ECONOMY — 1994

~~JANUARY — MARCH~~

Economy: Upbeat trend continues

(49)

ARG 6/1/94

BRUCE CAMERON
Business Editor

REAL sustained growth in the economy will start clicking in towards the end of the year, the University of Stellenbosch's Bureau for Economic Research (BER) predicts in its latest survey of business trends.

The survey shows that retailers, wholesalers and motor dealers all expect buiness to look up this year.

This is in line with a wide range of opinion from politicians and economists who, on the back of record prices on the Johannesburg Stock Exchange, are again re-writing their expectations for the economy for 1994.

Standard Bank has revised its 1994 economic growth forecast up by 0,5 percent to about 2,5 percent for the year as a result of the bull run on the JSE.

Standard Bank economist Nico Czypionka says this increase in paper wealth has a peculiar effect on individuals and companies.

"As far as individuals are concerned, it increases their net worth and they believe they can become more liberal with spending."

Companies, he said, feel they can spend more money on projects and raise capital from their shareholders for expanding operations.

Greater private investment means more jobs and wages, and more money in the economy leads to an increase in demand for consumer goods which in turn propels economic growth.

Economist Nils de Jager said in the BER survey the realisation of the expectations of the retail, wholesale and motor dealers sectors will lay the foundation for further recovery in the economy in 1994.

However, the three sectors reported their employment levels are down with many still retrenching staff.

On the basis of the survey the BER says most of the growth so far in the economy has been attributable to the improved performance of the agricultural sector, which spread to the manufacturing, mining, electricity generation, transport and communication sectors.

The construction and trade sectors were still experiencing a decline in real terms.

But the BER forecast "the process of bottoming out will continue until early in 1994 and the economic upswing will start to gain momentum towards the third quarter".

The majority of respondents to the survey were dissatisfied with business conditions in the fourth quarter of 1993 "but are more optimistic about the first quarter of 1994".

The BER believes the elections could hold back a greater improvement in the economy but if the Transitional Executive Authority "can make a difference to the level of crime and violence leading up to the election, it can boost both consumer and business confidence, which is crucial to a sustained economic recovery.

"Consumers remain concerned about the economic situation and their personal financial situation in view of high taxes and high interest rates."

Consumers remained hesitant to spend on durables.

Mr De Jager said uncertainty about the election would "probably rule out any substantial recovery of consumer confidence and therefore also a significant improvement of private consumption expenditure".

But from the second quarter of 1994 an increase in real personal disposable income, as a result of lower inflation, will enhance prospects for retail sales and consumer spending.

The BER said the main reasons for the improved outlook of retailers were:

■ Better profits as a result of retrenchments,

■ Lower price expectations resulting in better sales expectations,

■ The reduction of the bank rate and prime overdraft rate; and

■ The improved political situation.

Retailers had reported satisfactory, but lower than expected sales for the end of 1993 but the majority expected better sales for the first three months of 1994.

The majority of wholesalers reported sales volumes increased during the last quarter of 1993. This was slightly better than expectations Sales of consumer goods had remained sluggish but the improved agricultural conditions had stimulated volumes in the chemicals and raw material as well as the machinery and equipment sub-sectors.

The brightest spot of the survey was the motor industry, with sales by motor dealers surpassing their own expectations in the last three months of 1993.

Passenger car sales improved throughout 1993, largely as a result of replacement buying and the introduction of new models.

The used car market and spare parts dealers also reported better sales.

JOBS

ANC's blueprint focuses on employment

SI Times (Buss) 9/1/94 (49)

How will an ANC government create jobs? The answers and strategies are contained in the ANC-Cosatu-SACP alliance's Reconstruction and Development Programme (RDP). By **KEVIN DAVIE**.

AFFIRMATIVE action will end discrimination in hiring and promotion, ensure training and education on a broad scale and foster the development of black-owned businesses.

Now in its fifth draft, the Reconstruction and Development Programme was discussed last month at an alliance meeting which included the SA National Civics Organisation (Sanco).

It is to be written into a sixth draft by Tito Mboweni, Ben Turok, Jeremy Cronin and Alec Erwin.

The effects of apartheid cannot be undone overnight, the RDP says.

The RDP says affirmative action will be monitored by a strong "ombud" system.

Hand-outs for the unemployed should be avoided and all programmes should take into account the need to maintain incomes and expand employment.

Private-sector retrenchments must be discouraged.

A public works programme authority, with costs of not more than 1% of projects, is envisaged.

This programme would spend R1-billion in 1994-95, benefiting 100 000 people. By 1999 500 000 people could take part in it.

A national youth service programme (NYSP) would mobilise 50 000 volunteers in 1994-95 and cost R300-million. By 1999 it would have 300 000 volunteers.

A community development fund would have a R100-million budget to provide resources for poor communities.

The RDP supports dynamic small and medium business. It criticises repressive regulations which undermine black business.

Micro, small and medium enterprise, particularly black business, will be expanded under the new government, it says.

Industrial policy must focus on job creation.

Investment incentives are being reviewed to develop a stable, effective and defined structure.

"The objective will be to promote manufactured exports."

Trade reform would simplify tariffs and reduce protection "in a manner that minimises disruption of employment and sensitive socio-economic areas".

The RDP wants a climate conducive to foreign investment.

Specific programmes would be introduced to promote company-level technological development.

Anti-trust legislation would prevent anti-competitive behaviour. Unbundling into more focused, effective corporations would be extended.

Wage policy is critical, says the RDP "The democratic state must seek to ensure a living wage for workers."

New laws "will as soon as possible" compel companies to disclose all information relevant to their communities and workers.

In financing the RDP, "we must ensure that we do not defeat its objectives by fuelling inflation or creating an exchange rate crisis"

A fifth of the national Budget at present is spent on education and a tenth on health. But the results are poor. SA suffers from higher illiteracy and worse health than almost any other similar country.

"Some of the 'homelands' piled up debt, which we must all now pay."

New funds could be mobilised from a reconstruction bond to be marketed at home and abroad.

"If local financial institutions do not take up an appropriate share, the state will consider prescribed assets to reduce costs."

The state might also introduce a reconstruction levy that would last for only the first five years of the RDP. The levy would be a temporary wealth tax affecting only the higher-income group.

Personal tax would be reviewed to reduce the burden caused by fiscal drag on middle-income earners.

The state cannot fund the RDP without support from the private sector. Financial institutions must help by funding individual programmes to meet basic needs, especially housing, and by improving their service to small-scale producers and black communities.

"At the same time we realise that we cannot compel the financial institutions to make long-run losses."

The state must assist the very poor.

"The major financial institutions are controlled by white men. They are not sufficiently accountable to the communities in which they operate.

"They should attempt to include representatives of trade unions and civil society in their boards.

"Pension funds should become more accountable to their policy-holders. The state will change the law to ensure that trade unions, as the workers' representatives, have seats on the boards of the pension funds."

An "ombud" system for the financial sector would be set up to enforce laws against discrimination.

Negotiating forums provide a new approach to policy making. They would be strengthened and restructured to make them more accessible, efficient and representative.

"Public funding will be made available for them to function properly"

The ministries of finance and state expenditure would be combined in a single department.

The lending criteria of the IDC, the DBSA and SBDC would be changed to support small enterprise.

The RDP aims to give 10 years of general education to all children.

Training boards with equal representation of employers and workers are envisaged to facilitate skills development.

Funding would be provided for land for those who need it and those who lost it because of apartheid laws.

Beneficiaries would pay according to their means. A land tax on rural land would help to raise revenue.

Housing policy must empower communities, be affordable and sustainable.

State housing would be transferred to long-term residents free of charge. Payment arrears would be written off.

The RDP says the building materials industry must be examined with a view to improving output and reducing costs.

"Cartels, price agreements and market share agreements must end," it says.

THINK-TANKERS: Tito Mboweni, Alec Erwin, Jeremy Cronin and Ben Turok, who will prepare a sixth draft of the alliance's RDP report

SUNDAY TIMES, January 9 1994

SA faces choking debt

S| Times 9/1/94

By CIARAN RYAN

PUBLIC debt is set to mushroom by more than R30-billion as the government takes over homeland debts and other liabilities in a final bid to clean up state accounts.

Economists warn that this will saddle the new administration with a crippling level of debt, leaving it little room to embark on budgetary adventures.

Mr Mike Brown, economist at Frankel Pollak Vinderine, said public debt could grow to R229,4-billion, or 58,8 percent of gross domestic product by March, just shy of the internationally accepted norm of 60 percent. This compares with total public debt of R155-billion or 46,5 percent of GDP in March last year.

In terms of the interim constitution, the government has taken over homeland debts of more than R14-billion, though this is more of a bookkeeping exercise as central government was always responsible for interest payments. Economists warn, however, that there will be some increase in the interest burden as homelands borrowed on their own account.

In November the government voted a further R6,9-billion to be issued to state pension funds to offset the R29-billion actuarial shortfall in the funds.

The R2,9-billion IMF loan and R9-billion in Reserve Bank foreign exchange contingency losses, which earn interest only once sold on to the market, push the total additional debt incurred since September above R30-billion.

This increases the likelihood that the state's interest burden will shoot past the R20,3-billion budgeted for the year. In addition, the Reserve Bank incurred forex losses by providing cheap forward cover for exporters.

Nedcor chief economist Edward Osborn disputed assertions by Finance Minister Derek Keys that the deficit for the year will be contained to the budgeted R25,3-billion.

"I believe the deficit will be closer to R30-billion. The government will have to borrow an additional R5-billion to cover the revenue shortfall," he said.

"The government is attempting to tidy up its bookkeeping ahead of the election by bringing everything on balance sheet, but this leaves the new administration with little room for manoeuvre."

Unlike Germany, SA's re-incorporation will be relatively painless to the fiscus because homelands were largely funded by central government.

But there is concern — and some outrage — over the government's R6,9-billion boost to the pension funds, for the ultimate account of taxpayers, at a time when the country can ill-afford it.

Mr Brown said a public debt of R229,4-billion is still within international norms, but will limit the new government's ability to finance its spending programme.

"The new government's ability to continue the process of debt financing, particularly where the borrowings do not result in direct investment in new capacity, could be prescribed by the relatively high and growing public debt ratio in SA."

Mr Osborn argued that debt will not be contained within international norms as it is now on a vigorous growth path.

He said rather than trying to fund the pension fund deficits, it would be better if the government collapsed the funds into the State Revenue Account — the central state account for receipts and disbursements — which would reduce public debt by R39-billion and save R6-billion a year in interest payments.

He said pension fund benefits should be guaranteed by the government and considered part of current expenditure.

"This, however, would not be politically acceptable, and the only reasonable alternative is to live with the situation of pension funds not being fully funded. To strive towards full funding carries the danger of undermining the state's financial structures, pushing it irreversibly into a debt trap."

Board of Executors economist Rob Lee said the government should be able to achieve its budgeted deficit of R25,3-billion, but the rate of growth in public debt will create problems for the future administration unless contained.

"One could envisage a situation where an ANC government, contrary to expectations, contracts rather than expands public debt because of its sharp rate of growth," he said.

Economic forum plans to streamline itself

B/Day 11/1/94

GRETA STEYN

THE National Economic Forum was considering restructuring to do away with the distinction between long- and short-term working groups to achieve greater efficiency, sources said yesterday. (49)

They said the distinction had been artificial, as short-term measures had an impact on the long term.

It is understood that the short-term working group's programme has more or less been completed, and that the main overall focus for the year will be on defining the state's role in wiping out social backlogs.

Eliminating social backlogs had recently been added to the long-term working group's programme, which had initially concentrated on four "gaps" in the economy — investment, finance, foreign trade and productivity.

A spokesman for the forum confirmed that restructuring was under discussion, but declined to say what form it could take.

The forum's future role and structure would become clear at its next plenary meeting, scheduled for February 23.

The forum would endeavour to do most of the work on social backlogs before the election.

Policy documents such as the Development Bank of Southern Africa's model for human development, parts of the work of the Macroeconomic Research Group, aligned to the ANC and Cosatu, and government's Normative Economic Model would be used to arrive at a way to deal with social backlogs while retaining macroeconomic stability.

Plans to restructure were put forward after the long-term working group failed to make much progress towards reaching consensus on an overall policy framework for SA.

Submissions were put on the table by government, business and labour.

The working group's efforts to come up with a solution to closing the "financing gap" ran aground with business maintaining the major problem was mobilising existing savings while labour emphasised the need to raise more funds.

A source said part of the problem was the lack of capacity on the labour side — urgent short-term demands had stretched capacity and had made it difficult to put enough effort into long-term issues.

Immediate issues demanding attention were the offer to GATT and the fuel price crisis.

Consensus on the GATT offer was achieved by an arm of the long-term working group, the foreign trade policy task force, which is expected to continue dealing with trade policy issues after restructuring.

Top prospects for SA growth

(49)

CT 12/1/94

By MAGGIE ROWLEY
Deputy Business Editor

PROSPECTS for the SA economy were at a 10-year high and expansionary forces, coupled with the fruits of past and future consistency in monetary policy should yield a rise in GDP of more than 2% during 1994.

So forecasts Standard Bank chief economist Nico Czypionka in the bank's first quarter Economic Review

The political requirements for the economy's international re-engagement had been satisfied and had triggered important financial and economic developments — among them the termination of the foreign debt moratorium and the removal of financial sanctions.

Czypionka said the immediate re-rating of SA would result in greater latitude for the Reserve Bank in terms of exchange and interest rate management

Much of the pressure from the consistently vulnerable level of foreign reserves — undoubtedly the economy's Achilles heel of the last 15 months — would be removed.

This, in turn would enable a stabilisation in the rate of rand depreciation as well as enhance the likelihood of further cuts in the Bank rate this year.

He said for the first time in years, economic growth forecasts were being progressively revised upwards instead of down and it was now clear that the recession was definitely over — and not just because agricultural conditions had normalised

What was significant was that this steadily accelerating growth was not likely to push up inflation which he forecast would continue to fall to as low as 6,6% and average out at 7,5% for the year.

He predicted a "fairly sound and solid, probably steady, recovery"

However, he warned, that while the outlook was so much brighter it would be naive and dangerous to overlook potential serious downside risks.

The overwhelming concerns were once again political.

With the installation of a legitimate government following elections, the SA government was likely to place a stock issue on the European capital markets, followed closely by Eskom's resumption of overseas borrowing.

"Success in that arena would have major positive consequences, including more latitude for pro-growth economic policies It would also act as a path-breaker for tapping world capital markets "

Furthermore, the confidence generated would enable the abolishment of the financial rand which could occur towards year-end. A comparatively tight monetary policy would have to be in place as well as an attractive economic programme to attract foreign capital, he said.

COMPANIES

SA 11th in emerging economies

MATTHEW CURTIN

SA is ranked 11th out of 24 emerging market economies surveyed in the latest edition of the London-based Economist magazine which has introduced new statistical analysis of countries which fall outside the industrialised world.

The ranking puts SA ahead of Poland, Malaysia, Israel, Hungary and Singapore — based on the conversion of countries' GDP into dollars using purchasing-power parities — but well behind top dog China, India, Russia, Brazil, Mexico, Indonesia, South Korea, Thailand, Turkey and Taiwan. B/DAY 12/1/94

The Economist said: "If countries' GDPs are converted into dollars using puchasing-power parities, which take account of what money actually buys in each country, then the so-called developed economies now make up only 54% of total world output."

China accounted for 6,3% of total output, Eastern Europe and the former Soviet Union 11,2% and the rest of the developing world 28,1%. (49)

Five of the world's 12 largest economies were developing countries whose GDPs were all bigger than Canada's, "the G-7's seventh man". The Economist's selection was based on size of GDP and stock market capitalisation.

The magazine said all 24 emerging stock markets except Venezuela's had outpaced Wall Street in dollar terms in 1993.

The JSE's 74% increase in dollar terms, calculated at the finrand rate, put it ninth on the list of stock markets to have shown the largest percentage gains in 1993, a list topped by Poland (889%), Turkey (224%) and Hong Kong (122%).

The figures mask the massive gains some stock markets have made in local currency terms, with share prices in Brazil rocketing 5 809% in the year.

Local JSE-watchers have been resisting efforts to call the exchange an emerging market, preferring the term re-emerging, given that the JSE dates back to the 19th century.

State expects to beat deficit target

BRUCE CAMERON, Business Editor (49)

ARG 14/1/94

THE government is confident it will be below its targeted budget deficit of R25,3 billion for the current tax year

In the latest monthly assessment for the first nine months of the budget year Department of Finance Director General Estian Calitz said the budget target was well within reach.

The department is seeing direct income tax receipts running below budgeted levels, but above expectations income from VAT and Customs and Excise is making up the shortfall.

Added to this have been estimates by the Department of State Expenditure in its recently approved adjustment budget that spending will be kept in line as a result of departmental savings.

Finance spokesmen said today that they expected the budget year to end in March with the deficit falling short of the R25,3 billion target.

The curtailment of the deficit which reached a record R28,564 billion or 8,6 percent of GDP in the 1992-93 budget year has been a major target of Finance Minister Derek Keys.

Mr Keys set a target of getting the deficit down to 6,8 percent of GDP for this year while aiming at an eventual target of less than 3 percent.

Revenue income in the first nine months at R63,6 billion was 15,4 percent higher than in the comparable period last year.

While this is short of the budgeted 17,3 percent increase for fiscal 1993-94, the rising trend in quarterly revenue from an annual 13,7 percent in the June quarter, to 15,2 percent in the following three months continued in the December quarter, with a growth of 17,2 percent.

VAT receipts, in particular, have been rising sharply, and in the nine-month period were 51,1 percent higher than in 1992. Total tax receipts so far this year are 16 percent up at R54,6 billion.

THE WEEKLY MAIL & GUARDIAN
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Everything's roses. Almost

WM 14-20/1/94 (49)

Simon Segal polls economists and finds them universally cheerful about the next two years

WHAT THE ECONOMISTS FORECAST

	GDP (%)		Inflation (Yr ave %)		Current Account (Rbn)		Prime Rate (Yr end %)	
	94	95	94	95	94	95	94	95
ABSA	2.3	3.8	6.9	9.3	4.4	2.1	12	13
AHI*	2.5	3.1	7	8.5	7	4.5	14.25	15.25
BER**	1.9	2.5	7.9	9.2	5.7	1.9	14.25	14.5
FRANKEL	2.4	4	8	11.4	5.5	3	14.25	15.25
NEDBANK	2.5	2	9	10	3.4	2	14.25	15.25
OLD MUTUAL	2.5	3	7.5	8.5	5.5	2.5	13.25	14.25
RMB***	2.5	3.5	7.1	9	7	3	13.25	14.25
SACOB****	2.1	3.5	7.5	6.8	8	2.5	13.25	12.25
SANLAM	2.3	3.6	7	9	5.8	4	13.25	14.25
STANDARD	2.1	4	7.4	9.4	7	4.5	13.25	14.25
AVERAGE FORECAST	2.3	3.3	7.5	9.1	5.9	3	13.5	14.25
1993 ESTIMATE	0.8 - 1		9.5 -9.8		6.8 -7.1			15.25

* AHI - Afrikaanse Handelsinstituut ** BER - Bureau of Economic Research
*** RMB - Rand Merchant Bank **** Sacob - SA Chamber of Business

SOUTH AFRICA'S 10 major economic units are generally agreed: the economic outlook over the next few years is rosier than for any time since the 1970s.

With the usual provisos about a relatively smooth political transition, normal agricultural seasons and no dramatic collapse in the international gold price the near-consensus forecast is for economic growth to gain momentum in 1994 and 1995; lower average inflation this year but rising next year as economic expansion gains pace; further declines in South Africa's annual current account surplus both this year and next as imports rise with the growing economy; and short-term interest rates continuing to fall until the end of 1995 when the authorities are expected to put the breaks on a growing economy.

Estimates for gross domestic product (GDP) growth range from 1,9 to 2,5 percent this year (the Bureau of Economic Research is the most pessimistic) and from two to four percent in 1995 (Absa the most positive, Nedbank the most negative).

All units forecast positive growth at least until 1997. With GDP rising some one percent last year this means the economy could have embarked on its most sustainable growth phase since the 1970s.

Only Nedbank expects a lower GDP growth rate in 1995 (two percent) than 1994 (2,5 percent). Chief economist Edward Osborn explains: "Momentum is weak and comes off a higher base next year. The natural growth rate of the South African economy is two to three percent." Osborn notes that even with an average 2,5 percent growth rate until the end of the decade the economy in the 1990s will not enjoy half the growth it enjoyed in the 1980s, itself a dismal decade.

An average 2,5 percent growth is still insufficient to absorb new job-seekers let alone reduce the number of unemployed.

At the top end of the growth forecasters are Standard Bank and economist Mike Brown of stockbrokers Frankel Kruger. They pencil in four percent growth next year. Brown foresees a R3-billion rise in fixed investment in 1995 (13 percent up on 1994) of which R2-billion is development assistance. "This is still a conservative estimate but should underpin good economic growth in 1995."

A feature of this growth phase, notes Rand Merchant Bank economist Rudolf Gouws, is that it is not export-led and more dependent on domestic investment than on government spending.

While still high compared to our major trading partners inflation is also forecast to be at its lowest levels since the 1970s. With December's figure still to come, inflation should average around 9,7 percent in 1993.

For 1994 the forecast varies from 6,9 percent (Absa) to nine percent (Nedbank). Next year's estimates are between 6,8 percent (Sacob) and 11,4 percent (Frankel Pollak).

Nedbank and Sacob seemed to present two extreme scenarios between which the other eight units canvassed lie. Nedbank looks at growth already slowing in 1995, has the highest 1994 inflation forecast (second highest in 1995) and expects the lowest current account surplus in 1994 (second lowest in 1995). Sacob looks at low inflation and interest rates (the lowest estimates for 1995) on the back of the highest current account forecast for 1994.

Economic forecasts the world over are seldom accurate and are regularly revised. It is to be hoped that this near-consensus crystal-ball gazing is on target.

Stals keeps steel grip on economy

ARG 15/1/94
(49)

■ The Reserve Bank will not be lowering rates for some time in spite of falling inflation, says governor Chris Stals.

BRUCE CAMERON
Business Editor

RESERVE Bank governor Chris Stals has no intention of loosening his tight grip on the economy but he will allow market forces to play a role.

In an interview Dr Stals said the Reserve Bank would not lead the way in slicing lending rates against trends in the market place, even if inflation continued to fall.

He felt interest rates would stay where they were, in spite of the falling rate of inflation, until the second half of the year.

The key, he said, was the state of the country's reserves — currently in a parlous position. Recent high inflows of foreign capital on to the stock exchange, although useful, had no effect on reserves.

This money was coming in through the financial rand, which was a fixed pool and added nothing to the country's reserves or to domestic liquidity.

If rates dictated by market forces should go down the Reserve Bank would not artificially keep them up.

"But I don't think the market will want to bring down rates for the next six months."

Dr Stals is upbeat about the economy and is hopeful that once the country gets past the elections things should look up.

He has no predictions yet on how he expects the economy to perform but pointed out that "optimism was developing in all sectors."

"The only important constraint is the state of the reserves."

He is hoping that a successful outcome to the elections will see the pressure on the reserves relieved, allowing the country to bound ahead.

Dr Stals said he was not unduly worried about the substantial outflow of reserves in December.

If it had not been for the R2,8 billion IMF loan the total foreign and gold reserves would have been pushed to their lowest level since September 1990.

But he said a higher than normal outflow of funds in December was not unusual and was caused by factors such as dividend payments.

Dr Stals said the outflow of funds had put pressure on local liquidity with borrowings being pushed up to meet the demand the outflow caused.

The money market shortage had been up in the region of R4 billion a day for most of December as a result. The trend however, should reverse in January and February as the flow out of the country slowed down.

Dr Stals said commercial banks had been forced to borrow from the Reserve Bank at rates higher than the 12 percent bank rate because of the shortage in December.

The country is faced with heavy foreign debt repayments this year which would put further pressure on reserves with a little over half of the approximate R5 billion due having to be paid by the end of June.

Dr Stals said it was unlikely that the state or parastatals would seek to roll over or raise new capital on the international markets before this because of the premium that would have to be paid.

He said when the country settled down after the elections it was likely that money would become cheaper in the overseas markets. Foreign loans could then be made, relieving the pressure on the balance of payments.

Groans and delight greet new proposals

ARG 15/1/94 (49)

MANDY JEAN WOODS
Weekend Argus Correspondent

JOHANNESBURG. – Reaction to the African National Congress's proposal for reconstruction and development ranged from dismay to delight when it was unveiled to local and foreign journalists.

Here are some of the ways your life could change:

☐ LAND

By April 1995, the structure for a Land Reform programme must be in place. Key beneficiaries will be women and youth in the poorest rural communities. Land in cities and towns and rich farming land – already on sale, already belonging to the state, or which traditionally belongs to blacks – will be acquired.

Laws impeding approved acquisitions will be reviewed and/or changed through a process involving a Land Claims Court.

☐ HOUSING AND SERVICES

Poor people will be primary beneficiaries of a housing programme which will see one million low-cost homes built by 1999. A goal of 5 percent of the country's annual budget by 1999 must be for housing. All legislative obstacles and constraints to housing and credit for women must be removed. Banks will be encouraged, through legislation and incentives, to make credit and other services available in low-income areas. "Red-lining" will be banned and mortgages foreclosures will be, in part, handed over to loally controlled housing associations or co-operatives.

☐ WATER AND SANITATION

The ANC aims at supplying 20 to 30 litres of clean water a day to every person in South Africa, as well as on-site sanitation and refuse collection. Odourless toilets should be provided to all homes by 1997.

☐ ENERGY, ELECTRIFICATION

Gas and parafin prices must be reduced and financial assistance given to ensure consumers access to efficient energy appliances such as solar water heaters.

☐ TELECOMMUNICATIONS

Schools and clinics must have telephones installed by 1996. Every citizen should have access to a telephone service.

☐ TRANSPORT

Fuel levies will be used to discourage private motor use for commuting and funds raised will be used to support public transport systems.

☐ HEALTH CARE

By 1997, every South African must be able to get the minimum nutritional requirements daily. Bread price must be controlled and VAT on basic foods has to go.

Accessability to health services must be totally reconstructed.

Children under six years of age will be provided free health care at govenment clinics and health centres.

ANC economic plan 'could still change'

CT 20/1/94 (49)

From GRETA STEYN

JOHANNESBURG. — The ANC alliance's Reconstruction and Development Programme (RDP), which will define an ANC-led government's economic policy, could change substantially between now and the election, spokesmen for the organisation said yesterday.

Former Cosatu secretary general Jay Naidoo told a media briefing in Johannesburg: "We want a public debate on the policy options of a democratic government. The document is part of a process; it is not cast in stone. It is not a blueprint."

The RDP will be the most important topic on the agenda of this weekend's ANC conference here.

Also on the agenda will be the finalisation of the election manifesto, which will draw heavily on the RDP.

Possible areas of change as a result of debate at the conference include the controversial proposal that mineral rights revert back to the state and the section referring to nationalisation.

Nationalisation mineral rights issues 'on table'

A further aspect likely to be discussed intensely is the fiscal constraint faced by a new government.

A deficit limit of 6% has been set, which is in line with the IMF's present requirements from SA but leaves little room for manouevre.

The RDP, which was released for public comment last week, has come under fire from political parties and the business sector, with some opponents arguing it was a "pie-in the-sky" return to old-style socialism.

ANC economics head Trevor Manuel yesterday defended the inclusion of nationalisation as a policy option in the document, saying the RDP was a grassroots project. Some Cosatu-affiliated unions had pushed hard for flexibility on the issue, he said.

The RDP does not state the case for nationalisation, but says it should be considered as an option when assessing the balance of evidence for restructuring the public sector.

Manuel noted the response to the RDP from business had been much more muted than the "predictable" scathing reaction from political opponents.

As an example, he cited the Chamber of Mines's response to the proposal in the RDP that mineral rights revert back to the state.

Further talks would be held with business in the next few weeks, in the hope of conveying the message that "a national endeavour" was needed.

Figures committing the democratic government to spending 3% of GDP on capital investment by the end of a ten-year period ending in 2004, creating 2,5 million jobs over the period, were omitted from the draft released to the press.

Focus on Business

ANC plans sap business confidence

Sowetan 20/1/94

■ MERITS AND DEMERITS State intervention should be limited to the poor: (49)

By Joe Mdhlela

THE AFRICAN NATIONAL Congress' reconstruction development programme has the potential of undermining investment confidence or even scaring off potential investors.

Released last week, the programme proposes that financial institutions support reconstruction endeavours by making funds available to black communities to build houses. The programme also calls for the institutions to improve their services to small scale producers.

Some of the ways the ANC suggests financing the scheme includes the creation of a "reconstruction fund" which will be financed through levies on transfers of luxurious gifts.

Standard Bank chief economist Mr Nico Czypionka said additional taxes as envisaged by the ANC proposals would "damage stock and financial markets" to a point where investment confidence would be undermined.

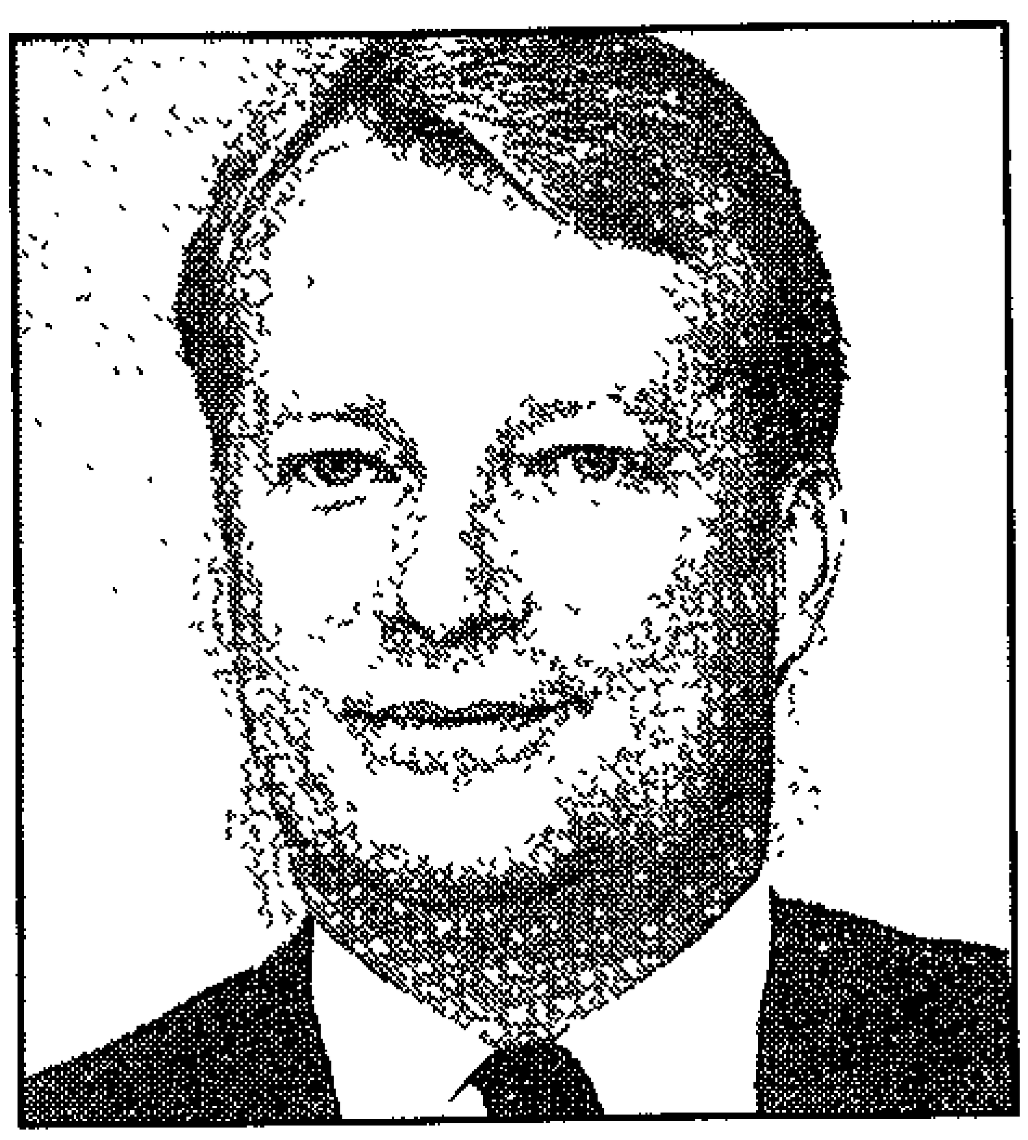
"Tax levels in South Africa are already high. It would be unwise to increase them," he said.

He agreed that the proposals have their merits as well as demerits.

He said the State has a role to play in the economy, but this should be aimed mainly at uplifting people at the bottom rung of the economic scale.

The proposals, among other things, call on commercial banks to provide credit and other services "in low-income areas".

Red lining and any other discriminatory measures on lower rungs will be prohibited.



Nico Czypionka ... discourages too much State intervention.

Czypionka said he did not believe that programmes by the State to create jobs are always feasible, particularly on a sustainable basis. He suggests that State intervention often does not help to increase the productive capacity of a country over time.

He feels that a programme to create sub-economic housing is desirable, partly through partnerships between the State and financial institutions.

At another level, said Czypionka, social housing programmes by the State would be the only way individuals with permanent jobs and regular cash flows would buy their own houses. This could involve banking institutions as the vehicles for delivering the finance with companies providing assistance to their employees and, perhaps, State subsidies.

However, in order for financial institutions to play any meaningful role, stability in the black areas needed to be restored.

"An environment of stability in the townships needs to be created in order for banks to finance building projects."

He says once stability is created there is no reason why banks would not provide assistance. Money is available and is not the principal problem. Banks are keen to lend in the right kind of climate

"Therefore, "red lining" by banks does not exist in the sense that it has been suggested by various groups, as a form of discrimination against black people."

nave been prevented.

New development document is not cast in stone — ANC

BTDay 20/1/94

GRETA STEYN

THE ANC alliance's reconstruction and development programme, which will define an ANC-led government's economic policy, could change substantially between now and the elections, ANC spokesmen said yesterday. (49)

Former Cosatu secretary-general Jay Naidoo told a news briefing in Johannesburg: "We want a public debate on the policy options of a democratic government. The document is part of a process; it is not cast in stone. It is not a blueprint."

The programme will top the agenda at this weekend's ANC conference in Johannesburg. The finalisation of the election manifesto, which will draw heavily on the programme, will also be discussed.

Possible areas of change in the programme, as a result of debate at the conference, include the controversial proposal that mineral rights refer back to the state and the section on nationalisation. A further aspect likely to be discussed intensely is the fiscal constraint that a new government will face. A deficit limit of 6% has been set, which is in line with the IMF's present requirements, but which leaves little room for manouevre.

The programme has come under fire from political parties and the business sector, with some opponents arguing it is a "pie in the sky" return to socialism.

But ANC economics head Trevor Manuel defended the inclusion of nationalism as a policy option in the document, saying the programme was a grassroots project. Some Cosatu-affiliated unions had pushed hard for flexibility on the issue.

The programme does not state the case for nationalisation, but says it should be considered as an option when assessing the balance of evidence for restructuring the public sector.

Manuel noted the response from business had been much more muted than the "predictable" scathing reaction from political opponents. As an example, he cited the Chamber of Mines' response to the mineral rights proposal. Further talks would be held with business in the hope of conveying the message that "a national endeavour" was needed.

Figures committing government to spending 3% of GDP on capital investment by the end of a 10-year period to 2004, creating 2,5-million jobs, were omitted from the draft released to the media.

Meanwhile Sapa reports that SA Agricultural Union president Boet Fourie slated the ANC plan for land use as irresponsible as it could result in large-scale disruption of agricultural production.

The SAAU would hold in-depth discussions with the ANC on the document.

It was totally unrealistic and unfeasible to establish black farmers on 30% of agricultural land within five years. "It will mean that about 25-million hectares of land must be transferred in this period." But this amount of agricultural land would not become available on the open market.

JSINESS

Election worries mar brighter economic outlook

WM 21-27/1/94 (44)

Weekly Mail Reporter

BUSINESS executives are more optimistic about economic prospects this year — but see uncertainty in the pre-election period putting a brake on spending and investment.

This emerged from an annual business environment survey by Unisa's Bureau of Market Research. Executives of the top 100 industrial companies on the Johannesburg Stock Exchange were asked what their expectations were for the year ahead.

The survey, conducted in August and September last year, found executives saw a slow economic recovery this year.

The economic growth rate of 1,1 percent for 1994 was predicted against the background of vast improvements in real economic activity and positive growth rates in the first three quarters of 1993.

They foresaw the dollar-rand exchange rate worsening to $1=R3,48, down from R3,27 in 1993 and R2,58 in 1992.

The prime rate is expected to have fallen only 0,25 of a percentage point by the year end, to 15 percent.

An average gold price of $385 an ounce is predicted for 1994, up from $344 in 1992 and $360 in 1993.

Most of the executives foresaw they would be under greater pressure in the areas of affirmative action programmes and social responsibility and investment.

Thanks to their expectations about greater economic activity those surveyed were less sceptical about a drop in unemployment, although 56 percent of those polled did not see the total number of unemployed dropping this year.

The executives expected labour unrest and strikes to decline — also because of higher economic growth.

Only 34 percent of executives polled thought there would be more labour strife this year, as against 67 percent who predicted in 1991 that such activity would increase. Forty percent expected the level of labour unrest to stay the same.

Forty-four percent of those polled expected the overall political situation to worsen; 29 percent expected no change.

Thirty six percent expected business confidence to improve; 28 percent did not think it would improve, and around 36 percent expressed no opinion.

How SA rates among the new-born stars

(49)

Simon Segal looks at where South Africa rates among the 'emerging economies' of the world

WM 21-27/1/94

THE dominance of rich industrial countries in the world economy is on the wane. As one of the so-called "emerging economies" this has implications for South Africa.

To celebrate the discovery of the "new-born stars" the authoritative UK weekly, *The Economist*, has added 24 emerging economies, including South Africa, to its weekly compilation of economic and financial indicators. It explains: "This expansion (of the emerging economies) is no one-day wonder: it reflects fundamental and remarkably rapid change in the balance of the world economy."

When Britain and the US industrialised in the 19th century they doubled their real incomes per head every 50 years. The Asian stars and China are achieving this within a decade.

The 2-3 percent annual growth the OECD economies are expected to enjoy in the years ahead might be off an already high standard of living but looks sluggish against the 5-6 percent estimated for the developing economies.

This is ominous for South Africa which as an emerging economy is reckoned by most local economists to show the more sluggish developed-economy type growth in the next few years.

Writing in the *Financial Times*, Samuel Brittan notes that developing economies have grown an average five percent since 1984 compared to 2,5 percent for developing ones. South Africa has not even matched the growth in developed economies.

More ominously, *The Economist* noted that $40-billion in foreign money went into emerging stock markets last year. The Johannesburg Stock Exchange says a net R2,8-billion ($820-million) of foreign money went into local equities in 1993 (R1,5-billion went into bonds).

Will South Africa fall out of the emerging economy category and be forgotten by international investors? *The Economist* advises its influential readers: "The soundest long-term policy is clearly to invest in those economies pursuing prudent fiscal policies, with low trade barriers, high rates of savings and investment and a well-educated labour force."

By this gauge the ANC's latest but still vague Reconstruction and Development Programme will not attract foreign investors in a competitive world.

The ANC might not like *The Economist's* gauge but it certainly reflects and influences modern investor opinion.

On this rough gauge, South Africa's most negative feature is its abysmally educated and poorly trained labour force. Its "best" feature is perhaps on the fiscal policy side, but even here the country's deficit before borrowing is 6-7 percent of gross domestic product (GDP) — before the ANC starts spending to rectify massive social backlogs.

The ANC's document promises plenty of spending but commits to a six percent deficit before borrowing ceiling.

Much is heard about South Africa being the last hope of the continent's salvation. But this is still more hype than reality. South Africa is the only African economy *The Economist* deems worthy of inclusion in its indicator pages.

A different ANC song. But is it in tune?

(49) WM 21-27/1/94

A cautious new ANC and Cosatu economic manifesto reflects a tension between its architects and the organisations' more militant supporters, reports **Ferial Haffajee**

THE sixth draft of the ANC/Cosatu Reconstruction and Development Programme unveiled last weekend shows both organisations dancing to a very new economic tune.

From a commitment to socialism and nationalisation, espoused in earlier policy documents, this reconstruction plan is clearly wedded to social democracy.

The draft document will be put to an ANC conference this weekend, where it is likely to be adopted for inclusion in the organisation's election manifesto. "ANC policies are almost unrecognisable from the documents they released three years ago," analyst Eugene Nyathi said this week. He added that "instead of undermining the market, the RDP seeks to nurture the market, which is commendable". The document seeks to minimise state intervention, to encourage exports and to stimulate the domestic manufacturing sector.

The director of the Centre for Policy Studies, Steven Friedman, believes this change has been influenced less by domestic business than by the demands of international business and financing organisations like the World Bank and the International Monetary Fund.

But he detects a tension in the document between the new directions of the economic architects of the two organisations and their constituents who are committed to socialist policies.

This, says Friedman, is reflected in the proposed levies on capital transfers, land and luxury goods taxes, as well as in the odd remaining reference to nationalisation, in the form of the ANC announcement that mineral rights will be returned to a new government. This prompted Friedman's comment: "One is left with a fudge."

But he commended the document for setting limited goals. Instead of promising houses and jobs for all immediately after elections, it sets targets for job creation (300 000 to 500 000 jobs by the end of this year), electrification (2,5-million homes by the year 2000), housing (300 000 new homes a year over five years), education (free schooling for 10 years) and health provision (free health care for children up to five years). "All sorts of visionary ideas started getting changed when people did their sums."

Yet he still questions whether the programme's goals are attainable. "Can South Africa build 300 000 houses a year?"

For trade unionist and economist Ebrahim Patel, one of the architects of the RDP, the document does not represent a sea-change. "It makes public Cosatu debates, is a confirmation of policy positions and has its origin in earlier documents.

"It is an economic policy that is geared to growth, but growth that is based on social equity and job creation," he says.

Patel agrees the programme is "a pragmatic document" and says "a more radical programme of reforms is highly desirable". However, the document reflects the tenuous balance between the constraints of a government of national unity and the aspirations of the black majority, he says.

"The RDP accepts and acknowledges the limits of power," says Patel, adding, "Without it a new government would be rudderless."

But trade union sources were irked that the document contained no "critique of capitalism" and "did not even mention socialism".

The major complaint from the left is the exclusion of a platform of worker rights from the document. Cosatu has demanded that such a statement of worker rights be included to bind a future government. Also at issue is the document's silence on work security, the absence of any reference to a future government's wage policy and demands for a greater state role in social security.

ANC ECONOMIC POLICY

FM 21/1/94

The road to hell

We would all like to live in the paradise on earth that the ANC envisages in its Reconstruction & Development Programme (RDP) and, no doubt, when this document is discussed this weekend, its authors will find themselves overwhelmed with support for their noble objectives. (49)

Everybody has a vested interest in living in a clean, safe, peaceful and prosperous land. And there is understandably little divergence in views over what that means.

But there are deep divergences over how that paradise is to be, first, created, and then maintained. The ANC's view is contained partly in the RDP itself, but most of the economic measures thought necessary are given more significant expression in the report released in December by the Macro-Economic Research Group (Merg).

Reading RDP and Merg together gives a pretty good idea of how and why this paradise is likely to be lost, if indeed it is ever found. For the very principles on which their objectives are adumbrated are themselves contradictory.

Both introduce a strong Keynesian flavour to economic utility reminiscent of other growth strategies in emergent nations, which have not worked well. In economic terms, instead of embracing Say's Law — that supply creates demand — almost all its objectives are demand-driven.

Growth, it says, does not come before development. On the contrary, development in the form of heavy infrastructural spending and an expanded public service will drive the growth that the ANC envisages.

Moreover, while it pays lip service to the contribution a market economy can make to the fostering of growth, it then for vague egalitarian reasons so plans to control and circumscribe the efficacy of the market economy, especially in the mining and financial sector, that their potency will diminish increasingly.

The RDP says that: "We must improve the capacity of the financial sector to mobilise more resources and to direct these to activities set out in the RDP from housing to small and medium enterprises." Yet it plans to instruct financial institutions to whom, how and at what terms it may lend.

That is the sort of mindframe that patently does not recognise that collectivism has not just failed in large parts of the world, it has failed on a grand scale.

The danger when that occurs here is that the first refuge of a failed collectivist government is totalitarianism. So not only are the economic objectives of the RDP jeopardised by its economic assumptions, so is its grand democratic rhetoric.

Black US economist Thomas Sowell, writing in the January edition of *Forbes* on collectivism, says: "Fifty years ago Friedrich Hayek showed that well-meaning liberalism is first cousin to tyranny. It still is. The road to hell is paved with good intentions." Quite. ■

ANC ECONOMIC POLICY

FM 21/1/94

The road from Davos — and back?

49

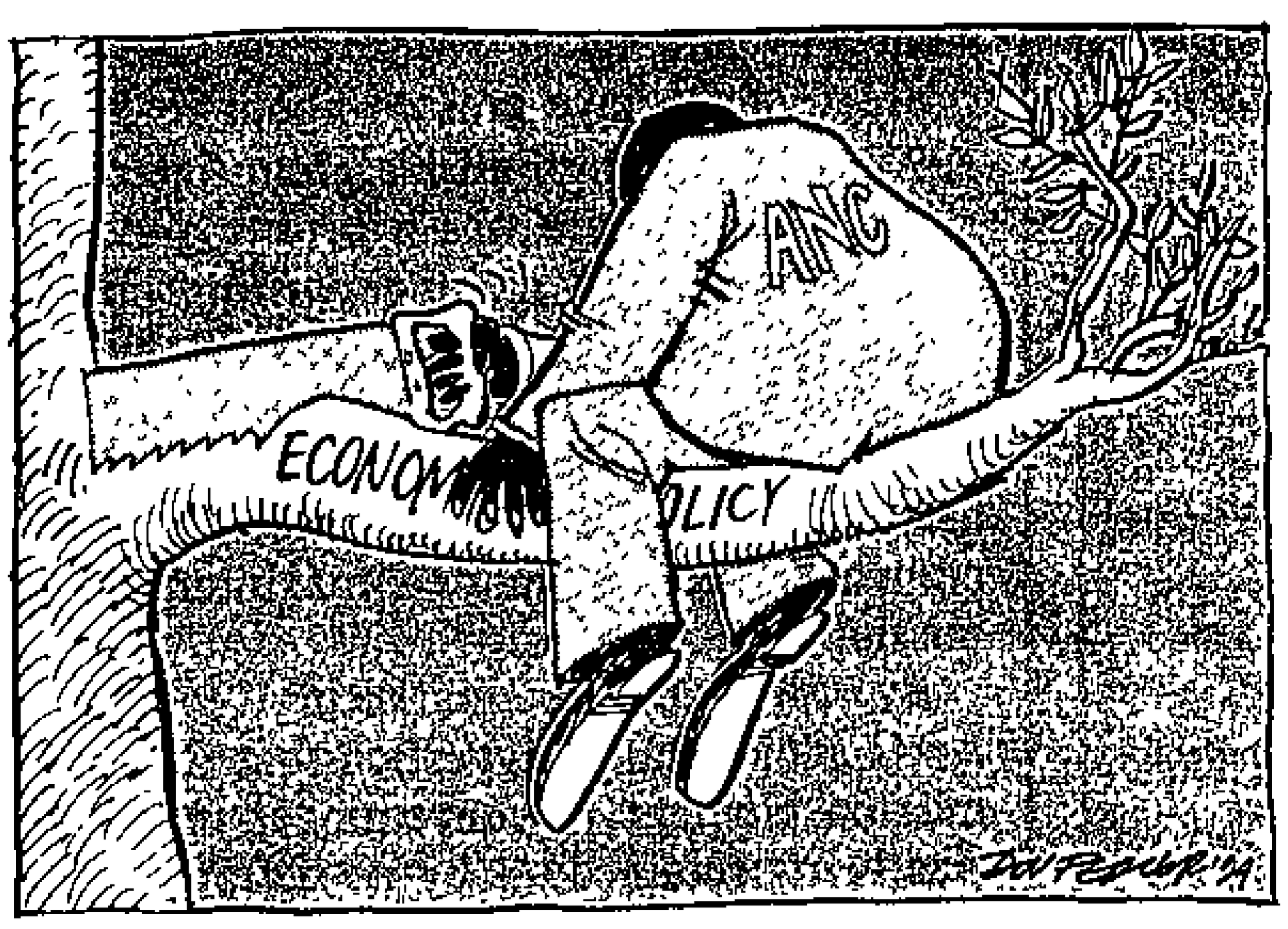
Nearly two years ago, ANC president Nelson Mandela made substantial last-minute revisions to the speech he was to deliver to the World Economic Forum in Davos, Switzerland. He departed from the prepared published text and spoke of "a private sector (which) would play a central and critical role to ensure the creation of wealth and jobs" and of "a public sector perhaps no different from such countries as Germany, France and Italy, where public enterprises constitute 8%, 11% and 15% of the economy respectively and in which the State plays an important role in such areas as education, health and welfare."

In a panel discussion later, he said: "We would like to create conditions for investors to invest without any fear of their properties being nationalised and (with the certainty of) their profits being repatriated and getting a safe return."

This marked a turning point in ANC economic policy, historically rooted in socialism and previously wedded to the concept of central planning.

It also proved a watershed in the relations between the organisation and the international investor community.

The ANC's policy document published later that year reinforced perceptions of a new flexibility. And, since then, Mandela and many in the ANC leadership have come a long way down the road to a market economy. But the Reconstruction & Development Programme (RDP) prepared by Merg (Macro-Economic Research Group) — an ANC consultative body (*Leaders* November 12) — threatens a return to unhappier days.



The sixth draft was published last week and fortunately is still marked "for discussion purposes only." It is to be debated by the ANC this weekend. A final draft is due to be published in March.

The Democratic Party's description of the document as "stream of consciousness" is apt. Many of the statements are ambiguous.


Andrew

Says the DP's Ken Andrew: "A major problem with the document is that it attempts to be all things to all people. It has a bit for those who believe in market orientated economies and a bit for those who believe in centrally controlled socialist economies. In practice, it reflects the diversity of the ANC rather than a coherent economic policy."

So it is meaningless — at best. At worst, much of it is sinister.

For instance, in a section on reforming the financial sector, the draft document says: "The democratic government must modify regulations and support innovative financial institutions and instruments which fund the RDP. The democratic government must seek to broaden control, accountability, access and transparency in the financial sector.

In co-operation with other stakeholders, it must review regulations and regulatory systems to determine which aspects prove an unnecessary impediment to the RDP."

Naturally, we are all in favour of accountability and transparency in the financial sector.

But "control"? This sounds ominous — as does the removal of "unnecessary impediments." Will banks then be forced to change their lending criteria and credit policies to provide high-risk borrowers with low-interest loans?

The question of risk is dealt with in the next paragraph on "prohibition against discrimination. A variety of measures must prevent discrimination in the financial sector without unduly raising risks. The democratic government must impose prudent nondiscriminatory lending criteria, especially related to collateral; reform the laws on women and banking to ensure equality; forbid blanket bans on mortgage bonds" and so on.

Certainly, there are laws relating to the status of black women, which must and will be changed — and not just because they limit their borrowing power.

But the rest of the comments are ridiculous. Prudent lending is discriminatory because it selects good risks from poor and prices loans accordingly. Without this process, no bank will stay in business.

As to the mutual funds: "The democratic government must legislate a transformation of (their) boards to make them more socially responsible."

Hardly investor friendly! Nor will it benefit consumers who will have to rely for home loans solely on community banks financed from an ever-growing government deficit.

This is apparently not the intention. "Firstly, the RDP will be financed by existing resources, organised, rationalised and directed within the guidelines of the RDP."

Furthermore, the RDP "does not propose to increase government borrowing from its present level of around 6% of GDP," the document says elsewhere.

"Secondly, many of the proposals are to be financed by the workings of the capital market and do not imply a burden of government revenue." Well, only as long as there is still a capital market once the drafters of the document have finished with the banks.

An organisation with as broad a support base as the ANC will find it difficult to reconcile the views of all within it — which raises the issue of future political alignments (see *Leaders*). That may lie in the future but, meanwhile, the ANC will have to come up with an election platform that does not send more capital cascading out of SA, destroying prospects for a sustained recovery.

Says Andrew: "In the end, a firm commitment to an economy based on free enterprise and to the essential need for economic growth is what is required if we are to even come close to meeting our socio-economic challenges." ■

FM 21/1/94

THE DEFICIT FM 21/1/94

Last lap

(49)

Government hopes to meet its original Budget deficit forecast for 1993-1994 of R25,3bn — despite extra spending of about R1,1bn, voted in the Adjustment Budget, which brings estimated expenditure to R115,2bn.

The projection is based on an additional R226m, under the heading ordinary revenue, and a R774m addition to capital revenue from the sale of assets — over and above the R685m originally budgeted. Total revenue is expected to reach R89,9bn, leaving the deficit as originally estimated. However, revenue predictions will have to be spot on.

Given ordinary income of R63,6bn, for the first three quarters, this requires about R24,8bn more from Inland Revenue and Customs & Excise in the remainder of the fiscal year, or nearly R8,3bn each month until the end of March.

That's more than the amount received in December (R8bn), a month in which Vat and other indirect taxes, such as the fuel levy and excise duties, are boosted by increased consumer spending. December is also income tax paying time for many companies, which bumps up direct tax.

But January should benefit from an overflow of December revenue. Vat is only payable to the Receiver of Revenue the month after it is brought in by the vendor. And, because the month ended on a Friday, many tax receipts would only have been banked in the new month. Unfortunately, Customs & Excise revenue will be eroded by large Customs Union payments that month.

So far the trend has been favourable. Up to the end of November, Vat receipts are 51,4% up (budgeted 43,1%) on the corresponding period in 1992-1993, at R16bn; Customs & Excise is 14,8% up (budgeted 10%) at R7,6bn; income tax has brought in only 6,4% more (11,7%) at R29,6bn.

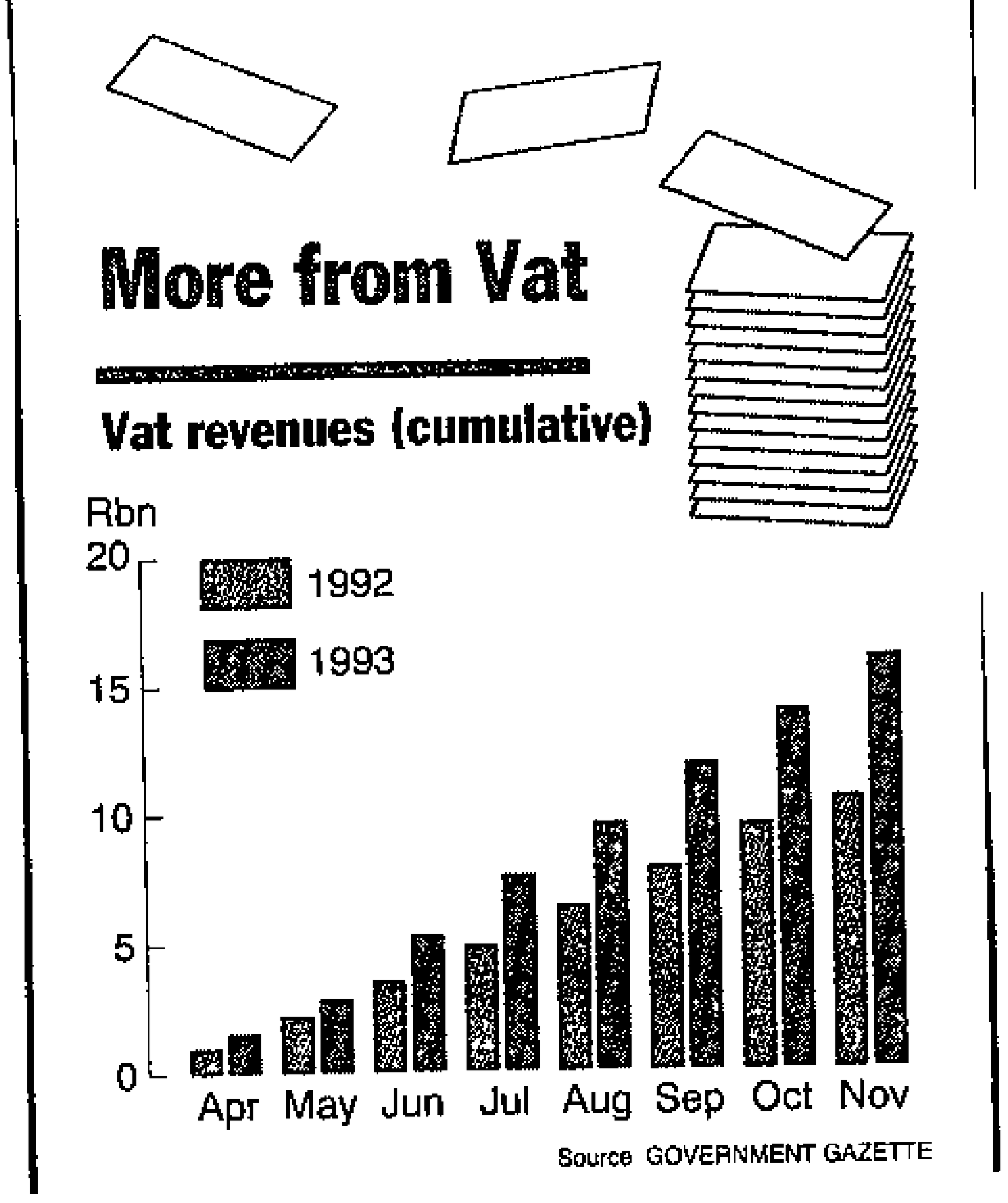
A Finance Department spokesman warns that November is not a good month for comparison: "In the last fiscal year there was an overflow of funds of about R600m from November to December This inflated the November percentage increase A clearer picture will emerge once we have the December breakdown."

(49)

On expenditure, government is authorised to spend no more than the R115,2bn. "The exception to this," says Nedcor Bank chief economist Edward Osborn, "is under what are called 'statutory provisions' — made up mostly of additional interest on debt."

Osborn doubts this will turn out to be much, considering falling bond yields "And I don't think the IMF loan of US$850m (R2,8bn), which falls under Treasury, will have much effect this year." ■

More from Vat



ANC shows signs that it will avoid the populist trap

BIDAY 21/1/94

GRETA STEYN

(49)

THE ANC wants its reconstruction and development programme to be seen as "a national endeavour". The message is simple and appealing: let's all work together to pull SA out of the mire. The party hopes to win over business, and will hold discussions with business representatives on their role in the next few weeks. Will the captains of industry buy the programme? Should they?

There are signals that meaningful progress has been made in gaining business support for social contracts. As a result, the ANC alliance omitted from the programme's sixth, "almost final" draft, the proposal that prescribed assets be reintroduced. The ANC is confident institutional investors will invest in Reconstruction Bonds of their own accord.

ANC economics head Trevor Manuel notes the "muted" response by business to some of the more controversial suggestions, such as the state's appropriation of mineral rights. The Chamber of Mines' response of "let's talk" is a further signal that the ANC's idea of a "national endeavour" is gaining support. Proposals on government intervention in output and pricing decisions, which the programme says could lift foreign exchange earnings by R3bn, will be discussed at a workshop early next week.

The hue and cry over reconstruction levies has also died down. There is a realisation that these taxes are not big money spinners. The levies are largely symbolic and your average Mercedes-Benz owner is beginning to realise one can live with symbolism, even if it means an extra visit or two to the tax adviser.

But intruding into this motherhood-and-apple pie picture is that old bogeyman — nationalisation. Like Freddy from Elm Street, nationalisation just will not die. It is included in the programme as an option that could be used after assessing "the balance of evidence".

How does the inclusion of the policy option affect the ANC's chances of, in Cheryl Carolus's favourite phrase, "bringing on board" business? The anxiety attack which usually follows the use of the "N" word was just a shortness of breath this time round. The JSE lost some ground last week but regained it. The gilts market ticked up a few points, but then it was business as usual. There were no outraged statements from business; the only people to exhibit obvious symptoms of anxiety were journalists.

Clearly, everyone thinks nationalisation is a red herring. No one believes it will happen. ANC economics head Trevor Manuel half-heartedly defends the inclusion of the policy option. He appears a little embarrassed, and so he should be, because he was singing a different tune when marketing SA in the US recently.

Including nationalisation as an option in the programme draft is not a bad idea if it can be used as a bargaining chip in discussions with business. The same goes for the threat to appropriate mineral rights. But it goes without saying that if the ANC is to have any hope of bringing business on board, those suggestions will ultimately have to be dropped. They cannot be taken seriously by the ANC if it wants to market SA as the world's next emerging market.

Businessmen will act in their own interests; they will not become partners in a social contract unless there is something in it for them. The ANC knows that and it knows that without a profitable business sector, wealth will not be created.

The ANC is well aware that it should avoid dividing up existing wealth in such a way that the economy's ability to generate new wealth is destroyed. Some of the suggestions for community participation should be re-evaluated in that light.

For example, the programme says "the democratic government must seek to broaden control, accountability, access and transparency in the financial sector". There is also a proposal for community liaison boards between banks and communities. Can banks function efficiently and profitably when they are accountable to community liaison boards as well as shareholders? What will happen to them if interest rates are "kept as low as possible", as the housing section suggests?

The programme suggests banks should be forced by law to lend a rising share of their assets to small, black-owned enterprise. Also envisaged are legal measures against "discrimination". Banks would have to provide reasons for turning down loans.

The confrontational language used in the section on the financial sector probably reflects the civics' frustration after trying in vain to resolve the home loans crisis. The frustration is understandable. But every effort should and will be made to strike a social contract rather than to legislate. This section in the programme also has to be toned down.

The programme is sometimes confrontational, sometimes shocking, because of its "participatory framework". The ANC proudly emphasises its grassroots credibility. The involvement of civil society, of "communities", is a strong thread running through the document. Democracy, it argues, should go beyond one-person, one-vote elections.

A spin-off of grassroots participation is usually weak government. Unfortunately, impressive growth performances by developing countries are often accompanied by strong (and, in some cases, even repressive) governments. Examples include South Korea, Taiwan and China. Chile, which has an unemployment rate of only about 4% and whose GDP per capita has risen sharply over the last decade, laid the foundations for sustainable economic growth under the repressive regime of Gen Augusto Pinochet. Mexico has been steered to economic recovery by a party that has been in power since 1929.

However, the situation appears to be changing in Latin America, with a growing national consensus emerging on economic policy. Argentina and Bolivia have pulled off impressive reforms as democracies, and Mexico's government can now tackle the need for political reform without major threats to the economy.

This phenomenon is best explained by the realisation that populist experiments were an abject failure, as recently illustrated in a study by Unisa professor Philip Mohr. Growth of 9% a year after Salvador Allende was elected president of Chile in 1970 was followed by a dramatic reversal — GDP fell almost 6% in the third year of his government, inflation soared to more than 360% and foreign exchange reserves declined to 8,7% of imports from almost 29% the year before he was elected. The stage was set for Pinochet and the monetarist experiments.

The 6% limit on the deficit in the programme suggests the ANC knows the dangers of a "populist trap" and will try to avoid it. An earlier version of the programme said 2,5-million jobs could be created over 10 years. This was omitted from the public document, presumably because the figures appeared paltry against a total of 17-million people living below the breadline.

But if the ANC knows the limits of what it can deliver, it should make that clear. It has a duty to its constituents to spell out the dangers of populism, not the least the loss of grassroots power as the IMF and World Bank move in.

Can the new government keep the deficit at 6%, avoid a populist trap and deliver the reconstruction promised over a five-year period? A study by the Development Bank showed 10 years would be a more feasible time frame. But such a long period will be interrupted by the 1999 elections. It may be better for the ANC to extend the programme's time frame to avoid accusations that it has not delivered by the time the next election comes.

'ANC has to clarify its policy'

(49)

CT 24/1/94

From LINDA ENSOR

LONDON. — Uncertainty over the future economic policies of a new government was largely responsible for huge outflows of capital from South Africa, Reserve Bank Governor Dr Chris Stals said at the weekend.

He said that to staunch the flow a clear statement by the ANC on its economic policies was required.

The total net capital outflow increased from R5,3 billion in the first six months of last year to about double this figure in the second half.

Planning

Dr Stals was interviewed at a conference organised by the London School of Economics' Centre for the Study of the SA Economy and International Finance, and sponsored by the United Nations.

"The total economic policy of the new government must be clear, transparent and understood. Once the policy is known, people can start planning. This is the most important thing," he said.

The success of the elections was vital to reduce the capital outflow, and all kinds of problems would emerge if things went wrong.

"It is obvious that the net capital outflow cannot be sustained for very long at the level of the past six months," Dr Stals said.

"Such outflows not only cause serious problems for the balance of payments but will also eventually force an abortion of the promising economic recovery that is now taking place.

"It will therefore have to be regarded as an urgent priority for the new government to give serious attention to ways and means of reversing the large capital outflows."

The capital drain was putting upward pressure on interest rates, a trend which the Reserve Bank was attempting to prevent, and so there was no possibility of lowering interest rates before the elections.

He said the balance of payments provided no scope for a more expansionary monetary policy at this stage.

While the fourth-quarter growth figures had not yet been released, Dr Stals said he expected the economic improvement to have continued, and forecast a GDP growth rate of about one percent in 1993 and two percent this year.

If the elections went well the growth rate this year could be higher.

Dr Stals said the improved growth rate, as well as the strong current account surplus, an improvement in real gross domestic expenditure and a relatively stable domestic financial situation, would make the final switch-over to a new administration slightly easier.

But there were a number of weaknesses the new government would urgently have to address, namely the high number of unemployed, large net capital outflows and the low level of foreign reserves.

Investors

Net gold and foreign exchange reserves had declined by about R5bn from June 30 to December 31. A current account surplus of over R6bn was registered in 1993.

The rush by non-resident investors to buy shares on the JSE in the second half of 1993 was not matched in the field of capital account transactions through normal banking channels.

"Very few maturing loans were rolled over, renewed or replaced by new loans, and even the utilisation of foreign short-term trade finance was reduced to a lower level," Dr Stals pointed out.

Economic recovery is 'well underway'

(49)

CT 25/1/94

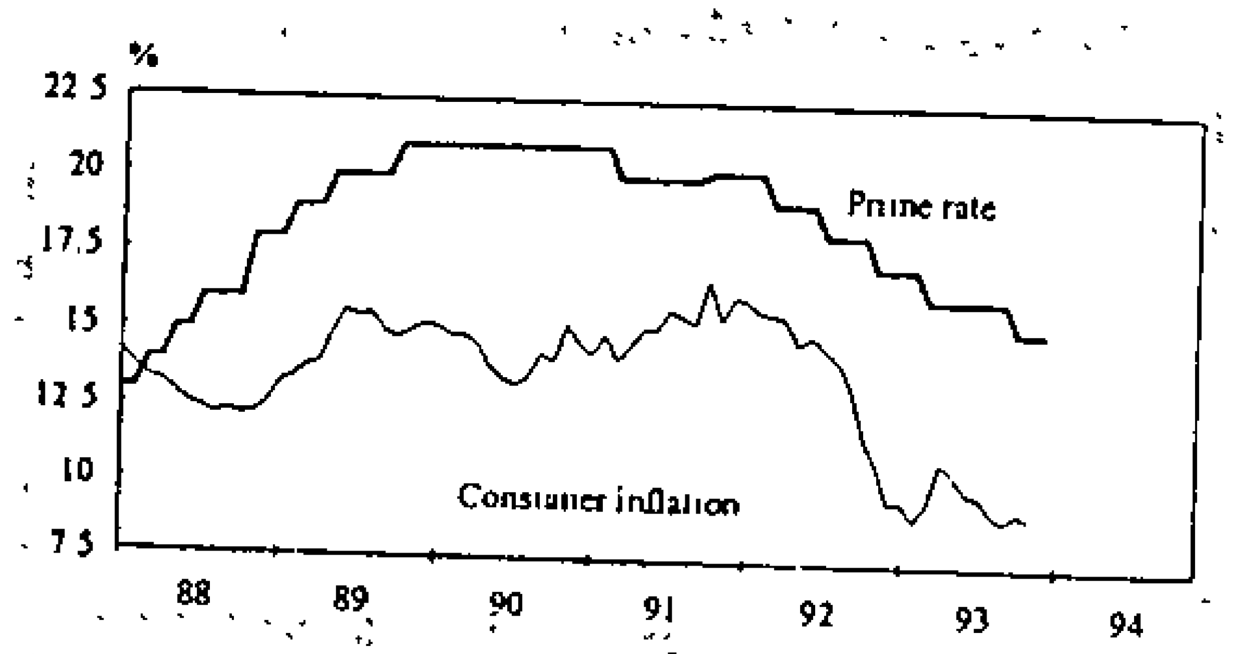
By AUDREY D'ANGELO
Business Editor

A FAIRLY broad-based economic recovery "is well underway at last" and may be faster than generally expected, Old Mutual chief economist David Mohr says in his latest Economic Monitor.

