

ECONOMY - GENERAL

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Govt foreign liabilities stand at R20,5 billion

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By Derek Tommey

The Government has foreign liabilities at current exchange rates equal to about \$8,2 billion (R20,5 billion), a statement published at the weekend in terms of the Exchequer and Audit Act shows.

These are the foreign currency commitments in respect of the guarantees, indemnities or securities the Government has provided and include both capital and interest payments.

A foreign exchange dealer says that these guarantees are probably for finance raised overseas by public corporations and by organisations such as Sats and Sasol.

The size of the liabilities would not occasion much concern in normal times.

But with the rand sliding in foreign exchange markets, the Government probably finds this deeply worrying.

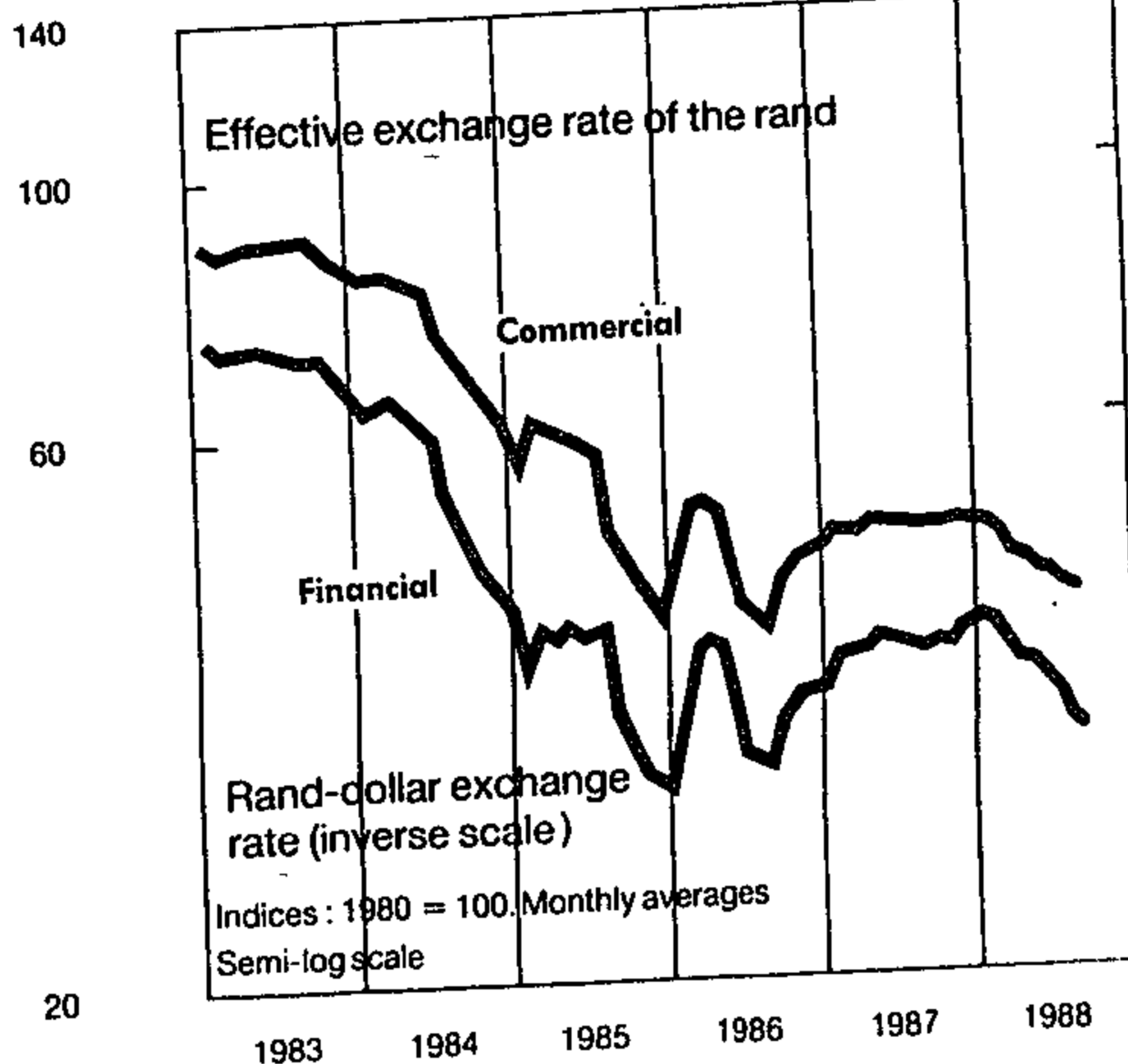
With these liabilities now totalling R20 billion, it means that the Government, or the bodies covered by its guarantees, have to find an extra R1 billion or so to cover their liabilities every time the rand drops by 5 percent against the dollar.

So far this year the rand has fallen from R1,94 to the dollar to just below R2,50

This is a depreciation of 22 percent and means that the Government's foreign liabilities expressed in rand terms have risen by about R4 billion.

It is common knowledge that when the rand drops in the foreign exchange markets, the cost of imported goods rises.

Now it appears that a drop in the rand must also lead to higher prices for goods produced by state enterprises and



possibly increased tax, if these bodies are to meet their foreign liabilities.

It is possible that these foreign liability figures have been going the rounds in Pretoria in recent weeks, bringing home to the Government and to the public service the great harm done by a fall in the rand exchange rate.

It is interesting to note that the rand has remained comparatively steady recently, despite the drop in the gold price from \$430 to around \$394.

This has raised the possibility that the Reserve Bank may have been more active in its support for the currency.

A factor that must also be causing concern is that the bulk of the money covered by the Government's liabilities has to

be repaid within the next three years or so.

An analysis of the Government's liabilities shows that 48,5 percent has to be paid in dollars. The actual figure is \$4,42 billion, equal to R9,9 billion at current exchange rates.

Of this amount, 14 percent has to be paid by the end of this year, a total of 30,6 percent by the end of next year, 46,6 percent by the end of 1990 and 82,3 percent by the end of 1991.

There is a similar rapid rate of repayment for Deutschmark loans.

These account for about 22,6 percent of the Government's liabilities and 72 percent of the Dm3,6 billion (equal to R4,6 billion) has to be repaid by the end of 1991.

Repayments in Swiss francs will not be so large.

The liabilities in this currency are \$1,2 billion (R1,9 billion), equal to 9,4 percent of the total.

However, 99,6 percent of the Swiss franc liabilities have to be repaid by the end of 1991.

French franc liabilities amount to Ff4,5 billion (R1,7 billion), but only 62 percent has to be repaid by 1991.

The other major repayments are in Japanese yen, where the liability amounts to 73,5 billion yen (R1,3 billion).

However, only 60,5 percent of this sum has to be repaid by the end of 1991.

The South African delegation attending the IMF conference in Berlin last week successfully re-negotiated the repayment terms of \$3 billion in loans to be repaid beyond 1991.

It is not yet known whether some of the Government's liabilities are included in this figure, but hopefully they are.

For the need to repay R15 billion worth of foreign loans in foreign currencies by the end of 1991 could impose a considerable burden on the foreign exchange reserves.

The latest Reserve Bank figures show that South Africa's total foreign debt at the end of last year was \$22,6 billion, equal to R43,6 billion.

However, if the dollars are converted into rand at today's exchange rate, the local value of the foreign debt stands at R56,5 billion.

This compares with R49,5 billion at the end of 1986 and R60,1 billion at the end of 1985 when the exchange rate of the rand to the dollar was last at its present level.

SA's credit rating takes a knock

By Sven Lünsche

South Africa's credit ranking with international banks is virtually at its lowest ever, according to a survey published in the September issue of the *Institutional Investor Magazine* of New York.

The survey shows South Africa anchoring a table of 56 countries, whose credit rating is assessed twice a year by 100 international banks.

The study was made ahead of last week's annual conference of the International Mon-

etary Conference where South Africa's delegates said they had found an improved sentiment towards the country among foreign bankers.

Countries are rated by the bankers for their relative creditworthiness on a scale of zero to 100 and South Africa scores a meagre 32,4, which, however, represents a 1,1 percentage points improvement on the figure last year and a 0,1 percentage point rise on the rating of March this year.

Of the five African countries

included in the survey, four, including South Africa, are at the bottom of the table, which is not surprising given the political and subsequent economic risk associated with investments in the continent. The African country which is given the best rating is Algeria, which is ranked a lowly 45th.

Japan, Switzerland, West Germany, the US and the UK are once again top of the ladder in that order. Their respective credit ratings are 94,8, 93,9, 93,1, 89,7 and 86,9 points.

Anglovaal to lift capex 55%

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By Ann Crotty

Anglovaal is planning to boost capital expenditure in financial 1989 by 55 percent.

Expenditure on additions to fixed assets and replacements is expected to reach R250 million, compared with financial 1988's R161 million.

The increased commitment to capex is being planned despite the fact that chairman Mr Basil Hersov believes that economic prospects for the current financial year are less favourable than a year ago.

"The balance of payments position has weakened, interest rates are hardening and inflationary pressures, particularly from a depressed rand, are again increasing."

Mr Hersov says: "Intensification of sanctions remains a major threat. Legislation currently being contemplated in the United States could, if enacted, adversely affect economic growth in South Africa. Although some short-term benefits may be perceived, the long-term implications for this country would be extremely serious."

Mr Hersov believes that if SA's required rate of growth is to be achieved then a political dispensation, sufficient to permit capital inflows into SA, is essential.

"Against this background, the year ahead will be one of major challenge for the group. However, provided economic growth remains positive and socio-political conditions are relatively stable, improved results should be achieved in 1989."

Mr Hersov refers to the strengthening of the economy and the acceleration of consumer spending evident in financial 1988. "Business confidence firmed, but fixed investment spending remained tentative, mainly on account of unutilised installed capacity," he says.

SA economy
is no longer
top in Africa

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News Service

GABORONE — South Africa no longer has the largest economy in Africa in US dollar terms.

Africa Insight, a magazine published by the Pretoria-based Africa Institute, said that in 1985 Nigeria's GNP was \$75,94 billion (R188,3 billion), the biggest in Africa.

South Africa was second with \$65,23 billion (R161,7 billion) and Algeria third with \$55,23 billion (R136,9 billion).

In terms of GNP per capita in 1985 South Africa's \$2 010 (R4 984) was fourth in Africa after Libya (\$7 500/R18 600), Gabon (\$3 340/R8 283) and Algeria (\$2 530/R6 274).

By Sven Lünsche

The chief executive of the African Bank, Gaby Magomola, has called on businessmen to see political reform as an opportunity for economic growth and not as a deterrent.

Addressing a conference on "Tax for today's businessmen" yesterday, hosted jointly by accountants Kessel Feinstein, Charter Life and *The Black Business Magazine*, Mr Magomola said businessmen were leaving the country in droves or investing their money off-shore.

In the face of political reform, white businessmen

Reform is key to economic growth

are showing a reluctance to invest in local capital projects and are showing a complacency towards the real issues in South Africa, he said.

"If we shared our resources and our knowledge we could create a much improved economy.

"Attempts to promote black business need to be quadrupled, until blacks are integrated as fully fledged members of the

economy," Mr Magomola concluded.

At the same conference Charter Life's legal manager, Martin Sweet, said sensible tax planning had become virtually impossible, as retroactive tax laws had become an accepted part of tax policy.

"It also raises the level of uncertainty in investment to such a degree that business confidence is

being undermined," Mr Sweet told the delegates.

"The plain fact is that the Department of Finance is forever resiting its goal posts wherever it perceives itself to be at a disadvantage.

"The inevitable question is whether tax reform has been abandoned in the face of governments failure to significantly curb the huge rate of state spending," Mr Sweet said.

He added that economic instability was the ultimate product of inefficient government and so was more taxation which feeds into the spiral.

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STW

Rand at critical level

By Sven Lünsche

The rand yesterday traded at its lowest level in over two years when it closed at the psychologically important 40 US cents mark (ie, the dollar firmed to R2,50).

The rand has been trading at around 41 US cents for almost two months, finding support just above the 40c level, but the fall in the gold price yesterday provided the necessary stimulus to push it below that level.

Dealers now expect the exchange rate to plummet even further, as there is no evidence the Reserve Bank will step in to halt the slide.

Dealers said that the country's foreign exchange reserves would be placed under further pressure by debt repayments and higher import levels and this would lead to a further erosion of the rand.

Since the beginning of the year, the rand has fared badly against the dollar, declining by about 23 percent.

Its performance against other major currencies has not been as bad.

It has fallen by 9,5 percent against the Deutschemark, by 15,9 percent against the yen and by 15 percent against sterling in the first nine months of 1989.

In our own hands

Politicians like to blame everybody but themselves for dismal economic growth. The usual scapegoat today is sanctions. But Board of Trade & Industry chairman Lawrence McCrystal says government should look at the damage it inflicts on the economy, instead of blaming others.

Falling productivity, low personal saving, government dissaving — "These and other problems we brought on ourselves," he says, "and their solution lies in our own hands."

In remarks prepared for an Institute of Directors conference, McCrystal calls for:
 "Strongly positive" interest rates, rather than the real negative rates we have suffered through high inflation. This would boost personal saving, which has fallen to 1% of national income from 7% in 1970-1974; and
 An end to government dissaving. Government must "finance current expenditure out of current revenue and strongly resist any temptation to borrow to fund (it)."

Together, these two steps would help generate the capital that financial sanctions try to deny us. "Capital markets have been distorted for years because of dissaving by the public sector. If the public sector becomes a net saver and interest rates are strongly positive, more risk capital will be generated."

Furthermore, McCrystal does not believe sanctions limit growth to 2,5%. Needed is higher productivity.

"Since 1980, output per worker has grown by less than 0,5% a year. In the Sixties it averaged over 2% a year. If we could return to an annual labour productivity improvement of 2%, growth capacity of the economy would rise to between 3%-4%. If to this were added an improvement in capital productivity, which has been abysmal over the past 10 years, the growth capacity would be lifted to 5% a year or more, with minimum balance of payments consequences."

Nor does McCrystal believe the trade sanctions on SA are unique.

"There is no difference between the effects of sanctions and the embargoes, quotas and other restrictive trade practices placed by countries in the EEC and the US on imports from the Far East. The difference is in the response. The Easterners sought ways around the problems; some South Africans, particularly those outside the exporting community, appear to be prepared to accept that we should slowly slide into oblivion."

McCrystal says there are plenty of export markets. "The problem is that SA manufacturers are not able to produce the goods."

Though McCrystal's analysis is refreshing, not all his solutions are as well thought out. While calling for an "outward-looking culture and the freeing of the internal economy," some of his prescriptions entail more State involvement.

For example, he continues to call for export subsidies — "a carefully designed set of incentives favouring the export of down-

stream products rather than upstream raw materials or semi-processed materials" — believing government can successfully back "actual or potential winners." And he wants a "government-led initiative" to encourage large industries to subcontract to small firms. Further, he endorses tariff protection to promote industrial development.

He does, however, boldly oppose direct import control — called for by Sanlam's Fred du Plessis, among others. "There is a view that import control is less cost-raising than the tariff. This is nonsense. Import control creates scarcities and therefore is cost-raising . . . It distorts markets far more than does the tariff. And it is open to abuse."

McCrystal concludes about import control: "I should have thought that we have enough government intervention in markets already without extending it further."

True. But the same can be said for import tariffs and export subsidies. ■

Stop the retreat

While Pretoria toys with the idea of a siege economy, some vocal business leaders are calling for the opposite: bold economic and political reform that would halt SA's retreat from the world.

"One path, that of isolation from the world in the name of self-sufficiency, will lead to economic decay and probably political dictatorship," says Standard Bank MD Conrad Strauss, in a speech for the Institute of Directors this week. "The other, harder, decision is to throw in our lot with the world, make whatever political adaptations are necessary to achieve a degree of international acceptability, and embark on the kind of programme that I have been describing."

That programme includes:

Privatisation, deregulation, and simplification of the political system to shrink the public sector, an "overgrown ideological and regulation-orientated monster;"

Abandoning decentralisation and accepting mass urbanisation as the cheapest route to job creation and social well-being;

Welcoming the informal and semi-formal economy;

Land reform and the overhaul of the agricultural control boards;

Mass education; and

An end to laws that exclude much of the population from the benefits of the market.

"During the post-war period, and particularly during the past 10 years, our national focus has been too strongly on the political and ideological, rather than on the economic," Strauss says. "The disciplines of the economic marketplace, particularly in the international context, are merciless. Either you increase productivity and effective resource use, at the expense of socio-political prejudices, or you face unavoidable economic mediocrity."

Strauss says we should mimic the out-

ward-looking Far East — with high saving, a ruthless attack on government spending, a small civil service, conservative monetary policy, and a move toward manufacturing exports — rather than joining "Albania, Burma and Cuba in isolated poverty."

This will mean massive change, not talk. "We act as though only small adjustments have to be made, slowly and carefully. The fact is that only major changes, systematically implemented, will do the trick." ■

EARNING POWER

Pricing places

Tokyo, one of the world's wealthiest cities, lags behind 28 others — including Johannesburg — in individual purchasing power.

This emerges from a survey of 52 cities made early this year by the Union Bank of Switzerland, the results of which are published in the latest *UBS Business Facts and Figures*.

Despite the wealth concentrated in the hands of giant corporations and a few individuals, the survey shows hourly earnings in Tokyo are lower than in eight other cities (largely due to a longer working week than in western Europe and North America and shorter annual holidays) while prices are far higher than in any other city.

The result is: to pay for a basket of 111 goods and services, Tokyo's inhabitants have to work 10,9 hours, compared with 3,5 hours in Los Angeles, where earning power is highest, 5,2 hours in New York, 5,4 hours in Sydney, 5,8 hours in London, seven hours in Johannesburg and Paris, and 9,7 hours in Tel Aviv.

Purchasing power is lowest in Lagos, where people have to work 62,6 hours.

A comparison of living costs, based on the

PURCHASING POWER

Hours worked to buy goods

Los Angeles	3,5	Tel Aviv	9,7
Zurich	3,8	Madrid	10,6
Frankfurt	3,9	Tokyo	10,9
Montreal	4,1	Jeddah	12,5
Geneva	4,2	Istanbul	14,4
Houston	4,2	Caracas	14,7
Brussels	4,3	Hong Kong	14,7
Copenhagen	4,3	Panama	14,8
Amsterdam	4,3	Seoul	15,4
Luxembourg	4,4	Lisbon	16,4
Dusseldorf	4,5	Buenos Aires	17,7
Vienna	5,0	Abu Dhabi	18,2
Toronto	5,1	Bogota	18,3
Chicago	5,2	Singapore	20,2
New York	5,2	Kuala Lumpur	21,0
Sydney	5,4	Sao Paulo	23,5
Milan	5,5	Rio de Janeiro	24,3
Oslo	5,7	Bangkok	29,0
Stockholm	5,7	Nairobi	31,3
London	5,8	Mexico City	35,6
Helsinki	6,9	Jakarta	40,1
Johannesburg	7,0	Bombay	43,3
Paris	7,0	Manila	50,4
Dublin	7,1	Cairo	57,6
Nicosia	7,8	Lagos	62,6
Manama	9,2		

Credibility gap


Talk is cheap, but Pretoria's policies aren't. When State President P W Botha opened parliament in February, he called for bold privatisation, a leaner public service, low taxes, and the curbing of inflation. The latest Reserve Bank *Quarterly Bulletin* shows how wide the gap is between words and actions.

"Discipline in government finances" apparently doesn't mean balancing the books. Central government debt, R55,85bn in February, had grown to R63,38bn by July — 17% higher than a year earlier.

Spending has stayed high after the speech and continues to outpace inflation. The *Bulletin* says total issues, excluding debt redemption, were R23,43bn in February-June, 14% more than in the same five months last year. The R4bn increase to civil servants and pensioners — of which some R1bn will be paid this fiscal year — will push spending even higher without cuts somewhere else.

Botha also called for the "smallest possible" level of taxes — which we haven't yet reached. Both GST and customs collections, for example, were far higher after his speech than a year before. Government took advantage of the upsurge in imports and retail sales to increase revenue rather than cut tariffs or the GST rate.

GST revenue in February-June was R4,49bn, nearly 16% above last year. Cus-

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toms revenue increased more than 45%, to R1,21bn.

Furthermore, import surcharges as high as 60% were slapped on in August.

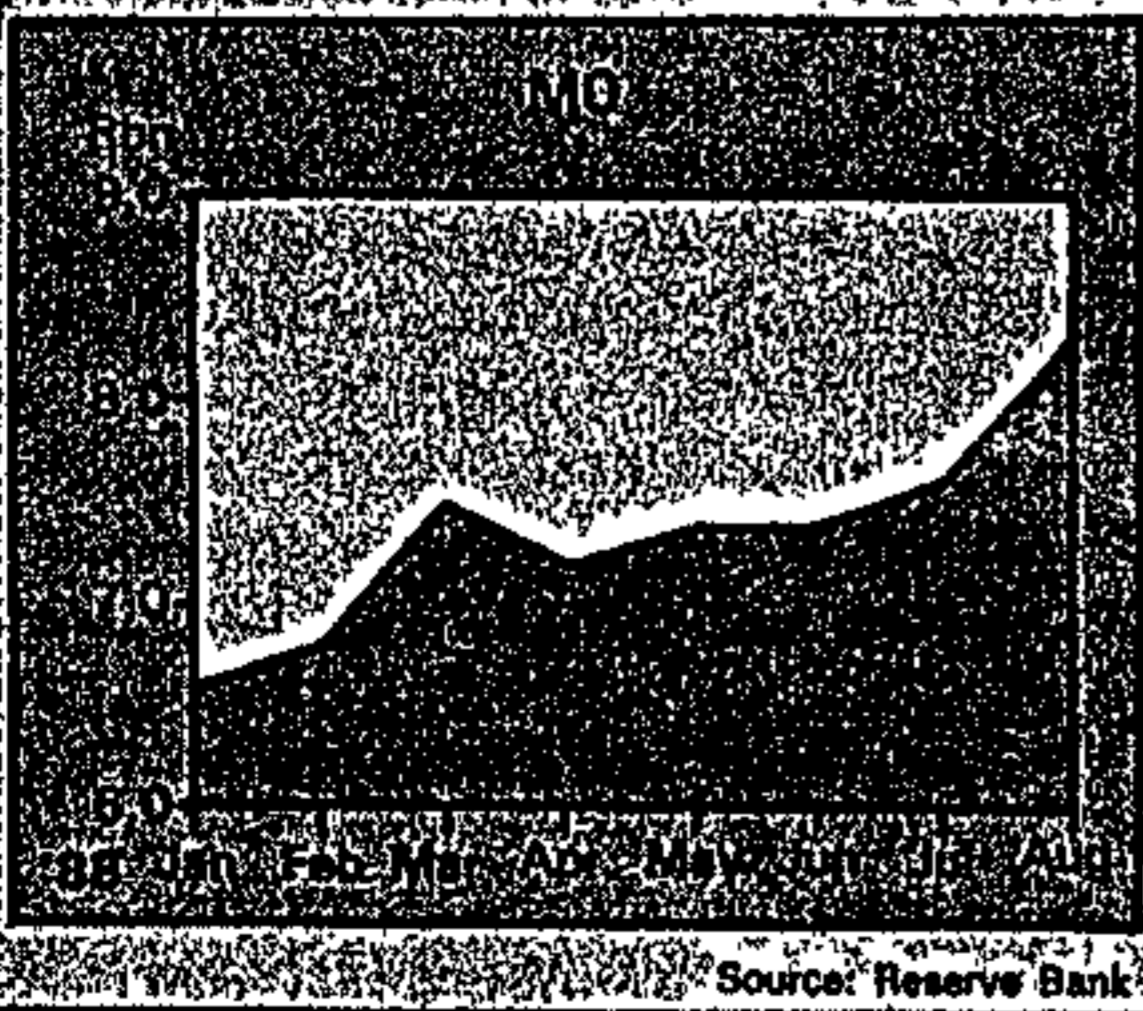
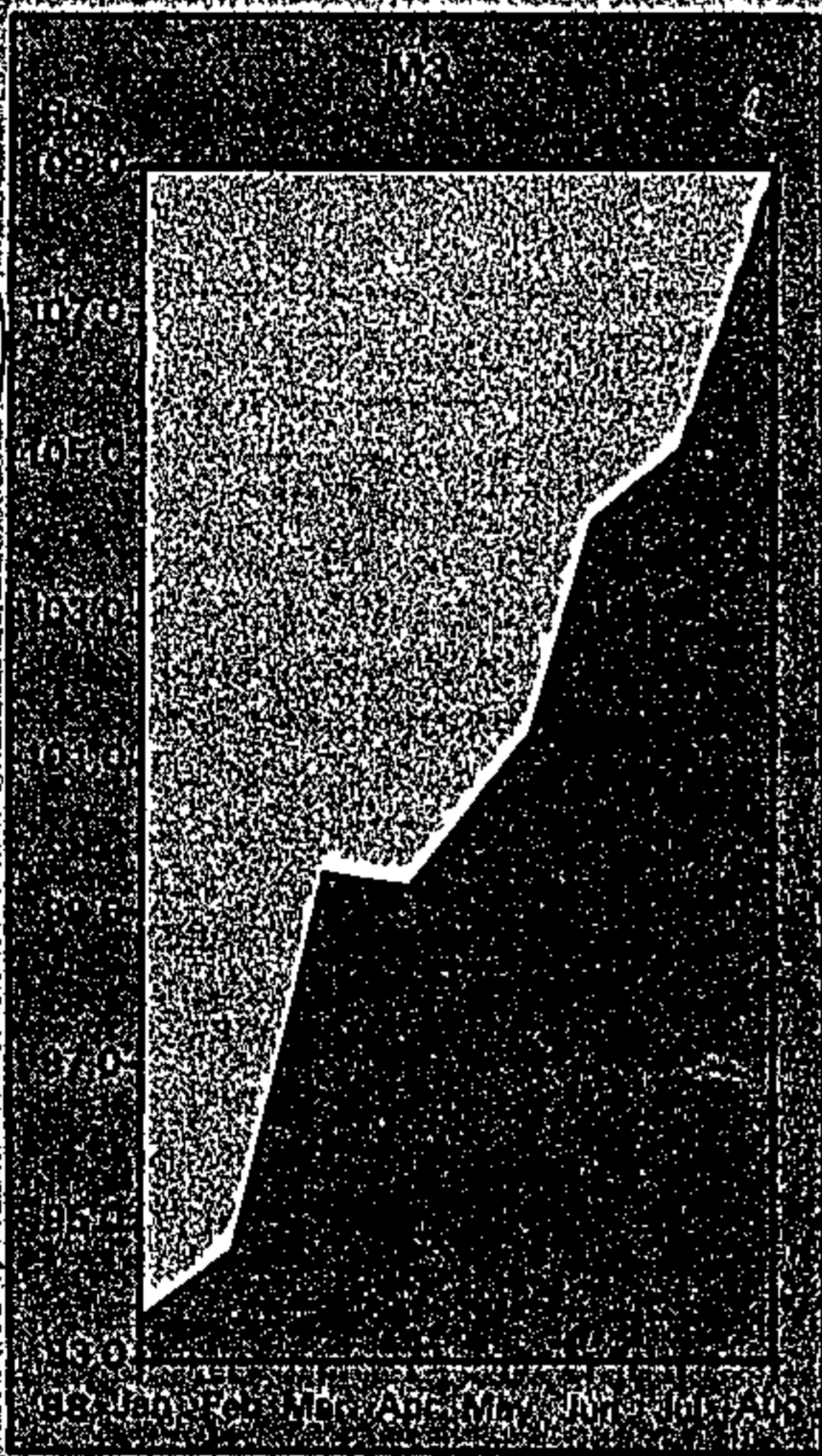
The only major fall was miscellaneous revenue — stamp duties and fees, transfer duties, interest, dividends and other inland revenue — which was down 43%, from R2,16bn in February-June 1986 to R1,24bn this year.

Overall, more revenue was collected in March, April, May and June than in each corresponding month last year. Revenue in the four months rose from R10,97bn last year to R12,78bn this year — an increase of 16,5%.

Botha also said: "Inflation impoverishes the housewife, the worker, the salary earner, the small businessman and the pensioner. Government is concerned about this."

But not concerned enough to control the underlying problem: runaway money supply growth. In the six months after his speech, the monetary base and broad aggregate M3 increased at annualised rates of 47% and

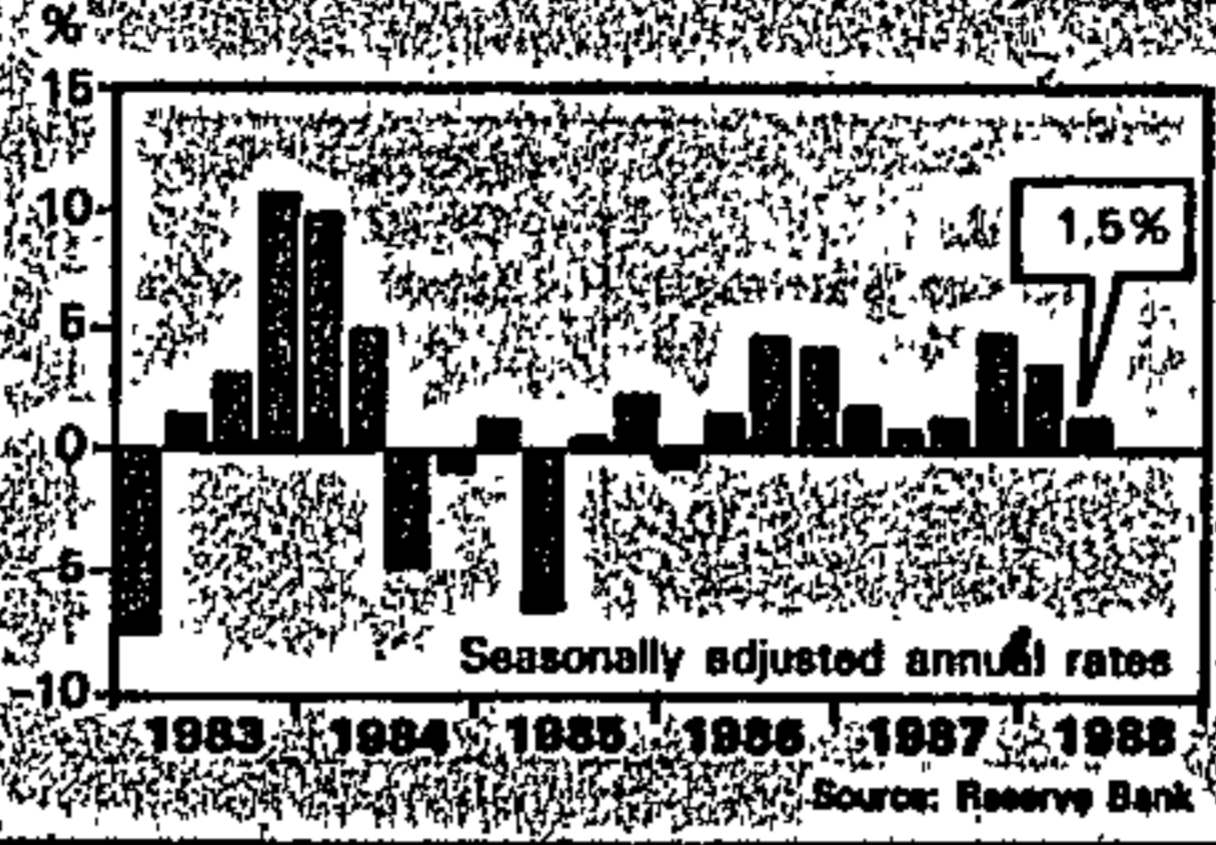
Soaring monetary inflation



Source: Reserve Bank

Little growth

Percentage change in real GDP



Source: Reserve Bank

29%, respectively.

Privatisation is not covered in the *Bulletin*, but a brochure distributed to Sats employees a few months after Botha's speech puts the topic in perspective: "Privatisation is a long-term process which can take as long as 10 years to complete. It is possible that certain large units may never be privatised."

Botha got one thing half-right in February. He called for "courage and sacrifice" by all. Government has shown little courage in facing up to vested interests: farmers, civil servants and inefficient State enterprises. But consumers and taxpayers will suffer plenty of sacrifice through soaring prices, an ever-higher tax burden, and rising interest payments on a burgeoning government debt.

Also reported in the *Bulletin*:

□ It wasn't much of a boom. GDP grew at a seasonally adjusted annual rate of just 1,5% in the second quarter. This follows rates of 5% in fourth-quarter 1987 and 3,5% in first-quarter 1988 (revised down from 4%);

□ The Bank says growth has peaked and sees "a fading away of the upward momentum of economic activity and domestic demand in the middle quarters of 1988." Second-quarter agriculture output was held back by a smaller than expected maize crop. Production levels in manufacturing were hurt by stayaways, strikes and the large number of public holidays. Furthermore, the 4,5% annualised growth in consumer expenditure in the quarter plus higher wholesale and retail sales in July "are likely to have contained significant pre-emptive buying in anticipation of price increases, a tightening of HP conditions, higher interest rates, or a possible increase in the (import) surcharge;"

□ The BoP current account slipped into a R407m deficit in the second quarter, following a R839m surplus in the first quarter. However, seasonally adjusted and calculated at an annual rate, the current account posted a R960m surplus in the second quarter, after a R410m deficit in the first;

□ The total outflow of capital not related to reserves jumped to R2,1bn in second-quarter 1988, after averaging R700m in the previous five quarters. The outflow of long-term capital not related to reserves rose from R300m in the first quarter to R600m, "mainly related to repayments on foreign debts ... on June 15 and repayments on bearer bonds and notes which do not fall under the standstill

net." Foreigners, however, were net purchasers of R9m JSE securities in the second quarter, after being net sellers in 1987 (R1,2bn) and first-quarter 1988 (R35m).

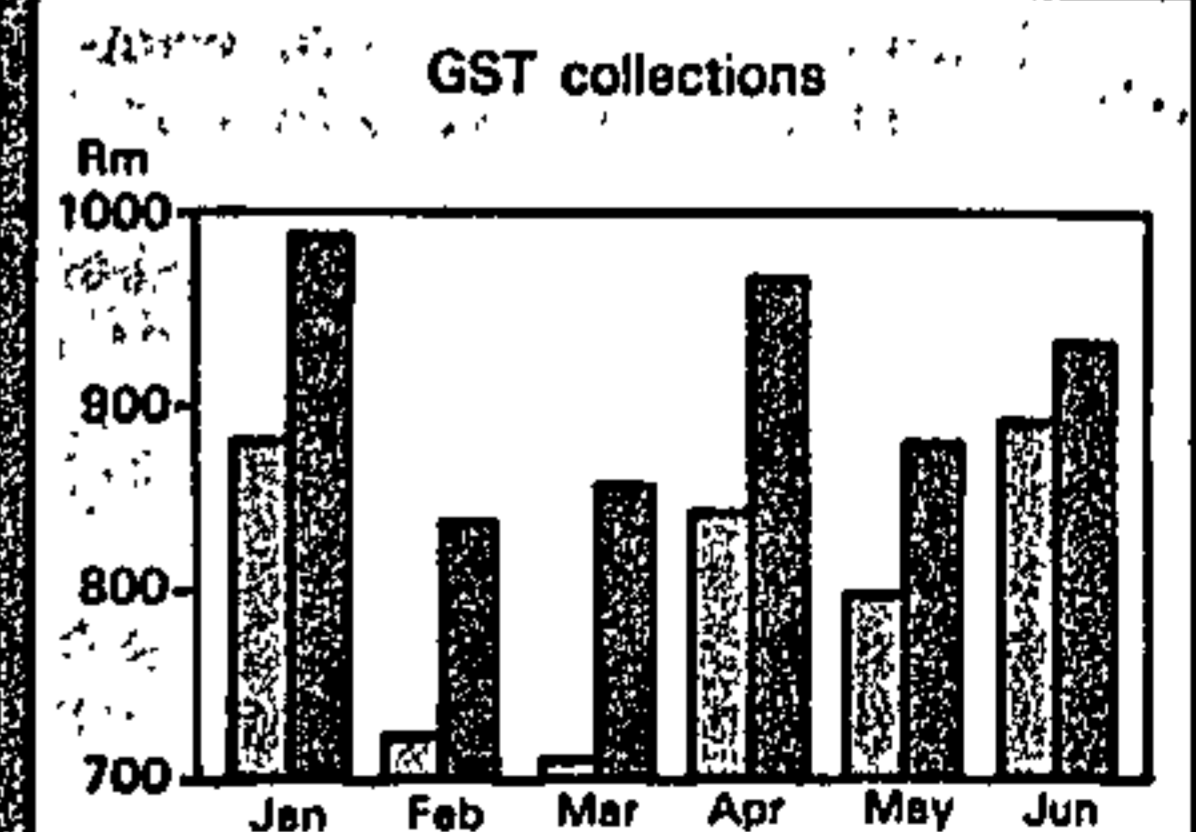
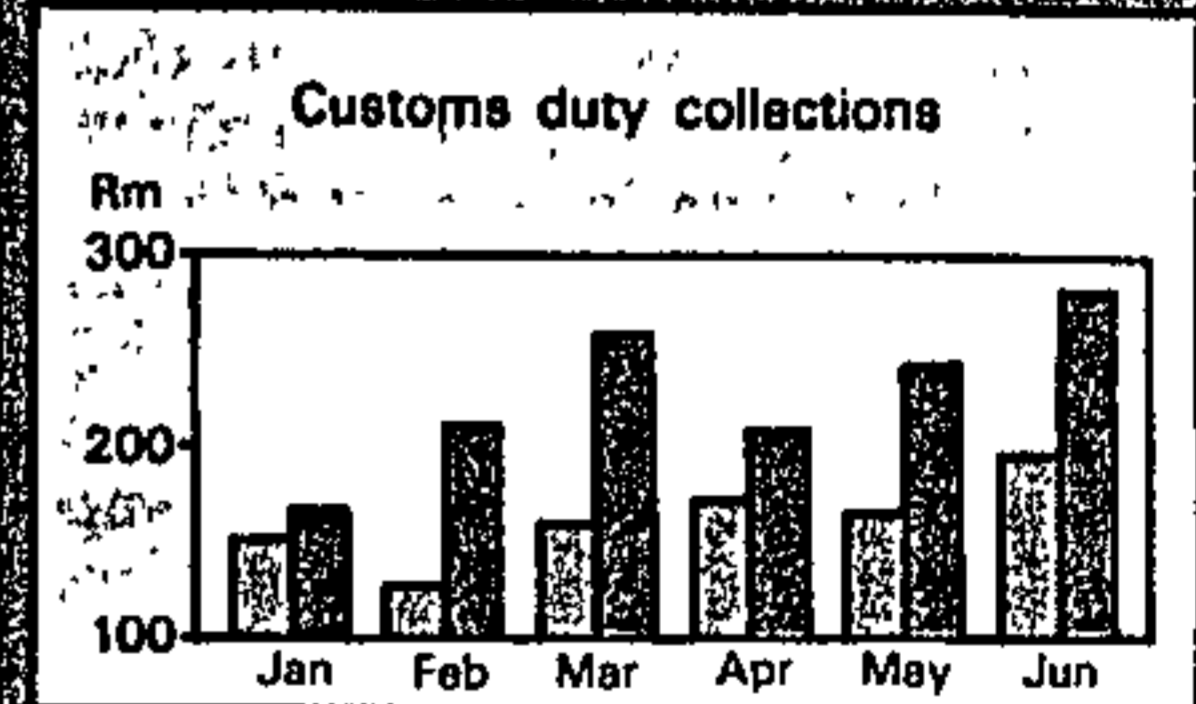
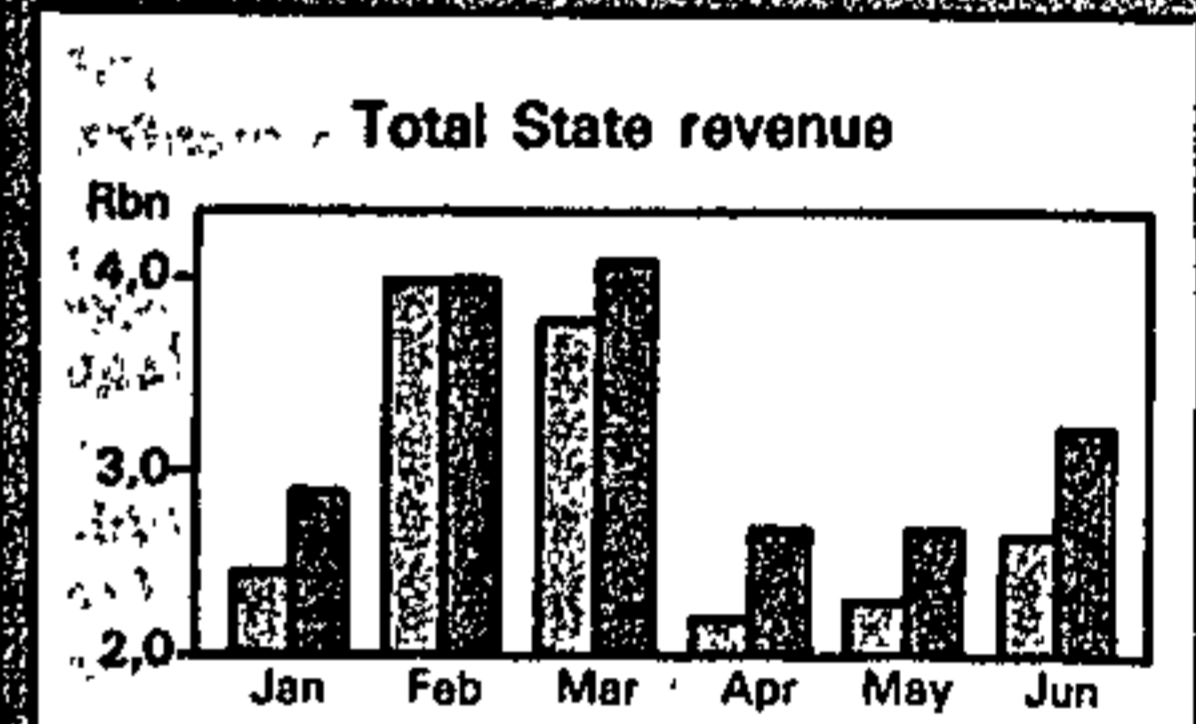
The outflow of short-term capital not related to reserves (but including unrecorded transactions) rose from R400m in the first quarter to R1,5bn. Heavy outflows in late June were related to "the upward trend in overseas interest rates and to leads and lags in foreign payments and receipts occasioned by fears of progressive further declines in the exchange value of the rand;"

□ The rand fell 13,3% on a weighted average in the first eight months of the year. It was down against the dollar (21,1%), sterling (12,6%), D-mark (6,9%), Swiss franc (2,6%), yen (13,1%), and French franc (6,7%). The finrand fell 13,5%;

□ Gross domestic saving as a percentage of gross national disposable income edged up to 23% in second-quarter 1988 from 22,5% in the first. In 1982, the average was 24,5%. Personal saving remains low, at 2% of disposable income; and

□ The volume of net gold exports in the second quarter returned to a long-term downward trend because of a further decline in the average grade of ore mined, from 5,28 g/t in 1987 to 5,17 g/t in first-quarter 1988 and 5,12 g/t in the second quarter. ■

Rising taxes



Source: Reserve Bank

BUSINESS CONFIDENCE

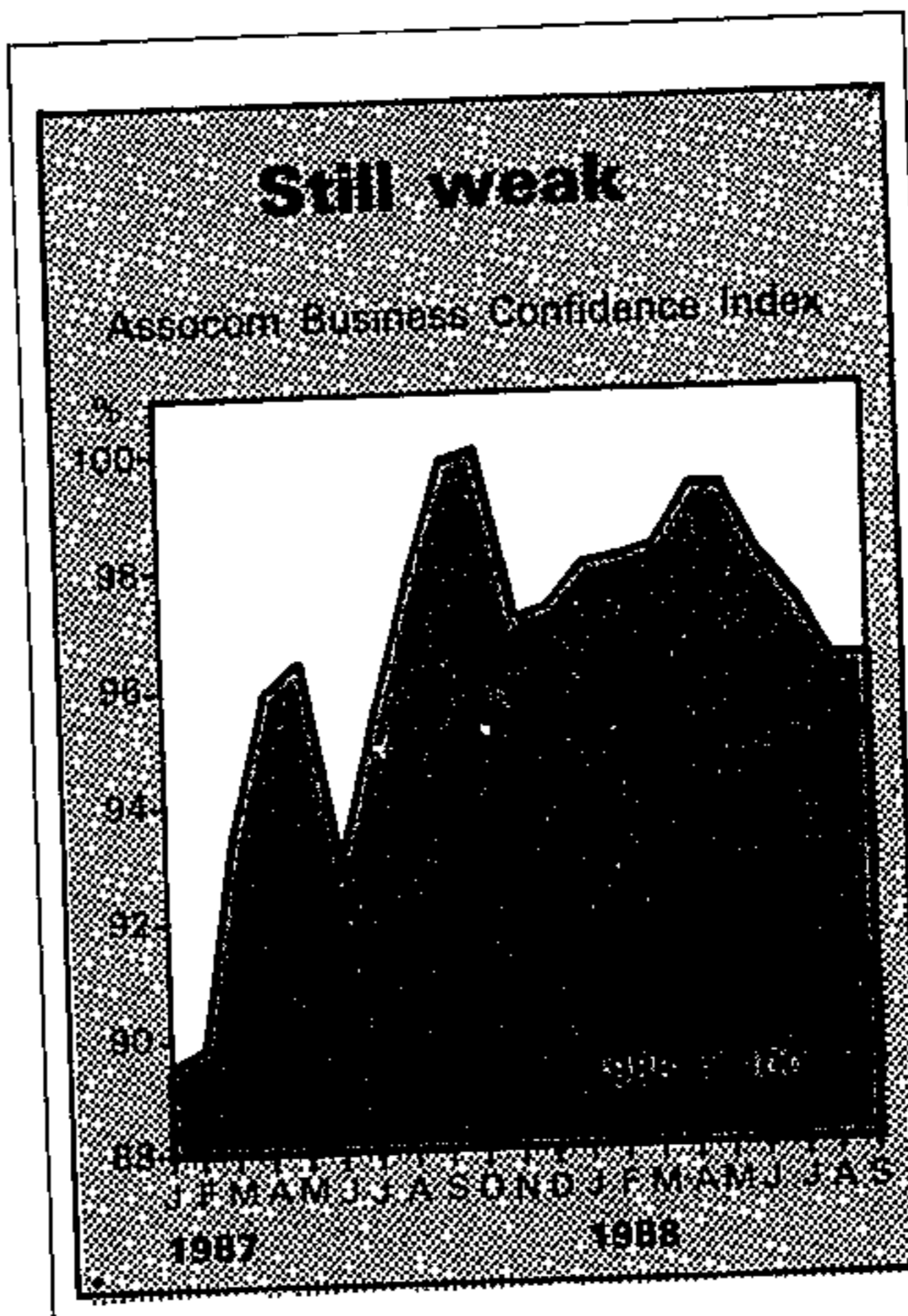
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Still faltering

Assocom's Business Confidence Index (BCI) has paused after a three-month fall, but "this temporary buoyancy should not disguise the underlying fact that the economy has entered a cyclical downswing and business sentiment is being adjusted accordingly," Assocom says.

BCI — which judges confidence by tracking 15 economic indicators — was 96,3 in

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both August and September, down from 97,3 in July and 98,1 in June (1983=100).

Boosting the index in September were higher car sales; greater merchandise imports; a dip in the CPI rate; more building plans; higher volume of manufacturing production; and improved immigration figures.

Pushing it down were a sharp drop in the dollar gold price; weaker commercial and financial rands; lower share prices and expected retail sales; and higher interest rates, insolvencies and registered unemployment.

There are signs that BCI remains susceptible to further falls. Assocom says, for example, that car sales were boosted by people buying in advance of expected price increases — something that won't go on forever. Likewise, businessmen have been stepping up import purchases "to avoid the possible introduction of an import permit system." So imports, too, could falter.

Also, CPI is expected to pick up in the coming months and interest rates will rise, especially if credit demand remains strong, gold weakens, and overseas rates harden.

"With a few exceptions, a large number of retailers and manufacturers are expecting business conditions to weaken in fourth-quarter 1988," Assocom says.

One possible spin-off: "The prospect of weakening internal economic conditions may encourage some manufacturers to give greater attention to exports."

SA has to go it alone — Barend

Bl day 11/10/88

CHRIS CAIRNCROSS

CAPE TOWN — SA would have to continue restructuring its economy without any hope of obtaining foreign capital to help lubricate these developments, Finance Minister Barend du Plessis said in an interview yesterday.

The country's main overseas creditor banks made this plain to Du Plessis and his financial advisers during and after their attendance of the IMF and World Bank meetings in West Berlin last week.

The debt standstill remained in place and SA would have to accept it would have to go it alone without access to the world capital markets, Du Plessis said.

But he also detected a softening of attitudes within the banking community for the development role SA was playing

and could play in southern Africa.

Stressing no efforts had been made to extend the country's credit lines during his recent European visit, Du Plessis said it was nevertheless impressed on him that SA had many trade-linked credit-lines still open and untapped.

He said government's stance was that these credit lines would be used only for essential imports and the accent from now on would be on further reducing SA's dependence on foreign suppliers.

Du Plessis also made clear he would choose his own time to disclose where he intended finding the R4bn needed to fund the 15% civil service salary increase.

The Argus Correspondent
JOHANNESBURG. — The South African economy would have grown by 32 percent, between 1980 and 1987, instead of the 0,4 percent it achieved as a result of sanctions, trade boycotts and restrictions on lending.

The gross domestic product (GDP) this year at current values would have been just under R230-billion, which is R50-billion, or 28 percent, more than the expected R179-billion.

The wealth increase would have been equivalent to an extra R1 666 for every man, woman and child.

As the government could have expected to receive at least a quarter of this extra R50-billion, it would have had no difficulty financing the public servants' pay rise or the increased cost of health, education and housing.

Plea by P W

It is therefore not surprising that President Botha appealed to Swiss bankers this week to use their influence with political leaders to stop sanctions and support a Marshall Plan-type infusion of capital into South Africa.

Both developments are badly needed.

The Chamber of Mines reported this week the United States stood to lose \$1,85-billion (R4,63-billion) a year if American firms were prevented from buying certain minerals from South Africa and had to find alternative sources.

Were this to happen South Africa's losses would be several times greater.

This report was followed by one from the US general accounting office that sales of South African iron, steel and uranium to the US this year were down \$417-million (R1-billion) on last year.

These are big numbers and there can be no doubt that the economy is affected and will continue to be from sanctions, trade boycotts and restrictions on lending.

But to put a figure on what these have cost South Africa so far is difficult. No one can say how much higher exports would have been had the world remained an open market for South African goods.

Similarly, one cannot really estimate how much would have been received in foreign loans and new investments if political factors had not stood in the way.

Reserve Bank

However, figures for GDP give some indication of the harm done by sanctions.

In the 15 years to 1980 the GDP grew by an average of four percent a year. But in the six following years it grew by only 0,4 percent, according to Reserve Bank figures, or by an average of 0,8 percent a year, according to more generous World Bank calculations.

It is clear that since 1980 the economy has been seriously constrained. And as political and economic campaigns really got off the ground in the late 1970s, these have played a major role in South Africa's subsequent poor economic performance.

Because of a sound economy and great growth potential, the country could have at least maintained its average four percent growth rate since 1980 had there been no foreign intervention in its economy.

Other countries achieved this rate or were close to it: Australia, which has a lot in common economically with South Africa but does not have its rapidly expanding population, achieved an average growth rate of 3,1 percent between 1980 and 1986.

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Bank warns of dangerously high levels

Budget deficit could soar to 7,5% of GDP

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Blaauw
13/10/88

THE Budget deficit seemed to be heading for dangerously high levels again, Standard Bank said in its latest Review.

It warned that the deficit could soar to R17,4bn next year, or about 7,5% of GDP, putting upward pressure on long-term interest rates.

The bank described the picture most likely to emerge in the next fiscal year as "disconcerting" and expressed concern over the current situation. It saw a "clear reversal" of recent positive trends in public financing.

The current fiscal year would probably see an eventual deficit of R12,1bn or 6% of GDP — the original budgeted deficit was R9,86bn or 4,9% of GDP.

Spending was likely to be R56,7bn — an 18,2% increase — rather than the original budgeted amount of R53,87bn.

For the next fiscal year, the bank predicted that government spending could jump to R69,2bn — 22% above the projected level for fiscal 1988/89.

If revenue rose by 16% to R51,8bn, the bottom line would be a deficit of no less than R17,4bn. The private-capital mar-

GRETA STEYN

ket could fund about R9,4bn of this — but significant upward pressures on long-term interest rates would be the inevitable consequence.

It was also quite obvious that a substantial portion of current government spending would be funded from borrowing instead of current revenues.

"Government consumption expenditure will become an undesirably expansionary force next year."

Government's large stake in the economy saw the number of public sector employees expand from 28,4% of all people employed in the non-agricultural sectors of the economy in 1980 to an estimated 32% in 1987. The growth occurred in spite of cutbacks by public corporations such as Eskom and Sats.

The bank called for an urgent reduction in the number of civil-service employees and systematic elimination of wasteful expenditure.

"The economy is simply not able to absorb further tax increases, nor is it productive to underpay civil servants."

Rand under pressure

Star 13/10/88

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Finance Staff

The rand exchange rate is still under pressure from declining foreign reserves and the weak gold price.

However, gold's rise to above the \$400 level this week, together with the dollar's decline to below the key Dm1,85 rate provided some support for the rand against the dollar. Trust Bank notes in its latest statement on foreign exchange rates yesterday.

"The rand dollar rate consequently firmed slightly to R2,4765 in the morning from a low of R2,50 last week. However, the currency declined markedly against sterling and the yen.

"Our calculations indicate the following statistics on the effective trade-weighted exchange rate of the rand (January 1979 = 100). Average for 1986 — 50,3; average for 1987 — 52,7; average thus far in 1988 — 47; at present — 43,6.

"The 17 percent decline over the last year suggests the prospect of accelerated import price increases in coming months — especially when viewed in conjunction with the recent raising of import levies," Trust Bank writes.

Govt spending to ⁴⁹ soar above budget

By Sven Lünsche

The R4 billion salary increase granted to civil servants has once again focused attention on government expenditure, which for the first few months of the 1988/89 fiscal year seemed in line with budgeted estimates.

But careful analysis of the latest Exchequer Account figures points to a significant spending overshoot during the current financial year.

Taking into account an additional R1 billion, which will have to be spent on salary adjustments in the last quarter of 1988/89, Standard Bank's Nico Czipionka estimates government expenditure could total R56,7 billion for the year — 18,2 percent above last year's actual expenditure and 5,2 percent ahead of the 1988/89 budget.

In the bank's latest *Economic Review*, Mr Czipionka attributes the apparent spending restraint to date on a temporary slowdown in disbursements under both the defence and the finance votes.

"During the first five months of the fiscal year, defence had spent only 32 percent and finance some 35 percent of their respective allocations for the year.

"But given present circumstances it is inevitable that defence expenditure during the remaining months of the financial year will not only come up to the full amount allocated, but is likely to exceed it by a fair margin," Mr Czipionka says.

He adds that the amounts spent in the socio-economic categories



NICO CZYPIONKA — "Rationalisation of civil service an urgent necessity".

were already above their targets for the annual appropriations.

On the other side of the balance sheet, recent Exchequer Account figures, released by the Central Statistical Service, show that revenue collections have also been slightly ahead of expectations, as a result of large customs and excise contributions following the surge in imports.

Mr Czipionka estimates that for the year as a whole revenue collections will rise by 16,3 percent to R44,7 billion, which is short of estimated expenditure increases and will therefore yield a deficit of R12,1 billion, or about six percent of GDP. The original budgeted deficit was R9,86 billion, 4,9 percent of GDP.

The scenario looks even worse for the 1989/90 financial year.

Apart from the 15 percent salary increase for public servants, the government will also have to contend with substantial advances in socio-economic and military expenditure.

This could catapult total expenditure for the year to R69,2 billion, 22 percent above the projected level for 1988/89, and given an expected 16 percent rise in revenue collections, could yield an unprecedented deficit of R17,4 billion, 7,5 percent of GDP.

Mr Czipionka concludes that the government's share of GDP is continuing to head in the wrong direction, emphasised by the fact that the share of public sector employees as a percentage of the total number of employed has risen from 28,4 percent in 1980 to 32 percent in 1987.

"This shows very clearly... that if fiscal responsibility is to be maintained a rationalisation of the civil service and a systematic elimination of wasteful expenditure are urgent necessities.

"If the issue is not addressed vigorously, the economy's longer term performance will be seriously affected," Mr Czipionka writes.

Davis Borkum Hare's Mike Brown adds that the Economic Advisory Council's intention to reduce state expenditure and the size of the government sector make good sense, but the government had yet to prove it has the political will to embark on this path.

Still the \$1m question

Finance Minister Barend du Plessis, back from Berlin, has not yet explained how he will fund the R4bn annual increase to be paid civil servants and social and military pensioners from January. The decision, State President P W Botha said when he announced the hand-out only a month before the municipal elections, would be left over till Du Plessis' return.

Du Plessis, however, is now in turn awaiting Botha's return from Europe. No decision is expected before the next Cabinet meeting.

However long the delay, there will be serious consequences in an increasingly hostile political and business environment. So the method of funding is crucial.

There are four obvious sources: the capital market, income tax, GST, or the proceeds of privatisation.

Privatisation would have the least painful political consequences. But aside from the inadvisability of selling off assets to pay current expenses, government is notoriously unable to achieve anything speedily. So privatisation is unlikely to provide an immediate solution.

Borrowing may work as a temporary measure — especially as larger than expected revenue may take care of much of the R1bn needed for this fiscal year. However, if the market has to provide R4bn next year, rising rates in the money and capital markets will inevitably push up key lending rates — something the authorities have been extremely reluctant to see this year.

And raising either direct or indirect tax could be counter productive.

"There is a limit, for instance," says Old Mutual economist Dave Mohr, "to how high you can push GST. Experience worldwide is that, when it passes a certain point, the incentive to pocket it becomes so great that

the increase is self-defeating."

Similarly, as the burden of income tax has grown over the years with no equivalent increase in services or social security provided by government, levels of resistance have risen, with tax avoidance and even evasion becoming planning priorities for business. So whether additional revenues would compensate for the political fall-out is something government will no doubt consider very carefully before it moves.

Given that the commitment is made, however, and money has to be found, government may opt for a GST hike from 12% to 15%. There will be an immediate pay-off from Christmas spending. Longer term, the benefit will be multiplied as we switch to VAT at the same rate — which will improve revenue further by reducing evasion opportunities.

While the R4bn is the focus of public attention, it may not be the only problem. Says Mohr: "Maintaining the civil service represents only about a third of government spending. What we need to know is what is happening to the other two thirds."

Though Exchequer issues have been running at comparatively low levels this fiscal year, they do not necessarily reflect expenditure. Defence expenditure for instance, has so far been 20% lower than budgeted — a development so unlikely it points to the possibility of delayed payments for purchases already in the pipeline. Funding, of course, is only one aspect of the problem.



New cash in the system will encourage SA to keep living beyond its means. While the recent period of limited expansion was welcome, it has not been particularly constructive — because spending, mainly by consumers, outstripped growth. "In the first quarter of this year," says Senekal Mouton & Kits-hoff economist Leon Steenkamp, "real GDE was 32% higher than at the beginning of 1985 — but GDP only 4,6% higher."

This is a bad time for profligacy. Says Steenkamp: "We couldn't afford it earlier this year when we thought we had more leeway on the balance of payments. How will we afford it now?"

Perhaps one of the most unsettling aspects is that we live semi-permanently in a pre-election atmosphere. In any country this is not conducive to long-term planning. And where a party has been in power for more than 40 years, it has totally skewed the decision-making process in the interests of the small section of the community which provides its power base.

As any way of funding this latest salary increase will be at the expense of the rest of the population, it may pay government to consult the private sector. ■

Sanctions have crippled GDP growth rate

By Derek Tommey

How much are sanctions costing? The Chamber of Mines reported this week the US stood to lose \$1.85 billion (R4,63 billion) a year if American firms were prevented from buying certain minerals from South Africa and had to find alternative sources.

Were this to happen, South Africa's losses would be several times greater than those of the US.

This report was followed by one from the US General Accounting Office that sales of SA iron, steel and uranium to the US this year were down \$417 million (R1 billion) on last year.

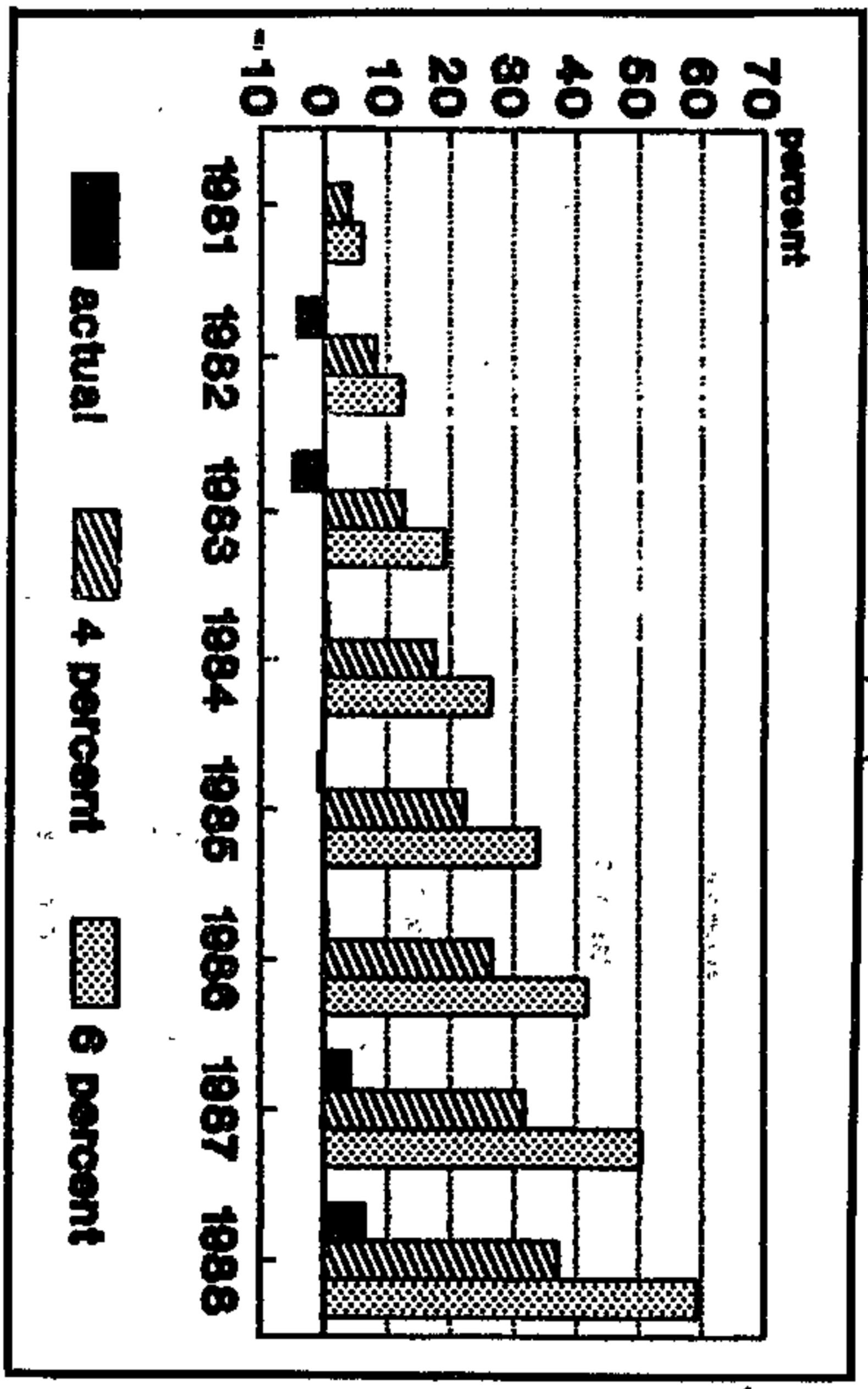
These are big numbers and there can be no doubt that the SA economy is suffering and will continue to suffer from sanctions, trade boycotts and restrictions on lending.

But to put a figure on what these have cost South Africa so far is difficult. No one can say how much higher exports would have been, had the world remained an open market for SA goods.

Similarly, one cannot really estimate how much SA would have received in foreign loans and new investments if political factors had not stood in the way.

However, there is one measure that can give some indication of the harm done by sanctions.

This is the figure for the gross domestic product (GDP).



Growth rate, actual and potential (1980 - 100).

In the 15 years to 1980, GDP grew by an average of four percent a year. But in the six following years it grew by a grand total of 0.4 percent, according to Reserve Bank figures, or by an average of 0.8 percent a year, according to more generous World Bank calculations.

It is clear that since 1980 the economy has been seriously constrained. And as political and economic campaigns

really got of the ground in the late 1970s, it seems fair to assume that these have played a major role in South Africa's subsequent poor economic performance.

It also seems fair to assume that because of a sound economy and great growth potential, SA could have at least maintained its average four percent growth rate since 1980, had there been no foreign intervention in its economy.

Other countries achieved this rate or were close to it. Australia, which has a lot in common economically with South Africa, but does not have its rapidly expanding population, achieved an average growth rate of 3.1 percent between 1980 and 1986.

Mauritius did better with 4.4 percent. Malaysia achieved 4.8 percent, Singapore 5.3 percent and South Korea 8.2 percent.

If South Africa had achieved its four percent, the consequences would have been beneficial.

The economy would have grown by 32 percent between 1980 and 1987, instead of the little it actually achieved.

GDP this year at current values would have been just under R230 billion, which is R50 billion, or 28 percent, more than the expected R179 billion.

The wealth increase would have been equivalent to an extra R1 666 for every man, woman and child.

As the Government could have expected to receive at least a quarter of this extra R50 billion, it would have had no difficulty financing the public servants' pay rise, or the increased cost of health, education and housing.

It is, therefore, not surprising that the State President, Mr. P.W. Botha, appealed to Swiss bankers earlier this week to use their influence with political leaders to stop sanctions and support a Marshall Plan-type infusion of capital into SA.

Both developments are badly needed.

COMMON

Star 11/01/88

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How to avoid the snakes and climb the ladders during

COMMON sense tells you that no one without a shelter has a chance of blowing himself warm in an icy wind.

So, staying with common sense, your ability to weather worsening economic conditions depends on what type of precautions you take before the inclement weather arrives.

The fact that many came through the recession of 1983/85 in a healthier position than when they entered it proves that, provided the right strategy is employed, slowdowns cannot only be survived but can even be turned to advantage.

First off, get the expected gloom into perspective. It's difficult to avoid despair when sensational headlines of bad times keep bombarding you. But it can be done.

According to the country's top forecasters, economic growth over the next 12 months will slow down markedly.

The operative word, however, is "growth". Put differently, this means that after adjusting for inflation, the economy is still going to expand, new jobs are still going to be created and there will still be more business activity in 1989 — but at a slower rate than this year.

Next comes the widespread prediction that interest rates will rise again.

Again, that is true. But just because everyone says rates are going to go higher does not mean we are in for a repeat of a 20 percent mortgage rate and 25 percent overdraft rate.

The country's economic policymakers have learnt that from the disastrous experiment with Thatcherism/Reaganomics which was tried four years ago; when instead of high interest rates killing inflation, as they had in the US and Britain, all they did locally was to cause irreparable damage to vital economic organs such as the small business community.

So while interest rates should definitely rise from their current levels, and perhaps stay above the inflation rate for some months, the politicians seem certain to keep the cost of borrowing within liveable limits.

What about the gold price, which is so important to our economy?

Ever since the heady days of early 1980 when the yellow metal hit \$850, just about anyone who has tried forecasting the way bullion will move has been proved wrong.

More importantly, what hap-

That next year will be less favourable economically than 1988 could turn out to be one of the understatements of the decade. With the gold price and the rand falling, interest rates headed higher, inflation about to rebound, taxes likely to rise and the economy set for a "cyclical downturn", as economists quaintly put it, the omens are bleak. But do we have to lie down and just take it? ALEC HOGG thinks not.

The author is chief of a Johannesburg financial news agency and has written for many of South Africa's foremost financial publications.



pens to the metal's price in dollar terms is virtually irrelevant to South Africa's economic locomotive, the gold mining sector.

It's what they get in rand terms that determines salary levels, rates of expansion and the taxes that mines pay.

The domestic exchange rate has closely followed the gold price when the metal has fallen in the past, effectively pushing up the rand-based receipts of the mines.

To the extent that gold mines are looking forward to record income, arising from an average of about R1 020 an ounce, for the three month to end-September, that's hardly bad news.

The chicken run might have had negative effects on the economy as a whole, but those who stay behind are finding that their bargaining position is continually improving.


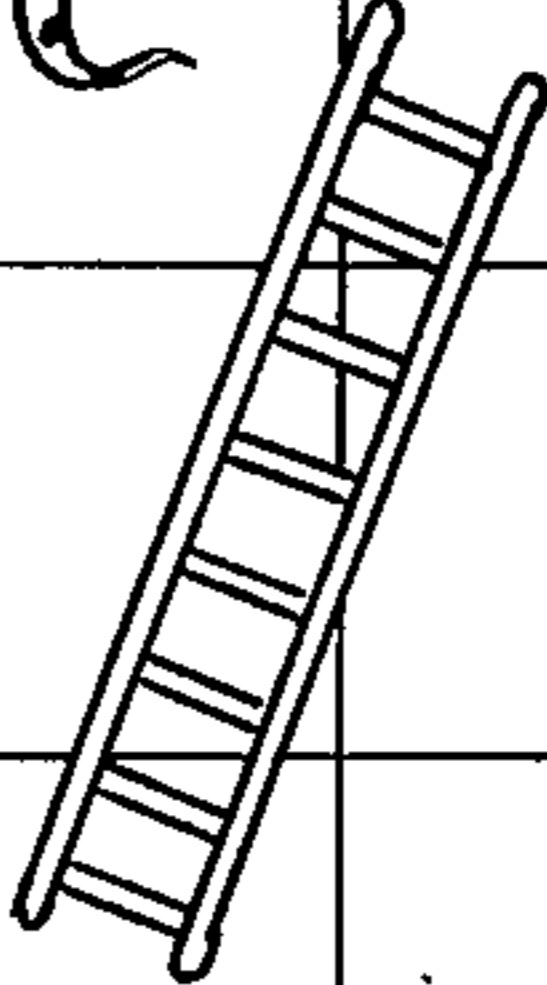

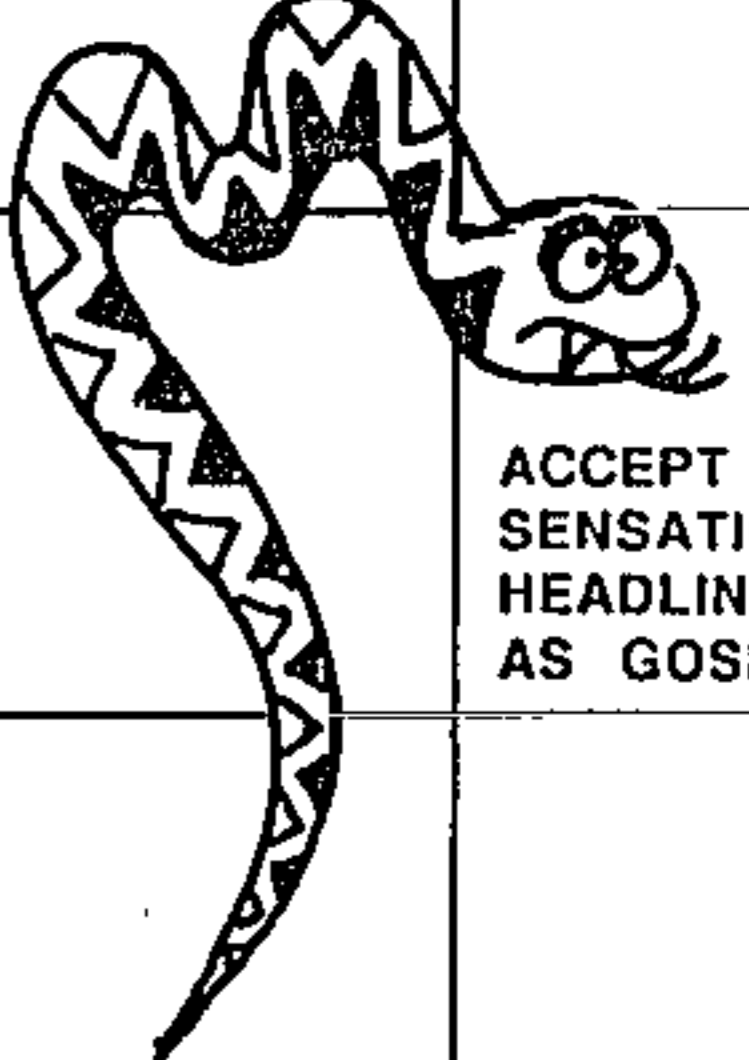
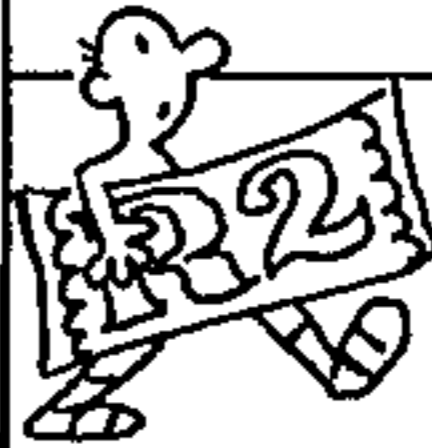
Personnel agencies reckon that the highly skilled segment of the labour market — those who have their work ethics in the right place — should expect salary increases of about 25 percent over the next 12 months.

Further down the skills lad-

der, a 20 percent improvement is by no means unlikely. Those who honestly believe their labour is valuable and whose salary increases do not come up to scratch should demand what is their due — in the nicest way possible, of course.

Any boss who is not in touch with what is happening in the marketplace deserves to lose staff to a more switched-on employer. But there's no point in putting your bargaining position in jeopardy by having a fallout with the boss before you've lined up a better-paying position.

Banish, too, the thoughts of widespread retrenchment, which was so much a part of the last recession. Again, remember that those who make a living out of those things are forecasting there will be some growth in the economy during 1989. Which means most companies will still be looking for new employees, albeit at a slower rate than this year.

GOLD PRICE FALLS		
		
INVEST IN A MERCEDES BENZ		
		ACCEPT SENSATIONAL HEADLINES AS GOSPEL
		
1988		

FIRST OFF: Get the expected gloom into perspective and stay with in a healthier position than when they entered proving that

And the belief that it is really not worthwhile for married women to work no longer holds true

Amendments to the taxation laws over the past few years have meant that it now makes sense for wives to get back into the job market.

In the past, the wife's earnings were lumped together with those of her spouse's, and because of South Africa's system of progressive taxation every rand she earned meant that she paid to the taxman a little extra over and above her PAYE

Today wives are treated a lot more fairly. The first 22,5 per-

cent of their salaries are effectively tax-free. And, based on a prescribed formula, up to an other R5 000 a year can get the same exemption through the recently introduced Working Wives' Allowance

As an example, take the case of a husband earning R4 000 a month and a wife earning R2 000. Under the old system the wife would have paid tax of R10 200, or 42,5 percent of what she earned. But under the new system she effectively pays tax of only R5 708, or 23,8 percent of her earnings.

Bad news about the rand's fall and higher inflation can also be

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Fears of higher interest rates spur money market rise

Star 14/10/84

By Sven Lünsche
Short-term money market rates increased yesterday on speculation of a possible rise in interest rates, although this was denied by monetary authorities.

The 90-day bankers' acceptance rate firmed from 13,8 percent to 14 percent and Treasury Bond rates rose. Dealers said a rise in Bank rate and prime rate was imminent.

But Reserve Bank deputy governor Dr Japie Jacobs said monetary authorities were not ready to support a rise in popular interest rates.

In a radio interview, he said it was too early to judge whether the monetary and fiscal package introduced earlier this week was working.

He said that September economic data, due out later this month, would give a clearer indication on what steps would be necessary.

Dr Jacobs said the announcement on prospective salary increases for civil servants next year could have an adverse effect on rates in 1989 if this

caused a rise in spending in expectation of higher wages.

Commercial banks will be meeting Reserve Bank officials next week to press for higher rates, arguing that their margins have come under renewed pressure.

There is even talk that they might go it alone and push up prime rate by one percentage point to 17 percent, but this would inevitably incur the wrath of the authorities.

Economists said it was more likely the Reserve Bank, under political pressure, would only push up rates after the October 26 election.

This would give them time to assess the state of the current account of the balance of payments following the introduction of import surcharges and restraints on HP financing.

Dr Jacobs felt the account had shown a satisfactory surplus of R1,2 billion in the first eight months of 1988, but said more information was required before new measures were introduced.

Borrowing abroad hampered by bank rules, public opinion

By Ann Crotty

Public opinion and central bank regulations are the two major factors continuing to militate against borrowers raising funds overseas, says Eskom Treasury manager, Mr Francois Botha.

Mr Botha, who recently returned from Europe where he met leading bankers, says that since the debt standstill of 1985, visits to overseas bankers have tended to involve an exchange of information, rather than requests for funds. This is in sharp contrast to the early 1980s when Eskom accounted for about 50 percent of the demand in the world's power station equipment market and had no problem raising funds at favourable rates.

Mr Botha said most foreign

bankers believed SA's problems were political, and not financial. As he saw it, there would be no significant improvement in its borrowing position until action was taken to convince the world it would broaden its democratic base and include other population groups in the political decision-making process.

But SA appeared to be facing a delicate problem because a number of foreign bankers had indicated a one-man, one-vote situation would not enhance SA's credit rating, but would put it on a similar level with other African nations.

Referring to adverse public opinion overseas, Mr Botha said that although the attitude of the

media had been tempered recently, no foreign bank could afford to be seen doing business with SA.

In addition, the major central banks had issued guidelines to banks stating that they must hold provision for outstanding loans made to a country involved in a debt-rescheduling programme.

This meant that although SA had an excellent record in terms of servicing its debt, banks making loans to SA had to make costly provision.

Because of the delicate state of the foreign exchange reserves, there was increasing concern among foreign bankers about SA's ability to meet the R2 billion repayment due in 1990 that was outside the rescheduling programme.

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19

(49) 8/day 19/10/88

SEPTEMBER was the first month since the index was started in June in which a dip in consumer spending was seen. This was attributed to various factors, mainly customers waiting for Christmas.

But every one of the panelists still felt trading would be better, or much better, in the months ahead leading up to Christmas.

THE PANEL'S VIEWPOINT:

GLEN CAMPHER, manager of a Johannesburg city centre Jazz Supermarket store, says business was good last month "because we did the turnover that we expected". Trends were the same as business over the last three months and customers were a bit conservative in spending. "I think people are saving for Christmas," says Campher.

He expects business to pick up over the next few months, but says people seem to be hesitant and a bit confused about the future — "probably because of the elections".

ISAIAH "MR NUGGET" HLATSHWAYO, shoe-shiner at the JSE premises, says business last month was again good, much the same as the past three months. And he expects business to get better as customers would have money from Christmas bonuses.

For **MIKE SEGAL**, owner of Bauers Men's Shop in downtown Johannesburg, business was not good and was worse than the last three months.

"People were buying much less, probably because of the new economic policy. There also seemed to be less people in the streets, maybe because of fear of bomb explosions. Perhaps because of the elections they are adopting a wait-and-see attitude," says Segal.

But he thinks business will pick up over the next few months because of Christmas and bonuses, and sees "a great deal" of confidence in people he does business with during this quarter of the year.

"Factories are working to full production at the moment, and therefore employees work overtime and get paid more. People should have more money in their pockets," he says.

STAN THOMPSON, manager of Rebel Bottle Store in Blackheath, says that although there were no fire-works, business improved last month and that it was the same relating to the past three months. He expects Christmas to bring much better sales.

For **JAMES STRACHAN**, manager, Hyper-Car, business remained good last month and should be "much better" over the next few months. But spending might not be too high as people have become nervous about over-committing themselves, he says.

CONSTANCE NKOSI, manageress of Soweto's SA Permanent Building Society, said business remained the

BUSINESS DAY REAL ECONOMY INDEX

This is Business Day's fourth Real Economy Index, covering the month of September. It is based on interviews with a panel of black and white business people, drawn from the real, or what we prefer to

call the free economy, where the man in the street buys his goods. The aim is to let mainstream business know how the growing mass market is developing and reacting to changing business circumstances

A slow month, but Christmas is coming . . .

SIPHO NGCOBO

THE PANEL

COLIN BUTHELEZI

Taxi owner

PEGGY "BELAIR" SENNE

Shebeener

PEACE CINDI

Hairdresser

CONSTANCE NKOSI

SA Perm Building Society manageress

JOYCE MOYO

Shebeener

GLEN CAMPHER

Jazz Supermarket manager

MARY-JANE STUNKIE

Sells clothing from home

IRIS MDLETSHE

Agent for clothing suppliers

ISAIAH HLATSHWAYO

Shoe-shiner

JAMES STRACHAN

Manager, Hyper-Car

STAN THOMPSON

Manager, Rebel Bottle Store

MIKE SEGAL

Owner, Bauers Men's Shop

ROB CROCKETT

MD, Sage Schachat (Housing)

same last month with no dramatic changes. During this time of the year her business normally experiences a slight drop in growth and balances, due to the fact that short-term savers withdraw their money to spend during the festive season.

But she expects an improvement over the next few months.

For **COLIN BUTHELEZI**, taxi owner and chairman of the Dube/Westgate Taxi Association, business was "very bad last month" due to the increased price of fuel and the resultant 10% hike in taxi fares.

"People seem to have been chased away by the increase in taxi fares,"

he says. He expects December to improve "a little bit" because of Christmas bonuses.

PEGGY "BELAIR" SENNE, owner of "Peggy's Place," well known licensed shebeen in Soweto, says sales continued to improve and were more or less the same as the last three months. He expects business to improve every month until Christmas.

IRIS MDLETSHE, who sells exclusive clothing from her Hillbrow flat, says business was "not so good" last month, with customers purchasing and paying less. Turnover was down on the last three months, she says.

"Many of my customers said they

were saving for Christmas," she says, and thus expects her business to fare much better over the next few months.

PEACE CINDI, hair designer and owner of "Hair It Is," says business picked up by about 15% last month, with improved sales of hair products and was better than the last three months.

"This is generally a good time for hairdressing," he says. He expects even better in the months ahead.

For **MARY-JANE STUNKIE**, who sells clothing from her Mofolo, Soweto, home, the future looks brighter after a poor start. She says business

continued to improve last month and was better than the last three months, with customers purchasing more.

This is due to the fact that Stunkie changed her line of product to nurses' uniforms. She is looking forward to a busy Christmas.

JOYCE "GRANNY" MOYO, a Soweto shebeener, still operates on a small, selective scale. Although she says her business was fair last month the increase in the price of beer empties continued to hit her.

"I have lost a few patrons as a result, but I think business will be much better in December," says Granny.

ROB CROCKETT, MD, Sage Schachat (Housing), says last month the white market dipped, due to factors such as the mortgage rate increase, while the black market maintained its momentum.

He does not expect fireworks during the festive season. "People tend to purchase houses outside the holiday period," he says.

How confident are people he does business with about the future? "People are pretty neutral. There is a degree of uncertainty due to the current elections," he says.

PERRY AND ASSOCIATES' COMMENT

"SEPTEMBER proved to be a mixed month for the businesses of our panelists," writes Gill Stacey. Despite several having continued good trading, the majority reported a downturn in consumer spending, attributed mainly to consumers "holding back" for Christmas, although shop managers reported uncertainty about the future, regarding factors such as the municipal elections and government's new economic interventions.

"Business people in the real economy seem determined to keep the upswing alive, at least until Christmas. It will be interesting to see how long it takes for government

measures to cool the real economy. The informal sector is an important part of the real economy, and the bigger this is the longer it will take consumer spending to cool," she says.

"Several panelists have been affected by cost increases, but the panelist who diversified into other products, in order to resurrect her ailing business, is, happily, doing well."

Says Stacey: "Whatever the reason for the current general fall-off in spending, the overriding trend is great optimism for outstanding trading towards Christmas."

What 5% growth could do for SA

5/10/88

FOR DECADES before 1970, SA had economic growth averaging better than 5% per annum. Since then, apartheid has caused our growth to slow rapidly. Since 1981, the South African economy has grown at an annual rate of 1%, whilst our population is increasing at about 2,3% per year. As the Financial Mail pointed out on September 2, a vote for President Botha is a vote for poverty.

I want to focus here not on the damage that has been done, but on the potential which exists — not on the past, but rather on the future, not on the why, but on the why not. Had the growth rate from 1970 continued at the 5% level until 1988 we could either:

- Pay for present levels of government spending with only two-thirds of present taxes (and borrowings); or
- Have government spend 50% more than it presently does at present levels of tax (and borrowing).

What of the future?

Our economy has proved itself capable of sustained growth at 5% per annum, instead of the growth of the last two years of about 2,5%. The difference between these two growth rates over time is dramatic:

- 20 years of growth at 5% will produce an economy of R512bn in 1988 rands; and
 - 20 years of 2,5% growth will mean an economy of R316bn in constant (1988) money.
- The difference between these two figures (R196bn) is greater than the total value of our present economy. What will it take to achieve 5% growth? Let us think of some of the things we can do — must do — to realise our potential.
1. — We need to return to healthy

ZACH de BEER

levels of saving and investment. In the two-and-a-half decades after the Second World War, real investment in SA increased at the rate of 5,2% per annum. Between 1970 and 1987 the growth rate of real investment dropped to 1,3% per annum. Between 1980 and 1987 real investment actually declined by 4,9% per annum, primarily because of the apartheid-induced loss of investor confidence in this country.

With healthy investment and savings levels we can create jobs, and produce goods and services, for SA's growing nation. The black taxi industry demonstrates what can be done.

Only a post-apartheid nation will be able to tap into this vein of both savings and services, which could well put us in the league of the Singapore's of this world, who have grown by about 8% for the last three decades.

2. — Freed from apartheid, productivity could surge ahead. Apartheid geography has made workers travel vast distances to work each day, or each week. Apartheid planning has perpetuated migrant labour long beyond its normal end. Apartheid education and economics have divided white worker from black; manager from worker; employers from unions.
- A productive South African economy will be able to compete effectively and aggressively in world markets. We must aim to become the Japan of the African continent.
3. — SA can develop a tourist industry second to none. Spain, a nation of 39-million people, attracts some 50-million tourists to its shores each year. We have a climate that is consistently better than Spain's, superb beaches, matchless game parks, incredible natural beauty, first rate road and air links, good hotels; finally, a currency that offers exceptional value to foreign visitors. Without apartheid we will be able, over time, to increase our earnings from foreign tourism at least 10 times, from the present R1bn level.
- All that stands between us and all this is apartheid. Embracing all South Africans will mean embracing peace, national unity and international acceptance. Most importantly, it will mean embracing prosperity — for our nation and all 35-million citizens.

REVIEW

Higher rates, new controls coming

Economic crackdown after polls

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B/dwy
19/10/88

A TOUGH package of new economic restrictions, including higher interest rates and further import controls, is to be announced immediately after the October 26 election.

After yesterday's meeting between Reserve Bank Governor Gerhard de Kock and top commercial bankers in Pretoria, it emerged that:

- Bank rate is set to rise by one percentage point;
- Further import controls are being considered;
- Stricter hire purchase terms are being examined;
- Tighter control of housing bonds, limiting the percentage that can be advanced, is possible; and
- A package of fiscal measures is thought to be likely.

The higher bank rate is likely to be imposed at month end, but details of the other restrictive measures have yet to be finalised.

At the end of October the Reserve Bank in concert with Treasury is expected to announce further monetary and fiscal measures aimed at cooling the economy and relieving pressure on the fragile balance of payments (BoP).

After the elections, the Bank will discuss with the Finance Minister this joint package as well as the fiscal measures necessary to finance the 15% hike in the public service wage bill.

The full austerity package cannot be finalised until the means of funding the

KAY TURVEY

R4bn additional expenditure has been decided.

Bankers say the overdue increase in Bank rate will no longer be adequate to curtail the excessive demand for credit, particularly in the light of the stimulatory rise in public service pay-packets and the Christmas spending spree only 10 weeks away.

At yesterday's meeting banks were asked to co-operate and wait until after the elections for the full package to be unveiled.



DE KOCK

Bankers said yesterday the suggested one percentage point rise in Bank rate would not serve to curb demand; they had been urging an increase of at least 1,5% to 2% in Bank rate to protect their margins. Money market rates had

already discounted a full percentage point rise in Bank rate.

One banker said one percentage point was not enough to cool credit demand, as high inflationary expectations and a depreciating currency combined to encourage spending and the build-up of inventories.

● To Page 2 →

Economic crackdown after elections

A leading economist criticised the proposed increase as insufficient.

He said politically government was too scared to allow interest rates to rise and was looking for inappropriate, alternative measures to dampen credit demand.

Standard Bank economist Nico Czipionka said that proposed direct control was "merely tinkering" but not correcting SA's economic problems.

He urged that Bank rate be raised the

← ● From Page 1

full two percentage points to 14,5% with all bond rates following this pattern. Positive interest rates would encourage savings.

"Only measures which will impact directly on the individual's cash flow would help contain consumer spending," he said.

Neither De Kock nor other Reserve Bank officials were available for comment last night.

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B/dwy
19/10/88

produced almost double, from 601kg to 1169kg and the R12 million working loss in the June quarter (which was made good by insurance) was transformed to a working in-

en the yield for the next two years. No 10 Shaft was commissioned during the quarter and development has started from it. So far "not good

full production. Bracken had a taxed income of R1 772 000 (R1 575 000).

Copper and zinc prices surge to record levels

LONDON — Copper and zinc prices on the London Metal Exchange yesterday moved to record levels amid concern about the impact of the miners' strike in Peru.

That country supplies about five percent of the copper mined in the non-Communist world and 10 percent of the zinc.

Copper prices yesterday jumped above the peaks reached in January with grade A metal for delivery in three months rising £62 to £1 632,50 a tonne.

An analyst suggested there was probably a great deal of shortcovering so that there might

be a correction, perhaps as much as £160 a tonne.

Even without the Peruvian factor prices would have been high, fueled by strong demand from Japan and the US and moderate demand from Europe.

High grade zinc established a new record during trading yesterday and touched \$1 532 a tonne for metal to be delivered in three months.

Traders pointed out that the Peruvian strike had come at a time when physical demand for zinc was building up back to the high levels seen earlier this year and when stocks were low. — Financial Times

BA rate at its highest in 3 years

By Sven Lünsche
The 90-day Bankers Acceptance rate soared to its highest level in over three years in reaction to reports that interest rates would be increased after the October 26 municipal election.

The BA rose from 14,05 to 14,45 percent in hectic trading, as bankers indicated after a meeting with the Reserve Bank on Tuesday that the Bank rate would be raised shortly.

The BA rate has now risen by almost 2,5 percentage points in four months, an increase which is also reflected in other short-term money market

instruments. Treasury Bills have risen by almost 1,20 percentage points since mid-July.

The increase in the Bank Rate would inevitably be followed by a higher prime rate, deposit and HP rates and most probably higher mortgage rates.

Other measures to cool down the economy even more, are likely as evidence mounts that economic growth in the third quarter was significantly higher than expected.

The package will most probably include further import controls, tougher hire-purchase conditions and tighter control of housing bonds.

Star 20/10/88
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**World getting
its act together**

SA would best be served by basing its domestic economic strategies on the assumption that the industrial world was "getting its act together" rather than by relying on doubtful and problematic windfalls which may temporarily be gained from international misfortunes.

This view was expressed yesterday by Professor Jan Lombard, deputy Governor of the Bank, in an address to the annual congress of Assocom in Durban.

Prof Lombard said there was a hypothesis in SA that its economy thrived on the effects of conflict in the rest of the world.

This conflict normally was associated with international inflation and usually it improved SA's terms of trade and prices of strategic agricultural and mineral exports. The gold price in particular was strongly stimulated by a loss of confidence in the world's paper currencies.

However valid that hypothesis, Prof Lombard said market trends and the quality of gov-

Assocom



congress

ernment intervention in the world economy was showing success.

He said SA had "fallen out of bed" with the industrial world in the 1980s because it had failed to make the structural adjustments necessary to avoid inflation.

He outlined how the major players of the industrial world had managed, through discipline and market-oriented policies, to bring international relationships back on course.

Delegates critical of govt spending

Delegates yesterday criticised the Government for over-spending and ad-hoc economic decisions which jeopardised business.

During the open debate on the economy, speakers attacked excessive government and called for a more cost-effective civil service.

Mr A J Cowell of the Witwatersrand described the import surcharge as a subterfuge, a measure designed to raise cash.

It had caused chaos in the private sector and would be responsible for putting companies out of business.

Mr A C Coombe of Cape Town warned that the state's need for funds was going to increase again in the next Budget and that another rise in sales tax was possible.

Mr Hennie Viljoen of the Witwatersrand said there was concern about the rift developing between the Government and the private sector.

Commerce could have made an important contribution, if it had been consulted prior to implementation of the surcharge.

Mr P J Krawitz of Cape Town said the cost of government was far too high — the price tag of the new structures was R450 million — the equivalent of 15 percent of SA's gold and foreign exchange holdings.

Despite assurances that government was being reduced, 42 000 more employees had been taken on.

Mr D F Rowland of OFS Goldfields said the cost of living had increased by 370 percent over the past seven years. Over the same period, the cost of nominated and elected government had increased by a mammoth 1 520 percent.

Prime rate above 18% must not be ruled out

DURBAN — Bank and prime interest rates should be at least two percentage points higher than they are, Mr Aubrey Dickman, senior economic consultant at Anglo America, told the congress yesterday.

"Whether they have to peak at even higher levels is dependant on how soon fiscal policy can play its part, but the possibility of a prime rate above 18 percent for a time must not be ruled out," he said.

"The rate at which rates will then subside will depend on the adaptations in fiscal policy, the inflation rate and the course of activity and inflation in the UK and US.

"Long-term rates are also expected to move up, the extent of which will depend on how pur-

poseful debt management is to be — the greater it is, the less the pressure on prime and BA rates, and vice versa.

"It is the interplay between these factors, and inflationary expectations, that will determine whether an inverse yield position will come about.

In assessing the role of monetary policy in the months ahead, Mr Dickman said the likelihood that fiscal policy will probably not be able to play a complementary role must be borne in mind.

"Indeed, there is every reason to believe that the deficit before borrowing will be considerably higher than budgeted and that, once again, we shall face a fearsome problem in the forthcoming fiscal year."

REVENUES COLLAPSE

Or how the little man cut off Government's options

HOWARD
LAW OFFICE

THE small saver in South Africa has had a raw deal for years.

22/10/85 DEREK TOMMEY 49

From the way he has been treated, it is understandable that many believe the Government regards him merely as a goose ripe for plucking.

Certainly, the Government has not done anything to stop the small saver being consistently robbed by a combination of inflation and an income tax system that ignores inflation's ravages.

And it has not expressed any concern about the fact that the small saver, despite his sacrifices, has usually ended up poorer instead of richer. In fact, you had to be a complete *nerd* to continue saving in these circumstances.

But the small saver is about to have his "revenge of the nerds" for his scurvy treatment.

As the meeting of bankers in Pretoria this week highlighted, South Africa is experiencing a serious shortage of savings, caused partly by the way the small saver has been treated.

South Africa today has not enough savings to finance all its needs.

It cannot provide housing for its growing population and at the same time the new investment needed to provide these people with jobs.

For the long-term good of the country it is imperative that what savings South Africa has should go to where it will be the most productive.

This means, as South Africa claims to be a free enterprise capitalist economy, that savings should go to the highest bidder and rates should find their own level.

The banks say higher rates are also needed to attract more savings, as well as ensure that what they lend goes to the most needy borrowers.

But there is great reluctance on the part of Government to allow rates to rise.

Since building societies became banks and banks became building societies there is no longer any major difference between the suppliers of mortgage money and loan funds.

A rise in lending rates for commerce and industry also leads to a rise in the mortgage rate.

Thus has placed Government in a most unhappy situation. If it lets interest rates rise, it will incur the wrath of tens of thousands of house buyers. If it doesn't, it will limit the funds available to

commerce and industry, and run the risk of curbing the high investment now being made by import replacement and export industries.

The continued devaluation of the rand and the heavy curbs on imports have boosted much needed new investment in these fields.

This has led to an extremely strong demand for credit. In most cases this credit is for the purchase of productive assets and not for speculative purposes.

The small saver can draw some morbid satisfaction from Government's plight for part of it stems from its failure to tackle inflation or encourage saving.

The last time Government made a determined effort to slow down price increases was in the mid-1970s when Professor Owen Horwood was Finance Minister. But the resultant unrest in the townships led it to decide that peace is better than price stability.

In any event, it has a vested interest in inflation. The "progressive tax" system means that a small increase in inflation leads to a big rise in tax revenues in real terms.

So a period of continued inflation obviated the need for unpopular tax increases. Inflation also made it easier for it to service its domestic debts.

Of course, inflation does hurt some people. But the Government took care to ensure that its supporters were not badly harmed. Farmers received subsidies and cheap loans while state employees received inflation-linked pay rises and even inflation-linked pensions.

Private sector pensioners, unfortunately are not in this happy situation. Because his pension is usually a fixed amount, inflation has been halving its value every four to six years, without anyone seeming to care.

Agriculture, commerce and manufacturing did not protest too strongly about inflation for they too have an interest in its continuation.

Rising prices produce healthy stock profits, reduce the debt burdens and, because they increase the "cost of entry", help keep out competitors.

Even house buyers have welcomed inflation as it increased the value of their property and lowered the

real value of repayments.

The small saver may be slow, but he is not stupid. He grew tired of seeing the real value of his investments dropping by up to 10 percent a year, and the flow of funds to the building societies started to decline.

Instead his money went elsewhere, into 'hard assets' such as Kruger rands and jewellery and especially to the life assurance companies and their 10-year tax-free endowment policies.

Although the 129 percent increase in building society assets between 1981 and 1987 from R13,8 billion to R31,7 billion in 1987 seems most impressive, this was less than the 131 percent rise in inflation over this period.

For real growth one should look to the increase in the assets of life insurers. These grew by 316 percent between 1981 and 1987 — from R15,0 billion to R62,5 billion.

Net assets of unit trusts grew 376 percent in this period, from R726 million to R3,5 billion.

But while the percentage increase is large, the cash increase pales almost into insignificance when set against the growth in life assurance assets.

The ramifications of the switch by savers from building societies to insurance companies started showing a few years ago.

The building societies could no longer supply cheap mortgage finance and, in raising the price of their loans, opened the way for the banks to operate in this field.

When the authorities saw what was happening they apparently decided that as building societies no longer had much of an independent role, the best way to solve this problem would be to allow them to become banks, and most have done so.

So we arrive at the situation where the banks are the source of both mortgage money and credit to commerce and industry and it is virtually impossible to impose different rates of interest on these loans.

And at times such as the present, Government is increasingly finding itself in a corner.

Perhaps Government will realise that its plight would not have been so severe had it looked after the small saver — and also realise that it is essential that it starts looking after him now if this country is to have any chance of achieving the economic growth it so badly needs

Money supply still running over target

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Star 24/10/84

By Sven Lünsche

Government delays in further restricting consumer expenditure, so as not to alienate voters before Wednesday's municipal elections, could cost the country dearly in years to come.

As third quarter economic statistics flow in, it is becoming more and more evident that mid-year packages to reduce spending, which included higher interest rates, import surcharges and tighter hire-purchase financing, have not been sufficient.

Latest Reserve Bank figures show that the money supply for September is still running away. The broad measure, M3, grew by 26,12 percent on a seasonally adjusted basis to R111,163 billion, almost R10 billion ahead of the figure targeted by the authorities in February this year.

In August M3 grew by an unprecedented 27,85 percent and money supply has now risen by more than 24 percent over the last four months, which, apart from its short-term implications, does not bode well for the inflation rate in a year's time.

The monthly increase from August to September was 1,8 percent.

And last week the money market sent a strong signal to the Reserve Bank when the bellwether three-month BA rate jumped 45 points to 14,40 percent, its highest level since October 1985, when the banks' prime rates were 18,5 percent.

"The authorities are ignoring the signals the financial markets have been sending them," said John Lloyd, head of Standard Bank's money market operations. "What is apparent is that too little is being done too late."

