To Page 2

## Debt burden

*Al par 19/7/89*  
\$2.1bn next year and the balance of the \$3.5bn in 1991.

US banking sources said the Swiss rescue operation was hinted at by Stals in his private report to creditors after last month's meeting of the standstill committee in London.

"A much greater share of the (total debt) outstanding at present, and particularly the debt outside the net, is now represented by long-term maturities," the report said.

*74*   From Page 1

Stals told the bankers that since the start of the standstill in August 1985, SA had reduced its foreign debt from \$23.7bn to \$21.2bn at the end of 1988. But measured in constant 1985 dollars, the debt had been reduced far more dramatically, falling 21.5% to \$18.6bn.

Of the \$14bn originally in the net, Stals said "almost 50%" had now been "taken care of" under the first and second interim arrangements.

# NatWest defends loans to SA

8/Jan 19/ 7/89  
LONDON — Britain's largest High Street bank, National Westminster, yesterday defended its involvement with loans to SA.

A NatWest spokesman said: "It is not the bank's policy to restrict its activities on political grounds." He added, however, that the bank deplored apartheid.

"The bank does not lend unconditionally to the South African government and has taken care to ensure that its loans were not

for projects which support apartheid."

NatWest was responding to a threat by anti-apartheid groups to make the bank a prime target in their campaign against SA's efforts to reschedule foreign debts.

The British Anti-Apartheid Movement and End Loans to SA want to stop the rescheduling of about \$11bn which SA is due to repay to foreign creditors by June next year. — Sapa.

# Hidden debt 'at least R30bn'

FORMER Sanlam chief Andreas Wassenaar has accused government of buying its way back into office by spending borrowed funds which future taxpayers will have to repay.

Wassenaar also puts the "hidden national debt" in public service pension fund deficits and contingent liabilities at at least R30bn to R40bn. He says SA's foreign creditors should be given details as it raises the official national debt by between 50% and 60%.

His analysis of profligate government spending appears in a book Squandered Assets to be launched by publishers Tafelberg next week. It follows his previous books which criticised NP state socialism and the funding of government pension schemes.

Wassenaar says the taxpayer is largely ignorant of the huge amounts for which he and his progeny will be liable because actuarial valuations of state pension funds were suspended for 10 years; because ministers and MPs gave themselves excessive benefits without informing the electorate of the

MICHAEL ACOTT

costs; and because of a general government obsession with secrecy.

Asking whether government is spending the country into bankruptcy, Wassenaar says R58,8bn has been borrowed since 1978/79 to finance current expenditure, R26bn in the last three Budgets alone.

This provided a decade of goods and services for which present taxpayers did not have to pay and "nobody will ever know to what extent this abuse of the country's finances has contributed to the government's extraordinary long reign".

Comparing the cumulative total of state debt, which reached R47,8bn in 1989/90, with borrowings to finance current expenditure, Wassenaar says "SA has borrowed over the decade all the funds required to pay the interest on the state debt, plus a further amount of about R11bn to pay for other current expenditure".

SA as a nation has lived on debt for a decade, he states. And borrowing through the Budget to defray current

expenditure pushes inflation up and therefore depresses the rand.

Wassenaar predicts an exchange rate of three rand to the dollar within four years, and five rand to the dollar by the end of the Nineties if SA's inflation rate remains 7% to 8% above that of its major Western trading partners.

The "very root of the problem of inflation" is the salaries of MPs and public servants, as public service salaries account for nearly 50% of government spending.

"As long as the government is unable to curtail government expenditure the rate of inflation will remain unacceptably high." Wassenaar is not optimistic that government will impose the substantial public service cuts, and the lower salary increases, to reduce its expenditure. Nor, because of the high level of borrowing to finance current



WASSENAAR

expenditure, is he optimistic that privatisation proceeds will help government's objective of reducing the national debt.

He believes the bulk of the money raised by privatisation will go to financing the borrowing for current expenditure in the next two or three Budgets.

Wassenaar says public servants are not underpaid but if anything are relatively overpaid. And he urges government to stop bluffing itself and the country that last year's public service salary increase was 15%. Notch increases pushed the increase to between 19% and 20%, well above inflation and therefore ill-advised.

Wassenaar's first solution is a Minister of Finance who knows and understands the task of management and is thus "able to play a role other than a marionette jumping to the strings pulled by the bureaucrats".

His second is a guild of taxpayers with specialist groups who would meet legislators to examine proposed legislation and examine not only its effects but its estimated cost.

# Financial rand discount shows growing confidence in SA

By Derek Tommey

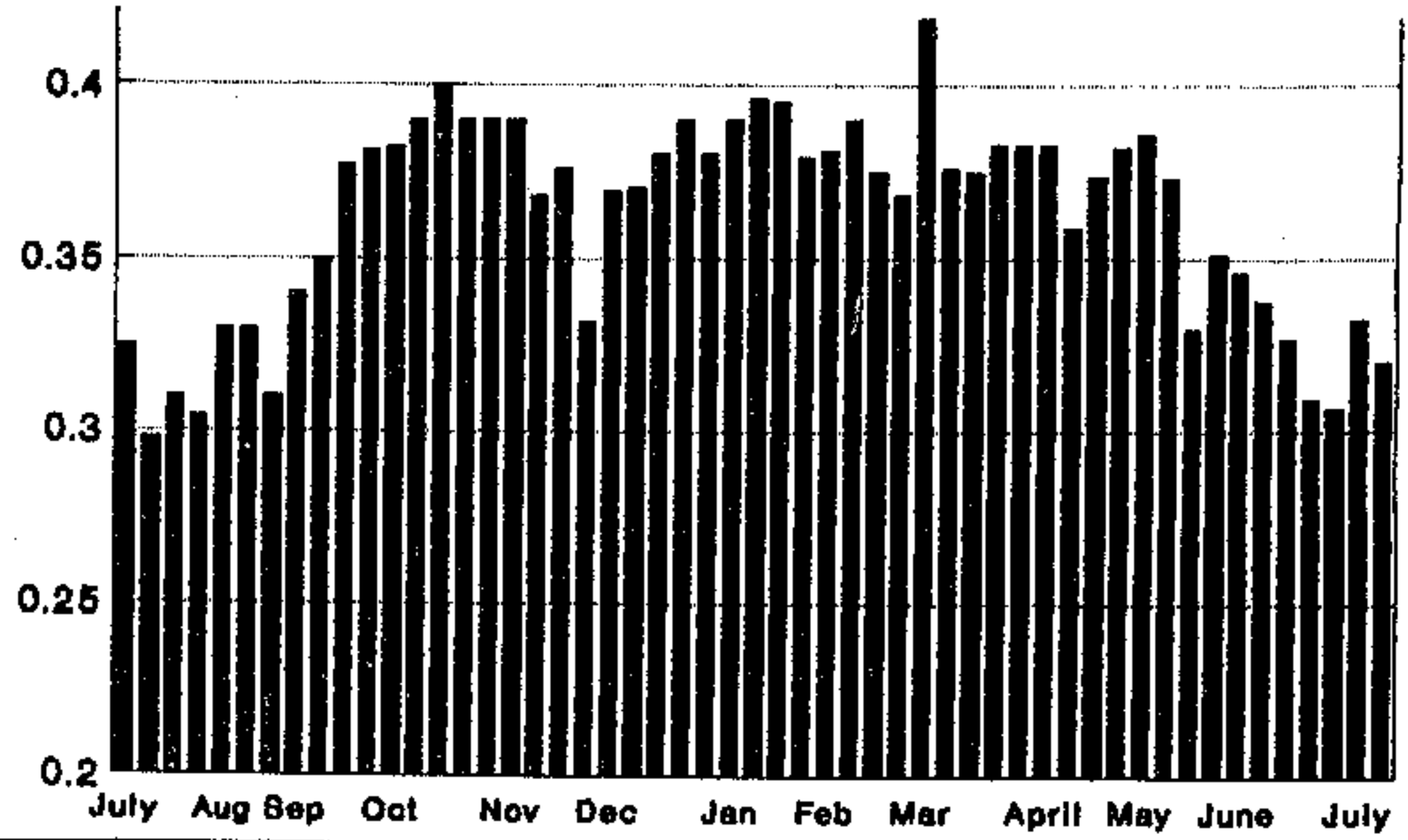
The reduction in the finrand discount in the past few months suggests that foreign investment confidence in South Africa is improving. This reduction in the finrand discount can be seen from the accompanying graph. Since January the discount has dropped from 40 percent to just above 30 percent.

It is not the finrand rate that is the measure of foreign confidence, but its discount to the commercial rand.

The finrand rate fluctuates in line with the commercial rand rate. The discount changes according to whether or not foreigners want to invest in South Africa.

A big discount means that foreigners are prepared to sell their SA assets cheaply. A smaller discount means that there is some resistance to doing this and also that someone is probably using finrands to buy assets in SA.

Whatever the reason for the drop, it does mean that somewhere overseas someone is looking more favourably on investment in this country.





# Import costs 'to fuel inflation'

RISING inflation due largely to higher import costs could cut deeply into real living standards later this year and in 1990, much as it did in 1985 says Southern Life economist Mike Daly.

He said the high rate of real monetary growth, far in excess of what is required to support real growth in gross domestic expenditure (GDE), could power this inflation.

M3 has continued to grow at rates above 24% for the past 12 months to May, said Daly in his latest economic review. It is this excess money which tends to flow out through the balance of payments and is reflected in acute exchange rate weakness and loss of reserves.

KAY TURVEY

The rand has lost 15% against the dollar and is about 10% weaker in terms of the cost of a currency basket for the first half of the year.

This weak external value of the rand and gradually rising inflation among SA's trading partners could keep the cost of imported goods rising strongly over the next few months, Daly said.

During the two previous import inflation peaks in this decade, world inflation has either been low or declining, this time round its rise could see a delay in the peaking of the inflation rate for imported goods.

By Daly 20/7/89

B/day 20/7/89

# SA short-term US debt up — long-term down

WASHINGTON — SA's debt to US banks with a maturity of 12 months or less rose by nearly \$100m in the first quarter of this year, breaking a long downward trend, according Federal Reserve Board's latest lending exposure survey.

At the same time, debt having a maturity of more than five years fell by an even greater amount, from \$894m to \$780m.

Middle-range debt, falling due within one to five years, remained fairly constant at \$616m, suggesting that the short-term increase was not attributable to older loans coming due.

The figures indicate that SA borrowers owe US banks \$1,085bn by March next year, up from the \$987m

SIMON BARBER

the Fed reported was due by December in its last quarterly report.

Total US bank exposure in SA as of March was put at \$2,482bn, down from \$2,862bn a year ago.

## Anomalous

The surge in short-term debt and drop in longer term maturities were particularly anomalous given the decision by Citibank earlier this year to take the ten-year repayment option offered under the second interim arrangement.

The short-term increase could not be accounted for by any similar growth in trade credits, although loans to private non-bank borrowers

did increase in the three-month period by \$28m to \$316m.

The value of outstanding commercial and standby letters of credit and other similar commitments fell slightly, from \$23m to \$18m.

Some banking officials said banks that had not rescheduled under the second interim arrangements were reclassifying loans in their reporting to the Fed for the sake of political appearances but had no expectation of being repaid any sooner.

If so, this would seem to apply in particular to the large regional — as opposed to money centre — banks where the shift from long to short maturities was most marked.

Short-term debt to the 13 largest non-money centre banks rose from \$172m to \$258m in the first quarter, while five-year plus maturities fell from \$125m to \$61m.

## Expert forecasts trade surplus boost

KAY TURVEY

THE trade surplus for the first six months of 1989 — buoyed by slowing imports and a strong non-gold export performance — is likely to be adjusted by the Reserve Bank to reach R6,5bn, says Trust Bank economist Nick Barnardt.

This is markedly higher than the R5bn achieved over the same period in 1988.

In this half exports climbed a healthy 22% and despite gold's static performance, non-gold exports rose about 40%. Total imports rose 21% against the same period last year.

### Improvement

Taking net service payments and transfers into account, the current account surplus probably amounted to R1,7bn from a mere R650m in the first half of 1988.

Barnardt expects the trade surplus and current account to show a further marked improvement.

Consequently the current account will register a surplus of at least R3bn in the second half, pushing the annual figure for 1989 to above R4,5bn, he estimates.

A further drop in imports could lift the 1990 figure to at least R7bn, while a recovery in the gold price could bring R8bn in reach.

74  
2/17/89

increased to £181m from 1988's £173m.

This occurred at a time when Lloyd's experienced a record number of resignations internationally — 1 742 from an overall membership of 33 532. However 1 000 new names were elected, leaving a net loss of only 742. Total aggregate capacity remained "virtually unchanged," says Lloyd's general representative in SA Ronnie Napier, because nearly 4 000 existing names increased their capacity.

For South Africans, entry requirements have soared in the past 18 months as the rand's fall pushed up the cost of:

- An entrance fee of £3 200;
- An annual bank guarantee fee of £1 125 (1.5% of the required deposit of £75 000);
- An optional stop-loss premium of £2 500 a year;
- An estate protection plan policy at £250 a year;
- The cost of an interview with the Lloyd's Council in London; and
- A minimum asset requirement which will rise in 1990 from £100 000 to £250 000.

However, David Newton, an independent Lloyd's consultant in SA, points out profits, like costs, are affected by the lower rand. Moreover the shortage of domestic investment opportunities is making South Africans look offshore. Lloyd's membership is one of the few avenues through which South Africans can operate legitimately in international markets — accumulating reserves in a foreign currency. Though profits have to be remitted to SA, the UK underwriting agent is allowed to build up prudent underwriting reserves as protection against possible future losses. These can be invested in the UK.

There is also a tax advantage. Profits are exempt from SA tax as membership is regarded as a trading activity overseas, taxable at source. The maximum tax rate in Britain is 40% compared to 45% in SA.

So, for South Africans, pros outweigh cons. For other investors, the choice is less clear.

Lloyd's 1986 underwriting account is expected to show record overall profits, though some syndicates performed poorly due to outstanding liabilities, mostly relating to asbestosis and environmental pollution claims, catastrophes such as the Piper Alpha blow-out, and Hurricane Gilbert. The 1987 account should also be satisfactory.

Premium rates have since fallen sharply as competition revived, so the outlook for 1988 and 1989 accounts is less attractive. ■

There are special circumstances surrounding our experience:

- Credit sanctions had given SA no choice;
- "The painful adjustment would have been far more difficult to bring about if the white electorate had not been so preoccupied by the perceived threats to wellbeing and security posed by domestic unrest" and threats of sanctions; and
- Though SA is faced with large repayments of foreign debt, these and foreign interest payments combined amounted to 19% of total exports of goods and services in 1987. "This compares favourably with obligations of developing countries." ■

## OFFSHORE BANKING

### Off Africa

Mauritius has followed its West Indian island counterparts, creating an offshore banking haven in the Indian Ocean. Since legislation in December allowing offshore banks to operate, Mauritius has licensed one foreign bank — UK-based Barclays Bank Plc. Swiss-based Banque Privée Edmond de Rothschild and the Indian Bank of Baroda have applied.

Finance Minister Vishnu Lutchmeenaraidoo will visit Britain this month to entice more banks to the island.

"There's enormous development in this part of the world. A lot of people will need funds," he says. "And it ties up with our drive to attract offshore companies and become the Indian Ocean's offshore centre."

According to the 1988 Banking Act, an offshore licence will be granted to an international bank, a locally incorporated fully owned subsidiary or a joint venture with a local bank. Costs include:

- A US\$3 000 processing fee on application; and
- Annual licence fee of \$20 000.

Banks must maintain capital of not less than Rs25m (US\$1.6m) after accumulated losses, net free assets as negotiated with the Central Bank of Mauritius, and must also hold a percentage of deposits and other liabilities as liquid assets.

Benefits of Mauritius as a banking centre include proximity to Africa, political stability and time-zone location between Far Eastern and European financial markets.

Concessions include:

- Exemption from exchange control;
- Freedom to conduct banking and other financial business with non-residents;
- Exemption from minimum cash balances with any central bank;
- Exemption from credit, interest rate and some other restrictions applicable to domestic banks;
- Income tax rate at 5% (domestic banks are taxed at 35%);
- Opportunity to repatriate profits freely without any further tax or levy;
- Freedom to take deposits from non-residents without having to deduct Mauritian

## BoP ADJUSTMENT

### Debtors' dilemma

SA's success in reducing foreign debt does not mean "developing countries in general would find it feasible or desirable to seek a growth-orientated balance of payments (BoP) adjustment in the manner prescribed for SA," says the latest Bank of Lisbon *Economic Focus*.

Star 24/7/87

## African states threaten on SA debt

ADDIS ABABA — African states, rebuffing South African overtures, have urged international banks to halt rescheduling of Pretoria's foreign debt.

They called for sweeping mandatory sanctions on South Africa, accusing it of a reign of terror against political opponents.

Foreign Ministers of the 49-nation Organisation of African Unity, preparing for the opening of a summit in Addis Ababa today, adopted the resolutions at the end of a week of talks that ended on Saturday night.

Heads of state and other dignitaries began arriving in Addis Ababa yesterday for the summit. — Sapa-Reuter

Star 25/7/89.

(74)



## **OAU's Mubarak vows to tackle SA, debt**

ADDIS ABABA — African heads of state opened their annual summit here yesterday with a fresh call for mandatory sanctions against South Africa.

Egypt's President Hosni Mubarak, taking over as head of the 49-member Organisation of African Unity (OAU), pledged firm action against Pretoria and Africa's crippling foreign debt.

Ethiopia's President Mengistu Haile Mariam, host of the three-day summit, said South Africa's apartheid policies could not be reformed and should be eradicated.

He dismissed recent constitutional reforms as cosmetic, and said they had been accompanied by ever more draconian steps against opponents of apartheid.

But President Mengistu also spoke of "a ray of hope" in southern Africa, with peace moves under way in Angola and Mozambique, and Namibia headed for independence.

United Nations Secretary-General Dr Javier Perez de Cuellar told the opening session he was confident elections due in November for Namibia's constituent assembly would go ahead as planned.

Resolutions passed here last week by OAU foreign ministers, demanding an end to loans to Pretoria, are virtually certain to be adopted. — Reuter.

Nov 25/7/89



# Long-term interest rates showing signs of easing

By Derek Tommey

Long-term interest rates have started to ease.

But it is a little early to see this as the start of a definite trend, say gilts dealers.

They point out that short-term technical factors are also playing a part in the downward movement.

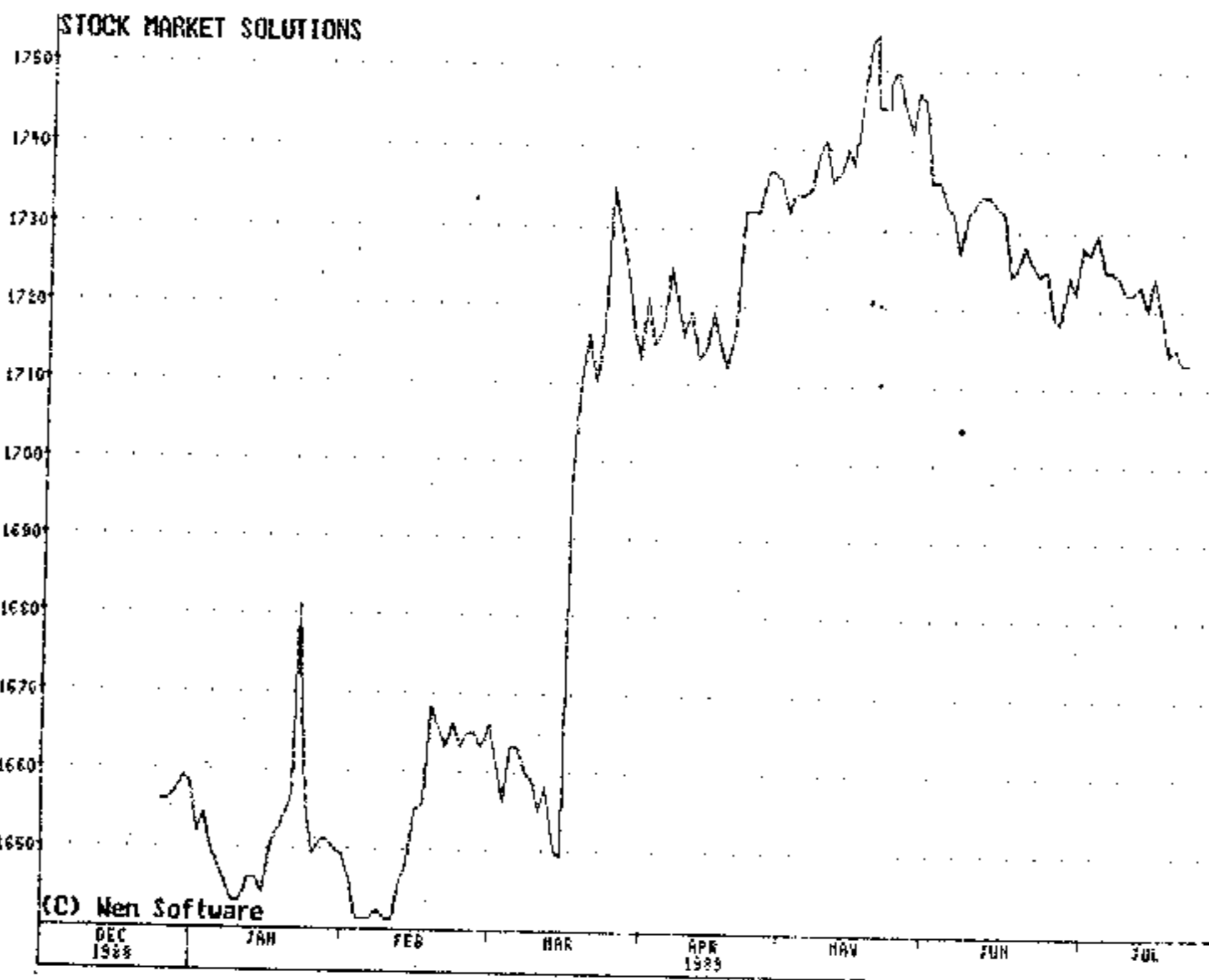
The rate of interest offered by Eskom's 11 percent 2008 stock — the market's bellwether at the moment — soared almost one percentage point after the March Budget to 17,34 percent and then steadily climbed to a peak of 17,57 percent on May 22.

Since then it has been slowly and erratically declining, reaching a post-budget low of 17,13 percent last Friday.

But the gilts market was not too happy with the inflation figures released yesterday and the rate firmed to 17,15 percent.

One factor behind the easier trend in the past few weeks has been "covering in" by futures traders, says George Herman of Interbank Discount House.

Settlement Day is August 3



Long-term interest rates have been slowly falling since reaching a peak of 17,57 in May.

and forward positions have to be closed by then.

However, when futures traders resume operations after August 3 and start selling ahead, the prices of gilts could drop again and interest rates could start to rise.

Mr Herman says the market

has been quiet lately.

With the ending of the prescribed asset requires the institutions have no immediate need to buy gilts.

But this lack of demand has been offset by the Government offering little additional stock to the market.

As a result the gilts market is marking time until a new trend has been established.

Another gilts dealer says continued small overseas buying of gilts has also contributed to the higher price of Eskom stock and the drop in the yield.

Foreigners can buy Eskom stock with financial rands.

This enables them to get it at a discount of 35 percent at the present time.

However, the interest is paid overseas in commercial rands. So, while a South African would get a return of 17,15 percent from Eskom stock if he had bought some yesterday, a foreigner would get a return of more than 26 percent.

Another factor that could be helping to depress interest rates, say gilts dealers, is the expectation that Bank Rate and the commercial banks' prime rates might be cut by 0,5 percent between now and the election on September 6.

While long-term rates are unlikely to fall by the full 0,5 percent if this happens, they are expected to ease further.

# Money supply growth slows

By Sven Lünsche

The rate of growth in the money supply is continuing to slow down, albeit at a very slow pace as credit demand showed a slight pick-up in June.

Figures released by the Reserve Bank yesterday show the growth in the broadly defined money supply measure, M3, is estimated at 24,56 percent for June after registering a seasonally adjusted 24,66 percent in May.

The growth rate in M3 was at 27,6 percent last December and has declined gradually to its current levels.

However, it still has some way to go before reaching the targeted level of 14 to 18 percent.

In seasonally adjusted terms M3 was at R129,517 million — almost R2 million outside the upper target limit of R127,816 million set by the Reserve Bank earlier this year.

The target ranges are for growth in M3 between the fourth quarters of

1988 and 1989.

Growth in the narrowly defined M1 in May was 16,98 percent and in M2 it was 29,92 percent.

The money supply figures indicate that expenditure in some quarters is still resilient — government spending surged in the first quarter of the current fiscal year — and that corporations in particular are still taking out loans ahead of expected tighter conditions.

However, consumers have tightened their belts considerably since the monetary and fiscal authorities introduced a series of restraining measures late last year and early in 1989.

In particular, expenditure on durable goods — cars, furniture, household appliances — and semi-durable goods, including clothing, footwear, household textiles has slowed down and could decline further in months to come.

Sanlam's economists expect that this process of adjustment will con-

tinue for some time.

"In fact, total domestic expenditure will have to decelerate to such an extent that the surpluses on the current account of the balance of payments needed for the repayment of our foreign debt and the strengthening of our foreign reserves can be assured," they say in the group's July edition of *Economic Survey*.

In view of this, it is essential that in the months ahead all citizens forego excessive wage and salary demands and that they avoid credit purchases as far as possible, they say.

It is also important that the Government do everything in its power not to exceed budgeted expenditure.

"And, equally important: the government must resist the temptation to relax fiscal and monetary policy before the election in September. If not, it can only make the process of correction more lengthy and more severe," Sanlam says.



## Debt rescheduling inquiry

# Banks under pressure on loans to SA

Star 27/7/89

74

By David Braun,  
The Star Bureau

WASHINGTON — In what could be the first meaningful steps towards a fresh round of US sanctions on South Africa, the US Congress is to start hearings next week into the implications of South Africa's debt rescheduling.

Congress will specifically look at additional measures it might take to insure American bank reschedulings do not undermine the intent of US legislation restricting loans to South Africa.

The House of Representatives' subcommittee on international development, finance, trade and monetary policy will hear evidence from four witnesses in this regard on Tuesday, August 1.

Among those who will testify are a representative of the US department of treasury, a member of a church monitoring group which is in favour of economic sanctions against South Africa, and Mr Terry Crawford-Browne, who has been appointed adviser on banking to Archbishop Desmond Tutu and the Rev Allan Boesak.

The two South African churchmen recently called on the Congress to pass legislation to forbid the rescheduling of South Africa's debts.

The major US banks involved

in negotiations with South Africa over the rescheduling of the country's debts have apparently not accepted an invitation from Congress to give evidence before the sub-committee.

The sub-committee is hoping to explore the following issues:

- The possible impact and implications of the debt rescheduling on the prospects for fundamental economic and political change in South Africa.
- Options available within the context of the debt rescheduling to arrange political and economic change in South Africa.
- Whether or not the rescheduling of South Africa's short-to-medium term loans outstanding into long-term loans contradicts the spirit, if not the letter, of current sanctions law.

### Strengthen

- US regulatory policy on lending to South Africa within the framework of administration support for existing sanctions contained in the Comprehensive Anti-Apartheid Act of 1986.
- Options available to the administration and Congress to strengthen enforcement of existing prohibitions on lending to South Africa.
- Additional measures that Congress might consider to ensure that American bank reschedulings do not undermine the intent of legislation restricting loans to South Africa.

Awesome power . . . an unusual angle of the American space shuttle Columbia stre yesterday, marking the first flight of

# Squeeze SA on debt, world banks are urged

*Star 9/18/87*

*74*

CANBERRA — Eight Commonwealth foreign Ministers, in an attempt to end apartheid, agreed yesterday to put pressure on banks to impose stringent repayment terms on \$12 billion (R32 million) they are owed by South Africa.

The action, to coincide with Pretoria's need to reschedule the debt by June 1990, was agreed at a meeting of the Commonwealth Committee of Foreign Ministers on Southern Africa.

But the Ministers deferred a decision on calls for increased trade sanctions until Commonwealth heads of government met in Kuala Lumpur, Malaysia, in October.

"We want to exert the most stringent possible pressure on South Africa at a critical time," committee chairman, Canada's Mr Joe Clark, told reporters.

The measures, which Mr Clark said would start immediately, include sending a delegation of senior Commonwealth officials to meet member banks of the technical committee co-ordinating the 1990 rescheduling on behalf of 250 banks.

The officials will urge the banks to charge South Africa the highest possible interest rates and to reject any attempt by it to extend repayment over 10 years.

The Ministers, from Australia, Guyana, India, Nigeria, Tanzania, Zimbabwe, Zambia and Canada, said they would lobby governments to stop credit to South Africa for trade deals, which they said cushioned Pretoria's balance of payments.

They also agreed to form a body to monitor South Africa's links with the in-

ternational financial community, anticipating that public pressure from publicised deals would scare off lenders.

Banks should also demand from borrowing companies outside South Africa details of any South African ownership links, and insist that loans not be used to circumvent sanctions.

David Braun of The Star Bureau reports from Washington that the South African Embassy in Canada has launched a major drive to pressure the Ottawa government and the Commonwealth to drop sanctions against South Africa.

## OPINION POLL

The basis of the campaign has been the findings of an opinion poll of 1 000 Canadians to establish what they felt about sanctions against South Africa.

According to the poll, Canadians who supported sanctions against South Africa outnumbered those who were opposed to such measures by two to one.

However, 52 percent opposed sanctions if they caused hardship for blacks and 59 percent were against them if blacks did not want them. Opinion was divided on whether Canada should impose mandatory sanctions (43 percent in favour and 47 percent opposed).

Ambassador Mr Hennie de Klerk, who announced the poll results in Ottawa yesterday, said an obvious conclusion to be drawn was that the Canadian government's use of sanctions was contrary to majority opinion among Canadians.

# Thatcher NO TO NEW SANCTIONS

OK TINDS  
9/8/89

The ministers also proposed the establishment of a monitoring body to watch the international finance community's links with South Africa. The Commonwealth will also urge banks to charge South Africa the highest possible interest rates and reject any attempt to extend repayment over 10 years.

Canada's Secretary for External Affairs Mr Joe Clark said: "We want to exert the most stringent possible pressure on South Africa at a critical time."

### Pik Botha's plea

Last night Mr Clark, who is chairman of the eight-nation Commonwealth committee, consisting of Australia, Canada, Guyana, India, Nigeria, Tanzania, Zambia and Zimbabwe, denied that the committee's white and black members had been divided. "Obviously there are different views on things that might be done," he said. But he said there was complete agreement that sanctions would be maintained and increased "until we have seen real change in the apartheid system".