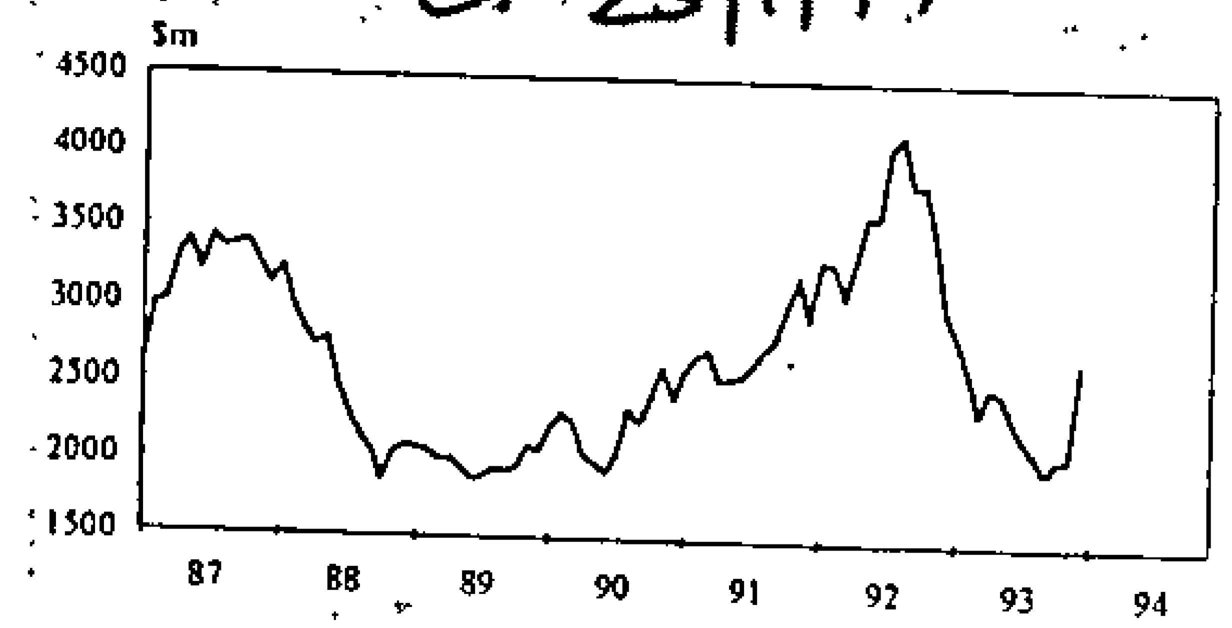
He expects over-all gross domestic product (GDP) to grow by about 2.5% this year, "with a fine possibility that it could be even higher."

But — echoing a warning given by Reserve Bank Governor Chris Stals in London at the weekend — Mohr told a media conference yesterday that high capital outflows which were keeping reserves low would probably delay any cut in interest rates until after the election.

Pointing out that the recovery would cause a rise in imports which would further deplete reserves, Mohr warns in the Monitor: "If capital outflows continue at their current rate and the economic recovery gains momentum, it is conceivable that short-term interest rates could rise sometime this year."



Inflation ... The difference between inflation at 9% and interest rates — the "real" rate of interest — is painfully high.



RESERVES ... SA's foreign exchange reserves are particularly low for an economy recovering from recession.

Continued pressure on the rand could also lead to "a repeat of the sharp (11%) depreciation in the trade-weighted rand".

But if a successful outcome to the April elections relieves pressure on the reserves "interest rates could fall by as much as 2% this year. And then those home loans and overdrafts will seem affordable at last."

Discussing the strength of the recovery, Mohr says there is good reason to be optimistic at last. He expects private consumption to rise this year.

"The initial strength of economic recoveries is often under-estimated, simply because there are so many uncertainties and risks at the turning point in the business cycle.

"At the beginning of last year, for example, most economists foresaw barely positive growth for calendar 1993, which is now likely to come out at 1%."

He expects a small rise in domestic fixed investment (GDFI) this year. "Exports should grow further and inventories will probably be replenished moderately."

Real private consumer expenditure rose by about half a percent during the first three quarters of last year after contracting by 3.6% during the preceding two years.

"The small gains last year were driven mainly by two factors. One was a healthy recovery in farming income. The other was a faster than expected deceleration in inflation, causing consumers' real spending power to hold up a little better."

Mohr thinks salaried workers could receive better pay increases this year as a result of rising output and the improved financial position of many companies.

"But fiscal drag will once again prevent many households fropm benfiting fully from this.

"Employment conditions could also begin to stabilise. Employment creation typically lags the business cycle and we would not be surprised if the rate of job-shedding began slowing late last year, although we don't have numbers on this yet. Some sectors may even begin to rehire as production improves.

"Against this background we expect the slow improvement in real consumer spending during the last year to be sustained and gain momentum in 1994.

"On average real personal consumption expenditure should be about 2% higher this year than in 1993."

DP attacks ANC for hurting SA economy

CT 25/1/94 (49)

By BARRY STREEK
Political Staff

IT was about time ANC spokesmen woke up to the fact that they were seriously damaging South Africa's economy, the DP's spokesman on finance, Mr Ken Andrew, said yesterday.

The ANC needed to commit itself to a market-orientated economy based on free enterprise with a minimum of government interference for South Africa to prosper.

Investors required clear economic policies if they were to put capital into the country, "yet the ANC continues to project ambiguity and flirt with failed socialist economic policies", he said.

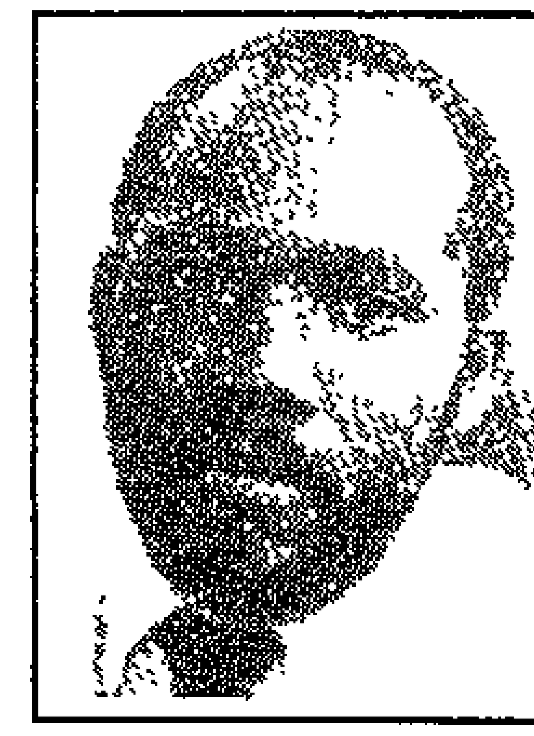
"The result is predictable. Massive outflows of capital from South Africa which limit, if not improve, the possibilities of sustained economic growth, job creation and large-scale socio-economic development.

"Because of its incestuous relationship with the SACP and the inclusion of many prominent communists high on its election list, the ANC must recognise that any talk of nationalisation, wealth taxes, greater government interference in the economy, and so on, is, quite understandably, taken very seriously indeed."

focus on the economy

Sowetan 25/1/94

While the ANC's Reconstruction and Development Programme may be seen as electioneering, the party needs to implement it successfully to win truly democratic elections in 1999, writes **Mzimasi Ngudle** of our political staff:



THE African National Congress needs a decisive victory in the coming elections to successfully implement its Reconstruction and Development Programme.

While it may be blunt electioneering, it is crystal clear that the ANC desperately needs a successful implementation of the programme to win truly democratic elections in 1999 — assuming that the transition goes according to schedule.

(4-9)

The basis of the RDP entails significant government involvement in the economy to rectify discrepancies created by years of apartheid mismanagement and to stimulate a healthy market economy.

The RDP covers a wide range of issues aimed at uplifting the living standards of blacks through a variety of affirmative action programmes.

The ANC's sixth draft of the RDP affirmed at Nasrec in Johannesburg last weekend rests largely on social democratic welfare

For example, free health care for children under six years of age and 10-years of compulsory education are some of the programme's immediate objectives.

While the ANC refuses to give it any economic label, the programme looks tailored to lessen dangers posed by the possible erosion of investor confidence on one hand and mass disillusionment sparked by unfulfilled promises on the other.

Structured on five basic principles, the RDP identifies five key programmes and the most difficult the ANC has to contend with.

The five key programmes are: meeting basic needs, developing human resources, building the economy, democratising the state and society and implementing the RDP.

Commie scarecrows

While day-to-day matters expected of a welfare government make up the bulk of the key programmes, three objectives of these programmes have been seized upon and turned into "commie scarecrows" said one speaker explaining criticism of the programme.

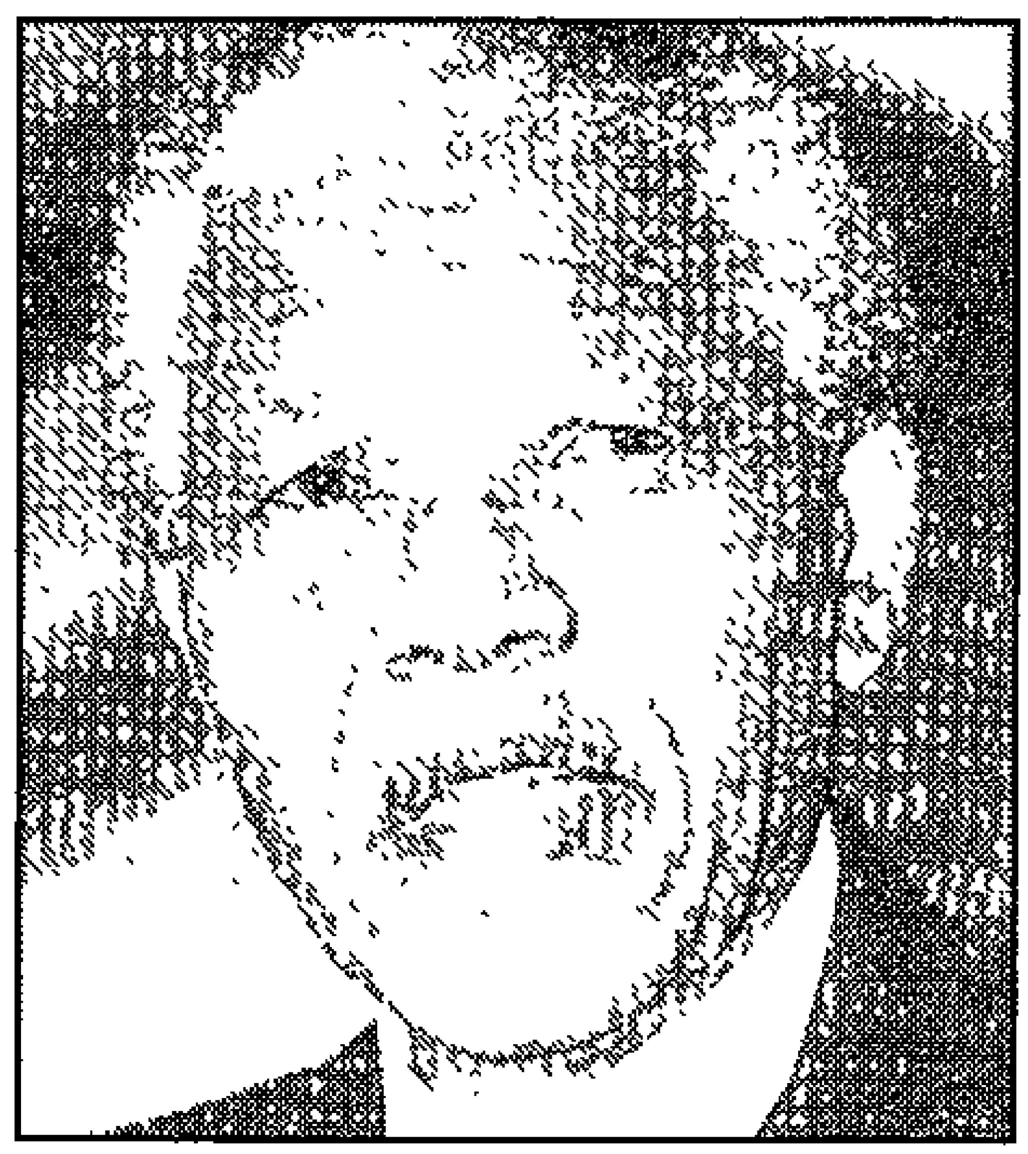
These objectives include, firstly, the national land reform programme aimed at addressing the injustices of forced removals and historic denial of access to land.

The RDP envisages a land redistribution programme by buying land up for sale and land procured in questionable transactions from the apartheid state or mortgaged to state and parastatal bodies.

Where applicable, the state will expropriate land and pay compensation as stipulated in the constitution.

Secondly the ANC's programme calls for the institution of appropriate anti-trust legislation and other mechanisms to monitor the mining and marketing of the mineral wealth.

This is aimed at doing away with the high level of concentrated ownership in mining and



Mr Nelson Mandela

marketing of minerals and, instead, enhancing more direct investment and participation by the public

"The minerals in the ground belong to all South Africans, including future generations. Thus we must seek the return of mineral rights to a democratic government, which would in turn give the people control over optimum exploitation of this important national resource.

"This can be achieved through government intervention in output and pricing decisions," according to the draft resolution.

As a result, mechanisms to compel companies to sell to local industries at export or profit parity prices should be set up to obviate "import parity pricing" — a practice whereby companies usually set higher prices for the domestic market than their export prices.

Thirdly and on financing the RDP, the ANC envisages taxation policies that will give incentives for institutional affirmative action programmes covering race and gender.

The programme proposes the establishment of a Reconstruction Fund that will draw on specific reconstruction levies which could include levies on capital transfers, land and luxury goods.

Some form of compulsory legislation such as prescribed assets may be introduced if major financial institutions, are reluctant to take part in socially desirable investments.

Political parties — notably the National Party and the Democratic Party — have expressed reservations about the RDP, calling it the ANC's regression to outdated nationalisation policies of the discredited communist era.

However, ANC national list nominee and former Cosatu general secretary Mr Jay Naidoo, talking at the close of the Reconstruction and Strategy Conference on Sunday, cited the reticence of the business sector as an indication of the importance of the programme.

In both his opening and closing speeches, ANC president Mr Nelson Mandela stressed that a decisive victory for the organisation was indispensable for the implementation of the programme — a theme reiterated almost throughout the conference.

Projections

Some RDP projections for the next five years:

Housing

- Building at least a million houses at a rate of 300 000 units a year.
- All housing must provide proper shelter, reasonable space and privacy.
- An end to gender discrimination on the provision of housing.
- Government and private sector funding to make housing more affordable.
- Transformation and upgrading of hostels into decent family units.

Health care

- Immediate free health care for children under six years of age.
- A programme to combat the spread of Aids and sexually-transmitted diseases.
- Free health services for the aged, the disabled, the unemployed and students who cannot afford health care.

Education

- Ten years compulsory education from pre-school to Std 7.
- Adult basic education and training.
- Improvement of access to institutions of higher education for black and female students.

ANC's economic policy 'a failure'

(49) CT 26/1/94

Own Correspondent

LONDON. — The ANC's "populist" economic policy blueprint — which had been "irresponsibly" delivered to South Africa's expectant black majority — would retard and distort the country's economy, an editorial in The Times said yesterday.

The newspaper called for the policy to be abandoned.

The editorial said the reconstruction and development programme, a misnomer, represented a failure of statesmanship on the part of ANC president Mr Nelson Mandela. The policy did not reflect ANC thinking in favour of a market economy, it said.

The ANC had "failed abjectly" to convince economists it could pay for its programme.

The Times said: "To its discredit the ANC has struck an ambiguous posture on nationalisation — the dreaded N-word that Mr Mandela is careful not to use when travelling abroad ... This does not inspire confidence, allowing even for the charitable view that the programme be seen as an election manifesto that could be remoulded in later months."

The Times recognised the danger of giving the ANC's supporters too little, but said there were dangers of economic instability if they were given too much too soon as this would put SA's wealth-creating potential at risk.

The editorial said it was Mr Mandela's duty to strip away false illusions, scale down expectations and avoid lavish promises

Jacobs warns against populist spending policies

BiDay 28/1/94

GRETA STEYN

THE economy did not have the capacity to absorb the ambitious social spending programmes being proposed, Finance Special Adviser Japie Jacobs said yesterday.

Opening the Northern Transvaal Chamber of Industries AGM, Jacobs said not only would a shortage of finance constitute a bottleneck, but the delivery capacity of the public sector and the balance of payments (BoP) would also pose problems.

Jacobs said the future government should not view public sector social spending as the main driving force for growth. "These populist policies have been tried out by many countries and their experience with such policies serves as a warning that we should strive to pursue policies that maintain a proper balance between public and private sector investment."

He suggested government departments, in conjunction with the Development Bank and the relevant negotiating forums, should attempt to quantify the nature and extent of social backlogs. They should try to estimate a feasible implementation period — given the constraints of available resources and delivery capacity. The details should be available by early May to enable the new government to consider its policy options.

(49)

One of the first problems the new government would have to grapple with was how to stem the persistent outflow of foreign capital. This would, more than anything else, dictate economic policy.

It would be a tragedy if the new government was forced to adopt austerity measures to manage the capital account of the BoP. The BoP had been the weak spot in the SA economy during the post-war period, with SA experiencing an uninterrupted net outflow of capital since 1984.

New govt 'will have fiscal problems'

BDay 28/1/94

KELVIN BROWN

(49)

THE new government would find itself in an unenviable financial position as it would be forced to grapple with massive fiscal problems, Nedbank chief economist Edward Osborn said in the latest Nedbank quarterly guide to the economy.

"Deficits as a percentage of GDP of 8% and more are likely to be commonplace, making quaint the old prescriptive 3% ascribed to the IMF."

The fiscus would be under considerable pressure from the demands placed on it, the desire to use it as a principal means of distribution of income and benefit, and from the operations of the interest mechanism, he said.

The chance of alleviating the pressure by increasing revenue was small except through the usual benefits that flowed from economic recovery and growth.

"There would appear to be relatively little scope for shifting revenues up to a higher level, unless there is a reversal of the company income tax reform and irrational change in VAT to a three-tier structure with a high rate on so-called luxuries," Osborn said.

The urge to increase the public debt was likely to entrench the country in a public debt trap of utmost seriousness.

"It appears likely that there will be a sharp upward movement of central government expenditures on goods and services, only part of which will have counterpart funding from the World Bank and other aid agencies."

This did not bode well for the government's interest bill, already one of the most diffcult problems to solve because of the accumulation of past deficits.

Public debt was budgeted to rise to 46% of GDP at the end of the current fiscal year from 34% in 1990.

Taking the additional deficit funding and the further support for the state pension funds into account, the interest-bearing public debt ratio by March 1994 could be in excess of 50% of GDP, Osborn said.

"The danger point in Europe is considered to be 60%. At the rate SA is going it will not take long to reach this point and break through to higher levels."

The ANC's proposal to fund part of its reconstruction and development programme through a reconstruction bond would further add to the public debt problem, he said.

"Given the pressures on government expenditure and the need to keep deficit funding as low as possible, the incoming government must be critically concerned about the opportunities for increasing taxation revenues."

Middle-income taxpayers were already contributing nearly 45% of taxable income when the 14% on consumption expenditure was included.

"Bearing in mind there will be many emergent middle-income black taxpayers, it is unlikely that the rates will be increased," Osborn said.

Development bank mission visits SA

BIDCH. 28/1/94

JOHN DLUDLU

THE African Development Bank is to send its first reconnaissance mission to SA at the end of the month to compile a country economic report.

The Development Bank of Southern Africa, which is co-ordinating the visit, said yesterday the report would give the African Development Bank general guidelines for involvement in SA.

The delegation would arrive on Monday for a two-week stay. (49)

It would be led by the bank's principal country economist for SA, Elfatih Shaaeldin, who would be accompanied by agricultural economist Michael Msuya, development officer Zeineb El Bakri, principal programme officer Vector Wahba, environmental consultant Knut Opsal and locally contracted macroeconomic consultant Patrick Ncube.

They were expected to meet government officials and representatives of parastatals, the Reserve Bank, the JSE, organised business and labour, political groups, universities, research institutes and institutional investors.

A country economic report describes a country's socioeconomic structure, its institutional makeup and macroeconomic trends; analyses policy alternatives; and assesses external resource requirements.

It is used by the bank to compile a project portfolio on which to base its project finance and technical assistance.

The facility is available only to members of the bank, to which SA does not yet belong. Its membership is to be decided at a meeting of the bank's board of governors in May.

Mission delegates were expected to examine the potential of future development resource flows so that the bank could identify niche areas in which its investment programme could make a difference.

Apart from development funding, the bank also gives special concessions, including soft loans, to its poor members. In spite of SA's high GDP per capita, the bank has expressed concern about its poverty, on which it could base its involvement.

It is also expected to study job creation.

The visit would coincide with a seminar by the African Business Round Table — a division of the bank — next month at which it would introduce itself fo SA businesses.

ARG 29/1/94

SA leaders to be at world forum

(49)

JOHANNESBURG. — Top government, African National Congress, labour and business leaders would attend the annual World Economic Forum in Davos, Switzerland at the weekend, South African officials confirmed yesterday.

Finance Minister Mr Derek Keys, ANC national chairman Mr Thabo Mbeki, Murray & Roberts chairman Mr David Brink, Congress of SA Trade Unions secretary general Mr Sam Shilowa, Development Bank of Southern Africa chairman Mr Wiseman Nkuhlu and ANC economics head Mr Trevor Manuel are all scheduled to take part in a workshop session on South Africa.

The session this morning would grapple with the challenges facing the country and the policies necessary to achieve stability and prosperity.

Tomorrow, Mr Keys and Mr Mbeki will participate in a plenary session on economic prospects in Africa with the presidents of Zambia, Mozambique and Angola as well as the finance ministers of Ghana and Botswana.

Some 60 international leaders will gather in the northeastern Swiss resort to meet with a host of prominent business figures at the World Economic Forum which lasts until February 2. — Sapa.

FW: Policy (49) stifles growth

DELMAS. — The ANC's newly released manifesto will not create the dynamic economy required to meet its extravagant promises, says President F W de Klerk.

Mr De Klerk said yesterday he had been given only a sketchy framework by telephone of the manifesto, but in his understanding "the ANC promises vastly increased government spending and reduced taxes".

"This is evidence of a typical manifesto drawn up by people with no experience in government who don't care what they promise," he said.

The ANC proposals stifled any chances of economic growth, he said. — Sapa CT 31/1/94

Per capita GDP 'will go on falling'

B/Day 3/1/94

EDWARD WEST

CAPE TOWN — Expected economic growth of 2% to 2,5% in 1994 will not be enough to check the downward trend in real GDP per capita experienced during the past decade, says Sanlam chief economist Johan Louw.

Reviewing the economy in the company's Economic Survey, he said there was a need for new investment — including foreign capital — to establish new businesses and expand existing companies. (149)

Sanlam nevertheless believed that the foundations would be laid in 1994 for strong growth in 1995 and 1996, provided political stability was maintained and a responsible economic policy was followed.

Single-digit inflation was expected for most of 1994. Average inflation was forecast at 7%, versus 9,7% in 1993, assuming there was a further drop of two percentage points in bond rates.

Sanlam believed the balance of payments position would improve this year because of the lifting of financial sanctions and access to international institutions such as the World Bank. This was despite the fact that SA's foreign debt commitments stood at R8bn.

Foreign interest in local shares in recent months had not represented a net inflow of capital and had not strengthened reserves. New foreign investments were needed to create and expand businesses.

The general liquidity situation would remain easy in the first half of 1994, but further reductions in the Bank rate in the first quarter were unlikely because of low gold and foreign exchange reserves.

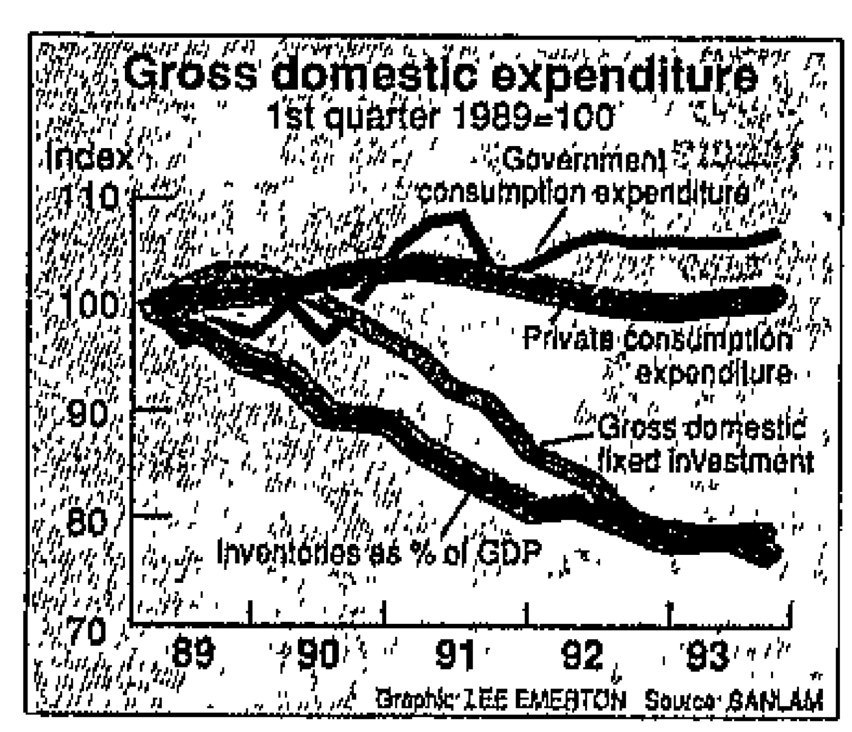
However, the Bank rate might be adjusted to 11% from 12% in the second quarter, in line with the expected fall in inflation when the effect of the VAT increase in the consumer price index fell away.

The real prime overdraft rate of nearly 6% was relatively high. If inflation fell to about 6,5%, the rate would be about 8,75%, extremely high for this stage of the business cycle, said Louw.

Long-term interest rates were likely to continue falling, but the possibility of a temporary firming in the next few months because of political uncertainty could not be ruled out.

It was particularly encouraging that real gross domestic fixed investment had increased during the third quarter last year after fourteen consecutive quarters of decline, Louw said.

It was significant that central government real consumption expenditure was not increasing and was not, therefore, supporting the economic recovery as it had done so often.



Keys paints a rosy picture at summit

B/Day 1/2/94

DAVOS — SA's GDP could grow 2,5% this year, and perhaps more if the price of gold rallied strongly, Finance and Trade Minister Derek Keys said yesterday.

In an interview during the World Economic Forum, Keys also said inflation could fall to 6%-7% from about 9,7% in 1993.

Last year, growth was about 1%.

Keys expressed his willingness to serve as a minister in a government of national unity after the elections.

He emphasised that he did not yet know whether he would be asked to stay on as finance minister.

He was optimistic about the ANC's plan for reconstruction and development, which has caused concern among businessmen sceptical about the ANC's assertion that it can be accomplished while holding the budget deficit under 6% of GDP. He acknowledged it could be "a difficult juggling act".

Keys played down the differences between the NP's economic programme and that of the ANC.

"The real question should be: 'Do we see a reasonable chance that the policy we are pursuing will continue to be the policy of the government of national unity?' And to that my answer is a resounding yes."

(49)

Behind the conflicting economic pronouncements of electioneering parties was, he said, an all-party approach to policymaking.

Keys voiced some support for the ANC's emphasis on social policy, but said new spending had to be bolstered by a "comprehensive macroeconomic stabilisation programme".

Keys acknowledged that housing spending would have to rise, probably to about 3% of GDP — including private investment — from 1% now.

On inflation, he noted that the rate last year partly reflected a 4% increase in VAT in April. He said lower inflation this year would create room for further interest rate cuts.

The extent of such cuts would hinge on the position of SA's forex reserves.

On the gold price, Keys said he did not foresee another bear run in the short term and was bullish about the longer term. — AP-DJ.

Budget 'on target' as revenue up

(49)

CT 1/2/94

From KELVIN BROWN

JOHANNESBURG. — The government is optimistic it will reach its budget target for this financial year as revenue continues to rise while the increase in spending is slowing down, says Finance Director-General Estian Calitz.

Exchequer figures released yesterday indicate that spending was up 12,6% while revenue rose 17% in the first 10 months of the year from the 1992/93 period.

The government had budgeted for a rise of 9,85% in spending and a 17,3% increase in revenue for the entire fiscal year.

Preliminary indications from government departments regarding expected requisitions for February and March indicated the revised budgeted expenditure level of R115,2bn was within reach.

Increase in govt spending slows

"A considerable deceleration can thus be expected in the increase of exchequer issues in the last two months of the year."

This trend was already reflected in the January figures, which were up only 5,5% on a year ago, Calitz said.

On the revenue side the rising trend in receipts continued in January. Calitz said if the trend continued during the last two months of the year, the budgeted revenue of R88,2bn could be exceeded.

In the first 10 months Customs and Excise revenue was up 11,6% to R9,1bn compared with a budgeted rise of 10%.

But collections by Inland Revenue were behind budget. In the period to January collections were only 17,4% above the previous year's level. This compared with a budgeted rise of 18,6%.

Lower than expected income tax receipts appeared to be the culprit, down estimated increase of 11,7% for the first nine months.

VAT collections were still running above budget at 44,4%, compared with a predicted increase of 43,1%.

The latest figures also showed government had borrowed R29,9bn at the end of last year.

"With the exception of the rolling over of short-term government stock which expires on February 28, the financing programme for the current financial year has been completed," Calitz said

Economic growth essential — Sanlam

(49) ARG 2/2/94

BRUCE CAMERON
Business Editor

ASSURANCE giant Sanlam has warned that economic growth is essential if unemployment is not to become unmanageable.

The warning was made by Sanlam's late chairman, Pierre Steyn, in the assurer's report for last year.

Mr Steyn said rapid growth was also needed to assist the process of political reform.

Sanlam remained optimistic about the future — but the "stagnating economic situation" had to come to an end.

The steps needed to spur the economy were:

- An end to violence, which would open the way for foreign and local investment.
- An improvement in productivity.
- Everything possible "to improve exports drastically".

Sanlam put in a strong performance last year in tough market conditions, giving its policy-holders fair returns on investments.

Bonuses to policy-holders were reduced because of lower interest rates and weaker investment returns. But Sanlam recorded a 19 percent growth in its total assets to reach R71,8 billion.

The biggest growth came in its holdings of public sector stock, which jumped in value by 46,6 percent to R15,7 billion.

This indicated that apart from scoring on the improved value of government and parastatal stock, Sanlam also invested policy-holder funds heavily in the sector.

Against this — and in spite of the rally in the Johannesburg Stock Exchange in the last three months of the year — the value of equity investments rose by 11,5 percent to R32 billion.

Total premium income increased by 23 percent to R12,7 billion, while total benefits paid out leapt by 43 percent to R8,4 billion.

The increased payouts included the rising number of policy surrenders.

Investment income, which rose by 12,5 percent to R4,5 billion, was hit by reduced dividends or passed dividends from certain companies.

Sanlam's 10 largest share investments lay firmly in the blue chip sector, with about a quarter of the R32,8billion in shares being invested in Absa, Anglo-American, De Beers, Gencor, Malbak, Murray and Roberts, Rembrandt, Richemont, SA Breweries and Sasol.

ANC 'now accepting realities'

By BARRY STREEK
Political Staff

THE ANC's recently published economic policy spoke more of expectations than realities, the chairman of Pepkor, Mr Christo Wiese, said yesterday

There was, however, an increasing acceptance within the ANC of the realities of South Africa's economic situation, he said at a breakfast meeting of Here XVII members and guests.

(49) CT 3/2/94

This included acceptance that South Africa was not a rich country and would not be able to satisfy the expectations of the majority, that economic growth was the only solution to the current poverty, and that this growth could best be achieved by a free market.

Reconstruction proposals alarm bankers

B/Day 3/2/94

GRETA STEYN

BANKERS yesterday sent a strong signal of protest to the ANC over its reconstruction and development programme's proposals to restructure the banking sector.

At a seminar on banking in Johannesburg yesterday, Standard Bank group economist Nico Czypionka said the proposals had "made my hair stand on end" and called on fellow bankers to contact the ANC to express concern.

Czypionka was referring to suggestions that banks be required to lend a rising share of their assets to small, black-owned enterprises and be forced to provide reasons for turning down loan applications.

He said the ANC should be told that the NP government had tried the route of controls over banks, with "messy" results for the economy. "To be blunt, the proposals are based on a fundamental misunderstanding of how the financial sector works." The programme was "a shopping list that, if added up, would blow the country's financial resources out of the water".

To the extent that it was financially and physically feasible, banks would push hard to address underdevelopment problems and play a part in dealing with apartheid legacies. They had to do this without deviating from the principles of sound business practice, he said. At this time of change, when new economic and other policies were being sought, banks had to make their voices heard. "I am not sure that we as bankers are doing this adequately and effectively. I get the strong feeling that this country's banks have sold themselves short — we are doing far more than we are being given credit for." (58)(49)

Banks had a vested interest in the long-term prosperity of the country, and had taken active measures to support this with concrete actions. He cited the growing momentum of community banking operations within a number of banks, the Community

To Page 2

Bankers

B/Day 3/2/94 From Page 1

Banking Project, the negotiations between the Association of Mortgage Lenders and civic organisations, and involvement in the National Housing Forum. (49)(58)

Council of Southern African Banks CE Piet Liebenberg said the industry was in the process of formulating a response to the ANC's policy statement. "The ANC's statement was issued without consultation. We will not be able to change much, if anything, in the reconstruction and development programme. But we intend to lobby, inform and debate the issues. We are pulling out all the stops," he said. He did not, however, believe nationalisation was a real threat to the industry.

Community Banking Project CE Archie Hurst said the most optimistic projections indicated that by the year 2000, the bank's total advances would not exceed R3bn. He urged commercial banks to keep exploring ways of being active at the bottom end of the market, while government involvement was also important. "It is our hope that through its efforts, the Community Bank will pave the way for commercial banks to become involved in this market."

See Page 3

'An unrealistic shopping list'

Banks hammer ANC proposals

Star 3/2/94

BY CLAIRE GEBHARDT

The ANC's draft Reconstruction & Development Programme (RDP) has been branded as an unrealistic shopping list which would "blow the country's financial resources out of the water".

The section on banking was "enough to make one's hair stand on end", Standard Bank group economist Nico Czypionka said at the 1994 Banking Industry Conference in Sandton yesterday. (4.9)

Among other things, the draft programme states that commercial banks must, through legislation and incentives, be encouraged to make credit and other services available in low-income areas.

"Redlining" — blanket bans on mortgage bonds to specific communities — must be banned, and banks forced to provide reasons for turning down loan applications.

Interest rates must be kept low and banks must lend a rising share of their assets to small, black-owned enterprises.

They will also be required by law to report on their loans by race and gender, and their assets and liabilities by sub-region and sector.

Locally controlled housing associations should take over properties in the possession of banks because of foreclosure.

Czypionka called on the banking community, in the two months still at its disposal, to put forward its objections to

Nico Czypionka . . . section is rubbish.

Piet Liebenberg . . . made from sheer ignorance.

the proposals or face being hit by lending directives derived from a complete misunderstanding of the banking sector.

"We must counter the ANC's perception that needs come first and that the financial sector will deliver — and if it doesn't deliver at the price that the particular sector can afford, then it will be forced to do so."

Czypionka said the present government had also tried to impose lending controls, deposit rate controls and interest rate controls and had thereby destroyed the economy.

"Now the incoming government wants to do the same and no one in this community has told them that this section is rubbish, produced by academics who have never touched a real piece of banking paper in their lives."

Council of Southern African Bankers (Cosab) chief executive Piet Liebenberg said much of the RDP statement was "made from sheer ignorance and no real understanding of what the functions of banks are, how they work and what their responsibilities are".

He said the RDP statement had been issued without prior consultation with the banks, so it was quite unlikely that anything in the draft could be changed.

"But we have to lobby and inform and debate the issues which are essential for the proper performance of the banking industry," he said.

Liebenberg said Cosab would be putting forward the industry's views to the ANC within the space of a month.

DP warns on economics

(49) CT 4/2/94.

JOHANNESBURG. — The Democratic Party has accused both the National Party and the ANC of knowing little about the economic process, warning both parties could lead the country into poverty and disaster.

DP leader Dr Zach de Beer said the only way forward was through democratic capitalism where people were free to create a better life without fear of state intervention This would not preclude development programmes to uplift the poor.

Some of President F W de Klerk's statements on the campaign trail showed the NP's understanding of business was "terrible", while the ANC's "wish list" gave no indication of how it was to be financed. — Sapa

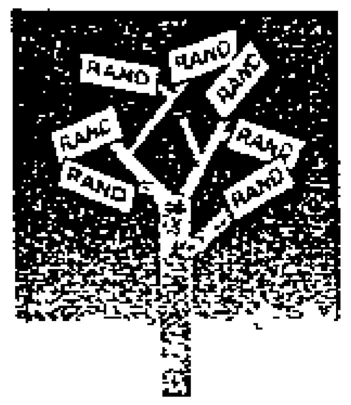
ECONOMIC OUTLOOK

Fwi 4/2/94

We're almost there

The indicators are promising — but it's vital to build confidence

(49)



When the polling booths close and the votes are all counted in the last week of April, ANC president Nelson Mandela will achieve his lifelong ambition After years in the wilderness he will lead his people into the promised land — as the dominant force in the Government of National Unity

What he must be hoping for now, as he campaigns in a general election in which the majority vote is assured and only its size is in doubt, is that the milk-and-honey materialises — that the economic recovery gains momentum and that it generates the wealth and jobs needed to ensure the ANC will remain in power after the 1999 election

For the moment, fortune and the business cycle seem to be on his side Forecasts get more upbeat with the release of each new economic indicator All that is lacking at this point in the business cycle is the measure of confidence usually associated with an upswing Its absence is clearly reflected in the country's reserves of gold and foreign exchange, which have been falling since August 1992

Money has been flowing out of SA at an accelerated pace (see graph below) and, until this trend is reversed, the nation will be unable to finance a significant economic recovery or even sustain a mild one

But the recent net outflows — more than R10bn in the second half of 1993, according to Reserve Bank Governor Chris Stals — are not as disquieting as they seem Standard Bank group economist Nico Czypionka says the flows are not capital flight in the conventional sense of the word but "relentless repayment of debt"

The trend started in the third quarter of 1992 when, according to the Reserve Bank *Quarterly Bulletin*, "there was a switch from foreign to domestic trade financing, probably because of the relatively favourable costs of domestic credit"

Despite the end to sanctions and renewed access to the IMF SA's credit status has not been restored Capital markets and banks continue to see SA as risky and loans are priced accordingly

More recently, the problem has been compounded by a reluctance on the part of foreign banks to extend credit facilities to SA borrowers This was highlighted in December because, at year-end, banks have to make provisions against risky loans and they prefer to tidy them off their books before the event

Hence the poor performance of reserves — despite an US$850m IMF facility received that month It is hoped the funds will return, as they have in previous years, when the bookkeeping exercise is over

If they don't, the financial authorities have two options

Either they can let the rand fall to whatever level the market dictates There are many who could support a rand devaluation, among them exporters who would benefit directly from a higher rand income. But the higher cost of imports could re-ignite inflation, which has been brought under control at great cost in recent years And this would undermine the fundamental strength of the economy and shorten the lifespan of the recovery

Alternatively, they could put up interest rates to make foreign credit (when it is available) relatively more attractive to local borrowers However, this would put a brake on the budding recovery — and from the point of view of all political players within the process, it would be inexpedient

Meanwhile, reserves may have stabilised (January figures are due next week) The rand declined only marginally over that month and, though the Bank was seen in the market, it was buying and selling dollars


Gouws


Czypionka

This means it was not only called on to support the rand from time to time but, on occasion, had to keep the local currency from rising

A $500m (R1,7bn) scheduled payment, in terms of the final debt arrangement with foreign creditors, is due this month, with a further repayment in August But analysts say some of this should be offset by new borrowing, despite the reservations discussed here

So the rand will probably not fall as sharply against the dollar as it did last year — Czypionka predicts the exchange rate will be $/R3,60 by the end of the year but only because of dollar strength — and will be stable against other currencies

A turnaround in the direction of capital flows is in sight Czypionka suggests that the reversal could take place as early as September, after the August Budget for the next fiscal year has been presented and fiscal and financial policies have been clarified and communicated to the international community

"If SA's economic policy proposals are favourably received SA would be rerated and the currently high risk premium on SA borrowings will fall to more appropriate levels," says Czypionka

"Local borrowers, including the government and Eskom, will then feel comfortable about going for bond issues on the US or German capital markets Once they have successful issues behind them, banks and other lenders may see SA borrowers in a new light"

This scenario depends, of course, on the policies produced by the new government The recent spate of statements from various lobbies within the ANC has created confusion At a recent business breakfast, arranged by Davis Borkum Hare, SACP chairman Joe Slovo said "We reject old-style statism and commandist control Our draft constitution commits us to respect and protect private property as may be necessary for effective economic development and growth"

But he added "We have not abandoned our long-term aim of winning a future in which all the means of production are socialised to serve the interests of the whole of society But that objective cannot be on the immediate agenda and, in the long run, can be achieved only by ideological contest in a genuine multiparty democracy"

It depends, of course on just how long the long run is and on whether his ideology will win the contest

Short-term creditors could live with this vague threat And if the perception is that the long run will recede ever farther into the future, perhaps to disappear eventually, even the capital markets would be not too concerned about, say, five-year loans

Perhaps more important for reserves is the medium-term outlook for monetary policy

From the point of view of international perceptions, the linchpin of monetary policy is the independence of the Reserve Bank — and this has been under threat from various lobbies within the ANC

Here a soothing note was struck by ANC-aligned economist Maria Ramos at a recent seminar in London presented by the UN and the London School of Economics

Discussing financial policy issues for the early years of a democratic government, she dealt with central bank independence "Stable monetary policy is not the prerogative of an independent central bank However worldwide evidence suggests that those countries with central banks which enjoy some degree of independence from the fiscal authorities have been more successful in conducting a stable and transparent monetary policy

"Independence reduces the set of circumstances under which price stability and sound macroeconomic management is sacrificed for short-term political gains

"There appears to be no question as to the need for a credible counterinflationary policy, there is a question as to what is the most appropriate institutional dispensation to achieve this

"It is now widely accepted that an independent or autonomous central bank, with the required longer time and technical expertise would be best placed to achieve this objective"

Rand Merchant Bank economist Rudolf Gouws, who attended the seminar, reported that the speech — with its emphasis on responsible monetary policy — was well received

It seems likely that this approach will be reflected in the actions of the post-April government So September could well prove a watershed for reserves

But there are 12 volatile weeks to the election, and at least four months thereafter, before we can hope for a meaningful return of capital — and this period is critical to economic prospects A crisis of confidence now could put the recovery on hold or even abort it

Apart from praying a lot, politicians must also try human intervention to prevent any occurrence that could provoke a crisis and send capital cascading out of SA And they would do well to keep in mind the broader audience during electioneering

Aside from the political hazards, there is so much going for us

Good rains early in the summer were followed by more soaking falls in January, improving chances of a bumper summer grain crop Agricultural economist Johan Willemse says expectations are that 10 Mt-12 Mt of maize will be harvested between May and August — provided there is no natural disaster between now and then

This comes after 9 Mt in the 1992-1993 season and only 2,9 Mt in drought-stricken 1991-1992

The secondary benefits to the economy have already been felt The SA Agricultural Machinery Association reports tractor sales have risen more than 40% in 1993, combine harvesters more than 90% and balers nearly 20%

More benefits are due and will be felt in the last two quarters of 1994, says Willemse "The proceeds of last year's good crop were used to repay debt But, this year, there will be money in people's pockets" As they spend it, the depressed towns of the platteland will start to revive and the ripple effect will be felt countrywide

Another important sector is mining, where the outlook depends heavily on commodity prices, especially the gold price Looking back at the fourth quarter, with an average gold price of $373 or R1 261,7/oz, it seems certain that gold revenue to the mines must have risen, despite hedging by mining companies at earlier price levels A last-quarter-on-last-quarter profit rise is expected in the industry and, with it, a big rise in mining taxes that will help reduce the Budget deficit in the current fiscal year

Capital spending has been rising in the industry, say analysts, which means sustained activity over a period as projects are completed

Another source of growth in the economy is public sector capital spending This traditional method of boosting growth can have adverse consequences if the investment is inappropriate

But what has been undertaken so far should be entirely beneficial It comes after a decade in which government has increased consumption spending at the expense of capex

Now, with consumption spending under control, funding has been freed for much-needed capital projects

The increase in population density since the abolition of influx control in 1986 has created a huge demand for water, sewerage, electricity, transport & communication and township development And infrastructural projects are now under way that will meet some of these needs

Says Sanlam's *Economic Survey* "Judging by the substantial local and foreign funds available for investment, this component could contribute significantly to a higher real economic growth rate this year

Peet Strydom of Sankorp's strategic research unit says this is already spilling over into the private sector, where the decline in capex has almost stopped

Positive development

That view is supported by Old Mutual's quarterly *Economic Comment* which suggests that fixed investment together with inventory restocking, will become the main engine of growth in 1994

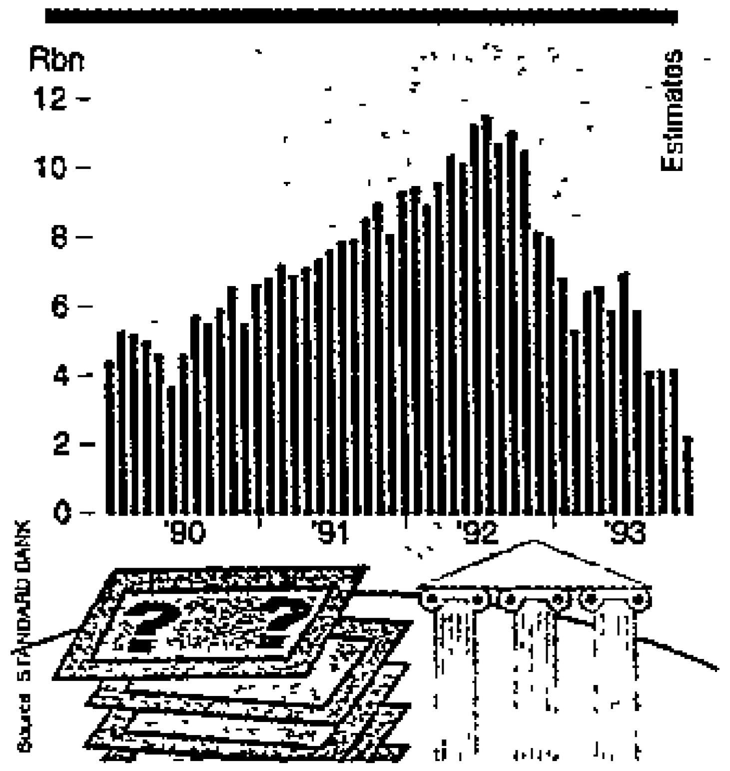
Another positive development has come in industrial relations Andrew Levy & Associates recorded only 65 000 man-days lost in 1993 (see below), 14,3% less than in 1992 and dramatically lower than the 550 000 lost in 1990 when industrial unrest peaked

The excitement which the election is generating could well become a source of economic energy afterward

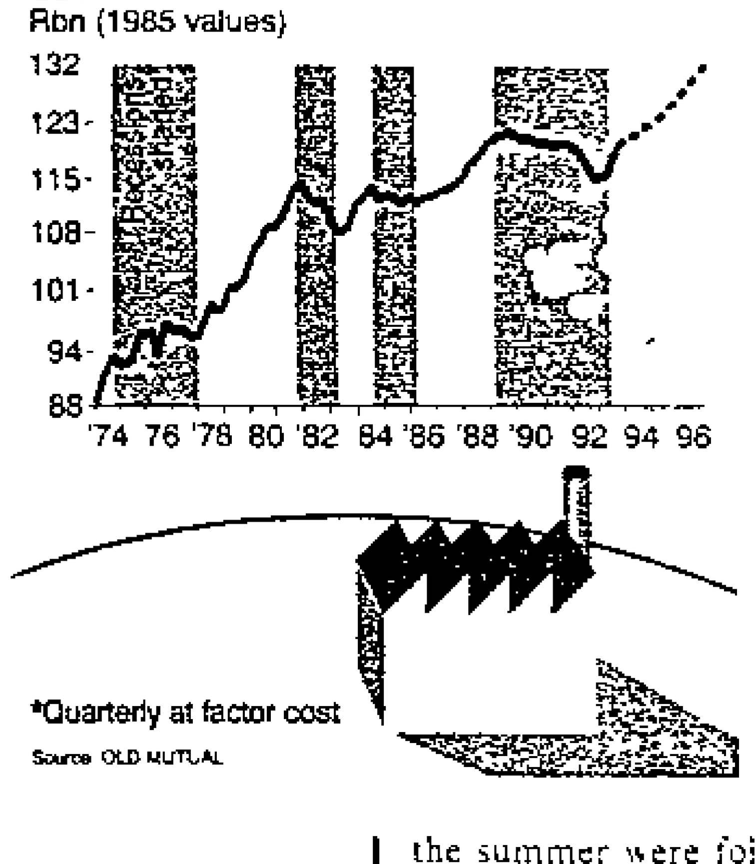
If the creativity and productivity of all players in the economy are constructively directed, this could prove a valuable invisible resource

The quality of leadership will determine whether it will be available And the pre-election period will be a challenging trial run for all who hope to have an influential role in the Government of National Unity ■

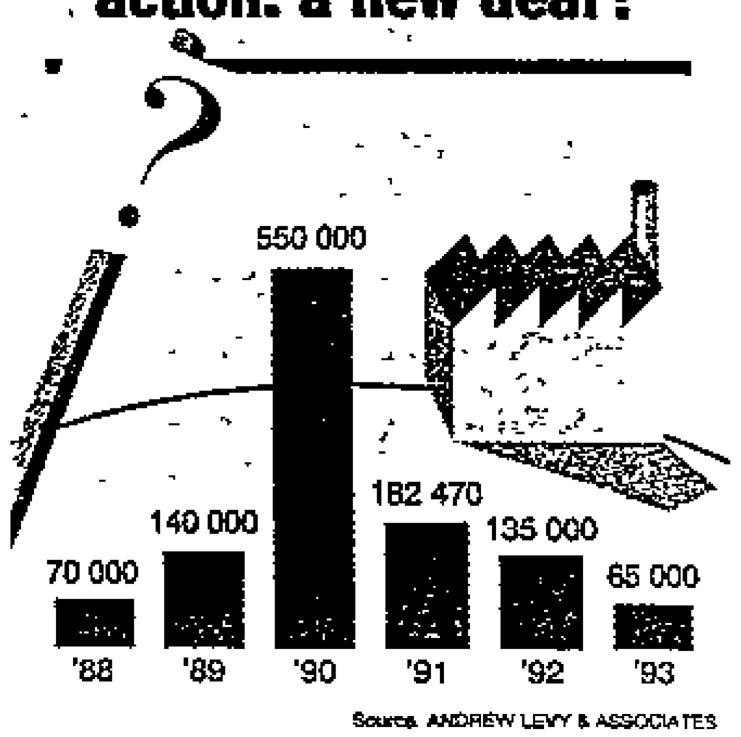
Net reserves of the Reserve Bank: a turning point?



Economic forecast: a bumper 1994–1996?



Man-days lost in strike action: a new deal?



Fwi 4/2/94

(49)

PTO

ANC utopia 'could work'

(49) ARGS 5/2/94

■ The party's draft reconstruction plan promises jobs and homes for all South Africans, and that's not as far-fetched as some would have us believe, says this expert with a prominent firm of stock brokers.

Business Staff

Mathison & Hollidge economist Tracy Ledger has come out strongly in defence of the ANC's draft Reconstruction and Development Programme (RDP), which proposes jobs, homes, health care and education for all.

Mrs Ledger says the outraged reaction to the proposals is a trifle overdone and that the programme could work.

"The main problem with the RDP is that it's a badly written document that disguises its purpose and intention, which is to foster growth."

Mrs Ledger puts the potential total cost of the five-year programme at R89 billion, based on a study co-sponsored by the Development Bank of Southern Africa (DBSA), the Independent Development Trust (IDT) and the Kagiso Trust (KT) in September last year.

This is more than three times the 1992/1993 budget deficit and excludes current levels of government expenditure.

The breakdown is R56 billion on capital expenditure and R33 billion on current expenditure, with the biggest outlay of R22 billion for housing.

Mrs Ledger says the RDP makes it clear that the bulk of the funds will be raised locally, with foreign funding used only for projects generating foreign exchange.

"Specific mention is made of the need to reduce the budget deficit from current levels and that the vast bulk of the programme will be financed from existing resources."

Juggling the existing level of government expenditure to put more funds into the coffers of the RDP is unlikely to succeed, she says.

"Part of the funding answer lies in better organisation and rationalisation of existing systems and self-funding — as the programme takes off, the level of national income will rise, as will the tax base."

The introduction of so-called reconstruction taxes will be used to fund only a small portion of the total programme.

"If as much as 15 percent of the assumed total of R89 billion is funded from the issue of bonds and the introduction of wealth taxes, it implies a burden on the private sector of R2,7 billion a year, in today's money, over the next five years.

"It is almost certain that a capital gains tax, together with increases in other capital taxes, such as estate duty and donations tax, the norm in several Western countries, will be introduced.

"This could raise around R1,5 billion to R2 billion, which will increase with the pace of growth.

"This leaves only about R1,1 billion to be raised in the capital markets in the form of reconstruction bonds.

"As the RDP has proposed that these bonds be issued only by those areas of the programme capable of generating cash flow, such as electricity supply or telecommunications, the crowding-out effect will be negligible."

Economy could thrive in 'post-poll honeymoon'

B/Day 9/2/94

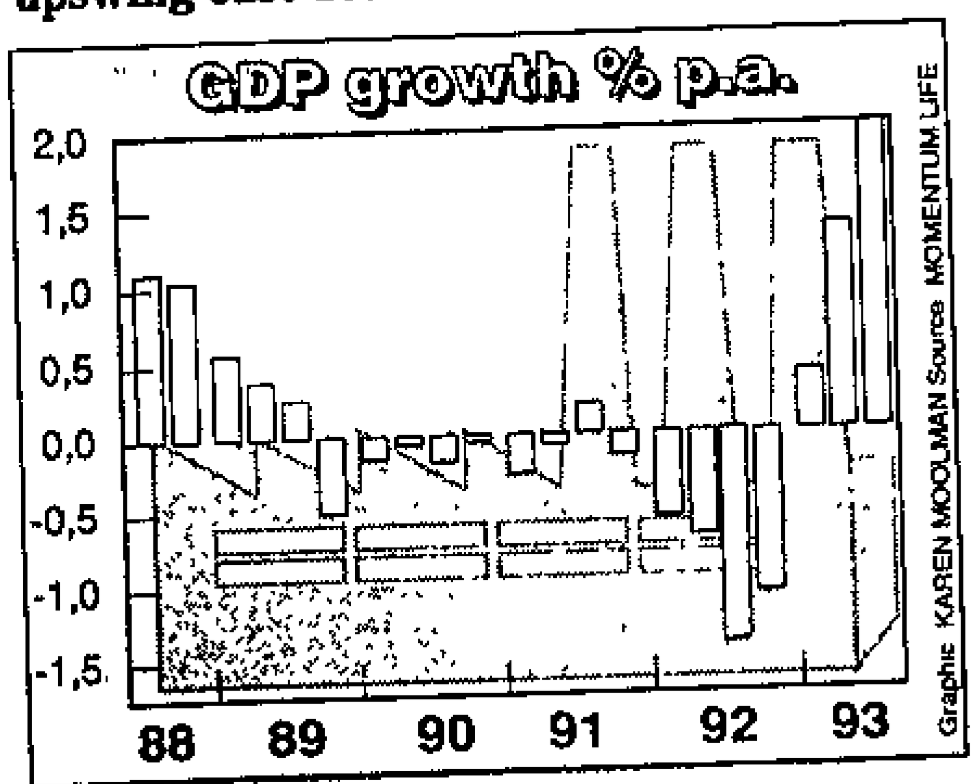
KELVIN BROWN

THE SA economy could achieve robust growth rates during the post-election honeymoon period, a phenomenon not seen since the late '70s, Momentum Life said in its latest quarterly economic bulletin.

Reports by retailers that Christmas sales were encouraging supported the idea that the economy was in the early stages of a recovery. "As long as politics remains positive, this embryonic upswing should gather momentum."

Further steam would be added to the economy after the elections when infrastructural spending should pick up sharply.

But the life assurer said the economic upswing cast doubt on whether the expected two percentage-point cut in short-term interest rates this year would materialise. "Some decline in rates may be possible later in the year, but the possibility of a meaningful fall in rates is receding with the economic recovery." (49)



Long-term rates could have further downside potential in the wake of the fall in inflation. But below the 12% level a significant fall in long-term rates was unlikely unless inflation showed further surprising declines.

On the currency side, Momentum Life said there was no immediate pressure on the rand to weaken as reserves had been helped by the loan from the IMF and the higher surplus on the current account.

But the life assurer cautioned that the currency could move lower in the longer term because of the country's uncompetitiveness in world markets.

The financial rand had remained strong since September last year due to a significant improvement in the way SA was perceived abroad.

Exports should benefit from the expected improvement in the economies of some of the country's main trading partners in the coming year.

Govt confident of reaching budget target

KELVIN BROWN

GOVERNMENT is optimistic it will reach its budget target for this financial year as revenue continues to rise while the increase in spending is slowing down, says Finance Director-General Estian Calitz.

Exchequer figures released yesterday indicate spending was up 12,6% while revenue rose 17% in the first 10 months of the year from the 1992/93 period. B/Day

Government had budgeted for a rise of 9,85% in spending and a 17,3% increase in revenue for the entire fiscal year. 1/2/94

Preliminary indications from government departments regarding expected requisitions for February and March indicated the revised budgeted expenditure level of R115,2bn was within reach.

"A considerable deceleration can be expected in the increase of exchequer issues in the last two months of the year."

This trend was already reflected in the January figures, which were up only 5,5% on a year ago, Calitz said. (49)

On the revenue side the rising trend in receipts continued in January. Calitz said if the trend continued during the last two months of the year, the budgeted revenue of R88,2bn could be exceeded.

In the first 10 months Customs and Excise revenue was up 11,6% to R9,1bn compared with a budgeted rise of 10%.

But collections by Inland Revenue were behind budget. In the period to January collections were only 17,4% above the previous year's level. This compared with a budgeted rise of 18,6%.

Lower than expected income tax receipts appeared to be the culprit, down at 6,9% from an estimated increase of 11,7% for the first nine months.

VAT collections were still running above budget at 44,4%, compared with a predicted increase of 43,1%.

The latest figures also showed government had borrowed R29,9bn at the end of last year.

"With the exception of the rolling over of short-term government stock which expires on February 28, the financing programme for the current financial year has been completed," Calitz said.

ANC set for finance coup

Star 12/2/94

THE African National Congress has caught the National Party napping by quietly snatching extensive powers over the running of the economy. BRUCE CAMERON reports.

CAPE TOWN — In a remarkable political coup, the ANC is about to grab control of the Transitional Executive Council's key finance sub-council, giving it substantial influence in current Government financial policy and over the first post-election budget.

The Democratic Party, which does not have a full member on the sub-council, has accused the National Party of abdication by being "half-sleep".

The council has the right to be represented on all function and budgeting committees and has to be consulted or informed on nearly every aspect of fiscal or monetary policy.

Although it does not have veto powers it could delay or force changes to existing policy decisions. The main task of the sub-council at the moment is monitoring the budget which is due in August and is well into the preparation stage, and watching the country's international financial transactions.

The ANC's two-thirds majority on the sub-council followed fluctuating political alliances between parties after the initial appointment of the members.

Forced to resign

The first step towards control came when former Labour Party MP John Douw split with the party after it decided to enter the ANC alliance. He threw in his lot with the NP. As a result he has been forced to resign and he is to be replaced by the Desmond Lockey, the son-in-law of LP leader Allan Hendrickse.

This was followed by the surprise decision earlier this month by Solidarity leader J N Reddy to join the ANC alliance. Already on the sub-council are a senior ANC economics spokesman Tito Mboweni as well as T J Ndaba of the ANC-alliance Inyandza Party from Kangwane. The formal appointment within days of Lockey will give the ANC the two-thirds majority it needs to control the sub-council in terms of TEC legislation.

The other two members of the sub-council are Deputy Minister of Finance Theo Alant and the chairman of the sub-council, S Moji of the QwaQwa Dikwankwetla Party, which is not aligned to any other party.

DP finance spokesman Ken Andrew said the control could have a significant effect on the shaping of financial policy. "We have been totally dissatisfied with the appointments to the sub-council, including the finance sub-council. In my view they were generally rigged in favour of the ANC alliance with the total compliance of the National Party. The NP has allowed this to happen by being half-asleep all the time"

Andrew said the good work that was achieved by the now disbanded transitional finance body, the ETC, which oversaw financial matters, could be undone.

The importance of the ETC (the acronym never had any meaning) was that the six major parties were represented equally forcing consensus decisions. Its most significant involvement in financial policy was its role in concluding the R2,8-billion International Monetary Fund loan.

'Sham'

Andrew said "The ETC was not the sham we have now."

Although the sub-council's main role was to ensure that no party gains the advantage from government decisions, it also has a substantial role to play in overseeing financial policy. Andrew said there were procedures which dissatisfied parties could use to block decisions through the main council, but because of the volume of work unacceptable decisions could be made that would slip through.

(47 Sauer St, Johannesburg).

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Budget is on track

Star 11|2|94

BUSINESS STAFF

The 1993/94 Budget is on track, Finance Department director general Estian Calitz said yesterday presenting Exchequer figures for the ten months of fiscal 1993/4.

Calitz said that while the rising trend in revenue was continuing, the increase in spending was slowing down.

Government spending in January totalled R8,2 billion bringing the total for the first ten months to R91,2 billion.

This represents 79,2 percent of the total estimated expenditure of R115,2 billion and is an increase of 12,6 percent on the same period in 1992/3 — for the year as a whole the Finance Department has budgeted for a rise in spending of only 9,85 percent.

"Preliminary indications from government departments regarding expected requisitions for February and March indicate that the revised budgeted expenditure level of R115,2 billion is within reach," Calitz said.

Total exchequer receipts of R8,4 billion were notched up in January, bringing total income so far this year to R72 billion — an increase of 17 percent.

"The rising trend in revenue continued in January and if it carries through the last two months, budgeted revenue of R88,2 billion could be exceeded," he said.

(L+9)

Breaking down tax revenue, Calitz said direct tax collections were 17,4 percent higher for the first ten months against last year, compared to a budgeted increase of 18,4 percent for the full year.

However, receipts from indirect taxes (mainly VAT, which is up by 44,4 percent) and Customs and Excise collections were above targets.

Calitz said the financing programme for the current year was completed apart from the rolling over of short-term government stock at the end of this month. By the end of December 1993, R29,9 billion had been borrowed.

Economy grows for the first (49) time in 5 years

ALIDE DASNOIS
Business staff ARGT 15/2/94

FOR the first time in five years South Africa has recorded a year of economic growth.

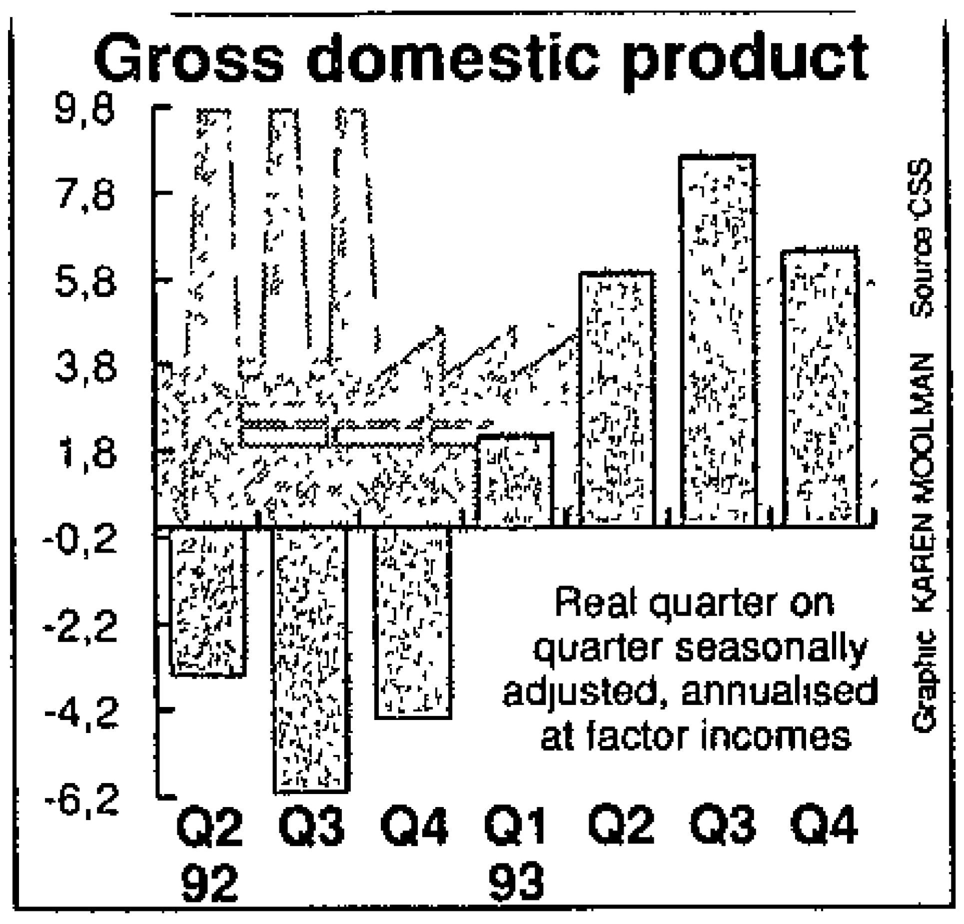
Last year the average Gross Domestic Product (GDP) was 1,2 percent higher than in 1992.

Figures released today by the Central Statistical Service also show the recovery has spread from the agricultural sector to the rest of the economy.

All sectors of the economy reported positive growth in the last quarter of 1993 — the first such growth in 10 years.

The annual growth rate of the GDP in the last quarter of last year was 6,2 percent.

Old Mutual senior economist Riaan le Roux said he was expecting economic growth to top three percent this year.



SA on track for higher growth rate

KELVIN BROWN

THE economy continued forging ahead at a good pace in the fourth quarter of last year as gross domestic product (GDP) surged more than 6% to give SA its first positive annual growth rate since 1989.

Economists said the latest figures were "very impressive" and put the country on track for an even higher growth rate this year. If the current level of economic activity was maintained it would lead to a growth figure of 2,5%. B/Day

Central Statistical Service (CSS) figures released yesterday showed the economy grew a real 1,1% at market prices last year after shrinking 2,1% in 1992. (49)

Measured at factor incomes and at real seasonally adjusted annualised rates, GDP grew a provisional 6,4% in the fourth quarter, after 8,6% in the third quarter.

Most of the growth was still centred in the agricultural sector, which firmed 87,6% quarter-on-quarter, but all sectors achieved positive growth rates. 16/2/94

The mining sector turned around to grow at 2,5% in the fourth quarter after declining 0,5% the previous quarter. The manufacturing sector's recovery slowed to grow 0,3% from a previous rise of 4,8%.