Economists say that the elections were the major cause for the delay, but similar delays in raising rates earlier this year forced the authorities to introduce an emergency package of import surcharges and credit curbs in August to brake economic growth and shield the balance of payments.

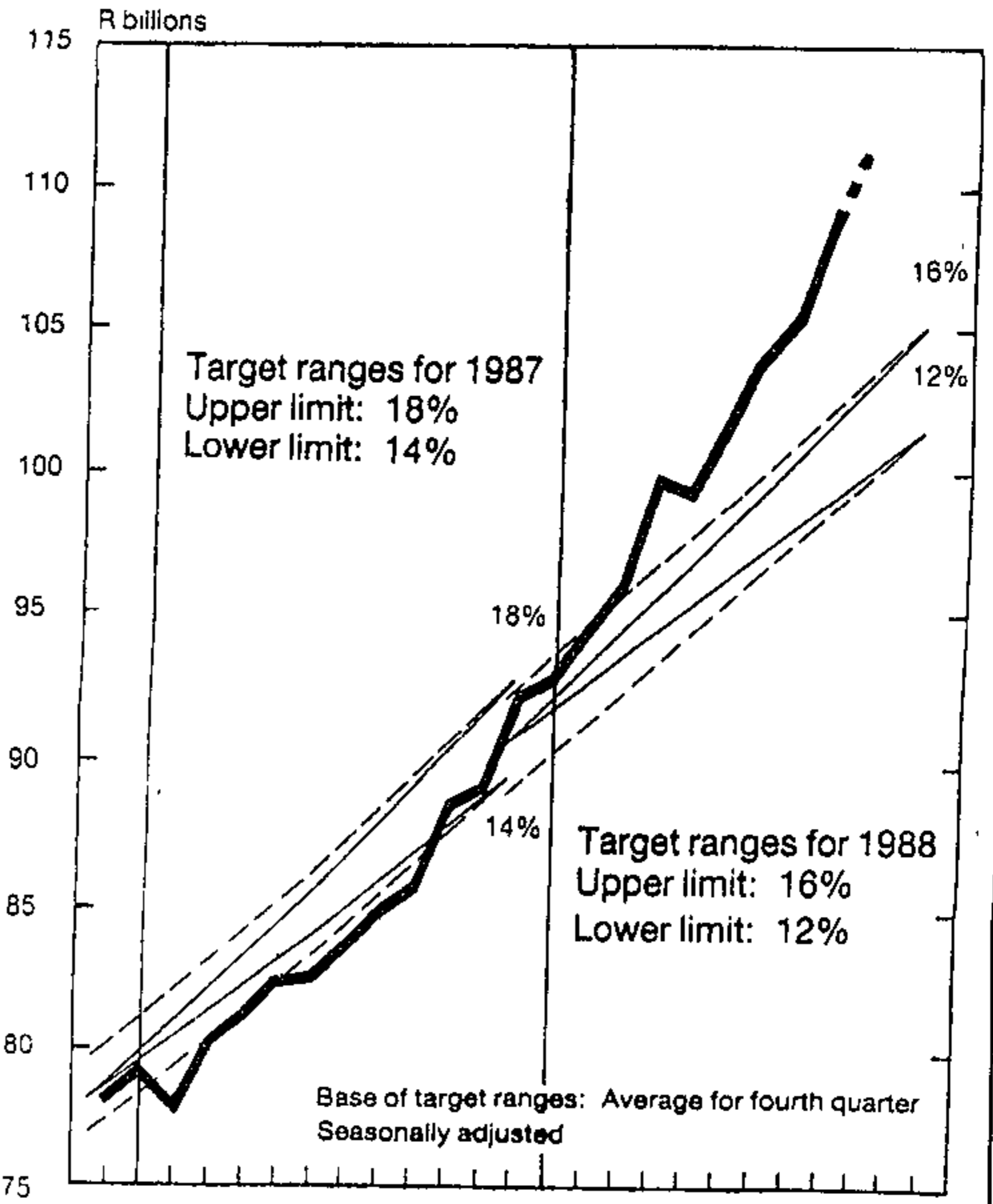
Since then runaway growth in the money supply, declines in the gold and foreign exchange reserves and President PW Botha's recent announcement that the government will spend an additional R4 billion on salary increases for civil servants, have heightened fears that inflation will rebound from its current 12,3 percent and more pressure will be placed on the balance of payments.

So, a similar, if not more restrictive, package is on the cards and speculation is mounting that it will include a rise in General Sales Tax.

This move would allow the government to kill three birds with one stone. It would obviously dampen consumer expenditure and would help raise the revenue to pay for the R4 billion salary increase next year and make up for the expected shortfall on the deficit during the current fiscal year.

In an interview last week Finance Minister Barend du Plessis would not comment on speculation of a higher GST rate, but he added there was no urgency in determining where the money would come from.

But the urgency to curb consumer spending is there, if the surplus on the current account is to be preserved, and GST could play a major part in achieving this.



Target range for growth in M3.

The remaining elements of the restraining package are likely to be an initial one percentage point rise in the Bank rate to 13,5 percent, tightening of hire-purchase conditions for cars and furniture, a higher deposit and/or a shorter repayment period on housing loans and further import controls.

Further increases in interest rates are also on the cards before the year-end. After last week's meeting between financial

institutions and the Reserve Bank, Allied's MD Kevin de Villiers predicted a prime rate of 18 percent, two percentage points up on its current level. Other bankers shared this sentiment.

And Simpson McKie's economist John Banos argues that prime would have to average 17,5 percent "to prevent the economy from being derailed as occurred at the end of the 1983/84 mini-boom."

Socialism or capitalism — what's best for SA?

SfW = 25/10/84 (49)

Mr Clem Sunter, author of "The World and South Africa in the 1990s", argued for a "pragmatic blend" of both the capitalist and the socialist ideologies.

All over the world, he said, people had moved away from ideological extremes to a realisation that there were good points in both capitalism and socialism. In the Soviet Union, for example, Mr Mikhail Gorbachev was trying, with his policy of *perestroika*, to infuse a certain element of free enterprise in order to promote economic growth.

Incentive killed

There was no doubt that the "freedom of spirit" given to entrepreneurs, in a capitalist system, to produce new wealth had delivered the economic goods, he said. Socialism, on the other hand, usually killed incentive.

However, said Mr Sunter, societies could not be run on greed alone; they had to have a moral dimension as well.

Consequently, there were two aspects of socialism which were also required. The first was a social conscience about the community and the second, which was very relevant to South Africa, was participation in the economic and political process.

Mr Sunter said the "paradigm of mass ranks of capitalism v massed ranks of labour" was becoming less and less relevant, particularly in developed countries.

Modern technology, noted Mr Sunter, "was changing the game considerably" by dispersing people into smaller production units. In countries such as Britain and the United States, this was resulting in a marked decline in trade union membership.

"So people are looking for new visions from capitalism and socialism." This could be seen in England, where those on the left were now talking about democratic or progressive individualism.

Professor Duncan Innes, author of

BY ZENAIDE VENDEIRO

A lively debate was held at Wits University last week on the topic, "With capitalism and socialism as alternatives for a future South Africa, which is the most beneficial to all of the country's peoples?". The speakers were Mr Clem Sunter, a director of Anglo American, and Professor Duncan Innes of Wits University's sociology department.



Mr Clem Sunter . . . education is one key to success.

"Anglo American and the Rise of Modern South Africa" and co-author of "Beyond Apartheid", said he would crudely identify South Africa's most pressing needs as being to establish an economic and social system which would ensure both long-term economic growth and a major redistribution of that wealth.

Before apartheid

The capitalist system had served well in providing the first of these goals, but had done "precious little" in terms of redistributing wealth.

Capitalists argued that the failure to redistribute wealth was the fault of apartheid and not capitalism, but apartheid was a relatively recent phenomenon in South Africa's long history, he said.

"We had racial exploitation and racial discrimination long before we had apartheid. Not only did the capitalists benefit from that exploitation and discrimination, but they helped to create it."

Professor Innes said the capitalist theory was that wealth would gradually trickle down to the rest of the population but this process, if indeed it did occur, would take many decades. "In South Africa today, with mass poverty and mass unemployment, we do not have decades or centuries with which to play."

Socialism, he said, did not rely on a haphazard process — a profit-driven market — to redistribute wealth. Socialism was the conscious direction of human and material resources to build up an economy which would generate the wealth to overcome social ills.

This did not mean, qualified Professor Innes, that there was no place for a market under a socialist system. However, no socialist society could tolerate a completely free market because it was that kind of market which allowed inequality and blatant excess.

Professor Innes said he believed that a socialist system could generate sufficient wealth and economic growth to meet the needs of the people.

If the people were given a stake in the country, through nationalisation of key resources and worker participation in the running of establishments, and they saw that the wealth they were creating was going into improving their living conditions and uplifting them, then they would "work to make this country great".

Both speakers stressed the importance of education in the process of the redistribution of wealth.

Said Professor Innes. "One of the first tasks in a socialist South Africa must be to undertake a massive investment programme in education so that productivity increases and the people's capacity to generate wealth is dramatically expanded."

Mr Sunter said education, for which the Government was responsible, would ensure greater partici-

pation in the economic system. "The most successful countries have very good education systems."

He added: "If you give everybody in this country a decent education, they will express their individual worth, contribute to society and in so doing will be able to make whatever wage the market will allow them. If there are injustices, then, through the power of a trade union, you can negotiate with employers over wages."

Professor Innes rejected Mr Sunter's assertion that money would "cascade" down to the people through a strong trade union movement and said that when trade unions such as the National Union of Mineworkers tried to get wealth not to "cascade", but tried to get just a "trickle", its members were dismissed.

Plural democracy

During questioning, the speakers expanded on their visions for a future South Africa.

Mr Sunter opted for a plural democracy in which those in government were accountable to the electorate, a strong trade union movement, participatory management, the correction of past injustices and giving people a stake in the country through wider share ownership. He said State-owned enterprises had a poor record and had not delivered the economic goods.

Professor Innes saw a transition period in which there would be a mixed economy, state control of key industries and strategic resources and worker participation in the running of factories and the state.

Hopefully, South Africa could then move to "some form of socialism" in which the government was made accountable through a system of recall and where it was desirable to have a number of political parties and independent trade unions.

Both speakers said they hoped there would be wide debate about the future of South Africa.

● The debate, attended by hundreds of students, was organised by the Arts Faculty Council, which hopes it was the first of many such debates to be held at Wits University.

By MIKE TISSONG

AFRICAN socialism came under the spotlight at a seminar at the Funda Centre in Soweto, withered in the heat of debate and was denounced as a myth.

The original notion of African socialism was proposed by Julius Nyerere who first described it in 1962 in a document called "Ujamaa, the Basis of African socialism".

Nyerere said African socialism was a socio-economic system different to capitalism which is based on exploitation between people. It was also different to doctrinaire Marxism or scientific socialism which is based on the concept of conflict between classes.

Proponents of African socialism said it was natural to Africa because of the co-operation that existed in villages before the advent of colonialism.

Nyerere said that in the village everyone was a worker. Before colonialism there were no classes, there were no big differences in wealth and power in African society.

When he opened the debate, social scientist Dr Neville Alexander asked the question: is African socialism valid as a socialist theory?

He answered it with criticisms from a number of distinguished African theorists including Abdul Mohamed Baboo, Samir Amin and Amilcar Cabral.

These social scientists found nothing in the African situation which distinguished it in terms of struggle from places such as Nicaragua, the Soviet Union, China, Vietnam or anywhere else in the world.

Several other participants at the seminar criticised African socialism as it was practised in Tanzania for not including workers and peasants as an organised force for socialism and for compensating foreign companies when they were nationalised.

Dr Alexander said state interventionist policies "have gone by the name African socialism. State capitalist measures such as the creation of giant parastatal corporations increased dependence on the international corporations.

"These measures also increased the tax burden on the people because when nationalisation took place, the previous owners were compensated.

"The bureaucratic

bourgeoisie earned big salaries which channelled some of the profits of the enterprises away from investment. Economies were also impoverished by over-invoicing and capital was not re-invested.

"African socialism has not lived up to expectation. The belief that African socialism can work is a myth.



JULIUS Nyerere... the first leader to put the principles of African socialism into effect.



Dr NEVILLE Alexander... we must try scientific socialism.

Myth of African socialism

'Leaders must gain more knowledge'

FOCUS

However, socialist hopes for the future of Africa remain."

He said the answer to South Africa was scientific socialism.

"The vast majority of the people in this country constitute the working class. There is really no model of scientific socialism we can look to, but there is a core of principles which we need to study, absorb and teach the working class.

Method

"The actual method by which socialism will come to Azania is being determined by events today.

"We are not going to get socialism on a platter. There is no reason why the boers have to hand over the country to anyone. It has to be taken from them.

"P W Botha is challenging us to take

power because he is saying he is an African and why should he, as an African, hand over power to other Africans just because they happen to be black?

"Some have said our fight is against apartheid only. That is not enough. We have to fight the capitalist structures which uphold apartheid."

Dr Alexander said the "immediate consciousness of the oppressed in this country is black consciousness. You are made to understand from a young age that you suffer because you are black.

"Your political organisation starts when you recognise that you are black. But the struggle is much more complex than just being between black and white.

"The task is to transform black consciousness into a working class consciousness and beyond that into a socialist consciousness.

"A class that is capable of leading the struggle towards socialism is the

black working class. There has to be a unity of black people, but this must be under the hegemony and leadership of the black working class otherwise we are going to put black faces where the white faces are today, without changing anything."

Dr Alexander said other states in Southern Africa such as Zimbabwe, Mozambique and Angola, which have committed themselves to scientific socialism, found it impossible to build socialism, "because the domination of the Southern African region by South Africa is too strong.

"It will be impossible for them to build socialism until this country is free."

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With African socialism dismissed as a viable alternative to the monolith of racism and capitalism in South Africa, scientific socialism came through well with the seminar participants.

One thing that came through clearly throughout the debate, however, was that many of our decision-makers need to read up on political theory to guide this country to liberation.

Without firm theoretical knowledge, liberation will be like a ship without a course. It will run aground leading to a loss of many lives and the country will be thrown into chaos based on ideological arguments and economic uncertainty.

There are several... students, and volunteer... is in his final year of... problems," she said.

JOBS FOR 50 000

149
Somerset
26/10/88



DR BEN VOSLOO

THE Small Business Development Corporation created 50 000 job opportunities last year and the corporation had granted loans worth R461,2 million to 19 429 entrepreneurs since its inception eight years ago.

This was said by the managing director of the SBDC, Dr Ben Vosloo, this week at a Press conference held in

Johannesburg to review the past financial year.

Dr Vosloo said, during the past year 6 107 loans valued at R114 million were made to entrepreneurs. He said his corporation had given information and advice to a number of small businesses since April 1985 and further enquiries were being received at a rate of 24 000 a month.

He said hundreds of diverse small businesses — welders, dressmakers and carpenters — gather under one roof where the SBDC assists in areas such as bookkeeping and marketing.

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SUN LEISURE
908-4754

FACTFILE - by Norris McWhirter

THE MOST PROLIFIC COMPOSER OF ALL TIME WAS PROBABLY GEORG PHILIPP TELEMANN (1681-1767) OF GERMANY. HE COMPOSED 12 COMPLETE SETS OF SERVICES (ONE CANTATA EVERY SUNDAY) FOR A YEAR, 78 SERVICES, 40 OPERAS, 600-700

MRS FRANCES JAN VAN ALSTYRE (1820-1915) THE BLIND HYMNIST, WHOSE TOTAL OUTPUT EXCEEDED 8500 HYMNS, IS ALLEGED TO HAVE COMPLETED A SINGLE HYMN IN 15 MINUTES



I wish we could...

49 27/10/88

(scribbles)

8/day 27/10/88

WHEN ALL the votes cast in yesterday's municipal elections have been counted, the dominant overall feature will most probably be a strong confirmation of the trend which surfaced in May 1987: South Africa's white electorate is moving rightward.

Identifying the major underlying reason is relatively simple. It is to be found in the sharp socio-economic decline the nation has suffered since 1984, in which international sanctions played a central role.

The economic damage inflicted on South Africa by sanctions and disinvestment must be measured chiefly in terms of the overall constraints arising from the loss of some R35bn in potential foreign exchange over the past four years.

This comprises: (i) a total net capital outflow of R23bn; (ii) a total capital inflow of about R10bn which could otherwise have been obtained; (iii) an accumulated loss of about R8bn due to formal informal sanctions against South African exports; less (iv) the saving of about R6bn in interest and dividends on the foreign loans and investments foregone since 1984.

Allowing a generous import/expenditure ratio of 40%, this implies that financial and trade sanctions have denied the country an accumulated total expenditure of some R90bn in the past four years, and total production of over R60bn.

Despite the economic boom of the past 12 months, South Africa's total real expenditure since 1988 is 15% lower than could have been the case without international sanctions. Domestic production is 10% lower, and unemployment half-a-million higher, than would otherwise have been the case.

Financial and trade sanctions are clearly the principle reason for the indication in the accompanying graph, that the real disposable income of the average South African is currently 10% lower than in 1984.

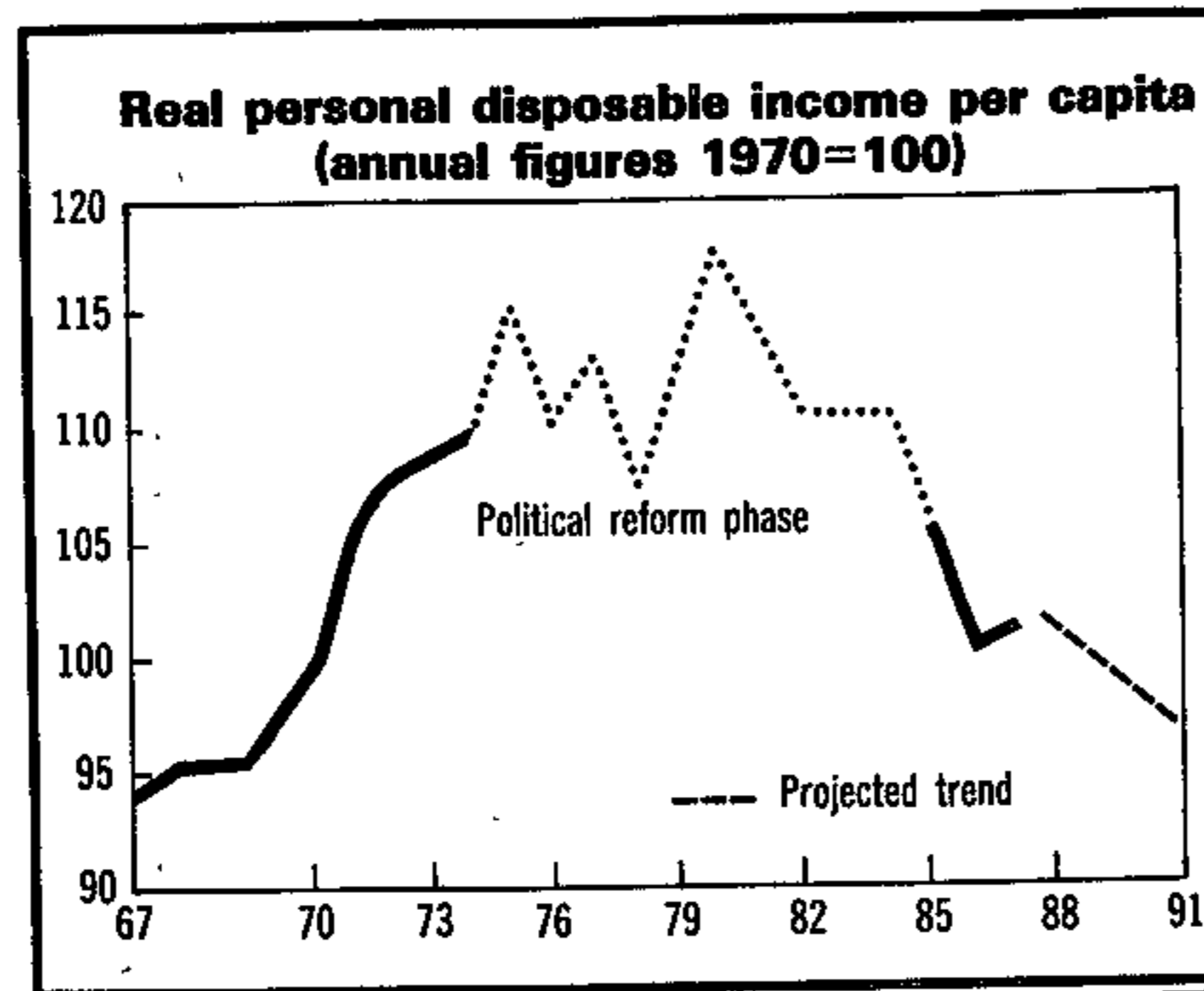
The graph also provides a key to the trends of the past 20 years in South Africa's white politics. The decade from the mid-70s to the mid-80s was clearly an historic peak phase in terms of personal incomes.

It is no coincidence that all the major reforms in the country's modern political history occurred in this period.

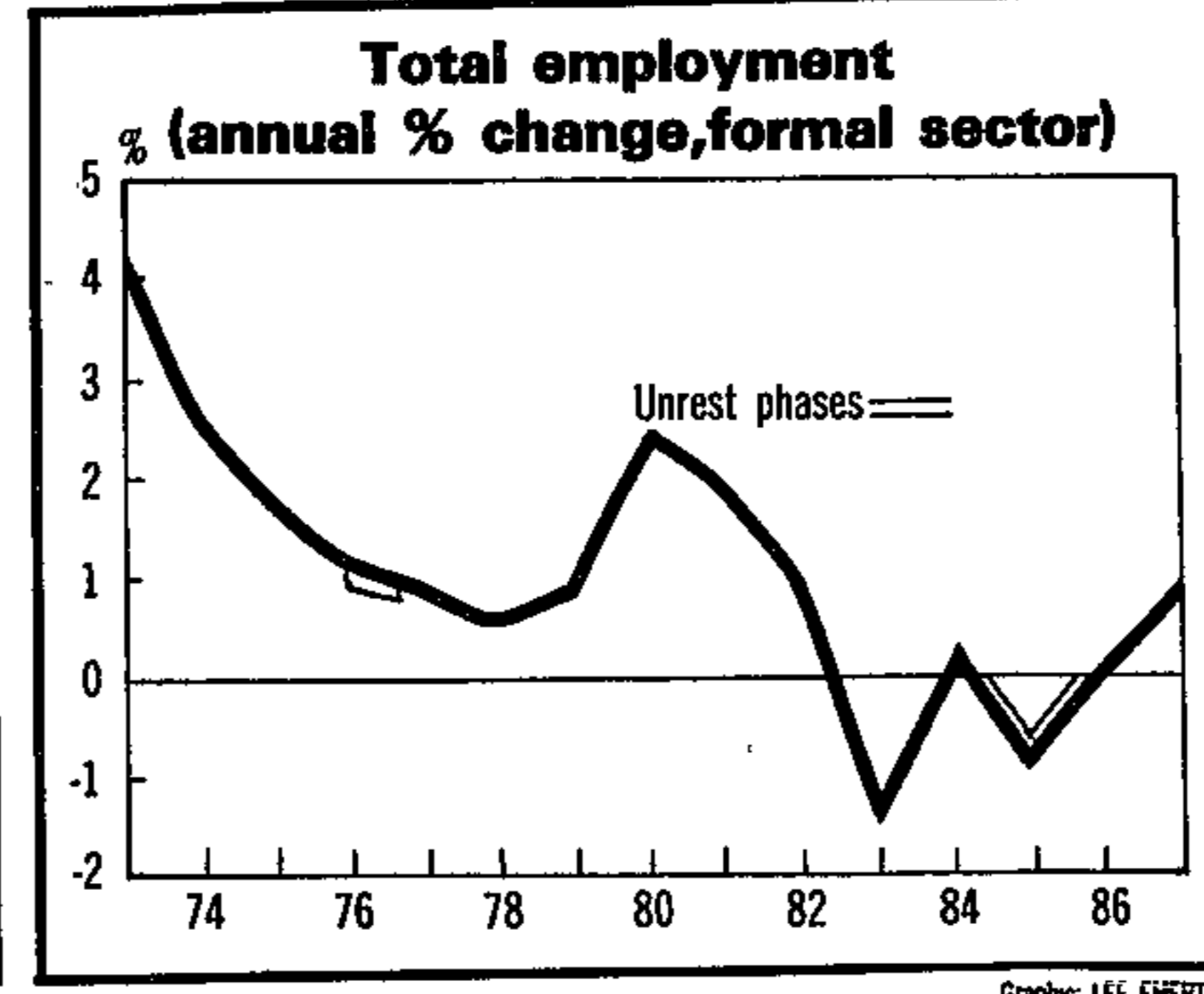
Apartheid in sport and most other

Only growth and reform can stave off the right

Economist NICK BARNARDT tracks the link between sanctions and the growth of right-wing politics



Graphic: LEE EMERTON



Graphic: LEE EMERTON

forms of "petty" apartheid were phased out, as was job reservation. Trade union rights were granted to black workers. The multiracial President's Council was instituted. Section 16 of the Immorality Act was scrapped, and so was the Mixed Marriages Act and the Political Interference Act.

Many CBDs were desegregated, and the tricameral Parliament was introduced in 1984 after a large majority approval in the 1983 referendum. A year later, government accepted the abolition of black influx control and tabled the relevant legislation in Parliament early in 1986.

From 1985, however, living standards plunged. By early 1987 aver-

age real incomes were at their lowest level in virtually 20 years. Once again, it is no coincidence that a rightwing party became the Official Opposition in the May 1987 general election, and that the emphasis in white politics as a whole shifted away from reforms.

Yesterday's election results will indicate that the very slight gain in real incomes of the past 18 months is not nearly sufficient to reverse the rightward shift set in motion by sanctions and disinvestment from 1985.

A few brief inferences would seem

to be in order. Firstly, to American politicians: the prospect of further impoverishment of the white electorate in coming years can only be conducive to a further shift to the right, a process which would be greatly hastened by the imposition of any further economic sanctions.

This is the same socio-political process which occurred in Germany as a result of the American economic penalties applied after the First World War, and led to the rise of Nazism.

If you apply further economic penalties to us in 1989, you will forgive us for concluding that you have learned absolutely nothing in the

past 70 years. On the other hand, you would do very well indeed to observe the massive success of the modern Germany, which arose from the positive approach you applied after the Second World War.

Secondly, to the SA government: the above analysis suggests that the impoverishment arising from international isolation is the breeding-ground of rightwing politics. Hence any conservative stances you take, risking sanctions in the hope of limiting the Conservative Party's growth, are likely to backfire.

Sanctions enabled the CP to become the Official Opposition. Inviting further sanctions can be tantamount to inviting a CP government. There is no trade-off between the two.

Furthermore, the evidence suggests that cyclical phases of rising unemployment and impoverishment made the black population more susceptible to violence and political radicalism.

As the second graph indicates, the two major unrest phases in SA over the past 20 years both coincided with troughs in the country's employment cycle.

Through the unemployment and the poverty which it produces, international economic isolation has already increased the political polarisation between whites and blacks. The ANC and the AWP, the UDF and the CP, have been strengthened — at the cost of political moderation and conciliation.

The continued application of sanctions, with the further unemployment and greater poverty they are likely to cause over the next few years, can only aggravate the polarisation of South African society. This could completely destroy the scope for (even partially) maintaining and expanding political democracy.

There is only one way to contain radicalism on both sides and strengthen the moderate centre which is so essential to a national political solution. There is only one choice: rapid economic growth with rapid political reform.

South African, southern African and Western political leaders must strike a deal on this as soon as possible. Otherwise what remains of the socio-economic support base and the socio-political cohesion of South African society can degenerate further, to the extent that even a repeat of yesterday's type of election exercise becomes an impossible dream.

(9) B/dey 28/10/88

REVOLUTIONARY change, says French intellectual Jean-Francois Revel, flows not from stagnation but from relative wealth and freedom.

Perhaps Oscar Dhloho, Education and Culture Minister of KwaZulu, homeland of South Africa's six million Zulus, has read Revel. In any event, Dhloho understands better than do most US congressmen that if the South African economy is destroyed by sanctions, so, too, will be the prospects for revolutionary, or even evolutionary, change.

Dhloho posits a chilling alternative: Economic ruin will bring about not a shining African democracy but will bring to power instead the white bigots of the right. The Zulu leader warned at the United Nations in July that sanctions and disinvestment constituted "the same pressures which isolated a post-First World War Germany and created a climate in which a monster, Hitler, could harness the anger and reaction of a nation under siege and turn it into a snowballing nationalist force".

Dhloho is not alone in believing an apocalyptic end is possible for South Africa if the economy is destroyed.

John Makatini, UN representative of the African National Congress, the exiled black liberation movement that supports sanctions, believes so, too. And he welcomes it.

In New York in 1986 he declared that "if there were only four million of us left after the revolution that would be better than the present situation". Makatini was aware, when he said this, that he was talking about the deaths of up to 25-million blacks and several million whites.

Perhaps one can understand and forgive the excesses of a Johnny Makatini, a victim of apartheid forced into exile by a cruel and inhuman system. But it is beyond comprehension how people such as American congressmen, and foreign ministers and national leaders of the British Commonwealth can advocate policies whose blatant objective, in the language of a recent Commonwealth statement, is to "stimulate unemployment" in South Africa.

What can be the purpose of stimulating unemployment? One can only

Economic power is blacks' most effective weapon

Black economic empowerment is the surest means of rapidly eroding apartheid, writes TML MD STEPHEN MULHOLLAND in this article, which appeared in The Wall Street Journal last month. After its publication, Mulholland received a congratulatory letter from former US president Richard Nixon.

assume that the proponents of such a policy hope that when a sufficient number of starving blacks have been thrown on the street, their children sick, dying or dead, their jobs and prospects destroyed, and their homes derelict, they will rise up and throw off the yoke of apartheid. This scenario would probably bring about Dhloho's nightmare of the white South African Hitler with the blood of millions of black South Africans on his hands, not to mention devastation in the entire subcontinent. Zambia, Zimbabwe, Mozambique and Swaziland would all be sucked into the vortex. Their already largely subsistence economies would be destroyed.

In evidence before a congressional committee in Washington in March, John Kane-Berman, executive director of the South African Institute of Race Relations, an impeccably liberal organisation, addressed this issue. "One argument," he said, "is that such sanctions are a necessary adjunct of a campaign of insurgency, and that the two forces combined will bring about the collapse of the government. The other argument is that sanctions are the only alterna-

tive to the violent overthrow of the state. These two arguments cannot logically be simultaneously correct."

All this is not, of course, to gainsay that sanctions have persuasive power. As most businessmen know, however, the trick is to apply pressure in a manner that does not kill the deal or push the other side into a state of panic where irrational forces drive the will to survive.

One can sympathise with the frustrations of foreigners who would like to see South Africa rid of apartheid. We white South Africans who oppose it are also frustrated and we have more at stake.

It is fair to ask those like myself, who oppose sanctions, what the alternative is. While it is difficult to be specific, I believe Kane-Berman of the Institute of Race Relations has it right. He says that only blacks can destroy apartheid. In his evidence before Congress he demonstrated how apartheid law has been eroded by reality. In areas such as trade union rights, job preservation, the

pass laws, influx control and others, the Pretoria government has been forced to retreat in the face of the unworkability of its discriminatory policies.

Black power in South Africa — that is, the power to destroy apartheid — flows not from the barrel of a gun or from Winnie Mandela's "boxes of matches" for the inhuman necklace, but from economic gains. To the extent apartheid has been eroded in the workplace, in many neighbourhoods, in hotels, movie houses, suburban trains, private schools and on sports fields, it has been black economic muscle and not white fear that has done the job.

There is something arrogant in the notion that 30-million black South Africans are not capable, without outside help, of dislodging five million whites from absolute power. The insult implied by this assumption is even greater when one considers that a fair proportion of the whites themselves are against the present system.

Black economic empowerment is the most civilised, as well as the surest, means of rapidly eroding the system of apartheid. This approach

requires statesmanship and visionary leadership of the sort that the US, the leader of the West, seems incapable of providing. Destruction of the South African economy — which the Dillums Bill seeks — would deprive blacks of their most effective means of fighting apartheid.

Soviet thinking on South Africa seems far more sophisticated today than that of the sanctioners on Capitol Hill. Boris Asoyan, the Soviet envoy to Lesotho, is widely regarded as Mikhail Gorbachev's chief spokesman on South Africa. In a recent Radio Moscow interview, Asoyan had this to say: "Under the influence of many factors, including Pieter W Botha's reforms, the Afrikaner society has started to move. Deep changes are taking place that entail a destruction of structures of the racial discrimination system."

Echoing the fears of KwaZulu's Dhloho, Asoyan warns about the possibility of a severe right-wing backlash. While he does not believe the Conservative Party could take power, "I absolutely, definitely assume that they will become more and more negative from the point of view of stability as the country moves toward changes."

The Soviets, heeding Dhloho's warning, might well play a constructive role in the search for peace in South Africa and southern Africa. Certainly Asoyan's comments and the Soviet role in prodding the Cubans on in the Angolan peace process are indications that this is possible. In addition, there have been several recent contacts between the Soviets and leading South African whites.

Senator Edward Kennedy is among those in Congress whose refrain it has been that America must be "on the right side of history" in the issue of South Africa. Yet the US may well find itself recorded in history as a destructive and naive player in a process that called for intellect, steadiness and patience. To really be on the right side of history in South Africa, America needs to be on the side of peaceful change to majority rule in a process that would not result in the black majority inheriting an economic wasteland.

Planning for poverty

■ Rates have been artificially pegged since July — big leaps loom

Once again the National Party has reaffirmed its commitment to inaction. Funding most of this year's portion of the 15% increase in civil servants' salaries will be covered by larger than expected revenue flows, says Finance Minister Barend du Plessis. And with this out of the way, he apparently sees no need for further action.

Existing credit demand and the potential impact the increase will have on additional spending power is apparently not a problem he is ready to address. Perhaps he plans to wait until a prime rate of 25% is unavoidable.

His announcement this week came as an anti-climax. With pressures mounting in the financial markets, rumours of a new economic package have been rife. They were fuelled by a series of meetings: of the Reserve Bank with bankers last Tuesday on increases in key lending rates; of the Cabinet last Wednesday at which the civil servants' salary increase was doubtless discussed; of Du Plessis with representatives of Assocom on Monday to discuss economic policy.

Talk was of a combination of higher key interest rates; an increase in GST — ostensibly to help control demand but actually to fund the salary increase; and an element of direct control of the markets. At several points it seemed as if an announcement might be forthcoming — despite widespread predictions that bad news would be delayed until after the election.

In the event, however, original predictions were fulfilled and no announcement was made. There is still, however, the question of interest rates.

Bank and prime rates have been pegged since the end of July, despite a relentless rise in the cost of funds since the end of the second quarter. In that period, the benchmark liquid bankers' acceptances climbed from just over 12% to 14,45% last week, while the RSA 2005 moved from 15,8% at mid-September to 16,77% this week.

Pressure on short-term rates came mainly from a further deterioration in the overall balance of payments position, say Old Mutual economists, writing in the latest edition of *Economic Monitor*: "After adjusting for the weakening of the rand against a basket of currencies over the same period, the Reserve Bank's holding of gold and foreign exchange reserves declined by 14% during the third quarter, after falling by

some 19% during the first half of the year. Measured in this way, the level of gold and foreign exchange reserves was at the end of September not only 41% below the cyclical peak reached in July last year, but equalled less than 1,5 months of imports."

Fundamentally, the situation is even more serious. Says Nedbank chief economist Edward Osborn: "While officially gold and foreign exchange reserves of the country have declined by R1,3bn since the start of the year, the real decline in reserves was much worse by another R1,2bn, which was the extent of Reserve Bank borrowings abroad in June to assist it in meeting the heavy June debt payments. Net reserves

ment, business and individuals some guidelines for decision-making.

When they are not allowed to move with the market, the pressures flow over into inflation — because to "keep interest rates artificially low, the Bank has to meet demand for money and expand money supply — which effectively dilutes the value of existing money (see P39). Furthermore, their role of disseminating information is eliminated. Decisions can then no longer be made in relation to what is really happening in the economy and can be based only on guesses and wishful thinking which, though not unpopular among politicians, is disastrous for policy-makers.

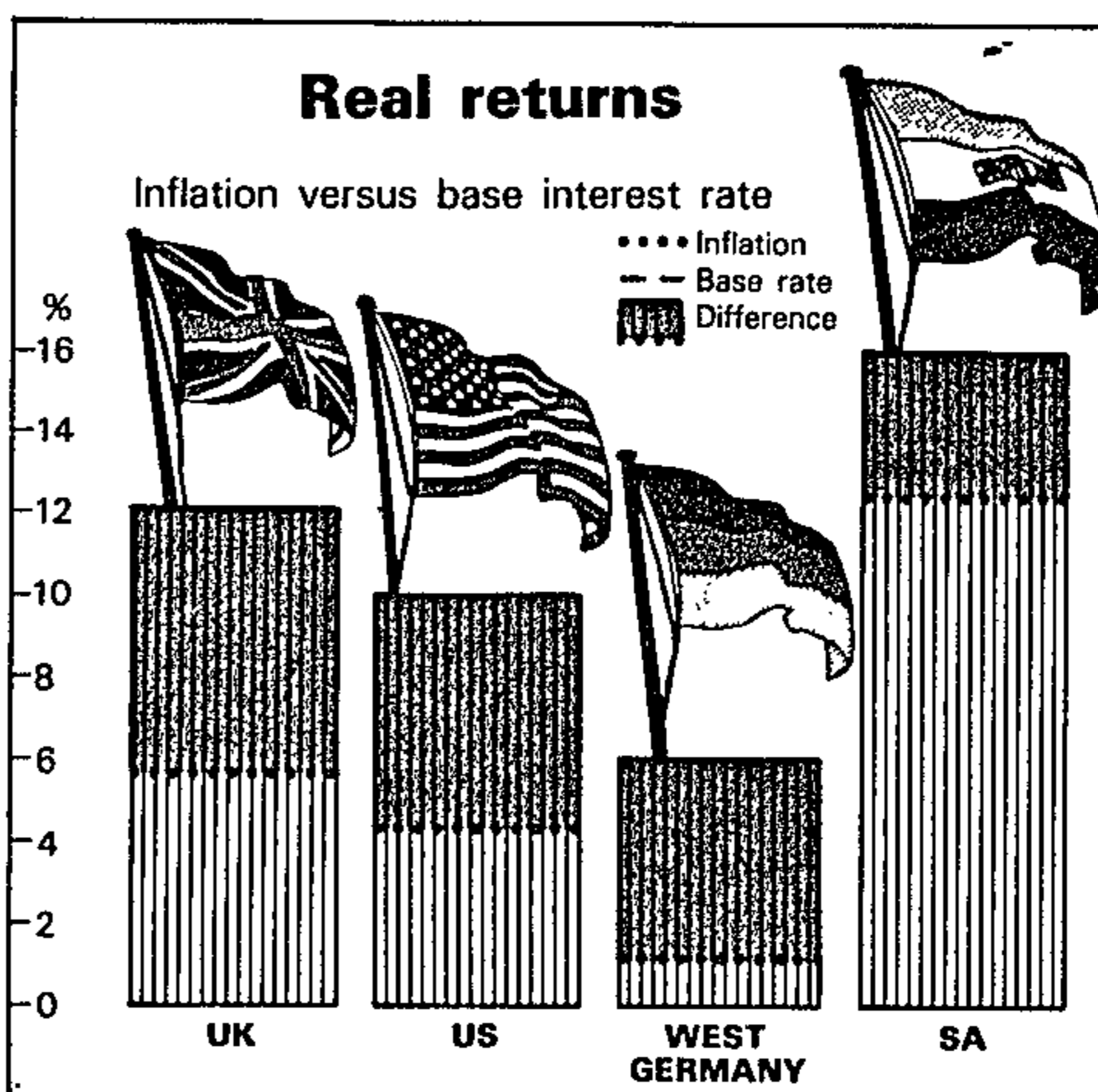
So delaying Bank and prime rate increases has both fed inflation and masked it. And with appropriate increases so long delayed there is now no knowing where rates will eventually go. Certainly they are more likely to reach the much-dreaded 25% level than would have been the case if rates had risen at the appropriate time.

Wishful thinking has been very much in evidence this year. This was despite the recognition by the Bank (according to Governor Gerhard de Kock in his annual August address to stockholders), as early as December, that the upswing in domestic spending, output and income accompanied by excessive increases in bank credit and money supply "clearly called for a tightening of monetary policy."

Against this background, the Bank allowed an increase in prime from 12,5% to 13% in January. However it delayed increasing Bank rate from 9,5% to 10,5% until March, when prime was allowed to go to 14%. Further increases, to 11,5% and 12,5%, in May and July and accompanying increases in prime to 15% and 16%, also came long after they had been discounted in the market.

"In retrospect," said De Kock in his August report, "there can be little doubt that monetary policy should have been tightened earlier and that interest rates should have been allowed to rise sooner. In its attempts to moderate the rise in interest rates in order to promote economic growth and to assist farmers, small business and home-owners, the Reserve Bank initially created too much central bank credit and in this way facilitated the excessive increases in bank credit, the money supply, total spending and imports."

The result of course, is money supply



have in fact declined by R2,5bn this year." Yet, with our reserves imperilled, Pretoria dragged its feet.

Problems of economic perceptions in SA are rooted in a fundamental misunderstanding about the role of interest rates — and whether we have any choice as to their direction and velocity. An increase in interest rates is too often seen as optional — a remedy which may be applied or not — and from this premise flow arguments over whether an increase in Bank rate is desirable and/or effective.

What politicians need to understand is that interest rates are indicators signalling either that demand for money is outstripping supply, or that supply is outrunning demand. What they tell us, if they are allowed to respond to these forces, is what to expect from the immediate future, giving govern-

SEEKING THE POLITICAL KINGDOM

This year, only two men have stood up to a government that increasingly covers its reform paralysis — if not retreat — with political bluster and personal denigration. Their offence had been that they had taken political initiatives which have proved to be an embarrassment to an inert administration.

The man of the moment is Danie Craven. And it remains to be seen whether his defiance will be sustained and what the outcome will be. But Labour Party leader Allan Hendrickse, too, has had to withstand, among other things, a withering castigation over SABC television delivered by the meddlesome State President himself. And he faced it with great dignity and turned it to his advantage.

Hendrickse has used the parliamentary system to great effect. At least he has achieved a standoff over the tightening of group area legislation. If he adheres to his standpoint, he probably has the potential to achieve much more.

He will address this year's FM investment conference in Johannesburg on November 10 on the role of the Labour Party

in SA politics in a session chaired by Race Relation's director John Kane-Berman.

Hendrickse will be followed by another politician who has made a quiet but telling contribution to the thinking behind political reform in this country. He is Pat Poovalingam who will talk on strategies for reform and who is no stranger to this forum.



Hendrickse

Both these speakers will follow a lunchtime address by Pick'n Pay chairman Raymond Ackerman on what business expects of government and an assessment by the Chamber of Mines labour negotiations chief Johann Liebenberg on what the unions have achieved this year.

The development of the political economy has always been important for business as it determines the environment in which it trades. How it will and how it should develop are of critical importance to those facing investment decisions.

The views of these practical men will be an interesting precursor to British historian and author Paul Johnson, who will address the conference the next day on the morality of capitalism.

dy to ignore.

De Kock, of course, understands the implications of not allowing interest rates to rise when markets dictate that they should. In the report of the De Kock Commission of Inquiry into Monetary Policy (1985), he concluded that SA has, over a period of years, had lax monetary and fiscal policies which have led to an unacceptable rate of inflation. This in turn led to the erosion of the country's living standards and caused additional problems to the BoP.

And the major reason for monetary indiscipline, he said, has been the reluctance to let interest rates rise enough to curb credit and subsequently money creation.

In a speech in April to the Kaapstadse Afrikaanse Sakekamer, De Kock pointed out that inflation is harmful for real economic growth over the longer term "because it leads to malinvestment and the inefficient allocation of scarce labour and other resources, discourages saving and promotes speculation."

SA's savings ratio has been one of the most serious casualties of rates which were negative for nearly two years and even now yield small real returns on savings. Real interest rates, after being negative for a period, are still inappropriately low compared with those of major industrialised countries (see graph). This at a time when we desperately needed to generate our own resources to compensate for the almost complete cut-off in capital flows from the rest of the world.

Surely the authorities don't need much more in the way of bad news to press them into action? With the municipal elections safely out of the way, the Bank must be allowed to eliminate a degree of distortion in the markets.

Whatever steps are taken, however, are unlikely to be adequate. With SA in a state of chronic instability, no sooner has one election passed than another looms — and Cabinet ministers tend to operate with one eye constantly on the political horizon. So economic policy will presumably continue on its present path — strewn with political promises and crisis packages. In the end, it will founder on its own indecision and plunge us all into poverty. ■

growth of nearly 28% year-on-year by August, at a time when real growth in GDP is probably running at an annualised 2%-3%.

Prospects for the future are not noticeably better. Says Standard Bank chief economist Nico Cypionka: "We have seen no meaningful deceleration in overall credit demand. Any drop-off in consumer demand is likely to be counteracted by the civil servants' additional spending power. And substantial credit demand is emerging in the commercial and corporate area to finance larger inventories and expansion that is taking place."

Disbursements from the Exchequer have been restrained so far but expectations are that the second half of the fiscal year will see

far larger payouts which will stimulate the economy and increase liquidity. October is traditionally a time of fiscal stocktaking. And, as Trust Bank economist Nick Barnardt points out, "Fiscal decisions have implications not just for fiscal policy but for monetary policy too, because the extent to which fiscal expenditure can be tightened will inevitably determine the extent to which monetary action is needed."

Certainly the decision on salaries has important implications for monetary policy, having put out of synch previous efforts to co-ordinate economic policy. And the ultimate outcome will be further pressure on interest rates — pressure it would be foolhar-

ASSOCOM CONFERENCE

Here we go again

■ Assocom returned to the old grievances — especially doing business in limbo

If last week's Assocom national congress proved anything, it was that business remains frustrated with government's handling of political and economic issues. As a reliable gauge of the business mood, the meeting — inevitably, perhaps, given the vacillations of government — provided little by way of uplift and optimism. But perhaps that is an important factor in itself — busi-

ness now feels far freer than in the past to talk about these matters.

The question is whether anything can actually be resolved unless decisiveness overtakes government's reformers after the October 26 poll.

A gulf continues to divide government and business on many issues. It's not getting any wider — but neither is it narrowing. Pretoria

may bend an occasional ear to businessmen, but the slow pace of change continues to impede the day-to-day running of their companies and industries.

As former Assocom president Harold Groom told the four-day Durban congress, occasional summit meetings between government and business have achieved only limited success. Businessmen still face many

Rand falls to new low against pound

Star 28/10/88 (49)

Finance Staff and
The Independent

The rand yesterday fell to record lows against major currencies after the British pound soared on news of a more stable balance of payments deficit last month.

Sterling closed at R4,37 against the rand, while the South African currency also fell to lows against the Japanese yen (51 yen) and the Deutsche mark (D-mark 0,719).

The rand also closed slightly weaker against the US dollar, falling from R2,458 to R2,466, while the financial rand held steady at R4,06 against the dollar.

The narrower UK trade deficit also send shares sharply higher and removing, for the time being at least, the threat of higher interest rates.

Although the bulk of the improvement was due to sharp swings in trade in so-called erratic items such as diamonds and aircraft, the current account deficit of only £560 million in September was greeted with relief in the financial markets.

The deficit was the smallest since October last year, and far better than predictions in the London financial district of a £1,5 billion shortfall.

The pound gained almost 2 US cents as soon as the figures were pub-

lished, and share prices reversed earlier losses to show sizeable gains. But the stock market later retreated again in response to sharp falls on Wall Street. The FTSE 100 share index, which, following the trade figures, touched a high point of 1 864,7, closed showing a rise of just 1,4 points at 1 852,1.

Sterling finished at \$1,771 and at D-mark 3,1387, increases of 1,05c and 1,55 pfennigs respectively.

The trade figures, however, looked a good deal better than they actually were. September's current account deficit of £560 million compared with £1,313 billion in August, but of the £753 million improvement, £587 million was due to swings in erratic items. The improvement in trade in precious stones alone was £378 million.

The Government was drawing some encouragement from the figures. Nigel Lawson, the Chancellor of the Exchequer, said it was striking that in the past three months exports had been at an all-time high. He also repeated his commitment to "a firm exchange rate and adequately high interest rates".

The Chancellor will be giving new balance of payments forecasts on Tuesday.

Slow growth ahead

Prepare for a slowdown. The list of economists predicting dismal growth in 1989 — along with a falling rand and higher interest rates — continues to grow.

Anglo American's Aubrey Dickman and Southern Life's Mike Daly say GDP growth will slow to 1%, while Dave Mohr of Old Mutual sees 1,3%.

"It is obvious the economy faces a slow-down near-term," says Dickman. "The upper turning point of the cycle may have been reached or even passed." Dickman sees growth of 1% next year — down from 2,6% last year and 2,5% projected for this year. He sees the rand averaging R2,30/US dollar (US43,5c) this year and R2,75 (36,4c) in 1989. It averaged R2,04 (49c) last year.

He also sees interest rates rising and staying firm: with prime averaging 18% next year and the 90-day BA rate 15%.

Dickman called for Bank rate and prime to be raised immediately to 14,5% and 18%. "Whether they have to peak at even higher levels is dependent on how soon fiscal policy can play its part," Dickman told the Asso-com congress last week, "but the possibility of a prime rate above 18% for a time must not be ruled out."

Among his assumptions and caveats:

□ Gold averages US\$400-\$420 next year after \$430-\$435 this year. "The risk of a lower average price cannot be ignored given

the rising trend in gold production worldwide and the possibility of modest growth-relatively subdued inflation in the West;"

□ Export volume rises moderately in 1989, as world trade grows and domestic producers switch back to exports from weakening internal markets. Gold production in 1989 is slightly higher than this year (this assumes no seriously disruptive strikes). And sanctions continue to erode non-gold exports, but no major disruption occurs; and

□ Government acts to pay for public-sector wage increases, probably by raising GST or introducing VAT and tightens monetary policy.

Daly's predicted 1% growth, in Southern Life's latest *Economic Comment*, rests on gold at \$460-\$470.

Daly believes gold is at bottom for several reasons. For one, the dollar, still under pressure from the US trade deficit, will retest lows. Then, the general mood is that gold is not a buy which, paradoxically, "sounds like a classic market bottom." Thirdly, gold has been falling against third currencies for several years and seems ready to rebound.

"For nearly three years the gold price in D-mark has encountered strong downward resistance at current levels of around DM740, and virtually identical formations have been in place in other currencies. This extended base formation is hopefully the prelude to a bull run. Any pick-up in investment interest by the West Germans or Japanese, as seems to be occurring in platinum, could bring sharp price rises."

Daly believes interest rates will peak in fourth-quarter 1988 and remain firm in first-quarter 1989. Prime may hit 18%. "That's the highest; I'm hoping to see 17%".

Dave Mohr, in Old Mutual's *Economic Monitor*, says: "Though the increase in real GDE this year still looks set to exceed 1987's 4,8% by a fair margin, a marked slowdown could occur during 1989. Given the poor export volume performance and the fact that a sizeable proportion of domestic demand was satisfied by imports, real gross domestic production growth will significantly lag the increase in domestic demand this year, but we still expect real GDP growth to equal or even exceed last year's 2,6%.

"As far as 1989 is concerned, the anticipated slowdown in real GDE will also negatively affect domestic production levels and we would not be surprised to see GDP growth halve from this year's level." ■

Cut your spending

Money
Matters

Magnus
Heystek



Slav
29
10
58

— we're in big trouble

WITH THE year rapidly heading to a close (we all know December doesn't count), thoughts are increasingly focusing on economic prospects for 1989.

As this column warned months ago, the South African economy has been heading for turbulent waters for some time. Subsequent events have done nothing to alleviate these fears.

In fact, they've become more pronounced in the absence of appropriate action by the monetary authorities.

Simply put, the economy has grown far too rapidly this year, considering the constraints imposed by the international financial community. The result has been a rapid deterioration of the surplus on the current account of the balance of payments.

This has led, among other things, to sharp pressure on the rand exchange rate as well as eating into the country's gold and foreign exchange reserves.

Gold and foreign exchange reserves are now equal to less than

two months' imports (roughly the same as that of Botswana).

If nothing is done to curb excessive spending in the economy, we will soon run out of foreign exchange to pay for imports.

The Reserve Bank has declined to allow a further rise in interest rates. The result, say economists, will be an eventual and unavoidable sharp rise in the prime lending rate sooner or later.

Perhaps with the municipal elections out of the way, we can expect an increase in interest rates as well as an increase in GST.

The prime rate has already risen from 12,5 to 16 percent, with HP and mortgage rates following suit. Many analysts are now talking about a prime rate of 20 percent in the not-too-distant future.

With the debt level of the average South African close to record levels, a return of prime to 20 percent or higher is going to impact severely on many households. Already there are signs that insolvencies and liquida-

tions have started an upward trend.

A further drop in the gold price would almost definitely leave the monetary authorities no alternative but to slam the brakes on severely, even perhaps to force a repetition of the restrictive economic package of 1984.

Those curbs plunged the country into economic recession and political crisis.

Sanctions will cost one million jobs and erode living standards

SKR 29/10/88

THE EFFECT of sanctions and disinvestment means the period 1989-90 holds out little prospect for satisfactory real growth and employment creation, says Trust Bank in its October Economic Report.

In a gloomy prediction, it says: "By 1990, the average South African will be more than 10 percent poorer and black unemployment between R500 000 and one million higher — than would have been the case without sanctions and disinvestment."

The bank says that over the period from 1985 to 1990 about R12 billion will be lost in capital inflows, while punitive measures against exports and the higher price that will have to be paid for imports could cost the country a further R10 billion.

Estimated capital outflow over the period will be about R26 billion, mostly comprising large-scale debt repayments.

On the positive side, South Africa saved R8 billion on interest payments that would have had to be made to foreign creditors and investors, if we had enjoyed a capital inflow of R12 billion, instead of the

FINANCE STAFF

R26 billion outflow.

"All in all, the country would have had a cumulative amount of about R40 billion, had sanctions and disinvestment not occurred at all.

"This amount could have been used to finance an additional R40 billion of imports and, consequently, an additional total domestic expenditure of R100 billion."

Gross domestic product (GDP) would have been R70 billion higher for the period as a whole, which by the end of 1990 would have seen growth rates of about four percent, against the projected trend of just over one percent (see graph).

"Sanctions and disinvestment have considerably lowered the balance of payments ceiling on growth. In 1988 the economy has already run up against this ceiling. It is now becoming evident that the real pain of international economic isolation will be felt from 1989." But the harmful effects of isolation are not limited to the economic front, says Trust Bank.

The unemployment and impoverishment it inflicts generate serious political polarisation.

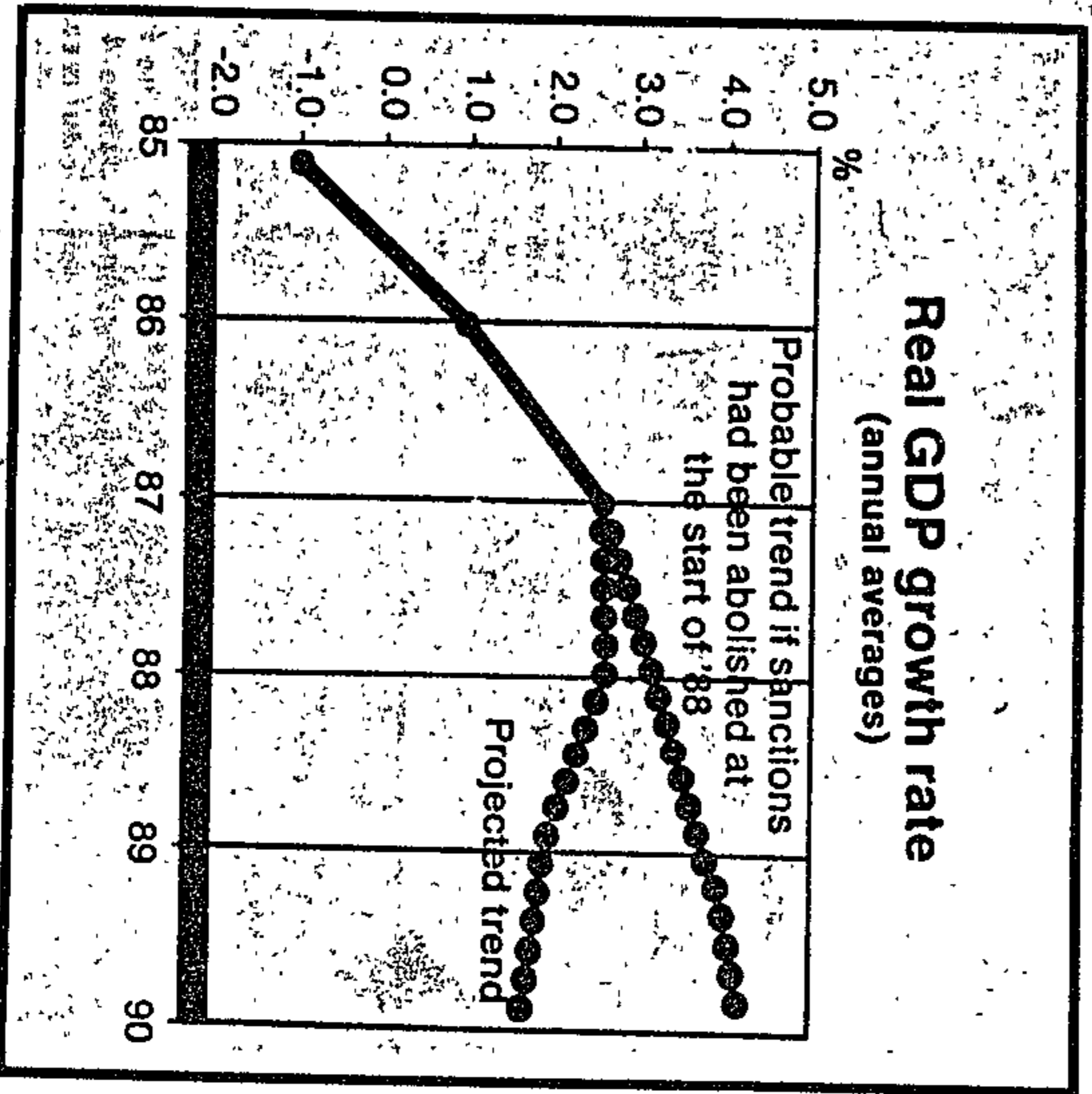
"Increased security spending is demanded of the state, but important long-term investments are prejudiced."

"One of the most important casualties is the quality of education the country can afford."

Trust Bank says international pressure has already aggravated economic, social and political problems, which are likely to deteriorate even further over the next few years.

The bank says it is clear that short-term measures cannot effectively address these problems and that no single interest group is in a position to solve the key problem.

"Government, domestic black leaders, leaders in the rest of Southern Africa and Western leaders will all have to come to the realisation that, politically, socially and economically, the ultimate consequences of this country's increasing international isolation and domestic conflict are simply too ghastly to contemplate."



Assocom index shows . . .

Business confidence slides to 15-month low

CAM-TINTS

31/10/88

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HELOISE HENNING

JOHANNESBURG. — Business confidence, as measured monthly by Assocom, continued its slide to a 15-month low of 95.7 on the index.

Had interest rates been allowed to rise to reflect the real conditions, business would not have had to be subjected to distorting market mechanisms like import surcharges and consumer credit restriction.

Added to the minimum company tax, the phasing out of debtors allowances under GST and the eventual higher interest rates, business has been subjected to the "worst of both worlds", said Assocom.

The rates rise is seen as inevitable and market related but should have been allowed to rise sooner by smaller amounts, the chamber said in its accompanying comment.

Gradualism would have avoided the subsequent shocks to the economy.

And in spite of recent denials that government would introduce a further "economic package" such as a rise in GST to finance the increase in expen-

diture because of civil service salary hikes, uncertainty prevailed in business perceptions.

Assocom said business was also affected by the uncertainty over the outcome and implications of the October municipal election and the US presidential elections early November. On the positive front was the temporary shelving of the Dellums Bill.

The slowing down of the economy has had business adjust its economic outlook for 1989 downward in spite of some sectors remaining bouyant.

Retail sales at Christmas are expected to improve against last year's.

The rand was expected to remain vulnerable because of the low level of foreign exchange reserves and the lacklustre performance of gold.

"Whether or not a further set of restrictive economic measures is introduced in the near future, business confidence will also hinge upon the successful handling of a number of key structural issues such as deregulations, privatisation and affordability.

SA unable to 'go it alone'

49 Star 1/11/88
By Mike Siluma, Labour Reporter

South Africa's low economic growth rate and international isolation would not go away as long as the Government stuck to apartheid, Stellenbosch academic Professor Sampie Terreblanche said in Johannesburg yesterday.

He told a seminar on the Congress of SA Trade Unions (Cosatu) living wage campaign that the top five percent of the community in South Africa (almost all white), controlled 88 percent of the wealth.

Since 1974, South Africa had been experiencing a low growth rate, with a decline in per capita income of 0,05 percent annually.

"The poor job-creating potential of the South African economy must be blamed on two factors — the low growth rate and the sharp increase in the capital intensity of the modern sector," Professor Terreblanche said.

He singled out international isolation — in the form of disinvestment, sanctions and boycotts — as the main reason for the South African economy's low rate of growth and warned that South Africa could not "go it alone".

The vulnerability of the South African economy to international isolation had been illustrated early this year when balance of payments forced the Government to "dampen the promising revival of the economy".

Given the deteriorating economic situation, the Government ought to reconsider its racial policy. As long as it remained in office and was not prepared to rethink its policy it would not be possible to reach an annual growth rate of more than two percent.

He suggested the Government help overcome the problem by either subsidising in-service training for blacks or paying a subsidy enabling employers to pay a living wage.



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8/day 1/11/88

'Involve poor in growth'

THE challenge facing SA was to get millions of poor people individually involved in the economic development and prosperity of the country, Transport Minister Eli Louw said in Kimberley yesterday.

Speaking at the 105th annual conference of the Law Society of the Cape of Good Hope, Louw said deregulation would be essential in achieving the stability upon which a fair and just society could be built.

The legislation governing de-regulation, said Louw, gave the President the power to change any legislation provided it complied with one of the three provisions, namely, the expansion of the economy, competition and the creation of jobs.

Louw said the preparation for de-regulation was critical and that he had held private talks with the legal

BRUCE ANDERSON

profession, commerce and industry, the media and trade unions.

"With the exception of the trade unions, I have had 100% support for the idea," said Louw.

He pointed out that there were 500 000 people in the informal sector, which gave a livelihood to three- to four-million people. Beginning three years ago, 800 000 jobless had been trained, and 30% now had jobs.

There were 100 000 black taxi operators in the informal sector giving a further 200 000 people jobs. Their contribution to the national growth of the SA economy had been 30% to 40%.

Louw said it was imperative for the informal sector to be incorporated into the formal sector soon, and with minimum legal constraint.

Rand continues ⁽⁴⁹⁾ downward trend

Star 2/11/88

Finance Staff

The rand continued its slide yesterday — to a 10-month low against the dollar and to a new record low against the British pound sterling.

The dollar, which four years ago was on a par with the rand, was quoted at R2,5068 around midday and closed at R2,504.

The rand also continued its fall to record lows against the Deutschemark and the yen.

Economists said a shortage of foreign exchange, due largely to a rise in imports, put pressure on the currency and the central bank did not come to its rescue.

Heavy repayments on the estimated \$22 billion of foreign debt are also weighing on the currency, as foreign banks have cut off new loans.

Dealers said the Reserve Bank could ill afford to use its dwindling supply of foreign exchange to sup-

port the rand. "There are no dollars in the market. There has been a shortage for the past two to three weeks," said First National Bank's chief foreign exchange dealer Tony Laycock.

"The Reserve Bank is not inclined to defend the rand. They do not have the means," said Standard Bank chief economist Nico Czypionka.

South Africa's foreign exchange and gold reserves have declined from a peak of R8,7 billion in August 1987 to R5,1 billion in September 1988.

The rand is being undermined by a relatively low price of around \$411 an ounce for gold, the biggest single foreign currency earner.

The rand's slide is contributing to pressure for the Reserve Bank to raise interest rates to curb domestic spending and restrain imports.

While many South Africans are

alarmed that the rand could sink towards its all-time low of 2,82 to the dollar in August 1985, the prospect of raising prime interest rates — currently 16 percent — towards the 25 percent level seen in January 1985 is also unattractive.

The weakness in the rand also threatens to aggravate inflation now running at 12,4 percent.

Some economists charge that the government has held back from taking necessary but unpopular steps to safeguard the economy, including raising interest rates, because of political pressures ahead of last week's nationwide municipal elections.

The building societies have already acted on their own, with the NBS, the UBS and the Allied raising their bond rates by up to one percentage point. But banks are unlikely to raise interest rates without the Reserve Bank increasing its Bank rate.

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INTEREST RATES

Heading for hyper-inflation

This past week, bluechip companies could have benefited from the leap in money market rates. By Tuesday, more than one major commercial bank was offering 16,5% for call money, opening up opportunities for profitable round-tripping. A loan secured at a prime rate of 16% could be reinvested on call, for a half percentage point profit.

So instead of the usual 2,5 point margin between prime and call rates, the differential for some institutions was negative.

Also a measure of distortion in the market was the continuing move in the Treasury bill (TB) rate, which went to 13,87% last Friday. Since the first week in August it has been higher than Bank rate — the rate at which TBs are discounted by the Reserve Bank.

Confusion was the keynote of the week, with volatility in the capital market and huge shortages in the money market (see P104).

While no one had any doubt about the fundamentals, opinions were deeply divided on government policy. One view was that, with the municipal elections out of the way, an increase in Bank and prime rates was

pen we must have more liquidity. In fact, we would prefer to have cost of funds coming down and interest rates declining. As prime rises, highly geared companies have difficulty servicing debt. This creates problems for us. We had that situation a few years ago and wouldn't like to see it again."

So banks, usually a powerful lobby for higher interest rates in times of tight liquidity, may see the advantage of pressing instead for easier accommodation.

But while increased liquidity will solve the problem of banking profitability, a continuation of artificially low interest rates would be disastrous for economic prospects.

First impact will be on the surplus of the current account of the balance of payments, which fell steeply from R6,2bn in 1987 to a seasonally adjusted annualised R960m by the second quarter of 1988. With ongoing capital repayments scheduled under the Second Interim Debt Agreement, this could have serious consequences for SA's ability to meet obligations to international creditors.

Also a casualty of unduly low rates is the rand, which has fallen more than 23% this year (from US52,13c on January 4 to US39,9c on Tuesday).

But central to economic prospects is the outlook for inflation, which has accelerated sharply in recent months (see P46). More pressures are already in the pipeline — a depreciating rand, higher petrol prices and import surcharges are only starting to work their way into inflation figures. Longer-term, money supply growth which has been over the upper limits of the 12%-16% target set by the Bank since February, will continue to add impetus to prices.

So more (much more) inflation is in store unless monetary and fiscal policy are allowed to constrain demand.

Without logical and consistent economic management, hyper-inflation is not a remote possibility. Driven by high growth in money supply and the collapse of the exchange rate, the official inflation rate topped 20% in January 1986. We were rescued from hyper-inflation (25% or more) by the lagged effect of belated but drastic monetary policy implemented towards the end of 1984 — to which we owe the comparatively low inflation of the past year.

If firm action to constrain demand is not an option this time, there is no telling where inflation will go to.

Implications for growth are serious. Says Old Mutual economist Rian le Roux: "Though, short-term, high and rising inflation may be accompanied by reasonable growth, longer-term they are incompatible. Inflationary expectations divert money from

investment to consumption, which destroys the potential for future growth."

Comparing SA growth and inflation rates with those of four major industrialised countries (see table) illustrates this point.

TAX AVOIDANCE F MAIL

Thanks to Margo? 4/11/88

Full-blown leveraged leasing has made its comeback in the tax world, offering after-tax returns of at least 40%. Thanks to a Margo Commission recommendation, a standard 50%:30%:20% depreciation rate over three years was legislated this year.

The write-off, which is more generous than before, applies to a wide range of assets. Discounting inflation over the three years, the asset-owner only pays about 40% of the asset's cost, after tax — though only, of course, if he has profits to write the allowance off against.

Large-scale leveraged leasing was common in the early Eighties, until it was ended retroactively by former Finance Minister Owen Horwood.

The technique, again being applied but with different figures, allows a totally unrelated party to acquire an asset. This "third" party, which has substantial taxable profits, then leases the asset to a lessee. The third party makes substantial tax savings and the lessee benefits from a reduced rental.

In the 1988 schemes, the first set of identifiable lessees cashing in on leveraged leasing are local authorities (LAs). LAs pay no tax, which makes the 50%:30%:20% depreciation allowance useless to them. It also makes them highly susceptible to schemes that improve their finances.

Typically, the LA enters into a deal with a third party with taxable profits. The third party uses the depreciation allowance, offering the LA reduced rentals that equate to a lower acquisition price.

The third party "leverages" the deal by acquiring the asset with a high percentage of debt. Interest on this is, of course, tax-de-

GOING CRITICAL

Projected for 1988

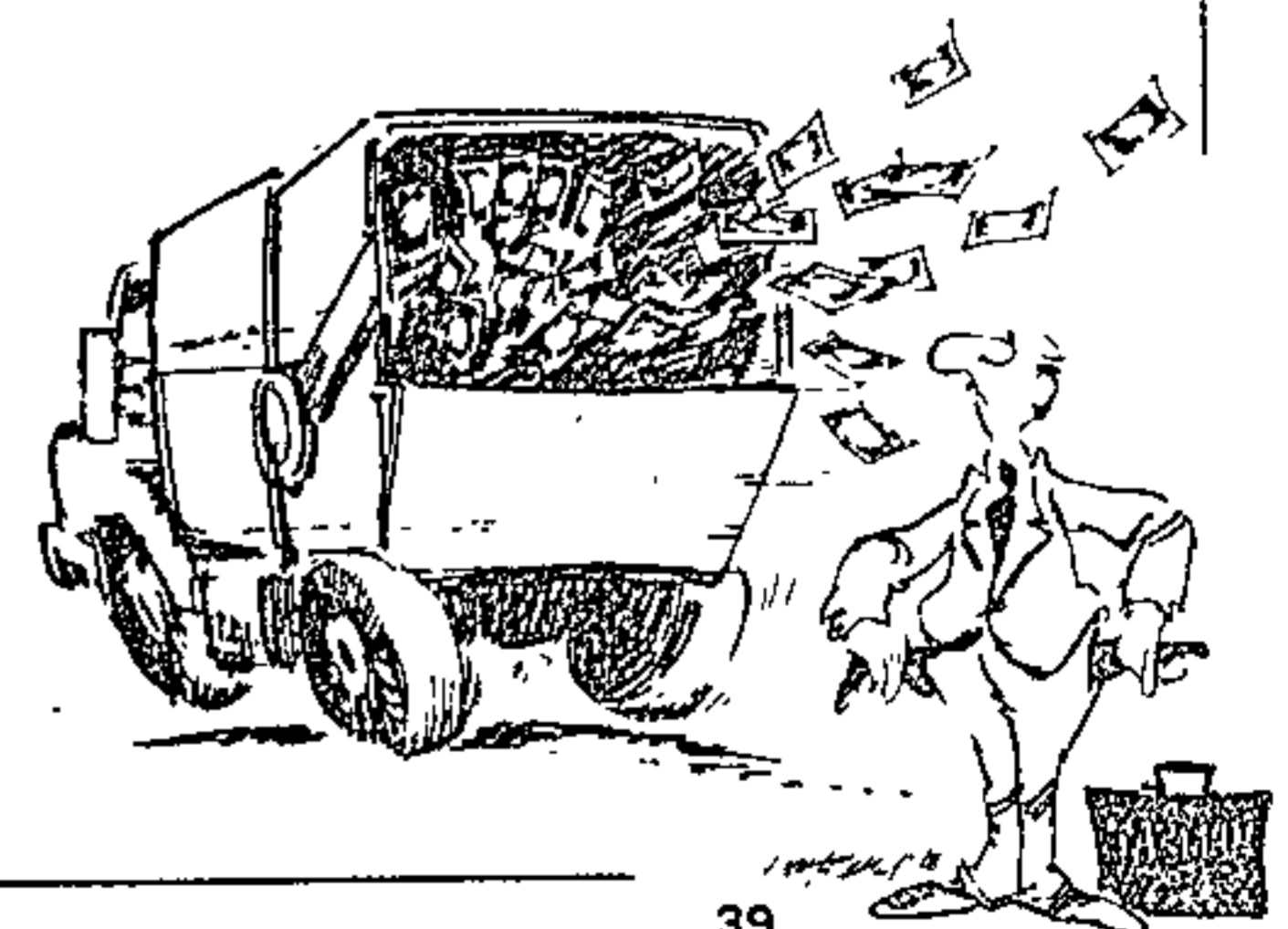
	US	UK	WG	Japan	SA
% growth	4,0	4,0	3,2	5,2	2,5
% inflation	4,2	4,5	1,2	0,7	12,4

imminent — certainly an increase of more than 1% was already discounted in the market. Building societies lent weight to this argument when several adjusted their mortgage rates upwards without waiting for a move in the two key lending rates.

Another view was that official reluctance to let Bank and prime rates follow movements in the market will continue. One election is out of the way but another is already on the horizon. With decision makers buying time from one election to the next, interest rates will remain highly politicised and increases will tend to lag the market.

So banks see stretched before them further protracted negotiations and belated and inadequate rises in key rates. If lending rates are not permitted to adjust to demand, an alternative, from their point of view, is an increase in supply. By improving liquidity in the market and reducing cost of funds, the Reserve Bank could create more consistently comfortable margins.

Says First National's Jimmy McKenzie: "Given the increase in demand for money, the normal market response would be higher interest rates. But if this isn't going to hap-



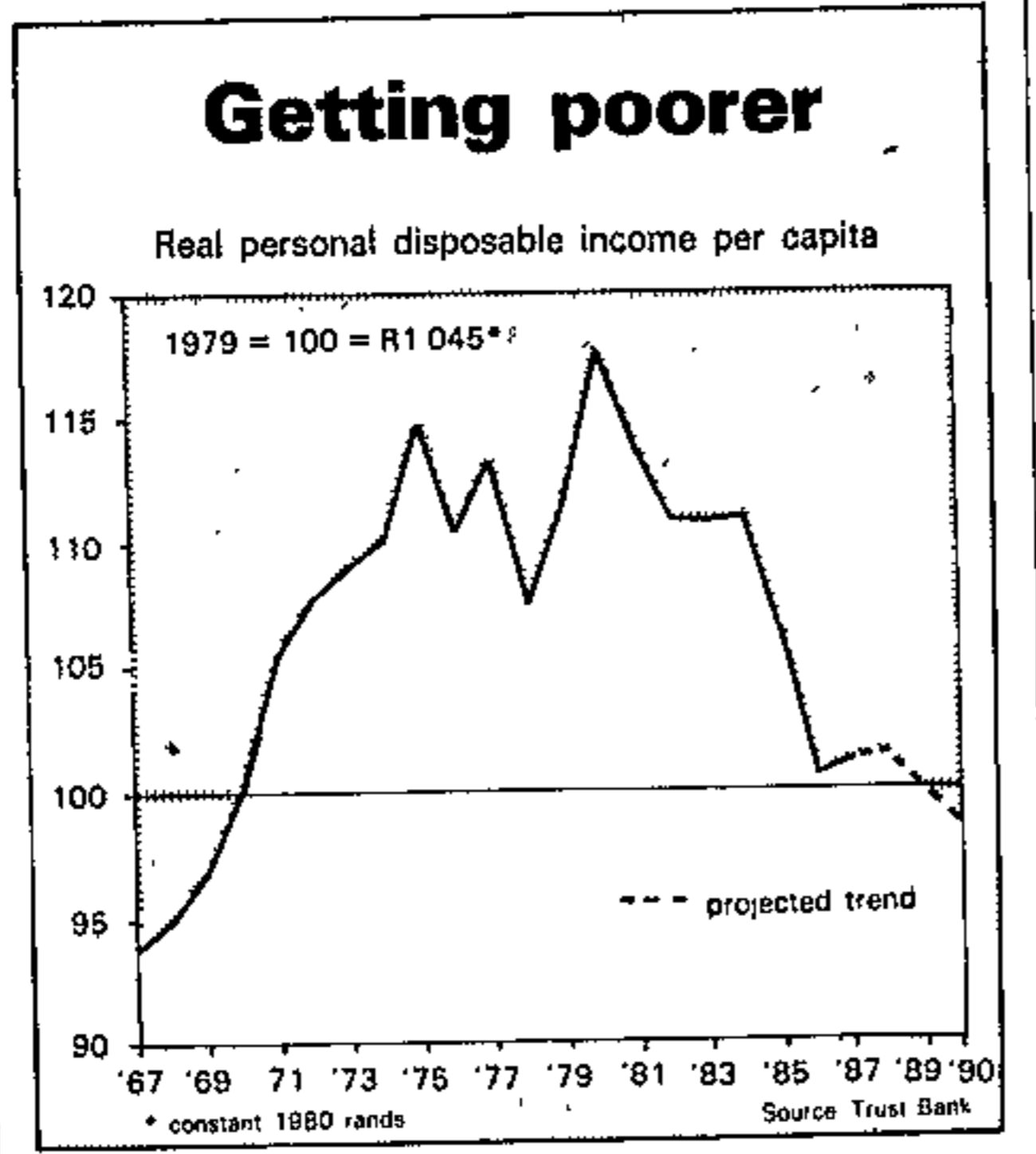
Going in reverse

The average South African is poorer now than in 1971 — and Trust Bank's Economic Report says things will get worse.

Per capita disposable income — what's left after taxes and inflation — fell 14% from its 1980 peak to 1987.

From R1 230 in 1980, annual disposable income dropped to R1 058 last year (in 1980 rands). Trust expects it to creep up to R1 060 this year, before falling R15 in both 1989 and 1990. This will push income below its 1970 level (see graph).

It's not just personal income that's sick. Trust says investment and production have been falling, as well: "Even as we witness the zenith of the present upswing, real per capita consumer spending is still 10% lower than the peak levels of 1984. Real per capita consumer spending on durable products is 20% lower, and real per capita fixed investment 30% lower. Total real manufacturing



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production is still lower than in 1981." It adds: "These statistics clearly show that the upswing of 1987-1988 can at best be seen as a partial recovery of the SA economy." Trust blames sanctions imposed since 1985 for sluggish growth and pessimistic projections for 1989 and 1990. "Living standards will be about 12% lower in 1990 than would have been the case without any sanctions and disinvestment. Real production levels will be about 10% lower, and total unemployment between 500 000 and 1m higher."

All signs are that the rand will continue to depreciate

By Neil Behrmann

LONDON — London brokers and bankers expect both the commercial and financial rand to remain under pressure for the next few months, despite the recent rally in the gold price and yesterday's upward rise in interest rates, which helped boost the rand by about 4c against the US yesterday.

The rand closed at R4,458 against the dollar and also firmed against other currencies.

The only hope for a longer-term recovery is that the sharp rally in the gold price over the last two days continues. If both gold and platinum remain buoyant, pressure will lessen on both the commercial and financial rand. Leads and lags could reverse if the commercial rand rallies. Importers will reduce foreign currency payments and exporters will begin to repatriate funds.

Yet gold appears to be stuck within a trading band of \$390 to \$425.

With gold, so far not helping, the most bearish long-term in-

Only hope is that gold price rally continues

fluence on the commercial rand is the inflation differential between South Africa and its main trading partners.

SA inflation of around 13 percent compares with four percent in the United States, 0,6 percent in Japan, 1,2 percent in West Germany, 2,8 percent in France and six percent in the UK.

The average inflation rate of the 24-member Organisation For Economic Cooperation and Development nations is 3,9 percent.

Markets both home and abroad perceive that South African inflation will accelerate and the 15 percent increase in civil servant salaries has certainly affected expectations adversely.

"Markets are saying that the SA Reserve Bank is not independent of the Government, this is bad news for the currency," says

Robert Weinberg an analyst at James Capel, stockbrokers.

Further bearish factors are South Africa's low foreign exchange reserves and gold reserves that have shrunk to 4,3 million ounces worth \$1,8 billion at present gold prices against 12 million ounces in 1980.

South Africa must also pay interest and repay part of the \$22 billion foreign debt. And in rand terms the debt has surged because about \$13 billion is borrowed in hard currencies such as Deutschmarks and Swiss francs.

The defence document of Consolidated Gold Fields illustrates long-term perceptions of the rand.

The rand price of gold is currently R33 100 a kilogram.

Yet in its own projections of Gold Fields of South Africa,

Consolidated Gold Fields bases gold prices on \$431 an ounce and R48 400 a kilo in 1991. That means, the mining house is expecting the rand to be worth R3,5 per dollar in 1991 against its current level of R2,505. In sterling the rate would be R6,1 against the current rate of R4,43.

In terms of Consolidated Gold Fields' forecast, the rand will thus fall from 39,9 US cents to 29 US cents, a devaluation of 28 percent. If the gold price declines, depreciation is likely to be quicker. With costs escalating by 15 percent per annum, mines need a gold price above R1 000 an ounce.

The rand at the beginning of the year was 51 US cents, for example. In only ten months it has fallen by about 25 percent.

The market believes that Consolidated Gold Fields will sell its stake in GFS and various gold mines. There will thus be an excess supply of more than R2 billion in the financial rand market, enough to depress the volatile thin market markedly. Yet if George Bush wins the elections, the financial rand market could recover.

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Another interest rate rise likely by year-end

Star 4/11/88

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By Sven Lünsche

The prime rate could rise by a further percentage point towards the end of the year, as the authorities need to maintain a viable surplus on the balance of payments.

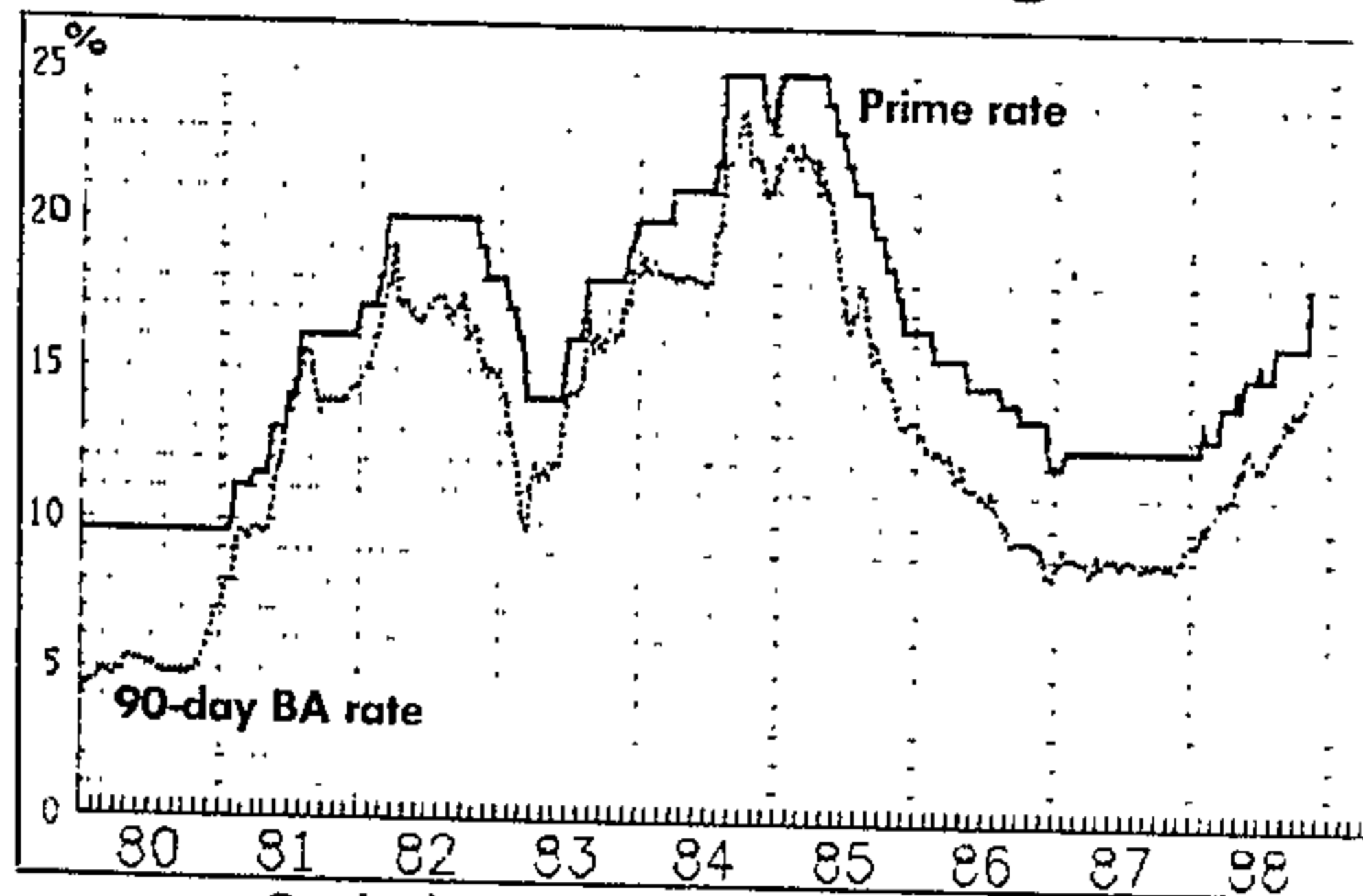
The BA rate yesterday rose from 14,55 to 14,9 percent in the wake of Wednesday's two percentage point rise in the Bank rate, with dealers suggesting that the money markets had already discounted the Bank rate increase a few weeks ago.

Confirms Simpson McKie's John Banos: "Economic fundamentals affecting short-term rates are still serious."

Underlying the problem is the fact that economic growth is stronger than had been anticipated by the authorities, a development stressed by Reserve Bank governor Dr Gerhard de Kock when he made the announcement.

"In retrospect it is clear that from the third quarter of 1987 onwards the upswing in the South African economy gained much more momentum than most observers had expected. Present indications are that the rate of growth of real gross domestic product will again reach 2,5 percent in calendar 1988.

"Moreover, preliminary esti-



Graphs shows the steady rise in rates this year.

mates suggest that real consumer spending showed a further marked increase during the third quarter of 1988, at an annual rate approaching six percent. In addition, real fixed investment spending appears to have risen at an annual rate of around 13 per cent during the third quarter," Dr de Kock said.

In view of the extent of South Africa's foreign debt obligations, the authorities will, however, have to ensure that the current account of the balance of payments shows a considerable surplus in 1989 and

total domestic spending will therefore have to be prevented from increasing too rapidly.

Gold and foreign exchange reserves have dropped to levels where they cover only one and a half month's of imports and against the background of the recent volatile performance of the gold price, the need to restrain imports has become even more pronounced.

The upward trend in expenditure could be bolstered next year by spending as a result of the salary adjustments for workers in

the public sector.

"An early boost to purchasing power in the nearly two million strong public sector will boost confidence and replacement demand for durable goods as well as anticipatory buying before inflation rises next year," says Southern Life's Mike Daley.

He adds that credit use could stay high for somewhat longer than anticipated, and the situation regarding interest rates and import levels would be monitored.

To prevent a continuation of the credit-spending boom economists therefore consider a further one percentage point rise in the Bank rate likely, possibly before Christmas.

After that a mix of fiscal and monetary measures will probably be applied, the ratio depending on whether the government will announce an early general election.

Further interest rate hikes would most likely be avoided in the case of an election, but a package of fiscal measures would substitute for this.

A rise in GST from 12 to 14 percent around Budget time has already been speculated upon and this could be supplemented by further import controls and hire-purchase financing measures.

Savings deposit rates rise and . . .

Gold gives the rand a needed boost

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3/day
4/11/88

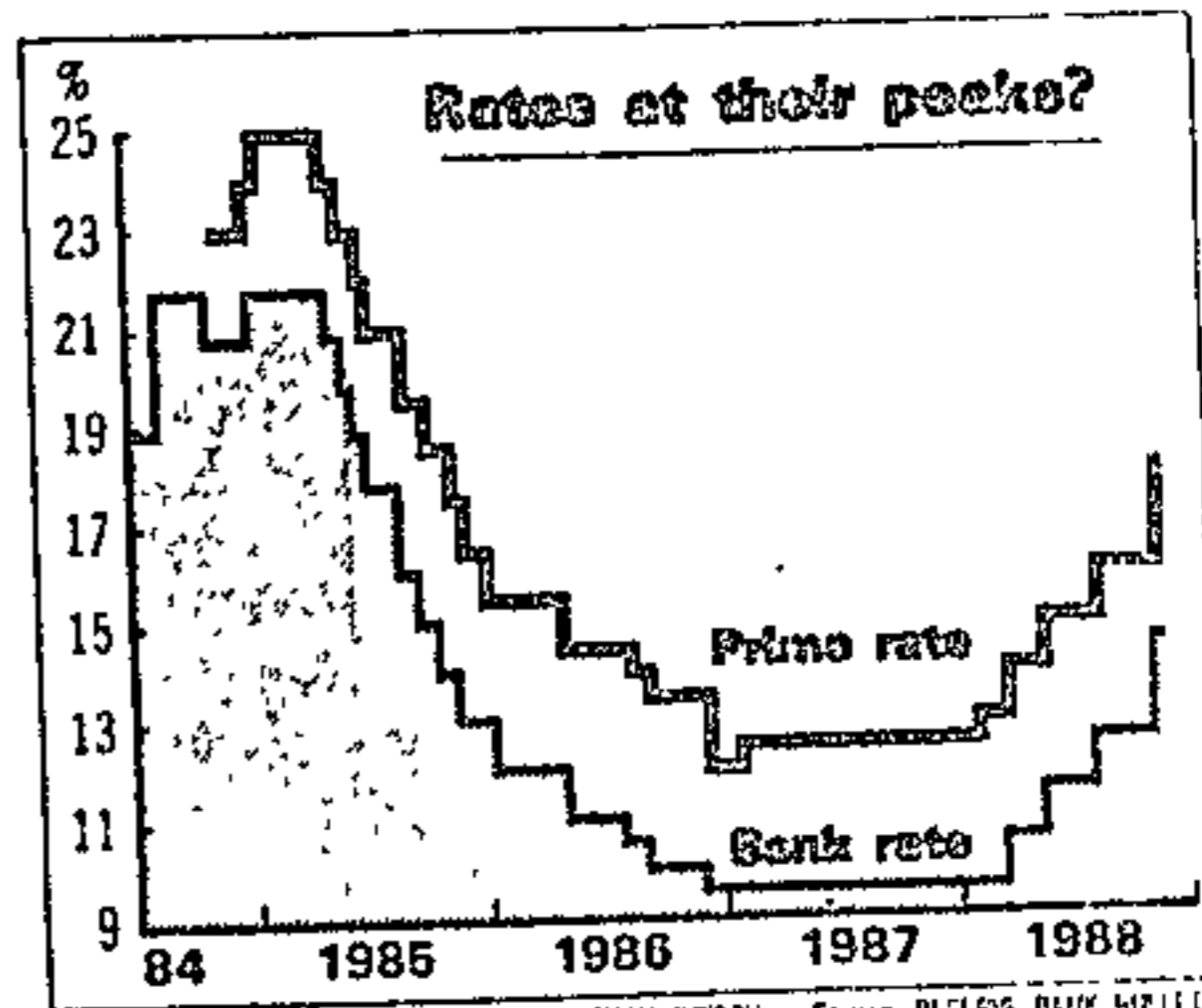
GRETA STEYN

SAVINGS deposit rates rose and the rand strengthened yesterday as financial markets digested the two percentage point increase in Bank rate.

The Standard Bank rushed to move on retail deposit rates, raising rates by as much as two percentage points in some cases from today. Competition will force the other banks and building societies to follow suit.

The increase in savings deposit rates is in line with Reserve Bank Governor Gerhard de Kock's wish for a return to positive real rates of interest to generate much-needed savings.

The Standard's increases apply to call and notice deposits and certain other special savings plans which the bank offers. The rate for 32-day notice deposits moves from 10% to 12% and call deposits from 8% to 10%. For six-month fixed deposits, the rate moves from 11%



to 13% and for one-year from 13% to 14,5%.

On foreign exchange markets, the rand closed sharply higher against the dollar, ending the day at R2,4583 to the dollar from R2,5078 on Wednesday. Earlier yesterday, it improved to R2,4390 to the dollar.

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Du Plessis responds to criticism

GRETA STEYN

FINANCE Minister Barend du Plessis yesterday responded to criticism of monetary policy in 1988, saying interest rates were not administered prices.

He said: "In a free enterprise economy which aims to promote the proper working of markets, fluctuating interest rates must be as acceptable as any other variable in the economy."

He recognised that the arguments of critics calling for an earlier increase in Bank rate had been well founded. However, he said: "The obvious result of large increases in interest rates is cost increases for large numbers of businessmen, farmers and home owners, many of whom just cannot afford it."

Gold gives rand a much-needed boost

Dealers mentioned the increase in interest rates, the weaker dollar and the stronger gold price as factors boosting the rand.

The surge in the gold price, which was fixed at \$423,40 in London yesterday afternoon from \$414,75 the previous day, boosted confidence.

However, Standard deputy GM Rocco Rossouw said he did not expect the rally in the rand to last.

He said: "There has been substantial intervention by the Reserve Bank to prop up the currency. The rand's sudden gains are not an indication of a new trend. It remains a weak currency."

In the money market, the major five banks announced immediate increases in their prime overdraft rates of two percentage points to 18%. But in an aggressive move, the United Bank undercut the larger banks by keeping prime down at 17,5%. It is an effort to take market share away from the banks

← ● From Page 1

which undercut the United Building Society on mortgage rates in 1987.

First National Bank said its home loan rate would rise by two percentage points from 16% to 18% with effect from November 24. The Standard's rate is lower at 17% while the other major banks have yet to announce a decision on bond rates.

However, the first signs of renewed upward pressure on building society mortgage rates have emerged. Margins would narrow if they followed the Standard's increases in retail deposit rates. Property economist Neville Berkowitz predicted another rise in mortgage rates would be announced before the end of the year.

Money market analysts are less certain about the course of Bank rate and prime rate.

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B/day 4/11/88

New Year slump after festive boom — survey

Star 5/11/88

(49)

MAJOR businesses have predicted the biggest Christmas spending spree on record, followed by an economically dismal 1989.

This is revealed in an Association of Chambers of Commerce (Assocom) Christmas survey, which predicts a massive 19 percent increase in spending by South African consumers, to R10,7 billion, in November and December.

More than 250 retailers and retail chains responded to the survey, which was conducted last month.

"Some respondents voiced the opinion that Christmas 1988 would see a big spending spree before a severe downturn in sales in 1989," said Assocom.

Food and clothing shops anticipate a 20 percent sales increase compared with the same period last year. Some 70 percent of respondents to the survey said they would lay on special offers.

The main coastal areas, including Durban, are expecting to do reasonably well and are hoping for a good inflow of tourists.

However, more than two thirds of the respondents expect that govern-

ment measures to cool down the economy will have an adverse effect on sales, and 80 percent said the recent surcharges on imported commodities would increase prices.

"The interesting feature this year is that the economy has been expanding too fast relative to what South Africa can afford and that various fiscal and monetary measures have had to be taken, and may still be strengthened, in order to cool down the economy," the survey says.

More than 60 percent of the respondents reported that customers were more price-conscious than last year.

And 60 percent said consumers were expected to make the same or less use of credit over Christmas compared with the same period last year.

A considerable number said rising interest rates, particularly on housing bonds, would affect sales.

A number of political factors are mentioned in the survey as influences on consumer perceptions and sales. These include the security situation.

Some respondents said they believed the usual seasonal upswing would be somewhat tempered by the "August early mini-sales boom".

Seminar highlights sorry economic performance

By TREVOR WALKER
Business Staff

W/E AR663
5/11/88

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With savings by such people having dried up, the building society movement as it was once known was all but destroyed and it now relied for up to 80 percent of its money on institutional sources.

THE South African economy is over regulated, over taxed and "big business" has control of too much of overall production.

Speaker after speaker at a seminar in Cape Town this week on the small business sector highlighted the sorry state of the country's economic performance over the past 15 years.

Mr Robin McGregor, publisher of Who Owns Who said the work ethic in South Africa hardly existed. Considering the size of the public sector and the lack of competition in the private sector the country was training bureaucrats not entrepreneurs.

Political considerations had steadily increased the size of the public sector. Public servants were treated as though they were members of an extended family.

The trauma

The good work done by the trauma and adjustments involved in the evolution of the majority of the country's civil servants or their forebears from an agrarian to an industrial society was being reversed by excessive mollycoddling.

Mr Lawrence McCrystal, chairman of The Board of Trade, said the country's taxation system, designed according to Western, mainly socialist, standards and principles had operated against the build-up of capital by small businesses and in favour of financial institutions and large groups.

The interest rate policy had operated with inflation and the taxation system of the past 15 years virtually to destroy that great virtue of strong economies — saving.

He said a poignant manifestation of this was the building society movement in South Africa. It had originated in the mobilisation of the savings of the man-in-the-street.

Dr S J Kleu, adviser to the Reserve Bank, said increased government spending and the relatively greater part of capital resources claimed by the state could have resulted in a less productive use of capital.

Economic growth in the Republic was being restricted in the short run by the necessity to curb expenditure in order to maintain a surplus on the current account of the balance of payments.

This surplus was required in view of the capital shortage created by the country's foreign debt obligations, coupled with relatively little new capital being available from abroad.

The equilibrium between available savings on the one hand and investment required for the necessary growth in national income and employment, on the other hand had been disturbed because South Africa, as a developing country which should be a capital importer, had been forced by foreign banks and investors to become a capital exporter.

Wounded

Mr Theo Rudman, executive director of Self-Employment Institute said the economy had been mortally wounded.

Inflation was destroying the economy and the only way exporters were able to remain competitive was to rely on a falling rand — "a very sick approach indeed."

In 1980 investment by government represented 14 percent of GDP, while its consumption was 13 percent. By 1987 this had reversed to nine percent investment and 16 percent consumption.

Many sacrifices will be made, but the benefits hang in doubt

SA 5/11/87

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ORDINARY South African are being asked to make considerable sacrifices for the good of the country. Soon they will start feeling the effect of the 20 percent to 60 percent tariffs imposed a little while ago on imports.

If they are repaying mortgages, monthly repayments will be 30 percent higher than at the start of the year.

Should they want to buy a new house, they will have to lower their sights on what is affordable.

Borrowing money for other purchases too, will be more costly. All told, life is getting tougher for the man in the street.

All these measures have a common purpose. They are to curb consumer spending and increase savings so as to strengthen the rand and lessen the risk of another steep bout of inflation.

The aims are worth making sacrifices for. Unhappily, there are fears these sacrifices could be in vain. If past history is any guide, South Africa is heading for a series of inflationary wage increases that will completely

undo the good now being achieved.

DEREK TOMMEY

Soon the effects of the surcharge and higher interest rates will start showing up in a significant increase in the consumer price index (CPI). This will lead to both workers and employers seeking pay and profit increases to offset these "inflationary" rises.

As things are at the moment, they are likely to get them. Don't be surprised if you see people getting a pay rise to compensate for the 60 percent increase in surcharges on imports, which they don't buy and which was aimed at curbing consumer spending.

Some people will get increases to offset the rise in mortgage rates, even if they are not buying a house, and despite the rise in interest rates being intended to reduce consumer spending.

Because of this crazy system, it seems likely that by this time next year people will have even more money to spend. It's possible that hou-

sebuyers then will be able to afford an 18 percent mortgage as easily as they could a 12,5 percent one this year — and be able to buy even more imports.

As for the Government, the only results of its efforts to strengthen the economy will probably be an increase in inflation, a further reduction in the buying power of the rand and another crisis on the way.

The reason for this pessimistic forecast is that most people believe, erroneously, that the consumer price index is a standard of living index. There is a strong belief that wages, salaries, company profits, share prices, dividends, professional fees — in fact, virtually all costs — should at least keep pace with the CPI. This is a fallacious view, but one that unfortunately dominates public and private sector thinking.

The CPI is an excellent index of expenditure, but it is far from being a standard of living index. As Dr Treurnicht du Toit, head of Central Statistical Services, said this week, the

index is often abused by being used for the wrong purposes.