Yesterday South Africa's Foreign Minister, Mr Pik Botha, released the text of a letter he had sent to Mr Clark, urging the Commonwealth ministers to reconsider their sanctions stance.

Mr Botha said recent "authoritative and independent surveys" indicated that most South African blacks rejected sanctions. He also said South Africa had proved its commitment to peace in Southern Africa by agreeing to grant independence to Namibia and encouraging talks between warring factions in Angola and Mozambique.

Last night the chairman of the Debt Standstill Coordinating Committee, Dr Chris Stals, said: "This is the kind of political pressure South Africa has encountered before."

"As chairman of the committee I would prefer not to make any comment at this time," he said.

**CANBERRA.** — Tough new trade and financial sanctions against South Africa have been agreed to by Commonwealth foreign ministers meeting here. The sanctions plan will be put to the Commonwealth summit in October for a final decision.

But British Prime Minister Mrs Margaret Thatcher will refuse to impose the new sanctions, it is reported from London.

Mrs Thatcher has remained silent but Whitehall officials said there would be no change in the British government's policy that dialogue with South Africa must be encouraged and would be harmed by increased sanctions.

Australian Prime Minister Mr Bob Hawke, however, gave prominent support to the sanctions move.

### High interest

Foreign ministers from eight countries recommended that the Commonwealth nations discourage all overtures from granting South Africa credit in trade deals, which they said had cushioned South Africa's balance of payments. They want future credit deals restricted to a maximum 90 days.

They also recommended asking banks to impose stringent repayment terms on South Africa's \$12-billion (R32m) foreign debt, which is due in June 1990.

From page 1

The Minister of Finance, Mr Barendse, was not available for comment last night.

But Sapa reports that Democratic Party finance spokesman Mr Harry Schwarz said his party rejected the "negative, destructive attitude" of the Commonwealth foreign ministers towards South Africa.

He said the refusal to extend by reasonable periods or to allow reasonable repayments as well as seeking to impose punitive interest rates would cause serious harm to the South African economy.

And DP co-leader Dr Denis Worrall said all indications were that "a considerable head of steam" was building up within the Commonwealth against South Africa.

Speaking at a meeting in Cape Town last night, Dr Worrall said: "And, once again, if there is no major change in the political situation, this country will be relying on Mrs Margaret Thatcher to come to our assistance."

Dr Worrall said that if Mrs Thatcher "stays off" these sanctions against SA, there would be other "pressure deadlines" down the track.

In 1990 there was an election in Germany and Chancellor Helmut Kohl would be under great pressure from opposition parties, as well as its coalition partner. — Political Correspondent, Sapa-Reuter-AP and Daily Telegraph

(With reports by A. Johnson, 122 St. George's Street, Cape Town, and A. Girdle, 141, Commissioner St., Jhb.)

# Financial rand stands up well to Hanson payout

By Neil Behrmann

LONDON — Rembrandt has already negotiated a massive transfer to Hanson of £120 million (800 million financial rands).

The money flowed through the financial rand market and the deal was carried out by RND International, a company partially owned by Richemont, Rembrandt's international corporation.

Mr Geoff De Jager, managing director of RND International, said that the transaction was carried out over three weeks. It was concluded before the GFSA sale was announced on Monday.

"It was a very difficult transaction, particularly since the market knew that we needed to sell rands," said Mr De Jager.

"We were selling and buying to confuse other dealers." Despite this frenetic activity, the financial rand rate held at 23,75 to 24,50 US cents, despite the continuing sale of rands and a gold price which dipped from \$378 an ounce.

Around 24 US cents, the financial rand is presently at a discount of 33 percent to a commercial rand of 36 US cents.

Since daily volume in the financial rand market is estimated to range between R50 million and R80 million, the transaction was huge.

Dealers thus believe that the financial rand has performed exceedingly well.

## Highly developed

London dealers say that the market has developed considerably since the SA Treasury agreed to immediately repay international banking creditors if they transferred the proceeds via the financial rand.

Dealers estimate that around 3 to 8 percent of the outstanding debt or around \$1 billion has gone through the financial rand market. That money has been absorbed by international investors who were particularly attracted to the high yields on gilts.

The current yield on long term Escom stock is 16,4 per cent in South Africa. Via financial rands, however, the yield rises to around 25 percent. Assuming that there is no change in the commercial rand, a compound rate of 25 per-

cent enables foreign investors to double their money in just over three years.

"If an international investor had invested \$100 000 in SA long bonds in January 1986 and reinvested his coupons, the value of his investment would have been \$210 000 in January this year," says James Capel. The same \$100 000 invested in South African gold shares would have been worth \$110 000 as at January 1989.

The dividend yield on leading SA gold shares — which is then subject to a 15 percent withholding tax — is only around 7 percent. Since the gold price is depressed and prospects are cloudy, bonds are far more attractive for the international investor. There is an indirect hedge in gold as well. If gold rises, the capital value and dividend payment rises in line with the rand.

West German and Swiss investors who receive less than seven percent on Deutschmark and Swiss franc bonds have been big investors in SA bonds. And since their currencies have also been buffeted by the strong dollar, they have not incurred any foreign exchange loss on rands.

"SA gilts and semi-gilts have attracted unexpectedly large sums of money," a dealer says, although money has also shifted into property.

With the market so confident, the financial rand is expected to stabilise and possibly rise in coming weeks. Dealers no longer need to fear the consequences of a massive deal which raised the supplies of the currency.

Yet for the financial rand to remain firm, the dollar should slacken and the gold price must stay above a crucial support level of \$360 an ounce. The key number to watch is the rand gold price per ounce.

During the past year, the Reserve Bank appeared to keep that price around R1000. If the dollar surges and gold tumbles, the rand will fall to a range which lifts the rand gold price to R1000.

Ahead of trade figures, the US unit has been firm against all currencies. In fact in the face of sharply falling US interest rates, the dollar has been remarkably firm.

# Exchange controls to stay

74

Star 18/8/89  
Although exchange control is a controversial matter, with the present political situation, control measures are likely to remain in force for some time, says the Democratic Party spokesman on finance Harry Schwarz.

Mr Schwarz who was speaking at the convention said that while it was possible to have exchange control without the financial rand, this would mean that any export of currency would affect the reserves.

“It would also mean that permission to export currency would not be readily granted if reserves were not particularly strong.”

Mr Schwarz said that the advantage of the financial rand was that money could be exported from South Africa provided there was someone who was prepared to create financial rand by the sale of South African securities. So while there is exchange control it seems as if it is desirable to continue with a financial system.— Sapa.

# SA 'must pay its foreign debt'

By Anna Louw, East Rand Bureau

74

Finance Minister Mr Barend du Plessis said the Government's top priority after the September 1985 debt standstill was to generate sufficient foreign exchange to pay the country's foreign debt. *See 11/9/87*

Speaking at a National Party luncheon for Germiston businessmen at the Civic Centre yesterday, Mr du Plessis said there were two reasons for this — the morality of fulfilling one's obligations, and to eliminate the possibility of continuous actions, of attachments and confiscations of South African assets.

Mr du Plessis said South Africa had now established beyond doubt an international credibility to service its international obligations. And having gone through a period of reasonable economic growth, the consolidation period now offered the country its first real opportunity to tackle inflation.

"And that is what we will do," he said.

(Report by A Louw, 47 Sauer Street, Johannesburg.)

# South Africa could propose a unilateral debt rescheduling — FT

74

Star 4/9/85  
Star Bureau

LONDON — South Africa might propose a unilateral rescheduling of its debts if creditor banks refuse to sign a new refinancing agreement when the current one expires next June, the respected *Financial Times* says in a report from Johannesburg.

The newspaper says Pretoria's foreign creditor banks are under increasing pressure from anti-apartheid campaigners to refuse to reschedule about \$8 billion of foreign debt covered by the partial moratorium imposed by South Africa in August, 1985.

It quotes Dr Chris Stals, Governor of the Reserve Bank, as saying in an interview with the *Financial Times* that Pretoria could take a unilateral decision on the matter and say the banks should accept it.

The paper adds: "He implied that Pretoria was unlikely to default, but would seek to continue repaying its debts whether or not the schedule of repayment was agreed with its creditors.

"However, he stressed that he believed agreement could still be reached before next year's deadline, arguing that the rescheduling was a technical and not a political matter."

He hoped it would be treated as such by the banks.

The *Financial Times* says

bankers say some US banks have already reacted to public pressure from the anti-apartheid lobby by converting debt covered by the standstill to medium term credits which allow a five-year grace period on capital repayments.

South Africa included such an "exit clause" as a voluntary option in the two rescheduling agreements signed today.

More banks may do so as they come under increasing pressure not to reschedule South Africa's debts, or to exact political concessions in exchange for refinancing.

South African pro-sanctions campaigners, such as Archbishop Desmond Tutu, have said they are focusing their efforts on financial sanctions.

The newspaper says Dr Stals declined to say whether any creditor had made use of the exit clause for political reasons, but he confirmed that about \$4 billion in short term debt had been converted since the standstill was imposed in 1985.

At the end of last year, about \$9 billion in debts still remained within the moratorium "net", but he expected that to fall to \$8 billion by June.

The paper goes on: "Dr Stals said Pretoria's foreign debt would then total perhaps

\$20 billion — \$8 billion within the net and \$12 billion outside it. "Repayments in 1990 would total \$2 billion, including amounts falling due on maturing bonds and notes outside the net. A further \$1.5 billion would be repaid in 1991.

"However, Dr Stals said that from 1992 until the end of the century, South Africa's debt repayments would not exceed \$1 billion annually. He said this would be a satisfactory maturity structure to bear."

The newspaper quotes Dr Stals as saying South Africa needs a growth of 5.6 percent a year to keep pace with population growth.

Without new capital, the country might manage three to four percent, but while exporting capital at its current rate the upper limit on growth would be nearer two percent.

He stressed that South Africa had done all it could to keep its image as a reliable debtor.

Dr Stals added: "We have been able to survive the balance of payments crisis in the past four years. But it is very frustrating to use the whole of the surplus on your current account just to pay debt. And we are still on thin ice."

He predicted GDP growth of two to 2.5 percent next year, but acknowledged this might be over-optimistic.

# South Africa could propose a unilateral debt rescheduling — FT

74

Star Bureau

LONDON — South Africa might propose a unilateral rescheduling of its debts if creditor banks refuse to sign a new refinancing agreement when the current one expires next June, the respected *Financial Times* says in a report from Johannesburg.

The newspaper says Pretoria's foreign creditor banks are under increasing pressure from anti-apartheid campaigners to refuse to reschedule about \$8 billion of foreign debt covered by the partial moratorium imposed by South Africa in August, 1985.

It quotes Dr Chris Stals, Governor of the Reserve Bank, as saying in an interview with the *Financial Times* that Pretoria "could take a unilateral decision on the matter and say the banks should accept it."

The paper adds: "He implied that Pretoria was unlikely to default, but would seek to continue repaying its debts whether or not the schedule of repayment was agreed with its creditors."

"However, he stressed that he believed agreement could still be reached before next year's deadline, arguing that the rescheduling was a technical and not a political matter."

He hoped it would be treated as such by the banks.

The *Financial Times* says

Star 4/9/85  
bankers say some US banks have already reacted to public pressure from the anti-apartheid lobby by converting debt covered by the standstill to medium term credits which allow a five-year grace period on capital repayments.

South Africa included such an "exit clause" as a voluntary option in the two rescheduling agreements signed to date.

More banks may do so as they come under increasing pressure not to reschedule South Africa's debts, or to exact political concessions in exchange for refinancing.

South African pro-sanctions campaigners, such as Archbishop Desmond Tutu, have said they are focusing their efforts on financial sanctions.

The newspaper says Dr Stals declined to say whether any creditor had made use of the exit clause for political reasons, but he confirmed that about \$4 billion in short term debt had been converted since the standstill was imposed in 1985.

At the end of last year, about \$9 billion in debts still remained within the moratorium "net", but he expected that to fall to \$8 billion by June.

The paper goes on: "Dr Stals said Pretoria's foreign debt would then total perhaps

\$20 billion — \$8 billion within the net and \$12 billion outside it.

"Repayments in 1990 would total \$2 billion, including amounts falling due on maturing bonds and notes outside the net. A further \$1.5 billion would be repaid in 1991.

"However, Dr Stals said that from 1992 until the end of the century, South Africa's debt repayments would not exceed \$1 billion annually. He said this would be a satisfactory maturity structure to bear."

The newspaper quotes Dr Stals as saying South Africa needs a growth of 5.6 percent a year to keep pace with population growth.

Without new capital, the country might manage three to four percent, but while exporting capital at its current rate the upper limit on growth would be nearer two percent.

He stressed that South Africa had done all it could to keep its image as a reliable debtor.

Dr Stals added: "We have been able to survive the balance of payments crisis in the past four years. But it is very frustrating to use the whole of the surplus on your current account just to pay debt. And we are still on thin ice."

He predicted GDP growth of two to 2.5 percent next year, but acknowledged this might be over-optimistic.



## UK bishop warns on SA foreign debt

CAPE TOWN — South Africa can expect "major pressure" when trying to reschedule its foreign debt, the Bishop of Coventry, the Rt Rev Simon Barrington-Ward, warned yesterday.

Barrington-Ward, who flew to SA on Tuesday and departs today, attended a prayer vigil in St George's Cathedral, Cape Town, yesterday with Archbishop of Cape Town Desmond Tutu and World Alliance of Reformed Churches president Allan Boesak.

At the end of the vigil he addressed journalists on the steps of the cathedral.

He said his visit had a dual purpose. He was here to convey the support of the Archbishop of Canterbury for the church and the people in their just struggle against oppression in SA and also to assure them of the support of a new body, the SA Coalition, of which he was chairman.

"About 70 organisations, including churches, trade unions and voluntary

bodies, are all set against apartheid, are involved in the coalition, and will exert pressure on SA to bring about change."

He said he was impressed by the massive groundswell for change in SA and was hoping to match this groundswell in Britain.

"We will exert pressure on our government to exert pressure on your government. In fact, I hope to see our foreign secretary next week. We will press banks and major companies to a strict rescheduling of SA's foreign debts."

He wanted to express support and solidarity for the church, "which is the heart of the movement and the voice of the people, even in the streets of Cape Town."

He said he and the Archbishop of Canterbury expressed their strongest solidarity for the church and the oppressed. — Sapa.

# Gold and forex reserves are a little stronger

By Magnus Heystek  
Finance Editor

South Africa's gold and foreign exchange holdings held up remarkably well in August despite a fairly significant drop in the gold price. *slw 8/9/87*

During August gold and forex reserves rose by 4,6 percent to R5,327 billion from R5,130 billion recorded in July.

But despite showing a rising trend for the second month in a row, the increased levels of foreign exchange reserves does not represent any indication of a relaxation in monetary policy, says Mr Nick Barnardt economist at the TrustBank.

Gold holdings remained almost static at R3,363 billion.

Foreign assets, which for the most part are foreign exchange holdings,

rose by 13,69 percent to R2,009 billion compared with a 11,36 percent increase to R1,767 billion in July.

The Reserve Bank says that gold reserves as at August 31 were valued at R899,94 per fine ounce, compared with the valuation price of R886,11 per fine ounce as at July 31.\*

At current levels foreign exchange reserves — mostly US dollars — constitute roughly about six week's imports, which shows a welcome increase from May and April levels.

Any drop in the gold price from its current levels will inevitably lead to an increase in the prime interest rate in order to protect the balance of payments, Mr Barnardt said.

The behaviour of the gold price is causing some anxious moments in monetary circles.

STimes 10/9/89

# Laughable forex control

BRIAN Kantor, professor of economics at the University of Cape Town, has called on the Government to scrap foreign-exchange control.

He told the annual meeting of Stocks & Stocks that exchange controls made SA look ridiculous in the eyes of the world.

74

Professor Kantor said: "There are no grounds for retaining them."

"It is the simplest thing in the world for a businessman travelling overseas to arrange under- or over-invoicing by, say, 1% and then have that money put in a Swiss bank."

# Lombard denies 'Swiss aid'

RESERVE Bank deputy governor Jan Lombard yesterday denied a foreign news report that Swiss banks had helped SA with R7bn in credit since 1986.

Commenting on a report filed by the African News Organisation (ANO) from Geneva yesterday, Lombard said the figure was "grossly over-stated".

The ANO report said: "Since 1986 — when the world community started imposing sanctions against SA — Switzerland has granted Pretoria almost 5 000-million Swiss francs in credits and loans."

ANO was quoting from the final report of the international hearings on the activity of multinationals in SA.

The alleged aid translates into about R7,4bn — more than half the total foreign loan repayments between 1985 and 1989.

The report said: "Three-fourths of the credits are given to Pretoria in hard currency with clearing in gold. The Zurich international financial market sees annually over 300 tons of South African gold operations which have been excluded from Swiss statistics since 1980."

Lombard said the figures sounded "way

74  
GRETA STEYN

in excess of our dealings with banks in Switzerland". Economists said yesterday the report was apparently referring to short-term credit facilities — strictly speaking not a loan — extended to the Reserve Bank as bridging finance to tide it over periods of pressure on the foreign reserves.

These "overdraft" facilities are often in the form of loans against gold and are generally not disclosed to shareholders.

Lombard noted that "anyone can blow the situation out of proportion by using gross (instead of net) figures."

ANO said the Swiss aid had been "like an oxygen feed for the crisis-stricken SA economy".

Reserve Bank figures show the Bank makes substantial use of foreign bridging finance in times of pressure. In 1988, its foreign liabilities (related to reserves) jumped by R1,9bn, followed by an increase of R904m in the first quarter of 1989. It is believed the second quarter saw an even larger in-flow of short-term foreign credit.

B/Don 13/9/89

## Stals optimistic about debt accord renewal

Pretoria — Reserve Bank Governor Chris Stals has held private talks with US and European creditor banks and is optimistic SA can negotiate a new debt rescheduling accord before the current one expires next June. (74)

"Based on the experience of the past four years, I just cannot think that the creditor banks would not be prepared to negotiate some kind of a deal with SA that would also be in their own interests," Stals said in an interview.

Pretoria's foreign creditor banks are under pressure from anti-apartheid campaigners to refuse to reschedule about \$8bn of short-term debt covered by a partial moratorium imposed by SA four years ago.

SA has repaid a total of about \$12bn of foreign debt since 1984 and has obligations on both short and long-term debt repayments of \$2,15bn in 1990 and \$1,6bn in 1991, Stals said. Day 14/9/89.

□ ROBERT GENTLE reports from London financial sanctions against SA would place the status and security of Third World debt at risk and undermine the foundation of the international banking system, Assocom CE Raymond Parsons warned yesterday.

"This would be a foolhardy course for the international community to tread — with little prospect of reward," he said, and hinted that SA would dictate its own repayment terms if pushed into a corner.

"It is unlikely that many banks would want to be nasty to a relatively good customer in an uncertain world."

# SA trade surplus <sup>74</sup> remains above R1bn

**Own Correspondent**  
JOHANNESBURG. — The trade surplus at R1,1bn for August remained above the billion mark for the third successive month.

Yet, imports driven by capital programmes remain high keeping the pressure on exports to continue performing.

Imports at R4,18bn in August were slightly up on the R4,07bn recorded for the previous month, but below the June peak of R4,44bn.

Exports at R5,28bn were R12m higher than July, yet off R5,72bn high for the year achieved in

June on massive diamond sales.

The impetus for export growth has come mainly from the non-gold categories.

The lower rand exchange rate, stronger international demand, higher commodity prices and bumper crops from the farming sector have all boosted export earnings, which have risen by about 5% in real terms since the beginning of the year.

However, Safto economist Bruce Donald says imports remain disturbingly high, largely due to fixed investment programmes.

Capital goods account for over half our imports and have not dropped since the beginning of the year.

In view that the rand will continue to depreciate and inflation rise, local businesses are reluctant to postpone capital imports in spite of the surcharge, SA Discount House economist Chris Greyling points out.

He says the high level of imports leaves the burden on exports to perform well and places the trade balance on the knife edge in terms of

the current account of the balance of payments.

At this stage the trade balance is R500m behind the surplus required to service our foreign debt commitments, Greyling says.

The average trade surplus for the first eight months of this year is R940m below the R1,1bn monthly average needed to achieve the target R4bn on the current account (after net service payments are subtracted from the trade surplus).

Yet, economists still believe the R4bn surplus on the current account projected by the Reserve Bank will be possible, particularly as the gold price is now showing signs of bottoming.

# Grim outlook for beleaguered rand

74

Star 19/11/89

By Magnus Heystek  
Finance Editor

Without a significant change in monetary policy the rand is heading towards an exchange rate of R3,10 to the US dollar by the end of the year, says Dr Hans Falkena, economist at the United.

Such a depreciation will have severe inflationary implications, making capital imports prohibitively expensive and thus limiting the growth potential of the economy.

Dr Falkena warns against any premature relaxation of monetary policy as this would cause a further slide in the currency, leading to even larger losses on forward cover and it would also encourage short-term capital outflows.

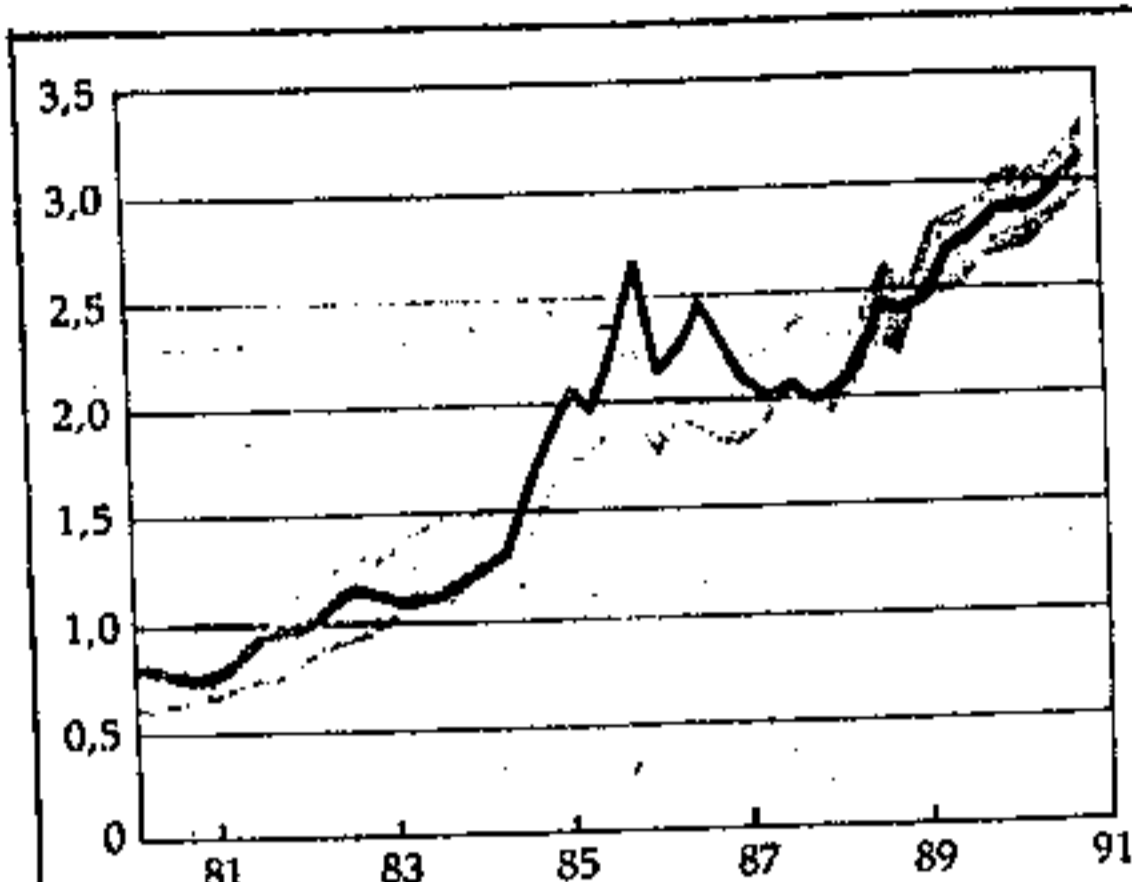
Writing in a special survey on the outlook for the rand Dr Falkena says South Africa's high inflation rate remains at the core of the problem of a steady declining currency.

"Should inflation not be curbed soon, or international rates not decline, higher domestic interest rates might be inevitable to check the depreciation of the rand."

"South Africa cannot afford to join the ranks of the Third World debt-ridden countries with ever-depreciating currencies and hyperinflation. Along with other destructive influences on the economy, such a situation would also create a climate of social turmoil totally inconducive to either economic welfare or political stability."

After the short-lived recovery of the rand against the US dollar at the end of 1988, the rand has been in a downward trend since the beginning of the year and has depreciated by 19 percent against the US dollar.

One reason was the increase in the dol-



Fundamental value of the rand against the dollar.

lar's effective value (9 percent) during the same period. Other reasons for the rand's lacklustre performance include the weak gold price, high inflation rates, low real interest rates, continued high imports and large capital outflows.

The rand's performance against the other major currencies is less dismal. Against the yen, the rand has dropped less than 2 percent in the eight months to end-August, and it fell by 6 percent against the West German mark.

The most important factor in the rand's decline is the large differential be-

tween domestic and international inflation rates. With the US the differential remains as high as 10 percent. All other things being equal, this inflation differential implies that the value of the rand will have to fall to keep relative prices of tradeable goods the same.

Using this crude measurement of inflation differential, Dr Falkena states that the current value of the rand (in terms of the so-called fundamental equilibrium rate) is R2,76 to the dollar, remarkably close to its current value of around R2,83.

The rand is likely to continue to depreciate over the medium-term as almost all factors are against the currency. South Africa's inflation rate is rising while that of the US is being curbed. Secondly, the US economy is slowing down, resulting in reduced demand for SA produced goods. Export performance continues to be hampered by sanctions and the low gold price.

Another factor that is bound to depress the rand, is the further short-term capital outflow — about \$500 million — in addition to about \$2 billion that has to be repaid in the form of short-term debt falling due in June next year.

FUNDS. RPT  
PAGE 2. RPT  
Report Programs

Standard Entry

Final  
Draft

# Increased debt repayments possible for SA

Blomay 20/9/87  
LONDON — SA might be able to afford more substantial debt repayments than it had negotiated in terms of the Second Interim Arrangement of 1987, banking sources in London have said.

The issue of SA's huge capital outflows will be one of the primary topics to be discussed between SA and its foreign creditors when the existing repayment agree-

ment — for about \$8bn caught in the standstill net — expires eight months from now.

A new agreement must be reached before the current agreement expires in June 1990.

● See Page 11

74  
GRETA STEYN



# Capital outflow up for discussion

R1 Day 2019/184

GRETA STEYN

LONDON — SA's huge, unidentified capital outflows will be one of the main economic issues on the agenda when SA and its foreign creditors hammer out a new repayment agreement on about \$8bn of debt caught in the standstill net.

A banking source, speaking on condition he was not named, said these outflows indicated SA might be able to afford more substantial debt repayments than it had made in terms of the Second Interim Arrangement of 1987. The agreement expires in June 1990 and SA and the technical committee representing its major creditors have to reach a new agreement before then.

Efforts to obtain on-the-record comment this week from SA's main British creditors, Barclays Bank, Standard Chartered and National Westminster, met with a unanimous "no comment". The three banks' exposure to SA is about £1.5bn.

Rescheduling SA's foreign debt is a sensitive subject, especially in the run-up to the Commonwealth heads of government meeting in Kuala Lumpur next month, when the issue of tightening financial sanctions will be voted on.

However, apart from political pressure on SA's creditors, the country's

capital account on the balance of payments (BoP) could aggravate its difficulties in obtaining a favourable agreement. Outflows of short-term capital — not debt repayments — have continued at a rapid pace and, the source said, the country's creditors could well ask why more of this foreign exchange is not coming their way.

## Unrecorded

Repayments of debt inside the standstill net represent only a fraction of total capital outflows. Reserve Bank figures show that of the R25bn in total capital outflows since 1985, only R3,6bn was for debt inside the net. Another R11bn was repaid on debt outside it.

Questions are being asked about the remaining R10bn, which is accounted for by short-term (trade-related) outflows — and unrecorded transactions. The banking source noted International Monetary Fund (IMF) statistics showed SA's outflows under "errors and omissions" on the BoP capital account had become "big money".

Politics aside, the issue between SA and its creditor banks is affordability. The banking source said SA's foreign debt ratios were another indication that

it could, perhaps, afford to pay more.

The Bank's Quarterly Bulletin shows the ratio of interest payments to total export earnings declined to 6.5% in 1988 from a high point of 10.7% in 1985, despite the uptrend in international interest rates.

The source said the banks would press for the largest repayments possible while the South Africans would obviously want the opposite. Reserve Bank Governor Chris Stals has said the two groups will have to reach consensus on the SA economy and what it can afford.

Stals's strong stance on the need to replenish reserves stands in sharp contrast to the arguments that SA could afford to pay more.

SA's bargaining power was stronger than widely believed, the source said. Any agreement between SA and its creditors was informal and hinged on SA's willingness to repay.

Even though the South Africans wanted to maintain their links with the international banks, they could not be pressured into an unreasonably harsh agreement.

Political activists seem to have overlooked SA's bargaining power. SA's credit record should also stand it in good stead. Barclays bank recently wrote off £233m against doubtful sover-

ign debt, but its provisions did not include its SA exposure (about £570m) because, it said, that would amount to "robbing the shareholder".

There is little doubt an agreement will be reached and evidence of this is the activity in the secondary market for Third World debt. A trader said the market was assuming a third agreement on the affected debt would be reached before the expiry date of June 1990. Many buyers of SA debt, which is trading at a 30% to 35% discount, are buying for investment purposes.

But although an agreement seems almost certain, the question is still the terms of the agreement.

## Recommendations

Commonwealth pressure is focused on the terms and conditions and on making it as hard as possible for SA to stay in its bankers' good books.

SA's creditors are currently studying the recommendations of the Commonwealth committee of foreign ministers.

Behind-the-scenes negotiations between SA and its foreign creditors are likely at the IMF conference next week at which both the mounting political pressure and the SA economy will be discussed.

74

# Financial rand still an essential tool in the debt standstill freeze

21/9/89

Magnus Heystek  
Finance Editor

There are no plans to abolish the financial rand system, confirms Dr Chris Stals, Governor of the Reserve Bank.

He was reacting to comments in the market place that the financial rand system was about to be abolished or, at the least, drastically amended to prevent overseas investors from buying South African gilts.

"The financial rand is very much part of the debt standstill freeze and to abolish it now would be very foolish indeed," he said.