Nedbank chief economist Edward Osborn said the smaller growth in the manufacturing sector could have been a result of

☐ To Page 2

Growth

B/Day 16/2/94

☐ From Page 1

manufacturers overdoing production earlier in the year in anticipation of a large increase in demand. But he predicted there would be more steady growth this year, especially from those industries linked to building and construction (49)

Old Mutual chief economist Dave Mohr said the latest figures were very encouraging and it was evident that the recovery had spread to the rest of the economy.

In the second half of the year the non-agricultural sector grew 2% from less than 0,5% in the first half, he said.

He estimated the recovery would be even more broadly based this year with an economic growth rate of more than 3%

"Agriculture should rise further due to the good rains, the mining sector should improve as commodity prices benefit from the recovery in the world economy and manufacturing production would rise as demand went up," Mohr said

Sanlam senior economist Pieter Calitz said growth was unlikely to be as impressive this first quarter as the economy was largely on hold until after the elections But he hoped the recovery would continue gathering steam from the second quarter

Asian-style growth with European-type inflation

Star 16/2/94

Economy bounces back

(49)

■ BY CLAIRE GEBHARDT

EXPERTS predict even greater growth in 1994, which is bound to send a positive signal to overseas investors

South Africa got its best economic news for years yesterday — Asian-style growth with European-type inflation.

Fourth-quarter gross domestic product (GDP) figures released by the Central Statistical Service show that the economy grew by more than 6 percent on an annualised basis.

The better-than-expected showing pushed the total real GDP increase for 1993 to 1,1 percent — the first positive growth in three years.

At the same time, the average increase in the production price index (PPI) for 1993 fell to 6,6 percent — its lowest level in more than 20 years.

This implies that consumers can look forward to lower consumer price inflation (CPI) during the course of 1994. Some economists are predicting that the CPI could drift as low as 5,5 percent this year.

Economists said the statistics indicated that GDP growth for 1994 could be revised upwards to 4 percent or more.

Old Mutual's Dave Mohr said yesterday the figures would send a positive signal to overseas investors. "US investors tend to take the last-quarter figure and annualise it."

Mohr said it was apparent that unemployment must have stabilised last year.

"However, a lot of companies are continuing to rationalise, which means that the recovery in the employment situation is likely to be very slow," Mohr said.

■ Total real GDP increase pushed up to 1,1 percent — first positive growth in three years.
■ Average increase in production price index falls to lowest level in 20 years.
■ Consumers can look forward to lower consumer price inflation.

Nick Barnardt, of Ed Hern Rudolph, said he had revised his growth forecast for this year to 3,5 percent.

However, he cautioned that faster growth from a low foreign-reserves position could cause problems in the second half of the year as imports picked up.

"This could mean higher interest rates."

Barnardt said the PPI would probably fall to close to 4 percent this year, while the consumer price index could drop to close to 5,5 percent.

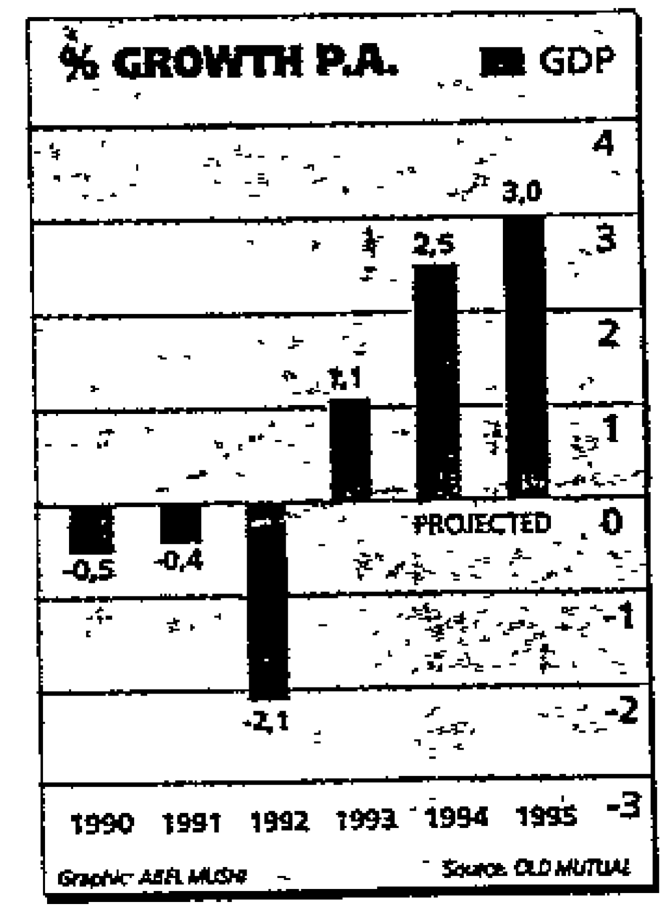
"Basically, we are looking at non-inflationary growth, which is extremely encouraging."

A major recovery in the agricultural sector made the most important contribution to the overall improvement.

In the second half of 1993, however, the upswing in activity became more broadly based, with increases recorded in the real value added by mining and manufacturing.

Annualised growth rates over the first three quarters of last year were 2,1 percent, 5,9 percent and 8,6 percent.

If the agricultural sector — which increased sharply in all four quarters — is excluded, the seasonally adjusted real GDP increase of the non-agricultural sector was 0,5 percent, 0,3 percent, 2,4 percent and 1,9 percent.



▶ R5-bn for SA — Page 16

Upbeat economic indicators signal 'end of decline'

(49)

CT 16/2/94

By ARI JACOBSON

SOUTH AFRICA's economy grew by 1,2% in 1993, as measured by the country's Gross Domestic Product (GDP), to signal the entry into a positive growth phase after three years of economic decline, while the Producer Price Index (PPI) also provided positive news.

This amazing turnaround is highlighted by the fact that economists as late as June 1993 were forecasting a negative growth of 0,5% for the whole of 1993.

To show that most of the country's economic data is pointing in the right direction, the PPI hit a 22-year low in 1993 at a 6,6% increase last year.

In December the PPI was up at a 6% increase on a yearly basis (unchanged from November's yearly increase) and slightly up — 0,2% for the month of December.

The figures were released by the Central Statistical Services (CSS) yesterday.

Economists yesterday were optimistic that "broad-based" economic growth could be expected in 1994, in an environment of relatively low consumer and producer inflation.

They added that stable inflation would make it much easier for the SA Reserve Bank governor Chris Stals to follow his policy of providing a stable exchange rate.

Old Mutual economist Johann Els mentioned that lower inflation had been helped by the after-affects of the recession, which had placed a dampener on price increases and had been helped by lower oil prices.

He added that inflation was "now fairly low compared with historical figures for the country and more in line with international trends".

He said that "the downtrend" was in place and the CPI, excluding VAT, was now around a 7% increase.

He expected the influence of an economic upturn to impact somewhat on the PPI and therefore estimated the increase at betwen 6,5% and 7% for 1994.

Els said that 1995 would see a faster acceleration in inflation, unless the Reserve Bank continued with its tight monetary policies.

On the GDP figure, Els mentioned that the fourth quarter growth of 6,2% was welcome "with all sectors demonstrating a positive rise for the first time since the January quarter 1988".

Boland Bank's economist Francois Jansen pointed out that the positive growth had come from the "recovery" of the agricultural sector — up 17,7% in 1993.

"Another important aspect is that all sectors besides construction delivered positive growth in 1993."

Boland Bank are forecasting an economic growth rate of 2,5% for 1994.

Business needs to be heard in debate on reconstruction

BDay 17/2/94

ANN BERNSTEIN

THE government to be elected in April 1994 will face a complex series of national challenges. These include the need for increased, inclusive economic growth; a successful and sustained democratic transition; socioeconomic development at the necessary scale and speed; re-establishment of the rule of law and civil peace; renewal and reinforcement of family and community structures; and the effective redress of racial imbalances in the leadership and composition of key institutions.

Collectively this package can be termed national reconstruction and development.

To achieve success, SA must capitalise on one of its key comparative advantages as a developing country — the strength and diversity of the country's private sector and in particular its business community.

The inadequacy of most of the existing public service to respond to the enormous challenges that face a democratic government is already evident. The inexperience and particular backgrounds of the potential new public service will also hamper the future government.

Both these factors will play out in the complex politics and bureaucratic infighting of a government of national unity. The government will face a crisis of capacity and delivery very quickly after its election.

In this context, the way in which business participates and contributes to the national reconstruction and development project could be critical to the country's chances of success.

A number of different proposals for national reconstruction and development are emerging. Yet there is mainly silence from the business sector on the subject, although it must be remembered that the business sector is made up of highly individualistic and competitive individuals, interests and organisations.

Recent comments in New Nation by Zwelakhe Sisulu, in a column entitled "Is big business against genuine change?", are instructive. He argues, among other things, that "big business has been very vocal in criticising the economic policies of the liberation movements, but has yet to unveil its own vision of a future economic dispensation that would redress the imbalances created by apartheid".

Big business is seen by many leading political players and the interest groups that influence those players as a kind of jukebox-cum-treasure chest to be opened, unpacked, dismantled, thrown around the room and redistributed, but at the end of the day still capable of belting out a tune. Business will not be left alone to get on with "the economy" in isolation from the political, social and racial dynamics of a post-apartheid SA. If business waits passively for others to act and comment upon it and its role in national reconstruction and development, it runs three very great risks.

The first is that when others define the agenda (as is now the case), any business reaction is inevitably defensive and serves only to reinforce prevailing negative views. These views include a perception that business is racially biased against the new black power holders; not committed to the new democracy; concerned only with holding on to what it has; and mainly interested in making more money for corporate executives.

The second risk is that, if others define the agenda first and within their own "world view", business has to fight an uphill and generally negative battle to try to change perspectives and influence proposals.

The third risk, and probably the most important, is that by its silence big business implies that the business of national reconstruction and development is a state project — precisely the perception that business should be trying to avoid.

(49)

A careful reading of the sixth draft of the ANC/SACP/Cosatu reconstruction and development document reveals both danger and opportunity for business. The threat is in the document's ever present faith in central planners and state capacity to deliver. The opportunity lies in its recognition that private sector development and support are necessary for success, and in the stated willingness of the document's authors to engage with business in the debate about the future. This recognition and encouragement of business involvement should be taken up and pursued energetically.

The challenge that faces the future government is a daunting one. "Reconstruction and development" should not be defined or perceived as an ANC problem. It is in everyone's interests that this challenge is seen as a national responsibility in which all sectors of society have an important role to play. Business, in particular, can play a key role in helping to shape the programme, choosing the realistic priorities and defining the scope and responsibilities of different components of society.

Business has capacity and a pragmatic, result-oriented approach to delivery. A new national government, nine new regional governments and hundreds of new metropolitan and local authorities face obstacles. The new state's inexperience in the face of enormous demands, challenges and expectations will force it to listen to, and forge alliances with, those that can deliver — whether this is in the arena of workable policies or programmes on the ground. The distinction between dominant political power and the capacity to deliver will soon become one of the hardest divides to bridge.

If business were to take a positive approach, and actively and positively participate in the debate on national reconstruction, this would be in the interests not only of the business sector but the whole country. Without this active participation, business could well become a fall guy, cash cow and political plaything for different populist and other interests in and around the ANC.

The demands and expectations made of the business sector are likely to escalate and increasingly get out of control.

If one contrasts the national debate and prevailing public sentiments about business with developments at the local level, these points are nicely illustrated. Business participation in many local and regional forums has not only shown the indispensability of the business sector for anything practical to happen, but also that business people have skills and an approach to development and change that is helpful in getting things done.

Business involvement has led to a greater community understanding of the business sector and has helped to generate a spirit of what can be done together rather than one where business is seen as an antagonistic and united entity, interested only in defending its material interests and holding itself aloof from the task of reconstruction.

In this context, business leadership should think strategically and with national vision. Business leaders need publicly to show that they:

☐ Understand that the elections herald a fundamentally new era;
☐ Understand and empathise with the pressures for socioeconomic, institutional and symbolic changes the new government will face;
☐ Are supportive of the new democracy and the goals of national reconstruction and development; and
☐ Are willing to put significant resources into the debate and, ultimately, the reconstruction programme itself.

With these kinds of actions, business will most effectively demonstrate the enormous contribution it can make in assisting the government of national unity to meet the country's challenges. And in that way it would provide its most effective defence against the inevitable attacks on a competitive market system and the values that underpin such a society.

☐ **Bernstein is executive director of the development strategy and policy unit at the Urban Foundation.**

Keys 'gloating' over the economy

(49)

CT 18/2/94

Own Correspondent

JOHANNESBURG. — Finance Minister Mr Derek Keys was ecstatic over the economy's sound performance and predicted growth of three to four percent or "maybe more" this year

Wearing his "good news tie", Mr Keys told a NP news briefing in Pretoria that if the level of economic activity reached in the fourth quarter continued for the rest of the year, economic growth would be higher than initial projections of 2,5%.

He acknowledged he was "gloating" over positive trends on growth, foreign exchange reserves, inflation, productivity and government finances.

Mr Keys said government spending had for the first time not been a major factor behind economic growth last year. Growth in the 1980s had been largely driven by state spending.

He noted that in 1993 productivity improvements had exceeded the rise in real remuneration and had given the country its first drop in unit labour costs since statistics began.

HOUSEHOLD NUMBER	PAGE NO	SECTION	COMMENTS

Leon spells out DP's 12-point 'social market economy' plan

BDay 18/2/94

TIM COHEN

DP PWV leader Tony Leon yesterday spelt out some implications of the party's "social market economy" plans, saying these would include tax cuts, privatisation and the phasing out of the financial rand and exchange controls.

He was speaking at The Star Investor Club Conference last night. Leon said the DP's 12-point economic plan was:

□ Lower taxes better spent. These measures should include the abolition of discrimination and overtaxing of married women and middle-income earners. Nominal company tax rates should be reduced and effectivity of collections increased by reducing the myriad of deductions and exemptions;

(49)

□ The state should strictly control its expenditure and live within its means. Government expenditure should not increase and budget deficits should decline;

□ Compulsory state-administered pension and medical schemes should be introduced for all salary and wage earners who did not contribute to their own pension or medical aid schemes;

□ Key state assets should be privatised to raise revenue, promote efficiency and roll back the budget deficit;

□ Waste and corruption had to be eliminated by establishing open government, free from patronage, and by devolving power and expenditure decisions;

□ Deregulation and rationalisation had to be carried out to improve state expenditure, including reviewing and, where necessary, mothballing white elephants such as Mossgas;

□ The financial rand and exchange controls should be phased out when possible;

□ Massive labour intensive housing and development programmes should be initiated, with help from the private sector;

□ Private sector developmental potential should be unlocked by creating structures and conditions under which community involvement and stability were guaranteed;

□ Export processing zones had to be established;

□ SA should encourage tourism, which ought to include measures to make SA a more attractive tourist destination, such as the removal of import duties and surcharges on cameras, binoculars, watches and electronic goods not made in SA; and

□ Trade and investment opportunities throughout Africa had to be actively pursued to allow SA to take a leading role on the continent.

Report by T Cohen, TML, 11 Diagonal St, Jhb.

Keys thrilled by economic prospects

B/Day 18/2/94

(49)

GRETA STEYN

FINANCE Minister Derek Keys was yesterday gleeful over the economy's sound performance and predicted growth of 3%-4% or "maybe more" this year.

Wearing his "good news tie", Keys told an NP news briefing in Pretoria that if the level of economic activity reached in the fourth quarter continued for the rest of the year, economic growth would be higher than initial projections of 2,5%.

Keys acknowledged he was "gloating" over positive trends on growth, foreign exchange reserves, inflation, productivity and government finances. He was dismissive of ANC economic policy and criticised the party for not trusting the business community. However, he left the scathing attack on the ANC to Public Enterprises Minister Dawie de Villiers, who described proposals in the ANC's reconstruction and development programme as "alarming".

Keys said government spending had for the first time not been a major factor behind economic growth last year. Growth in the 1980s had been largely driven by state spending. He was pleased growth was spread over the whole economy.

On inflation, he said Reserve Bank figures showed the rate for the April-December period was a seasonally adjusted annualised 5,8%, which indicated the annual rate when the VAT increase fell out of the figures. Low inflation had substantially eased the problem of fiscal drag and had made the funding of pensions easier. But government would not pursue a low inflation policy at all costs.

He noted that in 1993, for the first time, productivity improvements had exceeded the rise in real remuneration and had given the country its first drop in unit labour costs since statistics began. "We have made a start on our new destiny of being internationally competitive," Keys said.

The "feared" bullet debt payment had caused only a ripple in the reserves. It appeared creditors had immediately reinvested, or new finance had been found to offset the outflows.

De Villiers said the ANC's reconstruction and development programme was a "menu without prices" which displayed a dangerous vagueness. The ANC had not yet got rid of its "Marxist socialist past" and its programme would destroy private sector confidence.

Report by G Steyn, TML, 11 Diagonal St, Jhb.

GDP

FM 18/2/94

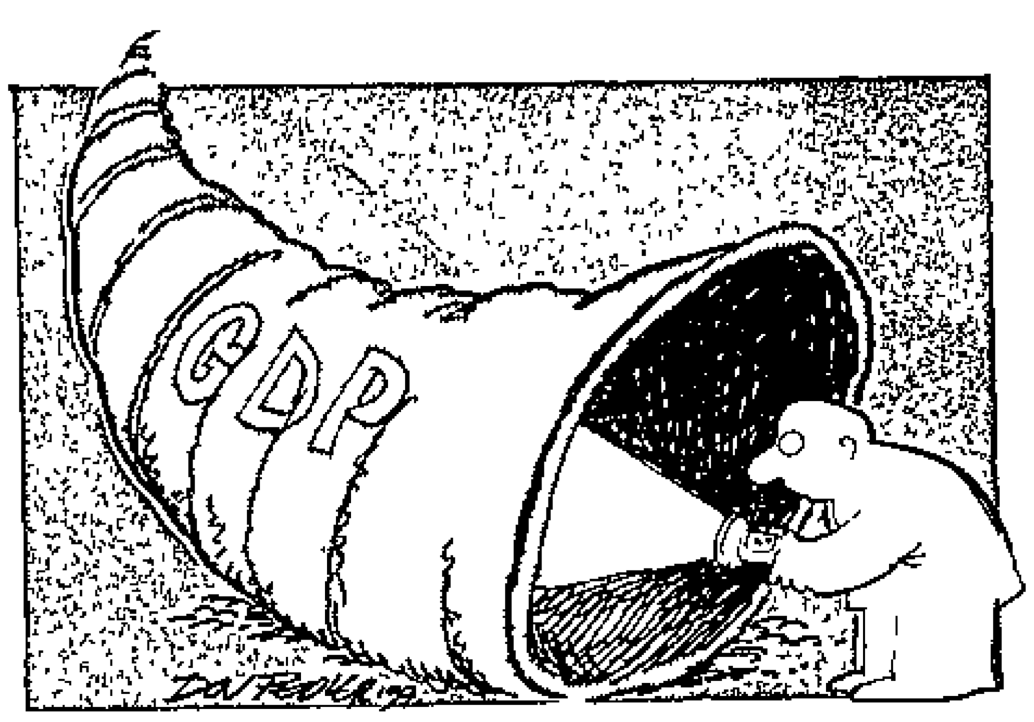
More corn in the copia

(49)

For the first time since 1989 the economy expanded in 1993. Figures published this week by Central Statistical Service show growth of 1,1% — and seasonally adjusted and annualised growth in the fourth quarter of 6,4%.

But a sectoral breakdown shows manufacturing performance was disappointing, with growth of only 0,3% in the fourth quarter after 4,8% in the third. As seasonal adjustment removes the holiday factor from the fourth-quarter figure this result is out of line with expectations.

SA Chamber of Business economist Keith Lockwood believes the statistics could be influenced by nonseasonal but one-off factors relating to political developments. For instance, the extent of manufacturing growth in the third quarter was due to the low base in the second, when output was seriously disrupted by events following the assassination of SACP secretary-general Chris Hani. The annualisation of quarter-on-quarter growth also exaggerated the



change.

"In this case," says Lockwood, "you get a better idea of growth by comparing GDP of the manufacturing sector in each quarter with that of the same quarter of the previous year. This shows that, in the first quarter, there was still shrinkage of 1% and in the second quarter of 1,5%. The third quarter saw the negative trend reversed with growth of 0,9% and in the fourth there was further growth of 1,6%." No seasonal adjustment is needed and there is no annualisation to distort quarterly figures.

Confirmation that this series is a more accurate reflection of events comes from Sacob's monthly surveys of manufacturing activity which show that new orders received "increased progressively in October-December," says Lockwood.

His explanation of the fourth-quarter deceleration in manufacturing growth is endorsed by CSS's Helene Coetzer. It can also be applied equally to certain other sectors which saw growth subsiding after a third-quarter surge.

The contribution of agriculture to overall GDP was still impressive, though the rate of growth in this sector was lower than in previous quarters because it was off a healthier base. The 87,6% fourth-quarter rise came after 181% in the third quarter and 236% in the second.

These are quarterly changes, seasonally adjusted and annualised — as are all other quarterly changes discussed below.

Due to the subdued growth in manufacturing, non-agricultural growth was slow At 1,9% in the fourth quarter it was lower than the 2,4% experienced in the third

However, an encouraging aspect of the latest figures is that every sector of the economy experienced growth in the fourth quarter:

- Mining 2,5% (following -0,5% in the third);
- Electricity 5,2%, (6,8%);
- Construction 0,6%, (0,2%);
- Trade & catering 2,4% (3,1%);
- Transport & communication 9,2% (5,5%) — the first beneficiary of agriculture's multiplier effect; and
- Finance & real estate 0,3% (0,3%).

Overall, the outlook is encouraging — though GDP in 1993 was still 1% below the level of value added in 1991 and nearly 2% below that of 1989. There is a lot of lost ground to be recovered but there have now been four quarters of growth, and three of strong growth.

Many of the artificial contraints on the economy have been removed as structural changes have gradually been introduced in the economy and political progress has been made. The major obstacle remains the weakness of reserves. Hopefully, an orderly general election and sensitivity to the perceptions of foreign investors will resolve this problem. ■

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ANC ECONOMIC POLICY

The swing factor

ANC president Nelson Mandela told the Cape Town conference of the International Press Institute this week that his party wanted "to create a climate conducive to foreign investment through stable, consistent and predictable policies." (49)

But consistency is precisely what has been lacking in ANC policy statements:

☐ On December 12, in an article in *Business Day*, ANC mineral & energy policy co-ordinator Paul Jourdan said the vast majority of South Africans has been "forcibly excluded" from ownership of mineral rights and mining. Therefore ownership of mineral rights must be returned to the people;

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☐ On January 14, while opening the ANC Youth League Congress, Mandela repudiated the clear implications of Jourdan's statements. According to *The Star* of that date, he referred to Jourdan's mineral rights proposal as "an unfortunate statement," adding that the ANC had turned its back on nationalisation; (49)

☐ On February 2 (reported in *The Star* of February 3) Jourdan said the ANC had no policy of expropriating or nationalising mineral rights or mining companies and had no plans to establish a State-run minerals marketing bureau;

☐ However, on February 13, he told a conference on mining that mineral rights would become a national asset; and

☐ On February 9, Mandela told the national congress of the National Union of Mineworkers, according to *The Star* of February 10, that an ANC government would wrest mineral rights from mining houses and place them in the hands of the State. He added, as an aside, that the mining industry and the present government had engaged in a conspiracy to deprive the people of those rights.

Personal credibility

In the real post-Soviet world in which the ANC will have to operate, these statements cumulatively destroy Mandela's personal credibility and maximise the fears of local and overseas investors.

Is Mandela simply naive and inexperienced? Or is his hold on his party and the alliance so shaky that it has to be bolstered periodically by militant old-time socialist rhetoric which must then be repudiated in other forums?

Either explanation is terrifying.

Harm already done, in terms of capital leaving the country or failing to arrive, is immeasurable. One indication comes in relative movements in the price of gold and Krugerrands. In the first half of February, the dollar/gold price showed no real direction, but the local price of circulated Krugerrands rose 14% to R1 600. One explanation is that the demand for coins is due to their portability.

Evidence that ANC policy statements are affecting investment in SA also comes from a comparison of Toronto and JSE gold share prices. Since its mid-January peak, the politics-free Toronto gold and silver share index fell by 1 312 points, 11%, while the JSE gold index fell by 582 points, or 17%. The differential is probably due to political influences in SA.

And on the day Mandela addressed the National Union of Mineworkers, the Reserve Bank had to step in to keep the financial rand falling below US$/FinR4,60.

The reference to a conspiracy between the present government and business shows confusion about changes to mining law, including the basis of taxation of gold mines. These have nothing to do with mineral rights which continue under their previous ownership, whether private or the State's.

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Anglo American tax consultant Marius van Blerck explains that mining law included a concept known as "the right to mine," introduced by Kruger's SA Republic, at a time when income tax was low. It enabled the State to charge mining companies a lease payment on a sliding formula basis in exchange for conceding this right. The right to mine never had anything to do with title to mineral rights and was abolished by the end of 1993

Now all gold mines are subject only to the formula income tax rate specifically set out in the Income Tax Act.

Van Blerck observes that it is not only ANC politicians who have been guilty of misrepresenting the significance of this change for party purposes. Arguably, Kruger's primary motivation was the same as that of the ANC — ownership vested in groups not perceived as being part of "the people."

In this unhappy context, there seems no end to the "solutions" provided by socialists or even Marxists within the ANC alliance who would like to redress what they perceive to be unfair, by expropriation. Jourdan's latest reported suggestion — that a tax should be imposed on unexploited mineral rights in lieu of their surrender to the State — falls into this category.

In the Seventies, a pale pink British version of this philosophy was aptly labelled the politics of envy. The one goal that either pale pink or blood red version guarantees is the gratification of revenge taken. (Perhaps too positions of power and luxury for the new ministerial class.)

The broad toiling masses so often invoked by radical rhetoric would be far better served by rapid growth under a free enterprise system — Hong Kong rather than Moscow any day.

The ANC's latest election advertisement calling for jobs, jobs and still more jobs must be seen in this context. Is this vital objective to be achieved by mauling the only plausible providers of substantial numbers of new jobs — the private sector.

This is sure to continue until April's general election. ■

GOVERNMENT FINANCE

Countdown

FM 18/2/94

It looks likely that government's current revenue predictions of R88,2bn, for fiscal 1993/1994, will be met. (49)

Figures for Exchequer receipts over the 10 months to the end of January show R72bn raised by Inland Revenue and Customs & Excise, R1,5bn less than the *pro rata* target figure. This leaves R16,2bn (or R8,1bn a month) to be raised in February and March.

The estimate for C&E will most probably be met or exceeded, based on returns so far. Though the January returns put C&E income as slightly behind the budgeted forecast on a pro rata basis — R9,1bn against R9,8bn — this is because of large payments made in the month to neighbouring states under the Customs Union agreements.

If the gross figures (excluding such payments) to the end of December are extrapolated over the rest of the year, and the projected payments to the Customs Union payments are then substracted, the net amount projected for the year is R11,9bn — against a budgeted R11,8bn.

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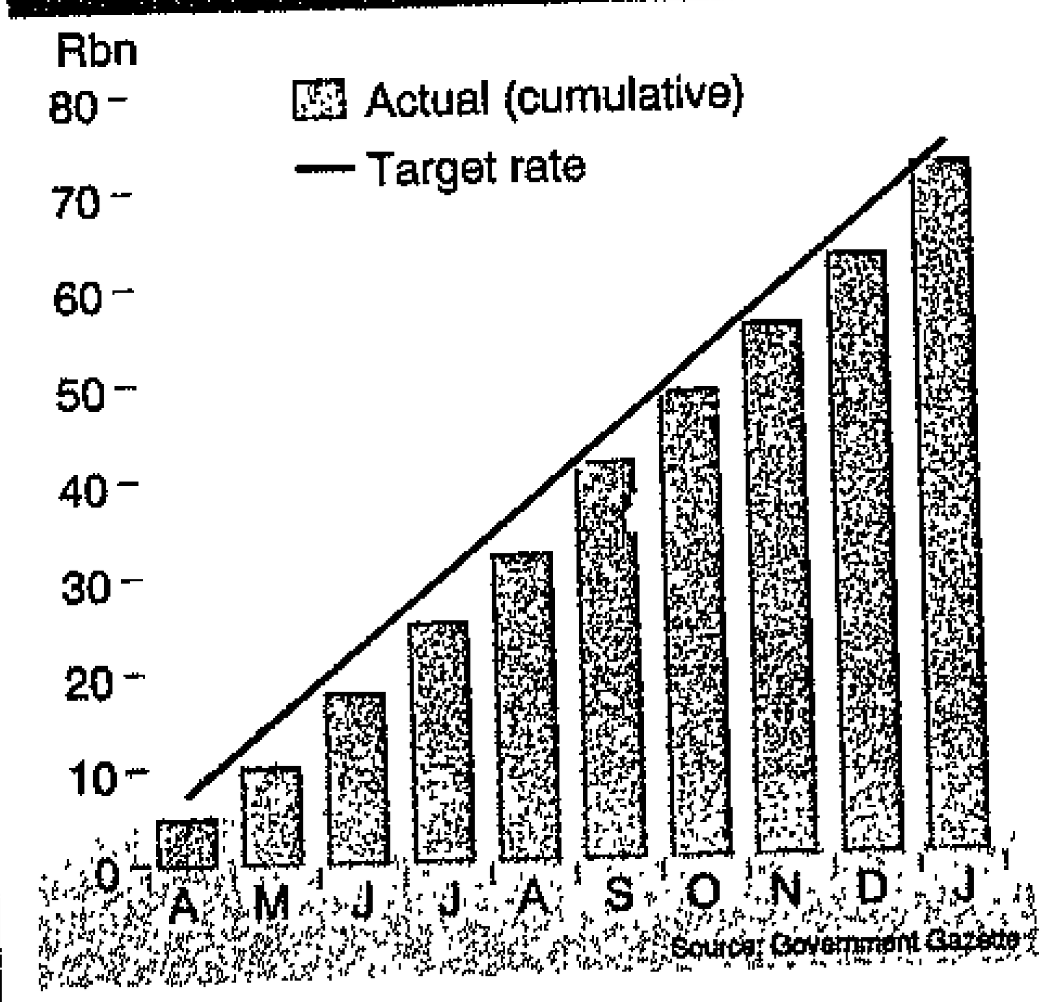
Government revenue 1993-94: actual vs target



This means Inland Revenue must raise R76,3bn, or R13,4bn over the last two months (R6,7bn a month). This is feasible, as revenues from this source have averaged R6,3bn a month so far, and R8,3bn was raised in January. (49)

A Finance Department spokesman says improved Vat takings should in any case make up a shortfall in income tax. Over the first nine months of the fiscal year, Vat brought in 44,4% more than over the similar period in 1992-1993 (budgeted: 43,1%), while income tax brought in 6,9% more (11,7%).

However, Nedbank chief economist Edward Osborn says income tax revenues are budgeted at twice the level of Vat revenues. "And February is traditionally a lean month for revenue."

With revenue likely to be close to target, much will depend on spending if the Budget deficit of R25,3bn is to be met. Osborn says the unforeseen net increase in expenditure of R451m announced in the Adjustment Budget was expected by the Minister of State Expenditure to be covered by a runover in ordinary revenue.

"In addition, the Adjustment Budget provided for an extra R1,8bn for provincial expenditures. These were not brought into

Higher growth, lower inflation predicted

Keys sees better things to come

Star 18|2|94

(49)

BY SVEN LUNSCHE

Finance Minister Derek Keys yesterday predicted gross domestic product (GDP) growth of three to four percent this year and an inflation rate of around six percent by April.

With his views clearly set on the election, Keys announced that he will be presenting full revenue and expenditure figures for the current financial year, which he expects to be in line with budgeted targets.

Ahead of the formal Budget for fiscal 1994/5, which will be the first by the government of national unity, and should be ready in June or July, the NP will also present its own budgetary proposals for the year.

At a press conference Keys and Minister for Public Enterprises, Dawie de Villiers, delivered a scathing attack on the ANC's Reconstruction and Development Programme (RDP).

De Villiers descibed the RDP as a "wish list" and "a menu without prices", which would distort the economy.

In his economic analysis, Keys referred to statistics this week showing growth in GDP of 6,4 percent in the fourth quarter of last year.

"Even if this level of activity is just maintained, the economy will grow by 2,5 percent this year. But I think we are going to improve on that and are looking at growth of three to four percent, maybe more."

Derek Keys . . . fall in unit labour costs.

High growth would be coupled with low inflation, he said.

"Between April (when VAT was raised to 14 percent) and December inflation was running at an annualised 5,8 percent — this is the level we are looking at when VAT falls out of the equation in April this year," he said.

He attributed the low rate to low wage rises and higher productivity in both the private and public sectors.

"For the first time in years we registered a fall in unit labour costs last year," Keys said.

He said the flight of foreign capital, which amounted to over R15 billion last year, had abated, with foreign exchange reserves showing a slight improvement since the end of December.

"The reserves registered barely a ripple when we repaid R5 billion in foreign debt this Tuesday," he said, suggesting that the outflows were met by new capital inflows.

Taking a snipe at recent remarks by the ANC's Nelson Mandela, Keys said the Government's relationship with the economy was based on trust.

"We trust the mining industry, the banking sector and civil service; we cannot run an economy of this size by being suspicious of major players."

Keys said the RDP would have to be examined and refined by the National Economic Forum before he would consider responding to it in detail.

De Villiers, however, was more outspoken.

"The ANC clearly has not shed its socialist past. It is worrying that the RDP constantly refers to state intervention; it is full of promises of what the state can do, but extremely vague on how to finance these promised services," he said.

He said privatisation of state enterprises would be accelerated if the NP won the election.

Acceptance of post not automatic

BY SVEN LUNSCHE

Derek Keys says he will not automatically accept the post of Finance Minister, if it was offered to him by the future government of national unity.

He said yesterday his acceptance "would depend on the economic and financial framework in which I have to work.

"I do not want to be an ornament on anybody else's wall — I want to be able to make a serious contribution."

Keys added, though, that there was already a lot of common ground between him and economic officials in other parties, including the ANC.

Retention

The retention of Keys as Finance Minister and Chris Stals as Reserve Bank Governor is seen by the business sector as a key to the direction of economic policy.

If they are retained and granted a fair degree of independence by a government of national unity, they would certainly provide a counterweight to the more interventionist policies proposed by the ANC.

Foreign investors have voiced serious reservations about the experience and skill of senior ANC economic and finance officials.

"Retaining Keys and Stals would sent a clear signal to foreign investors that they would operate in a free market without undue interference from the state," an economist said yesterday.

'ANC ignores black input'

CIPress 20/2/94

(49)

'Development document still has to reach us'

ALMOST a month since the ANC's draft Reconstruction and Development Programme (RDP) was released, organised black business has not yet had a chance to peruse the document.

This is despite a three-day historic get-to-know-each-other bosberaad held at the Kruger National Park last November, where an agreement was reached between the ANC and black business to improve relations.

According to the agreement, called the Mopani Understanding, black business and the ANC should work together towards black economic empowerment.

Black businessmen had complained they felt rejected by the ANC and were left out when ANC president Nelson Mandela went on business trips overseas.

Black businessmen were also unhappy that they were not sitting on any technical committees at the multi-party talks at the World Trade Centre, although they were technically capable.

A spokesman for the ANC's economic planning desk, Lesley Dikeni, this week agreed that they did not send out copies of the RDP to either Nafcoc or Fabcos, since this was a public document and anyone with interest or any interested party was free to ask for it.

Joas Mogale of Fabcos was at a loss of words when asked to comment about the document.

"What can I say?" he asked.

"We have just been reading newspaper reports about this document and I do not think it is wise to comment about something we ourselves have not read.

"It is very strange that the ANC elected to neglect us when making this document public.

"How do they hope to begin reconstruction and development if we as organised black business are not consulted?

Big business

"We begin to believe that they are not worried about black people. We had thought it desirable to keep communication lines open between them and black business and this latest issue merely confirms our fears that the ANC are in league with big business, which, in this country, happens to be white," Mogale added.

Repeated attempts over two weeks to obtain comment about the document from Nafcoc also drew a blank. A spokesman at the Nafcoc headquarters in Soshanguve said they had not seen the document.

"We cannot comment on something we know so little about," he said.

The ANC's RDP had sent tongues wagging, with some calling it a "populist" document aimed at appeasing voters for the ANC.

Standard Bank's Nico Czypionka, for instance, branded the document as an "unrealistic shopping list which would blow the country's financial resources out of the water".

Similar sentiments were expressed by Anglo American deputy chairman Les Boyd, who stressed that it is important for the ANC to arrive at a clear and credible set of economic policies.

Writing in a Johannesburg daily newspaper, ANC parliamentary nominee Jay Naidoo defended the document by saying it provided a socio-economic policy framework which offered the only real hope for a better life for the masses of South Africans who had been robbed of their basic needs.

Naidoo said: "Our people have waged many battles and endured much pain and sacrifice in the struggle for democracy and the right to vote.

"But the struggle was not only about getting the vote – it was about jobs, houses, education, peace and stability."

He said the process of drafting the RDP had been an inclusive one, involving widespread consultation.

Report by A Mphaki of 2 Herb St, New Doornfontein, Johannesburg.

BUSINESS

SA gets middle order rating as a credit risk

Star 22/2/94

(49)

BY SVEN LUNSCHE

South Africa is not such a bad place to invest in after all.

A credit-risk rating of leading developing countries and economies in transition places SA in the same grouping as Mexico, Hungary and Greece.

The survey is produced by a sister company of The Economist magazine, the Economist Intelligence Unit, and rates a country according to its economic and political stability.

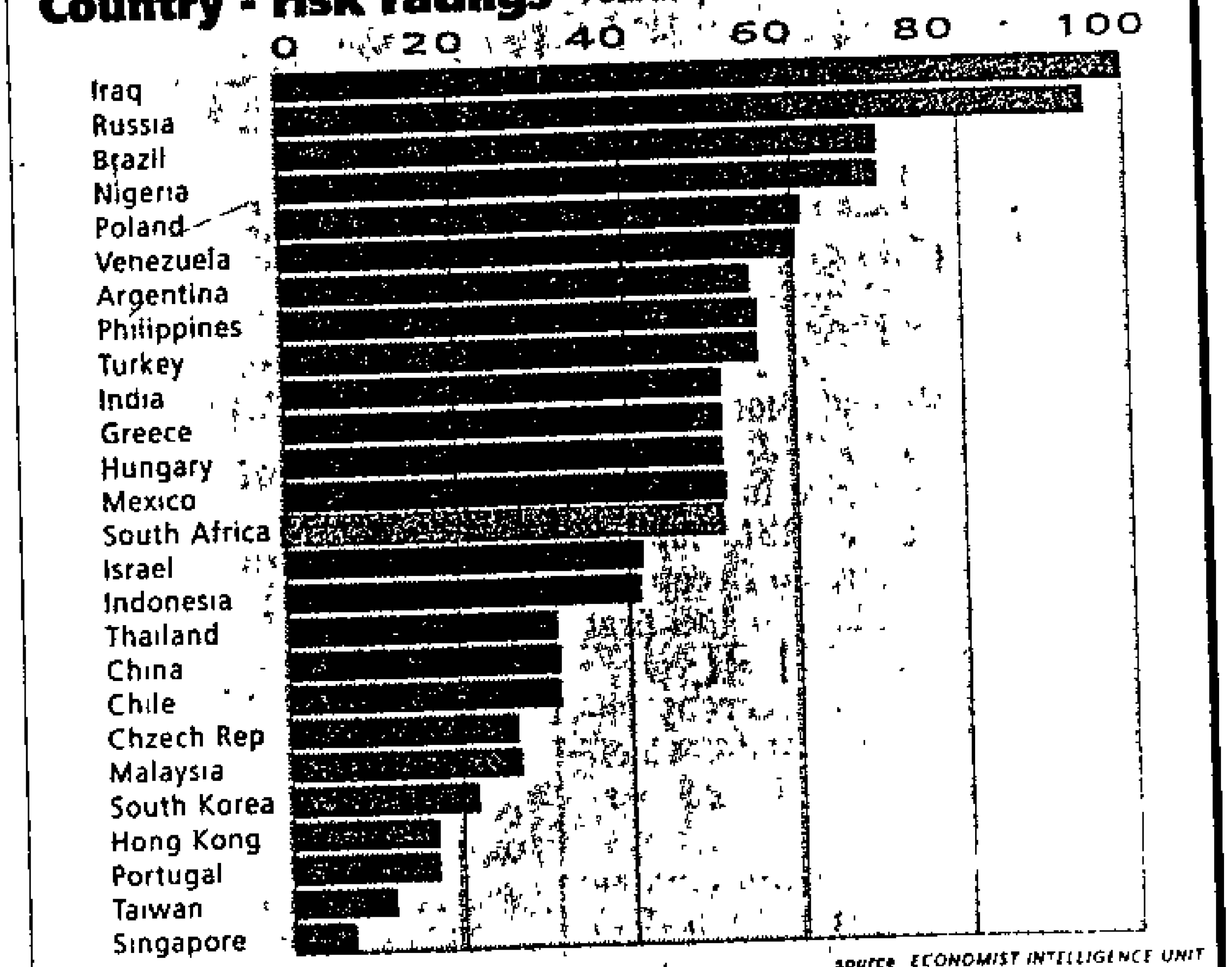
Iraq, with the maximum negative rating of 100, is the riskiest country in the chart, followed by Russia with 95 and Brazil and Nigeria with 70.

Even Argentina and Turkey, countries with strong economic growth performances over the past two years, are considered a greater risk than South Africa, which is in a group of four countries with a rating of 50.

However, most of the rapidly industrialising economies in the Far East, Israel, Chile, Portugal and the Czech Republic are safer and sounder countries to invest in.

Heading the list is Singapore.

Country - risk ratings Fourth quarter 1993, 100 = maximum risk



graphic ABEL MUSHI

source ECONOMIST INTELLIGENCE UNIT

ANC is against socialist economy

Sowetan 24/2/94

By Mzimkulu Malunga

■ **ECONOMIC PLANS** Business must come up with suggestions:

THE African National Congress and its allies are not for a command economy.

Addressing a group of German business people this week, Cosatu's general secretary Mr Sam Shilowa said the criticism levelled on the Reconstruction Development Programme was not entirely justified.

"Some people call the RDP a pie in the sky, but I promise you today that before the end of March we will have come up with the costing of all pledges we are making in the RDP," he said.

Shilowa challenged business to get actively involved in the economic debate instead of criticising what other people have put on the table from the touchlines.

"The Government came with the Normative Economic Model which we as Cosatu did not think it could address the aspirations of our people, but at least they have something on the table, the same applies to the RDP."

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Concrete proposals

He said business had to go beyond its given commitment to free market economics and come up with concrete proposals which could be weighed up against other documents like the RDP.

While the ANC-Cosatu alliance was committed to private sector participation, there were other areas which required state intervention, such as the development of rural areas and infrastructure provision in black areas.

Shilowa urged business to part take in the attempts aimed at dissuading those who were beating war drums in the run-up to elections.

"Any attempt to postpone or deny our people the right to vote on the basis of technicalities will be catastrophic," he argued.

NEF changes its ways to improve efficiency

B|Day 25|2|94 (49)

GRETA STEYN

THE National Economic Forum is to restructure to ensure greater efficiency after a period of mixed success in arriving at decisions and implementing them.

The NEF said at its plenary meeting in Johannesburg yesterday it would divide its activities into two working groups — one for macroeconomic policy, and one for trade and industry. The NEF hoped to assist the new government with a national economic strategy for reconstruction and development in a context of high and sustainable growth.

The new framework replaces the old distinction between a short- and long-term working group.

The long-term working group met with little success, except in finalising the GATT offer. On savings, "progress has been slow as a result of differences in overall policy approaches", the NEF said. Consensus had also not been possible in the subcommittee dealing with fiscal deficits and the debt trap.

The short-term working group met with more success, but there had been difficulties in implementing some decisions and a lack of consensus in certain areas. The agreement on co-ordination of bargaining had made "limited progress". In some industries, such as chemicals, employers had questioned the relevance of an industry-level forum, saying the industry was diverse and covered too many sectors.

There was also a lack of consensus on certain aspects of plans for targeted assistance programmes for declining industries and affected communities. Disagreement centred on legislation to govern assistance programmes.

The job creation programme was also not easy to implement, but valuable lessons had been learnt. Issues that had been debated included labour standards and community participation.

The NEF said its areas of weakness included capacity constraints, the need to pay more attention to transparency, involvement of rural communities, and gender issues. The need for the NEF to intervene in "crisis areas" had sometimes diverted its focus from its core work programme.

The NEF said some agreements announced at the last plenary had not been taken forward at all. In other cases, agreements reached had not been developed clearly enough

High growth rate vital, warns Keys

CT 25/2/94 (49)

JOHANNESBURG — South Africa needed above-average economic growth, Minister of Finance Derek Keys told the second plenary session of the National Economic Forum at Nasrec, south-west of Johannesburg, yesterday.

Keys told delegates representing labour and business the distinction between growth and reconstruction had become obsolete

"We are up against a situation where we will be in collective trouble if we can't organise for an above-average growth. We will run into an impasse with all the dire consequences associated with that"

He said any reconstruction programme had to be integrated with government spending departments The cost of such a programme had to be carefully evaluated

He urged the forum not to become bogged down with too many specific issues and to concentrate instead on the bigger picture

Congress of South African Trade Unions general secretary Sam Shilowa said reconstruction provided a key challenge to the labour movement

"The elections on 27 April is not primarily about getting new faces into Parliament It's about changing the condition of life of millions of South Africans," Shilowa said.

It was important the forum find a way to support the efforts of reconstruction and development.

Elements of a restructured economy included an industrial strategy that created jobs, public sector restructuring, the consolidation of socio-economic forums and shopfloor involvement in the process

(Report by P Bulger, 141 Commissioner Street, Johannesburg)

Economic recovery needs viable cities

(49) ARG 26/2/94

Municipal Reporter

A WORLD Bank report on metropolitan finance said national economic recovery would be impossible without properly functioning cities.

Rates increases and new local taxes could be introduced to combat shoddy standards of services in poor black areas and local authorities could be given access to capital markets to help them fund the upliftment of black areas.

The legacy of apartheid was that white areas had strong fiscal bases and were well-managed, while black areas had little infrastructure, the report said.

In black communities there were backlogs in terms of water supply, electricity, sanitation, drainage, roads and solid waste disposal. Financing the backlog would mean "significant fiscal shock" on revenue and spending of cities.

"The size of the shock is too large for the local fiscal base to sustain in a short period and will need to be phased in over several years."

Using Regional Services Council levies at present rates could spare ratepayers from property rates increases, the report said.

It warned that any direct borrowing by cities would have to be regulated.

Poverty, poorly defined property rights and problems of enforcement would make it difficult to collect property rates and user charges, the bank said.

"Second-best fiscal instruments could be used to generate revenues from black communities". These included a cut of value-added tax and payroll taxes.

Cities might not be able to absorb a rapid increase in new responsibilities and simultaneously finance service backlogs. If fiscal decentralisation were to occur, the best options for local government would be:

- A system of surcharges on personal income tax;
- An assortment of excise and motor vehicle taxes.

The report said care should be taken to ensure metropolitan areas remained economic growth centres and urged a strong investment in education. "Without this, the possibility of a permanent underclass in South African cities looms large."

... power of provincial parliaments

"Given provincial governments will be competing for revenue, they may want to take over sources of revenue traditionally used by metropolitan councils."

In some cases, metropolitan areas could be richer than provinces.

A provision in the interim constitution, that all local government finance would have to be channelled through provincial parliaments, should be reviewed, Mr Botha said.

It was not necessary that all services should be provided by the same authority.

"There may be different arrangements which do not correspond with political boundaries."

Economy 'slowing before election'

CT 26/2/94 (49)

By AUDREY D'ANGELO
Business Editor

ATTEMPTS to "talk the economy up" can have an important psychological effect — but there are signs of a slackening off in spending ahead of the election and unemployment is likely to rise this year, Raymond Parsons, director general of the SA Chamber of Business (Sacob), warned yesterday.

Opening the Cape Show at Goodwood, Parsons said there had been a steady flow of good economic news over the past six months, creating the prospect of an economic growth rate of 2,5% this year.

This had its origin in the cyclical end to the five-year-old recession, a better world economy, the firmer gold price, monetary and fiscal discipline, the progress in earlier political negotiations and the ending of the drought — bringing better agricultural prospects.

The SA economy had expanded by 1,2% in 1993 and 75% of this could be accounted for by the recovery in the agricultural sector.

It was essential that the basis for the recovery extended to other sectors of the economy. On present economic and political evidence it was unlikely that a growth rate much above 2,5% could be achieved this year.

"I have no objection to anyone trying to jawbone or talk the economy up — it is an important psychological element. But as a responsible commentator on the economic scene I must be more conservative in my forecasts.

"One cautionary factor at present is evidence of pre-election slackening in many categories of retail sales as political uncertainty leads consumers to delay spending decisions.

"This excludes those sectors benefiting from spending directly linked to the election campaign such as advertising, printing, tourism.

"Of course we can do better than 2,5% next year", Parsons continued. "And we want a sustained economic recovery over the next few years.

"This is within our grasp if we play our economic and political cards right. This includes the ability of regions to have a greater say in their own economic development and to exploit their competitive advantages.

"I congratulate the Western Cape region on the development initiatives they have already taken in the past few years.

"It is nonetheless a sobering thought that, in spite of the first positive growth in four years being experienced in 1993/94, the levels of unemployment in SA are likely to continue to rise because the expansion in the economy and in job opportunities will not be sufficient to offset the additional influx of jobseekers into the labour market.

"We will need, on a sustained basis, to achieve economic growth of around 5% per annum between now and the year 2000 if we are to make meaningful inroads into the present levels of unemployment, which is estimated to be 30% of the economically active population."

If investor confidence lagged too far behind business confidence "we will experience a ceiling on our growth rate."

Parsons continued: "We must note, as we move towards the post-election phase, the ascendancy of economic performance in international affairs. As old ideological and military conflicts decline, competition for markets, investment and technological supremacy have moved to the centre of the stage.

"SA has great economic potential but it ignores the new global realities at its peril."

Post-election growth at 4%, say economists

CT 2/3/94 (49)

By AUDREY D'ANGELO
Business Editor

SA can look forward to "sustained economic growth rates of 4% or more for several years" once the election period is over, Board of Executors (BOE) economist and senior portfolio manager Rob Lee says in his March Investment Outlook.

And Ed Hern, Rudolph economist Nick Barnardt says in his quarterly macro-economic checklist that although the upswing could hesitate in the pre-election phase it "should accelerate thereafter, with particular strength in 1995."

Barnardt warns that the first half of this year "could be quite stagnant". But he expects accelerating expansion in the second half if the election is successful, with 3,5% growth in 1994 and 4% in 1995.

He expects the buying power of the consumer to improve at an accelerating rate with real wages rising by an average of 2%. "Higher equity values, and later higher property values will boost spending power further."

As a result of this Barnardt expects real personal consumption expenditure (PCE) to grow by 2,5% this year and 4% next year. Spending on durables such as cars, furniture and appliances is likely to rise by 6% this year.

But he expects the wholesale sector to benefit more than the formal retail sector "from the income redistribution process."

He predicts that gross domestic fixed investment will accelerate from the second half of this year if the election goes well.

He forecasts that export volumes will rise at the rate of about 5% a year for the next three years.

He expects import volumes to grow at 6% this year, 10% in 1995 and 15% in 1996.

As a result of this he expects the trade surplus this year to be R18bn but to fall to R15,5bn next year and R12bn in 1996.

Rob Lee comments that it is difficult to keep a sense of perspective during the violence and threats of the election campaign. But the economy "stands on the verge of a period of sustained economic growth the like of which we have not experienced for many years."

Listing reasons for this, he points out that:

- The economically damaging consequences of apartheid are in the process of being reversed.
- The worst drought this century is over and "according to a well documented weather pattern SA can now look forward to 10 years of good rains."
- There are good grounds for believing that the downward cycle in commodity prices is over and the next few years will bring a rising trend.
- Monetary and fiscal policies have been designed to promote sustainable long-term growth. "There are strong indications from ANC policy documents and public statements that the emphasis on sustainability will be maintained."

Africa's economic 'engine' has potential to race ahead

(41) ARG 5/3/94

GARNER THOMSON
Weekend Argus Foreign Service

LONDON. — Britain's influential Economist magazine has painted a glowing picture of the future that could be South Africa's — if the new government decides to become the leader in Africa, rather than a follower.

It says in a leading article: "If black-run South Africa could get right what most of Africa has got so wrong, then more than its own black heads could be raised with pride."

The Economist lists as the country's positive assets its powerful economy — "a powerful engine for the rest of the continent" — sophisticated legal and financial systems, a "decent if flabby" industrial base, plenty of graduates, good roads and reliable telephone and electricity services.

"Some political omens are good, too," it adds. "In Nelson Mandela, South Africa will have a president of enormous integrity and stature His party, the ANC, has discarded much of its faith in state intervention. The ANC and the National Party, black and white, have worked to deliver black liberation through "negotiated revolution", not bloody war.

"Though the violence still horrifies — the murder rate is 10 times that in America — many black South Africans display a remarkable lack of bitterness toward whites."

The Economist is also cautiously optimistic that, after all, Chief Mangosuthu Buthelezi might involve himself in the electoral process.

However, South Africa still faces an awesome task, the article continues.

Major problems include the gap between rich and poor, the weight of black hopes for an instant share of white riches and fierce hostility dividing the supporters of the ANC and Inkatha.

It is reasonable to expect white taxpayers to foot some of the bill for undoing apartheid, but the Economist cautions against provoking white fears. "Black South Africa cannot afford to scare more skilled whites abroad or overantagonise its Afrikaaner tribe with nowhere to flee to."

Above all, the ANC should recognise that the best means of raising revenue for its ambitious public works programmes is healthy economic growth.

"To achieve this, Mr Mandela needs an open economy which neither suffocates entrepreneurs nor scares off investors

"This will mean resisting a minimum wage (for which the unions will push), phasing out exchange controls (which will take courage) and not dictating to fund managers where to invest."

The magazine concludes: "For all Mr Mandela's talent, managing the new South Africa will be hard. Yet, the hopes of millions of Africans beyond South Africa's borders rest on his getting it right."

Govt departments spent 'unauthorised' R155m — auditor-general

BIDay 8/3/94

MUNGO SOGGOT

GOVERNMENT departments spent R155m in unauthorised transactions between 1992 and 1993, while the controversial Special Defence Account — audited for the first time — displayed "material deficiencies" in accounting for its R474m budget, Auditor-General Henri Kluever reported yesterday.

The 1992/93 report also catalogued a list of other woes plaguing government finances, including the inability to manage state debt, poor regulation of public entity funding, and deficiencies in the financial accountability of the homelands.

Kluever said the Special Defence Accounts and other "sensitive projects" showed that transactions fell short of "required standards".

The details of the projects were still secret, but Kluever said it was not cost-effective even to audit one R92m scheme — Project A — which had been financed by the Special Defence Account. Furthermore "it was not possible to ensure that all material transactions subsequently satisfied financial requirements."

Even if it were possible to upgrade standards, "all records would still not meet the requirements of regularity."

Another covert project — the R47m Project B — could not be audited "owing to certain investigations into alleged irregularities and losses". The Security Services Special Account showed a loss of R226 408, with another R13 390 frittered away on "fruitless expenditure".

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The bulk of unauthorised government expenditure was attributed to the Public Works Department which spent an unauthorised R154,6m. "This related to property rates paid on properties in the so-called black towns which were not registered in the name of the State."

State Expenditure Minister Amie Venter said: "Unauthorised expenditure is not money wasted, misused or stolen. In most cases it is expenditure which is technically not in accordance with regulations."

Other government departments which contributed to the total unauthorised expenditure were the Defence Force with R361 766, and the National Health and Population Department which spent R97 577.

The report described a continuing deterioration in financial control and administration in the homelands. Kluever said: "I was consistently unable to express an unqualified opinion on the accounts of the self-governing territories, while in certain cases it was even necessary to withold an opinion."

Government spent R9,6bn on the self-governing territories, compared with R7,7bn the previous year, and the report said: "Loan and bankdraft overdraft facilities amounting to R459m on March 31 have

☐ To Page 2

Auditor-general

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also been guaranteed by the state."

A performance audit of Phase VI of the Motor Vehicle Scheme — an export incentive scheme — showed that adequate measures to ensure the repatriation of earnings did not exist. "For example earnings of a certain manufacturer did not flow back into SA. Of R389m ceded, only R10m was repatriated."

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Total state debt could not be efficiently and effectively managed because of the exclusion of certain obligations in defining government debt and the consequent fragmentation of control.

Sapa reports that certain obligations and deferred liabilities not included in the definition of state debt amounted to R36,6bn on March 31 1992.

In addition, there were deficiencies in the existing co-ordinating structures, within and outside of the Finance Department.

Cash flow was also not managed in such a way to limit the cost of financing and unexpended funds were not always timeously surrendered by departments.

About R12m in financing costs could have been saved between February 1990 and March 1992 if unclaimed Defence Bonus Bonds had been appropriately taken into account in financing needs.

The fluctuation between state revenue and expenditure was not managed by means of proper cash flow planning, and as a result a higher balance than was required for fiscal purposes was carried on the paymaster-general's and exchequer's accounts. From April 1992 to January 1993 the average daily balance on these accounts was R9bn, on which no direct income was earned, while financing costs were R1,2bn.

The auditor-general also said the state would be unable to recover R31,2m invested in its mid-1980s anti-sanctions campaign. Government had failed to take prudent steps in spending the money.

"Even given the circumstances, reasonable precautions were not taken by the department or persons appointed by the department to fiduciary positions, to ensure that the interests of the State were protected," the report said.

In addition, the recovery of R1,6m relating to Project Enigma, an effort by government to acquire a shareholding in a foreign publication through front and holding companies, was being pursued. However, the auditor-general was "of the opinion that all reasonable precautions were not taken and control measures were not instituted throughout".

On the performance audit, Kluever said transfer payments to public entities by government departments were not managed satisfactorily.

Transfer payments to public entities were mostly paid out in 12 equal instalments regardless of whether this was in line with the expenditure of the funds. Some public entities were paid out the same amounts on an ongoing annual basis indicating that needs were not re-evaluated to adapt to changing circumstances.

Kluever also found continuing widespread mismanagement in the Department of Education and Training. In one instance, textbooks had been bought in 1991 for schools which would be build only in the 1993-94 financial year.

Best prospects for SA 'since '70s gold boom'

CT 9/3/94 Business Editor (49)

THE prospects for SA during the rest of the 1990's "are the best since the gold boom of the '70's," Old Mutual economist Rian Le Roux said yesterday

He told insurance brokers at a seminar at the Baxter Theatre that he expected sustained growth for the rest of the decade.

And Denzil Burger, Old Mutual GM (investments) said people who were adopting a 'wait and see' attitude now might later regret lost opportunities.

Old Mutual still believed that investment in equities would give the best longterm return, but selection of the right sectors and companies was vital. "Those which are not able to adapt to changing circumstances are not going to do as well as the winning companies."

In an upbeat forecast Le Roux pointed out that interest rates had declined by 6% from their peak in 1991, because inflation had come down.

He thought interest rates would come down by another 2% before starting to move up again in 1995 as the upswing strengthened demand.

He did not think inflation would go down to 5% and stay there. But he expected it to remain in its present range.

It was unlikely that the new government would adopt populist economic policies leading to hyperinflation. And, with the ending of SA's isolation, it was subject to influence from organisations such as the IMF.

The new government would inherit a big budget deficit and a narrow tax base, which would make it hard to embark on a spending spree.

Le Roux thought it would follow a pragmatic economic policy. But there would be major structural changes leading to more stable, sustained growth with strong emphasis on development.

Pragmatic economic policies seen in new SA

ALIDE DASNOIS (49)
Business Staff ARG 9/3/94

A new government was likely to follow "pragmatic" economic policies, Old Mutual economist Riaan Le Roux said.

Speaking at a presentation in Cape Town yesterday, he said the country's economic prospects were better than at any time since the gold boom of the 1970s.

The Old Mutual team was forecasting growth of 3 percent a year from the second half of the 1990s.

The new government, said Mr Le Roux, was unlikely to give in to the temptation of "macro-economic populism" which had led some Latin American countries into short-lived booms followed by hyperinflation.

Both internal and external constraints would limit the government's tendency to overspend.

Low reserves, a limited tax base and a heavy budget deficit meant the future rulers of the country would not have "an inherited ability to spend", Mr Le Roux said.

Though South Africa was still a "small, open, commodity-based economy" with a poorly trained labour force and "the wrong address" in southern Africa, there were many positive factors for economic growth. These included:

- A strong, "battle-hardened" private sector, unlike other emerging countries, like for instance in Eastern Europe;
- A solid infrastructure,
- The end of isolation; and
- Huge development needs which would spur growth.

The strengthening of trade links with fast-growing countries would offset the effects of feeble growth in South Africa's main trading partners.

Last year exports to South East Asia had risen 16 percent while exports to Europe were only up 0,5 percent.

The country had a strong, "battle-hardened" private sector and a solid infrastructure.

Mr Le Roux said prospects for stable sustained growth — in contrast to the "boom-bust" rhythm of the past — were good.

"As any economist will tell you, stable growth of 3 percent a year is much better than 6 percent one year and minus 3 percent the next."

He said inflation would probably be kept to "acceptable" levels over the next 10 years, though not as low as the 5 percent of the country's major trading partners.

ANC plan sets the ball rolling in an essential debate

BDay 10/3/94

BOBBY GODSELL

THE ANC alliance's reconstruction and development programme (this article is based on the sixth draft) contains much that must be welcomed. Its very production is a positive step. Few political movements participating in the elections can have put on the table so comprehensive and detailed a document.

Second, the spirit in which the document is offered is encouraging. The document's introduction notes that this draft is the result of consultation and joint policy formation with the ANC-led alliance. It notes further that "other key sectors of our society such as the business community must be consulted and encouraged to participate as fully as they may choose". I am confident business is ready to participate both fully and constructively.

Third, the programme seeks an integrated approach to responding to the country's political, social and economic needs. This is imperative. In SA, perhaps more than in many other countries, political, social and economic constraints and considerations inform, even determine, each other. We will not achieve economic growth without political stability. Political stability is not possible without growth.

In this regard, the document's assertion that growth and development are not necesarily antagonistic is important. Social investment can promote growth which, ultimately, is the engine of poverty relief.

A fourth welcome aspect of this document is the pragmatism it displays in many areas. This is well illustrated by its treatment of the role of a new democratic government in the economy: the paragraph concerned is worth quoting in full.

"The balance of evidence will guide the decision for or against various economic policy measures. Such flexibility means assessing the balance of evidence in restructuring the public sector to carry out national goals. The democratic government must therefore consider:

☐ Increasing the public sector in strategic areas through, for example, nationalisation, purchasing a shareholding in companies, establishing new public corporations or joint ventures with the private sector; and

☐ Reducing the public sector in certain areas in ways that will enhance efficiency, advance affirmative action and empower the historically disadvantaged, while ensuring the protection of both consumers and the rights and employment of workers."

The critical phrase here is "the balance of evidence".

Does the programme promise too much? The document notes: "It is no use merely making a long list of promises that pretend to answer every need expressed. Making promises is easy especially during election campaigns — but carrying them out as a government is much more difficult."

How well does the programme heed this advice? The goals the document sets are formidable. For example: "The programme must aim to redistribute 30% of the agricultural land within the first five years... To this should be added an estimated 200 000 new households each year;

☐ At minimum, 1-million low-cost houses should be constructed over five years.... As a minimum, all housing must provide protection from weather, a durable structure, and reasonable living space and privacy. A house must include sanitary facilities, storm water drainage, household energy supply (whether linked to grid electricity supply or derived from other forms of energy generation such as solar energy) and convenient access to clean water. Moreover, it must provide for secure tenure in a variety of forms."

Should one also provide for six hours' sunshine a day?

The programme also sets ambitious goals regarding water supply, electrification, public transport, health care and education.

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There can be no argument with the programme's broad goals. It is necessary to set targets if real progress (or indeed the lack threof) is to be measured. And, as Rick Turner reminded us in The Eye of the Needle, utopian thinking is needed to transcend the sort of history SA seeks to escape. Yet unrealisable goals exact a price. They induce cynicism. They can distort real judgment.

In all these areas of social endeavour, the test for a new government is to make progress, and not of a trivial or magnificent kind. The critical issue is whether it is significantly better today than it was yesterday.

Some of the targets set do not suggest that there has been a serious examination of the achievable. Can the promise be funded? Are there constraints beyond money? Does the target make sense? Is a 10% reduction in road accidents realistic?

Significant progress in the economy and in society will occur if, as a nation, we design good policies and implement them effectively. This will require a partnership between government and civil society — precisely as the programme seeks.

Good policy well implemented requires correct problem identification; a realistic assessment of alternative responses; and a clear understanding of who needs to do what. In this regard, few major problems will be solved without government doing something. Equally few will be solved by government alone. Equally needed are effective implementation, monitoring and maintenance. Let us illustrate these concepts more concretely in an attempt to begin to delineate the debate.

In transport, the goal must surely be cost-effective services that supply the service the commuter needs, when the commuter needs it. It is surely premature and pre-emptive to decide that this goal can be met only by a public-owned passenger transport system. Surely the minibus taxi industry came into being, and has achieved something like a 70% market share, because it could do what heavily subsidised public transport could not.

In health care, it may be that enough money is already being spent, but is being spent wastefully. However, the disease in our health care services may lie deeper. Publicly managed health care systems such as in Sweden and Canada, privately managed systems such as in the US, and mixed systems as in Britain and Germany, are all in crisis. The division of labour between doctors and nurses; the cost of new drugs, tests and medical procedures; and, perversely, the very success of modern medicine in extending life, as well as lifestyle-related illness, may all play a role.

On mineral policy, the programme argues that a changed pattern of mineral rights ownership, and of mineral marketing, will enhance earnings and promote beneficiation. However, increased production could well depress prices and earnings. Minerals in the ground do not constitute wealth for anyone. They become wealth only when turned into products that can be sold for more than the real cost of production. This, in turn, requires the mobilisation of substantial capital and the application of skilled extraction. Without capital and skill, nothing can be achieved. Crucial to the effective mobilisation of both is certainty regarding both rights and risks.

The ANC has spoken a valuable first word in the reconstruction and development programme. The challenge is for other areas of civil society to complete the dialogue.

We must not wait to do this. The sooner the dialogue produces a clear delineation of the problems, a realistic understanding of alternative solutions, and a collective will to act to resolve the issues, the sooner we will arm a democratic government to play its leadership role properly.

☐ This is an edited version of an article by Anglo American director Godsell in the SA Labour Bulletin.

Revenue falls R7bn short of govt spending

Business Staff 49

JOHANNESBURG. — SA's exchequer account saw revenue collection fall R7bn short of spending in February, the 11th month of the fiscal year, the Central Statistical Service said.

In the account's first publication for February, the CSS said revenue of R5,65bn brought to R79,81bn the amount collected since April 1 last year. Revenue collected in February 1993 amounted to R4,97bn

Exchequer issues of R12,59bn — the highest this fiscal year — brought to R103,4bn the amount issued since April 1, 1993 February 1993 spending amounted to R11,64bn.