One reason why the CPI cannot be a standard of living index is that it does not take into account changes in income. Why should anyone be compensated for an increase in, say, mortgage rates, when they are also benefiting from it? With 80 percent of building societies' funds provided by "institutions" — the pension funds and life insurance companies — much of the R1,2 billion increase in mortgage payments this year will go towards increasing pension provisions and insurance bonuses.

A second reason is that spending habits change. For example, if the price of hi-fis is to rise 60 percent because of the surcharge, the number of people buying them will drop sharply. But until the index is re-weighted, it will continue to reflect the expenditure on hi-fis that prevailed when prices were much lower. Consequently, it will indicate a much higher individual expenditure than is taking place.

However, the main reason why the CPI cannot be regarded as a wage indicator is that it covers changes in tax rates. Taxes are an individual's responsibility, not the employer's. If wages are linked to the CPI, it means the employer is paying his workers' GST, his import surcharges and his excise duties on liquor and cigarettes.

So linking wages to the CPI has the effect of negating much of the economic effects of the Government's fiscal policy. Instead of taxes being deflationary, they are inflationary. And it is probable that much of South Africa's high rate of inflation is the result of this.

For the sake of long-term economic health, it does seem the public and the Government should be educated to place less reliance on the CPI as an indicator of what their living standards should be.

Otherwise South Africans must be prepared to face even greater inflation.

BUSINESSMEN should stop sitting on the sidelines criticising and instead get 100% actively involved to ensure a prosperous future for SA.

Business must stop passing the buck, says Toyota's Pretorius

This was the message to the Klerksdorp Afrikaanse Sakekamer this week by Brand Pretorius, Toyota Marketing Company MD.

"I am sure we all share the desire to get SA back on the road to economic prosperity and social stability as soon as possible," said Pretorius. "It is therefore essential that every businessman and woman plays a practical, leading role to make this happen."

He said there was a general feeling of depression and lack of confidence in the longer-term political and economic future of SA. There also appeared to be

an attitude among many people to "pass the buck" to government for the political, economic and social future of SA.

To counter these negatives, Pretorius said, business concerns must realise that their economic future was coupled largely to the political and social future of the country as a whole.

"Co-operation and development between all peoples in the economic sphere is far easier to achieve than political co-operation," he said.

Pretorius said he saw six major challenges facing business.

He listed them as:

- Promoting economic growth and the creation of prosperity and job opportunities;
- Uplifting and training of employees;
- Marketing of the free market system among workers;
- Developing horizontal and vertical communication systems which will reach all levels of employees;
- Accepting wide-ranging social responsibilities towards the communities in which businesses operate; and
- Maintaining positive communication links with the international business world. — Sapa.



Blou 7/11/88

Govt increase in subsidies weakens economic curbs

STAR 7/11/85

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Finance Staff

Economists have condemned the Government for taking some of the sting out of last week's two percent interest rate hike by announcing subsidies for farmers, small businesses and first-time homeowners.

"Consumer spending is still soaring and the authorities should put on all the brakes possible in order to avoid a repeat of the 1984/85 interest-rate boom," a senior economist at a stockbroking firm said at the weekend.

He said that some of bank loans to the public had risen by over 30 percent in the year to October and against the background of the usual Christmas sales boom, soaring consumer expenditure was expected to continue.

"We desperately need to protect the balance of payments and a further increase in interest rates over the next two months is unavoidable," the economist said.

On Friday night the Government announced a 2.5 percent increase in interest-rate subsidies for first-time homebuyers.

The Minister of Finance, Mr Barend du Plessis, the Minister of Agriculture, Mr Greyling Wentzel, and the Minister of Manpower and Public Works, Mr Pieter du Plessis, revealed plans to help farmers, the small-business sector and first-time homebuyers in view of the increase in Bank Rate.

In respect of the interest-rate subsidy scheme for first-time homebuyers, subsidies payable on the interest portion of the monthly payment will be adjusted on a regular basis, in accordance with changes in building society interest rates.

The most recent adjustment was implemented on November 1. The interest rate on which the subsidy of 33.33 percent is payable, was increased from 13.5 percent to 16 percent.

Where farmers are concerned, the Cabinet has decided those who have been hard hit by circumstances beyond their control should be protected as far as possible from the unavoidable increase in interest rates.

Agriculture had already moved into a recovery phase and it was not in the national interest to retard its recovery abilities over the longer term for the sake of a monetary regulation, which hopefully would be of short duration, the Ministers said.

As far as the small business sector was concerned, details of steps to be taken with regard to the effect of the increased interest rates would be released later, they said.

The current bond rate increase has questioned the financial viability of offering fixed-rate loans because they increase the cost of funding for financial institutions at times when interest rates rise.

But, claims Mr Kevin de Villiers, MID of Allied Group, the incoming money on these schemes suffice to cover costs.

The Allied's fixed rate is 17 to 18 percent over a five-year period and because of the volatility of the normal mortgage rate, which has seen upward adjustments in recent months, the fixed bond might well attract a lot more interest.

Nevertheless, Allied's present fixed rate might well be on the low side in today's market conditions and a slight rise could be on the way soon.

Mr de Villiers says: "We will have to see how things go and we could be looking at a 0.5 percent rise.

Allied has done about R300 million worth of fixed rate business and Mr de Villiers is surprised that it hasn't done more.

"The funding of the fixed-rate bond has gone well and I think we can expect higher demand for it," he says.

State portion of GDP second only to manufacturing

By Dave Canning

With a contribution of R21 billion, the state in 1987 overtook the mining sector as the second-biggest contributor to gross domestic product (GDP), says Federated Chamber of Industries senior economist Mr Roelof Botha.

"Manufacturing is still the largest, at about R35 billion, but the rate things are going, we had better watch it in three or four years," Mr Botha told delegates to the regional congress of the Natal Chamber of Industries in Pietermaritzburg at the weekend.

He said the Government was starting to recognise the economic consequences of its political actions, as evinced by its policies of privatisation and deregulation.

"Economic policy has failed to provide adequately for the capital-labour endowment of the economy.

"Real interest rates have for lengthy periods been negative, exchange rates have often been overvalued, real wage determination is not strictly based on the productivity of labour and the tax system generally does not fa-

vor investment in venture capital.

"However, the Government has of late been showing signs of adopting a more realistic policy approach."

Mr Botha said industrialists imported a lot of components and machinery that they were unaware were locally manufactured. The FCI planned later this year, or early in 1989, to meet Cabinet Ministers, their heads of department and President PW Botha to discuss producing a comprehensive register of local manufactured products.

Mr Botha said it had been calculated that were it not for the "perverse" balance of payments constraints, which placed a virtual three-percent ceiling on the annual growth rate, the economy could grow at a rate of "seven percent plus".

"As a developing country, we should be importing components and equipment for our growing industrial sector."

Mr Botha said 300 manufacturers recently surveyed by the FCI were confident about the next three to four months.

Dear Sir, *Sprou* 2/11/88.

IN AN editorial of November 3 you described me as a "vehemently anti-capitalistic" person. This allegation is unwarranted and cannot be substantiated. I challenge you to try.

Yes, I am critical of many aspects of Capitalism. This does not make me a "vehemently anti-capitalistic" person. I am especially critical of the *Laissez faire* (or Liberal or Bourgeois) Capitalism of the 19th Century. As an economic historian I, nonetheless, appreciate many of the accomplishments of *Laissez faire* Capitalism.

I am quite critical of Colonial Capitalism in SA. Colonial Capitalism must bear a lot of blame for creating the Apartheid system in the first half of the century. I agree with Paul Johnson that "all the structural essentials of white supremacy and physical segregation existed before the United Party lost power to the Boer Nationalists in May 1948". But, again, as an economic historian, I appreciate many of the accomplishments of Colonial Capitalism in SA.

I am also critical of Monopolistic Capitalism as it operates at present in SA. I think that the English orientated Capitalist System (of Johannesburg) can do much more to challenge the Afrikaner orientated Bourgeois State (of Pretoria) on the perpetuation of the Apartheid system. Or, as I put it elsewhere: "Given the growing international isolation and economic stagflation it seems that both Pretoria and Johannesburg are running for cover — towards each other — in an attempt to protect their large short-term interests."

I like to call myself a Social Demo-

(19)

For Democratic Capitalism

crat. I am in favour of a system of Democratic Capitalism but realise that the transition from the Apartheid system towards Democratic Capitalism will be extremely difficult. If you think that the kind of liberal free enterprise, individualistic Capitalism you favour is compatible with a non-racial democratic system in SA, you truly are living in a fairytale world!

S J TERREBLANCHE

University of Stellenbosch

We accept Professor Terreblanche's assurances and will accept, for journalistic shorthand purposes, any label that distinguishes him from the liberals. — EDITOR

GDP growth prospects improving

Finance Staff

In spite of gloomy predictions earlier in the year, it would now seem that the real growth in gross domestic product for 1988 should be about 2,7 percent.

The Central Statistical Services states that GDP fell from 3,6 percent in the first quarter of 1988 to 2,5 percent in the third, which, it says, was three percent higher than the third quarter of 1987.

The CSS comments: "Even if no further increase in the seasonally adjusted real GDP should occur in the fourth quarter of 1988, relative to the third quarter, the growth rate for 1988 would still be 2,7 percent".

The economic growth rate for the non-agricultural sector for the second and third quarter was 2,3 percent and 2,6 percent.

It will be noted that the economic growth rate for the second quarter of 1988 has been revised upwards from 1,5 percent to 2,2 percent.

"The lower growth rate in the second quarter can be attributed to a decline in manufacturing production, in which strikes played no small part".

SA's GDP rises by 2,5%

49 B/dew 10/11/88

GRETA STEYN

SA's Gross Domestic Product (GDP) rose by a solid 2,5% in real terms in the third quarter of the year, paving the way for a growth rate of close to 3% in 1988.

This is in line with economists' expectations, who described the rate as "respectable" given the country's constraints on growth.

SA needed to grow to accommodate the needs of an expanding population, economists said.

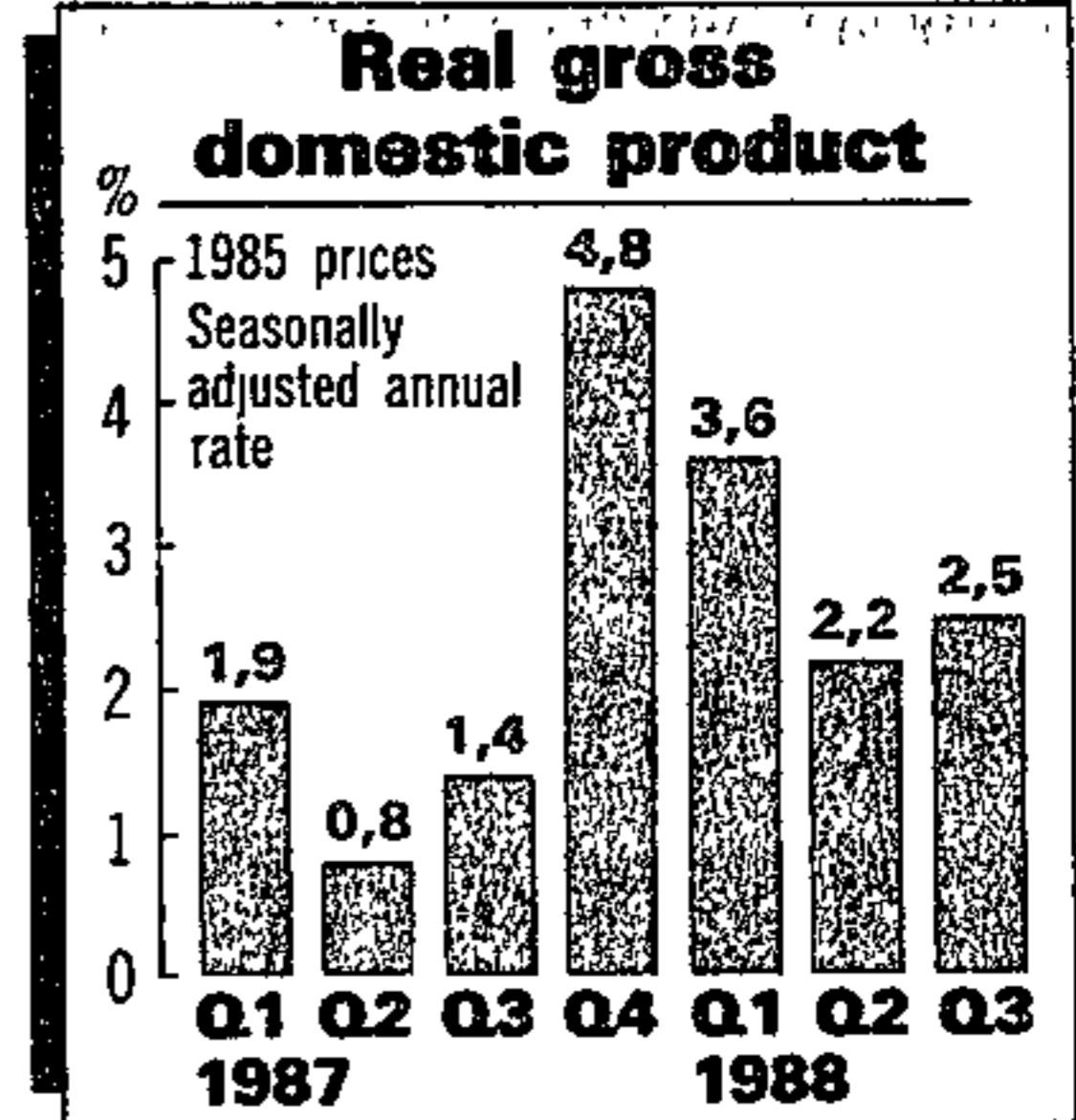
Central Statistical Service (CSS) also released a sharp upward revision of second-quarter figures, showing the economy growing at an annual rate of 2,2% rather than the original 1,5% estimate. All figures are seasonally adjusted and at annual rates.

Growth in the third quarter took place because of a dramatic recovery in manufacturing output after a slowdown in the second quarter.

CSS said the growth rate for the year as a whole would be 2,7% — even if there was no real growth between the third and fourth quarters of this year.

However, economists expect 1988 to be the peak of the current business cycle. Next year would see growth rates slowing to between 1% and 1,5% — too low given the country's rate of population growth.

However, the slower growth would probably be accompanied by larger cur-



rent account surpluses, which would help build much-needed reserves.

CSS growth figures are based on output and not expenditure, as are the Reserve Bank's figures, and are subject to revision.

JOHANNESBURG. — A top economist has predicted that the bank rate will rise to 17% or even 18% next year and the governor of the Reserve Bank has warned of "serious consequences" for the economy if correct policies were not followed.

Dr Hans Falkena, chief economist for the United Building Society, told the Financial Mail conference on investment that without an increase in taxation, the budget next year was bound to be too stimulatory, implying that the bank rate would have to go to the 17%-to-18% level by mid-1989.

The governor of the Reserve Bank, Dr Gerhard de Kock, told the conference that warning signals had emerged that government spending might rise faster in the second half of the fiscal year than in the first.

Top businessmen and economists attending the conference interpreted his speech as a clear message to government that action was needed on the fiscal policy front to avert an economic crisis. (Full report — Page 10.)

Inflation fears

If the correct policies were not followed in the next six months, SA would face "serious consequences", Dr De Kock said. It was not enough only to announce the correct policies, they had to be implemented too.

Dr Falkena said important changes to monetary policy were needed to achieve the aim of sustained positive real rates of interest.

He said a negative real interest rate policy would sooner or later prove to be highly inflationary, especially because South Africa's major trading partners had high real rates of interest.

"High inflation in turn implies a weak rand and thus massive forward cover losses for the account of the Treasury which will boost the money supply explosively," Dr Falkena said.

In itself a more restrictive monetary policy stance — higher interest rates — would help restore the current, unacceptably low level of personal savings while it would also enforce a more efficient use of capital, which in turn would reduce the propensity to import.

Dr Falkena said GST should be raised to accompany an increase in the bank rate when the gold and foreign exchange reserves were under pressure.

He made a strong plea for major changes to monetary and fiscal policy and said the government should try to use GST — or later, VAT — more actively as a policy instrument to curb domestic demand by reducing the buying power of the private sector.

● More conference reports — Pages 9 & 10

Own Correspondent

CHC
TWP
11/11/88

SA is warned inflation is worse than before



Cancelling corruption



Brian Kantor is a professor of economics at the University of Cape Town

How perverse it is for students in Zimbabwe to blame corruption on capitalism. Of course, it may take a fat man with a cigar to offer a bribe. But conversely it also needs a rapacious official with something to exchange for the bribe. What is, of course, being exchanged for the bribe is an economic opportunity, an opportunity for willing buyers and sellers to satisfy themselves, which would otherwise be prevented by law or administrative action. Clearly, without the restrictions on capitalist acts between consenting adults, there could be no corruption.

Obviously, the freer, more competitive an economy, the more capitalist its structure, the greater the extent of legal opportunities to buy or supply, the less will be the economic power to be corrupted.

Freedom of entry to businesses or occupations eliminates monopoly power and eliminates the power of the licensing official. Freedom from rent control or price control removes the power of the rent controller or the price controller. Freedom from restrictions on imports or

exports removes the power of the customs official or the import controller. Such freedom also eliminates the smuggler. Freedom from exchange control removes the power of the commercial or central bank official.

Freedom to take over, to merge and acquire, eliminates the power of established managers to profit at the expense of shareholders or customers, and so on. *Capitalism*, by definition, implies a high degree of freedom from government intervention in economic decision-making. True capitalism and corruption are logically inconsistent.

Of course, decentralisation and smaller, less powerful governments are unlikely to appeal to the new African elite studying in universities any more than to established bureaucrats in Africa, South America, Central Europe, or mainland China. Much of what they have been taught will have encour-

aged them to believe falsely in the essential beneficent central role of governments.

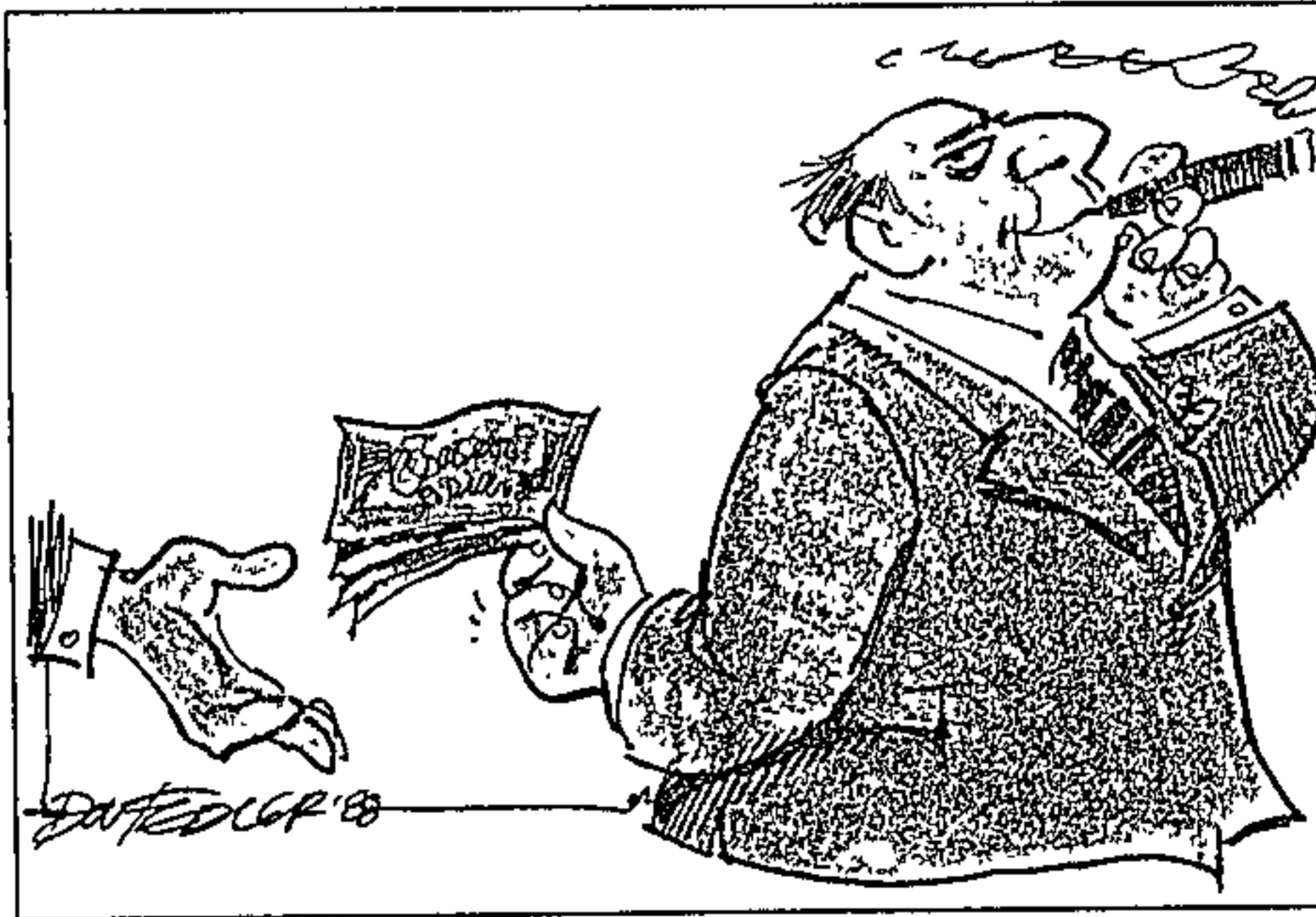
Furthermore, perhaps of greater importance, they will have observed the attractions of life at the top in government. They may even believe, naively, that power in their hands, unlike that exercised by their predecessors, will not be corrupted. Deng and Gorbachev now know better.

What they don't know, because there are no precedents, is how to remove power from the centre, how to promote economic freedom through decentralisation of economic decisions: how, in other words, to eliminate corruption and waste, when such a powerful interest has been established in it.

Economic freedom is always a question of degree. Establishing that degree in any clear objective way is no small task.

When such comparisons are made, South Africans do not rank high among the free. Clearly, there is room for great improvement and some improvement, on balance, is being made.

The great goal for economic policy should be to establish firmly, irrevocably, and certainly unpopularity with our own African elite, a culture of economic freedom. The benefits of decentralised economic decision-making by highly independent economic actors competing with each other, need to be recognised so that Pretoria, no less than Moscow, Brasilia, Belgrade or Beijing, is seen to be the problem, not the solution.



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ECONOMIC STATISTICS

Start when you like

Finance Minister Barend du Plessis brought that old saying about lies, damned lies and statistics forcibly to mind last week, when he tried to justify government economic policy to the Port Elizabeth Sakekamer.

He claimed as "economic achievements" the decline in the quarterly inflation rate from 24% in the first quarter of 1986 to less than 10% in the first quarter of 1988; and a doubling of gold and foreign exchange reserves (in a period quoted by Sapa as 1985-1986, but which Du Plessis, who spoke off the cuff, readily agrees was in fact April 1986-August 1987), which prepared the way for three to four years of growth.

He said it was a pity that the achievements did not receive the attention and recognition they deserved.

Well — they did at the time. Trouble is, they've been overshadowed by subsequent events, while the hope for "three to four" years of growth from mid-1986 is shared by few private-sector economists.

Take the reserves. True, an April 1986 R3,9bn advanced to R8,7bn in August 1987. Indeed not bad, in 16 months. And with the rand firming marginally against the dollar over that period (from about US48,4c to 48,9c), the performance in that currency was even better.

But where are we now? On Tuesday, less than a week after Du Plessis' speech, it was announced that October reserves fell for the sixth successive month, and by no less than 12%, to R4,6bn — the least since December 1986.

That's already a fall of 47% in the past 14 months, in rand

terms. And with the rand now worth only US40,7c, the fall in dollar terms is pushing 58%.

True, as Chris Stals pointed out the other day, we've repaid something like R20bn foreign debt in the past three years. That's in fact remarkable, even if as much as anything it illustrates our growing impoverishment.

Then, the inflation rate. The dip into single digits was short-lived. On the latest three-months' figures, the annual rate is back at 11,5% (the monthly rate is even higher — see P28). Most economists pitch next year's expected range anywhere between 15% and 20%.

It may be argued that these are also selective figures. But they're no more selective than the minister's, and at least have the merit of being the latest available, not drawn from some rapidly receding past.

If Du Plessis wants credit for the earlier improvement, he must also at least share the blame for the latest deterioration. He might also ponder on the reasons: like the abandonment of any effective limits on money creation; an interest rate policy which is so reactive as to be trancelike; and a public-sector spending spree which — true as it is to say, as the *FM* did at the time, some years back was about the only positive factor generating any sort of growth — now threatens to make nonsense of the projections in this year's Budget.

Financial journalists are not masochists. We enjoy prosperity as much as anyone. That's why so many of us despair at the mishandling of fiscal and monetary policy this year. ■

Tough times 11/11/88

Next year is going to be rough for businessmen, consumers, taxpayers, drivers and the rand, if the Stellenbosch Bureau for Economic Research (BER) is right.

BER sees GDP growth falling to 1,3% in 1989 from 2,5% this year, while the rand sinks to an average R2,75/US\$ (about US36c) from R2,32 (US43c). Its latest *Economic Prospects* also predicts:

- Higher taxes. Government will increase revenue some R1,5bn by not compensating for fiscal drag — through which nominal salary increases push workers into higher tax brackets. It will also opt for some mixture of import surcharges, a rise in the fuel levy, loan levies on income tax, or higher GST;
- Higher petrol price. Petrol will increase in second-quarter 1989, though BER can't say by how much;
- Lower consumer spending. After rising 14,5% in 1987 and 9,6% in 1988, spending on durable goods — furniture, appliances, cars — will fall 8,8% next year. And spending on semi-durables — clothing, footwear, spare parts — will increase just 0,8%, following increases of 4,5% this year and 2,8% last;
- Lower capital spending. Private fixed investment will rise a mere 0,2% in 1989, after jumping 14,2% this year;
- Higher inflation. Consumer prices in fourth-quarter 1989 will average 16,2% higher than fourth-quarter 1988;
- Softer interest rates. Prime will ease to 16,5% by year-end 1989. Long bond rates will come down, too: "The higher inflation projected together with the uncertainty surrounding government's borrowing requirement should drive up long rates during the next six months. We have assumed that

THE YEAR AHEAD

Stellenbosch BER economic forecasts

	Quarterly averages					Annual averages	
	1988 IV	1989 I	1989 II	1989 III	1989 IV	1988	1989
Rand/\$	2,63	2,74	2,80	2,74	2,70	2,32	2,75
D-Mark/Rand	0,72	0,69	0,66	0,64	0,63	0,77	0,66
Prime rate	17	17,5	17,5	17	16,5	15,1	17,1
BA rate	14,3	15	14,5	14	13,3	12,4	14,2
Eskom 168	16,3	17	16,7	16,5	16,5	16,3	16,7
PPI (1980 = 100)	299,9	309,1	319,8	327,0	343,8	281,0	324,9
% change*	16,7	16,6	16,0	15,4	14,6	13,9	15,6
CPI (1985 = 100)	165,0	170,9	176,8	183,0	191,8	156,0	180,6
% change*	14,0	15,1	15,7	16,0	16,2	13,3	15,8

* From year-earlier period

Source: BER

increased government spending will be financed by raising revenue and not by deficit financing, thus long rates are expected to soften from second-quarter 1989;" and

□ Poorer people. Per capita real disposable income will fall 2,5% next year, following a drop of 0,7% this year.

BER says some sectors could do well. Manufacturers of car parts and tyres, for one, will benefit from skyrocketing vehicle prices. "Sales of these have been very good almost every year since 1980 and ... 1988 will be no exception. As a result of the ageing vehicle stock the demand for parts will remain keen." BER says owners now keep cars seven years before replacing them, compared with just over three years in 1981.

The main reason is high replacement cost: "It takes 90% of the average white South African's annual salary to buy the cheapest new car, compared with 61% in 1981."

Another winner could be low-cost builders, though profits will be narrow. "There appears to be an oversupply in the middle to upper income residential areas. Recent BER surveys show that building contractors are concentrating on down-market areas."

A spin-off could be higher sales of inexpensive furnishings. BER says new housing tends to boost sales of durables, but stagnant up-market building and high appliance prices (from the falling rand and import surcharges) will curb top-market demand.

Finally, manufacturers who can switch to exports should blossom. As domestic demand falls, exporting will become more attractive, especially as the rand falls.

Monetary stance already restrictive

49 8/duy
11/11/88

De Kock in warning on fiscal policy

IF the correct monetary and fiscal policies were not followed during the next six months, SA would face "serious consequences", Reserve Bank Governor Gerhard de Kock said yesterday.

He told the Financial Mail conference in Johannesburg it was not enough only to announce the correct policies, they had to be implemented too. Monetary policy was already restrictive, but fiscal policy would determine whether the present monetary stance was restrictive enough.



● DE KOCK

Warning signals had emerged that government spending might rise faster during the second half of the fiscal year

GRETA STEYN

than during the first. The Budget deficit before borrowing might turn out to be even larger than the targeted 4,9% of GDP — in spite of a tax bonanza.

"If this proves to be the case, fiscal policy will in all probability have been too expansionary. The 'mix' of monetary and fiscal policy as presently constituted might then prove inadequate to achieve the desired policy objectives."

● See Page 10

Top businessmen and economists attending the conference interpreted De Kock's speech as a clear message to government that action was needed on the fiscal policy front to avert an economic crisis.

Whether the present stance of monetary policy was restrictive enough

● To Page 2

De Kock sounds warning on economy

would depend in large measure on the nature of fiscal policy in the months ahead.

To prevent the deficit before borrowing from exceeding the budget estimate and to maintain an adequate "mix" of fiscal and monetary policy, was easier said than done.

De Kock said: "But the matter is receiving attention at the highest level."

The target deficit of 4,9% of GDP, which had seemed acceptable at first, now appeared to have been on the high side.

While acknowledging that monetary policy should have been tightened earlier, De Kock cited a number of unexpected events which had complicated the situation. One of these was additional government spending, including the announcement of a 15% general increase in public-sector salaries from January 1989.

It was imperative to ensure that the "mix" of monetary and fiscal policy in the period ahead was tight enough. Restrictive policies would reduce the downward pressure on the rand and the gold and foreign exchange reserves. In addition, the new upward tendency of the rate of inflation could be curbed and,

in due course, reversed.

With the correct mix of fiscal and monetary policy, De Kock predicted:

- The current account of the balance of payments would show a comfortable surplus in 1989 of about R4bn;
- The gold and foreign exchange reserves would level off and then begin a new upward movement;
- The rand would strengthen, all other things being equal;
- The official objective of gradually reducing the rate of inflation by about 2,5 percentage points a year would become attainable again;
- A 2% real rate of growth in GDP should prove to be attainable in spite of the expected downturn in the economy.

De Kock concluded by saying SA's short-term economic problem was "no mystery disease".

"It is a fairly common ailment that is relatively easy to diagnose, namely excessive money creation and spending. It is, fortunately, also an ailment that can be cured, with a certain time lag, by appropriately restrictive monetary and fiscal policies."

● From Page 1

49 8/duy
11/11/88

(49) B/day 11/11/88

FIRST and foremost among the items of bad news is the excessive and unsustainable rate of increase of total consumption and investment spending during the past year.

Coming on top of 9,5% real increase in 1987, the (estimated) further rise in gross domestic expenditure in 1988 of 22% in nominal terms, and 7% in real terms, was simply too high.

The excessive increase in total investment and consumption during the past year was made possible and facilitated by an inordinate rise in the broad money supply, M3.

As a direct result of the excessive spending in the economy, imports increased faster than exports, and the current account of the balance of payments — at a seasonally adjusted annual rate — showed a small deficit of R410m during the first quarter of 1988 and a surplus of only R960m during the second quarter.

During the third quarter of 1988, however, the surplus on the current account increased to an annualised rate of R4,5bn. For the calendar year 1988 it is now estimated that the current surplus amounts to around R2bn.

By itself the current account of the balance of payments therefore does not pose a problem. Indeed, for a developing country to achieve sizeable current account surpluses for five consecutive years — which now appears to be the likely outcome for the period 1985 to 1989 — represents a major achievement.

The weakness in the overall balance of payments remains the capital account, despite the existence of not only the tightest exchange control over capital movements in SA's history but also special interim debt arrangements with foreign creditors.

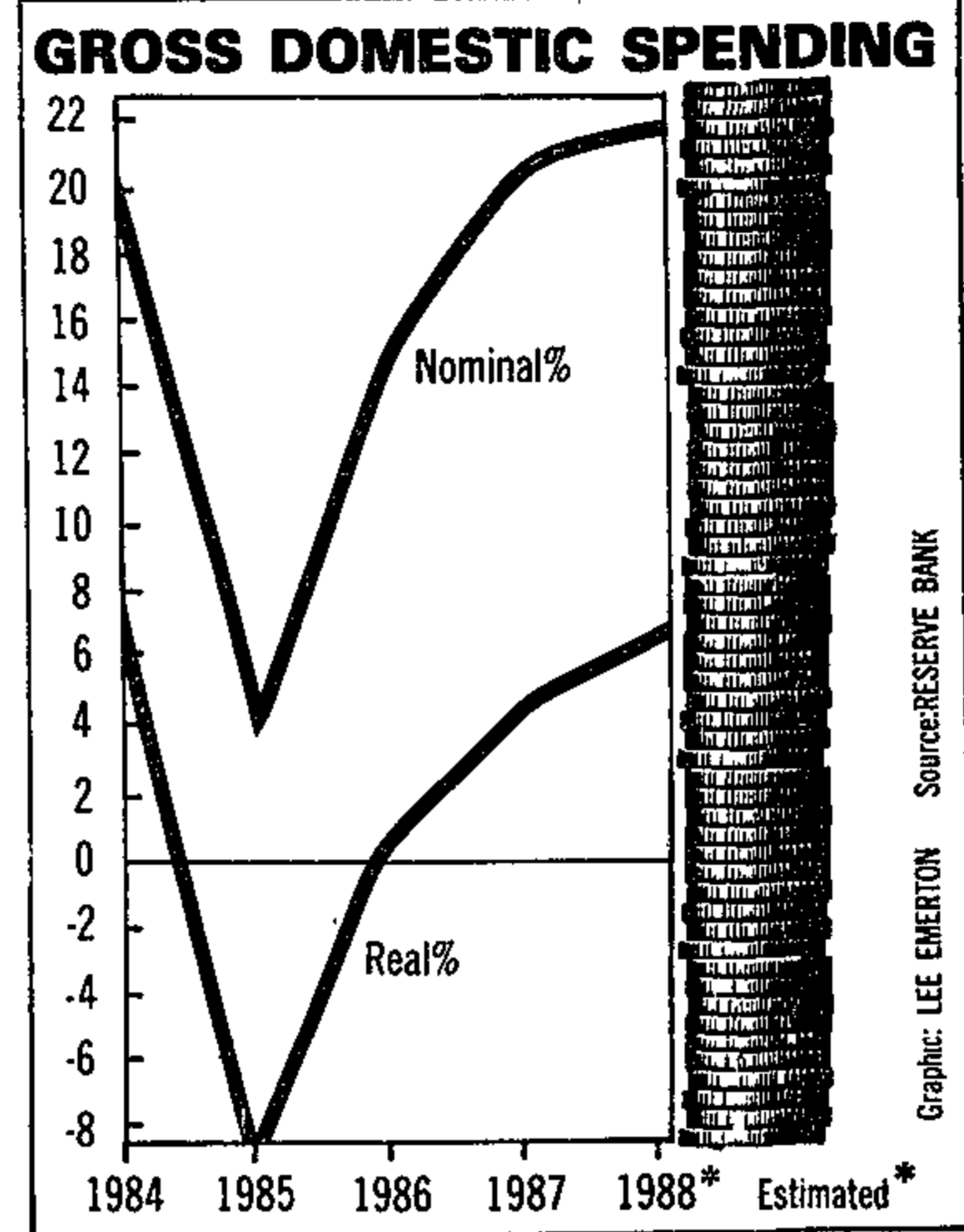
It is particularly worrying that, after amounting to only R0,7bn in the first quarter of 1988, the net outflow of capital increased to R2,1bn in the second quarter and to R2,4bn in the third quarter.

A major reason for this large outflow was the increased real interest rate differentials between SA and the major financial centres following the substantial increases in interest rates in the main industrial countries since early June 1988.

This was accompanied by a decline in gold and foreign exchange reserves, depreciation of the rand

Tuning economy to the right mixture

This is an extract from Reserve Bank Governor Gerhard de Kock's speech on monetary policy and the balance of payments in 1988/89 at the Financial Mail Conference yesterday



and a new increase in the inflation rate.

In retrospect, it must be concluded that the "mix" of fiscal and monetary policy as applied during the first half of 1988 was expansionary. But even if the policy had been near perfect until May 1988, it should in subsequent months have been tightened sooner and to a greater extent to cope with the unexpected events that followed.

These included a stronger US dollar, rising interest rates in industrial countries, a lower gold price and the 15% increase in public servants' salaries.

It is imperative to ensure that the "mix" of monetary and fiscal policy in the period ahead is tight enough; firstly, to reduce the downward pressure on the rand and the gold and foreign exchange reserves and, secondly, to limit the new upward tendency of the rate of inflation and, in due course, to reverse it. This implies:

□ Assuming an expenditure "deflator" (the relevant rate of price increases) of about 16% in 1989, the

aim should be to reduce the rate of increase of nominal gross domestic expenditure from an estimated 22% in 1988 (7% in real terms) to around 16% in 1989.

In other words, there should be little if any increase in real spending in 1989. Such an outcome would still leave scope for a growth rate of real gross domestic product in 1989 of around 2% if total exports rise more than imports;

□ To this end, the rate of increase of the broad money supply must be drastically reduced below the quarter-to-quarter annualised rates of 25% to 29% registered in recent quarters. At this stage a target range of 12% to 16% between the fourth quarter of 1988 and the fourth quarter of 1989 would seem appropriate;

□ This, in turn, means that the rate of increase of bank and building society credit will have to be severely curtailed;

□ The essential prerequisite for any such outcome is clearly the curbing of net Reserve Bank credit. If the cash reserves spouting from the Reserve Bank's credit "tap" cannot be

adequately regulated, nothing else will succeed in controlling the money supply and total spending in the economy; and

□ The curbing of Reserve Bank credit, at a time of high credit demand and declining foreign reserves, inevitably implies a rise in nominal and real interest rates.

This is why the Reserve Bank has during the course of 1988 progressively accepted increases in bank and building society lending rates, as well as in its own Bank rate and related refinancing rates, as both a consequence and an integral part of its less accommodative monetary policy. In particular, this is why Bank rate has increased from 12,5% to 14,5% last week and why most prime overdraft rates moved from 16% to 18%.

Whether the present stance of monetary policy is restrictive enough will depend in large measure on the nature of fiscal policy in the months ahead.

If a mix of monetary and fiscal policies is applied along the lines I have indicated, there is every pros-

pect that the following desirable results will be achieved in the course of 1989:

- The current account of the balance of payments will show a comfortable surplus in 1989 of around R4bn;
- SA will continue to demonstrate its ability to meet all its commitments under the interim debt arrangements;
- The gold and foreign exchange reserves will level off and then begin a new upward movement;
- The effective depreciation of the rand in terms of other currencies will be arrested and, at times, reversed — depending, of course, on "imponderables" such as the behaviour of the US dollar and the dollar price of gold;
- The new acceleration of the rate of price increases will in due course prove to have been only a temporary reversal of the downward trend in the rate of inflation that was evident from the first quarter of 1986 to the first quarter of 1988. The official objective of gradually reducing the rate of inflation by about 2,5 percentage points a year will then become attainable again; and
- The economy is likely to experience a moderate cyclical downturn in the period immediately ahead. But a rate of growth of real gross domestic product of the order of 2% in 1989 should still prove attainable.

More importantly, however, the removal of excess demand and the strengthening of the balance of payments and reserves will lay the foundation for more rapid growth in the medium- and long-term.

It is common knowledge that the South African economy has for some years now had to face up to unique challenges as a result of sanctions, disinvestment and other socio-political developments. No one should underestimate the harmful effects of these constraints. And the need for long-term structural adjustment in the economy cannot be stressed enough.

The short-term economic stabilisation problem confronting SA at present is no "mystery disease". It is a fairly common ailment that is relatively easy to diagnose — namely, excessive money creation and spending. It is fortunately also an ailment that can be cured, with a certain time lag, by appropriately restrictive monetary and fiscal policies.

The monetary and fiscal authorities accept that it is now up to them to ensure that such policies are effectively implemented in the period ahead.

First/Third World gap 'must be closed'

Economy will determine the future — Pik

(99)
Blauy
11/11/88

MARITZBURG — It was essential for the business community to close the gap between the First and Third World sectors of the economy, Foreign Affairs Minister Pik Botha said yesterday.

He told the FCI congress in Hilton the country's future would be determined by economic development.

Failure to develop all sectors of the economy would limit the country's ability to meet the needs of all its inhabitants.

On political power-sharing, Botha said white domination had to end and that all communities should take part in the future.

However, this should not mean substituting one form of domination for another.

Department of Trade and Industry director-general Steff Naude said it was not only government's responsibility to take effective action to maintain and constantly develop the country's economic strength and stability.

He said private-sector business and industry should also, through a positive and imaginative approach, assist government to promote a sound economy.

Government accepted the importance of the role the private sector had to play in the overall reform process.

Commenting on growth prospects in industry, Naude said export promotion was essential but the private sector was insufficiently export-oriented in spite of the existence of opportunities in that area. Many traditional markets were also being neglected.

Government was completely restructuring its industrial policies and was re-examining export incentives and supporting services.

Naude called for closer co-operation between government and the private sector and assured industrialists of an open-door policy at his department.

● See Page 6

While the informal sector had become the major source for future economic development, it was being restricted by officialdom.

Professor Louise Tager, head of the Harmful Business Practices Committee, said it was essential to create an environment in which the informal sector could be given a legitimate existence.

She said if these businesses were freed from statutory burdens, many more employment opportunities would be created. An example of that was the black taxi industry. — Sapa.

De Kock hints at tighter controls

Star 11/11/88

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By Sven Lünsche

Reserve Bank Governor Dr Gerhard de Kock yesterday hinted at a tighter monetary policy next year in order to reduce the downward pressure on the rand and the gold and foreign exchange reserves as well as limiting the rise in inflation.

Addressing the Financial Mail Investment Conference, Dr de Kock said it was imperative that fiscal and monetary policy was tight enough. He outlined the following steps which would have to be taken next year:

- There should be little if any increase in real spending and therefore nominal gross domestic expenditure would have to be reduced from 1988's estimated 22 percent (seven percent in real terms) to about 16 percent.

This would achieve a real increase in gross domestic product of two percent if total exports rise at a faster rate than imports.

- The rate of increase in money supply must be drastically reduced from the 25 to 29 percent quarter-on-quarter recorded recently. A target range of between 12 and 16 percent to the the fourth quarter of 1989 should be appropriate.

- The rate of increase in bank and building society credit will have to be severely curtailed.

- The curbing of Reserve Bank credit would be needed to achieve these objectives, which implies a rise in interest rates.

Dr de Kock admitted that monetary policy should have been tightened earlier this year and that interest rates should also have been increased earlier.

"In the final analysis the Reserve Bank must therefore accept the responsibility for the ex-

cessive rise in the money supply."

But he added that a determinant in the policy was the anticipated restraint in government expenditure, with the deficit before borrowing budgeted at 4,9 percent of GDP.

"The deficit before borrowing might now turn out to be even larger than 4,9 percent," Dr de Kock said, indicating that the 15 percent rise in public servants salaries next year played a big part in this.

But he was optimistic that if the above mentioned objectives were achieved the likely consequences of such a policy would be:

- The current account of the balance of payments would show a comfortable surplus in 1989 of about R4 billion.

- South Africa will continue to demonstrate its ability to meet all its commitments under the interim debt arrangements.

- Gold and foreign exchange reserves will level off and then begin a new upward movement.

- The depreciation of the rand against other currencies will be arrested and, at times, reversed, although this depended on the behaviour of the dollar and the gold price.

- The acceleration in the rate of price increases will, in due course, prove to have been a temporary reversal of the downward trend established between the first quarter of 1986 to the first quarter of this year. He said the official policy of reducing the inflation rate by 2,5 percentage points a year would then again become attainable.

- Although the economy is about to experience a moderate cyclical downturn, a growth rate of about two percent could be achieved next year.

Rand rally on weaker US dollar

Finance Staff
The rand strengthened by almost five cents against the US dollar yesterday, as the gold price strengthened in morning trading and the dollar weakened on international markets.

The rand closed at R2,39, 5c up on Wednesday's close, and was also supported by Reserve Bank intervention.

The financial rand was driven by talk of an unconfirmed R150 million buying order from London. It closed 20c or almost six percent higher at R3,81.

But the firmer firrand also indicates that overseas investors were re-investing in South Africa after the election of Republican George Bush to the White House and the prospect of less severe punitive measures.

The decline of the US dollar was largely attributed to market belief that President Bush will not be able to substantially reduce the trade deficit.

Gold also strengthened initially on the weaker dollar, but fell back later to an afternoon fix of \$319,20 in London. However, the declines in late trading had no impact on the rand.

Economic development is 'vital to SA's future'

MARITZBURG — Minister of Foreign Affairs Mr Pik Botha said yesterday it was essential for the South African business community to close the gap between the First and Third World sectors of the economy.

Speaking at the annual congress of the Federated Chamber of Industries in Maritzburg, Mr Botha said the country's future would be determined by economic development. (49)

He said failure to develop all sectors of the economy would limit the country's ability to meet the needs of all its inhabitants.

On political power-sharing, Mr Botha said white domination had to end and that all communities should take part in the future. — Sapa.

Growth needs review of tax rates ^(19. Blaw) _{11/11/78} govt

PRETORIA — Economic growth demanded SA's tax rates be kept under constant review, Deputy Finance Minister Org Marais said last night.

Speaking at the Unisa School of Business Leadership here, he said striving for greater fairness in the tax structure and a better distribution of income by the fiscus was a praiseworthy exercise.

"We must be careful, however, that we don't go so far that efficiency and economic growth are prejudiced."

This could happen if certain income groups were overtaxed.

Marais said Japan and Taiwan had succeeded in encouraging private discretionary savings by placing a low tax on interest and dividends.

In SA a third of dividends and the first R1 000 of interest was free of tax.

Investigations could be made, he said, into freeing the first R10 000 divi-

GERALD REILLY

dend and interest payments from taxation.

Another possibility was to tax interest and dividends at a low rate, say 10%, and remove other tax advantages from dividends and interest.

Marais said the misuse of credit by both black and white consumers was worrying. However, it was a worldwide tendency for consumers to get deeper into debt.

Dealing with the economy, he said that during the past 24 months the real GNP had increased by about 5% on an annual basis.

Notwithstanding boycotts, sanctions and droughts, the SA economy had undergone a revival.

He stressed an increase in productivity was the key to further increases in economy growth and living standards.

Sacrifices needed to bring back prosperity

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Star 12/11/88

DEREK TOMMEY

SOUTH AFRICANS, many of whom are already having difficulty meeting their mortgage repayments, could find themselves facing far higher interest rates in the short term — but much more attractive economic prospects including lower taxation and ultimately lower interest rates in the longer term.

Whether this eventuates, however, will depend on Government reaction to an economic policy proposed this week by one of the country's top economists, Dr Hans Falkena, to overcome some of South Africa's more urgent economic problems.

The parlous state of South Africa's international finances can be expected to lead to the Government giving Dr Falkena's proposals considerable attention.

As South Africa's foreign exchange reserves plummet it is becoming increasingly obvious that further measures are likely to be needed if South Africa is not to be plunged into insolvency.

Dr Falkena, who is chief economist at the UBS, painted a bleak picture when he described South Africa's current plight at an investment conference in Johannesburg on Thursday.

"We are confronted with a semi-siege economy, exceptional inflationary pressures, a low level of foreign exchange reserves, a serious lack of business confidence and a crippling capital and trade boycott".

South Africa, with foreign debts of \$1,5 billion due for repayment in 1990, had only \$1,9 billion in foreign exchange reserves to meet this and any other unscheduled foreign payments.

"Whether we like it or not, the country's foreign exchange reserves is our Achilles' heel", he said.

As South Africa could no longer get foreign credit, he urged the Government to give first priority to increasing the foreign exchange reserves when formulating its monetary and fiscal policies.

As a first measure he said the Reserve Bank had to stop let-



Dr Hans Falkena

ting the banks borrow from it at a subsidised interest rate.

The Reserve Bank must always be "a lender of last resort at a positive real interest rate". (That is at rates above the inflation rate).

Higher real interest rates would help restore the currently unacceptable low level of personal savings, enforce a more efficient use of capital so reducing the propensity to import and help build up the foreign exchange reserves.

"More importantly, it would allow for lower taxes and in particular for a reduction in the highly undesirable "inflation tax".

The "inflation tax" was paid by everyone holding Government stock whenever the rate on interest less than the inflation rate, said Dr Falkena.

The biggest holders of Government stock are the insurance companies and pension funds.

One of the results of the inflation tax is that though the total public debt had risen between 1978 and 1988 by an average of R6 billion a year from R14,2 billion to R67,5 billion, as a percentage of gross domestic product it had fallen in this period from 40,5 percent to 33,2 percent.

Is this what's in store?



Maybe living in a tent sounds far-fetched but not in countries like Bolivia, Costa Rica, Ghana, Guatamala, etc where negative real interest rates (as in South Africa) go along with little or no economic growth.

Reinforcing his argument for positive interest rates, Dr Falkena said that all major industrial countries had them and also had attractive economic growth rates.

"Negative real interest rates together with little or no economic growth are found in countries like Bolivia, Costa Rica, Ghana, Guatamala, Iceland, Jamaica, Nigeria, Peru, Phillipines and Zambia.

"If we feel more at home with these countries there is no need to change the current stance of

monetary policy: we will safely arrive at our destination.

Dr Falkena pointed out that real interest rates would not be attractive to certain powerful political lobby groups as they would enforce greater discipline on State finance.

"But nevertheless this was unavoidable in the long run — at least if we believe in a rule-of-law democracy and a private sector living in harmony with the public sector."

PERSPECTIVES 3

South Africa's road out of the cold; the bolder she treads it the better

THE 1980s have been a highly successful decade for the capitalist system.

It has, in effect, re-established, in the most emphatic manner, its credentials as the one reliable means of producing wealth in large quantities, and so of propelling societies, all over the world, towards a broadly based prosperity.

The gloom of the Seventies is gone. There is no more fear of a breakdown of the Western economy or glib talk of "post-capitalism". The Club of Rome no longer pleads for zero growth. The market is back in the saddle, digging its spurs into the world economy, urging it ever onward.

There are many reasons for this recovery of capitalist confidence. One is the huge and continuing success of the enterprise economies of the Far East, which have strikingly demonstrated that even the poorest Third World country can attain and surpass First World living standards through the market.

Another is the restoration of American self-confidence and the return of dynamism to the world's largest economy.

A third is the practical and ideological success of Thatcherism in Britain, with its policy — now much imitated elsewhere — of privatising much of the state sector and returning entire industries to the market economy.

Equally important, in a psychological sense, has been the implicit admission, after long and increasingly bitter experience, that the collectivist alternatives cannot deliver the goods. Socialists of all shades have been hoisting flags of ideological surrender.

In the communist world itself all the efforts of doctrinal face-saving, and the continuing insistence that Marxism in one form or another is the answer, cannot conceal the fact that the party bosses are seeking to resuscitate their exhausted economies by injecting ever-growing doses of the market elixir.

The truth is that during the twentieth century large parts of the world have given the collectivist alternative a long, thorough and staggeringly costly trial — and it has failed absolutely everywhere. It is during the 1980s that this realisation has dawned even in the quarters most reluctant to admit it.

They are turning back, in desperation and almost in despair, to the despised capitalism they had rejected.

Meanwhile, the capitalist world is racing ahead and is creating wealth on a scale never before dreamt of.

THE MORALITY OF CAPITALISM

Excerpted from an address by British author and journalist PAUL JOHNSON at the Financial Mail's Investment Conference in Johannesburg this week

Obviously capitalism, being a natural force rather than a contrived ideology, springing from instincts deep in our human nature, is modifying itself all the time, and we cannot foresee how it will evolve over the next century.

But I am willing to predict, as a result of our experiences in this one, that never again will any considerable body of opinion seriously doubt its wealth-producing capacity or seek to replace it with something fundamentally different.

We are at the end of a historical epoch in which capitalism has survived the collectivist assault and is now firmly re-established as the world's primary way of doing things.

So where does this leave us? It leaves us, I suggest, with a considerable moral dilemma. I can put it in one sentence: How do we give a moral dimension to the triumph of capitalism?

For one thing we know: Where-as wealth-creation is essential to men's happiness — especially in a world where population is expanding so fast — it cannot, in itself, make men happy.

We are creatures of the spirit as well as of the flesh, and we cannot be content and at ease with ourselves unless we feel we are fulfilling, however vaguely or imperfectly, a moral purpose. It is in this respect that capitalism, as such, is inadequate. It is not that

capitalism is immoral.

The trouble with capitalism lies in its moral neutrality, its indifference to the notion of moral choices.

Capitalism, and the market system which gives it its efficiency and its power, is single-minded in its thrust — that is why it is so productive.

It is blind to all other factors: colour, to religion and sex, to nationality and creed, to good and evil. It is materialistic, impersonal and non-human.

But the moment you try to give capitalism a moral purpose you risk interfering with the basic mechanisms which provide its wealth-creating power.

If you try to use capitalism to promote equality of wealth by imposing on it a steeply progressive, redistributive system of taxation, you frustrate the way in which it rewards its dynamic, the acquisition impulse, and so you end by making everyone poorer.

within capitalism by balancing managerial authority with trade-union privileges, you either choke the entrepreneurial spirit or you eliminate profits — the system's lifeblood — or, as a rule, you do both, and so again you end by making everyone poorer.

How do we escape from this difficulty?

It is a mistake to try to turn capitalism itself into a moral animal. But I think it is possible to run it in tandem with public policies which make use of its energy while steering it in a moral direction.

Let me indicate six ways in which I believe this can happen.

The first, and in some ways the most important, is to provide the capitalist economy with an overall legal framework which has a moral basis. This can only be done if we accept that the object of a just society is to establish absolute equality before the law.



Enforces the natural power of capitalism, so that in this case moral purpose and wealth-creating go hand in hand.

The second way is for society to endorse the broader objective of equality of opportunity. It is one of the mainstays of the human condition that all of us, however humble, possess talents of one kind or another, waiting to be of service.

Here again capitalism and justice pursue the same ends, for capitalism thrives on meritocracy — one of the prime functions of the market is to identify and reward objective merit — and it creates wealth most rapidly when all obstacles to equality of opportunity, social and historic as well as purely legal, are removed.

This aspect of equality is a vital element in the moral legitimisation of capitalism, for an economic structure in which every man and woman, in theory at least, can progress from the lowest to the highest place, cannot be held to be intrinsically unjust.

I say "in theory". What about in practice? That brings me to my third point. It is unrealistic to talk of equality of opportunity without taking drastic measures to make high-quality education generally available to those who can profit from it.

I know that in practice we are not going to get a society where all will enjoy the standards of Harvard and Oxford, and in any case the culture and the habits of industry which parents transmit to their children make absolute equality of opportunity, as an abstract ideal, unattainable.

But it is one thing to concede that, quite another to accept that present system of educational inequality which exists to some degree in every country in the world.

There is no single way, in my view, more likely to make capitalism morally acceptable, to anchor its functions in justice, than by giving the poor access, by merit, to high-quality education, at every stage and of every kind.

But we must not stop at access to education. We must see to it that there is more readiness of access to the capitalist system itself.

I believe that the notion of "democratic capitalism" is a genuine one, and that its realisation, to some degree at least, is within our grasp.

We have an industry into public ownership in no way democratised it — quite the contrary. Nationalisation put it firmly into the hands of bureaucratic and union elites, but it is now possible, as has been found in Britain and elsewhere, to float public corporations so that they become the property of millions of small shareholders.

Sensible, practical aid in helping people to set up their own businesses is the best way to promote equality of opportunity and democratic capitalism.

There is almost invariably a strong correlation between the number of small-business starts and soundly based economic expansion. Popular access to capitalism at a national level has its international counterpart in access to markets.

My fifth point is that the vigorous promotion of free trade is an important way in which capitalism is legitimised morally.

Free trade is the global version of equality of opportunity.

Now to my sixth and last point. Just as equal opportunities within a society are unlikely to become reality without general access to high-quality education, so free trade will not in practice be generally accepted, especially among the poorer countries, until the huge discrepancies between nations in technical and commercial skills are diminished.

Old-style aid is now discredited, and certainly there are few things worse than a rich nation salving its conscience by transferring cash to the government of a poor one, thus as a rule keeping an inefficient tyranny in power.

But it is another matter to use our resources to train the disadvantaged masses of the Third World — and indeed the emerging ex-communist world, too — in the skills of market capitalism.

To sum up my argument: doing the right thing usually proves to be, commercially, the right thing to do.

This message has a particular application to South Africa. In the African continent as a whole, South Africa and the firms big and small which create its wealth have a clear incentive to broaden their legitimacy, and that of the capitalist system, by advancing the commercial education of the rest of Africa.

But it is equally important to remember that within South Africa the expansion and strengthening of capitalism, and the cause of justice, are virtually inseparable.

For capitalism, with its ceaseless thrust towards its efficiency, and so its innate disregard for distinctions based on class, sex, colour, race, religion, tribe or caste, is fundamentally subversive of any society which seeks to maintain them.

Indeed, it is not too much to say that in South Africa the long-term interest of all races and the dynamism of the capitalist system are inextricably bound up together.

In this sense capitalism in South Africa today can be turned into a profound, efficient and ultimately triumphant force for morality and justice.

In short, South Africa's road out of the cold and back into the community of nations is a capitalist road, and the bolder she treads it the better.

Trust Bank sees danger next year

Trust Bank says all the economic factors prevailing in the first six months 1984, just before the start of the recession, could be seen in the first half of 1988. *STATIS 11/86*

However, the bank's latest economic report says the negative economic trends expected in 1989 will be far less severe than those of 1985.

It says the negative effects will be high interest rates, a lower rand exchange rate, expenditure higher and growth much lower. Unemployment and bankruptcies will be higher and corporate profits lower. *(49)*

With the lower gold price, strict monetary and fiscal discipline is seen as "the last frontier" against a macro-economic and financial crisis in SA.

"The eventual economic consequences of an expansive fiscal policy in 1989 would be truly too ghastly to contemplate. As always, strict discipline is the *sine qua non* for overall monetary and financial stability in South Africa," it says. — Sapa.

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Financial crunch looms as SA faces \$12-bn debt repayment

South Africa will soon be back on the financial rack for the first time since it suspended repayments of its short-term debts in September 1985. This year and next it will have to pay its foreign creditors \$3 billion to \$3.5 billion in interest and principal.

That is mild compared with what follows: in 1990-91 South Africa is due to repay almost \$12 billion, equivalent to roughly half of export earnings. The director-general at the Department of Finance, Mr Chris Stals, admits this cannot be done.

The problem is that SA has two incompatible needs. To service its foreign debts it needs to run a current-account surplus. At the same time, its real GNP needs to grow by five percent a year to create enough jobs for a population that is growing at three percent a year. But, at its current level of domestic savings, it cannot manage much more than three percent growth a year without triggering an import boom.

South Africa is now stamping hard on the economic brakes after imports increased by 20 percent in the first quarter of 1988, compared with 1987's fourth quarter.

This year it is forecast to run a current-account surplus of only R2 billion, a third of last year's R6 billion. A gold price as low as \$420 has not helped. Gold accounts for 40 percent of its exports.

South Africa's problems are compounded by its friendliness. Since 1986 there has been a \$5 billion net outflow of capital as foreign banks and corporations, under pressure from anti-apartheid groups at home, have pulled out.

There are few places that it can turn to for financial help. Its last loan from the IMF raised a storm; both the IMF and the World Bank have a strong and steady majority on their boards against loans to South Africa. Western

credit agencies shun it and few foreign banks are willing to lend new money. Its only financial friends in the West are Switzerland and West Germany.

Swiss banks have been behind most of the gold loans South Africa has arranged this year. Gold loans enable it to use its gold reserves (worth less than \$1.2 billion) to produce scarce foreign exchange: the gold is used as collateral for foreign borrowing that boosts hard-currency reserves. So far this year the Government has raised \$600 million this way.

Useful as gold loans are, they will not enable South Africa to meet the \$12 billion of debt repayments due in 1990 and 1991 — mostly money owed by SA banks to 400 or so foreign commercial ones. The rest — about \$18 billion — is due to holders of bonds.

The bunching of repayments was caused by 1985's debt standstill arrangement, designed to stretch out the repayments of short-term debts.

In 1985 the Government thought it would not be able to renew \$6 billion of short-term debt that was falling due. So it stopped repayments before agreeing eventually (in March 1987) to a longer-term repayment schedule for these and other government and private-sector bank debts. Under the agreement, \$14 billion of the \$24 billion foreign debt was mostly frozen (ie, only interest would be paid) until 1990.

The rest of the debt — including \$1 billion due to the IMF — was to be repaid on schedule.

It is that frozen lump that is again causing worries. The Government has tried to thaw it out by cleverly exploiting foreign banks' distaste for South Africa as well as their greed. At the beginning of the year it offered bank creditors the option of exchanging their foreign-currency loans into a different sort of rand in its two-tier currency system.

In the standstill arrangement the

loans were valued in commercial rands. The South African authorities offered to switch them into financial rands. This rand can be held only by foreigners and is used for investing in South Africa. It trades at a varying discount to the commercial rand: in March this year the discount was 20 percent, now it is closer to 40 percent, following the worsening of SA's current-account balance.

Although switching rands cuts the loans' value, it makes them more sellable. Perhaps as much as \$200 million of South African debt has been converted in this way. The buyers of the banks' financial rand are international investors who want to buy South African assets — usually gold shares. The advantage of this sort of deal to the Government is that it reduces its foreign debt and converts it from a hard-currency liability to a domestic asset.

Another scheme, this time swapping frozen loans into new debt, has proved more popular. It appeals to banks yearning for secure, high-yielding assets. Bankers estimate that \$3 billion of the debt thawing in 1990 and 1991 has been swapped for ten-year debt.

This debt will be repaid in ten six-monthly repayments starting in 1993. By converting their loans into this debt, banks can improve their returns. The frozen money pays banks 0.88 percent over their cost of funds. Depending on the borrower, the new stretch-out loans will pay banks 1.62 to 1.88 percent over Libor (London Inter-bank borrowing rate). In addition banks get a fee of 0.38 percent.

Several bankers believe that far from delaying the eventual repayment of their loans, such a swap will in fact speed it up since they will have their money back by the end of 1998. US banks, which are SA's second-largest set of creditors after the British, have been especially eager to swap their debts for the ten-year paper.

They reckon such a swap will at least fend off a nasty confrontation with anti-apartheid shareholders over a rescheduling. It may even save them money. US banks worry that their authorities may not allow them to take part in a rescheduling.

If they do not reschedule, South Africa might simply not pay them at all. Some banks are so confident that these ten-year loans will get repaid on schedule that they are prepared to swap Latin American debt for South African paper. One British bank, which has lent too much to Argentina and not much to South Africa, has been buying South African debt for a mixture of Argentine debt and cash.

However, this debt shuffling will deal with, at best, only half of the debt lump falling due in 1990-91. Several banks remain optimistic that SA will manage a rescheduling to handle the rest. They say that the South Africans have become better negotiators than they were in 1985. On this reasoning, Mr Stals's claim that SA cannot pay may merely be a good opening gambit. Yet, without big South African concessions, US banks in particular will find it politically impossible to agree to rescheduling. That really means that rumours of the imminent release of Mr Nelson Mandela need to turn out to be true. Otherwise the anti-apartheid lobby is likely to prove too strong.

Even if South Africa does manage to put off the days of reckoning in 1990-91, it will soon run into political problems caused by its slow growth. Its debt burden is not yet particularly heavy: this year little more than 10 percent of its export revenues will go to service its debts. The basic problem is that without fresh foreign capital, South Africa has little chance of quickening its economic growth. It is unlikely to get much of that needed capital until it changes its political system. — The Economist.

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THE DIP in consumer spending, first noticed in September, continued throughout October, judging from the experience of Business Day's Real Economy Index panel.

The main reason was seen to be the increase in interest and bond rates, and higher costs. October was apparently not as successful a month as September, with 66% of the panellists saying it was the same or better.

Some 42% said business was the same as it had been in the previous three months; and 25% said it was much better.

In assessing the interviews, Perry and Associates comment that most traders in the informal sector feel their businesses are still ticking over comfortably, with several reporting October as a bumper month.

Previous expectations of an excellent Christmas have fallen slightly, in that only 75% of the panellists feel the next three months will be better or much better, compared with 100% who felt that way in September.

THE PANEL'S VIEWPOINT:

□ **GLEN CAMPER**, manager of a Johannesburg city centre Jazz Supermarket store, says business was way below what he had expected, with increases only in semi-luxury goods.

He says it was even worse when compared with sales over the last three months.

But Campher expects excellent business over the next few months because of Christmas, with people spending "much, much more."

He thinks people he does business with are more confident than before because of George Bush's landslide victory in the US elections.

"I am glad Bush came to power. So are my friends and some colleagues. The load of sanctions is going to be stalled a bit," he adds.

□ **ISAIAH "MR NUGGET" HLATSHWAYO**, shoe-shiner at the JSE premises, as usual describes his business as "very good" over the last month, and much better than in the last three months.

"Mr Nugget" expects to fare even better during the next few months because people will have their Christmas bonus money, "but one can never be perfectly sure".

□ **MIKE SEGAL**, owner of Bauers Men's Shop in downtown Johannesburg, found business "not too good" and about the same as it had been for the last three months. He attributes the decline in consumer spending to

BUSINESS DAY REAL ECONOMY INDEX

Dimmer hopes for a bright Christmas

SIPHO NGCOBO

This is Business Day's fifth Real Economy Index, covering the month of October. It is based on interviews with a panel of black and white business people, drawn from the real — or free — economy. The aim is to inform readers about developments and views in this mass market

the municipal elections falling at month-end which, he says, caused people to adopt a wait-and-see attitude.

What about the prospects for Christmas? "I don't think we will break records," he said, "but business will be good."

He thinks business confidence is "on the down" because of the recent interest rate increases. These would squeeze credit facilities and darken the whole business scenario.

"We can brace ourselves for a difficult 1989, with disposable income declining," he adds.

□ **STAN THOMPSON**, manager of Rebel Bottle Store in Blackheath, says business was very good last month and even better compared with the last three months. He attributes the increase in sales to the

approaching Christmas period.

Thompson expects sales to improve further over the next few months because of the festive season.

□ **JAMES STRACHAN**, manager of Hyper-Car, said business was "fairly good" last month, but worse than it had been over the last three-month period, with people spending less.

"Customers have become very, very budget-minded," he says. "They do not want to over-commit themselves, probably because of the high finance rates."

But Strachan expects business to be better over the Christmas period because of 13th cheques.

He rates business confidence as "the same as before" and regards current caution as "natural". "It will pass," he says. Strachan has observed a swing to-

wards used cars, as new vehicles had become too expensive for the man in the street, and even for some small companies.

□ **COLIN BUTHELEZI**, taxi owner and chairman of the Dube/Westgate Taxi Association, says business continued the bad trend last month because of the increased price of fuel and the resultant 10% hike in taxi fares. "People seem to have been chased away by the increase in fares," he says.

But he also expects a good Christmas period because of bonuses.

□ **PEGGY "BELAIR" SENNE**, owner of "Peggy's Place," well known licensed shebeen in Soweto, says his business was fair last month, and about the same when related to the last three months.

He expects business to improve in

the run-up to Christmas, and thinks December will be a good business month.

□ **IRIS MDLETSHI**, who sells exclusive clothing from her Hillbrow flat, says business was very good last month with a tremendous increase in sales, especially children's clothing. Sales were much better than in the last three months.

As for the Christmas period, she expects her business to keep up its momentum.

□ **PEACE CINDI**, hair designer and owner of "Hair It Is," says business was "okay, but not as good as we expected it to be".

Cindi also attributes the decline to the municipal elections. "I think people were sort of waiting and watching."

He says there has also been a decline in confidence among hairdressers because of the ever-increasing number of salons, resulting in fierce competition. "There are more than 300 black hairdressing salons in town, and that tells a story."

Cindi nevertheless thinks business will shoot up during Christmas, with customers purchasing and spending more.

□ **MARY-JANE STUNKIE**, who sells clothing from her Morolo, Soweto, home, says the future looks brighter after a poor start. Her business continued to improve last month and was "the same" compared with the last three months.

The improvement began when she changed her line of product to nurses' uniforms. She also expects a lift in her business in the Christmas period.

□ **JOYCE "GRANNY" MOYO**, a Soweto shebeenier who operates on a small, selective scale, says her business was not very good in October. She thinks the increase in the deposit on bottles is still a problem. "I have lost a few patrons as a result, but I think business will be much better in December."

□ **ROB CROCKETT**, Sage Sechachat (Housing) MD, says last month was "not satisfactory" because of higher interest rates and uncertainty over future building cost escalations. He says the situation was worse, relating to the last three months.

Crockett expects the trends to remain the same. "December and January are normally not good months for the building industry," says Crockett.

He believes new houses are actually cheap today, but that erosion of people's disposable income has made affordability a real problem.

PERRY AND ASSOCIATES' COMMENT

OCTOBER proved again to be a mixed month for the business of our panellists. Both formal and informal businesses have begun to be affected by the increase in interest and bond rates, and the general credit squeeze.

Most traders in the informal sector feel their businesses are still flicking over comfortably, with several reporting October as a bumper month. There are still reasonably high expectations for a good trading period towards Christmas, but there is hesitation

regarding conditions in 1989. There is a decided "wait and see" attitude, with an expectation of a tough year ahead amongst those panellists in the formal sector.

The indications are that more people are entering the informal sector and future panels will be extended to include some owners of spaza shops ("camouflaged" shops run from homeowners' garages, kitchens or out-houses). Spaza shops purchase at least R2,1bn a year from wholesalers and, in turn, have a total turnover of R3bn.

Lower GDE will ensure ⁴⁹ soft landing ^{Stv 16/11/88} for economy

By Sven Lünsche

A slight fall in real gross domestic expenditure (GDE) projected next year should ensure "a soft-landing for the economy", when the current growth rate begins to falter.

Writing in Standard Bank's latest *Economic Review*, chief economist Nico Cypionka says that given the high rates of expansion that have occurred over the past two years, the setback was not too serious and the cutback required to restore balance was not too drastic.

Mr Cypionka says that while both government expenditure and private expenditure are expected to continue rising, fixed and inventory investment are expected to provide the brake on total GDE, as they are more sensitive to higher interest rates and a weaker rand.

"Given the probability that there will be little or no growth in real GDE next year, the country's trade and current account balance is likely to improve considerably," he writes.

The growth in import volumes had already begun to taper off and is expected to intensify next year. Mr Cypionka expects import volumes to decline by 5.5 percent next year, which stands in sharp contrast to the projected huge rise of 16 percent in volume terms this year.

Falling imports.

Unfortunately given current circumstances, the source of improvement in the trade balance will be a fall in imports, as export volumes are not expected to benefit from the weaker rand.

Mr Cypionka warns that two aspects of the unfolding economic environment give rise to concern, namely the trend towards a larger share of the country's financial resources being absorbed by the government and the greater intensity of private consumption expenditure.

"These militate against growth and employment creation in the future and viewed in this light, the enforced repayment of foreign debt can be regarded as a blessing in disguise.

"While an ability to borrow from abroad would undoubtedly have resulted in an extension of the current growth phase, it is arguable whether borrowing from abroad in order to finance a growing budget deficit and rising consumption expenditure would have been in the country's best interests".

He indicates that rising government expenditure could work against the current monetary policy, if it is not monitored properly, and if this happens "the slowdown may well turn out to be more severe than envisaged."

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\$2,5-bn surpluses needed to avoid debt rollover

By Sven Linsche
 Unless South Africa can reach a new rollover agreement for its 1990-91 debt repayments it will have to achieve \$2.5 billion surpluses on its current account over the next three years, says Nedbank's chief economist Edward Osborn.

Writing in the bank's latest *Guide to the Economy* Mr Osborn says that the total value of debt outside the net at the end of March this year was \$7.1 billion,

but over 60 percent becomes redeemable in 1990 and 1991.

In 1990 \$2 billion debt will have to be repaid (\$1.8 billion outside the net and \$200 million inside the net) and in 1991 this figure goes up to \$2.5 billion (\$2.2 billion and \$300 million).

The expected redemption in 1989 is \$1.1 billion. Redemptions due in 1992 total \$800 million and thereafter falls away rapidly. "Clearly every effort will have to be made to seek agreement for

the rollover or conversions of government debt, where possible, as 1990 and 1991 are approached," Mr Osborn writes.

"Otherwise the aim will have to be to achieve dollar surpluses on the current account of at least \$2.5 billion each year in the next three years, bearing in mind the level of leakages and the need to restore gross reserves." Mr Osborn says that these surpluses will have to be achieved by suppressing the level of imports.

"The arithmetic suggests that imports will have to be reduced by 12.5 percent or so from their 1988 levels.

"On the face of it, this would seem to be achievable, especially in the light of the fact that the 1988 imports have been heavily inflated by inventory accumulation in order to forestall sanctions difficulties, currency depreciation, and the threat of import controls." Mr Osborn asks the question, how much economic growth can

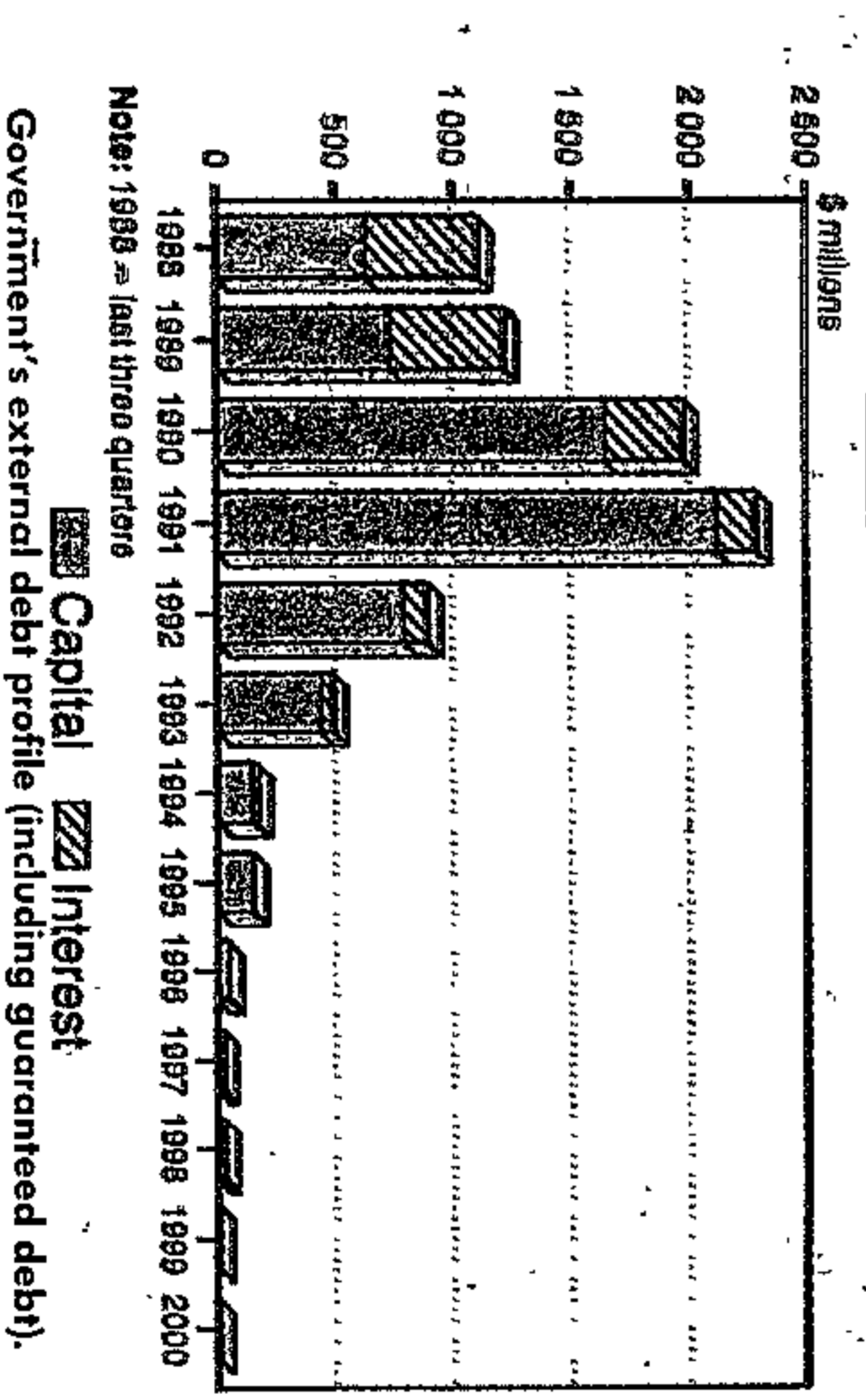
be possible next year with this type of constraint on the balance of payments. He mentions the following factors:

- A modest real growth in export earnings is likely, mainly from base and precious metals.
- Capital formation in the field of building and construction on major projects, like Mossel Bay and Lesotho Highlands, will begin to impact positively on the GDP.
- Private consumption expenditure on durables will fall off

against the background of recent restraining measures, but spending on other categories should maintain an upwards trend.

"Government expenditure will continue relentlessly on its upward path. "Taking all factors into account, GDP growth in 1989 should be between 1.5 and two percent, a rate that should be consistent with the reduced level of imports expected during the year," Mr Osborn concludes.

The Star Finance



Note: 1988 as last three quarters
 Capital Interest
 Government's external debt profile (including guaranteed debt).

24/5/0
 27/3/0

Ominously, 1988 is matching all the bad things of '84

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Star 19/11/88

SVEN LUNSCHÉ

THE ECONOMIC recession of 1985/86 evokes memories of liquidations, unemployment, sky-high inflation and soaring interest rates.

It has been described as the worst economic period in South Africa's post-war history and was preceded by a spending boom, which shows an uncomfortable similarity with the country's spending patterns this year.

Economists are now asking whether 1989/90 will be a replay, with all its dire consequences, given the remarkable macroeconomic similarity between the two periods.

Before attempting to answer this question it is worthwhile pointing out the remarkable resemblance between the expenditure patterns in these two periods and subsequent economic developments.

In a recent economic report Trust Bank highlighted the following:

- In both cases real incomes rose substantially, reflecting declining inflation combined with accelerated wage and salary increases.

- Consequently real gross domestic expenditure in the first half of 1988 was 9,7 percent up on the same period in the previous year — almost exactly equalling the 9,4 percent figure of the first half of 1984. Respective year-on-year rises in import volumes were 24,7 and 24,9 percent.

- Spending and imports produced a similar negative effect on the balance of payments in the first half of each year, with the current account declining by about \$3 billion in both cases.

- South Africa's gross foreign exchange reserve holdings declined from \$4,1 billion early in January 1984 to \$3,2 billion. In 1988 they fell from \$4,1 billion to about \$3 billion over a similar period.

- The trade weighted value of the rand in the first ten months this year fell by 11 percent. In 1984 it dropped by 13 percent.

- Credit creation, as reflected in M3 monetary growth, was 15,5 percent in the year to September 1984, which led to a six percent increase in the prime rate to 25 percent by November.

This year, M3 in the first three quarters soared by 26,2 percent, and while prime has not yet reached 25 percent, further increases in the rate from its current level of 18 percent is on the



cards. Economists feel that in real terms prime should be about three percent higher anyway.

- Finally, the announcement of special measures on August 12 this year was almost a spot-on anniversary of the drastic restrictive steps announced on August 3, 1984.

"The virtually exact repetition of the economic trends of 1984 in 1988, and especially the fact that at present our foreign reserves are lower and domestic monetary expansion twice as high as four years ago, immediately prompts

'Wide range of negative trends on the cards'

the question of whether another severe depression is at hand," Trust Bank writes.

In 1985/86 the extremely negative trends were largely a reflection of the extent to which the country had over-extended itself financially in 1984. The trends included a prime rate of 25 percent, real disposable income fell by 4,6 percent in 1985 and by 5,8 percent in 1986, GDE fell by 8,6 percent in 1985 and manufacturing production fell by 5,1 percent, producing extremely high unemployment.

"At present," says Trust Bank, "it is clear that a wide range of negative trends are on the cards next year.

"Average interest rates will be

higher than in 1988, the rand exchange rate lower, inflation higher and expenditure growth much lower."

Trust Bank concludes nevertheless that the negative economic trends in 1989 will in fact be much less severe than in 1985, a conclusion that is shared by other economists.

In their argument Trust Bank stresses that the official debt standstill will limit net capital outflow to R3 billion as opposed to R10 billion, while the corporate sector is also better geared to handle a negative situation as inventory levels and gearing ratios are much more conservatively managed than four years ago.

But Trust Bank stresses the need for a tighter monetary policy in order to bring private sector credit creation under control, indicating that the measures taken up to now could eventually bring the spending boom to a halt.

Adds Nedbank's Edward Osborn: "I don't think the scenario will repeat itself. What really hurt the economy in 1985 was the prime rate at 25 percent and the authorities will not allow that to happen again.

Trust Bank, however, sounds a warning: "The one major factor which could upset the apperant by extending the boom is fiscal policy. If a repeat of 1985/86 is to be avoided in 1989/90 the maintenance of strict fiscal discipline is an absolute necessity."

Prime rate increase inadequate, says Ball

Stav 188
20/11/88 By Sven Lünsche (49)

The current pattern in the money market suggests that the recent rise in the prime rate to 18 percent has been inadequate and that a further rise is needed, says First National Bank's chief executive, Mr Chris Ball.

He was commenting yesterday on the recent sharp rise in money market rates, which this week saw the key Banker's Acceptance (BA) rate rise above the 16 percent mark for the first time in three years.

It closed at 16 percent yesterday, compared with Monday's 16.05 percent.

Upward pressure

"The market shortage remains large and is likely to grow substantially in December, putting further upward pressure on deposit rates," Mr Ball said.

"Either the market has to set the price of money, or the Reserve Bank has to manage a more stabilised rate pattern by making the required liquidity available.

"If neither is considered appropriate, then fiscal action has to be taken to curtail the demand for funds more directly."

Mr Ball said the current situation was exacerbated by the fact that the high level of inflation had pushed cash balances away from the banking sector to life insurers.

Their size in the money markets, plus the relevance of the major corporates is such that in conditions of shortage, deposit rates will keep rising until either the shortage is accommodated or demand is curtailed.

"We want to see a clear economic policy that will enable interest rates to decline to less harmful levels," Mr Ball said.

Demand for credit slackening off

Star 22/11/88

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By Sven Lünsche

Credit demand, as measured by the broad measure of money supply, M3, continues at a rampant rate, but is showing a slight monthly decline.

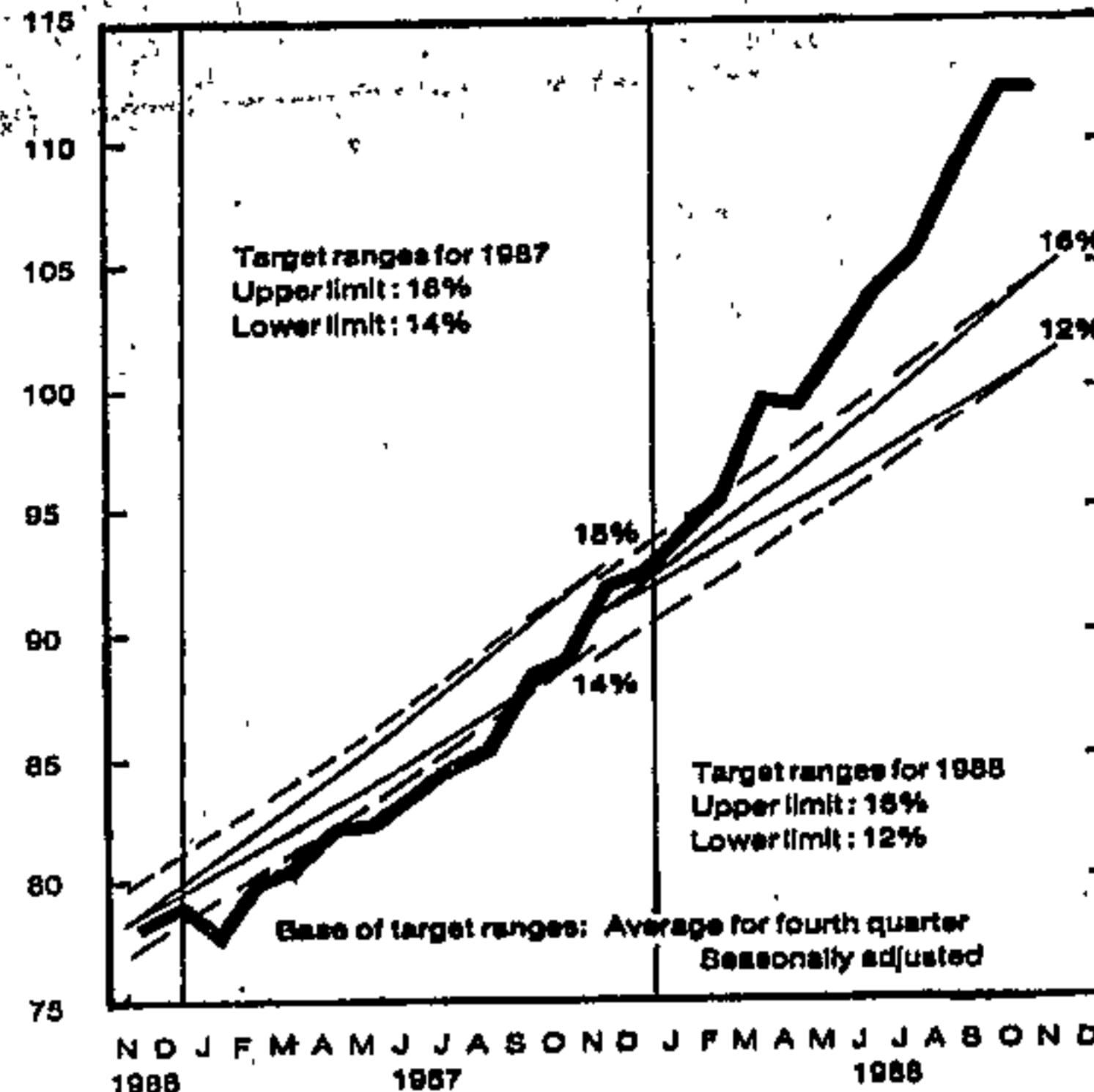
The preliminary estimate for M3's year-on-year growth in October was 26,19 percent after surging by 27,5 percent in September and August.

Figures released by the Reserve Bank yesterday, however, show that in actual monetary terms, M3 on a seasonally adjusted basis declined from R112,16 billion in September to R112,12 in October.

It is this monthly decline, the first significant decrease since the R80 million fall between March and April, that is raising hopes that recent restraining measures are taking effect.

Mr Piet van Schaik, economist at stockbrokers JD Anderson, says: "The slowdown in money creation is a sign that the increase in interest rates in July is finally working its way through.

"Interest rate increases need three to six



Target ranges for growth in M3 (R/billions).

months to take effect and some banks are already reporting that credit extension is down to zero," Mr van Schaik said.

The monthly slowdown seems to lend credibility to a recent statement by Reserve Bank Governor, Dr Gerhard de Kock, who said a target range of 12 to 16 percent in M3 growth rates between the fourth quarters of 1988 and 1989 would seem appropriate.

At a seasonally adjusted rate, M3 grew by an annualised 29,4 percent in the third quarter of this year.

"But," says Mr van Schaik, "the Reserve Bank's target range is well within reach as gross domestic expenditure could decline by over one percent next year and most consumers are unwilling or unable to incur any more personal debt."

Weaker rand expected.

Two major banks have said the current economic fundamentals in the country do not support an appreciating rand. (49)

In their weekly currency reports, both Standard Bank and First National Bank say that technical considerations and Reserve Bank intervention are keeping the rand at its current low levels.

Standard Bank says: "In addition to the often cited pressure points, such as dwindling gold and foreign exchange reserves and the balance of payment constraints, the economy is facing

the prospect of an over-shooting of government expenditure.

"Such a development would tend to nullify the effects of the recent monetary-policy tightening aimed at restraining import demand and GDE."

First National Bank says that a stronger rand price, taken in conjunction with a low gold price, will impact adversely on the rand earnings of gold mines.

It says: "The stronger rand price will have a double negative effect for the trade balance by discouraging exports and encouraging imports." — Sapa

Worker share ownership vital, says US visitor

Star 23/11/88

49

By Adele Baleta

Without worker participation in share ownership schemes there could be no justice, Mr Norman Kurland, a member of President Ronald Reagan's task force for the expansion of employee share ownership in Third World countries, said in Johannesburg yesterday.

Mr Kurland is in South Africa to meet union and business leaders, and hold workshops to encourage the development of employee share ownership programmes (Esops).

PROMOTION THE AIM

He is also president of the Washington-based Centre for Economic and Social Justice, a group whose aim is the promotion of Esops.

Mr Kurland told a group of labour relations executives at a seminar organised by Webber Wentzel, a Johannesburg law firm, that South Africa needed to look at alternatives for reconstructing the country's economy in ways that were neither socialist nor capitalist.

He said neither socialism nor capitalism would bring about justice. It

was necessary to democratise the opportunity for mass individual ownership of property and the means of production.

Esops, he said, did not bring together socialism or capitalism but transcended both.

"They are a method to enable new wealth to be created for the have-nots without taking away the old wealth of the haves, which is what most people fear about political change.

"We need to create a win-win situation where everyone can have a stake in a free, just and stable South Africa."

He said people needed to overcome their fears.

"The first step is to provide justice in the workplace. You cannot have justice without worker participation in share ownership schemes."

Mr Kurland believes the value of Esops is that it creates a win-win situation where an individual's energy, ingenuity and self interest merges with that of everyone else in the company.

Esops, he said, also transcended the conflict-prone and wasteful wage system, offering a new paradigm for creative problem-solving.

Horwood urges Govt to cut share in economy

49

87/23/11/88

Magnus Heystek,
Finance Editor

Nedbank Group chairman Dr Owen Horwood has called for a reduction in the Government's share of the economy as an essential precondition to boosting domestic growth.

Writing in the annual report of the Nedbank Group, Dr Horwood says it has become imperative to increase real gross domestic product (GDP), which is projected to rise by 1,5 to two percent this year.

This rate he considers inadequate and says, against the background of a scarcity of capital among other inhibiting factors, that the state's share in the economy should be reduced.

The state should embark on a vigorous campaign to encourage small business enterprises and the informal sector, both of which tend to be labour-intensive.

"Government's deregulation and privatisation initiatives are to be warmly commended: but there is no time like the present to implement these initiatives and it is hoped that this is fully understood in both the private and public sectors.

"In common with international trends, local investment institutions have built up a large and

growing pool of liquidity — estimated in some quarters to be R25 billion — since the October crash last year. In addition, corporate profits have grown by perhaps 30 percent in the last year.

"Heightened equity investment by the private sector and its concomitant freeing of public sector funds will facilitate a much needed economy in government spending and make possible a lowering of the tax burden, itself a major incentive to productive effort.

"And greater private sector participation will enhance aggregate production and income and so stimulate savings, al-

ways a major source of capital," Dr Horwood says.

He says a strong current account of the balance of payments will contribute significantly to the success of this strategy.

"In this context, the potential for import replacement is considerably greater than seems commonly supposed."

Dr Horwood says: "Recent experience has shown that the efficacy of a weaker rand as a curb on imports by raising their cost is doubtful; it is more likely to fuel inflation."

● In the year to end-September 1988, the Nedbank Group in-

creased its net income by 48,9 percent to R209,7 million, equivalent to earnings of 134,4c a share. The dividend was raised by 21,2 percent to 40c a share, covered 2,8 times.

The return on average shareholders' funds increased from 20,4 percent in 1987 to 26,2 percent. The return on average assets increased substantially, rising from 0,95 percent to 1,12 percent.

Total assets at end-September amounted to R16,827 billion (1987: R14,304 billion), while deposits from public and other accounts rose from R11,6 billion to R13,09 billion.

'Only course open to SA — step up GDP growth to 2%'

49/88

23/11/88

Govt must move out of economy — Horwood

FORMER finance minister Owen Horwood has called for a deliberate, carefully phased reduction in government participation in the economy.

Horwood, chairman of the Nedbank group, says there is only one course of action open to SA — to step up growth in gross domestic product to 2% for 1989.

Writing in the group's latest annual review, he says given the strain on availability of capital because of the international community's virtual embargo on the movement of investment capital to SA, a higher growth rate can only be achieved by reducing government's role in the economy and by encouraging small business and the informal sector.

Horwood says although govern-

KAY TURVEY

ment's privatisation and deregulation initiatives are to be welcomed, these are taking time.

In the meanwhile, local investment institutions have built up a large and growing pool of liquidity, estimated at about R25bn, and corporate profits have grown by about 30% in the last year.

Savings

He says heightened equity investment by the private sector and the concomitant freeing of public sector funds will facilitate a much needed cut in government spending and make possible a lowering of the tax burden.

As the private sector is generally more productive than government en-

terprises, total production and income will be enhanced, stimulating savings — "a commodity conspicuous by its absence in SA today".

In addition, says Horwood, a strong current account on the balance of payments will contribute significantly to the success of the strategy.

SA's international trade accounts for more than half of the value of GDP and therefore international developments impinge on the SA economy, but there is no cause for pessimism.

At present, the adverse impact of sanctions is probably some 5% of export receipts and the potential for import replacement is greater than commonly supposed.

Horwood says the potential of total imports that can be produced locally is as high as 45%, half of which can be produced using existing capacity.

Trade surplus is back above R1-bn

By Sven Lünsche

stay 24/11/88
The country's trade surplus rose back above R1 billion in October while the rate of growth in imports slowed down considerably as import surcharges and other restraining measures began to take effect.

Figures released by the Department of Trade and Excise yesterday showed that the October surplus rose to R1,045 billion, up on September's R840 million but down on August's R1,09 billion.

The figures also show that October's export figures were R4,718 billion (September — R4,48 billion) while imports stood marginally higher at R3,673 billion (R3,63 billion).

But total imports for the year to end-October are substantially above the R25,563 billion notched up for the same period in 1987 and the R7,379 billion surplus for the first ten months of this year shows a 40 percent decline on last year's total of R12,163 billion.

Durable goods

Exceptionally large gains in imports have been recorded in machinery and electrical equipments, transport equipment and other durable goods and to a large extent could be ascribed to a continued willingness of the household sector to incur a higher level of consumer debt.

This is confirmed by the commercial bank's September quarter BA9 figures which show that total domestic credit is still grow-

ing at a year-on-year rate of above 30 percent, and would most probably only start slowing in the early months of 1989.

Trust Bank, in its latest economic report expects the M3 broad money supply growth rate to slow to 25 percent only at year-end. By March 1989 it will have eased to 21 percent and in June to 17 percent, the bank adds.

"Continued growth in private sector fixed investment will prevent any dramatic collapse in overall credit demand, and the single-digit M3 growth rates witnessed late in 1986 will not be repeated," the bank writes.

Further decline

Obviously the Reserve Bank would like to see a further decline in imports and this may come about when the recently imposed restraining measures impact fully on domestic spending.

A further rise in the bank rate cannot be ruled out but the latest increase in the trade surplus — and the assurance it gives of achieving a surplus of around R2 billion this year on the current account of the balance of payments — has removed some of the urgency for this.



The gnome and the beggar

HOUSEHOLDS are reeling under the impact of rising bond and hire purchase costs and there will be little respite over the next few months.

Bond rates have risen to 17 percent and are set to rise further. This is putting pressure on homeowners, especially recent buyers who have taken out large loans. As consumers are forced to cut back their spending, businesses too will be scaling down expansion plans. All this will have a general dampening effect on economic activity which was precisely the intention of the Reserve Bank authorities when they pushed up the bank rate by 2 percent earlier this month.

Overdue response

Higher interest rates are seen in business circles as an overdue and necessary response to a number of adverse recent developments:

- After falling to 13 percent this year the inflation rate has shown signs of picking up again. The Bureau of Economic Research at Stellenbosch University is forecasting a rate of over 15 percent next year.

- Capital has been leaving the country at an increasing rate with a net outflow of no less than R2,1 billion in the third quarter of this year.

- In the weeks before the interest rate hikes the rand had been falling against all major currencies, reaching record lows against the British pound.

- Consumers have been on a spending spree, buying on credit and producing an unsustainable retail boom.

All these factors called for firm

How economic downturn may help free Mandela

Not to be outdone by the Reagans who are reputed to have consulted astrologers about important affairs of state, President PW Botha has been holding discussions recently with gnomes in Switzerland. Botha has not been asking for advice, however. He has been asking for money. The gnomes, of course, refer to Switzerland's international bankers and the money is needed to bolster South Africa's spluttering economy. ANTHONY BLACK reports



Anthony Black

economic action which would have been taken earlier had it not been for the government wanting to delay such unpopular measures until after the October 26 municipal elections. Further bad news could be just around the corner as the government itself is strapped for cash and needs between R3 and R4 billion to finance the 15 percent pay rise for civil servants. One possible solution is a hike in GST. Some economists are even predicting that this could happen in time for Christmas!

All this means that the economy is set to grow very slowly next year, well below the 5 percent growth rate that is needed to start creating jobs

for the three million unemployed let alone for the 4,5 million job seekers coming onto the labour market between now and 2000.

As the graph shows the SA economy in the 1980s is not the dynamo that it was in the 1960s. Over the past five years output has grown at an average rate of less than one percent a year, lower even than in the countries of sub-Saharan Africa about whose economic disasters we hear so much on TV. Indeed the average South African has been getting poorer. According to a financial magazine, personal disposable income — what is left in your pocket after taxes and inflation

— is lower today than in 1971!

A factor which is both a cause and symptom of our current problems is that we are heavily indebted to foreign banks — to the tune of 20 billion dollars. South Africa's foreign debt increased by nearly 300 percent in rand terms between 1980 and 1985. In August 1985, US banks, alarmed by South Africa's deteriorating political and economic situation, suddenly demanded immediate repayment of a large chunk of these debts. The country was in trouble — these huge amounts could not be repaid at once.

The government was forced to

suspend all repayments and negotiate that they be spread over several years. To pay these debts we need to generate foreign currency — earning dollars and deutschmarks — by exporting as much as possible and importing the bare minimum.

With the gold price at a relatively low ebb and so much capital leaving the country in the form of debt repayments, the economy could not afford the rapid expansion of the past 18 months. Imports flooded in as consumers splashed out and firms shipped in the various inputs they needed to increase production. Foreign exchange reserves declined rapidly and the authorities had to put the brakes on hard.

Status change

The dramatic shift in South Africa's standing from First World nation to Third World debtor was underlined at a recent meeting of the World Bank, when South Africa applied for a change in status from donor nation to recipient. More than ever we need foreign capital to grow. This was why Botha was speaking to the bankers in Switzerland, with limited success it would appear. While government sources claimed that bankers were queuing to see PW, the leader of the National Democratic Movement, Wynand Malan, said: "Of course the bankers were interested in seeing Botha — they want to get their money back."

With the pressures imposed by large debt repayments and without fresh foreign capital it will be difficult to get the economy moving. As unemployment mounts this could exacerbate political problems. And foreign funds are unlikely to be forthcoming without significant political concessions, foremost among which would be freedom for Nelson Mandela and fellow Rivonia trialists. This is at least one good reason why Botha has hinted at his release.

(Anthony Black is a lecturer in the School of Economics at the University of Cape Town)



HELEN SUZMAN



DESMOND TUTU

TUTU JUSTIFIED, SAYS SUZMAN

But sanctions are no answer to the problem

ARCHBISHOP Desmond Tutu's challenge to provide an alternative to sanctions was not so much a search for an alternative ideology as it was a practical suggestion to

end the apartheid system, says Mrs Helen Suzman, Progressive Federal Party MP for Houghton.