According to Dr Stals the large differential existing between the commercial and financial rands reflects a "continued demand for the withdrawal of capital from South Africa".

Any move to abolish the financial rand system now would place enormous pressure on the gold and foreign exchange reserves, already at alarmingly low levels. Such a move would also cause a sharp drop in the value of the commercial rand, further exacerbating inflationary pressures.

Speculation that the financial rand would be abolished was fuelled by a decision to disallow further purchases of residential properties in South Africa with this unit.

Dr Stals was a guest speaker at a financial seminar hosted by stockbroker firm Frankel Kruger Vinderine recently at which he outlined South Africa's foreign debt position.

The second debt reshedulement agreement expires at the end of June next year but Dr Stals is quietly convinced that a new agreement will be signed with the major creditor banks without "undue problems".

"Recent political developments in Southern Africa are helping the negotiations with major banks," he said. But he did acknowledge that political pressure, currently being mounted by some South African church groups and other pressure groups was proving to "be embarrassing for some banks at least".  
But, he said, bankers do not like to

be told by politicians how they must run their businesses.

Since the advent of the foreign debt crisis in August 1985, precipitated by Chase Manhattan's decision to withdraw credit facilities, more than \$6 billion of the original total foreign debt of about \$24 billion has been repaid.

But due to foreign exchange fluctuations, current debt is still around \$21 billion.

On the positive side, of the original \$14 billion included inside the debt standstill "net", only about \$9 billion is outstanding. By June next year, further payments and transfers out of the net will have reduced the balance to \$7 billion.

The composition and maturity structure of foreign debt has also improved vastly since 1985. In early 1985 60 per cent of the country's foreign debt was repayable within twelve months. At end-December last year this had dropped to 47 percent while further progress has been made in recent

months.

Dr Stals said that in order to afford an expected repayment of at least \$2 billion next year, the surplus on the current account of the balance of payments will have to exceed R6 billion at least.

An improved political perception of South Africa will also vastly improve the effort by the Reserve Bank to convince overseas bankers to convert short-term debt inside the net into long-term debt outside the net. Under this option holders of some \$4,8 billion of debt has been converted.

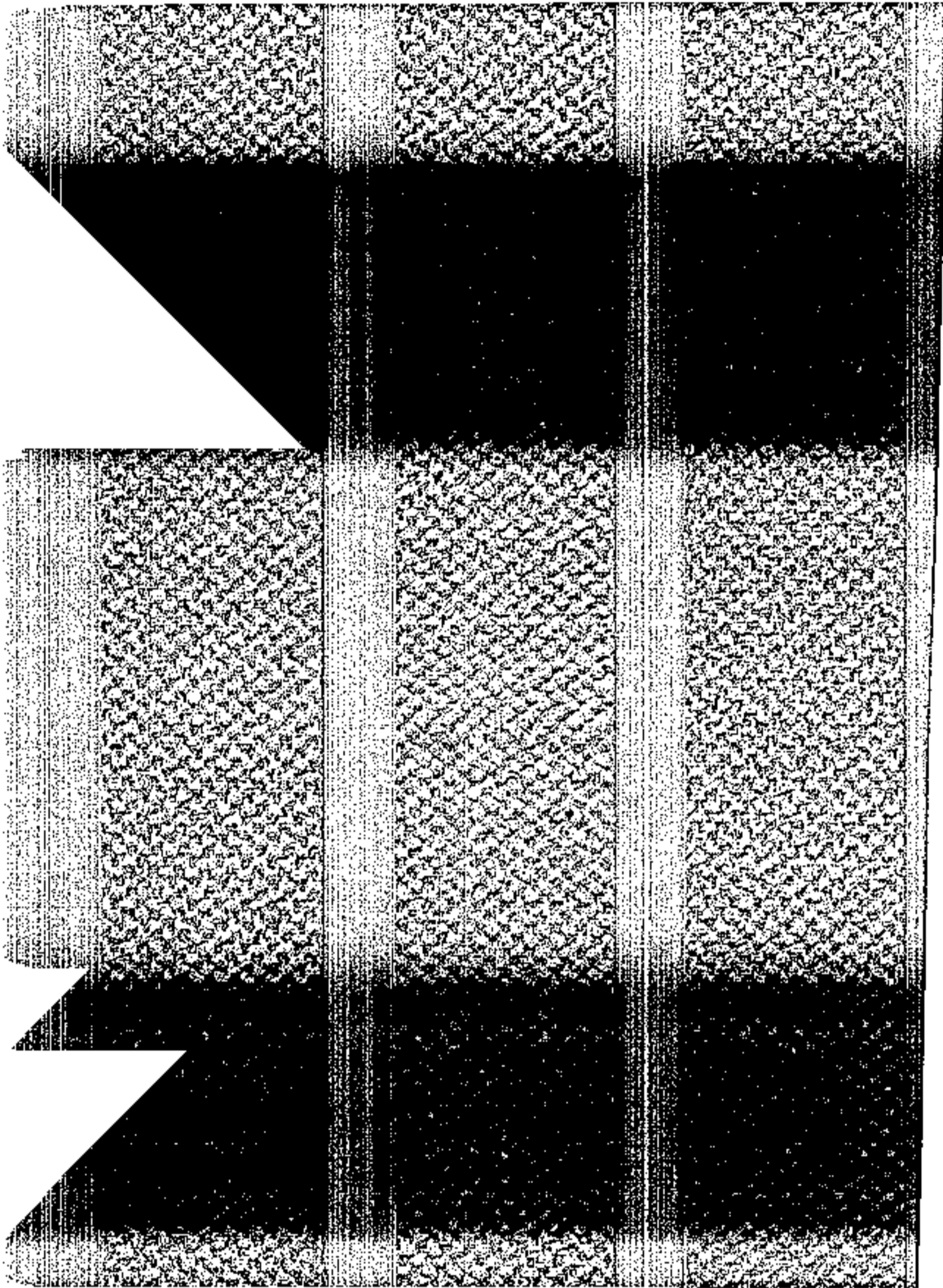
The other option open to foreign creditors is to convert their debt into financial rands. While this will impact on the capital values of the debt due to the financial rand discount, it does nevertheless, become immediately payable if the holder so wishes.

According to Dr Stals only about \$500 million of debt within the net has been converted into financial rands in terms of this option; a figure he finds surprisingly low.

# Paying off the debt of apartheid

Sowetan 22/9/89

74



Desmond Tutu and Beyers Naude met with Bush on sanctions.

P.T. O  
D

**THE** rescheduling of the South African debt hearing before the United States Government's House Sub-committee on International Development, Finance, Trade and Monetary Policy, drew response from varied sources.

Senator Joseph Kennedy told the hearing that: "If the United States cannot take a resolute and

## FOCUS

By ISMAIL  
LAGARDIEN

principled stand against the practices of the racist government of South Africa, then our nation's moral compass has lost its bearings."

Presenting the argument for financial sanctions as a means of compelling constitutional change in South Africa was Mr Terry-Crawford Brown, a former treasury manager for Nedbank, and an Anglican representative to the Western Province Council of Churches.

"As much as apartheid is incompatible with Christianity so it is with sound banking practice," Crawford-Brown told the House.

### Scandal

Crawford-Brown provided a strong argument for sanctions citing "extraordinary foreign exchange losses thanks to gross mis-management of foreign loans by State owned corporations such as SA Transport Services, the Post Office, Wool Board and Maize Board etc.

"Barely a week now passes in South Africa without leakages of yet another financial scandal. And the numbers involved are huge. South Africa has become fair

game for a variety of sleaze merchants and con-men under the guise of sanctions-busting: arms traffickers, drug traffickers, oil pirates and even dumping ground for toxic wastes."

### Spawns

"This," Crawford-Brown said, "is a consequence of apartheid and the sanctions it spawns. Sixty percent of South Africa's economy is trade oriented rendering the option of telling the world to 'go to hell' ludicrous".

The University of Stellenbosch Economics Department estimates the direct and indirect annual costs of apartheid as R80 billion. In addition the capital outflow from South Africa during the past four years has been R27 billion. The national debt has risen from R12 billion in 1978 to R65 billion this year.

"The litany goes on and on," he said.

On July 18, Minister of Law and Order Mr Adriaan Vlok conceded that sanctions were working and that they "are forcing the Government

to negotiate with the African National Congress."

Crawford-Brown stressed that the time for "more and urgent pressure against apartheid, not an easing up so that De Klerk can be 'given a chance.'"

"International linkages have been identified by 'a variety of authorities' as being apartheid's greatest vulnerability, 'hence the focus on international banking ahead of the debt rescheduling negotiations.'"

### Purpose

"When church leaders Archbishop Tutu, Dr Alan Boesak and Dr Beyers Naude visited Washington in May and met President George Bush they said that the purpose of sanctions is not to destroy the South African economy. The goal is constitutional negotiations for a democratic, non-racial and prosperous South Africa," Crawford-Brown told the Americans.

"We do not relish sanctions any more than a cancer patient looks forward to surgery. But only when apartheid is behind us can South Africa begin to meet its potential. And only when South Africa has overcome apartheid can it begin to contribute to the development of South Africa.

"International banking pressure is a link in a comprehensive strategy," he said.

Crawford-Brown is presently serving as an advisor to Boesak and Tutu on the matter of financial pressure against apartheid.

# Paying off the debt of apartheid

Sowetan 22/9/84

74



Desmond Tutu and Beyers Naude met with Bush on sanctions.

THE rescheduling of the South African debt hearing before the United States Government's House Sub-committee on International Development, Finance, Trade and Monetary Policy, drew response from varied sources.

Senator Joseph Kennedy told the hearing that: "If the United States cannot take a resolute and

**FOCUS**

By ISMAIL LAGARDIEN

principled stand against the practices of the racist government of South Africa, then our nation's moral compass has lost its bearings."

Presenting the argument for financial sanctions as a means of compelling constitutional change in South Africa was Mr Terry-Crawford Brown, a former treasury manager for Nedbank, and an Anglican representative to the Western Province Council of Churches.

"As much as apartheid is incompatible with Christianity so it is with sound banking practice," Crawford-Brown told the House.

## Scandal

Crawford-Brown provided a strong argument for sanctions citing "extraordinary foreign exchange losses thanks to gross mis-management of foreign loans by State owned corporations such as SA Transport Services, the Post Office, Wool Board and Maize Board etc.

"Barely a week now passes in South Africa without leakages of yet another financial scandal. And the numbers involved are huge. South Africa has become fair

game for a variety of sleaze merchants and con-men under the guise of sanctions-busting: arms traffickers, drug traffickers, oil pirates and even dumping ground for toxic wastes."

## Spawns

"This," Crawford-Brown said, "is a consequence of apartheid and the sanctions it spawns. Sixty percent of South Africa's economy is trade oriented rendering the option of telling the world to 'go to hell' ludicrous".

The University of Stellenbosch Economics Department estimates the direct and indirect annual costs of apartheid as R80 billion. In addition the capital outflow from South Africa during the past four years has been R27 billion. The national debt has risen from R12 billion in 1978 to R65 billion this year.

"The litany goes on and on," he said.

On July 18, Minister of Law and Order Mr Adriaan Vlok conceded that sanctions were working and that they "are forcing the Government

to negotiate with the African National Congress."

Crawford-Brown stressed that the time for "more and urgent pressure against apartheid, not an easing up so that De Klerk can be 'given a chance.'"

"International linkages have been identified by 'a variety of authorities' as being apartheid's greatest vulnerability, 'hence the focus on international banking ahead of the debt rescheduling negotiations.'"

## Purpose

"When church leaders Archbishop Tutu, Dr Allan Boesak and Dr Beyers Naude visited Washington in May and met President George Bush they said that the purpose of sanctions is not to destroy the South African economy. The goal is constitutional negotiations for a democratic, non-racial and prosperous South Africa," Crawford-Brown told the Americans.

"We do not relish sanctions any more than a cancer patient looks forward to surgery. But only when apartheid is behind us can South Africa begin to meet its potential. And only when South Africa has overcome apartheid can it begin to contribute to the development of South Africa.

"International banking pressure is a link in a comprehensive strategy," he said.

Crawford-Brown is presently serving as an advisor to Boesak and Tutu on the matter of financial pressure against apartheid.

# Exchequer balance a new record

81 Day 251-9187  
THE Exchequer balance rose to another record of R8,6bn after the first five months of the fiscal year to end-August.

The balance, which is lower than government's overall cash balances with the Reserve Bank, increased by R1,6bn from a month before.

Exchequer figures for the first five months of the fiscal year show that spending and revenue are almost spot on. Revenue of R22,8bn for the first five months is 41,4% of the total budgeted for the year (pro rata for five months would be 41,7%).

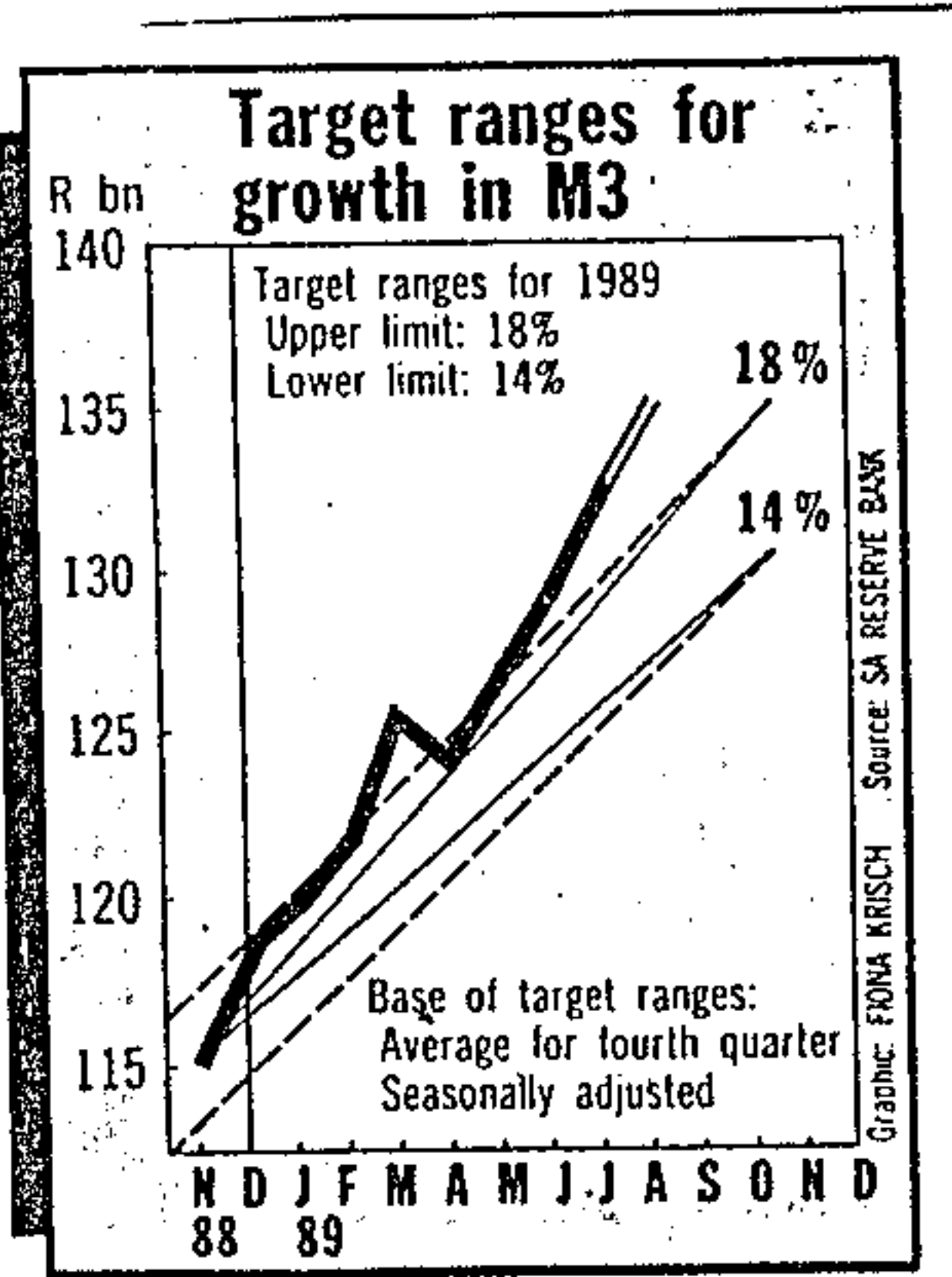
Spending of R26,6bn for the first five months was 40,9% pro rata — again below the 41,7% pro rata for the year. With Au-

74  
BARRY SERGEANT

gust's spending (R5,2bn) and revenue (R5bn) almost matching, the crude public sector borrowing requirement (PSBR) for the first five months was R3,8bn — substantially less than the R10bn forecasted for the year as a whole.

Year-on-year increases for revenue and spending fell back markedly for the months of August. Revenue increased 12% in August on August a year ago, while spending increased 17,6%.

For the first five months on a year ago, revenue collections increased 33%, against 14% forecast for the year as a whole.



## Interest rates may not fall before 1990

KAY TURVEY

HIGHER-than-expected growth in the money supply aggregates for August have reduced the possibility of interest rates coming down before mid-1990.

Figures released on Friday show the broadly defined money supply, M3, rose by a preliminary 24,2%, last month. This disappointingly high growth has led some economists to raise the possibility of a hike in interest rates if gold and the dollar should move adversely to SA's interests.

But Reserve Bank senior deputy governor Japie Jacobs said the growth in M3 did not necessarily imply a change of monetary policy, although existing measures would have to continue longer.

Seasonally adjusted total M3 money stock at R135,5bn is way out of the upper target of R131bn and the likelihood of meeting the year-end target limit is remote. *BIDAN 25/9/89*

An unpleasant surprise is the sharp upward revision of former months figures which previously had created expectations of a slowdown in bank credit.

The growth in M3 was revised upwards to 26,7% from 25,5% in June and to 25,3% from 22,7% in July. Jacobs attributed these revisions to errors in the compilation over the past three months caused by a bank submitting incorrect figures.

# IMF reports more borrowings by SA

B/Dam 25/9/89

74

GRETA STEYN

WASHINGTON — Persistent rumours that SA made massive use of foreign bridging finance to meet its foreign debt commitments in June are confirmed by IMF statistics released here.

International financial statistics show the SA monetary authorities' foreign liabilities jumped by almost R2bn in May, just ahead of the repayment of debt inside and outside the standstill net in June, to stand at R5,3bn. This increase in foreign liabilities to a new record can only be explained by emergency credit facilities and loans against gold. The figures confirm persistent talk in banking circles that the Reserve Bank had drawn heavily on its short-term credit facilities to tide the country over a period of intense strain on its foreign reserves.

These rumours could not be confirmed in SA as the Reserve Bank has ceased disclosing its foreign loans, both in the quarterly bulletin and in its financial statements, for fear of drawing attention to banks that provide it with bridging finance. The credit provided to SA in this way is similar to an overdraft. The jump of almost R2bn in the monetary authorities' foreign liabilities implies continued strain on the country's embattled reserves, as

these liabilities have to be settled within a short period. The extensive borrowings to meet foreign debt, interest and dividend commitments underlines the need for continued tight monetary policies which Reserve Bank Governor Chris Stals has vowed to maintain deep into next year. According to the IMF, SA's reserves (excluding gold) were only \$663m at the end of July.

The IMF also provides figures on unexplained capital outflows. Dubbed the "black hole" by SA economist Edward Osborn, the country's errors and omissions on the capital account of the balance of payments continue sharply negative. The IMF's figures show these outflows were more than R1bn last year. Although many countries have large errors and omissions flows, they are often positive, representing an unexplained inflow of capital. But in SA's case, the figures since 1982 show a consistent outflow of capital under errors and omissions, representing an unexplained drain on the balance of payments and giving rise to speculation that this might be continued capital flight.

● See Page 8



B/Dam 25/9/89

# Capital market profits to be frozen <sup>74</sup> Barend

FUNDS raised on the capital market, which are in excess of what is required to finance the deficit before borrowing in this year's Budget, will be frozen in a stabilisation fund, Finance Minister Barend du Plessis announced at the weekend.

The move, which conforms with official policy of monetary and financial discipline, is viewed by economists as an encouraging sign that government will not squander the Treasury's huge cash balances.

Treasury has already borrowed sufficient money to finance the deficit before borrowing, which will be smaller than anticipated in the Budget because of higher than budgetted revenue and the current cooling of the economy, Du Plessis said.

Marketing of government stock is to continue to maintain financial discipline aimed at strengthening the balance of payments (BoP) and promoting

KAY TURVEY

price and exchange rate stability.

These additional funds raised will go into the stabilisation fund and will help counter the liquidity created by the Reserve Bank's huge forward cover losses and which have also contributed to the disturbing money supply growth.

## Losses

Du Plessis said the additional amount to be borrowed could also be applied to repaying some of the losses on the Reserve Bank's forward cover foreign exchange book — which Treasury underwrites.

Figures of Reserve Bank assets show these losses have risen by 83% so far this year from R9,36bn in January to R17,1bn in August.

These losses are accepted by the Reserve Bank to encourage off-shore trade

financing as a means to protect the BoP.

Du Plessis said that although government spending in the current financial year remained within Budget limits, the withdrawal of funds from the market by way of loans would entail additional interest charges, which could not have been anticipated in the original Budget.

Essentially shorter term rates will be kept higher as a result.

A reduced rate of inflation, together with a stronger BoP, is a pre-requisite for a future lowering of interest rates, he said.

George Huysamer economist Louis Geldenhuys said the reduction of Exchequer debt owing to the Reserve Bank would provide confidence that government was not going to spend the additional funds.

The move also created optimism that funds raised through privatisation and the current Iscor flotation would be prudently used.

# Debt re-negotiation talks in full swing

81 Day 25/9/89

WASHINGTON — Reserve Bank Governor Chris Stals held a week of intensive talks with SA's foreign creditor banks, first in Zurich and then in New York and Washington.

Stals, who was locked in meetings at the weekend said: "The dialogue with banks will continue next week."

This confirms speculation that SA will use the IMF meeting as an opportunity for behind-the-scenes negotiations on its foreign debt.

The current agreement on debt inside the standstill net expires in June 1990.

Stals would not be drawn on whether any progress had been made in reaching a new agreement, saying SA was still gauging the mood of its creditors. He denied a report in the Financial

GRETA STEYN

Times last week saying he had had talks with members of the foreign banks' technical committee.

"I have held discussions with individual banks only," he said.

## Extensive

The rescheduling of SA's debt continues to attract attention from anti-apartheid campaigners, and Stals acknowledged there was pressure on US banks not to convert debt caught inside the standstill net into longer-term loans outside the net.

US banks, notably Citibank and Manufacturers Hanover, have made extensive use of the facility.

Asked whether SA was trying to con-

vince US banks to ignore the pressure and convert anyway, he said: "We are adopting a neutral approach to the issue."

Reserve bank figures show there has been a significant shift in the maturity structure of the debt.

From July 1987 to May 31 1989, an amount of \$3.9bn was converted, in terms of the provisions of the second interim arrangements with foreign creditors, into nine-and-a-half year loans outside the net.

Largely as a result of the option, SA's short-term debt inside the standstill net dropped from about \$13.6bn in 1985 to \$9bn at the end of last year.

Further conversions should push the figure down to about \$8bn by June next year.

According to Federal Reserve fig-

ures, US banks' total exposure to SA was \$2.5bn at the end of March this year.

SA's short-term exposure to US banks has increased while longer-term debt to the US has decreased between December 1988 and March 1989.

## Exposure

The figures show a drop of about \$110m in amounts maturing in over five years to \$780m and an increase of about \$100m in debt maturing in one year.

SA's main UK creditors are Barclays, Standard Chartered and National Westminster, with a combined exposure of £1.5bn.

Stals has remained optimistic that a new accord will be reached.

# Govt plan for Iscor funds sparks a row

B/Dam 26/9/89

74

~~2/2/89~~

A ROW has erupted over how government is going to use the R3bn proceeds of the Iscor share offer.

Finance Minister Barend du Plessis has often said the proceeds would not be used to reduce the deficit before borrowing.

Last night, Reserve Bank deputy governor Japie Jacobs said the R3bn from Iscor would be used to reduce government's R12,7bn budgeted loan issues for the full 1989-1990 fiscal year. Jacobs agreed with Du Plessis that the R3bn would be used to retire existing debt of that amount.

"It will be bought into the Exchequer accounts as a one-off capital item."

But Nedcor chief economist Edward Osborn said: "Strictly speaking, this is in conflict with the Minister's undertaking not to use the Iscor proceeds to fund current expenditure.

"In terms of what is now being said, the use of the R3bn will simply result in the debt increase this year being R3bn less than it would have been.

"It's equivalent to the proceeds being used to fund the current account deficit.

"However, the method of dealing with the R3bn is ingenious, as it would otherwise have meant another R3bn issue in the market, for the redemption of debt, for which there might not have been takers."

Jacobs said government had been operating its stabilisation account, announced by Du Plessis at the weekend, since September 1. The stabilisation account would be a separate account and only proceeds

**BARRY SERGEANT**

from new issues would go into it.

Jacobs said it would distort the markets to give an exact amount of funds intended for the stabilisation account at this stage.

He said the R3bn expected from Iscor would be used to retire debt, rather than roll it over.

Jacobs said in terms of government's strict monetary and fiscal policy, its balances at the Reserve Bank could be expected to increase by billions of rands more than the R8,6bn record Exchequer balance at end-August.

Jacobs said within the first five months of the fiscal year to end-August, government had exceeded by billions of rands the net amount it intended to issue in the capital markets for the full year.

Figures for the first five months of the fiscal year show that, of the R12,7bn loan financing budgeted for the full year, R6bn had been issued. Jacobs said the R12,7bn originally proposed had to be reduced by: the R750m loan levy income; about R3bn due from Iscor; and R5,5bn to be taken up by the Public Debt Commissioners. This left R3,5bn, which had already been heavily exceeded by the R6bn capital market paper issued so far.

Jacobs explained the extra funds to be raised in the capital markets would, like the R8,6bn Exchequer balance, be steri-

□ To Page 2

Dollar...  
[Penh, yesterday leaving them...]

BIDAY 26/9/87  
Durr tells  
of sense of  
urgency ~~in~~  
in govt 74

CAPE TOWN — Government was determined to get fundamentals right, from which sustained and healthy economic growth could take place, Trade, Industry and Tourism Minister Kent Durr said yesterday.

He told the export conference that he could "already feel the sense of urgency rippling through the new government".

It was clear that the means to wealth creation and economic growth lay in the promotion of industries and the broadening of SA's industrial base, realising import substitution, developing exports and through a process of inward industrialisation providing more and a greater variety of products for the local market.

### Successful SA

It was of no avail for the politicians to blame inadequate economic circumstances or for business to shield behind a poor political environment.

"The challenge to us all is to follow policies of inclusion to find a better, more just, fairer and more stable and successful SA."

Durr said that in the past partially unsuccessful policy implementation had at times led to barriers, resentment and misunderstanding.

In the current spirit of the "new South Africa" two-way communication and cooperation had to be central to a strategy to ensure success.

"We must pull in the same direction to enable SA to fulfil its export potential more quickly and more efficiently."

He said he committed himself to continued formal and informal consultation with industry. — Sapa.

## Ramphal pushes for tough debt reprisals

GRETA STEYN

WASHINGTON — Commonwealth Secretary-General Sir Shridath Ramphal has come out with a strong statement urging SA's creditor banks to force an end to apartheid. *6/Day 2/19/89*

Ramphal says the expiry of the current agreement on SA's debt caught inside the standstill net "provides a special window of opportunity to the international financial community to sustain pressure on SA" — and to do so in ways which technically do not amount to sanctions.

He said requiring SA to repay between \$7,5bn and \$8,5bn in debt next year would not constitute sanctions.

"Helping SA to reschedule its debt is helping Pretoria through extraordinary measures — abnormal actions that actually help apartheid."

Ramphal said the case for such pressure was undeniable. Financial pressure on SA had put a serious constraint on its growth.

"It is by forcing change — not sustaining the status quo — that lenders' interests are best served."

A Commonwealth committee of foreign ministers has called for the following forms of financial pressure on SA: substantial capital repayments on debt, high interest rates and the rejection of exit options such as conversion to nine-year loans.

In addition, trade financing should be cut off. A campaign to publicise SA's dealings with the international financial community was being planned.

● See Pages 6 and 13

# Company loan levy receipts fall short of Govt expectations

By Derek Tommey

Loan levy collections from companies have fallen well short of original estimates.

Early in May the Government announced a package of measures aimed at cooling the economy. Among these was a loan levy on companies. The levy was fixed at 10 percent of the latest financial year's profits and was expected to produce about R750 million.

But as July 31, the day by which the levy had to be paid, drew nearer Treasury officials revised downward their estimates and forecast that they would receive probably no more than R650 million.

But even this figure has turned out to be too high.

The latest Treasury statement shows that by the end of August the loan levy had produced only R560 million. This is some R190 million or 25 percent less than originally expected.

It is possible that there are some late payers and the final figure might be a little higher.

But it is obvious that the loan levy, aimed at curbing overspending, has not drained as much cash out of the economy as was expected.

Nonetheless, the Treasury statement shows that the Government is having success in other areas in its efforts to cool the economy, and this could more than make good the reduced impact of the loan levy.

The Treasury statement shows that in spite of claims to the contrary, surcharges are beginning to curb imports.

The statement shows that customs duties receipts dropped to R180,7 million in July, 14 percent down on the year ago figure.

This is a fairly significant reduction seeing that the depreciation of the rand in the past year has increased the average cost of imports by some 8 percent.

In view of this and the fact that many of the duties are based on the price of imports, one would have expected customs duties to have shown a rise.

Businessmen are paying heavily for the privilege of importing goods. The import surcharge produced R219,2 million for the Exchequer in July, almost three times the R74,9 million it received in the same month last year.

In the four months ended April the surcharge had raised R797,4 million for the Treasury against R278,6 million in the same period last year.

The July revenue figures showed that the economy is still booming. Inland revenue receipts, which include personal and company tax and GST, amounted to R5,27 billion. This was 40,6 percent more than R3,75 billion collected by the Treasury in July last year.

However, a warning sign that the economy was about to cool was the GST collection figures which at R1,3 billion were running only 25 percent ahead of last year.

In view of the high level of inflation, which should have boost-

ed collections by about 18 to 20 percent, and the increase in the GST tax rate, this year-on-year rise of 25 percent is on the low side.

Nevertheless, customs and excise duties continued to show strong growth in July. Mainly as a result of the import surcharge and a more than doubling in the fuel levy from R175,1 million last year to R372,2 million in July this year, total customs and excise duties rose by 53,5 percent to R1,04 billion.