The deficit, before borrowing, debt repayment and other statutory appropriations, amounted to 99,5% of the amount voted for the full fiscal year

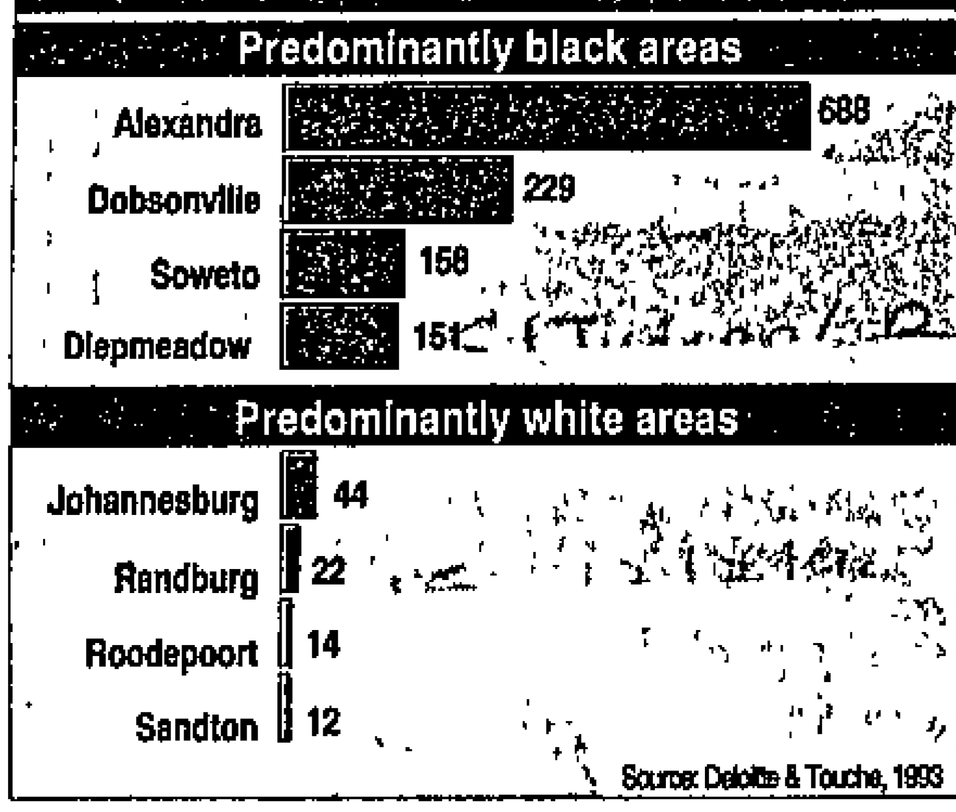
The CSS said revenue for the 11 months was 17,5% up over the same period a year previously, and 2,1% down on the pro-rata voted amount for the year.

CT 12/3/94

Expenditure over the same period was 18,3% up over the corresponding 11 months of the previous year, or 0,3% above the pro-rata voted amount. The government had budgeted for a rise of 9,85% in spending and a 17,3% increase in revenue for the entire fiscal year.

The rolling over of short-term government stock expired on February 28, with brought to completion the financing programme for the current financial year.

Population densities per hectare in Central Witwatersrand, 1992



Spending by local authorities in Central Witwatersrand, 1992/93

Local authority (population)	Capital spend per capita (R)	Operating spend per capita(R)	Total spend per capita (R)
Predominantly black areas			
Greater Soweto (1 800 000)	[illegible]	283	[illegible]
Alexandra (215 000)	[illegible]	39	[illegible]
Predominantly white areas			
Randburg (140 000)	[illegible]	1 387	[illegible]
Sandton (142 000)	[illegible]	1482	[illegible]
Roodepoort (142 000)	[illegible]	1 999	[illegible]
Johannesburg (995 000)	[illegible]	2 276	[illegible]

Source: Central Witwatersrand [illegible]

Poor will inherit the riches of SA

St Times (Buss)

By BEN TUROK

DEVELOPMENT is a challenge requiring structuring of society and empowering the deprived majority so that new resources are provided not as hand-outs but as real allocations from the new government.

This means tackling not only the huge inequalities of wealth but the hidden subsidy system that enables a minority to flourish while the majority struggles to survive.

We need sustainable human-centred development which aims at structural transformation, welfare satisfaction and an enabling political and overall environment.

We need to tackle poverty directly rather than through putative trickle-down mechanisms.

We need to invest in people and focus on where the poor live, not on city centres; emphasise broad-based economic measures, not narrow tax incentives, and empower communities, not rely on established white-owned enterprise.

The apartheid legacy in the economic field is that a minority of a white minority established a kind of "skyscraper economy" which benefited relatively few.

The skyscraper was inhabited by the rich, surrounded by a vast shanty-town structure. The skyscraper was shielded from competition by cartels which blocked out small black businesses by a range of laws and regulations.

The state played a major role in sustaining the skyscraper by, among other things, giving generous tax exemptions, allowing tax evasion and avoidance, engaging in corruption and numerous other mechanisms to protect "lifestyle SA".

The essential features of the economy are distorted, stagnant production, gross social inequalities, enormous spatial disparities, fragmentation of the environment and a misdirected and mismanaged public sector.

Much of the economy is owned by a minority of the white minority so that:

☐ Only 5% of all South Africans own 88% of the country's wealth.

☐ Anglo American, Rembrandt, SA Mutual and Sanlam control 81% of share capital.

☐ Twenty families own shares worth R10,7-billion plus other undisclosed personal assets.

☐ 50 000 farmers own 87% of the land.

☐ Of managerial jobs, 95% are held

BEN TUROK

13/03/94

top 100 companies.

The economy is riddled with special subsidies for the rich and for white people generally. Since the state accounts for 29% of gross domestic product, it has consistently been able to direct resources to education, health, roads, water, sewerage and other basic infrastructure for whites.

Sixty-six percent of the education budget goes to a bureaucracy which is mainly white at the higher levels.

Even tariff protection is manipulated to subsidise the rich. Basic items used by those with low incomes have particularly high levels of effective protection as against products with a high unit price.

"Lifestyle SA" cannot afford to be subsidised. It may be necessary to place curbs on luxury imports and there will certainly be a redirection of scarce resources to the poor.

The objective will be to reorient some industries to produce mass consumer goods, use labour-intensive measures, serve SA suppliers and markets, move to higher-skilled labour and better-paid jobs, promote black staff to senior positions under appropriate training schemes and build networks among firms to promote self-sustaining development.

We want to overcome stagnation in industry and take up spare capacity. This will provide jobs and use internal investment productively, not for speculative purposes or unnecessary property development.

Manufacturing is heavily skewed to providing commodities for upper- and middle-level consumers.

We make Mercedes-Benz luxury cars but few bicycles (SA is possibly one of the few middle-level countries which does not make a poor person's bicycle).

must be frozen. Manufacture of mass consumption goods as well as those products that will facilitate the emergence of a new handicraft industry in the townships and rural areas must be encouraged.

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Public services are heavily loaded to subsidise white groups.

Political power will have to be exerted to redirect public expenditure from white suburbs to meet basic needs, infrastructure and services in the black townships.

Jobs will have to be created through a public works programme, owned and controlled by community organisations where possible.

Encouragement should be given to small enterprises, including cottage industries, which create jobs cheaply, while legislating for humane working conditions.

More social control is needed over pension funds, insurance companies and other financial institutions to direct resources away from speculation, foreign investment, capital flight and property to production for reconstruction and development.

We do not see the need for an explosion of free-market forces which will favour the powerful against burgeoning small business and informal sector.

The private sector must "grow", but this must be in a carefully nurtured form so that the disadvantaged are the main beneficiaries.

This will require a strategising not only at the level of the state but throughout the various institutions to ensure that there is a deliberate effort for capacity building throughout the country.

A new democratic SA will need to defend its interests against the predatory actions of international capital and its institutions like the International Monetary Fund, the World Bank and the Big Powers organised in the Group of Seven, the General Agreement on Tariffs and Trade and the rest.

Their intentions to the Third World are clear enough: to install bourgeois democracy, compradorism and transnational corporate power in a new world order which recolonises, integrates and subordinates the Third World in a system of so-called free markets.

Ben Turok, director of the Institute for African Alternatives (IFAA), is responsible for the ANC's reconstruction and development programme (RDP) in the Pretoria-Witwatersrand-Vereeniging area. He is the author of the recently published IFAA book, Development and Reconstruction in SA, from which these

Draft budget seeks to cut borrowing

B/Day 15/3/94

(44)

GRETA STEYN

THE Finance Department is expected to unveil a smaller net borrowing requirement for the 1994/1995 fiscal year when it releases a draft budget before the end of the month.

The draft budget, which Finance Minister Derek Keys said a month ago would be released, will be used as a point of departure for drawing up the government of national unity's first Budget. The first Budget is expected to be a "holding operation" to be announced in August, with the deficit left largely unchanged from the draft. But modifications to individual spending and revenue components are likely.

Ed Hern, Rudolph economist Nick Barnardt released a fiscal analysis which says the draft budget would be unveiled next Tuesday at a special seminar for a mainly business and financial market audience in Johannesburg. However, a spokesman for Keys could not confirm any details.

Barnardt said foreign borrowing and increased investment from government's pension funds would bring down the net borrowing requirement from the domestic capital market, even though the deficit is budgeted to rise slightly. He expected a deficit of R25bn in the next fiscal year, from a budgeted R24,5bn this year. That would bring the deficit to slightly below 6% of GDP from this year's level of almost 7%. The deficit reduction would be in line with an undertaking made to the IMF.

Government would be able to raise about R1,5bn from foreign sources if the political situation was stable. After taking into account a slightly bigger cash flow from the Public Investment Commissioners, only about R10,5bn would have to be raised on the private capital market.

The Finance Department is also expected to release the final outcome of the present fiscal year, which is likely to show the deficit in line with the Budget. However, when financing from the sale of strategic stockpiles is subtracted from revenue, there will be a small overrun.

Market players said they would set more store by the announcement on government finances if it was not seen as electioneering. A bullish reaction to positive borrowing figures for the next fiscal year was possible only if the markets could be convinced that the next government would not make substantial changes.

'ANC can pay from existing resources'

PAARL. — The ANC was confident it could pay for its reconstruction and development plan from existing resources, the party's economics head, Mr Trevor Manuel, said yesterday. (49)

More than 800 people jammed the Paarl East community hall to hear Mr Manuel and constitutional expert Mr Dullah Omar. CT 16/3/94

Mr Manuel said working people paid extremely high taxes, with married women in effect being punished for having left their kitchens to earn salaries. "We are going to turn it all around. We are going to look to companies which are so lightly taxed and strengthen our base from there." — Sapa

All signals point to booming economy

Star 17/3/94

(49)

BY DEREK TOMMEY

South Africans — prepare to meet thy boom!

This is the message from Rob Lee, senior portfolio manager with the Board of Executors and one of the country's most respected economists.

He says that the South African economy stands on the verge of a period of sustained economic growth of the sort which has not been experienced for many years.

The elections and changed political situation should eliminate a great many of the negative factors which have been holding the economy back for the past decade, he argues.

He believes that the gross domestic product is about 10 percent below what the country could sustain. Starting from this low base the economy could generate continued growth rates of more than 4 percent a year for several years.

This rate of growth was last achieved in 1984.

Between 1981 and 1992 the economy grew by an average of 0,67 percent a year, which was well below the 2,7 percent population growth rate. This was the result of the damaging consequences of the Government's apartheid policies.

These policies led to escalating domestic unrest and external isolation which destroyed business confidence and led to declining investment and a large scale capital flight.

The efforts to build a siege economy led to highly wasteful "strategic" investments such as on Mossgas and on the various stockpiles and to very high defence spending.

At the same time the apartheid restrictions and the massive under-investment in the human potential of the bulk of the labour force had a serious long-term impact on labour productivity.

And the escalating trade and capital sanctions led to the withdrawal of access to foreign capital. From 1985 the authorities were forced to run the economy well below capacity to ensure large enough current account surpluses to meet a punishing foreign-debt repayment schedule.

Lee points out that since 1986 South Africa has repaid more than $7 billion (R24,2 billion) in foreign debt. This has left South Africa extremely underborrowed with foreign debt as a percentage of exports falling from 130 percent to less than 60 percent and from 45 percent of GDP to less than 15 percent.

With the advent of democratic elections these damaging consequences of apartheid are in the process of being reversed.

Trade sanctions have been removed, a final debt agreement has been reached with foreign creditors and there should be significant access to new foreign capital in the post-election period.

In this period there will be large new investments in low cost housing, electrification, sewerage and water and in increased job training.

Lee also sees other factors which should give the economy a boost.

Starting in 1982 South Africa had a period of well-below average rainfall, culminating in the worst drought of this century in 1990-92. According to well-documented evidence, South Africa can now look forward to 10 years of above average rainfall.

He says there are good grounds for believing the long downcycle in commodity prices is at an end. There are also strong indications that the ANC will sustain many current policies and possibly keep Dr Stals and Derek Keys in their posts after the election.

Massive State debt seen by year-end

(49)

AiZG 18/3/94

CLAIRE GEBHARDT

JOHANNESBURG. — Total government debt will top a massive R205 billion by year-end given an expected deficit of 5,9 percent of GDP in fiscal 1994-95, warns Ed Hern Rudolph economist Nick Barnardt.

Mr Barnardt says this compares with total government debt of R70 billion in 1988 and represents a rise from about 33 percent to about 48 percent of GDP.

The consequences for government's future interest bill will be severe, he says.

The forecast of a moderate contraction of the fiscal deficit from 6,4 percent this year to 5,9 percent next year (R25 billion) is seen as the likely outcome of revenues continuing to outpace expenditure growth.

Mr Barnardt also warns that the 1994-95 Budget is likely to contain the beginnings of a process of restructuring of taxes and spending which will impact on various sectors of the JSE in 1995-96.

"The winners on the JSE will be the producers or providers of basic consumer goods and services, basic health clinic and primary school goods or equipment, basic construction and building materials and services, sanitary and electrification equipment and those providing inputs to all these sectors.

"The relative losers will be the business enterprises dependent on the upper section of the consumer market.

"Also vulnerable will be companies at present paying much less effective tax than the nominal 40 percent rate, given the emphasis which ANC economists and tax advisors seem to be placing on the possibilities of further narrowing the gap between nominal and effective tax rates in the corporate sector."

Mr Barnardt says the party which is likely to gain the biggest number of Cabinet seats will inevitably want to impress and consolidate its own support base by announcing at least one or two changes which are seen to be in its constituency's interests.

"Possible examples are an increase in excise duties on tobacco products and alcoholic beverages and a wide range of luxury goods, an increase in the existing 15c levy on all debits in the banking transactions system, an inrease in estate duty, a token reduction in fuel levies and the zero-rating of VAT on a slightly wider range of basic goods and services such as medicine, water and electricity."

Mr Barnardt notes that during the past few years the ballooning fiscal deficit, which reached an all-time high of close on 8,5 percent of GDP in the 1992-93 fiscal year, kept long- and medium-term capital market interest rates higher than they would otherwise have been and exerted a modestly restraining effect on the Reserve Bank's willingness to cut the Bank rate.

"This had a delaying effect on the natural downward movement of the entire structure of interest rates during the recession of the early Nineties.

"However the impact of a contained deficit on medium- and long-term capital market rates should be positive — particularly if net government stock issues to the market decline by R1 billion in the next fiscal year as surmised."

Paving way towards an economic union in SA

BRUCE CAMERON
Business Editor

■ Southern African states are inching towards the formation of an economic union that could provide a huge economic stimulus to the region while providing tougher bargaining power on the international stage.

ARG 19/3/94 (49)

FIRST steps towards setting up a Southern African economic union could be taken within months of the elections.

But bankers, including representatives of eight central banks from the region, concluded at a conference in Somerset West this week that there is a long and difficult road ahead to achieve the open borders of a common market.

The bankers, including Reserve Bank Governor Chris Stals, are convinced that an economic union with synchronised macro economic policies and unobstructed trade are a necessity to get the region on the move.

However, they could not reach agreement on which existing bodies should be merged or scrapped.

The bodies include the two dominated by South Africa — the (Rand) Common Monetary Area and the Customs Union — and the Preferential Trade Agreement and SADC (which exclude South Africa).

The whole process of moving towards a common market is, however, being held up by the election process in South Africa. Only when a new representative government is installed will progress be possible.

Once a new government is installed the bankers said formal negotiating structures would be established rapidly.

There was concern at the conference that South Africa, with its comparative economic might could dominate the area, drawing investment and greater wealth at a cost to neighbouring countries.

Conference convenor and London-based financial consultant David Hodgson said at the end of the conference the bankers felt that, although, the formation of a single body was not immediately possible countries should move towards a common market on the basis of bilateral or multilateral agreements.

"It should also be a multi-speed process so that different countries could develop within the bloc at a rate that suited them. This would provide flexibility."

This had happened with the creation of the European Community.

It was agreed by the bankers that the economically weaker countries should have some type of subsidy from the richer countries.

The bankers concluded economic union should concentrate on:

■ Trade flows.
■ Development of infrastructure.
■ Harmonisation of monetary policies.
■ Co-ordination of regulation of banking activities.
■ Investment flows and aid within the region.
■ Labour flows within the region.
■ Rationalisation in areas such as energy, transport, telecommunications, education and training, and research and development. The intention would be to create centres of excellence in the various countries while saving on duplicating services such as airlines or research and development.

Mr Hogdson said it was important early projects should be in areas where there would be "an early payoff so that the politicians can see early dividends".

Such areas would include investment in infrastructure and tourism.

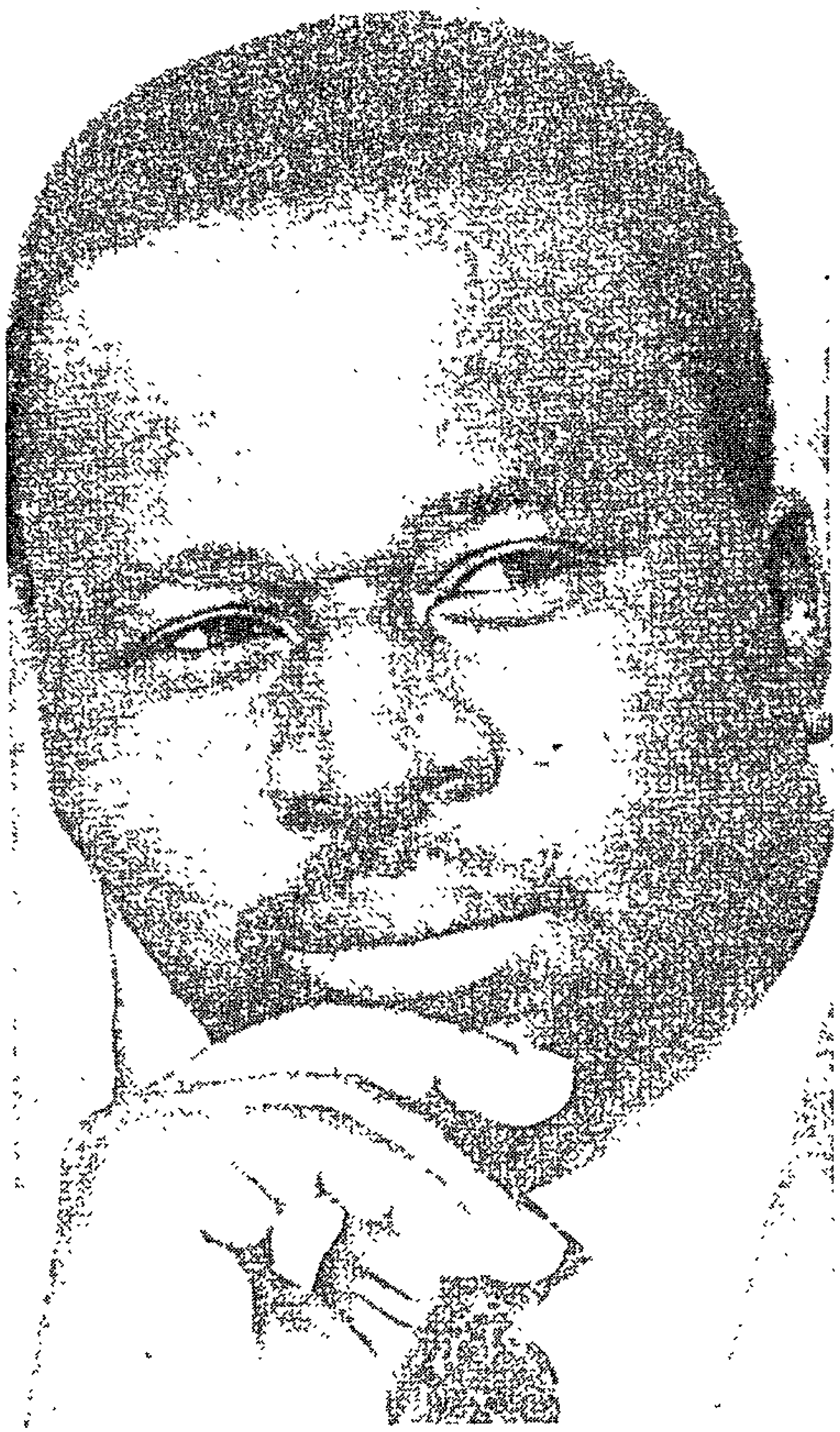
The bankers it was essential to create the right environment to enable the regional co-operation to work. The factors included:

■ The abolition of exchange controls.
■ The scrapping of customs barriers in the region.
■ Ensuring fiscal discipline by individual governments, and
■ The creation of a stable banking system which must assist in the provision of venture capital for the semi-formal sector to make job creation effective.

Public spending to be guarded by a new watchdog

ST Times (Buss) 20/3/94

By ZILLA EFRAT



TITO MBOWENI .. considering membership of the AfDB

THE Transitional Executive Council's sub-council on finance is setting up a committee to institute measures that ensure public funds are properly accounted for.

Sub-council managing secretary Bethuel Setai says the committee will oversee Transkei, Bophuthatswana, Venda and Ciskei and the self-governing states and may extend its attention to the whole of South Africa. (49)

Its first working session is due on March 28. Members will come from the public and private sectors. Details will be given on Thursday.

The sub-council expressed "extreme displeasure" — in a document distributed at a news conference this week — at the inability of certain self-governing states to manage their affairs.

It says Lebowa, Gazankulu, Kangwane and Kwandebele together expect to exceed their 1993-94 budgets by R333,4-million.

The sub-council has recommended that the government guarantee overdraft facilities of R478,4-million to them. Lebowa, by far the biggest culprit, could receive an overdraft of R339,3-million.

Dr Setai says a major problem is disturbing lack of accountability in these states.

ANC deputy economics head Tito Mboweni says the sub-council is preparing a document with outside help to allow the new government to consider SA membership of the African Development Bank (AfDB).

Dr Setai says tough negotiations are expected before SA joins the AfDB. A technical committee dealing with membership will be formed within a week.

The AfDB's annual meeting scheduled in Nairobi in May will not affect the timing of negotiations, he says.

A committee will be set up within a week to seek favourable tariff treatment from the US in terms of the general system of preferences.

It will consist of representatives of the finance sub-council, the National Economic Forum (NEF) and the Department of Trade and Industry.

Dr Setai says negotiations with the US are expected to be complex.

Mr Mboweni confirms that there will be no Budget in March. Instead, the departments of finance and state expenditure will provide a brief review of government finances in the past year and a broad macro-economic picture.

The review will be given at a closed NEF meeting, probably on March 28. The financial markets will be briefed later in the day to keep them informed and allow for planning.

The Budget will be presented by the new minister of finance after the election, says Mr Mboweni

Star 12/3/94

Launch-pad for a powerhouse

(49)

South Africa Incorporated, an industrial powerhouse modelled on Japan Inc and the launching pad of the sort of spectacular economic miracles that have transformed the Far East into world trading giants.

SA Inc, the first young lion from the African continent to challenge the economic tigers of the Pacific Rim in competition on global markets.

A pipedream? Cynics may feel that.

But, according to a small but influential team of business leaders who have formed the nucleus of a think-tank to work out the route to success, the timing may never have been better to take aim at such an ambitious scenario.

"The idea of SA Incorporated has been nursed by a few socio-economic intellectuals ever since the birth of Japan Inc in the 1960s," says Alan Tonkin, a former senior executive of the Barlow Rand industrial empire who has laid the foundations of what has been named the SA National Business Network.

"Not until now, though, have the chances of pressing ahead looked as good."

Various brakes have checked progress and the blame was levelled at everything from apartheid and economic mismanagement to political isolation and trade sanctions.

What has improved the chance of success now, however, is an entirely new mood of harmony that is being cultivated by common concern about building a better future — and recognition that only a more dynamic economic performance can answer the monumental challenges that have to be faced.

Tonkin believes that lessons on the value of co-operation are being underlined daily inside the various forums that have been started by the key players — business, Government and labour — as they learn to pool their brain power to seek solutions to problems ranging from the housing shortage to the unemployment dilemma.

"If the trio can sit down in harmony over basic economic issues and agree on a wholesale overhaul of strategies, rather than exchange hostile glares and play power games," says Tonkin, "the launch of South Africa Inc will be on the way.

"That is the precise combination — business, labour and the State — that laid the foundations of Japan Incorporated as a national economic institution. It is the formula that can work here, too, especially if the exercise is tackled with the encouragement of a government of national unity.

"In the process of political change and with answers to socio-economic problems more urgent than ever, the timing of a launch towards SA Inc has never looked more perfect."

The ring of optimism is in dramatic contrast to the mood of despair in which the business think-tank was first conceived.

That was when Barlow Rand executives were handed the results of the 1992 World Competitiveness Report — a global survey compiled every year by the Institute for Management Development (IMD) of Switzerland and the World Economic Forum.

Because it marked a re-emergence from years of banishment to political isolation, it was the first time South Africa had been included in the survey, which is regarded as the authoritative last word on the international ranking of rivals on global markets.

The surveys also provide penetrating insights into trends in living standards and quality of living. In most boardrooms in South Africa, release of the 1992 results drew dark clouds over celebrations about the removal of the sanctions blockade.

While South Africa had been blinkered in isolation, competitors around the world had raced ahead. Dozens of overseas countries that had been considered weaklings a few years ago had now overtaken this country.

Nor had the World Competitiveness Report unfairly placed South Africa out of its class. The 22 giants of the industrialised economies, all members of the Organisation for Economic Co-operation and Development, had been ranked in a section on their own.

More appropriately, South Africa had been judged among 14 smaller trade rivals described as newly industrialised economies. There was little surprise, or resentment, over the disclosure that the top slots had been taken by three of the Far East tigers — Singapore, Hong Kong and Taiwan.

The thunderbolt came when it was revealed that South Africa had been shuffled all the way down to the bottom half of the league table — no better than 8th out of the 14.

If the 1992 results caused startled embarrassment, the 1993 survey made South Africa squirm in anguish. Its ranking was now down to a yet more lowly 11th slot.

Worst of all, its ranking in international affairs dropped from 10th to 13th. Its ranking on effectiveness of government crashed from 10th to 14th and in status as a nation concerned with people it sadly remained at rock bottom.

But a closer analysis of all the elements that were taken into account has stirred snippets of optimism. There were four sections where South Africa managed to put in better-than-average performance — the overall quality of management, the running of financial services, the level of science and technology, and the development of infrastructure.

"None of the sections gives any reason for complacency," says Tonkin. "Overall, and in particular when it comes to our shortcomings in the development of human resources and people, our low ranking must be viewed with alarm.

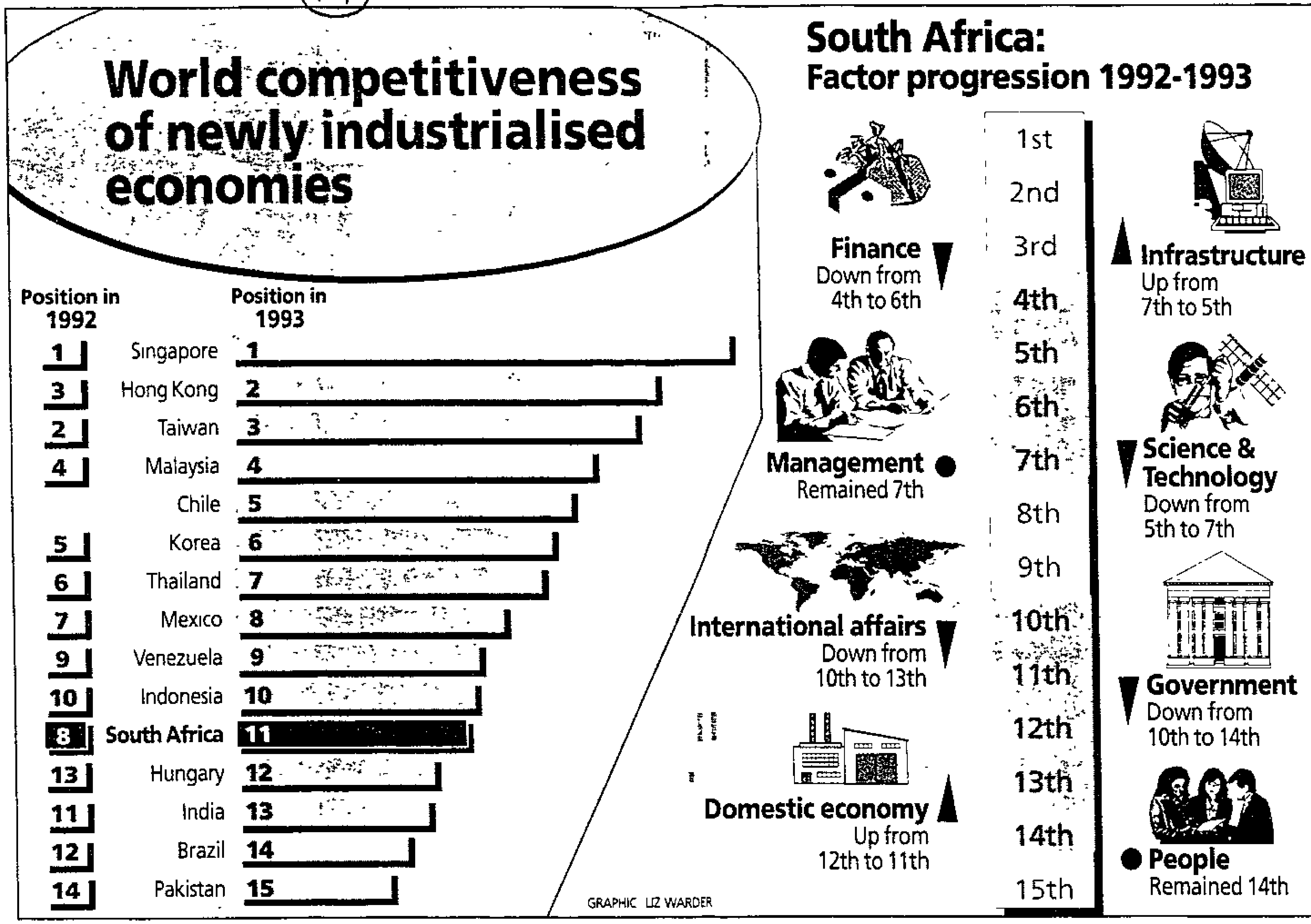
"But our reasonable standing in those four key sections at least provides a platform for strengthening our the country's total economic performance."

In the search for new strategies, the National Business Network has not only forged still closer links with the highly regarded Institute for Management Development in Switzerland, but is nurturing important new ties with the world-famous Sloan School of Management at the Massachusetts Institute of Technology.

"New strategies are vital — and they have become more urgent than ever," adds Tonkin. "And there should be no compromise in the ambitiousness of new and higher targets in all spheres.

"The ideal would be a harnessing and mobilisation of all key resources via the total co-operation of business, labour and Government — the basis of all the Far East economic miracles in recent years.

"It all brings us to the crunch: the creation of a South Africa Incorporated economic powerhouse. We should refuse to settle for less."



Govt-backed loans register compiled

(49) CT 23/3/94

From GRETA STEYN

JOHANNESBURG. — The Finance Department in October last year started compiling a central register of loans which carry government guarantees, Finance spokesman Badie Badenhorst said yesterday.

Criteria had been drawn up and a circular sent to the directors-general of government departments. The register had not yet been completed, he added.

According to the auditor-general's latest report, central government had guaranteed more than R28bn in loans by other borrowers at the end of the 1992/93 fiscal year. Guarantees have risen by about R5,5bn since 1987.

The guarantees are not strictly part of government debt — the state picks up the tab only if there is a default. But Badenhorst said government had to settle R107m of debt in the 1992/93 fiscal year as a result of defaults on debts for which it had provided guarantees.

Included in the guarantees was about R8,4bn in short-term debts of Transkei, Venda and Ciskei.

Bophuthatswana's short-term debt was not known, but Badenhorst noted that the homeland's government had said it had virtually no short-term debt and, unlike the other "independent" states, would not hand the debt over to the SA government for management.

These states' debts will be added to government's debt totals after reincorporation, yielding higher debt-to-GDP ratios.

Debt totals

According to the auditor-general's report, government has contingent liabilities of more than R91bn (including the guarantees on loans). These include central government pension fund liabilities of more than R37bn and about R17bn in the shortfall on the Transnet pension fund.

The Atomic Energy Corporation accounted for more than R800m of contingent liabilities, but the auditor-general noted negotiations were taking place about the amount for which central government would take direct responsibility.

Reserve Bank accused of stifling economy

(49)

ARG 24/3/94

CLAIRE GEBHARDT

JOHANNESBURG. — The Reserve Bank is stifling economic growth.

That's the forthright conclusion of Investec's *Focus on the Economy.*

Calling on the Reserve Bank to relax its monetary stance, Investec says that with the correct capital flows and the right accommodation by the Bank, real GDP growth could exceed 7 percent in 1995 and 1996.

"Monetary growth of at least 10 percent a year is needed if the economy is to grow by 3 percent in 1994, given a forecast average inflation rate of about 7 percent in 1994.

"In 1995, with inflation falling further, sustaining monetary growth at about 10 percent to 12 percent would allow the economy to grow significantly faster off its low base."

Investec contends capital inflow in place of capital outflow in the form of IMF loans will help stabilise the real exchange rate at current levels — which would relieve pressure on prices.

"This, combined with a continued emphasis on consistently less inflationary monetary polices, would mean that the economy could achieve growth rates in line with its potential, and achieve lower inflation.

"The key to this is the kind of economic policies put in place and degrees of political stability that reduce the risk premiums."

The Reserve Bank had aimed to achieve lower inflation with a growth target that was net of capital outflows of 3,5 percent of GDP.

"This has left little scope for real expenditure or output growth and little has been achieved."

South Africans were being restrained from spending more in order to encourage exports and discourage imports.

Shareholders in South African industry could look forward to benefitting from a re-rating of equities in response to a more stable, but more genuinely competitive environment.

It was therefore high time for the Reserve Bank to take some risks of its own for the sake of economic growth and all that this would mean for political stability.

"We cannot know if there is a greater willingness to lend to South African borrowers unless South African firms actually ask for the money.

"And it will take lower real interest rates to get local borrowers to ask for and to meet the money growth targets.

"It is the domestic economy rather than the foreign exchange reserves that must be given priority."

FM 25/3/94 (49)

GDP 1993: where the economy is [illegible]

	Quarter 3	Quarter 4	% change**
Private consumption	74,9	75,4	2,7
Govt consumption	25,9	25,9	0,2
Gross domestic fixed investment	20,4	20,6	3,4
Final demand	**121,2**	**121,9**	**2,5**
Changes in inventories	1,0	2,3	
Residual item	0,4	1,7	
Gross domestic expenditure	**122,6**	**125,9**	**11,3**
Exports	47,0	48,2	
Imports	-36,8	-39,3	
*****Net**	**10,2**	**8,9**	**-42,0%**
Expenditure on GDP	**132,4**	**134,8**	[illegible]

* Constant 1985 rands, seasonally adjusted and annualised
** Annualised and seasonally adjusted
*** Includes non-factor services

Source: Reserve Bank

ECONOMIC OUTLOOK FM 25/3/94

Business backs growth

The business community's confidence in SA's long-term future can be seen in fourth-quarter figures on gross domestic fixed investment (capex). The latest Reserve Bank *Quarterly Bulletin* shows that, after only three quarters of economic recovery, growth in capex outstripped growth in consumption, both private and government (see table), rising 3,4%. Setting the pace was the private sector where capex jumped 4,7%, compared with a 2,1% rise in capex of public authorities and a fall of 1,7% in that of public corporations. (49)

These are quarterly shifts which have been seasonally adjusted and annualised as are all the other quarterly changes discussed below

Also a sign of growing business confidence was the biggest rise in inventories since the third quarter of 1984 — R2,3bn in constant 1985 rands.

Both developments contributed substantially to the rise in economic activity and were reflected also in a 30% leap in imports in the quarter. Despite an 11% rise in exports, this sliced the trade surplus by a massive 54% to R8,9bn (1985 rands).

While annualisation accentuates short-term shifts, the pattern in the fourth quarter is likely to set the scene for 1994 The strength of capex early in the business cycle is due to

☐ Long-term projects which entered their spending phase towards the end of the year and will continue to add value to the economy in 1994;

☐ The improvement in the outlook for agriculture. Having reduced levels of debt farmers are now investing in new equipment Tractor sales in 1993 were up more than 40% on the previous year, according to the SA Agricultural Machinery Association. And January sales were up nearly 82% on those of the previous January, while February sales were up 64%; and

☐ The need to replace capital stock in all sectors of the economy. Total fixed capital stock declined in absolute terms in the last year, after several years of declining fixed investment. A turnaround in fixed investment came in the third quarter after 14 quarters of shrinkage.

These developments underscore the importance of reversing the outflows on the capital account In 1993 a current account surplus of nearly R6bn for the year as a whole, partially offset a net capital outflow of R16,3bn.

This slowed the decline in net gold and foreign exchange reserves to only R10,3bn in the year (see following report)

However, as the recovery gains momentum and imports rise relatively faster than exports, the trade surplus will fall. As services, the other component of the current account of the balance of payments, is always a negative, the current account will fall into deficit. At that point the country will have to rely on a positive balance on the capital account to pay its way.

While figures for changes in SA's reserves in the first two months are not yet available, those of the Reserve Bank show signs that the situation is stabilising.

While medium-term growth prospects are promising, the economy may have faltered in the first quarter, says Sacob's Raymond Parsons He cites, among other things, poor retail sales in the first two months He attributes this to pre-election jitters

While this may affect private consumption it will have no impact on capex in the first half of 1994, because projects now coming to fruition have been on the drawing board for several years It may delay decisions on new ventures, but only by a few months

The outlook for the year is still good Says Parsons "Should GDP contract in quarter one at a seasonally adjusted annualised rate of 2%, but grow thereafter at an annualised rate of 2%, calendar 1994 GDP growth will still be about 3%."

He points out that the annualised 2% equals nonagricultural GDP growth in the second half of 1993

"If SA can reach 3% economic growth in the face of a substantial capital outflow, then we can imagine the growth performance which is possible say 5%-6% — if we could instead experience a capital inflow to support economic expansion."

Growth potential hinges on how soon stability can be restored to the country and how well it can be maintained So the swing factor remains political ■

Budget to be 6,4 percent of GDP

SOUTH Africa's pre-budget deficit for 1994-95 will be 6,4 percent of gross domestic product (GDP), or R26,1 billion, according to a fiscal review released yesterday.

Based on a no-tax-policy change, total revenue is forecast at R98,7 billion — 11,2 percent above the revised R90,2 billion estimate for 1993-94 and is an estimated 24,1 percent of GDP. Projected expenditure of R124,8 billion is eight percent more than 1993-94's revised estimate of R115,2 billion. Sowetan

Economists yesterday said the revenue projections were realistic, given no allowance for fiscal drag

However, expenditure figures, based on a conservative GDP growth of three percent for 1994, seven percent inflation rate and capital expenditure at a constant two percent of GDP, were lower than expected and implied a lot of rationalisation and would be subject to "creep". 49

If expenditure can be contained at this figure, non-interest recurrent expenditure will be reduced from almost 24 percent of GDP in 1993-94 to 22,5 percent in 1994-95. 3/3/94

Finance Department director general Estian Calitz told economists and journalists the 1994-95 fiscal year would be unique in that the March 1994 Budget had been postponed until probably mid-year.

Partnership with business being sought

Star 31/3/94

ANC allays fears

■ BY CLAIRE GEBHARDT

ANC economics head, Trevor Manuel, yesterday promised that the ANC's Reconstruction and Development Programme would not stifle business.

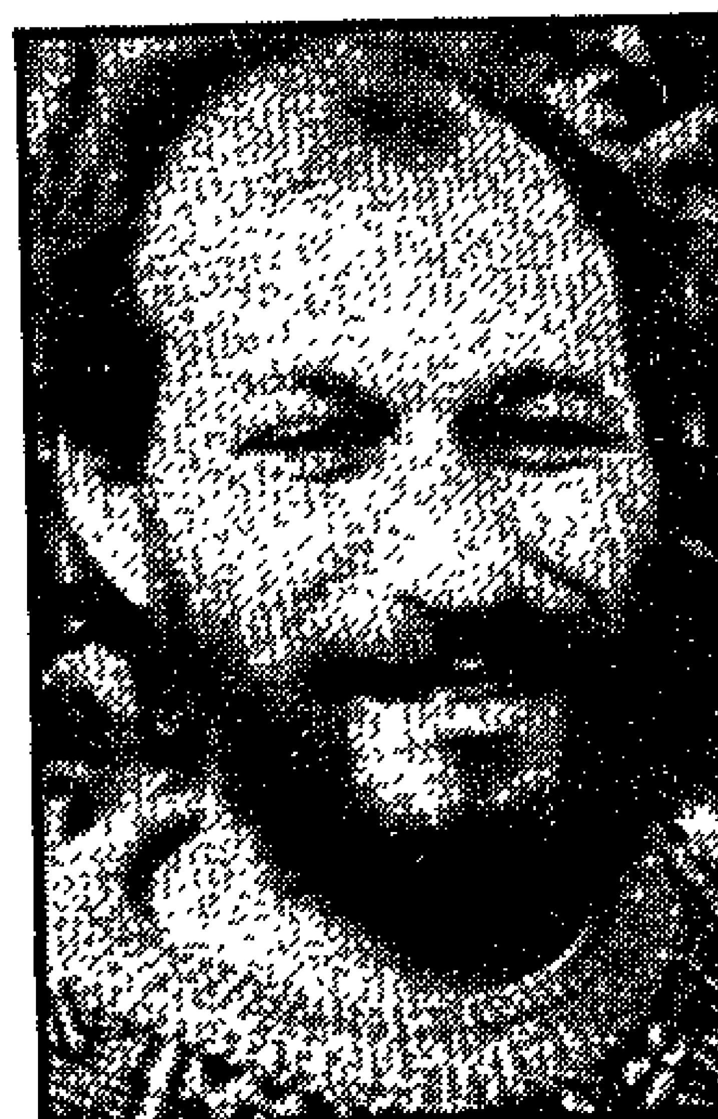
Addressing a Finance Week "summit" of ANC economic policymakers and local business leaders, Manuel said the ANC would not be prescriptive about a reconstruction levy, prescribed assets or foreign exchange control, but would seek private sector input.

The underlying message from the ANC delegation was that they were looking for a partnership with business.

Businessmen, for their part, said they wanted more clarity on economic policy.

Manuel expressed alarm at declining gross domestic fixed investment (GDFI), which he attributed to political uncertainty.

"The world will be waiting for the first Budget of the democratically elected government and a partnership between the private sector and government will be critically important in reducing this uncertainty."



Trevor Manuel . . . anti-trust policy.

Manuel said the ANC would put an anti-trust policy in place, but that it would not be anti-big per se.

"We are more concerned about cross-holdings."

ANC co-ordinator of money and finance, Neil Morrison, said financial institutions needed to break with an apartheid mindset and move away from financing projects serving only a narrow sector of the community.

(49)

The public sector would, however, be prepared to "sweeten" the climate for social investment by the private sector.

He said the ANC was committed to macro-economic stability, which hinged on an independent Reserve Bank.

High inflation led to a loss of competitiveness and undermined the function of money as a store of value.

"It also leads to a redistribution of wealth in unforeseen ways and usually it is the poor who suffer."

Morrison said the ANC was committed to removing exchange control when the moment was right.

"This will depend on a narrowing of the discount between the commercial and the financial rand, a build-up of foreign reserves and a reversal of capital outflows."

Professor Lieb Loots of the University of the Western Cape said the ANC had come to the conclusion that it was not desirable to formulate specific tax policies.

"We would rather spell out an approach to taxation which will raise revenue effectively and efficiently, be perceived as fair and transparent by taxpayers, support economic growth and move away from ad hoc-ery.

Loots said the overall level of taxation did not leave much scope for increase and the emphasis on personal tax would have to be changed.

A wealth tax was not part of ANC policy, he said.

"An alternative is estate duty, which taxes the transfer of wealth. As we already have this tax in place, it will probably remain.

"The rate on estate duty is low by international standards and will be looked at in the context of moving towards a balanced tax system."

Loots said the lifting of VAT on foodstuffs would be considered, if poverty could not be alleviated through nutritional programes.

"However, any lowering of the rate will of course require compensatory measures elsewhere."

Balancing the books and meeting expectations

(49) WM 31/3-7/4/94

Simon Segal

THE "draft Budget" for 1994-95 presented this week at least commits the new government to try to balance its books as well as spending to meet popular expectations of redistribution.

The draft Budget was presented by the Department of Finance and, crucially, approved by the finance sub-committee of the Transitional Executive Council (TEC). The actual budget is still to be presented to the new parliament in August, but although the draft does not in theory pre-empt a new government, it is thought little room will remain for changes by then.

The spotlight fell on on the expected deficit before borrowing — a variable that local and foreign investors will keenly watch as an indicator of sound fiscal management amid huge demands for spending on "reconstruction and development".

The budget sets the deficit at 6,4 percent of gross domestic product (GDP) for the 1994-95 year.

That is down from 8,2 percent in 1992-1993 and 6,8 percent projected for 1993-1994. It is still high compared to the three percent-odd preferred by the International Monetary Fund and other major international financial institutions.

As indicated by its $850-million loan to South Africa the IMF is nevertheless prepared to live with the six percent promised by the TEC and government in their statement of intent accompanying the loan application in December.

Holding the deficit to around six percent will be the trick.

Says the draft budget: "There is widespread understanding that unsustainable budget deficits would jeopardise the economic future of the country. At the same time it is recognised that social needs must be addressed visibly and effectively to achieve socio-political and economic stability."

"Unsustainable budget deficits" and meeting social needs "visibly and effectively" mean different numbers to different politicians and economists.

This year's draft budget leaves room for cautious optimism. It is based on existing revenue and expenditure structures. There is no change to present tax rates and tax brackets or the central government.

Revenue is estimated to increase 11.2 percent from the revised 1993-1994 estimates to R98,7-billion.

This is based on an estimated average 8,5 percent rise in salaries and wages, an eight percent rise in taxes from non-mining firms, a 13 percent rise from surcharges on imports and a 13,4 percent rise in the VAT haul.

Expenditure is budgeted at R124,8-billion, eight percent up on the revised estimates for 1993-1994. Capital spending is assumed to be two percent of GDP, as it was in 1993-1994.

Revenue of R98,7-billion and expenditure of R124,8-billion leaves a deficit of R26,1-billion or 6,4 percent of GDP. Adding domestic loan redemptions of R6-billion, foreign loan redemptions of R148-million and repayment of the 1989-1990 loan levy on companies (R710-million) leaves a gross financing requirement of R33-billion.

Of this it is assumed R1,5-billion will be raised offshore and the remaining R31,3-billion will then be financed through the issue of government stock. This should be comfortably accommodated without pushing up interest rates.

But the draft budget explains that if allowance is made for traditional annual adjustments in revenue from excise duties, and that spending this year includes one-off expenses due to the transition, then "the underlying budget deficit may be interpreted to be near six percent".

For the 1993 fiscal year ending this week total spending is expected to be R115-billion (R113-billion was budgeted last March) and revenue R90,1-billion (R88,2-billion) or 24 percent of GDP. This leaves a R25-billion deficit which is 6,8 percent of GDP.

The primary deficit — the difference between non-interest spending and current revenue — was 1,5 percent of GDP compared to 3,5 percent in 1992-1993 and a slight surplus compared to 1991-1992.

Compared to last March's budget, individual income tax has been overestimated by R2-billion (5,6 percent), VAT underestimated by R643-million (2,7 percent), customs duties underestimated by R248-million (7,9 percent) and excise duties underestimated by R149-million (3,1 percent). Individual income tax is still 9,2 percent of GDP and VAT around six percent.

New rule or not, blacks will still suffer economic legacy of apartheid

(49) ARG 8/4/94

JOHANNESBURG. — Blacks will soon replace whites in the president's office and parliament. But in banks and boardrooms throughout South Africa, white hands will still count the money.

The euphoria greeting the first all-race election on April 26-28 cannot mask the sobering economic legacy of apartheid.

- About one-third of blacks are unemployed, compared with 3 percent of whites. Most black households earn less than R900 a month, and many lack electricity and plumbing, while white families earn from R4 200 to R10 500 a month.

- Although blacks make up 75 percent of the country's 40 million people, they own just 15 percent of the land, control 2 percent of the capital and hold only 2,4 percent of managerial jobs in business.

When their leaders assume power after the election, South Africa's black citizens expect the new government to make significant changes in their lives. They may react violently if they do not see improvement soon.

"We'll be in charge politically and that must be reflected economically," said Aziz Pahad, deputy director of international affairs for the African National Congress. "Unless we change the structure of ownership and control, we cannot have stability."

The ANC, likely to lead the next government, says blacks must work together toward their economic goals. Its proposed strategies include redistributing land — owned by the government or bought from whites — to give blacks collateral and a personal stake in a stable future.

Officials also talk of creating a loan fund to bolster existing black businesses and help others get started, encouraging whites to hire and promote blacks, directing government contracts toward black-owned businesses and white-owned firms with records of hiring blacks.

But the ANC avoids the term "affirmative action" and its leaders will not discuss quotas for fear of alienating white South Africans who, with unemployment rising, already grumble about black claims to jobs.

Without quotas, however, it may be difficult to quickly undo the employment disparities that put the civil service in the hands of whites. The ruling National Party, which instituted apartheid after coming to power in 1948, raised the living standards of a white minority — Afrikaners — by reserving most jobs for them.

"We've learned how effective affirmative action — based on colour, language, ethnicity — can be, and now we're going to practise it," said Nthato Motlana, an ANC activist.

Dr Motlana heads a group of black doctors, lawyers and teachers who pooled funds in January to buy 73 percent of the Sowetan, one of the largest newspapers. Whites had owned the paper, although most of its readers are black.

"There has to be redistribution of land, of resources, of wealth in this country if we're going to have a stable future," Dr Motlana said. "Real power is economic power."

One man who learned that is Sam Rapetswa, who owns an motor parts business in Temba, a black township north of Pretoria.

Mr Rapetswa, frustrated by working for whites for low pay, decided in 1982 to start his own business.

Because banks told him they would consider a loan only if he found a white partner, he used his savings of R1 500 to get started. That wasn't enough to buy much stock, so in the early days, Mr Rapetswa would take an order and drive to Pretoria for the part.

An accounting entry from his first day shows sales of R9

Temba Auto Spares and Accessories now also sells petrol and diesel fuel, repairs tyres and collects rent from tenants of the small shopping center it anchors. The business did about R3,5 million in sales last year and Mr Rapetswa dreams of adding a motor dealership to his holdings

"Every man should be given a chance to develop his potential," Mr Rapetswa said "By doing that, the country will develop economically"

In his view, the government could help black entrepreneurs by buying from them and attracting foreign investors who would deal with black-owned firms.

The cluttered, dim room from which Mr Rapetswa runs his small empire is worlds away from the antique-filled office of Harry Oppenheimer in the heart of the Johannesburg financial district. But the black businessman and white diamond and gold magnate are of similar mind on increasing the role of blacks in the economy

Rather than fear black gains would mean white losses, Mr Oppenheimer said, whites should embrace change as a matter of self-interest.

Mr Oppenheimer has retired as chairman of Anglo American Corporation and De Beers Consolidated Mines, but continues to keep a close eye on the business — and on South Africa's transition — from an office at Anglo American headquarters.

Anglo American supported the decision by an insurance company it owned an interest in to put the division that insured blacks under black control.

"I think blacks will gain more, but I think if there's a general increase in wealth ... it's to everyone's benefit," Mr Oppenheimer said. — Sapa-AP.

Free enterprise under threat, warns De Beer

ARG 12/4/94 (49 ~~30~~)

□ Nat, ANC policies 'leading to huge spending'

MICHAEL MORRIS
Political Correspondent

THE Democratic Party has sharply criticised the economic policies of the African National Congress and National Party, pledging itself to defend free enterprise "unremittingly" in the new parliament.

And it believes it will have a capacity far beyond the influence it had in the past to exert pressure and influence on national and provincial administrations to adhere to free enterprise.

In a bid to focus election debate on economic issues, the DP yesterday drew attention to the dangers it believes are inherent in the economic policies of its chief opponents.

It warned that unless the ANC's economic plans were effectively opposed and the NP's current practices stopped:

- Public debt could "skyrocket" to pay for huge government spending.
- The government could print billions of rands to fund otherwise unaffordable expenditure and create rampant inflation, or already overburdened taxpayers could be hit progressively harder.

DP leader Zac de Beer said: "We are seriously concerned that the ANC is seeking to throttle free enterprise, and will attempt to regulate and control many aspects of the economy.

"The NP will provide no effective opposition to this policy.

"It was NP policy that rendered South Africa a high-tax, low-growth, low-productivity economy. The NP failed to keep its 1989 promise to cut personal income tax.

"Both the ANC and the NP fail to understand the idea of individual initiative and free enterprise, and their instinct is to control and regulate.

"The great threat facing free enterprise is that the government will spend beyond its means, paying for a huge bureaucracy and expensive state projects that it cannot afford, thus removing billions of rands — through tax or public borrowing or both — that would otherwise have been productively invested by private businesses and individuals."

Dr De Beer said that along with "writing the constitution right", defending free enterprise-led economic growth would be the DP's top priority in the new parliament.

Responding to questions, Dr De Beer said the DP, by stressing free enterprise, was not shifting the emphasis of its economic policy away from a caring, social market economy.

He said: "We continue to believe that the government has a responsibility to ensure that people get social services and that the disadvantaged should be helped, especially in health, education and housing.

"But we say that free enterprise is under threat."

(News by M Morris 122 St George's Mall, Cape Town)

Keys confident next govt will nurse economy with care

BDay 13/4/94

Own Correspondent

LONDON — Finance Minister Derek Keys has expressed confidence in the management of the economy by the incoming multiparty government.

The Times quoted Keys yesterday as saying: "I think it's going to work and it's going to work very well."

Keys cited as examples of close co-operation the negotiations which had taken place over budgets, the VAT increase and talks with GATT, the World Bank and IMF.

"We've brought inflation down, we've resumed growth, we've got things going again. In all that time we have not had an ideological discussion," he said.

(49)

Keys was confident of the economy's resilience, saying it had survived falling commodity prices, lower precious metal prices, loss of capital and SA's worst drought.

Can Manuel deliver on his promises?

BDay 15/4/94

GRETA STEYN

THE ANC's reconstruction and development programme (RDP) has been described as "a menu without prices". This week the party's economics head Trevor Manuel put a figure to the meal the democratic government is to dish up to its hungry constituency. Over five years, R39bn in new government outlays will go on the RDP.

The figure is of utmost importance to provide a sense of the new government's fiscal policy direction. It is unfortunate that Manuel did not elaborate, other than to say it represented mainly key features such as housing and infrastructure, and excluded electrification which would be done by Eskom.

Manuel failed to specify whether the figure included current spending associated with the programme. But the amount is far too low to include the spin-offs in current spending. In that sense, the ANC can justifiably be accused of underestimating the cost of the programme.

A study done by the Development Bank, costing a major expenditure programme similar to the RDP, found that capital investment by central government of R38,6bn would be needed over five years to wipe out social backlogs. The figure is surely too close to Manuel's R39bn to be a coincidence. As University of the Witwatersrand professor Charles Simkins put it: "One suspects (the costing of the RDP) is being developed in conjunction with the Development Bank".

The Bank's calculations show that well over R30bn should be added to central government spending in the form of recurrent spending, mainly on basic education, training, primary health care, rural development and social security.

But this is a difficult figure to quantify; the Bank itself says it is arguable the amounts could be reduced through systematic rationalisation of existing services. Suffice it to say, recurrent spending cannot be ignored in calculating the costs of the RDP.

The ANC has also not yet said how much of the programme it expects to be handled outside government. The Bank calculates about R19bn, but this does not include private sector financing of housing. Parastatal involvement in the RDP should be spelled out as it has implications for the capital market and interest rates.

Manuel has promised to deliver without raising government's stake in GDP or increasing the tax burden. Is this possible?

The Bank's study found it was impossible to peg the public sector's share of GDP at 34% and meet the objectives of the programme — if other state spending was kept unchanged. It was impossible to deliver, despite the assumption of rapid economic growth rising to almost 6% in the last year of the programme.

The Bank argued adjustments would have to be made. These would have to be sought in the following options: cutting other expenditures, implementing the programme over a longer period, scaling it down, raising the public debt, and increasing the tax burden.

The ANC has consistently argued that redirecting existing state spending will be a major source of finance

MANUEL

for the RDP. How much scope exists for this exercise? (449)

The word from the civil servants is very little, given that there has already been a big shift towards social spending in the Budget. The share of protection services has shrunk from almost 22% to less than 18% between 1990/91 and the last fiscal year, while spending on social services has risen from less than 42% to 44%. The shift reflects mainly higher spending on education.

The Bank notes that spending within categories will have to be reorganised; part of the funds for increased spending on primary education must be recouped through reduced subsidisation of whites.

Manuel is confident R4bn will be released in the form of a dividend from scrapping apartheid duplication. "The Bophuthatswana embassy in Paris is much more lavish than SA's," he notes as an illustration. But is R4bn really feasible, given that the introduction of nine provincial governments will take up some of the apartheid dividend?

The secret defence account of R3,8bn is the ANC's first target, and the party has apparently been putting major effort into analysing its components. But how will the cuts affect SA's weapons procurement? What about contracts that run over a couple of years?

The Bank says that, over five years, about R2bn to R4bn could be released from the Defence budget, "although this would push defence spending in SA towards the low end by international standards".

The Bank's programme and simulations are not the ANC's, but in the absence of official figures from the party, they provide a useful benchmark. The party would do well to heed the Bank's warning that a 10-year framework for the programme would be more feasible. And, as the Bank's study makes clear, there will be no delivery without vigorous economic growth. That means creating an environment conducive to private sector investment.

The ANC plans to release more figures next week. In the meantime, it seems the R39bn target over five years is too ambitious if government's stake in the economy is not to be increased. As ANC parliamentary candidate Alec Erwin said this week: "Some voodoo economics is needed."

FM 15/4/94 (49)

ECONOMIC POLICY

FM, 15/4/94

You can't trust the Nats

With economic policy set to become the dominant feature of parliamentary debate after the election the DP warns against entrusting a watchdog role to the Nats alone. (49)

The prospect of an ANC-led government "throttling free enterprise" needs to be checked by a party that not only understands the free market, but also has viable policies to support it, says DP leader Zach de Beer.

The DP has formally pledged itself to defend free enterprise in the new parliament. The move was deemed necessary because of a perception that the ANC is bent on stifling free enterprise and increasing State control of the economy, and that the NP will not provide effective opposition to its whims.

De Beer says socialist tendencies displayed by some ANC candidates and revealed in the party's election propaganda are cause for serious concern.

"In the ANC's manifesto the words 'market,' 'productivity' and 'enterprise' are not mentioned at all, and efficiency is mentioned only in respect of tax collection."

He says the DP on the other hand is the standard bearer of free-enterprise democracy, a concept to which the ANC pays lip service while staying firmly rooted in its socialist past.

The NP's history of disastrous economic policies, its "anti-free enterprise conduct," and its failure to keep a 1989 election promise to cut personal tax means it will be an ineffective opposition, says De Beer.

"Both the ANC and the NP fail to understand the idea of individual initiative and free enterprise, and their instinct is to control and regulate. They make the fundamental mistake of assuming that the State can effectively manage every area of economic activity. In the light of its own conduct, the NP's claim to be the protectors of economic freedom is a giant hoax."

He says the greatest threat to free enterprise is a government that will spend beyond its means to pay for a massive bureaucracy and unaffordable State projects. The NP made these mistakes for decades and dragged SA into an economic quagmire.

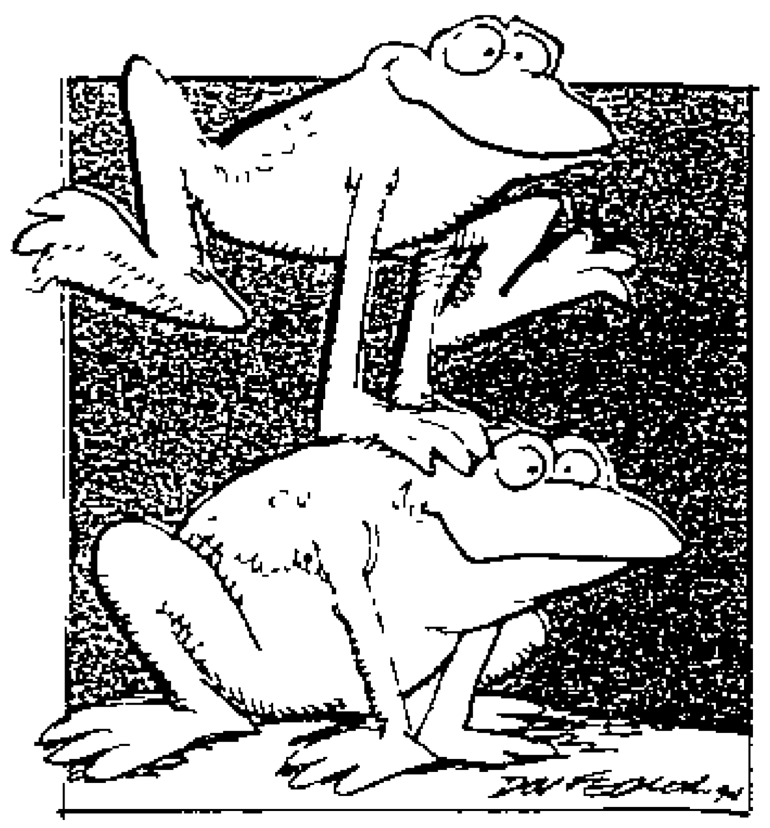
DP finance spokesman Ken Andrew believes the most serious immediate threat is that an ANC-led government will "tax people out of sight" in an attempt to increase its share of national revenue. Based on this scenario it is possibile that personal tax will double in four years.

It is also possible that the government will simply print money to pay its bills which could push inflation up to 20% within three years. It might also borrow heavily pushing interest payments up to 30% of government spending within five years.

Andrew says the DP is committed to: exposing any measure that unreasonably stifles free enterprise; opposing budgets that increase government's share of GDP; and opposing taxes that dampen initiative and undermine growth and job creation.

He says the organisation's economic policies are riddled with contradictions, such as a commitment to increase public spending, but without increasing taxes, and its ambiguous stance on nationalisation is scaring off potential foreign investors.

Andrew says a strong showing by the DP in the election will give the party more power than ever before in parliament and one or more seats in the national unity Cabinet from where it hopes to significantly influence economic planning. However, if the ANC wins a two-thirds majority in the election, the country could face "serious problems." ■



the basis of premium income

At that point there was never any doubt that Liberty was far behind in terms of size

To emphasise asset bases may suggest that size brings policyholders some advantages — better systems, distribution and administration

But the demonstrable ability of the life assurers to bring on board assets when it suits them, makes size a dubious yardstick

If size is to be employed, the offices should clearly disclose those assets which belong to policyholders (as distinct from shareholders' funds and, in the case of mutuals, free reserves) together with the ratio of liabilities ■

ANC ECONOMIC POLICY FM 15/4/94

Proof of the pudding

In the seventh and presumably final version of the ANC's reconstruction and development programme, the proposals dealing with resource-based industries have been significantly softened — especially in tone

The previous version argued that minerals in the ground belonged to "all South Africans" and proposed that the ANC should seek their return to the democratic government, which should in turn give the people control over their best exploitation. It argued also that the concentration of ownership in mining and marketing of minerals discouraged direct investment and participation of "our people" (49)

The latest draft omits these sentiments but repeats the complaint that mineral wealth has hitherto been used only for the benefit of "a tiny white minority"

It also argues that the current system of mineral rights prevents the best development of mining and the appropriate use of urban land

While it still advocates the return of private mineral rights to the democratic government — in line with policies in some other countries — it takes a more conciliatory line than the sixth draft, suggesting the process should be carried out "in full consultation with all stakeholders"

A reference to urban land suggests future pressures on companies owning mines in the Central Witwatersrand to part with freehold land for housing purposes. Early expropriation, even if properly compensated for, will not necessarily suit the best commercial purposes of the company

Another proposal has been toned down that government intervene in output and pricing decisions, through a mineral marketing auditor's office and a policy of national marketing of certain minerals, thereby transforming the mining and minerals processing industries "to serve all the people"

The seventh draft says (49) only that the goal of transforming mining to serve all the people can be achieved through a variety of government interventions, incentives and disincentives

It suggests that the management and marketing of mineral exports must be examined "together with employers, unions and the government to ensure maximum benefits"

The seventh draft retains its call for "the democratisation" of the mining sector through appropriate anti-trust legislation and other mechanisms. But the demands have been watered down and the tone has been softened

FM 15/4/94

Also still in the seventh draft is the call for government to assist [illegible] beneficiation. It also complains about [illegible] pricing by mining companies which sell raw materials to local manufacturers

This practice results in the local manufacturers having to pay higher prices than the mining companies' export prices, so damaging manufacturers' export competitiveness

The seventh draft says the future government must find a way to [illegible] this practice

The section on small-scale mining has been substantially rewritten

Omits rhetoric

It omits the aggressive rhetoric about small-scale mining in pre-colonial days, brought to an end by white colonialism. It states merely that government should encourage small-scale mining through various means, including access to mineral rights but subject to environmental, health and safety requirements

There is also a call for fair wages and better working conditions underground

The seventh draft urges an end to single-sex hostels for miners and the compulsory retention of a portion of their earnings, and demands that mining companies assume greater commitment [illegible] proper housing of miners and for the educational, training and social needs of miners and their families

This is probably in [illegible], in principle, with the views of most mining houses which have improved employees' [illegible] conditions vastly in recent years. But marginal mines may not be in a position to absorb the additional costs without destroying themselves in the process. The gold mining industry on average is not as rich as its critics imagine

The call for a greater regional commitment by SA — to help mining in neighbouring states — remains. So too does the demand for greater environmental responsibility

All in all, mark VII is a distinct improvement on mark VI

But there is more than a hint of racism in the repeated juxtaposition of "a small white minority" to "our people." This is not a good way to start building a united nation, which the ANC professes to want, of all ethnic groups. But — in fairness — the detailed proposals should be read in the context of a generous and conciliatory preface to the document by ANC president Nelson Mandela

Mercifully, the seventh draft is sufficiently loaded with escape clauses referring to procedures such as consultation with stakeholders to enable the new government to proceed moderately and pragmatically if it [illegible]

The test of the [illegible] pudding will [illegible] be in the eating ■

(4)

ZIMBABWE FM 15/4/94

Short rein

After a [illegible] last year Zimbabwe's [illegible] since 199[illegible]. Provisional estimates for 1993 show growth of [illegible] after a revised [illegible] decline in 1992. Though some optimistic forecasters believe output could grow as much as [illegible] this year, the consensus is closer to 4%, especially after the early [illegible] rain and the abnormally hot weather in February-March. Crops planted late are a write-off in many parts and maize production forecasts have been lowered to around 2,[illegible] Mt, from 2,5 Mt two months ago

The signs are that, with growth of 3,5%-4%, it will take until 1995 for Zimbabwe to regain the peak output levels reached in 1991. Per capita, Zimbabwe has performed worse than SA. Real income per head is back to levels of the early Seventies and 20% below the peak of 1974. Economists believe it will take until the turn of the century to return to income levels reached in 1991 — before the 1992 drought

Last year's recovery was confined to agri-

3/BUSINESS

The poor will have to be patient for longer

(49)

WM 22-28/4/94

Despite some promising signals, the economy is not growing fast enough to meet reconstruction needs, reports **Simon Segal**

SOUTH AFRICA'S post-election government of national untiy, certain to be dominated by the ANC, inherits an economy that has at last started to move out if its most severe recession ever on to a path of renewed growth.

Most economists are looking at two to four percent real annual growth in gross domestic product (GDP) over the next two to three years, the most robust since the Seventies and a marked improvement over 1990-1992 which saw a 12 percent decline in per capita GDP.

Encouraging is that such predicted growth is off an inflation base of under 10 percent (the lowest in more than 20 years) and is being underpinned by growth in gross domestic fixed investment (GDFI) rather than on a gold or agricultural windfall.

Indeed, the 3,5 percent rise in GDFI over the last quarter of 1993 (the 1,5 percent hike in the previous quarter was the first increase in 14 quarters) was greater than the rise in consumption.

With the attention of the world on South Africa's transition, the new government has an excellent opportunity — probably not to be repeated — to win the confidence of international investors.