In a letter published in yesterday's *Business Day*, Mrs Suzman said

Archbishop Tutu's challenge was justified, "considering it comes from a man who, though an adult South African citizen, head of the Southern African Anglican Church and a Nobel laureate, nevertheless does not have a vote."

She said, however, there was no instant solution which would transform the South African scene, "sanctions and disinvestment notwithstanding.

"There is only the long-term effect to economic expansion within South Africa — leading to growth and the creation of jobs. These are the factors responsible for the non-cosmetic changes which have already taken place, such as the repeal of job-reservation, the recognition of black trade unions and the acceptance of the permanence of blacks in the urban areas."

The "slowly increasing" economic muscle which blacks could use would redress imbalance in privilege and wealth in South Africa.

"This solution is long-term, and understandably blacks want fundamental change now, and the end of apartheid.

"But the alternative will lead to isolation and a wrecked economy.

"This may give moral satisfaction to some who oppose apartheid, but the disastrous unintended consequences thereof must be surely weighed in the balance." — Sapa.

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THE OUTLOOK

49

Yet more gloom

The *Standard Bank Review* — projecting slow growth, higher inflation, lower car sales and higher government spending — warns businessmen to plan for a rough 1989. Standard expects real GDP growth to slip to 1,1%, from 2,7% this year.

Inflation is expected to average 13,2% this year and 15,1% next — rising towards end-

1989.

Higher interest rates and stricter HP rules will cut consumer spending on items with substantial financing costs, such as cars, furniture and clothing. Car sales could fall to 205 000 next year from 226 000 this year.

Because of higher rates and more expensive imported capital equipment, Standard projects a fall in private investment across three main categories: inventories, plant and equipment, and construction.

“After some inventory building during

1988, a much lower rate of inventory building, or even destocking, is likely to occur in 1989.”

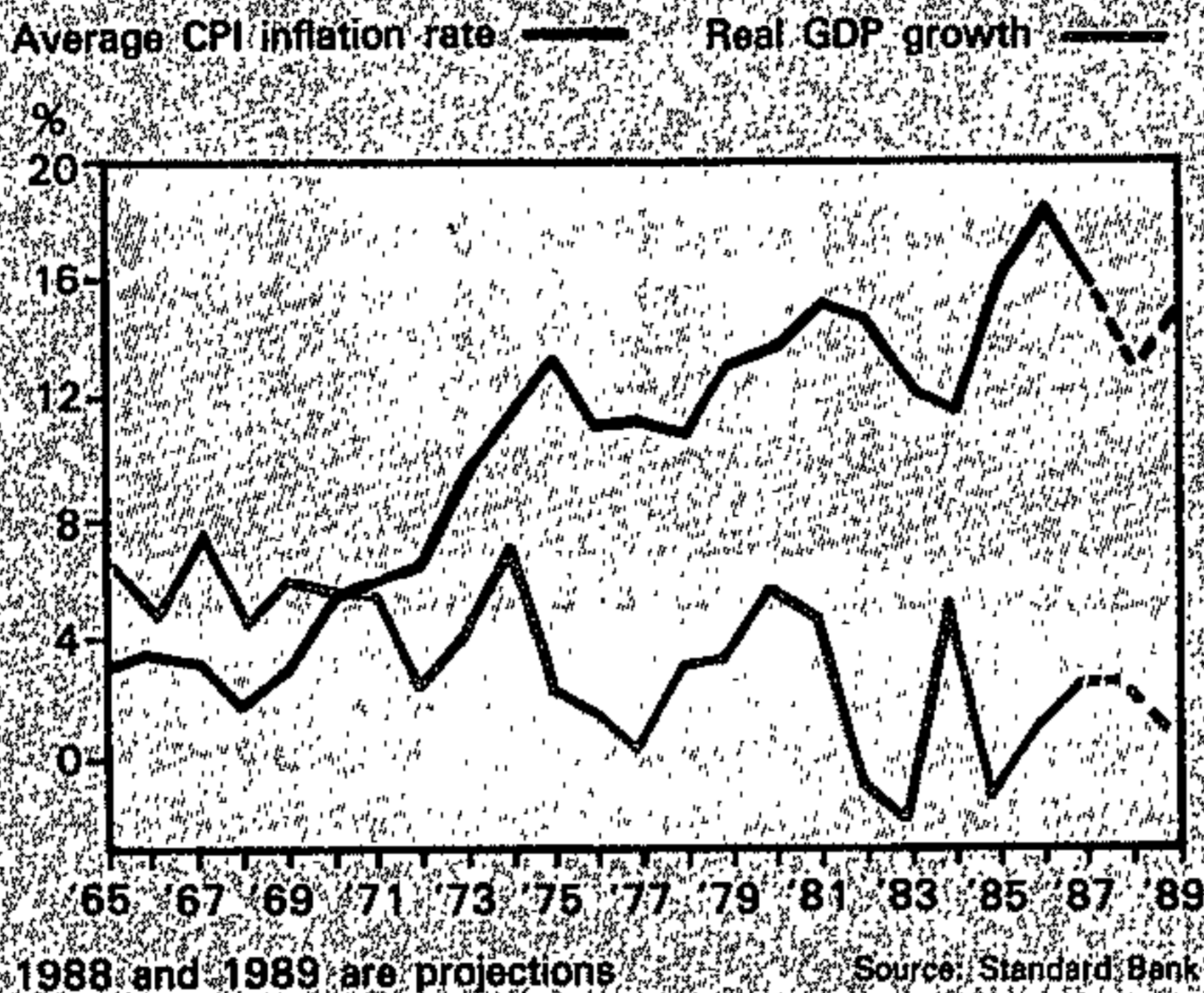
Other projections:

- Real government consumption expenditure will continue to rise briskly — 3,5% in 1988, 4,4% in 1989. Subsequent tax increases or higher borrowing (plus continued growth in private consumption expenditure) will curb saving and private investment;
- Import volumes will fall 5,5% in 1989, after a 16% rise this year, partly because

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Low growth, high inflation



calls a “soft landing.”

Growth may fall more sharply and interest rates shoot up if government overspends and boosts borrowing, the prices of gold and other exports plunge, or political and social reform is halted — or goes in reverse — and undermines confidence.

In its previous *Review*, Standard warned that soaring spending could cause government to borrow heavily to cover current spending. It said the Budget deficit could be a “dangerously high” R12,1bn this year (about 6% of GDP) and R17,4bn next (about 7,5% of GDP).

Given the current uncer-

investment in plant and machinery will fall. The current account surplus will rise to R4,3bn next year; and

Interest rates may not rise much more, but won't come down before mid-1989.

This is a good scenario — what Standard

tainties, Standard warns with its latest forecast of 1,1% growth that “businessmen should be aware of the risk and ensure that they are prepared for a more serious recession, and greater financial and exchange rate pressures.”



Quality in



ECONOMIC POLICY

The Horwood medicine

Prescriptions for our economic ills emanating from former ministers of finance — a rare breed in itself — cannot be dismissed out of hand. Considering that — even though the *FM* was at times strongly critical of him — the period (1975-1984) that Owen Horwood filled the office is, with hindsight, taking on all the hue of a Golden Age, his remarks in his Nedbank chairman's review this week gain further point.

While not ignoring the importance of the balance of payments, Horwood comes down firmly in favour of making growth the priority. Given the strain on the availability of capital, he says, this will require a "deliberate, carefully phased reduction in the State's participation in the economy and a vigorous encouragement of small business enterprise and the informal sector, both of which tend to be labour-intensive and the latter of which is very likely contributing more than 20% to GDP, at a conservative estimate."

He also envisages productive investment of the vast pool of private-sector liquidity: "The concomitant freeing of public-sector funds will facilitate a much-needed economy in government spending and make possible a lowering of the tax burden, itself a major incentive to productive effort."

The key, he says, is the vigour of private enterprise — what John Maynard Keynes called "the animal spirits of the entrepreneur." So deregulation and privatisation also help.

Significantly, he claims recent experience has shown that a weak rand does not so much curb imports by raising their cost, as fuel inflation. By logical inference, the same must apply to the misguided import surcharges of up to 60%.

Nevertheless, he sees considerable potential for import

replacement, citing his group economist Edward Osborn's view that SA could produce up to 45% of goods it now imports, half of that from existing capacity.

Now one could quibble with some of the details of this. One could point out, for instance, that the vast pool of corporate and institutional liquidity will only be invested when those who hold the purse strings think it will be profitable to relax them — and that when they do, there'll be no stopping them.

So what's needed is not exhortation, but the creation of conditions in which businessmen want to invest. That may be largely a political problem, and politics is an area Horwood ignores — perhaps feeling constrained as a former Nationalist Cabinet minister and provincial leader.

Moreover, one must wonder why, if we could profitably replace so much of our imports, the animal spirits of our entrepreneurs haven't already seized the opportunity. Certainly, if Horwood is right, it would be wrong to impose more protection to encourage them, as this would be more likely simply to boost inflation.

But in broad principles, the Horwood programme is so unexceptional that the most remarkable thing about it is that the chairman of a leading bank should think it necessary to spell it out. Ultimately, this can only reflect the lack of economic understanding so widely believed to prevail among our top policymakers.

One must hope that Horwood's impeccable credentials will not only get his views read, but give them more impact than when we penny-a-line scribblers say much the same. ■

Redefine economic activity

Sowetan 25/11/88



GUEST COLUMN
Kehla Mthembu

THE launching of the Nation Building concept affords us the time to be critical of ourselves. The Sowetan under the leadership of Aggrey Klaaste and Sam Mabe deserve to be commended for the timely launch.

A challenge has been effectively issued to all freedom lovers to rally around the call of Nation Building.

This is the time where we as the affected should take a deep introspection, interrogate all our values, scrutinise all strategies and possibly dream about our future and that of our children.

It is in this light that I want to single out one of the most talked about subjects in our community "black economic empowerment".

The question that bothers me is: economic empowerment. Is it a serious challenge facing the nation or is it a fashionable cliché occupying the minds of "liberal" blacks.

If it is a cliché I would despair as I observe an unfortunate continuation of failure on our side to grab opportunities that we have created. I know organisations like Nafcoc, BMF, Abasa, Soutacoc, etc. have given this subject some attention in their various conferences.

I don't seem to see any concrete strategies coming out of the broader community to

ventured into small business have been reduced to survivalists in the jungle of the carnivorous and heartless system of racism and capitalism.

Those blacks who ventured into the "white man's" field of banking, big supermarkets, big wholesaling, big construction, etc., found booty traps laid for them all the way and they became victims thereof.

The blacks who are "making it" in the white corporate world as managers have to contend with the situation where the poles are shifted every time they want to score. All these incidents and many more inequities dictate the need for us to redefine our economic activity and empowerment.

I know some people within the broader liberation movement would not touch anything that smacks of capitalism. Some have already started shooting me down for suggesting that the liberation movement should concern itself with business.

The involvement I am talking about is not business for the sake of business, business for self-enrichment. But I am encouraging business as an economic activity. It is without doubt that I as member of the Black Consciousness movement in my private capacity and also in my public capacity stand for a scientifically based system of socialism in a future Azania.

The economic activity I am encouraging is the same that needs to be sustained and maximised in a socialist environment. We have to be reminded that in any system of government or

economies the need to create wealth remains paramount. It is the wealth of the nation, equitably distributed, that makes any nation self-supporting and fair to all its people. The attempts made by the frontline states in forming the Southern African Development Co-ordination Conference should be the indicator.

My challenge is to the broad liberation movement and the labour movement to interest themselves in economic activity. I am aware that it is our desire to keep the revolutionary and liberatory strategies pure.

But let us not lose sight of the axiom that we have to empower ourselves economically too in order to give direction to the future of this country. I do not have to remind you that wealth concentrated in the hands of those who do not owe allegiance to the ideals of the majority can be very harmful.

The post Uhuru day experiences in countries like Mozambique, Angola, and even Zimbabwe show that economic strategies should become part and

creating meaningful institutions for the workers is used to assist the under-developed workers in other countries. I believe the labour movement here at home potentially controls vast sums of investments through pension funds and provident funds.

These vehicles of investments can always be changed to suit the need of the workers. In conclusion I believe that with proper networking within the community we can jointly come up with structures that can make all of us proud. It is high time that we look at various options like pension/provident funds, disinvesting companies and co-operatives.

Just like we challenge the big bosses and captains of the industry to improve the lot of the workers we have to challenge the powers that be to empower the people. We can only do this if we believe, and are sincerely committed to the trueism that economic activity is vital for the development of the nation. Black people are not involved in the decision of the economic activity in our country. The role played by blacks has always been that of consumers and workers. The few that have

I am of the opinion that the strategy to economically empower the people is a challenge all people (including the broad liberation movement and the trade union movement) need to address. I believe economic strategies need to be worked out hand in hand with broad political strategies. The experiences of our brothers and sisters elsewhere in Africa remind us that economics and liberation are Siamese twins that only cause disasters once separated. In building any nation the wealth of that nation needs to be harnessed and maximised for the benefit of the nation. But right now in our country we have the majority of the people poor, jobless and voteless.

SA in 'uncertain transition'

MMABATHO — South Africa was now being seen as in transition towards an uncertain future whose shape and form would depend on the management of the transition process, the managing director of First National Bank, Mr Chris Ball, told a seminar here yesterday.

Speaking on "Economic Confrontation", Mr Ball said South Africa was at a point of opportunity in domestic economic management and political management.

The domestic economic opportunity was to adopt the lessons of fundamentalism highlighted by British Prime Minister Mrs Margaret Thatcher. This would mean taking firm control of the economy by reducing the level of public expenditure.

The goals should be a small budget deficit, a lower level of inflation, lower taxation and higher levels of employment. All would be achievable in a short time if a firm hand were put on the till.

The political opportunity was similar. Po-

Stev
3/11/88
Own Correspondent

political action should be taken with the same firm hand.

Without such action, South Africa remained trapped by the external constraint of economic confrontation which put a limit of about 2 percent a year on South Africa's real growth rate.

The real growth rate since 1970 had averaged no more than 2,6 percent a year, less than the population growth rate.

If the real growth rate had rather averaged 5 percent a year since 1970, then the gross national product would now be two-thirds more and the issues surrounding South Africa would have a very different and more manageable dimension.

"We would live in a different world. Our rulers have bestowed upon us political and economic infamy," he said.

The seminar continues today.

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THE MARKET economy in South Africa is under twofold threat: on one side is the threat posed by the protagonists of black liberation who are driven by the conviction that only through socialism will it be possible to correct injustices of an existing "capitalist" order; on the other is the threat posed by defenders of that order, who see in direct controls — and perhaps in a command economy — the only effective way to counter sanctions and to restore the kind of economic stability that was "enjoyed" during the Fifties and Sixties, the years of the country's best post-war economic performance.

While socialists and direct controllers divide on the matter of who governs the country, respectively opposing and advocating white minority rule, both favour policies that would increase rather than reduce State participation in the economy.

Both mistrust markets, because the price fluctuations which characterise them weaken or undermine their desired control. And so both prefer bureaucratic regulation to economic freedom and individual responsibility.

Indeed, in both there is no alarm at the growth of the State sector, which now accounts for around 40% of all national expenditure, or at the fact that 20% of all employment in the country is today provided by government.

For socialists, what better political prize could there be? For direct controllers, what better way for ensuring the perpetuation of a minority hegemony?

The black support for socialism is not difficult to understand, although it is probably less entrenched and less widespread than the liberation leadership supposes. It is not difficult to understand, because it is linked directly to the controversy over inequality, particularly in the distribution of income and wealth.

That inequality is the direct consequence of white political power and the statutory exclusion historically of blacks from open economic competition.

It is not just the result of job reservation and restrictions previously imposed on organised black labour. It concerns also the Land and Group

Twofold threat to the market economy in SA

JCI group economics consultant RONNIE BETHLEHEM expands on a recent speech in which he urged businessmen to accommodate black socialist preferences

Areas Acts, which have ensured the entrapment of blacks in deprivation and underperformance, so that even were the Acts today to be suddenly removed, blacks would not be able to compete with whites on equal terms. Only State intervention along socialist lines, liberationists believe, could bring about a correction of injustices.

However, while blacks often express preferences for socialism rather than for capitalism, much of their behaviour suggests that their support frequently lies in a different direction.

Blacks are as mistrustful as are whites of State control and as concerned about the inefficiencies and the corruptions of bureaucracy as are other citizens. Moreover, they also share a desire for individual freedom and value the rewards that an entrepreneurial economy confers on the hardworking and imaginative.

What, then, should the business community do about black socialist preferences if it sees these as threatening its future?

Two alternatives would seem to suggest themselves. It could either mount a propaganda campaign, hoping thus to persuade black people in

a different direction, or it could begin by accepting such preferences as a fact and attempt, instead, to work with them rather than against them. While the natural inclination of many businessmen will be for the former, there is a strong case for asserting that the latter would provide the better strategy.

The argument is a simple one. Given the obvious reason for the business community to defend its interests, arguments designed simply to discredit socialism are bound to fail. Not even a pointing to the failure of socialism in other countries would be likely to succeed given the power of the redistributive case when viewed from a black standpoint.

An acceptance of the black position, on the other hand, could make possible a quite different reaction. One way to demonstrate acceptance would be to offer co-operation in the creation of institutions and structures consistent with black socialist ideology, provided these, simultaneously, had their place in a market framework.

For example, it should make no difference from an economic point of view whether supermarket "A" was owned by Pick 'n Pay and supermarket "B" was owned by a black consumer co-operative, provided both were being operated on modern business lines. Both would be doing an

equal job in allocating scarce resources efficiently.

There is a world of difference between them, however, when viewed from a black ideological standpoint, and there is absolutely no reason why SA should not have both.

This kind of an approach acquires credibility when the inadequate representation of blacks in the entrepreneurial economy is considered.

Economically, important progress has been achieved by blacks over the past 20 years. In the labour area, black power has increased, and the growth of black incomes has brought the black consumer market to the point where it already rivals the white market as that most important to the country's future.

It is, however, in the entrepreneurial sector that black power is manifestly deficient. It is this which needs to be corrected — and quickly — if the threat to the market economy is to be removed.

The argument being advanced here is that it is in the business community's interest to give up some of its present market share in order to bring about an urgent structural adjustment in the economy.

Time is simply not sufficient for

the promotion of black entrepreneurial interests to be left to the Small Business Development Corporation or to the institution of black share ownership schemes.

As important as both these might be, they are grains of sand on a beach. What is needed is something more dramatic, like the structural change that was effected overnight in the Sixties in the mining sector by the transfer of General Mining from Anglo American to Sanlam-Federale control.

If no black Sanlam-Federale exists with which to work, there are the black trade unions. These are no less important as manifestations of black economic power and there is also no reason whatsoever why they should not be drawn into a role that extends beyond the mere negotiating of improved conditions of employment.

Indeed, the black trade unions are already cast in a wider role, having become instruments of political pressure in a situation where legitimate black political activity has become constrained.

How much more effective would the union involvement for change be were its wider role to take on the direction suggested here? And there is precedent in other countries for such a wider union involvement. Britain, West Germany and Israel are cases where labour movements have ventured out and become entrepreneurial, and with considerable success.

Two last points. It is not necessary for those involved in the liberation struggle to wait for a post-apartheid society before they mobilise themselves to new economic initiatives.

If the revolution is slow in coming, too much in the way of opportunity for change is lost. Indeed, the more that is done pre-"post-apartheid" the quicker will the post-apartheid era come.

Secondly, the "socialism vs capitalism" debate is a sterile one. It involves a meaningless exchange of slogans in a world driven by dramatic technological change. SA can no longer afford the extravagance of the distractions that such a debate involves.

The market economy can accommodate both capitalism and socialism, and it is the market economy — with its emphasis on efficiency and flexibility — which we should all work to save. In doing so we would save ourselves.

Technology 'crucial to a SA solution'

Own Correspondent

DURBAN — If South Africa was to achieve rapid economic growth and movement towards democracy, then technology and technical people would have to be at the cutting edge of that change, the chairman of the Anglo American Corporation, Mr Gavin Relly, said yesterday.

Speaking at the Mangosuthu Technikon graduation ceremony in Umhlangeni, Mr Relly said: "Many from disadvantaged backgrounds aspire for white collar careers on the assumption that jobs that leave one's hands and clothes clean are not only innately superior, but also pay better."

He said the South African society had been prejudiced by race, which had sought to segregate the people of the country in every field of activity.

He said that while the country had achieved integration in the economy, the same could not be said of the political and social system.

Facts behind the new fuel price increase

This is an edited version of the joint statement by Minister of Economic Affairs and Technology Mr D W Steyn and Minister of Finance Mr Barend du Plessis on the forthcoming petrol price increase.

"Earlier this week the Cabinet held exhaustive discussions on the overall economic situation and, in particular, on the course of State finance in the current financial year and on the 1989/90 Budget.

"Concern was expressed at wild and often unfounded surmise, in the financial markets and the media, on the possible course of State finance.

"Extraordinary estimates are doing the rounds as to the supposed dimensions of the deficit before borrowing and the total financing requirement in both the current and the coming fiscal year.

"The wrong deductions being drawn in this regard create uncertainty and prompt speculation in the financial markets, which in turn puts pressure on interest rates and can lead to faulty investment decisions.

"It is therefore considered necessary now to release the following data on the course of State finance so far this year, so that those concerned may base their decisions on better information.

"It needs to be emphasised, however, that these figures are only estimates, albeit being based on the best information now available and are thus naturally subject to change in the remainder of the fiscal year.

"Expenditure: The main Budget of March 16 1988 provided for expenditure of R53,9 billion. The gross additional expenditure to be added to this is at present estimated at R3,3 billion. But some R800 million will be financed through rearrangements and savings within the approved departmental budgets, leaving a net additional expenditure of R2,5 billion to be met by additional financing.

"Salary and pension increases of about R1 billion, and higher interest payments of R400 million on the public debt, are included in this amount.

"Revenue: The main Budget estimated revenue at R44,0 billion. The best estimate at this stage indicates about R45,6 billion, or some R1,6 billion more.

"The deficit before borrowing, which was estimated in the main Budget at R9,9 billion, is now estimated to rise by R900 million to R10,8 billion. The Government judges this to be too high in present circumstances and has therefore requested departments wherever feasible to bring about savings in their approved expenditures, over and above those already achieved.

Limited savings

"The Government regards it as of the highest importance that the deficit before borrowing gradually be reduced, to ensure that the authorities' claims on the country's limited savings be held to the minimum.

"The financing of the deficit: In the main Budget, provision was made for a gross financing requirement of R12,5 billion in fiscal 1988/89. To this now would have been added the increase of R900 million in the deficit before borrowing.

"It was recently announced that the Government would receive R600 million in the current fiscal year from the sale of Iscor shares to the Industrial Development Corporation and that this would be used to finance certain capital expenditures.

"Since this sum is included in the foregoing estimate of total expenditure, it must be deducted from

velopment Corporation and that this would be used to finance certain capital expenditures.

"Since this sum is included in the foregoing estimate of total expenditure, it must be deducted from the financing for which provision has now to be made. This leaves R300 million of the additional deficit before borrowing of R900 million still to be financed.

"Against this background, the Cabinet has given attention to such further fiscal measures as may be needed at this stage for budgetary purposes.

"It will be apparent that such measures should mesh with both the current economic situation and the Government's overall economic objectives.

"The Cabinet has therefore noted recent encouraging signs of a levelling-off in the exceptionally large increase in domestic expenditure over the past year, and also the relative improvement in the balance of payments, chiefly as a result of increased exports in the third quarter of 1988.

"It is, however, imperative that the trend towards a return to a more sustainable rate of increase in domestic demand would continue.

"In order at one and the same time to reduce the deficit before borrowing and to encourage domestic expenditure and imports further in the desired direction, the Government has decided to levy an additional 9 cents a litre on all domestic fuel sales, as from Monday January 16 1989.

"Provision will also have to be made for the increase in the rail and pipeline tariffs that take effect from today, December 1 1988.

"The Government has decided to finance these increased transport costs from the Equalisation Fund until January 15 1989, but to adjust fuel prices on January 16 1989 to cover them, by a further 1 cent a litre.

Consumption increasing

The fuel price will thus rise by 10 cents a litre as from the latter date.

"It will be clear that in the determination of the commencing date for the price increase both the closing of the planting season and the ending of the Christmas holiday have been borne in mind.

"It is, moreover, the case that the volume of fuel consumption has for some time now been growing at no less than 8 percent per annum, a disquieting state of affairs, since South Africa must import all its crude oil.

"With regard to the costs arising from higher transport tariffs, the net increase for consumers in the PWV area would be 0,7 cents a litre. But as fuel pumps can cope with full cents only, the increase will be rounded off to 1 cent a litre at the pump. The rounding-off factor of 0,3 cents a litre will be credited to the cumulative over and under recovery account (the "slate").

"Other parts of the interior affected by the higher transport costs will also face an increase of 1 cent a litre, except for areas in the north-west Cape, where the increase will range from 1c to 3 cents a litre as a result of the higher transport cost, over and above the 9 cent increase in the fuel levy.

"These increases will be implemented simultaneously with the increased fuel levy and the new prices of petrol will be gazetted on January 13 1989.

"The higher fuel levy is estimated to yield an additional R260 million for the fiscus in the current financial year and to add R1,3 billion to total state revenue in fiscal 1989/90.

"In the light of this proposed additional revenue and of further possible savings on approved expenditure during the remainder of the fiscal year, the deficit before borrowing should exceed the original estimated of R9,9 billion by R700 million at most. Taking into account the R600 million emanating from the IDC-Iscor share transaction, the state's financing requirement for fiscal 1988/89 should therefore not be much greater than was estimated in the main Budget. Indeed, it would even be lower." — Sapa.

The ride will be bumpy

■ Careful scrutiny of key indicators is necessary

The FM Board of Economists considers whether the economic upturn of 1986-1988 has really come to an end, and what 1989 may bring. It also reassesses the efficacy of monetary and fiscal policy. Joining regular members André Hamersma (Standard Bank) and Aubrey Dickman (Anglo American) as a guest this time is Rand Merchant Bank's Rudi Gouws. As usual, Raymond Parsons of Asso-com is in the chair.

Parsons: What have been the most positive features of the 1986-1988 upturn?

Gouws: The smaller overlap of government spending over initial targets. In March we had a very small tax rise, so at first it wasn't based on a huge fiscal stimulus, but this regrettably will probably change.

Dickman: Unfortunately there is usually a negative side to the positive features. For example, one major positive feature is that the current account balance has been positive whereas in previous cycles it was negative. But that tends to show that investment is still lower than it was in 1984.

Hamersma: The general mood of businessmen is very important. There's a far more positive outlook. Then there's the informal sector, which is growing fast, though from a very low base. And the private sector is again making major fixed investments, which indicates that people are taking a much more positive longer-term view.

Dickman: The informal sector is extremely important. I don't accept the theory that, because of it, GDP or the growth rate are seriously undermeasured. I think the official growth rate is about right. But the importance of the informal sector is that it disproves the impression created by official figures that there's massive unemployment and no alternative employment opportunities. The informal sector imparts an important dynamic and a reflection of change and reform that may even help foreign perceptions, even though its benefit may be more socio-political than economic.

Parsons: What key factors in the world economy are relevant to our economic performance in 1989?

Hamersma: The world economy amazes me. It is far more buoyant than people expected and has stayed buoyant for a long period, which is very encouraging. That's always good for SA, because we get better export prices for our goods.

Dickman: We can't look for a massive boom in the world economy, but we can be reasonably sanguine, without forgetting about all the imbalances that remain.

Gouws: I'm slightly more worried about the latter part of 1989 and 1990. US growth will slow down then, and that must affect us.

I don't expect a world recession, but after this excellent growth spell we must be aware of the dangers that lie ahead. And the timing is pretty unfortunate for us because of the bunching of our debt repayments.

Parsons: Do you still share the recent concern about SA's low foreign exchange reserves? What is the outlook on this score now, given the latest trade figures? Also, what is your view on the capital account?

Gouws: The current account should be in surplus this year to the tune of R4,5bn and much the same next. Now R4bn is in line with the projected capital outflow. I'm not saying that the reserves won't fall next year, but the fall will be of a far smaller order than the very large decline we've had already.

Dickman: The continuing levelling-out of imports is interesting. Exports, having recovered from an unusual drop, were already back to the level of late last year. That's encouraging, though the growth trend is not strong. But I am concerned about the reserves, which are down to about the equivalent of six weeks' imports. The capital account is the major factor. We have a surplus on current account but also these extraordinary capital outflows. I can't see how we can get through next year from a policy point of view without aiming to rebuild net reserves, so we must turn the capital account around. That hangs largely on interest rates.

Hamersma: We simply cannot run the economy on the level of reserves we have now, so we need to rebuild them. That means restraining growth. There is no option. The capital account is crucial.

Parsons: It's generally believed that there is some levelling off in the economy already and that we must expect lower economic growth next year. What factors will decide whether the economy has a soft landing?

Hamersma: I believe we'll have a Budget only after a general election in, say, May or June. It will aim for a rise in government spending of something like 12%, and 16% in revenue. The critical factor will be what actually happens. This gives two scenarios. If they stick to it, we'll probably have a soft landing, with no need for interest rates to go sky-high. The alternative, of course, is the hard landing: government spending remains stimulatory, pushing growth up. That will give higher short-term growth but ultimately, towards the second half of the year, many balance of payments, money supply and oth-

er problems will re-emerge.

Dickman: Though we did fairly well in the first half of this year, the fiscal outlook doesn't seem consistent with a soft landing.

Gouws: A major risk is that something can go wrong with the balance of payments. With the world economy slowing down and low inflation, the gold price could take a bit of a knock. Then, suddenly, the balance of payments could start to give us a problem in the latter part of next year.

Parsons: Do you believe that our management of the upturn has been good? If not, what went wrong? Was it excessive credit creation, as the Governor of the Reserve Bank has said, or have we also had bad luck?

Dickman: There were serious mistakes. All economists knew, after the 1983-1984 experience, that this upswing would have to be managed extremely carefully, particularly after we instituted monetary targets, which needed very close monitoring. When the signs changed, first of all we had anti-



You can't have fiscal indiscipline indefinitely and then rely on monetary policy to pull it right. Monetary policy can't carry the full strain.

—Hamersma

icipations of control measures, which were not denied strongly enough — this affected import behaviour. But the main problem was the reluctance to raise rates fast enough and high enough as the situation developed.

Hamersma: The mistakes were mainly in monetary policy. When we needed restraint, it wasn't there.

Gouws: The moves in net gold and foreign exchange reserves over the past 18 months are an exact mirror image of the money market shortage and the re-financing of banks by the central bank. All that the balance of payments did was offset by the credit the Reserve Bank created. Then of course in the end we had to have a 2% jump, and that 2% is part of the reason why the landing won't be all that soft. Consumers will struggle with this latest increase.

Dickman: While the money market shortage was there largely as a result of fiscal policies, of over-funding the Budget deficit, which was very good debt management policy, the Reserve Bank still had to finance it at the prevailing level of rates. Even though it managed the shortage down and changed its stance, the banks themselves created liquid assets as the private sector was willing to borrow at that level of rates because of their anticipations of import controls, the need to get stocks in, and so on.

There is a bad luck element that we mustn't forget, too. The gold price didn't



dealt through a commercial bank which has since had significant changes at executive level. Dealers say that, at the time, foreign banks perceived that the Reserve Bank had little or no control over the commercial bank in question.

Dealers also say that it's spurious to include large corporate forex losses — such as those at Tedelex — in the same category as those who qualified for government-subsidised forex cover. One comments: "The Tedelex losses were made because no forward cover was taken out for foreign loans, simply because everyone thought the rand would strengthen. But the Sats saga was also about high-volume trading on a daily basis. Tedelex did not trade for their own account in foreign currency. All they really did was to misinterpret the market.

"Even Reserve Bank Governor Gerhard de Kock said the rand was going to get stronger. Sats was not only incurring losses on uncovered positions, it was also losing on trading. Sats, of course, acted as if it were a bank. It's also true that if Sats had made use of Reserve Bank facilities, the Bank would have had to take the knock, and therefore the taxpayer, but that's not the point — Sats dealt with currency on a daily basis, tied into the commercial bank. It was trying to make profits, and it could conceivably have made R3,2bn. It lost it instead."

Possible forex irregularities in the Eurobank saga are yet to be investigated. What is known at this stage is that the man behind the "bank" was Pretoria attorney Albert Vermaas. The unravelling of events suggests that an ambitious man managed to operate beyond legal limits — with the knowledge of the authorities — for more than a year before the bubble burst. Thus:

□ In July, 1987 the Reserve Bank first became aware of deposit-taking by Vermaas, in his own name. It called him in, and he agreed to phase out the business;

□ Early in February 1988 the Bank was told that "Reef Acceptances" was taking deposits, and linked the business to Vermaas. Again, Vermaas agreed to terminate the marketing of the debenture in question by September, this time giving the Bank written assurances; and then

□ A "new" institution, "Eurobank," appeared before end-September. The Bank established it was registered in Ciskei, and again was able to link it to Vermaas.

On July 22, when new investigative powers for the Bank were promulgated, it released a statement that effectively cautioned anyone against Eurobank (see illustration). Yet the deposits flowed in their millions from businesses, State corporations and welfare organisations.

Anyone who made a decision to

invest in Eurobank — particularly public money — must answer the question of why the Bank's statement of July 22 was not given exhaustive attention. While some have likened the Eurobank saga to the Kubus scandal, where investors threw millions into rotten milk, the only apparent connecting factor is human greed.

Eurobank had a surface glamour for a number of reasons. First, its agents were very successful in recruiting new investors — whether in return for a commission or not. For example, one of the "marketing" tools was a letter saying that Eurobank was an "internationally registered bank." True — but also extremely misleading, since SA is the only country in the world which recognises Ciskei as a sovereign state.

The "international" registration provided some kind of comfort to investors, though it was not specifically stated that Eurobank was registered in Ciskei. And during the commission's hearings, it was confirmed that the bank's name could be misleading to investors.

Eurobank offered returns far in excess of those of secure financial institutions in SA. The answer to questions on this point was that Ciskei's tax haven status offered a zero-rated corporate and financial institutions tax, allowing higher returns than in SA.

In fact Eurobank appears to have been paying interest out of funds from new deposits.

If it is true that SA's systems allow these things to happen, Justice Minister Kobie Coetsee's suggestion of a "mechanism" in the Advocate General's office to allow for

INVESTMENT SURVEY

This week the FM publishes a supplement containing the detailed addresses of the speakers at its international investment conference on the outlook for 1989 held in Johannesburg three weeks ago. The supplement is being mailed separately and may not reach subscribers at the same time as the FM itself.

The FM's guest speakers from abroad were transported while in Johannesburg in cars provided by courtesy of Mercedes Benz, to whom the FM would like to record its thanks.

"speedy action" in investigating corruption and maladministration is welcome.

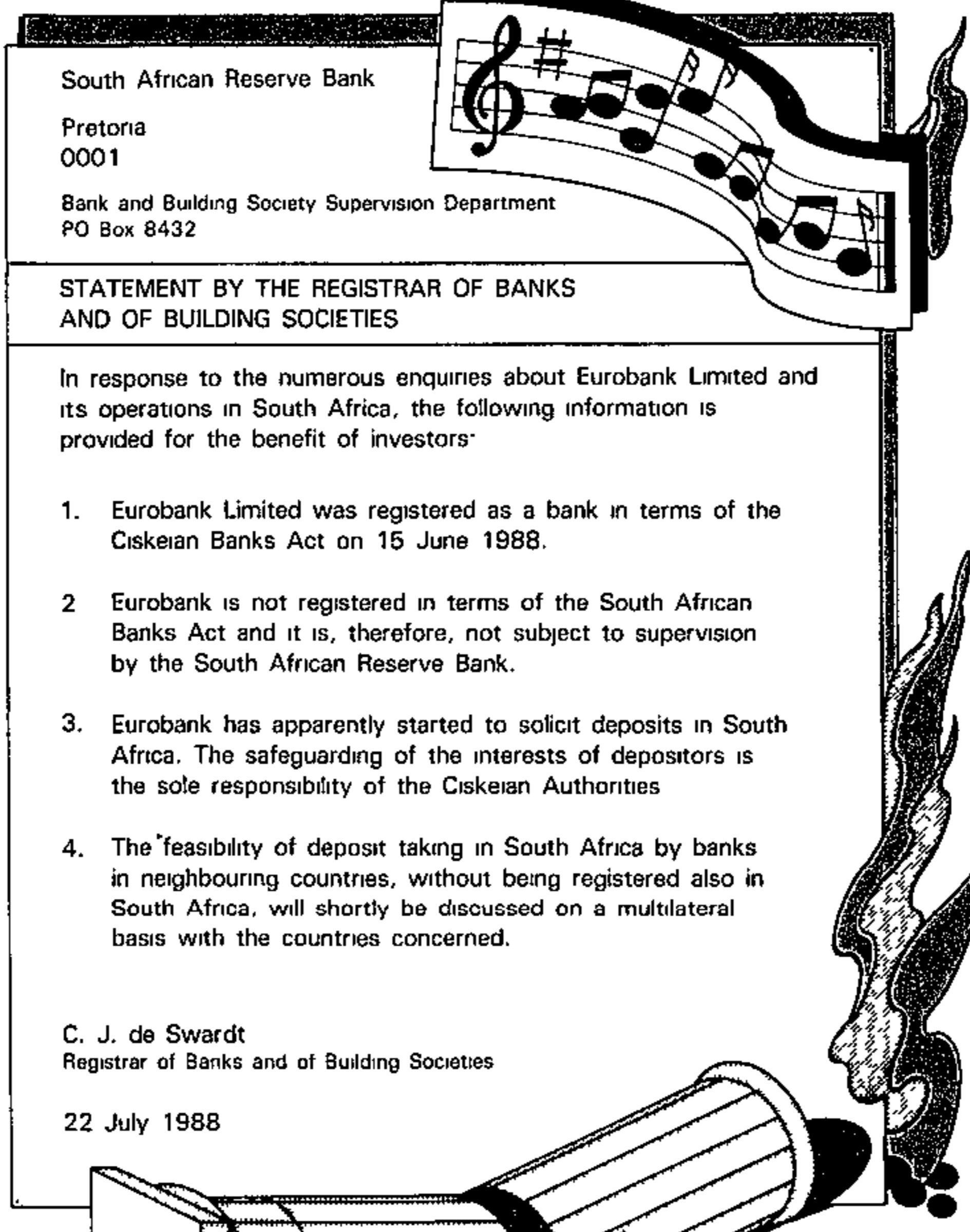
The worst outcome of the call would be the creation of a body similar to the Harmful Business Practices Committee. This, despite its sweeping powers, and abundance of material for investigation, has not done anything significant in the months since it was created. And remember that the FM pointed out at the time that the limp-wristed official justification for the committee was to "protect" the public from Kubus-style rip-offs.

In any event, legal fundis such as Wits's Harold Rudolph would welcome wider powers for the Advocate General, to make the office a "full-blown ombudsman." One of the problems is that the Advocate General is only authorised to look into cases of dishonesty involving State funds. The suggestion is to include maladministration.

In the case of Vermaas, the authorities were aware of the situation for more than a year before firm action was taken — though, to be fair, they did take what action was possible on their part. The point is elementary: corruption and maladministration has never been stopped by laws and courts; it is stopped by a change in attitude.

Such a change would only significantly occur when government starts to materially shrink its size and consumption of national product. In the meantime, yes, we do need an Advocate General with more muscle; and we do need a vastly improved system of public accountability, as the Sats debacle has shown.

But judging by trends in the growth of government, and the lack of visible privatisation, which would ipso facto reduce corruption and maladministration through more public scrutiny of accounts, the chances of avoiding the sound of Nero's fiddling is minimal indeed. ■



South African Reserve Bank
Pretoria
0001
Bank and Building Society Supervision Department
PO Box 8432

STATEMENT BY THE REGISTRAR OF BANKS
AND OF BUILDING SOCIETIES

In response to the numerous enquiries about Eurobank Limited and its operations in South Africa, the following information is provided for the benefit of investors:

1. Eurobank Limited was registered as a bank in terms of the Ciskeian Banks Act on 15 June 1988.
2. Eurobank is not registered in terms of the South African Banks Act and it is, therefore, not subject to supervision by the South African Reserve Bank.
3. Eurobank has apparently started to solicit deposits in South Africa. The safeguarding of the interests of depositors is the sole responsibility of the Ciskeian Authorities.
4. The feasibility of deposit taking in South Africa by banks in neighbouring countries, without being registered also in South Africa, will shortly be discussed on a multilateral basis with the countries concerned.

C. J. de Swardt
Registrar of Banks and of Building Societies

22 July 1988

really come to our assistance and it fell away in September, which compounded things. But I wouldn't call the increase in British rates bad luck, because it's the sort of thing that must be factored into policy. We are part of the world. When Britain put rates up, we should have followed.

Hamersma: There was also a tendency not to take action but just to ask people to refrain from borrowing, or banks to refrain from lending. Given the expectations, this sort of moral suasion was clearly bound to fail.

Parsons: Has Reserve Bank independence been a factor in monetary policy?

Dickman: It's certainly a problem that's come to the fore. It's not new, of course: it was discussed in the De Kock report. Many economists criticised the central bank, saying that if only it would stop creating liquidity inflation would stop. That's absolutely true, but doesn't take into account the complexities of a modern mixed economy.

Hamersma: If monetary and fiscal policies don't pull in the same direction you have a disaster on your hands. You can't have fiscal indiscipline indefinitely and then rely on monetary policy to pull it right. Monetary policy can't carry the full strain.

Gouws: I would like the minister of finance or State President to announce the monetary targets, which would show that government is 100% behind the conduct of proper monetary policy.

Hamersma: Or impose legal limits on the borrowing power of government. We had that in our first Banks Act!

Dickman: These are major questions, but they're like saying we'll peg ourselves to the gold standard or some other independent constraint. Unfortunately the genie escaped from the bottle a long time ago. It all comes down to political will: if you don't have that, nothing helps. The cardinal point is that monetary policy begins with Treasury.

Parsons: Has the import surcharge helped protect the balance of payments?

Gouws: The surcharge is the lesser of two evils if the other is quantitative import controls, but the implications for individual businesses are most discriminatory. It also raises the cost of imports, not just of Porsches and Danish cheese, but of capital goods, without there being on the other side any benefit to exporters — as there is with a currency depreciation.

Dickman: It was an ill-conceived measure taken in panic that raises all sorts of questions. Long term, our important propensity and imports have fallen as a percentage of GDP. Recently imports as a percentage have remained roughly the same even though investment has fallen. People have looked at that and said we have become much more import-intensive, but I don't think that's

true. A lot of it is to do with behavioural anticipations, stocking up, and so on.

Even if people change their preferences and need computers and all sorts of things, we mustn't say they can't have them. We must change our money supply and interest rate situations so that people can make the proper choice according to opportunity costs.

Hamersma: Our policies are inconsistent, because we also provide importers with forward cover at completely uneconomic rates; so on the one hand we tax them and on the other we provide a huge subsidy to them.

Gouws: That same action raises the money supply, which gives us more inflation and makes the rand at the end of the day likely to fall further than it might otherwise.

Dickman: And it won't be long before people won't care about the 60% surcharge because they'll have more money! The other point is that we have — happily and fortunately — rejected import controls, but handling the surcharge has involved the authorities in as many subjective decisions and waste of time.

Parsons: In the first half of this year private-sector people were giving strong warning signals as to what was happening. Why didn't they carry weight?

Hamersma: The trouble is that the people who take decisions, particularly on government spending, do not take them on economic grounds or give sufficient weight to their longer-term implications. There is an expediency which SA cannot afford.

Gouws: Civil servants' salaries are a case in point. At the start of this year we had an unfortunate statement that civil service salaries would be frozen — I would have preferred the size of the civil

service to be addressed rather than their salaries — and the equally unfortunate exhortation to the private sector to follow suit — which it couldn't possibly do in the prevailing labour market. Then recently we had the announcement of a 15% rise for civil servants, which seemed just as little related to any broad economic policy considerations.

Parsons: A few months ago, the last board meeting widely applauded fiscal policy as on target. Since then there has been a change of perception.

Fiscal policy is coming under increasing criticism as destabilising, or procyclical. How important is this?

Dickman: I think we will have a deficit this year on the Reserve Bank figures of 5%. It was never going to be 4,9%. This is no problem, thanks to the substantial revenue gains. But if you look ahead next year, a deficit of well over 6% stares us in the face unless there are taxation hikes and major cuts in spending. Now you might argue it could be financed, but that kind of spending injection would not be consistent with the need for



FM Board: Gouws, Parsons, Hamersma

discipline and raises the very important question of financing current government spending through borrowing.

Gouws: We must be glad that government revenue is 26% up in the first seven months of the year. In the long run fiscal policy remains a major concern, but in the short run at least we can finance it.

Hamersma: Against all accepted criteria, even against government's own criteria, government spending and government finances are completely out of control and there is no indication they are likely to come right.

I believe the deficit will be at least 5,5%-6% already this year. SA simply cannot afford this. We should aim at even lower than the official target of 3%. From this point of view we are certainly becoming a Third World country. This sort of deficit is consistent with inflation rates of 20%-plus.

Parsons: If you were sitting behind the desk of the Minister of Finance, what steps would you take to regain fiscal control?

Hamersma: They will have to be drastic and painful. The first thing you must accept is that if you want more of something you have to have less of something else. You have to cut existing expenditures and services. The only way to do that is to reduce the size of total government. If you look at the duplication of services you will find a lot of areas to cut spending. We have 22 departments of education, we have so many capitals. I don't want to cut government investment expenditure because there isn't any left.

Dickman: We cannot afford the political structures that we have set up, otherwise we will have to tax this economy out of existence. The kind of austerity that we have to get into reduces import intensity too.

What that means for political reform is another question, but it certainly doesn't mean that we must stop reform.

Parsons: Perhaps we should modify our obsession with cumbersome reform from the top down, which is inevitably more expensive, and think instead of bottom-up reform.

Gouws: Since the mid-Seventies up to the beginning of this year there was an increase of 16% in people employed by the private sector but 61% in people employed by general government. That's according to the table in the Reserve Bank *Quarterly Bulletin*, which is the widest possible definition.

Parsons: How high do you rate the chances of the right fiscal policies being maintained and, if not, will interest rates rise further?

Dickman: Interest rates could rise further,



We cannot afford the political structures that we have set up, otherwise we will have to tax this economy out of existence.

Dickman



Dickman ... looking at 1989

but not by much. I can see 18%-20%, but I don't see us going back to 25%.

Hamersma: I am particularly worried that we'll have an election in March-April, and that will mean delaying fiscal changes until a Budget much later next year. The situation unfortunately will have to get worse before people realise the costs of what they are doing. High interest rates are an effective way of bringing sense to people because they have a political component. We must tell people that high interest rates will be the result of fiscal indiscipline, not the result of banks failing to control themselves.

Parsons: Do you agree with the view that we can have tight monetary policy as long as we also exempt or help the small businessman, farmer and homeowner?

Dickman: We accept the principle of subsidisation rather than distorting the whole market to help deserving areas, but we mustn't go so far as to dilute the whole effect of the policy, because then we would have to raise taxes to a much higher level. The whole idea of higher rates, particularly mortgage rates, is to reduce disposable income.

Gouws: Civil servants and teachers always argue that they want to be paid at market rates, but they are not subject to the same disciplines as the private sector. So at least let's subject them to the disciplines of interest rates, like the rest of us.

Parsons: It seems that upturns in the economy are being arrested at successively lower peaks. Are there structural questions vital to future economic performance?

Dickman: The debt constraint limits our potential growth rate. We can grow at a maximum of 2% or 3% without foreign capital, never mind repaying foreign capital. We have this great political constraint of repaying debt, which no other developing country has. We have done incredibly well in the light of that. We have to hope for structural adjustment to the right sort of internal policies according to the long-term strategy approved by government. Then maybe one can change foreign perceptions so that we can get through the very difficult period of debt repayment in 1990-1991. 4

Gouws: Another major structural reason for poor performance is the rising tax burden. The ratio of direct personal tax to current personal income has doubled since 1973. The mirror image of that has been the massive fall in personal savings, from 12% to 2% or 3%. We have saved less not to spend but simply to pay tax. On top of that, GST has

made real disposable income that much less.

Hamersma: We have become an unsuccessful economy. Capital leaves not so much for political reasons but because people don't make money in SA anymore. We mustn't think that after 1991 or when we have reorganised debt, money will flow in.

Dickman: People must not get the impression that a different set of policies is required to get over short-term problems. They are roughly the same policies. The emphasis changes because of the business cycle but the questions of realistic interest rates, government spending and market signals in a world where everybody is moving towards free enterprise are terribly important.

Gouws: Our interpretation of structural policies differs from the international view. To the World Bank it means deregulating, eliminating impediments to the efficient operation of markets; here people still think about which sectors to help and subsidise.

Parsons: What do you expect inflation to average next year and how do you see trends in wages and salaries and the exchange rate?

Gouws: Inflation will start rising from the current 12,5% fairly steadily to average something like 15,5% in the new year. We'll see a similar acceleration in salaries. Real incomes in the private sector will not grow in 1989 as they did in 1988, so I see a fall in consumer spending early in the new year.

The exchange rate could rise next year. But then in 1990 we will have the impact of inflation, because our inflation is going to rise, while it will remain low internationally. So the rand being more stable in 1989 will make things more difficult for the export sectors in 1989.

Dickman: There are skilled labour shortages already, so unless the economy levels off there will be another surge in wages. The exchange rate will depend on the US dollar. In terms of purchasing power parity we are undervalued, but a longer view of interest rate differentials is for a further decline.

Hamersma: Inflation is clearly the main problem, and could reach 20%. The rand can only decline, not so much against the dollar, but against stronger currencies.

Parsons: If the Angola-Namibia peace settlement holds, do you see any economic benefit?

Gouws: If we knew what we're actually spending we might know what could be saved, but in the absence of those numbers it's impossible. We've also been told that we won't cut back defence spending simply because of a settlement, so at first we may even see an acceleration in spending.

Hamersma: Political perceptions have improved considerably since 1985 and 1986. These moves are very positive.

Parsons: Are any other political factors particularly relevant to our economic performance over the next year or so?

Gouws: The big fear of the Right gaining power soon seems to have receded, though it would be dangerous to be complacent.

Dickman: I'm more worried about the Right and government's attitude towards it. Then there's the new administration in the US, and its attitude to us. I must say that our problems are not insoluble. There are encouraging factors: if we pursue the proper policies we could get things right more easily than in 1984, but I'm not all that happy about the political situation.

Parsons: If you had to give a basic message to the average businessman regarding strategy in 1989, what would it be?

Dickman: You're going to have a bumpy ride this cycle. Some areas will do well, but others will level off. You must prepare yourself for higher interest rates, a domestic slowdown, and possibly higher taxes — certainly higher indirect taxes on durable goods and consumer spending. Look to export markets. You may be given the wrong signals for a while because of the way fiscal policy turns out, but inevitably this situation has to be rectified. So plan very carefully.

Hamersma: There is a divergence of perceptions between businessmen and economists.

The truth is probably somewhere between. If government and consumer spending and fixed investment all increase, the economy really won't just fall over a cliff.

Parsons: What must the average businessman do, what must he watch for?

Hamersma: Only one thing: government spending, fiscal discipline.

Dickman: Generalising about excess capacity is dangerous; it may be obsolescent but there clearly is capacity there. But who knows whether it's going to be taken up? We've had big increases in corporate profits, and balance sheet gearings have improved; but if you contem-

plate replacing capacity at current costs and the current value of the rand, don't be under an illusion about the adequacy of those profits and liquidity.

Gouws: Another area where there should be warnings against the profit illusion is the very unfortunate statement by Danie Steyn where he blamed inflation on excess profits in the private sector.

Parsons: He was addressing a political congress.

Dickman: That's no excuse!

Parsons: Finally, what are your forecasts of GDP growth next year?

Hamersma: 2%.

Dickman: No, only 1,5%.

Gouws: I'll go along with 1,5%. ■



Since the mid-Seventies up to the beginning of this year there was an increase of 16% in people employed by the private sector, but 61% in people employed by general government.

Gouws

THE RAND

Leading or lagging?

(49)

B/A FMMIL
2/12/88

Despite the increases in UK and US base rate this week (see World), clouds on SA financial horizon are lifting a little. Several factors combined to put a rosy glow on the rand, which appreciated by about 6,4% against a trade-weighted basket of currencies between November 3 and the start of this week. This was without "deliberate" Reserve Bank intervention to shore it up, says Governor Gerhard de Kock.

In its favour were progress on plans for peace in Angola, a new relationship with Mozambique, the reprieve of the Sharpeville Six and an improved gold price.

As a result, the outlook for the capital account of the balance of payments (BoP) has brightened. After an alarming outflow of R2,4bn in the third quarter, the capital account has shown tentative signs of recovery, says De Kock.

"For the first time since June, unfavourable leads and lags are petering out. It's early to count our chickens but so far, with the dollar going down and SA interest rates up, there are favourable indications."

There are signs, too, that the strengthening rand may start to generate profits on some of the Reserve Bank's forward cover operations — after 10 months of mounting losses. These were incurred because, when the rand was in a steady decline, the Bank was forced, under the existing system, to provide cover at rates dictated largely by interest rate differentials, losing billions of rand for the account of Treasury.

Despite their size, however, the losses were a secondary consideration. More important, they involved the Bank in a credit creation exercise, further fuelling already rampant

money supply growth. So a reversal of leads and lags was the best possible news.

Now, with offshore rates rising again, are recent gains in jeopardy? With interest rate differentials playing a crucial role in capital flows (see below), the widening gap will put additional pressure on the capital account.

De Kock has responded by reducing forward cover rates — a short-term solution, he concedes. He would prefer to have the Bank out of the forward market. However, the move will no longer be inflationary, he says, nor will it risk losses because prospects for the rand are now favourable.

Fortunately developments in international markets are giving us room to manoeuvre as prospects of higher oil prices next year feed the gold price and consequently improve the outlook for the rand. So let's hope leads and lags will continue to flow in the right direction — for a while at least.

However, the past has shown the folly of relying on the gold price to make good for policy defects. The only real solution lies in removing distortions and allowing efficient allocation of resources by the market. ■

CAPITAL FLOWS

On differentials

Effect of interest rate differentials between SA and major Western sources of finance on capital flows has attracted much interest in recent weeks. Reserve Bank Governor Gerhard de Kock has said repeatedly, differentials between SA and its trading partners since June have seriously eroded the capital

BUSINESS

We're not saving much, but then, neither are our rulers

SOUTH AFRICANS have virtually stopped saving and this is proving a barrier to economic growth, as South Africa isn't bringing in any foreign funds to finance new investment.

Economists say that with personal income falling, individuals are struggling to save — nor do low real interest rates give them much incentive to do so. Meanwhile, much of the savings which are generated in the economy are used by the government.

Personal savings peaked in 1980 when individuals managed to put away the equivalent of 6,9 percent of the gross domestic product. By 1987 that figure had fallen to 1,6 percent.

The period from 1975 to 1979 saw personal savings average out around 10,2 percent of personal disposable income. By 1987 this figure had slumped to a low of 2,8 percent. Compare this with Japan's personal savings ratio of about 17 percent.

The example offered by government is worse. In 1980 Pretoria's savings equated to 3,3 percent of GDP. That situation didn't last long.

By 1982 the government's financial position had reached the point where, if it was run according to standard business principles, its financial director would be looking for alternative employment.

That year saw government saving turn into dissaving. The strong surge in consumption expenditure was not matched by a rise in income. As a result, borrowed money had to be used to pay salaries.

The corporate sector has performed slightly better on the savings front but that's in itself an unhealthy symptom.

Business usually saves only enough to finance its own investment requirements, relying on the personal or foreign sectors for any shortfall.

Sanlam's Emil Boeke notes: "The apparently high level of corporate savings is a reflection of companies' unwillingness to invest in the current state of uncertainty — politically and economically."

Dr Brian Benfield, managing director of AA Life, explains why it is essential for all sectors of the economy to save.

"Part of this year's production must be kept not only for the maintenance, replacement and modernisation of the factors of production, but also for their expansion and development, and thus the creation of further employment opportunities."

Saving, or capital formation, is the driving force behind economic growth. By turning all production into consumption, South Africans are eroding their economic base.

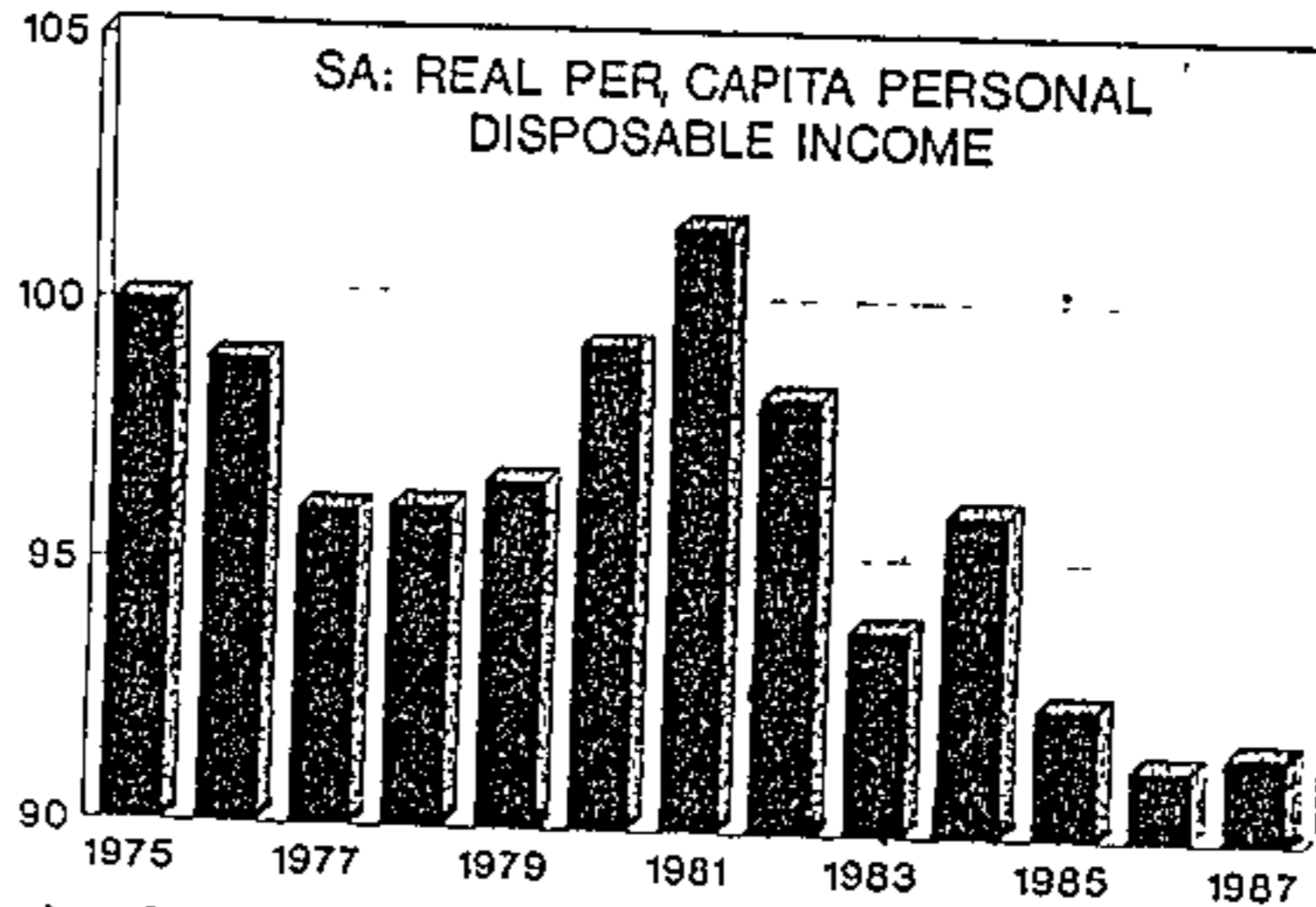
South Africans have been saving less and less each year. But the government has been behaving even more recklessly, reports **BRUCE ALLEN**

According to Boeke: "One of the biggest problems and challenges facing South Africa is the need for an economic growth rate higher than the weak and erratic performance over the last few years."

An acceptable growth rate will bring solutions to two of this country's most pressing problems: the provision of jobs and increase in people's income.

But to grow we need to save. And a higher growth rate will not come cheaply. This general rule is accentuated by factors peculiar to the South African situation.

Manufacturing has become more capital intensive and as a result it is more expensive to increase the output of the economy and to create jobs.



Apart from the change to more capital intensive production, the fixed capital stock of the manufacturing sector has declined in real terms since 1984 and is now back at 1982 levels.

Rebuilding this capacity also requires capital. The third factor which makes domestic saving imperative concerns

this country's capital exports. Unlike most of the world's developing economies, South Africa does not enjoy an inflow of capital from developed nations.

While 1984 saw R1,3-billion enter the country, subsequent years brought a net outflow. In 1985, R7,2-billion left the country. The fig-

ure rose to R8,4-billion in 1986 and slipped back to R4,2-billion last year. Given this background, economists believe that the level of local savings will have to improve significantly.

The problem is most individuals can no longer afford to save. And even if they could, they probably wouldn't.

Boeke points to three reasons for people having given up on saving: a decline in real income, a sharp rise in direct taxation and an increasing propensity to consume.

As the table indicates, personal disposable income has been on a downhill slide since 1981, declining by 8,3 percent in real terms.

United Building Society economist Hans Falkena outlines another reason for people having abandoned their savings accounts. "With inflation running at 14 percent, there is no incentive to put your cash into a call account where you'd be lucky to earn an interest rate of 11 percent."

"Remember that half of the income earned on an interest bearing account goes to the tax man. This means that taking inflation into account you're losing money."

With inflation eating at their cash, people spend whatever spare money they might have. Individuals will only start saving once they get a real return on their investment. The government, on the other hand, will have to learn to live within its means.

Boom? Bust? The JSE wends its mysterious way

The brokers gaze into their crystal computers and proclaim: 'We're doing great!' Which may even be true. **EDWARD GRELLER reports**

the share price.

These indicators would suggest that the doom and gloom of October 1987 is over and that the market is set to move upwards.

Negative factors are that interest rates have risen fairly steeply and are set to rise further over the next few months. Prime rate currently stands at 18 percent, up from 12,5 percent through most of 1987. The yield on longer term bonds has also risen from 15 percent in August 1987 to just below 17 percent.

A rising interest rate scenario has two effects on stock market prices.

Higher borrowing rates usually cause a reduction in credit-financed expenditure at both consumer and corporate levels.

The resulting fall-off in sales leads to a double squeeze on corporate earnings as aggregate profits fall in line with sales and as additional costs are incurred in the financing of higher inventories of unsold goods and longer credit terms for customers. Assuming that earnings yields remain fixed, these lower earnings yields mean lower equity prices.

A second effect of rising interest rates is the attraction of interest bearing investments over dividend paying equities.

In a situation where the direction of the stock market is at best unpredictable, investors are likely to increase their holdings of investments that provide a guaranteed return. Such investments range from simple savings accounts to government bonds. The movement of at least a portion of an investment portfolio into interest bearing investments implies a reduced demand for equities and therefore lower share prices.

An illustration of this phenomenon is the percentage discount of the aver-

age earnings yield in the industrial sector to the Eskom long-dated bond yield. In October 1987 the Industrial earnings yield stood at a discount of 56,5 percent to the Eskom long bonds. The current discount is 29,85 percent.

As earnings patterns have remained fairly constant over the period, the only explanation of this movement lies in reduced share prices and higher bond yields. Assuming bond yields continue to rise, equities will become increasingly unappealing and prices will decline further.

Whether the positive forces will prevail over the negative or vice versa is impossible to determine at this time. However, to confuse the picture even further, the institutional constraints of the South African stock market must be taken account of.

Share prices are set by the smaller traders of shares, who account for the lion's share of volume on the market. But it's the life insurance companies and the mining houses who hold the largest share portfolios. So share prices do not fully reflect the perceptions of the investors who own the majority of the shares.

A related issue is the restriction on overseas investment. The major investors have to invest their significant cash flows in income producing assets. Simple portfolio diversification implies that a portion of these new funds must be invested in equities.

Share prices could thus be supported by the sheer weight of investment funds held captive in South Africa.

A third consideration is the extent to which the companies listed on the JSE are insulated from the gyrations in the economy. A number of companies, accounting for a large share of the overall market capitalisation of the JSE, operate either in monopolistic or cartel-type structures.

This strength will not provide complete protection from declining economic activity but does soften the blow as higher costs can be passed on with relatively little negative impact.

A disadvantage of this concentration is that most listed companies are separated from the growth in informal sector economic activity currently taking place in South Africa.

Annual growth rate of 6 percent could be achieved

Economic chains can be broken with new strategy

Star 3/12/88

49

SVEN LUNSCHÉ

SOUTH AFRICA needs a fundamental change in its economic policy with a new growth engine in the form of industrial exports.

Standard Bank economist Nico Czyplionka said this week that the country should and can aim for annual growth of five to six percent over the next few years.

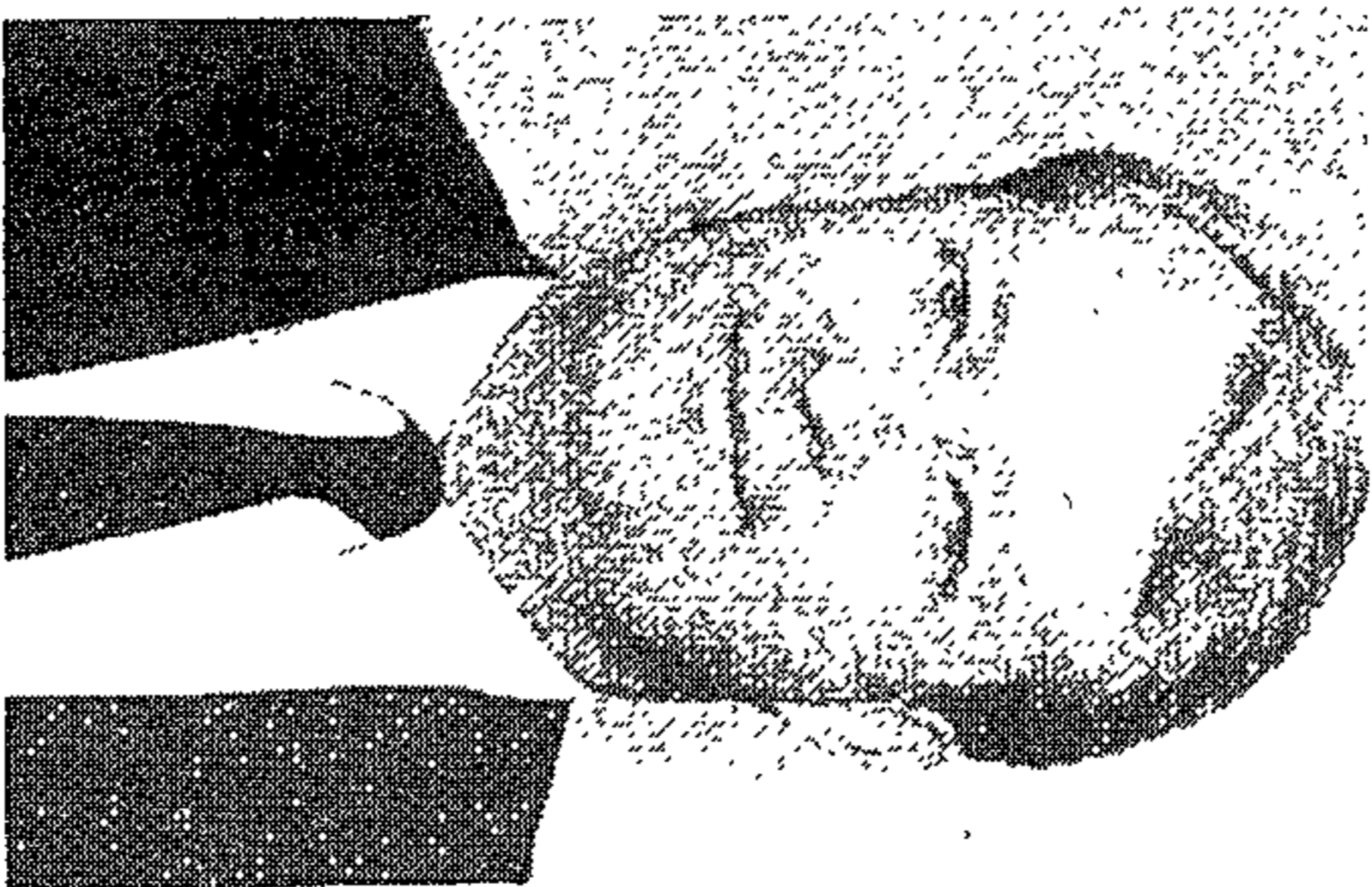
But fundamental changes will have to be implemented by a committed leadership — both political and economic.

Current growth outlooks, however, tell a sad story.

But Mr Czyplionka feels that a "recovery strategy" could help South Africa break out of this vicious circle, which limits annual growth to three percent at the most.

The fact that the country has been sliding into becoming one of the most unsuccessful economies is obvious from the progressive reduction in average annual growth rates, from a peak of some six percent in the period 1961/67, to five percent in 1968/71, to 3,3 percent in 1972/81 and only 0,4 percent between 1982/86.

Says Mr Czyplionka: "South Africa's problems are not of a recent vintage. They started nearly two decades ago. The peak in the country's growth perfor-



NICO CZYPLIONKA — Industrial exports can lead the way.

mance was probably back in 1967, from then on we have slid back.

"The problem is that during this entire period we made no real progress in addressing the fundamental, structural weaknesses of the SA economy that were

so clearly shown up on the process. As a consequence we have slipped to join the ranks of the world's less successful economies.

"Some other countries in the developing world have vigorously tackled the structural changes necessitated by shifts in world technology, international financial management and the consequent lowering of inflation, the vast growth in world trade and internationalization of industrial production," Mr Czyplionka comments.

Using Korea and Taiwan as examples he makes the key-point of his message: "Their successes have been based on the promotion of industrial exports."

While these countries have seen the share of exports as a percentage of GDP rise from single-digit levels in the 1950's to around 50 percent at present, in South Africa the share of GDP represented by government consumption spending has nearly doubled to 60 percent of GDP over the last 20 years and is the major "source of growth".

But significantly exports share of GDP has remained constant at 30 percent, with the majority of this coming from commodity sales and Mr Czyplionka stresses that we probably performed poorly because of our natural resources, not despite them.

"I believe we have now come to the end of the road, in both areas, and must

move in new directions. It is clear that we need a new growth engine — in the form of industrial exports, and that will not come by itself."

Mr Czyplionka outlines a wide-ranging strategy which aims at a growth rate of six percent per annum over the next few years.

Action plan

His action plan includes the following policies:

- Introduction of private sector technocrats into government and the civil service.
 - Encouragement of the Third World components of the economy, but simultaneously enhancing the First World structure.
 - Dropping the principle of import substitution.
 - Eliminating distortions in agricultural pricing.
 - Reduction in the size of the entire government structure and deployment of receipts from privatisation in the educational and social infrastructure.
 - Creation of a framework where saving is not only possible, but also desirable.
- "Government is in principle committed to many of the elements, but it has yet to demonstrate its willingness to implement with determination the various policy measures that make up a 'break-out strategy'," Mr Czyplionka concludes.

Financial discipline called for (49)

THE challenge in 1989 was to maintain an economic and political environment in which positive but stable economic growth remained possible.

This was the New Year's message from Mr Raymond Parsons, chief executive of the Association of Chambers of Commerce and Industry (Asso-com).

"As the economy is likely to slow down in 1989 the consider-

star 31/12/88
CLARE HARPER

able gains which the 1986-1988 economic upturn has brought must be consolidated next year in ways which lay a sound foundation for renewed economic growth," he said.

To succeed in meeting this challenge would call for key responses from both the Government and the business sector.

"In the short term it will in-

clude South Africa living within its means, conserving limited foreign exchange resources and containing Government spending in order to reduce both taxes and interest rates.

"Financial discipline will be the watchword in 1989.

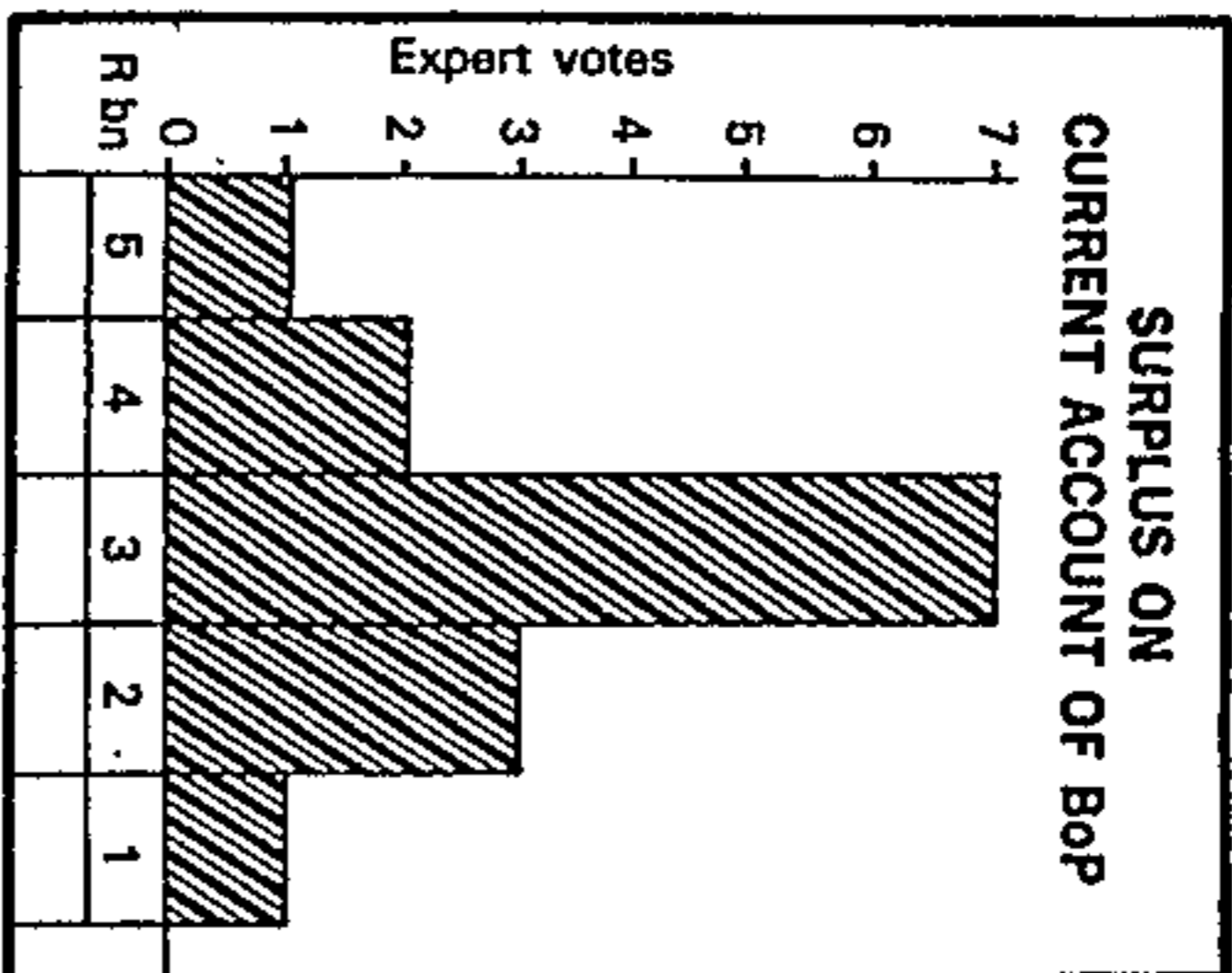
"In addition 1989 should also be dedicated to addressing structures and political issues which limit SA's ability to fully exploit its economic potential."

Better days after three rough months

(49)

By David Carte

SURPLUS ON CURRENT ACCOUNT OF BOP



THE economy and the stock market are in for three rough months, but most indicators should look better in a year.

AVERAGES

We also asked them how certain political changes would affect the economy and the stock market — and the ideal mix of a portfolio today.

Mutual and its cousin, VAL, which declined to take part all of the big institutional names were there — Sanlam, Liberty, Southern Life, Life-gro, Anglo American Corp, Genoor Investments, Mine Officials Pension Fund, Sage Holdings, First National Bank, Standard Bank and Finnsbank.

Gold

Fourteen market makers sat around a table at Finnsbank and punched their forecasts into key pads connected to a computer, which instantly gave average predictions and the extent of deviation in them. In 90 minutes respondents gave about 180 answers to vital questions.

Let's have a look at the economic forecast before moving on to the stock market view. Respondents saw the gold price stagnating to \$416 in three months, then firming to \$443 in a year. The consensus was that economic growth in 1989 would be 1% and that the current account of the balance of payments would be in surplus to the tune of R5-billion (see bar chart).

Inflation was forecast to rise to 14.1% in three months and 15.7% by the end of next year. The Eskom long rate was expected to rise to 17.2% in three months to 16.2% in a year.

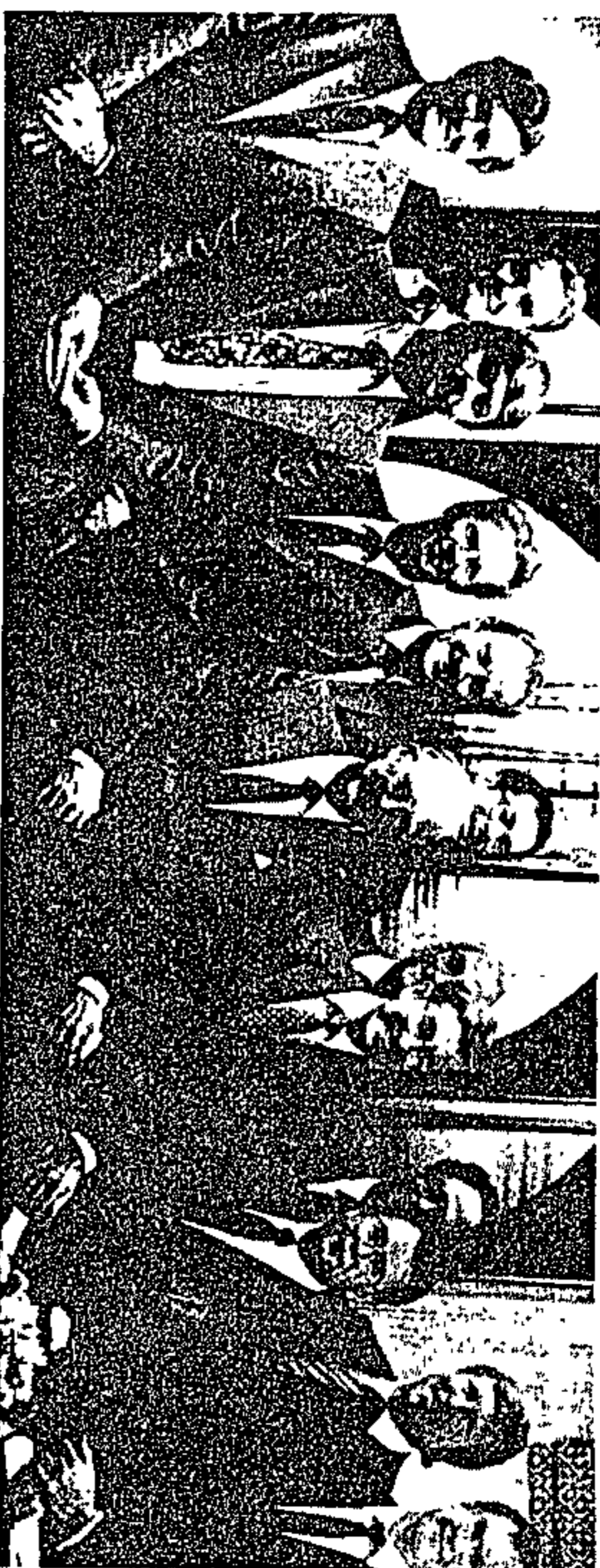
The money men saw the commercial rand weakening from 245.7 US cents in three months to 252.2c in a year, and the financial was expected to weaken from 383c in three months to 431c next December.

They forecast that the prime overdraft rate would rise to 19% in three months before weakening to 16% and the investment panel forecast that the overall index would decline by 1.5% in the next three months (reflecting presumably tighter monetary policy and slack trading in the best sectors in which to be investing next year will be engineering, coal and building and construction).

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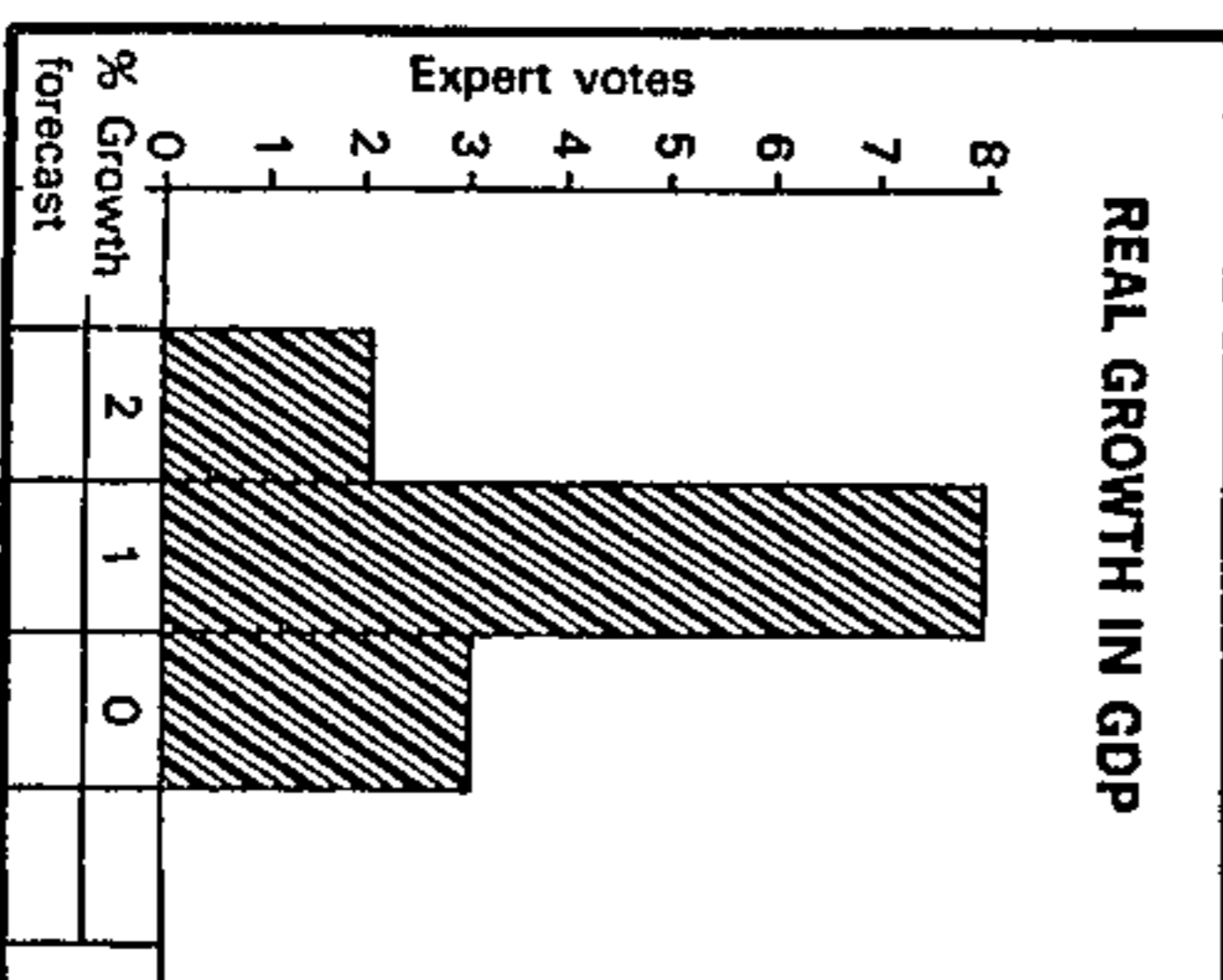
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THE BUSINESS TIMES PANEL



The expert forecasters, front row: Winston Fiquet (Martin & Co), Christo Auren (Litagro), Stewart Yates (Finnsbank), Des Bradford (Southern Life), John Arnold (First Corp), Graham Dickson (Mines Pension Funds), James Inglis (Liberty). Back row: Gaston Antelm (Standard Bank), Anton Botha (Ganbel), Sidney Frankel (Frankel Kruger), Jacques de Smidt (Anglo American Corp), Richard Lomborg (Davis Borkum Hare), Rowan Hutchingson (Sage). Absent, running for a plane, Ronnie Masson (Sanlam).

REAL GROWTH IN GDP



changes would affect economic growth, capital flows, the JSE overall index, interest rates, business confidence and the financial rand. The most positive change, they judged, would be removal of sanctions, which would spur economic growth. Increase business confidence, push up the financial and stimulate capital inflows.

Other important pluses for the indicators would be real peace in Namibia, removal of the Group Areas Act and increased reform.

Diamonds

The one-year forecast for the diamond sector was pretty favourable, the index being expected to rise 11% to 8 270 in a year. But here there was a 120% variance in forecasts.

Because of huge import surcharges, lighter hire-purchase requirements and big increases in interest rates, the average expectation is that the JSE Actuaries furniture and household appliances index will fall by 17% in three months and 22% in a year. What is alarming is that there is only 3% disagreement in these forecasts.

Motor shares are expected to be down by 8% in a year. Retail and wholesale shares are forecast to fall by 2% in three months but to be up by 3% in a year.

When we asked the respondents to give their ideal portfolio mix between gilts, shares, properties and cash, they asked us to be more specific. Eventually we asked how a rich individual on a full tax rate should structure his portfolio.

Politics

The average recommendation was 13% gilts, mining shares 22%, industrial shares 21%, financial shares 14%, property 7%, cash 20% and Krugerrands 4%. There was considerable disagreement on some of these items. One bearish respondent advised having 50% cash, and a bull advised none.

One adviser would have no

EXECUTIVE TRAVEL MAGAZINE
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TOP EXECUTIVES FROM TWO COUNTRIES TOLD US WE'RE THE BEST.

"We increased stock levels, retaining the need for a link with big buying power."

Costly petrol fuels inflation

S/Times 4/12/88

49

By Don Robertson

THE Government's inability to manage the Budget has been attacked by labour organisations, farmers and economists.

Their wrath was prompted by this week's announcement that the price of fuel will be increased by 10c a litre from January 16.

The Bureau for Economic Research at the University of Stellenbosch warns that the

higher fuel price will add 0,54 of a percentage point to the inflation rate. It will also have ripple effects. The BER has lifted its estimate of inflation in 1989 to 16%.

The increase comes after two months during which an overrecovery on the so-called slate was experienced in the sale of petrol. In other

□ To Page 2

Petrol uproar

S/Times 4/12/88 From Page 1

words, motorists paid more petrol than they should have.

The September overrecovery was 1,557c/l and 2,625c/l in October. This was credited to the slate.

For political reasons the Government supported the price of fuel to the tune of R551-million since last December.

Koos du Toit, chief economist of the SA Agricultural Union says the farming fuel bill is about R800-million a year. Farmers will pay an additional R100-million next year.

Higher interest rates, increased licence fees and dearer imported machinery will add pressure to profit margins and could result in higher consumer prices.

The Federated Chamber of Industries (FCI) expresses concern at the fuel-price rise and attacks the use of administered prices as a fiscal instrument.

"This decision will undoubtedly exert an inflationary effect on the economy as fuel constitutes an important cost element in industry," says executive director Ron Haywood.

Assocom questions whether a higher fuel price is the best way of keeping State financing sound.

"Assocom is particularly concerned at the persistent failure to control State spending effectively, as this can only mean a continued heavy tax burden and additional levies on the private sector."

The Houswives League of SA says: "Fuel prices ripple through the economy and affect every service and all goods purchased by the consumer."

National president Lyn Morris says: "The Government is a lousy housekeeper, incapable of budgeting and managing the funds entrusted to it. Now it seems hell-bent on bankrupting the rest of us."

natterprufe ted and Placor

drag on all Street
is almost three times larger and the population is 100-million

Pace of business is slowing

By IAN SMITH

INVESTMENT planners hoping for strategy leads from the likely direction of the South African economy in the year ahead are in for a rough ride. The range and magnitude of the problems facing the country mean that the economy watchers differ even more widely than usual in their predictions for 1989.

It is clear the pace of business activity has started to slow. But is the slowdown a cyclical pause, largely brought about by monetary action, or is it the start of a new recession? Memories of 1984 are being revived.

So far the economy is still remarkably strong, with mining and manufacturing performing at near record levels, thanks largely to the low rand. Standard Bank chief economist Nico Czyponka says the slowdown next year need not prove severe, but the risks are there.

If anything goes wrong, the slowdown may well turn out to be more severe than envisaged. Interest rates and inflation could be higher than predicted and the exchange rate could be significantly weaker.

Critical

Triggers for a steeper decline could come from fiscal policy working to defeat monetary policy, a plunge in the price of gold and other exports or political factors which undermine confidence.

The balance of payments has become critical since the loss of international confidence in South Africa and the imposition of a form of financial sanctions through the withdrawal of US banks in 1985.

After a reasonable upward swing early this year there has been a more or less continual drain on foreign reserves. By the end of September they had reached the critical stage where they barely covered six weeks' imports.

The third quarter saw a huge outflow of R2.1-billion, largely brought about by importers switching to debt rather than use foreign credit lines.

The continuous rise in the cost of imports, which started in the second half of this year, was the main source of pressure on the balance of payments as they coincided with a weakening dollar gold price

STimes 4/12/88 (49)

Just a cyclical downturn

— or could it be the start

of yet another recession?

and the commitments to debt redemption.

The importance of the debt SA's total outstanding debt at March 31 — \$7.1-billion. The bunching of the redemptions in 1990 and 1991 is already causing particular concern.

Nedbank chief economist Ted Osborne says the expected redemptions in the next three years will be \$1.1-billion in 1989, more than R2.5-billion in 1990 and about R2.5-billion in 1991.

"Clearly, every effort will have to be made to seek agreement for the rollover of conversions of government debt, where possible, as 1990 and 1991 are approached."

Turnabout

The alternative is to aim at surpluses on the current account of at least \$2.5-billion in each of the next three years. Mr Osborne says no dramatic increase in the price of gold can be expected in the next three years because of chronic oversupply.

"At best a steady increase in the dollar price can be expected in step with inflationary developments in the US and other developed countries."

Reduction

"Prices for other export commodities can be expected to rise and fall and, overall, no significant improvements on the export front can be expected in the three-year period."

Therefore, he says the large surpluses on current account will have to be achieved by suppressing imports.

The arithmetic suggests that imports will have to be reduced by about 12.5% from the 1988 level. On the face of it, this appears achievable, particularly as 1988 imports have been heavily inflated by inventory accumula-

tion to forestall sanctions problems, currency depreciation and the threat of import control.

This raises the question of how much economic growth will be possible with this level of constraint on the balance of payments.

Growth from exports would be a pure bonus, and Mr Osborne believes they can be expanded in spite of sanctions. Gold production is now on an upward trend after hitting its lowest level in 1987. Other major commodities like coal, platinum and diamonds could also show growth, and, in general, Mr Osborne expects that total exports could rise by 1.55 in volume terms next year.

Turnabout

Mr Czyponka believes the balance of payments pressures can only be eased if gross domestic expenditure, which has grown 7% in real terms this year, does not grow at all next year.

"An absolute decline may even be required, given the extent of the external constraints."

But he says, that kind of turnabout from rapid spending growth this year will be difficult to bear from a domestic social and political point of view.

It will, however, be necessary if a current account surplus of about R4-billion is to be achieved to meet debt commitments and replenish drained foreign exchange reserves.

The projected slowdown in GDE that is bound to flow from tightened monetary policies will not have an equal impact on all sectors of the economy. "Some will experience an absolute fall while others will continue to grow, albeit at a signifi-

cantly lower rate. This is to be expected — some areas of expenditure are naturally more volatile than others."

But he says, a twist is likely to be given to the unevenness of the slowdown by emerging trends in short-term economic policy.

Currently emphasis is being placed on monetary policy, where interest rates are being used to slow expenditure.

By contrast, fiscal policy will impart a net expansionary impulse to expenditure because a general civil service salary increase of 15% which may well translate into an effective rise of up to 22% in the public sector salary bill next year will result in a significant increase in consumption expenditure by central government.

Growth

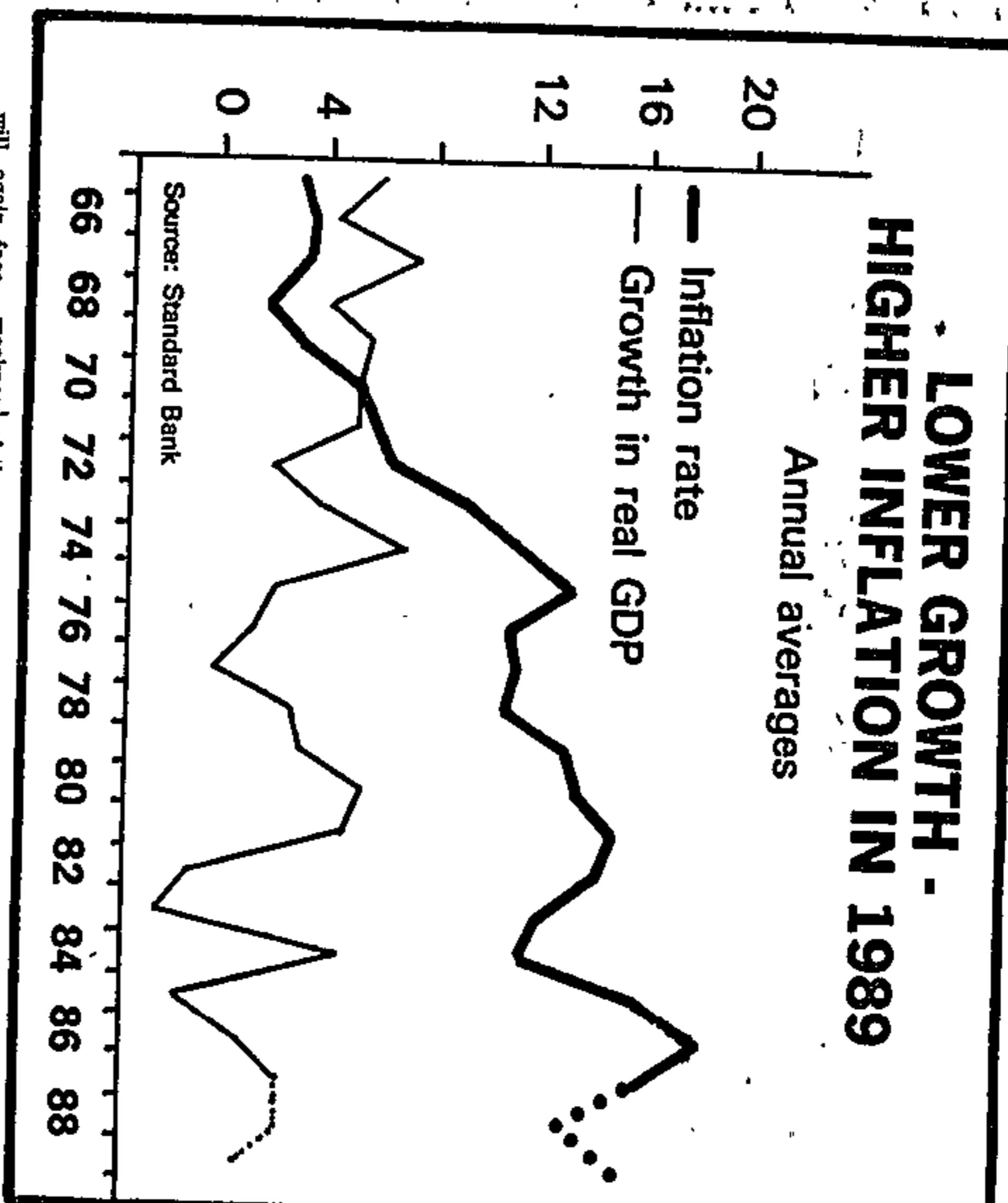
But not all sectors of private consumption expenditure will be affected equally. Sales of durable goods are expected to fall substantially next year and spending on semi-durables will at least slow significantly.

But spending on non-durables and services is far less affected by higher interest rates and weak exchange rates, and they will be helped by the civil service pay increases.

The role of these two categories will be to sustain real growth in overall private consumption expenditure.

Mr Czyponka says if both government and private expenditure continue to rise, and GDE remain static or fall, it is clear that fixed and inventory investment must fall off next year. This will be dampened by high interest rates and the weak rand because much capital equipment is imported.

The beleaguered construction



will again face pressure from spiralling building costs and from high interest rates and a large rise in mortgage costs.

The improvement in the construction industry's fortunes in 1988 will not be sustained in 1989.

Real investment in plant and machinery increased moderately this year, although the cost soared in rand terms because of the

weakness of the currency. Investment in plant and machinery is expected to fall next year, contributing substantially to the fall in imports.

Inflation will continue to bug the South African economy. Most economists are predicting an average rate next of 15%, well above the average year-on-year increase this year of 13%. But Saulman points to several factors that could

exert considerable upward pressure next year. The sharp depreciation of the rand, reinforced by surcharges, will lead to noticeably higher prices. At the same time, the slower rate of expansion in the economy could lead to a rise in unit costs.

Administered prices of some goods and services will be increased. Bonds and financing costs will rise and the effect of the fuel

price increase will be felt more generally. The effect of these factors should wane in the second half of next year and this will lead to a gradual increase in the inflation rate, says Saulman's Economic Survey.

"It is alarming that despite a phase of perceptibly slower economic growth, SA continues to be saddled with unacceptably high inflation," says the review

Petrol tax fuel for a labouring engine of Government

The 9c tax on each litre of petrol to help pay for public servants' salaries demonstrates how the Government's economic options have narrowed.

Having exploited the more conventional sources of revenue almost to the limit, the Government is now casting about for other forms of tax to raise sufficient money to keep itself going.

Sanctions and boycotts, the virtual total suspension of foreign credit, loans and investment, double-digit inflation, one of the world's highest population growth rates, and a counter-revolutionary strategy which requires spending massive amounts have all contributed to this situation.

RESTRAINED

The Government is endeavouring to administer a normal, healthy, growing economy. But every way it turns it finds, like Gulliver in Lilliput, it is restrained by countless bonds.

President Botha sounded the keynote when he opened Parliament at the beginning of the year.

The tone he set encouraged the business community and the Opposition alike. The Government was determined to restrict its spending, public service salaries and administered prices were frozen, and major plans for privatisation and deregulation were unveiled.

In addition, there was the promise of badly needed tax reform.

Now, as the year draws to a close, the Progressive Federal Party says the Budget is wrecked and it has withdrawn the support it gave to the State President's economic package.

Privatisation still has to produce any major benefits, there is no sign of any significant tax reform, the growing public service has had a salary increase after all, inflation is tending upwards again and the Government is spending too much.

South Africa found out this year that economic growth cannot be allowed to accelerate too rapidly because of the restrictions of the balance of payments.

As no one wants to extend

By DAVID BRAUN,
Political Correspondent

The problem facing the Government is how to keep its promise of economic betterment without asking for more and more cash from the taxpayer.

any credit to South Africa, economic growth has to be choked off before the value of imports exceeds exports.

If the international banks were to demand their money tomorrow there are real risks that South African assets abroad would be seized.

On the other hand, South Africa needs as much growth as it can get to reduce unemployment and fund education and housing.

Faced with these problems and the need to find a further R4 billion a year for public servants and State pensions, the Government slapped an additional tax on fuel.

Not everything is gloomy, however.

There are encouraging signs that deregulation has created massive growth of the informal sector (some experts believe the country's GNP could be nearly one third more if this sector, which does not pay tax, is included).

Unemployment has come down because of this and the Government's massive job creation and labour training schemes.

ENCOURAGING

There are also encouraging signs that population growth is starting to tail off.

Exports, particularly minerals, remain high. Tourism is apparently booming.

South Africans should not hold out too much hope that the Government has any new or exciting plans to boost the economy next year.

Expect a raising of the tax threshold at which income earners pay maximum tax and a general shifting of the tax brackets accordingly.

Any other tax reforms will, in the words of one senior official, merely be rearranging the deckchairs on the Titanic.