But preliminary tax figures for August suggest that the curbs on the economy are starting to work. Inland revenue receipts were only 7,1 percent higher than a year ago, increasing from R3,8 billion to R4,1 billion, which a marked change from July's 40,6 percent increase.

Customs and excise duties also showed a smaller increase in August, rising 40,0 percent in August from R651,2 million to R912 million.

# Soft landing is expected

Star 30/9/89

(scribble)

74

**MAGNUS HEYSTEK**  
FINANCE EDITOR

THERE'S good news for most households and businesses: the cooling down process in the economy is progressing satisfactorily and a soft landing is now generally expected.

The latest quarterly bulletin of the SA Reserve Bank points to another heartening fact which will also serve to diminish South Africa's daily fixation with the London gold price: as an earner of foreign exchange, gold's share has dropped fairly dramatically from 45 percent to current levels around 28 percent. This makes the economy far less vulnerable to price movements.

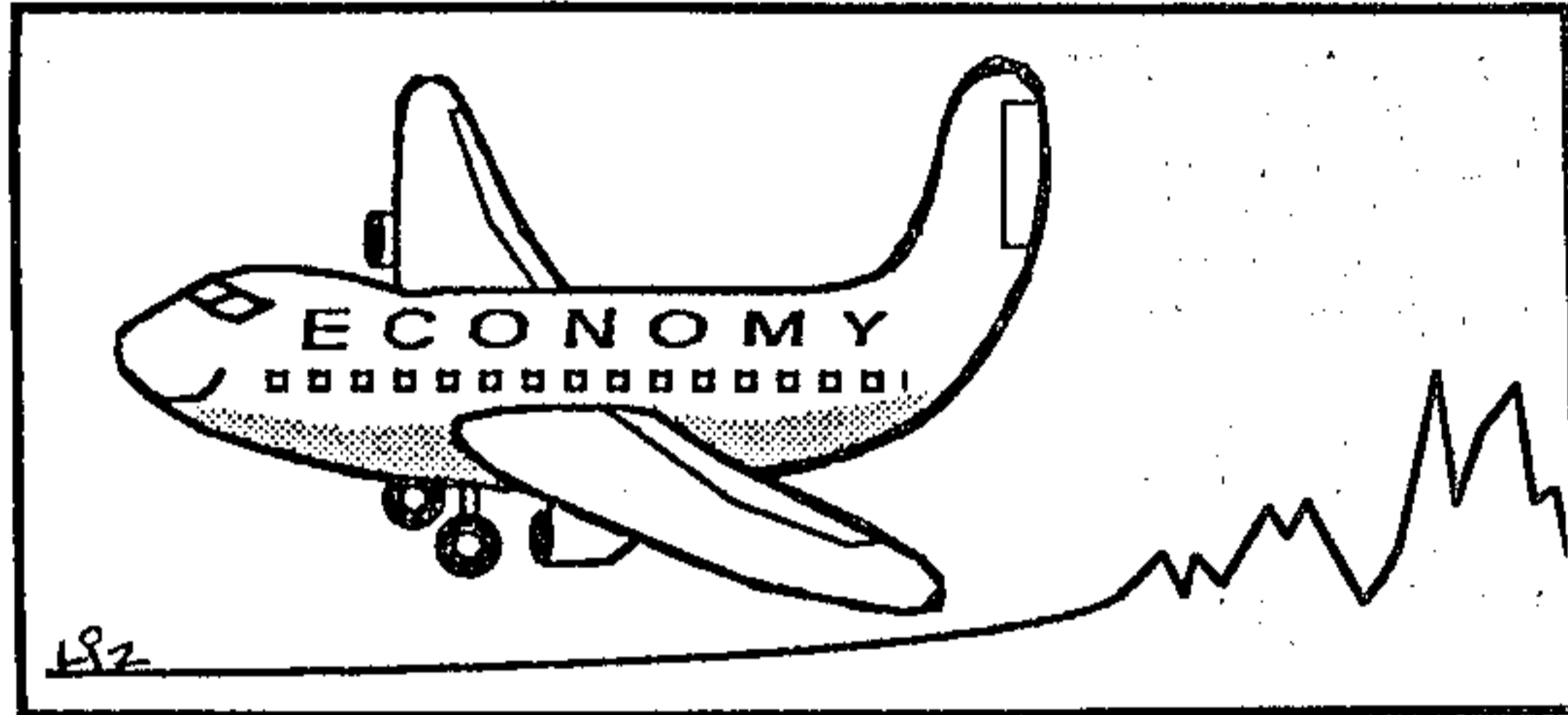
But despite these two positive aspects, the Reserve Bank cautions about several developments within the economy that can have a detrimental long-term effect, if not handled correctly.

Inflation, as measured by all major price indices (ie those for the prices of imported and domestically produced goods, production prices and consumer prices), accelerated markedly and disturbingly on a short-term basis in the first half of the year. A worry is that this sharp increase came on the back of already high levels in the final two quarters of 1988.

## Disguised

"The extent of this acceleration tends to be concealed by the generally more widespread practice of quoting percentage price increases in the various price indices only on a 12-month or year-on-year basis", says the Bulletin.

The Bank also sounds a note of caution about the seemingly uncontrollable growth in the money supply. It writes: "Far too little progress has been made in slowing down ... the increases in the money supply. Recently revised monetary statistics show M3 as at month-ends from May through July 1989 again to have been well above the upper limits of the target range."



COMING DOWN: Well it's been a bumpy ride so far.

As far as the Bank is concerned, the economy is responding adequately to the cumulative impact of measures of more restrictive monetary, fiscal and credit policy which commenced from late 1987.

According to several leading economic indicators, such as real gross domestic production and gross domestic expenditure in the second quarter of this year, further evidence was provided of the "cyclical cooling down of the economy and of it having moved into the early stages of a consolidation phase".

Similar impressions of a loss of momentum could be gained from a variety of cyclically sensitive indicators like composite coinciding indicators, real manufacturing production, retail and wholesale trade figures, motor car sales and levels of unemployment.

New company registrations, after levelling out through most of 1988, declined materially during the second quarter of 1989.

## Exports

The remarkable, but as the Reserve Bank calls it "highly gratifying" strength of merchandise export performance during the second quarter of 1989 was matched by a similarly strong rise in the volume and value of merchandise imports.

Together with a sharp drop in the dollar price of gold, this high level of imports resulted in a further contraction of the surpluses on the current account on the bal-

ance of payments. As a result of this, the annualised current account surplus in the first half of 1989 of R2,3 billion fell far short of the surplus recorded during the same time during 1988.

Another worrying aspect is the low level of foreign exchange and gold reserves. Large outflows on the capital account, have further diminished the already low levels of forex reserves, which now amount to less than two months of imports.

## Debt repayment

But despite these low levels, known and obligatory debt repayments during the remainder of the year will be significantly smaller than during the first half of the year.

Despite the declining role of gold as an earner of foreign exchange, the South African economy still reels, albeit at a reduced level, under the effect of sharp declines in the US dollar price of gold.

The accelerated decline in the gold price from more than \$412 per ounce at the beginning of 1989 to less than \$360 an ounce early in the fourth week of May, had a depressing effect on the real value added by the gold mining industry and by all primary sectors.

The decline in the gold price obviously also contributed to the narrowing of the current account on the balance of payments and therefore to the weakening of the exchange rate and forex levels.

# SA can pay its debt ~~200~~ Barend <sup>74</sup>

BIDAN 5/10/84 MANDY JEAN WOODS <sup>304A</sup>

SA had no difficulty in meeting international interest and dividend or reasonable capital redemption payments, Finance Minister Barend du Plessis said yesterday.

In a statement he said considering the volume and frequency of the debt problems prevailing in the IMF and the World Bank member countries, "SA's problem is relatively insignificant."

He was reacting to reports on Tuesday that US Assistant Secretary of State for Africa Herman Cohen had said he failed to see how pressure could be exerted on SA through further financial sanctions.

Commenting on Cohen's statement that discussions on economic measures against SA would be held if SA did not start negotiations with blacks soon, Du Plessis said he "strongly rejects claims" SA had to be forced into negotiations.

"It is inappropriate to lay down schedules and time limitations for negotiations on a matter so complex as designing, negotiating and implementing constitutional reforms in SA and to link access to international financial facilities to progress in this regard."

□ Sapa-AP reports from New York that 29 people were arrested yesterday for blocking doors at Manufacturers Hanover Trust Co.'s corporate headquarters, where they urged the bank not to give SA more time to pay back loans. After they were asked to leave, they refused and were arrested on a trespassing charge.



Long-term rescheduling of \$1,7bn

74

# US banks act to ease SA's debt squeeze

B/Dan 4/10/89

WASHINGTON — US banks have reached long-term rescheduling agreements with SA for at least \$1,7bn of the \$2,4bn still owed them, US Assistant Secretary of State for Africa Herman Cohen told the Senate foreign relations committee yesterday.

This figure is substantially higher than previous estimates, and administration officials said it could itself be low. Cohen said the remainder, at most \$700m, was being carried on "a very short-term basis". He believed most banks had taken the so-called 10-year exit option and would therefore be repaid by 1997.

Supporters of financial sanctions have assumed that about \$1,7bn of US bank debt remained to be rescheduled by next June, when the second interim arrangements expire, and have been pressing the banks to use rescheduling as leverage on SA.

Demonstrations are planned for today outside Manufacturers Hanover in New York, as well as in London, Paris, Bonn and Zurich, where Natwest, Credit Lyonnais, Dresdner Banks and Union Bank of Switzerland will be the respective targets.

Cohen said US banks had no leverage. "From what the banks tell me, the terms are dictated by the SA government and they are happy SA is repaying."

Draft legislation being circulated among members of the new congressional task force on SA would prohibit banks from taking the 10-year option and would require 15% of outstanding principal to be paid annually.

Such measures, Cohen argued, would force SA either to default or reschedule unilaterally, adding: "I fail to see how pressure would be exerted on SA through this

SIMON BARBER

method."

The new figures will have come as a particular surprise to Senator Edward Kennedy, who called for "financial sanctions relating to SA's debt of \$9bn owed US banks" if there was "no progress" in SA.

In the US administration's annual report on the Comprehensive Anti-Apartheid Act, released yesterday, the administration said it was opposed to further sanctions "at this time" and did not believe they could be used to "force" SA to the negotiating table.

Outlining a policy "balancing pressure and incentives", Cohen said he was counting on President F W de Klerk to repeal most discriminatory legislation by the end of the next parliamentary session.

Specifically citing the Land Act of 1913, the Population Registration Act and the Separate Amenities Act, he said he hoped government was working on repeal mechanisms in time for the opening of Parliament in February.

In the interim, he was looking to De Klerk to use his executive powers to deal with issues that did not need parliamentary approval. These would include lifting the emergency, releasing political prisoners and unbanning political organisations.

Pressed on how the administration would respond if this ambitious timetable was not met, Cohen replied: "That is not an assumption I want to make."

He said the administration wanted to establish a formal "consultative group" with its major trading partners, including Britain, West Germany and Japan, to discuss "mutually supportive policies" on SA.

□ To Page 2

## Debt squeeze

B/Dan 4/10/89

But these countries had shown "very little interest in policy co-ordination".

The administration also wanted to increase aid to black South Africans, especially in education, and would be asking Congress to approve direct support of SA universities, previously off-limits as government-controlled entities.

Senator Paul Simon, chairman of the panel's Africa sub-committee, said he was happy with the administration's position of "no new sanctions at the present time".

74

□ From Page 1

□ ROBERT GENTLE reports from London that the international protest campaign against the rescheduling of SA's foreign debt would start today with a musical extravaganza outside the entrance to National Westminster (NatWest).

NatWest, Britain's largest bank, is being targeted by the anti-apartheid movement Eltsa (End Loans to SA) because it chairs the technical committee of international banks handling the rescheduling. Barclays and Standard Chartered are also on the protest itinerary.

# Barend calls for information campaign to fight sanctions 74

By Alan Dunn,  
Political Correspondent  
Finance Minister Barend du Plessis has returned from the US and Europe peeved at anti-apartheid groups' efforts to intensify the sanctions and debt squeeze against South Africa.

Bankers understood the situation, he said, but were being subjected to pressure from a variety of quarters including church groups who were campaigning on false data.

"They are being fed incorrect information on which they base their own information and conclusions," Mr du Plessis said in an interview after his return yesterday. He had attended the annual International Monetary Fund conference in the US and visited other financial centres.

The sources of this information had to be found and their agendas determined, he said. They had to be convinced to change their minds or get their information right.

STAR (SAP) 9/10/89  
On present efforts to roll over South Africa's foreign debt, Mr du Plessis said the issue had in spite of recent efforts, not been politicised. The Governor of the Reserve Bank, Dr Chris Stals, was handling it on the technical side.

In general, however, he felt South Africa was very well understood by the banks and others with interests in the country.

He was confident that by June next year, Dr Stals and his team would reach "some conclusion" on the issue.

Anti-apartheid forces have for a year or so been concentrating on targeting South Africa's hefty foreign debt and its efforts to extend its repayment terms, to hurt the Government.

No easing of the capital flow was in sight in the short term, Mr du Plessis said.

South Africa was under the same pressures as before to make structural adjustments to the economy to reduce its dependence on imports.

About 100 countries in the IMF were doing the same, Mr du Plessis said, but they had access to international markets. "We have to squarely face up to the nasty implications," he said.

South Africa presently needed 67 percent of its annual export earnings to meet its international debt. Comparable Western countries needed 320 percent.

The Republic was underborrowed, he said, and should not be a capital exporting country. It should be given normal access to world facilities to restore the ability to grow at a much higher rate. It could virtually double the growth rate if the capital outflow was stopped.

Politically, South Africa had to "get negotiations going" to boost confidence domestically and overseas. Once this was underway, Mr du Plessis said he thought foreign perceptions would change:

"But I don't imply money will come flowing in...if only we can stop it flowing out."

TEL: 708-1684  
708-1248

0520728

MORNING FINAL



24th in line to the  
n to the Queen.

## Mortgage rates set to rise again

SAR Finance Staff (74)

The recent round of interest rate increases in Europe has triggered a one percentage point increase in the South African Bank Rate from 17 to 18 percent with mortgage rates certain to follow suit: jumping from the current 19,75 or 20 percent to 20,75 or 21 percent.

The increase in the Bank Rate is scheduled for tomorrow and home-owners who have been hit hard by near-successive monthly increases in their bond rates from a low of 12,5 percent in 1988, must tighten their belts once again.

The cost of overdrafts is also expected to rise, for whenever

10/10/89  
the bank rate has gone up in the past, so have all other rates.

Explaining the reasons behind the rate increase, Dr Chris Stals, Governor of the Reserve Bank, said increases announced in the discount rates of a number of central banks in Western Europe and in the United Kingdom last week, widened the margins between South African and overseas real rates of interest.

"This will put additional pressure on the capital account of the South African balance of payments, on the exchange rate of the rand and eventually also on the rate of inflation in South

● To Page 3.

Di...

# Mortgage rates to (74) rise again STAR 10/10/89

● From Page 1.

Africa.

"In view of the relatively low level of South Africa's foreign reserves and existing commitments to repay foreign loans, and taking account of the relatively low price of gold at this stage, the country can ill afford any further pressure on its balance of payments."

Inflation has also played its part in the latest increase. Dr Stals points out that although interest rates may seem to be high in nominal terms "they are indeed lower than comparable rates in most of the Western industrial nations if account is taken of the comparative rates of inflation prevailing in South Africa and in these countries".

## IMPORTANT

"In real terms, after adjustment for the rate of inflation, the prime overdraft rates of commercial banks in South Africa is only 3,9 percent, compared with 6,3 percent in the UK and 6,6 percent in West Germany.

"Against this background it is even more important for South Africa than these other countries to apply the necessary financial disciplines and to maintain real positive rates of interest in its fight against inflation."

There is some hope for small businesses and low-income home-owners. The Government has indicated assistance schemes will be reassessed.

● See Page 12.

b/d ay 11/10/89

# Argument for the rise in the Bank rate

SINCE the Reserve Bank announced the increase in its Bank rate from 16% to 17% on May 5 1989, relatively stable conditions prevailed in both the money and capital markets, and interest rates fluctuated within relatively narrow margins.

The discount rate for three-month liquid bankers' acceptances, for example, increased from 16,70% at the end of April 1989 to 17,35% on May 5 1989, and then fluctuated between 17,30% and 17,60% subsequently. The monthly average yield on long-term government stock reached a peak of 17,38% in May 1989 and then drifted down to 16,86% in September. On October 9 1989 the yield on long-term government stock was 16,86%.

Although interest rates may seem high in nominal terms, they are indeed lower than comparable rates in most of the Western industrial countries if account is taken of prevailing inflation rates.

In real terms, after adjustment for the rate of inflation, the prime overdraft rate of commercial banks in SA is only 3,9%, compared with the UK's 6,3% and West Germany's 6,6%.

The increases announced in the discount rates of a number of central banks in Western Europe and in the UK last week widened the margins between the South African balance of payments, on the exchange rate of the rand and eventually also on the rate of inflation in SA.

In view of the relatively low level of our foreign reserves and existing commitments to repay foreign loans, and also taking account of the relatively low price of gold at this stage, we can ill afford any further pressure on our balance of payments.

As far as the domestic economic situation is concerned, the latest available economic statistics confirm that the economy has turned down early in 1989, and is now technically in a consolidation period.

Total gross domestic expenditure,

## Statement on interest rate policy by Reserve Bank Governor Chris Stals

which increased by 7% in real terms in 1988 and by a seasonally adjusted annual rate of 6% in the first quarter of 1989, actually declined at a seasonally adjusted annual rate of 2% in the second quarter of 1989.

In addition to the concern about the continuing capital outflow in the balance of payments, the relatively low prices of gold and a further rise of 17,5% in the seasonally adjusted imports from the first to the second quarter of 1989, there are also a number of reasons arising from domestic economic developments which make it important for SA to maintain nominal interest rates at an appropriately high level.

### Pressures

Firstly, revised statistics for the money supply indicate that in August 1989 M3 still increased at a rate in excess of 24% over 12 months. This remains well above the target-range of 14 to 18% for 1989.

Secondly, the rate of inflation remains high. The CPI in August 1989 was 15,5% above the level of a year ago, while the rate of increase in the PPI rose to 16,1% in August.

Thirdly, increases in wages and salaries in excess of the rate of inflation create more inflationary pressures in the economy, and also raise the demand for credit on the basis of an increase in the ability of of salary- and wage-earners to service additional debt. It is necessary to counteract these effects by a more restrictive monetary policy.

Fourthly, mainly because of the lack of an inflow of capital from

abroad, it remains important that South Africans at this stage spend less on consumption and save more. The country is currently obliged to finance its economic development entirely from its own resources.

Against this background, it is even more important for SA than for Western Europe or for the UK to apply the necessary financial disciplines, and to maintain positive real rates of interest in its fight against inflation, and for the protection of the balance of payments.

After the usual consultation with the Minister of Finance, the Reserve Bank has therefore decided to raise its Bank rate — that is, the rate at which it rediscounts Treasury bills — from 17% to 18% with effect from Wednesday October 11 1989.

Other interest rates at which the Reserve Bank provides accommodation to the market will also be increased by 1% point as from October 11 1989, except rates in respect of all forms of overnight loans which will be raised by 1,25% points.

The rate for overnight loans covered by liquid bankers' acceptances, for example, will increase from 20% to 21,25% as from today.

When bank rate and other interest rates were increased in May 1989, Reserve Bank assistance was made available to the Land Bank to enable it to keep its short-term interest rates unchanged. Various schemes were also announced by the government to assist small businesses and home-owners in the lower income groups who were adversely affected by the higher interest rates.

Government has indicated the Land Bank and government departments responsible for these assistance schemes will reassess the existing facilities in light of this further upward adjustment in interest rates.

Where appropriate, further announcements will be made in due course by the Ministers responsible.

**REVIEW**

# Business backs Stal's action

8/0 am 11/10/89  
SPOKESMEN from the private sector yesterday regretted the one percentage point rise in the bank rate announced by Reserve Bank Governor Chris Stals on Monday night, but generally admitted the necessity for the increase.

Higher interest rates would have a negative impact on business confidence but could lead to tax cuts, Assocom CE Raymond Parsons said.

He felt the rise was unavoidable because of the combination of internal and external economic factors.

"The further rise in interest rates will certainly send a strong signal to the private sector that the monetary authorities wish to see the economy slow down more rapidly, the foreign exchange reserve protected and inflation curbed."

Standard Bank chief economist Nico Czypionka said it was clear that when international interest rates rose, pressure

CHARLOTTE MATHEWS

would be put on SA rates. (20) (12)  
Spokesmen from the major banks said they would be meeting today to decide on rises in lending rates and most would make an announcement this afternoon.

Standard Bank MD Mike Vosloo said: "If Bank rate rises 1%, the normal position is that prime will also rise 1%."

He said deposit rates would also be raised in line with market conditions.

First National senior GM Jimmy McKenzie said the bank would be raising lending and deposit rates; the latter after consideration of the bank's portfolios.

"This rise gave us quite a shock," he said. "Though we understand the need for preserving the BoP situation, in our bank it appeared as though the demand for credit

□ To Page 2

## Stals's backing

8/0 am 11/10/89  
was coming off, certainly in the consumer sector."

Camdons Nationwide MD Scott McRae said a bond rate increase was inevitable and further increases could be expected. Home loan rates now at 19,75% would increase to 21% or more.

"Many South Africans would have to accept a lower standard of living and make adjustments accordingly."

Minister of Transport, Public Works and Land Affairs George Bartlett said last night a further financial burden would be put on home-owners by the 1% increase in the Bank rate, which would have a knock-on effect on home loan rates.

He said the government valued home ownership and wished to keep the owner in his house and reiterated relief measures introduced in June.

(74) (58) □ From Page 1  
"According to the measures which were announced, a home-owner will be permitted to capitalise the increase in the instalment which results from an increase in interest rates exceeding 17%," he said.

KAY TURVEY reports Old Mutual economist David Mohr said yesterday the authorities had a difficult balancing act to perform.

On the domestic front there were signs that the economy was slowing in response to tighter monetary and fiscal measures undertaken since early last year, and any rise in interest rates could result in an overkill situation.

Yet there was a danger of further short-term capital outflows caused by the switching of trade financing if SA did not follow the lead of West Germany and other European countries.

# Business backs Stal's action

*B/D am 11/10/89*  
SPOKESMEN from the private sector yesterday regretted the one percentage point rise in the bank rate announced by Reserve Bank Governor Chris Stals on Monday night, but generally admitted the necessity for the increase.

Higher interest rates would have a negative impact on business confidence but could lead to tax cuts, Assocom CE Raymond Parsons said.

He felt the rise was unavoidable because of the combination of internal and external economic factors.

"The further rise in interest rates will certainly send a strong signal to the private sector that the monetary authorities wish to see the economy slow down more rapidly, the foreign exchange reserve protected and inflation curbed."

Standard Bank chief economist Nico Czypionka said it was clear that when international interest rates rose, pressure

CHARLOTTE MATHEWS

would be put on SA rates. *(74)*

Spokesmen from the major banks said they would be meeting today to decide on rises in lending rates and most would make an announcement this afternoon.

Standard Bank MD Mike Vosloo said: "If Bank rate rises 1%, the normal position is that prime will also rise 1%."

He said deposit rates would also be raised in line with market conditions.

First National senior GM Jimmy McKenzie said the bank would be raising lending and deposit rates; the latter after consideration of the bank's portfolios.

"This rise gave us quite a shock," he said.

"Though we understand the need for preserving the BoP situation, in our bank it appeared as though the demand for credit

To Page 2

## Stals's backing

*B/D am 11/10/89*

was coming off, certainly in the consumer sector."

Camdons Nationwide MD Scott McRae said a bond rate increase was inevitable and further increases could be expected. Home loan rates now at 19.75% would increase to 21% or more.

"Many South Africans would have to accept a lower standard of living and make adjustments accordingly."

Minister of Transport, Public Works and Land Affairs George Bartlett said last night a further financial burden would be put on home-owners by the 1% increase in the Bank rate, which would have a knock-on effect on home loan rates.

He said the government valued home ownership and wished to keep the owner in his house and reiterated relief measures introduced in June.

From Page 1

"According to the measures which were announced, a home-owner will be permitted to capitalise the increase in the instalment which results from an increase in interest rates exceeding 17%," he said.

KAY TURVEY reports Old Mutual economist David Mohr said yesterday the authorities had a difficult balancing act to perform.

On the domestic front there were signs that the economy was slowing in response to tighter monetary and fiscal measures undertaken since early last year, and any rise in interest rates could result in an overkill situation.

Yet there was a danger of further short-term capital outflows caused by the switching of trade financing if SA did not follow the lead of West Germany and other European countries.

74

# Net reserves at a perilous low — expert

B/Dam 11/10/89

**BARRY SERGEANT**

TODAY'S increase in the Bank rate from 17% to 18% was precipitated by a perilous net reserves position, sufficient only to cover a few weeks' imports, says Nedcor chief economist Edward Osborn.

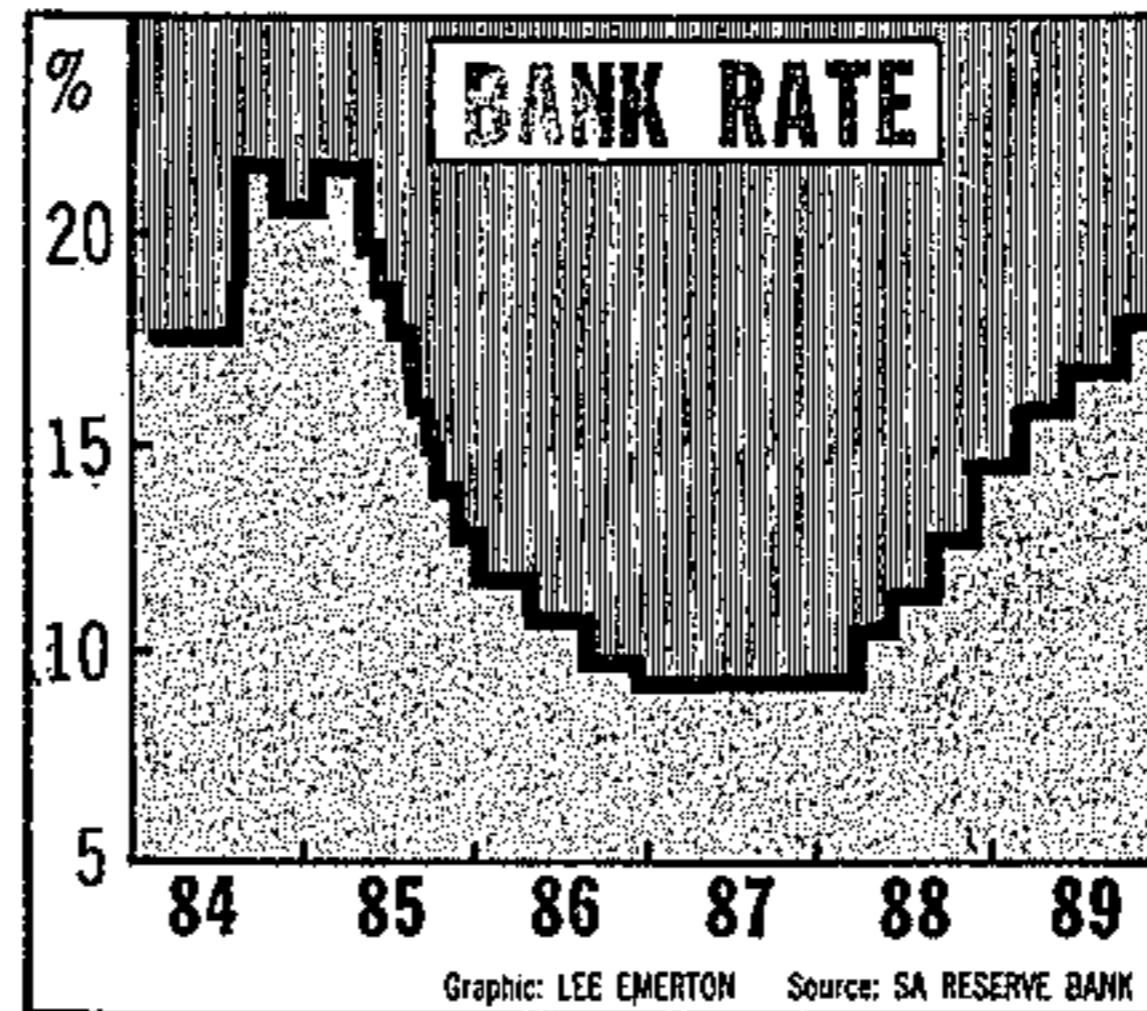
Finance Minister Barend du Plessis said it was a "tragedy that this technical adjustment is being forced on us, especially as interest rates have stabilised for a long time. Even if South Africans have to pay this 'painful price', it is in everyone's interests to make the sacrifice."

Announcing the hike, Reserve Bank Governor Chris Stals said SA could "ill afford further pressures on its balance of payments", given its relatively low foreign reserves, existing commitments to repay foreign loans and the relatively low gold price.

Compounding the net reserves problem were continuing high imports, in spite of import surcharges as high as 60%, and SA's "straitjacket" position in foreign debt repayment negotiations. The final straw was last week's increase in base rates by virtually every central bank in Europe, as part of their campaign to lower the price of the dollar.

The hike in interest rates will rip through the economy — home loan rates now at 19,75%, for example, are expected to increase to 21% or more. Osborn said: "There is little if any chance of relief for the foreseeable future."

Experts saw crisis signals two weeks ago when the Reserve Bank disclosed that a major commercial bank had supplied incorrect money-supply figures for four months. Restatement of the figures showed that the money-supply figures,



which are critical in determining the country's monetary policy, were much higher than previously believed.

Osborn said: "The new figures were shattering. It was then seen as a high possibility that remedial action would have to be taken by government and the Reserve Bank."

Assocom CE Raymond Parsons said a combination of internal and external economic factors had made another increase in interest rates unavoidable.

On the macroeconomic front, the GDP growth rate is stable, but there is considerable momentum in the economy.

Osborn said: "There is a high level of capital creation which is showing in the continuing high level of imports."

"It is this pressure on imports, plus debt repayments, plus continuing outflows of capital, plus the perilously thin reserves position, that forced an increase in interest rates."

With as much pressure as possible being applied on the fiscal side, action could only

□ To Page 2

## Net reserves low

B/Dam 11/10/89

74

□ From Page 1

be taken in the monetary context.

He said: "The policy options are very limited. The screws must continue to be tightened."