Looking at such a scenario it is tempting to conclude that all is now happy and well in the economy and that it will be able to deliver on the often wild promises of the political parties.

Tempting but misleading, however. There is another side to the country's economic health.

Unisa's Bureau of Market Research (BMR) notes that in the early 1960s, when one quarter of the labour force (1,6-million people) was unemployed, more than 90 percent of new entrants to the labour market got formal jobs.

By the late 1980s this had plunged to 8,5 percent — of 355 000 people entering the job market every year a mere 30 000 got jobs in the formal sector.

A sustainable annual growth rate of more than nine percent, calculates the BMR, is required to simply absorb the annual labour force growth of 2,8 percent.

This nine percent growth is not going to happen. Living standards will continue to fall even at the much higher forecast GDP growth rates.

Some 14-million people (38 percent of the population) are functionally illiterate in South Africa. Black males spent an average of 4,8 years at school in 1985, up from 1,9 years in 1960 but still well below the 11,3 years for whites.

As a new government offers some hope for those who have been disadvantaged the prognosis for any significant improvement in their welfare is poor.

There are unbearable reconstruction and development demands. The ANC estimates a bill of around R39-billion, the National Party government reckons this figure could be almost doubled to R70-billion.

It is the economy's ability to cost and finance reconstruction while at the same time contain expectations and violence that arise from deep poverty and ignorance that worries investors.

For this reason foreign investment is not expected to pour in until it is clear that South Africa is managing its problems.

Local investment, while already up since the second half of last year, might be more robust but will still be limited and will not expand the productive base of the economy to the levels required.

Looking beyond the election, South Africa will enjoy modest growth compared to what is required for socio-political progress. But the only sustainable way of alleviating poverty is to restore adequate employment-creating growth.

The new government will face a daunting task. South Africa's impatient people will have to be patient.

ANC's development plan is useful, but flawed - economist

ARG 23/4/94 (49)

Programme is 'an important advance'

THE ANC's reconstruction and development programme (RDP) was an important advance on earlier ANC/Cosatu documents — but the programme still contained a number of flaws, according to Rand Merchant Bank chief economist Rudolph Gouws.

Speaking at a seminar at Stellenbosch University this week, Mr Gouws called the RDP the most comprehensive Party document to date.

He said the document was an original, wide ranging critique of South Africa's socio-economic legacy, presenting a range of useful and practical market-friendly ideas.

The plan's acceptance of fiscal and balance of payment constraints was also pleasing, he said.

In addition, Mr Gouws said the RDP reflected an openness and an ability to take new ideas on board.

"It issues an invitation for ideas, co-operation and encourages innovation."

However, Mr Gouws — who emphasised that he did not want to appear partisan in his appraisal — was highly sceptical about the ANC's optimism about budgetary expenditure savings by the new government.

There is little indication of trade-offs and priorities and a lack of clarity on costs and fiscal/macro-economic implications, he noted.

He stressed that there was little chance of further raising corporate taxation.

South African corporate tax was already one of the highest in the world.

Mr Gouws was also concerned about the RDP's over-emphasis of the state's role in job creation and the vast assumptions about the new government's ability to administer and deliver the programme.

THREE top economic thinkers gave their views on the ANC's reconstruction and development programme at a seminar in Stellenbosch this week. **MARC HASENFUSS** reports.

His other major reservations were the remaining ambiguity about nationalisation and the lack of direct references to the roles of markets and price mechanisms.

Mr Gouws noted that if the RDP was broadly similar to the Development Bank of Southern Africa's reconstruction plan, then the ANC's plan would not be feasible unless it was introduced over a longer period, scaled down and if the ratio of spending/debt to the GDP rose.

■ Professor Sampie Terreblanche — Stellenbosch economics department lecturer — was disappointed by the RDP.

"It is not nearly analytical enough. The RDP does not make a strong case for what the ANC want to do."

"The plan cannot be done in five years ... 15 years maybe — it's too ambitious."

RUDOLPH GOUWS

■ Professor Rob Davies, of the UWC's Centre for Southern African studies, said the RDP presented an integrated strategy to overcome South Africa's present financial crisis.

"We will equip people to take their rightful place in the economy and thereby also boost the country's skills base."

He reiterated that the new government would find "a lot" of the RDP's funding in existing state expenditure, especially by shifting priorities in the budget to find extra resources.

Professor Davis pointed out that the defence budget was twice as much as that of housing.

He also dismissed the NP's claims that a UK-based study showed the ANC programme would cost R75 billion in the first year alone as a "mischievous intervention" and "election scare tactics".

(News by Marc Hasenfuss, 122 St George's Mall, Cape Town) 8001

Jury still out on RDP

Star 29/4/94

(49)

BY CLAIRE GEBHARDT

The jury is still out on the three most debated letters in town — RDP — otherwise known as the ANC's Reconstruction and Development Programme.

Can a new government deliver an RDP, and is R39 billion over 5 years enough?

In practice, the ANC has argued that the R8 billion a year on average it seeks will come from a R4 billion saving from the defence budget and a R4 billion post-apartheid dividend from rationalisation of the homelands' bureaucracies.

It also sees scope for a basic re-ordering of priorities within the present social spending budget, which it claims is relatively high by international standards — a contention borne out by the Department of Finance's recent fiscal review.

The review indicates that not only has government expenditure on social services increased dramatically over the past decade but that, in the past two budgets in particular, the shift toward social spending — largely on education and health — has been facilitated by cuts in defence.

At the same time, the review is a stark reminder of how an ever-increasing rise in the state's share of economic activity has coincided with South Africa's dismal growth record.

Between 1982/83 and 1991/92, for example, the overall ratio of general government expenditure to gross domestic product (GDP) increased from 29,4 percent to 36,1 prcent.

Current expenditure, composed of spending on goods and services, interest, subsidies and transfers, increased from 82,7 percent of total expenditure to 91,1 percent over this period, or from 24,4 percent of GDP to 32,9 percent, largely as a result of the growth in civil service numbers.

Remuneration of employees, for example, increased from 35,1 percent of total expenditure in 1988/89 to 40,5 prcent in 1991/92, and was the main contributing factor in the growth of spending on goods and services.

Particularly disturbing about the rising trend of government spending is that while current expenditure rose, capital expenditure declined, implying that less and less has been pumped into the economy to build up infrastructure.

Capital expenditure as a percentage of total expenditure declined from 5,1 percent of GDP in 1982/83 to 3,2 percent in 1991/92.

Fortunately, however, this trend was partially reversed in 1993/94, with the share of capital expenditure increasing to 7,4 percent of total expenditure, mainly as a result of lowering the share of current transfers (particularly subsidies to private businesses) and restricting the growth in the remuneration of employees.

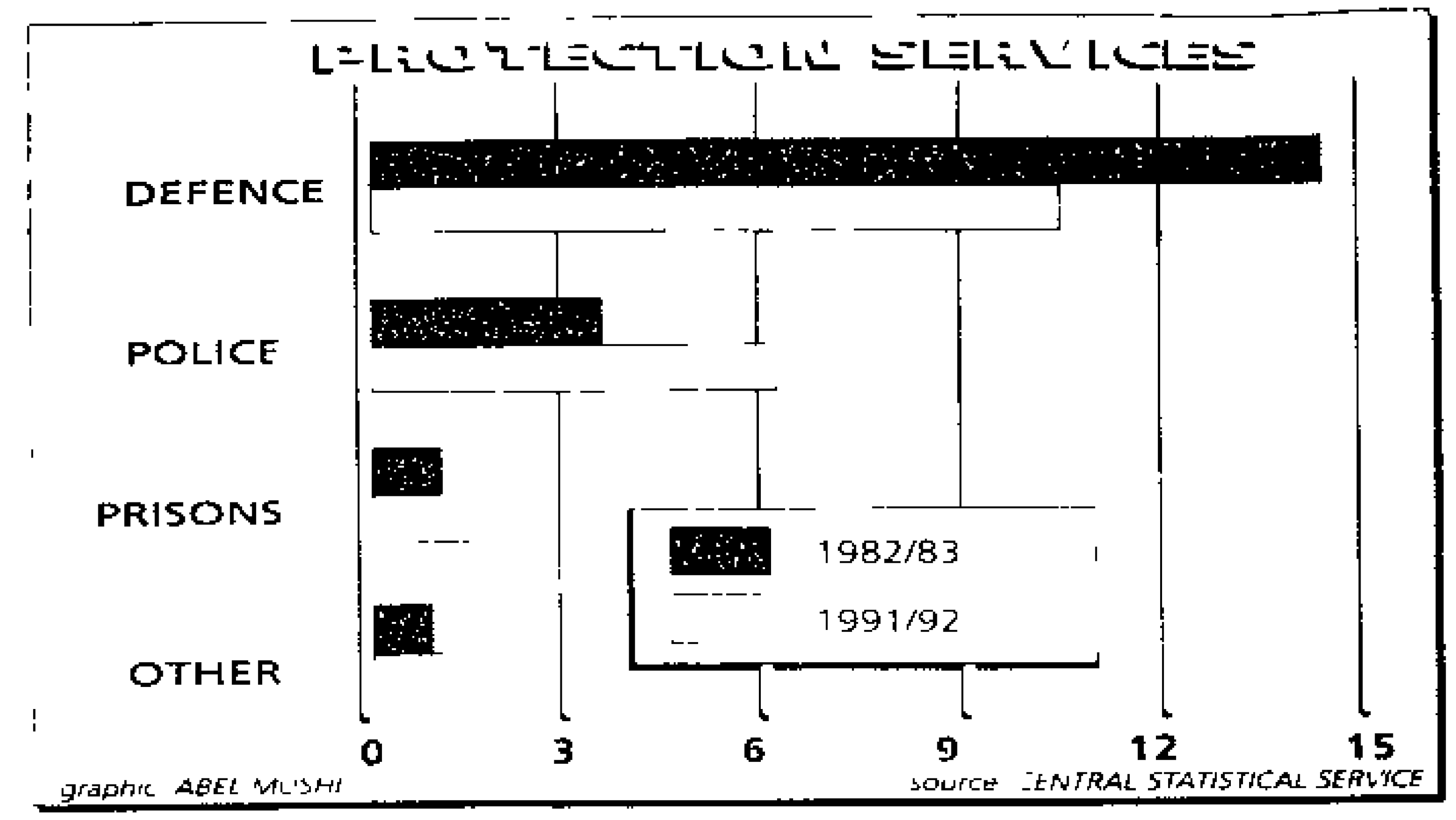
Social spending increased from 38,7 percent to 43,7 percent of total expenditure between 1982 to 1991, or from 11,4 percent to 15,8 percent of GDP, predominantly because of educational spending which rose from 17,7 percent to 20,3 percent of total expenditure.

Social security and welfare increased from 6,2 percent to 8 percent of total expenditure.

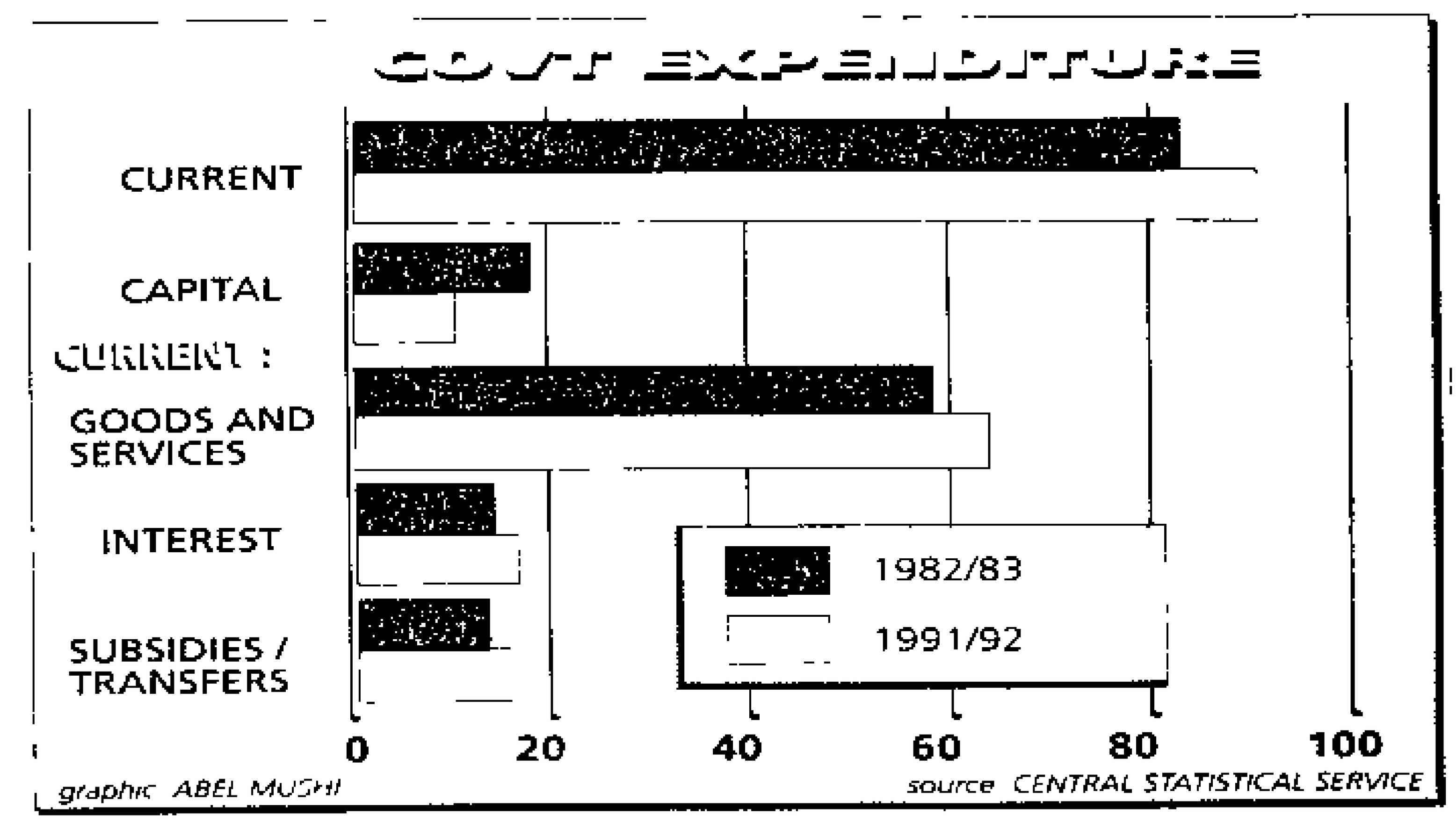
By 1993/94, social spending had increased to a massive 44,1 percent of total expenditure, while interest on government debt had soared to 16,9 percent.

Cuts in defence helped facilitate the hike in social spending as the percentage of total expenditure allocated to defence declined from 14,2 percent in 1982/83, 10,3 percent in 1991/92 and to 8,1 percent in 1993/94.

However, increases in other protective functions such as police and correctional services limited the resources that could be freed for other uses.



Government expenditure on protection services as percentage of total expenditure 1982/83 and 1991/92.



Economic classification of general government expenditure 1982/83 and 1991/92 (Percentages of total).

Democracy costs SA at least R1,25bn

B/Day 2/5/94

(459)

GRETA STEYN

THE election was budgeted at R1,25bn in the 1994/95 fiscal year — almost half the expected budget for housing.

But the final bill could be much higher as unexpected spending on security, extra voting days and delays in counting votes add to the cost.

The unforeseen R300m bill to bring police allowances in line with the National Peacekeeping Force alone could take the overall costs to more than R1,5bn.

A State Expenditure Department spokesman said at the weekend the election had been budgeted to cost R1,25bn in 1994/95 and was included in the spending totals released in March this year.

He could not give a breakdown of what was included in the budgeted figure, but said it was possible the additional costs due to extra polling days could be accommodated within this amount. But extra spending on security would probably have to come from the police and defence budgets, not from the election budget.

He could not comment on whether the R300m cost of the pay rise to 80 000 police officers, announced by the TEC last month, could be accommodated within the existing police budget. The TEC trebled the election allowance paid to police officers to avert a strike. The daily payment was raised to bring it in line with National Peacekeeping Force members' allowances. It was also announced that SADF soldiers deployed to support the SAP during the election would receive a boost in daily allowances from R15,50 to R61,50, but the total additional cost was not disclosed.

Economists said the extra security spending, when added to the election's budgeted cost, could take the overall bill to more than R1,5bn. The cost could be put into perspective by comparing the figure to the housing budget of about R1,6bn in the 1993/94 year. The 1994/95 housing budget is expected to be about R2,6bn.

According to the IEC's preliminary budget estimates, the election would cost nearly R700m. (The figure did not include security costs.) The IEC said last week a spending update would be given once the election results had been announced.

SA to get R534-m in aid from Britain

The Argus Foreign Service

LONDON. — Britain is to provide more than £100 million (R534 million) in aid to South Africa over the next three years, Foreign Secretary Douglas Hurd has announced in parliament. ARG 5/5/94

The pledge includes £60 million of bilateral aid, investmenets by the Commonwealth Development Corporation, and Britain's share of European Union assistance. (49)

In making the announcement, Mr Hurd praised South Africans for their "example of peaceful democratic change".

He also hoped to give a positive response to the TEC's recent request for British assistance with the integration of the new National Defence Force when he arrives in South Africa on Sunday for the presidential inauguration.

Britain's aid programme to South Africa, which began in 1979, has so far peaked at about £15 million a year.

Overseas Development Minister Lynda Chalker confirmed that Britain would be seeking to direct its financial assistance to several main areas of need in South Africa.

‘Prosperous SA a boost to whole region’

A49 ARG 5/5/94

The Argus Foreign Service

WASHINGTON. — President Bill Clinton has justifed his plans to double US financial assistance to South Africa by saying a prosperous South Africa will boost development in the whole Southern African region.

President Clinton is due to announce the increase at the White House today and to announce the names of his presidential delegation to attend the inauguration of the new South African president.

Sources here believe Vice-President Al Gore will head the team and that First Lady Hillary Clinton may be a member.

President Clinton said in Atlanta this week that the US would probably offer South Africa $600 million (R2 160m) over three years — $200 million (R720m) a year. This would more than double the present $90 million (R324m) a year.

It is understood that this will be the combined US Administration spending on South Africa from all agencies, not just the Agency for International Development (AID) which is the principal institution dispersing financial assistance.

But sources stressed that the figure could increase. The administration would ask Congress to approve $200 million (R720m) a year and Congress could decide to increase it.

The sources say that about $20 million (R72m) to $30 million (R108) of the increase will come from aid to other African countries, mainly those which have a poor human rights and reform record.

President Clinton was asked at a CNN foreign policy forum whether other African countries would feel slighted by Washington's doubling aid to South Africa.

He said they might. But the government of national unity — including President De Klerk and Mangosuthu Buthelezi — held great potential for restoring South Africa's economy in a multiracial environment.

He noted that US trade with South Africa had fallen from $3 billion (R10,8b) a year 10 years ago to just $1 billion (R3,6b) this year.

"South Africa can be a beacon of economic development and prosperity for all of Southern Africa. It can help to build the interest of American and other investors in investing in all of Southern Africa and can help to build a constituency for expanded assistance throughout africa.

"I think this is an opportunity which in the short term benefits South Africa but has the capacity in the near term to be of immense benefit to Africa.

"And it is not as if we could double aid to someplace else if we didn't do this. There is no possibility so I think this is an enormous opportunity. We should seize it and use it to build a broader relationship with the rest of Africa."

President Clinton conceded that US foreign aid to Africa had begun declining from before his term but said the US had not discriminated against Africa.

"The reason for that is that in the aftermath of the cold war our government deficit was so high, we've been cutting almost all kinds of spending.

"And foreign assistance has not had a great level of support in our country."

New government faces cash pickle

Star 9/5/94

■ BY DEREK TOMMEY

The new government's first duty seems likely to be raising additional revenue to meet its promises to the electorate.

Adding urgency to this task is its apparent commitment to sacrificing several billion rands of revenues by exempting a number of basic foods from VAT.

But one of its announced targets for increased tax revenues — the corporate sector — seems umlikely to present it with the extra cash it wants, unless it either raises tax rates or greatly increases the surveillance of company acounting practices.

Trevor Manuel, head of the ANC's economics section, is on record as saying that the effective tax rate paid by companies in South Africa is not much more than 22 percent and that he will close the gap between this and the nominal tax rate of 40 percent.

But while Manuel's figures might have been correct a few years ago, they are no longer so today.

Running down capital allowances has resulted in the rate of actual tax paid coming much closer to the nominal rate.

As a result, the real rate of tax paid by commercial companies is now around 40 percent, while that for manufacturing companies is around 32 percent and rising.

Sectors

There seem to be few pickings for the taxman in these sectors and the same applies to the gold mining industry.

Its average tax rate last year was about 25 percent, but this gives a completely false picture of the amount of cash the industry has available for distribution to shareholders or for paying extra taxes.

This is because one of the industry's major costs, its capital expenditure, is deducted from taxed profits.

So instead of the industry last year having 75 percent of profits available for shareholders, as the 25 percent tax rate might imply, the actual figure after capital expenditure was only 35 percent.

Tax experts admit that if the new government were to employ additional resources on tax collecting, more revenue could be produced.

But this would be an extremely costly process, requiring the employment of highly skilled and highly paid experts such as chartered accountants who would know where to look for overstated costs and unreported and untaxed profits.

Such people proved their worth in the mid-80s when chartered accountant army conscripts were given the alternative of working with Inland Revenue, and ultimately generated millions in extra revenue.

But conscription is no more, so if the tax authorities want these people, they will have to pay the going rate for them.

This is between R150 000 and R200 000 a year, a level that could have a major disruptive effect on other public service salary and wage scales.

(49)

It is also worth remembering that any extra cash squeezed from companies would mean less money for shareholders and therefore less investment and fewer job opportunities.

For a government which came to power on the promise of huge job creation, this is something it must think hard about.

SA: 'No engine of growth'

(49) CT 11/5/94

NAIROBI. — Business leaders from Africa said yesterday they expected no economic miracle from a newly democratic SA, which would have to concentrate first on domestic programmes to raise the living standards of its people.

"We can't be an engine of growth. We don't have that role, and we don't seek it," Wesgro CE David Bridgman told a seminar discussing SA ahead of the AFDB annual meeting here this week.

Senior African Development Bank (AFDB) official Adewale Sangowawa said that despite stronger industry and better infrastructure than the rest of the continent, SA would become a borrower, not a lender, upon joining the bank.

"As a new democracy SA faces its own problems, and has planned social programmes to meet these challenges. It will need the money to carry some of these through," Sangowawa, AFDB vice-president for southern region operations, told the seminar.

Bridgman said 20% to 30% of

Upliftment is first priority

SA's total trade was with African countries, although data were far from complete in the apartheid era, when trade with this country was discreet.

But he said he expected business with neighbouring countries to grow now, with juices, milk, alcohol, wines, steel and other products getting into African markets.

He said it would be two or three years before business jitters about the transition ended and the economy was strong enough to underpin the political changes in SA.

Zimbabwean state minister for finance Tichaendeti Masaya said SA's neighbours wanted to see this country lift tariffs and ease exchange controls to encourage regional trade.

"SA must open up," Masaya said.

He ruled out SA strengthening regional groupings which have largely failed in efforts to boost intra-African trade, saying progress lay in bilateral agreements.

And he warned of a potential drain on human resources from neighbouring countries, since South African blacks were not trained for some of the new jobs they will be asked to do.

War and famine have severely hampered economic growth in sub-Saharan Africa. One third of the AFDB's 51 members are in a state of war, like Angola and Rwanda, or stricken by rebellion and acute political instability as in Sudan and Liberia.

Western donors are demanding reforms in the AFDB before stumping up more cash to help the bank help Africa.

Debt arrears to the bank rose to more than $700m in 1993. Some of these are chronic debts from broken countries like Zaire and Somalia.

Excluding SA, the continent's gross domestic product (GDP) grew by only 1,4% last year, less than half the galloping rise in population. — Reuter *res confidence*

'Money handled well'

Sowetan

By Tyrone August

THE Department of Finance has rejected reports that the country's debt increased by R60 billion during the outgoing government's last year in office. It placed the amount at R41 billion.

(49)

And, said director-general Dr Estian Calitz in a statement, the only new debt created during the 1993/94 fiscal year was the funding of the Budget deficit to the tune of R26,2 billion.

"Together with the refinancing of existing debt on maturity, the gross budgetary financing requirement amounted to R30,5 billion," he said.

Sound fiscal management

"Furthermore, the Government worked down its borrowing requirement from the budget deficit of 8,6 percent in 1992-93, and succeeded in keeping within the estimated deficit of 6,8 percent of GDP in 1993-94."

Calitz said this "was evidence of sound fiscal management, not the profligacy implied".

In the case of the pension funds, he said, the decision to issue stock followed wide-ranging negotiations with interested parties.

"(It) represents a further step in the systematic move away from so-called pension schemes — directly financed from the annual budget — to pension funds, instituting sounder financial management," said Calitz.

State debt Increased

As a result of issuing Government stock to the pension funds, the State debt increased.

However, the figure of R41 billion does not include all the expenditure of the former independent homelands and self-governing territories.

"The new constitution determined that the obligations (of these areas) that could not be linked to specific assets would become central Government debt on April 27 1994," said Calitz.

Danger signs up for 'basket case' outlook

South Africa warned of handouts as millions of rands pour in

(49) ARG 14/5/94

DAVID BREIER
Weekend Argus Political Staff

■ With billions-worth of aid beginning to pour into the country, South Africa's main trading partners warn against the growth of a "basket case" mentality.

AFTER this week's presidential inauguration bash comes the hangover as major countries warn the new South Africa not to expect endless handouts.

South Africa now must concentrate on attracting investment and promoting growth and jobs throughout southern Africa through constructive economic policies, the country's main trading partners cautioned this week.

The United States has promised R2-billion spread over the next three years — but, there are rumbles in the US Congress against dishing out such large sums to a country with so many resources.

Britain has promised about R500-million, also over the the next three years, while Germany has quietly increased its aid to R230-million for this year.

Other smaller handouts includes R30-million over the next three years from Australia while Canade has announced preferential trade tariffs which will promote South African exports.

But, German diplomatic sources said that SA must not come to rely on handouts. "Financial resources are scarce and we have problems of our own," they said.

Germany believes it can play a far-greater role in aiding South Africa's economic recovery by promoting more long-term economic relations with South and southern Africa.

As Germany will assume the presidency of the European Union from July 1 to September 30, it is to host a conference in Berlin on September 6 and 7, involving the Southern African Development Community (SADC), South Africa and the European Union which, by then, should comprise 16 nations.

German sources said the conference would concentrate on development and co-operation, which was the way forward in the region.

It would explore the region's relations with the EU and the scope of Europe's support to southern Africa and what political and economic agreements should be entered into.

They said the future of EU involvement would be to co-ordinate its efforts in southern Africa with special focus on the role of South Africa in the region in order to maximise limited investment resources.

The importance of the Berlin conference in September would be to signal to potential investors that Europe had a strong belief in the future of southern Africa, he said.

German Foreign Minister and Vice-chancellor Klaus Kinkel this week urged the 320 German companies in South Africa to remain and promote growth.

EU countries plan to invest about R700-million in South Africa this year.

US diplomatic sources estimated that foreign aid would not amount to more than an eighth or a tenth of the African National Congress' ambitious reconstruction and development programme which is supposed to cost R39-billion — over five years, but could cost much more.

He said there was a broad willingness among Democrats and Republicans in Congress to help South Africa which now had become one of the largest receivers of US foreign aid in the world.

But, he cautioned that the American people had their own problems and South Africa could not turn to the international community indefinitely.

US aid to South Africa therefor also would aim at boosting growth and investment. This included benefits for US investors in South Africa through the Overseas Private Investor Corporation (OPIC) which provides loan guarantees to encourage investment.

British Embassy spokesman Geoffry Adams said that, while the British aid package was much more than a token gesture, the Republic could not expect the international community to continue bailing it out.

The aid was targeted at rectifying the serious imbalances caused by the country's history.

"South Africa has everything it needs to develop a sound economy," he said, emphasising that the country was by no means a "basket case", but a potentially rich country in its own right.

British aid will focus on technical aid, including help with restructuring and training to assist the integration of the SA Police Service, the National Defence Force and the public service.

COMPANIES

Best and worst in new economy

S Times 15/5/94

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By KEVIN DAVIE

WINNERS and losers in the new South Africa have been identified by economist Nick Barnardt.

Those who could be hurt by change appear to be suppliers to the SA National Defence Force, up-market medical and pharmaceutical sectors and manufacturers of highly protected goods, such as cars, textiles, clothes and electrial appliances.

Also likely to suffer are synthetic fuel producers, those who gain from the general export incentive scheme (GEIS), bottle stores and producers of expensive alcoholic drinks and other luxuries.

Mr Barnardt, of stockbroker Ed Hern, Rudolph, says: "Banks will probably not have an easy time, having to contend with margin pressures which tend to arise when short-term interest rates move up. They could lose business through development of the corporate commercial paper market."

Financial and other companies exploiting deferred tax or similar "loopholes" to reduce their effective tax rate stand to lose from the Government's effort to raise "the effective tax intake from the corporate sector".

Equity sectors which should benefit include imports and exports, transport, especially shipping and aviation, car rentals, hotels and tourism.

Metal and mineral exporters should benefit from higher world prices and moderate rand depreciation implicit in abolition of the financial rand.

Mr Barnardt says: "The biggest price re-rating could occur in stocks highly attractive to foreign investors on the basis of their actual and potential competitiveness on world markets and/or natural synergies with foreign companies."

A major beneficiary of change could be construction.

Furniture, textiles and appliances will gain from the housing and electrification drive, but some could be hit by lower import duties.

Retailers and wholesalers could profit from higher consumer spending.

Turnover for those involved in machinery, electronics, office and business equipment should grow by 10% a year in real terms.

Mr Barnardt sees rapid internationalisation (with fast import flows), a less inequitable spread of personal incomes, high government borrowing (especially in the late 1990s) and recovery of private fixed investment as key features of the new economy.

"This will combine to reflect structurally high real interest rates, especially on the short-term side."

The inclusion of IFP and NP members in the Cabinet plus the fact that the ANC's contingent includes economic moderates, will probably prevent the RDP from being implemented in irresponsible fashion.

Mr Barnardt believes the deficit before borrowing could fall in the next two to three years, but it is likely to accelerate before the 1999 elections.

Share prices should benefit from an influx in foreign funds and from growth in domestic corporate profits in the next five years. But the scale of gains from present levels will be limited by increases in real domestic interest rates, by rights issues, new listings and commercial paper flotations.

SA's credit rating set for review

(41) CT 16/5/94

From PETER GALLI

JOHANNESBURG. — SA's international credit rating should improve steadily over the next six to 12 months because the election outcome was tailor-made to bring long-term political stability, the London-based Economist Intelligence Unit said at the weekend.

The unit's Risk Ratings Review is a quarterly publication that ranks 82 countries by category, from the lowest risk or A category to the highest risk countries that fall into the E category.

Every country is assigned a grade for its overall short-term trade risk, medium-term lending risk and political and policy risk. Overall scores range from a nought for no risk to 100 for high risk.

SA's overall credit rating in the first quarter this year was at 50 points, which placed it in the middle of the C category with countries such as Costa Rica, Hungary, Saudi Arabia, India and Morocco. But as SA's political and policy risk was expected to improve by five points, this would move it to the top of the C category by the end of the second quarter, which would put in on par with Greece, Uruguay, Egypt and Namibia, the unit said

"If a relatively peaceful dispensation can be established in the coming months, SA could well become the first B-rated country in sub-Saharan Africa. Neighbouring countries are also likely to benefit. The average risk score for sub-Saharan Africa remains very poor at 71,7 points — the equivalent of a D category. Only those countries in the former Soviet Union fare worse, averaging 80,8 points."

Sub-Saharan Africa has only three C-rated countries — Ghana at 55 points, SA at 50 points and Namibia at 45 points.

● SA now offers many enticing opportunities for the foreign investor, says Michael Spriggs a leading specialist with S G Warburg Securities.

"SA presents a beguiling mixture of a sophisticated, established market with the growth potential of an emerging market."

Spotlight on govt's new economic policy

(49)

CT 17/5/94

By AUDREY D'ANGELO
Business Editor

FOREIGN markets will now focus on the new government's economic policy approach and its ability to control violence — and if these are successful there should be "a substantial increase" in foreign buying of our equities, says Board of Executors economist and senior portfolio manager Rob Lee

He says in his Investment Outlook for May that BOE's optimistic view on SA's growth prospects has been reinforced by recent developments.

"We anticipate economic growth of around 3% this year and place a high probability on 4% plus growth rates in 1994 and 1995"

Lee expects foreign buying of SA shares to increase when the JSE becomes part of one or more of the major world stockmarket indices. "For example it seems probable that SA will be included in the primary emerging market index — that of the IFC — by July or August.

"Many overseas fund managers took the safety first option of not investing in SA until the election had actually taken place

"In the short term this has proved to be a wise decision Most of the foreign investors who came back into our markets in recent months (bonds as well as equities) were severely punished by the collapse of the financial rand

"The vulnerability of the investment currency to wild swings is a major deterrent to foreign investment in our markets, as recent experience vividly demonstrates.

"Nevertheless it seems very probable that a renewed wave of foreign buying could push the JSE substantially higher in coming months Prospects for sharply higher company earnings growth over a sustained period provide the fundamental underpin to such a move"

But Lee warns. "The main risks to this promising outlook are twofold: a major fall-out on Wall Street leading to a derating of equities worldwide, and a failure by the government of national unity (GNU) to restore stability and convincingly demonstrate a sustainable and acceptable economic policy approach."

Unlike many other economists, Lee thinks the "alarming drop" in foreign exchange reserves will prevent a further cut in bank rate, even though the present prime rate of 15,25% "represents a real rate of 8,25% — a punishingly high rate for an economy just emerging from recession"

Doubts raised over VAT changes

Transition costs 'billions over budget'

B/Day 18/5/94

CAPE TOWN — Overspending of about R3bn on the political transition and the elections is expected to be a major issue facing the new government as it presents its first Budget next month.

This was indicated yesterday by Tax Advisory Committee member and Wits University professor Dennis Davis. Davis, a consultant to the ANC, also suggested it would be too costly to introduce zero-rating on foodstuffs in the first Budget.

He told an Institute of Retirement Funds conference on future tax policies the budget to fund the political transition and elections had been overspent by about R2bn-R3bn. Davis mentioned rumours of "fancy cars" bought for Independent Electoral Commission and Transitional Executive Council officials.

The figure is not, however, official and Davis is not a designated ANC spokesman.

Davis said the higher than expected transitional costs would raise government's interest bill, already the second largest expenditure item in the Budget.

Ways would have to be found to restore government debt to manageable proportions to prevent the country from falling into a "debt trap", he said.

Substantial changes to the tax structure in the next 12 months were unlikely. Reducing VAT on basic foodstuffs now would result in government revenue losses of R3bn-R4bn and would exacerbate deficit problems. A multiple VAT system would prove too complex to administer. Davis suggested targeted poverty relief programmes as an alternative.

A new commission of inquiry into future tax policies could be expected. He said the

EDWARD WEST

commission should allow the broadest possible public exposure, and should also allow the input of financial institutions.

He said developing new fiscal policies would take time and it would be at least a year, if not longer, for any clear changes to take place.

(49)

Davis said the Tax Advisory Committee was unlikely to have as much influence with government as it had formerly enjoyed.

Future tax structures would be strongly influenced by the ANC's reconstruction and development programme (RDP), he said. Tax aspects covered in the RDP included the elimination of the tax bias against women because of marital status, tax systems biased against small and medium-sized businesses and VAT exemption on basic foodstuffs.

Women had been provided with an equality provision in the Bill of Rights and litigation was likely in the short term challenging the tax bias against women. But removing the bias would reduce tax revenues by R1,5bn a year.

On taxation of small to medium-sized businesses, Davis said previous tax concessions had been abused.

He said the biggest single method of increasing tax revenues to help fund the RDP would be to spend more on the understaffed and underequipped Inland Revenue Department. SA's expenditure on tax collection was low by world standards and it had been widely reported that a massive amount of funds could be gathered in this manner, said Davis.

Reconstruction 'to cost R80bn'

CT 18/5/94 (49)

Own Correspondent

JOHANNESBURG. — The ANC's think-tank, the National Institute for Economic Policy, has completed research showing the full cost of the Reconstruction and Development Programme will run into R80bn to R90bn over five years

The figure includes central government and parastatal spending.

Before the election, ANC officials said the cost to central government would be R39bn over five years.

Institute head Mr Max Sisulu confirmed the full programme would cost at least R80bn, but declined to say what portion would be financed via the budget. He said spending in the fifth year was estimated at R39bn (including parastatal expenditure). Private sector expenditure, for instance on housing, was not included in the estimate. Housing would be financed mainly via the budget

He said the institute's task had been to identify savings within the existing budget and the scope for further spending, given conservative assumptions. These assumptions meant in the short-term there was little that could change As the programme went on, the assumptions could be relaxed.

Key assumptions for the first two years are that there would be no foreign grants, no major taxation changes and no further selling of strategic stockpiles.

The Development Bank has drawn up a model costing programme similar to the RDP, and found that overall spending (government and parastatal) of almost R57bn over five years would cause government debt to explode. Such a programme could not be sustained even if the economy grew at six percent by the end of the period

IEC over-spending

RDP R80-bn 'no cause for alarm'

Star 18/5/94

BY KAIZER NYATSUMBA
POLITICAL CORRESPONDENT

The Government conceded today that the ANC's Reconstruction and Development Programme (RDP) will cost more than R80 billion, but has insisted that a large portion of the programme will be funded through restructuring and rationalisation of the present Budget.

Reacting to reports today, Minister-without-Portfolio Jay Naidoo, who has been charged with the responsibility of seeing to the RDP's implementation, said the Government would seek to make savings within the confines of the present Budget, and only a small portion of the RDP would be financed via the Budget. (449)

Naidoo confirmed, however, that the ANC's think-tank, the National Institute for Economic Policy (NIEP), had found that the full cost of the programme would run into R80-90 billion over five years, as opposed to the ANC's earlier estimate of R39 billion.

Naidoo said that the NIEP study had now been submitted to the Government of National Unity through the ANC. The multiparty Cabinet would discuss it when it sits down to formulate a Budget for the 1994/95 financial year.

Naidoo says it will not be until the 1995/96 fiscal year that the RDP will come into full effect.

"I don't think there is a need for any alarm bells to be ringing now," Naidoo told The Star.

He said the Government would "organise around new priorities", and would adopt a budgetary strategy that would link budgeting to "a set business plan". Performance auditing would also be implemented.

Naidoo said the Government expected the economy to continue to grow, and that other possible sources of revenue would include getting people in the townships to end rent boycotts and pay for services.

According to a Johannesburg business daily, NIEP head Max Sisulu said his institute's task had been to identify savings within the existing Budget and the scope for further spending, given conservative assumptions.

He said key assumptions for the first two years included that there would be no foreign grants, no major taxation changes and no further selling of strategic stockpiles.

NEWS FEATURES *Problem was PW's draconian policy ● Minister inspi*

Huge apartheid debt a result of total strategy

Sowetan 23/5/94

By Tyrone August

■ **MONEY WOES** *New government faces task of repaying large national debt:*

(49)

THE NEW GOVERNMENT inherited several major problems when it took office this month. Among the most daunting is the size of the national debt which the outgoing government ran up in its last year.

It has been estimated at between R40 billion and R60 billion, and repaying the interest on this debt will make up the largest item in the new Government's Budget, which will be tabled on June 22.

Professor Sampie Terreblanche, from the economics department at the University of Stellenbosch, blamed this large debt on the cost of trying to maintain apartheid.

"The real problem was the total strategy policy of the PW Botha government," he said.

Spending on defence, for example, increased from 2,2 percent of the gross domestic product (GDP) in 1972 to 4,3 percent in 1984.

Terreblanche said that, in terms of 1990 prices, this overspending amounted to R75 billion. "That was in a declining economy," he said. "We could not afford it."

He blamed the overspending on funding the homeland governments and border industries, and increases in the salary scales of the public sector.

"We cannot show anything for it," said Terreblanche. "Structural corruption was built into the system, and money flowed like water."

He said there may even be more shocks in store: "Fiscal plundering may have taken place. It is not impossible that the state of public finance is even worse than we know.

"All kinds of patronage and nepotism took place before the transition. Favouritism was the order of the day. All kinds of privileges were given to those who were close to the system."

Terreblanche said there were no major changes during the last four years of the transition period because corruption has become institutionalised.

Professor Brian Kahn, an economics professor at the University of Cape Town, agrees that mismanagement may have contributed to the size of the national debt.

"There may have been wasteful expenditure, and the previous government also probably tried to buy votes," he said. "But this is not the full story."

Kahn also cited the country's low growth rate as a major cause of the high deficit. The present growth rate was around 3 percent.

"The worst possible scenario is to have a high deficit, high interest rates and a very low growth rate," said Kahn. "The bottom-line is that any economy needs a high growth rate."

He felt that the major cause of the national debt was the high deficit run up by the Government, which was financed by issuing more debts.

The deficit figures were between two to three percent of the GDP until about two or three years ago "Suddenly it went up to eight percent in the 1992-93 fiscal year," said Kahn.

"It's over 6 percent for the last fiscal year. That means you're borrowing six to eight percent from the GDP."

And interest payments have to be paid as they are a statutory obligation.

Another cause of the high national debt, according to Kahn, was the R7,3 billion transferred to the state pension fund at the end of March.

This was done to make the fund self-financing in an attempt to appease white civil servants, who were nervous that the new government would be under pressure to allocate money elsewhere.

Now the fund no longer relies on transfers from the government, but every year the Government still has to pay interest on the money transferred to the fund.

Terreblanche and Kahn approached the problem about what the Government should do to reduce the national debt from different angles.

Terreblanche suggested that the Government appoint several departmental commissions of inquiry to investigate Government expenditure.

"Investigations will have to be conducted to establish the merit of different spending patterns," said Terreblanche, "and establish what is justifiable and what is not "

For example, he said, the Government would have to review whether to continue subsidising parastatals like Sasol, and whether to continue protecting certain industries.

He estimated that such investigations would take at least 18 months, and described it as "a formidable task"

Root out corruption

But, Terreblanche added, the new government would not be able to root out all corruption. "It won't be able to root out all the kinds of favouritism that has been institutionalised.

"It became part and parcel of the system The same party was in office too long. It had to pay money to protect itself. To clean up the whole business will take more than five years."

Kahn said the new government would not be able to avoid running up a deficit. "But the question is: how big is that deficit, and what is the debt-to-GDP ratio?" he said.

He added that the incoming Government had two choices — it could either reduce the size of the deficit by spending less, or it could increase taxation. Both options were problematic, however

PW Botha ... millions used to finance his total strategy policy.

"Spending less will be difficult, and there are limits on how much taxes can be increased," said Kahn. But, he stressed, it was crucial that the deficit be reduced.

Although the deficit-to-GDP ratio is higher in many other countries — like Britain, United States, Germany and Italy — South Africa's debt must be reduced.

"Current levels are not excessively high," said Kahn

"But, over the last few years, there has been an acceleration. There has to be some corrective measures.

"If the future Government carries on running a deficit of 6 to 8 percent, it will be very difficult to bring it down."

So whatever the reasons for the size of the national debt, it is clear that something drastic would have to be done to reduce it over the next few years.

"It places a heavy weight on the shoulders of the new Government," said Terreblanche. "The broom of the new Government will have to sweep clean."

Tight control of monetary policy to continue — Stals

Star 27/5/94

BY BRUCE CAMERON

Reserve Bank Governor Chris Stals has given notice he will continue to keep a tight rein on monetary policy.

Stals is fairly sure the Government's Reconstruction and Development Programme (RDP) will not counter the relative financial stability achieved by tight monetary policy for the past five years.

In an interview after his reappointment for a further five-year term, Stals said he had been meeting representatives of the Government for a long time and "they know what our policy approach is".

"We have spent the past five years establishing relative financial domestic stability. We must spend the next five years ensuring we maintain that stability.

"I think it (the job) is a big challenge. There are interesting times ahead. We know what the Government is looking for."

Stals said the problems facing the Bank over the next five years would be different from those of the past

The last 10 years had been difficult, with balance of payments problems, sanctions and debt management. At the same

Chris Stals . . . big challenge.

time, there had been excessive government spending caused by, among other things, military spending. (49)

Hopefully, he would now have to contend only with normal problems, which could be tackled with normal macro-economic policies.

Stals said there were many structural deficiencies. The level of total domestic savings was among the most important. The level was not sufficient to finance investment.

Other problems included the budget deficit and the level of government debt, but he felt these were still manageable.

Stals said there was no direct role for the Bank in the RDP.

"No one believes the Bank should create money to finance the RDP. The Bank is not directly involved and it should not be. It is more a programme for government departments. "Our job is the specialised function of the control of the money and capital markets Our contribution to the RDP is to ensure monetary stability."

Stals said that in a number of places the RDP policy document claimed the implementation of the programme "needs support of a stable financial environment".

"It was also mentioned by President Mandela that the programme could not be achieved if there was high inflation.

"It is understood that a sound monetary policy to create financial stabibility is essential.

"I believe the RDP will be implemented as the country can afford it. We will do the maximum possible and sometimes squeeze out a little more, but there is no indication sound monetary and fiscal policy will be abandoned."

The major problem he still had to contend with was the pressure on the balance of payments caused by the continued outflow of capital.

Stals points way to healthy economic policy for S Africa

(49) ARG 3/6/94

PETER FABRICIUS
The Argus Foreign Service

NEW YORK. — The South African government's reconstruction and development programme (RDP) should be married to the previous government's normative economic model (NEM) to achieve a healthy economic policy for the country, Reserve Bank Governor Chris Stals told a conference here.

Dr Stals expresed concern that the new government might continue the high budget deficits of the past two years, which should be regarded as "temporary aberrations".

Dr Stals said in an interview that there were indications that the outflow of capital was beginning to turn. In the first week of last month the outflow was R1,8 billion, but in the 20 days since then the inflow had been R1,6 billion.

This would not contribute to financial stability, Dr Stals told a conference on investing in the post-election South Africa which was organised by the world economic development congress.

He was standing next to Trade and Industry Minister Trevor Manuel, who also addressed the conference. He told it that the new government's retention of Dr Stals was one of the reasons for investors to be confident in its future economic policies.

Dr Stals said the major debate on the RDP was not about its objectives but its affordability.

The legitimate needs of the people of South Africa were far more than could be met in the short term with the country's resources — not only in cash but in human capacities to implement the programme.

Dr Stals said the macro-economic restraints on the economy had been analysed in a "similarly authoritative document" published by the previous government in March 1993 — the NEM.

The NEM and RDP should be seen as comoplementary analyses. The RDP was a "bottom-up" approach beginning with the needs of the population.

The NEM was a "top-down" approach, emphasising the limited resources available to provide for the needs of the community.

"The time has come to marry the RDP and NEM," Dr Stals recommended.

He said the high deficits of the past two years should be regarded as a "temporary aberration" caused by low government revenues because of the depressed economy rather than high spending.

But, in an interview, he said he was concerned that the new government might regard the high deficits of the past two years as the new standard.

Investment centre call by Manuel

The Argus Foreign Service

NEW YORK. — Trade and industry minister Trevor Manuel has called for a "one-stop" investment centre to provide potential investors with information and cut red-tape.

Addressing the first post-election conference on investment in South Africa — organised by the World Economic Development Congress — Mr Manuel said the government would submit legislation containing all the necessary guarantees for both portfolio and direct investors.

The government had already embarked on a programme to negotiate access to world markets and had achieved preferential tariff status in Canada and the US.

It had set out to create an attractive investment and trade climate, and to this end it had retained finance minister Derek Keys and reserve bank governor Chris Stals, Mr Manuel said. Mr Stals was with him on the platform.

Creating an attractive investment climate was one of the priorities of the fourth leg of the government's reconstruction and development programme — "growing the South African economy".

Listing other priorities to achieve this, Mr Manuel said a parliamentary commission would be established to review competition and anti-trust policy and prepare legislation to implement changes.

Budget target: How govt did it!

CT 3/6/94 (49)

By EDWARD OSBORN

AFTER months of yes-we-will, no-you-wont claims through the media, the Ministry of Finance triumphed in closing the 1993/94 fiscal year with almost precisely the deficit before borrowing envisaged in the March 1993 budget.

But, of course, they had the advantage of being able to manage the outcome through control of exchequer issues to departments, that is by deferring expenditures into the next fiscal year as needs be.

The flexibility for this was that much greater this year as there was no formal cutoff at the end of March.

The government had full statutory authority to continue spending into the new fiscal year at previous rates for six months. New appropriation levels will, however, be set in the budget for 1994/95 to be presented by Derek Keys on 22 June.

The nature of this fiscal legerdemain only became apparent with the much delayed exchequer account return for March published in the gazette at the end of April. However, that was so full of printer's errors that it should be published again.

The remarkable thing is not the holding of the deficit before borrowing to the budgeted R25,1bn, but the bulls-eye scored with revenue.

Customs and excise receipts, according to the exchequer return, were in a total of R11,9bn greater by a mere R100m.

Ordinary revenue, that is excluding the proceeds of sales of strategic supplies, were exactly correct at R76,4bn, although there were losses and gains within that.

Apparently, for example, income tax on individuals was overestimated by 5,6% or R2bn, and Vat underestimated by 2.4% or R261m.

There were other underestimates and a windfall in the form of R400m interest, not provided for originally, on government deposits held with the private sector during the course of the year.

With sales of strategic supplies of R1,4bn taken into account revenue for the year ended up at R89,7bn.

The original estimates of expenditure amounted to R113,0bn, but these were augmented significantly in the Adjustment Appropriations Act of December that provided R4,1bn, giving a total of R117,2bn.

However, it is not evident from the March exchequer return that there were savings on the original votes amounting to R1,2bn and a further R1,1bn of the adjustment appropriations had still to be outlayed by 31 March, the close of the financial year.

Accordingly the actual exchequer issues in the 1993/94 fiscal year turned out to be R114,8bn and, as a result, the deficit was arithmetically the number they first thought of, namely R25,1bn, or 6,8% of GDP. Bravo!

The level of borrowing during the year was totally consistent with that requirement less the amount of issues held by the paymaster-general.

A total nominal value of stock amounting to R33,6bn was raised which covers the deficit, the redemptions of R6,6bn and the discount on stock.

However, in addition there were substantial further issues of government debt paper of R6,9bn to the state pension funds to get them looking more respectable and R7,5bn to the Reserve Bank to cover forex losses.

There was also the R2,8bn loan from the IMF passed on to the Reserve Bank to augment much depleted foreign exchange reserves, which brings the total net increase in the public debt in the year to R43,8bn.

When the further R15bn TBVC debt was taken into account in newspaper articles, the bond market overreacted in a paroxysm of horror, sending long rates soaring.

The public debt position is bad but not that bad when regard is had for the fact that the forex loss debt is non-interest bearing and a significant proportion of the TBVC debt was already serviced through transfers. — Reuter

GDP

Fm 3/6/94

We can still get there

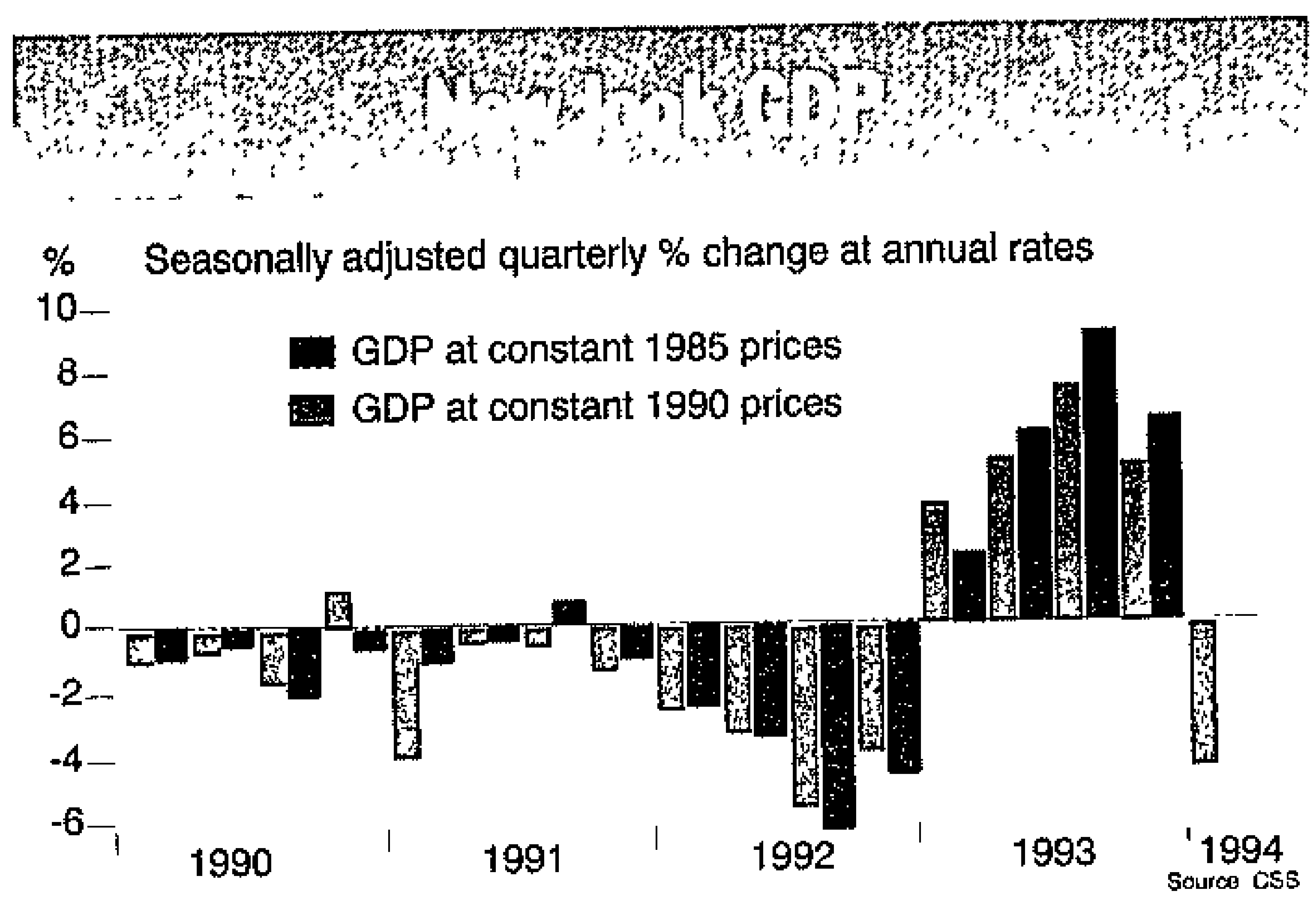
It has been clear for many months that economic activity in the first half of 1994 would be damaged by political events.

The expectation was confirmed by the latest GDP figures, released by Central Statistical Service, which show growth in the nonagricultural sector had slowed to 0,3% in the first quarter, after growth of 1,7% in the fourth and 2,4% in the third. (The changes are quarterly and have been seasonally adjusted and annualised as have all other quarterly changes discussed here.)

However, when agriculture is added into the calculation, GDP shrank by 3,7%. This follows growth of nearly 5% in the fourth quarter and more than 7% in the third. If only because of the psychological impact of this reversal, there is a need to reassess earlier projections of 3%-5% growth in 1994.

Despite the first-quarter figure, growth of this order is not out of reach.

The first-quarter shrinkage was mainly due to a more modest performance in agriculture after a bumper season last year. Declines, say Central Statistical Service, were "recorded in livestock, horticulture and also certain field crop products such as oats, tobacco, barley and chicory." The agency points out, however, that the decreases must be seen "against the background of the exceptionally high levels of the agricultural contribution to GDP in 1993."



Consumer uncertainty amid political instability also held down growth. The second quarter, which has been disrupted by the election and a series of public holidays, is unlikely to show any improvement.

If growth is to be as high as 3,5%, says Sacob economist Keith Lockwood, the second half will have to provide an estimated 10% annualised growth over the first.

The third quarter, he says, is likely to show a sharp recovery, just as it did last year, following disruptions in the second quarter (due to Chris Hani's assassination). "We could see a similar pattern where third-quarter figures look better quarter-on-quarter. Beyond that, I believe there is potential for a more broadly based increase in momentum in the second half."

The first-quarter shrinkage of 3,7% is calculated at market prices. Calculated at factor incomes (which excludes taxes and includes subsidies), economic activity fell more sharply — 4,2%. A sectoral breakdown (at factor incomes) shows first-quarter agricultural GDP fell 55%, after a rise of 70% and 155% in the previous two quarters.

A number of sectors continued to show growth. (49)

- ☐ Electricity 3,2%;
- ☐ Construction 1,6%,
- ☐ Transport & communication 2,7%, and
- ☐ Finance & real estate 3,9%.

Declines came in mining & quarrying (2,7%) and in manufacturing (0,9%).

The latest figures raise a number of technical issues.

Compiling national accounts is always a hazardous job. The need to regularly incorporate information from sectoral and population censuses, update base years, reweight the base and link new findings to the old, always creates distortions. But in recent years, Central Statistical Service has also had to contend with the redrawing of boundaries and the reshaping of the economy.

In 1990, GDP figures were revised to exclude Namibia from historical data and other changes were incorporated. Now the agency has calculated GDP growth in constant 1990 rands instead of 1985 rands used since February 1989

The agency reports that, in the period, the composition of GDP has changed "to some extent — partially as a result of the addition of an estimate for the total informal sector in 1990."

This follows a comprehensive survey of the informal sector (*Economy* May 27) derived from the 1993 October Household Survey. However, it excludes the formerly independent TBVC states, so, clearly, more revisions are in the pipeline

Central Statistical Service says the difference in growth rates calculated at 1990 prices and those worked out at 1985 prices are negligible.

The figures published last week have been revised in view of the.

- ☐ 1990 Census of Mining;
- ☐ 1988 Census of Agriculture;
- ☐ Sample surveys of agriculture made in 1988, 1990, 1991 and 1992;
- ☐ 1988 Census of Manufacturing, and
- ☐ 1991 Population Census.

Revisions go back to 1986

Looking ahead, it's clear that much depends on the ability of all participants in the economy to heed Presidente Nelson Mandela's call to "get back to work" ■

Business strongly advises market driven economy

Business Editor

4-9 ARGT 11/6/94

LOCAL and international business has told the government that the economy must blend with the major world economies and must to be market driven if it is to move forward.

This was the message from the heads of some of South Africa's major companies as well as from influential international companies at the World Economic Forum conference held in Cape Town this week.

Old Mutual chairman Mike Levett, who chaired a discussion group on government monetary and fiscal policy, told the final penary session of the conference that the government had to send out a number of messages if it was to be successful in attracting foreign investment.

These included:

- A commitment to a market driven economy.
- Repeated statements to convince the markets the government was committed to its reconstruction and development programme, which should be financed with fiscal discipline.
- Monetary and fiscal discipline would be maintained, with the defict in government spending being kept in the medium term to the same level as investment (capital) expenditure.
- Clarity on taxation policy so investors could take long-term decisions. The aim should be to set taxation at the same levels as countries competing with South Africa (for investment).
- A borrowing philosophy should be adopted with decisions on the extent of local and foreign borrowing. Money should only be borrowed internationally for revenue-generating investments.
- Capital markets should be made more liquid by doing away with taxes on securities.
- Performance audits on government departments should be introduced as part of fiscal development.
- The money spent on the reconstuction and development programme, starting with the R2,5 billion this year, should be spent with vision and be used so it created a multiplier effect, generating more money to be spent.
- Exchange control should be scrapped.

Magic touch can turn Budget into all things to all people

BIDay 15/6/94

GRETA STEYN (49)

THE first Budget of the democratically elected government is widely expected to be a holding operation. But to deliver even that much will require some fancy footwork. SA's fiscal policymakers find themselves backed into a corner.

The problem Finance Minister Derek Keys and Minister without Portfolio Jay Naidoo face is how to deal with substantial overruns on transition costs, unrealistic expectations of a newly liberated electorate, promises to the IMF, GATT pressure, election pledges and deep scepticism in financial markets.

The most immediate problem the architects of the Budget face is the overrun on election and transition costs. The Independent Electoral Commission (IEC) is expected to add about R1bn to the overall spending total of R124,3bn announced in March. Other transitional costs could take total additional spending to more than R2bn. (The precise amounts have not been confirmed; estimates at this stage have the status of rumours.) The spending includes about R300m on equalising police and peacekeeping force pay during the election, unforeseen expenses in integrating the armed forces, and allocations to provinces to get bureaucracies up and running.

How will government deal with a R2bn headache? There are several options, and a combination is possible. The main options are higher taxes (such as a hike in VAT and heavier income tax for top income earners), cutting departmental spending, and raising the deficit.

Probably the most difficult option is raising the VAT rate by one percentage point, which should yield about R1,5bn in extra revenue. That would go some way towards pegging the deficit close to the 6,4% of GDP projected in March this year.

But it is almost inconceivable that the new government will announce a hike in the VAT rate without some form of compensation for the poor. The feeding scheme announced by President Nelson Mandela will probably not be enough. In such a scenario, further zero-rating of foodstuffs will be necessary, but this will reduce the revenue raised from a hike in the VAT rate.

There has also been talk of an additional tax bracket, for high income earners to be taxed at a higher marginal rate than at present.

Another difficult option is cutting other expenditures and reallocating the finance. But R2,5bn has already been lopped off departmental budgets to put into the reconstruction and development fund, and it seems unlikely that a further R2bn cut could be achieved. However, there is no doubt that Keys's scalpel will be wielded and at least some of the transition costs will be financed from savings elsewhere. The question is whether it will be enough to stave off a hike in the VAT rate. Or a higher deficit.

The last option is to deliver a higher deficit than the R25,3bn announced in March this year. The extent to which the deficit would have to be raised would depend on the savings on other expenditure that could be achieved.

The promises of fiscal rectitude will, in the first instance, be judged on how government deals with the overruns on transitional costs. If it simply adds them on to overall spending, we have a problem.

Another headache SA's fiscal policymakers face is delivering on tax promises made in the reconstruction and development programme (RDP). Equalising the tax paid by married men and women, which would have to be done in terms of the constitution, would cost R1,5bn. Extensive zero-rating of VAT would cost billions of rands. Introducing taxes on luxury goods would create an administrative nightmare.

The way out of these problems is to leave it to a commission of experts to decide.

The problem will be postponed for a year, and government's headache will be transferred to the Fiscal and Financial Commission.

Another revenue headache presents itself in the form of import surcharges. GATT and the IMF are putting pressure on SA to scrap the surcharges, which SA has argued are needed to protect the balance of payments. But the BoP is just a smokescreen — the almost R2bn loss in revenue is the real problem. It seems highly unlikely that SA will abolish the surcharges — a move which will favour business — at a time when finding finance for social spending is of prime importance. But GATT will not continue swallowing the BoP argument for ever.

Abolishing the surcharges was recommended in the Normative Economic Model, which Keys supported. The broadly "supply side" economics fashionable in government circles at the time of its release has made way for a whole new philosophy. Now, everyone including Keys is talking reconstruction and development.

Before the election, former trade unionist Philip Dexter was arguing that the RDP was a platform for socialism. It was seen as a victory for the left. Now it carries the stamp of approval of even Finance special adviser Japie Jacobs, who has always been an orthodox economist.

The reason for the RDP's astonishingly widespread support is simply that it means different things to different people. To Keys and Jacobs, a major portion of existing government spending is already RDP expenditure. Funds allocated to job creation in past fiscal years, financed by selling strategic stockpiles, is RDP spending.

Existing spending on health — which by international standards is high enough to ensure adequate care — will become RDP spending as it moves towards primary care. In education, eliminating the disparity in per capita spending on different races will finance reconstruction promises. Hence Naidoo's insistence that the RDP will not be an "add-on".

But the extent to which restructuring can take place within departments, and across departments, has definite limits. Just what those limits are will become clear over the next few years. It is also likely that reorganising spending will take time, as state spending builds up a momentum of its own that is difficult to turn off at a stroke. Bureaucracies set in their ways could also be a problem in ensuring delivery.

Until the limits to restructuring existing spending have become clear, any estimate of the additional cost of the RDP, over and above existing spending, cannot be accurate. But that does not mean that cost estimates are meaningless. They tell us something about the kind of services government intends to deliver, and present some sense of the challenge faced.

For example, if water and sanitation delivery will cost R13,3bn over five years, one gets a sense of the increases needed over the next few years in the present Budget of not much more than R400m.

The first Budget will be dressed up to look like an RDP Budget. But not everyone in the ANC will buy it. Already, former Sanco president Moses Mayekiso, now an ANC MP, is insisting that the housing subsidy scheme is out of line with the RDP. In some Sanco circles, Housing Minister Joe Slovo has been dubbed "Shill with red socks".

The programme will be redefined in a White Paper tabled in Parliament. Will the ANC be accused of going back on its promises? Keys and Mayekiso have different things in mind when they talk about the RDP. In spelling things out, SA's fledgling government could be opening a hornet's nest.

Presenting a holding operation in the first Budget will require a special kind of magic. But that magic will be nothing compared with the "voodoo economics" required in the years to come.

World Bank shows the way to SA growth

(49) ARG 15/6/94

PETER FABRICIUS
The Argus Foreign Service

WASHINGTON. — The World Bank estimates that South Africa's socio-economic backlog — estimated at about R46 billion — could be wiped out by 2001, but only if the government follows disciplined supply-side economic policies which stimulate private investment and spur high growth.

If the government does not follow the right policies, it will only be able to clear about R16,5 billion of the R46 billion backlog by 2001, the World Bank's latest economic assessment of SA — "South African Economic Performances and Policies" — forecasts.

World Bank economists are reluctant to compare their analysis with the ANC's Reconstruction and Development Programme because of uncertainites about the assumptions on which it was calculated.

But the Bank's figures seem to be more conservative than the ANC's estimate that it can wipe out a R39 billion backlog in five years.

The bank has generated its figures from an economic model which calculates the implications of different policies. It presents a low, middle-, and high-growth scenario. This shows that the most dramatic differences among the scenarios would materialise only after four years.

Under all three scenarios, the new government could spend an additional R12 billion (at 1992 prices) — wiping out about one quarter of the socio-economic backlog.

But under the best economic policies, the remaining R34 billion of the backlog could be erased between 1998 and 2001. However under the worst economic policies, only about R4,5 billion of the R34 billion would be eliminated between 1998 and 2001.

Under the best-case scenario, the foreign-financing requirements of the economy would be modest during the early years of the uplift programmes. Between 1994 and 1997 the economy would basically just need finance to cover existing debt repayment and increase the level of reserves.

These long-term financing needs would then rise as the current account moved into deficit.

But with substantial growth in the economy, long-term external financing requirements would never go much over one to two percent of the GDP in any year before 2001.

However under the worst scenarios, the external financing requirements would be "much more severe".

The report also warns against the temptation "to imagine that fast redistribution could be attained by simply encouraging large wage rises for unskilled workers".

"Excessive wage increases are eventually self-defeating," the report says, because they increase inflation and the fiscal deficit.

Homeland burden to national deficit

(49)

Own Correspondent

JOHANNESBURG. — The TBVC budget deficits will add R2bn to the national deficit when the former homelands' accounts are added to the government's books in next week's Budget.

Although the Finance Department declined to confirm the figure, economists expected the amount would have to be added to the R25,3bn provisional deficit announced in March.

In terms of the draft Budget, the real deficit was 6,9% of GDP, not 6,4% as projected in March.

Economists said even though the additional amount was effectively a "book entry", it created obstacles in the way of arriving at the IMF-prescribed deficit of 6%.

CT 17/6/94

Zero rating

Most economists predicted an increase in the VAT rate as one measure to bring the shortfall between spending and revenue closer to 6% of GDP.

Further zero rating of food is expected, while there is also talk of top income earners paying more income tax.

They believed either a new bracket would be created at the top end, or a temporary levy introduced for people earning more than R80 000.

Announcements on phasing out import surcharges and the general export incentive scheme was also expected.

FOCUS

Two sides weigh up the Budget's balancing act

S I Times (Buss) 19/6/94 (49)

The new government's first Budget will give taxpayers an indication of how the balancing act between social spending and fiscal restraint will be maintained, if at all, writes **SVEN LUNSCHE**.