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Time government stopped spending on credit

HAROLD FRIDJHON

WITH THE evangelical zeal of a man who has suddenly seen the light, Finance Minister Bar- end du Plessis has during recent weeks been preaching the gospel of a firm monetary policy. And on Friday he preached, by implication, against the evils of deficit financing when he chose to tax and not borrow — a glimmer of a change in fiscal policy.

A weak, wavering monetary policy during the past year has been partly responsible for the present diseased state of the economy. The signs of overheating were apparent about 12 months ago, and instead of applying the obvious therapy of a firm upward movement in Bank rate, the authorities held back. They dawdled — and then, when pushed by market forces, with reluctance they agreed an adjustment in the rate by a single percentage point.

The too-little-too-late pattern persisted through the year. If Bank rate had been proactive and not reactive, if Bank rate had been flexible and not rigid, perhaps the money supply aggregates would not be as horrific as they are.

A firm two percentage points in December/January and then half percentage steps, perhaps month-by-month, would have indicated that the authorities were, to borrow a phrase, serious about money.

That would undoubtedly have curbed the public's and the importer's best-the-surcharge shopping spree — and the downward drift in the value of the rand.

The authorities unfortunately were blind to market perceptions, so that they were unaware that perceptions make markets. Du Plessis' threats of possible further steep Bank rate increases could be influencing current perceptions in the money market.

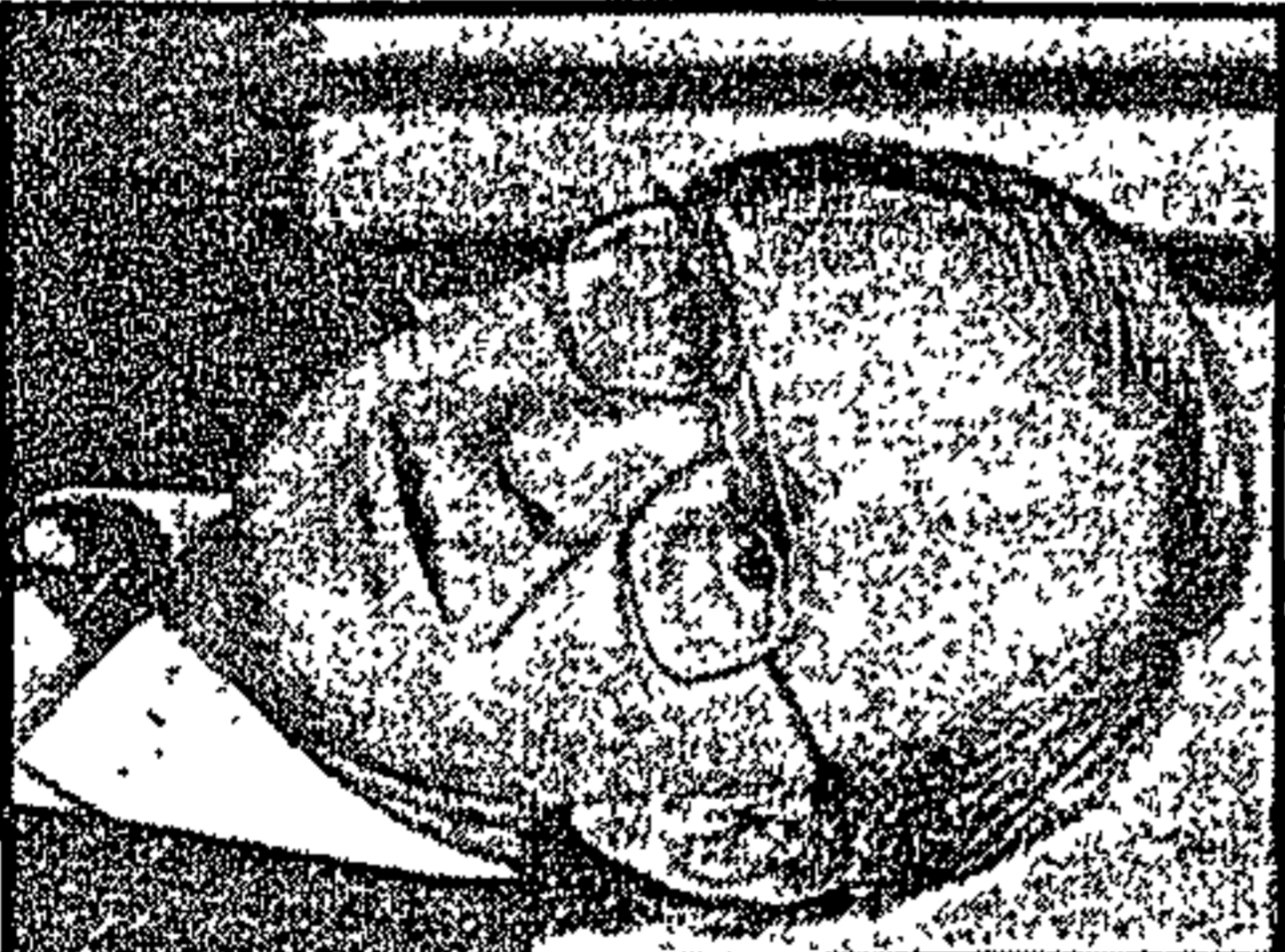
Ministers should not signal their intentions: when it comes to monetary and fiscal policy they should act

first and then talk. Just as Du Plessis has acted with the petrol price — a correct move to fund spending from revenue not from borrowing.

On the other hand, funding spending by selling off the State's assets is intolerable. It is tantamount to selling off the family heirlooms to pay debts incurred through wild and profligate living. In this case, however, the heirs — having lost their inheritance — will be responsible for the debts incurred by their ancestors.

The receipts from the sale of State assets should be invested either in new national assets, such as creating and developing the infrastructure for the future growth of the economy, or they should be used to reduce the national debt.

Some 14.2% of the current Budget will be spent on servicing the national debt. In the previous year it absorbed 12.9% of Budget. At this rate of growth, one is terrified to



DU PLESSIS ... seen the light?

project the increase into the future — which, of course, our heirs will inherit.

The increase in the petrol price will provoke an outcry and the usual protests that the higher fuel price

will stimulate another twist to the inflation spiral.

Undoubtedly it will, but those couple of points added to the CPI figures are nothing when compared with the major accelerator to inflation in this country — the uncontrolled, or uncontrollable — year-by-year increase in government spending.

It would seem that no one in government shows the slightest concern about the mounting costs of government. One imagines that when the Budget is discussed around the Cabinet table the attitude of ministers is that an additional billion rand here and there is a mere trifle, only 2% of the total. Ministers appear to be unaware that an extra Ribn spent mostly on wages is a lot more than Ribn of new demand made on the economy.

By the time that the Ribn has worked its way through the system, the multiplier effect has increased its spending demand possibly three-

fold, possibly more. With touching naivete the politicians might argue that this is good for business because it expands the economy — but is it? This is an accelerated demand which sets in motion the whirlwind of more money chasing the supply of goods. It is not matched by production and could also lead to an increased demand for foreign goods, with adverse effects on the current account of the balance of payments.

If, say the politicians, there is a bigger demand for goods, producers will increase plant capacity. Perhaps they would if their resources were not curtailed by their tax bills — direct and indirect, such as RSC levies — and if their confidence in the future was not undermined by political uncertainties.

The end result of ever-rising government spending, however, is the reality that if government continues to take an ever-increasing share out of the national resources, the smaller portion left to the private sector is inadequate to finance the growth — the productive growth — necessary to meet the insatiable demand for jobs.

Excessive spending is, however, only part of the mismanagement of the economy.

Too large a part of government current expenditure is financed by borrowing, deficit spending a highly inflationary practice because of the multiplier effect which it has on the economy as a whole. The debt burden increases without creating permanent assets.

In fact, government is doing the very thing which it fulminates against the public for doing: spending on credit, running up bills which they cannot afford, living for today without a care for tomorrow.

But the private debtor knows that, as far as he is concerned, a day of reckoning is inevitable. As for the politicians... they evidently bank on the possibility that they won't be around when the day of reckoning is nigh.

De Kock rejects plea for higher interest rates

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Star 5/12/88

Magnus Heystek
Finance Editor

The cyclical upswing in the SA economy is levelling out and a period of slower growth is expected to last into 1990.

This was the message from the Governor of the Reserve Bank, Dr Gerhard de Kock, on Friday when the Reserve Bank, in an extraordinary statement, declared its intention to keep the Bank rate — the rate at which it rediscounts Treasury bills for discount houses — unchanged for the time being.

He also added that he saw no reason for a further increase in the prime overdraft rates of commercial banks above the present level of 18 percent.

This statement will do much to alleviate upward pressure on interest rates that have been discounting a further increase in the Bank and the prime overdraft rates.

Figures released by Dr de Kock will go a long way in placating local money and capital markets that have seen rates moving upwards as fears mounted that the deficit before borrowings will exceed the budgeted figure of R9,9 billion.

Of particular importance from the point of view of monetary policy is the firm indication that the actual deficit before borrowing for the 1989/90 fiscal year will be about R10,6 billion.

This figure exceeds the original Budget estimate by only R0,7 billion and is considerably smaller than many of the estimates that have in recent months done the rounds in financial circles.

On the basis of new information available the monetary authorities foresaw little difficulty in financing the deficit before borrowing in a sound man-



De Kock — Monetary policy will not be relaxed.

ner and without putting undue upward pressure on interest rates.

The decision to keep Bank rate unchanged was also influenced by the following developments:

- Although total spending, output and general economic activity remained high, latest figures indicate that the upswing is losing steam.

- Although the rate of increase in the broad money supply, M3, has been quite excessive in recent quarters, this rate now appears to be levelling out.

- The demand for bank and building society credit is moderating.

- The annualised surplus on the current account of the balance of payments increased from just under R1 billion in the second quarter of this year to R4,5 billion in the third quarter.

- The net outflow of non-reserve related capital, which amounted to R2,1 billion in the second quarter and to R2,4 billion in the third quarter, has

diminished thus far in the fourth quarter, partly reflecting a decline in adverse leads and lags in foreign payments and receipts.

- The gold and foreign exchange reserves of the Reserve Bank increased from R4,6 billion (\$1,9 billion) at the end of October to R4,9 billion (\$2,1 billion) at the end of November.

- The commercial rand appreciated from R2,51 to the US dollar on November 1 this year to R2,28 on December 1, an increase in 9,8 percent. Against a weighted basket of currencies, the appreciation during the same time was 7,6 percent.

- The financial rand moved up from R4,13 to the US dollar on September 26 to a peak of R3,49 on November 28, before declining to R3,65 on December 1 this

year.

Dr de Kock indicated that it will counter the anticipated seasonal tightening of money market conditions in December by means of repurchase agreements and other forms of open-market operations. In this way it will act to counter purely seasonal upward pressures on money market rates that have in recent weeks risen to three-year highs.

Dr de Kock stressed that his statement should not be seen as a sign that monetary policy is about to be relaxed. It still remains the objective of the Reserve Bank to reduce the increase in the money supply and total spending in order to counter inflation and to strengthen the balance of payments.

COMMENT: From Dr de Kock's statement it appears that the austerity measures announced on August 12, coupled with the latest increase in the prime overdraft rate last month, is starting to work its way through the economy. This should come as good news, particularly for homeowners who are starting to feel the pinch as the increased bond rates come into effect.

But, mindful of the disastrous effect of too-sharply rising interest rates, the Reserve Bank is displaying a far more balanced approach in solving the country's fundamental economic problems. Whereas the austerity measures in 1984 relied far too heavily on interest rates, it now contains a balanced mix of monetary and fiscal restraints.

Star 6/12/84

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Professor Heyns
... an open letter.

Council meets in bid to break church deadlock

By Carina le Grange,
Religion Reporter

The Reformed Ecumenical Council (REC) is meeting representatives of the family of Ned Geref churches individually this week in a bid to break the deadlock in their relationship.

The churches are the white Ned Geref Kerk headed by Professor Johan Heyns, the coloured NG Sendingkerk headed by Dr Allan Boesak and the black NG Kerk in Afrika headed by the Rev Sam Buti.

The trigger for the meetings is the Harare synod of the REC in June this year when it was decided that the churches should meet in South Africa in October to iron out their differences over socio-political issues.

The October meeting was not held

when the NGSK and NGKA set certain conditions.

One was that the NGK had to withdraw criticism of church leaders including Dr Boesak and Archbishop Desmond Tutu, who took part in a protest march in Cape Town.

The NGK did not meet this condition, but Professor Heyns recently wrote an open letter to Dr Boesak and Archbishop Tutu in which he appealed to them to join in consultations.

This week's proposed meeting, scheduled for tomorrow, will serve as a curtain-raiser to the in-depth meeting planned for March next year.

On the agenda will be the white church's attitude towards apartheid. The black churches claim the NGK still supports apartheid.

Economy now more adaptable to taking knocks

On course for recession

Stev 3/12/88 (49)

Finance Staff

South Africa is on course for a repeat of the recession of 1985 and 1986 — the worst since World War II. But the economy is more resilient and buoyant and should avoid the depths which fiscal and monetary austerity reduced the country to two years ago, according to researchers with the Trust Bank economics division.

Nevertheless, they point out in their Economic Report for December the dangers of the Cabinet insisting on an expansive fiscal policy next year. The consequences would be "unpalatable", they say.

The deficit before borrowing in the current year should be no more than about R10,5 billion, a level which will not place much pressure on the capital market.

Government's undertaking to reduce borrowing as a ratio of gross domestic product limits the deficit next year to R11 billion.

"Bearing in mind the inevitability of additional spending, the Finance Minister cannot budget for a deficit of more than R10,5 billion in the March budget. Maintaining tax levels and without any other unforeseen in-

come, revenue should rise 18 percent to R53,7 billion, limiting budgeted expenditure to R64 billion — 14 percent above 1988-89.

However, says the bank, civil service salaries, pensions and interest bills are in line to rise 17 percent, limiting other Government spending to a rise of only 11 percent.

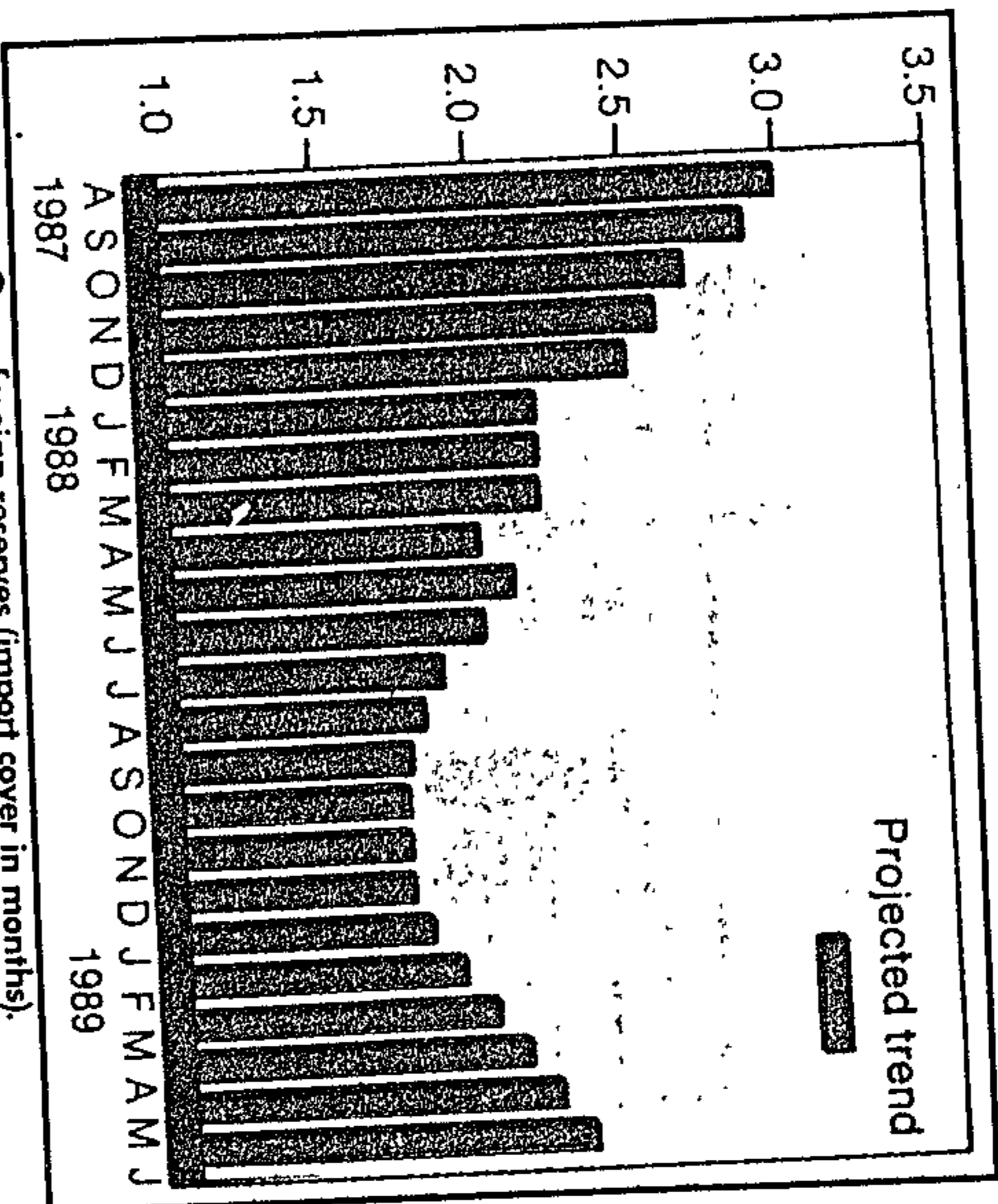
"This implies a reversal of the 1988 situation in which civil service salary increases had to make way for a large real increase in the non-salary, non-interest, non-pension half of Government spending," says Trust Bank.

"However difficult it may be, a real decline in this component of Government spending is imperative for next year.

"The eventual economic consequences of an expansive fiscal policy in 1989 would be truly too ghastly to contemplate."

The bank says that in spite of marked similarities in economic patterns between 1984 and this year, several factors will work to limit the damage of recession.

These include the debt standstill, which will, with the financial rand, limit net capital outflows to R3 billion next year, as opposed to



Gross foreign reserves (import cover in months).

the R10 billion of 1985 and a much fitter, leaner corporate sector.

Inventories and borrowing are low, while encouragement of small business and the removal of influx control have made the economy more adaptable to knocks.

The researchers say that trends in the economy this year, though,

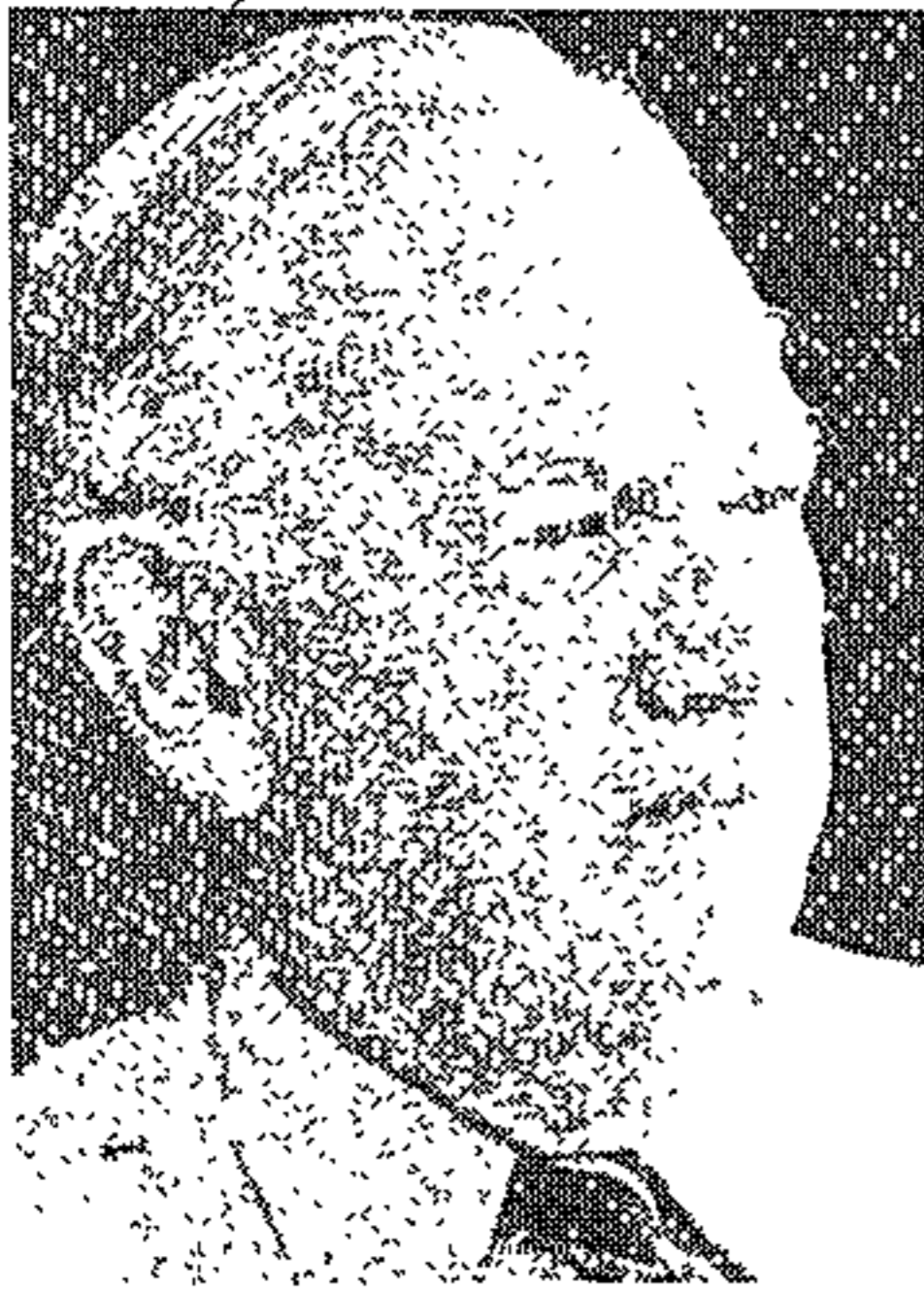
are even more unhealthy than those of 1984.

In August four years ago, domestic spending was killed stone dead; this September, credit, as reflected by M3 money growth, had grown 26,2 percent from the position 12 months earlier. The figure for the year to September 1984 was 15,5 percent.

EASIFAX Drotoria leads down turn

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Rosholt stresses need for reform to boost economy



Mike Rosholt — Economics and politics inextricably linked.

By Norman Chandler (49)

Fundamental political reform, underpinned by strong economic growth, is the only way to create significant economic progress, says the chairman of the giant Barlow Rand group, Mr Mike Rosholt.

In his annual report released today, Mr Rosholt says that "the economic situation is complex with a number of fundamental weaknesses which we, as a country, ignore at our peril."

Paramount is the country's inability to attract capital "and the unacceptably low rate of domestic savings".

Mr Rosholt says there is an erosion of the nation's capital

base and a severe restriction in resources required for reasonable growth — and sees the creation of adequate employment opportunities as increasingly precarious.

This is particularly because the country's growth is estimated for next year at between two and three percent while the population is growing by at least the same amount.

Mr Rosholt says that resources which are available are being allocated disproportionately to the public sector at the expense of the private sector.

Inflation, to which Mr Rosholt says the authorities appear to be giving a lower priority than they should, is unacceptably high — and he urges an all-out effort by

both public and private sectors to improve productivity.

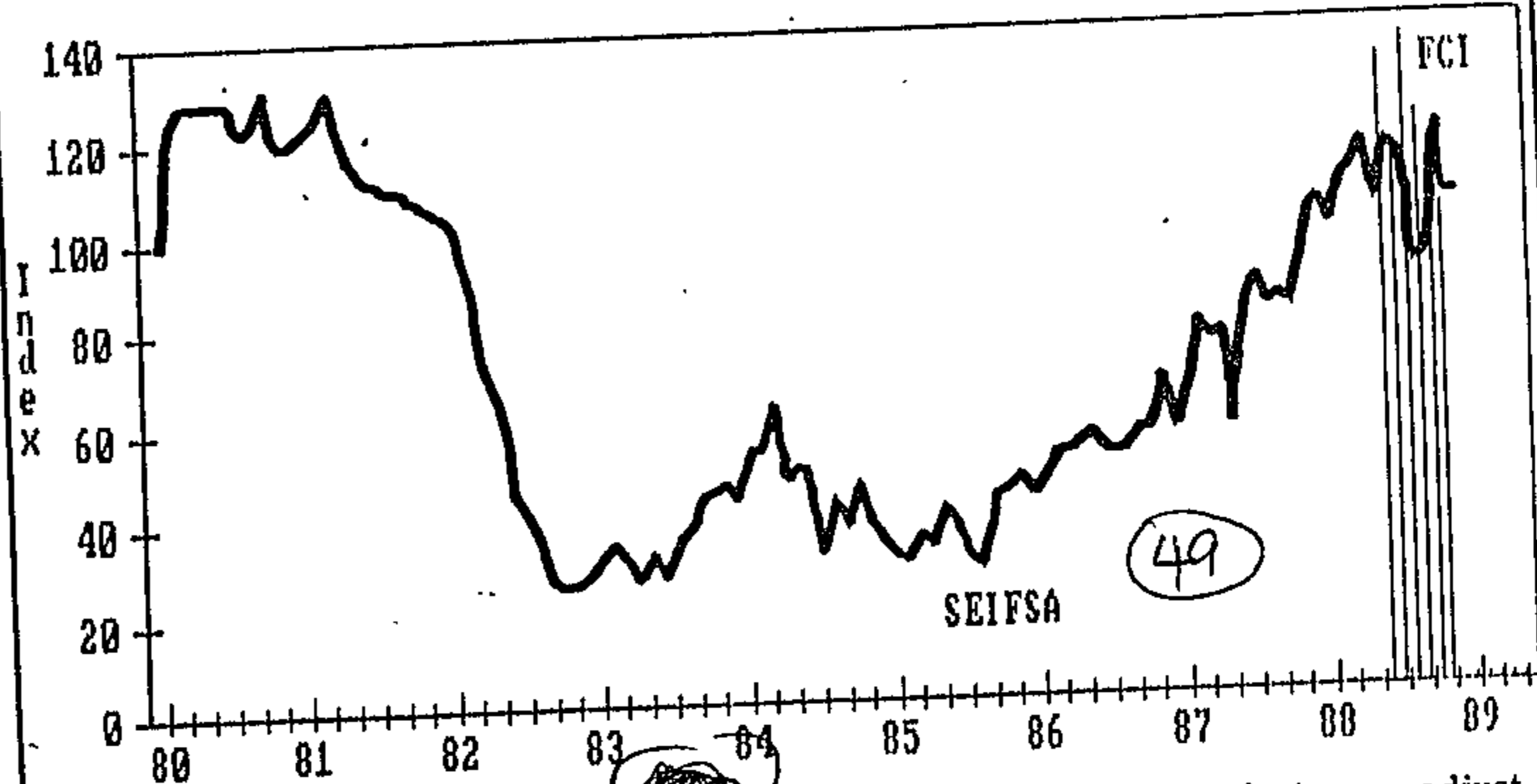
He adds that these factors, as well as sanctions against the country, retard growth but "economic policies and decisions alone will not achieve this because economics and politics in South Africa are so inextricably linked".

The re-allocation of resources to housing, education and the encouragement of small business will in due course "produce blacks with a real stake in the future of the country".

On his group's prospects, Mr Rosholt believes there will in the year ahead be a reasonable increase in earnings per share. This year, the group's earnings rose by 37 percent.

Star 7/12/88

Manufacturing buoyant



By Sven Forssman

The current upswing would take considerable time and effort to brake because of buoyant conditions in the manufacturing sector, the Federated Chamber of Industries (FCI) said in its industrial opinion survey, launched in Johannesburg yesterday.

FCI, with the assistance of its regional chambers, recently launched a survey among members on a nationwide basis to gauge industry's views on both current and future economic conditions.

The survey said the vivid activity in the manufacturing sector was occurring despite rising interest rates, surcharges and the lower rand exchange rate.

Manufacturing activity in November showed that both sales and production volumes were buoyant.

Orders received in November were lower than those of October, but this

was seasonal as manufacturers adjusted to the coming holiday period, the survey said. *Star 8/12/88*.

Economists are predicting marginal declines in economic activity in 1989, but industrialists canvassed by the survey — 400 of them — were optimistic about their expected sales volumes for the next 12 months.

Pietermaritzburg was the most optimistic town in terms of sales volumes and orders received in October, with an index of 180.

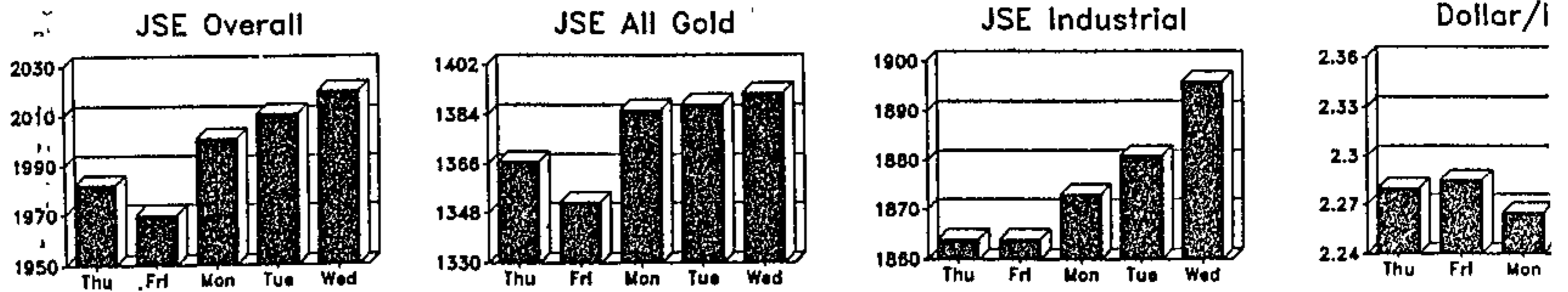
Port Elizabeth was the lowest, with a figure of almost 110.

The survey used a base of 100. Anything over that figure was regarded as optimistic and results below it as pessimistic.

The results were similar to recent figures released by Central Statistical Services.

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Debt position 'comfortable'

Star 8/12/88

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By Sven Forssman

South Africa is in a comfortable position to meet its foreign debt, dividend and interest payments this month, the governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

He was commenting on the release yesterday of the latest gold and foreign exchange reserve figures.

These increased 6,6 percent from R4,3 to R4,6 billion.

The gold reserves of almost R3 billion reflected a dramatic turnaround from a decline of R640 million in October to an increase of R27 million last month.

Dr de Kock said the rise in the reserves had come about in spite of using a lower average price for evaluating the gold reserves.

The gold reserves were valued at R872,85 per fine ounce on November

30, compared with R910,08 in October and R890,17 in September.

This, he said, showed that South Africa had sufficient foreign exchange to meet its commitments for December. The increase was sparked off by the recent two percentage point increase in interest rates.

The ratio of gold reserves to liabilities to the public less foreign assets stood at 45,5 percent (42,8 percent).

Foreign assets

The increase in the value of foreign assets was attributable to a R248 million increase in "Other assets."

Notes in circulation increased from R6,8 to R7,4 billion.

Economists called for stricter fiscal measures in October when the total gold and foreign exchange reserves fell below R5 billion for the

first time since August 1986.

But the increase in the gold reserves is one of the reasons why the Reserve Bank has decided to keep its bank rate unchanged at 14,5 percent for the time being.

Dr de Kock said at the weekend the Reserve Bank saw no need for any further increase in the prime overdraft rates of commercial banks above the present level of 18 percent.

The decision to keep the bank rate unchanged was also influenced by a slackening off in demand for bank and building society credit and the apparent levelling out of the cyclical upswing in the economy.

He said it remained the objective of monetary policy to reduce the rates of increase of the money supply and total spending in order to counter inflation and strengthen the balance of payments.

... cash and the remaining ...

NG church members agree to meet

Star 8/12/84

The deadlock between members of the family of Nederduitse Gereformeerde churches has been broken — and a meeting between them initially scheduled for October this year will now be held in March next year, it was announced at a press conference yesterday in Johannesburg.

Relations between the white Nederduitse Gereformeerde Kerk and the

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By Carina le Grange,
Religion Reporter

coloured NG Sendingkerk and black NG Kerk in Afrika have been strained since a statement was issued by the NGK earlier this year which attacked Dr Allan Boesak and Archbishop Desmond Tutu after they took part in a protest march in Cape Town.

The black church demanded that the white church withdraw its statement before they would enter into negotiations decided upon during the four-yearly synod of the Reformed Ecumenical Council (REC) in Harare in June this year.

The executive of the REC has been in South Africa for the last week in an effort to save the meeting — which was successful.

Professor Johan Heyns, moderator of the NGK, said the NGK accepted conditions laid down by black churches for the talks to proceed.

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THE RAND

Remission or recovery

Since the start of November, when Bank rate rose two percentage points to 14,5%, the rand has shown signs of health. On November 1 it was worth less than US40c after a slide of more than 20% over a period of 10 months. By the start of this week it was over US44c for the first time since July. Put the other way, the rand/dollar exchange rate moved from R2,5/\$ to R2,27/\$.

Its appreciation started before the decline in the dollar and was subsequently helped by the latter's slide from over DM1,8 in the second week to DM1,72 by Monday, and from Y126 to Y121,9. But the rand's rise was not simply a reflection of a depreciating dollar. In the period, the local currency appreciated significantly against other currencies as well (see graph). Whether this is remission or recovery is uncertain.

To a point, market expectations are self-fulfilling. The recent rise in the rand owes much to changed perceptions about the unit's immediate future. This has triggered a reversal of leads and lags, as exporters rush for cover and importers uncover themselves.

What caused the change in perceptions?

Cynics believe the original impetus came from the Reserve Bank. It is thought Governor Gerhard de Kock wanted to demonstrate the effect of interest rate movements on currencies to people who have a limited understanding of the relationship between them. The theory is, to emphasise his point that unfavourable interest rate differentials were causing a haemorrhage of capital, he made certain the Bank rate rise was followed by an immediate rise in the rand.

The Bank, of course, is constantly in the market, feeding in gold mines' dollar earn-

ings — but De Kock insists there was no "deliberate" intervention. However, the Bank's role as supplier of mining dollars can be regarded as intervention in itself and lays it open to suspicions of manipulation.

Engineered or not, the initial response of the rand to the Bank rate rise seems to have been bolstered by political developments within SA and their reception

overseas. This coincided with a serendipitous fall in the dollar and a boost to the gold price.

International markets, which had hoped for a Bush victory, responded adversely to the result, selling dollars. "There is no better explanation," says Allied chief forex dealer Mark Langley, "than the old adage that people buy on rumour and sell on fact." He recalls that on the morning of November 9 (local time), just before the polling booths closed, the dollar stood at DM1,8; by the end of the day it had fallen to DM1,76.

This was followed by a gold price rise, helped along by a rising platinum price. After averaging \$406,4 in October, it moved up to average just under \$420 in November. It stayed firm in early December and, at the end of last week, moved briskly up to \$430.

Though it then dropped back, early December performance was decidedly bullish.

Fortunately for De Kock, he can't be suspected of having a hand in this chain of events. But local participants in the forex market remain convinced he is "encouraging" the rand in a positive direction.

They point out the higher rand will ease the pain of this month's \$250m repayment of debt inside the net — because it will require fewer rands to buy the necessary dollars, reducing the draining effect on local liquidity. This will help keep down interest rates at the traditionally tight year-end and underscore a point he has been trying to make all year about timeous moves in Bank rate.

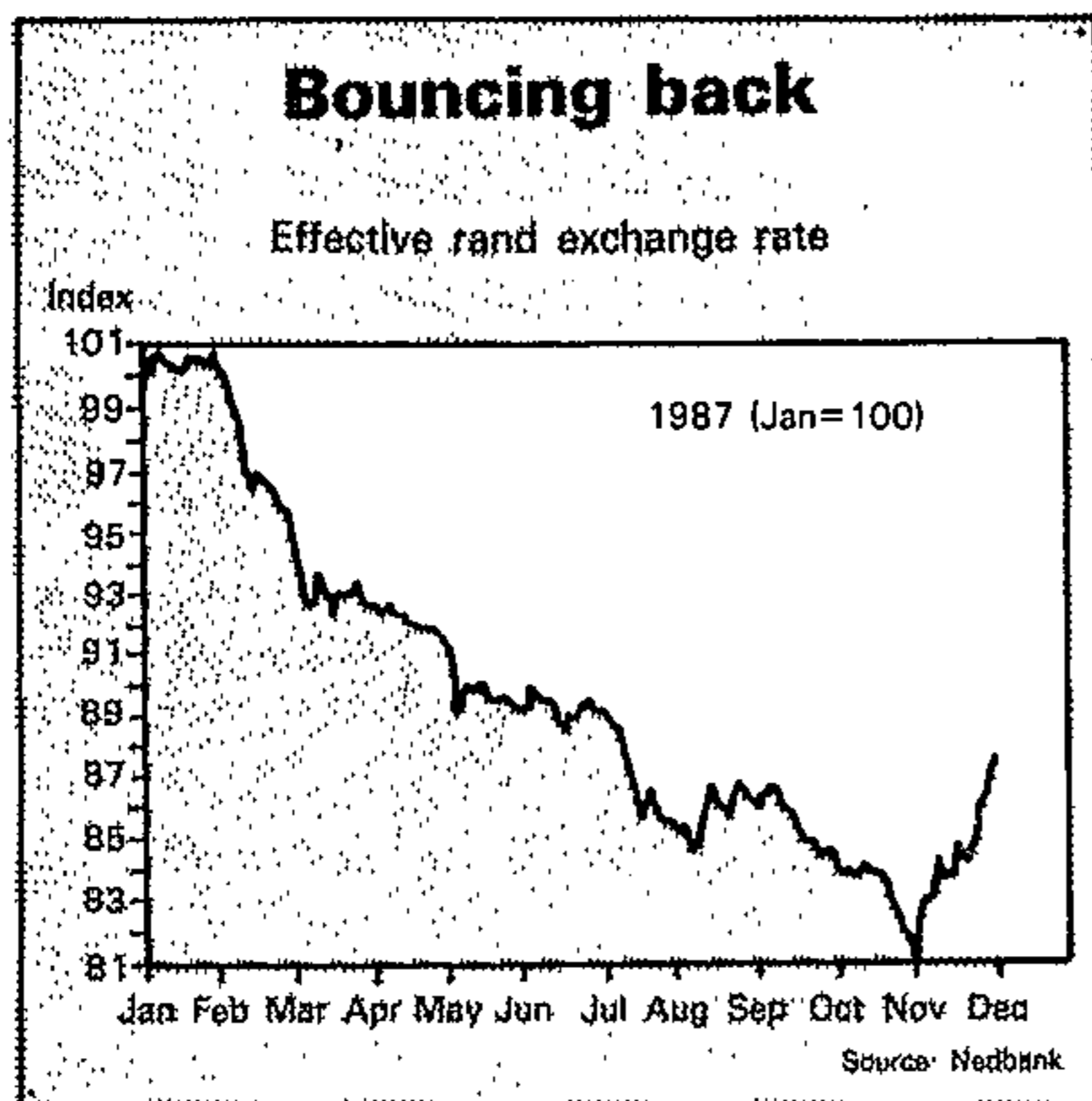


The question now is: how long will the currency maintain its upward impetus?

Declining imports and stable exports may provide some room for manoeuvre. On the other hand, the higher rand price will act as a stimulant to import demand which authorities have been trying to wring out of the markets with interest rate increases and import surcharges of up to 60%. It will also reduce the rand profitability of exports, particularly of the gold mines which provide such a large slice of fiscal revenues. With break-even point for marginal mines at close to R1 000/oz, it is essential this level is maintained in the long term, either by a rising gold price or a falling rand.

A gold price of about \$440/oz is needed to maintain the rand at R2,27/\$ for any time. So, without support from the dollar price of gold, there is a natural ceiling which will contain the upward thrust of the rand.

Other constraints include inflation differentials and political events within SA. With sanctions in place and threats of further sanctions, our vulnerability is immediately reflected in capital flows and consequently the rand. So if the good news of November turns to bad in December, the currency is likely to retrace its steps below US40c. ■



GOVERNMENT FINANCES

Money for petrol

Finance Minister Barend du Plessis' imposition of an additional 9c/l fuel tax from January 16 signals another significant shift to an increasingly important new revenue source. Du Plessis said the 9c/l hike would raise R1,3bn in a full year.

29 (circled) fma/12/88

Mines will again be paid in dollars for gold

Reserve Bank to pull out of forward exchange market

Magnus Heystek
Finance Editor

The Reserve Bank is to once again continue its policy of orderly withdrawal from the forward market in foreign exchange.

The governor of the Reserve Bank Dr Gerhard de Kock yesterday announced the Reserve Bank's intention to continue the policy that was interrupted in August 1985 when the debt standstill arrangement was announced.

As part of its policy it would resume paying gold mines in dollars for their production delivered to the bank.

This was one of the recommendations of the De Kock Commission of Inquiry into the Monetary System and Monetary policy and was accepted by the Government in 1983.

Dr Gerhard de Kock last night said: "As a result of the rise in the value of the dollar against the rand in the first 10 months of 1988, the Reserve Bank incurred severe, but un-

avoidable, losses on the forward cover book in that period.

"These losses were for the account of the Treasury and ultimately the taxpayer. They forced the Reserve Bank into the involuntary creation of cash reserves for the banking system and therefore contributed to the excessive increase in the money supply in this period".

R5-bn losses

Economists have estimated that the Reserve Bank could have incurred losses totalling R5 billion since 1985. At last month's investment conference of the Financial Mail, Dr de Kock, highlighted the seriousness of the problem.

He, however, warned at the time that a withdrawal of the Reserve Bank from the forward market might possibly lead to higher interest rates.

To avoid this probability, last night's announcement indicated the withdrawal will be gradual while the Reserve Bank reserves the right to intervene in

the forward market at any time.

Private sector economists have expressed their concern in recent weeks about the huge loss building up on the Reserve Bank's forward book.

While the recent strengthening of the rand has surely reduced the size of this loss, it still represented a possible enormous drain on the Treasury which could, inter alia, lead to higher taxes or an increase in the issue of government stock.

The withdrawal from the forward cover market was originally announced in 1983: Its objectives were to create a proper forward market in foreign exchange that was well integrated with the spot market and that functioned without the daily support of the Reserve Bank.

Dr de Kock said the main advantage of such a market was that it would help produce realistic spot and forward exchange rates, coupled with realistic interest rates, which would greatly reduce and eventually eliminate the losses incurred on

forward exchange transactions for the account of the Treasury.

"For the time being, the Reserve Bank will continue its practice of providing forward cover by way of swap transactions to authorised dealers in foreign exchange to cover their overbought or oversold positions in respect of recognised commitments or claims in foreign currencies of their clients."

Limited

A limit would be placed on these facilities, which would be gradually reduced.

Dr de Kock said the Reserve Bank would offer preferential rates of forward cover for importers to discourage the trend of switching from overseas credit lines to less expensive local financing. The same facility would be offered to exporters.

The Bank would entertain requests for longer-term forward cover to encourage longer-term finance for the import of capital goods, he said.

Good institutional support for FIT offer

If Namibian agreement succeeds . . .

SA faces no risk of recession

Cape Times
10/12/88

10/12/88 49

By AUDREY D'ANGELO
Financial Editor

SA is not facing any risk of serious recession unless the Namibian agreement falls through, says economist Wolfgang Thomas, GM of the Small Business Development Corporation (SBDC) in the Western Cape.

"The outside world will not squeeze us too hard if we reach agreement on independence for Namibia. But if it falls through, of course, it will be another story. I hope the authorities realize this."

Thomas is optimistic about the chances of small business people surviving the downturn expected early in the new year.

"Most of them are too busy making money to notice any downturn."

"Usually, when one is expected, people redouble their efforts to make profit while they can and this generates enough work to keep them going."

However, in a speech at a party yesterday in honour of the first five regional Entrepreneurs of the Month, Thomas included "meeting loan demands arising out of a possible downturn in the economy, which usually hits small businesses harder than the larger ones", as a key activity for the SBDC in the coming year.

He said the SBDC would "broaden our proactive sector support strategy with particular em-



The Small Business Development Corporation Entrepreneur of the Month award winners during 1988 are, standing from left, Freda van der Merwe of Freda's Restaurant, Danie Cloete of Abstair, Leo van der Walt of Safari, Trevor Plummer of Ratcliffe Electronics and Sandra van den Berg of Memode. Seated, from left, are joint winners Nicole Schaffer and Terry Carolin of Papparazzi.

phasis on hi-tech industries, tourism, the jewellery industry, higher quality clothing, export, import substitution industries and informal sector manufacturers."

A newly acquired building adjoining the present SBDC offices in Sir Lowry Road would be developed as a hi-tech hive close to the city centre and the SBDC would get involved in other hi-tech incubator projects in the Greater Cape Town area.

It would provide more commercial and industrial accommodation for entrepreneurs in the less developed areas and expand training efforts in the small business sphere with particular emphasis on informal sector needs.

It would strengthen its networking, deregulation and strategic planning support for the rapidly expanding black small business community in the region.

And it would use a far

larger number of private mentor and rebate consultants in advice, after-care and other support for individual entrepreneurs.

Thomas laid emphasis on the need for SBDC help in outlying areas. He said that it would spread its involvement in the Namaqualand rural areas. It would also expand its presence in the Upington area and open a branch office in the Bolland — possibly in Worcester.

DIAGONAL STREET

Org's bid to save the golden eggs

S/Times 11/12/88 49

ADOPTION of the recommendations of the Marais Committee could convince investors that the Government will not kill the goose that lays the golden eggs.

The committee — chaired by Deputy Finance Minister Org Marais — took up where Margo left off on the question of mining taxation.

It took seven months for a high-powered team to put together proposals which would be implemented over seven years.

Dr Marais says his job is to balance the books, and his team has made recommendations which would reduce the tax paid by each mine. It aims to encourage new mines whose tax would make up the shortfall.

OVERNIGHT

This will not happen overnight. But a high-quality producer, now paying as much as 79% tax, would have to shell out 61%.

The report's major recommendations are:

- The overall mining tax burden should be brought in line with that of other sectors of the economy — maximum company tax is 50%.
- This would be achieved by phasing in a common tax formula for all gold mines. After seven years the percentage tax rate would be $61 - 305/x$ where x is the ratio of profit to revenue.
- Other mines would be taxed at the standard company rate.
- All surcharges would be eliminated
- Mining lease payments should be eliminated.
- The existing 100% redemption of capital expenditure in

the year of incurment would continue, except on certain items such as motor vehicles and housing.

● Ring-fencing — the limitation of capital expenditure to a particular mine — should continue subject to ministerial discretion.

● Special capital allowances for new gold mines would no longer automatically be granted — it would be at ministerial discretion

CRUX

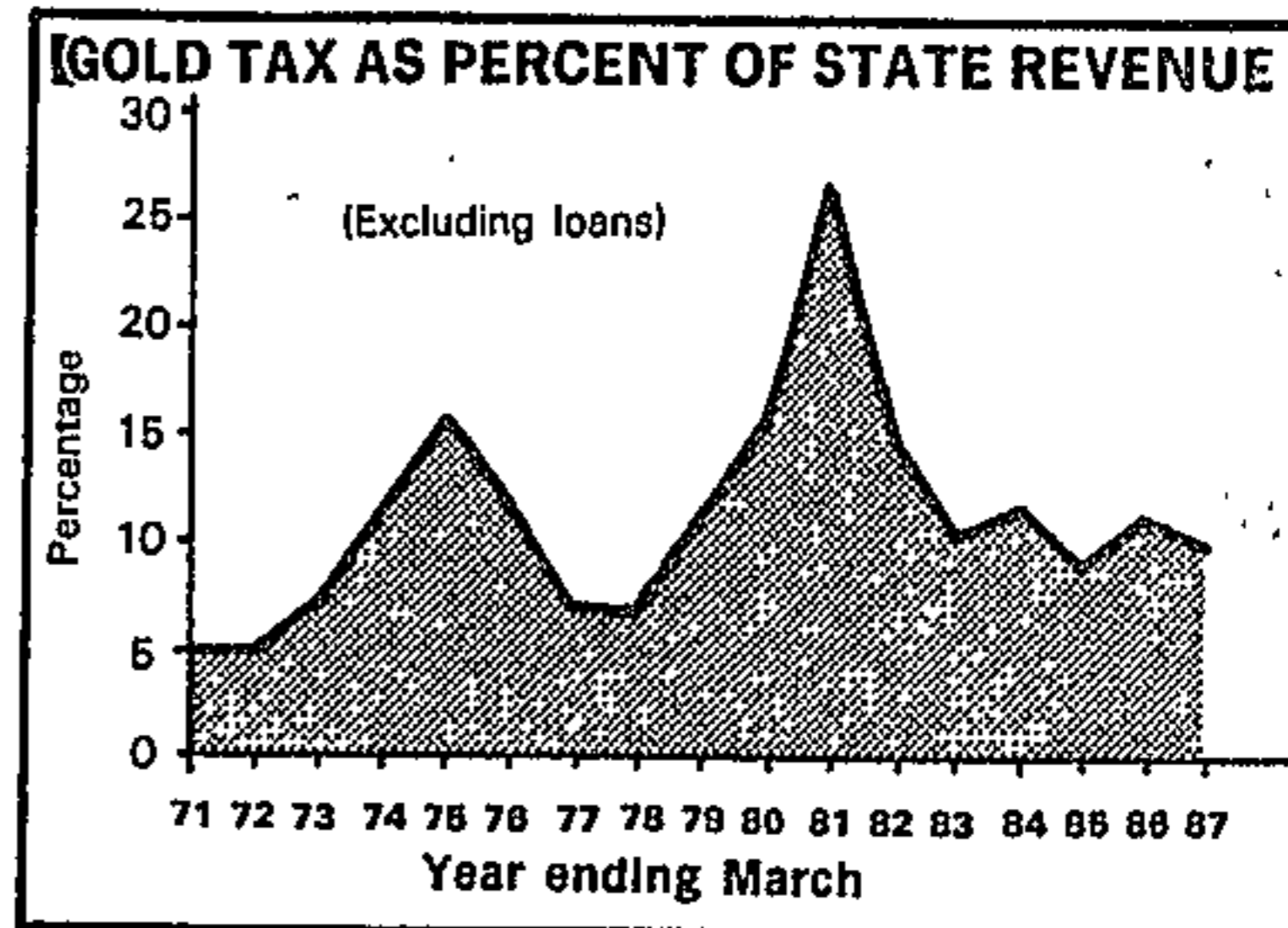
Dr Marais says the report is the first part of a trilogy. The second instalment will refer to VAT and the third to the "problems" regarding insurance and pension funds.

Sceptics have expressed doubt that the recommendations will be implemented, but the list of signatories and Dr Marais' position are plus factors for their acceptance.

Dr Marais says the crux of the Margo report, which called for the implementation of CBT (comprehensive business tax) would penalise exports, so the alternative VAT system is to be adopted.

The revised common formula and removal of surcharge would mean that the first 5% of profits would be exempt from tax, as opposed to 6% or 8% under the existing formulas. This could cause suffering for borderline producers, whose margins are only a few percent. The difference between tax starting at 5% instead of 6% or 8% could be crucial.

Dr Marais says: "This will relieve the burden on high-grade mines and encourage the development of new mines without prejudicing low-grade mines." Pre-1966 mines, which pay tax on the $60-360/x$ formula, would gain more than post-1966 mines whose tax formula is more



favourable. High-grade producers would also score.

All mines would go onto the new system because, as Dr Marais says, it would be difficult to determine what is old and what is not. Old mines' lives can be extended by expansion.

Mining expert Danie Krige of Wits University estimates that there could be as many as 15 new gold mines in the Witwatersrand basin alone in the next decade because lower tax would improve prospects.

The mines could provide employment for 110 000. The flotation pay limit would be lowered, meaning that lower grade ore would become profitable.

On the subject of surcharges — singularly unpopular among the investment community — Dr Marais says that when profits increase it is important that the Government should not take it all away with surcharges. "Windfall profits should be buffers against harder times."

The fiscus stands to lose up to R900-million in tax if the proposals are implemented immediately. Estimated losses in the first year would be R150-million to R200-mil-

lion. Revenue collected from gold mining in 1988 was R3,5-billion.

Dr Marais says this would be made good in the long term from new mines, but in the near term indirect taxation and cleaning up of the current tax system would help to foot the bill.

The 15% surcharge on non-gold mines would be phased out at three percentage points a year for five years, and tax would be the same as for companies.

DIAMONDS

This raises an important point about diamond producers, which at present pay 45% tax and a 25% surcharge, making an effective 56,25%. If the nominal rate were increased to 50% before the surcharge was reduced, diamond mines could initially pay more than less tax until the surcharge was removed.

● One of the few acts of kindness in recent years has been the low-interest Government loan to ERPM because about 70% of Boksburg's population depends on the mine for a living. What odds that the loan will be recalled now the Conservative Party rules?

Testing time for SA

S/Times 11/12/88

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THE ingenuity of South African businessmen will be severely tested in the year ahead.

That is the forecast of Syfrets chief executive and deputy chairman Brian Robinson.

"Without access to foreign capital, apparently uncontrollable inflation, a declining currency and the lack of any clear economic and political definitions from Government, South Africa faces enormous challenges," he says in the report for the year to September 30.

Planning is made more difficult by factors beyond SA's

Business Times Reporter

control. They include the Del-lums Bill in the US and party political developments at home.

However, the higher levels of economic activity from the end of 1987 enabled the financial services group to increase lending in the commercial, industrial and residential market last year.

A record R503-million was granted in mortgage finance.

The collapse of the share market hit income from investment management fees, but the group improved in-

come after tax by 5% to R15-million.

This is in line with taxed profits which have risen threefold from R5,1-million in 1981. Assets increased by 40% to R759-million in the past year.

Syfrets Managed Assets attracted new institutional funds for management and Syfrets Growth Fund enjoyed strong investor support, says Mr Robinson.

"This support for our unit trust scheme gave us a clear mandate to go ahead with the launch of the Syfrets Income Fund unit trust."

Economy performing better than expected

SPR 12/12/88
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The South African economy is performing far better than could have been forecast earlier this year, with growth being driven by the private sector in the form of capital expenditure and consumer spending, according to the latest edition of Syfrets investment newsletter Money Matters.

And as 1989 approaches there are increasing indications that the doom and gloom economists may be a little off the mark.

Recent statements by chief executive of Dorbyl, Dawid Mostert, supports the Syfrets' view. Mr Mostert says that the company's order book is stronger both in terms of value and volume than it was a year ago, and the group is seeing the first signs of a resurgence of fixed investment in its heavy engineering activities.

In recent weeks similar opinions have been expressed by a number of other heavy industrial groups. When Sentrachem re-

Finance Staff

leased its interim results some weeks back, management indicated that the strength of their order books pointed to reasonably good economic growth, at least, in the near-term.

Also supporting the bullish line are the latest figures from the Federation of Civil Engineering Contractors which shows that the total value of civil engineering contracts awarded so far this year is R2,6 billion - an increase of 45 percent on the same period last year.

Belt-tightening

In the latest Syfrets' Money Matters, Neil Cochrane writes that in the nature of the closed South African economy, where growth cannot be funded by foreign loans, drastic corrective action has become necessary. Mr Cochrane adds that with

the country's foreign exchange reserves only sufficient to cover imports for the next six weeks, further controls may be imposed by the authorities. He forecasts that the prime overdraft rate could remain at 18 percent well into the second quarter of 1989.

On the Johannesburg Stock Exchange, Mr Cochrane observes that the industrial board has provided most of the interest. Company results had been remarkably good, and the recent excellent results for the Barlows and South African Breweries groups should help buoy the market at current levels.

Although next year the growth in many companies' profits could begin to decline, growth should still exceed the inflation rate, says Syfrets.

Despite the weaker political and economic outlook, the investment pundits feel the JSE could

well be at higher levels this time next year, but largely for the wrong reasons.

"The weaker financial rand will protect the mining shares despite the declining grades and increasing costs. Rising inflation will make alternative investments relatively unattractive, creating a negative real return on bond investments."

Mr Cochrane predicts that institutional cash flows will remain strong, swelling the estimated R10 billion held in cash deposits. But in many cases he says that real value is developing in quality shares and he advises long-term investors to take advantage of these opportunities.

Syfrets advises investors not to abandon a cautious investment strategy, "but our rapidly changing environment requires a flexible approach to investment and a fully invested position would not be prudent management."

Current account surplus R1,4bn

Soft landing awaits economy — Reserve Bank

*9/11
T.M.P.
13/12/88*

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From GRETA STEYN

JOHANNESBURG. — A soft landing awaits the economy in 1989 with little likelihood of a repeat of the previous recession, the Reserve Bank predicts in its latest Quarterly Bulletin.

But SA would be in trouble if the mix of monetary and fiscal policy was not up to the challenge, the Bank said.

The economy would probably continue to grow, albeit at a slower pace, in spite of important similarities between the 1984 boom and the current upswing.

Both boom periods had seen large capital outflows, dwindling reserves, declining personal savings and excessive spending on credit.

As the upswing went into orbit in the first nine months of this year, gross domestic expenditure averaged a real increase of 8,5% from 1987.

In the September quarter, private consumption spending surged at an annualized rate of 5,5%, beating the increases in the previous two quarters and the average rate of increase since the second quarter of 1986.

Bank credit exploded from last year's levels, with growth hitting an annual rate of 43% (seasonally adjusted) in the third quarter.

Ostensibly, SA was experiencing a repeat of the rampant economy of 1984 — which was followed by a painful recession in 1985. But there were important differences which could steer the economy clear of another recession.

In contrast to 1983/84, SA managed to achieve a sizeable current account surplus at the peak of the upswing. The surplus in the third quarter was R1,4bn — an annual rate of R4,5bn —

largely reflecting higher export volumes and a slight decline in import volumes.

The Bank described the achievement of a current account surplus as "unusual" for an economy at the peak of the business cycle.

In spite of high levels of economic activity, the volume of merchandise imports dropped slightly in the third quarter and export volumes rose by 7,5% from the previous three-month period.

Unlike 1984, fiscal policy had not been expansionary in the first half of the fiscal year.

In 1984, fiscal and monetary policy had worked "at cross purposes" — a problem which would be avoided if the deficit was kept in check in the months to come.

Feverish spending in recent months was unlikely to continue as much of the buying spree in the past two quarters had been "pre-emptive".

Fears of higher prices because of import surcharges and a weaker rand, as well as rumours of higher sales tax and more credit curbs sparked excessive buying of consumer items.

Pre-emptive buying had masked the effectiveness of measures to cool the economy taken earlier this year. These measures should depress spending more strongly in months to come.

South Africans had become more sensitive to restrictive economic policies after the recession.

The exuberant business mood prevailing in the early stages of the upswing had already been tempered by a realistic assessment of the challenges facing the SA economy.

Economy heads for 'soft landing'

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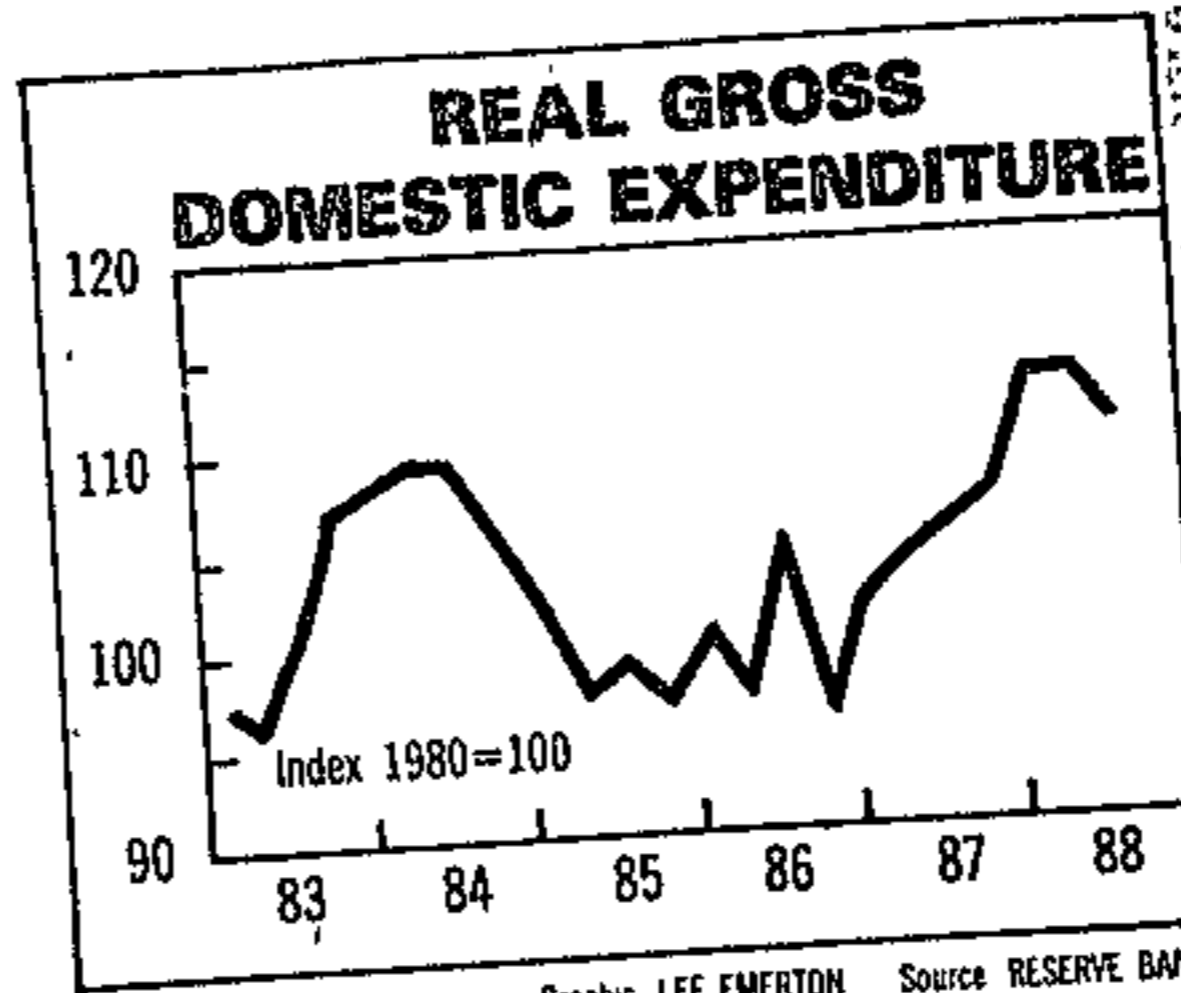
GRETA STEYN

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● To Page 2 →

'Soft landing' awaits economy next year

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● See Page 3

'Stagflation' to continue

49 123
Star 14/12/88
Finance Staff

The overall impression of the most probable course of the economy over the next two years was one of "continued stagflation," Volkskas chief economist Adam Jacobs says in the bank's latest economic report, which focuses on prospects for 1989.

Volkskas says that given the developments that took place this year and the expected continued capital outflow, "it is difficult not to foresee a drop in the standard of living per capita of the population."

"With the expected economic conditions in view, "the most pressing challenge remains improved utilisation of the production factors in the economy to bring about increased production at lower cost escalations."

"In this respect, the country's capital assets in particular must be applied more productively as the availability of capital is the most conspicuous problem in the economy," Mr Jacobs writes.

"If we could succeed in achiev-

ing this, the performance of the economy may surpass expectations. We certainly hope that this will be the case."

The remaining period was one of consolidation.

"Reduced expenditure, enhanced savings and the ratification of that which is wrong now, more than ever before, deserve more earnest attention of everyone in every field of the economy."

Volkskas said the economy had, in certain respects, performed more favourably in 1988 than was anticipated this time last year.

Growth rate

"For instance, the growth rate will be slightly better than was anticipated; real domestic expenditure considerably higher and the average inflation rate will be lower than predicted."

There were therefore certain issues about which one could be fairly satisfied.

"However, there were also certain developments in 1988 that

cast a dark shadow over economic prospects for at least the next two years.

"This may be attributed to the fact that the money supply increased much faster than was planned; that domestic expenditure, supported by bank credit, increased sharply and that imports increased considerably in the process.

"As a result the surplus on the current account of the balance of payments will be much smaller than was expected, and that in the process interest rates rose sharply and the exchange rate of the rand deteriorated substantially.

"Added to this, we were very much under the impression last year that the authorities were determined to curtail the growth in government spending.

"Government spending did in fact show favourable signs for some time, but according to the latest information and statements it would seem that government expenditure is still not under control at all," Volkskas writes.

(49) B/day 14/12/88 (49)

MOST OF the people on Business Day's Real Economy panel — 63% of them — reported business in November to be better than it was in October, and put this down to the approaching festive season.

They expected December to be a good month, although there was no spontaneous expectation of a bumper Christmas.

Panellists in the clothing business were particularly happy about their November sales.

For the first time, three spaza shop owners were included in the panel, which has increased from 12 to 15 members. Spaza is the township slang for "camouflaged" — applied to the shops because they are run in township backyards and garages, away from the eyes of the authorities.

According to recent reasearch findings, the turnover of spaza shops is in the region of R3bn a year. They act as distribution channels for manufacturers and wholesalers, and thus have widespread support from formal business.

Panellists generally feel January and February will be quiet months, though businesses in the townships believe good festive trade could carry over into January. This applies particularly to the spaza store owners, who will benefit from the fact that children and parents will be on holiday at home.

In assessing the interviews, Perry and Associates say that the indications of falling confidence regarding prospects for the next few months should be treated with caution, in view of the natural expectation that the man in the street will still be paying for Christmas in January and February.

"Spaza shop owners exhibit considerable confidence in the future," says Vedit Purbhoo, of Perry and Associates. "They expect the seasonal upsurge to last well into January, as they serve a captive market in the townships.

"It is interesting to note that the new entrants into the informal sector see the future as being bright, whereas established businesses expect increasing competition in the future."

THE INTERVIEWS:

□ **GLEN CAMPHER**, manager of a Johannesburg city centre Jazz supermarket store, says business was good, but not as good as he had expected.

However, it was better than in the last three months, with the number of sales and customers both improving. He thinks business will be tough in the few months to come, especially in January because "people will

BUSINESS DAY REAL ECONOMY INDEX

Christmas cheer, but bleak January

SIPHO NGCOBO

This is Business Day's sixth Real Economy Index, covering the month of November. It is based on interviews with a panel of black and white business people, drawn from the real — or free — economy, where the man in the street buys his goods. The aim is to let mainstream business know how the growing mass market is developing and reacting to changing business circumstances

have no money after the Christmas holidays".

The absence of major labour strikes and unrest, and the expected release of ANC leader Nelson Mandela, make Campher confident about business in the future. "Mandela's release would be a tremendous boost to business confidence," he says.

□ **ISAIAH "MR NUGGET" HLATSHWAYO**, shoe-shiner at the JSE premises, describes his business as good over the last month, and the same as it had been in the last three months.

He expects business to improve during the next three months, when people are back from the holidays.

□ **MIKE SEGAL**, owner of Bauers Men's Shop in downtown Johannesburg, says his business was very good last month and much better than in the last three months. Unit sales were down, but customers were spending more. He attributes this to the festive season and end of year bonuses.

Segal sees business getting better until Christmas, and then dropping, but he believes it will pick up again late during the first quarter.

□ **STAN THOMPSON**, manager of Rebel Bottle Store in Blackheath, says business was still very good last month, and even better compared with the last three months. He attributes the increase in sales to the approaching Christmas period.

Thompson, however, expects sales to drop considerably over the next few months.

□ **JAMES STRACHAN**, manager of

Hyper-Car, says business was "fairly good" last month but that customers were a bit hesitant because of increased interest rates. Compared with the last three months, business in November was below average, he says.

Strachan was not sure about prospects for the next quarter. "It could go either way, depending on how much money people spend over Christmas," he says.

□ **COLIN BUTHELEZI**, taxi owner and chairman of the Dube/Westgate Taxi Association, says business was fair, but that the increased price of fuel and spare parts and the resultant 10% hike in taxi fares was still a problem.

Although he expects good business over the Christmas period he thinks the next few months would be difficult, as people would be short of money and as some of them would still be on holiday.

□ **PEGGY "BELAIR" SENNE**, owner of "Peggy's Place," well known licensed shebeen in Soweto, says his business was "just normal" last month, and about the same when related to the last three months.

Although he expects business to improve during the Christmas period, he thinks business will be down over the next few months.

□ **IRIS MDLETSHE**, who sells exclusive clothing from her Hillbrow flat, says business was excellent last month, as she had predicted previously, with record sales in casual clothing for both children and adults.

She attributes her excellent performance to the end-of-year bonuses and 13th cheques. Her customers were buying more and spending more. She, however, thinks the next three months would be very difficult, with many people spending their money on taking their children back to schools, colleges and universities. "People will not have money," she says.

□ **PEACE CINDI**, hair designer and owner of "Hair It Is," says business was down last month but he does not know why, since he had expected November to be a good month.

He expects a heavy downturn in business from mid-January to about the end of March. "Christmas spending would leave some people penniless. And mind you, children will be going back to school, which will hit people's pockets even harder," says Cindi.

□ **MARY-JANE STUNKIE**, who sells clothing from her Mofolo, Soweto, home, made "a lot of money" last month compared with the last three months.

The improvement began when she changed her line of product to nurses' uniforms. But she also included a variety of other products — for instance, children's clothing.

Although December looks very good for her, she thinks there will be a drop in business in the next few months.

□ **JOYCE "GRANNY" MOYO**, a Soweto shebeener who operates on a small, selective scale, says her business was fairly good last month, with

sales showing a slight improvement compared with the previous three months. She says there will be virtually no business in the few months to come.

□ **ROB CROCKETT**, Sage School (Housing) MD, says sales were lower overall levels last month because of higher interest and bond rates and uncertainty over future building cost escalations. He says the situation was worse, relating to the last three months, with customers buying less and paying more.

As during the previous month Crockett expects the trends to remain the same over the next few months. He still believes new houses are actually cheap today, but the erosion of people's disposable income has made affordability a real problem.

□ **KEN ABRAHAMS**, a spaza owner from Ennerdale township, says sales were good last month because people had been getting used to him after only three months in business. His customers were paying more and he expects business to fare even better over the next few months.

"Children are on holiday and some of the goods I am selling, like sweets would be just right for them. Apart from that, I am selling for stuffs which people cannot live without, irrespective of the time of year.

□ **VICTOR LENYAI**, spaza owner from Soweto, says business was normal last month. No fireworks, no serious disappointment. "My customers were still supporting me," says Lenyai.

He says November was better than the previous three months. Lenyai had had transport problems during August, September and October. His van had broken down, causing problems in terms of stock deliveries. He predicts a downturn in business over the next few months, especially January and February which would be as a result of Christmas spending.

About the long-term future, Lenyai foresees an increase in the number of spaza shops. "This I think will bring about too much competition and too much tension on the spaza front," he says.

□ **WILKIE MPILA**, another Soweto spaza shop owner, describes his business as good last month. "There was good demand for my stocks," says Mpila. He says business remained the same as over the last three months, with customers buying the same.

Mpila expects the same trends in January, but is not sure what February carries for him. He has a word of advice for Spaza owners: "Perseverance and determination are essential. The future of spazas is bright," adds Mpila.

**OFFICE OF THE COMMISSION FOR
ADMINISTRATION**

**OFFICE FOR PRIVATISATION AND
DEREGULATION**

**MINISTRY FOR ADMINISTRATION AND
PRIVATISATION**

No. 2560

15 December 1988

**TEMPORARY REMOVAL OF RESTRICTIONS ON
ECONOMIC ACTIVITIES ACT, 1986**

In terms of section 1 (5) of the Temporary Removal of Restrictions on Economic Activities Act, 1986 (Act 87 of 1986), I, Dawid Jacobus de Villiers, hereby give notice for general information that the State President intends to issue a proclamation in terms of section 1 (1) of the aforesaid Act as set out in the accompanying Addendum.

All interested persons are called upon to lodge any objections and representations in writing within a period of 21 days from the date of publication of this notice with the Secretary to Parliament, P.O. Box 15, Cape Town, 8000, for submission to a Standing Committee of Parliament as contemplated in section 1 (2) of the aforesaid Act.

D. J. DE VILLIERS,
Minister of Administration and Privatisation.

**ADDENDUM
PROCLAMATION**

by the

State President of the Republic of South Africa

No. , 1988

**REMOVAL OF RESTRICTIONS ON ECONOMIC
ACTIVITIES OF CERTAIN PERSONS IN SPECIFIC
CIRCUMSTANCES IN CERTAIN INDUSTRIAL PARKS
AND TRAINING CENTRES ESTABLISHED BY THE
SMALL BUSINESS DEVELOPMENT CORPORATION,
LIMITED**

Whereas I am of the opinion that circumstances exist under which the application of certain laws, and compliance with certain conditions, limitations and obligations under those laws, unduly impede economic development or the creation of job opportunities in certain areas, I hereby, by virtue of section 1 of the Temporary Removal of Restrictions on Economic Activities Act, 1986 (Act 87 of 1986), from the date of publication of this Proclamation, with regard to the persons or classes of persons mentioned in Schedule 1 and on the conditions set out in the regulations contained in Schedule 2, suspend the laws, conditions, limitations and obligations mentioned in—

- (a) Part 1 of Schedule 3 and Part 1 of Schedule 4, with regard to the areas mentioned in Schedule 5;
- (b) Part 2 of Schedule 3, with regard to the area mentioned in Part 1 of Schedule 5;
- (c) Part 3 of Schedule 3, with regard to the areas mentioned in Part 2 of Schedule 5;
- (d) Part 4 of Schedule 3, with regard to the areas mentioned in Part 3 of Schedule 5;
- (e) Part 5 of Schedule 3, with regard to the area mentioned in paragraph (a) of Part 3 of Schedule 5;
- (f) Part 6 of Schedule 3, with regard to the areas mentioned in paragraphs (a) to (c) inclusive of Part 3 of Schedule 5.

**KANTOOR VAN DIE KOMMISSIE VIR
ADMINISTRASIE**

**KANTOOR VIR PRIVATISERING EN
DEREGULERING**

**MINISTERIE VIR ADMINISTRASIE EN
PRIVATISERING**

No. 2560

15 Desember 1988

**WET OP DIE TYDELIKE OPHEFFING VAN BEPER-
KINGS OP EKONOMIESE BEDRYWIGHEDE, 1986**

Kragtens artikel 1 (5) van die Wet op die Tydelike Opheffing van Beperkings op Ekonomiese Bedrywighede, 1986 (Wet 87 van 1986), maak ek, Dawid Jacobus de Villiers, hierby vir algemene inligting bekend dat die Staatspresident van voorneme is om 'n proklamasie kragtens artikel 1 (1) van die voormelde Wet uit te vaardig soos in die bygaande Addendum uiteengesit.

'n Beroep word op alle belanghebbende persone gedoen om enige besware en verhoë binne 'n tydperk van 21 dae vanaf die datum van publikasie van hierdie kennisgewing skriftelik by die Sekretaris van die Parlement, Posbus 15, Kaapstad, 8000, in te dien vir voorlegging aan 'n Staande Komitee van die Parlement soos in artikel 1 (2) van die voormelde Wet bedoel.

D. J. DE VILLIERS,
Minister vir Administrasie en Privatisering.

**ADDENDUM
PROKLAMASIE**

van die

Staatspresident van die Republiek van Suid-Afrika

No. , 1988

**OPHEFFING VAN BEPERKINGS OP EKONOMIESE
BEDRYWIGHEDE VAN SEKERE PERSONE IN BE-
PAALDE OMSTANDIGHEDEN IN SEKERE NYWER-
HEIDSPARKE EN OPLEIDINGSENTRUMS WAT
DEUR DIE KLEINSAKE-ONTWIKKELINGSKORPO-
RASIE, BEPERK, GESTIG IS**

Aangesien ek van oordeel is dat daar omstandighede bestaan waarin die toepassing van sekere wette, en die nakoming van sekere voorwaardes, beperkings en verpligtings kragtens daardie wette, ekonomiese vooruitgang of die skepping van werksgeleenthede in sekere gebiede onbehoorlik strem, skort ek hierby op, kragtens die bevoegdheid my verleen by artikel 1 van die Wet op die Tydelike Opheffing van Beperkings op Ekonomiese Bedrywighede, 1986 (Wet 87 van 1986), vanaf die datum van publikasie van hierdie Proklamasie, ten opsigte van die persone of klasse persone in Bylae 1 genoem en op die voorwaardes uiteengesit in die regulasies vervat in Bylae 2, die wette, voorwaardes, beperkings en verpligtings wat vermeld word in—

- (a) Deel 1 van Bylae 3 en Deel 1 van Bylae 4, ten opsigte van die gebiede in Bylae 5 genoem;
- (b) Deel 2 van Bylae 3, ten opsigte van die gebied in Deel 1 van Bylae 5 genoem;
- (c) Deel 3 van Bylae 3, ten opsigte van die gebiede in Deel 2 van Bylae 5 genoem;
- (d) Deel 4 van Bylae 3, ten opsigte van die gebiede in Deel 3 van Bylae 5 genoem;
- (e) Deel 5 van Bylae 3, ten opsigte van die gebied in paragraaf (a) van Deel 3 van Bylae 5 genoem;
- (f) Deel 6 van Bylae 3, ten opsigte van die gebiede in paragraaf (a) tot en met (c) van Deel 3 van Bylae 5.

Higher interest rates may yet be necessary — Standard

stw 15/12/88

(49)

By Sven Lünsche

Further rises in interest rates may yet be necessary to achieve a significant slowing down of domestic consumption and investment spending, says Standard Bank in its latest *Economic Review*.

The bank argues that this will become necessary if accelerating government expenditure during the second half of fiscal 1988-89 acts to counter greater monetary tightness, as is widely forecast.

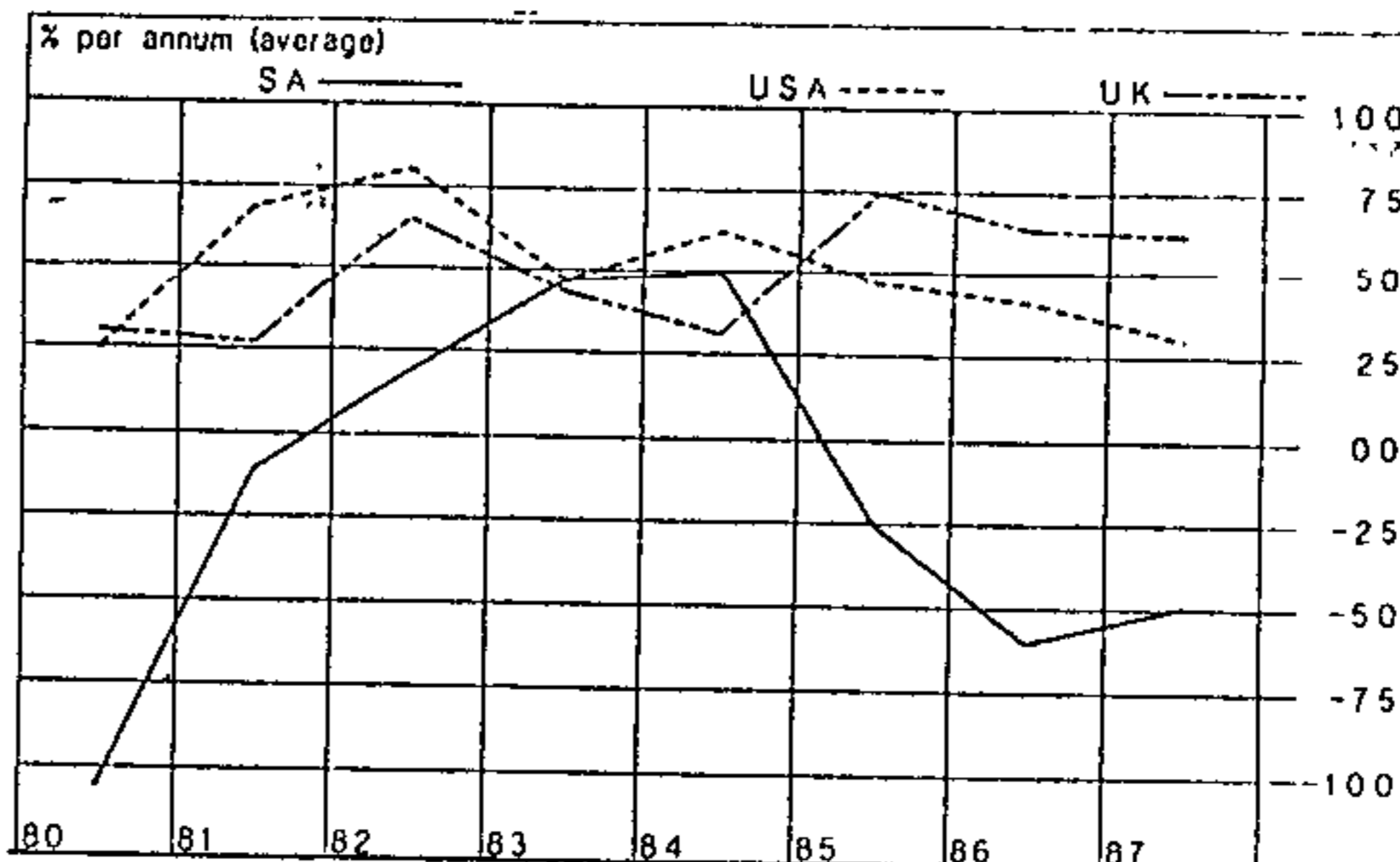
"Most economic observers now concede that government expenditure is accelerating sharply and expenditure for the current fiscal year is likely to exceed budgeted estimates by around R2,5 billion, with potentially destabilising consequences.

Damage limitation

"The fiscal authorities now appear to have settled for a policy of damage limitation. This involves efforts to prevent the deficit before borrowing from growing commensurately with the rise in government expenditure, by raising additional revenue through measures such as the recent substantial rise in the tax on petrol.

"As far as effects on the economy are concerned such a policy of restraining the rise in the budget deficit is no substitute for proper fiscal discipline that involves tight control over government expenditure.

"Interest rates will therefore need to be at a sufficiently high level to curb demand, and they will have to be kept at high levels for some time," the bank adds, calling for the authorities to maintain real levels of interest rates. "Real interest rates have



Wide swings in interest rates compared with those of the UK and US.

been artificially low during most of the 1980's, especially when compared to rates in the UK and the US."

This has had various negative consequences:

- Low interest returns result in a tendency to channel a significant portion of savings into unproductive inflation-hedge type assets and away from productive investment.

- Low interest rates have encouraged excessive mechanisation and capital intensive methods of production. This is harmful not only in that it has tended to inhibit employment creation, but also because it placed additional pressure on the current account of the balance of payments.

"Another problem peculiar to South Africa is the substantial interest rate volatility during the past two decades," the bank says (see graph).

"This has probably distorted productive investment as much as the presence of negative real level

of interest rates ... as most company decisions are based on nominal interest rates, and major changes in nominal interest rates can cause considerable disruptions to cash flow.

"A great deal of interest rate volatility implies also that other policy variables, such as government spending and the budget deficit are acting to destabilise the economy."

The bank recommends that government policy should not be based on interest rate policy alone. "Rather, interest rate policy needs to form part of a coherent strategy in which fiscal policy complements interest rate policy in achieving overall macro-economic objectives of growth and price stability.

"A policy mix which would result in positive real interest return on savings after tax would certainly create important benefits in the form of a more efficient allocation of resources and enhanced certainty," the bank concludes.

Nedbank takes bullish view

By Tom Hood

CAPE TOWN — Business next year is going to be a lot better than most economists are predicting, says Mr Gerry Muller, vice-chairman of Nedbank.

"I have an idea that interest rates have peaked," he said in an interview after the AGM in Cape Town.

Trade figures were likely to be better than forecast by most economists, he said.

Commodity prices generally were better than they had been in the first half of this year.

"If the balance of payments improves above expectations, I don't see pressure for higher interest rates," he said.

Describing himself as an optimist, Mr Muller, former CE of Nedbank, said: "I expect the economy to be somewhat better than most economists have been predicting, given a reasonable political climate in which to operate."

The political climate had improved over the last three or four months, he felt.

Mr Muller returned recently from a visit to the US and said



Vice-chairman Gerry Muller

Star 15/12/88
his main worry about 1989 was the state of the US economy.

"It has always been my conviction that the American economy is driven by housing starts and the motor industry.

"There are still areas such as Washington, with its growing bureaucracy, and the retirement states of Florida and southern California where houses may still be wanted.

"But for the whole of Texas, the South and the mountain states, the outlook is gloomy."

The motor industry was wor-

ried about prospects for a downturn, despite a depreciated dollar and. The government had to contend with a deficit of \$10 billion a month.

Fortunately, the European economies looked healthier and the Far East seemed as strong as ever.

"Maybe 1989 will be a year for gold. I have a sneaking suspicion that because of what might happen in the US economy, there will be a tendency for people to show more interest in gold. There is already interest from the Far East, with Taiwan putting more gold into its reserves and the public buying gold as well. Maybe South Africa will be saved again by gold."

Nedbank, he said, was doing well and the directors were reasonably optimistic about 1989.

Shareholders agreed to change the name of the company from Nedbank Group to Nedcor to separate its identity from the main operating company. The AGM was held in Cape Town for the first time because many of the 10 000 shareholders live in the Cape.

49

RESERVE BANK

Blame where it's due

The Reserve Bank is by no means beyond criticism. But there is a danger that wrong policy decisions could be made if it be blamed for that which is beyond its competence or ability.

It is right, for instance, to blame the Bank for allowing money supply to surge in a manner that most Western central banks would consider singularly irresponsible. This has created demand beyond the ability of the economy to supply and that, in turn, is encouraging inflationary pressures.

The Bank has the technical ability to modify money supply growth. But the consequences of its doing so, especially in the face of a profligate fiscal policy, will be unpleasant.

No amount of casuistry can justify the monetary excess it has countenanced. The plain fact is that the independence of the Bank was compromised by government for political reasons. Maybe the Bank should just have been more bloody-minded and confrontational. After all, President P W Botha could not remove Governor Gerhard de Kock without provoking another foreign payments crisis.

But that is not De Kock's way. Like most educated and civilised men, he believes in the ultimate triumph of reason. And many times he has been proven right. Patience has turned out to be a great strength. Trouble is that the President is of the opposite disposition. And the more he is driven into a corner, the less he appears able to countenance candour.

Hopefully, the resolve of the governor is stiffening. He did, after all, put up Bank rate by 2%, which is a substantial rise in one go. He has also been brave enough to resume withdrawing the Bank from the foreign exchange forward market.

It is undoubtedly the right thing to do, but when the next decline comes in the rand's value — as it most assuredly will do — the consequences are going to be hard to justify to the economically illiterate.

What is unjustified, however, is to blame the Bank for administering exchange control in such a way that capital is able to flee. According to this line of reasoning, if the Bank scrutinised every transaction, the reserves would be higher and the capital account would no longer be a drain on the balance of payments.

Nothing could be further from the truth. In a modern economy, if documentation supporting every current payment abroad were scrutinised first by the Bank before giving

its sanction, trade would come almost to a standstill, markets would be lost and the trade balance would deteriorate faster.

More capital has fled SA during periods of tight exchange control than during any other time. The mere fact that controls exist indicates government itself concedes that investors have lost confidence in this economy and in its own fiscal and monetary policies.

Exchange controls — like price controls — have never worked in any modern economy, especially not one in which imports and exports are such a high proportion of economic activity.

Economic controls create shortages, they do not avoid the consequences of over-indulgence or political ineptitude. They only delay the inevitable and make the process of adjustment to it more painful.

Simply put, the Bank cannot be a monetary Checkpoint Charlie able to decide rationally whose rands should pass and whose should stay.

First, a modern payments system makes that impossible.

Second, exchange controls interfere with the optimum allocation of scarce resources.

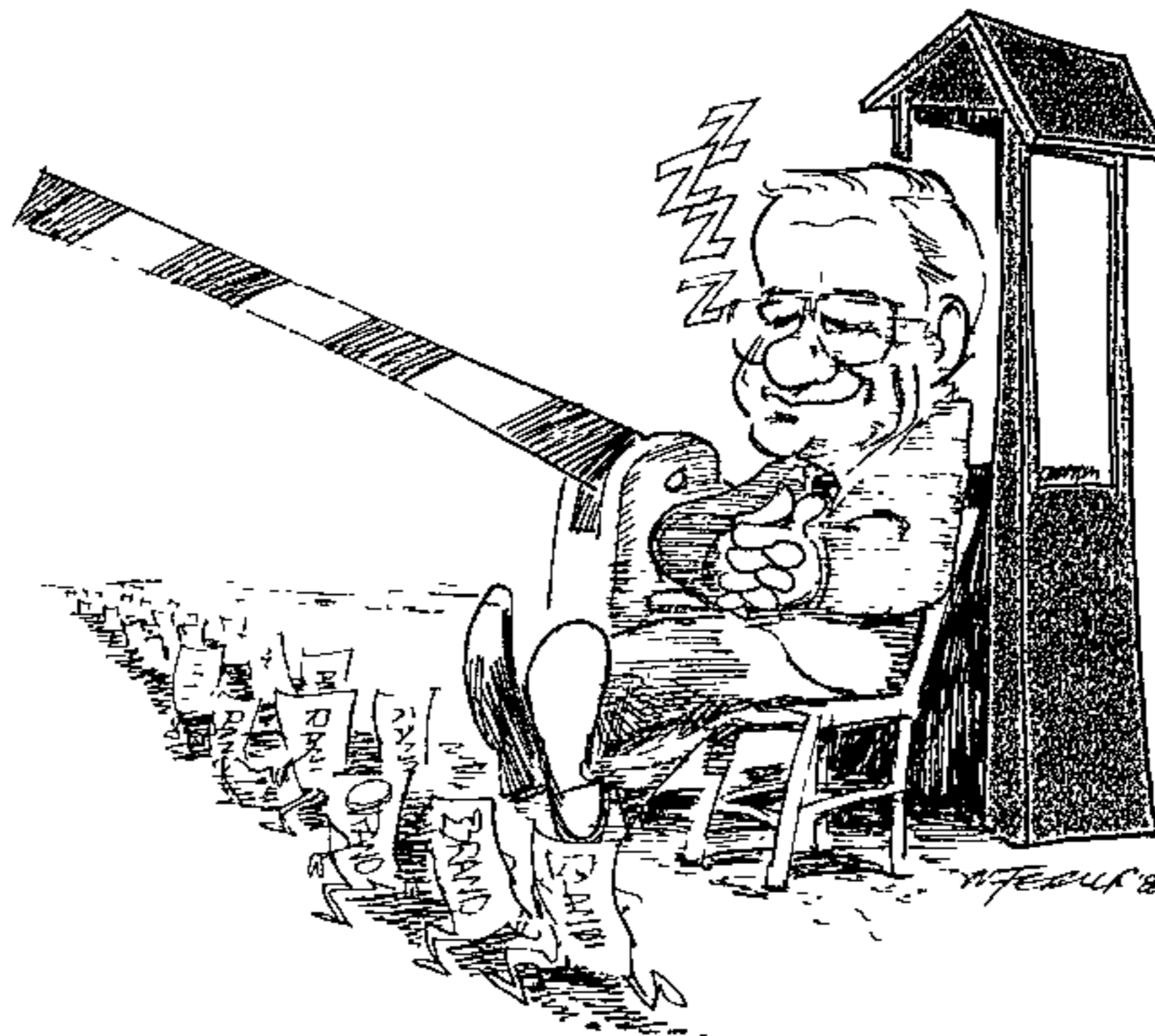
Third, they expose the Bank to all sorts of special pleaders, among whom there are bound to be opportunists.

The best the Bank can do in the circumstances is assume that most applicants are honest, but seek to investigate where there are aberrations. That is how banking works throughout the West.

The same applies to sharp banking practice. The Bank cannot be blamed for losses that occur as a result of dishonesty or poor commercial judgment by institutions involved in the banking system — unless, of course, banks are to be nationalised. The Central Bank is there to see that trading banks adhere to the capital and reserve requirements. The assessment of risk is a function of a competitive banking system.

Where the Reserve Bank is at fault is that it does not publicly stand up to government and declare its theoretical independence to be a reality. By not doing so it gives spurious credence to those who believe that tighter exchange controls are the answer to all our economic ills and a way of replenishing official reserves.

It also enhances the argument of those Austrian school economists who believe that Central Banks should be privatised and the creation of money left to the discipline of the marketplace rather than to spendthrift politicians. ■





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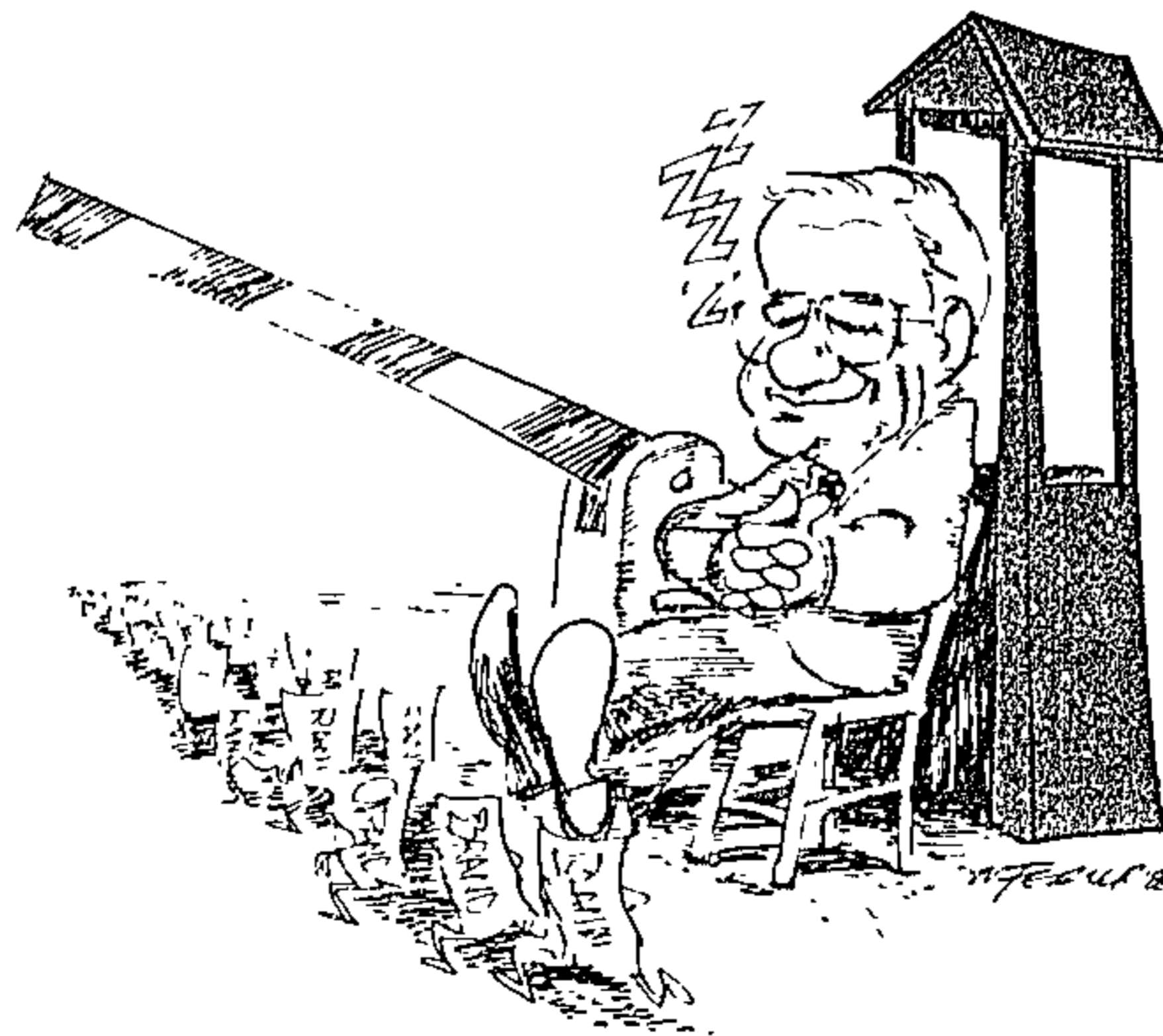
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Budget poser looms for P

From DAVID CUMMING
JOHANNESBURG. —

The State President faces a tantalising politico-economic juggling act in deciding on the timing of the general election widely expected to take place next year.

He must weigh up the relative merits of holding an early election — which would imply a part appropriation rather than a March Budget — or going ahead with what will be an unpopular Budget and holding the election later in the year after a new delimitation due to be completed by June.

The key, say economists, is what he and his advisors believe will be the most effective

means of dealing with the "threat" of major gains by the Conservative Party.

Should he decide to hold an early, pre-delimitation, election, they add, the government will avoid taking unpopular measures.

This would mean that when the full Budget was implemented later in the year it would, necessarily, be a harsh one, since the State spending backlog would have to be made up.

Econometrix's Tony Twine points to several factors which necessitate a tough Budget, whether it should be held sooner or later.

These include the necessity to pay for the increase granted public servants before the recent municipal elections

and the need to maintain the level of state spending in real terms — even in a climate of reduced economic activity.

Efficiency

"This means proportional tax must increase and the hoped for must be even larger than that which has been created by fiscal drag in recent years," he said.

Mr Twine pointed out that even a part appropriation could hold disguised "bad news".

If VAT was introduced as part of the package, its greater efficiency in the field of collection would see an immediate increase in the tax paid, ultimately, by consumers.

"The authorities have indicated that GST collections are only 60 percent of what they should be. C

"Current collections from this source are about R14-billion.

"Should VAT increase collections by about a third, it would mean taxpayers contributing about R19-billion.

"Boksburg factor"

The economists point to the "Boksburg factor" as being crucial in the timing of the election and thus dictating whether there should be a part appropriation or a full-blown Budget.

They say the government is faced by two alternatives when considering the effect CP re-imposition of petty apartheid in municipalities now under its control on the mood of the electorate.

col/mks 17/12/88 49

The first is to grasp the initiative as soon as possible, exploiting the fresh sense of outrage following the CP moves.

The second is to allow the CP full rein and to virtually bury their election chances through sustained unpopular policy.

Debt crisis signals 'doom or boom'

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We have all changed during the 1980s. But because, every day, the process of change seems imperceptible. Then one day we wake up — with a shock — to find ourselves staring at strangers.

In the same way the international financial and economic landscape has altered in the 1980s. Look back 10 years and what do you remember? Arabs rich beyond dreams, stagflation, Britain the sick man of Europe, gold heading for the stratosphere, Jimmy Carter, a choking wave of government intervention.

'Voodoo economics'

The tide has gone out on these things. Some American economists are referring to this as New Wave economics. Other popular labels are Thatcherism, Reaganomics and supply-side economics, while detractors have called it "voodoo economics".

Probably the most momentous reform has been the reduction in tax rates. This has been based on three themes. ● It seemed that government spending could only be controlled if revenues were curtailed. Increased taxes would always be spent.

● Capitalism has made a comeback. Growing numbers of people have become fed up with socialism, the dole, trade union malpractices, etc. "Supply-siders" reckon that high marginal tax rates caused a disproportionate decline in the work ethic. Lower taxes spur innovation and entrepreneurship, ultimately leading to more tax revenue.

● Hard evidence has confirmed the intuition that countries

GRAHAM BELL of Ior Jones, Roy & Co looks at the changes in the world financial scene over the past decade. The emergence of four huge markets in the world presages the greatest economic war in the history of Planet Earth. Although what is lost in this battle will be more than made up by the winners, the debt crisis of the '80s threatens to bring the whole pack of cards tumbling down.

with lower tax rates and less government intervention have tended to perform best.

Top tax rates have been cut throughout the West. In America, the top rate is 28 percent (see graph). No one knows what the full impact of these changes will be but we believe that lower tax rates encourage human ingenuity.

Looked at in reverse, excessive tax rates have stimulated the informal sector. The sheer ham-handedness of government meddling has caused many to opt out of the formal, tax-paying economy.

The informal sector is exciting because it reveals the extent of human innovation and effort. But ultimately it is less efficient because it is futile and inhibits specialisation.

Lower tax rates should bring much of this "hidden" economy back into the mainstream. In addition, it should spur mainstream participants to lower their leisure preference. In short, productivity should increase and that, ultimately, is the only path to wealth.

There have been spectacular examples of privatisation of state industries in the UK, France and the US.