The only possible relief in the short term would come from an increase in the gold price, and yet better export performance.

Capital creation is entirely domestically funded. To the extent that capital creation

has an import content, it has to be funded by foreign exchange, which can only be funded by swelling exports.

Were it not for negotiations on repayment of foreign debt under the debt standstill, it probably would not have been necessary to hike interest rates.

● See Page 8



INTERNATIONAL interest rate rises could have had a strong negative impact on South Africa's already weak balance of payments position, if the Reserve Bank had not taken action this week.

Raising interest rates was not the only form of action it could have taken, but the alternative — lowering the cost of forward cover for importers — would have been a high risk strategy which could have worsened the balance of payments position.

Clearly Reserve Bank governor Dr Chris Stals is not in the mood to take risks.

The relationship between overseas and local interest rates is important because it influences where South African businesses borrow their money — particularly the money needed to finance trade with foreign countries.

This in turn has an impact on capital inflows or outflows.

What was significant about last week's international interest rate rise, notes Standard Bank economist Nico Czypionka, was that central bank rates went up across the board in all

# Rising world rates could easily have hurt SA 74

By HILARY JOFFE

The European countries by around one percent. Japanese rates have gone up by around half a percent. This meant that South African businesses could not switch trade finance from one country to another to take advantage of lower rates.

The relationship between trade finance and the balance of payments can be explained with the example of an importer who buys shoes, for example, in Italy. He can borrow money from his bank in South Africa in rands. This is then converted into dollars (or whatever foreign currency is required) to pay for the shoes. The foreign exchange flows out of the country immediately.

Alternately he can borrow the money as a trade credit in Italy — repaya-

ble, say, in six months' time. This offshore trade credit then effectively represents foreign exchange coming into South Africa, at least in the short term, although it has to be repaid in dollars later.

If interest rates then go up in Italy but not in South Africa, the importer might decide it is now cheaper to borrow locally. So he switches — he borrows the money here to pay back his Italian loan. This means an immediate short term capital outflow from South Africa.

All else being equal, if South Africa had not raised interest rates in response to the international rise, hundreds of business people could have switched to local sources of trade financing in this way, resulting in a significant and sudden capital outflow.



**Reserve Bank's Chris Stals**

This would have exacerbated balance of payments problems and put downward pressure on the exchange rate of the rand — and as the rand weakened, inflation would have risen as the price of imported goods rose.

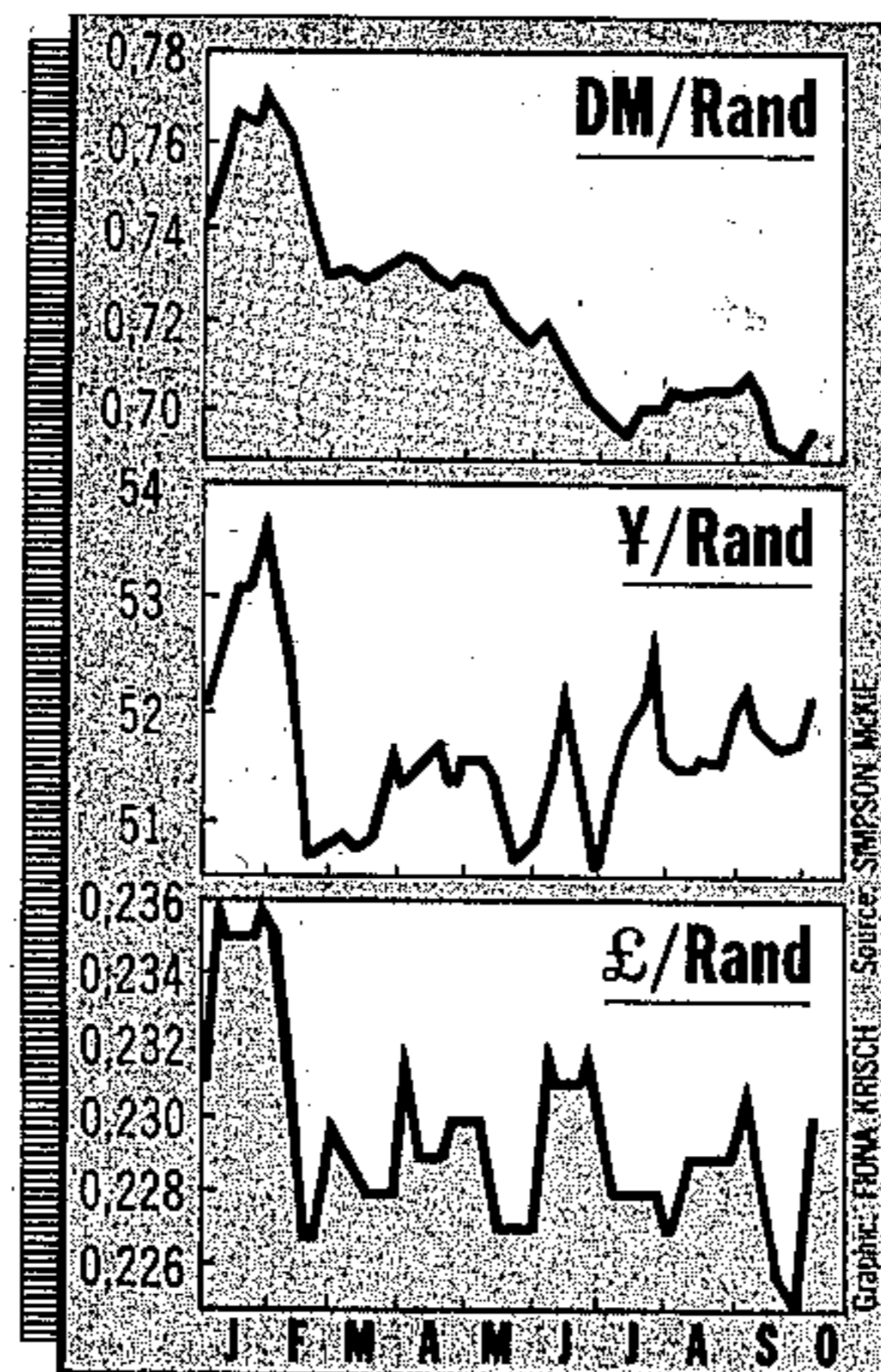
The Reserve Bank could, however, have avoided raising interest rates here without sudden capital outflows by offering cheaper forward cover to importers, economists point out. But

this would very likely have been as bad or worse for the balance of payments.

The Bank encourages businesses — whether they need trade finance or working capital — to borrow offshore by offering cheap forward cover. This insures them against the possibility that the rand may weaken and when the time comes to repay their dollar or Deutschemark loans, they will end up paying much more, in rand terms, than they originally received.

If the Bank had made forward cover even cheaper, there would have been an incentive for businesses to keep their overseas loans, rather than switching them here and causing capital outflows. This is what the Bank did last year when it was trying to avoid raising interest rates.

But the forward cover simply means the Bank takes on the risk of a weakening rand — so the Bank loses if the rand falls, as it has been doing, and this has negative effects on the balance of payments.



## Rand crawls back up against pound

By Greta Steyn 74

THE rand has held up well in spite of SA's balance of payments (BoP) and is crawling back up against hard currencies.

The domestic currency has gained 3% against the pound in a month and 1,6% against the yen. Standard Bank international division GM Rocco Rossouw says, however, the uptick in the value of the rand against these currencies and — to a lesser extent — against the Deutschemark is not a sign of rand strength.

"Special factors such as the UK BoP problem and political uncertainty in Japan have benefited the rand's performance against those currencies."

Sapa-Reuter reports the pound fell by more than one pfennig yesterday in reaction to a vigorous defence of government economic policy by Chancellor of the exchequer Nigel Lawson.

The major factor determining the rand's value on the cross rates was still the dollar, Rossouw said.

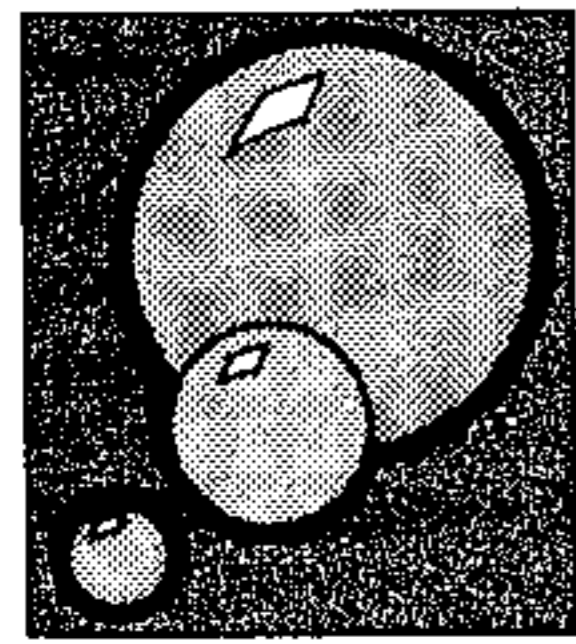
"The recent increase in domestic interest rates will not have any material effect on the value of the local currency."

The US dollar in European trading yesterday traded at DM1,9087 from DM1,9185 and 1,6725 Swiss francs, down from 1,6785.

# A spur to economic reform



■ The "crisis" has been averted — and some even think good came of it



Last year, SA appeared headed for another foreign debt crisis. Economists warned that the only way to avoid default was through "an endemic and deep-seated recession." *Business Day* editorialised that "barring miracles, SA will not be able to pay." *Finance Week* headlined: "Debt default looms again, crisis threatens SA..."

And to make sure this doomsday scenario came to pass, the sanctions lobby began devising ways for tightening the financial screws even further.

But like a frightening storm that breaks up before ever arriving, this segment of the Great Debt Saga is turning out to be uneventful. And some economists now say that the entire saga, instead of being a disaster, will prove to have long-lasting positive effects if it forces the country finally to reform the economy.

"In a perverse way, Archbishop Desmond Tutu has been doing us a favour," says economist Azar Jammine, of Econometrix.

For some time, 1990 and 1991 have been seen as the most menacing period in the debt debacle, the hump SA must overcome before things get better. The debt picture next year

far, in 1986. The payments drop to \$1,4bn in 1991, less than in 1986 and 1987; and

□ The rescheduling agreement governing the debt that SA froze in 1985 expires on June 30, but that's no longer as worrisome as it was just a few months ago. Firstly, by mid-1990 only 40% of SA's foreign debt — about \$8bn — will remain trapped in what's become known as the standstill net. That figure is down from the \$14bn frozen in 1985. Some of that money was repaid but most was taken out of the net and converted to long-term debt. Secondly, the agreement now is expected to be renewed without much difficulty after, as Reserve Bank Governor Chris Stals puts it, "some hard bargaining."

It wasn't supposed to be this easy. Encountering resistance to more trade sanctions and divestment, sanctioneers shifted their attention to financial sanctions this year. A report to the Commonwealth called them "almost ideal as an international weapon against apartheid." The focus became SA's approaching negotiations over the debt caught in the net, the only part of the \$21,2bn debt up for discussion.

Believing that the SA economy was virtually shut off from foreign credit, and with its strength sapped by the mounting debt payments, sanctions groups moved in for what they thought would be the kill. But the weapon isn't turning out to be all that potent.

Firstly, the sanctions movement is divided on strategy. Some US Congress members want to prohibit US banks from renewing the rescheduling agreement. Other proposals call for pressuring the banks to force SA to accept very tough terms — the highest possible interest rates and the shortest possible payment period.

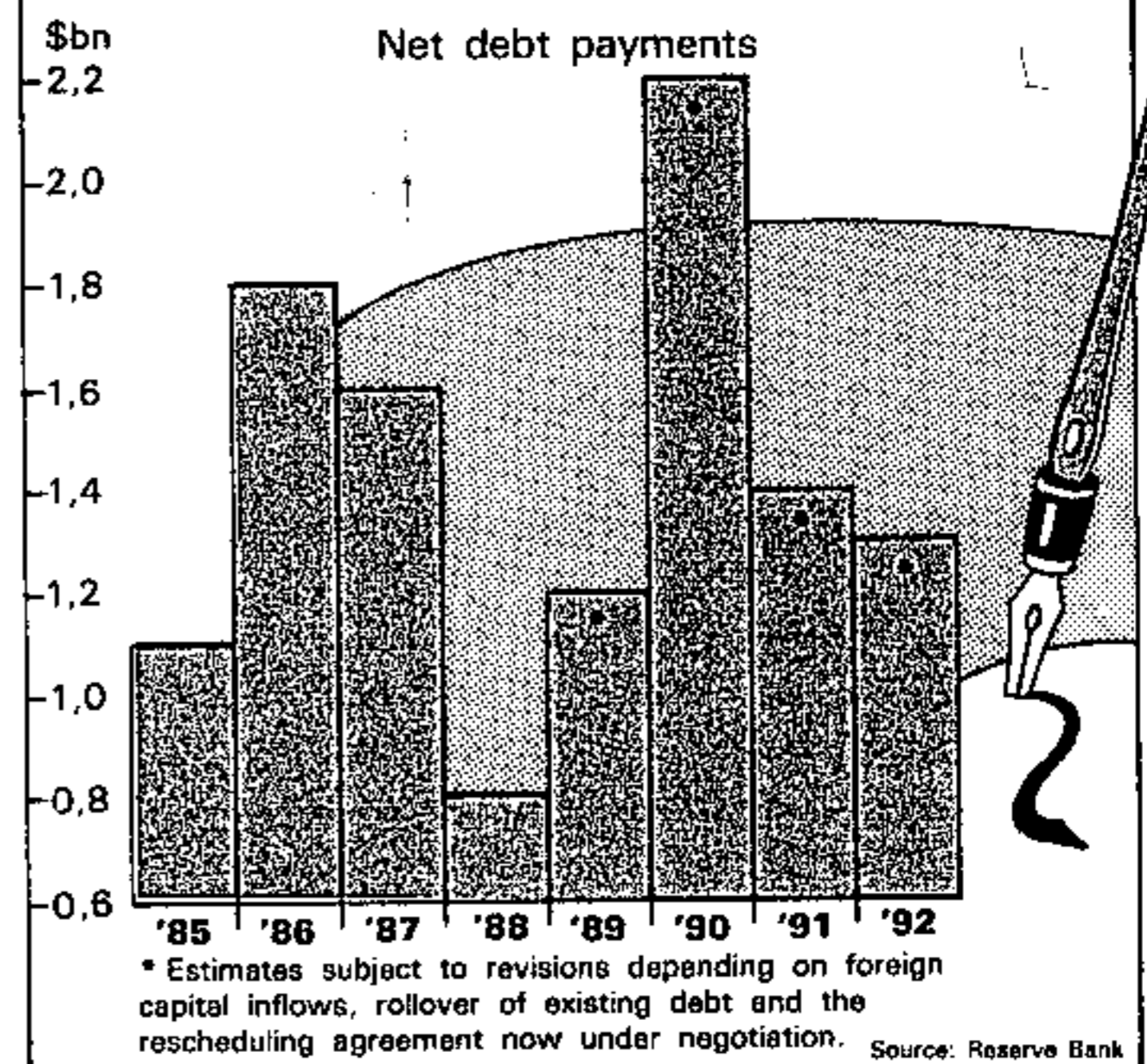
But the sanctioneers underestimate SA's leverage; if the SA authorities don't get the terms they want they probably will just set their own terms. With some international banks writing off bad Third-World loans left and right, they don't believe they can force the hand of one country that is in fact paying its debts, interest and all. The banks don't want to play politics; they just want to get their money back and keep their shareholders happy. SA, on the other hand, wants to repay the money to re-establish a good credit rating.

Secondly, the sanctions lobby geared up too late. The first major public protest took place only last week, when banks in New York, London, Paris, Bonn and Zurich were targeted. In Manhattan, 29 people were arrested for blocking doors at Manufacturers Hanover's headquarters.

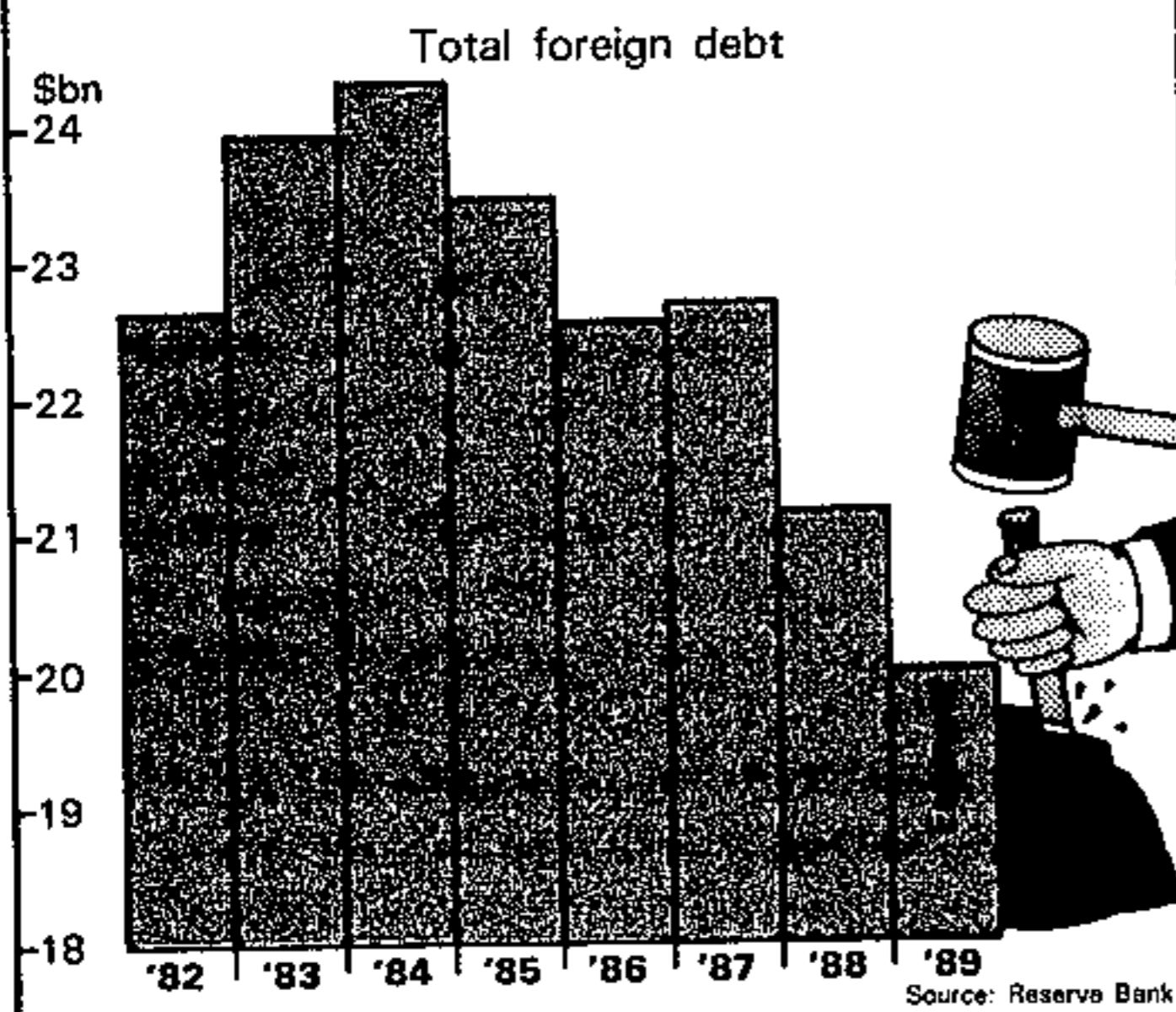
Next week, the issue will be spotlighted at the meeting of the Commonwealth heads of state. They are expected to demand that banks not reschedule their loans inside the net until SA meets a series of political demands.

But the issue probably was settled six months ago. By then the US banks — the most susceptible to sanctions pressure — had agreed to take nearly all their loans out of the net and convert them to long-term debt. Of the \$2,4bn now owed to the US banks — SA's biggest creditors after the UK banks — less than \$700m is left in the net. Not much of a pressure point.

## Writing out the cheque



## Chipping away



still poses a serious threat but 1991 now appears less difficult than average. That once-jagged peak has been rounded out a little:

□ The Reserve Bank now estimates that US\$2,2bn in debt will fall due next year, down somewhat from earlier forecasts because of rollovers and the chance of small new loans. But that figure still is \$400m greater than the largest net payment made so

In short, the sanctioneers were outmanoeuvred. Fearful of the pressure they would face as negotiations on the new rescheduling agreement neared, the banks shifted some \$4,5bn out of the net. Ironically, the threat of pressure led the banks to exactly the course of action SA wanted and that the sanctions lobby didn't want — reducing the size of the net.

Aside from sidestepping pressure, the banks like the long-term option for another reason: they get an even higher interest rate than the high rate paid on debt inside the net and they get a guarantee that all the money will be paid in nine-and-a-half years.

With debt inside the net, the banks get only token payments on the principal. Citibank, for example, says it's gotten back only 5% of its principal since 1985 and now has bowed out of the net completely; it's converted its entire \$666m SA exposure to a long-term loan. The current rescheduling agreement calls for only 13% of the principal to be repaid over the pact's three years and the banks may not be able to get a much better

PM Mail 13/10/89

deal with a new agreement. Under the long-term option, the banks receive only interest for five years and then receive the entire principal over the next four-and-a-half years in equal, semi-annual instalments.

SA likes the long-term option too because it pushes more of the debt payments past the critical period next year.

The debt dilemma began in August 1985 when Chase Manhattan, panicked by the daily scenes of violence in the townships on the nightly news, cut off its line of credit and refused to roll over its maturing loans. Other US banks quickly followed.

"Watching television every night, foreign bankers got the impression that the whole country was going up in flames and that either there would be a Marxist takeover or a virtual civil war," former Reserve Bank Governor Gerhard de Kock said last year.

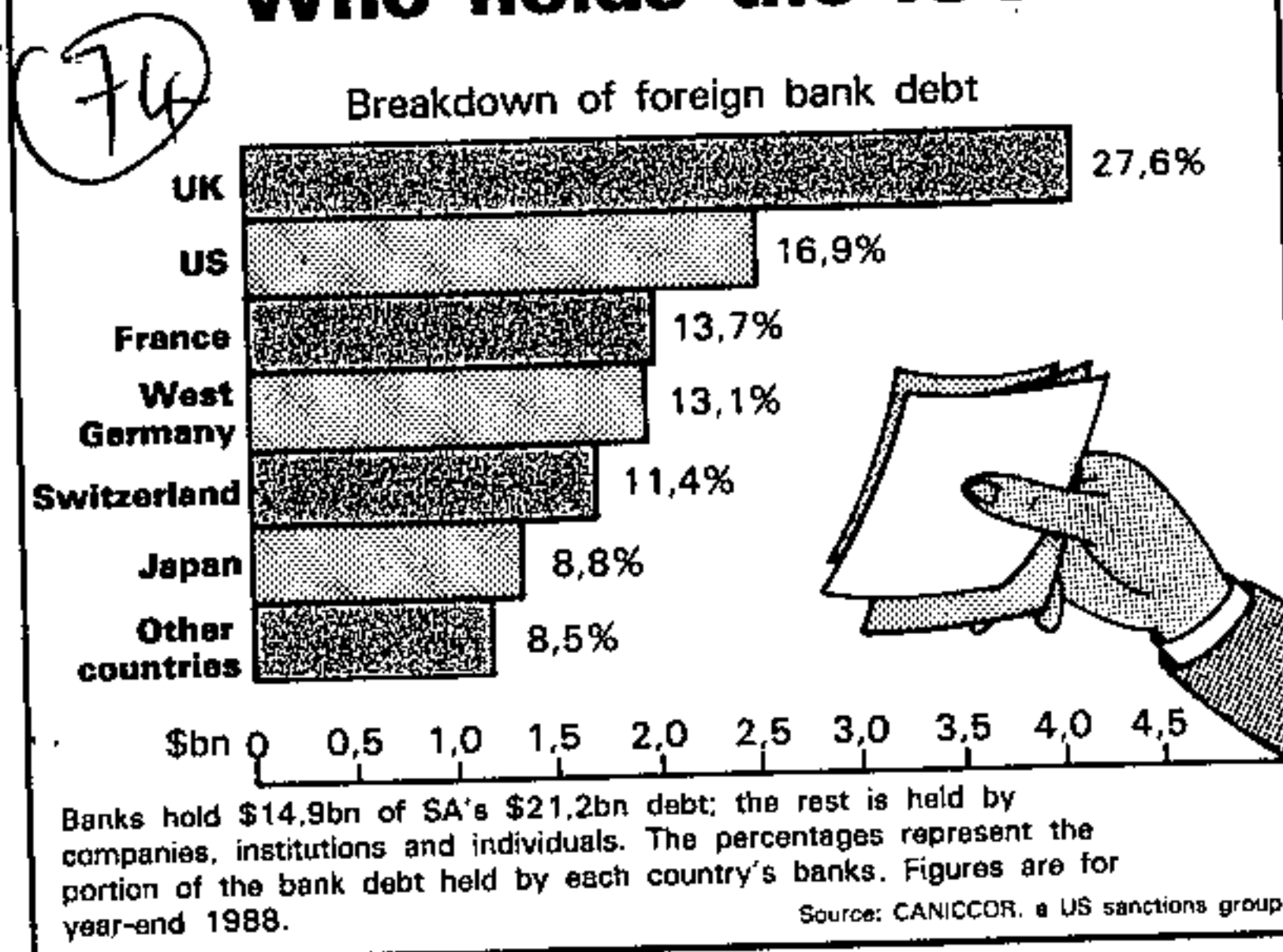
Suddenly SA was liable for billions in immediate payments — an impossible bill. SA declared a payment moratorium on more than half its debt — the standstill net — but it continued to pay interest, and in 1986, it reached agreement with the bankers on the principal.

The crisis was over but a long slow drain on SA's economy began. Unable to get new foreign loans and forced to ship a billion dollars or more overseas each year, SA's growth turned anaemic, far below the rate needed to stay ahead of population growth. But the economy couldn't be allowed to grow too much, the government reasoned, because that would suck in imports and threaten the balance of payments. So Pretoria instituted a wide range of measures — import surcharges, tighter HP restrictions — so exports could continue to outstrip imports, generating the foreign exchange that's earmarked to pay the debt.

The result has been rising unemployment, falling investment and a declining standard of living. Government officials like to blame the credit cutoff. But some see the austerity in a different light. "It's a blessing in disguise," says Econometrix's Jammie. "It's imposed a healthy discipline on the public and private sectors that was needed."

Jammie and other economists say the

## Who holds the IOUs



credit crunch is convincing SA to do what it should have done all along — tame inflation, balance the budget, cut taxes, privatise, deregulate and install policies that encourage rather than discourage savings. If these measures were in place in 1985, SA would have had healthier reserves and a stronger currency that would have better withstood any balance of payments problems.

Deputy Reserve Bank Governor Jan Lombard has said that if savings were encouraged and invested more productively, there would be no 2%-3% annual constraint on growth.

Southern Life economist Mike Daly says that as a result of the debt saga, "the level of economic knowledge in the Cabinet has picked up markedly; the level of government spending and taxes are now seen as responsible for the broad malaise in the economy."

But is the government putting these lessons into practice? Not exactly. About 40% of the credit that was cut off went to government and government corporations, so the action of the foreign banks was a blow for sounder fiscal policies. But government spending continues out of control, though access to foreign loans could only have made it worse.

"Brazil and Argentina have hyperinflation because their governments kept spending money they borrowed from abroad," Jammie says. "The foreign banks have done us a favour by preventing us from borrowing from them."

Government seems more serious about another important lesson of the credit cutoff, the need to rein in the money supply and quash inflation. Stals has promised to keep interest rates high until inflation is beaten.

"The debt payments give Stals a very nice excuse to exercise an anti-inflationary monetary policy," Jammie says. "It's easier to do because he can point to the need to conserve foreign exchange."

Daly believes that the credit cutoff is also helping the economy by spurring government to press ahead with privatisation and deregulation.

The other 60% of the terminated credit went to private companies and that cutoff carries positive effects too. "Many companies were overborrowed in 1985-1986," Jammie says. "The cutoff has driven them to become more efficient because they had to grow through retained earnings." And the cutoff, he says, has led some companies to issue more stock — a healthier way to raise capital than by taking on debt.

Jammie says the ability to borrow abroad is overrated; most countries waste the money they borrow. "South Korea is the only example of a developing country that had access to a huge pool of foreign capital and used it productively. The countries that have succeeded the most have generated their growth from within rather than from outside."

Economist David Mohr, of Old Mutual, says SA's private sector really needs "equity participation, not loans, because it doesn't add to debt."

Jammie adds: "It would be counterproductive if we regain access to foreign loans now because the government continues to overspend and inflation is still too high. But if we can restructure the economy, the scene is set for healthier economic growth because it will be built on a firmer, low-debt base."

"Because of all this, SA is a hell of a lot poorer," Daly says, "but we may never have learned these lessons otherwise."

in my trial in 1964 is still what I believe in. That is still essentially our political outlook."

# Foreign rates: what effect have they on SA?

B/Dpm 18/10/89

74

HIGHER interest rates in West Germany and Britain were followed almost immediately by an increase in Bank rate last week. The hike in foreign rates was almost universally regarded as the telling blow for SA.

All the other factors mentioned by Reserve Bank Governor Chris Stals were known for some months: inflation, continued high imports and the low level of the net reserves.

The only factors to emerge recently were the revision of the money supply growth figures — and the hike in foreign interest rates. Of the two, both Stals and economists in general placed more emphasis on the hike in foreign interest rates.

Stals said: "The increases announced in the discount rates of a number of central banks in western Europe and in the UK last week, widened the ... margins between the

SA and the overseas real rates of interest. This will put additional pressure on the capital account of the SA balance of payments, on the exchange rate of the rand and eventually also on the rate of inflation in SA."

Some economists and senior bankers are disputing that there is such a direct causality between foreign real rates and capital outflows. Many feel higher foreign rates spark a scramble to settle foreign liabilities, causing an outflow of capital. The outflow is financed with domestic credit and pushes the money supply further out of the target range.

There are bankers who say there is no practical evidence to support this argument. They say by far the majority of trade finance contracts are written in dollars. US rates have been softening — encouraging the

## GRETA STEYN

use of foreign finance — and European and Japanese rates have no direct bearing on SA companies.

There are exceptions: SA parastatals such as Eskom use trade finance in third currencies like the Deutsche Mark. Another example where interest rate differentials have a role to play is when the holding company of an SA subsidiary is based in Britain and a large part of its finance is sterling denominated. Higher British interest rates could then trigger a move towards raising finance in SA.