MOST commentators have already labelled this week's Budget a holding operation, while the government prepares its first full reconstruction and development Budget for 1995-96

It will be more than that — the government has sent out clear signals that it will begin to deliver on its much proclaimed socio-economic agenda.

The inevitable conflict between social and fiscal priorities has so far been deftly handled by the Cabinet, under the unmistakable guidance of Finance Minister Derek Keys

Aware of international investor focus on the Budget he has committed the ANC to "responsible" economic policies, but also convinced his National Party colleagues to back the RDP

The proposal of an initial R2,5-billion injection into the RDP fund in 1994-95, rising to R10-billion over five years, looks responsible and manageable

Yet there are doubts that the ambitious aims of the RDP can be met in the long run without resort to excessive borrowing or large-scale tax increases

Already some rifts are evident The government was this week involved in apparently difficult negotiations with Cosatu over varying and higher VAT rates.

The list of the government's social commitments is growing by the day, ranging from feeding schemes for primary schools and the electrification of 350 000 homes to integrating numerous armies and 1 000 affirmative public service appointments.

The financial markets, as usual, are taking the cynical view Long-term gilt rates recently broke through 14% to their highest level in over a year in expectations of rising government borrowings.

Mr Keys, his deputy Alec Erwin and (RDP) Minister Without Portfolio Jay Naidoo, have stated frequently that they view strong economic growth as the panacea to the financing of the RDP

This is supported by the Econometrix research institute, which recently calculated that a steady 5% growth rate would add a cumulative R67-billion to state coffers over five years, sufficient to make a significant dent in — if not cover completely — the estimated costs of the RDP.

In a recent meeting with Mr Keys the SA Chamber of Business stressed this point. "Economic growth is the key variable in determining the extent to which the new government will have scope to increase spending aimed at eliminating social backlogs and simultaneously reduce the fiscal deficit to proportions that are sustainable and consistent with sound economic management."

In the current fiscal year growth is estimated at only 3% and speculation is mounting that tax increases are on the cards to meet the initial costs of the programme.

In its fiscal review, which was published in March, the Department of Finance published provisional 1994/5 expenditure, revenue and deficit figures but these have undoubtedly been revised by the new cabinet to cater for higher social spending

These then are the expected key features of the Budget.

EXPENDITURE: The fiscal review projected spending of R125,3-billion for 1994-95 Government officials have indicated that there will not be major changes to this figure

This is despite the inclusion of the R2,5-billion RDP fund, which they state will be financed from savings in other departments. Some economists, however, expect that total spending could rise to about R127-billion to finance overspending by the Independent Electoral Commission

It is speculated that a recent call on all state departments to cut budgeted

In April, the first month of the fiscal year, total revenue was 35,6% up on April last year The Department of Finance explained that this reflected the incorporation of the TBVC states as well as a VAT rate of 10% rather than 14% in April 1993, but it does give some indication that revenue income should be higher than expected.

The government will be relying heavily on indirect taxes to boost its coffers. VAT is expected to bring in R28,7-billion, 13% more than last year, although this could be changed if the tax system is adjusted.

Income from the fuel levy could also rise from the budgeted R7,8-billion if, as the Automobile Association expects, the government adds a further 7c/l to this week's 8c/l petrol price hike

Revenue from income tax on individuals is expected to rise 13,3% to R40,4-billion, making it unlikely that the ANC will live up to its promise to equalise tax rates downward for married men and women which could cost up to R1,5-billion in lost revenue

Income tax on non-mining companies is also set to boost revenue substantially, by 7,8% to R12,25-billion.

DEFICIT If, as projected by Finance, spending totals R125,3-billion and revenue R99-billion this year, the projected 1994/5 deficit before borrowing will equal 6,4% of GDP

This is slightly below last year's 6,8% but no consolation to economists worried about runaway government debt

not want to risk a confrontation with Cosatu it would have to raise VAT on "luxury goods" in order to recoup the R2-billion it could lose by extending zero-rating to basic items.

OTHER TAXES Speculation is mounting that the government plans to introduce a capital transfer tax to replace the 15% rate on both donations tax and

WALKING A TIGHTROPE . . . Finance Minister Derek Keys, who keeps a steady hand on the purse strings

World Bank figures out SA's backlog

S I Times (Buss) 19/6/94

By KEVIN DAVIE

A QUARTER of SA's total social backlog can be addressed during the first four years of the new government, says a World Bank study

SA Economic Performance and Policies says that over the years 1998 to 2001, the remainder of the backlog can be addressed under a best-case scenario.

"However, if the macro-economic situation is less favourable and closer to that of the lower-case scenario, then the room for manoeuvre is obviously more restricted and only about 13% of the backlog could be cleared.

"The lower scenario would imply that less than 40% of the estimated backlog (R46-billion) of capital expenditures would be addressed in the first eight years of the new administration."

With a private investment revival and the successful implementation of supply-enhancing policies, redistributive public investments could amount to about R14,9-billion a year at 1992 prices between 1994 and 2005

"This is equivalent to an annual average of about 3,2% of GDP"

The bank's projections are based on a macro-economic model which it has developed for SA. The model uses 45 econometric equations.

If high levels of private investment re-emerge and supply-enhancing policies such as faster skills accumulation and export promotion are put in place, there are feasible growth paths for SA which are high by past standards (above 5% a year), sustainable (low inflation, stable fiscal account, low and stable debt-to-GDP ratios) and redistributive.

The alternative is that the economy continues down a recessionary path.

"In such a case, attempts to introduce redistributive public investments will quickly run into fiscal and/or balance of payments crises."

It warns that excessive wage increases will eventually be self-defeating, stimulating inflation and raising the fiscal deficit by increasing the cost of employing government workers.

The bank says SA's average import duty is not high by developing country standards. It says a lower average rate would make industry more internationally competitive, but the present high unemployment and stagnating economy make such a course undesirable

SA's most urgent task is to address the anti-export bias inherent in its policies. "Two-thirds of the disadvantage that SA exporters suffer relative to foreign competition stem from the higher prices for manufactured inputs"

Direct foreign investment should be encouraged and the regulatory framework should present no obstacles to new ventures lion to finance overspending by the Independent Electoral Commission.

It is speculated that a recent call on all state departments to cut budgeted spending by 4% was linked to the total IEC bill of about R1,25-billion.

In 1993-94 state spending was R114,2-billion.

REVENUE: Initial government revenue estimates of R99-billion, 11% up on 1993-94, also appear below likely tax and duty collections this year.

Most economists expect growth to be slightly higher than the 3% the government uses for its calculations, thus boosting tax incomes.

6,4% of GDP.

This is slightly below last year's 6,8% but no consolation to economists worried about runaway government debt.

No less than Reserve Bank Governor Chris Stals warned this week that unless the deficit was brought under control "it will cause difficulties for state debt, which will become excessive very, very soon".

VAT: Prior to the election the ANC committed itself to extending zero-rating to a wider basket of basic goods and services, a call strongly backed by the trade union movement.

If the government does

OTHER TAXES. Speculation is mounting that the government plans to introduce a capital transfer tax to replace the 15% rate on both donations tax and estate duties.

The new tax is likely to be considerably higher, while current exemptions are also set be scrutinised.

Economists, however, have dismissed recent reports that the new government is considering introducing a one-off levy, as this has not been supported by official comments and would be extremely difficult to implement.

In line with GATT requirements the Budget could also see first moves to dismantle SA's extensive system of import surcharges and duties.

First Budget for the new SA

(49) CT 22/6/94

By AUDREY D'ANGELO
Business Editor

A HOLDING budget — the first from this government — is in the offing today which will give a preview of the country's future financial policy.

And while consumers, business people and foreign investors are waiting apprehensively for details there has been a run on "luxury goods" such as liquor and cigarettes which are expected to be more heavily taxed

The financing of the Reconstruction and Development Programme (RDP), aimed at improving the quality of life of the majority of the population, is expected to dominate the Budget

Since the government has been warned to avoid falling into a "debt trap" by widening the gap between spending and revenue, this is certain to mean raising more by higher direct or indirect taxes.

Finance Minister Mr Derek Keys is virtually certain to announce measures to help the poor at the expense of the rich But, because the economic upswing is still fragile and it is important not to dampen spending or discourage foreign investment, experts expect no drastic measures.

The main features are likely to be

- An increase in VAT of one percent while more basic foods are likely to be zero-rated.
- Higher income earners could pay a levy or surtax charge on top of normal income tax, while company tax is expected to go up.
- The level at which deceased estates start to incur duty could go down from the present R1m This could mean more middle-class families will have to pay out on their inheritances.
- Transfer tax is expected to rise

Sanlam chief economist Mr Johan Louw said yesterday· "There will definitely be a rise in VAT. We expect more basic goods to be zero-rated but there will probably be a one percent rise on other items.

"There is a lot of talk of company tax going up by one percent as the corporate sector's contribution to financing the RDP

"There has been talk of a surcharge, or levy, on the upper income group earning over R80 000 or R100 000 a year, which will probably take the form of adding five or 10% to their income tax."

Unfortunately, these measures would not be encouraging to foreign investors and "the indications are that interest rates will remain high", he said

"I don't think this will be a radical Budget, though it will affect certain sectors of the economy such as cigarette and liquor sales

"In fact I think the Budget will be mildly expansionary, to encourage the economic upswing"

Chartered accountants Coopers & Lybrand predict estate duty of around 30% will become payable on estates with a net value of R200 000 upwards

Meanwhile **WILLEM STEENKAMP** reports that the liquor, tobacco and motor industries are bracing themselves for tax increases on their products

Orders for liquor and cigarettes increased dramatically in the past fortnight, but sources said this was usual before a Budget announcement

Distillers Corporation spokesman Mr Ian Schietekat said orders countrywide had increased tremendously in the past few weeks

● Inflows? Look to the Budget — Page 12

FINANCE TEAM . . . Finance Minister Mr Derek Keys and Deputy Finance Minister Mr Alec Erwin (of the ANC) with tomorrow's Budget.

Picture STEWART COLMAN

Full Budget on radio, TV

TODAY's Budget will be given full coverage on radio and television.

The English and Afrikaans service of the SABC will begin with a 15-minute programme of Budget predictions at 2pm before switching to live broadcasts of Finance Minister Mr Derek Keys' keenly-awaited address

CCV will also broadcast the speech live and will follow up with a panel discussion on important trends and implications of the Budget.

Budget with sting in tail

Sowetan 22/6/94

(49)

By Mzimkulu Malunga and Themba Molefe

ELEMENTS OF THE old South Africa will prevail in today's first post-apartheid Budget.

When Finance Minister Derek Keys delivers his Budget speech, the country's former four provinces and the TVBC states will come to life.

But issues close to the hearts of many people — including housing, health care, education and tax hikes — are set to dominate the Budget speech, with a one percent increase on value added tax (VAT) and higher duties on luxury items such as liquor and tobacco a certainty.

Keys will spell out how the Government will fund — and sustain — the Reconstruction Development Programme within the targeted R2,5 billion initial funding announced by President Nelson Mandela.

This is a major concern to big business, which recently emphasised that the RDP and the Budget should be integrated to boost economic development and growth

"Make the RDP and the Budget work, otherwise Mandela's pledge to create a favourable climate for foreign investment will fail," a corporate source said.

The new provincial governments will probably have to wait another year before they can secure full budgetary independence. Their fate lies with the Financial Fiscal Commission (FFC) which is still to be appointed.

In terms of the new Constitution, the FFC should be appointed within two months of the general election, meaning that this commission will have to be formed before next Monday,

Once the FFC is in place it will have to devise a formula for the allocation of money to the new provinces.


Finance Minister Derek Keys

Until then, the Budget allocations will be made in terms of the former four provinces, the TVBC states and the self-governing states.

The new provinces will then have to decide among themselves who gets what until the 1995/96 financial year. Even then, only about 80 percent of the work will have been completed.

In essence the new provinces will have to budget within the constraints of the old bureaucracy

Meanwhile, the informal sector will for the first time be included in the figures indicating the total value of goods and services produced in this country, commonly called Gross Dometic Product (GDP).

Government figures show that this sector has contributed R20 billion to Gross Domestic Product, a factor which reduced the difference between revenue and expenditure or fiscal deficit by 0,5 percent to 6,9 percent of GDP.

BUDGET IN BRIEF

REVENUE: The total consolidated estimate of revenue for the National Revenue Account is R105,8bn, 11,2% above the comparable figure for 1993/94. This figure includes all revenue at national and regional level.
EXPENDITURE: The estimate of total expenditure from the National Revenue Account is R135,1bn, up 10,2% from 1993/94. This now covers all spending at national and regional level, except that financed from the former regional administrations' own revenues. It includes the R4bn for the transition.
FINANCING: The final consolidated Budget deficit will be R29,3bn or 6,6% of GDP. This compares with last year's 6,9%. Loan redemptions will be about R6,9bn, lifting the gross borrowing requirement to R36,5bn. Government intends to finance this mainly through domestic loans of R34,513bn. Foreign borrowings of R1,8bn are planned.
RECONSTRUCTION AND DEVELOPMENT: An amount of R2,5bn was allocated to the RDP fund, rising to R5bn, R7,5bn, R10bn and R12,5bn over the next four years. The initial finance was raised by cuts in departments' budgets.
TAX PROPOSALS: Individual tax rates remain unchanged, but there is a transition levy of 5% on individuals with taxable income above R50 000, or R175 000 in the case of married women. B/Day

□ Companies with taxable income in excess of R50 000 are also liable for the transition levy at a rate of 5%.
□ The corporate tax rate falls to 35% from 40% from April 1 1994, but STC will be raised to 25% from 15% with immediate effect. 23/6/94
VAT: Remains unchanged at 14%.
CUSTOMS AND EXCISE:
□ The price of a 340m*l* can of beer rises by 2c (6c/*l*).
□ Spirits rise by 53c a 750m*l* bottle.
□ Cigarettes increase by 7c for 10.
□ Cigarette tobacco increases by 9c per 50g.
□ Pipe tobacco and cigars increase by 65c per kg.
□ Unfortified wine rises 4,5c per 750m*l* bottle.
□ Fortified wine increases 5c per 750m*l* bottle.
□ Sparkling wine rises 6c per 750m*l* bottle.
□ Other fermented drinks such as cider rise 2c per 340m*l* can.
□ Sorghum beer increases 1c/*l*.
□ Sorghum beer powder rises 5c/kg.
□ Cold drinks and mineral water increase by 1c/*l*.
IMPORT SURCHARGE: The 5% import surcharge on all capital and intermediate goods will be removed with immediate effect. (49)
PENSIONS:
□ Civil pensions rise by 5% from April 1 1994 for pensioners who retired on or before July 1 1993; those who retired later but before April 1 1994 receive a 0,56% increase for each full month since retirement.
□ Pensions which have increased since retirement by a percentage which, after taking into account the increase above, does not equal 70% of the increase in the CPI since retirement, will be increased to that level.
□ Military pensions will rise by 5,6% from April 1 1994.
□ About R418m is made available for a general social pensions increase and the elimination of backlogs.
JOB CREATION: R292m is allocated to job creation, excluding allocations from the RDP fund. However, the figure mainly represents a rollover by the Manpower Department.

SYLVIA DU PLESSIS

NEWS Parties react to the 1994-95 Budget presented in Parliament yesterday

Feelings are mixed

Sowetan 23/6/94

Sowetan Correspondents

POLITICAL parties expressed mixed feelings about the 1994-95 Budget yesterday, but the criticism was in general surprisingly mild.

Volksfront leader General Constand Viljoen said he was shocked by the cost of the "so-called Peacekeeping Force" and by the overspending of the Independent Electoral Commission revealed in the Budget.

Inkatha Freedom Party MP Mr Farouk Cassim said he welcomed the 6,6 percent Budget deficit, having expected figures as high as eight percent.

Viljoen said if his calculations were correct, the IEC had overrun its Budget by 545 percent: "A development in the Budget such as this can't be accepted."

Not enough attention had been given to job creation, he said. The Reconstruction and Development Programme would certainly create some jobs but the additional R290 million allocated for this purpose was not enough.

He also expressed concern about whether the public service could effectively handle the R2,5 billion allocated to the RDP this year. The large numbers of additional people being hired would reduce the chances of the funds being administered properly.

Learn from Force

"I think we must learn from the Peace Force — first train people properly in the public service, then we can spend the money," he said.

Cassim said he hoped the Budget deficit would continue its downward trend.

He hoped at least a quarter of the R292 million earmarked for job creation would go to KwaZulu-Natal which was home to 25 percent of the country's population.

49

Twenty percent or more of the RDP's budgeted R2,5 billion should also hopefully be channelled to that province so that development of rural communities could start.

The Budget would stimulate economic growth while making substantial provision for social services, the National Party said in a statement yesterday.

Commenting on Key's Budget speech, NP spokesman Danie du Plessis said the Budget was the product of negotiation within the Government of National Unity and contained sufficient elements to promote growth.

focus on the budget

Sowetan 23/6/94

According to the Budget speech political stability has become a bonus to South Africa's recovering economy, but expanding the wealth cake remains the main priority, reports Business Reporter **Mzimkulu Malunga:**

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CONTROLLED government expenditure, a sound tax policy and the reduction of the gap between spending and revenue are critical preconditions for increased social development and sustained economic growth — these are the factors highlighted in the preamble of this year's Budget.

While the new Government might have come at a time when the longest economic recession in the country's history is petering out, the critical element remains its ability to convince both domestic and foreign investors that it is prepared to create a climate suitable for investment.

The first chapter of the Budget is a preliminary document which outlines the state of the country's economy and background.

The newly found political stability has also become a bonus to the recovering South African economy but the underlying factor remains the expansion of the wealth cake so that all the country's citizens can share, the document says.

"The social and political stability which followed the elections augur well for the continuation of economic recovery," it says.

If proper economic management is followed, foreign investors could be lured into the country and assist in the battle against rampant unemployment, while simultaneously reversing the outflow of money, a problem which persists in troubling the business community as well.

The capital outflow which started in 1985 at the height of the sanctions campaign continued until the first quarter of this year.

"Over this period the cumulative net capital outflow not related to the reserves amounted to R50 billion," says the document.

In 1993 alone, R16,3 billion left the country, a factor which the Government says is a reflection of political uncertainty and the turmoil in the country at the time.

However, encouraging signs are that since the new rulers landed in Pretoria, the capital outflow has been slowing down.

This slow-down is seen by many economic commentators as one of the factors that prompted big business to push for the phasing out of the two-system currency and exchange control.

In a calculated move, the South African Chamber of Business has released a document advocating the scrapping of the two-currency system and exchange control just two days before the Budget.

The organisation also had former deputy governor of the Reserve Bank Dr Jan Lombard behind it. However, it remains to be seen whether Finance Minister Mr Derek Keys will yield to pleas from his friends in big business.

Due to the outflow, levels of the foreign reserves have been severely affected and by the end of last month South Africa's reserves were only enough to pay for a month's imports.

The employment situation has not been brighter either. Over 400 000 jobs were lost in the formal sector between 1989 and last year as

Derek Keys ... a careful balancing act.

the recession bit deeper.

Most of the jobs were lost in the private sector, with the public sector increasing its complement during most of the recession years.

However, when the commercialisation of certain parastatals began some jobs were lost.

On the brighter side, consumers are expected to increase spending, which will push up total spending and eventually economic growth.

Still on the labour front, the Government says

'Encouraging news is that since the new rulers landed in Pretoria, the outflow of capital has been slowing down'

depressed conditions in the private sector forced the labour unions to settle for lower wages during the past two years. Also, there were fewer strikes and stayaways than in previous years and as a result labour productivity improved.

The Government is projecting an economic growth of two and half percent this year. This is a much more conservative figure than forecast by many economists.

Many expect at least three percent growth. Another piece of good news is that the rate at which prices escalate, commonly know as inflation, has continued to show a downward trend reaching 7,1 percent in April, the lowest point in over two decades.

This scenario could benefit people who have to repay loans and mortgage bonds, because interest rates might come down.

However, economists caution that it will take some time before that can happen because of the state of the foreign reserves. Tradewise, South Africa continued to let exports flourish over imports for the ninth consecutive year in 1993.

As a fraction of the total value of goods and services produced in the country during the same period, the export surplus was 1,5 percent last year bringing in R6 billion.

On the other hand, the major economies of Western Europe were showing some signs of recovering from the mother of all recessions. Some of these countries are South Africa's major trading partners and economic growth could stimulate demand benefiting this country's exports.

The average economic growth in the countries of the Organisation for Economic Co-operation and Development is expected to be 2,6 percent this year, improving slightly next year to about three percent.

Taxpayers to fund transition process

Sowetan 23/6/94

■ **NO JOY** Govt ups spending on education but is silent on RDP

(49)

By Mathatha Tsedu
Political Editor

It is a no-blues, no-joy budget that Finance Minister Derek Keys gave to South Africa yesterday.

The rich, the not-so-rich and the comfortable have been targeted to finance the cost of the transition in a one-off tax expected to bring in R3,4 billion during this tax year.

This tax of five percent for those who earn R50 000 a year and more is in line with what ANC leaders once termed wealth tax, a term that Keys rejected yesterday.

Thirty percent of taxpayers are expected to fall into this category, while 15 000 companies will also be affected.

About 3,3 percent of the five percent will be collected this year, while 1,7 percent will be collected next year.

This money will finance the transition to the new South Africa, which cost R3,8 billion, calculated as follows:

- Independent Electoral Commission: R948,3 million;
- Integration of armies: R1,5 billion;
- Assembly points for Umkhonto we Sizwe R223.1 million;
- Provision of allowances during elections: R526 million;
- The disbanded NPKF R384 million,
- Advances to new provinces R236.2 million;
- Inauguration of the president: R18 million,
- The Transitional Executive Council: R15,9 million, and
- The Peace Secretariat and National Peace Accord: R84.1 million.

"The new Government has, however, lived up to its promise to cut down on Government expenditure as the entire R2,5 billion for the RDP comes from savings within State departments"

The poor — who may have expected a reduction in VAT on food and medicines — will still have to wait until a commission on tax tables its recommendations.

In essence, with the Reconstruction and Development Programme getting R2,5 billion, the poor may look in vain in that direction for any immediate relief, for the Budget is silent on the redirection of resources.

A White Paper setting out details of the RDP's implementation is expected soon.

The new Government has, however, lived up to its promise to cut down on Government expenditure as the entire R2,5 billion for the RDP comes from savings within State departments.

There is also an increase in education and health spending, which links up with the president's announcement earlier this year that schooling and health services at state institutions would be free for some categories of people.

In the end, however, the budget is a non-RDP budget, chiefly because it was effectively prepared by the old regime although announced by the new one.

And the ANC may well say to its critics today: we have tried, but judge us on our own budget next year.

Derek Keyes

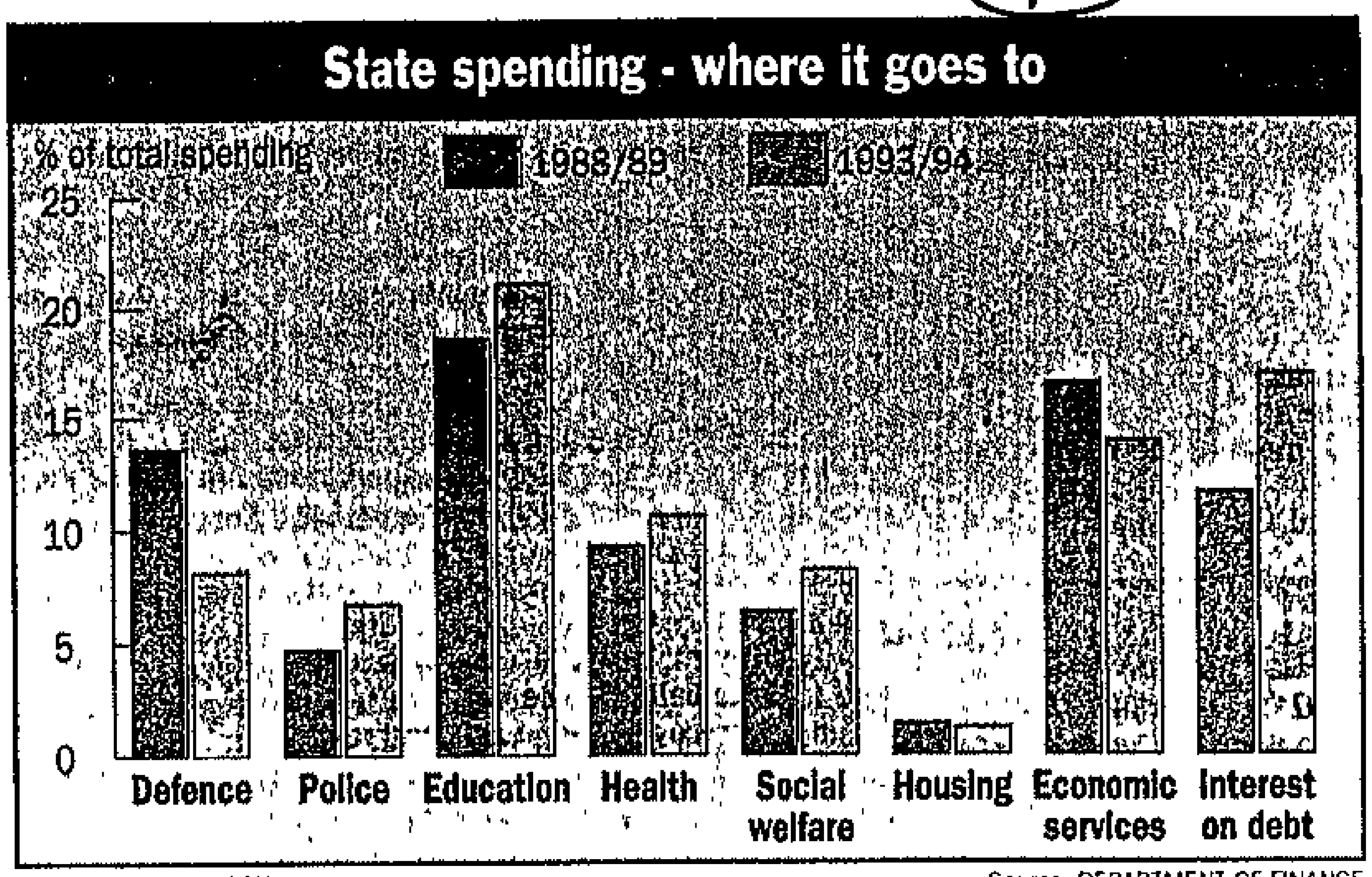
MONEY

State's coffers cannot cover ANC priority list

S Times 3/4/94

(Buss)

(49)



Graphic FIONA KRISCH

Source DEPARTMENT OF FINANCE

By SVEN LUNSCHE

A FUTURE government's scope to improve the provision of basic services, such as housing, education and health facilities, through tax increases or higher spending is extremely limited.

In releasing final 1993-94 expenditure and revenue figures and the draft Budget for 1994-95, Finance Department officials left little doubt this week that the economy could not cope with higher taxes or state expenditure

The ANC has yet to show its hand; TEC official and ANC economist Tito Mboweni said at the presentation that the draft Budget did not bind the future government It is expected to present its first Budget in July or August

A mere glance at state spending and revenue figures shows the enormous problem facing the next government

Projected 1994-95 expenditure of R124,8-billion and revenue of R98,7-billion leave a deficit of R26,1-billion, or 6,4% of gross domestic product The 1993-94 deficit was 6,8% of GDP when expenditure of R115,2-billion overshot income of R90,1-billion by R25,1-billion

Not only is the deficit almost double the international norm of 3% of GDP, it will have to be reduced to 6% in line with SA's commitment to the International Monetary Fund

Continued high borrowing to finance the deficit is in itself placing an increased burden on the Exchequer. The interest on public debt in 1993-94 was almost R21-billion and is expected to increase to R23,3-billion in fiscal 1994-95.

In 1982-83 interest on debt accounted for 12,9% of total spending. In 1993-94 it rose to 17% and the figure is being buoyed by SA's takeover of the debts of Transkei, Bophuthatswana, Venda and Ciskei (TBVC)

Finance Director-General Estian Calitz gave a blunt warning this week. "Unsustainable deficits jeopardise economic growth."

He said that there was already a shift in spending to the policy areas that were important to the new government, but "there is not much more scope for further increases".

A longer-term analysis confirms this trend Spending on social services in 1988-89 accounted for 39% of total expenditure Five years later the figure is now 44,1%.

Spending on education as a percentage of the total increased to 21,1% in 1993-94 (1988-89 18,2%) and on health to 10,6% (9,3%).

However, spending on housing has fallen from 1,4% to 1,2% of the total.

Most of the higher outlays for social services were achieved at the expense of the protection services (defence, police and prisons), whose share of the total dropped from 20,7% five years ago to 17,6% in 1993-94.

If a new government increases capital spending on social services by building schools, houses and hospitals, and taking into account the deficit restraints, Mr Calitz warns that its expenditure on current items (wages, stationery, office equipment and others) could be raised by only about 5% in 1994-95.

Despite the ANC's commitment to fiscal restraint, even optimists in the organisation consider this measure of wage curbs unlikely, particularly since nine provincial goverment structures will also have to be financed.

Are higher taxes likely? The ANC says, by and large, no, considering that the economy is emerging from four years of recession and both companies and individuals are taxed to the limit.

The Department of Finance, in budgeting for a 9,5% rise in revenue to R99-billion in 1994-95, expects R40,4-billion from individual income tax. This is a 13,3% increase on the R35,6-billion in 1993-93

Company tax is budgeted at R13,6-billion (1993-94 R12,5-billion), VAT R28,7-billion (R25,3-billion), fuel levies R7,8-billion (R7,6-billion) and customs and import duties R5,9-billion (R5,2-billion).

The estimates of revenue are based on forecasts of 3% economic growth this year, a rise in domestic expenditure of 2,5%, inflation of 7% and wage increases of 8,5%.

The ANC is holding its cards close to its chest, but has reiterated that it will achieve its policies mainly by reshuffling state spending and through more efficient delivery.

Given the obvious fiscal constraints, this is likely to be its only option

Paying for the cost of change

Sowetan 23/6/94

■ DEPARTURE POINT Budget must be seen as a basis for debate in the future, says unionist:

Sowetan Reporters

TAX INCREASES on luxury goods, savings to make money available for the RDP and the cost of the transition to democracy were the major characteristics of this year's Budget.

The stage has been set for next year when many observers expect the real RDP budget to reflect the redirection of resources to disadvantaged communities.

(49)

The smokers, the rich as well as the middle class are going to bear the brunt of the tax hikes that are aimed at financing the road to democracy.

Duties on tobacco and liquor are expected to contribute about R3,4 billion to the national coffers.

This will go a long way to addressing the R4 billion deficit incurred in the transitionary process.

Aspirations

The poor, who were expecting their aspirations to be addressed through the scrapping of food tax, got a slap in the face, but at the same time were spared the widely expected hike in VAT, another masterpiece of Finance Minister Derek Keys's juggling act.

The usually controversial VAT, which has in the past caused thousands of workers to take to the streets in protest, did not feature at all.

It only received a mention when Keys announced the formation of a commission to review the country's entire tax structure.

Those who want to invest in South Africa must be scrambling to exchange their dollars for financial rands because the Mandela government has demonstrated that the initial financing of the RDP can be done without having to go cap in hand to the international financial institutions.

Other benefactors in the Budget are the former guerillas of the liberation movements, who are set to get pensions for their efforts to bring democracy to the country.

Meanwhile, economists, academics and trade unionists were yesterday cautious in their reaction to funds allocated to the RDP.

The SA Consumer Co-ordinating Council said the Budget contained both good and bad news.

Moderate

Consumer Council official Mr Dan Kruger said on the positive side the Budget could be regarded as moderate.

"The man in the street will benefit since VAT was not raised. The higher excise duties will not affect essential goods," said Kruger.

Mr Steven Friedman, of the Centre for Policy Studies, said the amount allocated was not as huge as it appeared to be.

"Most of the money will come from existing aid. What the Government did was to merely shuffle around expenditure," he said.

Friedman said Keys' announcement of the RDP funding differed from what President Nelson Mandela said earlier in that the Government failed to identify priorities outlined in the programme.

Political analyst Mr Eugene Nyathi said for the GNU to successfully implement the RDP, the Government needed "drastic surgery" rather than the redirection of resources from Government departments.

African Clothing and Textile Workers' Union general secretary Mr Ebrahim Patel called on institutions of civil society to look upon the budget as a point of departure for a constructive debate.

Modest, realistic Sacob

(49)

THE SA Chamber of Business (Sacob) reacted positively to Keys' Budget speech yesterday, saying he had been "realistic and modest" in addressing the new government's plans.

But the chamber criticised his delay in outlining the future tax system by appointing a commission of inquiry into taxation: "It inevitably prolongs uncertainty."

The chamber said it also regretted the decision to tax General Export Incentive Scheme (GEIS) benefits before the matter had been finalised by the National Economic Forum (NEF).

It welcomed Keys' emphasis on the importance of addressing social needs within a framework of financial discipline.

CT 23/6/94

POBOX–339

Transition levy finds no support

49

CT 23/6/94

THE Budget would stimulate economic growth while making substantial provision for social services, the National Party said yesterday.

NP spokesman Mr Danie du Plessis said the Budget contained sufficient elements to promote growth.

However, he expressed reservations about the one-off levy to cover the costs of the transition.

"The functioning of the Independent Electoral Commission and its lack of financial discipline which the taxpayer now has to account for is an example of how state expenditure should not occur ...

"Extravagant promises by some ANC ministers have already made the danger lights flicker. Ministers must realise they can only make promises within the framework of the Budget."

● In its reaction the CP strongly objected to the five percent levy.

"The CP strongly objects to the squandering of R4bn by the TEC and the IEC."

The insufficient increase in social, military and civil pensions would result in a further lowering of living standards in a sector of the community which, in some cases, was already below the breadline, it said.

● The Freedom Front said most of the transition expenditures had been been unnecessary. The failed National Peacekeeping Force had cost the taxpayer R395m and the Independent Electoral Commission had overshot its budget by R700m — Sapa

Growth of 2,5% 'within reach'

(49)

CT 23/6/94

SA SHOULD find 2,5% growth within its reach in 1994, the Finance Department said.

It said real gross domestic product (GDP) grew about 1% in 1993, following three years in a row of decline.

Its estimates were based on recent revisions of national accounts, including GDP, which included for the first time the contribution of the informal sector.

It forecast last March, before the revision, that 3% growth was "well within reach" for 1994.

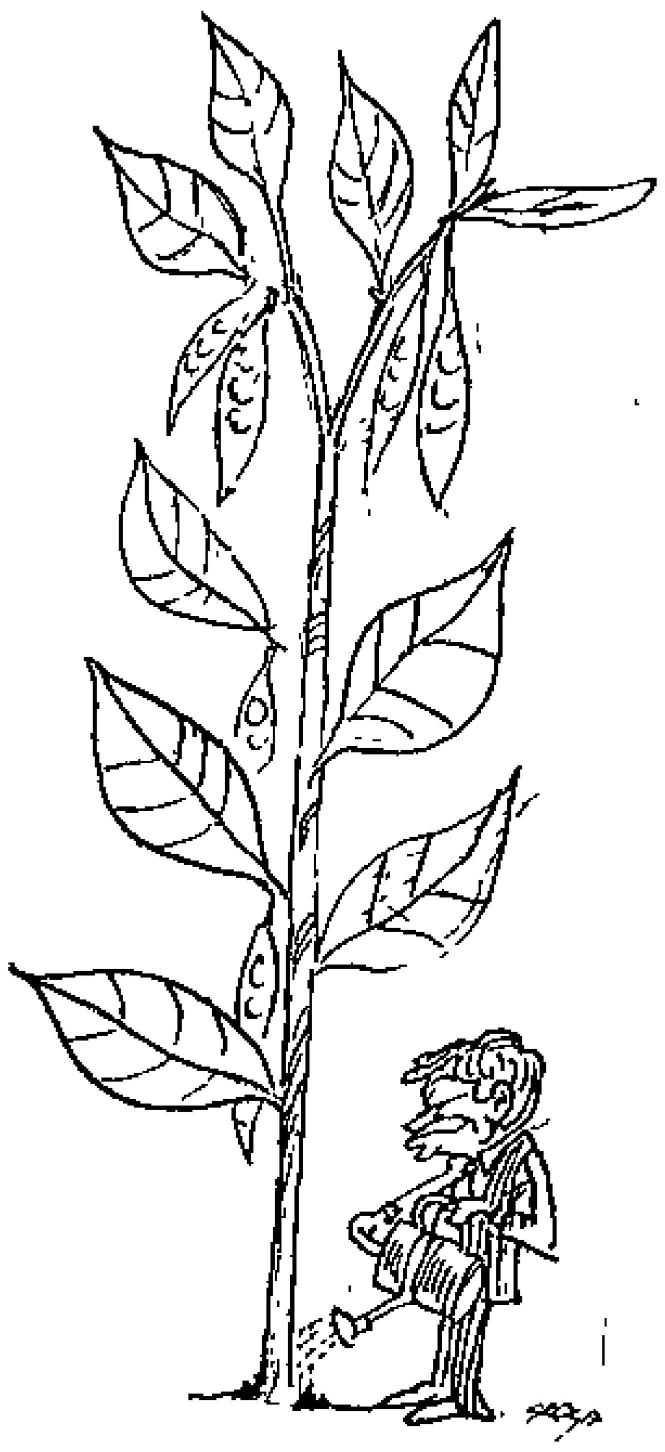
The department, in an economic review accompanying the 1994/5 Budget, made no reference to its March forecast for 1994 GDP.

It noted however, the adjustment for the informal sector added about 5,5% to the previously published estimate of GDP value for 1993.

It said the world economy performed below par for the fourth consecutive year in 1993 but there were signs of a recovery in 1994 gaining momentum.

Commodity prices were higher and, "coupled with the higher dollar gold price, these circumstances could contribute to a strengthening of the country's export performance," it said.

However, the required improvement in long term growth performance needed a continuation of responsible fiscal management and market-based productive investment. — Reuter



UK praise for Keys' prudence

(49) CT 23/6/94

From LINDA ENSOR

LONDON. — The Budget was welcomed in stockbroking and financial circles here as a sound, pragmatic one which was friendly to business and foreign investment.

Morgan Grenfell director Mr Martin Kingston said finance minister Mr Derek Keys' "cautious and prudent" speech was an "extremely sensitive and well crafted" one which had been constructed in difficult circumstances.

It demonstrated a fundamental appreciation of the circumstances on the ground as well as the views and concerns of the international community.

He said the Budget took into account the flow of capital to SA was likely to be low and the demands of the Reconstruction and Development Programme.

Smith New Court's SA corporate finance director Mr Tim Read described the Budget as "superb" and said it was a "Budget for the private sector". It was not a social, redistributive Budget.

"This is an extremely friendly Budget for investment," Mr Read said, adding though he found it "rather staggering" that the election and transition had cost so much.

Fleming Martin's Mr Anthony Garnett said the Budget was "vintage Derek Keys". It was sensible, would not create stirs in foreign markets and would send a positive signal to both equity and bond investors.

Analysts said the levy on the wealthy was "sensible" and moderate.

Move to democracy cost R4bn

(49)

CT 23/6/94

By ANTHONY JOHNSON
Political Correspondent

THE price tag of the transition from apartheid to democracy has jumped from an estimated R1,4 billion to more than R4 billion.

Finance Minister Mr Derek Keys supplied details yesterday of the additional R2,456 billion voted for transition costs.

These are summarised in the table below:

	1993/94 Voted	1994/95 Allocate	Addition	Total
	Rm	Rm	Rm	Rm
Independent Electoral Commission	119,0	128,5	700,8	948,3
Independent Broadcasting Authority	-	-	24,0	24,0
Net cost MK & TBVC defence integration	-	688,2	798,0	1486,2
Assembly points MK	-	-	223,1	223,1
Inaug. of President	-	-	18,0	18,1
Service dept allow. - during election	-	-	526,0	526,0
National Peace Keeping Force	129,3	-	255,2	384,5
Transitional Executive Council	7,5	8,4	-	15,9
Peace Secretariat	20,0	34,1	-	54,1
Nat. Peace Accord	10,0	20,0	-	30,0
Parliament	-	66,0	-	66,0
Advances to provincial governments	-	139,0	97,2	236,2
	285,8	1084,2	2642,3	4012,3
Less: Incidental savings	-	-	186,0	186,0
TOTAL:	285,8	1084,2	2456,3	3826,3

Budget good to provinces

B/Day 24/6/94

DAVID GREYBE

CAPE TOWN — Central government has allocated a third — R45,1bn — of the R135,1bn Budget to the nine provinces, and introduced stringent measures to ensure their greater fiscal accountability.

But because the transition from former financing mechanisms to a new model will be a phased process, Finance Minister Derek Keys was not in a position this week to allocate each province its own budget.

Instead, this year's funds were allocated to the former four provinces, TBVC states and the self-governing territories. Final allocations to the provinces will be tightly managed by central government.

The Budget Review said the full year's budgets would go before provincial parliaments for the first time only next year.

A Finance official said yesterday that in the interim, the auditor-general would be responsible for auditing the former homelands' budgets, as well as those of the former provinces, for the first time.

Once the transition financing process had been completed, the auditor-general would take charge of the audits of all nine provinces. SA could not afford to repeat the widespread misappropriation of funds that had taken place in the homelands in the past, he said. (49)

The Financial and Fiscal Commission, which has to be established by Monday in terms of the constitution, and the Departments of Finance and State Expenditure will be pivotal in the allocation of funds.

□ To Page 2

Provinces

B/Day 24/6/94

□ From Page 1

The new Public Service Commission is also involved in that it has initiated a systematic process of personnel and functional reorganisation of the former system of government at all levels.

The provincial budget allocations are: Cape — R6,424bn; Natal — R3,356bn; Free State — R1,901bn; Transvaal — R7,184bn; six self-governing territories — R13,56bn; and TBVC states — R12,635bn. (49)

The allocations to the former self-governing territories and TBVC states are: Bophuthatswana — R3,325bn; Transkei — R5,398bn; Ciskei — R2,325bn; Venda — R1,587bn; KwaZulu — R5,883bn; Gazankula — R1,588bn; KaNgwane — R912m; KwaNdebele — R671m; Lebowa — R3,693bn; and QwaQwa — R813m.

● See Page 5
● Comment: Page 12

Where the money is going

(49) UD

Government spending has been kept in check. **Reg Rumney** looks at where the money is going

THE money in the Budget for job creation demonstrates once again the difficulty of spending money allocated for certain socially desirable purposes — and the spending constraints faced by Finance Minister Derek Keys and his team.

R292-million is allocated for job creation, outside of any further money for this purpose that might come from the Reconstruction and Development Programme's R2,5-billion fund for this fiscal year. But around R247-million of that is rolled over from the last fiscal year, with only R45-million being added to the allocation.

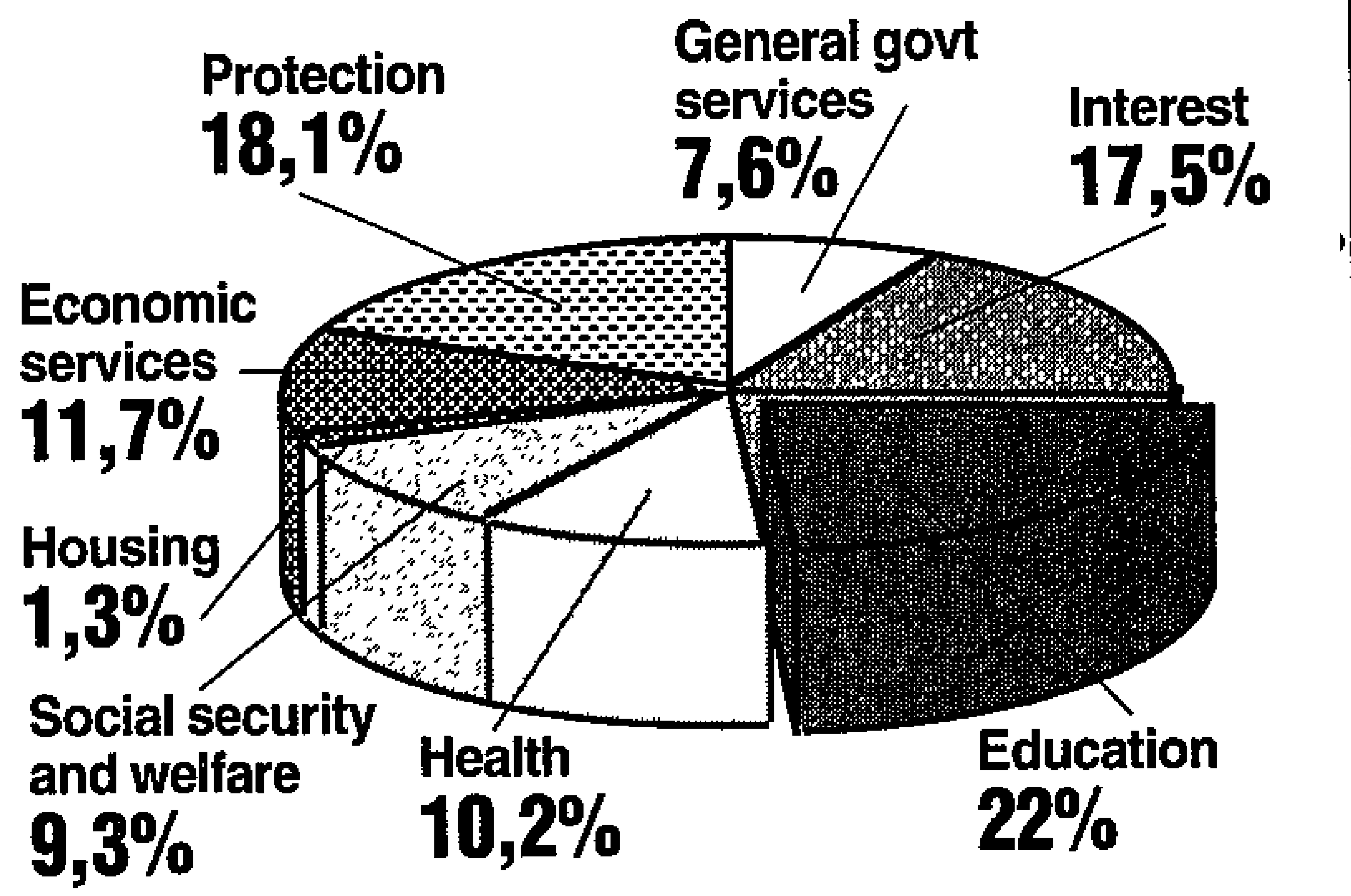
In general, while the RDP fund gathers steam, non-RDP spending in fields where apartheid left big backlogs is restrained.

Spending on health dropped two percent in real terms at R14-billion, although the shift in spending is seen in the rise in the primary health care portion to 25 percent of the total health care budget at the expense of secondary and tertiary health care.

Spending on social security and welfare rose 20,5 percent to R13 015-billion, yet this translates, according to the South African Council for the Aged, to a disappointing R13 a month increase in social pensions.

Spending on housing is up 15,6 percent above the amount voted for 1993/94, but at R2,2-billion falls far short of some estimates of the kind of money needed to attack the housing backlog. Again, the money will have to come from the RDP.

How the money is spent



To be fair, spending on social services has to be looked at over a longer period to get perspective. Spending on protection, which includes defence, has declined as a percentage of total spending from 21,8 percent in the 1990/91 budget to 18,1 percent in the 1994/95 budget.

Over the same period social spending has risen from 41,3 percent to 45,0 percent, or 19,1 percent a year to make up 14,3 percent of gross domestic product.

Within social spending education has risen to 22,0 percent of the Budget, from an already high 20,9 percent — education spending represents seven percent of gross domestic product for this fiscal year.

Spending by most departments was cut back to find the R2,5-billion for the RDP.

But transition costs associated with security during the election negated any "post-apartheid dividend". The disastrous National Peace-Keeping Force exercise alone swallowed up R384,5-million.

While the defence budget was cut by R650-million, transition costs push it up again this fiscal year. So spending on protection services actually rises by R2,309-billion, or 10 percent, slightly above inflation. Within that defence spending, widely seen as a source of money for diversion to social spending, rose by 13,5 percent.

And the South African National Defence Force has released a document arguing that the defence budget will have to increase in future, and cutbacks have harmed defence capabilities.

wm 24-30/6/94 (49)

World Bank attacks wastage

Developing countries could save $50bn if they maintained their infrastructure. **Will Hutton and James Nicholson** report

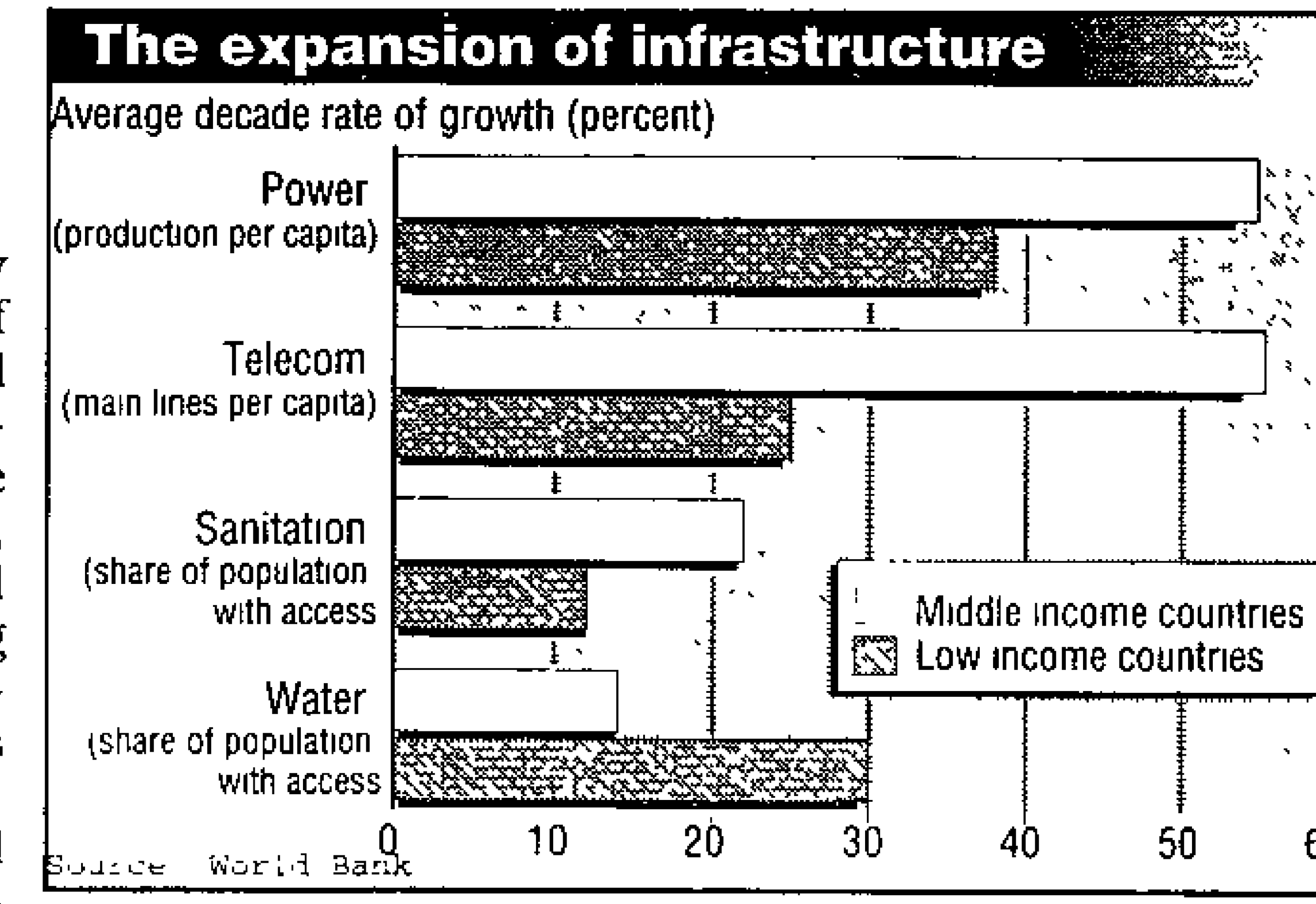
THE developing countries could save at least a quarter of the $195-billion they spend every year on public infrastructure by introducing market-based efficiency savings to transform their economic and social prospects, the World Bank said at the weekend.

Infrastructure spending, the Bank reported, "is no longer the grey backdrop of economic life but the front and centre of development", with growing evidence it has strong links to growth, poverty reduction and environmental sustainability.

Spending on public infrastructure has grown rapidly over the past 15 years, particularly in the provision of power and telephones, but the Bank is concerned that much of the spending is wasted through inadequate maintenance, bad management, overstaffing and investing in the wrong projects. It insists concern needs to broaden from the quantity of infrastructure stocks to improving the quality of infrastructure services.

Developing countries could save $54-billion a year — more than they receive in official development aid — by improving the efficiency of power, water, telephone and other infrastructure networks. They could save another $123-billion a year, or 10 percent of their annual revenues, by eliminating underpricing of infrastructure services such as railways and electricity.

African countries could have saved road reconstruction costs of $45-billion over the past 10 years if they had spent $12-billion on maintenance. The Bank also notes the scale of achievement. In the past 15 years, the share of households with access to clean water has increased by half, and power production and telephone lines per capita have doubled. It also acknowledges the rates of return on infrastructure spending can extend up to 60 percent and are much higher than on other forms of capital investment — although it is unclear why.



Yet, despite improved spending in the developing world, efficiency is poor and deteriorating, often with the poorest suffering most. A review of power networks in 51 developing countries showed technical efficiency has fallen over the past 20 years, while governments in low-income countries often invest in high-profile ports or irrigation systems before much of the population has access to transport, clean water and sewage disposal.

Governments must release their grip on public-sector monopolies, which, in most cases, control infrastructure systems, the report adds.

One proposal is to introduce commercial operating practices into the running of projects, using explicit performance objectives, well-defined budgets and more managerial autonomy.

At the same time governments must refrain from haphazardly interfering in the infrastructure organisations.

Another is to introduce competition, auctioning the right to run projects, allowing firms to compete for customers, and breaking down monolithic utilities into self-contained units.

A third would be to involve the eventual customers in designing and operating projects. The Bank says this helps make suppliers more accountable to their customers.

Development aid agencies reacted critically to the report. Paul Spray, head of policy at Christian Aid, said it was a missed opportunity. The report contains no analysis of how tackling poverty and improving infrastructure are related, he said. It "fails even to specify the proportion of Bank infrastructure lending that goes on essential maintenance".

●Japan is to increase its 10-year infrastructure spending programme by more than $150-billion.

Budget 'brave attempt'

(49) CT 24/6/94

LONDON. — The Financial Times said yesterday that the South African government had passed its first test in presenting its budget, a "brave attempt" to reconcile two critical constituencies

Business was looking for evidence of fiscal discipline, while the newly enfranchised expected a liberation dividend.

"If South Africa can realise the vision set out by Mr Keys in the Budget — an open society, trading freely with other nations, investing liberally to increase productive capacity, and creating more jobs and an attractive domestic market — it would have broken the African mould."

But the editorial said the toughest tests were yet to come, such as controlling spending while keeping promises to provide a better life for blacks.

The Afrikaanse Handelsinstituut said in Pretoria that the Budget would probably promote business confidence. It avoided "untenable tax increases" despite pressure for major social adjustments. The financing of reconstruction and development had also been made possible in a "very positive" way. — Sapa

Govt set to redistribute 30% of SA

(49)

CT 30/6/94

Political Staff

THE government intends redistributing 30% of South Africa's land over five years starting next year, Land Affairs Minister Mr Derek Hanekom said yesterday.

Mr Hanekom would not say what land would be targeted, but indicated it would include land owned by bankrupt white farmers as well as by the state.

White farmers indebted to the point where they were unable to service their debts — "the sequestration cases — should no longer be bailed out".

Security of tenure for tenants, such as farm workers who had lived on farms for generations, would also be addressed.

"Obviously they want security of tenure where they are," Mr Hanekom said. It was a delicate issue, but a White Paper would be published after a thorough investigation.

The Sub-Division Act of 1970, which restricts the purchase of portions of larger plots of land, may be revised.

Mr Hanekom said he would ask for at least 10% — R250m — of this year's R2,5bn Reconstruction and Development Programme fund, most of which would be used for compensation payments under a land restitution programme.

Mr Hanekom said his department was also busy with a "major market reform initiative to rationalise financial institutions" such as the Land Bank, the Agricultural Credit Board and the Development Bank of Southern Africa.

He estimated that the land reform programme would cost R2bn a year for the next five years.

He said his department still planned to redistribute 30% of SA's land, as stated in the RDP, starting one year after the April election. However, Mr Hanekom conceded that "there is no scientific basis for the 30% redistribution figure".

He said a cabinet memo was being prepared to appoint a committee to probe rural finance needs.

Financial institutions had to ensure that rural people got access to finance "both for land purchases and the establishment of small enterprises".

Financing

The Land Bank's mission had to be redefined, as "it cannot duplicate the functions of commercial banks".

The Land Bank would have to support the government's land reform programme, providing financing to "those who are unable to go the normal commercial bank routes".

Mr Hanekom said the restitution programme should be made law during the August parliamentary session, paving the way for the appointment of Land Claims Court judges and members of the Restitution of Land Rights Commission.

BUDGET BLUES FOR THE POOR

BY WAGHIED MISBACH

The poor will not get any immediate relief from the budget announced by the government last week.

It was expected that people would no longer have to pay Value Added Tax (VAT) on foods like meat, fish and chicken, but that did not happen.

Most people will still pay the same for their weekly or monthly groceries. Foods like brown bread, vegetables, cereals, milk and eggs are, however, still free from VAT.

The price of food is likely to go up with the increase of petrol, because it becomes more expensive to transport goods. Transport costs are also likely to go up with the petrol increase.

Then there's an increase in "sin" taxes for alcohol and tobacco.

While these are not essential items, they are part of the bill for the ordinary family and this increase will also hit their pockets badly.

The government has also ignored the situation of married women who pay more tax than their husbands. This is despite election promises by the ANC that this discrimination would end.

It's no consolation to married women that they won't have to pay the five percent increase in tax to pay for the end of apartheid. This tax only hits the rich, and most women do not earn high salaries.

There was also hope that medicines would be free from tax, but that was also not announced by the government.

Hopefully there won't be any more bad news about tax. A tax commission set up by minister of finance Mr Derek Keys will report back on November 30 on whether or not there will be an increase in VAT.

However, the budget does not contain only bad news. There are advantages in the long term.

The government's plan to kick-start the economy has started with billions of rands being set aside to create jobs and build more houses.

But this will not happen in the near future. (49)

There are two amounts set aside in the budget to boost the economy: R292-million will create more jobs with about 450 job creation projects already approved.

A further R2,5-billion was announced by president Nelson Mandela earlier this year to start the ball rolling.

That money will increase over a period of five years and a total of R40-billion will be spent on various projects to correct the problems created by apartheid.

PLAIN TRUTH: That trolley full of food is not going to cost you any less now that the new budget has come into operation

No loosening up on budget belt

BY VICKY STARK

After tax deductions, Mrs Martha Forbes takes home R776 Her ex-husband assists the family with R100 a week.

From her total income of R1 176, the Kewtown woman feeds, educates, houses and entertains her five children.

"It's not easy but I manage," Mrs Forbes says. "Most of the money goes into groceries: about R500 a month.

"When the children need shoes or clothing, I hack the shopping list to bits.

"As soon as I get my wages I put money aside for the basics — like bread, milk and meat — and my travel money for the week."

She is concerned about the rise in the petrol price. "My taxi fare is going up. I already spend R100 a month to get to and from work.

"I only use it my car when I go shopping. And when I take my mother to visit family in Mitchells Plain, she pays for the trip."

Lighting a cigarette, she says: "I tried to quit last week. I bought these clip-on earrings that are supposed to stop the craving. I have to quit, cigarettes are a luxury I can't afford. Thank God I don't drink."

While she can give up her vices, she can't do without the roof over her head.

"My rent's just been raised by R20. Now I'll be paying R87 for this one-bedroom place.

"My children often ask me when we're going to get our own house. They always tell me how lah-di-da their friends' houses are.

"The mother of my 20-year-old son's girlfriend won't let him see her daughter because he lives in the flats. She says he's a ruffian.

"I always tell my children that they mustn't worry about what other people say.

"They have shoes on their feet and food in their stomachs. That's all that counts. And maybe one day we will have our own house."

Mrs Forbes is worried about her children. Her son and daughter matriculated more than a year ago and they still don't have jobs.

"The new budget won't make things easier for me now but in the long term, I hope that things improve for all of us.

"Most of all, I hope that my children will be able to find jobs because they're so depressed."

Derek Keys quits

Former Nedcor chief new Minister of Finance

CT 6/7/94

(49)

By ANTHONY JOHNSON and ARI JACOBSON

FINANCE MINISTER Mr Derek Keys last night rocked South Africa and the business community at home and abroad by announcing that he is to quit.

The news sent a tremor through financial markets, knocking the financial rand, the capital market and generating uncertainty in the share market.

Moving swiftly to contain possible damage President Nelson Mandela announced the appointment of former Nedcor chief Mr Chris Liebenberg as the new Minister of Finance.

Last night Mr Liebenberg's wife Elly said in a statement on her husband's behalf at the couple's Johannesburg home: "I have hardly had any time to think about my position as it came about so suddenly. I'd prefer to hold off on any other questions until tomorrow morning."

The timing of Mr Keys' sudden announcement "for personal reasons" during the visit of French President Francois Mitterrand remained a mystery.

SA Reserve bank governor Dr Chris Stals who quashed a rumour that he also was to resign admitted he was caught unawares and spent most of the day trying to confirm speculation with the finance ministry about Mr Keys' plans.

At a hastily convened press briefing last night Mr Mandela revealed that he was told last Thursday of Mr Keys' intended resignation and fully supported the reasons for the decision.

"He (Mr Keys) has given full details of (his) personal reasons to take this regrettable decision. I am convinced he has no alternative."

NEW POST . . Chris Liebenberg

Mr Mandela described Mr Keys as a remarkable Minister of Finance.

He said Mr Liebenberg, who apparently had already attended meetings in London as Finance Minister-designate, was appointed for his commitment to democratic values and reconstruction in a post-apartheid South Africa.

Mr Mandela said he had made the announcement because "the boys from the stock exchange and elsewhere seem to be very jittery". He wished to give an assurance that "there had been no change whatsoever in government policy".

Mr Mandela also announced that Mr Liebenberg would not be involved in party politics and that the constitution would be amended to allow him to fill an additional cabinet post.

Another cabinet post would be provided for a National Party member.

In his surprise statement Mr Keys had agreed to stay on until at least October — the point at which a "suitable successor" could take over.

Hours earlier he had signed an important economic deal with the French in Cape Town.

All Mr Keys would say last night about his reasons for quitting was: "They are personal and there is no question of policy involved."

He added: "I entered the public service at the beginning of 1992 with the aim of doing all I could to contribute to an orderly transfer of power to the Government of National Unity.

"It was important to protect the country's economic base during these difficult times and for the new government to make the best possible start from that inheritance."

Mr Keys who is expected to return to the private sector said that these objectives had been achieved but added: "The road ahead is a long one for which I believe fresh resources need to be marshalled."

MARKETS DIP, POLITICAL, FINANCE LEADERS SHOCKED

See PAGE 6

GILTS, FINRAND REEL ON KEYS' RESIGNATION

See PAGE 10

Leaks about his departure started filtering into the financial markets just before lunch yesterday, driving the capital market some 60 points lower to 15 17 on key stock — a level last seen over a year ago. The finrand also lost about 20c. However, both indicators recovered some of their losses before the close of trade.

Top NP sources who knew of the resignation before the announcement said: "Any speculation on disagreements on policy or personalities is totally incorrect — this does not flow from trouble in the government."

It is reliably understood that Mr Mandela yesterday spoke to the government's first choice as a replacement but that he could not extract an immediate commitment from the proposed successor.

At one stage Standard Bank Investment Corporation chief executive Dr Coenraad Strauss was rumoured to be the chosen successor.

Some government sources claimed last night that Mr Keys was worried he might not be able to present a balanced budget which matched the needs for fiscal discipline and social spending next year.

To page 4

SURPRISE . . Hours after signing an agreement for the French Development Bank to support development in South Africa, Finance Minister Mr Derek Keys announced he was to resign. Picture BENNY GOOL

P.TO

From page 1

Mr Keys has made it clear in recent months that one of his chief priorities was to keep the deficit before borrowing within manageable limits — and there was speculation last night that he felt unable to withstand ANC pressure to move beyond current spending targets.

Mr Keys paid tribute to President Mandela and Mr F W de Klerk, saying he was privileged to have served under two "remarkable leaders who each personified the finest hopes and aspirations of our people.

"The Government of National Unity has my personal loyalty and my assurance of continuing support during my remaining time in office and thereafter." (49)

Mr Liebenberg, 60, was born in Touws River in 1934. He joined Nedbank in Cape Town after matriculating at Worcester Boys' High School and has worked for Nedbank in Europe and for Morgan Guaranty in New York. CT 6/7/94

In 1981 he was made general manager of Advances and Corporate Banking of Nedbank and became managing director in 1988.

He was appointed chief executive of Nedcor in 1990.

In Nedcor's 1993 annual report, which was Mr Liebenberg's last statement as chief executive, he said there was a need for business to be involved in the changing face of SA to make it a desirable international partner, player and competitor.

Pro-active policies needed for SA economy

Business Editor

SA's government should adopt pro-active policies to get the economy going, says Tony O'Reilly, the Irish businessman who is now the controlling shareholder of Argus Newspapers.

It should make use of its good credit record and balance sheet to borrow from the World Bank, International Monetary Fund and other sources to create an exciting environment of real economic growth even though there would be the risk of some inflation.

Then world business would come to invest, in increasing numbers. "We have got to kickstart this economy, and it will not be kickstarted by world business."

O'Reilly believes that he got in on the ground floor to make a shrewd investment in Argus Newspapers, which now includes the Cape Times, before the rush to invest in SA.

He told Cape Times staff yesterday that his Independent Newspapers group had made the investment "when things looked a lot less certain."

Argus Newspapers was a world-class organisation with an enviable reputation locally. It was a prosperous group in an intensely competitive market, which could become a lot more prosperous.

Pointing to his successes in the newspaper business in Britain — where his group is the largest shareholder in The Independent and the largest publisher of regional weekly newspapers in the London and home counties areas — in Australia where it has 13 dailies and 35 weeklies, and in Ireland, he said confidently: "We know our business."

From small beginnings in Ireland his group had grown to one with a world-wide capitalisation of R3bn.

It was also in cable TV and "I don't see why the Argus group shouldn't consider investments in that too."

Explaining why he invests in newspapers he joked: "Like most Irishmen I'm a perennial eavesdropper and gossip."

CT 6/7/94

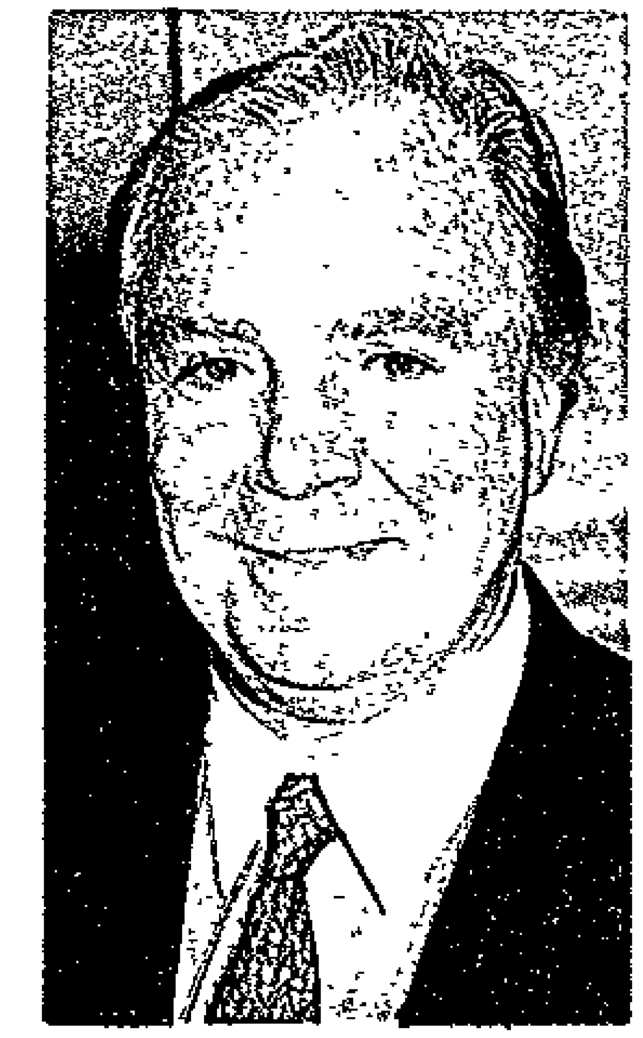
He saw an established regional newspaper as a product proof against foreign competition. Dismissing suggestions that printed newspapers would be killed by the electronic media, he said: "They have been saying that in the US for 25 years — but they still sell as many newspapers as ever."