These dramatic changes have received very mixed reviews. Privatisation has not led, in all cases, to more competition, while financial deregulation is blamed for the stock market crash of 1987 in some quarters. More seriously, the

escalation of debt in the 1980s has certainly been facilitated by explosive competition in financial services.

Inflation may not have been linked in the 1980s but it certainly has been severely wounded. The restoration of real interest rates and low inflation has made the 1980s about as different from the 1970s as could have been imagined 10 years ago. Then, cash was downright liability.

Although there is a continuous threat of renewed inflation, various factors seem likely to nip this in the bud. ● The explosion in global competition has not been restricted to the financial services sector.

Flexible capacity

Industrial and manufacturing capacity has become much more flexible.

● Labour markets are also becoming more competitive. ● Skilled labour shortages are certainly evident but this seems less likely to result in a spiral of accelerating wages than in a resurgence of capital spending aimed at improving productivity.

As governments have recognised the need to respond, rather than dictate, to markets, so have they yielded to the will of their electorates to have a say in their own affairs. The wave of democracy sweeping through Asia and South America is just another sign that go-

vernments can do no better than act as agents of change. Even Africa appears to perceive this dimly.

Market volatility is disconcerting but it is also essential if the price mechanism is to give effective early warning signals. One of the remarkable features of the 1980s has been the resilience of the financial system. In this decade we have seen the debt crisis, huge swings in the dollar, a collapse in the oil price and a major stock market decline. So far the financial fabric is still intact.

Battle lines are being drawn for the biggest economic war in Earth's history. It may be enough to satisfy everyone's need for blood.

Four huge trading blocks are shaping up: North America, Europe, the Pacific Rim and Comecon. Each will attempt to make inroads into the others' territory. What's more, within these boundaries, competition will be intense.

Competition on this scale is not a "zero-sum game". In other words, what is lost by losers should be more than made up by the winners. This, then, is the fundamental contention of "New Wave" economics — that increasing competition will create considerable new net wealth.

So much for the golden era scenario. Things can't possibly be that good — and they aren't. Most notably, we are currently witnessing the largest accumulation of debt in peacetime in modern history.

Thus, total credit in the US nearly doubled between 1981 and 1987 to just under \$9 trillion, with the ratio of total credit to GNP rising from 145:1 to 192:1. During 1988, these debt

ratios have not improved. Sure, the twin deficits (budget and trade) have fallen as a percentage of GNP, but all this means is that the addition to the stock of debt has slowed a bit.

Debt has grown rapidly in other countries, too. In all the world's rich countries, personal savings rates have declined as a percentage of personal disposable income since the 1970s.

While there is currently a boom in capital formation (as opposed to consumption spending), the ratio of investment spending to GDP for the major economies is still well below the average recorded in the 1960s and 1970s.

As for the US, its borrowing binge has found its way mostly into consumer spending and its trade deficit must constitute the biggest consumer subsidisation programme in history.

Some economists will argue that consumption is the engine that drives an economy. This is true — up to a point. That point is reached when credit is used to finance consumption rather than new capacity. This has been done on an enormous scale over the past decade.

As for developing countries, injudicious borrowing on a mammoth scale in the 1970s has created a number of financial cripples, especially in the

Western Hemisphere. Although debt ratios are finally starting to decline as a percentage of GDP, they are still at astronomically high levels. So far, only sustained growth in the OECD economies and an ingenious range of new financial instruments have prevented disaster.

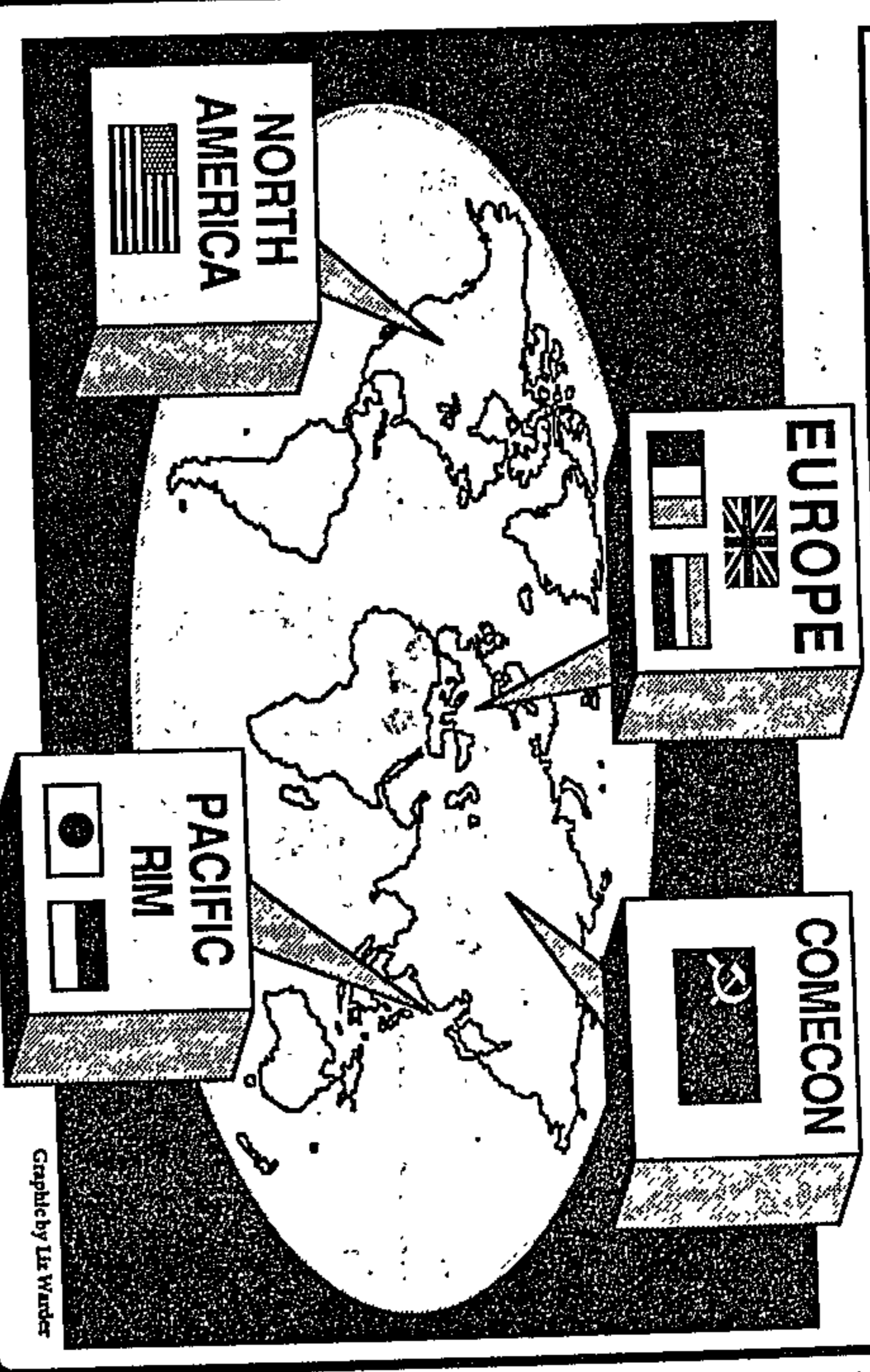
Possibly the shift to greater reliance on market forces is the natural human response to the threat posed by the debt overhang. The problem may simply have become too large for a solution by grand design.

Subject to a number of "ifs", ie if the supply-side experiment works, if military spending is reduced, if innovation and com-

petition do spur productivity, the world will muddle through the debt morass. Once a better balance is achieved in international trade and finance, Planet Earth could experience a new golden era.

Alternatively, the world economy may now be entering a recession for which it is singularly ill-prepared. A debt collapse is a terrifying prospect and would almost certainly be accompanied by a massive infusion of central bank money. Because there is so much bad value about a great deal of good value is likely to be destroyed. In a black hole all light is snuffed out.

TRADING BLOCKS



Business confidence slumps in Pretoria

Star 20/12/88

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By Roy Cokayne

Confidence in the economy by the Pretoria business community has slumped in the past four months with 39 percent expecting a drop in economic activity in the next few months, according to a new survey.

In addition, 33 percent are anticipating the economy to stabilise at its current level while only 27 percent foresee an improvement in the short term.

By contrast, during the previous survey in June, 41 percent of respondents expected an improvement, 25 percent a worsening and 34 percent no change in the economy.

The economic survey of the Pretoria area was conducted by the Department of Economics at the Pretoria Technikon in conjunction with the Pretoria Chamber of Commerce and was conducted among Chamber members on October 22 this year.

Despite the more pessimistic expectations, profitability still showed an increasing trend during the past four months. A total of 36 percent of respondents indicated improved profitability

Since the previous survey while another 88 percent said it was unchanged. Only 28 percent indicated a drop in profitability.

The survey notes that a healthy level of sales was still maintained by the majority of respondents during the past four

months with 64 percent reporting increased turnover and 18 percent maintaining their turnover of June this year.

But many more respondents than before — 18 percent compared with 11 percent in June this year — reported lower turnover in this period. The lower turnover affected all the sectors with the exception of jewellers, food dealers, tradesmen such as plumbers and service orientated businesses such as hair salons, which each reported increased turnover.

Short term sales expectations were generally positive and almost one in every two businessmen that responded to the survey expects increased demand in the short term. By contrast, 37 percent believe demand will remain constant while 14 expect turnover to drop over the next few months.

In contrast to the situation at the end of June this year when 33 percent of respondents indicated they were applying stricter credit controls, 41 percent are currently applying stricter controls. But the majority (56 percent) are still satisfied with their existing controls.

The expectations about bad debts remains relatively positive in the short term with 61 percent expecting no change in the current situation, 24 percent expecting bad debt to increase while the remaining 15 percent expect bad debts to decline in the next few months.



Belt-tightening needed for '89

By ANTHONY BLACK

If you thought 1988 was a bad year for the economy, brace yourself for 1989.

Even though the economy has been growing, employment levels have hardly increased.

In the manufacturing sector companies have tended to increase production by stepping up overtime work rather than taking on more staff.

And with more school-leavers coming onto the job market every year and people migrating into the cities unemployment rates continue

to rise.

Statistics on unemployment are notoriously bad. According to the Department of Manpower there were only 150 000 registered unemployed in February 1988 or 2,7 percent of the economically active population.

Another government source, the Current Population Survey, puts African unemployment outside the TBVC countries at 963 000.

However, according to an academic at Wits University, unemployment had risen to between 4,1 and 5,3 million by 1986

The real figure is probably slightly lower than this but the essential point is that unemployment is rising, resulting in more and more people are being forced into the burgeoning informal sector to make a living as best they can

Inflation at 12,3 percent is lower than last year. But the rapid rise in food prices has meant that low income groups who spend a greater proportion of their income on food faced a higher inflation rate than better off households.

It is generally accepted that the economy has serious structural

problems.

What gives great cause for concern is that even this year's slow rate of economic growth cannot be sustained.

Bouyant consumer spending caused a flood of imports and this coupled with forced repayments of large amounts of foreign debt led to a severe deterioration in the balance of payments.

Last month's interest rate hikes were aimed at slowing down the economy and thereby reducing import demand

Another highly disturbing feature

is that although company profits have been rising strongly, firms are not investing in new plant and machinery

Fixed investment was 31 percent lower in 1987 than in 1981 and the decline in the important job creating manufacturing sector has been even more severe.

According to Dr Ronald Bethlehem, chief economist for a major mining house, an average of over R50-billion a year in fixed capital investment is needed over the next 15 years, simply to maintain the per capita level of wealth in South Africa.

Investment levels have been well below this during the past few years.

On February 5 President P W Botha unveiled the government's longer term economic strategy

The objectives were to control inflation, reform the tax system and curb government expenditure thereby establishing a solid foundation for renewed growth

The President's speech was warmly received in business circles and one newspaper hailed it as a "watershed switch to a new economic era"

As the year progressed it became apparent that little had changed

There is still no clear direction in economic policy and the government continues to resort to ad hoc responses to economic developments.

Privatisation has featured strongly in government rhetoric during the past few years but so far it has been pursued with little vigour and it remains to be seen what precise form it will take

The government is keen to retain managerial control so the selling off of state owned companies is likely to be partial with the government retaining a majority stake

Family silver

While greater efficiency in the running of state enterprises would be welcomed it is not clear that privatisation is a necessary or indeed sufficient condition for this to be achieved.

Privatisation may turn out to be more a case of a cash strapped government "selling off the family silver" to raise funds.

The proposed wage freeze for civil servants and Botha's appeals for wage restraint in the private sector have met with little success.

According to the Labour Research Service, unionised workers in particular have been able to successfully resist the wage freeze and secure wage increases significantly ahead of the rate of inflation.

Then, in the runup to the municipal elections, the government granted 15 percent pay increases to civil servants and the President's much vaunted wage strategy lay in tatters.

What is the outlook for 1989? The economy is likely to slow down considerably. Economists are predicting real growth of only 0,5 percent as higher interest rates force households and firms to rein in their spending.

Further bad news is that the inflation rate is set to rise probably to around 15 percent spurred by the falling rand, fuel price hikes and the imposition in September of import surcharges.

As is always the case, much will depend on the gold price.

Another imponderable which could have a bearing on the economic outlook is the course of political events.

An internationally acceptable settlement in Namibia, for example, would not only save Pretoria considerable amounts in terms of military expenditure but may stave off further sanctions pressures and improve the prospects of obtaining foreign capital.

Battered, but unbowed

By CHIARA CARTER

THE Congress of South African Trade Unions (Cosatu) restricted, South Africa's biggest stayaway, the last minute banning of the Anti-Apartheid conference, metalworker militancy, strike in the hotel industry and a public service in revolt — some of the hallmarks of a year in which the labour movement closed ranks and moved closer to its allies in the face of the state's onslaught.

Cosatu's political parameters were narrowed by the restrictions placed on the federation and 17 other organisations in February.

Still, Cosatu had more legal space than others, placing the federation increasingly in the centre of the political arena.

Clearly the government was keen to avoid a repetition of 1986 when the detention of scores of unionists seriously impeded the collective bargaining process, arousing protests from big business.

But after a year which saw a record high in industrial unrest, the state was not prepared to allow labour to operate unchecked in the economic sphere either.

The Labour Relations Amendment Bill which became law in September struck at the heart of militant trade unionism.

The restrictions and the bill prompted Cosatu to call a special congress in May.

Ideological differences were pushed aside as Cosatu affiliates united against the attack.

Delegates decided to convene an anti-apartheid conference to draw together all opponents of the state, irrespective of their political ideologies.

Over 700 delegates from 73 organisations ranging from taxi associations to black consciousness groupings were invited to attend the conference in October in Cape Town.

The state responded with an iron fist.

Scores of activists including trade unionists were detained, union offices were searched, and Cosatu's assistant general secretary Sydney Mafumadi, vice-president Chris Dlamini, and others were restricted.

The conference was banned at the eleventh hour.

In another initiative arising from the congress, two to three million workers demonstrated their opposition to the proposed Labour Relations Amendment Bill by participating in the biggest stayaway in South African history on June 6, 7 and 8

Business lost R50-million from a protest no-one was legally able to call.

The South African Consultative Committee on Labour Affairs (Saccola) hastened to negotiate with Cosatu and Nactu.

In August, employers and workers for the first time joined hands to call on the government



The onslaught on the trade union movement this year has seen an increased militancy among workers

to suspend the six controversial clauses.

But the accord was shortlived.

When the bill became law in September, a few employers undertook not to implement the clauses, while most broke ranks with labour and refused to give such an undertaking.

Among other provisions the act outlawed sympathy strikes, allowed for unions to be held responsible for business losses incurred through narrowly defined unfair labour practices and allowed for minority union recognition.

Lockouts were another tactic explored by employers.

After a three month dispute in the metal industry, the hardline employer grouping, the Steel and Engineering Industries Federation of South Africa (Seifsa), tried to canvass its members to jointly lock out workers to preempt a strike ballot.

For the first time Seifsa faced a united front among unions. Four unions affiliated to the International Metalworkers Federation, including the powerful National Union of Metalworkers of South Africa (Numsa), patched up their

differences to square up to the bosses.

The dispute culminated in three weeks of strike action and ended with labour winning significant gains.

A dispute over wages and dismissals led to a lengthy strike at Karos hotels — the first national strike in the hotel industry.

Industrial action did not reach the heights of last year but militancy flared in some unexpected quarters, like public servants upset by wage freezes.

Hospital workers reacted by downing tools in Cape Town and Natal.

The conservative Public Servants League threatened a pay revolt only to be mollified by the news of a 15 percent increase for public servants.

And the South African Railway and Harbour Workers Union (Sarhuw) again flexed its muscles.

A strike which brought Durban's docks to a halt, ended with the South African Transport Services (Sats) agreeing to discuss recognition and a wage increase.

The transport services continued to be conflict prone.

Unions in the public sector,

including Potwa, also grappled with the threat of privatisation which threatened to take away their newfound strength.

There was a bitter six week strike in the furniture industry when over 1 000 Afcol workers downed tools in June in solidarity with 300 workers dismissed from Star Furniture

The Chemical Workers Industrial Union (CWIU) took on the multinationals for higher wages, industry wide negotiation and, uniquely, the terms of disinvestment.

The split in the Commercial, Catering and Allied Workers' Union (Ccaawusa) became final with Cosatu recognising the Papi Kgnare faction, but the union's militancy was undeterred

A new union giant was born with the formation of the 112 000 strong Garment and Allied Workers' Union (Gawu)

In a year when trade unions grappled with an onslaught by the state, the assumption of a hardline stance by many employers, the detention of unionists, burglaries, arson attacks and smear pamphlets, the labour movement emerged somewhat bloodied but unbowed.

'Signs of economy decelerating'

CAPE TOWN — Although consumption spending still remains high, general economic activity in SA is already showing signs of a marked deceleration.

This trend is expected to firm in the next few months, with the intensity of the deceleration determined largely by the extent to which stricter monetary policy is supported by appropriate government fiscal action, says Sanlam chief economist Johan Louw.

In his December economic survey, Louw says strict discipline with regard

CHRIS CAIRNCROSS

to state spending and the responsible funding of higher government expenditure are going to play a significant role in determining the level of deterioration in the economy in 1989.

He predicts real economic growth will range between 1% and 1,5% next year, compared with real growth of about 2,5% over 1988.

He also forecasts no increase in total domestic spending in the coming year.

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Government sitting on R2,5-bn nest-egg

By Derek Tommey

The Government is refusing to confirm reports that it has borrowed R88 million from Swiss institutions. But there is no such beating about the bush at the Treasury.

At the bottom of the list of "other receipts" in its November statement appears in glorious isolation the entry "Foreign loans and credits; 1988-91 ... R88 240 013."

The statement shows the Government is fairly flush with cash, which tends to contradict reports that it is having difficulty meeting its commitments.

At the end of November, the Exchequer balance with the Reserve Bank was R2,51 billion, which is almost R1 billion more than at this time last year.

One reason for the large Exchequer balance has been the sharp increase this year in customs and excise receipts, mainly a result of the 10 percent, 20 percent and 60 percent customs surcharges from August.

Customs and Excise receipts in November were R822,0 million, which was R343,5 million (71 percent) more than a year ago. In the eight months to November they were R4,2 billion, more than double the year-ago figure.

Inland Revenue has also shown a satisfactory increase, rising 17,8 percent to R25,6 billion in the first eight months of the tax year.

Government expenditure appears to be within budget, except at the Bureau for Information. This department spent R36,2 million in the eight months to November. This was R16 million more than it spent last year and R4,6 million above its R31,6 million budget.

It was probably pretty expensive taking the press around Africa and elsewhere in the world for the various Angolan-South West Africa conferences.

disappoints economists

Star 22/12/87

Finance Staff

The revised money supply figures released by the Reserve Bank yesterday have dashed hopes that October signalled the start of a significant slowdown in money supply growth.

October's M-3 was revised from R112,58 billion to R113,94 billion or from 26,19 percent to 27,71 percent.

Preliminary M-3 data for November — it totalled R115,39 billion — indicates a slowdown in growth to 25,05 percent year-on-year. M-3 growth was 17,44 percent for November 1987.

The Reserve Bank's 1988 target range for M-3 growth is 12

to 16 percent.

Standard Bank economist Nico Czypionka said yesterday it was too soon to expect money supply growth to react to the recent hike in the Bank rate.

He said the economy was still going like an express train.

Old Mutual economist David Mohr said the upward revision could be the final spurt before a slowdown in the new year.

October M-1 year-on-year growth slowed to 27,70 percent at R19,46 billion compared to 28,12 percent, or R19,59 billion, in September.

M-1 growth rose to 32,66 percent at R39,99 billion after falling to 30,29 percent at R39,14 billion in September.

Food before franchise is Govt plan, says author

Star 22/12/88

By JO-ANNE COLLINGE

The Government is counting the pace of reform, not in the granting of additional votes, but in hard cash ploughed into disfranchised communities, according to a University of Natal researcher.

"As it now stands there are powerful forces within both the business sector and the State arguing against necessarily equating reform with rapid democratisation," writes University of Natal researcher Mike Morris in "Political Conflict in South Africa" published by the Indicator Project.

"Attempting to significantly widen the base of political representativity, it is said, will only lead to increasing and uncontrolled demands for the available resources that the State has to distribute.

"In simple terms, the argument goes that there is no point in allowing politics to cut up the cake unless it can be significantly enlarged.

"Democratisation and increased representativity are therefore being seen as potentially in contradiction to the newly dominant element of the reform process — redistribution."

Mr Morris takes account of the argument that the State simply does not have enough resources to upgrade every township.

"The point is not to immediately upgrade all areas on a massive scale and ensure the consent of all blacks. The Government strategy is intentionally selective and long-term," he counters.

"Unlike Verwoerdian apartheid, the State is not concerned with implementing a uniform policy for all blacks. It is rather, by being intentionally selective and favouring certain areas and classes at the expense of others, aiming at facilitating class and regional differentiation within black society."

The aim of this? "To make the creation of a broad alliance of black communities against the State so much more difficult."

There are two main agencies for redistribution grouped behind the Minister of Defence, General

Magnus Malan, and the Minister of Constitutional Development and Planning, Mr Chris Heunis, says Mr Morris.

Mr Heunis operates through black local authorities and Regional Services Councils.

Mr Morris argues that his key objective is to create a situation where the State is seen to be negotiating with the community not over political power, but over development.

General Malan, using the National Security Management System and the Joint Management Centres, has a simpler task. Not primarily concerned with negotiation, his aim is the efficient dispensing of social services, says Mr Morris.

"The provision of the social services will, it is deemed, result in the legitimacy required, as long as all

other forces can be controlled."

In Mr Morris's opinion the Malan strategy presently enjoys the support of the State President.

It also enjoys wider support — notably among those who view economic growth as necessary to the success of redistributive reform and who look to the newly industrialised countries of South-East Asia as their model.

Mr Morris quotes a senior executive of the Barlow Rand group as telling him: "We desperately need to do something about the economy, otherwise you will never solve your political problems.

You can only grow and give slices as the economy grows, otherwise you get too many distortions ... you destroy the capital base.

Something to study

"Study the economies of Taiwan, South Korea, Singapore and Hong Kong ... what is the government form in these countries? It is a dictatorship or colonial form."

This vision of the compatibility of a strong executive State, economic growth and reform via redistribution takes place against a background of increasing business confidence since 1985.

It also speaks of a marked shift of attitudes since business leaders headed to Lusaka to meet the African National Congress.

With hindsight it was judged that what might have been seen at the time as a situation of dual power — divided between the State and the popular organisations — was nothing of the kind, argues Mr Morris.

"It was true in many African townships local government did appear to have collapsed and to have left a power vacuum. (but) the State, with a centralised power structure, still had its military forces firmly behind it and was able to repress township resistance with brute force.

"The Government may have been unable to successfully proceed with its policy of localised 'co-optive domination' but it was by no means shaking on its very foundations."

Country's
balance
sheet has
improved

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For 22/12/88

By Sven Forssman

A marked further improvement in South Africa's foreign debt ratios was achieved for the year to September 30, NedPerm chief executive Piet Liebenberg says in Nedbank's annual report.

He says present indications are that while continuing to meet all foreign interest and dividend payments, South Africa by the end of this year will have made net repayments over four years of approximately \$6 billion of foreign debt, value at constant US dollar exchange rates.

"South Africa's ratio of foreign debt to total exports of goods and services improved from a peak level of 171 in 1984 to 93 in 1987. In contrast, the comparable ratio for Western hemisphere developing countries deteriorated from an average 273 in 1984 to 332 in 1987.

"While the country's cash flow situation has not been comfortable, its balance sheet has improved."

Mr Liebenberg says the progressive tightening of fiscal and monetary policy over the past five months, curbs on credit availability and the imposition of import surcharges should improve the external trade position during the latter half of the year.

"The official reserves, therefore, which had fallen from a peak of R7 billion in August 1987 to R5,6 billion in July 1988, at which level they represent only two months' import cover, can be expected to increase again soon, particularly as less onerous capital repayments are in prospect."

Trade sanctions and boycott actions intensified during the year but they have not materially reduced the wide geographical area in which South African businesses operate, continues Mr Liebenberg.

"While South Africa is denied access to foreign capital markets and is unable to obtain loans from international financial institutions, new credit lines for trade-related needs continue to be available.

"The group, through its domestic branch network and offices abroad, is fully able to meet the varied needs of its clientele engaged in the country's international trade transactions."

● Privatisation and deregulation are essential to free and transfer large scale funds, both capital and revenue, from the public to the relatively more productive private sector, Nedbank chairman Professor Owen Horwood says in the annual report.

He says this would allow a significant economy in government spending as well as a possible reduction in the excessive incidence of taxation.

This in turn would provide incentive for both initiative and productivity.

'New political thinking' is key to foreign investment

By Michael Chester

Dr Jan Visser, executive director of the National Productivity Institute, says foreign capital will only flow into South Africa again when we are able to demonstrate new thinking in the political arena.

In a review of economic prospects for 1989, Dr Visser writes: "Rigid political schools of thought, which have been proved wrong in recent history, have no place in our future."

"What we need is imaginative renewal that is given momentum by daring and conviction."

"A healthy economy is a prerequisite for healthy human relations."

"The processes of the recent past were not imaginative enough to revitalise the economy."

"We can go on with them and trap ourselves in a vicious circle of poverty, or we can move away from stagnation by adopting new attitudes and ideas."

"Every aspect of our national life must undergo a process of renewal. This involves politics, but also the economy; it applies to management, but also to attitudes of the workers."

Also to be overcome, he says, was a valid perception among a large section of the population that there was not a fair distribution of the wealth created.

Trends for the rich to become richer and the poor poorer provided a fertile breeding ground for both socialist and communist ideas.

Unhappily, at the moment a fair distribution of wealth was being pursued by simply negotiating higher wages that bore little relevance to any proper yardsticks — least of all productivity.

The result was that inflation was being fuelled — and wealth distribution became even more askew.

The winning recipe was obviously to pay people more for a better productive performance, rather than pay more to the ones who were most aggressive in their demands.

The faults in current trends were seen in evidence that the standard of living in South Africa had fallen 1,7 percent on average every single year since 1981, with the number of job opportunities growing by no more than 2,7 percent in the past decade while the population had soared by 23,6 percent.

Dr Visser also said it has become crucial to control State expenditure and find innovative new ways of curbing the spiral of budget deficits.

The urgent need now was the elimination of outdated procedures inside the civil service and paving the way for new administrative systems.

THE OUTLOOK

Not-so-crystal ball

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23/12/88

Many economists were caught off guard by this year's upsurge in imports, consumer spending and interest rates, and the sharp fall in the rand. While most correctly projected GDP growth of 2,5%-3%, other forecasts were generally wide of the mark:

- Prime rate of 13,5%-15% at year-end;
- The rand at US47c-48c at year-end;
- Average CPI inflation of 14%-16,5%; and
- Current account surplus of about R4,5bn.

In the event, prime is set to end at 18%; the rand at about 42c; and the current account surplus below R2bn. The average inflation rate will be near 13%.

What went wrong?

Several economists say an unforeseen boom in consumer credit demand and spending, with pre-emptive buying in fear of import controls, threw projections out.

"Everybody had GDP reasonably on line, but everybody had GDE wrong," says Old Mutual economist Rian le Roux. "Domestic expenditure — personal spending, continuing high government spending, and an upturn in the investment cycle and inventory building — was much stronger than GDP. We consumed a lot more than we produced: the difference was an upsurge in imports."

Nedbank's Edward Osborn says government policies didn't help: "The balance of payments drain coincided with ill-timed large public debt issues, putting pressure on the money market, where credit demand was sustained and strong, and liquidity drum-tight, pushing rates up relentlessly."

"In short, 1988 had been projected, wrongly, to be a relatively calm perpetuation of 1987. It was seriously disturbed by the sanctions threat, impelling a massive inventory accumulation; an upsurge of high import-content consumption and capital expenditure; and monetary mismanagement."

Adds Adam Jacobs of Volkskas: "Some of our basic assumptions did not materialise. We took government at its word that it would control spending — and it didn't. We took it at its word that it would keep money

supply growth to 12%-16%, and it didn't. So GDE was much higher than anticipated."

Some economists see runaway money supply growth as the major culprit in throwing off projections. As borrowers took advantage of low rates in late 1987, the Reserve Bank was slow to cut back money creation and raise rates. This tempted people to borrow at relatively low rates — in some cases, ironically, to beat price increases which follow an inflationary low-rate policy.

Some consumer demand went into imports. This was boosted by the Reserve Bank's policy of running down forex reserves to bolster the rand, rather than letting the currency fall further immediately.

If the Bank had lifted rates sooner?

Economists' prime projections for end-1988 (13,5%-15%) would probably still have been low: clearly, the rate needed to control money supply was underestimated. But other projections may have been on target: neither the rand nor the current account surplus would have plunged so far.

The fall in the inflation rate was unexpected and difficult to predict, given erratic lags between money supply growth and price rises. But now nobody sees it staying down.

"Recent annual month-on-month increases have been very high," says Osborn. "Now, only manipulation will keep it down."

For 1989, eight economists surveyed by the *FM* predict, on average:

- GDP growth of 1,3%;
- Prime rate peaking at about 19% and falling to near 16%;
- A US38c rand at year-end (R2,60/\$);
- CPI growth of nearly 16% in the year to December (meaning today's 14,5% Bank rate is negative in real terms); and
- A current account surplus of R4,3bn.

The predictions are based on gold averaging \$410-\$450, one of many wild cards.

Others: a reversal in the Angola-Namibia resolution could boost defence spending and government borrowing and reduce world confidence in SA, pushing rates up and the

rand lower; an upsurge in sanctions following backtracking on reform could slow growth and push the rand down; large tax increases in the March Budget could cripple growth, though curb borrowing and prevent rate rises; and a stronger stance to curb capital outflows and keep money supply growth within target could keep official rates higher, longer — they might not soar, but might not come down as quickly as in past cycles.

Also, if there's an election in first-half 1989, Simpson McKie's John Banos warns, "implementation of disciplined economic policies could be delayed" — making matters worse in the second half.

Adds Osborn, who assumes exports will grow 1,5%-2% in volume, while imports fall by 12,5%: "My forecasts could be way out if the sharp drop in imports does not materialise: then we'd see higher interest rates, and an even weaker rand." ■

1988 better than expected

Wkly News 24/12/88

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From MAGNUS HEYSTEK

JOHANNESBURG. — All things considered, the year wasn't really as bad as expected.

So, how have you fared with your investments this year, which has just more than a week to go before it recedes into the mists of history?

In many respects 1988, particularly from an investment and economic point of view, turned out to be very different from what most people had predicted.

Generally speaking, international growth was far higher and more robust than the doomsday scenario predicted in the aftermath of last year's Great Crash.

The overall performance of the local economy, also, turned out far better than most predictions.

In all probability, the SA economy will show real growth in gross domestic product (GDP) of close to three percent — the first real growth since the mini-boom of 1984.

But not more than three months into the new year it was evident that the surge in imports could possibly not be sustained.

The Achilles' Heel was the current account of the balance of payments (BoP), which declined to an annualised deficit of R300-million in the first quarter after a surplus of R6-billion in 1987.

In order to protect the BoP, the authorities had no alternative but to let the rand slide against major overseas currencies. And thus it did with a vengeance.

Against this background, the

WEEKEND ARGUS Business
Staff would like to wish all readers a Merry Christmas and a happy and prosperous New Year.

economy and the more important investment areas fared as follows:

● **STOCK EXCHANGE:** While the rand was sliding and all and sundry were bemoaning sharply rising costs of imports, some alert investors saw the opportunity this presented and diversified into the so-called rand hedges on the JSE. These are the shares of companies earning a significant proportion of their income overseas, thereby benefiting from the decline in the rand exchange rate.

So, while the market as a whole continued declining until late in February, rand-hedges made most of the running.

Blue chip De Beers more than doubled its share price from its February low of 2250c to rise to 4850c before it encountered some weakness, for instance.

Many other shares, particularly in the Rembrandt and Liberty folds recorded similar gains.

While the overall market rose by the rather lacklustre margin of 8 percent from the turn of the year, the industrial market rose by a whopping 31 percent and metals and minerals by not less than 57 percent.

This superlative effort was counteracted by the weak performance of the gold sector, which so far this year has dropped by 26 percent.

The reason, of course, was the dismal performance of the gold price, which entered the

new year at a price of \$484, a level not seen again since then.

The gold price displayed a distinct downward trend for most of the year before reaching its lower turning point of \$395 and returning to \$430 in subsequent weeks.

● **PROPERTY MARKET:** The residential property market performed surprisingly well and prices were pushed up on average by about 16 percent on a year-to-year basis.

The market held up well, despite a number of increases in interest rates charged by banks and building societies. On average, home finance charges rose from about 13,5 percent to the current levels of 17 to 18 percent.

While these increases have affected the affordability of housing, the market has remained firm, showing signs of weakness only in the last two months.

Economists, however, warn that overall efforts to cool down the economy are bound to have a dampening effect on the residential property market.

But with inflation expected to average 15 percent next year, property prices are bound to rise by a similar margin.

Over the same period, however, building costs will probably continue to rise because of higher labour costs and the increase in prices of raw materials. This is bound to strengthen the move towards smaller houses.

● **SAVINGS:** The inflation rate has been falling steadily for the last 18 months and reached a low of 12,3 percent in October. This downward trend was par-

See Page 2

than expected

From Page 1

ticularly supported by relatively stable food prices after rising by 23 percent in 1987.

Together with the general increase in interest rates, savers once again started to earn real rates of return on their investments — before tax, anyway.

At present investors can earn real rates of return, but this rate is bound to reduce as inflation increases.

● **WAGES:** Since the end of 1984, the average standard of living has been eroded rather sharply by salary adjustments below the average inflation rate.

This year, the higher levels of economic activity enabled employers to grant larger salary and wage increases, which, on average, rose by about three percent in real terms.

● **EMPLOYMENT:** In line with the general upturn in the economy, employment in the non-agricultural sector rose by nearly one percent to 5.14-million, while unemployment fell by 18 percent for whites to 57 000 and by 12 percent to 880 000 for blacks. With the slowdown in the economy, these figures are bound to start rising again.

So there you have it: a year far less turbulent than 1987, but somewhat more prosperous than 1989 is likely to be.

All things considered, the year wasn't really as bad as expected

Star 24/12/88

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Money Matters

Magnus Heystek



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While civil servant, who have already been told of their across-the-board increase of 15 percent from next month, are likely to outpace inflation, people employed in the private sector will be hard-pressed once again to beat the inflation rate with their real earnings.

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A Christmas stocking for you me and Barend

Star 24/12/88

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CYNICS looking at South Africa's high income tax rates say that Mr du Plessis' greatest joy this Christmas would be for every wage- and salary-earner to take just enough from their pay packets to cover their bare living essentials and send the rest to him.

The less cynical and more down-to-earth suggest instead:

- A \$600 gold price — to set the gold mining industry and the economy rocketing.

- A \$1 billion, 20-year foreign loan at 5 percent — to help the balance of payments, finance government spending and strengthen the rand.

- An announcement by Fidel Castro that the Cubans in Angola are homesick and are going home immediately — enabling defence spending to be cut, taxes to be lowered and living standards to be improved.

- A big drop in interest rates and inflation — to boost business confidence and new investment.

- Last, but not least, a promise by the Government that next time it says it is going to have a public service wage freeze it will mean it.

DEREK TOMMEY takes a light-hearted and a not-so-light-hearted look at what the Minister of Finance, Mr Barend du Plessis, would like to find in his Christmas stocking tomorrow morning.

But desirable though these gifts may be, they would not be the long-term answer to South Africa's economic problems and Mr du Plessis is no doubt aware of this.

What he probably would like to see in his stocking is something both far simpler and far more complex.

It is what we all wish each other at this time of the year — peace and goodwill.

Peace to enable the Southern African states to co-operate in developing their economies, and goodwill to enable South Africa to trade and borrow freely in the world's markets again.

With just these two simple developments, Southern Africa would be well on the way to being one of the world's major markets — and South Africa one of the world's major industrial powers.

South Africa would enjoy a strong rand, huge foreign ex-

change reserves, low interest rates, high employment, rapidly rising living standards and few real problems for the monetary and fiscal authorities to fret over.

You do not have to know much about economics to realise that South Africa, when its hinterland is included, has world-power potential.

Among the area's many positive attributes is its rapidly growing population.

The World Bank estimates that the 80 million people living in the African sub-continent could rise to 300 million within the next 50 years.

Though this may seem a long way away, it will be within the lifetime of half the people living in this country today.

Such population growth would provide growing markets and an expanding labour force — two important stimuli to rapid economic growth.

And helping to ensure that these people did not remain poor would be the sub-continent's great mineral wealth and its potentially great agricultural wealth as well.

Other valuable attributes are South Africa's capitalist and entrepreneurial culture and its extensive and well-developed infrastructure, with all the educational, legal, transport and communications systems needed to sustain and expand a hi-tech economy.

In fact, almost everything is in place for a huge economic leap forward.

All the country lacks is the foreign currency needed to pay for essential imports and some foreign investment to enable it to develop its full potential earlier than if it had to rely on its own savings.

Greater foreign goodwill and less talk about sanctions and boycotts would make this possible.

Which is why Mr du Plessis no doubt would dearly love to see these things in his stocking tomorrow morning.

Let's hope he finds some of them there.

The heat's on and set to continue

S/Times 25/12/88

REX

Cees Bruggemans
reviews the local
and world scene



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THE Reserve Bank Quarterly Bulletin says the economic upswing appears to have levelled off, the business cycle having either reached an upper turning point or being about to do so.

It concludes that the economy will move gradually downwards. In spite of firm rates of output growth, the Reserve Bank interprets recent trends in activity as evidence of a levelling out.

The main reasons for its view appear to have been the recent behaviour of leading business cycle indicators, some loss of buoyancy in the business mood, the view that the "packages" of demand-restraining measures have been in place for some time and should impinge gradually more strongly on spending plans, and the view that 1988's "pre-emptive" buying may well have masked some of the early effectiveness of the measures.

DIFFERENT

These are all legitimate observations which could indeed mean that the downswing may be upon us. The emphasis, however, should fall on "could". The observed loss of buoyancy may not be enough to truly "turn" the economy. The policy measures implemented so far may not be strong enough to affect near-term spending plans, and 1988's pre-emptive buying may prove not to have been exhausted.

Different assumptions, different outcomes. It is in this respect interesting to follow the bank's analysis where it points out the unusual.

For when it "assumes" that the economy is near its turning point, it encounters phenomena that it would not expect to see if the history of cycles is anything to go by.

In particular, inventories should

be ballooning rather than declining, the current account should be going deeper into deficit instead of bouncing back into strong surplus, and there should be heavy associated capital inflows not outflows.

The obvious alternative conclusion would be that the economy is not near an upper turning point, but that it is merely consolidating, shifting gears, taking a breather, before pushing ahead once more in 1989.

It is remarkable how consistent the strength of the growth in consumer spending has been.

A case can be made that this forward momentum has not finished, and that indeed it has some way to go, whatever the leading indicators may purport to show. Reinforcing the individual consumer is Government consumption spending.

For two years in a row, there has been remarkable fiscal discipline in the first half of the financial year. But it has all been thrown overboard in the second half. It was this concern that led to recent public statements and an increase in the petrol price — to finance it, not to prevent it.

STUPOUR

The consumer may not be finished with the serious business of spending himself into a stupour. The Government is certainly not prepared to give up such spending pleasure either.

As if this continuing consumption binge were not enough, we now also find the corporate sector getting in on the act.

The contribution of its fixed investment to overall domestic spending in the third quarter was nearly as much as private consumer spending, from a third of the spending base. Needless to say, real investment spending is turning up — sectors such as mining, manufacturing and real estate being 20%

higher than in last year's third quarter.

That is a good old-fashioned investment cycle, currently coming out of its sixth quarter and about to enter its seventh.

Ask any businessman: two out of three plan to increase their investment spending next year. The Reserve Bank seems to think that most of this investment increase is being financed by the banking sector, and that rising interest rates are about to damage such spending intentions. At this stage, it does not look likely that much damage will be inflicted.

Corporate balance sheets remain healthy, gearing is not increasing by much, cash flows are healthy and are financing the initial upturn in investment spending.

WORRYING

In spite of the fundamental strength in key spending areas mentioned above, we find that total domestic spending started to decelerate from the second quarter 1988 and went into a nosedive in the third quarter.

The entire phenomenon can be attributed to the annual slowdown in Government spending (which we know is about to be reversed) and a reduction in stocks which inspection should tell us can only be temporary. Show me a truly overstocked company and we are probably looking at an endangered species.

Companies are not overstretched or about to cut their spending in a major cyclical manner. If, therefore, the stock adjustment is behind us, the underlying spending momentum should be surfacing any time now.

But that is not all. What is worrying is the import position. The increase in imports equalled 80% of the rise in total domestic spending in the first quarters of 1987 and 1988,

and even outstripped it in the fourth quarter of 1987.

But on the way down in the third quarter 1988, imports were equal to only 10% of the decline in total domestic spending, and an even smaller fraction of the change in the stock trend.

Seeing that the key import categories continued to grow while strategic purchases were down, there is hardly any reason to assume that a domestic slowdown is bringing in its wake an actual decrease in import volumes.

If anything, the domestic momentum remains intact, and so does basic import growth. There was a distinct improvement in key export volumes at midyear because of the falling rand.

Apparently, some of it came out of stockpiles, which represents a temporary contraction of overall domestic spending while showing up as an increase in exports and gross domestic product.

SWITCHING

That is good, but unfortunately temporary. In spite of serious reservations about largely unchanged export capacity, and the potential switching of export volumes back to the domestic market if conditions there remain buoyant, it looks as if recent international growth is translating itself into platinum, diamonds and base metal pluses that may remain with us next year.

Will it, however, be enough to stabilise the balance of payments cash flow in 1989-1990 when assuming continuing domestic momentum, import growth and foreign debt redemption?

Everyone for himself on that one — and on whether we will still see higher interest rates and taxes and a lower rand before this business cycle really tops out.

Business worried about 1989 outlook

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By Michael Chester

The level of business confidence ended 1988 in relatively good shape, according to the monitors used by the Association of Chambers of Commerce and Industry — but there was growing concern about the likelihood of an economic slowdown in the next 12 months.

Assocom forecasts that the annual economic growth rate — as measured by gross domestic product — will slide from around 2.5 percent to no better than 1 percent to 1.5 percent once allowance is made for a renewed surge in inflation.

The business mood, it says in a review, is already tinged with "frustration, uncertainty and foreboding" about 1989, especially among smaller businessmen, as the economic indicators start pointing downward.

EMERGING CONCERN

"If the business community was convinced that the economy would be on at least a stable path in 1989, even at a lower rate, business confidence would not necessarily be damaged by a decline in activity," says Assocom economist Mr Ed Verburg. "It would readjust to constraints.

"But there is clearly an emerging concern that unpleasant shocks may come as a result of trends in Government spending and their possible consequences.

"This is contributing to bearish sentiment on capital and money markets and is a major factor in uncertainty about the business outlook.

"If the fiscal situation is allowed to get out of control, and drastic action — such as increases in taxation or further rises in interest rates — has to be taken, it may by no means be a 'soft landing' for the economy. It would be utterly destructive to business confidence.

"Fiscal discipline is vitally important to the credibility of Government policy at both external and internal levels — bearing in mind the Government's commitment to reducing the share of the public sector in the economy, keeping the budget deficit to a minimum, and implementing tax reform."

On current indicators, it looked likely that not only would the economic growth rate be halved but also that inflation would accelerate from 12.4 percent to about 16 percent for 1989.

But the scenario depended heavily on Government performance in economic management in the next few months.

25/12/88

THE dilemma, the opportunity, the tragedy, the threat, and the privilege conferred and precipitated by the apartheid system are probably more apparent in the housing of the South African people than almost any other aspect of South African life.

The consequential distortions are superimposed on and aggravate the classic housing problems inherent in every developing economy, particularly where there is a rapid rate of urbanisation amongst the lower income groups.

While there is a real danger of claiming, as we are wont to do in South Africa, "uniqueness" of our problem, and therefore a need for special understanding and treatment, it is important to remember that the housing issue is in the South African context bedevilled by a long history of privilege, prejudice and discrimination.

The structure of the South African economy is largely a reflection of the political system. It is very formal, and capital and economic power are concentrated into a few hands. Remarkably the economy and particularly the labour component is inefficient (primarily as a result of poor education and training and low levels of motivation because of general social and economic alienation).

We rely heavily on exports of primary products and our domestic markets are underdeveloped, with very high levels of unemployment amongst the large unskilled labour force.

At the same time the South African economy is the power-house of the African continent, naturally very well endowed with manpower and minerals. The infrastructure is extensive and sound and we have very well-developed formal and informal sectors.

Transformation of the economic system through a process of inward industrialisation and development is therefore not only necessary, but very feasible. The survival, let alone future pros-

How to transform the economy and house the nation

The provision of housing, through the private sector and black entrepreneurs, could transform SA's economy. This is an extract from an address by Perm MD BOB TUCKER to a recent housing finance conference in London.

perity of the country and its people, is as dependent on such economic transformation as it is on the transformation of the political system. Indeed, the two are complementary and transformation of the one is not possible without transformation of the other.

The objective of the economic transformation must be that every economically or potentially economically active member of the population is integrated into the economic system and becomes, at whatever level, an effective and motivated production and consumption unit.

Inclusion must replace exclusion, integration into the economic system must replace segregation, domestic markets must be developed, fiscal and other preferences must favour the employment of abundant labour instead of scarce capital. Paternalism, separation, confrontation and authoritarianism will have to be relegated to the junk heap if the country, its people and the values we hold dear are to survive and prosper. Housing represents not only the greatest challenge and potential tragedy, but also the greatest oppor-



□ BOB TUCKER

tunity for precisely the type of economic transformation I mean. If we can establish a vibrant housing process, not only would the need for "home" be satisfied, and the family unit protected, but capital formation amongst previously de-

prived communities would commence, jobs would be created on a massive scale, the domestic market for building materials and household goods and appliances would be stimulated — with the distinct advantage that no or very few imports would be needed.

The housing process is by its very nature also very decentralised, stimulates the entrepreneur, and is inclusionary. Obviously the establishment of the necessary housing process — and it must essentially be understood as a process — depends upon much more than just finance.

A fundamental change in systems, methods and above all attitudes is required. Distortions resulting from the Land Act and the Group Areas Act severely inhibit the establishment of the type of process needed and must be repealed.

We are blessed more than most developing countries with well developed financial markets and financial institutions.

There is no doubt that the necessary transformation will only occur and process be established if the freedom to be enterprising is paramount and nurtured. The govern-

mental role must therefore be to enable and facilitate the participating and involvement of all players and potential players in a free enterprise market orientated system. The establishment of a dynamic housing process not only depends on but is supportive of the development of a new class of black entrepreneur.

Even if the capacity of the financial institutions to provide the necessary home loan finance is addressed, and the mechanisms for the delivery of that finance are freed up and supported, as much as 55% of the black population would still not be able to afford adequate home ownership financed by the private sector.

There is fairly vigorous debate as to who should be looking after the housing of those people.

The classic answer is that either they should be housed by government or the financial institution should take the equity. While not wishing to detract from the importance of both government and the institutions playing their full role, I also recognise that large numbers of people cannot afford the equity in their houses.

When there is so huge a need, if market forces are allowed to prevail, the private sector will respond. It is significant that there is today virtually no private sector owned rental accommodation for occupation by black people despite the fact that a very substantial portion of the black community can only afford rental accommodation.

Again I would advocate free market mechanisms for the delivery of the accommodation and if necessary direct subsidy of the rental to assist those who cannot afford that rental.

But even if we are able to establish a "formal" housing process along the lines proposed, we must recognise that for some people a few sheets of corrugated iron constitute "home". Financial institutions will have to consider granting loan finance against the security of the value of the site on which that home is constructed.

Those who are genuinely involved and committed are constantly excited by the incredible opportunity which housing offers for the transformation, empowerment and upliftment of so many people.

Economic management at crossroads

— Hersov

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By Sven Forssman

The South African economy has over the past year been invited to over-indulge itself by a government intent on restoring confidence and using economic benefits to ease the pains of society, First National Bank chairman Mr Basil Hersov says in the annual report.

Direct controls

"The consequence," Mr Hersov says, "is that South Africa sits at an important crossroads in its economic management.

"Having moved away, albeit tentatively, from the direct controls on the economy, which characterised the Sixties and Seventies, it now finds that the political constraints on trade and finance imposed on it from abroad are affecting the level of gold and foreign exchange reserves.

"Thus a choice has to be made either to encourage the removal of these constraints through bold adjustments to the socio-political and economic environment, or to reverse the trend away from direct controls by attempting to patch over the leaks with more direct intervention in the economy.

"As businessmen and bankers, we prefer the positive objective economic route. Political interventions in the commercial environment limit opportunity and this is clearly the case in South Africa, as elsewhere.

"The economic penalty of the apartheid era has been its opportunity cost; the size of the national cake, gross domestic product, is well below what it might have been by now, and the difference would have contributed to solving many of our problems."

Opportunity cost

Mr Hersov says the outflow of capital compounds the opportunity cost in two respects.

"It creates a withdrawal of scarce managerial and technical skills, which move with the capital; and the substitution of investment funds from local sources creates a drawing on capital funds, which might otherwise be available to support the necessary socio-political developments required by the change process.

"The external response therefore adds to the problem, rather than contributing to progress."

Commenting on the regulatory and competitive environment, Mr Hersov says the introduction of measures by the authorities to curb credit growth did not achieve their desired effect in the year under review.

He says the one apparent success was some voluntary toning down of consumer credit advertising.

ECONOMY - 1989

JANUARY - FEBRUARY

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What 1989 holds in store

Smooth ride after bumps

S/Times 1/1/89

49

Business Times Reporter

SOUTH Africa's economy is set to continue its roller-coaster ride for at least the next three months. But prospects are brighter for a softer landing and more stability from the second quarter.

In the wake of better foreign trade figures and a remarkable resurgence of confidence, mainly among industrialists, but also reflected by Assocom's index, economists are lifting some of the gloom that has overshadowed 1989.

Reserve Bank Governor Gerhard de Kock predicts a moderate cyclical downturn in the short term, but he is confident that a real gross domestic product growth rate of 2% is attainable this year.

Hangover

The consumer and the retailers he buys from face a post-Christmas hangover made worse by increases in mortgage and interest rates.

The good news is that the Government's package of import surcharges and higher bank rate introduced last August to cool the overheated economy are beginning to work, reducing the possibility of even tougher measures this year.

Although some economists believe interest rates have peaked, most predict that prime overdraft will rise from its current 18% to 19% in the first quarter. However, it could then fall to about 16%.

Higher interest rates and the import surcharges will depress demand for imported luxuries, aiding the drive to support the current account



GERHARD DE KOCK

of the balance of payments, which has been the Government's major concern in recent months.

The current account has moved more firmly into the black and it is said that it is likely to move from about R2-billion in 1988 to R4-billion this year.

The trade surplus in October was a sound R1,05-billion after a R4,5-billion surplus in the third quarter.

Gold

Encouragingly, the Reserve Bank attributes the achievement to a "significant further reinvigoration of the SA merchandise export per-

formance". There was only a slight increase in the value of net gold exports in the September quarter.

In the absence of much hope for a gold boom this year, a surge in manufactured exports as industrialists take advantage of the low rand offers the best prospect for a quick fix for the economy.

Sanctions and anti-SA opinions constrain the opening up of export markets and they take time to develop.

But the low rand and import surcharges have boosted the import replacement programme and could open up export opportunities in high-tech fields.

A fall in domestic demand and the Government's promised export incentive programme would add to an export surge.

Furniture

The first indication that August's credit restrictions are beginning to work has come from the furniture industry.

The Furniture Traders Association monthly survey of 1 150 retailers sees signs of the necessary cooling.

Executive director Frans Jordaan says that after an initial "mini-surge" as consumers tried to beat interest-

rate increases and the import surcharges the year-on-year growth in sales fell to 1,42% in October.

"This is certainly negative growth and is a cause for serious concern among furniture retailers."

Confidence in the industrial sector shown by a Federated Chamber of Industries survey has been fuelled by a dramatic increase in the manufacturing production volume index.

Mossgas

Since mid-year it has climbed to levels last reached towards the end of 1981. The FCI survey, compiled by industrial consultant Gad Ariovich, says there is much optimism, extending to October.

"Most manufacturers participating in the survey forecast a relatively buoyant 1989 in terms of both sales and orders," says the survey.

The Federation of Civil Engineering Contractors reports a 45% increase in orders to R2,6-billion for this year.

More orders for the engineering and civils sectors will flow from the Mossgas project and the Lesotho Highlands water scheme.

A Central Statistical Ser-

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● From Page 15

vice survey says capital expenditure by public corporations, excluding Eskom and the Rand Water Board, will increase from R1,5-billion to R3,2-billion this year mainly because of Mossgas.

In sharp contrast to the rising confidence, however, are increasing fears about inflation. Efforts to restrain inflation have been partly successful, but a new spiral will be added this month. Dearer fuel will cause price increases in a wide range of

The year ahead

products and services. Higher mortgage rates will also lift the consumer price index.

Economists predict that the CPI could surge from 12,4% to between 14,5% and 17%, but it could be moderated by the slowdown in economic growth and more fierce competition among suppliers.

S/Times 1/1/89

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THE BUDGET

49

By Gillian Raine,
chief economist Frankel, Kruger, Vinderine

Early in 1989, the market will start anticipating the direction of fiscal policy for the 1989/90 fiscal year, to be outlined in the annual budget address due in March — if there is no early election and in June if there is.

Already some signals have been given by the economic policy makers and further information will come through when the Part Appropriation Bill is delivered to Parliament in February.

The budget is an annual statement of proposed expenditure and revenue but it is more than a bookkeeping exercise since socio-economic and socio-political factors are taken into consideration as well as the economic fundamentals.

The roles of fiscal policy are broadly provision of public goods (the accounting exercise); redistribution of wealth through taxation and subsidy; stabilisation of the economy.

On its own, fiscal policy cannot fine-tune the economy but essentially, where there are two broad targets — internal and external balance, two instruments are needed; and monetary policy is broadly used for external balance (the exchange rate and balance of payments) and fiscal policy (the level of domestic expenditure).

Keynesian

In a pure Keynesian framework, in a growth slowdown, the deficit should rise to offset falling private expenditure and fall in an upswing.

However, as long as current and capital expenditure are lumped together, there will be a tendency for there always to be a deficit, since capital expenditure is optimally funded through debt.

In recent years there has also been a tendency for borrowing to finance current consumption expenditure as well.

Political factors also impinge on budgetary policy at a micro level. Attempts to seek votes results in special interest groups being favoured and this time round, the uncertainty about when the next election will be adds a wild card to the game of anticipating the stance of budgetary policy.

Monetary policy has been tightened over the past 12 months; to be co-ordinated with this, a tight budget must be delivered.

However, if the election is held only after the Delimitation Committee has reported in June, the need to attract votes may result in special interest groups receiving largesse. In addition, any tax reform which is not revenue neutral in the short-term will be delayed.

The question boils down to whether we can afford another year of an increased deficit before borrowing.

Government debt

As long as government debt is growing faster than the economy, then the share of the government in the economy is increasing.

Rising government debt is a result of large deficits financed through borrowing, and high interest rates — if the real interest rate on government debt exceeds the rate of economic growth, then unless deficit funding is curbed, it becomes impossible to service debt, and the only alternative is to monetise the debt, resulting in rising inflation.

This would not be consistent with the stated policy of reducing inflation and already monetisation of debt due to losses on the forward book of the Reserve Bank, on the account of the Treasury, has already resulted in a change in the foreign exchange market, with the mines being paid in dollars rather than rands.

South Africa has been sailing at the margin in the 1980's in terms of growth in government debt relative to GDP growth.

Interest on the debt current-

ly constitutes around 13 percent of total government expenditure, having been up at 16 percent in 1984/85.

Another way of looking at the burden of servicing debt is to examine the primary deficit which is defined as revenue minus expenditure excluding debt service.

Without interest on the debt, there would have been budget surpluses in 1980 and 1985.

In 1987, interest on the debt grew only 8,7 percent so the deficit increase was a result of other expenditure.

The bottom line of the above is that the country cannot afford to run continued deficits of increasing size.

Given the commitments to reduce inflation and to reduce the share of the public sector in the economy, debt monetisation and tax increases are not the solution.

Solution

The solution is in expenditure constraint. Here co-ordinated fiscal and monetary policy will complement each other in that lower interest rates will reduce the burden of debt service.

In addition, the Brazzaville agreement may take the pressure off defence expenditure. Both defence and interest on the debt contributed significantly to the budget overrun in 1988/89.

Assuming inflation averages 15,8 percent in 1989, then to curb expenditure in real terms means that it must rise less than the inflation rate.

Already an additional R4 billion must be found to finance the civil servant salary wage increase. Working on an expenditure increase of 15,5 percent, then all other expenditure can rise only 8,4 percent, implying a decrease in real terms of 7,4 percent.

On the revenue side, with slowing imports and consumption, less will be raised from indirect tax in fiscal 1989/90 than in 1988/89 and the growth in direct taxation will be smaller as salary increases moderate and corporate profits slow their rate of growth.

VAT rate

VAT is expected to be introduced during 1989 at a higher rate than GST is currently, and this will offset some of the decline in indirect tax. In addition, the fuel levy is expected to generate some R1,5 billion in additional tax.

If revenue excluding the fuel levy is expected to rise 15 percent, then with the levy, revenue will be up 18,2 percent. The budget will then look as follows:

FISCAL		
1989/90		
	Rm	
Expenditure	65 100	+15,5%
Revenue	54 212	+18,2%
Deficit	10 888	

This deficit is still higher than in the current year despite tight expenditure control and reasonably optimistic revenue projections. Without significant tax increases the deficit is unlikely to be smaller.

However, in constant 1985 rands, the deficit falls from R5,98 billion in 1988/89 to R5,68 billion in 1989/90 — a slight decrease.

The result of this analysis is that there is not a great deal of scope in which to manoeuvre on the expenditure side in terms of increasing spending, and the bias on the revenue side will be towards tax increases, rather than granting of tax relief.

The Marais recommendations on mining tax are unlikely to be introduced in their current form as they would reduce revenue.

On balance, if the budget is to be based on rational economic grounds, the expectation is of a budget deficit that is slightly larger than in 1988/89, with no largesse on either the expenditure or revenue sides.

star
4/1/89

INTEREST RATES

(49)

By Rudolph Gouws, group economist
Rand Merchant Bank

Four interrelated factors suggest that interest rates are near the peak of the present cycle, but that the decline in 1989 will not be very rapid.

Credit demand

The growth of real domestic expenditure should fade quite quickly in 1989. It expanded by about seven percent in real terms (and about 22 percent in nominal terms) in 1988, but in 1989 no real growth or even a slight decline from the 1988 level is possible.

It is my impression that, if the demand for credit has not eased yet, it is on the point of doing so. After the largely credit-borne pre-emptive buying of durable consumer goods (including motor vehicles) in anticipation of import controls, import tariffs and a lower rand, consumers are going to be faced with a substantial debt servicing burden in 1989, especially since mortgage bond rates have moved up again in the interim.

There will still be a measure of 'distress' borrowing by sections of commerce and industry in the early part of 1989, but the general trend in credit demand should be downward through the year. Such a trend will remove a major reason for a continuation of the 1988 rise in interest rates.

Balance of Payments

Better balance between domestic demand and output should show up in a substantially improved surplus on the current account of the balance of payments.

At around R4 billion, the 1989 total should be more than double that of 1988, and sufficient to cope with the known repayments of foreign debt inside and outside the so-called standstill net.

In this event, the 1989 trend in the country's net gold and foreign reserves should differ greatly from that of 1988, when the reserves fell by over R3 billion in the first three quarters.

The expected foreign reserves trend will hold major implications for the financial markets.

The fall in reserves in 1988 drained liquidity from the domestic banking system, putting upward pressure on money market interest rates.

Should the foreign reserves stabilise, this source of pressure on interest rates will be absent in 1989. This should also mean that the rand will decline much more slowly in 1989 than it did in 1988.

Government finances

The state of government finances in 1989 is difficult to gauge, especially since (at the time of writing) the timing of the general election and therefore of the 1989 budget is unclear.

Recent official statements have again revived the hope that the budget deficit will not be allowed to widen much from the 1988/89 level of about R10,5 billion, despite the civil servants' 15 percent salary increase.

It may, however, not be possible to avoid a larger deficit without a tax increase, and a one or two percent increase in the rate of GST looks like the most likely way in which the problem will be addressed.

If the budget deficit is held more or less to the 1988/1989 level, there will be no pressure for higher capital market interest rates on this score.

Monetary policy

If the government does succeed in limiting the size of the budget deficit, this will also mean that monetary policy would not have to be relied upon to offset a major expansionary impact of fiscal policy, as has often been the case before in South Africa.

There are, however, other reasons for the monetary authorities being careful not to allow too rapid an easing of interest rates.

These factors relate not to 1989, but to the general economic situation in the following year. By late 1989 world trade may have started to slow somewhat in response to slower growth in the United States, and South African exports may feel the pinch.

It also seems very unlikely that the gold price will come to South Africa's rescue, since world inflation will almost certainly remain low, while real interest rates in the major economies will remain high.

A premature revival of domestic demand in South Africa may, under these international economic circumstances, jeopardise the current account surplus for 1990, when the foreign debt repayment commitments will be substantially larger than in 1989.

Another reason for a tempering of optimism about interest rate declines this year is the likely rise in inflation. The inflation rate is yet to reflect the sharp rise of the domestic money supply and the decline in the value of the rand, and an average rate of between 14 and 15 percent after about 13 percent in 1988 is quite possible.

49 FMML 6/1/88

INTEREST RATES

The shape of things to come

New Year's Eve saw a huge shortage in the money market. After averaging over R1bn daily since July, the shortage totalled R3,7bn on Saturday — R2,8bn at the discount window and R900m in a repurchase agreement.

This topped the R3,3bn shortage of the September month-end and was substantially higher than the R2bn total shortage at the end of December 1987. However, the R1bn increase in the shortage during December is not unexpected at year-end, when note flows and tax payments remove cash from the system.

Rates remained stable, as they had

seasonal tightening" related to December and he stressed that this in no way implied "any easing of the underlying basic monetary policy." And having ensured the market didn't psyche itself into escalating interest rates, he will presumably reassess the situation when seasonal influences recede, allowing fundamental features to emerge in the money market.

So far signs of a decline in economic activity are tentative.

Standard Bank chief economist Nico Czipionka reports a "slight slowing in demand for credit in November-December in several areas, including housing loans."

However, he believes confidence and consumer spending levels are still high, with people using year-end bonuses to make cash payments.

By the end of January, he says, the increase in civil servants' salaries will be pouring more cash into the system. And this will be bolstered by investment spending which, having revived in the third quarter of 1989, has yet to run its course.

Finally there is the question of government spending.

"will depend in large measure on the nature of fiscal policy in the months ahead."

So presumably the course of interest rates will depend on the restraint of politicians.

Unfortunately, with a general election increasingly probable this year, this is a characteristic they are unlikely to display.

Further encouragement to fiscal profligacy could come from an improving surplus on current account.

Says Czipionka: "The improvement in metal prices pushed up export earnings and restored to reasonably good health the current account which had been at crisis levels around mid-year."

The immediacy of the problem, he says, has also been reduced by the way in which "we survived a potential cash flow crisis created by debt repayments and seasonal interest and dividend payments due in December."

But the need to cool the economy remains. Money supply, a measure of credit creation, continues to expand at an unhealthy rate (see below) and imports continue to boom (see below). Inflationary pressures are rising and the central problem of generating enough capital for growth remains. ■



De Kock ... benevolent mood

throughout the festive season — despite traditional pressures.

This was largely due to Reserve Bank Governor Gerhard de Kock's decision to play Santa Claus. He has been in a benevolent mood since early November, after he hitched Bank rate up by two percentage points to 14,5%.

Apparently satisfied this would contain demand in the long term, he was prepared to meet short-term pressures with flexibility, promising to provide banks with support, via repurchase agreements and open market operations, in the traditionally tight month of December.

He made good with repurchase agreements ranging from R200m-R900m each day between December 27 and January 3 (see *Markets*)

However, behind recent *bonhomie* is De Kock's commitment to "reduce rates of increase in the money supply and total spending to counter inflation and strengthen the balance of payments."

His undertaking to "counter anticipated

At the *FM* Investment Conference in November, De Kock said: "There have recently been warning signals that government spending might rise faster during the second half of the fiscal year than during the first and that, notwithstanding a larger than expected increase in tax revenue, the Budget deficit *before borrowing* might turn out to be even larger than 4,9% of GDP."

By December, however, he apparently decided there was no cause for alarm. He spoke of a "firm indication" that the deficit would be R10,6bn — exceeding the budget estimate "by only R700m (an amount) considerably smaller than many estimates that have in recent months done the rounds."

On this basis, he saw "little difficulty in financing the deficit before borrowing in a sound manner and without putting undue upward pressure on interest rates."

The next few months will show whether the spending estimate is correct and his faith in the fiscal authorities is justified.

De Kock has repeatedly pointed out that the efficacy of the present monetary stance

SOUTH AFRICA'S economy is cooling fast. The business arena is in the throes of a massive structural shift. Change is the order of the day, and profits will come under increasing pressure in the months ahead.

Professor Jan Lombard talks of the need for "inward industrialisation". State President P W Botha talks of the potential in double shifts. Both ideas certainly have merit, but both can succeed only if companies focus outwards — on creating and keeping customers.

What's more, for South African business to focus on the local market alone would be suicide. To become a winning nation, we must become a global player. This won't be easy. The coming recession won't be just another cyclical blip. A whole new set of factors now distorts the economy.

The plunging rand might give us some advantage, but continuing high inflation throws SA out of kilter with its major trading partners and puts us at a disadvantage against our competitors (the 24 OECD nations currently have an average rate of inflation of 3.9%, SA's inflation rate is now close to 13%, and rising).

Then there's the capital drain. The full impact of sanctions and disinvestment are yet to be felt. TrustBank recently estimated that their cumulative cost from 1985 to 1990 will be about R40bn. So by 1990 the average South African will be 10% poorer and 500 000 to 1 000 000 more blacks will be unemployed.

Other economists estimate that without sanctions and disinvestment the economy could have grown by 32% from 1980-87. Instead, it

Customer service: the top priority for SA business

TONY MANNING

grew by only 0.4%. GDP in 1988 was around R179bn. It could have reached R230bn — or another R1 666 per person.

Personal savings as a percentage of disposable income have dropped from 7% in 1980 to just 1% now. Although real interest rates are now turning positive, the man in the street just won't be able to afford to save. Average monthly bond repayments have risen by 40% since the beginning of 1988. Motor car prices have risen by 20% and the maximum interest rate on hire purchase sales is now 31%. The recently-imposed import surcharge has made many items prohibitively expensive.

According to Foreign Minister Pk Botha, the Delius Bill is not yet dead. When George Bush moves into the White House this month he could find himself in a serious test of wills with the Democratically-controlled Senate and Congress over the sanctions issue. New problems may well await us.

What South African managers now face, in short, is a radically new set of trading condi-

tions. They'll be with us for the foreseeable future, and they'll make economic forecasting and business planning extremely illicy. During the recession of 1984-85, managers were able to improve their results by cutting costs. They backed away the fat — premises, people, plant — which weighed them down. Then, as the economy turned upwards, they rode with it to new heights of profitability and the cheers of shareholders.

But now they'll need a new trick. Their firms are lean and mean, and here's probably not much margin for further cuts. In their search for solutions, managers will now have to move way beyond mere cost-cutting. To really "sweat their assets" they'll have to drive up sales and grow both their markets and their share of market.

The key lies in a holistic approach to customer service. This demands far more than just the involvement of front-line people alone. It's everybody's business. It embraces every person, every department, everything a company

does. When you get down to it, there are only two ways to increase sales: add value or cut prices. Achieving either begins with a company-wide attention to quality. To hang the right things, the right way, right first time — and right every time.

Getting that right begins with people understanding what I call "quality logic". There are no tricks to better quality. All it takes is that every member of a company's team know in every detail what the results would be assuming. At the moment, however, it would be unhelpful and unrealistic to expect

Most companies aren't nearly as profitable as they might be because they forget the basics. They reach out for quality programmes as customer care programmes as if these were some sort of corporate band-aid. What they wind up with is a "flavour-of-the-month" which turns a fortune and does nothing for profits.

In reality, better performance comes only through doing a host of little things very well. It comes from single-minded strategy, and a total commitment to continuous improvement.

Above all, results come when managers treat their people as adults, and when participation is a way of life throughout the organisation.

TONY MANNING is a consultant in competitive strategy and corporate communications, and author of several books on the subject.

AFTER three years of growing recovery, it would be easy to designate 1989 a recession year, but in our special circumstances that would be premature.

So no recession, unless our policymakers insist on it — and that seems unlikely, with a general election possible this year.

In spite of all the talk, it is likely that Government spending will continue the steady growth of recent years. Fiscal policy is not expected to lose any of the stimulatory strength that has been so evident in this past decade of reform.

Private consumption spending accelerated in the second half of 1988 to year-on-year real growth of more than 4% compared with a steady rate of slightly below 4% in the previous two years.

The immediate conclusion could be that the imposition of a 60% import surcharge on durable consumer goods last August triggered a pre-emptive buying stampede. With that out of the way, retail sales might be expected to collapse as we enter 1989.

surcharge on durable consumer goods last August triggered a pre-emptive buying stampede. With that out of the way, retail sales might be expected to collapse as we enter 1989.

Fortunately, the numbers are not shaping up that way. The really high growth phase in durable consumer goods took place between mid-1986 and the first quarter of 1988, showing consistent year-on-year growth of 17%. It dropped to below 11% in the last nine months of 1988. It can be explained by supply bottlenecks more than insufficient demand as such.

From mid-1988 most durable consumer goods producers were producing everything they could within their chosen production configuration. The latter qualification is brought in because not everyone was at full production — as the capacity use figures bear out.

However, it would require a miracle to convince, for instance, the motor manufacturers to go to a second shift, and incur the business risk associated with such a decision. So we may have to accept that durable goods arrived at their maximum production frontier some time ago, even though with capacity to spare. This is unlikely to change much this year.

PUNCTURE

If consumer spending is not to be deflated this year by a punctured durable goods performance, which in any case provides only 10% of the total consumer action, what will drive the 1989 consumer phenomenon?

Non-durable consumer goods — mainly food and beverages — performed poorly throughout most of this so-called recovery period: a bare 1% year-on-year growth to the first quarter of 1988. That is poor relative to the past, relative to population growth at 2.4% and relative to labour force growth of 3.3% a year, especially if the informal sector is taken at face value.

The party to last a while yet

But the pace picked up to 2.4% year-on-year in the second quarter of 1988, and to 2.8% in the third quarter. We may expect above 3% in the fourth quarter if some of the signs are to be believed.

This phenomenon also took place in semi-durable goods — clothing, textiles, footwear, motor parts. There was a steady pace of 3% year-on-year growth in the two years to the first quarter of 1988, and then suddenly fireworks in the rest of 1988. The second quarter of 1988 was up by 5.9% and the third quarter 7.5%.

WAGES

The acceleration in non-durable and semi-durable consumer spending in 1988 reflects the underlying trend of rising real wages, growing employment and overtime. In addition, consumer credit has been roaring, which is what we would expect in times of rising real incomes.

Will it continue in 1989? Why not, if the authorities do not stop it?

There are real labour shortages and a new cyclical wage spiral can be discerned. Because the trend in real wages and employment growth is unlikely to be reversed soon or consumer confidence dented, the momentum is likely to continue.

In spite of the slowdown (not fall) discernable in durable consumer goods, overall consumer spending may continue to grow by at least 3% in 1989. Increased use of credit set this recovery off in durable consumer goods. Now that the baton is shifting to more fundamental supports, the importance of credit in sustaining momentum may be waning, in turn playing down the effect of

higher interest rates on consumer spending.

Besides the acceleration in the core of consumer spending, there is another accelerator at work. Fixed investment spending is rising strongly. Although it was falling steadily throughout 1987 at a rate of 1.5%, the pace of recovery in 1988 was rapid — year-on-year growth of 1.7% in the first quarter, 7.3% in the second quarter and 11.3% in the third quarter.

The private sector was slowly increasing fixed investment spending in 1987 at a rate of 2%, and the acceleration began from the fourth quarter of that year, achieving 18% year-on-year for most of 1988.

Sectorally, this can be seen strikingly — from declines late in 1987 to a 20% growth rate by the third quarter of 1988 in mining and manufacturing. The financial sector and real estate began to recover early in 1987, and speeded up to more than 20% for most of 1988.

PRESSURE

Although the building industry's growth rate may be eroded in the coming year by high interest rates, it is not obvious that the remainder of private fixed investment will slow down much because most companies seem to be relying on internal cash flows. Allowing for further cuts in the public sector, overall real fixed investment may grow by 6% this year after 7% in 1988.

Some of this final demand buoyancy may be negated by

a slower rate of stock building than in 1988. However, the overall picture still suggests 3% growth in gross domestic product for 1989, which would be on a par with 1988.

This is higher than official expectations of 2%, and may imply greater pressure on the balance of payments than is perhaps foreseen.

With the monetary authorities as always the policymakers of last resort, it may mean high interest rates for longer than generally expected. Prime overdraft of 18% to 20% for the next 12 months would not be an outrage if we care to remember 1984-1985 and to recognise the underlying strength still present in the economy.

The rand should remain subject to speculation and manipulation — as in the past. After a spell at present levels, we may expect renewed depreciation of about 15% in 1989.

Threatening this relatively rosy outlook are the gold price, the balance of payments cash flow, in particular foreign debt redemption, and the Government's policy.

If 1988 is anything to go by, however, it is a little early to suggest that the party will be forced to end soon. Politics, after all, remains the art of the possible and not of absolutes.

Knights

KNIGHTS Gold Mining Co. has restructured its board, with the appointment of R A Flowerday, W K Randall and DFR Brumage. The appointments are in response to the major shareholder of Knights, South East Rand Gold Holdings (Southgo), requiring additional representation at board level.

REX

Cees Bruggemans
reviews the local
and world scene

S/Times 1/1/89

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ECONOMY — 1989

JANUARY

Making a mark in steel

HELOISE HENNING

MAN IN THE NEWS

BARLOW Rand consultant Paul Hatty did not have even a day's experience in the stainless steel industry when he was seconded to the Board of Trade and Industry (BTI) at the end of last year to develop a plan for expansion in the sector.

But he had distinguished himself as an industrial planner in a career marked by an ability to rationalise and organise.

He was a Barlow Manufacturing Director. He designed the Kelvinator fridge which put the company on the map. Later he was responsible for rationalising the electrical companies in the group under a holding company — the forerunner of Reunert.

Hatty was in charge of both C J Luchs and GEC when they were taken over, adapting them to the Barlows management style.

In a stint with the BTI, he investigated the country's industrial infrastructure.

Deposits

His research formed part of the recently awaited government report on industrial development. It is widely believed the report included strategic recommendations that could not be published, hence the silence.

Through this investigation, Hatty became knowledgeable on technical issues and beneficiation.

This is the crux of the latest task: SA has the world's largest chromium deposits and, while these are not the richest, local industry has been



□ PAUL HATTY

able to develop stainless steel to specifications the world accepts.

The only stainless steel producer, Barlow Rand-controlled Middelburg Steel, exports about 50% of its flat products. But SA needs to sell more value-added manufactured goods.

Of the 200 local manufacturers in the sector, only 10 export their finished products, giving credence to industrial planners' accusation that there is a lack of drive among manufacturers when it comes to exports.

Hatty believes manufactured exports can increase if a system of incentives and disincentives is introduced.

"We have got to find a new breed of guy who wants to get out and

work seven days a week in the export market. Unfortunately there are fellows who make enough, and prefer to play golf two afternoons a week."

South Africans do not lack ingenuity, says Hatty. They have designed stainless steel products that will sell well overseas. Manufacturers complain of a lack of capital for expansion, but there are plenty of potential investors seeking a productive, wealth-creating cause. What is lacking is the drive to launch products for export and keep them in the market.

Santions are no excuse. Manufactured goods at competitive prices, especially parts, will always find a market.

Variables

Hatty says the country's export marketing has always followed the agricultural model — only surpluses have been exported. An industry like stainless steel, should be investing in factories to supply exports only.

Hatty hopes to develop a mathematical model containing all the variables from input costs, tax, production volumes and incentives. He is working closely with the Stainless Steel Development Association.

He has given himself a year from February in which to deliver the stainless pipeline study.

Other projects he is involved in include Barlow Rand's drive to privatise the company's structure, giving off owner-operated small industries. He is also evaluating the skills of the group's staff.

Up and up go taxes and inflation, down goes the rand

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Gloomy economic forecast

By Michael Chester

Sharp increases in the size of tax bills seem likely to add to the burden of higher inflation and a weaker rand exchange rate in 1989, according to forecasts by the Econometrix research unit.

And Dr Azar Jammine, director and chief economist of the think tank, blames the bleak outlook on the penalties now to be paid for the artificial boost given the economy by the National Party as a political sweetener before the October municipal elections.

He predicts the rate of sales tax will soar from 12 percent to at least 15 percent when the Government switches from the GST system to VAT (value-added tax), scheduled to be announced in the 1989 Budget.

The taxman will also take bigger bites out of pay packets as wage and salary increases force taxpayers into higher tax brackets.

Dr Jammine fears the harder tax squeeze looks inevitable as the Government becomes even more hard pressed to foot the bill of State expenditure, worsened by the civil service pay rises.

The heavier taxes — with the VAT net widened to cover even basic foodstuffs — look bound to put a brake on consumer demand as the credit boom comes to an end, he adds.

BLAME LAID ON AUTHORITIES

The Econometrix researchers lay the blame on the efforts of the authorities to generate an artificial boost to the economy as a political ploy at election time — the trigger to the credit boom that led to a surge in consumer spending on borrowed money.

"The result of the massive creation of credit out of thin air, as the Reserve Bank pumped vast amounts of liquidity into the banking system, was that a spending spree on imports had stripped the country's foreign exchange reserves to precariously low levels.

That now threatened a renewed significant decline in the rand exchange rate, which would worsen inflation trends.

Still to be felt was the full impact of the successive waves of measures the Government was compelled to introduce to counter

the false boom — more stringent hire-purchase rules, harsh import surcharges and sharp rises in interest rates.

The spending spree was prolonged, according to Dr Jammine, only because consumers were determined to buy ahead of inevitable new price increases as fresh fuel was added to inflation.

Now a slowdown in demand was unavoidable, especially for non-essentials such as new cars, household appliances, TV and video sets and furniture, which had benefited most from the credit splurge.

TWO WILD CARDS IN THE GAME

There were two wild cards that could alter the scenario — first the gold price, which heavily influenced the South African economy, and second the possibility of a 1989 general election. Neither, however, should cause undue optimism, cautions Dr Jammine.

The gold price looked likely to remain subdued in the face of strict monetary policies used overseas as inflation safeguards.

And even if a general election was held, one had to be sceptical about whether the Government any longer had it within its power to continue with artificial boosts to the economy by printing more and more money when the national reserves had been reduced to such a parlous state.

Longer term, the Angola-Namibia peace initiatives, the deregulation of business activities and moves to privatise more State-owned enterprises provided rays of hope for the mid-1990s.

But the benefits would take time to filter through and would not be in time to alter the economic outlook for 1989 and next year.

"In retrospect," says Dr Jammine, "one can only bemoan the fact that the Government induced the economy to overheat so much in 1988 for political ends.

"There need not have been any reason for a reduction of economic activity whatsoever in 1989 had the authorities ignored political expediency and acted more responsibly.

"Instead, the country may once more be faced with an increase in unemployment and a corresponding escalation of social unrest."

Economy 'under a cloud'

5/11/89 Finance Staff

(49)

The South African economy performed better than expected in 1988 — but dark clouds are looming, Volkskas cautions in a report entitled "Economic Prospects for 1989".

It says "dark shadows" are being cast by rapid growth in the money supply, domestic expenditure (supported by bank credit) and imports.

These developments resulted in the surplus on the current account of the balance of payments being much smaller than was expected, with the 1988 figure estimated to be R1,5 billion. As a result the country has faced a higher-than-expected rise in interest rates and a steeper decline in the rand's exchange rate.

"Added to this (in 1987) we were very much under the impression that the authorities were determined to curtail growth in government spending. (It) did in fact show favourable signs for some time ... but it would seem that government expenditure is still not under control at all."

Volkskas says these factors, together with large debt repayments, the outlook for gold and slower growth of South Africa's trading

partners, point to a weaker business climate over the next two years.

Among its specific forecasts are that the surplus on country's current account will be R3,8 billion in 1989 and R5,9 billion in 1990. A real growth rate (GDP) of 0,5 to 1 percent is predicted for 1989. Better-than-expected agricultural crops could push the growth rate over one percent.

South Africa's terms of trade (ratio of average export prices to import prices) could deteriorate, in comparison with an improvement since 1983.

An increase in inflation of up to 16 percent is forecast for 1989, with a prime overdraft rate of up to 20 percent possible in the first half. However the chances of this happening have reduced. The rand should go even lower.

Personal disposable income — up 16,6 percent in 1988 — is likely to rise 15,1 percent in 1989 and 14,4 percent in 1990.

Its overall impression is of continued stagnation in the next two years. In view of recent developments and the continued outflow of capital, Volkskas says it is difficult not to foresee a drop in the per capita standard of living.

Further interest rate increases 'unavoidable'

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Magnus Heystek,
Finance Editor

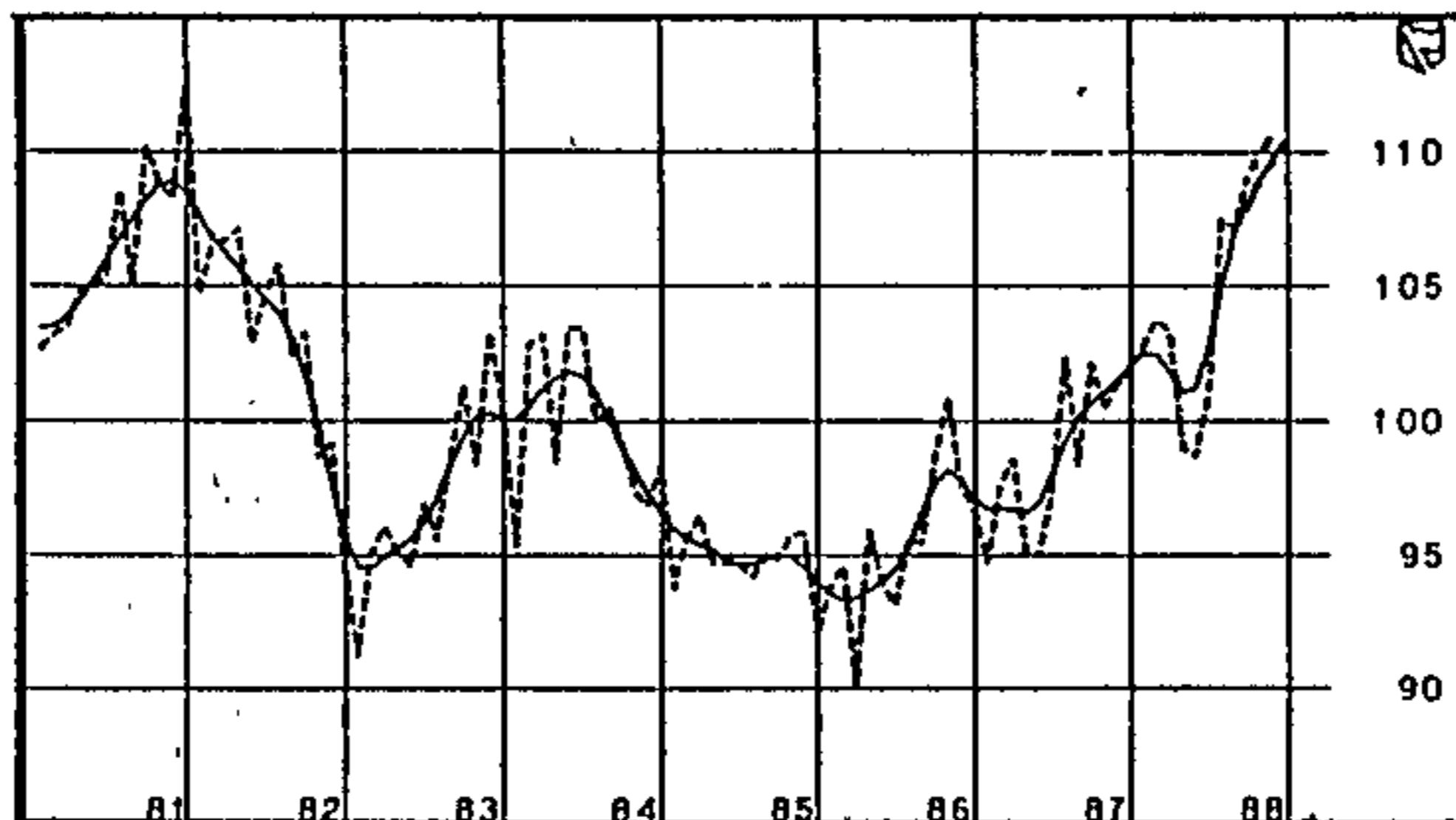
Economic activity, especially in the manufacturing sector, is showing no signs of cooling down and further increases in interest rates are unavoidable, says Dr Gadd Ariovich, economic consultant to the SA Federated Chamber of Industries (FCI).

Commenting on the FCI's latest opinion survey, which shows an ever increasing level of optimism among South African industrialists, Dr Ariovich says the economy is now like a "mad train gone out of control".

Considering the restraints imposed upon the economy by the balance of payments, it looks like the authorities will have no option but to tighten monetary policy even further.

Monetary policy in the form of higher interest rates is always preferable to politicians who can then blame the Reserve Bank for any economic inconvenience experienced by the voters," he said.

FCI's survey, which was done early last month and is considered to be a very up-to-date reflection of business thinking, reveals that business optimism is at its highest since the launch of the survey.



Volume of production (1980 - 100).

Furthermore, says the FCI, this high degree of optimism appears to be countrywide as all 12 reporting participating regions are very optimistic about the prospects for the manufacturing sector in the coming 12 months.

The highest level of optimism was expressed by the Maritzburg region whilst the least degree of optimism was reflected among Cape industrialists.

Dr Ariovich points out the obvious discrepancy between the buoyant mood among industrialists and businessmen on the one hand and the generally pessimistic viewpoint about the economy held by most economists.

Most economists tend to be gloomy about growth prospects, with the consensus forecast of a growth rate in the gross domestic product of between 1,5 and 2 percent. This compares with a growth rate of about 2,7 percent recorded in 1988.

"It seems to me that the lower exchange rate coupled with the imposition of high import surcharges has prompted import-substitution on a grand scale. This partly accounts for the very high levels of activity

currently experienced by the manufacturing sector," says Dr Ariovich.

The results of the December survey supports the argument that manufacturing activity in 1989 may be stronger than expected by many analysts. In fact, the SA manufacturing sector is perhaps facing a crossroads where industrialists will have to decide about considerable production expansion to satisfy internal and external demand.

Should manufacturers take the "high road" of extensive expansion of production capacity, the country could enjoy an industrial boom in the Nineties of the same magnitude of the Sixties, says FCI.

The optimism portrayed by the FCI survey remains correlated to the figures published recently by the Central Statistical Services.

The latest figures regarding the three-month trend in manufacturing production, ending October 1988, indicate an increase in production volumes of 7,1 percent over the August to October period compared with a year earlier. This upturn was much stronger than for the economy as a whole, says the FCI.

The big shakedown

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Star 2/11/89

MAGNUS HEYSTEK
FINANCE EDITOR

WITH THE economy likened to a "mad train out of control" evidence is mounting that the option of a soft landing for the economy is rapidly disappearing and that the country is heading for a repeat of the "crash landing" experienced in 1984/85.

For the man-in-the-street this means even higher interest rates and possibly higher tax rates, forcing spending on consumer durables to come down to more manageable levels.

But all this can be avoided should Government manage to cut down drastically on its own spending, particularly on consumption expenditure as government expenditure on capital goods has, in fact, been declining in real terms over the last couple of years.

Economists, however, consider this unlikely in the face of a general election next year which is bound to prompt the Government to open the purses once again in a vote-catching exercise.

Surveys released this week by both the Bureau for Economic Research at the University of Stellenbosch and the Federated Chambers of Commerce revealed the high level of confidence amongst consumers and industrialists.

The FCI survey, in particular, recorded a mood of ebullience amongst the country's manufacturers with most of them expressing indications of higher sales and volumes in the year to come. A large percentage have also indicated that they are considering expanding manufacturing facilities in order to cope with the expected increase in demand.

Capacity utilisation

This factor is reflected by the increase in capacity utilisation which in November rose to record levels. Output can, in most instances, only be increased if new investment in plant and machinery is made. But this, unfortunately, is bound to push up the import bill.

And as we all know, the country cannot afford higher levels at this stage.

The bullish mood among industrialists prompted Dr Gad Ariovich, economic consultant to the FCI, to compare the SA economy with a "mad train out of control", predicting that further increases in interest rates and possibly higher levels of taxation will have to be introduced soon to regain control over spending.

Under normal circumstances the optimistic mood among consumers and manufacturers would have been wel-

comed by both the private sector as well as Government, as this would have led to higher growth rates and the creation of employment opportunities. However, South Africa now finds itself in the Catch-22 position where good news concerning the economy is equally bad news.

Strange as it may seem, indications of a reduction in spending (and ultimately job creation) are now considered by the authorities and most economists to be a "positive sign", while "bullish" signs about the economy are greeted with gloom and dismay.

Debt repayments

This is all due to the convoluted political-economic scenario in which the country finds itself in. With no new loans forthcoming from the Western world, which financed previous economic booms in South Africa, and faced with massive debt repayments on foreign loans, the economy has to be artificially restrained from growing too fast.

But, further increases in taxes and/or higher interest rates can be avoided by government slowing down its spending and reducing its share of the economy. This seems remote, however, as most economists are expecting a further acceleration of government expenditure in the 1989/1990 fiscal year.

Latest available figures reveal the extent to which government expenditure as a percentage of Gross Domestic Product (GDP) has grown, rising from 21 percent in 1970 to an estimated 29 percent this year.

For the 1988/89 fiscal year, government spending is set to amount to R57 billion, exceeding the budgeted figure by R3 billion. One major contributing factor is the 15 percent increase in civil servant's wages and salaries, which will cause the wage bill to rise by 22 percent.

In 1989/90 government expenditure is forecast to rise by a further 22 percent to R69 billion, a rise of 7 percent in real terms.

While government revenue has been rising rapidly in the last year due to the higher levels of economic activity, the import surcharges and tighter surveillance by the Receiver of Revenue, the growth in revenue is set to slow down in the next fiscal year.

This means either a higher budget deficit before borrowing or increased levels of taxation.



THE Minister of Finance, Mr Barend du Plessis, says the last thing South Africa needs this year is an expansionary budget.

In an interview, Mr Du Plessis pointed to a further restrictive budget by emphasising the need to maintain tight controls on further credit creation and consumer spending.

But at this stage Mr Du Plessis ruled out further interest-rate hikes.

"I will put my money on stable interest rates provided we do not see a complete collapse in the gold price," he said.

Mr Du Plessis said the economy remained relatively buoyant but the message he was receiving was that the restrictive measures introduced late last year were now beginning to filter through.

Deficit larger

He confessed he would be more certain about this had he been able to have a series of planned meetings with business leaders last week. The meetings were cancelled as a result of President P W Botha's stroke.

He said the deficit on this year's budget would be larger than the R10,7bn originally predicted, but added that revenues would also be higher.

The additional appropriation due to be presented in Parliament in two to three weeks will reveal what the picture actually is.

He confirmed that the R5bn in cash deposits currently held by the reserve bank would be spent by the financial year end.

He suggested there was nothing abnormal in this as the money had already been allocated to various projects in November last year after the government had "cut out every bit of expenditure we could".

"The spending plan is not open-ended but the spending pattern manifests itself," Mr Du Plessis said.

He said progress was being made by the separate departments to set priorities on spending, in line with the government's so far undisclosed five-year goals.

● "We are getting much closer to aligning the budget to year one in the five-year plan."

● Mr Du Plessis said he was still reluctant to announce the five-year plan because of the possibility of further hostile action being taken against SA.

● While the government could possibly cope with any new pressures, it was likely the private sector would find it more difficult to do so if it set its own goals according to the five-year plan.

● He indicated that changes in the marginal tax rate on companies, accompanied by the removal in discrepancies in tax exemptions, could form part of this year's budget, due to be tabled on March 15.

Mr Du Plessis said he would be seeing representatives of the life assurance industry soon to

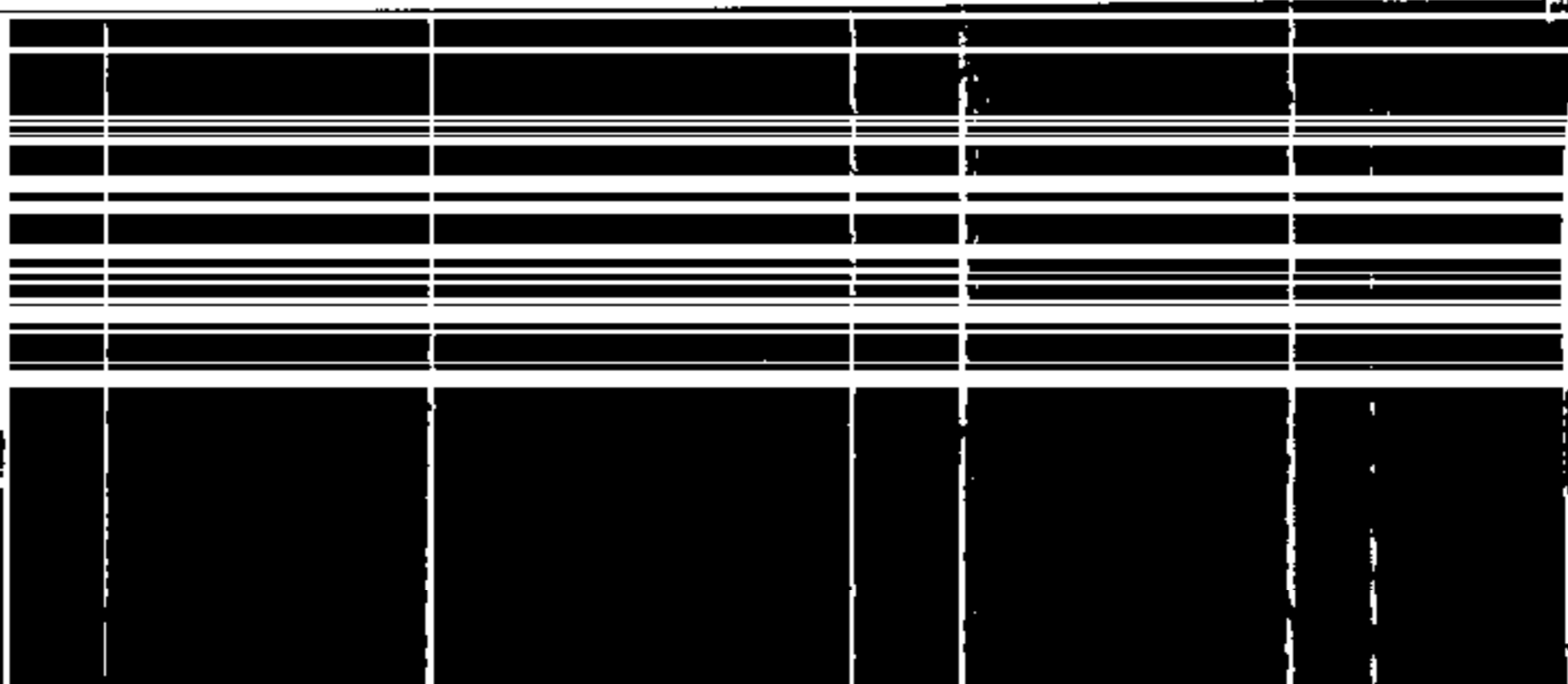
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It's not too late

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CME 7/11/89

spending



Expert says Western Cape growth potential high

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epk trend
7/1/89



NOTED Cape economist and regional GM of the Small Business Development Corporation, Wolfgang Thomas, says that compared with South Africa as a whole the Western Cape has the potential for above-average growth over the next five years.

Mobilisation of this growth potential, he says, depends on "the action and active co-operation of tens of thousands of entrepreneurs in dozens of economic sectors, a large number of planners, managers and leaders, and a wide range of often-conflicting vested interest groups".

Dispelling gloomy economic scenarios that tend to concentrate on the declining rand, low GDP growth, high inflation, low productivity, low savings and stagnation in fixed investment, Thomas points to a host of positive

factors in the economy. He concludes that, where real economic growth as measured in the formal sector has been only 1% to 2% a year over the past 24 months it has probably been closer to 3% to 4% if informal sector activities and other measured GDP is included.

Looking at growth prospects in the Western Cape he notes that commentators tend to adopt a retrospective view harping on the relative decline of the region's contribution to the GDP in the past, "instead of focusing on the recent positive changes in certain key structural variables".

He gives as examples the increase in the regional population by more than 800 000 during the 1980s, the relative decline in the significance of transport costs in some important economic sec-

WOLFGANG THOMAS: "The Western Cape has potential for a above-average growth..."

tors, and the role of factors such as "relative labour peace" and average educational level in the attraction of investors to the region.

Assuming moderate national growth, Thomas lists possible positive developments in different economic sectors in the Western Cape including agriculture, forestry, fishing, manufacturing, construction, the services sector ("all key elements are likely to grow rapidly, particularly tourism"), mining including side-effects of Mossgas and the public sector.