Yet another factor is the use of dollars paid into the Public Investment Commissioners in terms of the foreign debt standstill. These can be re-lent to SA companies at attractive interest rates.

However, Nedcor economist Edward Osborn questions the emphasis on real interest rates. He believes it is the nominal level of interest rates which triggers trade-related capital flows and not the real level.

"It is the cost of finance, and not the real value, which is important to a borrower of trade credit. An importer needing finance is not moved by real rates," says Osborn. The forward cover premium also adjusts to take account of changes in interest rates.

And with the Bank offering cheap forward cover to companies with proof of foreign credit lines, there is even less reason to be moved by changes in foreign interest rates.

Stals, however, stresses that he does not regard the hike in foreign interest rates as the trigger for the increase in Bank rate.

"There were factors in the domestic economy which were equally important. The increase in foreign rates must be seen ... as one of many reasons to raise local rates."

The figures also tell a story. Last year, when SA interest rates were kept low while foreign interest rates were rising, there was a massive outflow of short-term capital. In the third quarter, short-term outflows hit R2,4bn. This outflow diminished in the fourth quarter after Bank rate was raised in November and dropped to only R335m in the second quarter of 1989, after increases in Bank rate in February and May.

While there is some dispute over the effect on the SA capital account of a widening in real interest rate differentials, the BoP figures have a clear message: higher interest rates have succeeded in stopping the drain of short-term capital.

\$8bn to be repaid in four years

# Barend drops foreign debt bombshell

B/Dag 20/10/89

74

GRETA STEYN

SA FACES a massive foreign debt problem in spite of the favourable terms negotiated by Reserve Bank Governor Chris Stals for debt caught inside the standstill net.

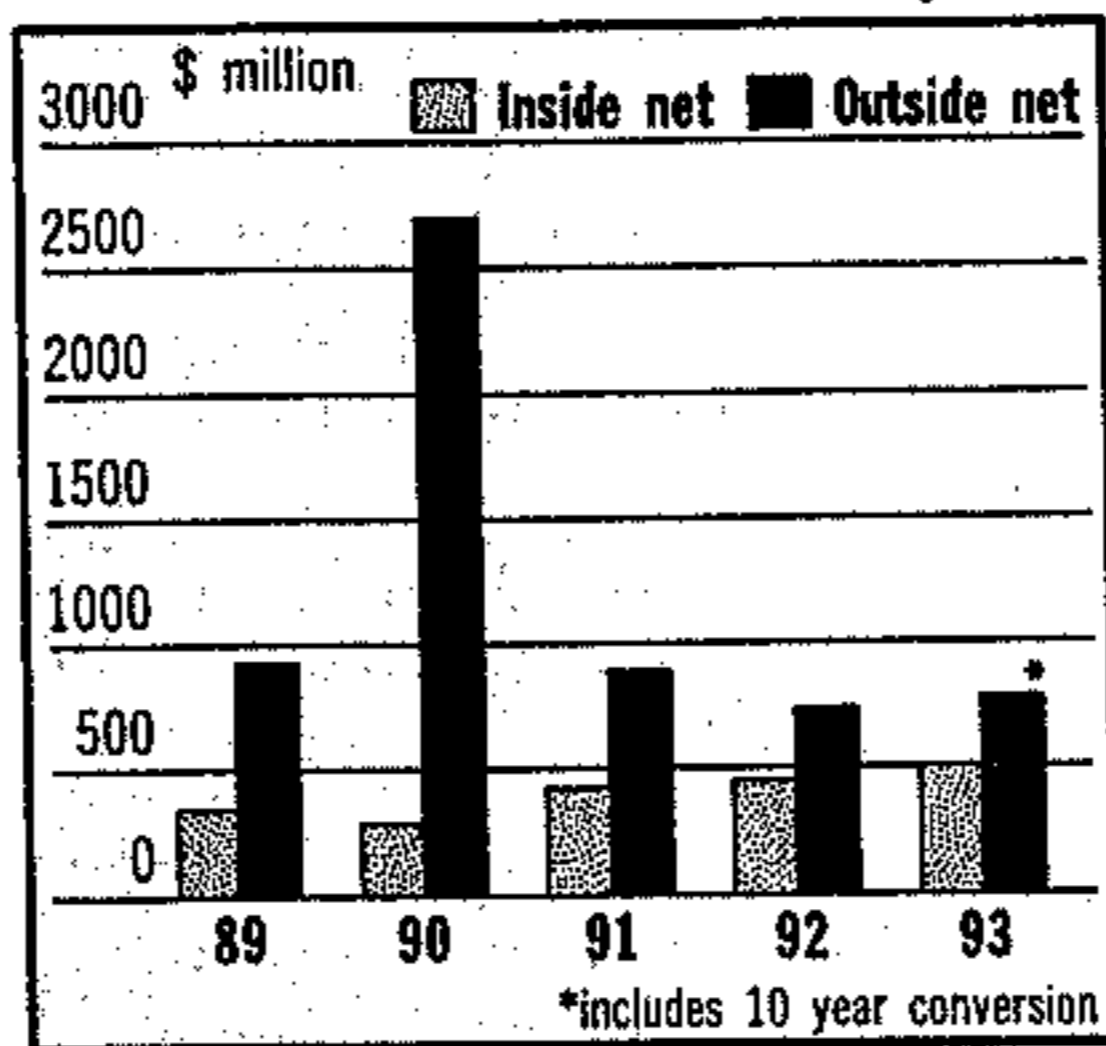
The problem is debt falling outside the scope of the agreement, and figures provided by Finance Minister Barend du Plessis yesterday for the first time revealed the extent of the pressure.

Du Plessis said in a statement: "All South Africans must realise the country faces tough times in the next four years in which we have to repay \$8bn in foreign debt. It is an unnatural state of affairs having to export such a large amount of capital to repay debts both inside and outside the net of the new agreements."

Du Plessis's figure of \$8bn includes the \$1,5bn in repayments on debt caught inside the standstill net. It means capital outflows over the next four years could continue at about the same rate as in the previous four years — a period in which R25bn left the country.

Economists were surprised at the extent of SA's total debts, as previous estimates of the country's obligations over this period were in the region of \$5bn. SA now faces four years of economic squeeze, as the Min-

Nedcor's estimated debt redemptions



ister said the only way to deal with the problem over the period was with strict monetary and fiscal policies.

He said: "The policy stance will no doubt at first exact some sacrifices but will yield benefits in the longer term."

Reserve Bank Governor Chris Stals last night said \$8bn was a "worst case scenario" which assumed SA would not manage to roll over any of its trade credits during this period. However, this was unlikely and he felt \$6bn-\$7bn was a more likely estimate of

To Page 2

## Lombard: growth is still possible

B/Dag 20/10/89

KAY TURVEY

74

SA COULD go without foreign capital to achieve economic growth in the 1990s, providing capital did not leave the country, Reserve Bank deputy governor Jan Lombard said yesterday.

The contribution of capital inflows to SA's capital resources had never been more than 10%, he told the Hollandia Re-insurance Conference at the Vaal yesterday.

The growth rate therefore depended marginally on capital imports, although foreign contacts and technological interaction were necessary.

More important, however, than the inflow of capital from abroad was to prevent the outflow of capital. This had amounted to R25bn in the last four years, with more than half the country's net savings used to repay foreign debt.

Echoing Reserve Bank governor Chris Stals, Lombard said real interest rates would improve the productivity of capital.

Capital productivity had dropped by 30% in the last seven years largely through negative interest rates, he said.

Yet, if the governor stuck to his resolve SA could in future not expect interest rates to drop below the level of inflation again, even in recessionary times.

"One prediction that may safely be made is that the real cost of capital in 1990s will be substantially higher than in the 1980s, relative to the cost of labour in particular, but also relative to the prices of industrial goods and the level of taxation."

This would promote more rapid industrial growth in two ways. Firstly by placing a compulsion on producers to use domestic savings more productively, stopping the practice of using negative interest rates to purchase machinery to replace labour, rather than to increase output.

Secondly, the inducement of a real return, after tax, on interest receipts would revive the propensity to save.

These benefits of the structural adjustments now being introduced in SA over a wide front, would take time to materialise they were of a long term-run nature.

## SA debt

B/Dag 20/10/89

74

From Page 1

total foreign debt payments during this period.

Nedcor economist Edward Osborn said: "The debt outside the net, especially the bunching next year, is a major problem with the potential to become a crisis if we fail to secure roll-overs."

Osborn is especially concerned about the bunching of maturities next year. Reserve Bank officials have said about \$2,2bn of debt falls due next year, but Osborn said the amount maturing might even be higher, depending on the treatment of \$430m of government debt.

Other economists interpreted Du Plessis's statement as a warning against too much optimism in the wake of Stals's breakthrough. SA repaid less than \$1bn in 1988 and is battling to meet its requirement of \$1,3bn this year. Without roll-overs, it will be forced to repay an average of \$2bn a year over the next four years.

It is a tall order requiring huge current account surpluses — a feat only to be achieved by reining in imports through crushing domestic demand.

Comment: Page 14

# SA faces R15bn losses

CM- T10715  
11/11/89  
74

## Own Correspondent

JOHANNESBURG. — SA's losses in terms of forward cover costs are now an estimated R15bn and set to rise a further R1bn this year, a study has found.

UBS Holdings' chief economist Hans Falkena argues that the only way to stop further losses — for account at the Treasury but ultimately borne by local residents — is to increase interest rates.

A copy of his report was sent to the Reserve Bank, which could find no fault with its empirical data.

Zilla Efrat reports that Reserve Bank Governor Chris Stals, who had not seen the study, said last night it was well known the forward cover scheme had resulted in large losses, but it had the advantage of allowing importers and exporters to make use of available foreign finance, although this did decrease demand on local money and capital markets.

Stals said the termination of the scheme would restrict further economic growth, and result in the use of only domestic savings.

The rand would depreciate further and influence the inflation rate.

The exchange rate and the balance of payments situation would be affected — and "in the end, SA would pay".

Stals said it boiled down to choosing between two options: the subsidy or higher interest rates, increased inflation and a lower rand.

This was a difficult decision and it was debatable which was in the long-term interests of SA. Both created problems, were not without pain and required some sacrifices from residents.

Falkena argues that to staunch the losses, the prime rate should be three percentage points higher, at 24%.

"For every single percentage point below this level, approximately R400m a year will be lost on import cover alone."

Moreover, he shows that government has attempted to finance the losses by printing money.

"To finance forward cover losses by means of 'inflation taxation' is tempting only from a political point of view, because this taxation method bypasses parliamentary approval as well as public debate."

The Reserve Bank makes no bones about its desire to get out of forward forex markets, but is constrained from doing so by the debt standstill and high inflation.

Falkena's study shows that the Reserve Bank — which provides forward cover contracts to importers, exporters and the country's creditors — cannot itself provide against such losses, not having sufficient dollars for this purpose.

"Without sufficient foreign exchange reserves, the Bank is effectively forced to grant forward cover on fiduciary terms to the private sector."

The report says that from Treasury's viewpoint, it would be "far cheaper to subsidise selected debtors in the economy — such as farmers in need, where output probably accounts for only 3% of GDP — than to hand out a blanket subsidy in the form of too cheaply priced forward cover to all importers and (SA's) creditors".

Falkena says a real interest rate in SA of "2% below that dictated by the US rates (currently the case) could cause a further loss on import cover of more than R1bn in the coming year".

Because the decline of the rand has been so predictable, and domestic real interest rates too low compared with those of our major trading partners, "risk-free arbitrage profits can be made".

Falkena says that "for a long time the true extent of forward cover losses has been obscured because forward cover was provided to public enterprises for periods up to 10 years.

"Only when these foreign loans were repaid (as is happening now) were the book losses transformed into real losses.

"Over the past few years several of this type of loan were settled and as a result the losses on forward cover provided soared by billions of rands to an estimated R15bn today."

The study shows that since 1981 accumulated losses on import cover alone now exceed R6bn.

Falkena argues that a domestic real interest rate level that ignores real interest rate patterns abroad will result in a continuously "undervalued" forward exchange rate.

"This will have a detrimental effect on the country's foreign exchange reserves as 'leads and lags' will be set in motion.

"Furthermore, the money supply will rise the moment the Bank monetises the incurred forward cover losses. This in turn may have serious consequences for inflation, thus leading to a further depreciation of the rand."

74  
C. M. M. J.

# Same numbers, same sums, but not the same answers

Two different economists examine the foreign exchange drain and come to very different conclusions. HILARY JOFFE reports

TWO economists who this week highlighted South Africa's losses on forward cover for foreign trade transactions have drawn some different policy conclusions from the figures.

Both Volkskas Bank's Adam Jacobs and the United Building Society's Hans Falkena highlighted the foreign exchange drain the country was experiencing as a result of losses on the forward cover (insurance) the Reserve Bank provides importers and exporters.

In Volkskas' latest Economic Spotlight, Jacobs estimates losses on forward cover, a result of the deterioration of the rand, amounted to more than R15-billion by the end of June. Falkena gives the same figure in a special United report on forex cover.

Falkena concludes from this that interest rates must go higher — he suggests a prime overdraft of 24 percent over the next 12 months (compared to the current 21 percent) would be needed to prevent South Africa losing about R400-million a year on import cover. Losses in the current year could be R1-billion. He also argues the Reserve Bank should stop providing the cheap foreign cover it has offered until now.

But Jacobs suggests caution — the Reserve Bank could not withdraw from the forward foreign exchange market without the serious consequences resulting from a sharp hike in interest rates and a further deterioration of the rand. He stresses instead that the financial authorities must implement more change in the domestic economy in order to protect the balance of payments, rather than relying on the depreciation of the rand. In particular, he focuses on the need to cut government spending.

Both their studies dovetail to some extent with Reserve Bank governor Chris Stals recent decision to raise interest rates in response primarily to interest rate rises overseas, in order to prevent capital outflows.

The Reserve Bank provides cheap forward cover primarily to encourage businesses to borrow trade credit overseas. Importers, for example, can buy cover from the Bank which will insure them against the possibility of the rand falling against the dollar between the date they agree to purchase foreign goods (priced in dollars) and the date they actually have to pay for them.

The Reserve Bank takes losses on the forward cover if the rand falls — since it has to make up the original dollar price — but it is the Treasury which actually foots the bill. And that can mean an outflow of capital reflected in the balance of payments.

Normally traders would borrow money in any country which was most payable, depending on relative interest rates in real terms (taking inflation into account). But through its forward cover system the Reserve Bank encourages importers to borrow overseas, even when real interest rates are higher there. This delays capital outflows because the importers borrow in foreign currencies, and only have to use South Africa's foreign exchange resources to repay their loans later on.

As Falkena explains: "The Reserve Bank often encourages importers to obtain trade credits from foreign banks as local borrowing would imply immediate pressure on the foreign exchange reserves, which are often at a critically low level.

"To make such foreign borrowing attractive, the cost of foreign funds

	Inflation rate, % change		
	1988	1989	1990
USA	4.2	5.0	5.25
Japan	3.0	2.0	2.75
West Germany	1.3	3.0	2.75
France	2.7	3.5	2.75
Italy	5.0	5.75	5.0
United Kingdom	5.0	5.75	5.25
Canada	3.4	4.25	4.25
Total (OECD)	3.4	4.5	4.5

Table: VOLKSKAS BANK

(the United States BA rate plus South Africa's forward cover cost) has to be lower than the domestic credit cost (South Africa's BA rate). For the greater part of the 1980s this has in fact been the case."

In effect the Reserve Bank quotes future (forward) exchange rates which are lower than market rates. And if the rand declines, it incurs losses.

"The reasons for the accrued forward cover losses are thus quite simply a combination of too low forward cover rates (resulting from too low domestic interest rates) and a recurrent large and rapid depreciation in the value of the rand."

Falkena notes for example that since the beginning of 1988 the dollar has appreciated by an average two percent a month while the average monthly cost of forward cover has been only 0.4 percent over the period.

Capital flight, legal and illegal, means there is virtually no room left to finance forward cover losses through the budget, Falkena says. "Under these circumstances a domestic real interest rate level below that of our major trading partners simply implies inflationary financing, a weak currency, more capital flight and an unavoidably lower long-term potential GDP growth rate."

It would be cheaper for the Treasury to subsidise particular borrowers — such as farmers — than to hand out the "blanket" subsidy to importers offered by cheap forward cover.

Jacobs makes a similar point: the forward cover the Reserve Bank provides in effect subsidises the price of imports. Normally the depreciating rand should have a protection effect, making imports more expensive. But the forward cover subsidy partly neutralises this, Jacobs notes.

"The costs (the losses suffered by the Reserve Bank for which the Treasury accepts liability) will eventually be passed on to the taxpayer."

But Jacobs emphasises that adjustments will have to be made to the domestic economy. A major problem is inflation. "If one takes the accelerating inflation rate in South Africa into account and weighs this up against that of the seven major industrial countries in the West (ours is over three times higher than the average of these countries), inflation as a problem rates very high on the priority list which will have to be addressed in the management of the economy."

Jacobs also argues in favour of positive real interest rates. But monetary policy is not enough — fiscal discipline is also required.

He points to the fact that government expenditure as a percentage of gross domestic product has increased from 25.1 percent in 1978/79 to 27.3 percent in 1988/89.

South Africa can no longer afford the government's practice of dissaving — using borrowing to finance current expenditure — given the scarcity of capital. The government has absorbed an increasing proportion of the country's scarce savings, says Jacobs — its deficit before borrowing as a percentage of private saving increased from 37.1 percent in the 1970s to 46.3 percent in the 1980s and 78.1 percent in 1988.



# SA trade surplus up

CAIT Twp 22/11/87

74

Own Correspondent

JOHANNESBURG. — The trade balance for October remains a healthy R1,38bn in spite of the sharp rebound in imports, which showed signs of falling in September.

Imports climbed to R4,1bn in October, shattering hopes that they may have entered a downward trend, after dropping to R3,52bn in September from R4,18bn in August.

However, the continued strong performance from exports, which still exceed import growth for the year, has held the trade surplus steady above the R1bn mark for the fifth consecutive month.

The cumulative trade surplus for January to October is 26% up on last year at R10,2bn.

Safto economist Bruce Donald says this should boost Reserve Bank hopes to achieve the targeted current account surplus of R4bn for the year, an amount sufficient to meet our debt payments, though leaving little over to build reserves.

Figures released by the Department of Customs & Excise yesterday show exports reached R5,48bn last month, the second highest level for the year after touching a high of R5,72bn in June.

Unclassified exports (mostly gold) rose by under 3% for the 10 months to October, highlighting the importance of merchandise exports to the current account.

Higher international prices for many of SA's major commodity exports, such as coal and ferro-alloys, and bumper agricultural crops have contributed to improved export earnings this year, Donald says.

Old Mutual economist Andre Roux cautions a firmer rand could see export revenue declining in the next few months. The currency averaged R2,70 to the dollar in October, stronger than September's average of R2,79. He says an appreciation in the rand does not simultaneously lead to a fall in exports, although this does have a delayed effect.

Roux describes the strong resurgence in imports as surprising and calculates imports rose by roughly 14% in real terms in October, after dropping by 16% in real terms in September.

This illustrates demand for capital goods remains high, with the investment cycle lagging the slowdown in the general economy.

## Turnabout

After falling in September imports and exports rose in October. The net result was a rise in the trade surplus for the third consecutive month. According to Customs & Excise:

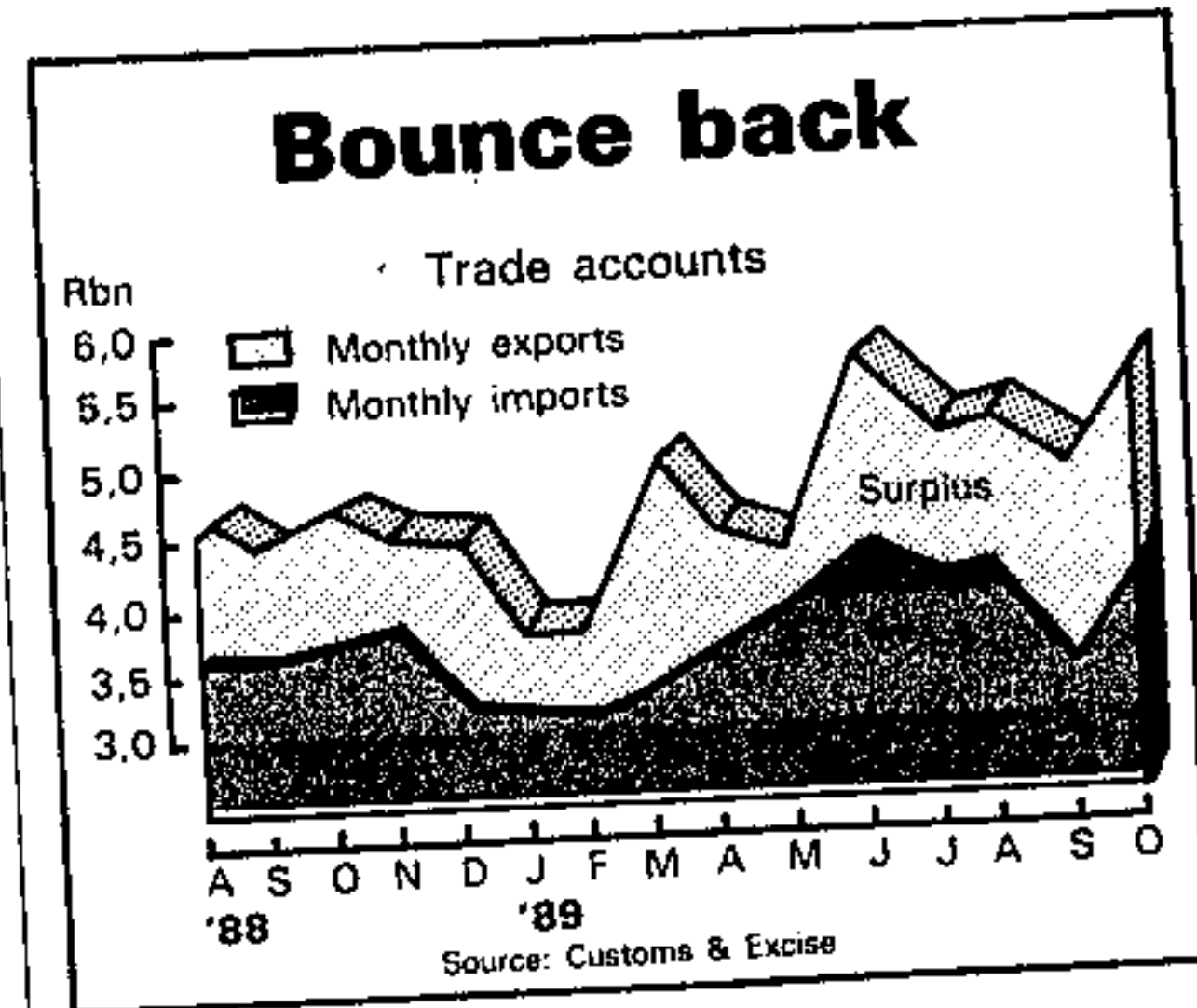
- Exports were R5,5bn (up from R4,8bn in September);
- Imports R4,1bn (R3,5bn);
- The surplus R1,4bn (R1,3bn); and
- Total trade R9,6bn (R8,4bn).

The surplus for the year now stands at R10,2bn and total trade at R86bn. The increasing surplus will make a useful contribution to reserves.

The value of exports is the highest since June. The significance of the rise in imports to almost the August level is hard to assess, says Anglo American economist Jim Buys. "Those who saw last month's decline as a sign demand was slackening will be disappointed. My feeling is that this demonstrates one shouldn't make too much of developments in any one month — trade figures are notoriously volatile and imports are a lagging indicator."

So he does not see it as a reversal of the

74 Review 24/11/89.



downtrend in demand.

What is interesting about this month's rise in import values is that it does not reflect any depreciation of the rand which, Buys says, rose marginally on a trade-weighted basis during October. So the value is the result both of greater volumes and possibly, increases in overseas prices. ■

B/Pay

24/11/89

# SA debt peaks in 1990 but payments won't ease up

~~74~~ 74 wmail

By HILARY JOFFE

DESPITE the recently negotiated Third Interim Debt Arrangement, South Africa faces substantial debt repayment commitments and continuing strain on the balance of payments for much of the 1990s.

Foreign debt repayments are due to peak next year, when the country may have to pay over \$3-billion, according to official figures. And the figures indicate foreign debt repayments from 1992 through to 1998 will be at a sustained level of between \$1-billion and \$1,5-billion.

But in the latest *Nedbank Guide to the Economy*, Nedcor economist Edward Osborn estimates the "bunching" of debt repayments will be lower in 1990 but higher through the decade. To the extent that repayments due next year and in 1991 are spread into later years, debt payments through to 1998 are likely to average between \$1,5-billion and \$2-billion a year, on his figures.

This means South Africa will probably have to generate surpluses on the current account of the balance of payments of \$2-billion to \$2,5-billion annually — and monetary and fiscal policy will have to remain stringent,

according to Osborn.

The Nedcor Group Economic Unit has tried to put together a comprehensive picture of South Africa's foreign debt profile, since the financial authorities seldom give detailed figures.

At the end of last year, debt "outside the net" of the interim agreement with foreign creditors included \$7,5-billion of public sector debt and \$2,5-billion of converted debt — that is, taken out of the ambit of the agreement with foreign creditors and rescheduled for 10 years. Total foreign debt, including that "inside the net" was \$21,2-billion.

But it is the public sector debt "outside the net" which is the problem, because much of it is due to be redeemed in the years 1989 through to 1991.

It is not clear precisely when such debts become due but latest government figures suggest a huge payments obligation in the second quarter of next year — of \$2,5-billion — including debt "inside and outside the net". This is because of an extraordi-

\$ million	State redemption schedules		Nedcor Group Economic Unit estimates
	1st	2nd	
1989	752	733	931
1990	1 711	3 138	2 705
1991	2 161	1 043	893
1992	805	733	735
1993	456	611	576
1994	150	300	267
1995	144	250	317
1996	35	161	257
1997	18	131	288
1998	21	49	227
1999	6	12	256
2000	6	-	-
Totals	6 265	7 161	7 452

Three estimates of what South Africa will be paying to the year 2000: government schedules of September 1988 and 1989 and Nedcor's figures

nary amount of \$2,3-billion due to be paid in that quarter.

But, says Osborn, "This clearly will not — and cannot be allowed to — occur because of the rollovers and refinancing of public debt that will have been arranged."

The Nedcor estimates show a peak in repayments next year followed by roughly equal totals due each year until 1997, after which the amounts start to decline.

From 1993 to 1999 there will be substantial payments due on debt converted to 10-year loans in terms of the "exit clause" contained in the interim debt arrangements with foreign creditors, but payments due on public debt will decline.

# Hard times as cash flows out

AGREED foreign debt repayments and other capital outflows will to a large extent determine the nature and magnitude of domestic savings and expenditure in South Africa in the next three years.

The outlook is not bright. SA faces total capital outflows between 1990 and 1993 of \$8,4-billion — or R22,3-billion at current exchange rates, says the Standard Bank Review.

A total of \$1,7-billion represents repayments in terms of the third interim arrangement, and the balance is made up of maturing debt not included in the net, maturing three-year conversions of debt previously in the net and other possible capital outflows.

This forecast assumes that all long-term bearer bonds and maturing notes will be paid, that there is limited long-term refinancing for both private and other sector debt and that conversions made in the first and second interim arrangements will be fully reflected in terms of

By IAN SMITH

capital outflows, says the review.

"In addition, it is assumed that short-term capital outflows will increase as trade finance is reduced due to lower import levels as the economy slows, while 'errors and omissions' will amount to \$600 000 a year."

The outflow for 1990 alone is forecast at \$2,4-billion, which will need a current account surplus of more than R6-billion if foreign-currency reserves are not to be run down more.

## Possible

A current account surplus of R5,6-billion will be needed on average in the next four years.

The review says this is possible to achieve, but only at the expense of restricting imports and domestic expenditure.

"Fortunately, progress in this regard has already been made and there are now clear signs that domestic spending and import volumes are beginning to fall.

"Moreover, all that is re-

quired now is to increase an already substantial surplus on the current account, and this can be achieved with considerably less pain than was required to reverse a substantial deficit into a surplus in 1985."

The figures represent a "worst-case scenario", says the review. It is possible that capital outflows will be far less onerous.

"Maturing debt may well be rolled over, new foreign finance may become available and 'errors and omissions' may be reduced."

It is also possible that export earnings will receive a boost from higher-than-expected gold earnings or an increase in commodity prices.

"Such an improvement would considerably enhance the performance of the current account of the balance of payments and, therefore, lessen pressures on the domestic economy.

"But it would be irresponsible at this stage to base economic policy on substantially more optimistic forecasts, or

on hoped-for export windfalls," warns the review.

The need for a large current account surplus for the next few years will place a lid on economic growth.

Sustained economic growth of more than 2% is unlikely without renewed access to foreign capital.

"Nor will the constraints on growth disappear after the 1990-1993 period. The third interim arrangement with creditor banks will then come to an end and all short-term debt locked inside the net will again come up for negotiation.

"According to the Reserve Bank it is unlikely that a fourth debt arrangement will be reached, given the disparity of creditors and the structure of the debt.

"Moreover, the full impact of long-term conversions under the first two interim arrangements will become visible from 1995. After four difficult years of foreign debt repayment, South Africa will once again be faced with continued large capital outflows."

## From Page 1

Mutual and Cape institutions took most the GFSAs shares. Sanlam and Southern Life

## Bonanza

future, you could infer all sorts of things."

## Cash-cow C'Matic fills the churns

Business Times Reporter

A SLIMMED Computermatic has earned the 4c a share it predicted in the six months to September and declared the full amount as dividend.

In an attempt to focus on its real business, C'matic last year sold its non-computer divisions — MGX, TL Electronics and The Final Mix — to brother company in the Eureka stable Eurevest. C'matic shareholders were paid with new shares in Eurevest.

C'matic also reduced its capital by paying a capital dividend of 25c, a 20c special dividend plus an ordinary of 10c — a total of 55c — from earnings of 20c. Management has been reorganised. Policy

# Bank buys dollars to repay costly loans

81 Day 29/11/89

74

GRETA STEYN

IN AN effort to reduce its short-term foreign debt burden, the Reserve Bank is steadily buying dollars to repay the bridging loans granted by undisclosed foreign banks earlier this year.

IMF statistics put the Bank's foreign liabilities at a massive R5,3bn in May — not much less than its holding of gross gold and other foreign exchange reserves.

The foreign loans received by the Bank earlier this year are similar to overdrafts and were taken to shore up gross reserves during a period of extreme balance of payments (BoP) difficulty.