49

However, to make newspapers appeal to young people brought up with TV they must be made brighter, with more graphics and colour.

His group had the largest cable TV business in Ireland.

If licences were issued to others besides M-Net in this country he would be interested. "What this country needs is a bigger TV menu. You've got table d'hôte. We're in favour of à la carte."



CONTROLLING SHAREHOLDER
... Tony O'Reilly

Keys: Markets still nervous

(49)

ARG 6/7/94

BRUCE CAMERON and MARC HASENFUSS
Business Staff

FINANCIAL markets continued to move down today with investors, particularly foreign investors, indicating scepticism about the official reasons for the sudden departure of Finance Minister Derek Keys.

Rumours continued that Mr Keys' resignation would be followed by that of Reserve Bank governor Chris Stals over the future of exchange control

Dr Stals has emphatically denied that he is contemplating resigning.

But Johannesburg Stock Exchange dealers said today the perception was that Dr Stals and Mr Keys were resisting attempts to do away with exchange control

Adding to the speculation is the appointment of Chris Liebenberg, former chief executive of Nedcor, as Finance Minister-designate.

Mr Liebenberg virtually led the growing campaign for the scrapping of exchange control, making a public call for a single currency in 1990.

The doubts have been heightened by the vagueness of the reason given by Mr Keys for his resignation.

When rumours of his resignation leaked out yesterday, the financial markets immediately assumed a clash over policy and dropped sharply.

Dealers on the JSE floor said today that sellers were apparent in blue chip stocks Sappi, SA Breweries and Barlows, as well as international stocks like Richemont and heavyweight gold shares.

They said there was a great deal of uncertainty among overseas investors about Mr Keys's resignation.

The announcement that Mr Keys was to quit was to have been made on Monday, but he held back at the request of President Mandela, who wanted a successor lined up.

The appointment of Mr Liebenberg, the consummate banker, has taken the portfolio out of direct party politics, although he will have to stick to government policy in budget decisions.

Initial speculation that Mr Keys had resigned because of a clash over policy lost credence today — although the "real" reason remained elusive.

TAKING OVER ... new man at the financial helm Mr Christo Liebenberg.

Aides dismissed claims that Mr Keys was in ill health.

One official said today that one of the reasons for Mr Keys's departure was his discomfort with his high political profile.

"He is a private man".

His aides said that if Mr Keys said his reasons were personal this would be correct.

"He is a man of absolute integrity."

Although not a politician, Mr Keys is credited with one of the most fundamental successes in the transformation of South Africa — the stabilisation of economic policies.

He played a significant role in weaning the ANC from populist economics into accepting the principles of a caring free market.

● Nats seek new cabinet member, page 3.

The future according to the World Bank

WM 1/7/94

Simon Segal reports on the World Bank's latest foray into the economic policy debate

NEITHER growth through business-as-usal policies nor growth spurred by a government spending spree and big wage increases will work for South Africa, believe World Bank economists.

In the World Bank's seventh discussion paper on South Africa, authors Peter Fallon and Luiz A Pereira de Silva look at how this country can move on to a much faster growth path in which the poorer majority gain the most.

"Growth without redistribution," as most local economists would now agree, "is almost certainly unsustainable, as it would falter as social tensions rose." The two prime requirements for redistributive growth are fast employment creation and narrowing the racial gap in public service provision.

Finding South Africa's real gross domestic product to be nine percentage points below its potential in 1993, the 389-page report concludes South Africa needs a policy mix of Keynesian and monetarist policies.

Their suggested strategy is broken into five major components: skill accumulation, productivity growth through exports, job creation, reviving government investment in infrastructure and public services that target the poor and prudent fiscal and monetary policies.

To succeed this strategy must:

- Encourage the supply side of the economy by improving export incentives and labour skills. Importantly, it notes "kick-starting the economy through public expenditure could play an importan role: well-targeted public investment will help redistribution while assisting economic recovery".
- Raise private investment by transparent, credible and stable policies. As the country battles to contain its deficit before borrowing to under seven percent of GDP the Bank warns "excessive fiscal deficits are likely to send the wrong signals".
- Redistribute through diverting public expenditure, upgrading skills, a modest programme of rural resettlement and developing small enterprises. The report is optimistic that "a significant proportion of the backlog in social expenditures can be cleared in a few years without breaking important macro-economic constraints". It estimates that "feasible growth in government investment could result in impressive redistribution if real recurrent expenditure growth is held around 2 percent annually". Redistributive public investment can come to some R14,9-billion/year over 1994-2005 (at 1992 prices), equivalent to 3,2 percent of GDP.
- For Cosatu its message is clear that "redistribution through immediate pay increases to lower-paid workers and excessive public expenditure is unsustainable". Increased inflation and pressure on the balance of payments could result.

Using a complex model the report outlines three scenarios. Under all three scenarios an extra R12-billion (1992 prices) can be spent during the first four years. The social investment backlog is accepted to be R46-billion. "If this estimate is correct then about a quarter of the total backlog can be addressed during the first four years of the new government." Under the best-case scenario the remainder of the backlog can be cleared over 1998-2001. If the low-case scenario materialises only 13 percent of the remaining backlog can be cleared.

G7 leaders pledge economic support

(49) CT 11/7/94

NAPLES. — Group of Seven leaders yesterday paid tribute to South Africans for "ending apartheid by constitutional means" and pledged political and financial support for its new government.

A chairman's statement read out by Italian Premier Mr Silvio Berlusconi, the summit host, said the G7 leaders and their new partner, Russian President Boris Yeltsin, "salute the achievement" of the South African people.

They also committed themselves "to assist the new government in its efforts to construct a stable and prosperous democracy".

Late on Saturday, the G7 leaders said in a communique that they "warmly welcome South Africa's transition to full democracy" which would "open up new opportunities for trade and inward investment" in the country.

They said they would "provide further assistance to help strengthen economic and social development, in particular for the poorest groups".

"Not only the people of South Africa, but also her regional neighbours, have much to gain from steady economic policies that unlock her full potential," the communique said.

Political developments in SA should encourage growing foreign private sector involvement in the country, which would clearly be backed by G7 governments, they said.

They added that SA was likely to obtain bilateral aid from a number of donor countries, but cited no numbers.

They stressed the G7 countries had actively backed the resumption of financial support for SA by the International Monetary Fund and the World Bank — Sapa-AFP

SA's target is global approval

CT 12/7/94 (49)

JOHANNESBURG. — Finance Minister-designate Chris Liebenberg wants to steer South Africa's budget deficit and currency system quickly towards global comfort levels.

"South Africa has been so successful in re-entering the world political arena and now we must also get back into the financial world arena successfully," he said.

"We must do this by achieving what the international markets and agencies see as reasonable and fair."

Liebenberg said he would continue to manage the budget deficit lower from its 1994/95 estimate of 6,6% of gross domestic product.

"All of us have agreed it's got to be a lot lower, so the focus will be still on less government consumption. And that's vital to the success of the RDP (Reconstruction and Development Programme)."

Although maintaining his dissatisfaction of the financial and commercial rand and exchange control, he said the intricacies and impact of scrapping the sytem would have to be studied.

"Ultimately we have to have a unitary currency and forex controls that are accepted as the norm by international players.

"You want to do that to enhance investment rather than to present an opportunity for you to withdraw your money."

The government would have to prove it and its economic philosophies were sustainable before a free foreign exchange regime could be implemented, Liebenberg said.

He was confident that South Africa could achieve those international benchmarks by building on the work over the last two years of current Finance Minister Derek Keys.

Keys announced his resignation last week, citing personal reasons, but said he would stay on to October. President Nelson Mandela appointed the former banker as successor last Tuesday shortly after Keys' surprise resignation.

Mandela said the constitution would be amended to allow for Liebenberg's appointment as he belongs to no political party.

"That's unique as far as I know and being non-political has many advantages. It gives me much more independence than a party political Finance Minister would have," he said.

Liebenberg stressed he enjoyed the confidence and support of President Mandela, deputy-president FW de Klerk and senior cabinet members.

"There's no reason why there would be personality clashes, and there's no difference of philosophies."

He planned in the period to October to fully inform himself of the broader operation of government and specifically the Finance Ministry's role.

He would meet with cabinet members and liaise closely with Keys, from whom he had "much to learn".

"I'll hit the ground running in October," Liebenberg said.

Over the longer term, he said it was also unlikely he would make changes to the policy "as it stands at the moment".

"For some time now there has been discussion that the (bond) market is a little toppish, that it is high, that we need some reaction to create a new base from which to grow further. I think that has come with the Derek Keys announcement.

"That there is a key factor in there is no doubt, but you can't blame the whole of it on Derek Keys," he said.

He said it would take time for bonds to recoup lost ground after last week's volatility.

"I think the market needs confirmation and stability, not only from me but on a wider political front, that everything the government has said has been carried out in as amicable and coherent fashion economically." — Sapa-Reuter

Budget under scrutiny by IMF watchdogs

S I Times (Buss)

By KEVIN DAVIE

THE Government of National Unity's Budget is being scrutinised by the International Monetary Fund.

An IMF mission visited South Africa during the Budget period to assess whether the country had complied with an undertaking made by the TEC in a letter of intent. The letter secured a $850-million loan on the strength of a commitment to reduce the Budget deficit to 6% of GDP.

Finance Minister Derek Keys announced a Budget deficit of 6,4%, but this was on a new calculation of GDP by the Central Statistical Service which included informal-sector activity.

The deficit is estimated at 7,2% based on the previous GDP measure.

It is understood that the IMF mission visited the Reserve Bank to make its own calculation of South Africa's GDP using its standard measures. (49)

A Finance spokesman says the department is not aware of any tension between South Africa and the IMF over the re-calculation of GDP. South Africa's relationship with the IMF remains good.

A CSS spokesman says the GDP was re-calculated in line with United Nations guidelines which say informal-sector activity should be included to give a better overall pricture of the size of an economy. 17/7/94

An IMF spokesman says the mission will report back on the new Budget to the management of the IMF.

He says members of the mission also had talks on the short-term macro-economic projections, monetary policy, trade policy and developments in the balance of payments and reserves.

"The efficacy of the foreign exchange controls and the financial rand system was certainly one of the topics discussed," he said.

Jitters over State's role in the economy

(49) ARG 27/7/94

Business Staff

SACOB, the largest employer body, has given the thumbs-up to the government's RDP, but says it is worried about State intervention in the economy.

Director-general Raymond Parsons said yesterday that if the State was to be used in a heavy-handed manner to counterbalance the distortions of apartheid with other ideologically driven distortions, the result for the economy would be catastrophic.

Releasing Sacob's input into a White Paper on the RDP, Mr Parsons said interventions should work through the profit incentives of the private sector.

This would ensure that the delivery of benefits to the poor were achieved efficiently and with a minimum wastage of resources.

He was also concerned that the role proposed for business was not clearly spelt out, which gave the plan an authoritarian undertone.

He referred, for example, to an RDP proposal that if major financial institutions did not take up "socially desireable" and targeted investments, the government should consider some form of legislation to achieve this.

Sacob cautioned against the dangers of macro-economic populism which it said had led to the failure of similar development strategies elsewhere, particularly in South America.

It saw government's role as one to create the environment for markets to operate more efficiently, rather than managers of the private sector.

"Relations between government and business can and should be governed by stable rules which to a large degree create that sense of security which will encourage business to invest, produce, employ and trade," it said.

"The bottom line is that business must be RDP-friendly and the RDP must be business-friendly."

Sacob economist Bill Lacey urged that budgetary deficits be used solely to finance capital expenditure.

"The financing of current expenditure through budgetary deficits can only lead into an inescapable debt trap."

He said the RDP should give greater clarity on the intent of future deficit budgeting.

Sacob said it continued to be supportive of privatisation, which gave three advantages to the government.

"Firstly, once they lose State support, companies are compelled to become more efficient, assuming deregulation which removes protected markets and distorted price mechanisms.

"Secondly, privatisation produces revenue for the State which can be employed to reduce the need for public borrowing.

"In instances where such sales of public assets are made to foreigners, they constitute direct investment and have favourable implications for the capital account of the balance of payments.

"Thirdly, privatisation can be an instrument for increasing black participation in the economy, if the sale of the asset is directed or confined to that segment of society, as was the case with National Sorghum Breweries."

Joint finance committee backs the Budget

By BARRY STREEK (49)
Political Staff

THE first post-election Budget has been given a provisional go-ahead by the Joint Standing Committee on Finance. CT 1/8/94

But the committee has called for urgent action on a number of issues

The dissolution of the homelands and their incorporation into provinces that did not yet have their own government structures had led to concern about the ability to finance and provide services to people in these areas, it said.

It also raised concern about ensuring "accountability for funds made available for this purpose".

The committee said in its report to Parliament at the weekend that "the transition is fraught with administrative and financial complexities, which could delay the process".

The committee, which is chaired by the ANC's Ms Gill Marcus, also agreed with the proposal by the Department of Mineral and Energy Affairs to sell off two months' oil reserves.

The committee expressed concern that the Department of Constitutional and Provincial Affairs had received no funds for the local government elections.

Expenditure on secret projects and the Special Defence Account, and the continued existence of Secret Services Evaluation Account should be evaluated and investigated.

The committee said the R45 million budget in the Department of Manpower should be redirected to the National Works Programme.

It also called for an investigation into competition policy "with a view to creating an effective instrument to help foster competition within the South African economy".

The committee also said the discrimination in tax against married women should be addressed "urgently"

Budget has serious weaknesses — DP

Political Staff (49) CT 5/8/94

THE Budget had important weaknesses, including high levels of government expenditure and the deficit, DP finance spokesman Mr Ken Andrew said.

The government also lacked the courage to tackle tough issues, like the bloated civil service and costly defence and secret services.

"The result is that pensioners are financially squeezed, middle income families bear the brunt of large increases (18%) in individual income tax and married women taxpayers are fleeced."

The DP had reservations about the Budget but would not oppose it, as it had to be finalised in some haste by a new government trying to find its feet.

R6 billion in handouts

■ 'WASTE OF FUNDS' TBVC states given money despite allegations:

By Joshua Raboroko

THE PREVIOUS South African Government allocated about R6 billion to the former TBVC states in the 1993-94 Budget even though there were allegations of misappropriation of funds in the territories.

In addition, the TBVC states received R800 million from the Development Bank of Southern Africa and other sources — bringing the total amount to nearly R7 billion for the financial year.

These figures were released in Pretoria yesterday by auditor-general Mr Henri Kluever when he announced the amalgamation of the South African and TBVC audit offices provisionally set for October 1. The merger of the offices is in compliance with the spirit of the new constitution. The purpose of the amalgamation shows "transparency in the audit offices". Sowetan 5/8/94

Kluever said the states had financial problems — such as misuse of money — which caused concern because it indicated how the "taxpayers' money was wasted".

The allocation of funds to the TBVC territories was done through the Ministry of Foreign Affairs, although he did not have the breakdown of how much each state received.

Kluever said there was no satisfactory accountability of how the monies were used by these states. The deficit was "appalling in some instances".

The auditor-general mentioned that the same could be said about the former self-governing states whose economies were virtually collapsing. The commission of inquiry into the self-governing state of Lebowa found that the "session committee" handling public accounts did not function satisfactorily. The committee was appointed from the ranks of the ruling party and it protected the government.

"It was recommended that serious consideration be given to the composition of the committee which was called to account for the misapplication of public funds," he said.

An audit of income tax matters in self-governing territories revealed serious shortcomings.

(49)

Parliament to have more influence on Budget

THE Finance Department's grip on the Budget is to be loosened after pressure from new MPs who are worried that the Budget has been presented to Parliament as a "fait accompli".

Finance Minister Mr Derek Keys told Parliament on Friday measures would be introduced to increase the legislature's influence in drawing up the Budget.

He announced that proposals were being prepared to allow the participation of the joint standing committee on finance in formulating the 1994/95 Budget.

This change followed pressure from new MPs who argued that the budgeting process fell largely outside the influence of the legislative authority.

The change would mean a sharp reduction in the powers of the Finance Minister to single-handedly determine total government spending. But Mr Keys said "certain safeguards" would accompany the procedural change to address this issue.

In one of his last speeches to Parliament — which focused largely on the need to reduce government expenditure — Mr Keys said there could be no doubt about Parliament's power to take the ultimate Budget decisions.

While the standing committee on finance presently manifested an expenditure-reducing enthusiasm, "my department can see real value in adding this extra string to our bow".

"We would feel rather different if we were to find the committee in free-spending mode so I think that certain safeguards would need to accompany such a procedural change," Mr Keys said.

Government consumption had to be kept down to finance the reconstruction and development programme. (49)

With the economy growing, government over-spending would be eliminated, he said.

"All things being equal," interest rates and inflation would fall, creating improved conditions for investment. CT 8/8/94

Economy plans 'responsible'

(49)

CT 12/8/94

By BARRY STREEK

DESPITE expectations that the new government would succumb early to the temptation or pressures of macro-economic populism, it had laid the base for responsible economic management, the director-general of finance, Dr Estian Calitz, said yesterday.

The government's first Budget had presented a fiscal framework intent on pursuing reconstruction and development goals, he said in Cape Town at a conference on federalism.

At the same time, this framework would mobilise extra resources through higher tax revenue derived from higher economic growth, greater tax efficiency and incisive re-allocation of resources, instead of a mounting government share in the economy.

"In particular, no permanent increase in the tax burden and no real growth in government current expenditure constitute two important pillars of fiscal policy, allowing a gradual lowering of the inordinately high budget deficit of 6,7%."

Exchange rate: Despite political changes, foreign investors still have no faith in SA currency

Rand's downward spiral continues

WM (BM) 12-18/8/94 (49)

The effects of political change have not yet filtered through to the exchange rate, writes **Simon Segal**

DESPITE its recent recovery, the persistent erosion of the value of the rand is a worrying testimonial to the new government. After all, many predicted, once South Africa's first non-racial election was over the pressure on our currency would ease as violence abated and a legitimate government of national unity restored investor confidence.

Now, since Nelson Mandela was inaugurated as President on May 10, the rand has tumbled by one percent against the US dollar (to R3,61), 4,1 percent against the British pound (R5,56), 1,9 percent against the Japanese yen (one rand is Y28,05) and 4,3 percent against the German mark (one rand is DM0,44).

This brings the rand's total fall this year to 6,2 percent against the dollar, 10,5 percent against the pound, 14,7 percent against the yen and 13,7 percent against the mark.

Calculating the nominal effective exchange rate of the rand — that is, measuring the rand against a weighted basket of the main currencies with which South Africa transacts — Standard Bank estimates the rand's decline since the election as 2,6 percent and 9,7 percent since the beginning of the year. Its index, based on 100 in 1990, is now at 71,12.

The encouraging aspect is that this is well off the rand's weakest level ever at the end of July — 69,36 on Standard Bank's weighted basket. The local currency was then at R3,69 to the dollar, R5,62 to the pound, Y26,5 and DM0,43.

For its part the Reserve Bank calculates that the nominal effective exchange rate of the rand, also using an index with a base of 100 in 1990, was 79,5 at end-December and is now around 72, a decline of 9,4 percent. This is some 26 percent down from its high of 97,2 in February 1991.

Calculating the real effective exchange rate of the rand — using a weighted basket of currencies but taking into account inflation differentials between South Africa and its main trading partners — the Bank shows that the rand has dropped from 99,5 at the end of 1993 to 94,25 at end-May (again the index base is 100 in 1990). It is probably around 93 now.

Since the unbanning of political organisations and individuals in 1990 the rand's real effective exchange rate peaked at 105,2 in July.

So what is going on? One economist says "the bottom line is simple — there is no faith in the currency because of a lack of faith in the economy" This is curious when the economy is showing its best growth since the 1970s (which is widely expected to continue into 1996) and the inflation rate is in single digit figures for the first time since the 1970s.

The market and investors, however, are not convinced about economic potential. They focus on a scenario of unemployment, poverty, strikes and fiscal demands for social upliftment.

This is the same reason behind South Africa's weak balance of payments position. At R7,6-billion, gross reserves cover 1,2 months worth of imports. This is down from 1,6 months at the beginning of the year. But, the R484-million rise in the Bank's reserves in July is the first rise since January, when reserves were at R9,1-billion.

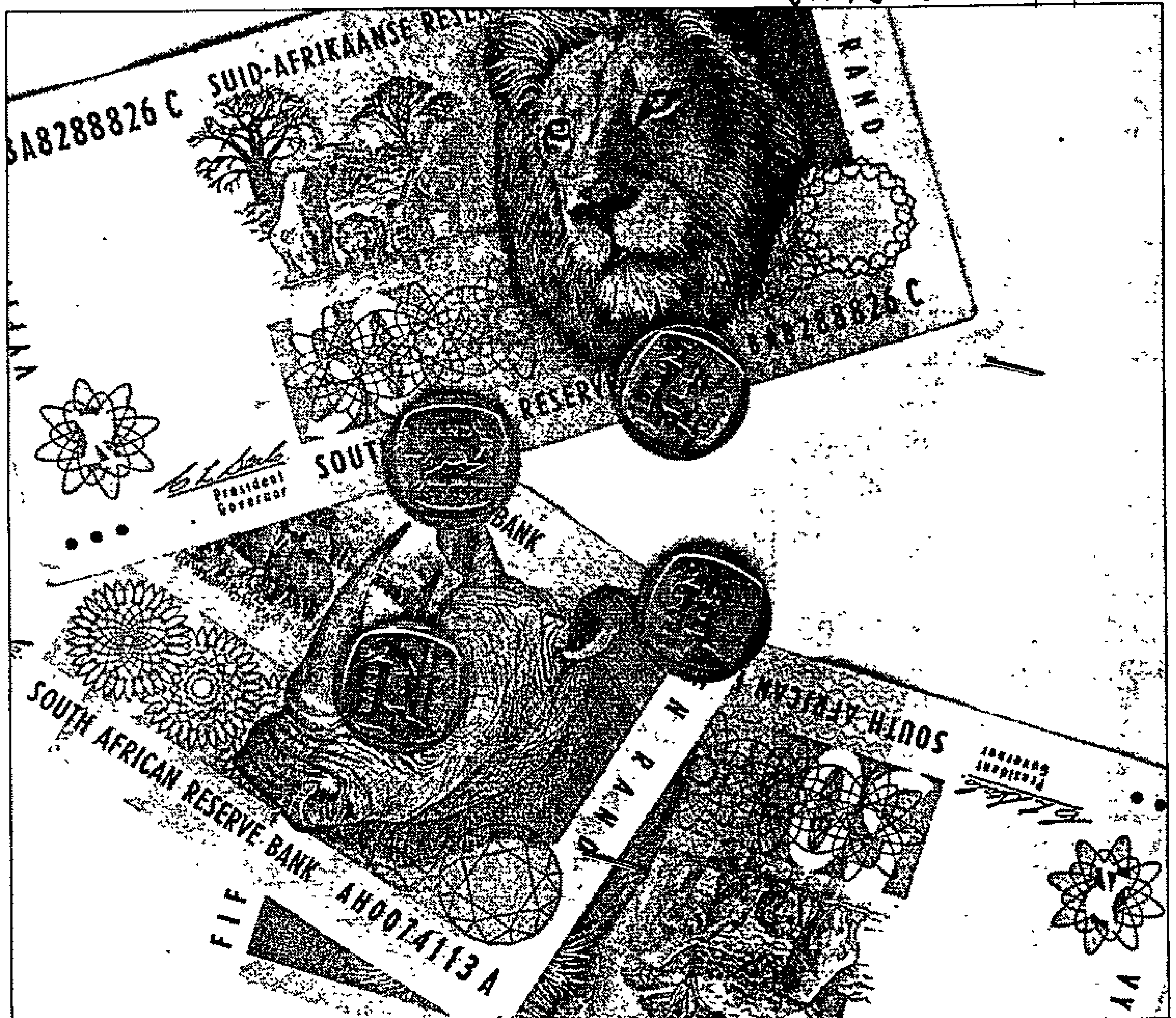
To achieve a higher growth rate of, say, five percent, requires a net capital inflow of around R1-billion. This will only happen when government's policies are accepted as credible and responsible.

The net capital outflow over the past 15 months has been US$6-billion of which US$1-billion was in the first four months of this year. But officials have been saying that since the election in May outflows are matching inflows as trade credit returns to South Africa.

Long-term funds will flow into the country once an international credit rating has been obtained for South Africa, probably in September

Portfolio investment in South African equities and bonds is still volatile, unpredictable and vulnerable to political developments.

The market is also reacting to the perpetual speculation around the abolition of the financial rand (finrand). Its all-time low just before the elections was R5,71 against the US dollar. It is now around R4.58.



Taking a tumble ... In spite of predictions of a rise following the election, the rand exchange rate continues to fall in Spira

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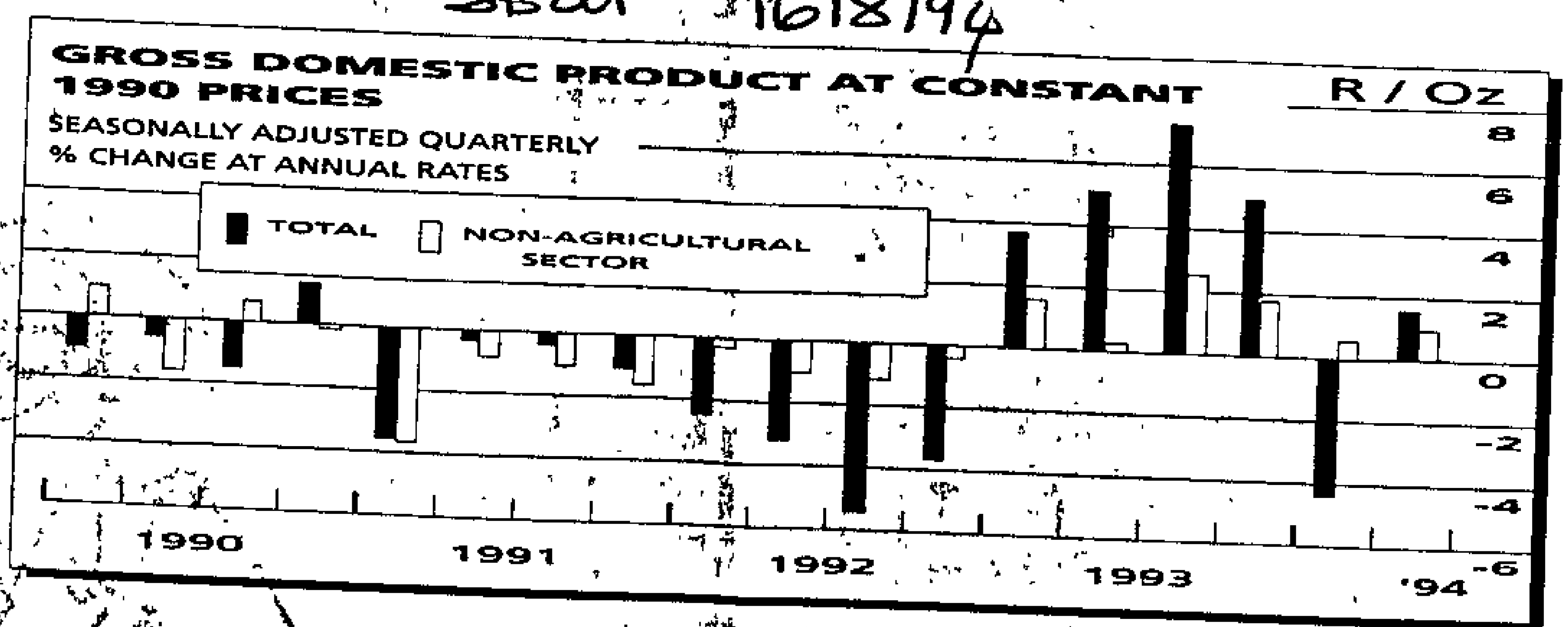
the overall index dropping 23 points to 5789.

Hopes of 3% growth rate dashed

Star 31/8/94

BY CLAIRE GEBHARDT



Hopes of 3 percent growth this year have faded with the release of second-quarter gross domestic product (GDP) figures.

Latest statistics, released by the Central Statistical Service (CSS) yesterday, show that the economy grew by 1,9 percent on an annualised basis, largely due to increased agricultural production.

This follows a 3,5 percent (2,9) decline in the first quarter.

CSS said real GDP would have to grow by an annualised rate of at least 8,2 percent in each of the last two quarters of 1994 to fulfil earlier predications of a 3 percent growth rate.

"Mining and manufacturing will have to show better growth results to achieve this goal."

CSS said the positive growth in the non-agricultural sector of the last five quarters had continued, with a growth rate of 0,9 percent in the second quarter, compared with 0,3 percent in the first quarter.

All sectors had shown positive growth in the second quarter, except for mining and manufacturing with decreases in their real seasonally adjusted production.

At the same time, CSS indicated that producer price inflation had picked up, with latest figures showing year-on-year growth of 7,9 percent in June from 7,5 percent in May.

Economists said imported prices were picking up year on year, but not as much as expected, which was an indication that export prices internationally were falling.

However, the prospects of a weaker rand could see the PPI pick up to around 10 percent by year-end.

UAL economist Dennis Dykes said most economists had revised their growth forecasts downwards to about 2,5 percent for the year.

He attributed the poor showing to pre-election hesitancy among both companies and consumers, combined with an increased number of public holidays and workdays lost because of violence.

"This accounted for most of the poor performance of the manufacturing sectors," he said.

Dykes said that although strike action would impact negatively in the second half, a return of confidence and a pick-up in agricultural production would tend to counterbalance this.

Old Mutual economist Dave Mohr said he was tempted to revise his earlier forecasts of Asian-style growth and European-style inflation to African-style growth and Latin American-style inflation.

"Agricultural production is lower than in the first six months of 1991, and that wasn't a particularly good year."

"Mining production is also a lot lower than anything we have seen since the end of 1992.

"However, all other sectors were positive, so I see the economy growing at roughly 2 percent this year, but picking up all the time.

"But we won't see 3 percent this year."

Rand Merchant Bank economist Rudolph Gouws said the broad underlying trend was up and 2,5 percent growth was possible, despite the poor performance in the first half.

Govt inherited 'fiscal mess' — economist

(49)

CT 17/8/94

RAND MERCHANT BANK economist Mr Rudolph Gouws subjected members of Parliament's finance standing committee to a fiscal cold shower yesterday on the state of the government's national accounts.

During a 3½-hour presentation, with a plethora of statistical information, Mr Gouws made a formidable case that the new government had inherited a "fiscal mess".

The government could not solve the situation by increasing taxes because South Africa's corporate taxes were among the highest in the world, he said. It could not borrow more because it was already crowding out the private sector, and it did not have the resources to stimulate the economy.

The government's only options were to spend less and to privatise state assets. Although privatisation alone would not solve the problem, as the assets that could be privatised were not large, it would make a significant difference.

Finance Minister Mr Derek Keys said in reply that the government's existing policy was based on precisely the concerns Mr Gouws had raised. With government expenditure constant and a growth rate of 3% per annum, the danger of falling into a debt trap would be avoided in three years.

Powerful new advisory body

CT 18/8/94

(49)

Political Staff

THE cabinet yesterday approved the integration of the National Manpower Commission and the National Economic Forum into a new statutory body, effectively establishing a powerful advisory forum on economic, labour and social matters.

It also approved a bill that will amend the constitution for the fourth time to enable the president to appoint a person from outside Parliament as a government minister. The amendment is necessary for the appointment of Mr Chris Liebenberg as Minister of Finance.

In a statement by the cabinet on the eve of the new government's 100 days in office, the cabinet approved a number of

Triad of business, labour, govt

projects for funding under the Reconstruction and Development Programme and approved procedures for programme and project management and control of RDP funds.

President Nelson Mandela will make some announcements on these projects today.

It is understood Mr Mandela will call for more direct public participation in the RDP to shift the programme up a gear.

His call was discussed by the cabinet yesterday, which noted and re-emphasised the unanimous support for the programme within the government.

The statement said the new, merged advisory body, to be called the National Economic, Development and Labour Council, would "facilitate the co-ordination and integration of economic, labour and social policies".

The new entity will be a statutory body and consummate the government's desire for the "golden triad" of business, labour and government to develop joint strategies.

Meanwhile, the cabinet formally endorsed the formation of the Intergovernmental Forum of members which consists of members of regional and provincial government.

Substantial progress had been made in preparing proclamations to assign powers to the provinces, the statement said.

Three percent growth? Don't bank on it

49 WM (BM) 19-25/8/94

Economic analysts have revised down their growth rate figures for this year, finds **Simon Segal**

NOT ONE of nine economic units canvassed this week believes South Africa can reach a three percent rate of growth in gross domestic product, the main measure of national economic activity, this year.

The most optimistic are stockbrokers Frankel Pollak (who still feel GDP could rise by 2,9 percent) and Nedbank (2,8 percent).

Old Mutual thinks two percent is the best that we can hope for this year. But then, when the year began, none of these units thought three percent was possible either. When we conducted the same investigation in January (Rand Merchant Bank was not polled this time) four units felt growth would reach 2,5 percent for this year. The average forecast was 2,3 percent, slightly less optimistic than the 2,5 percent average now.

The difference is that were we to have canvassed views a few months ago, many of the units would have predicted GDP of three percent and even more for this year.

After the economy expanded by only 1,9 percent in the second quarter and declined 3,5 percent in the first, it would now have to grow by eight percent in each of the next two quarters to give an overall growth rate of three percent for 1994.

Next year, all units expect South Africa's growth prospects to brighten. The GDP forecast varies from three percent (Old Mutual) to four percent (Frankel) and averages 3,5 percent. In January the average was 3,3 percent with a range from two percent (Nedbank) to four percent (Standard Bank).

Along with the higher growth comes higher inflation and a reduced surplus on the current account of the balance of payments, which shows how much in credit or debt the country is with the rest of the world. All units expect higher annual average inflation in 1995 than this year and lower current account surpluses.

Only Nedbank and Stellenbosch's Bureau of Economic Research think in terms of a double digit inflation rate for 1995. Many more units believe the monthly inflation rate will exceed 10 percent by December 1995, but their forecasts for what inflation will average in 1995 range from nine percent to 10,4 percent (7,9 to 8,6 percent).

On the current account, Standard thinks there will be no surplus next year (for the first time since 1985) and many in the Reserve Bank have also started talking in terms of a deficit next year. Against this, the most optimistic is the Handelsinstituut (R4bn).

■ Continued on PAGE B3

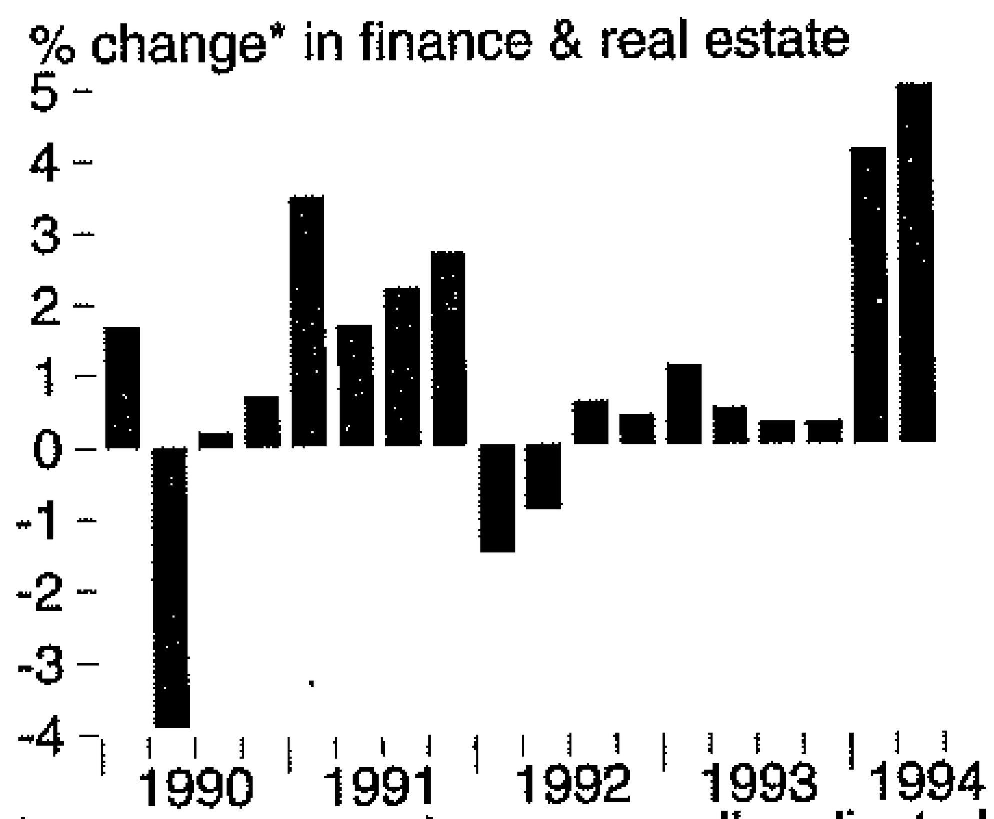
GDP FM 19/8/94

Bright spots

While only moderate overall growth was recorded in the second quarter of 1994, activity in one of the biggest sectors in the economy surged. The contribution of finance & real estate to overall GDP rose 5%, after growth of 4,1% in the first quarter. The increase is a quarterly one, seasonally adjusted and annualised, as are all other quarterly changes discussed here (49)

This is a big improvement on the sector's performance in previous years (see graph). Revised figures for years dating back to 1986 (to take account of the new 1990 base year) show that, between then and 1993, annual growth in finance & real estate ranged between 0,2% in 1990 and 3,7% in

WHERE THE GROWTH IS



* quarter-on-quarter, seasonally adjusted and annualised

Source CSS

FM 19/8/94

1987 when the economy was moving into the last cyclical recovery.

Central Statistical Service head Treurnicht du Toit attributes the recent surge to: "The improvement in economic conditions in general, the buoyancy on the JSE and the sustained high level of foreign trade. And there was an increase in real indicators, such as cheque and credit card transactions." (49)

Du Toit also cites an improvement in real estate transactions.

A sectoral breakdown puts the value of GDP, in finance & real estate in constant 1990 prices, at R37,6bn in the second quarter — 15% of total GDP. In value, this is second only to manufacturing where value added in the second quarter amounted to R58,4bn — or 25% of GDP. However, manufacturing, after a surge in the third quarter of 1993 when it rose 4,8%, has performed disappointingly. Fourth quarter growth was only 0,4% while the following two quarters saw small declines.

Also sliding in the first half was mining & quarrying (-4,5% in the second quarter after -3% in the first). Valued at R24bn, it represents nearly 10% of GDP.

All other sectors recorded second-quarter growth:

- ❑ Agriculture rose 11,7%, after a fall of more than 56% in the first quarter. At R13,1bn it is a little over 5% of GDP. Du Toit says the recovery was due to "the positive influence of an earlier maize crop and other field crops harvested during the second quarter";
- ❑ Electricity, gas & water rose 2%, the sixth consecutive increase. R11,9bn, nearly 5%;
- ❑ Construction 1,3%, the third consecutive rise R7,2bn, 3%;
- ❑ Trade & catering up 2% after an erratic performance in previous quarters. R36,1bn, 14,7%; and
- ❑ Transport & communications up 2,9%, the fourth consecutive increase R19,4bn, 8%.

Overall the economy rose 1,4% after falling 4,4% in the first quarter, as mea-

Continued on page 35

Continued from page 34 FM 19/8/94

sured by factor incomes. This includes subsidies and excludes taxes. At market prices, the increase was 1,9% after a fall of 3,5% in the first quarter.

To achieve 3% growth in 1994, "total seasonally adjusted real GDP has to grow by an annualised rate of at least 8,2% in each of the last two quarters," says the release from Central Stats. And this goal can only be achieved if manufacturing and mining perform better (49)

So productivity in these two sectors, presently racked by industrial disputes, is critical to the country's economic performance in 1994. ■

2 SUNDAY TIMES, Business Times, August 21, 1994

Homeland binge strains finances

By SVEN LUNSCHE

AS government delays handing over remaining financial and administrative functions to the new provinces, spending by the former TBVC and self-governing territories appears to be running out of control.

So much so that the authorities came close to invoking the Exchequer Act, which limits outlays by state department in the first four months of the fiscal year to 45% of the previous year's total expenditure.

Thereafter spending is restricted to 10% a month of the previous year's total.

Figures provided by the director-general for state expenditure, Hannes Smit, show that the TBVC states have spent R3,94-billion in the first four months of the 1994/5 fiscal year — 41% of 1993/4's R9,6-billion total expenditure.

The former self-governing territories have run up spending of R4,89-billion between April and July, over 42,1% of 1993/4 expenditure of R11,39-billion.

In terms of the interim constitution, funds will be diverted to the former TBVC and self-governing territories until proper administrations are in place in the new provinces.

However, establishing new provincial infrastructures have been hampered by government in-fighting over provincial powers and delays by the Department of Finance in getting the Financial and Fiscal Commission off the ground.

One of the major reasons for runaway spending is a sharp rise in public sector appointments in the TBVC states and the self-governing territories ahead of the election.

The Central Statistical Service (CSS) released figures this week showing that the number of government officials in the self-governing territories rose by 14 000 to 261 314 between March 1993 and March 1994.

Comparative figures for the TBVC states are not available, but a Public Service Commission spokesman says current employment is well above the 220 000 in April last year.

Over the same period the central and provincial government cut their staff complement by 13 096 to 763 783.

Mr Smit says he is confident that systems are in place to keep spending by the TBVC states and the self-governing territories in check.

"Not only did we draw up their budgets for the first time this year, the Exchequer Act also prevents them from drawing more than the stipulated levels," he comments.

Nevertheless, the large spending increases by these departments contrast markedly with the relatively moderate rises reported by the central government so far this year.

The total 1994/5 budgets for both the TBVC and self-governing territories is R13,6-billion.

The central government is also saddled with over R15-billion in debts accumulated by the homelands.

JOBS

Nothing so cheap as World Bank's terms

With the passing of the government of national unity's 100-day honeymoon comes the growing awareness that somehow, and from somewhere, it will have to start borrowing money, writes **KEVIN DAVIE**.

ONE hundred days after President Mandela's government took office most financial indicators are pointing the wrong way

The rand is weaker and under pressure, long bond rates are higher, the trade surplus is declining, government spending is up (mostly due to apartheid's brats, the TBVC states), consumer inflation is on the up and industrial action has led to a substantial loss of production.

Economists were confidently predicting 3% to 4% growth earlier this year but are now revising estimates downwards to 2% to 2,5%

No employment figures are yet available but lower national output of perhaps R5-billion suggests hundreds of thousands of fewer jobs

But Econometrix's Azar Jammine warns against drawing simplistic conclusions. He says if meat price increases are excluded then consumer prices increased by 6,3% in June, a 21-year low

Sharp rises in SA long-term interest rates can be seen against the background of dramatic rates rises around the world

Business confidence, measured by Sacob before the wave of strikes broke, is at an all-time high

The Budget has generally been well-received and commitments by policymakers such as Deputy Finance Minister Alec Erwin to fiscal discipline have reassured the markets

With the government of national unity's honeymoon now over, new realism about the tough job at hand is likely to dominate debate

Rand Merchant Bank economist Rudolf Gouws set the scene this week in a briefing to Parliament's standing committee on finance He apologised for being the bearer of bad news, but said the government had inherited a fiscal mess

It has also inherited an economy which has had declining growth rates since the 1960s

The good news is that we are in a moderate recovery after five years of recession, the longest this century The bad news is that this recovery has brought increased import demand which has not been matched by increased exports

Mr Jammine says import propensity has been increasing, pushed up by industrialists replacing worn-out machinery in anticipation of a recovery and by projects such as Columbus and Alusaf which rely on imported capital equipment.

Economists are predicting that from early next year we will face a balance of payments constraint as the current account moves towards a shortfall

Reserve Bank Governor Chris Stals says there have been ongoing discussions with the International Monetary Fund with a view to accessing its loan facilities.

The answer from the IMF is understood to be that a standby facility will be available but will be linked to a structural adjustment programme with full IMF conditionalities such as fiscal and monetary discipline and the freeing up of markets. The restrictive practices which litter the marketplace will have to go.

An IMF-imposed adjustment will not be politically popular Cosatu's Jayendra Naidoo, labour's representative at the National Economic Forum, told an Association for the Advancement of Black Accountants (Abasa) seminar this week that South Africa was not a beggar nation

"We are confident of our policies," Mr Naidoo said "We will not borrow on terms which will compromise the RDP There should be no conditionalities."

Mr Jammine takes the opposite view He says South Africa's foreign borrowings are low relative to GDP and that growth without foreign capital is likely to be severely restrained

Mr Jammine says the alternative will be for the recovery to be aborted to protect the balance of payments Interest rates would have to be put up possibly by as much as four percentage points next year

This would mean that South Africa's already unacceptably high real interest rates would be pushed higher with disastrous consequences for the cost of government's borrowing, for growth and the RDP

Mr Jammine likens rejection of the IMF to an employed person living in squalid conditions in a shack A bank is prepared to make him a R50 000 loan to buy a house as he can service the interest, yet he prefers to live in squalor

Mr Jammine says it is better to enter into agreements with multilateral agencies now while the economy is still reasonably strong rather than later when we may be in a weaker position.

Isaac Sam, the World Bank's representative in South Africa, faced hostile questioners at the seminar, one suggesting that the bank was about to force its allegedly ruinous polices on this country

Mr Sam responded by saying that as a member South Africa is eligible for loans so long as certain conditions are met. There was no requirement that South Africa borrow the money.

He stresses that as an AAA-rated institution the World Bank raises money at the most favourable rates. It adds half a percentage point to cover its costs

SA currently borrows on foreign capital markets at three percentage points above the benchmark London Interbank Offer Rate (Libor), now 5%

The World Bank can make Yen-linked loans to SA at below 3% Mr Sam says the Reserve Bank can manage the currency risk.

Mr Sam says if the World Bank made loans to South Africa it would insist on quarterly audits, discuss overall policy for a given sector and require that the money is spent on the project for which the loan was made

And, the rand will have to float

There is a school of thought which says that South Africa can go it alone, that we will be able to bypass the IMF and World Bank and make loans on foreign markets

But with South Africa's credit rating, now being completed by finance house Goldman Sachs, speculated to be a modest BB, the new government will have to pay well above market rates (just like the apartheid premium of old) should it try the go-it-alone route (also old)

There will be many who will complain about loss of sovereignty like the IMF-bashing Zimbabwe Robert Mugabe indulged in during his visit this week.

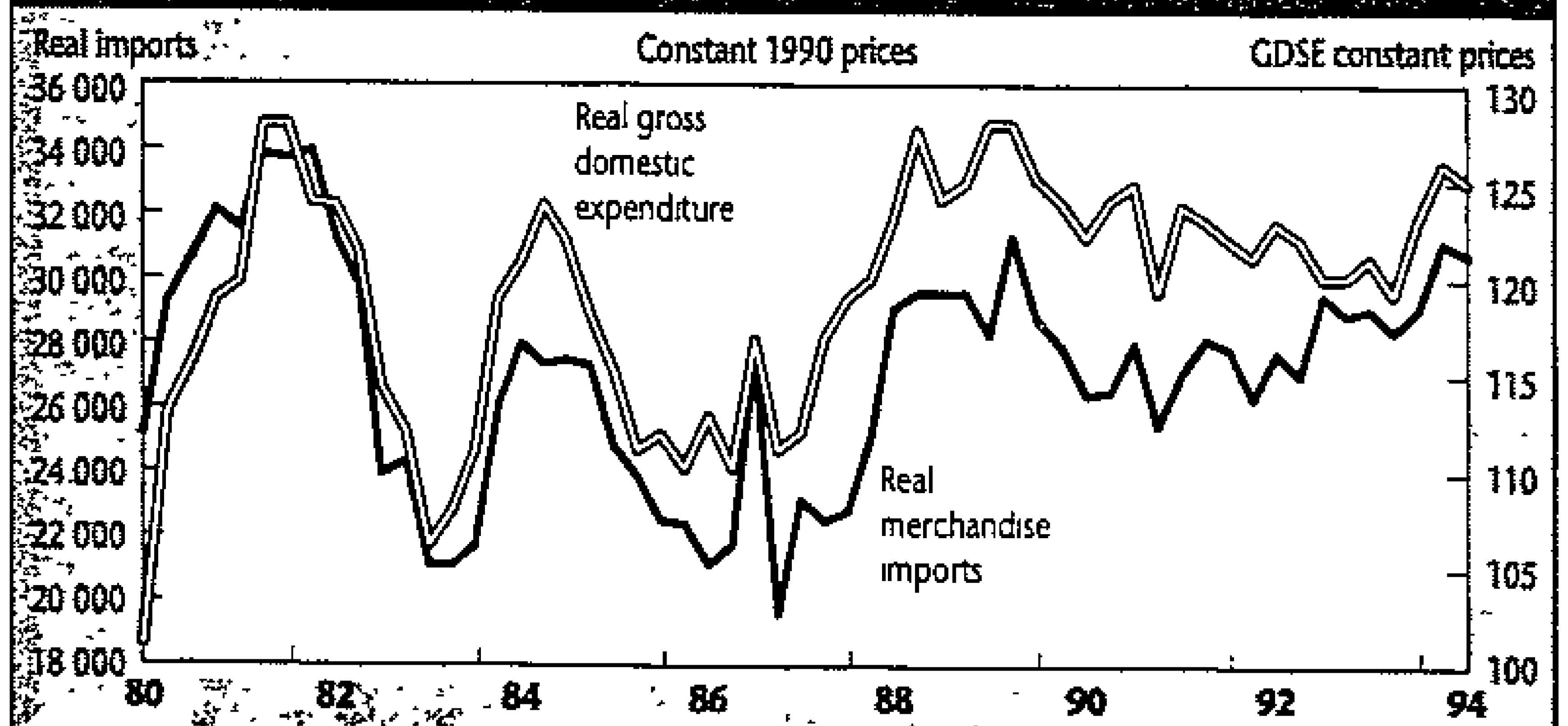
But the matter is simple and well-illustrated in Taiwan Taiwan's market-friendly policies have given it the largest forex reserves in the world It is keen to join the IMF so that it can contribute

Our economics, too heavily influenced by the failed notion that government knows best, have brought us net forex reserves barely large enough to cover a few days imports

We need to borrow When you borrow you do so on the lender's terms Ask anyone who has had to approach his bank manager for a loan.

WEDDING NIGHT President Nelson Mandela and friends on the eve of their coming to power a mere 100 days ago

AS THE ECONOMY GROWS, SO DO IMPORTS



Graphic: FIONA KIRSCH

Source: ECONOMETRIX

Coetsee warns of SA challenges

CT 23/8/94 (49)

SOUTH AFRICA had a small economy in global terms and the country would be forced to devote much attention to its internal challenges, the president of the Senate, Mr Kobie Coetsee, said yesterday.

Addressing a dinner in honour of a Japanese House of Councillor (Senate) delegation led by its president, Mr Bunbei Hara, Mr Coetsee said the country's foreign policy priorities were dictated by the need to meet domestic concerns.

South Africa's aim was to increase economic relations with countries such as Japan.

The RDP was the primary instrument the new government would use to meet the challenges of hunger, deprivation, ignorance and fear.

Confidence

"Our priority is making sure the country has a sustainable, growing economy — otherwise the RDP will remain an empty theoretical concept."

Mr Coetsee said Japan's \$1,3 billion (about R4,7bn) aid package to South Africa was indicative of the confidence Japan had in the country and augured well for future relations between the two countries.

● The Speaker of Parliament, Dr Frene Ginwala, hosted a lunch yesterday for Mr Hara and three officials. They are on a five-day visit to strengthen relations between the countries. — Sapa

SA urged to borrow heavily

49 CT 25/8/94

By AUDREY D'ANGELO
Business Editor

SA SHOULD borrow at least $1bn or $1,5bn as soon as possible regardless of the rating it receives next month, University of Cape Town economics professor Brian Kantor said at an Institute of Directors luncheon at Western Province Cricket Club yesterday.

But it should keep these borrowings fairly short-term in the hope of a better rating.

Kantor pointed out that SA's most urgent need was for investment in labour-intensive industry to create more jobs.

The two-tier exchange rate discouraged foreign investment in SA. But the financial rand would obviously not go until SA had enough dollars to close the discount between it and the commercial rand.

Reserve Bank governor Chris Stals would not abolish it if this meant downward pressure on the rand "because that would unleash the dogs of inflation, which is the last thing we need."

Critical need for funds — Kantor

That would result in continued pressure for higher wages and strikes every month rather than every year.

Stals clearly intended to hold inflation down to its present level and Kantor believed that the rand would not be lower than R3,6 or R3,7 to the dollar by the end of this year.

Kantor recently returned to SA after lecturing for three months at the University of Columbia business school.

He said he had been there during the election and the situation had changed overnight as far as doing business with SA was concerned. This had now become the most politically correct country to do business with, and SA companies should take full advantage of the opportunity opening up.

The US economy accounted for some 40% of the total world economy. And US savings must account for between 50% and 60% of world savings.

Discussing SA markets, he said share prices had been boosted by optimism "but not our bond market, which has reacted very negatively since January.

"For every 1% on the longterm bond rate we are talking about an extra R350m on government debt.

"Every 1% on the bond rate is taking R350m from the RDP and that is not small change."

Spending 'relatively constrained'

(49)

CT 26/8/94

By MAGGIE ROWLEY
Deputy Business Editor

INDICATIONS are that government spending has remained relatively constrained and revenues raised since the Budget through the transitional levy have exceeded expectations, according to Southern Life economist Sandra Gordon.

In an address to Rode's annual property conference, Gordon said it appeared Finance Minister Derek Keys had allowed himself some leeway in the Budget for overspending on the RDP as it now appeared revenues raised through the transitional levy would exceed the forecast R4bn.

"It was estimated revenue raised from the gold mines through this extra taxation would be of the order of R60m, but one gold mine alone has contributed R50m."

Gordon said while there was little doubt that the SA economy had entered a recovery phase, the sustainability of the upturn would pivot on whether SA could attract a new inflow of capital and the balance of payments would continue to be the critical factor determining monetary policy during the year ahead.

If the anticipated reversal in capital flows failed to materialise, the country's onerous debt commitments would force the Reserve Bank to raise interest rates earlier than expected — possibly by 0,5% in the fourth quarter — choking off the economic recovery.

However, if the reversal did materialise, the current high level of real interest rates could delay the first increase in interest rates until mid-1995.

She said despite general consensus that the scrapping of exchange controls and the abolition of the financial rand were essential to encourage foreign investment in SA, it appeared unlikely that this would occur until mid-1995.

In the Budget, Keys had effectively transferred the responsibility for this decision to the Reserve Bank which in turn had specificed three pre-conditions which should be met ahead of the finrand being abolished.

These involved a substantial and sustained reduction of the discount betwen the commercial and financial rands the re-building of gold and foreign exchange reserves to the equivalent of three months' import cover and a reduction in the pool of financial rand deposits.

Gordon said the likely 12 month delay would also give the govenment of national unity time to prove its commitment to sound economic management, boosting both local and foreign investor confidence levels.

NATIONAL ECONOMIC FORUM

No hypotenuse

Fm 2|9|94

There are fears that, in its new form, the National Economic Forum may no longer stand firmly on three legs. (49)

Established in October 1992, to represent the interests of business, labour and government, the NEF is being restructured. It is to absorb the National Manpower Commission and will probably be renamed the National Economic Development & Labour Council. Previously operating within the ambit of Finance Minister Derek Keys, it is now likely to fall under Labour Minister Tito Mboweni.


Jacobs


Naidoo


Liebenberg


Mboweni

Fm 2|9|94 (49)

Mboweni's stewardship, however, has come about largely by default. There are practical reasons why the organisation can't operate through the more appropriate ministries of Finance or Trade & Industry.

Former banker Chris Liebenberg, will be coming to the Finance portfolio in October, new to politics and politicking; Trade & Industry Minister Trevor Manuel is visibly not coping with other urgent priorities; while Mboweni has already demonstrated some skill in handling confrontations between labour and business.

What is disturbing is that government is taking so long to make apparently simple decisions. If it is to serve any purpose, this tripartite alliance must have credibility with its various constituencies. In the five months it has been drifting in limbo, it has been losing momentum and support. It is the inability of government to make clearcut and quick decisions which is destabilising the markets.

What has been decided so far is that the council will consist of a secretariat and four chambers — responsible for fiscal & monetary policy, trade & industry, the labour market and development.

Chambers will report regularly to the council which will decide on what proposals to accept and recommend to government. "Decisions will be made on a consensus basis," says Jayendra Naidoo, labour convenor of the process committee of the NEF, "That means negotiations leading to agreements rather than a decision-making process based on voting."

Still at issue is the relationship of the council with government and what weight government will accord its proposals. Says secretariat head Debra Marsden: "A small tripartite group will get together to consider the nature of this council. We hope the group will have a very limited mandate and time frame."

What is clear is that a number of key members of the forum will no longer be in place when it reconvenes. Among these are Japie Jacobs, who has retired from his position as economic adviser to the Minister of Finance and is now advising Deputy President de Klerk and Desmond Krogh, who recently resigned from the Development Bank of SA after a controversy surrounding his comments on the RDP. Both represented government on the NEF process committee.

While the organisation's future is being debated, two task groups have continued to meet, says Naidoo. One is the liquid fuels industry task group which is no closer to finding a solution to the industry's problems The other is the trade & industry task group which has been working on the General Export Incentive Scheme and considering appropriate supply-side measures in industry. ■

*Nationalisation has faded on the ANC's economic agenda as economists call for a sharp turn to privatisation, reports **Michael Chester***

Taking a long look at the family silver

Star 6/9/94

(49)

It seems ages since the ANC caused jitters in business circles by dropping the word nationalisation into debates about future economic policies.

No wonder the issue has faded from the main agenda; now that the costs have been measured.

Andre Spier, head of the Syncom thinktank, reckons the notion of widescale nationalisation has finally been despatched by estimates showing price tags were beyond reach.

He calculates the total theoretical bill for State takeovers of the main candidates listed when the political rumpus was at its peak at about R682 billion.

That's more than six times the size of the annual Budget.

He prices the banks at R276 billion, the insurance sector at R150 billion, the gold mines at R100 billion, the four leading companies on the stock market at R106 billion and agricultural land at R60 billion.

Interest alone, at 10 percent, would cost more than R68 billion a year, leaving Government finances in a shambles.

The new questionmark posed by economists is whether the pragmatism that caused the eclipse of nationalisation may now turn in a virtual full circle to the issue of privatisation.

Just as nationalisation is anathema to private businessmen in the capitalist camp, the mention of the word privatisation has always been condemned as heresy on the extreme Left.

Yet observers believe there are tentative signals of give-and-take attitudes in Government.

The mood was encouraged last month when Rand Merchant Bank senior economist Rudolf Gouws delivered a special report on the sad state of the national accounts to the parliamentary standing committee on finance. The new Government, he warned, had inherited a "fiscal mess".

Gouws went as far to say there was no option but to sell off various State assets — in addition to cutbacks in Government spending — to finance the crucial economic upturn.

Board of Executors economist Rob Lee also advocates the selling of selective State assets to provide new sources of funds to push ahead with the Reconstruction and Development Programme and put the national accounts in better order.

"Privatisation may not be high on the agenda now," he says, "but it will become more compelling as the Government hits more fiscal problems."

Adamant

Several observers took note of how the issue was handled by Minister Without Portfolio Jay Naidoo when it cropped up in a recent parliamentary debate on the RDP.

Naidoo sounded as adamant as ever in ruling out the privatisation of large public enterprises, which, he warned, meant "sacrificing long-term assets for short-term benefit".

Yet, in the next breath, he advised all tiers of the Government to undertake a thorough review of assets, including property and buildings — "with a view to selling those not effectively used".

Also noted with relish by free marketeers were the discussions that Trade and Industry Minister Trevor Manuel held recently with London merchant bankers S G Warburg over its successes with privatisation initiatives in East Europe and Latin America.

Many outsiders fancy they have sniffed out the awkward dilemma of the ANC alliance: How to reconcile the sale of any State assets — tantamount to flogging the family silver in some political dictionaries — with condemnation of capitalism in any form?

Even hardliners admit there are temptations when they cast their eyes over the vast amount of cash that could be raised from the sales of State assets.

Among the major items: Eskom R44,4 billion, Transnet R40,9 billion, Telkom R15,1 billion, Land Bank R11,3 billion, Denel R4,5 billion, Post Office R1,9 billion and SABC R1,1 billion.

Economists point out the list of possible privatisation candidates could run into the hundreds, from giants such as the Industrial Development Corporation down to rural refuse-collection and water-supply services.

It was Britain's iron lady, Margaret Thatcher, who put privatisation on the global map of high finance with warehouse sales of UK government assets to the private sector more than a decade ago.

The London-based Privatisation International newsletter reports that no fewer than 55 countries were engaged in selling off state assets last year. Nor would they all have been regarded as obvious and predictable not so long ago: Russia, China, Cuba, North Vietnam . . .

Between them they raised about R200 billion last year.

In South Africa, many economists and business leaders are convinced the issue needs to be raised in the RDP debate.

Among them is Gencor executive director Mick Davis, former finance director at Eskom and one of a new generation of young lions on the SA business scene anxious to cut out black-white divisions in planning economic development.

Davis could easily have been disheartened when President Mandela argued at a recent World Economic Forum conference in Cape Town that privatisation would simply serve to entrench many of the imbalances in the economic system — "economic apartheid" — that the new Government was trying to correct.

Instead, Davis has written to the president to urge the Cabinet to reconsider privatisation from an entirely new angle — not as a threat of the deeper entrenchment of white minority economy power, but as an opportunity to channel black economic empowerment all the way down to community level.

Davis has provided Mandela with a summary of how, as an example, the issue was tackled in Malaysia, where a majority of the population was similarly locked out of the economic system until there was a programme of sweeping political reforms.

When the Malaysian government sold numerous state corporations in the 1970s, ownership was passed not to existing private sector companies but to special trusts which ensured that the disadvantaged indigenous majority received favoured treatment in the allocation of shares.

"In short," says Davis, "privatisation schemes can be designed specifically to suit the New South Africa, making sure the entire population shares in the benefits."

Survey rates SA among also-rans

BDay 6/9/94

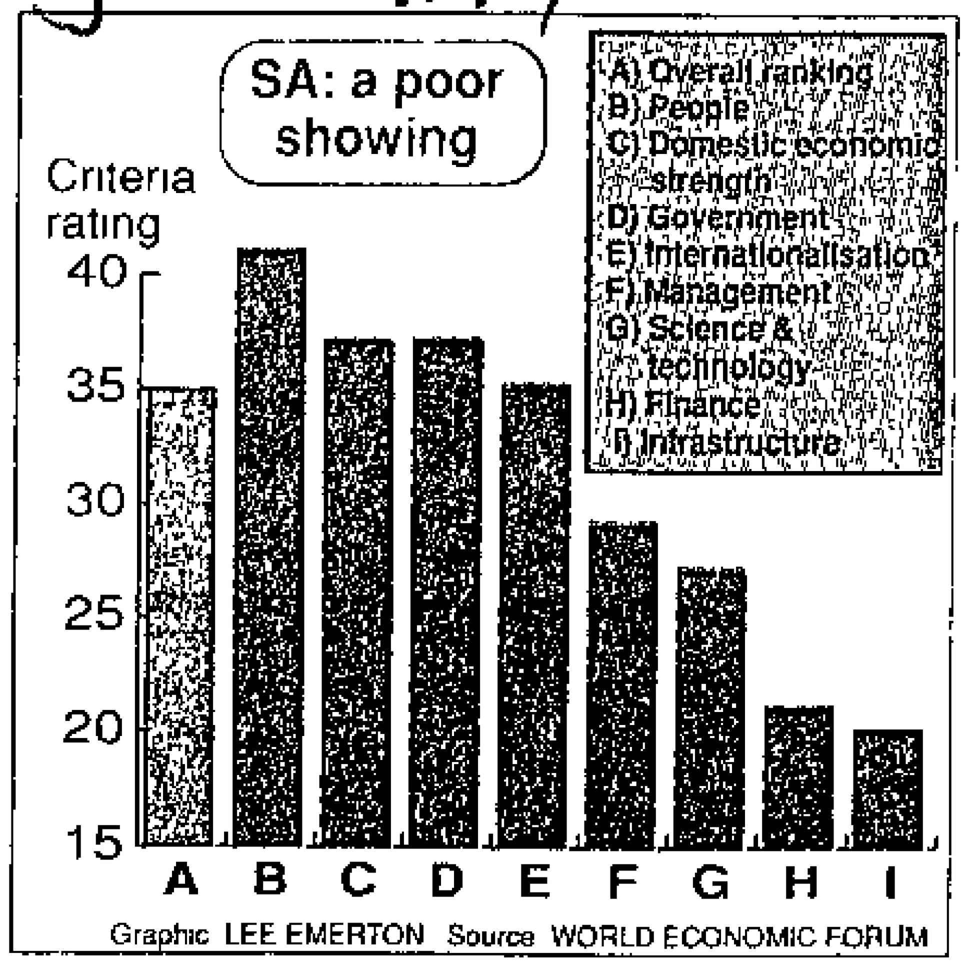
PETER GALLI

SA HAS fared poorly in an international competitiveness survey by the World Economic Forum, ranking 35th out of 41 countries on ability to generate more wealth than competitors in international markets.

In terms of its rating, SA lies immediately behind India, Philippines, Italy, Indonesia, Columbia, Turkey, Portugal, Argentina and Mexico, while below SA were the Czech Republic, Greece, Brazil, Hungary, Venezuela and Poland.

The latest report is not directly comparable with previous ones as Organisation for Economic Co-operation and Development (OECD) and non-OECD economies were then rated separately. If only non-OECD economies are considered, SA rates 11 out of 18 in 1994, from 11th out of 15 in 1993 and 8th out of 14 in 1992. (49)

The report is based on factors economists think make or break a nation's competitive environment. These are domestic economic strength (where SA was rated 37th), internationalisation (35th), government (37th), finance (21st), infrastructure



Graphic LEE EMERTON Source WORLD ECONOMIC FORUM

(20th), management (29th), science and technology (27th) and people (41st).

"To measure the impact of these factors the report looks at 381 criteria covering a wide range of issues," the forum said.

The report also combines the latest hard data from international organisations on economic performance, with insights de-

□ To Page 2

Survey

BDay 6/9/94 □ From Page 1

rived from a 129-item questionnaire sent to 16 500 business executives worldwide.

"Since the first appearance in the report in 1992, SA has gone through turbulent political and social changes — of which the world is well aware. Two years later, with stability still in question, it comes as no surprise that the government factor has declined in its competitiveness."

But SA had assets which could place it again among the most competitive countries — including infrastructure, finance, science and technology and management.

"The challenge is to make the best use of these strong points while bringing up the people factor — in which SA is at the bottom of the ranking — through access to education, social services and jobs," it said.

The World Bank's SA representative Isaac Sam agreed, saying the issue was not that SA was rated 35th, but whether it was ready to make the changes necessary to improve its competitiveness.

Investment had to be channelled into quality education as this was the key to improved productivity. The country also had to examine the effects new technology could have on its productivity.

The World Economic Forum report rated SA well on a number of criteria within the eight major categories, ranking first in terms of rental levels, growth in exports of goods and services, export market diversification, management compensation levels and employment growth. (49)

Areas where the country was particularly poorly rated included protectionism, market dominance, access to foreign capital markets, intercultural understanding, population structure and growth, the labour force, skilled labour, equal opportunities, the education system, and computer and economic literacy.

SA 'way behind in competitiveness'

From PETER GALLI

JOHANNESBURG. — SA has fared poorly in an international competitiveness survey by the World Economic Forum, ranking 35th out of 41 countries on ability to generate more wealth than competitors in international markets.