Optimism as Cape faces the recession

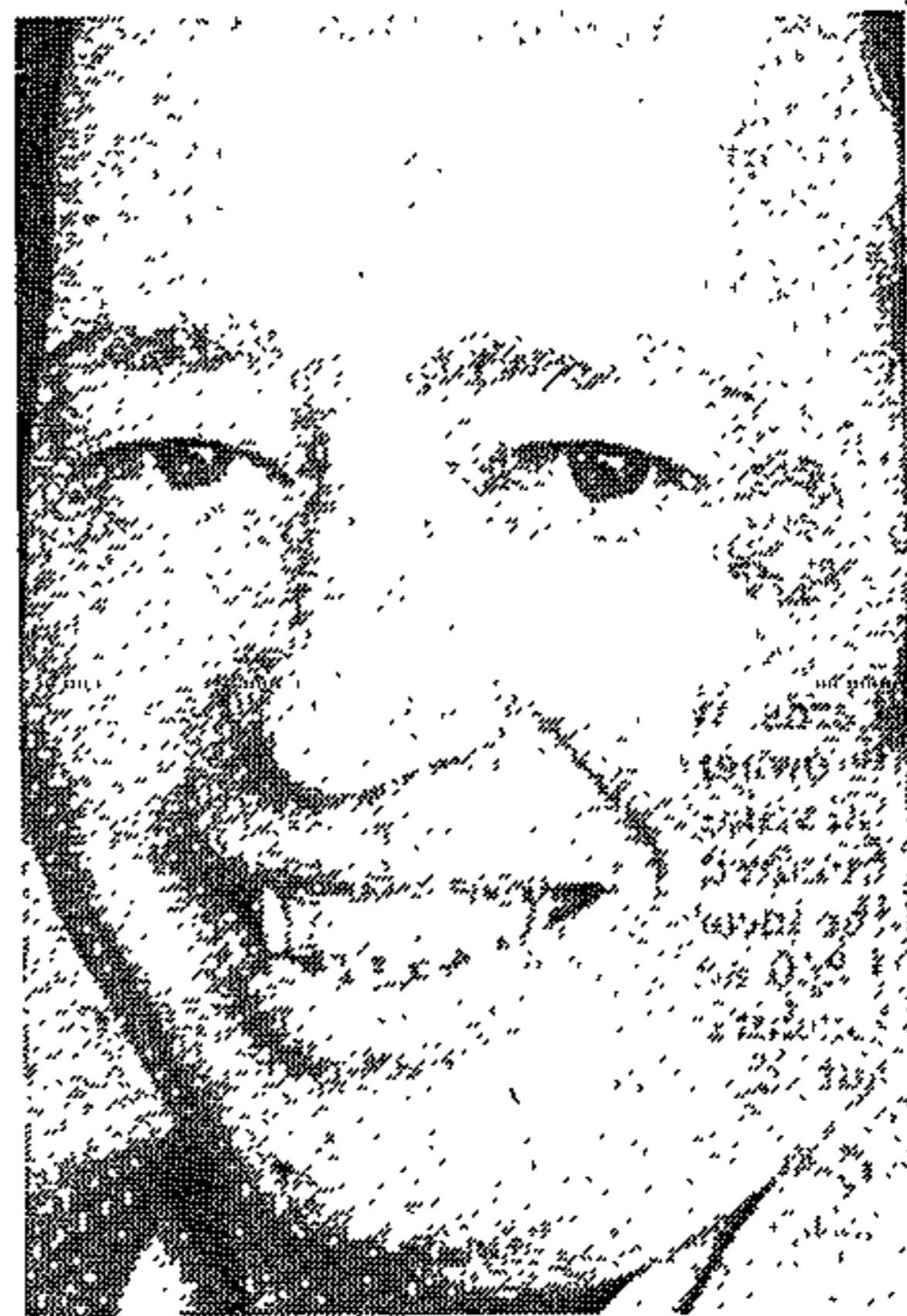
CAPE TOWN 7/11/89 49

Growth of the economy in the Western Cape, in common with the national economy, is expected to slow down this year but the decline is likely to be shorter and shallower than anticipated. ROGER WILLIAMS reports.

STRONG spending patterns in December, an impressive line-up of major building projects, a 15% increase in the seasonal inflow of visitors and other indicators of public confidence are increasingly being cited as cause for relative optimism in the economic outlook for the Western Cape in 1989.

While agreeing with earlier forecasts of a slowing down in the national economy this year caused by credit curbs, higher interest rates and other factors, many now believe the "cool-off" will not be as dramatic as feared.

UCT economist Professor Brian Kantor notes that despite the recent steps taken to cut public spending there is no sign of a slow-down. "I put this down to an upsurge of confidence, generated by



BRIAN KANTOR: "The average South African is feeling pretty good."

are impressive and he believes the tremendous tourism potential is now established.

"Then there is so much unrecorded activity going on, with a

MUSIC MAKER: Former Capetonian Hal Shaper in the office of his Sparta Florida Music Group which celebrates its 25th year in Cannes later this month.

beautiful" pieces are for major music event, the Midem musical industries festival in Cannes. "Music people from virtually every country in the world, including Russia and Hungary whose State music bureau I represent, will be meeting of his Sparta Florida. so we are expecting a big and reading. "I then had dealers and auctioneers spent three years discussing the artist's work with Cape Town in five years, On his first holiday in Hungary

new wing for the school. Another of Shaper's interests is collecting pieces made by the famous Russian enamellist Faberge. "I saw his work for the first time when I visited Russia on invitation to advise them on why their films were not doing well in the West." "Totally smitten, he spent three years discussing the artist's work with dealers and auctioneers and reading. "I then had a new wing for the school.

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Restrictive Bank stance to remain

Day 12/11/89
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THE Reserve Bank's monetary policy stance would remain restrictive, Bank Senior Deputy Governor Japie Jacobs said yesterday.

Current liquidity aid was aimed at easing the market over a seasonally difficult period and should not be construed as a slackening in the Bank's stance.

But Jacobs said the money market shortage had remained surprisingly high and was likely to continue at more than R2,5bn for the rest of the month.

"We are eagerly awaiting December's money supply figures to see to what extent credit demand is contributing to the shortage. The demand for credit seems to be levelling off, but we cannot be sure until we have seen the money supply figures."

For the moment, the Bank wanted to prevent rates from ratcheting up as a result of abnormal factors, such as large flows from the market to government.

GRETA STEYN

"Tax payments in December were exceptionally large, pushing government's deposits with the Reserve Bank to almost R5bn. That represents a massive flow of funds out of the private sector into the public sector. Government has spent only a small portion of the cash, leaving the money market in a very tight position indeed."

The tax payments were still being cleared, prolonging the market's agony. However, there should be some inflow of funds on the 15th, when government salaries would be paid.

The Reserve Bank yesterday offered R600m in buy-back agreements to help the market. The window shortage was R2,7bn on Tuesday, bringing the market's total debt to the central bank to a massive R3,33bn.

ECONOMIC policy in 1989 will be geared towards building up foreign exchange reserves. It is a make-or-break year, a period in which SA has to top up its reserves to meet its huge foreign debt obligations in 1990/91.

The year got off to an encouraging start, as evidence emerged that the hike in Bank rate had ended the balance of payments crisis. Short-term capital movements, a major problem in 1988, turned positive in December and neutralised the strain of foreign debt and interest payments.

The current account deficit was turned into a comfortable surplus towards the end of the year — an annualised R4,5bn. Export volumes have increased, boosted strongly by diamond sales.

The balance of payments is poised for a strong performance. Reserve Bank Governor Gerhard de Kock believes SA can achieve a healthy surplus of R4bn on its current account, enough to build up reserves while meeting its foreign debt repayments of about R2,5bn.

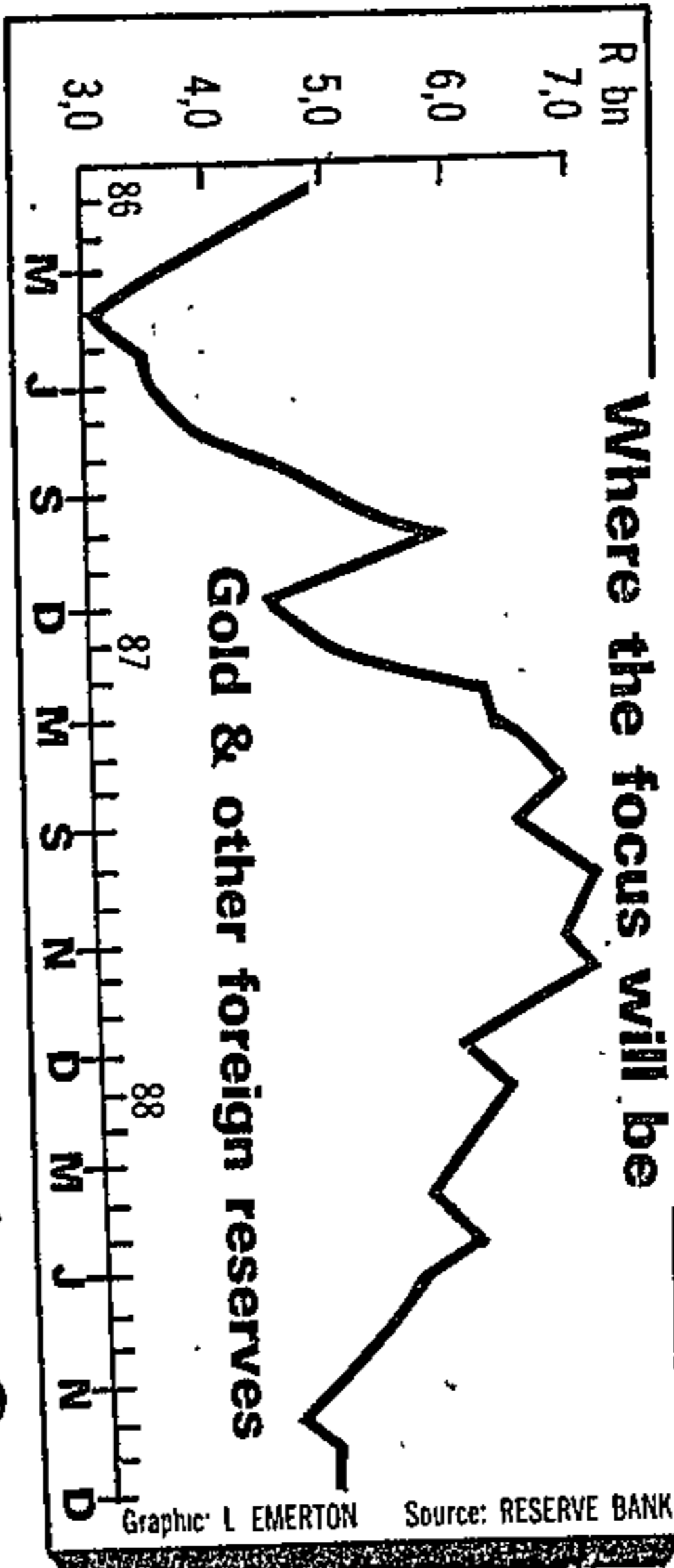
8/Dec 13/1/89

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Positive signals emerged after the belated Bank rate increase in November. No longer are economists calling for higher interest rates to save the nation. There is caution over the issue, for once both the Reserve Bank and the army of economists are adopting a "wait-and-see" approach.

No one has ruled out the possibility of another increase in Bank rate, at least of all the Reserve Bank. De Kock said, "Our interest rates and exchange rates must remain realistic." But few would wager anything on when, if at all, the Bank will lift its rediscount rates. Much depends on government spending, which will boost domestic spending.

The recovery of the balance of payments could be scuttled if domestic spending runs wild — a possibility if fiscal policy is too expansionary. But there are signs that the economy has turned and that domestic



Graphic: L EMERTON Source: RESERVE BANK

Make-or-break for foreign reserves

GRETA STEYN

spending is increasing at a slower rate. The Reserve Bank, in its last Quarterly Bulletin, saw evidence of "a levelling off of the current economic upswing". It said that the "continued downward drift" of its leading indicator also pointed towards an imminent downturn and noted a "loss of buoyancy in the prevailing business mood."

The leading indicator dropped to 94.5 in September last year from 94.8 in August, after peaking at 101.4 in August 1987. The performance of the indicator suggests that the upswing peaked in the second half of 1988. Against that background, the Bank's current actions in the money market are interpreted as a signal that interest rates had to stay put — unless there was firm evidence that

domestic demand was still too strong. As Bank senior deputy Governor Jacobs put it: "We cannot act on suspicions and impressions; we need firm figures."

There is proof of the suspicion that the economy slowing down, but the Christmas spending boom complicates the interpretation of data. However, seasonally adjusted figures hold the clues. Central Statistical Services' adjusted spending figures for November and December show a real decline of 1% from the previous two months.

Wholesale sales, also seasonally adjusted, dropped by a real 1.5% in the three months to end-November from the previous three months period. And according to a Bureau for Economic Research poll, retail-

ers and wholesalers are bullish on 1989, expecting only a slight real increase in sales this year.

However, complicating the issue is manufacturers' optimism, also recorded by the BER. After the biggest boom in seven years in 1988, manufacturers are bullish about the coming year and expect to increase spending on plant and equipment.

Imports indicate domestic demand is still strong, with the November figure of R3.8bn a record for the year. The level of imports was not just the result of a weak exchange rate — the rand strengthened in November.

The rate of growth in the money supply remains high. At 25.05% in November, this is down from Octo-

ber's 27.71%, but growth was off a high base. December's figures will provide the latest clues on credit demand. But even if credit demand is still high, most economists now argue the last increase in Bank rate must be given time to work. Monetary policy will probably only be tightened if government spends too much.

To quote the Quarterly Bulletin: "The most suitable stance of monetary policy will... depend in considerable measure on the nature of fiscal policy in the months ahead."

There is a saying that "Monetary policy starts in the Treasury". The size of the deficit complicates monetary management. The Reserve Bank sets money supply growth targets but it has no control over the budget deficit.

United Building Society economist Hans Falkena believes a deficit larger than 2% of GDP is inherently inflationary in the case of SA — and there is a "distinct danger" the budget deficit may exceed the level of 6% of GDP during the next fiscal year.

Says Falkena: "The inflationary dangers of a large budget deficit, as well as the fact that the foreign debt standstill arrangement has closed the international capital markets for SA, will virtually force the government to take drastic steps to limit its budget deficit to some R13bn (which is still 5.5% of GDP)."

Falkena does not mention the possibility of a general election, but 6% of GDP might be closer to the mark if South Africans have to go to the polls again this year.

The impact of government's deficit on domestic spending will eventually be reflected in the reserves. If an expansionary deficit is not countered by higher interest rates, strong domestic demand will knock the surplus on the current account of the balance of payments. The capital account will feel the strain of adverse leads and lags. And the bottom line will be a slide in SA's reserves.

B/Daw 12/1/84

Small is not necessarily beautiful, says Volkskas

SMALL business development, privatisation and urbanisation are no panacea for the country's economic ills, Volkskas economists say.

In the bank's "Economic Spotlight" they say some quarters get the impression that massive numbers of small businesses are the solution.

This was an exaggerated and often unrealistic expectation, they said.

Small business had an important place in the SA economy as job generators, but so had large ones.

It was also a common myth that urbanisation on its own could create economic growth and wealth. This was a sad misconception.

However, when urbanisation meant the growth of more metro-

GERALD REILLY

poles spread evenly throughout the country, it could have some advantages.

It was a myth, too, to suppose the mere act of privatisation would bring about an economic Utopia. This was wishful thinking! The activities that could be privatised were not extensive, the economists said.

It was questionable, too, whether government would put the funds from privatisation to good use by, for instance, paying off debts or using it to boost the general economic infrastructure.

Nevertheless Volkskas favoured the concept of privatisation.

Old Mutual predicts not-so-severe slump

CAPE TOWN — Old Mutual chief economist David Mohr does not believe a widely forecast recession for this year will be as deep as that of three years ago.

He agrees with economic colleagues, however, that a slump is on the horizon.

Mohr, comparing conditions running up to the two periods, does not see repetition of several coincidental developments which added to the downswing three years ago.

One difference is that he does not foresee a repeat of the strong contraction in final demand of about 10% in 1985-86.

Mohr says that, in view of the less vigorous rise in spending on durables, and an absence of such harsh measures as those introduced in August 1984, private consumption expenditure was not expected to decline to the same extent as in the previous downswing.

The sluggish conditions are also not expected to be materially influenced by another major decline in fixed investment activity. Mohr maintains that, while a major recovery in public sector fixed investment is not foreseen, it is unlikely

CHRIS CAIRNCROSS

the 1986 cutbacks will be repeated.

Mohr also does not foresee severe inventory depletions this year.

He also believes there are several major differences between the current balance of payments position and that of three years ago.

Optimistic

The miniboom then, contrary to the traditional export-led upswing in the economy, was not based on any improvement in export volumes. This has occurred since then.

Mohr notes, however, there are still factors which could worsen the slightly more optimistic scenario he has for the economy.

These include a sharp decline in the price of gold and other commodities; a stronger-than-expected downturn in the world economy; imbalance in domestic economic policies that could be inappropriate to the country's balance of payments and inflationary problems and lead to another exchange rate crisis.

Grocery suppliers turn to cafe owners for help

GROCERY manufacturers, squeezed by supermarket chains, are turning to South Africa's estimated 35 000 cafe owners and informal shops for relief.

Faced with increases in the cost of raw materials, labour, transport and packaging, they are showing keen interest in schemes to break the power of the chains.

The Catering, Restaurant and Tearoom Association (CRTA) has set up a task force to negotiate grocery prices on behalf of members, who have no option but to pass on increases in full. Supermarket chains, because of their negotiation and bulk buying power, can phase them in to soften the blow for customers.

Inflation

Major retailers like Checkers expect price increases to be so steep that inflation will hit 16% by the end of this year.

Retailers and the Groceries Manufacturers Association (GMA) are surprised by the CRTA's plans.

According to executive director Frank Swarbreck, the CRTA has set up the Independent Cafe Alliance to negotiate prices with manufacturers. Several suppliers are willing to take part in the scheme.

By Udo Rypstra

"Even cash and carry stores, who belong to the same groups as the big chains, are interested."

Grocery suppliers are unhappy about the demands made by the big chains. They have turned to buying groups, such as Shield and Sentra, which make bulk purchases for cafe groups. The growth of these groups is seriously affecting cash-and-carry stores.

Spazas

The informal retail sector's spazas — shops in black households — are making special deals with soft-drink and cigarette manufacturers, eroding the turnover of cafes and supermarkets.

To give its members a slice of the pie, the ICA intends to negotiate deals for cafes that will enable them to offer at least 15 items and "specials" at competitive prices.

Mr Swarbreck says: "Manufacturers are under constant pressure from the big conglomerates. They and other suppliers who cannot produce large volumes realise the importance of the small retailer. The response from suppliers has been so encouraging that even cash-and-carry outlets are interested in our scheme."

Mr Swarbreck says cafe owners are survivors and

they do well in poor economic conditions.

"But cafe owners are in deep water. The conglomerates work on variable margins, they have bulk buying power. But they have huge overheads and they have to make up elsewhere on their 'specials'. Consumers should remember that."

Phasing

"The cafe owner works on a fixed margin, no bulk buying power, but his overheads are low. The price increases, however, are alarming."

John Williams, marketing director of Checkers, says the supermarket chains will always be cheaper than cafes. Because of longer working hours, cafe owners are entitled to charge more than other retailers.

"We do not see cafes as a threat. We have been negotiating with grocery manufacturers on prices since last year. Because of the competition among major retailers, price increases will be kept as low as possible. Where they are high, they will be phased in."

Figures from Central Statistical Service (CCS) show the producer price index rose by 1.5% between October and November. The imported component of the PPI rose by 0.9% in November, and domestic prices by 1.7%.

Grocery manufacturers

are bracing themselves for fuel and sugar price creases.

GMA executive director Jeremy Hele says manufacturers always give a best price for bulk orders. Transport element in manufacturing costs is relatively small — the cost of raw materials is the biggest factor.

He believes the sugar price increase will lift the prices of sweets, jam, soft drinks and condensed milk.

The GMA has asked CCS to differentiate between "basic food" and "pocket food" when it calculates inflation rate.

EXPORT
drive

SEASPRITE, a manufacturer of swimwear, is looking for sales.

Founder and chairman Hans Noli says the company will build a factory in Town and one outside Africa.

Paul van der Horst, executive in charge of wear at Gossard SA, joined the company as aging director. Andre is production manager. Raymond Law is retiring after 30 years in the company.

'Muscle not flexed' in politics

SA business

8/Dec 13/1189

Shying from

tackling govt

AN SA Foundation report has criticised the inability of SA businessmen to influence government policy-making and their unwillingness to take on government politically.

The criticism is contained in a report summary released yesterday. It focuses on business reaction to and performance in the four summits held between business and President P W Botha between 1979 and last year.

The report says business has traditionally shied from talking politics with government and its responses have generally been poorly organised.

Two key limitations on business "muscle" the report says, are its general aversion to confronting government on so-called political issues, and the "crippling lack of any unified strategy in coordinating and focusing on what muscle business has in such formal encounters.

"Few businessmen feel comfortable confronting government on its own terrain. In both black and white business circles there are also strong pressures for political conformity.

"These and other factors mean that employer organisations are often unable to take high-profile political stances on

behalf of their members, given the weak membership allegiance when it comes to political issues."

The report was compiled by SA Foundation research director Gavin Lewis and concentrates on business reactions to the Carlton, Good Hope, Bryntirion and Margo conferences.

Lewis says business has a long way to go in terms of political mobilisation. While it has played a role in breaking down apartheid structures, it has tended to do so as a by-product of its own economic concerns.

Those who have taken a political lead, Lewis says, have mostly emerged from a minority of business organisations in which shareholders and management are prepared to sanction a political stance and where organisation centres on a few forceful individuals.

The lack of a unified strategy is partly due to the heterogeneous nature of the private sector and to the inherently competitive ethic of businessmen.

PETER DELMAR

• To Page 2

SA business 'shying from tackling govt'

Government's reasons for the conferences appeared mainly concerned with seeking the private sector's public endorsement of its reform strategies, and winning political and financial support.

"There was also a desire for feedback on state economic strategies, a reflection of the reality that increasingly the state's reform programme was dependent on private sector funding and involvement."

Aside from concrete achievements such as the establishment of the Small Business Development Corporation and Government's changed attitude towards

From Page 1

deregulation which flowed from the Carlton meeting, the summits represented "milestones in business-state relationships", Lewis says.

"For the first time the state publicly acknowledged business has a right to be involved in national policy-making."

MARC HASENFUSS reports FCI executive director Ron Hayward said of the report businessmen would avoid commenting on party politics, but would comment on political decisions that affected the economy and business.

All dressed up and the ball carries on

S/Tues 15/1/89

49

REX
 Ceas Bruggemans
 reviews the local
 and world scene

IN the debate about whether or not the economy is slowing down, few have stopped to consider why there are business cycles in the first place.

If all sectors of the economy were to move in tandem, none getting ahead and none falling behind, no cycle would be discernable. But sectors do proceed unevenly. Certain parts of the economy grow too fast, giving rise to excesses, imbalances and untenable positions which need to be corrected before they can continue to advance.

WEALTH
When parts of the economy have pulled ahead to a point where they are fully extended, the players tend to usually it is forced on them by the authorities seeking to sustain a healthy, balanced

development of the economy in the long term. It is important to distinguish between the health of the current cycle development, measured by the extent of any imbalances present, and the wishes of the authorities as reflected in their economic policies. In our present situation, there are two realities. The domestic economy has not developed any major excesses, and the authorities have been intervening for more than a year in an attempt to bring it to a soft landing.

The interplay between the internal momentum of the economy and the external policies imposed by the authorities determines whether an economy is accelerating, plateauing, peaking, decelerating, or heading into recession.

The health of the domestic economy is not particularly fragile now. The means by which various economic agents sustain their spending

growth, and the state of mind or confidence guiding their actions, remain largely unimpaired.

Real incomes have been growing for more than a year, but only gradually as measured by rising real wages and salaries, employment and overtime worked.

We cannot as yet identify any real excesses there. There are signs of skilled labour shortages in certain areas, but the overall picture is not of an overheated economy.

ZEST

Although capacity use is rising in nearly all sectors, much slack remains to be taken up, such as in the labour market. Credit is supplementing income for spending.

Consumers may have loaded up heavily with credit in the past year, but personal balance sheets have not generally become overstrained. The ability of most house-

holds to service their debt, and to further use their remaining borrowing capacity, has not been dangerously overextended. This applies to an even greater degree in the corporate sector.

If any financial stress were to develop soon, it would not be due to unhealthy borrowing, but due to a restraining interest rate and tax policy of the government.

The economy is showing great zest for life, growing income and credit use not anywhere near a level where one could really speak of cyclical excess. After all, we started from an extremely depressed base.

Similarly, the spending picture remains encouraging. Pent-up replacement and new spending needs must be exhausted before we can claim that spending is ready to slow of its own accord.

We are not a saturated society by a long chalk, especially not after the recession of the 1980s. Consumers bought furniture and domes-

tic appliances late last year on a par with the 1980-84 average.

This does not mean that all replacement or pent-up demand has been exhausted, or that a great deal was premature. Most of this buying was genuine need.

Other consumer durables, especially cars, which are 60% of the total, have not obviously exhausted pent-up and replacement needs.

EVERYDAY

Sales volumes remain well below the peak year averages, although we must allow for considerable "stretching" of vehicle life because of exceptionally heavy car-price inflation.

Nevertheless, healthy corporate profits, rising employment and growing skilled labour shortages are providing solid support for new-car sales. Any plateauing discernable is more a supply constraint than a genuine exhaustion of demand.

Most consumer spending occurs on everyday items. Much belt tightening took place when households reined in spending in recession years.

With real incomes rising, we find some natural belt loosening taking place. It is far from exhausted. There are few imbalances in any of these areas, and much ground to recover.

One of the great laggards in the economy in the 1980s has been fixed investment. With rising capacity use, and three- to five-year business plans requiring adequate capacity to be in place, a major reversal in fixed investment direction took place last year.

Again, if there is any imbalance, it is that much lost ground is to be recovered. With the corporate sector having greatly improved its financial health, long-term investment spending is more securely funded, and can be expected to continue at a considerable pace.

Traditionally, companies become lax when good times roll, accepting higher stock levels until such excess has to be corrected.

RESTRICTIVE

Not this time, though. There is little fat in the industrial pipeline, whose correction would have played havoc with general economic performance, had it been there. The outlook here also continues to look good. SA inflation at up to 15% is not a cyclical excess. It is a secular hangover, reflecting the economy's basic long-term inefficiency. Some call it price "stickiness", but that is only an excuse for a lack of more intensive competition.

Look at what happened in the US and UK economies when they encountered more competitive pressures. Those pressures cleaned out inflationary compensation and general inefficiency quicker than anything else.

But that does not prevent modern Chinderellas from going to their ball. If the policy restraint on them is not overwhelmingly strong, they will find a way of moving forward, for such is the logic of a healthy momentum in a domestic economy in which there are few major internal excesses to hold it back.

asures are under control.

OUTLOOK

49

Could be worse

Brace yourself for a slowdown. But, says Old Mutual economist David Mohr, don't fear a repeat of the drawn-out recession of 1985-1986 — when real domestic spending contracted by 11% from the mid-1984 peak.

In the latest *Economic Monitor*, Mohr predicts real GDP growth of 1% in 1989,

33

49 FMMU 13/1/89

rather than the -1.2% of 1985. He cites several differences between today and those recessionary days:

- GDP. Since second-quarter 1986, GDP has been rising at an annual rate of 2.8%, less than half the pace during the 1983-1984 mini-boom that preceded the 1985 downturn. So he believes the economy is less susceptible to sudden contraction;
- Durables. After 10 quarters of recovery, real private consumption expenditure (PCE) in third-quarter 1988 just recovered to the 1984 peak. "Though all components of PCE have recovered at a healthy pace, by third-quarter 1988 the volatile durable component of PCE still fell 26% short of the peak reached in 1984." So he believes, this time, PCE is broader-based and less likely to suffer from a sudden drop in durable sales;
- Inventories start this year as a lower percentage of GDP, so don't have as far to fall during a downturn. "The 1985-1986 period witnessed severe inventory depletions, adding to the severity of the decline in real GDE. By 1986 the level of real industrial and commercial inventories had declined to 19.7% of GDP (excluding agriculture) compared with 27% in 1982. This decline continued in 1987 but rebounded to close to 20% in 1988. Though some inventory reduction can again be expected as the economy cools off, it should be less severe than during the 1985-1986 recession;"
- Capital spending. "We do not foresee a repeat of the sharp declines in total fixed investment activity which aggravated the 1985-1986 downswing" — in part because there won't be a repeat of the sharp cutbacks in public-sector fixed investment of 1986;
- Confidence. "Confidence in the private sector is far higher than at the start of the last downturn," Mohr says, helped by control of unrest;
- Foreign debt. In 1985, the refusal of foreign banks to roll over debts sapped confidence. Repaying foreign debt is still a burden, but everybody knows about it. "There's a framework for repaying debt, so you won't get the same kind of shock;"
- Gold. From an average of over US\$600/oz in 1980, gold fell below \$300 in 1984, adding to the misery. He doesn't foresee this kind of shock recurring. "I doubt if gold is going to halve from \$400 to \$200." ■

INTEREST RATES

Taxing times

49

In recent weeks, the banking sector has been revelling in the unaccustomed luxury of a relatively liquid money market. Reserve Bank intervention (see *Markets*) routing many millions of rands through the system, by regularly rolled-over daily repurchase agreements, has kept both interest rates and bankers' blood pressure at reasonable levels through the normally tight year-end.

To the surprise of participants, the money market still relied heavily on Reserve Bank intervention this week — probably due to unexpectedly high tax payments. In December, government deposits with the Bank were R5bn, up from R4bn in November. So at least R1bn moved from the private sector to the government in the period.

Though a tap issue of 1996 stock could have contributed to the shift in funds, the effect would have been neutralised in part by maturing Treasury bills and government stock. So presumably most of the movement was attributable to tax revenue.

Fortunately for banks, Reserve Bank Governor Gerhard de Kock will continue to "neutralise purely seasonal shifts of funds between the private and the public sector." This means he will accommodate the market until government spending starts returning money to the system.

As a result of this continued assistance, there is considerable optimism about the interest rate cycle and a belief among many bankers that the present period of relatively plentiful money represents a return to happier days of easy accommodation.

This perception, however, is premature.

Despite the "satisfactory performance" of foreign exchange reserves in December (see below), De Kock is determined there will be no immediate easing of monetary policy. Accommodation granted over recent weeks does not imply any easing of underlying basic monetary policy, he insists.

"We are delighted foreign reserves didn't fall in December — but they are still low and will have to be rebuilt further. Until that happens, until we have seen money supply growth return to the target level of 12%-16%, until we are assured that fiscal policy is not too expansionary, and until we are certain of a R4bn surplus on the current account for 1989, there will be no relaxation of monetary policy."

No fundamental reassessment of the economy will be possible, he says, until December money supply and trade figures become available towards the end of this month.

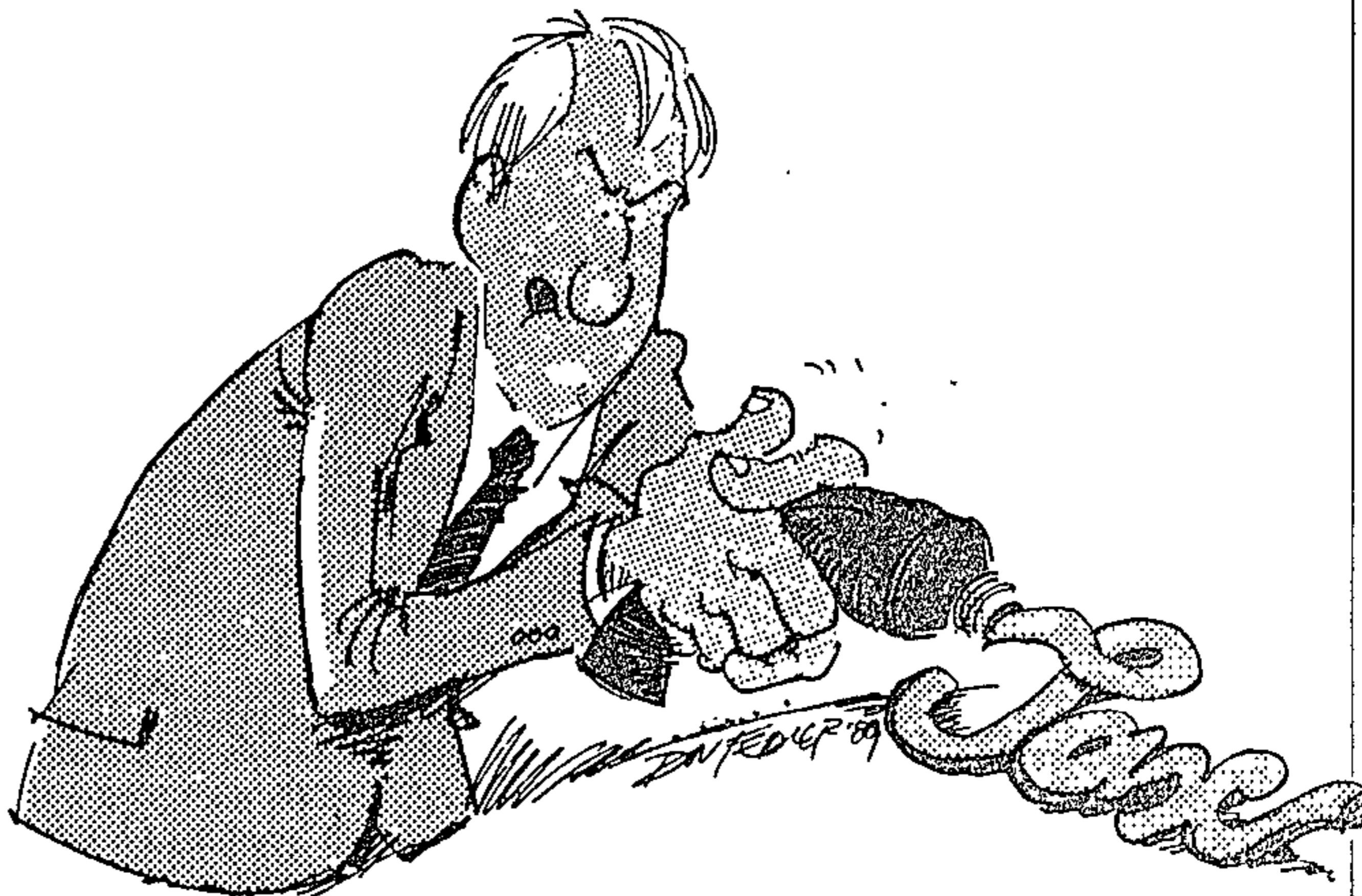
Many economists expect these to be good news.

Among them is Nedbank chief economist Edward Osborn, who expects a dramatic

change in levels of liquidity.

Last year, he argues, saw adverse changes in the four basic elements of liquidity: movements in the balance of payments (BoP), flows in and out of the Exchequer account, changes in bankers' balances with the Reserve Bank as a result of legislative changes in the definition, and the value of notes and coins in circulation.

While these combined to produce a R270m surplus in 1987, keeping liquidity



high and rates stable, pressures started to build up after the first quarter of that year.

"They reached a climax in the third quarter of 1988 with a drain of R3,7bn. This was the result of a R2,1bn increase in government balances arising from tax revenues and issues of government stock, an increase in notes and coins in circulation (R500m), a decline in gross gold and foreign exchange reserves (R500m) and changes in the definition of banks' balances with the Reserve Bank (R600m). The fourth quarter saw the drainage still high but reduced to R1,7bn.

"The result was a R7bn drain in 1988, which had to be matched through steadily rising bank accommodation and the provision of repurchase agreements on occasions."

Now, Osborn believes, we will see a reversal of this trend. "In the first quarter of 1989, there will be a seasonal change in the state of the Exchequer, with balances running right down to the close of the financial year. Departmental spendings are high and no further issues of stock will be made. Furthermore, we could see the beginnings of a turn round in the BoP situation."

Certainly the first signs of cash flows reversing should be seen soon. On the basis of Finance Minister Barend du Plessis' most recent estimate (in December) the deficit before borrowing will increase R700m this fiscal year to R10,6bn. With spending so far this year running pro-rata below budget, considerable expenditure lies ahead. So except for a temporary interruption, when tax payments at the end of February once again suck money out the system, the rest of the

fiscal year should see favourable cash flows.

The Bank's energies will then be devoted to mopping up excess liquidity in the market and ensuring that rates don't sink to unrealistically low levels in response to seasonal flows.

Having battled so hard and so long for each increase in official interest rates, De Kock now knows that rates are not easily allowed to rise with market forces. He will be most reluctant, then, to let them fall without incontrovertible evidence that demand pressures are under control. ■

OUTLOOK

Could be worse

Brace yourself for a slowdown. But, says Old Mutual economist David Mohr, don't fear a repeat of the drawn-out recession of 1985-1986 — when real domestic spending contracted by 11% from the mid-1984 peak.

In the latest *Economic Monitor*, Mohr predicts real GDP growth of 1% in 1989,

Opinions tend to differ over the shape of things to come

DEREK TOMMEY takes a positive view of the way things are shaping. **MAGNUS HEYSTEK**, on the other hand, is more reserved.

The first seven years of this decade were lean and dismal ones for the economy, **DEREK TOMMEY** writes.

For most of the time it grew on average by less than half a percent a year.

But in the last two years it has improved significantly, with growth of three percent or more.

Now, as South Africa starts 1989 there are signs it could do even better. Which raises the interesting speculation whether 1987 was the start of seven fat years?

South Africa certainly has the potential for growth. There is no doubt that given the right conditions this country, which possesses tremendous human and physical resources and almost everything else needed for rapid development, could become an "economic miracle" within a few years.

Some of the recent economic and political developments suggest that this could be about to happen.

On the economic front the economy is getting a major stimulus from the rand's huge devaluation over the past three years.

Since 1985 it has fallen in value by 42 percent against the Deutschmark, by 45 percent against the yen, by 32 percent against sterling and by nine percent against the dollar.

This devaluation has not been without cost. It has led to a major reduction in living standards.

But the resultant lower prices of South African goods overseas have given the economy a major boost and, providing inflation can be kept in check, should continue to do so for several years.

For it takes several years for the full benefits of a devaluation to be felt. Exporters first have to find markets and then expand production, which can be a slow and costly process.

It also takes time and money for manufacturers to tool up for import replacement.

Similarly, it is usually some time before foreign tourists realise just how cheap accommodation and other facilities can be.

But providing the Government stops the economy from overheating, by curbing domestic demand and leaving scarce resources to the export and import-replacement industries, there seems no economic reason why South Africa should not continue to prosper and grow

for some years to come.

Foreign markets should facilitate this by remaining buoyant — and for a similar reason.

As the figures in the graph show, in the past three years the dollar has been devalued by 23 to 33 percent against sterling, the yen and the mark. This has boosted the US economy and the results have spilt over into the economies of the other major countries.

Should this export-led buoyant economy materialise, many of South Africa's other economic problems would be eased.

Strong exports and a booming import replacement industry will help the balance of payments, lead to a more stable rand, less inflation, lower interest rates, new capital development, greater employment, rising living standards and, last but not least, ease the way for political reform.

Such conditions could also attract renewed foreign investment and give the economy a further boost.

The improvement in the economy could even boost the gold price. Any rise in the balance of payments could lead to increased gold retentions by the Reserve Bank, to a drop in supply to the bullion markets overseas and to an improvement in the gold price.

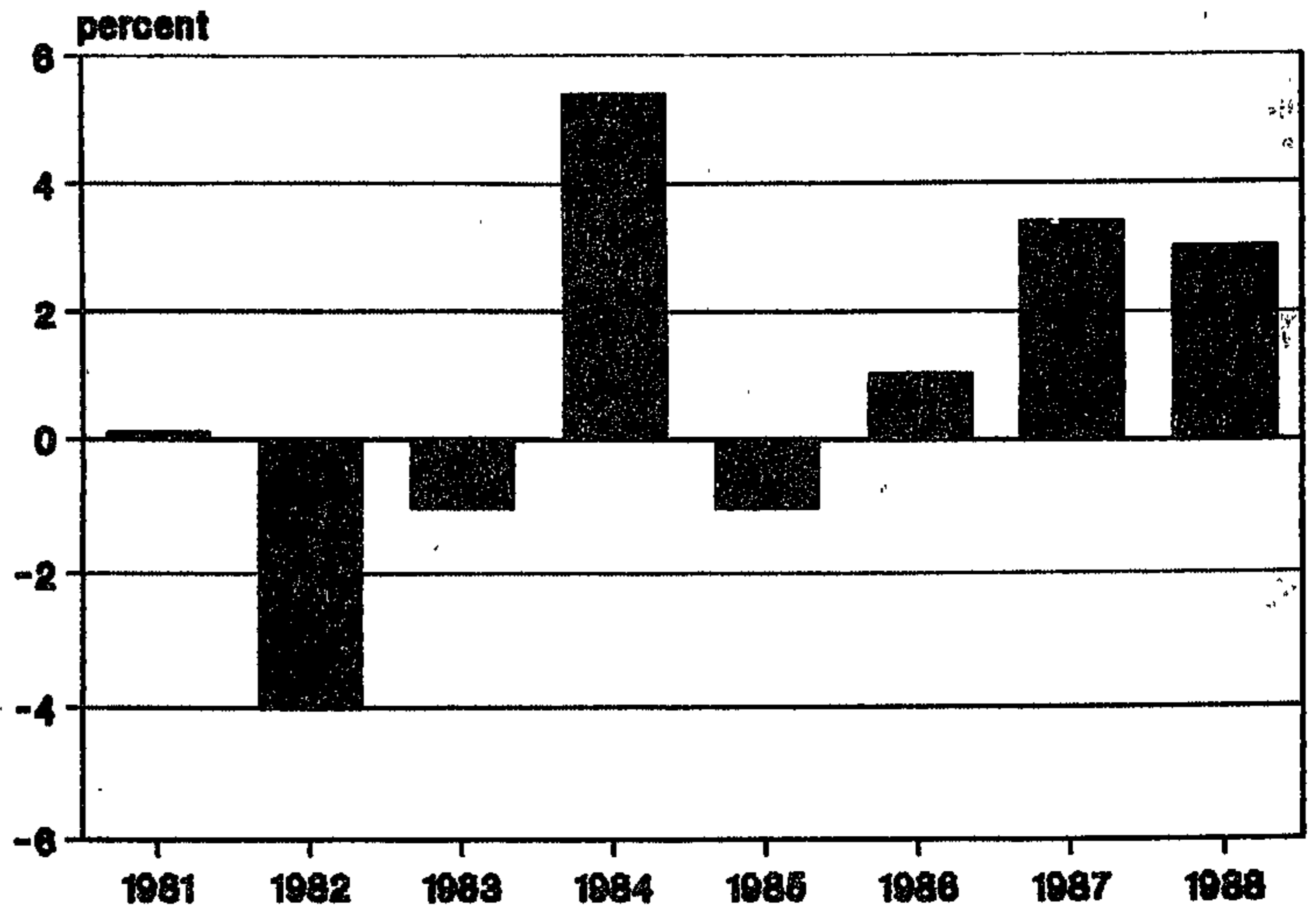
Reasons

There seem to be few economic reasons why South Africa should not expect to flourish in the coming decade.

However, political developments overseas, and especially in the US where Congressman Dellums has reintroduced his Bill calling for punitive sanctions against South Africa, could possibly affect trade and sentiment and retard economic growth here.

But recent developments, such as the statement by the former US Defence Secretary, Mr Caspar Weinberger, that the US would like South Africa as an ally and the declaration by the Pentagon that the ANC is a terrorist organisation, suggests that South Africa is possibly not as friendless or as isolated as one might think.

If the Government could find some way of helping these supporters by acceptable reform measures, and also managed the economy instead of using it for its own purposes, South Africa's prospects for the 1990s would seem bright indeed.



Real gross national product

All around us are signs of a bubbling economy, seemingly unhindered by any thoughts of a recession, what with waiting lists for luxury cars, packed restaurants, a buoyant property market and a mood of euphoria unknown since the heady days of 1983, **MAGNUS HEYSTEK** writes.

But beneath this thin layer of prosperity lies an economic time-bomb which, if not handled correctly, has the potential to plunge the country back into the morass from which it has just emerged after close on four years of negativism, doom and general despair, both politically and economically.

A characteristic of the performance of the economy since 1974, when the first oil crisis hit, has been the volatile and erratic growth cycles.

Economic downturns are longer and more severe, while the upturns have tended to be sharper but shorter in duration.

The three upswings (the current one included) since 1980 have all been aborted by a combination of running out of foreign exchange reserves (a result of sharply rising imports) and a spurt in the inflation rate.

When foreign bankers in 1985 decided the economics of lending more money to South Africa had become too high, this source of badly needed finance served only to expose the country's Achilles' Heel.

This time around is going to be no exception.

In fact, based on pure economic fundamentals only, the

Government should have stepped in far sooner and far more severely when the country's surplus on the current account of the balance of payments plunged in the first quarter of last year.

Interest rates were held down artificially in the run-up to the municipal elections which the Government considered important enough to justify placing the economic future on the altar of political expediency.

Much of the current upswing has been financed by a massive credit splurge by consumers and, lately, the business sector.

Nutshell

To put it a nutshell, the country was (is) living way beyond its means. Despite the massive import surcharges imposed on luxury goods last August, the import bill has shown no decline whatsoever and still continues to rise.

With so much depending on a stable gold price in terms of foreign earnings, any sharp drop in the gold price would be disastrous. And remember, this has happened before — in 1983 when the price dropped by more than \$100 in a matter of days.

Should this happen again, it would reveal the shaky foundations of our economic prosperity.

In recent years, many one-commodity economies have seen the rug pulled out beneath them as prices of their most important export commodities

plunged.

Zambia (copper), Chile (copper), Malaysia (rubber), Brazil (coffee) and others are grim reminders of what happens when international commodity prices, over which these countries have no control, suddenly plunge.

Were this to happen tomorrow, the authorities would have no choice but to drop the value of the rand (to protect the rand-income of the gold mining industry) and impose even harsher credit restrictions on a general public seemingly running out of control.

To make the scenario even worse, there is still the possibility of a general election quite soon.

If the immediate past is anything to go by, this means another artificially induced period of prosperity in the form of depressed interest rates and a general wage and salary increase for the bloated civil service, which the country cannot afford.

The wage increase has already been announced by an authoritarian head of state, while the Reserve Bank has in recent weeks been pumping hundreds of millions of rands into the system in an effort to keep money-market rates from going higher.

But consumers should not be fooled by such an eventuality. Debt, like chickens, always comes home to roost. It seems as if the lessons of the calamitous recession in 1984/85 have not been learned and, like fools, we are destined to repeat the same mistakes again.

Interest rates may have peaked, says Standard

16/11/89

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By Magnus Heystek
Finance Editor

Interest rates may have peaked unless fiscal policy becomes excessively stimulatory during 1989, says Standard Bank in its latest economic survey.

Consumer demand and the demand for credit are showing tentative signs of moderation in reaction to government measures to keep the economy from overheating.

Added to this is the unexpectedly strong performance of exports during the second half of last year, which has significantly eased possible pressures for further restrictive policies caused by balance of payments considerations.

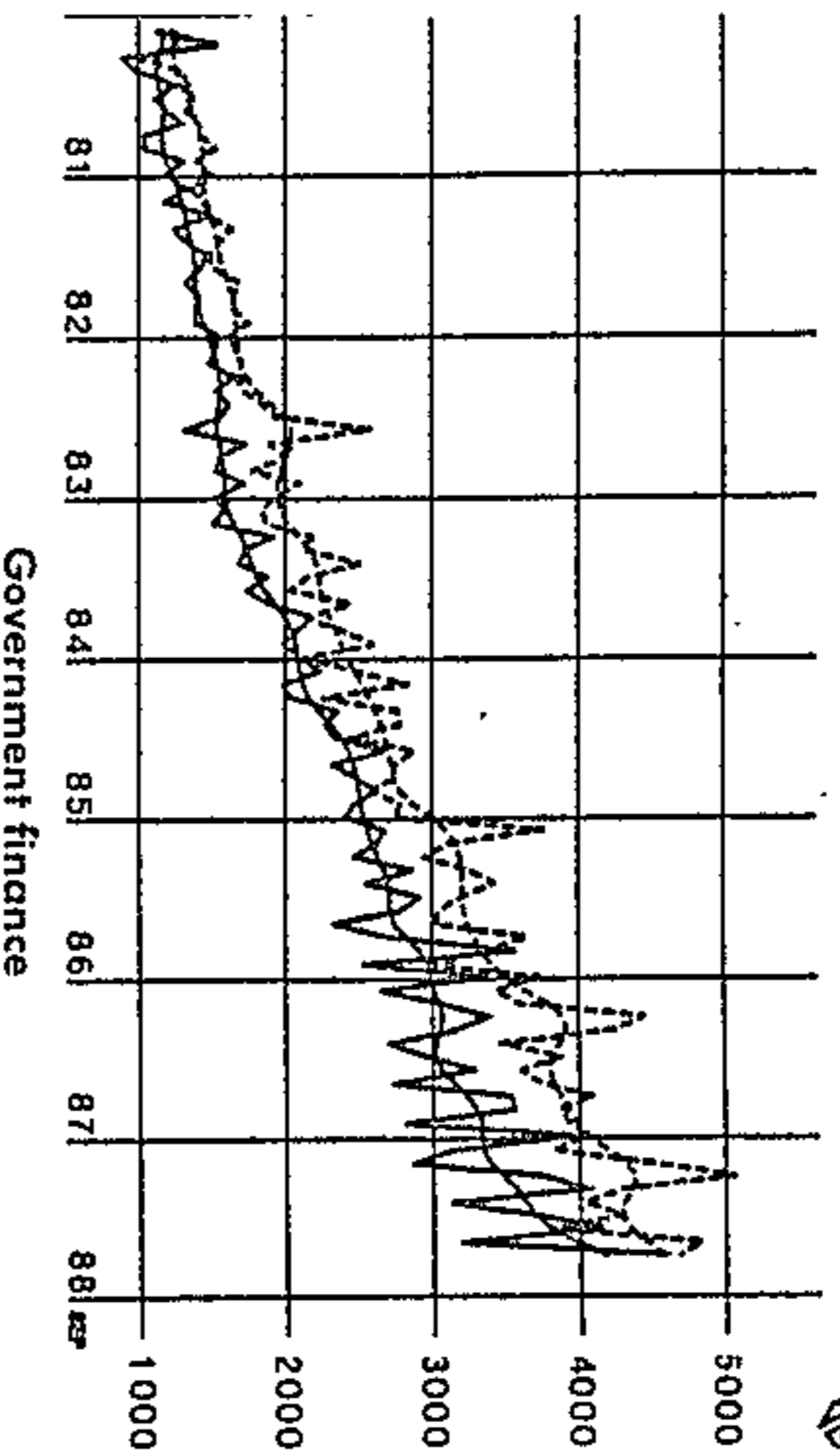
Standard says the chances are very good that the economy will continue to grow positively this year without major interest rates shocks, provided the demand for credit falls to more manageable levels.

And, also, if the surplus on the current account of the balance of payments is sufficient to meet foreign debt repayments and allow for a gradual build-up in foreign exchange reserves.

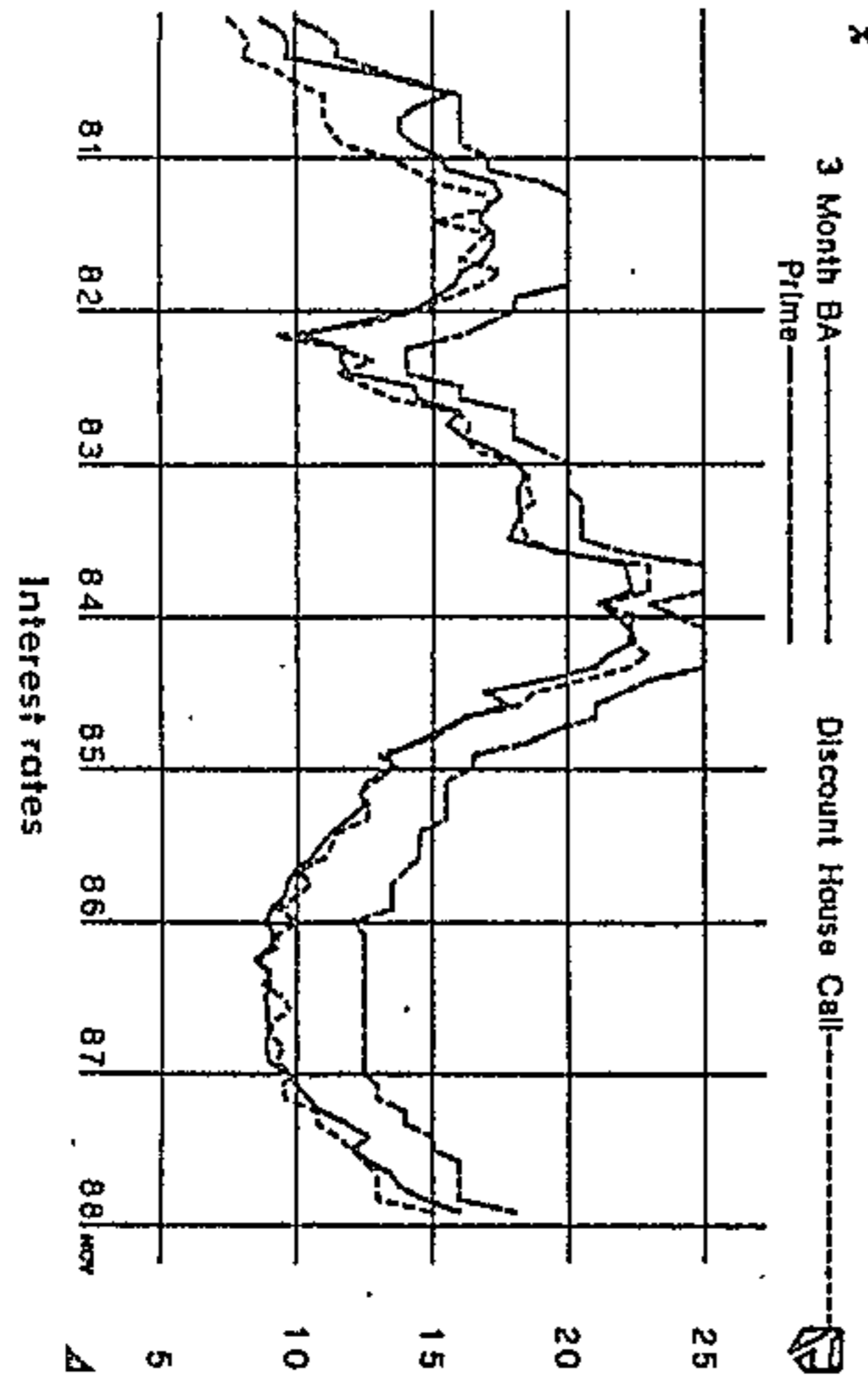
According to the survey, growth in domestic production last year was insufficient to meet the rapid increase in overall demand.

Gross domestic product (GDP) grew by almost three percent, but that was only enough to meet about one third of the increase in domestic demand.

REVENUE & EXPENDITURE
Rm. Seas. adj. & trend



SHORT TERM INTEREST RATES



imports increasing by 22.5 percent to supplement domestic production levels.

In response to the strength of credit demand, lending interest rates such as prime overdraft rate, mortgage interest rates and the official Reserve Bank

rediscount rates were gradually increased, albeit somewhat belatedly and reluctantly.

For most of 1988, monetary policy cannot be characterised as having been overtly restrictive, says Standard.

"If a repeat of the economic

debacle of 1984 is to be avoided this year, private consumption expenditure, gross fixed investment and government expenditure cannot all grow strongly at the same time.

"Were this to happen, imports would fail to moderate, let alone fall.

"Recent evidence suggests that a potential crisis resulting from a simultaneous strong expansion of all components of domestic expenditure can be averted.

"For the first time in many months there are some encouraging signs that demand for credit is slowing.

"This apparent slowdown is broadly based, affirming that the monetary and other measures introduced over the course of the last few months are finally having a dampening effect," says Standard.

At this stage there is very little else that monetary policy alone can do to further cool down private expenditure growth.

With interest as high as 18 percent on prime overdraft and much higher on most other consumer lending rates, the cost of credit has already become painful, particularly for mortgage-seekers.

Standard warns that to adopt a policy of keeping interest rates high without government expenditure being brought under control could easily result, as in 1984, in a collapse in business and consumer confidence.

Clouds lift as the pressures ease

ST Times 15/1/89 (49)

SOUTH Africa's economic horizons are brighter.

There is increasing confidence that interest rates have peaked, and for the first time in many months there are some "encouraging, albeit still tentative, indications that demand for bank credit is slowing", says the Standard Bank Review.

Unexpectedly strong exports in the second half of last year have greatly eased pressure for restrictive policies to protect the balance of payments.

Overdraft

Last year's consumer spending boom resulted in the prime overdraft rate rising from a low of 12,5% to the current 18%. Economists predict that prime could rise to 20% in the first quarter of 1989.

But the review suggests that the Reserve Bank may judge current interest levels to be adequate to achieve its key objective for 1989 — manoeuvring room on the balance of payments and the reduction of monetary expansion to acceptable levels.

Standard Bank says: "Given recent positive trends in both these areas, interest rates may have peaked unless fiscal policy becomes excessively stimulatory."

"There is thus a good chance that the economy will continue to grow this year without major disruption from penal interest rate policies, provided that a meaningful moderation in domestic demand materialises and the surplus on the current account can be maintained at current levels."

A R3,5-billion to R4-billion current account surplus should be sufficient to meet foreign debt repayments and

Business Times Reporter

allow a slight improvement in the depleted gold and foreign-currency reserves.

The review says the slowdown in credit demand is broadly based, affirming that the monetary measures introduced late last year are having a dampening effect.

If the slowdown develops into a trend, slower growth in private consumption expenditure and fixed investment will follow.

"This development comes at a most opportune time because Government consumption expenditure will inevitably increase significantly in the near term."

By the end of November, Exchequer deposits with the Reserve Bank showed a surplus of more than R2,5 billion, helping to reduce upward pressure on interest rates.

When the Government starts to disburse this cash in the next three months it will increase liquidity in the banking sector, which could exert a downward push on money market rates.

Warning

Standard Bank warns that the Reserve Bank may be forced to control undue technical easing of liquidity as the acceleration of Government spending amounts to a stimulatory fiscal policy.

If a repeat of the 1984 economic debacle is to be avoided, private consumption expenditure, gross fixed investment and Government consumption spending cannot all grow strongly at the same time.

Moves to contain imports will probably fail. Although exports have been increasing at a surprisingly strong pace recently, this would seriously

erode the trade surplus."

Recent trade surpluses have been adequate, but there is not much room to manoeuvre.

The foreign debt repayment burden will be lighter this year, but it is still heavy enough to demand that exports exceed imports by a wide margin, even without the need to rebuild reserves.

Recent trends in imports have been fairly encouraging, says the review. Volumes have slowed noticeably, and the fact that values have not been cut to the same extent is largely because of the low rand.

The trend will improve as higher interest rates slow spending and make inventory holding more expensive.

Govt spending puts liquidity into market

B/D
16/11/89
GRETA STEYN

THE Reserve Bank stopped supplying extra cash to the money market as liquidity flowed in on Friday in the form of government spending.

The Bank's withdrawal of daily repurchase agreements signals it has no intention of being too helpful now that the market is more comfortable.

Dealers said liquidity improved because government slowly started spending its huge cash deposit with the Reserve Bank. The exchequer's balance was R4,9bn at the end of December.

Standard Bank economist Nico Czypionka said: "When, in the next three months, government starts to disburse this cash, it will increase liquidity in the banking sector, effectively reducing upward pressure on interest rates or even exerting a downward push on money market rates."

● To Page 2 →

Liquidity flows through state spending

About R1bn is expected to flow into the market as government wages are paid this week.

Czypionka, writing in the bank's latest Review, said the Reserve Bank might be forced to counteract any undue technical easing of liquidity, due to government spending.

"The significant acceleration of the pace of government expenditure in the coming months effectively means that fiscal policy will become stimulatory, at least during the three months until the end of the current fiscal year."

However, the current situation warranted great care on the part of the Reserve Bank, as the 18% levels of prime overdraft and mortgage rates were already high and inflicted a great deal of economic pain on borrowers.

Pressure for restrictive policies has eased — the balance of payments situation has improved and demand for credit was showing signs of slowing down. At this stage, there was "very little else" that monetary policy alone could do further to cool private expenditure growth. Though further increases might not be necessary, rates would have to remain high to avoid balance of payments problems.

Czypionka said a general election could spark expansionary fiscal policy, raising the possibility of a repeat of 1984. "At that time the application of penal interest rates, plus tax increases, was the only option left to combat an untenably fast expansion of domestic expenditure."

← ● From Page 1

Tax hike certain ^{B/day 16/1/89} economists

PRETORIA — Increased taxation in the 1989/90 budget appears unavoidable because of sustained high state spending, economists say.

They maintain even bracket creep, which is likely to add substantially to state revenue in the new financial year, will be insufficient to provide the needed funds.

Volkas economist Adam Jacobs said the deficit before borrowing was likely to be around 6% of GDP.

To get this into perspective, he said the US deficit was between 2% and 2,5% of that country's GDP.

He said a benchmark of 3% of GDP had been set as a target for SA by the IMF.

There is absolutely no indication

GERALD REILLY

that government spending will be cut back drastically or even worked down to any significant extent.

"So the alternative would seem to be higher tax in one form or another in the March Budget."

Last week, too, old Mutual economist Dave Mohr said an increase in taxation to support state spending, in addition to the already announced levy on petrol sales, would be necessary.

UBS economist Christo Luus estimated the deficit before borrowing in the coming Budget at around R10bn.

This and continued high level state spending made it virtually certain Finance Minister Barend du Plessis would increase taxation.

PFP finance spokesman Harry Schwartz said the Budget delivered before the general election would not include increased taxation.

There had been talk of appointing a delimitation commission, but this had not been followed through.

So the possibility of an early election remained.

Schwartz said today's increase in the petrol price was a tax and would go straight into general revenue.

Government was also to get a payment of R600m from the Industrial Development Corporation before end-March for Iscor shares, although no body was disclosing the price or number of shares involved.

So it had substantial additional support funds.

THE Witwatersrand Chamber of Commerce and Industry is concerned at persistent rises in state spending.

President Hennie Viljoen says in a statement the private sector is being forced to bear an increasing tax burden.

"Businessmen and consumers are footing the bill for profligate state expenditure, currently running at an unacceptably high 29% of GDP, without any improvement in the level of public services. Should this situation prevail, the country will be unlikely to fulfill its enormous growth potential.

"The chamber believes the private sector is the most efficient medium for stimulating economic growth.

"If the trend, whereby private sector investment has declined steadily since 1981, is to be reversed, state spending must be cut and taxes lowered. The opposite appears to be true," he adds. Viljoen predicts this will be a tough year, especially for the transport sec-

BIDON 17/11/89

Higher state bill raises WCCI ire

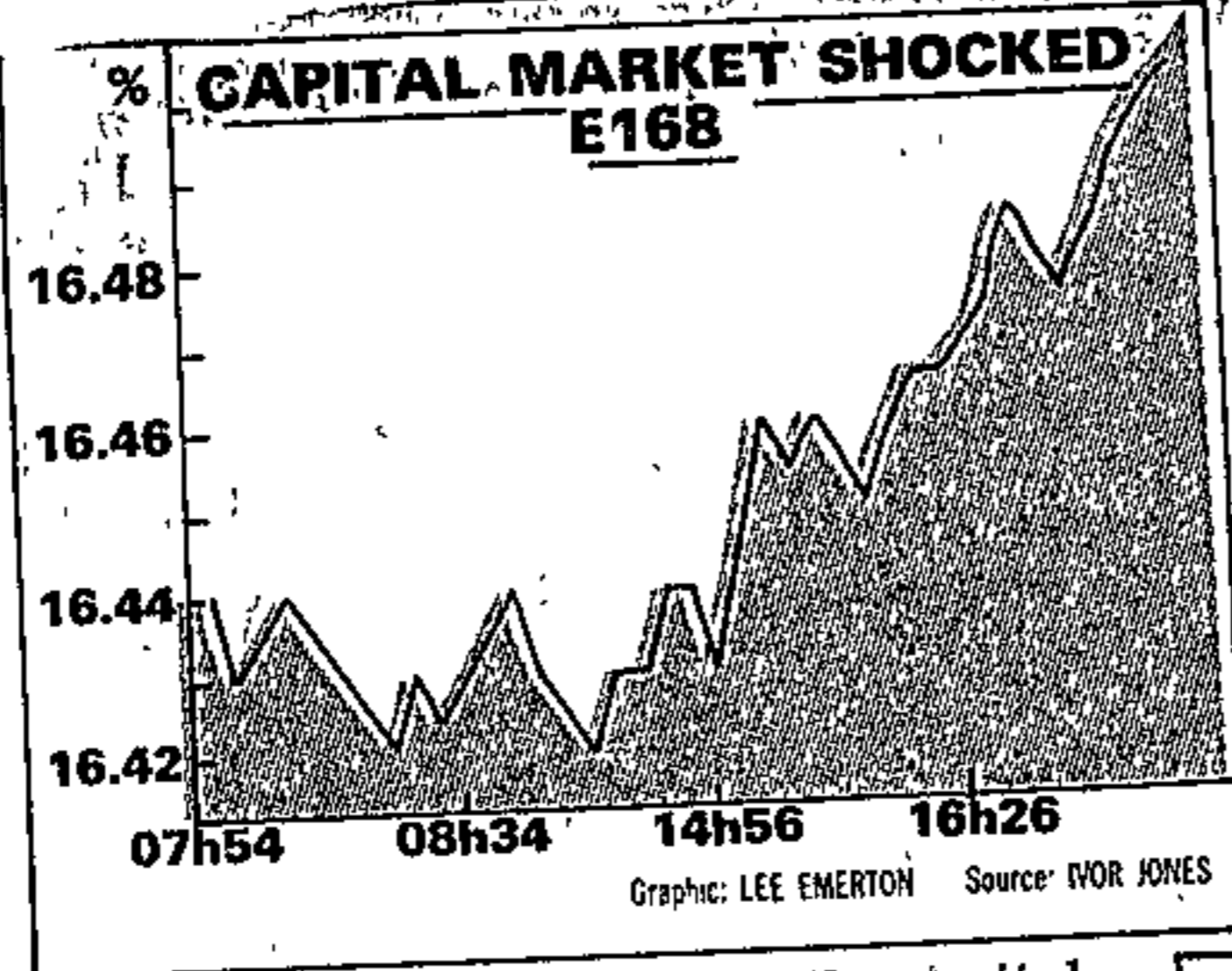
tor, with a countrywide average increase in the price of petrol of 10c yesterday to be followed by a 2c increase in the price of diesel in April.

Viljoen says: "We are disappointed government is funding the 15% salary increase for the civil service from a source that was never used for this purpose before. The increase in the fuel levy will make a significant impact on business costs and consumer prices.

"Not only will the road-user have a higher fuel price to contend with, but an increasing number of the routes he uses will be tolled. We are particularly perturbed that some roads earmarked for tolling have been in use for five years.

"Government has reneged on its commitment not to allow the tolling of existing roads nor of roads where no alternative routes exist." — Sapa.

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Gilt ⁽⁴⁹⁾ rates soar

B/Dam 19/1/89

GRETA STEYN

SHOCK waves went through the capital market yesterday after the news that President P W Botha had suffered a stroke.

Other markets showed little or no reaction to the news, choosing rather to focus on the latest US trade figures.

In the capital market, rates on Eskom's Loan 168 climbed to 16,50% at the close from Tuesday's 16,43%. The stock had been well bid, hitting a day's low of 16,42% — until the news of Botha's illness broke, triggering a flurry of selling.

Action on the JSE gilts floor continued until late yesterday afternoon as rates shot up six points on the news.

Botha's illness created an uncertain environment, always a negative factor for the capital market. Questions were being asked over a possible successor, and as one dealer put it: "We don't like the choices." He said a new President

held implications for government spending.

The news had also fuelled uncertainty over the next general election, an important factor for the market. The timing of an election would affect the Budget and government spending.

The rand weakened immediately on the news to over R2,40 to the dollar but bounced back after the release of the US trade figures. The American deficit, at \$12,5bn in November, put downward pressure on the dollar — with obvious benefits for the rand.

But the rand failed to appreciate much as the dollar remained relatively strong. The domestic currency ended the day slightly easier at R2,3963 compared with Tuesday's close of R2,3888.

The JSE and the money market did not react to the news of Botha's illness.

● See Page 10

From MAGNUS HEYSTEK JOHANNESBURG. — All around us are signs of a bubbling economy, seemingly unhindered by any thoughts of a recession, what with waiting lists for luxury cars, packed restaurants, a buoyant property market and a mood of euphoria unknown since the heady days of 1983.

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When foreign bankers in 1985 decided the economics of lending more money to South Africa had become too high, this source of badly needed finance served only to expose the country's Achilles Heel.

This time around is going to be no exception.

In fact, based on pure economic fundamentals only, the government should have stepped in far sooner and far more severely when the country's surplus on the current account of the balance of payments plunged in the first quarter of last year.

Interest rates were held down artificially in the run-up to the municipal elections which the government considered important enough to justify placing the economic future

on the altar of political expediency.

Much of the current upswing has been financed by a massive credit splurge by consumers and, lately, the business sector. It is evident this cannot carry on indefinitely.

To put it a nutshell, the country was (is) living way beyond its means. Despite the massive import surcharges imposed on luxury goods last August, the import bill has shown no decline whatsoever and still continues to rise.

With so much depending on a stable gold price in terms of foreign earnings, any sharp drop in the gold price would be disastrous. And remember, this has happened before — in 1983 when the price dropped by more than 100 in a matter of days.

Should this happen again, it would reveal the shaky foundations of our economic prosperity.

If the immediate past is anything to go by, this means another artificially induced period of prosperity in the form of depressed interest rates and a general wage and salary increase for the bloated public service, which the country cannot afford.

The wage increase has already been announced by an authoritarian head of state, while the Reserve Bank has in recent weeks been pumping hundreds of millions of rands into the system in an effort to keep money-market rates from going higher.

But consumers should not be fooled by such an eventuality.

VAT unlikely in '89

Business Staff

THE Value Added Tax system which the government has said will be introduced to replace the present General Sales Tax is unlikely to begin this year.

Checkers' financial director Mr Serge Martinengo said the company was in the process of gearing up for this new method of tax and "the government's assurance that commerce will be given six months to get ready to administer the tax will not be necessary in our case".

Nevertheless, head of Inland Revenue Mr Clive Kingon said he still felt that the assurance given to the various chambers of commerce of a six months notice period would be met.

Director General of Finance Dr Chris Stals said this week that the very earliest that the tax could be introduced would be in November this year.

Retailers and particularly the large supermarket chains face a huge one-off exercise in getting ready to pay a VAT type of tax.

SA
Sitting
ON
time-bomb
economic

w/c Areas 21/1/89
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Economic power linked to political liberation

(49)
22/1/89

IT is no longer arguable that apartheid and its economic ramifications will soon become history.

The only questions are when the system will go and who will eventually rule the post-apartheid country. And, it appears black majority rule is inevitable.

The issue of black economic empowerment seems to have its roots in the feeling that it is a matter of time before blacks gain political power and that they ought to prepare for the takeover.

At the core of the issue lies the debate about whether economic empowerment or political liberation should take precedence.

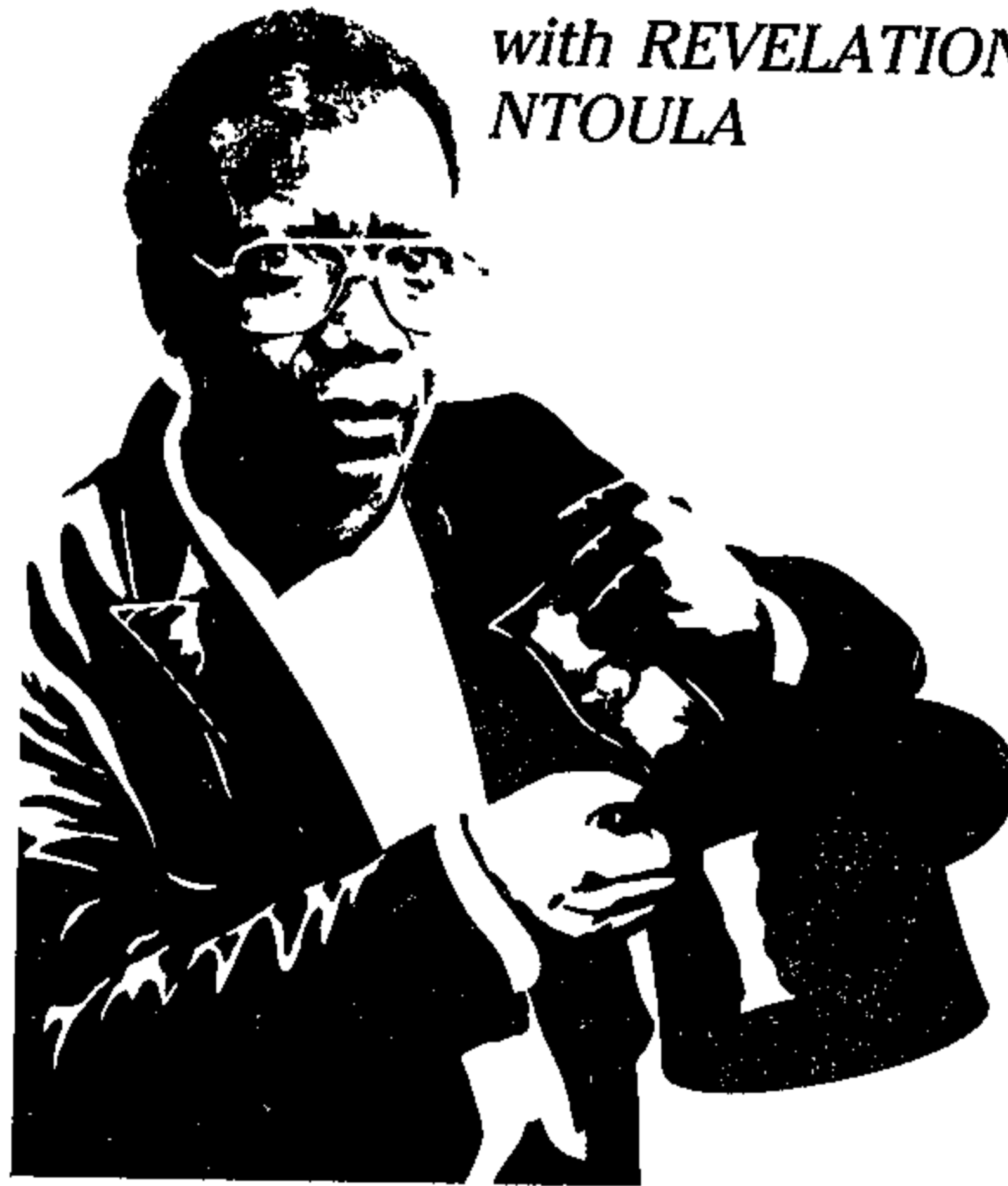
A third school of thought maintains the two are inseparable and should receive equal treatment. The reasoning is that political and economic power are meaningless without one another.

The importance of the black economic empowerment issue was highlighted at last year's National African Federated Chambers of Commerce and Industry (Nafcoc) conference at Sun City. The theme of the conference was "Towards economic empowerment".

Constant reference is made to the rise and consolidation of Afrikaner nationalism which led to the National Party's (NP) political victory in 1948. The Afrikaners' meteoric political and economic rise illustrates the bond between politics and econom-

Money Talk

with REVELATION NTOULA



ics.

A common experience for Afrikaners was frustration because although they enjoyed some political power, they did not have meaningful economic power in the emerging industrial society.

The year 1938 proved a turning point in Afrikaner history. Two organisations which were to determine the course of Afrikanerdom - the Reddingsdaadbond and the Ossewabrandwag - were founded in Pretoria.

The Reddingsdaadbond was formed to secure Afrikaner participation in the control of commerce and industry. At the time economic power was firmly in the hands of English-speakers.

The Ossewabrandwag, a semi-secret political body influenced by Nazi ideas, was intended to preserve the spirit of the Great Trek and to work on strategies which would lead to an Afrikaner political victory.

The founding of the

Reddingsdaadbond had a direct bearing on the formation of giant Afrikaner establishments such as Sanlam.

A leading civil rights lawyer, Dikgang Mosenke, has said the path to economic empowerment entails a strategy to acquire participation in the political process.

Zimbabwe's President Robert Mugabe stressed the need to facilitate the transfer of wealth to his country's nationals. He has said political power without economic power is futile.

When the NP came to power in SA, one of its biggest tasks was to ensure every possible penny went into Afrikaner pockets. The government introduced laws to prevent blacks from competing economically.

Although some of these laws have been relaxed, others remain intact.

The effect has been to eliminate black participation in big businesses like mines. Until recently blacks could not own more than one business in an urban area.

If and when the government decides to open the business race to all, other racial groups will be too far ahead for blacks to catch up.

The situation in the event of black majority rule will place the rulers in an invidious position. They will be able to make political decisions but economic power will remain entrenched in white hands.

● REV NTOULA is editor of *African Business*.

B/Day 23/1/89

Money supply 49 is still growing

KAY TURVEY

MONEY supply is still growing at a galloping pace and has not yet been checked by higher interest rates.

Preliminary figures released on Friday by the Reserve Bank show M3 grew by 26,37% in the year to December, after registering a growth of 25,03% in November.

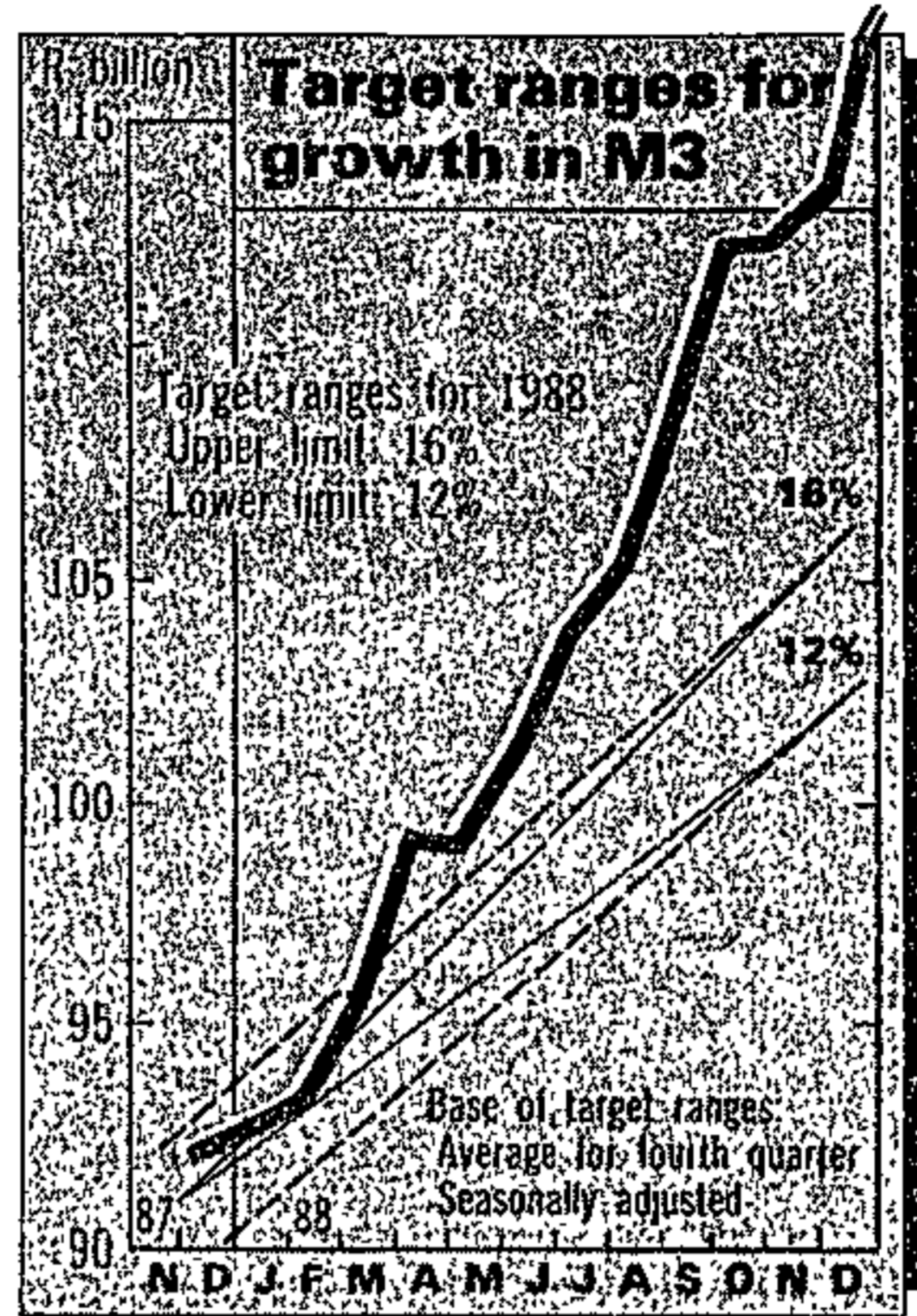
Nedbank chief economist Edward Osborn said the rate of growth remained sharp and was not showing signs of levelling off.

M3 rose from a final figure of R115,4bn in November to a preliminary R117,7bn in December, which Osborn described as an "unduly large increase".

However, there were initial signals that bank lending was beginning to taper, although hire purchase lending remained strong.

Standard Bank economist Nico Czipionka agreed there were stirrings of a credit slow-down with demand for housing loans and off-balance sheet financing falling off slightly.

He said it was unrealistic to expect money supply to respond rapidly to tighter monetary policy. Money supply growth had taken nine months to react



to the high interest rates of mid-1985.

However, Sanlam economist Johan Louw said the economy was not cooling sufficiently and, perhaps, more steps should be considered.

Growth in money supply slightly up

slow 23% 18%

49

The rate of increase in South Africa's money supply increased slightly in December after declining in October and November.

The M3 figure for December over 12 months was 26,37 percent compared with the revised November figure of 25,03 percent.

The actual growth was R117,170 million compared with November's R114,823 million.

The M3 figures include the credit granted by the banks to consumers and corporations.

The M3 figures in September were 27,73 percent and 27,71 percent in October.

Bank spokesmen said that demand for credit was still very strong although there had been a very slight decline. They said it would take a long time for the measures introduced by the authorities last year to take effect.— Sapa.

Govt deficit 'may be under estimate'

B/Dam 24/11/89

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GOVERNMENT'S deficit might eventually be lower than Treasury's December estimate of R10,6bn, chief executive of fiscal policy Gerhard Croeser said yesterday.

Croeser spoke to Business Day on the latest fiscal spending figures in the Government Gazette, which showed the deficit sharply down for the nine months at R4,6bn compared with R7bn a year ago.

The expected acceleration in government spending had not yet materialised, aggravating the liquidity tightness in the money market. However, Croeser said it was only a matter of time before spending picked up.

A lower-than-expected deficit would reflect an extraordinary windfall on the revenue side rather than exceptional savings on spending. Revenue for the nine months to December rose by 25% from 1987 — far ahead of the budgeted 16,3%. Spending rose by 13,5% in that period, compared with a budgeted 12,9% for the full year.

"We have been fortunate on the revenue side, with increases far exceeding our hopes. We can look forward to a lower deficit as percentage of GDP, and could well end the year below our last

GRETA STEYN

estimate of R10,6bn," Croeser said.

But as government postponed spending, the money market shortage climbed to R2,77bn, threatening upward pressure on interest rates. However, the Reserve Bank was quick to stabilise interest rates yesterday with a R300m offer of repurchase agreements.

Reserve Bank Governor Gerhard de Kock told Business Day the Bank wanted to smooth abnormal tightness resulting from a strong flow of funds from the market to government.

"The liquidity aid is not a signal of a more relaxed monetary policy. The latest money supply figures are an indication that our restrictive policy stance has to remain in place."

Senior bankers cited lower-than-expected government spending during January and December as the main factor behind the massive shortage, expected to reach R4bn by month-end. Other factors, such as credit demand, are said to be less important. In addition, GST

● To Page 2 →

Govt deficit 'may be underestimated'

payments of well over R1bn and the demand for notes as the month-end draws near are draining the market.

Trust Bank economist Nick Barnard ascribed the tightness in the money market mainly to a flow of funds into the exchequer account.

Nedbank economist Edward Osborn noted this was aggravated by Treasury's capital market stock issues last year. Government was over-funded, having borrowed much more than it had needed so far. He estimated government had drained a total of R8bn from the market.

Government was sitting on a pile of

B/Dam 24/11/89

● From Page 1 ←

cash, which hit R4,9bn at the end of December, and had apparently not spent enough to relieve the market. But if the past repeated itself, government spending could jump as the fiscal year drew to a close.

Osborn said last year saw the defence vote spend R1bn in one month — March — after spending about R500m a month.

"A deficit of R4,6bn after nine months implies a dramatic increase in spending in the next three months if the eventual deficit is to be about R10bn."

Bank balance reaches record levels

3/Day
26/1/89

Govt set to spend R5bn cash hoard

49

GRETA STEYN

GOVERNMENT'S cash deposits with the Reserve Bank have swollen to R5bn, which will pour into the economy in the next two months.

The exchequer's cash balance has reached record levels while government has postponed spending, triggering speculation that it may be saving for the next fiscal year. However, this fiscal year is set to end on the same note of high spending as most others.

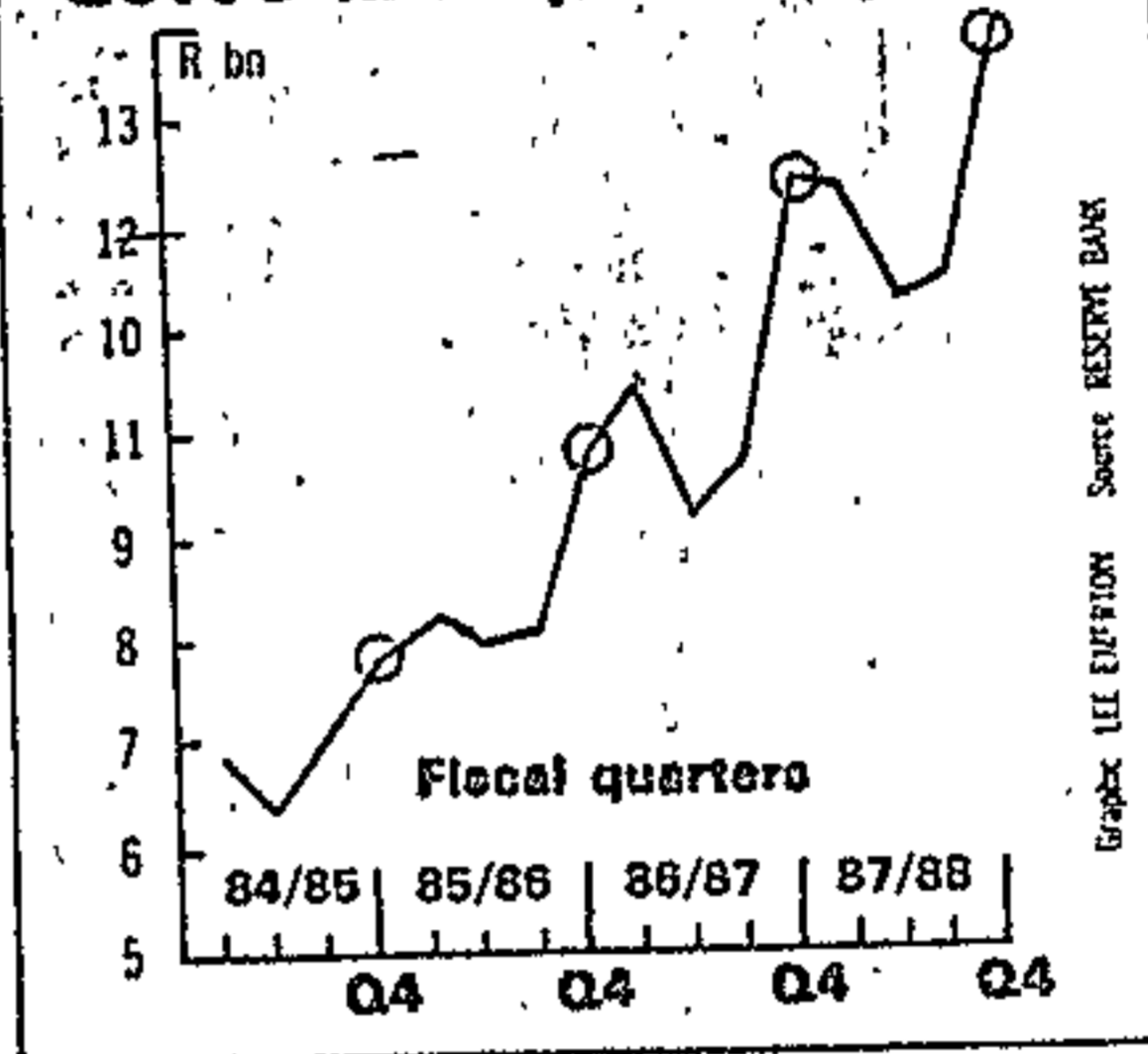
Finance director-general Chris Stals said yesterday: "The exchequer's cash holding is large simply because the state needs the money for the current fiscal year. There will be a sharp acceleration in government spending in the next few weeks."

Government's fat bank balance is the result of a tax bonanza and extensive borrowing last year. Nedbank economist Edward Osborn said the state had already exceeded by about R1bn its budgeted borrowing of about R11,4bn (gross) from the domestic market.

Asked why government had borrowed more than originally budgeted when revenue was running far above expectations, Stals said indications were that government would need the money. He expected the exchequer's healthy balance with the Bank to dwindle in March.

The upsurge in spending in the final quarter of the fiscal year has become a

Govt's final quarter splurge



pattern in the economy. In the last fiscal year, government spending peaked at R13,9bn in the final quarter — 13% higher than the first quarter's R12,3bn. Defence spending notched up R1bn of spending in March alone, after averaging about R500m a month. Total spending was about 25% to 50% higher in March last year than in the previous months of the fiscal year.

The burst in spending will largely be cushioned by high revenue, which will help contain the deficit to close to R10bn. But finance officials acknowledge the revenue boom cannot be repeated in the next fiscal year and are appealing strongly to government departments to save rather than splurge in the next few weeks.

Economy 'will remain buoyant'

26/1/89
B/DWY
THE economy will remain buoyant throughout 1989 and will continue to exert pressure on the balance of payments, says FNB economist Cees Bruggermans.

In contrast to the widely held view that the economy will cool this year, Bruggermans predicts real GDP growth will match the 3% achieved last year and can go even higher, if SA experiences a bumper agricultural season.

Most other economists are forecasting a 1% rise in GDP.

Bruggermans, writing in the bank's

KAY TURVEY

latest Business Brief, says the peaking of durable consumer spending may not retard overall consumer spending much, if the beneficial effects of rising real wages and employment continue to support basic consumer spending.

Business spending on fixed investment, which grew by about 7% last year

● To Page 2



Economy will remain buoyant, says FNB

and which Bruggermans anticipates will rise by 6% this year, has been off a low base and largely funded from internal sources rather than bank credit.

He says although the corporate sector reduced stock levels in the second half of last year, the stock drawdown is unlikely to last much longer.

"It appears most unlikely that government spending may become contractionary during the coming year," he says.

26/1/89
B/DWY
Whereas the shift in growth away from consumer durables to non-durables and semi-durables implies a weaker import intensity, the acceleration in fixed investment implies the opposite.

Only a tactical decision to run down strategic stockpiles, after the external political successes of last year can allow some temporary relief.

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Lack of cash due to govt deposit

(49)

Money market shortage is now at R3,5bn

B/Dam
27/1/89

THE MONEY market shortage — the banking sector's debt to the Reserve Bank — has climbed to R3,5bn as the liquidity squeeze continues.

The shortage of cash in the market arises largely from government's huge deposit with the Bank. The central bank, mindful of the abnormal situation, has kept a lid on interest rates by supplying extra cash.

Trust Bank economist Nick Barnardt said: "The artificially high exchequer surplus of over R5bn is the main factor driving the money market shortage toward an effective month-end level of R4bn."

Economists criticised the lop-sided nature of government's borrowing and spending. This had caused "cash-flow problems" in the money market, creating a situation where the current liquidity crisis would be followed by a flood of cash when government started spending.

Nedbank's Edward Osborn said it was unfortunate government had chosen to borrow from the market at

GRETA STEYN

a time when liquidity was tight in December. This had aggravated the squeeze caused by tax payments and the holiday demand for notes.

Osborn said: "Public debt management has been out of step with money market conditions."

Barnardt said the huge market shortage built up over December would take a long time to wind down. The market was already jittery about large end-February tax payments — another drain on liquidity which could put upward pressure on rates.

He said: "Much depends on the extent to which the Bank is prepared to pre-empt the eventual recirculation of the exchequer surplus by direct and immediate aid to the market."

A senior banker said the market was on a knife-edge, with rates ready to sky-rocket if the central bank stopped supplying liquidity. But the Bank has made it clear it would accommodate the market until a clearer picture emerged on the economy.

Barend hints at a tight Budget

B1 Day 27/11/89

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CAPE TOWN — The last thing SA needed this year was an expansionary Budget, Finance Minister Barend du Plessis said yesterday.

In an interview with Business Day, Du Plessis pointed to a more restrictive Budget by emphasising the need to maintain tight controls on further credit creation and consumer spending.

But Du Plessis ruled out further interest rate hikes at this stage.

"I will put my money on stable interest rates provided we do not see a complete collapse in the gold price."

Du Plessis said the economy remained relatively buoyant, but the message he was receiving was that the restrictive measures introduced late last year were beginning to filter through.

He confessed he would be more certain about this had he been able to have a series of planned meetings with business leaders last week. The meetings



● DU PLESSIS

MIKE ROBERTSON and
CHRIS CAIRNCROSS

were cancelled as a result of President P W Botha's stroke.

Du Plessis said the deficit on this year's Budget would be larger than the R10,7bn originally predicted, but added that revenues would be higher.

The additional appropriation due to be presented in Parliament in two to three weeks would reveal what the actual picture was.

Du Plessis confirmed Business Day's report yesterday that the R5bn in cash deposits held by the Reserve Bank would be spent by the financial year end.

He suggested there was nothing abnormal in this as the money had been allocated to various projects in November last year after government had "cut out every bit of expenditure we could".

"The spending plan is not open-ended, but the spending pattern manifests itself," Du Plessis said.

He added that considerable progress was being made by the separate depart-

● To Page 2

Barend hints at more restrictive Budget

ments in setting priorities on spending, in line with government's as yet undisclosed five-year goals.

"We are getting much closer to aligning the Budget to year one in the five-year plan."

Du Plessis said he still harboured some reluctance in making public the five-year plan government was working to, because of the possibility of further hostile action being taken against SA by the outside world.

While government could possibly cope with any new pressures, it was likely the private sector would find it more difficult to do so if it set its own goals according to the five-year plan.

Du Plessis indicated that changes in the marginal tax rate on companies, accompanied by the removal in discrepancies in tax exemptions, could form

part of this year's Budget, due to be tabled in Parliament on March 15.

Du Plessis said he would be seeing representatives of the life assurance industry soon, to discuss possible changes to the new taxes imposed on the industry last year.

"I am very grateful for the degree of understanding and co-operation already achieved on this matter," he said.

With the first steps towards privatisation scheduled to occur this year, Du Plessis said it was clear the prescribed asset status of loan stock from these affected state enterprises could no longer be maintained.

This issue was still being reviewed and no decisions had yet been reached.

B1 Day 27/11/89

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49

MONEY SUPPLY

49

When the going got tough . . .

It seems government's three-year-old money supply targeting exercise has been just an excuse to inflate. This is supported by the whopping 10 percentage point overshoot of 1988 — with money supply growth showing little sign of trailing off. In 1986 and 1987, the Bank set targets of 16%-20% and 14%-18%. Money supply was then increasing more slowly than that — so the exercise began as a way of putting a "monetarist"

"fourth-quarter" 1988 (actually a September-December weighted average). In 1988, this was a preliminary R114,33bn — fully 26,3% over the year-earlier average, and far above the 12%-16% goal.

Given this dismal performance, is there any point to targeting?

Reserve Bank economist Jaap Meijer says yes, because targets focus attention on money supply: "They invite analysis of money

supply; force the monetary authorities to reconsider more or less continuously the appropriateness of their policy stance; and force the authorities to justify this policy stance. They therefore retain considerable disciplinary significance."

He adds: "They greatly facilitate understanding for and acceptance of otherwise unpopular monetary policy measures."

Why the overshoot in 1988? Meijer cites re-intermediation and higher "liquidity preference" (public demand for short-term assets), as well as the strong upswing in domestic expenditure and output — which, he says, was unpredictable and authorities feared they

could kill with "too much, too soon."

The Bank now wishes it had raised rates earlier, Meijer says, but "uncertainty as to the strength of the upswing — which turned out stronger than could reasonably have been expected — induced caution."

He says the 1988 overshoot "should be viewed in perspective. Having been based on increased liquidity preference and substantial re-intermediation phenomena as well as the unexpected strength of the 1987-1988 cyclical upswing in domestic expenditure and output, it has been accompanied by a decline in velocity of circulation. As such, the 1988 overshoot in major respects represents the mirror image of the undershoot of 1986, which saw a major rise in velocity of circulation. The average compound annual rate of growth in M3 from fourth-quarter 1985 to fourth-quarter 1988 consequently does not, in fact, depart at all substantially from the average mid-point target range of growth for M3 for 1986, 1987 and 1988."

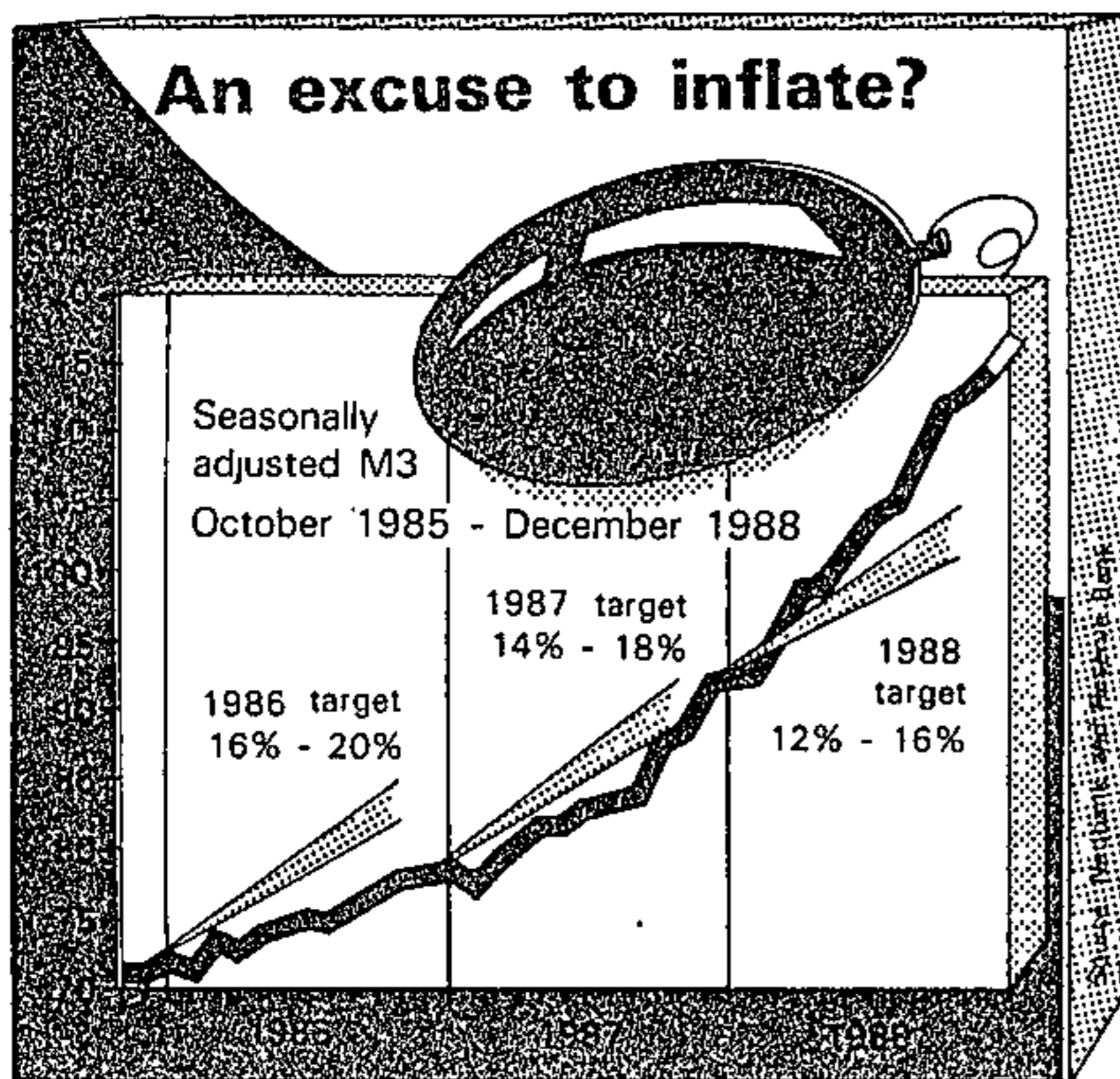
Trouble is, monetary targeting is not based on changing velocities of circulation. If it is to be, it should be presented totally differently — say, as a target for money GDP (real growth plus inflation).

□ The narrowest measure of money supply, M0, ended 1988 36,7% higher than a year earlier: R9,3bn vs R6,8bn. During the year, M0 averaged R7,89bn/month — 30% higher than 1987's average.

GOVERNMENT FINANCES

Days of plenty

Exchequer issues in December were 18% up on the previous year, bringing the rise in the nine months to end-December to 15,6%.



blessing on *expanding* money supply.