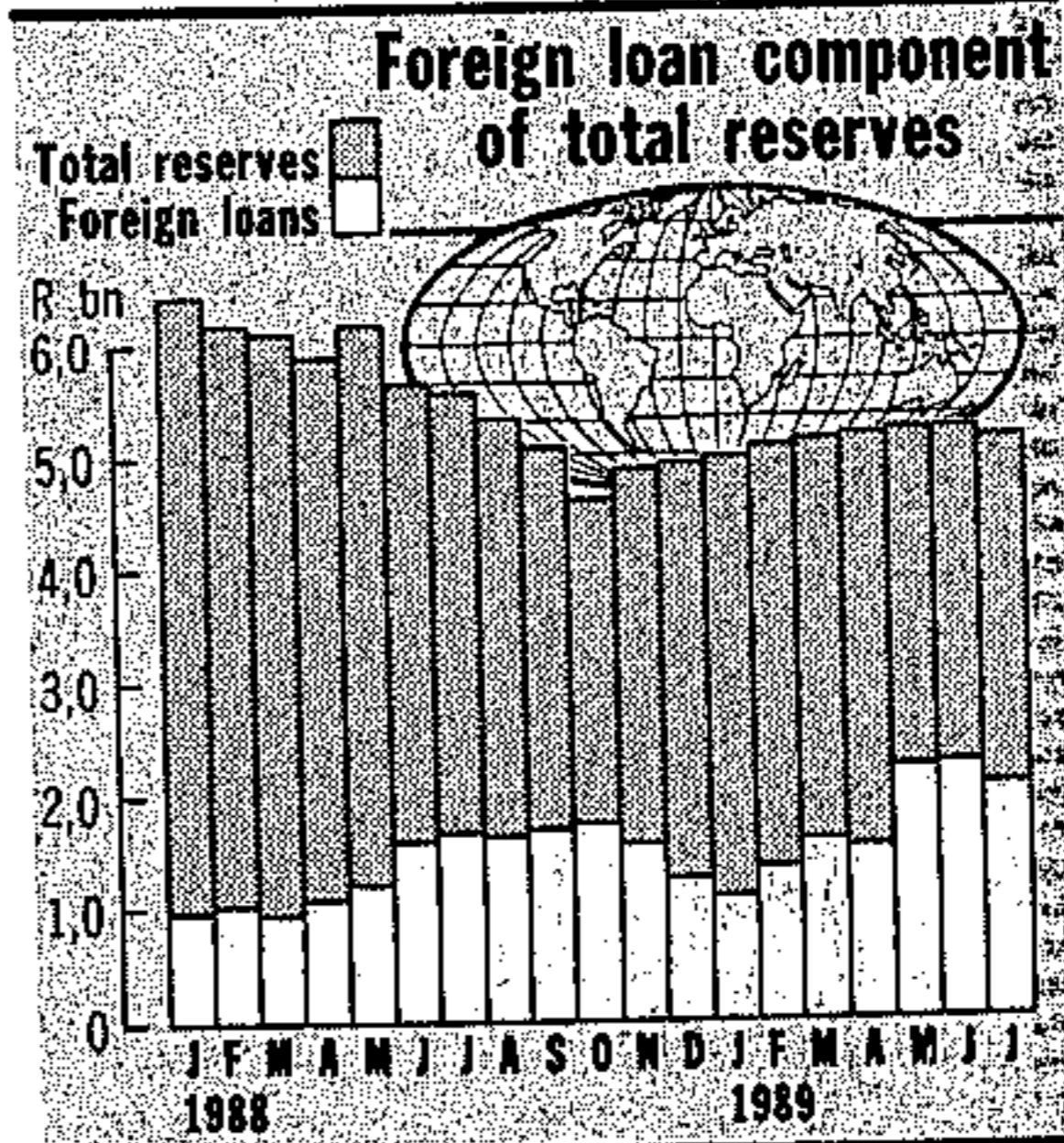
Pressure on the BoP saw reserves excluding these loans — the net reserves — depleted to less than R1bn. However, the turn-around in the BoP has presented the Reserve Bank with the opportunity to settle these costly debts and improve the precarious net reserves situation.

The continued improvement since the third quarter was confirmed by Bank Deputy Governor Jan Lombard yesterday. He declined to comment further.

Foreign exchange dealers said the Bank had capitalised on the surge in the gold price to make a few discreet dollar purchases. The central bank's low profile intervention had restrained rand appreciation — evidence of the domestic currency's slow appreciation is the 10% surge in the rand gold price between November 1 and November 27.

First National Bank economist Cees Bruggemans said current monetary policy might favour a relatively weak rand.

The domestic currency closed at



Graphic: FIONA KRISCH Source: SA RESERVE BANK

DM0,6870 yesterday, sharply down from the DM0,7035 high seen less than two weeks ago. Although general DM strength is a major factor behind the depreciation, dealers said the cross rate seemed to have "overreacted" to developments on international currency markets — indicating the central bank was a buyer of foreign currency.

UAL economist Dennis Dykes said any central bank purchases of foreign currency would be discreet.

"There is certainly no downward pressure on the rand from this source, but we also did not see a run-up in the rand because of gold. The Bank must be reducing its foreign liabilities, as this would explain why the gross reserves have failed to budge in spite of a healthy BoP."

**T**HE era of politically managed currencies dawned in 1917 with the triumph of the Bolshevik revolution in Russia; it burst into the midday sun in 1931 with Britain's abandonment of the gold standard; and it reached full splendour in 1933 when the US followed Britain.

At a stroke the burden of currency management was lifted from the shoulders of bankers and transferred to politicians. And the long-term consequence for us all has been inflation. The world has not gained from supposedly democratic control of currency management, because elected politicians can seldom take a long-term view. Their views are invariably coloured by the next election, if they are democratic, or by cronyism and patronage if they are dictators.

Of all countries SA could have afforded to have taken a long-term view, because of the inflexible political situation that placed economic issues on the back burner. Yet this has not happened. The politicians were not up to the task, they remained politicians rather than statesmen, and the authorities at the Reserve Bank followed their lead.

**S**hort-term considerations have as a result almost always taken precedence over long-term ones, particularly in the disastrous years. The Botha government and the Reserve Bank have been primarily responsible for the inflation of the 1980s.

Government-controlled currencies have always led to inflation and the destruction of savings. Modern inflation is recent: it dates from 1933, when the US abandoned the gold standard and the discipline of that standard was removed from the banking system.

The effects of this decision were not experienced in the 1930s, because the power of the business cycle was strong enough to counteract the inherently inflationary tendencies of the new system. Central bankers were not alerted to the danger. Nor, with the exception of Hayek, were economists. Keynesian ideas

# The central bank needs independence from politicking

STUART JONES

BPWJ 29/11/89

74

were triumphant and Keynesian policies applied at a time of under-utilisation of resources did not lead to a buildup of inflationary pressures.

However, when the reservoir of unemployment had disappeared, the situation changed and inflation was built into the new international monetary order. This became clear within a decade of the commencement of rapid worldwide economic growth in the late 1940s.

It was in these years when inflation was disguised that so many of today's central banks had their constitutions moulded by politicians. Only a few escaped the inflationary trap — those of Switzerland, West Germany, the US and Japan. And their escape was the result of special historical circumstances.

Three of them were federal states in which political power was decentralised; and in two of these, the US and Switzerland, there was a long unbroken tradition of opposition to powerful, interfering central governments.

In a third, West Germany, not only was there the historical experience of decentralisation, but the dominant occupying power also favoured such policies and opposed giving politicians control of the Bundesbank. In Japan the US pursued similar poli-

cies, which there, too, ensured a degree of independence for the central bank.

In West Germany history had taught them terrible lessons about the damage inflation could inflict upon an economy and society; business, politicians and the bureaucracy were united in a determination to make the fight against inflation their number one priority.

**T**he inability of the politicians of the US, Switzerland, Germany and Japan to control the day-to-day working of their central banks placed the burden of currency management where it should belong, in the hands of professional bankers. As a result, these countries have experienced the least inflation of any major industrial economy.

There is a direct correlation between central bank independence and the degree of inflation. This has recently been shown by Alberto Alesina of Harvard University in his study *Politics and Business Cycles in Industrial Democracies*, referred to in the October 28 edition of *The Economist*. In an analysis of 17 countries between 1973 and 1986, he found the worst inflation took place in Spain, New Zealand, Australia,

Italy and Britain, whose central banks had least independence.

The lowest inflation occurred in West Germany, Switzerland, Japan, the US and the Netherlands, whose central banks had the most independence. Moreover this lower inflation was not incurred as a consequence of above average unemployment.

Recently the resignation of Nigel Lawson as British Chancellor of the Exchequer highlighted this issue, for his efforts to change the constitution of the Bank of England and to make it more like that of the West German Bundesbank were thwarted by Margaret Thatcher.

SA has an appalling record of inflation in recent years and the Reserve Bank must be held primarily responsible. It has not been sufficiently independent of government and, not wishing to offend it, allowed negative interest rates to persist for a long time in the mid-1980s.

The consequences of this policy failure have been disastrous for SA. Negative interest rates made saving uneconomic and encouraged borrowing, so the savings ratio collapsed. More surprisingly the government did nothing and still has done nothing to stimulate domestic savings. Because investment depends ultimately upon savings and these were not forthcoming from within the

country, SA was forced to rely more and more on overseas borrowing, despite the obvious political risks involved. Both the Reserve Bank and government encouraged this foreign borrowing, which, even more ominously, was not long-term investment, but short-term loans that needed to be continually recycled.

When the day of reckoning came in 1985, the foreign borrowing of around R20bn was transformed into a debt of R60bn. The loss incurred — equal to the lost investment caused by sanctions — was entirely caused by mismanagement.

The solution to this persistent mismanagement of the currency by the politicians is to grant to the SA Reserve Bank the same degree of independence as the Bundesbank. It is in everyone's interest that this should be done, rich and poor, black and white — everyone, that is, save the politicians, who like to interfere in currency management, because, an election is pending or because of their own special interests or their response to special interest groups.

**A**n amendment to the Reserve Bank Act this year places an obligation on the Bank to pursue policies that ensure monetary stability and to present an annual report to the Finance Minister on monetary policy. This, however, is not an adequate check on monetary mismanagement, if the Bank is responding to ministerial pressure in its policies it would in effect be reporting wrongdoing to the real wrongdoers.

Further reform is necessary. The Governor should be appointed for a longer term than at present, say for 10 years not renewable, and all the directors should be appointed from the private sector. Perhaps half could be elected at the AGM and half nominated by the commercial banks.

The record of the politicians demands that reform should be effected and that they should lose this power to damage the economy. The record of the truly independent central bankers is worth emulating.

Dr Jones is with the Economic History Department at Wits University.

LETTERS

## BoP current account 'expected to show greater surplus next year'

PRETORIA — The cheerful side of the economic picture is expectation that the BoP's current account will show greater surplus next year. (74)

This is the view of Davis Borkum and Hare economists, who say in Market Review this gives cause for hope that interest rates will be reduced sometime during the new year.

### GERALD REILLY

The economy's growth rate, however, is expected to decline again next year. *B/Dam 11/2/89*

Sales of cars and household appliances were likely to continue this year's weakened trend, while clothing and other consumables could also be affected.

Retailers were reducing stocks for this reason and to control their interest payments in view of the likelihood of continued high interest rates, at least in the first half of the year.

A sustained rise in the gold price would boost forex reserves and the BoP, and apply further upward pressure to the already stronger rand.

# Monetary and fiscal restraints welcomed

74 Star 7/12/89

There are obvious signs that industrial trading conditions have tightened, that the 12 months to September 1990 will be even tighter, that working capital requirements will have to be squeezed and gearing strictly controlled.

Despite all this, most of the industrial groups reporting for the 12 months to September 1989 have welcomed the restrictive monetary and fiscal measures aimed at curbing spending, reducing the inflation rate and improving the balance of payments.

In his annual report, Nampak chairman Dave Brown says: "The decisive, if painful, steps taken by the new Governor of the Reserve Bank to protect the balance of payments and to reduce the rate of inflation are to be commended."

On a similar note, Malbak chief executive Grant Thomas writes in the group's annual review: "The high rate of inflation remains one of SA's most pressing economic problems and we therefore welcome indication of a new resolve by the Government to address this issue forcefully."

It is likely however that remedial measures may prove painful in the medium term and will further depress an already declining level of consumer and government spending. The gen-

## Ann Crotty assesses the significance of the annual reports of some major industrial groups

eral outlook for 1990 is therefore significantly more daunting than it has been for the past few years."

Analysis of six annual reports of major industrial groups reporting to end-September indicate generally favourable trends over the past three financial years in terms of real growth, profitability and balance sheet soundness.

A number of the groups represent recovery cases (or more appropriately, recovered cases) and the stronger performances in recent years can be attributed not only to improved trading conditions and tighter asset management, but also to major restructuring exercises undertaken a few years back.

Among the recovery cases, Kanhym's six-year review presents a very attractive picture to shareholders.

From a loss of 338,3c a share in financial 1984, the group has turned in a profit of 60,6c in financial '89.

Over the same period, return on equity has shot up to 22,7 percent and operating margins have been lifted from 0,7 percent in '84 to 5,3 percent in '89.

Looking at the balance sheet over the same period, shareholders' funds have shot up from R68,2 million to R164,6 million.

Loans of R177,6 million in 1984 were whittled down to just R32 million in '89, which meant that gearing was cut from 140 percent to 20 percent.

Kanhym's parent, Malbak, has been involved in a massive restructuring exercise which brought into its control a number of recovery cases other than Kanhym.

The success of this restructuring can be seen in the sharp improvement in return on equity from 14,5 percent in '85 to 24,2 percent in '89.

Group operating margins were lifted from 6,3 percent to 9,3 percent, while gearing remained at a comfortable 48 percent.

Darling & Hodgson is one of the building industry's recovery cases.

From a high of earnings of 121,3c reached in financial 1983, the group slumped to a loss of 59,6c in '85.

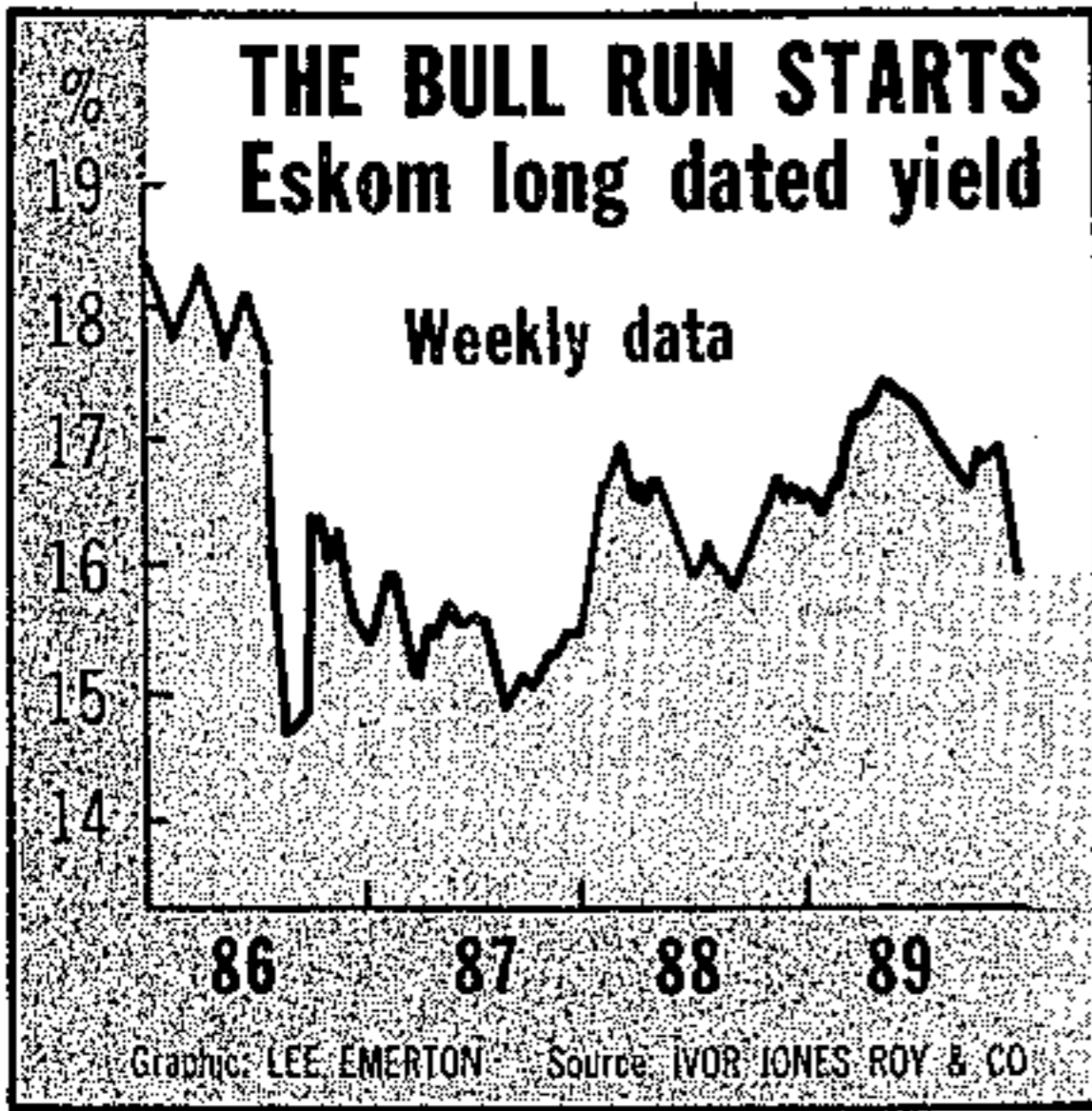
In '89 it turned in earnings of 91,4c. Return on equity was at a high of 34 percent in '83 and since '86 has recovered to 28 percent.

Borrowings were a massive R127 million in financial '85 and dropped to just R37 000 in '89, with the result that gearing dropped from 99 percent to nil over the same period.



# Rumours fuel interest rates crash

GRETA STEYN



BULLS went on the rampage in the capital market yesterday in a buying frenzy that sent interest rates crashing down 40 points in one day, to bring the plunge in a month to about 100 points.

Rumours of massive foreign buying of SA gilts pushed rates into free-fall and the benchmark stock, Eskom's Loan 168, closed at 15,87% from Tuesday's 16,27% close. The yield on E168 touched a day's low of 15,82% in hectic trading which saw volumes on the JSE gilts floor reach R1bn.

The foreign purchases started the drop and frantic covering by dealers who had written call options at 16,50%, 16,25% and 16% pushed rates over the precipice.

Supply is short as government has bor-

6/Dec 7/12/89

rowed enough and the other major borrower, Eskom, is also not issuing paper.

Further fuelling bullish sentiment was a widespread belief that the release of Nelson Mandela would be announced yesterday, along with the lifting of the State of Emergency. (260) (74)

The proposed cutting of the Defence budget by up to R1,5bn was another factor.

The economic fundamentals, too, were signalling a bull market. Latest figures, ranging from the money supply to real growth in GDP, show a significant slowdown is under way.

# Exporters give strong boost to trade surplus

15/12/89

Star

74

By Sven Lünsche

South Africa's trade surplus continued to show a healthy improvement in November, boosted by the strong performance of the country's exporters.

However, economists warn that the good showing is unlikely to be repeated in 1990 with slower global growth and weakening world commodity prices expected to impact adversely on South Africa's exports.

For the sixth successive month the surplus is above the R1 billion level, rising to R1,59 billion from R1,38 billion in October.

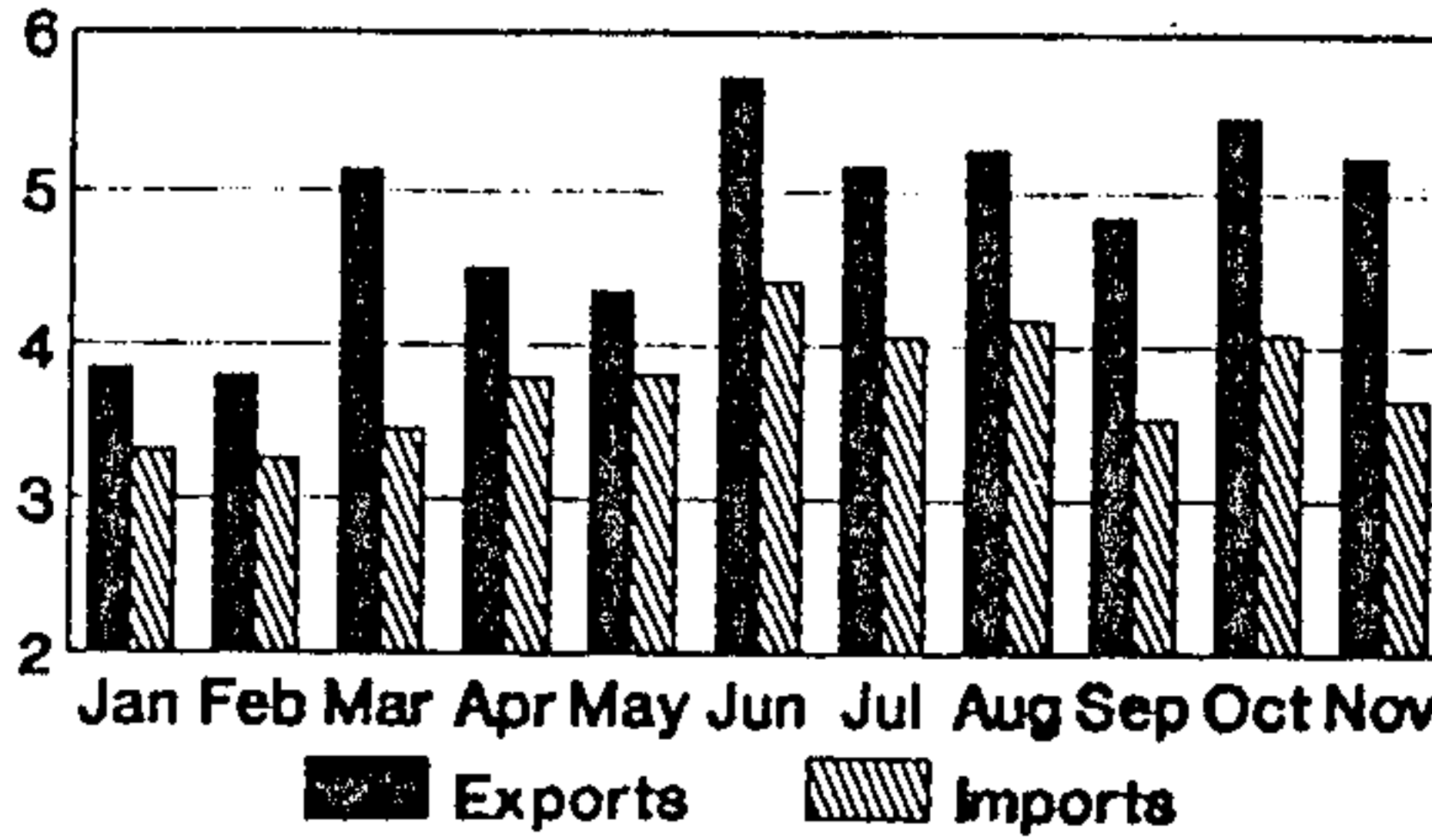
This was achieved on the back of export earnings of R5,24 billion (October — R5,47 billion) and a significant monthly decline in the value of imports from R4,1 billion to R3,65 billion.

Clearly, the import surcharges, together with the interest rate and credit squeeze, are dramatically beginning to curb domestic demand, by both consumers and the corporate sector.

For the period from January to November total exports surged by 18,4 percent to R53,343 billion (1988 — R45,04 billion), while imports were up by 14,6 percent to R41,55 billion (R36,26 billion).

The resulting trade surplus for the period was R11,8 billion, well up on last year's R8,8 billion, and a strong indication that the Reserve Bank will achieve the targeted current account surplus of R4 billion for 1989.

Any rise in the surplus above that figure would allow the Bank to build up the country's reserves as R4 billion is just suf-



The import/export picture (R-billions).

ficient to meet the hefty foreign debt repayments next year.

Further improvements in the trade surplus are also required in 1990, but economists are sceptical that this can be achieved, against the background of slower global economic growth.

## Export outlook

"The prospect of a more sluggish international trading environment next year, in particular, has worrying implications for the performance of South Africa's non-gold exports," says Nico Czypionka, chief economist of Standard Bank in the bank's latest *Economic Review*.

Declining world growth has already resulted in a modest decline in global commodity prices from the peaks attained in 1988, which could be further exacerbated by the expected improvement in the rand exchange rate.

The Commodity Export Price Index (CEPI), compiled by the Minerals Bureau, in real rand terms and excluding gold, de-

clined during October and November, reflecting the lower prices of nickel, ferroalloys, chrome ore, copper and uranium.

Exports of minerals, base and precious metals, as well as agricultural goods, have been the mainstay of the country's good export performance this year.

In the period January to November this year exports of minerals, including coal, rose by 32 percent to R6,07 billion, while exports of base metals (iron and copper) surged by 35 percent to R8,35 billion compared with last year.

Exports of precious stones and precious metals, a category which includes diamonds, improved by 37 percent to R4,97 billion.

However, gold and uranium and possibly platinum exports, which fall under "unclassified" goods, were static at R22,61 billion compared with R22,02 billion last year.

This situation could be reversed in 1989, if the gold price

continues its strong performance of recent weeks.

The Minerals Bureau's CEPI index shows an immediate about-turn of the recent downward trend in November if gold is included and Mr Czypionka says that this could partially alleviate the expected slowdown in non-gold exports.

"Furthermore, the regional composition of South Africa's non-gold exports may help to alleviate some of the otherwise adverse implications of such a slowdown for non-gold exports," he states.

## Growth patterns

"While the US and the UK, which are expected to experience slower growth next year, are important markets for the country's exports, their relative importance is less than half that of exports to Japan, West Germany, Italy and the Pacific Rim countries.

"Favourable expected growth patterns in the latter regions should, therefore, compensate somewhat for the more subdued outlook in the former economies."

Mr Czypionka cautions, however, that "the uncertain outlook for gold suggests that it would be unwise for the authorities to rely on a strong rise in overall export earnings next year to generate the necessary foreign exchange for the repayment of debt.

"Thus, domestic demand will have to remain tightly constrained and interest rates relatively high for most of 1990," he concludes.

# Rising rand lifts hopes

*S/Times 17/12/89*

By Don Robertson

SOME of the dark clouds on South Africa's economic horizon are lifting.

The firmer gold price, a healthier balance of trade disclosed in the Reserve Bank's quarterly bulletin, and the rand's improvement against most currencies since mid-September have prompted many economists to revise their forecasts.

There is growing belief that the rand's climb will be maintained for most of next year.

That would bring a healthier economy, reduced inflation, and a lid on the rising price of cars and other goods. Also, repayment of a large part of SA's international debt might be eased.

An easier dollar, a decline in the outflow of capital, an improved balance of payments and a more stable political climate have contributed to an average 10% increase in the rand against all currencies except the mark.

## Fillip

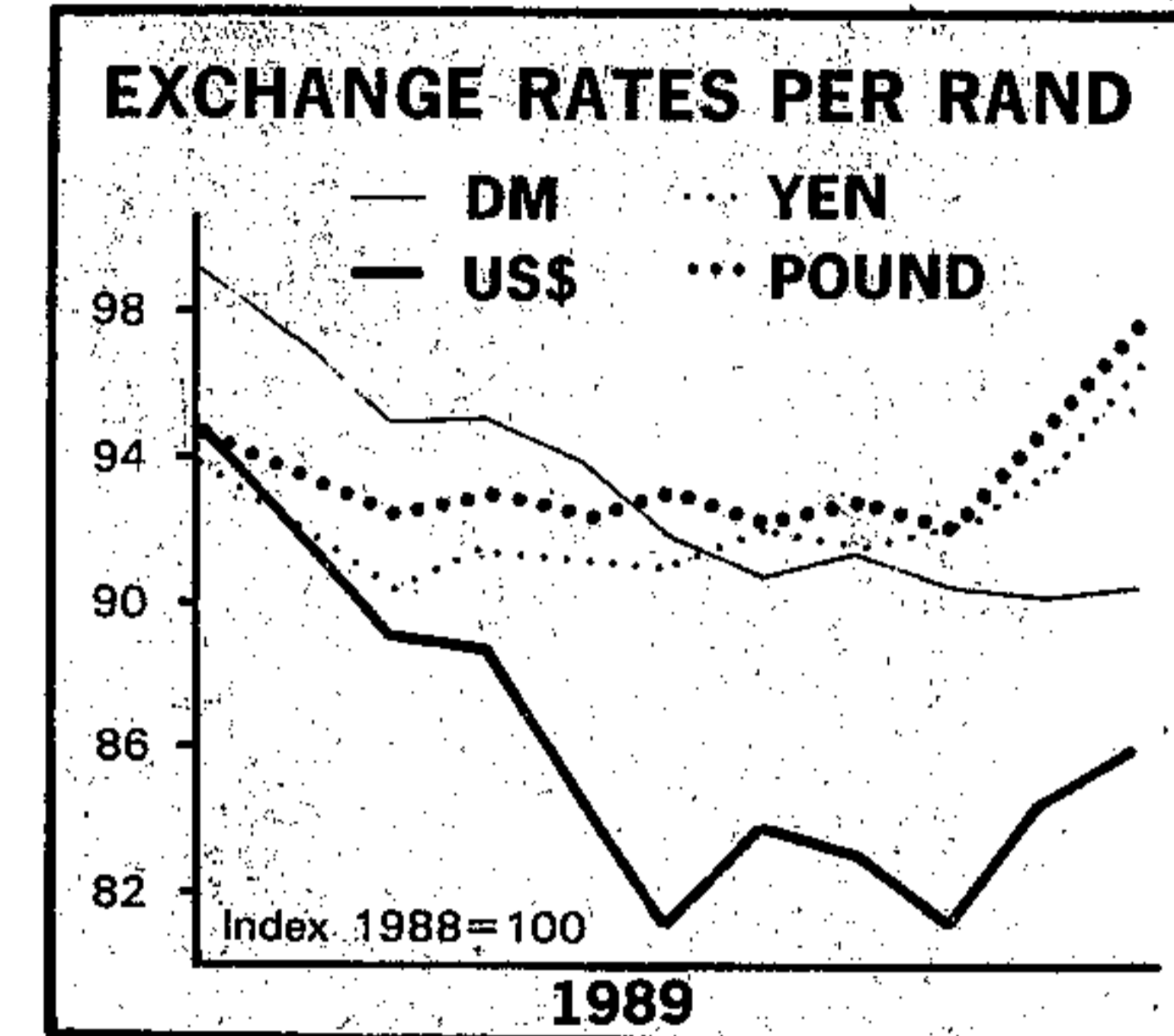
The turnaround came on September 15 when currency dealers feared that the US economy could be heading for a decline. Central banks offloaded dollars in early October after share prices fell in New York. The result was a 1,8% fall in the dollar against the mark.