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CT 6/9/94

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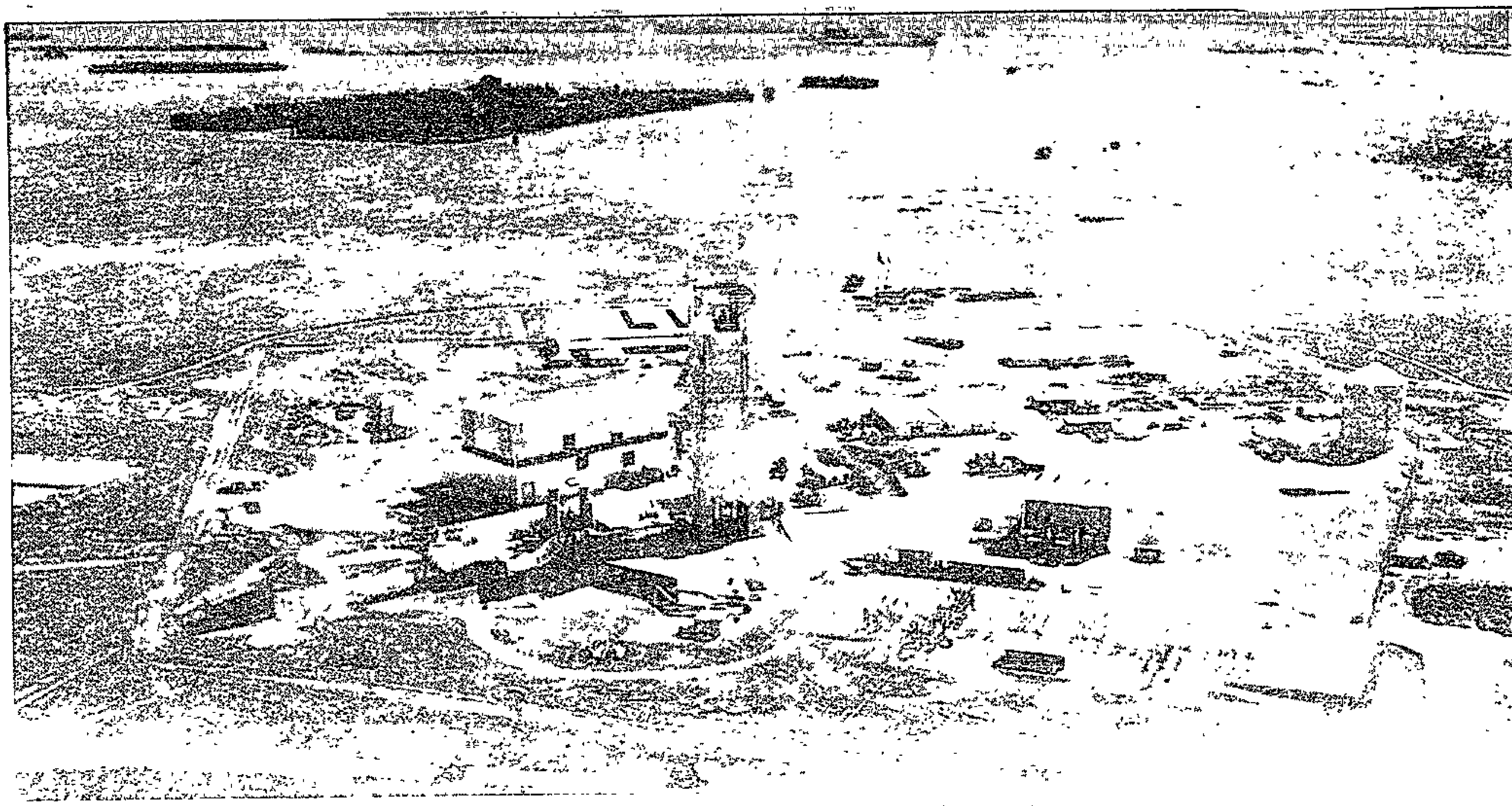


Sinking operations started in 1992 at Anglo's Vaal Reefs, part of the R1,87-billion Moab project

R55-billion boost on the cards

(49) WM (BM) 9-15/9/94

Big capital projects are set to boost the economy, reports **Simon Segal**

AN estimated extra R65-billion in the pipeline for big capital projects could boost economic growth by an extra three percent a year, adjusted for inflation, over the next three years.

That R65-billion, identified by stockbroking firm Frankel Pollak Vinderine's economist Mike Brown, does not include infrastructural spending under the ANC's grand plan for getting rid of apartheid backlogs, the reconstruction and development programme.

Brown also notes a further R35-billion on proposed capital expenditure projects.

With government and corporate savings rising by R30-billion over the past two years, such capital projects should be — initially anyway — comfortably financed.

But Brown warns high Budget deficits and more money going into government current spending — the bulk of which is consumption spending, in turn mainly salaries — could stifle a sustained programme of capital spending.

Of current projects — the bulk of whose expenditure is from this year to 1996 — mining will contribute 20 percent (R11,9-billion), manufacturing and processing 37 percent (R22,2-billion), infrastructure 35 percent (21,2-billion) and property nine percent (R5,5-billion).

Proposed projects are defined as those where enterprises have announced feasibility studies. In such instances the mining sector's announcements amount to R8,6-billion, manufacturing and processing R10,1-billion, infrastructure R14,7-billion and property R500-million.

In both announced and possible projects Brown identifies 26 projects with capex plans that exceed R1-billion.

The largest mining projects are Eastvaal extensions (Moab) at Anglo's Vaal Reefs (R1,87-billion), Anglo's Namakwa Sands mineral sands project (R1,4-billion), installing sub-vertical shafts at Anglo's Western Deep (R1,2-billion) and the No 16 shaft at Gencor's Impala (R1,1-billion).

Gengold's Oryx gold mine is the only "new" mine where, in addition to the R1,3-billion already spent, a further R380-million is anticipated to 1998.

There are five possible mining projects that exceed R1-billion — new mines by Anglovaal (R1,5-billion) and JCI (R1,5-billion), Gold Fields developing the base mineral deposit at Gamsberg (R1,5-billion), extension of Moab (R1,3-billion) and Iscor developing the mineral sands deposit at Richards Bay (R1-billion).

Manufacturing and processing developments include Gencor's Alusaf aluminium smelter (R6,2-billion), the Columbus stainless steel plant by Gencor and AMIC (R3,5-billion), the motor industry's Phase Seven local content programme (R2,5-billion), oil refinery expansions (R2,3-billion), cellular phones (R2-billion) and Sappi's expansion of its Umkomaas plant (R1-billion).

Possible projects include the Foskor/IDC development (R3-billion), the Pande natural gas project in Mozambique with major Sasol involvement (R3,1-billion) and Tongaat's expansion of its aluminium rolling facility (R1,4-billion).

Infrastructural spending, funded entirely by public enterprises, comprises electricity (R9,8-billion), water (R8,7-billion) and transport/communication (R2,7-billion). The infrastructure projects are primarily Eskom's R5,5-billion electrification programme for low-income housing, R2,9-billion on its new Majuba power station and R6-billion on phase 1A of the Lesotho-Highlands Water Project (LHWP).

Possible infrastructural projects are phase 1B of the LHWP (R7-billion), Cape Town's Olympic bid (R3,6-billion) and Mossgas' conversion to conventional refining (R3-billion).

Public sector participation occurs in around 60 percent of the property projects, the largest being Pretoria City Council's lake development (R600-million) and Transnet's Durban Point development (R450-million).

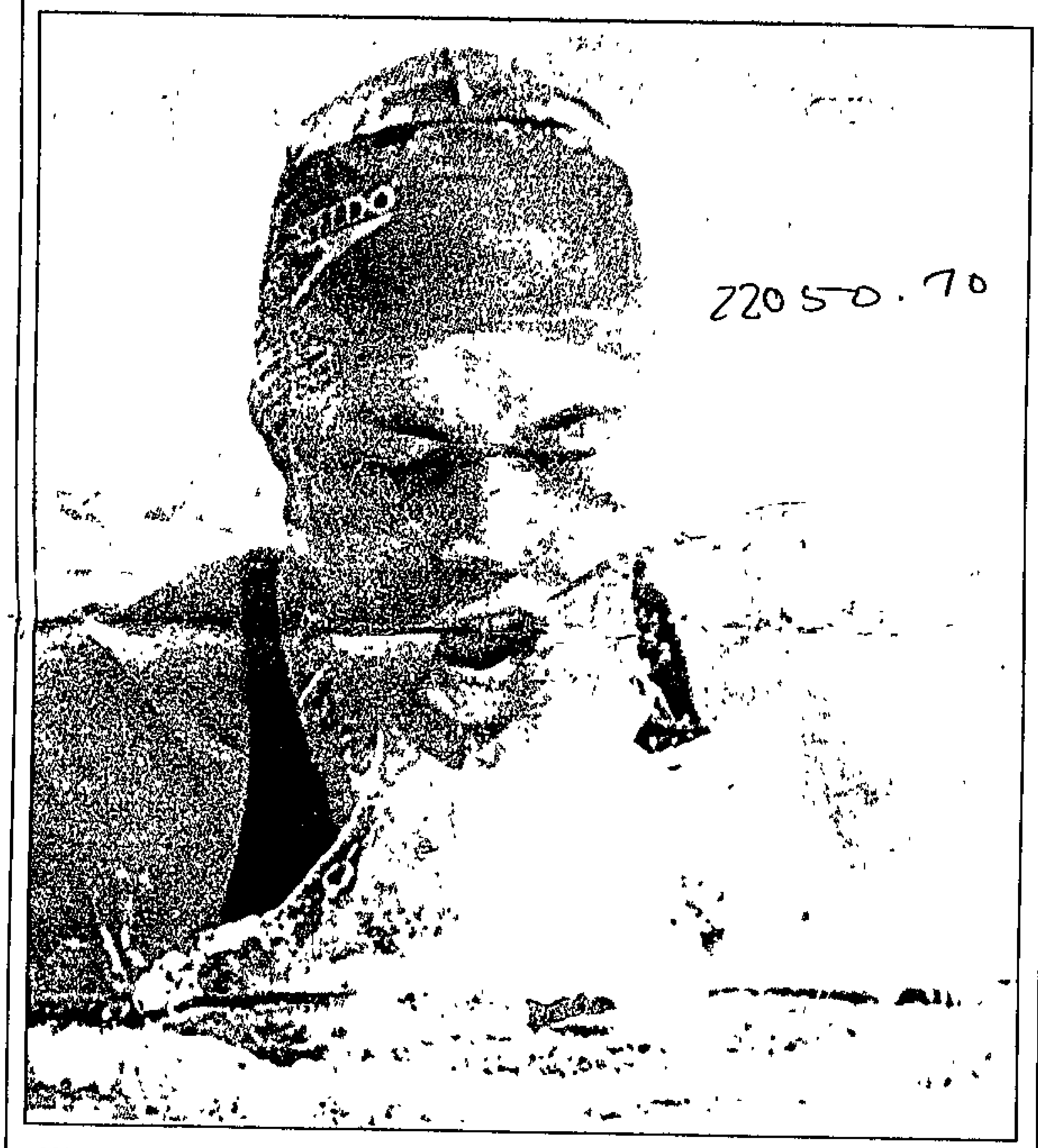
In this economic upswing fixed investment spending — essential if the infrastructural base is to be maintained — appears to have started earlier than usual. Brown notes that in the past three economic upcycles gross domestic fixed investment spending lagged the economic upturn by two to four quarters. GDFI has grown by 0,7, 0,8, 2,6 and 1,7 percent in the four quarters to March. He cites various factors including:

- Inventory levels at their lowest in 20 years (16 percent of gross domestic product, the main measure of national economic activity)
- GDFI as a portion of GDP is down to a 40-year low (14,5 percent in 1993)
- Investment in new capacity for export programmes following the lifting of trade sanctions, implementation of tax concessions to promote new export capacity, the Industrial Development Corporation's financing scheme and the bias towards processed export products implicit in the GEIS export scheme
- Ageing capital stock — plant and so on
- The new secondary tax on companies encourages reinvestment of corporate profits
- Growing investor confidence in the country

Budget ignores local govt elections

No money left for key reforms

Star 10/9/94



MAKING WAVES: SA's Penelope Heyns in action during the 100 m breaststroke heat at the World Swimming Championships in Rome yesterday She finished sixth in the final PHOTOGRAPH AFP

ESTHER WAUGH
POLITICAL CORRESPONDENT

CAPE TOWN — The Government of National Unity is being seriously hamstrung by a plethora of transition costs — possibly amounting to tens of millions of rands — which were never budgeted for (49)

Almost every ministry has expenses on its books which were not provided for in the 1994/95 Budget

The most startling item not budgeted for is the local government elections, which were to have taken place next month, during the current financial year

ANC MP Janet Love this week told the National Assembly that "critical aspects of transition" were not covered in the Budget

In addition to the lack of budgeting for local government elections, she pointed out that no money had been set aside for establishing local government transition structures

Gender commission

Love added that no budgetary provision had been made to implement the policy of 11 official languages in Parliament, which requires extensive translation services

Speaking in the Budget debate in July, ANC MP and chairman of the parliamentary standing committee on Finance, Gill Marcus, noted that no provision had been made in the Budget for establishing the gender commission which is to be set up in terms of the Interim Constitution.

The parliamentary standing committee on Public Service was told this week by the Public Service Commission that implementing the constitutional requirement of equality in the civil service was a costly exercise and would only happen as funds become available

A senior government source said yesterday no provision had been made to ensure gender equality in the civil service Such quality would entail married women civil servants receiving housing subsidies

Other Ministers said decisions taken by the Transitional Executive Council and implemented by the previous government had not been budgeted for

Some Ministers said there had been inadequate budgeting to implement new structures provided for in the Interim Constitution

However, a senior Department of State Expenditure source said yesterday that the 1994/95 Budget had been approved by the current Cabinet for tabling in Parliament

He said no provision had been made for the local government elections because when the Budget was submitted to the Cabinet it was already clear that the elections would not take place this year

Fixed dates

Provision had been made only for expenditure with fixed dates

A Gender commission was impossible to budget for, the source said Lack of detail on the size of the commission, how it would function, members' allowances and its duration had prevented provision being made for it, he said.

But the lack of budgeting for crucial elements of the transition did not imply that the 1994/95 Budget of R135 billion would be exceeded Funds earmarked for one department could be frozen and transferred to another

Bok's contract exposed

RODNEY HARTMAN

THE WeekendStar is in possession of a two-year R270 000-a-season contract between Springbok centre Pieter Muller and an Australian rugby league club

The Natal midfielder, however, has informed the Queensland Crushers he no longer wishes to pursue the agreement to turn out for them for the next two years

Breach

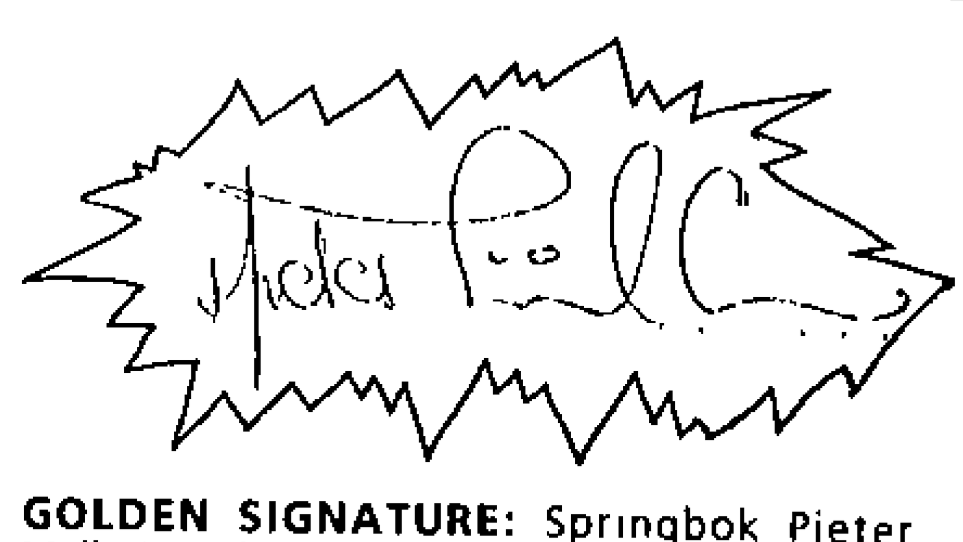
The club has handed the matter over to its lawyers amid speculation that Muller could be sued for breach of contract

The tell-tale document also clearly transgresses international rugby's amateur code — and could place renewed pressure on SA Rugby Football Union president Louis Luyt who has been accused by some foreign officials of turning a blind eye to "professionalism" in the SA game

Muller was due to leave for Australia at the end of the Currie Cup season Sources suggest the sum total of the two-year deal would have been worth about R1 million to Muller

Crushers' chief executive Darryl van de Velde, contacted in Brisbane yesterday, declined to make any statement at this stage

There has long been speculation that Muller was involved in negotiations with Australia to turn professional — but this is the first time an actual contract has been made public



GOLDEN SIGNATURE: Springbok Pieter Muller's written pledge on his pro rugby contract . . which he now wants to cancel

Security

Muller said yesterday "The Crushers are as much in breach of this so-called contract as I am They have breached a confidentiality clause by openly telling people in Australia that I am going to play for them "

He said he had been inspired to enter into talks with the Crushers a year ago because of the political uncertainty in SA and his own financial security

■ See Back Page

Ex-homelands debt is R15bn

CT 14/9/94 (49) (401)

By BARRY STREEK
Political Staff

SOUTH Africa had inherited debts of about R15 billion from the four former "independent" homelands, the Deputy Minister of Finance, Mr Alec Erwin, said yesterday.

The country's total debt was now about R150bn, he told the National Assembly select committee on the Reconstruction and Development Programme.

Although this was about 50% to 60% of gross domestic product (GDP), this was "not very high compared to other countries".

However, "if you look at the needs of the country, this is still too high".

Taxpayers paying for embassies

Mr Erwin said policy would determine how long it took to pay off this debt.

Debts of about R15bn had been transferred from the TBVC countries to the total debt.

The government had also again set a target of reducing the deficit as a percentage of GDP to hold interest payments relatively constant.

Mr Erwin said it would take some time before the government could close down all the offices and departments of the old homeland administrations, particularly as the constitution provided that no civil servants would lose their jobs.

It was also not possible to close down the homeland consulates and embassies immediately and dismiss their staff.

"It will take some time. I am afraid the taxpayers will have to pay for this," Mr Erwin said.

The government would take "very severe measures" to curb overspending and overruns in the coming financial year as it needed to show investors and the bond market that it could control expenditure, Mr Erwin said.

Privatisation could help pay debts

Erwin takes tough stand on spending

BiDay 14/9/94

CAPE TOWN — Tough measures were being implemented to keep expenditure within budgeted parameters and spending would not rise in real terms next year, Deputy Finance Minister Alec Erwin said yesterday.

He told a parliamentary select committee on the reconstruction and development programme that government expenditure, including interest payments and the RDP, would be about R150bn in the 1995/96 year.

Reuter reports that he said this would be adjusted to take account of inflation rate changes, but would not represent any increase in real terms on the R134,7bn expenditure in the Budget for fiscal 1994/95.

He also said privatisation had to be "seriously considered" as a means to reduce government's debt.

Erwin, who expressed concern over the high interest rates in the capital market, said government had to prove that it could control spending. The Finance and State Expenditure Departments had implemented drastic measures.

"As soon as we see overexpenditure, a crash team goes in, we look at it and take drastic steps to correct it, making Finance Ministers and Deputy Finance Ministers very unpopular." In most cases, the team was "extremely effective".

Next year's target was again to reduce the deficit as a percentage of GDP.

Erwin said the rough figures for the 1995/96 Budget were total expenditure of R150bn, including R30bn for interest payments and R5bn for the RDP fund, leaving R115bn to be distributed to provinces and departments.

(159)

Our political staff reports that Erwin said the Finance Department had set expenditure for the departments and provinces, and had given them these estimates. The departments and provinces had to respond by November 7 and if they felt they could not comply with these targets, they would have make representations.

The standing committees would also be involved, as would business and labour.

Erwin and Minister without Portfolio Jay Naidoo also disclosed state property, worth billions of rand, could be sold to reduce debt and help pay for the RDP.

The Public Works Department and other departments were compiling a list of all state properties. These properties would be evaluated to see if they were being used productively and for the right purpose. If not, they could be privatised.

Erwin also warned that rising bond rates posed a threat to the management of the economy. "Rates have risen this year from 12% to touching 17% — a tremendous jump... you take into account that each percent is just under R1bn in interest."

An interest rate of more than 16% next year would considerably reduce government's flexibility on the RDP and Budget.

Govt spending put at R56-bn

BUSINESS STAFF 19/9/94

Government expenditure in the first five months of the current fiscal year was R55,9 billion, 41,4 percent of the year's budgeted R135,1 billion, says the Director-General of Finance.

Receipts were R41,5 billion, 39,2 percent of total budgeted revenue of R105,8 billion. Receipts are likely to benefit further from the transition levy in the rest of the fiscal year.

Income tax receipts in the four months of the year to July were 22,9 percent above those of the preceding year. Receipts from VAT were 13 percent better and from Customs and Excise up 6,3 percent.

At end-August the government had completed half its budgeted domestic financing programme.

49

'SA needs 6% growth rate'

By ARI JACOBSON (49) CT 20/9/94

SOUTH AFRICA's black population "potentially its biggest asset" would fail to be integrated (into the new SA) unless the economy grew at about 6% a year, said Africa Institute for Policy Analysis & Economic Integration executive director Bax Nomvete yesterday.

Nomvete was speaking at the Association for the Advancement of Black Accountants of Southern Africa (Abasa) conference after the opening address by minister without portfolio Jay Naidoo.

Naidoo had stressed in his speech that the government was committed to lower taxes and would not implement an RDP levy. Naidoo added that a second white paper on the RDP would be released next March.

Nomvete warned that the labour force was rising at 2,8% a year and with population growth standing at about 2,6% annually "anything less than a 6% growth rate — would mean the RDP challenges ahead could not be absorbed".

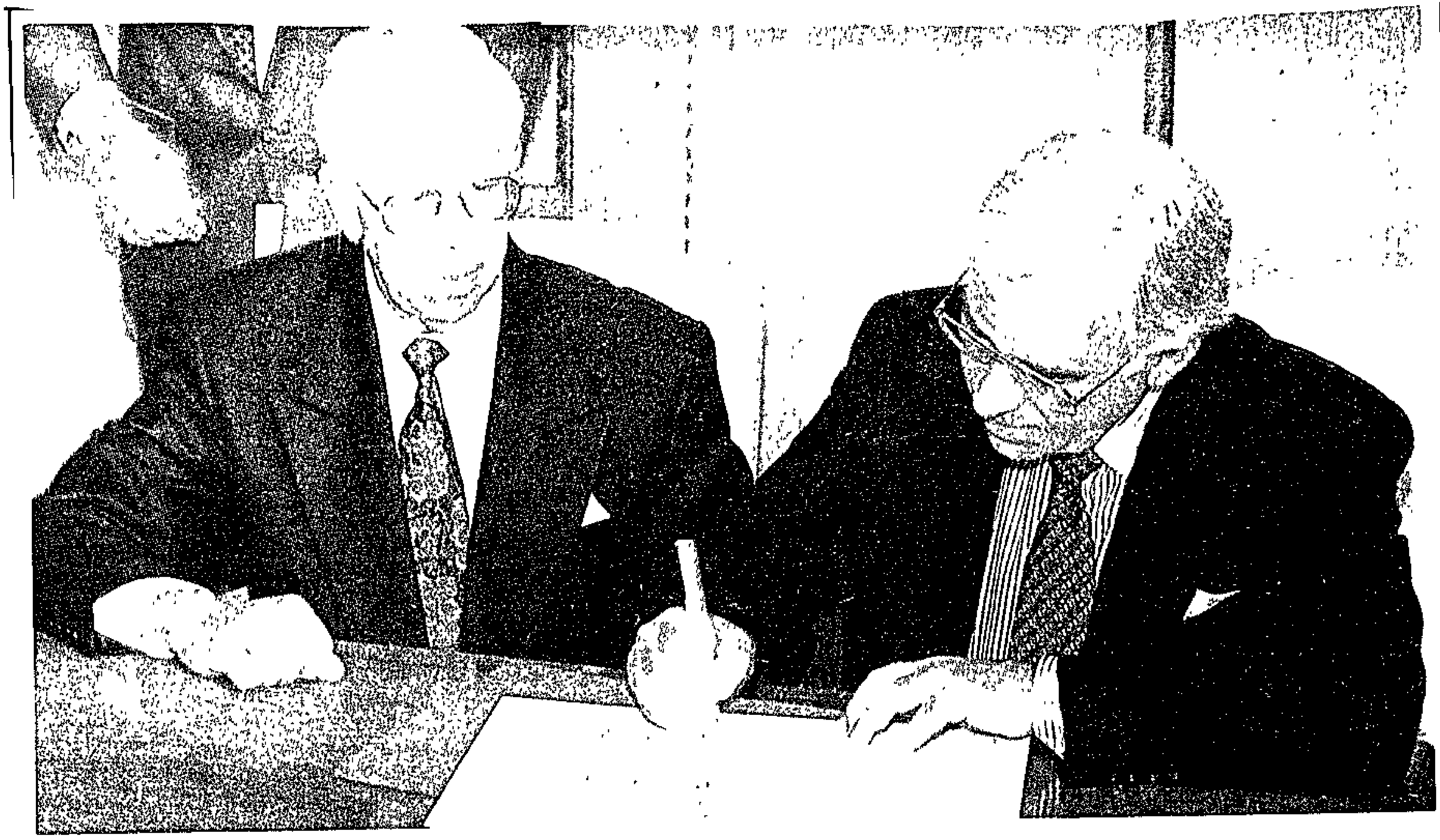
Nomvete pointed out that such a growth rate could be achieved by focusing on short term issues such as improving savings, capital inflows and, of course, productivity.

The obvious lack of higher education was still evident among black people — making up only 70 of the current 15 000 accountants, he said

Later in the day National Sorghum Breweries executive director Israel Skosana spoke of possible strategies for bringing blacks to the forefront of future business initiatives.

Skosana said that certain government contracts could be set aside specifically for tendering by black business and incentives should be provided for those companies that source products from such businesses

In addition he said that joint ventures should be encouraged between black business in alliance with government and/or international conglomerates.



SWORN IN . . . Mr Justice Gerald Friedman, judge-president of the Cape (left) presides at the swearing-in of new Finance Minister Mr Chris Liebenberg yesterday. Picture: BENNY GOOL

Liebenberg: Civil budget 'too high'

CT 20/9/94. (49)

By BARRY STREEK
Political Staff

THE 54% of South Africa's budget spent on civil servants' salaries was too high and had to be cut, new Minister of Finance Mr Chris Liebenberg stressed yesterday.

He also said discussions about the possible privatisation of some state assets were "progressing very nicely".

Mr Liebenberg was sworn in as the new Minister of Finance yesterday morning, taking over from Mr Derek Keys, who unexpectedly announced his retirement in July

He said recent comments by Deputy President Thabo Mbeki and Minister of Public Enterprises Ms Stella Sigcau indicated the ANC had no problem in principle with the concept.

"If they can be shown that privatisation can help the country, without making Gencor, Anglo and Barlows bigger, they will support it."

Mr Liebenberg said the crucial question of public service salaries and staffing levels had addressed urgently whether the country's consumption expenditure was to be held in check.

While some countries spent 30% of their budgets on salaries, the South African government was spending 54% of its total expenditure on salaries, placing it in the top quarter of nations.

Although salary levels would not be reduced, the number of people employed and efficiency and productivity issues needed to be tackled.

"We have got to address the salaries if we are to control expenditure," Mr Liebenberg said.

Fiscal discipline and the creation of an investor-friendly atmosphere were further objectives of his new job.

Government set to overspend Budget — FW

From LINDA ENSOR

EDINBURGH — There might be a slight overrun in government expenditure in the current fiscal year, deputy president F W de Klerk told more than 700 financial analysts from Europe, Japan and the U S yesterday.

And he conceded that the Government of National Unity was looking at privatisation of certain State assets to fund capital investments within the RDP

De Klerk said government would take steps to finance the Budget overrun on a "sound basis" and would do so in a way that would not affect next year's Budget.

At a press conference earlier in the day, De Klerk said the Budget overrun could be funded by the sale of State assets such as the enormous oil reserves built up during the years of isolation, which could be reduced to more normal levels. These sales could be effected at short notice.

He said the additional expenditures could result from the political transformations underway and from the rise in capital market interest rates which would increase the cost of financing Government's borrowing requirements.

49 CT 24/9/94

In his speech De Klerk said the government was keeping a close eye on inflation which was beginning to edge up.

Giving the keynote address to over 700 delegates at the annual congress of the European Federation of Financial Analysts' Societies, De Klerk tried to reassure them that all was going well in SA. He delivered the same upbeat message last night at The International Business Outlook Conference at Blenheim Palace where he was co-speaker with former Dutch prime minister Ruud Lubbers

The foundations for social stability had been laid, and the GNU was functioning well and focusing on SA's challenges, foremost of which is to improve the growth performance of the economy.

Economic gloom as figures are released

Bank warns SA heading for 'severe recession'

(49) ARG 27/9/94

BRUCE CAMERON
Business Editor

GLOOM has settled on the economy with the news of poor trade figures, a swiftly rising inflation rate, the one percent rise in interest rates and predictions of worse to come.

The Johannesburg Stock Exchange reacted rapidly to the bad news yesterday, chopping 138 points off the JSE overall index. Since reaching a high of 6051 points on September 7, investors have been pessimistic, knocking billions off the value of shares, with the index sliding to 5617 at yesterday's close.

Banking group Nedcor has warned that South Africa is heading for a "severe recession" unless exchange controls are phased out.

The Nedcor warning follows the downgrading of economic growth predictions by several economists — who have also been predicting that inflation could be back into double digits before the end of the year.

Further pressure is likely to be put on the country's reserves by major imports for the capital-intensive Columbus stainless steel complex, the new Alusaf smelter at Richard's Bay and the Namaqua Sands project on the Cape West Coast.

The Bureau for Economic Research at the University of Stellenbosch reports that blacks are optimistic about the economy but that whites remain pessimistic.

Scott McRae, chairman of property franchise network Camdon's, said today that bond rates could soar as high as 18 percent within months on the heels of the notice given by banks of a one percent rise within the next month.

Nedcor said in its latest economic review that South Africa was a textbook case of "controls distorting financial markets".

Exchange controls exaggerated the business cycle by trapping liquidity in the economy at times of commodity price booms.

Increased liquidity resulting from higher export revenues pushed interest rates lower and bred future inflation.

"The upswing inevitably ends in a severe recession once export price performance slackens and the authorities tighten policy in response to the deteriorating balance of payments and higher inflation.

"Without exchange controls this exaggerated cycle would be broken, since capital would flow out as interest rates fall, preventing excessively low interest rates, as well as rand overvaluation."

Markets reel as the negatives strike home

(49) CT 27/9/94

By KATHARINE BUTT and ARI JACOBSON

THE full weight of recent negative indicators hit SA markets yesterday, shattering sentiment on the JSE and pushing capital market rates back up towards 17%.

JSE industrials fared worst, with the index in free fall towards the close, having lost 2,5% or 157 points on the day at 6 203. The rise in Bank rate and the sharp jump in inflation in August bruised shares already undermined by sluggish 1994 growth prospects.

A firmer financial rand knocked rand prices of offshore listed stocks, driving the Overall Index down 138 points to close at 5 617.

Bond rates rocketed 40 points on the added woe of Friday's dismal trade surplus figure and looked to test psychological support at 17%.

Government's long-dated R150 bond was at 16,78% at 2pm from Friday's 16,29%. The E168 bond was at 16,89% from 16,395%.

The finrand bucked the trend in a market rife with rumour that the hike in Bank rate was part of Reserve Bank governor Chris Stals' long-term strategy to abolish the finrand.

Closing six cents up at 4,24/26 from Friday's 4,30/33 on the dollar, the discount between the finrand and the commercial rand is at a low of 16,6% from around 18% late last week.

Andre Kok, Reserve Bank money market chief, firmly denied the rumour: "How can we raise interest rates now based on the abolition of the financial rand down the line? Variables could be totally different then."

But Stals himself is on record as saying that interest rates would have to rise by 2% to 3% to accommodate the abolition of the finrand.

And FNB money market manager Mike Law maintains: "The only possible reason for it (the rise in Bank rate) has to be based on Stals' long term finrand strategy."

Old Mutual economist Johan Els explained that higher interest rates were necessary, given that "if you abolish exchange controls, you need higher interest rates to attract capital inflows to balance the outflows."

● Reuter reports that JSE gold shares reversed early gains as negative sentiment swept the board and bullion failed to push back towards $400 an ounce.

The Gold Index slipped 20 points to 2 449.

● JSE gilt volumes fell to R6,44bn on Friday from a record R10,94bn on Thursday.

● On the money market, the Bank rate rise strongly affected interest rates. Three-month NCDs were quoted between 12,00% and 12,20% from a previous 10,80% low and the 90-day bankers' acceptance rate was quoted between 11,65% and 11,90% from a previous 10,75% low.

The shortage in the money market dipped to R2,29bn on Saturday and R2,20bn on Friday from R2,64bn on Thursday.

In line with liquidity in the market, the Reserve Bank issued R1bn in special four-day treasury bills on Monday at 11,35%.

● The rand closed slightly weaker at 3,5425/40 from 3,5330/60 on the dollar. It ended firmer on the crosses at DM0,4389/93 from DM0,4364/68 and against sterling at 5,5752/811 from 5,5792/851.

Market players, Bank slug it out

By ARI JACOBSON

MONEY market players and the SA Reserve Bank slugged it out toe-to-toe yesterday in clear disagreement on the rise in the Bank rate over the weekend.

"I'm shattered," said First National Bank's (FNB) money market manager Mike Law.

He pointed out that the money market was "technically in surplus" and credit demand was so weak that "a Bank rate rise was simply not on".

"This move has taken every man and his dog by surprise," said Law.

Not so, said SA Reserve Bank money market chief Andre Kok, pointing out that the rate cut was needed to "pre-empt rising inflation".

He argued that the money market was "in a shortage situation" adding that "even a R1m shortage is enough to make the Bank's tight monetary policy's effective".

Those that think otherwise "are living in a dream world," he said.

Law countered that the shortage was created by the Bank's use of special tenders and dollar swaps to drain liquidity out the system.

"The growth in credit demand was hardly roaring into the sunset — by raising rates the Bank has killed the little demand that existed."

He continued: "This is only going to impact on the man in the street because corporations are always able to organise a good lending rate."

In addition Law said the hike in the Bank rate would encourage lending activity to take place outside the money market, commonly termed disintermediation

Law stressed that money market players could hardly fight the resolve of the Bank and had in turn lifted rates "because an unpleasant situation would otherwise ensue with market rates forced up through money market operations".

Both Law and Kok concurred that economic growth would be affected, however Kok, more perfunctorily said: "I was never optimistic about economic growth this year anyway — as human and international capital remain limited".

And just to add further to confusion Kok concluded: "Who knows, perhaps the next move in rates will be down and not up!".

Naidoo: We'll be ruthless about cutting spending

(49) ARG 27/9/94

By ARI JACOBSON

THE government would be "ruthless" about cutting government spending, warned Minister without portfolio Jay Naidoo, giving the keynote address at the Wesgro agm yesterday.

Naidoo stressed that government services would be restructured and "transformed" to ensure the efficient delivery of public goods and services to the community.

"We (the government) need to master all our inputs," he said.

He said that the government must be "brave enough" to scrap personnel and projects that were not "adding value" to the process of delivering these goods and services.

In addition, he said that consumption spending would have to be transformed into capital spending, to ensure that the medium to long term goals of the RDP programme where met.

"The country cannot afford to spend more than it has — this clearly means no hand outs."

He stressed that "costs" would have to be considered and financial discipline followed — even if it meant compromising the poorest sections of the population.

However, he said that infrastructure would have to be developed across the country and "linkages" sought in this development drive.

By example he said that developing the Eastern Cape would "stop urbanisation" to the Western Cape.

Naidoo added that a more detailed strategy for among others investment, trade and tariffs and industrial policy would be completed by next March.

"Until then there will be serious negotiations between the major players."

● In an earlier address, Wesgro's executive director Dave Bridgman said that the agency was working hard to keep Parliament in the Cape.

Quoting Naidoo, he said: "The only new buildings the country needs are houses".

Wesgro was voted in as the official economic agency for the region at the agm.

SA credit ratings send mixed signals

CT 4/10/94 (49)

Business Editor

SOUTH AFRICA's eagerly-awaited international credit ratings — which determine the interest rates charged on loans from foreign banks and influence foreign investors — have sent mixed signals to the international financial community

South Africa has been awarded a favourable BAA3 investment-grade sovereign rating by Moody's Investment Services Inc

But it has had a disappointing BB rating, although with a positive outlook, by another leading United States agency, Standard and Poor Corporation This means that interest rates charged by foreign banks will be higher than if the rating had been the hoped-for BBB

The effect of this is likely to limit the extent of government borrowing and encourage a continued tight monetary and tax policy, with long-term South African interest remaining high to protect the balance of payments.

The ratings were welcomed by Finance Minister Mr Chris Liebenberg, who said last night they were "very positive."

Pointing out that credit risk ratings opened the door for the country's return to a wider range of international capital markets and investments, he said "South Africa now has an internationally recognised sovereign benchmark against which its many public and private sector institutions can be measured.

"The investment grade status conferred on South Africa by Moody's demonstrates confidence in the coherence of the economic policies and political stability brought to the country by the new government.

"We must, however, recognise that there are still issues that need to be addressed. The Moody's rating as well as Standard and Poor's 'positive outlook' indicate that they recognise South Africa is already addressing these isues and that they believe we will be successful in this task."

Moody's said its favourable rating was based on South Africa's low external debt and the commitment by the new government to redirect spending to a comprehensive development programme while reducing the public sector deficit.

The statement said the rating also took into account the highly challenging environment facing the new government, particularly the costly, complex, and long-term economic development agenda and the coalition nature of the transitional administration.

Standard and Poor said South Africa's creditworthiness was "constrained by the formidable challenge of reforming the protective economy and potential slippages in reducing high budget deficits"

GILTS, EQUITY MARKETS 'SET FOR BUYING SPREE'

See PAGE 9

Wall Street giant backs SA economy

(49) ARG 14/10/94

□ Stamp of approval from top securities firm

PETER FABRICIUS
The Argus Foreign Service

WASHINGTON. — In a shot in the arm for the South African economy, Wall Street has rated the stock market a "superior" investment opportunity.

This stamp of approval from Merrill Lynch, one of America's biggest securities firms, came yesterday after President Mandela's successful visit.

Recent investor scepticism about South Africa was "unfounded", Merrill Lynch senior investment strategist Douglas Johnson said at a conference on investment in South Africa organised by his firm in Washington.

His strong endorsement — coming after several months of stagnation in South African shares in the United States — was reinforced by a positive report at the top of Merrill Lynch's weekly Global Investment Strategy Report.

Mr Johnson said the South Afrcan market was still volatile, appealing mainly to aggressive investors, but the underlying earnings trends would support the market in the years ahead.

The main trend was the prominence of commodities in the economy at a time when world commodity prices were set to rise.

Another major contributor to the positive outlook was the fact that business confidence in South Africa was at its highest since 1987.

Merrill Lynch's reasons for confidence in the South African market also included:

- Expected "solid gains" in exports now that sanctions were past, supported by generous concessions given to South Africa under the General Agreement on Tariffs and Trade (Gatt).
- Commodity prices were set to rise because of underinvestment in production capacity during the last 20 years of declining prices.
- A weak commercial rand would boost export competitiveness.
- Lingering high unit labour costs would require further corporate restructuring, assuring added earnings gains with recovery-induced volume growth.
- The anticipated uncertainly after the elections had not manifested itself.

SA ready to take place in world economy — Erwin

(49) ARG 17/10/94

TOS WENTZEL
Diplomatic Correspondent

SOUTH Africa is no longer interested in trade protection but intends reasserting itself in the world economy, said Deputy Finance Minister Alec Erwin today.

He was opening the international Africa Oil '94 conference in Camps Bay, which is being attended by 250 delegates from 30 countries, mostly from Africa.

Mr Erwin said fiscal and monetary discipline remained fundamental to the country's future economic development.

South Africa also realised that its own economic success would be shortlived unless the rest of Southern Africa and the continent also developed, and official relations with these countries were set up.

Private enterprise in South Africa would reach out for joint ventures with the rest of the continent. The role of the South African government was only to provide the right environment for economic development.

Tony Deakin, chairman of BP Southern Africa, said the synergies between the petroleum industry of South Africa and the SA Development Community region were the key to the successful development of the region's economies.

The secrecy surrounding the South African petroleum industry had been done away with after the moves to democracy in South Africa. This had enabled the synergies in the Southern African region to be explored.

Advantages of regional co-operation in this field were that the internationally competitive refining industry in South Africa, linked to the freight advantages, ensured economies of scale in supply to the region.

There was scope for transfer of technology across the region's distribution network.

The road, rail and port infrastuctures could be rationalised to provide more cost advantages. Training and development could be undertaken on a regional basis.

Paul Theron, director of the Minerals and Energy Policy Centre in Cape Town, said the South African oil industry was undergoing major change. This arose largely from uncertainty as to the appropriate role for government in the industry.

In the past the main motive for government policy was the need to maintain a supply of liquid fuel products in the context of the oil embargo against apartheid.

In the post-apartheid era there was a need for a more open and competitive oil industry.

Since South Africa could now source crude and petroleum products directly, aspects of the present regulatory system had become outmoded, restrictive and politically unsustainable. Government controls on the import of refined products and on centralised crude procurement were under attack from crude refiners and potential distributors.

Recommendations of a new approach all pointed toward increasing competition and reducing the government's role in the management of the energy sector.

Business Report

Germans bullish on SA economy

By ARI JACOBSON (49)

AS many as 81% of German company representatives stationed in SA, rate the local economic climate as "good, satisfactory or sufficient", according to a research survey released this week by the South African-German Chamber of Commerce.

To signify the large jump in confidence — in January, when the first survey was conducted, some 58% of German company representatives considered the economic climate as "good, satisfactory or sufficient".

CT 25/10/94

In addition 28% of German corporations have now increased investment in the country and 22% have created further jobs.

A further 51% and 56% respectively, indicated they were considering expanding their financial investments and/or increasing the number of jobs in the country.

This is the second such survey conducted in conjunction with consultants Pabst & Pabst, which attempts to track the mood of some 55 000 German employees, currently working in the country.

The first survey took place in January and the second survey has been released this week — to gauge, more specifically the mood of German citizens after the elections.

The survey compilers add "its important to note that all the 20 biggest companies have responded favourably (in the second survey)".

Debt spectre looms as State spending surges

ARG 25/10/94 (49)

Business Staff

SOUTH African gross domestic spending increased much faster than gross domestic production in the second quarter of 1994 and the increased demand was, therefore, increasingly being satisfied by foreign production, according to Absa Bank's latest economic review in Economic Monitor.

Absa said although real GDP at market prices in the second quarter of the year was 3,5 percent up on the year before (as against 2,4 percent in the first quarter), real GDP at factor costs showed an increase of only 2,2 percent (as against a first quarter figure of 3,1 percent).

The bank advised: "The relatively poor showing of the GDP should be assessed against a sharp rise in spending.

"In the second quarter, real GDP was 8,6 percent up on a year ago, after increasing by 3,8 percent in the first quarter."

Other evidence backing up these concerns were: Imports showed a year-on-year increase of 12,6 percent in the second quarter (7,1 percent in the first quarter), and exports declined by 5,7 percent in the second quarter (1,2 percent increase in the first).

Absa said government spending remained a cause for concern because of the increase in government debt.

"The rise from 47,3 percent of GDP in the second quarter of 1993 to 55,2 percent in the same quarter of 1994 will result in a considerably higher debt burden.

"Receipts may also be affected by the performance of the economy. In view of this, Absa forecast the deficit before borrowing as a percentage of GDP to be approximately 7 percent in 1994-95 against a budgeted figure of 6,6 percent."

The report said the increase in the PPI and CPI pointed to an upward trend in inflation with food prices largely responsible for the pressure.

In April the CPI increased by 7,2 percent, (6,5 percent excluding food). In August this had accelerated to 9,4 percent (6,5 percent excluding food).

The recent increase in the bank rate "at an early stage of the upturn in the business cycle, may well allay inflation fears to some extent".

Absa said, however, given the poor international credit rating and the desirability of funding the deficit through offshore loans, it believed that capital market interest rate would remain high (possibly between 16 percent and 17 percent) in 1995.

It also believed there might be a further two percentage point increases in the bank rate next year.

The bank reported a modest improvement in the seasonally adjusted annualised balance on the current account but said trade figures indicated a possible further decline in the surplus in the third quarter.

With the capital account reflecting a R3,3 billion net outflow in the second quarter, and no significant capital inflows expected, "the lack of foreign exchange reserves therefore remains the most critical factor for the economy in the time ahead".

On the positive side, Absa pointed to the sharp rise in real gross domestic investment — an increase of 2 percent in the first quarter compared with last year's. It accelerated to 9 percent in the second quarter.

Absa said other good news was the comparative stability of the rand during August and September — the currency appreciated moderately, particularly against a weak US dollar. The bank foresees a more stable rand exchange rate in the months ahead.

Govt's 'six-pack' savings strategy

(49)

Political Correspondent

THE government has suggested a "six-pack" programme which could allow for savings of tens of billions of rand to help the RDP and reduce the government's debt mountain.

Major features include:

- A belt-tightening exercise — led by politicians' salary cuts — that will "set the trend for a national ethic of thrift" by cutting unnecessary expenditure and putting state assets to more productive use.

CT 31/10/94

- A "complex and painful" changing of priorities of expenditure for the RDP affecting all levels of the civil service in government and provincial legislatures.
- A radical restructuring of the public service, redeploying many of its members to boost RDP objective and making the 1,2 million public service leaner through "attrition".
- An examination of full or partial privatisation of state assets and enterprises to release funds for debt reduction and the RDP fund.
- The re-organisation of expenditure between central government and provincial legislatures.
- Developing an internal monitoring capacity for all these programmes to ensure that they are closely evaluated and monitored.

Whites 'still dominate'

49

CT 1/11/94

Own Correspondent

LONDON. — The central problem in South Africa remained the total emancipation of the black majority from white social and economic domination — which remained intact.

This was said last night by Justice Minister Mr Dullah Omar, delivering the annual lecture of the Calamus Foundation, a Muslim body set up in 1989 to promote understanding between Muslims, Christians and Jews.

He also said one of the major tasks before the Constitutional Assembly was to take the process of constitution-making to people throughout South Africa.

"Concrete steps are being taken to ensure that a general public debate take place around all relevant issues, including on radio and television."

Mr Omar noted that the issue of language, cultural and religious rights in South Africa "had nothing to do" with minority rights.

They should be classified and dealt with as individual or collective rights. These were recognised and guaranteed by the constitution, he said.

Also present at last night's function were South African-born theologian and author Mr Farid Esack and South African-born art historian Ms Frances Jowell.

'SA must adopt world standards'

CT 2/11/94

(49)

NOW that South Africa was reintegrated into international markets, the challenge was to raise competitiveness to world standards, Sanlam chairman Marinus Daling said yesterday.

Addressing a business conference in the city, he said South Africans should realise that better living conditions depended on exports and economic growth. At the same time, growth could only be maintained if reconstruction was successful.

The two were inter-dependant, Daling said: "The challenge therefore is to become internationally competitive and at the same time reconstruct and develop South Africa."

Primarily, it was management's job to bring about the required increases in productivity. The country's human resources had to be developed by improving skills, opportunities, support systems and living conditions.

"Investments in improving people's living conditions could yield large returns and are of the utmost importance in our current situation," Daling said.

Management and employees needed to work together as a team towards the same goals, and the information explosion should be harnessed at all levels. This was the key to success in the next century, he said.

Govt on track to cut deficit

(49) CT 3/11/94

Political Staff

SOUTH AFRICA was expected to achieve its year-end budgetary forecast of a 6,6% deficit before borrowing, Finance Minister Mr Chris Liebenberg told Parliament yesterday.

Addressing the National Assembly in the second reading of the Appropriations Bill, Mr Liebenberg said government revenue for the six months to the end of September was R54 billion, or 51% of budgeted revenue, and the R66,8bn in Exchequer issues represented just under 50% of budgeted expenses.

While the 6,6% deficit would probably be achieved, this was still too high, he said.

The government planned to bring the deficit down to 4,5% over the next five years provided an average annual growth of

Tide has turned, says Liebenberg

three percent could be sustained.

Macro-economic stability, trade liberalisation and the creation of an investor-friendly environment were all crucial elements to achieving this level of growth, he said.

The drive to ensure a competitive labour market — one of the constituents of successful trade liberalisation — had been encouraged recently by the announcement that Taiwan had agreed to take 2 000 South Africans every two years for technical training.

The government would save R5m a year from recently-announced executive salary cuts — equivalent to 200 houses.

If 10% could be trimmed from the government's travel expenses, which amounted to R166m for the last six months, a further 500 houses could be provided annually, he said.

Certain benchmarks had been achieved since April which would indicate to foreign investors the seriousness of the country's bid for growth and fiscal discipline. It had established a stable, non-populist government which had shown its commitment to fiscal and monetary control.

The increase in net Reserve Bank reserves during September of R283m showed furthermore that "the tide has turned".

'Nightmare' Budget gets the go-ahead

ADRIAN HADLAND

CAPE TOWN — Both houses of Parliament unanimously approved the new government's first Budget on Friday.

Finance Minister Chris Liebenberg earlier described the R113bn Budget as a "nightmare" because of the complexity of incorporating former homeland finances into a national fiscus, which was itself being restructured. B/Day

He said, however, that while the 1994/95 Budget was a nightmare and the 1995/96 Budget would be a bad dream, the 1996/97 Budget would be "plain sailing".

Closing the Appropriation Bill debate in the Senate, Liebenberg said he was "delighted to see consensus on so many issues". Unanimity had been reached on restraining government consumption expenditure, the need for fiscal and monetary discipline and on the drive to meet people's basic needs. 7/11/94

He stressed the need to ensure that SA was internationally competitive by bringing down inflation and the cost of capital while boosting labour productivity.

He hoped the Katz commission on taxation's report — expected on November 30 — would find ways of improving the efficiency of tax collection while creating an investor-friendly environment. (49)

He urged parliamentarians to find ways of ensuring that all members of the National Assembly, the Senate and standing committees contributed to the monitoring and controlling of future Budgets.

Recovery on track — Sacob

ARG 8/11/94 (49)

ALIDE DASNOIS
Business Staff

THE economic recovery is intact, the SA Chamber of Business (Sacob) said in its latest Business Confidence Index survey.

The index dropped sharply in October for the second consecutive month, falling 2,9 points to 107,4, as business took a more sober view of short-term growth prospects.

But, said Sacob, some of the factors which contributed to a fall in confidence in October — such as the sharp drop in car sales — were likely to be reversed in the coming months.

"In addition, the implications of the promising government austerity programme announced by Deputy President Thabo Mbeki on October 26 still have to be fully digested by the markets and business sentiment."

Business confidence in October was dampened by:

- A sharp rise in the inflation rate;
- The rise in the Bank rate;
- The falling dollar price of gold;
- Falling merchandise export volumes;
- The effects of the motor industry strike;
- Rising insolvency figures; and
- Lower share prices on the Johannesburg Stock Exchange.

But the index was boosted by a stronger rand rate against the dollar, a drop in the unemployment rate, higher manufacturing production volumes and the rising value of building plans passed.

Sacob economist Ben van Rensburg said he was still expecting growth of about 2,5 percent this year, but forecasts of 3,5 percent growth in 1995 might have to be revised.

The sharp rise in inflation in recent months — from 7,1 percent in April to 10,2 percent in September — had contributed to much more bearish forecasts of inflation for the year.

From levels of less than 10 percent, economists were now predicting inflation of up to 11,5 percent next year.

This was probably too pessimistic, Sacob said, but market shortages for some commodities and unpredictable weather patterns might put pressure on prices and it would be difficult to bring the inflation rate back to single digit figures in the medium term.

Higher inflation, combined with a sharp decline in the trade surplus, had led to increased speculation that the Bank rate would be raised again in the next few months.

A survey of the manufacturing sector showed that manufacturers' longer-term outlook remained optimistic and that short-term prospects had improved.

'Borrow now to jump-start economy'

CT 10/11/94 49

By BARRY STREEK
Political Staff

SOUTH Africa should borrow all it could and spend it wisely on infrastructure, housing and export-led industry, the chairman of Independent Newspapers, Dr Tony O'Reilly, said last night.

While the South American example of overborrowing should not be emulated, Dr O'Reilly said, "the perils of underborrowing and the crushing of the legitimate dreams of a newly enfranchised society impose on all of you an urgent responsibility to examine your conversion and take appropriate risks to jump-start this economy — and jump-start it tomorrow".

Dr O'Reilly, who is also the chairman of Argus Newspapers, which owns the Cape Times and other newspapers, said the world expected South Africa to do this because "the creditworthiness of this great nation has been examined in a most minute fashion and the headmaster reports have been extremely promising".

He said, in an address to the South African Institute of International Affairs:

"There is currently unanimous recognition of the political miracle which you in South Africa have enjoyed and the strong infrastructure and resource base which will serve as a platform as you take South Africa forward

"Furthermore, you start on this path with sound fiscal and monetary policy objectives and with negligible foreign debt obligations.

"Despite a lot of loose talk about the 'debt trap', you have a strong national balance sheet," Dr O'Reilly said.

Senate passes R135bn Budget

SENATE. — South Africa's first post-apartheid Budget was approved by the Senate yesterday.

The 1994/95 Budget was the last major initiative of the former NP government which handed over power five weeks before the Budget was introduced. CT 10/11/94

Future budgets will be drawn up with departments having to justify expenditure according to criteria determined by the government's Reconstruction and Development Programme.

Features of the Budget were:

- The resignation of Finance Minister, Mr Derek Keys and his replacement by former banker Mr Chris Liebenberg who has said he will follow the broad direction set by his predecessor.
- Calls by ANC leaders for spending cuts on security and more spending on the provision of basic services. (49)
- The establishment of an RDP fund with R2.5bn financed from cuts in existing budgets of government departments.
- The imposition of a five percent levy to raise R4bn to pay for the transition to democracy.
- Supply side measures like a reduction in the rate of company tax from 40% to 35%.
- An increase in the rate of excise duties to raise more revenue on sales of tobacco and liquor. — Sapa

POLITICS

New body to replace economic forum

Star 11/11/94

Cape Town — Draft legislation to establish a National Economic, Development and Labour Council (Nedlac) was tabled in Parliament yesterday.

Nedlac, which will replace the existing National Economic Forum (NEF) and the National Manpower Commission, was intended to "facilitate the co-ordination and integration of economic, labour and social policies", a memorandum on the Bill says.

Where the NEF provided for representation from labour, business and the State, Nedlac introduces a fourth category of "members who represent organisations of community development interests".

The new council is intended as a forum in which the four parties will attempt to reach consensus on labour legislation and on social and economic policy before policies are implemented.

Labour Minister Tito Mboweni will appoint labour and business representatives from lists submitted by the two sectors. Minister without Portfolio Jay Naidoo will appoint members of community organisations while President Mandela will appoint the State's representatives. (49)

Mboweni ... to appoint labour representatives.

The forum will be headed by an executive council.

It will have four chambers: a public finance and monetary policy chamber, a trade and industry chamber, a labour market chamber and a development chamber. — Sapa.

Economic think tank appointed

THE cabinet has appointed a four-man ministerial committee to draft economic policy guidelines for the government. (49) CT 17/11/94

Cabinet secretary Jakes Gerwel said yesterday that Finance Minister Chris Liebenberg, Trade and Industry Minister Trevor Manuel, Labour Minister Tito Mboweni and Minister without Portfolio Jay Naidoo were named to the special committee "about a month ago".

Meanwhile, Liebenberg said yesterday SA's total public debt amounted to more than R220bn.

In reply to a question from Freedom Front MP Willem Botha he said the amount included the R15bn commitments of the former "apartheid" states.

This money still had to be apportioned between the national and provincial administrations.

"The amount does not include ... R2,2bn in respect of realised losses in the gold and foreign exchange contingency reserve account," the minister said. — Reuter

ECONOMIC OUTLOOK

Fm 18/11/94

The factory factor is positive

GDP figures for the third quarter are below expectations. But an analysis of figures provided by Central Statistical Service shows they are not as discouraging as they appear.

Total GDP grew 2,6% in the third quarter, after a 1,6% rise in the second and shrinkage of 3,6% in the first. These are quarterly changes, seasonally adjusted and annualised, as are all other quarterly changes referred to below.

Measured at factor incomes — with subsidies and without taxes — third-quarter growth was 2,1%.

Implications for growth in the year are not encouraging. To achieve annual growth of 2%, based on market prices, fourth-quarter growth would have to be around 4,5%. Sacob's Keith Lockwood says that, if calculations are based on factor incomes, it would take more than 9% growth in the fourth quarter.

The good news is that growth could be substantially higher in the fourth quarter whichever way it is measured.

There is considerable potential in the manufacturing sector which provides 40% of nonagricultural private sector jobs. In mid-1993, the sector made a recovery (see graph). Sadly it was aborted by the political turmoil that preceded April's general election. And economic activity in the sector contracted in the first half: by 1,3% in the first quarter and 0,6% in the second.

The third quarter, however, showed a 1,8% rise in value added in manufacturing. It has barely recovered ground lost in the first half but is an indication of returning confidence in future consumption.

It was achieved despite the costly 27-day strike in the motor industry which lost 540 000 man-days, according to Andrew Levy & Associates. The strike ended in the second week of September.

This dent in output was clearly not as disruptive as the combined effect of proliferating public holidays in the second quarter and the production lost as political violence eroded output before the election and damaged both consumer and producer confidence. (49)

There is also the possibility of making up for lost production. Costa Pierides, of Naamsa, which represents the motor manufacturers, says the industry is adding about 60 hours — an extra third — to its traditional month. "This will continue until the 45 000 lost units are made up."

Some factories will delay year-end holidays until quotas have been met.

Similar arrangements are being made following other less publicised strikes. Workers who lost income in industrial action are eager to recoup their losses.

The additional production will clearly boost fourth quarter GDP. Pierides points out though that the situation does not allow for additional demand, so the motor manufacturers will not be able to respond to rising demand until early February. This bottleneck could give a boost to the first quarter of 1995.

Unfortunately, this is delaying the crucial growth cycle and it is still dependent on how successfully labour disputes are resolved in future.

Industry analysts estimate that recent wage settlements have been no higher — around 10% — than they were in the first quarter. No additional inflationary impetus was created by unrealistic settlements and union leaders have been exposed to the reality of the market place.

A breakdown shows agriculture has once again provided a welcome boost to growth. It rose 8,5% after a 7,1% rise in the second quarter and a 60% fall in the first.

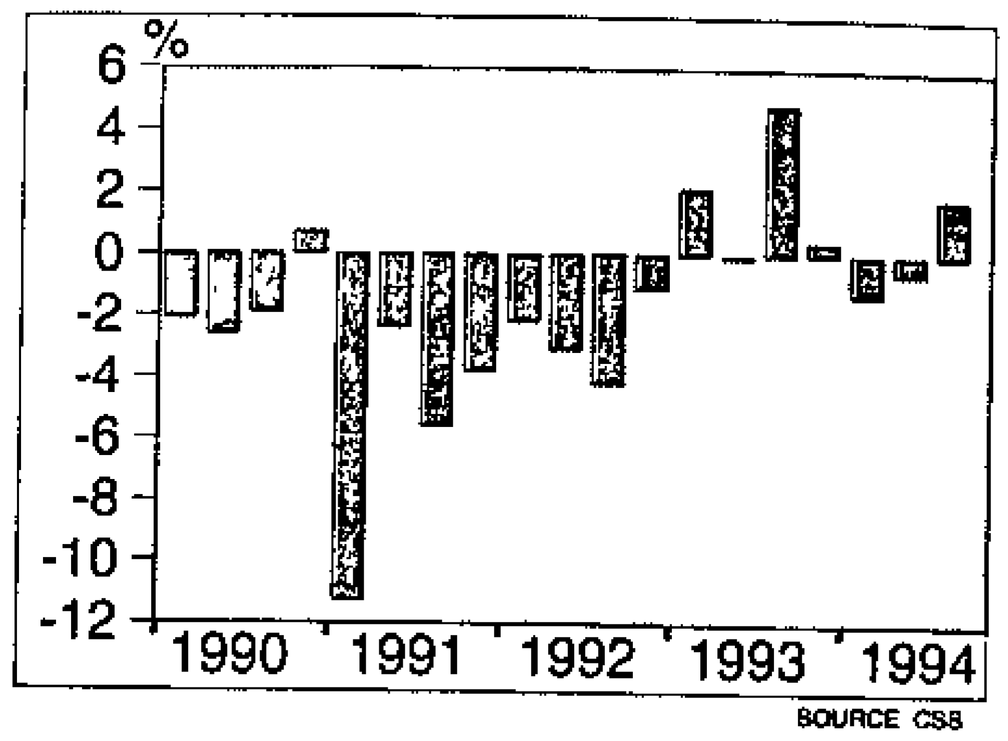
Nonagricultural growth was 1,8%:

- Mining was static — it shrunk 8,1% and 6,3% in the preceding quarters;
- Electricity, gas & water up 1,9% after rises of 1,7% and 2%;
- Construction 1,1% after 1,9% and 3,7%;
- Trade & catering up 2% after 4% and 1,8%; and
- Transport & communications 2,7% after 3,1% and 2,6%.

A sector that did well, for the third consecutive quarter, was finance & real estate — it grew 4,7% (4,7% and 4%).

Much now hinges on the productivity of the manufacturing sector which contributes about 25% of total GDP. And this depends on trade unions not expecting increases which are completely out of line with growth in the economy and inflation. The success of the RDP is hostage to workers with unrealistic wage demands. ■

MANUFACTURING GDP GROWS AGAIN



International exposure 'vital'

CT 18/11/94

JOHANNESBURG. — International exposure is vital if South Africa hopes to reconstruct and modernise its economy, according to former British prime minister Sir Edward Heath.

Speaking via satellite to delegates attending a RDP summit at Midrand yesterday he said South Africans needed to realise the "tremendous changes" that had taken place during the country's political and economic isolation.

International trade and economic success depended on the ability to take advantage of opportunities wherever and whenever they arose.

Most international investors, both private and public, were "waiting to see what will happen" in South Africa.

The government therefore needed to establish a track record of investor-friendly economic policies and delivery of election promises. — Sapa

GDP measures show a big discrepancy in growth

BIDay . 21/11/94

MUNGO SOGGOT

AN UNUSUALLY large discrepancy has emerged between the two measures of gross domestic product in the third quarter — with GDP measured at market prices rising at a much more rapid rate than that measured at factor incomes. (49)

The Central Statistical Service said a recent surge in imports had triggered an increase in import taxes, exaggerating the discrepancy.

Economists said GDP figures at market prices reflected the indirect taxes paid by SA's producers, while the others, at factor incomes, did not.

Economists were initially puzzled by last Tuesday's figures which pegged annualised GDP growth at market prices in the third quarter at 2,6% from the second, whereas growth at factor income was 2,1%.

CSS national accounts director George Mills said the duties from the surge in imports during the third quarter had inflated the market price GDP statistics quoted by the CSS.

Customs and Excise figures show imports in August jumped 20,8% from the previous month to R8,07bn (R6,68bn). In September they slipped 8% to R7,43bn.

Some economists also suggested that the surge in imports over the past few months had probably dragged the third quarter GDP figure down. Gross domestic expenditure (GDE) was more buoyant during the period. The GDP figure is GDE less imports of goods and services.

Economists were confident that SA would clock up growth of 2% for the year as a whole. Despite upbeat predictions at the beginning of the year of 3%-4% growth for 1994, Reserve Bank Governor Chris Stals said recently 2% growth "would be lucky".

SA policies are 'mostly not free'

ARG. 17-18/12/94

(49)

PETER FABRICIUS
Weekend Argus Foreign Service

■ The new government has received a mixed report card from two influential US agencies — and the results could determine levels of aid to SA.

WASHINGTON. — South Africa's economic policies have been ranked as "mostly not free" by the influential conservative Heritage Foundation, which recommends that the United States government should stop giving foreign aid to countries that have restrictive economic policies.

But the bipartisan Freedom House institute has ranked South Africa for the first time as "free" on a scale measuring political representation and civil liberties

Both indexes are aimed at influencing the US government and Congress as they decide how to allocate foreign assistance. The new Republican majority in Congress has vowed to slash foreign aid and to disperse what is left according to the performance of recipient countries.

It is not clear yet whether the Republicans will be influenced more by the Heritage Foundation's purely economic index or will also include the political criteria used by Freedom House.

Tom Sheehy, co-author of the Heritage Foundation index, said that influential Republican congressmen had endorsed the foundation's index as the basis for allocating aid.

These included Senator Mitch McConnell, likely head of the sub-committee which will appropriate foreign assistance funds, who this week announced a draft bill to abolish aid set aside for African countries and make them compete with other countries for aid, according to the openness of their markets

South Africa receives about US$200 million dollars, or about R700 million, of US aid a year.

The Heritage Foundation gave South Africa a mark of three on a scale in which one is most free and five least free and ranked it 44th among 101 countries — one place below Uganda — with Hong Kong ranked first and North Korea last, the US at 4th place, Japan 5th and the UK, 7th.

The report made it clear that SA's relatively poor ranking was partly a result of the foundation's concerns about the ANC's intentions, rather than actual policy decisions

Under foreign investment, for instance, they noted that there were no barriers to foreign investment but observed that "the new government led by the African National Congress may not maintain a hospitable investment climate.

"Its egalitarianism could lead to increased economic control by the government, which could deter investors."

Under banking, they remarked that "the new government may pressure the banks into making politically-motivated loans" Under property rights, they noted that no private company had ever been nationalised but said, "however, there is a danger that the redistributionist policies of the ANC government, including its land reform program, may weaken property rights"

Under regulation, it said that there would be increasing political pressure to practice more affirmative action in employment,

The report did not seem to have taken into account certain policy reforms, especially in the area of tariff liberalisation.

South Africa did worst in the category of trade policy, with a mark of 5-plus (out of five) for a "very high level of protectionism" because of its high tariffs, including a 100 percent tariff on textiles and clothing and 115 percent on motor vehicles

South Africa got four points for having "high tax rates" and scored a 3-minus for having a "moderate" level (21,2 percent) of government consumption of economic output; a 3-plus under "monetary policy" for a "moderate" level of inflation (10 percent); a 2-minus for having low barriers to foreign investment; a 3-minus for "moderate" restrictions on banking; a 2-plus for low levels of wage and price controls; a 3-minus for moderate levels of protection of private property; a 2 for low levels of regulation and a 3-minus for having moderate levels of black market activity — encouraged, the report said, by the high level of trade restrictions.

Freedom House gave South Africa a mark of 2,5 on a scale of one (most free) to seven (least free), placing it at the same level as countries like Botswana, Argentina, Namibia and Slovakia.

The US and most western democracies scored a one, but some, like the UK scored 1,5 (in the case of the UK because of its emergency measures in Northern Ireland) and some democracies like Brazil scored low enough to be ranked only "partly free."

South Africa scored 2 on the index of political representation — losing a point because of the uncertainty of the election results — and three on civil liberties because of violence, uncertainties about press freedom and lingering discriminatory laws from the past.

The report said that in 1994 there were 114 formal democracies, 60 percent of the 191 countries of the world — an all-time record. Seven new democracies emerged in 1994 — South Africa, Haiti, Ukraine, Mozambique, Malawi, Guinea-Bissau and Palau.

Despite these gains, nearly 80 percent of the world's population still lives in states which are "not free" or "partly free" - because of the large populations of countries like India ("partly free") and China ("not free").

Freedom House recommended that as the US Congress reviewed aid, it should channel it to weak, partly free democracies and poor free countries, to bolster fragile democracy.

Strengthening democracy should be the aim of US foreign aid because it created the framework for economic growth and guaranteed international stability The report noted that of the 353 wars fought since 1819, none had been between two established democracies.