It helped to improve the rand by 2,1% against the dollar.

The dollar continued to fall against the mark later in October and the rand strengthened against most currencies, gaining another 2,1% on average.

At the same time, dollar weakness helped the gold price — another fillip for SA. The technical position of the gold price has moved into new areas, but economists warn that too much should not be expected from this source of foreign currency.

But as is traditional,



economists differ on prospects for 1990.

Gad Ariovich, chief economist for stockbroker Ferguson Brothers, says the stronger rand could help to stall the rise in the inflation rate. He predicts inflation of 14% next year.

Mr Ariovich says the outlook for gold is better than for some time and the political position has improved. He sees a fall in the outflow of capital.

The rand fell too low in the past and he expects it to stabilise at current levels at least until the end of the year.

Mr Ariovich expects imports to decline. The lower inflation rate will assist exporters by lowering costs and making them more competitive.

## Unwise

Dennis Dykes, chief economist at Nedbank, says capital outflows have fallen in tandem with the easing of pressure on the rand. The result has been an improvement in net reserves which should allow repayment of debt outside the net.

Mr Dykes expects the rand to continue to improve in the first quarter of next year, ease in the second and firm again in the last six months.

Standard Bank chief economist Nico Czypionka says that because of the un-

certain medium-term prospects for the gold price it would be unwise for policy-makers to rely on a strong rise in export earnings next year.

Domestic demand will have to remain under tight control and interest rates will have to stay high for most of 1990.

"Only in this way are reductions in imports likely to be achieved which are sufficiently large to allow the meeting of balance of payments objectives."

## Danger

Cees Bruggemans, head of the economics department at First National Bank, says there is a danger that the rand might be overvalued.

The Reserve Bank confirms the slowdown in capital outflow. In the first quarter of 1989, the net outflow was R1,9-billion. It declined to R1,1-billion in the second three months and to only R250-million in the third quarter.

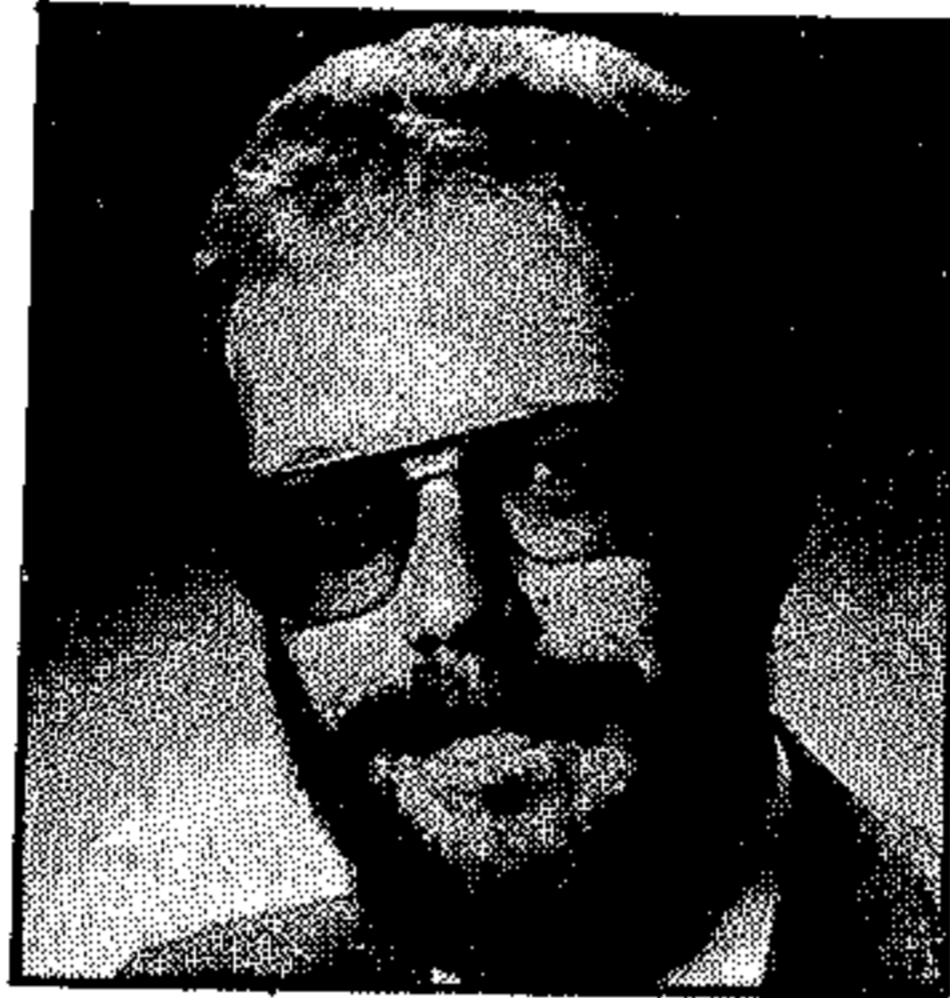
Brand Pretorius, managing director of Toyota Marketing, says that if the rand holds up at present levels, it will help to contain vehicle-price increases next year. He expects prices to rise by no more than 12%.

20/12/89 (11) Star

# SA's balance of payments

## OUTLOOK 90

By Andre Roux,  
Economist,  
Old Mutual



The parameters for next year's balance of payments have, in effect, already been set.

Total foreign debt repayments (inside and outside the net) amounting to between \$2 billion and \$2,5 billion are due. Add to this further non-debt related capital-outflows and assume no capital inflows.

Take into account the perilously low level of gold and foreign exchange reserves.

The Reserve Bank's reserves fell from \$2,5 billion in January 1988 to just over \$2 billion by the end of November and it would be imprudent to deplete these reserves in order to repay foreign debt — indeed it is imperative that the kitty be replenished.

In all, therefore, a current account surplus in the vicinity of \$2,2 billion to \$2,7 billion is needed to accommodate outflows on the capital account and, at the same time, allow for some improvement in the foreign reserve situation.

At the current exchange rate this amounts to R5,7 billion to R7,5 billion; a significant increase from the estimated R4 billion to R4,2 billion for 1989.

### Service payments

The current account balance is derived by subtracting net service payments from the trade balance (the difference between export revenue and the import bill).

Net service payments (primarily payments for freight and insurance on imported goods, and interest and dividend payments to foreign creditors) could add up to about R11 billion next year, which means that the trade balance will have to be between R16 billion and R18 billion.

This year's trade surplus looks set to be in the vicinity of R12 billion to R14 billion. Just how plausible is a trade surplus of, say R17 billion next year?

In answering this question there are a number of salient considerations:

How will the gold price perform in 1990?

Will there be a major slowdown in international growth next year?

damental support factors, such as accelerating international inflation, militates against a significant bull run in the gold price.

Nonetheless, the more favourable sentiment towards gold cannot be ignored, so let's assume an average price for 1990 of \$420. Total revenue for gold exports could therefore amount to some \$8,4 billion or about R24 billion.

The second pertinent factor relates to the performance of international economies next year.

Although the major industrialised economies are undoubtedly experiencing a slowdown in economic growth, a worldwide recession in 1990 appears unlikely, so moderate growth in the international demand for our non-gold exports should be recorded.

### Little change

However, the price at which these goods will be sold could decline somewhat due mainly to the expected softening of commodity prices. Assume, therefore, that non-gold export revenue in 1990 will be little changed from 1989 and amount to about R40 billion.

The implications of the preceding thoughts on the domestic economy are that in order to attain the required current account surplus next year the import bill will have to be restricted to more or less the figure expected for this year.

Given the distinct possibility of an increase in the price at which these goods will be imported (internationally, price levels are expected to rise by be-

tween four and five percent), as well as some depreciation in the exchange rate of the rand (which raises the rand cost of imports), this means that import volume will have to decline from 1989 levels.

It is well known that the demand for imports is a direct function of the level of aggregate domestic demand in the economy and, in particular, the demand for durable consumer goods and investment-related inputs such as machinery and equipment.

### Domestic demand

Thus, in order to lower import volumes in 1990 domestic demand will have to be curtailed. This will require the maintenance of stringent economic policy measures and an "across-the-board" tightening of belts.

In the circumstances there is little scope for an early decline in interest rates next year. However, the gathering momentum of the economic recession should provide some alleviation in the second half of the year.

Finally, in this analysis cognisance has been taken of various statements by Reserve Bank officials and the Minister of Finance to the effect that the inflationary impact of a massive depreciation of the rand cannot be tolerated.

Such a depreciation tends to enhance the international attractiveness of our exports. However, a relatively stable rand in 1990 (some depreciation is foreseen) means that the major avenue for the required balance of payments adjustment mechanism falling within the ambit of official economic management is, as pointed out before, the reduction of domestic demand.

It will be a tight squeeze, but with a bit of luck on the international front and the right dose of monetary and fiscal stringency, the current account, which after all basically reflects the difference between domestic supply and demand, could meet the demands placed on it in 1990 by the commitment to repay foreign debt and still allow for some improvement in the foreign reserve situation.

Will commodity prices collapse as they did in 1983-84?

How severe will the domestic recession be?

Will the local currency be permitted to collapse as it did in 1984-85 in order to enhance the international competitiveness of locally-manufactured goods?

First, unpredictable gold. After a steady fall from the end of 1987 the gold price is finally showing signs of staging a rally. At the time of writing gold was holding steady at just over \$410, after averaging about \$365 in October, and it looks set to average about \$380 for the year.

The reasons for the recent revival are somewhat difficult to pinpoint, but seem to be related to the weakening of the dollar, second thoughts on equity and other investment values, keen fabrication demand, and the unwinding by producers of previously incurred gold loans.

However, the absence of fun-

### Possible balance of payments scenario (R million)

Gold revenue .....	24 000
Non-gold exports .....	40 000
Less: Imports .....	47 000
Trade balance .....	17 000
Less: Net services .....	11 000
Current account .....	6 000

Lawson

# Gold not the best bet <sup>(74)</sup> Standard

SA's policy makers should not rely on gold to generate the foreign exchange necessary to meet debt repayment next year.

In its December review the Standard Bank said uncertainty about the medium-term prospects for the metal suggested it would be unwise to expect a strong rise in the bullion price.

Instead, domestic demand would have to be tightly constrained with interest rates kept high for most of 1990 in order to curb imports and to stimulate exports at a time when the overall levels of global economic activity would be slower.

This had already resulted in a "modest decline" in commodity prices from the peaks attained in 1988.

"Fortunately, the regional composition of SA's non-gold exports may help to alleviate some of the otherwise adverse implications of such a slowdown for non-gold exports.

"While the US and the UK are important markets for SA exports, their relative importance is less than half that of

## Business Day Reporter

exports to Japan, West Germany, Italy and Pacific Rim countries."

Efforts had to be made to build up a favourable balance in the current account of the balance of payments to meet foreign debt obligations relying on windfalls from gold sales.

The bank said it was unclear whether the recent improvement in the gold price represented a sustainable new departure for gold as an investment asset.

"Although technical factors are supportive, the fundamentals for gold have yet to comply with a significant bullish gold price scenario."

The bank said it was expected that the impact of forward sales and gold loans in augmenting total bullion supply was unlikely to be as great in 1990 as it had been since early 1988. "But the high

real returns which can still be earned on financial assets in a global economic environment with relatively modest inflation levels will tend to detract from the allure of gold."

A bear factor in next year's gold market was the potentially destabilising influence of developments in the Soviet Union.

The bank said a restructuring of the Soviet economy was necessary for increased efficiency and the improved well-being of the people on which the success of glasnost seemed to depend.

Satisfying consumer demand for a wide range of goods not available in the Soviet Union would necessitate generating hard currency to finance increased imports.

The only sources of ready foreign exchange were borrowing and increased sales from the Soviet Union's large gold reserves.

"Any large-scale selling of Russian gold into the spot market would obviously act as an immediate price depressant," the review said.

*Blown*  
*2/12/89*  
**Impact** 

B112

# Money supply still out of target range

Bl Day 22/12/89

74

HAROLD FRIDJHON and  
NEIL YORKE SMITH

GROWTH in the money supply, SA's stock of money, as measured by the M3 aggregates, slowed down to 24,55% in November compared with the sharply upward-adjusted numbers for October.

According to Reserve Bank figures released yesterday the percentage growth in the seasonally adjusted M3 for October soared to 24,70% compared with the preliminary estimate of 21,65%. The September growth was 22,87% adjusted from a preliminary 22,05%.

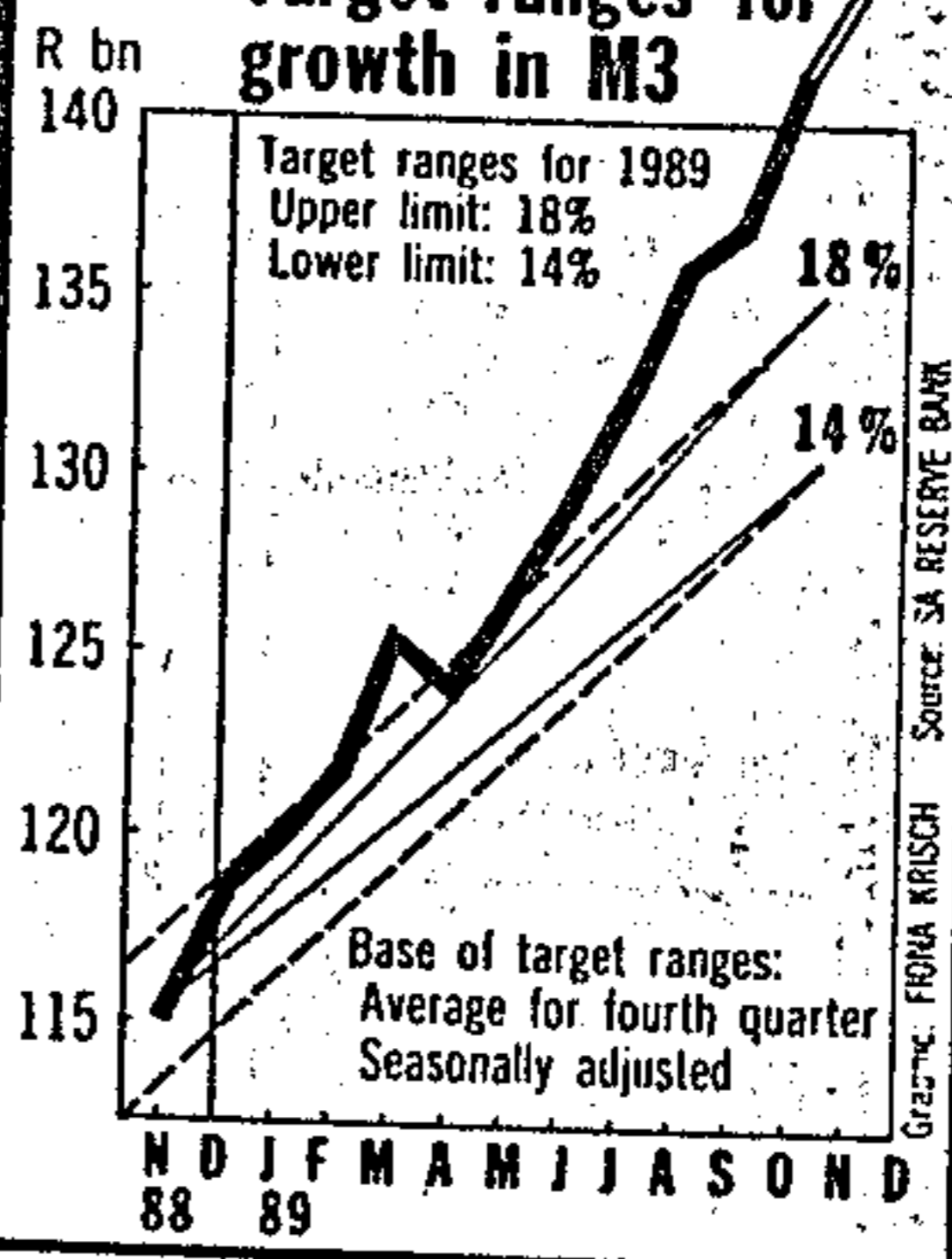
M3 is the broad measure of money supply, consisting of notes and coins in circulation plus all deposits with banks, building societies and the post office, which reached a total of R143,682bn at the end of November. The comparative figure for November 1988 was R115,364bn.

Encouraging features of the November returns are: the increase in the net gold and foreign exchange reserves added to the growth in money supply, and more significantly, the velocity of circulation continues to decline.

With only the December figures to come — and there is little hope of the rate of increase reducing over the holiday season — money supply once again will fail to reach the targeted range of 14-18%.

Senior deputy governor Japie Jacobs said yesterday that the Iscor flotation was the reason for the sharp upward adjustment in October. He indicated that most

### Target ranges for growth in M3



figures in the preliminary calculation of M3 always required some adjustment.

Adjustments become necessary because of inaccuracies in the data supplied to the Reserve Bank by banks and other deposit-receiving institutions.

There are many margins for error, such as estimates made by the Land Bank or, provisional bank returns which do not identify whether negotiable certificates of deposit are held inside or outside the banking system.

# SA should withdraw from onerous debt arrangements — academics

SA should withdraw from the "onerous" debt moratorium arrangements with international banks and undertake to repay the outstanding debt over a more suitable period of time.

"This option must be given serious consideration both now and for the renewal of the accord in 1991," argue two University of Cape Town economics lecturers, Iraj Abedian and Barry Stan-

dish.  
In an article in the November issue of the Institute for the Study of Public Policy's journal *Critical Choices* for South African Society, Abedian and

LINDA ENSOR

Standish say that the authorities, obsessed with meeting the debt repayment schedule "have subjected the economy to a succession of monetary and fiscal shocks. Huge sums have been sliced from national savings in the form of capital outflows."

The rationale for adopting the debt repayment schedule was to maintain SA's credit rating overseas but the two economists believe that even if the terms of the accord were adhered to,

the door to overseas borrowing by SA would remain closed until meaningful political change acceptable to the international community was introduced.

"As long as the spectre of foreign debt hangs over the economy, the results will be a falling rand and lower economic growth, which in turn bring higher inflation and rising unemployment."

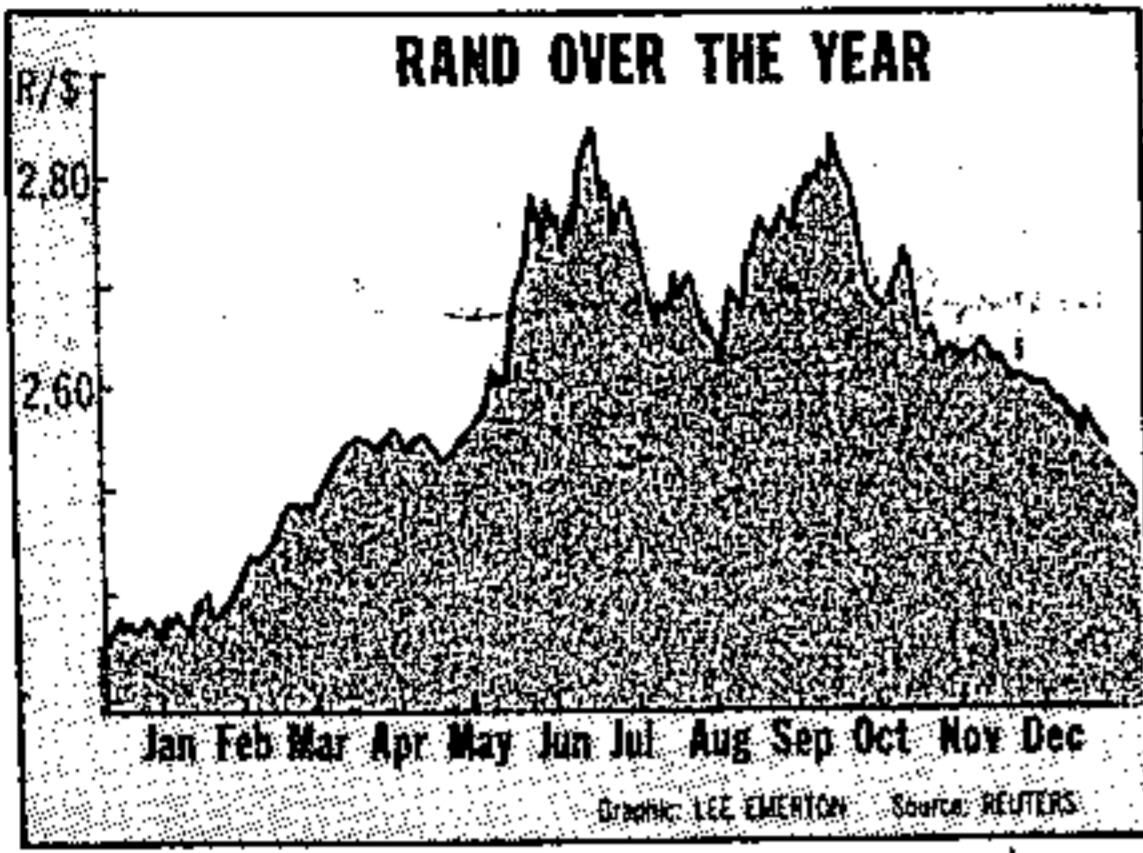
Monetary policy, currently based on meeting the debt repayment schedule, has little autonomy to address domestic needs, while fiscal policy has likewise been constrained.

They argue further for an increase in the fiscal deficit saying the decline in debt financing over the last 20 years is an inappropriate fiscal policy for a developing country such as SA.

If expenditure on human capital (social services) is added to expenditure on physical capital, then, the economists say, the ratio of current to capital expenditure between 1985 and 1988 shows a decline.

"It is just as important to allow for the deficit financing of human capital as it is for that of physical capital."

# Rand set to stay weak, but stable, say experts <sup>(74)</sup>



THE rand is likely to continue weak against currencies of SA's major trading partners, but there will be greater stability next year with depreciation at a far slower rate than this year's drop.

Economists and foreign exchange dealers predict the rand will not recover next year, largely because of a difficult balance of payments situation. Although a substantial surplus on the current account is expected (R6bn-R7bn), large foreign debt payments (possibly as high as R6bn) will exert continued pressure on the local currency.

GRETA STEYN

The inflation differential between SA and its major trading partners is another major factor mitigating against rand appreciation.

Predictions for the average rand/dollar exchange rate vary between R2,66 and R2,80. <sup>By PCW 29/12/89</sup>

The year could start off with the rand reasonably strong. Nedcor sees the currency at R2,5970 to the dollar in the first quarter but ending the year at R2,7780

□ To Page 2

## Weak rand <sup>How 24/12/89</sup>

(\$0,36). The bank sees an annual average of R2,6980 — somewhat worse than Trust-Bank's prediction of R2,66.

Rand Merchant Bank's Rudolf Gouws prefers to talk in terms of a "stable rand" than a weak rand and predicts the recent stability will continue into 1990, with positive effects for the inflation rate.

Boland Bank also sees stability while Volkskas says the trend of the rand against the US dollar could be "somewhat stronger to neutral". The bank believes the effective exchange rate could decline less sharply in future and "possibly even maintain its position".

Standard Bank's Nico Czypionka said the rand's depreciation might not match the inflation differential between SA and its trading partners.

"Such a situation will force exporters to become more efficient producers if they want to remain competitive in international

al markets."

Economists stress the gold price and unforeseen developments on international currency markets could change the situation dramatically.

The trade-weighted value of the rand, depreciated by 9,6% between January and September 1989, after a 12,6% depreciation in 1988. But the rand has been more stable lately, and measured against the US dollar, appreciated by about 7% since September this year.

However, the domestic currency continues to lose ground against the Deutsche mark (3,8% between September and December this year) as the West German currency has been particularly strong. Against the pound, the local unit has gained more than 6% in the final quarter of this year, reflecting the weakness of the British currency on international markets.

● See Page 4

□ From Page 1



**S**A ENTERS 1990 — a difficult year for the balance of payments (BoP) — with its reserves showing only tentative signs of recovery. But Reserve Bank Governor Chris Stals believes SA will repay its debt next year without further drain on the foreign reserves, and an improvement in the position is quite possible.

SA's foreign reserves have been under pressure for two years. During 1988 and part of 1989, current account surpluses were not adequate to cover the drain on the capital account of the balance of payments (BoP), let alone leave the country with anything extra. Banks and the Reserve Bank had to make extensive use of short-term credit facilities to top up the dwindling stock of foreign currency.

The level of foreign reserves is measured and analysed in a number of different ways, each telling a different story. But there is consensus that the level, no matter how one looks at it, is too low.

But why is it too low, and what constitutes an "acceptable" level of reserves?

**T**o judge whether the overall level is too low, the most often quoted measure is how many months' imports it covers. The benchmark is three months' imports, or about R10bn to R11bn.

The latest available figures show the Reserve Bank's holding of gold and foreign currency at R5,53bn at the end of November (about R560m more than in January). But the Reserve Bank's holding of reserves is often (incorrectly) taken to represent the country's stock of foreign currency and gold.

While the Bank is the principal custodian of the reserves, the commercial banks also hold foreign currency. Their holdings are not dis-

# 'Downturn' may give SA chance to replenish reserves

GRETA STEYN

closed monthly and the Bank's holdings are usually taken as an indicator of the overall trend. They do not, however, reflect the overall level of reserves.

The commercial banks and the central bank's reserves together reached R7,4bn at the end of September, according to the Bank's latest Quarterly Bulletin. Measured against the import cover requirement of about R11bn, R7,4bn is too low.

But how useful is this measure of judging the level of reserves? Economist Azaar Jammine cautions against making too much of the actual ratio of reserves to imports.

"It is more important to look at the trend. One can stop panicking when the ratio of reserves to imports is stable, or rising."

Of importance, Jammine says, is cash flow and the ability to meet foreign commitments.

How does one measure "ability to pay"? What is an adequate level of reserves? Stals, asked to define what he would regard as an acceptable

level of reserves, said it was, to some extent, a subjective assessment and there was no standard international norm.

"Any country needs foreign reserves to provide for unpredictable short-term capital outflows, to cover imports already in the pipeline and to provide for future commitments. The minimum level of the required reserves will depend on availability of new credit, unutilised credit facilities and nature of exports."

He noted the size of SA's gold production — a ready earner of foreign

exchange — meant SA might need a lower level of reserves than some countries.

"But volatility of capital movements may again dictate a higher level than for other countries."

He believes SA should build up reserves in 1990 — a downswing in the business cycle. It is prudent policy, Stals says, in a country with an 'open' economy such as SA's, to accumulate reserves in times of a downward phase of the business cycle to provide for additional imports in times of upswing.

Asked how SA would manage to meet a possible outflow of \$2,4bn on the capital account next year, Stals said it was a worst case scenario and would "most probably" be covered by a similar surplus on the current account.

Should the outflow be smaller and the current account surplus larger, it would be possible to replenish net reserves — "as we have been doing for the past five months".

Stals prefers to speak in terms of net reserves, a purer measure of ability to pay than the figures for

gross reserves quoted above. Included in the gross reserves are "compensatory" borrowings taken specifically to top up the foreign reserves.

Nedcor economist Edward Osborn and JCI's Ronnie Bethlehem believe the level of the country's net reserves is a fundamentally important measure.

Bethlehem, in his book Economics in a Revolutionary Society, defines net reserves as: "the gross reserves of the Reserve Bank, other banks plus those of the Central Government, less the short-term foreign liabilities of the monetary banking sector".

According to this definition, figures in the Quarterly Bulletin reveal SA was in the red to the tune of R2,49bn at the end of September. (A rough estimate, as no adjustments for gold valuation were made.) The situation improved by R160m between the second and third quarters of this year and, according to Stals, the improvement continued into the fourth quarter.

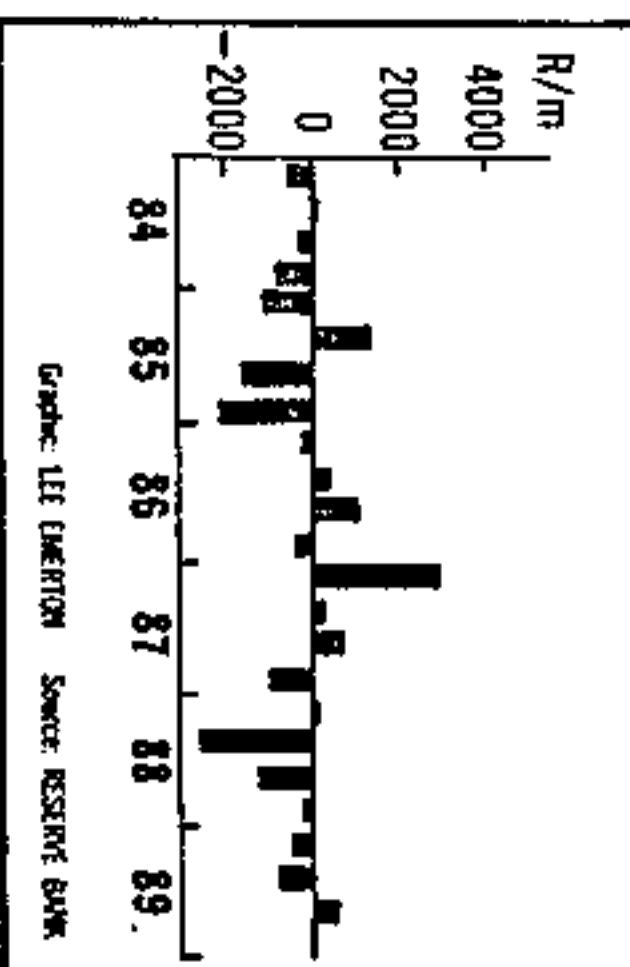
**D**oes it matter that SA is in the red, if the country has managed to meet all its foreign debt commitments and even survived the drain of short-term capital in 1988?

Bethlehem noted the bleak net reserves position in 1985 had made the country especially vulnerable to financial sanctions.

"In short, by the end of 1985, SA had lost much of the means whereby to defend itself effectively in financial markets against the background of the worst political circumstances it had ever experienced," Bethlehem said.

Perhaps an acceptable level for the reserves is one in which the country is not too vulnerable if a "worst case scenario" materialises. The central bank should always retain the ability to smooth fluctuations in the foreign exchange markets. SA enters 1990 with the knowledge it still has some way to go.

Changes in net foreign reserves owing to BoP transactions



11/2/89 29/12/89

(74)