A bad start. But at least the introduction of targeting made the point that money supply can, and should be, controlled.

The real test came last year. And the authorities failed.

By February, seasonally adjusted M3 — the targeted aggregate — had overshoot the new, lower 12%-16% target. It never came back into range.

Bringing it into range would have required slowing money creation and letting interest rates rise, which government won't allow. M3 at end-December 1988 was 26,4% up on a year earlier, at a preliminary, seasonally adjusted R117,17bn. This followed 12-month increases of 25% (November), 27,7% (October) and 27,3% (September).

December's money supply increase alone was 2%. This continuing high growth throws into question the argument of some bank economists that official rates have risen far enough. Without a sudden, sharp drop in credit demand, it's unlikely Bank rate can be kept down — unless the Bank abandons all pretence of controlling money growth.

Last year's 12%-16% target was for growth between "fourth-quarter" 1987 and

WHO OWNS THE BANK?

Since its inception in 1920, the SA Reserve Bank has refused to reveal the identity of its shareholders. Says secretary Kerneels Swanepeel: "According to section 20 of the SARB Act No 29 of 1944, no director, officer or employee of the Bank . . . shall disclose . . . any information relating to the affairs of the Bank, a stockholder or customer of the Bank."

This wall of secrecy has been breached by Robin McGregor, author of the annual publication *Who Owns Whom*. He has acquired a share, thereby qualifying to see who owns the 1m R2 shares. "There is nothing to stop me publishing this information. I fail to understand why the board is so reluctant to make it public."

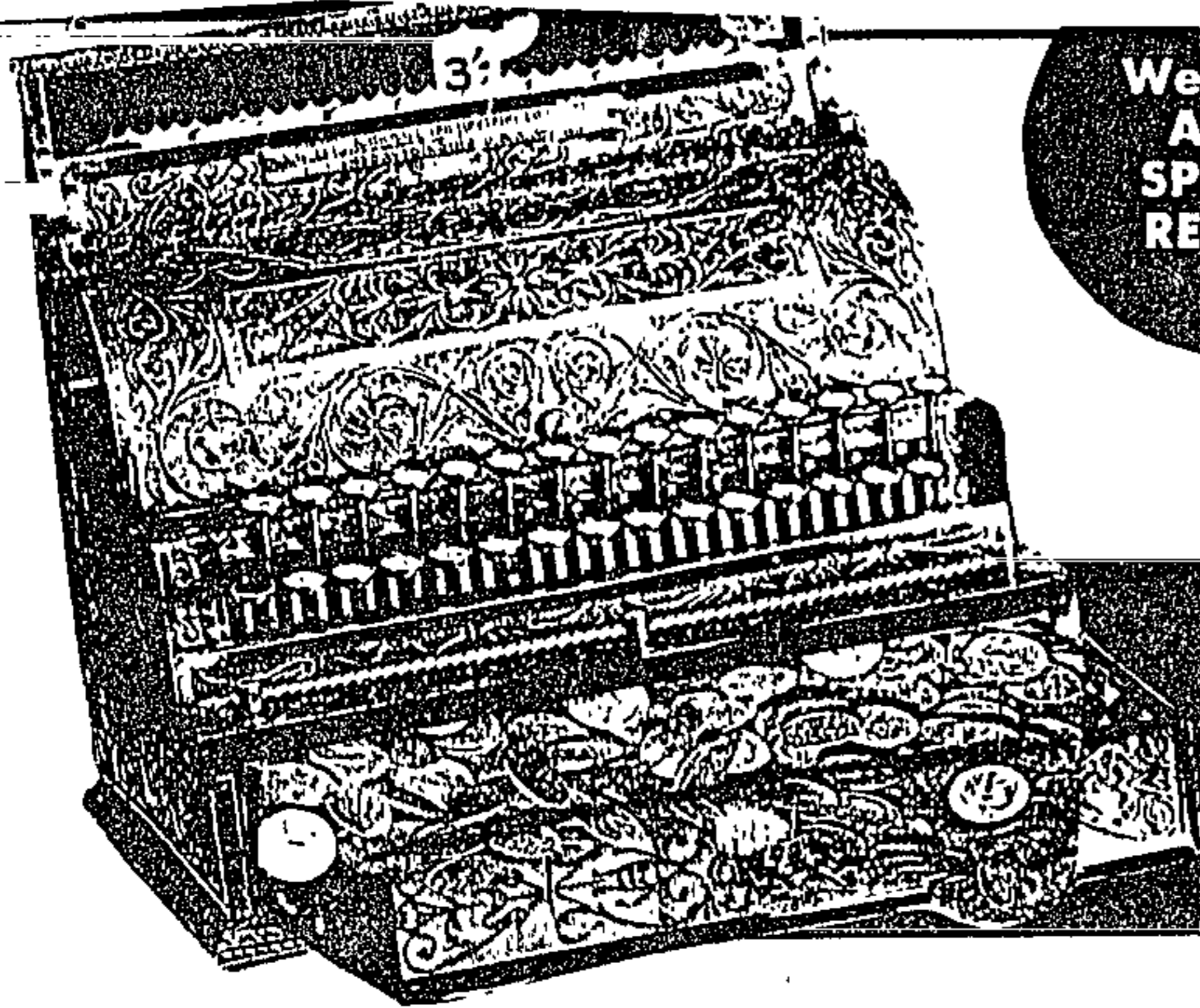
The 1944 Act limited individual shareholdings to R10 000 — though anyone with more, before this, was allowed to retain it. Of the 707 shareholders, only six still hold more than R10 000.

Says McGregor: "These include two companies under the umbrella of First National, with R50 500 (2,52%) combined, and the SA Mutual, also R50 000. Of the rest, 91 hold R10 000 each, and 610 less than R10 000."

Every R200 carries one vote. No one can exercise more than 50 votes.

"It's not possible for any one or even a combination of shareholders to effect any form of control," says McGregor. "The State President (SP) appoints six of the 12 directors. One is the governor, who has a casting vote — so control is clearly in the hands of the SP."

The major benefit of owning shares is presumably the information available to shareholders. The dividend is pegged at 10% of issued capital, so the Bank may not pay more than R200 000 a year. The current dividend yield is 13,7%.



Weekend
Argus
SPECIAL
REPORT

w/LEARGUS
28/1/89



VANIS

THE spectre of multi-million rand fraud scandals, corruption and mismanagement in high places threatens to become one of the biggest crises facing the government since President Botha took over the leadership over a decade ago.

Disclosures about foreign exchange contraventions on a huge scale, this week's resignation of Manpower Minister Mr Piet du Plessis and National Party MP for East London Mr Peet de Pontes and the impending resignation of the Nationalist MP for Hillbrow, Mr Leon de Beer, are but the latest of a series of events that have cast a shadow over the Nationalist administration.

Ironically, the crisis has come when time appears to be running out for President Botha to fulfil his promise of "clean administration" which he made when he first took over the reins.

A colossal task awaits either him — if his health allows it — or his successor, to clean up the financial and administrative mess revealed so far in a series of investigations by official commissions and the police.

SOME say the wave of corruption and other scandals hitting the country may only be the "tip of the iceberg".

This week's resignation by the two NP politicians and an announcement by Mr de Beer that he is to resign on February 3, have served only to compound the ruling party's problems.

Minister Du Plessis's resignation followed recent allegations — flatly denied by him — that he had misused his position to the benefit of the Du Plessis group of companies belonging to him and his son Johan. An investigation into various facets of the companies is being made by the Advocate-General, Mr Justice P J van der Walt.

In the case of Mr de Pontes, who resigned from Parliament this week and was expelled from the National Party, the Harms Commission recommended that the Cape Attorney-General investigate wide-ranging allegations of corruption with a view to instituting criminal proceedings.

Mr Justice Louis Harms found that a *prima facie* case existed — that Mr De Pontes, Mr Vita Palazzolo, a convicted drug smuggler, and other South African and Ciskeian citizens had probably been involved in corruption, fraud and perjury.

The judge, in his first report to President Botha, described events in the De Pontes-Palazzolo affair as "an unbelievable tale of international intrigue, associations between South Africans and the Ciskei government, alleged abuse of power, alleged abuse of influence and alleged 'common' crimes."

Mr De Beer has appealed after he was sentenced to imprisonment last year for electoral fraud and contraventions of the Electoral Act.

IN another development, the shock disclosure was made this week that foreign exchange contraventions totalling R554-million are being investigated by commercial branch detectives. The amount could increase when the findings, in cases now under investigation by a special Reserve Bank team, are handed to the police for action.

Reserve Bank deputy governor Mr Jan Lombard said the bank was investigating foreign exchange fraud cases "totalling hundreds of millions of rands." He would not say exactly how many cases but said they ran into "double-digit figures, but not more than 50."

A special internal investigation team was established in December under Mr Lombard's direction to investigate the incidence of fraud and other problems relating to the use of the financial rand.

The probe comes in the wake of disclosures by the Harms Commission that Pretoria attorney Mr Albert Vermaas allegedly fraudulently moved at least R100-million in foreign exchange last year.

The country was also shocked by disclosures to the Harms Commission about the Transkel corruption scandal involving a R2-million payoff by casino tycoon Mr Sol Kerzner and former Cape Town mayor Mr David Bloomberg to disgraced and ailing former Transkeian Prime Minister Chief George Matanzima.

MEANWHILE, Transkel's strongman military ruler, General Bantu Holomisa, has sounded a clear warning to South Africa to amend laws which allow South Africans to encourage corruption in neighbouring states.

In the Vermaas affair, the Harms Commission heard evidence that about R146-million, deposited by a number of organisations in institutions

set up by the Pretoria attorney,

The deposits were from about State corporations, trade unions, organisations, including the Public Action (PSA) and the National Mineworkers (NUM).

Other investors included the Vrouefederasie, Sentra-Oes, Sogelage, Iscor and Noordelike Groep.

They had been invited to put Ciskei-based companies Eurochem, Verco, closely linked to Mr Vermaas, rates ranging from 20 to 60 per cent.

The investors' dream of finding the end of the rainbow has turned sour under the spotlight of the Harms Commission.

A strange aspect of the Vermaas case, that, according to evidence, the approved 10 commercial rand transactions for Vermaas for more than R100-million over months — and never once verified by the invoices.

OTHER recent scandals involving both the public and private sectors.

■ In December Mr Karel De Beer, an accountant accused of defrauding the Medical Aid Fund of R4,5-million, was sentenced to 10 years in Pretoria Central Prison in what was described as a "stunning" sentence. He and his girlfriend were seen sipping champagne on the veranda of the Sabie River Hotel.

■ Last October a senior government official in the Department of National Health and Family Development was suspected of siphoning off an emergency fund of R10-million for his own use. Police were investigating the fraud.

■ In September it was reported that a large-scale South African currency fraud involving the channelling of R67-million in 1988 was uncovered by the Reserve Bank's control division.

The swindle was one of four frauds.

THE

SHING

RAND

an attorney, was missing.
 from about 600 businesses,
 trade unions and welfare or-
 the Public Servants Associ-
 the National Union of
 included the Suid-Afrikaanse
 tra-Oes, SOS Children's Vil-
 delike Groep-opleiding.
 invited to put their cash into
 Eurobank, Eurotrust and
 to Mr Vermaas, at interest
 20 to 60 percent.
 team of finding a pot at the
 has turned into a nightmare
 of the Harms Commission.
 of the Vermaas affair was
 evidence, the SA Reserve Bank
 special rand transactions by Mr
 more than R100-million in 18
 once verified the authentic;

scandals involving people in
 and private sectors include:
 Mr Karel Daniel Oosthuizen,
 accused of defrauding the Iscor
 of R4,5-million died in Pre-
 in what appeared to be sui-
 cide. He and his wife were arrested while
 on the verandah of their
 River Hotel.
 a senior government official of
 National Health and Popula-
 was suspended as police
 that almost R200 000 had been
 emergency food fund for flood
 investigating 10 charges of

It was reported that a large-
 currency fraud involving the
 million in illegal funds abroad
 the Reserve Bank's exchange
 one of four forex frauds that

were under investigation by the police commer-
 cial branch in Johannesburg at the time. In total,
 over R130-million was involved.

The disclosures followed closely on a similar
 R60-million foreign exchange scam involving former
 Trust Bank junior executive Mr Simon Sam-
 uels, who skipped the country last July. In that
 instance, R11-million left the country illegally.

Mr Samuels was alleged to have imported fi-
 nancial rands and repatriated them as commer-
 cial rands, worth 30 percent more.

■ In 1987 former Sanlam chief Dr Andreas
 Wassenaar rocked the establishment with disclo-
 sures about the multi-billion-rand debacle of the
 buy-back state pension fund scheme.

He warned in his book, *En Route to Fairy-
 land*, that the fund was heading for a financial
 disaster that would cost taxpayers R30-billion
 over the next 20 years because of over-generous
 pension benefits to public servants.

Government spokesmen rejected the criticism,
 but Dr Wassenaar stuck to his guns, rejecting
 government assurances that the scheme was
 sound.

■ Foreign exchange losses totalling R3 200-
 million were suffered by the South African
 Transport Services (SATS) between 1982 and 1987,
 according to the findings of the government-ap-
 pointed Cross Commission. The commission criti-
 cised Sats for inadequate control over its forex
 dealings.

The commission's findings resulted in a de-
 mand from the Progressive Federal Party last
 November for the immediate resignation of the
 five Sats commissioners responsible for moni-
 toring forex transactions.

PF Party transport spokesman Mr John Malcomess
 described the commission's report as "a well-de-
 served total indictment of Sats's top manage-
 ment and its commissioners".

This is a clear example of what happens when
 politicians are put on the board of an organisa-
 tion so integrated into business as Sats is," he
 said. All three Sats commissioners were political

South Africa has been rocked
 by a wave of scandals
 involving fraud, corruption,
 abuse of power and
 mismanagement in high
 places. In the wake of
 investigations by two
 important commissions — the
 Harms Commission and the
 James Commission — heads
 have rolled, politicians have
 resigned and the government
 is reported to be considering
 new legislation to deal more
 efficiently with corruption and
 irregularities. Political writer
 FRANS ESTERHUYSE looks at
 the problem and its
 implications

appointments, being former National Party MPs.

■ The giant electricity corporation Escom has
 been rocked by multi-million-rand fraud scan-
 dals.

In one case four cheques totalling nearly R22-
 million were stolen from the corporation's head-
 quarters in Johannesburg. When the theft was
 discovered in 1987 police said it was not linked to
 an earlier Escom stocks fraud which could in-
 volve tens of millions of rands.

■ Medical-aid schemes are losing about R20-
 million a year through fraud and abuse of the
 claims system, according to Mr Jeff Slome, man-
 aging director of Medicaid, a member of the
 Price-Forbes Federale Volkskas Group.

■ A police team has been investigating an or-
 ganisation called the Boere-Mafia following a gi-
 ant fraud operation which may result in losses
 totalling about R40-million.

The "Mafia", alleged to involve well-dressed
 blacks and whites, uses stolen identification to
 open cheque accounts, according to a police
 spokesman.

Worthless cheques are alleged to have been de-
 posited into the accounts and withdrawals were
 made in other centres before the cheques were
 cleared.

■ Meanwhile South African businesses are re-
 ported to be losing nearly R300-million annually
 to computer fraud. The crimes are allegedly
 committed by computer bandits who have estab-
 lished elaborate international links. According to
 one report, computer fraud has already replaced
 fire as the insurance industry's biggest risk.

■ Insurance companies also face a serious
 fraud problem. An insurance law expert, Mr
 Nicholas Mander, says fraud generated by em-
 ployees of insurance companies is now bordering
 on organised crime and he predicts that the posi-
 tion is going to get worse.

Govt industrial report kept secret

CAC 707 B 3/1/87

Political Staff

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THE extensive expert evaluation of the government's Regional Industrial Development Programme is to be kept secret until the South African and four independent homeland governments have studied the report.

The two-volume report on the government's regional incentives for development by a 15-member panel of academics and private sector representatives was handed over yesterday to the Acting President, Mr Chris Heunis, by the panel's chairman, Professor Wiseman Nkuhlu.

Mr Heunis, who addressed representatives of the five governments in the Economic Community of Southern Africa (Ecosa) in Cape Town yesterday, said: "Although we are all aware of the considerable public interest in the outcome of the evaluation exercise, it is not yet the time to release the report or divulge its detailed contents.

"Due to the very sensitive nature of the subject concerned, it will be in everybody's interest to treat the report with the utmost degree of confidentiality.

Handing over the report, Professor Nkuhlu said the panel believed its findings would improve the effectiveness of the regional development programme.

Senbank warns of end to boom and shift in activity

SEN BANK says the peak of the boom could be reached in the first quarter.

Economist Johann du Pisanie adds in the bank's latest Economic Review such a technical downturn in the business cycle does not, however, mean the average level of economic activity will be lower this year than last because sectoral shifts in the economy can be expected.

Gross domestic expenditure is expected to make a far lower contribution to

Monday 1/2/89
KAY TURVEY

growth this year than last but the net foreign balance should make a positive contribution through an expected drop in the volume of imports.

Du Pisanie says real spending on motor vehicles and other durables is expected to fall because of the 5,5% percentage point rise in interest rates and other tighter monetary measures last year.

He adds that on the positive side the market for domestically produced textiles, furniture and appliances should expand rapidly because many more houses were built last year. *(49)*

Whereas the outlook for this year was not all bad, the low average growth rate of the 1980s deserved urgent attention. The average 1,5%-a-year growth rate was below the 2,3% rate of the workforce.

De Kock says burgeoning credit demand is forcing reappraisal

Money supply soars by 28,50%

Star 2/12/88

By Sven Lümsche
Reserve Bank Governor Dr Gerhard de Kock yesterday called for a tighter monetary and fiscal policy in the months ahead.

Reacting to the 28,5 percent surge in M3 money supply in the year to January, Dr de Kock said that "the combination of rising money supply and the lower gold bullion price would imply a reappraisal of current economic policy."

"Although we still believe economic demand is slowing down, we underestimated the duration and the intensity of the upswing."

Money supply as measured by M3 (the broadest measure) has risen steadily since November.

The Reserve Bank said yesterday the increase in M3 had gone from 25,03 percent in November to 27,55 percent in December to an estimated 28,47 percent in January this year.

The increase in M3 in cash terms for December 1988 over

December 1987 was from R93,142 billion to R118,813 billion. The seasonally adjusted estimate for January was R121,37 billion.

The narrow measure of money supply, M1, rose by 23,02 percent December-on-December. M2 over the same period rose by 35,55 percent.

Dr de Kock said the increase in credit demand originated from all sources.

"We are experiencing an increase in demand from the consumer, as well as from the corporate sector, which is utilising unused credit facilities to finance investments," he said.

Dr de Kock said the preliminary money supply estimates for January would help the authorities to formulate new growth targets for the year. These would be released within the next few weeks.

Last year the target was set at 12 to 16 percent. Given the



Dr Gerhard de Kock

dramatic growth rate, it is likely that the target from the fourth quarter of 1988 to the fourth quarter this year will remain unchanged.

Commenting on the gold price, De Kock said bullion could still pick up over the next few months.

"But it would be unwise to base economic policy on any marked increase in bullion because an average \$50 decline from last year's average of about \$440 would cost the country \$1 billion. "Given these two factors, there

can be no question of a relaxation of either fiscal or monetary policy and the forthcoming budget will have to be extremely tight," he said.

Volskas economist Adam Jacobs reiterated Dr de Kock's call for tough fiscal and monetary measures.

"Given the impact of high domestic expenditure on the balance of payments it is essential that the authorities act quickly and decisively."

"If they don't act proactively through measures like higher interest rates and a tough Budget, the economy will do it for them and respond with high inflation," he said.

The surge in credit demand was also underlined by the commercial banks' BAg figures for 1988, which were released yesterday.

An analysis of the figures by Nedfin shows that demand for hire purchase and lease receiv-

ables surged by 30 percent over the year to R4,3 billion, despite the restrictive measures introduced last year.

Nedfin MD Ron Rundle said an analysis had shown that in the last quarter alone credit had grown by 7,4 percent, or R1,3 billion.

But he said the consumer spending spree appeared to have slowed down slightly in January.

Nedfin said its study showed that by the end of December last year, bank instalment sales had totalled R12,3 billion, an increase of R907 million, or eight percent, on the September 1988 figure.

Lease agreements grew by 6,4 percent in the quarter to R6,5 billion (R6,1 billion). Savings rose slightly less than the inflation rate at 12,8 percent and stood at R8,4 billion at the end of the year.

Mr Rundle said corporate demand was strong, with the expectation that interest rates had peaked.

... now see how a judgment in our favour will influence the other," he said.
"This is British justice," Sir Michael

... however would now concentrate its efforts on highlighting its financial strength, he said.

Growth prospects this year are looking good

Star 3/2/89
By Magnus Heystek
Finance Editor

(49)

After initial reservations about South Africa's economic prospects in 1989, economists are gradually coming to the conclusion that the country's growth performance might even be on par with last year's rate of about 3 percent.

Latest positive comments come from Dr Johann du Pisanie, chief economist of Senbank, who expects the economy to grow by at least 3 percent, and possibly more if the favourable conditions currently being experienced by the agricultural sector continues for the rest of the year.

Although he warns of a technical correction, predicted to start from about the second quarter onwards, this downturn is in fact, expected to be fairly mild.

Gross domestic expenditure (GDE) is expected to make a far lower contribution to growth in 1989 than in 1988, while the net foreign balance (exports minus imports and non-factor services) should make a positive contribution through an expected drop in the volume of imports.

Real expenditure on motor cars and other durable consumption goods with a high import content is expected to drop. Higher interest rates and rising prices of

these items are bound to have a negative effect on the average individual's ability and willingness to incur further debt.

Senbank points out that whilst average personal income increased in real terms last year, it considers it unlikely that this will happen again this year.

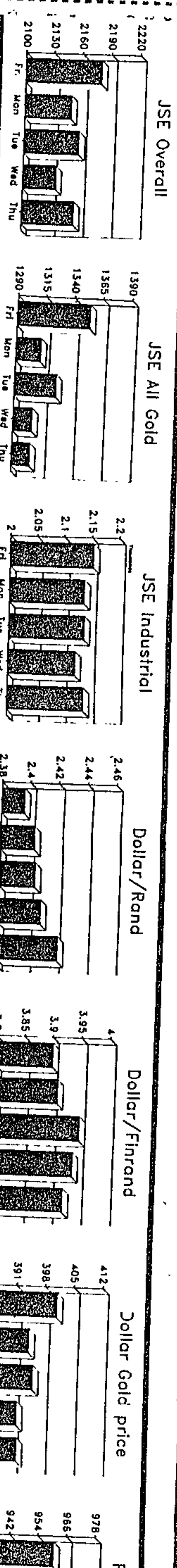
The rise of the prime overdraft rate by 5.5 percentage points last year, increases in import surcharges, tighter credit conditions, the rising cost of essential commodities and higher average taxation through "bracket creep" will force consumers to re-evaluate their financial positions.

On balance, private consumption expenditure is expected to increase by a further 1.5 percent in real terms, after rising by an estimated 4.2 percent in 1988.

What does require urgent attention from the authorities, warns Senbank, is the low average growth rate represented by the 1983 to 1988 trend line.

This average of 1.5 percent a year is way below the 2.3 percent rate of increase in the working and work-seeking population.

Should this situation continue, South Africa's future is one of growing unemployment and abject poverty.



Nedbank forecasts a gradual decline in interest rates

A current account surplus of more than R6 billion is expected for 1989, and with debt repayments in June and December expected to amount to about \$1 billion, the net reserve position should improve, Nedbank says in its latest Guide to the Economy.

With the slackening in economic growth and in credit demand, the contribution of notes in circulation and bankers' balances with the Reserve Bank will have a lesser effect on the overall liquidity drain. Nedbank points out that although

some growth is expected, it will be tempered since the present levels of interest rates can contain increases in private consumption.

It notes that as a result there should be an overall addition to liquidity in 1989, and points out that the outlook for interest rates accordingly is one of gradual decline from present levels.

However, this decline in interest rates is unlikely to be maintained into 1990 when the large drain on the capital account is expected.

Nedbank says that if severe restrictions are placed on departmental vote increments, limiting the overall increase to 11,5 percent before taking into account new salary and pension increases, the government will be able to budget for a R13 billion deficit in 1989/90.

It believes that a R13 billion deficit can be financed quite easily through stock issues at lower market rates. At this deficit level, the new issues of government stock that would have to be raised would

amount to R13,3 billion compared with R10,2 billion in the 1988/89 and the R8 billion in the previous year.

However an additional R1 billion or so stock may have to be raised in order to match the withdrawal of moneys of the Central Energy Fund (CEF), presently held as treasury bills with the SRA for the financing of the Mossel Bay development.

According to Nedbank the 1989/90 R13 billion projected deficit would represent a deficit/GDP ratio of some 5,0 percent. This is consider-

ably higher than the 3 percent usually recommended by the IMF.

The 3 percent, however, is appropriate for countries with a nominal GDP growth rate of about 10 percent, whereas South Africa's nominal growth rate is almost double that at about 18 percent. The deficit ratio for 1986/87 was 5,2 percent and that for 1987/88 4,6 percent.

The R13 billion deficit for 1989/90 would raise the debt/gdp ratio to 32,7 percent by the end of the financial year, Nedbank says.—Sapa.

ECONOMIC OUTLOOK

In the eye of the storm

49 FMAC
3/2/89

Having successfully countered seasonal forces in the money market, Reserve Bank Governor Gerhard de Kock may also have masked underlying fundamentals. Since late December, when seasonal demand for cash began draining the market, the Bank has been keeping liquidity high and short-term rates comparatively low, with the help of frequent repurchase agreements. De Kock decided on this policy to ensure that purely short-term factors didn't distort interest rate patterns, creating self-fulfilling expectations of continued interest rate rises.

The result, however, is that interest rates, a crucial indicator of underlying activity in a market economy, are not fulfilling this role.

Despite their recent stability, there is evidence that growth is continuing. More slowly, perhaps, than in 1988, but still briskly. This has not been reflected in rising rates because of Bank intervention. And as Bank assistance is replaced by the long delayed surge in government expenditure, short-term rates may continue for a while at present levels or even soften further.

At the end of December, R3,67bn remained in Exchequer balances. And judging by the size of the money market shortage during January (see *Markets*) little was spent in the month.

"So we can expect a tidal wave of spending in February-March," says Nedbank chief economist Edward Osborn. "There is always a tendency to spend more towards the end of

the fiscal year and, this year, delays in State spending have been unduly prolonged. In principle this seasonal movement shouldn't happen. There should be steady levels of issues to eliminate seasonal humps. In practice, however, there are several departments which have not made steady drawdowns.

"By December, Defence had proportionately underspent by R630m, the Ministry of Works by R274m, Finance by R175m, Transport by R346 and Health and Population Development by R152m."

Despite speculation that some of the balance may be retained for next year's Budget, there has been no indication from the minister that the deficit before borrowing will be lower than expected. In fact there have been hints that it may be higher and only excessive revenues will avert this.

"Not even end-February tax payments will make a sizeable dent in the net inflow," says Osborn. "Only vigorous open market operations can mop up the liquidity. There is a projected R10bn deficit before borrowing for fiscal 1988-1989. At end-December this was only R4,6bn so, even net, there will be a R5,4bn excess of issues over receipts in the next two months."

Which means that not until the start of the new fiscal year in April will the money market return to normal. ("Unless, of course, departments hold funds issued to them with the CPD in anticipation of spending in the next financial year," says Osborn.)

What fundamentals are obscured by this four-month liquidity splurge?

Until very recently, they were looking healthier than for some time. Though money supply growth has not slackened noticeably, anxieties about the current account have been allayed by improved trade figures (see "Last-month boost.") The reserves, though not restored to health, were better than expected after debt repayments in December. Leads and lags were no longer undermining the currency and the rand had hovered around R2,35/US\$ in recent weeks.

Unfortunately, we have been struck in our traditional Achilles' heel — the gold price. With the dollar rising on international markets, gold suddenly fell below \$400/oz. "Unless it rebounds quickly," says Old Mutual chief economist David Mohr, "we are likely to find ourselves back in the position we were in, in the middle of last year, when the environment was very negative."

The falling gold price is compounded by low inflation expectations in major economies — "3% in West Germany and Japan," says Mohr, "5% in the US and slightly higher in the UK. At the slightest sign that these expectations may be too optimistic there is an immediate move to higher interest rates. These have a chain reaction — January's adjustment of the key Bundesbank discount rate from 3,5% to 4% triggered similar moves in smaller European economies."

So while a higher dollar threatens the gold

price, higher interest rates differentials may return to plague the rand.

This double whammy could put us back to the dark days of June 1988, when international exchange and interest rate movements threatened the rand and the surplus on the current account. ■

Star 6/22/89

Reform SA by black economic advancement

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By Michael Chester

The greatest potential for reform and change in South Africa now rested with black economic empowerment, Mr Gaby Magomola, chief executive of the African Bank, told businessmen in Johannesburg at the weekend.

"Blacks are not waiting for the Government to take the initiative and decide what is good for them," he told a conference, called by the Institute of Retail Studies, of the University of Cape Town's Graduate School of Business.

There had been a tragic history of paternalism and benign neglect — and blacks now wanted to ensure that future generations would be equal part-

ners with whites in the economic mainstream.

"The extent to which whites wish to be party to the new order will depend on their ability to work towards a non-racial South Africa."

Black buying power was already a potent force in the economy, and black trade was now critical for the viability of several industries.

"What are these companies, whose livelihood depends on black trade, doing in the field of black advancement?" he asked.

Black entrepreneurs were looking into all opportunities in the economy — from retail outlets to the manufacturing sector, he said.

Economic showing hailed by De Kock

CAPE TOWN — Reserve Bank Governor Dr Gerhard de Kock is thrilled by the performance of the economy, which is expanding despite sanctions and disinvestment.

He said yesterday foreign bankers were curi-

ous about SA's performance in the face of international hostility.

He cited the argument that economic pressure to persuade it to hasten reform of apartheid race laws had failed.

"We are quite thrilled and pleased at the outcome of the economy in 1988," he said.

"The economy is not only surviving, but growing again and putting up a quite remarkable performance in the meantime."

He said foreign bankers were embarrassed by South Africa, but at the same time fascinated by it because of its success in the face of political adversity.

Gross domestic product grew by an inflation-adjusted three percent last year, compared with real growth of 2,5 percent in 1987 and one percent in 1986.

The average inflation rate last year was 12,9 percent, compared with 16,1 percent in 1987 and 18,6 per cent in 1986.

Dr De Kock said the balance of payments showed a current account surplus in 1988 of R2,5 billion, which he said was much better than expected.

He said South Africa's growth and inflation figures would be unacceptable in Western Europe and the US, but were enviable in most Third World countries.

—
Reuter.

SA's 3% growth rate last year was remarkable — De Kock

CAPE TOWN — Real economic growth in 1988 was about 3% and the current account surplus about R2,5bn — both better than expected, Reserve Bank Governor Gerhard de Kock said yesterday. *Bidam 7/2/89*

The Bank viewed the 1988 performance of the economy as "magnificent" in spite of constraints since 1985, when SA's access to foreign loans and credit was cut off, and the standby agreement for the repayment of the country's foreign debt was negotiated. De Kock said: "It represents a remarkable achievement that we have maintained growth in spite of the constraints."

SA's total capital outflow in 1988 amounted to R6bn, bringing the total outflow in four years since 1985 to R25bn — a figure De Kock described as "enormous".

Sanctions against SA had proven to be counterproductive. "You can't destroy the economy of SA and at the same time provide relief to other countries."

Cooling

49

De Kock expected the country's real growth rate to ease to 2% in 1989 while the surplus on the current account of the balance of payments would widen to more than R4bn for the year.

Preliminary indications were of a moderate cooling down of the economy, leading to an improvement in the balance of payments. However, there was no definite economic data available yet to confirm that.

The main negative factors facing the economy were the low gold price and rising inflation which would average about 15% in 1989 compared with 12,9% last year.

However, based on an average gold price this year of \$400 an ounce, De Kock said he expected a current account surplus of between R4bn-R6bn.

On that basis, the country would easily meet foreign debt repayments totalling a maximum of R1,7bn this year. — AP-DJ.

SKV
9/2/89 (M) (69)

'SA cannot stand alone' — Minister

CAPE TOWN — South Africa could not stand alone, and to claim that it could would be misleading, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Speaking in the joint debate on the Acting State President's speech opening Parliament, he said the Conservative Party had done South Africa a disfavour by claiming this.

When the threat of oil sanctions had become "bad" there were measures which could be taken to counteract it.

However, since September 1 1985, South Africa had functioned without an international banker.

ACCOUNTS

How many people could run their accounts without an overdraft, Mr du Plessis asked.

Mr du Plessis said R25 billion had left South Africa since September 1, and the simple truth was the country was on the defensive to meet its obligations and to prove that it could continue to do so.

On this basis, further international negotiations could take place.

The main sacrifice South Africa would have to make was that it could no longer grow to the extent it had in the past.

GROWTH RATE

A positive growth rate was, however, expected this year.

The sacrifices needed to fight the international onslaught were no less than those needed to fight a physical onslaught.

He asked whether anybody could foretell what the gold price would do.

In a few weeks time he and his advisers would have to introduce a Budget bearing a gold price in mind. — Sapa.

R25bn has
flowed out
of SA since
'85 — Barend

CAPE TOWN — Finance Minister Barend du Plessis said yesterday R25bn had left SA since September 1 1985 and the country had to be on the defensive to meet its financial obligations.

Speaking in the joint debate on the acting State President's opening-of-Parliament speech, he said the CP had done SA a disavour by claiming the country could stand alone.

Du Plessis said when the threat of oil sanctions had become "bad", there were ways in which the move could be countered.

However, since September 1 1985 SA had functioned without an international banker.



● DU PLESSIS

"How many people can run their accounts without an overdraft?" Du Plessis asked.

The main effect of monetary sanctions was that SA could no longer grow to the extent it had in the past. The economy therefore had to continually under-achieve. It functioned as a Third World economy in a state of siege.

However, a positive growth rate was expected this year.

He said in the light of punitive measures taken by the international financial community, further international negotiations would be needed.

The sacrifices needed to fight the international onslaught were no less than those needed to fight a physical onslaught.

In a few weeks' time he and his advisers would have to introduce a Budget bearing a gold price in mind.

He asked whether anybody could foretell what the gold price would do.

He said government had to manage the country in such a way that it could withstand international onslaughts. —

Sapa.



Du Plessis

In one of his most strongly worded attacks yet, Reserve Bank Governor Gerhard de Kock has told supporters of direct controls to stop pretending they sup-

port free enterprise.

"There is one approach to the implementation of economic policy which I for one cannot support," he told the Frankel Kruger investment conference this week. "That is the proposal that the economy should be treated like a large private company — some kind of 'SA Inc' — and subjected to so-called hands-on management, involving direct controls such as quantitative import quotas, selective bank credit ceilings, exchange rate pegging, and wage and price controls.

"Some proponents of 'hands-on management' claim their approach can be reconciled with free enterprise and a market economy. They are wrong. They are sailing under false colours. If they are consistent, they will recognise that what they propose is in fact a system of central planning and direct economic control. It is dirigisme. Proponents of such a system are, of course, entitled to their views. But they should hoist the correct flag. They cannot claim that the system they propagate is reconcilable with free enterprise and the market economy. It is not."

Most notable about De Kock's statement is the attack on SA Inc, the phrase used by Sanlam's Fred du Plessis in calling for an "MD" for the economy last year. Du Plessis' dirigiste views are known to carry weight with some Cabinet ministers. Analysts say De Kock's broadside suggests that the much-vaunted split in the National Party isn't just about the pace of political reform but also about the

nature of economic reform.

Were De Kock convinced free market ideas were under no threat, he'd never have made such an attack. His speech suggests a battle is brewing in Cabinet over whether the economy should be set free or further shackled — and De Kock clearly believes those in favour of the former should speak up.

Finance Minister Barend du Plessis, who spoke just before De Kock, said much the same, if with less colourful language: "There is a school of thought that believes in a policy of greater direct intervention to steer the economy on the difficult path of structural adjustment . . . Government, however, continues to believe in the virtues of the marketplace, and therefore in the application of broad economic policy based on the free market system. We shall therefore continue our declared policy of privatisation, deregulation and the protection and promotion of private-sector initiatives."

Economists now more optimistic on growth

B1 Page 1/89

GRETA STEYN

49

ECONOMISTS canvassed monthly by First National Bank raised in January their growth estimates for 1988 and lowered inflation predictions.

The results of the Firstbase survey of 28 top economists suggest the growth rate will be closer to 2% than 1%. This is in line with Reserve Bank expectations.

The median estimate for growth was 1.9% with the highest estimate 2.4% and the lowest 1.3%. This compares with a highest estimate of 2% in December.

The median inflation estimate was 15.2%, slightly down from December's 15.6%.

The 28 were less bearish on the outlook for the rand against a background of improving balance of payments.

The median exchange rate at year-end is now put at R2,58 to the dollar compared with December's R2,84.

Most economists predicted interest rates remaining high with the median forecast for the prime overdraft rate 16.8% at year-end.

20/1/88

ECONOMIC PERCEPTIONS

49

No time for a mad bull

Since January 2, the price of gold has slumped from US\$413/oz to hover uncertainly around \$390; the rand has declined from just under US42c to just under US41c; and the money market has run shortages of over R3bn, with a record R4,3bn at the end of January.

But sentiment in the money market is turning bullish!
There are a variety of reasons for this.

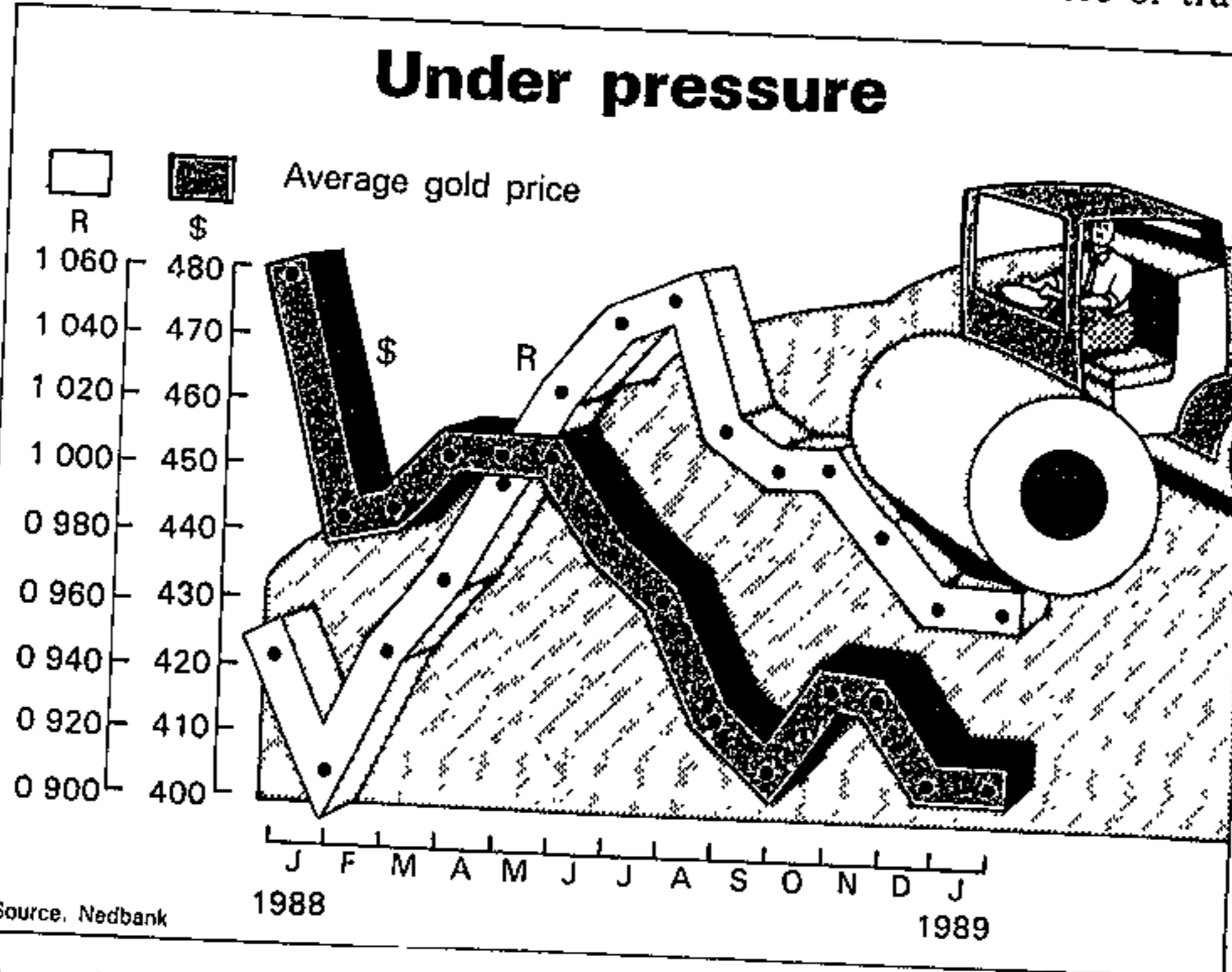
scenario. Says Trust Bank economist Nick Barnardt: "If importers already have substantial lead positions there may be no further build-up. It could be only that lead positions that would otherwise have been allowed to unwind, will not unwind."

"At the same time, the decline in the rand could cushion the impact of a lower gold price on liquidity, because we have a surplus on the balance of trade. So export income,

which is increased by the depreciating rand, more than compensates for the rise in import costs. The surplus is inflated in rand terms."

This will fuel inflation in the long-term.

Interest rate stability is no indication demand is under control. When De Kock announced on December 2 that the Bank would provide buy-back relief as needed, he



Source: Nedbank

Some have been in place for a while.

The shortage has been generously subsidised by the Reserve Bank for many weeks and interest rates have been stable to soft. Improved trade figures in December are seen by some as an indication rates have seen their peaks. And government expenditure is expected to peak in March.

Last week, however, with F W de Klerk's election as new leader of the NP, a new element emerged. Instead of reacting with uncertainty to the split in the posts of party ruler and nation's ruler, the market treated the event as good news, viewing De Klerk as a proponent of low interest rates.

Unlike Barend du Plessis, who may have grasped that fiscal and monetary discipline are essential for sound, steady growth, De Klerk has other priorities. He is, for instance, minister responsible for last year's teachers' pay hikes, which breached the anti-inflationary stance of the March Budget.

So the sliding gold price, which is putting pressure on the rand and will eventually reduce liquidity, has not disturbed the money market and caused only tremors on the capital market.

There are, of course, technical factors. Though a depreciating rand could cause importers taking forward cover to build up adverse leads and lags, there is an alternative

spoke only of countering "the seasonal tightening in December." It is now the second week in February and "seasonal" tightening persists. In the first three days of February 1988, the money market shortage stood at R502m, R304m, and R196m. In the first three days of this month it was R3bn (plus R500m in repurchase agreements), R3bn (R500m) and R2,9bn (R400m).

This may be accounted for by the Exchequer balance. This, apparently above R4bn, amounts to negative fiscal demand, which has neutralised private-sector demand for credit. When government spends this over the coming weeks it will compound private-sector demand.

So economic fundamentals are still in doubt. With a gold price that shows little resilience, there's little margin for error. ■

49 2000

Left and Right with similar market views

By David Carter

THE economic options for South Africa will be examined at a conference being organised by the Wits Business School and the Johannesburg branch of the Economic Society of SA.

"This is an intensely political economy," says organiser Ronnie Bethlehem, economics consultant of Johannesburg Consolidated Investments.

"No economist or businessman can be oblivious to politics. Politicians should likewise be economically aware, but few are.

"We are going through fundamental political and economic changes in this country. The basic need is for growth against a background of profound demographic change.

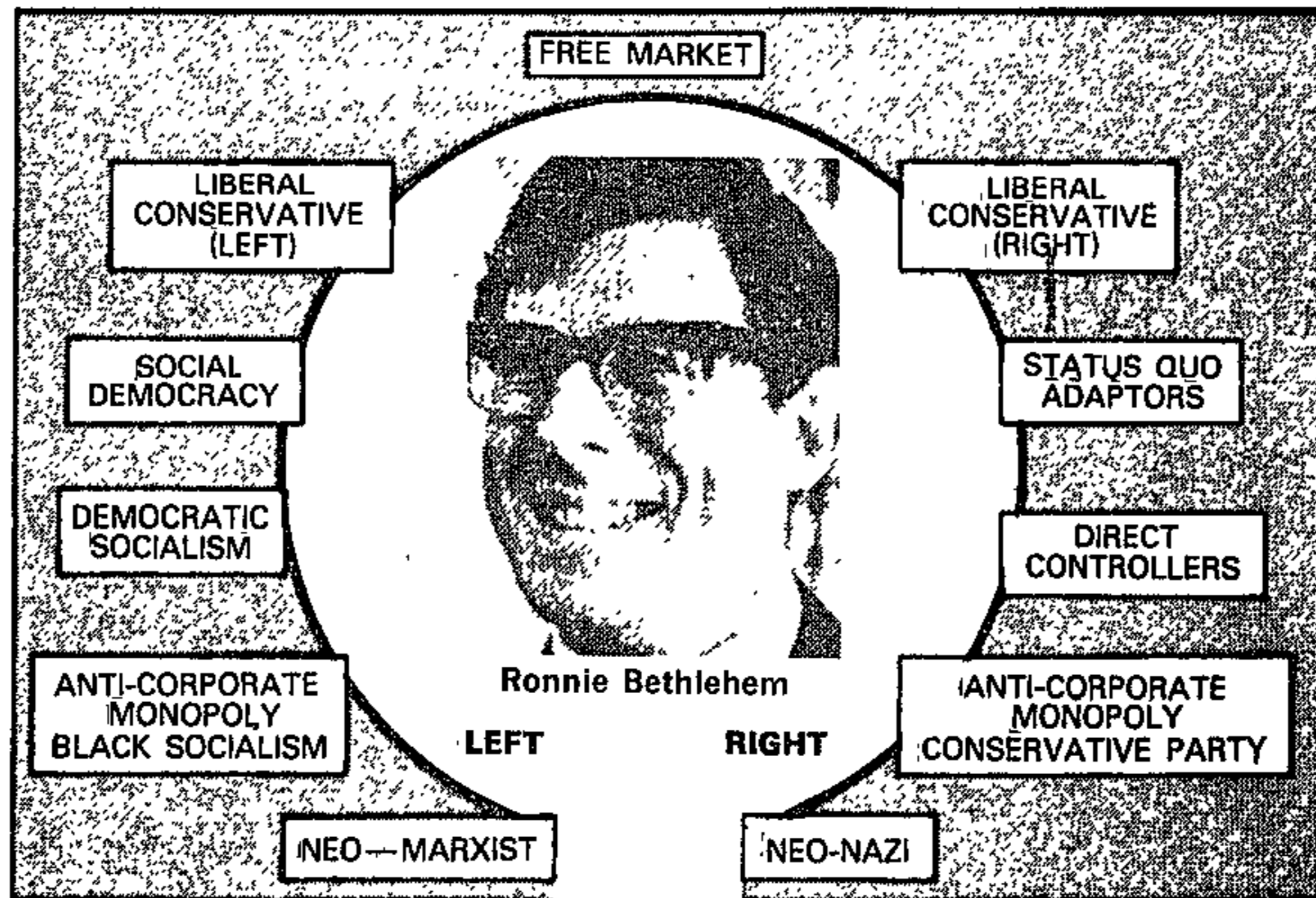
"The Economic Society and the Wits Business School hope, through this seminar, to help policy and decision makers in the corporate sector and in the labour area to clear their minds."

Charter

Professor Gavin Maasdorp of the University of Natal will set the scene for the conference, to be held at the Sandton Sun Hotel on March 1, by examining economic options in a global perspective.

Fuad Cassim, lecturer in macro-economics at Wits University and formerly at the University of London's Queen Mary College, will give an economic evaluation of the ANC's revised charter.

Social democracy will be economically evaluated by Professor Pieter Le Roux of the University of the Western Cape, a contributor to Anglo American's Godsell and Berger book, *A Future South Africa - Visions, Strategies*



and Realities.

Then two radically polarised views on how the SA economy should be managed will be presented.

Professor Brian Kantor of the University of Cape Town, will deal with minimising the State's role, and Professor Chris Torr of Wits will consider the case for direct controls.

In the final paper of the day, Professor Frederick Fourie and Professor Elwil Beukes of the University of the Free State economics department will examine the economic beliefs of leading SA political parties as shown by their statements and actions over time.

Context

The diagram above, compiled by Dr Bethlehem and Jim Buys, economic consultant of Anglo American, shows scope of economic perspectives in a South African context. These range from Marxism and neo-Marxism on the extreme Left to Nazism or neo-Nazism on the extreme Right.

A major point of disagreement between economic systems is about the degree of state intervention in the economy. The neo-Marxists and the neo-Nazis share a belief in state dominance, and the free marketeers and liberal conservatives, at least those on the Right, believe in markets controlling economic activity with little state intervention.

Robert Gilpin writes in *The Political Economy of International Relations*: "The parallel existence and mutual interaction of 'state' and 'market' in the modern world create 'political economy'; without both state and market there could be no political economy."

This statement implies that both the free marketeers who believe in no state role in the economy and extreme Leftists and Rightists, who do not believe in the hegemony of markets, reject a political economy per se.

Dr Bethlehem points out, as the diagram makes clear, that the extreme Left and the extreme Right are "extraordinarily close".

Both are anti-corporate monopoly, anti-free market and socialist, believing in state control. Neither is democratic. Both are given to violence.

The SA Communist Party, Azapo and some members of the ANC would fit into the Marxist or neo-Marxist camp. The AWB - down to its brown shirts, swastika replicas and anti-Semitism, would fit the neo-Nazi mould. These groups tend to believe the present system is not reformable and the whole system must be scrapped, à la Mozambique, or Germany in the late 1930s.

Foreign

The second extreme Leftist group, the "anti-corporate monopoly, black socialist" groups, also lean towards Marxism. Although they have democratic sympathies, if necessary they would compromise democracy for socialist objectives. Parts of the UDF and Cosatu would fit this mould.

The democratic socialists would encompass less ex-

treme members of the UDF and Cosatu. A foreign example might be the Left wing of the British Labour Party.

The social democrats, on the other hand, believe in a large measure of state intervention, but would stress democracy more than socialism, as the Social Democratic Party in the UK does. At this point in SA one crosses into white politics. The label could suit people like Harry Schwarz, Pieter le Roux, Wolfgang Thomas and Duncan Innes.

The Left-wing liberal conservative group believes in free markets softened by a degree of state intervention.

The free market believes in management of the economy by markets and unshuffled by the hand of government. Leon Louw is the figurehead of this mainly white group.

Leadership

Liberal conservatives on the Right have much in common with those on the Left economically, but politically are more inclined to the status quo and white leadership in economic matters. Gerhard de Kock could be an example here.

Status quo adapters are concerned about keeping present stability during the process of change. Chris Stals and Jan Lombard may be examples.

Direct controllers in the Fred du Plessis, Johan Cloete mould want the state to rule the economy with a much firmer hand, especially in circumstances where sanctions interfere with the operation of markets and undermine the effectiveness of market-related monetary and fiscal policy.

The CP would account for the anti-corporate monopoly faction on the Right. The AWB - the "wild men of the Right" - represents the neo-Nazi faction.

United urges even more stringent curbs

Given the current state of fiscal policy, it is doubtful whether current monetary policy is stringent enough to curtail domestic spending significantly, says United.

In its latest *Economic Monitor*, the group says: "Fiscal policy is still too expansionary and, unless curtailed soon, the upward pressure on money market rates is bound to remain.

"Without a major hardening in fiscal policy, the economy will not be restrained sufficiently, which could endanger the already low level of foreign exchange reserves.

"Moreover, given the time lag with which monetary policy affects credit demand, interest rates are unlikely to start falling soon."

The bank says it expects the Bank rate to rise by about one per cent in the first half of this year and

that a decline in money market rates might only be seen in the third quarter of the year.

Although the surplus on the current account of the balance of payments is expected to increase to R5 billion in the course of the year, net capital outflows both inside and outside the standstill net are likely to be large and could reach \$1,7 billion.

United concludes that this means gold and foreign exchange reserves are likely to remain at a low level and that the rand will remain weak.

It estimates it could go as low as R2,60 to the dollar by the end of the year.

— Sapa

R18-b enough to go on with until July — Barend

87/14/2/89 (49)

By Peter Fabricius,
Political Correspondent

CAPE TOWN — The Minister of Finance, Mr Barend du Plessis, introduced an R18,3 billion mini-budget for 1989 yesterday.

In his address on the Part Appropriation Bill, he said this amount was judged sufficient to meet central and provincial government expenditure until the main Budget was approved in July.

He asked for an extra R2 300 million over last year's R16 000 million which would provide for interim spending by the Government over the first few months of the financial year until the new Budget was promulgated.

Central government, including the administrations for own affairs, needed R15,2 billion and the four provinces R3,1 billion.

Giving a brief review of the economy, Mr du Plessis said it was still buoyant but was cooling

down and that the inflation rate for 1988 had dropped to 12,9 percent from 16,1 percent the year before.

Mr du Plessis said the Government had done quite well in achieving an overall growth rate of 3 percent in 1988.

Another encouraging sign in 1988 was the estimated surplus of about R2,5 billion on the current account of the balance of payments.

The average weighted value of the rand against all foreign currencies dropped by about 13 percent during the year.

However, the "unduly large" increase in the money supply had given rise to concern.

At the start of the year the Reserve Bank had set a target range for the increase in M3 of 12 to 16 percent.

Because of the large increase in domestic credit given by banks, the increase in M3 was 26,3 percent in the fourth quarter of 1988.

Lower growth rate forecast

Finance Staff

Over the past few weeks most economists have revised their growth forecasts for 1989 to around two percent.

But Frankel Kruger Vinderine's Gillian Raine maintains that GDP will rise by only one percent this year, given the delayed, but expected, downturn in economic growth.

Writing in the stockbroker's *Economic Research*, Ms Raine, however, expects the economy to move out of the downturn by mid-1990, giving GDP growth rates of two percent and three percent in 1990 and 1991 respectively.

Her optimistic long-term

forecast is based on several indicators:

● Consumption of durables, usually a harbinger of recessions, has not turned down, but continues to grow.

Manufacturing output as a result shows unexpected growth.

● The volume of mining output is also up, suggesting that gloomy predictions for this sector were a little pessimistic.

On a more pessimistic note, Ms Raine forecasts a rise in the inflation rate as a result of the weakening rand exchange rate over the last year.

While she expects the rand to fall less rapidly against the dollar in 1989 than it did in 1988,

when it lost 21 percent of its purchasing power, she writes that over the last year the decline of the rand far exceeded the inflation differential between South Africa and the US.

"This leads us to expect that a bout of exchange rate driven inflation is ahead.

"At the same time, the inflation rate for services has fallen, while that of the more easily tradeable goods has risen substantially.

"This divergence indicates that inflation has lagged behind the exchange rate and that the internal power to purchase local services is due to be drastically eroded," Ms Raine concludes.

Star 14/2/89

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Barend asks for R18,3bn in mini-budget

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CHRIS CAIRNCROSS

CAPE TOWN — Finance Minister Barend du Plessis yesterday called on Parliament to give its approval for an advance of R18,3bn to fund state and provincial spending over the first few months of the new financial year until the main Budget was passed.

This amount, contained in the Part Appropriation Bill tabled yesterday, was considerably higher than 1988's part appropriation. The R15,2bn requested for central government and the administrations for own affairs was 16,9% or R2,2bn, more than the R13bn requested last year, while the R3,1bn for the provinces was about 3,3% up on last year.

The R18,3bn provided no real basis for a meaningful indicator of what percentage changes could be expected in the main Budget in four weeks. But the size of the advance suggested government had chosen not to make any provision for an early election — which could postpone the main Budget to August.

Du Plessis stressed it was too early to provide meaningful data on government's finances for the 1988/9 financial year. Nevertheless, leading indicators suggested SA achieved an overall growth rate of some 3% during 1988.

It was broadly estimated that growth

● To Page 2



Barend asks for R18,3bn in mini budget

in the non-primary sectors must have exceeded 3,5%. Expansion in total economic activity was seen to be even more pronounced with aggregate real GDP some 7% higher than in 1987.

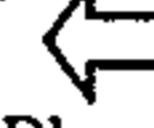
Du Plessis said it was encouraging to note SA ended 1988 with an estimated R2,5bn surplus on the current account of BoP, over-riding the fears that it would move into substantial deficit.

A disappointing element of last year was the capital account, where the net outflow rose to about R6,5bn, increasing SA's net capital outflow over the past four years to about R25bn.

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Du Plessis said details of this large outflow of capital were not yet available, but it was known that the major part represented outflows on account of items not subject to the debt standstill arrangement.

He noted that despite the commendable performance of the current account, the country's foreign exchange and gold reserves remained under pressure, with the weighted value of the rand against all foreign currencies depreciating by about 13% during the year.

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● From Page 1



Difficult times ⁴⁹ may loom again

GERALD REILLY

PRETORIA — The possibility of a repetition of the difficult economic circumstances between 1984-1985 was reason for serious concern, Volkskas group MD D.C. Cronje said yesterday.

He told the agricultural outlook conference that the economic indicators were similar.

These included an increase in real domestic spending by 7,9% in 1984 compared with 7% last year, a rise in bank credit of 28% in 1984 and 32% in 1988, and increased imports of 20,3% in 1984 and 20% last year.

Cronje said there was a number of reasons why domestic spending had been so slow to react to the demand dampening measures.

Government spending remained at a relatively high level and was expected to increase by about 18% this financial year. A consequence was government was a big borrower on the capital market with an increasing demand on scarce savings.

Inflation, although it slowed during 1988, remained high, thus encouraging spending.

Agriculture Minister Greyling Wentzel said a national awareness of the benefits of the free market system meant government could systematically advance with privatisation and deregulation.

Wentzel said the small business sector was being expanded, the decentralisation of industry was being given continued attention and an improved export incentive system was on the eve of implementation.

B/Dag 14/2/89

TREASURY PLAN TO REPAY RESERVE BANK DEBT

TREASURY is likely to repay part of the billions of rands it owes the Reserve Bank on forward cover losses — incurred by the Bank for Treasury's account — at the end of this fiscal year.

Senior officials said Finance Minister Barend du Plessis was "seriously considering" the repayment of part of the debt, estimated at R6bn. Du Plessis declined to comment, saying it was an issue which would be addressed in the Budget.

However, monetary officials said government was expected to end the

GRETA STEYN

fiscal year with a "small surplus" in the bank, which could be used towards the forward cover debt. The exchequer's balance with the Bank was R6bn at the end of January — a record high.

Economists said the effect of a repayment on the economy would be restrictive because it reduced potential government spending. For the Bank, the effect would be only a reduction in both sides of its balance sheet. But for the economy, it would

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mean a reduced inflow of liquidity in the form of state spending.

A revenue boom, coupled with borrowings in excess of budget, contributed to government's healthy bank balance. Government's bank account will be boosted again at the end of this month with a substantial inflow of tax payments, increasing the likelihood of a small surplus to offset some of the losses.

The Bank incurred heavy losses on forward cover provided to the banking sector last year because of the declining rand.

State debt increases by R10,1bn

Political Staff

TOTAL state debt in South Africa rose by 22%, or R10,1 billion, to R56,2bn in the year to March 31, 1988, the auditor-general, Dr Joop de Loor, said in his annual report yesterday.

Dr De Loor said that of this, R50,7bn was long-term debt and R5,5bn temporary debt.

The ratio of temporary debt to total debt on March 31 last year was 9,82%.

In the year under review, long-term debt rose by R8,8bn and temporary debt by R1,3bn.

External debt comprised 2,02% of the total state debt, compared to 3,43% the previous year.

COPY TANKS 14/2/89

Treasury to repay billions by year's end?

Own Correspondent

JOHANNESBURG. — Treasury is likely to repay part of the billions of rands it owes the Reserve Bank on forward cover losses — incurred by the Bank for Treasury's account — at the end of this fiscal year.

Senior officials said Finance Minister Bar-end du Plessis was "seriously considering" the repayment of part of the debt, estimated at R6bn. Du Plessis declined to comment, saying it was an issue which would be addressed in the Budget.

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Economists said the effect of a repayment on the economy would be restrictive because it reduced potential government spending.

The Bank incurred heavy losses on forward cover provided to the banking sector last year because of the declining rand. Importers were taking cover while exporters were holding off.

Reserve Bank Governor Gerhard de Kock last year described the forward losses as an "involuntary increase in central bank credit creation," which had boosted money supply growth.

Monetary and fiscal restraints must continue

There can be no question of any relaxation of either monetary or fiscal policy in the months ahead, says Reserve Bank Governor, Dr Gerhard de Kock.

"It is imperative that an appropriately restrictive mix of monetary and fiscal policy be applied," he told the 12th annual investment conference of Frankel, Kruger, Vinderine yesterday.

Dr de Kock admitted there were some indications the upswing was levelling off, but he said the Reserve Bank believed that to be the case six months ago and was wrong.

Dr de Kock said it appeared the rate of increase of general economic activity was slowing down, but that total spending, demand for credit and the rate of increase of the money supply needed to be curbed.

"The need for this has been underlined by the recent decline in the dollar price of gold to levels well below \$400."

Dr de Kock said the economy might be called on to make debt repayments of up to \$1,7 billion or R4,2 billion this year and this figure could rise to a maximum of \$2,1 billion in 1990, followed by



Dr de Kock

\$1,5 billion in 1991.

"Admittedly this is a 'worst-case scenario' and in reality the required debt repayments will almost certainly be less. But the only prudent course for the monetary authorities to follow is to provide for current account surpluses in the next three years that will be large enough to finance whatever debt repayments may be required.

"Such surpluses are well within reach, but only if the mix of monetary and fiscal policy is adequately restrictive."

Assuming proper monetary and

fiscal policy, Dr de Kock said the likely scenario for 1989 was one that provided for:

- A growth rate in real GDP of two percent.
- An average inflation rate of 15 percent, with the rate rising to above that level and then resuming a downward trend later in the year.
- A surplus on the current account of the balance of payments of R4 billion or higher.
- The further repayment of foreign debt to the full extent required, which was likely to amount to \$1 billion to \$1,7 billion in 1989 as a whole.
- The gradual rebuilding of the official gold and foreign exchange reserves to a more satisfactory level.

Dr de Kock admitted such a scenario would fall short of the objectives set out in the long-term economic strategy, particularly those of a growth rate of four to five percent and an inflation rate below the 10 to 15 percent range of the past 15 years.

But he said in the circumstances it would nevertheless represent a satisfactory short-term outcome.

Capital outflow was R6,5-bn

The outflow from the capital account of the balance of payments last year was R6,5 billion, Minister of Finance, Mr Barend du Plessis, said yesterday.

He told the conference: "Over the past four years the total net outflow of capital from the country therefore absorbed about R25 billion of scarce savings."

Mr du Plessis said South Africa was still undergoing a period of structural adjustment, which was not yet complete.

He told delegates: "During 1989 it will still continue and we will have to generate a further

surplus on the current account of the balance of payments to meet international commitments."

On tax reform Mr du Plessis said that while some critics claimed the process had ground to a halt, in fact the process was under way.

He said that of the 280 recommendations in the Margo Commission report, only 40 had been rejected, while 50 had already been implemented, albeit with some modifications, in the course of 1988.

He said: "Prominent among

these were the changes to personal income tax including the abolition of certain rebates in respect of individuals, the introduction of a capital transfer tax to replace the donations tax and estate duties, the introduction of a limited minimum tax on companies, adjustment on the value of company cars in the seventh schedule and the introduction of the 50-30-20 percent wear-and-tear allowance for plant and machinery, hotel equipment and ships and aircraft."

Forty further recommendations were close to the stage when they could be implemented.

No pre-election sweets in offing

B/Dan
15/2/89

Tight Budget needed, says Du Plessis

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GRETA STEYN
and KAY TURVEY

FINANCE Minister Barend du Plessis yesterday warned the country needed an austerity Budget, while Reserve Bank Governor Gerhard de Kock said monetary and fiscal policy would remain tight this year.

Both spoke at the Frankel, Kruger, Vinderine investment conference in Johannesburg.

Businessmen interpreted Du Plessis' speech as a sign that next month's Budget would not contain any pre-election "sweets".

Du Plessis hinted at a tight Budget, saying the country needed "austerity in the budgets of government at all levels, and especially in the main Budget for central government".

● See Page 13

De Kock later echoed this stance, saying there could be no relaxation in fiscal and monetary policy this year, otherwise the economy would find itself faced with serious difficulties. His speech suggested interest rates would remain high for most of this year.

Du Plessis raised the possibility of more demand-restraining measures.

He said: "If the economy does not cool down fast enough, more restrictive measures might have to be taken."

The authorities were watching for signs that the economy was cooling. He



● DE KOCK

● DU PLESSIS

hoped no major changes to the already restrictive stance of monetary and fiscal policy would be necessary.

De Kock said there were indications the economic upswing was levelling off.

He said: "But we believed that to be the case six months ago and we were wrong. Are we right this time? Is the rate of increase of general economic activity really slowing down?"

Total spending, the demand for credit and the rate of increase in money supply remained excessive and had to be curbed. The need for this had been underlined by the recent fall in the gold price below the \$400 mark.

De Kock and Du Plessis highlighted money supply growth as a major problem which would have to be controlled this year.

Du Plessis said: "SA cannot afford yet

● To Page 2



SA needs austerity Budget — Barend

another increase in M3 of the same order of that of last year." He warned the rapid growth in the money supply last year held "an imminent danger" for inflation.

De Kock said if M3 growth was not reduced to within the 12% to 16% range, a rise in the average inflation rate to above the expected 15% and a new depreciation of the rand were likely.

He said: "The challenge now confront-

ing the Treasury and the Bank is, therefore, clear. The mix of monetary and fiscal policy in the months ahead must be restrictive enough to bring about the required decline in the rate of increase of total demand in the economy."

Both were optimistic about growth prospects — provided restrictive policies remained in place.



● From Page 1

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BoP outflow R6,5bn last year Du Plessis

Cape Times 15/2/89
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JOHANNESBURG. — The outflow from the capital account of the balance of payments last year was R6,5bn states the Minister of Finance Mr Bar-end du Plessis.

Speaking at the Frankel Kruger Vin-derine investment conference in Jo-hannesburg yesterday he said: "Over the past four years the total net out-flow of capital from the country there-fore absorbed about R25bn of the scarce savings of this country.

"Details of this large outflow of cap-ital are not yet available, but it is known that the redemption of debt in terms of the second interim arrange-ment with foreign creditors only ab-sorbed about R920m. The major part of the net capital loss therefore repre-sented outflows on on account of items not subject to the debt standstill arrangement, for example the short term finance related to international trade transactions.

"South African importers and ex-porters have developed a sometimes unexplainable reluctance to make use of foreign finance in their trade trans-

actions despite the fact that forward cover facilities on reasonable terms remains available through the Re-serve Bank."

Du Plessis said that South Africa was still undergoing a period of struc-tural adjustment which is not yet com-plete.

He told delegates: "During 1989 it will still continue and we will have to generate yet a further surplus on the current account of the balance of pay-ments to meet the country's interna-tional capital commitments".

He said to do this South Africa needs strict anti-inflationary control.

Du Plessis said that while some crit-ics had said the process of tax reform had ground to a halt, in fact the pro-cess was well underway.

He told the conference that of the 280 recommendations in the Margo Commision report, only 40 had been rejected. While fifty have already been implemented, although some-what modified, during the course of the past year.

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CAP. TIMES 15/2/89 49

'Job creation not encouraged'

Own Correspondent

JOHANNESBURG. — Privatisation Minister Dawie de Villiers said the current system of prescribed investments did not encourage entrepreneurship and job creation in the SA economy.

Addressing the Frankel Kruger & Vindrine Inc Investment Conference in Johannesburg yesterday he said government realised the economy needed a structural adjustment in which privatisation would play a big role.

However, an announcement on the status of prescribed assets would be made by the Finance Minister. Both departments had had talks on their problems with "prescribeds" and the matter

now rested with the Finance department. An announcement in this regard was expected in the "near future", he said in reply to a question.

The SA economy was dominated by the control of institutional funds by a small number of large undertakings. This had resulted in investments in non-productive investments like prestige buildings or take-overs of existing successful businesses.

Meanwhile, public sector corporations and state enterprises had been run by statute. Social and commercial objectives became confused with no basis for profit and return on capital. In short, they had become burden to tax payers.

"I hardly need to emphasise that capital that would have been used more efficiently on the basis of return on capital has been captured by non-productive investments by the state whilst the taxpayer had to provide the necessary capital for infrastructural development.

"In addition the state had to avail itself of loan capital from the private sector to fund these investments in the broad public sector."

Regarding consumers fears that tariff of newly-privatised institutions would rise de Villiers said it was preferable to subsidise the consumer instead of subsidising the total supplying industry at the taxpayer's expense.

SA surplus larger than expected

B/baw 15/2/89

SA HAD a larger than expected R2,8bn surplus on its balance of payments current account in 1988 after a R6,15bn surplus in 1987, Reserve Bank Governor Gerhard de Kock said yesterday.

De Kock told the Frankel, Kruger, Vinderine conference in Johannesburg latest estimates showed the current surplus recovered to a seasonally adjusted annual rate of about R5bn during the 1988 fourth quarter.

Deficit

49 (circled)

"For the year 1988 as a whole, the surplus is now estimated at about R2,8bn, which is considerably higher than most estimates made during the course of the year," he said. Pretoria must run comfortable current account surpluses in order to repay its foreign debts, following a freeze on new foreign lending.

The current account slipped into deficit in the first quarter of 1988, prompting a series of interest rate rises and other import and economic growth curbs.

Commercial bank economists said the estimate released by De Kock, which will probably be close to the final total, was higher than the R2bn to R2,5bn estimates they had been working with. — Reuter.

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8/10am 15/2/89

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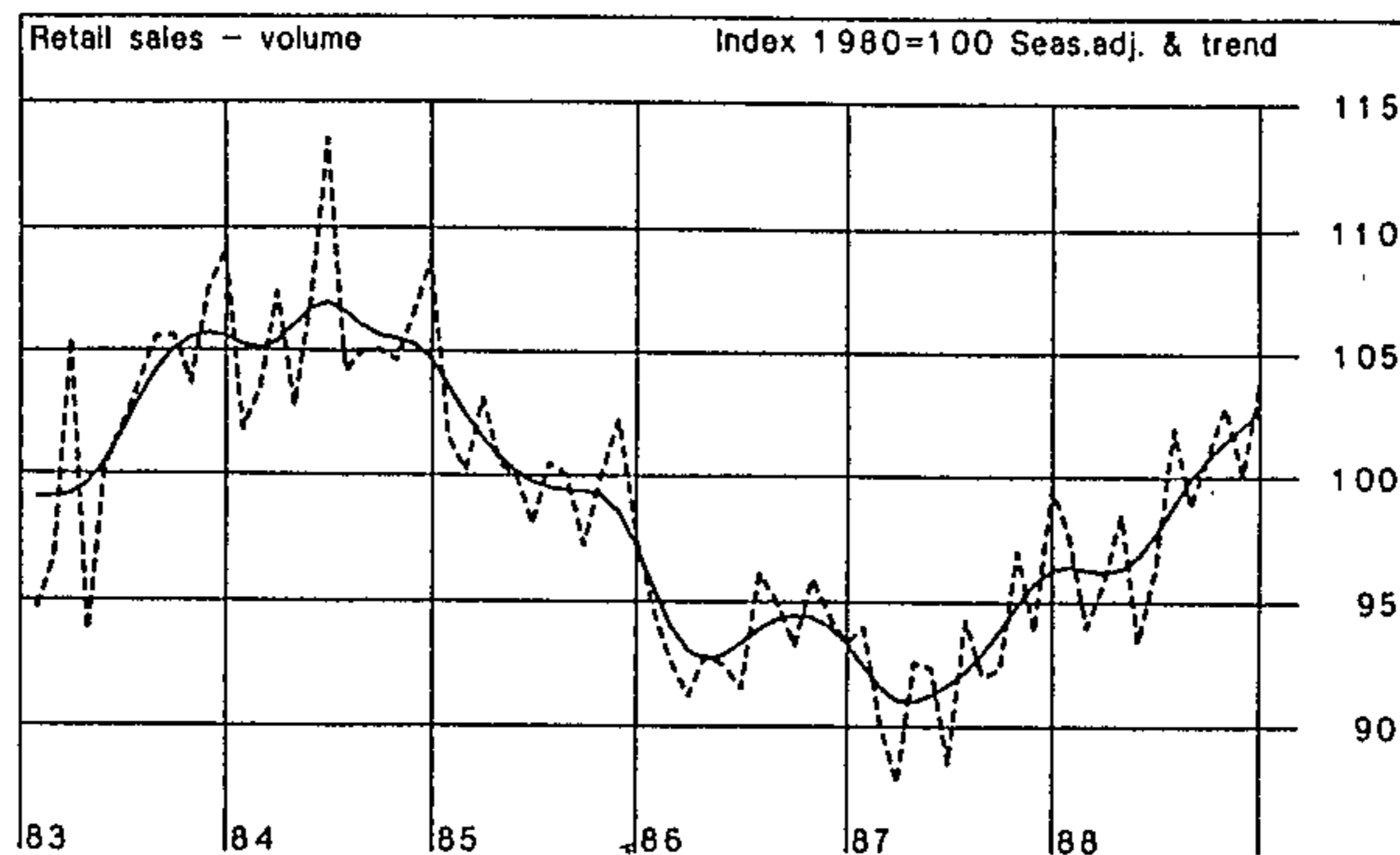
Deficit 49 ~~22~~ -

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Retail sales - strong growth persists



Star 16/2/89

Economy skating on thin ice — Standard

49

By Sven Lünsche

Although the economy put up a surprisingly strong performance in 1988, Standard Bank cautions that the foundation was not very firm and that there is a strong risk of failure.

The bank's economists maintain that a cautious approach to domestic demand management is essential this year, no matter how great the desire to see continued strength in spending and domestically oriented activities.

Standard points to many fundamental problems which could well reverse the good start to the year owed to the continuing boom in retail sales, manufacturing production volumes and the high level of business confidence.

"Among these is the repayment of foreign debt, which may return as a pressure point in 1990 when significant amounts of long-term loans fall due," the economists write in the February edition of *Standard Bank Review*.

"Paradoxically, improved short-term prospects in the form of firm domestic conditions now projected for 1989 may make it more difficult to meet debt repayments in 1990 and this undermines the medium-term outlook.

"Had the economy slowed significantly in the latter half of last year, and had domestic demand been soft at the beginning of this year, 1989 could have served as a period for generating very large trade surpluses and building up foreign reserves," the economists say.

Thus the price of relatively strong demand growth in 1989 may only be paid in 1990 when the problems of larger debt repayments need to be faced.

The economists hope, however, that the demand-dampening measures initiated last year will produce visible and lasting results, "so that the risk factor inherent in this policy will progressively diminish".

One of this risk factors is the prospect of a weaker gold price in the year ahead since there is not threat of serious international inflation or a major currency crisis.

"Consequently, overall export growth is unlikely to be supported by a stronger gold price and gold could suffer a further setback at any time.

"This vulnerability to setbacks makes it imperative that domestic demand be dampened, even though a major pull-back is not called for at this stage," the economists say.

In conclusion, they say: "A problem faced by the authorities is that any serious setback, such as a sharp fall in the gold price, could see domestic confidence evaporate.

"Unless a reasonable cushion against such contingencies is created over the next few months by building up foreign exchange reserves, the economy would be vulnerable and the risk of major restrictive measures having to be applied never far away."

THE RESERVE Bank is due to announce a new target range for this year's money supply growth. As its 1988 target was between 12% and 16% and growth in M3 ended at 26%, there will be doubts about the credibility of the exercise.

Strict monetarists insist on a rigid money rule when targeting money supply growth. But SA, like the world's major economies, prefers targeting to be a "low profile" policy instrument. Last year's targets were so low-profile as to be almost non-existent.

Should the Reserve Bank continue to target growth in the money supply? And is targeting enough?

The Reserve Bank is one of many central banks whose commitment to the targeting exercise has been questioned. As Milton Friedman put it in 1980: "Central banks throughout the world have rendered lip service to the control of monetary aggregates by announcing monetary growth targets. However, few have altered their policies to match their professions of faith."

Between 1975 and 1985, most major economies missed their targets more than half of the time. Even Britain experienced an average overshoot of 8.3% on an average target mid-point of 8.7% for the three target periods of the 1979-82 "monetarist experiment."

A 1985 study published in the American economic journal *Contemporary Policy Issues* found: "Most countries have altered their targets so often that it is difficult to determine the intended path for monetary growth. Base periods have been changed numerous times. Base drift, or moving the targets so as to avoid adjusting for past misses, is extensive."

Monetarists have argued that central banks, especially the Bank of Britain, went about controlling money supply growth in the wrong way. Keynesians countered that targeting was futile anyway. They said the supply of money was essentially determined by the demand for money

and therefore could not be controlled.

Another question which keeps cropping up is: Does financial innovation make monetary control impossible? The growing importance of banks' off-balance sheet activities, also a phenomenon of SA banking, has been cited as a problem.

Disintermediation — lending activity outside the banking sector — has been blamed for statistical "noise" in money supply figures as it tends to understate the effective money supply. When re-intermediation takes place and lending goes back on to banks' balance sheets, this is shown as a surge in money supply growth.

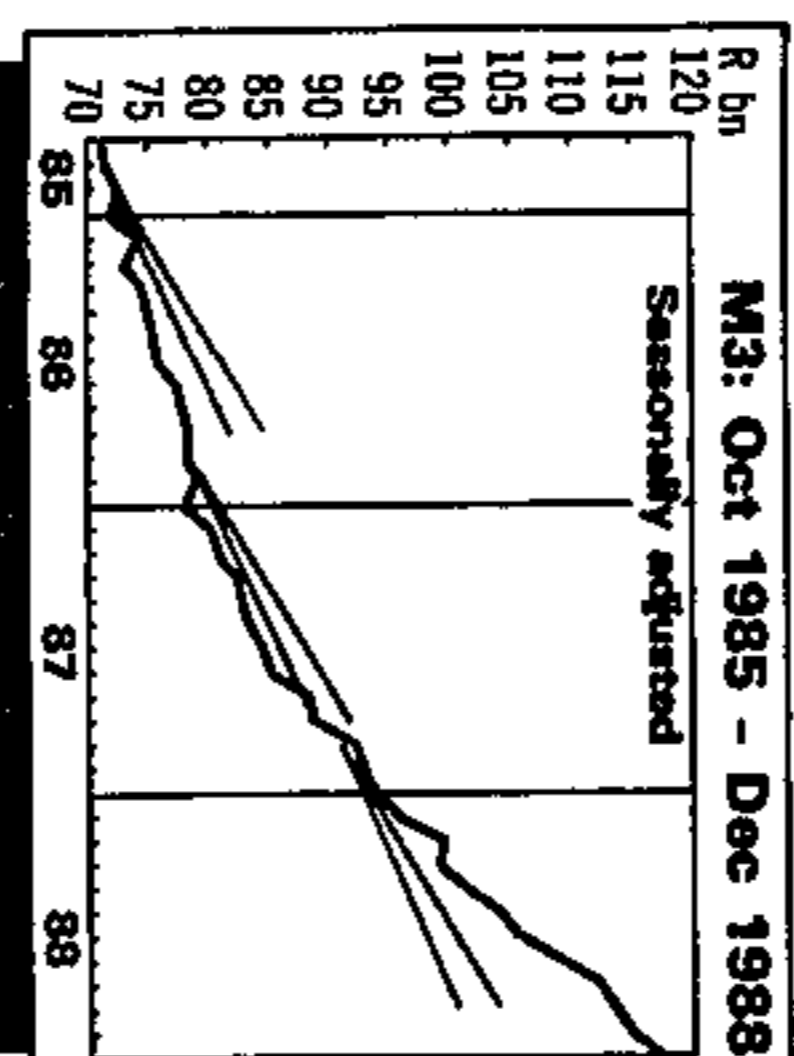
Disintermediation and re-intermediation created statistical "noise" respectively in 1986 and 1988, as significant discrepancies existed between the effective money supply and M-3 growth. The effective money supply is defined as money multiplied by velocity of circulation. Velocity of circulation is determined by dividing money GDP by M3.

Disintermediation in 1986 affected the velocity of circulation of M3, causing it to rise. Reserve Bank Governor Gerhard de Kock noted that the official M3 growth of 10.1% understated the "effective" money supply growth in 1986. Adjusted for velocity, growth was 18.4%.

This week, De Kock again brought up the velocity of circulation, saying its 7% decline last year had resulted

Targeting — is it really worth it?

GRETA STEYN



in effective money supply growth of only 17% — compared with the 26.5% increase of M3 itself.

But bringing velocity into the argument is, perhaps, cheating a little to get closer to the target. And a purist Keynesian might ask how De Kock can blame velocity while at the same time still professing to have faith in the targeting exercise. The instability of income velocity of circulation forms an essential part of the Keynesian case against monetary targeting.

Nedbank economist Edward Osborn says the Reserve Bank's adjustments for velocity "renders M3 targeting pointless." And JCI economist Ronnie Behlehen, in his book "Economics in a Revolutionary Society", describes the velocity adjustment as "misleading."

"It was not the 'effective' broad money supply, or money GDP, for which a target had been set. M3 was the target variable and, therefore,

what mattered was what happened to M3, not what happened to money GDP," Behlehen says.

Anglo American economic consultant Aubrey Dickman believes the real challenge to the authorities is to reduce the role of velocity.

"The problem of unstable velocity is exacerbated when politicians are allowed to interfere with banks' lending rates. When deposit rates rise while lending rates remain static, re-intermediation is encouraged. When deposit rates fall faster than lending rates, disintermediation will occur. With more flexibility in banks' lending rates, velocity could become more stable and M3 might be a more accurate indicator."

Are efforts to contain inflation by controlling growth in the money supply ultimately futile?

Most establishment economists in SA would not agree entirely with Milton Friedman's statement that "an excessive increase in the quantity of money is the one and only cause of inflation, so a reduction in the rate of monetary growth is the one and only cure for inflation."

But most would agree that "money matters." As Behlehen put it, quoting Keynesian Franco Modigliani: "We are all monetarists (now) — if by monetarism is meant assigning to the stock of money a major role in the determining of output and prices."

Most economists still believe in targeting as a means to focus on the

importance of money. "It is an oversimplification to reduce the problem of inflation to one of excessive money supply, although this is not to say it is not a contributory factor."

He still believes in targeting to focus on money supply developments, and to help formulate monetary policy, as does Dickman. The Trust Bank's Nick Barnard believes the potential value of official monetary targets becomes clear when they are undershot or overshoot by a wide margin — indicating that action is needed on the monetary policy front.

It has also been accepted by major economies' central banks that money supply growth will often not be in the target range. They have not written off the targeting exercise, and neither should SA. Last year's spectacular overshoot focused attention on the role of the money supply, on the Reserve Bank and especially on government.

Government borrowing did not contribute directly to the huge growth in the money supply. But its indirect contribution is significant. Government finances its deficit almost entirely from existing savings — crowding out private sector borrowers and forcing them to use bank credit. And with the Reserve Bank providing the credit, money creation takes place.

Government's interference with interest rates last year was another reason why the Reserve Bank could not respond earlier to the warning signals of rapid money growth.

The monetarists' expectations of political interference was one of the reasons purists insisted on a "rigid" rule. Such a step would prove too disruptive. But the Reserve Bank has yet to heed its own advice in its last annual economic report on the need for action when targets are missed for several months.

It said: "Failure to act in such conditions would cause the target to lose its disciplinary value and cast doubts on the credibility of the monetary authorities."

Bank: risk of restrictive measures

110ay 17/2/89 49
SYLVIA DU PLESSIS

UNLESS foreign reserves were built up there was the risk of major restrictive measures being applied this year, the Standard Bank said yesterday.

It said in its latest economic review the fall in the gold price could cause confidence to evaporate.

In spite of the comparatively strong overall performance of the economy last year and the positive implications this had for 1989, there was no room for complacency or elation.

Problems in the economy included the repayment of foreign debt, which may return as a pressure point next year when long-term loans fell due.

The Standard said: "Had the economy slowed significantly during the latter half of last year, and had domestic demand been soft at the beginning of this year, 1989 could have served as a period for generating large trade surpluses and building up foreign reserves."

"The price of relatively strong demand growth this year may thus be paid only in 1990 when the problems of larger debt repayment need to be faced."

Bank rate to rise ⁽⁴⁹⁾ forecast

AN increase in Bank rate could occur around Budget time in mid-March in an attempt to signal fiscal and monetary co-operation, some economists have said. *Bloom 12/1/89*

Frankel Kruger's Gill-Raine forecast a rise in Bank rate to 15,5% in March when the money market was traditionally tight after tax payments in February.

She said as long as the Reserve Bank was quoting non-market related forward rates in an attempt to stop trade-switching, rising foreign rates would put pressure on domestic interest rates.

UBS economist Hans Falkena said

KAY TURVEY

unless fiscal policy was tightened in the March Budget, interest rates would have to rise to defend foreign reserves and ease the pressure on the balance of payments.

However, he said if, considering an election, there was an easy Budget, then monetary policy would have to carry the can.

At the Frankel Kruger Vinderine investment conference this week, Finance Minister Barend du Plessis and Bank Governor Gerhard de Kock appeared to be in harmony on the need for more restrictive measures.

To an influential audience, Barend

talks of success

With an influential audience before him, Barend du Plessis gives an upbeat performance: the economy is doing fine and sanctions won't break the government. By HILARY JOFFE

THE message from both Finance Minister Barend du Plessis and Reserve Bank Governor Gerhard de Kock this week was that South Africa was adapting well to financial sanctions — a situation Du Plessis has referred to as running a country without a bank overdraft facility.

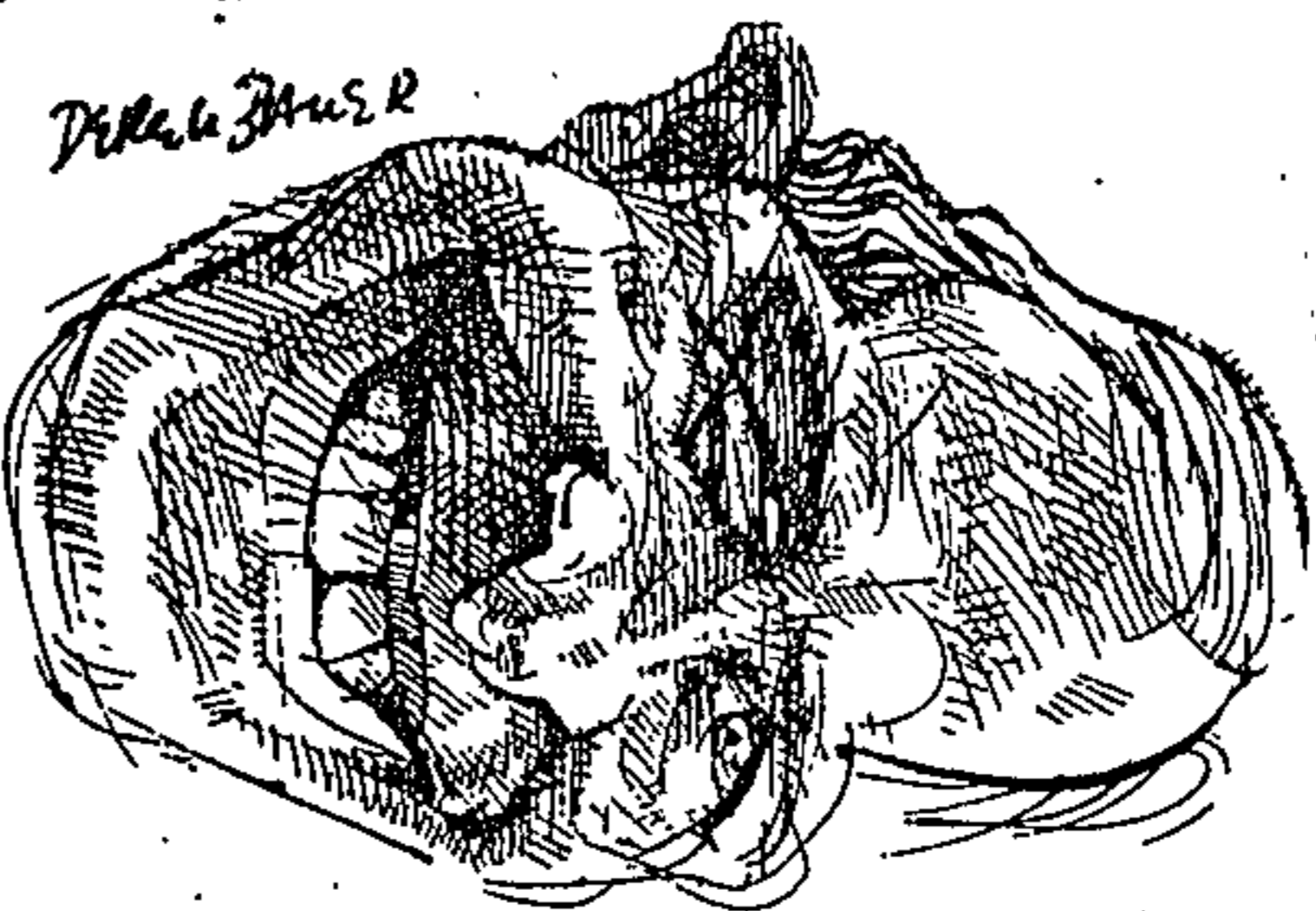
At the annual investment conference of stockbrokers Frankel, Kruger, Vinderine, both stressed the economy had grown by three percent last year, despite the fact that South Africa had experienced an outflow of capital of about R25-billion over the past four years.

"South Africa has not only survived the economic warfare but has combined balance of payments adjustment with real economic growth," De Kock told the conference. He said the performance of the economy in recent years had been "gratifying" given the "sombre background of political tension, sanctions and disinvestment against which the South African economy has had to operate since the end of 1984".

Du Plessis was more aggressive, saying: "South Africa has no intention of yielding to the economic pressures from finnish sources, and is bound to use the wealth of its people and its natural resources to the advantage of all its citizens."

Neither was saying much that was new. But the audience was an important one for them: overseas investors and bankers are traditionally well-represented at the conference, which this year welcomed 60 foreign guests, according to director Sydney Frankel.

With an eye to his audience, Du Plessis said: "We invite all loyal citizens of this country, and also all potential foreign investors, to participate in this important process of economic reform. We regard a satisfactory economic growth rate as part of, and even as a pre-condition for, successful political and social reform."



Barend du Plessis

De Kock listed the ways in which last year had been a success story — inflation was down to 12.5 percent by December compared to 20.8 percent two years previously, real gross domestic expenditure was up by seven percent, there was a surplus on the current account of the balance of payments of R2.8-billion for the year, while domestic fixed investment was up 6.5 percent in real terms.

But De Kock also stressed that this fell short of long-term economic targets of a growth rate of four to five percent and inflation below the level of 10 to 15 percent it has been at for the past 15 years.

He highlighted South Africa's fragile balance of payments position and the need to curb domestic demand so that the country would have sufficient reserves to meet its foreign debt commitments. He said there was no question of relaxing monetary and fiscal policy in the months ahead. South Africa might have to make debt repayments of anything up to \$1.7-billion (R4.2-billion) this year and this could rise to a maximum of \$2.1-billion in 1990 followed by \$1.5-billion in 1991.

He described the government's reformist policies as "too confusing for anyone to understand".

Said Rupert: "The British subjugated the Afrikaner. This led to revolt and bitterness. Then we made the same mistake with the rest of our fellow South Africans. The result — economic problems, internal strife and external isolation."

He spoke of the "pain and sorrow" caused by apartheid and pointed to its economic costs. Government debt had risen from R1.55-billion in 1950 to R65-billion by September 1988. South Africa had gold reserves of 40.2-million ounces in 1969, 12.153-million in 1980 and only 3,469-million by the end of 1988.

Rupert said sanctions and disinvestment could only be stopped by regaining international acceptance. The government could not sell its policies by public relations and advertising agencies.

Rupert said it cost about \$250-million to launch a new product in the United States — and close to \$1-billion to launch it both in the US and Europe. "We are trying to sell an unsellable product and we haven't got the money," he said.

He said South Africa had to abolish racism, and that the way back to international acceptance was through Africa. However, he added he was encouraged by signs from the government that it was ready for change.

● Du Plessis this week tabled an R18.3-billion "mini-budget" in parliament, to meet central and provincial government expenses until the main budget is approved in July. The main budget is scheduled for 15 March. The deficit before borrowing for 1988/89 is expected to be similar to the budget estimate of R9.9-billion, slightly below five percent of gross domestic product, Du Plessis said. Government spending has exceeded budget estimates, but so has revenue.

If Du Plessis and De Kock plainly suggested South Africa had a sound economy but could do with a little help from foreign creditors, it was left to the Rembrandt Group's chief executive, Johan Rupert, to raise the issue of why South Africa got into the mess in the first place.

Rupert called for negotiation "with everyone concerned" and made it clear, by implication at least, that he meant the ANC, suggesting this would be a good time for the government to take the initiative.

THE ECONOMY

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Is the new optimism justified?

The gold price at a near two-and-a-half year low may seem an unlikely background for the mood of virtual euphoria that has swept through the business community. Even sober-sided economists have spent most of the past month upgrading the 1989 growth forecasts they were churning out before Christmas — which, as we said then, were less optimistic than businessmen's forecasts in company profit statements.

How, in the face of this depressing major variable, can such a revision of stance be justified?

True, there are major positive influences offsetting the adverse impact of gold. In spite of farmers' complaints (like the poor, always with us), good rains are contributing to a massive improvement in prospects for crops — and hence export earnings. Also, there are at last signs of a belated pick-up in domestic capital formation, in areas which could lead to import substitution.

To the extent that this is a natural development stimulated by the weakness of the rand, and not by artificial tariff (or other) protection, it could lead to beneficial structural changes in both the physical composition of the economy and the balance of payments.

But the danger is that there may also be an element of wishful thinking, as with the man who jumps off a 40-storey

building and, while passing the 10th floor, congratulates himself that nothing has gone wrong.

One of the conventional wisdoms last year was that, if we wanted a soft landing, we should hope for a quick decline in the growth rate. This is not happening to the required extent, so if the basic analysis was correct, the chances of a soft landing are diminishing.

Given the incontrovertible need for sustained growth of 3%-plus to create enough jobs for a rapidly expanding labour force, it may seem illogical to express concern that growth is *not* falling faster. But those halcyon Sixties years when we could seemingly grow indefinitely at 6%-8% are long gone.

The delayed impact of a lower gold price is not the only developing problem. Though it sounds reminiscent of the boy who cried wolf to say so, there are at last firm signs that domestic inflation has touched bottom. The combination of a lower gold price and accelerating inflation is bad news for the mining industry, and will have a substantial ripple effect.

The economists could yet find that they were over-hasty to upgrade their forecasts. Businessmen could be in for some unpleasant shocks. And the worst case of all would be for government belatedly to adopt further restrictive measures that could magnify a slowdown into outright recession. ■



Du Plessis

In one of his most strongly worded attacks yet, Reserve Bank Governor Gerhard de Kock has told supporters of direct controls to stop pretending they support free enterprise.

"There is one approach to the implementation of economic policy which I for one cannot support," he told the Frankel Kruger investment conference this week. "That is the proposal that the economy should be treated like a large private company — some kind of 'SA Inc' — and subjected to so-called hands-on management, involving direct controls such as quantitative import quotas, selective bank credit ceilings, exchange rate pegging, and wage and price controls.

"Some proponents of 'hands-on management' claim their approach can be reconciled with free enterprise and a market economy. They are wrong. They are sailing under false colours. If they are consistent, they will recognise that what they propose is in fact a system of central planning and direct economic control. It is dirigisme. Proponents of such a system are, of course, entitled to their views. But they should hoist the correct flag. They cannot claim that the system they propagate is reconcilable with free enterprise and the market economy. It is not."

Most notable about De Kock's statement is the attack on SA Inc, the phrase used by Sanlam's Fred du Plessis in calling for an "MD" for the economy last year. Du Plessis' dirigiste views are known to carry weight with some Cabinet ministers. Analysts say De Kock's broadside suggests that the much-vaunted split in the National Party isn't just about the pace of political reform but also about the

nature of economic reform.

Were De Kock convinced free market ideas were under no threat, he'd never have made such an attack. His speech suggests a battle is brewing in Cabinet over whether the economy should be set free or further shackled — and De Kock clearly believes those in favour of the former should speak up.

Finance Minister Barend du Plessis, who spoke just before De Kock, said much the same, if with less colourful language: "There is a school of thought that believes in a policy of greater direct intervention to steer the economy on the difficult path of structural adjustment . . . Government, however, continues to believe in the virtues of the marketplace, and therefore in the application of broad economic policy based on the free market system. We shall therefore continue our declared policy of privatisation, deregulation and the protection and promotion of private-sector initiatives."

ECONOMIC OUTLOOK

Don't lose touch with reality

49 (circled) ~~17/2/89~~ FMAIL
17/2/89.

The price of gold and the value of the rand used to determine economic perceptions in SA. Perhaps because we have become inured to bad news, the recent slide in both has not prevented a comfortable feeling of economic wellbeing from settling on the community.

There are reasons for optimism: order books are up, company profits are up, demand for industrial property is exceeding expectations (see *Property*), activity on the JSE is pushing the Industrial index to levels last seen pre-October 19 1987, civil servants are spending their 15%-22% salary increases — and economists who last year forecast growth of around 1% in 1989, following 3% in 1988, are now thinking in terms of 2%, as is Reserve Bank Governor Gerhard de Kock. While this falls far short of the 5% needed in developing countries with rapidly increasing populations, it is good in our circumstances.

Too good perhaps?

Almost certainly. But first let's look on the bright side. Of considerable importance to SA is the extended international upswing which started in 1982. "Economic indicators," says the Union Bank of Switzerland, "point to a continuation of the favourable trend, with the seventh year of economic growth in a row being predicted."

Says Standard Bank chief economist Nico Cypionka: "Because of increasing demand

in industrial countries both volumes and prices of commodity exports have risen, while non-commodity exports across the board are also relatively strong. Most significant has been the performance of base metals and minerals, which together constitute nearly 25% of exports and combined are our major source of foreign exchange earnings after gold. In 1988 the value of base metal exports increased 42% to R6,7bn, while minerals export value increased 29% to R5bn."

The outlook for 1989 remains encouraging, as are the prospects for some agricultural exports (see *Business*).

So there has been a fundamentally positive development, which is rebuilding the current account surplus. Together with an illusory one — rate stability in the money market (courtesy of the Bank) — it is creating the impression the authorities won't further attempt to curb demand.

This confidence may not be misplaced. But it raises the question whether demand *should* be further curbed.

Certainly we seem to be sailing close to the wind. De Kock's estimate of a R4bn-R6bn 1989 current account surplus sounds encouraging but may be optimistic. The price of gold is pointing downwards and anyway is too volatile for early chicken counting. The strength of demand is equally incalculable. While a soft landing is the most desirable

conclusion to a period of expansion, the revision of growth estimates seems to indicate no landing has taken place.

So though the decline in reserves has been reversed for the moment there is no certainty we can accumulate the resources needed to meet debt repayments in 1990-1991.

And we are left with the central problem of inflation. Unlike the major industrial countries, which have projected 1989 inflation rates ranging from 1% to 7%, SA's inflation rate is expected to average 14%-15%. Money supply growth in 1988, which was 10 percentage points above the 16% upper limit of the target, has shown little sign yet of responding to contractionary measures.

Most economists, whatever their orientation, are perturbed by inflation prospects and believe contraction must take place. What is in dispute is whether it *has*.

"It's all a matter of semantics and hindsight," says Rand Merchant Bank's Rudolf Gouws. "Growth is slower and that's all we can be sure of."

The danger of overheating, he points out, comes not from GDP but GDE. "Last year it grew more than 7%, outstripping GDP, while this year it may not grow at all."

Certainly the reversal of the six-year decline in gross domestic fixed investment (GDFI) is a positive aspect. Figures in the



Cypionka



Gouws

Bank's December Quarterly Bulletin show GDFI rose 17,9% in the fourth quarter of 1987, 10,2% (the figure was revised from 6,4%) in the first quarter 1988, 4,4% (4,6%) in the second and 13% in the third.

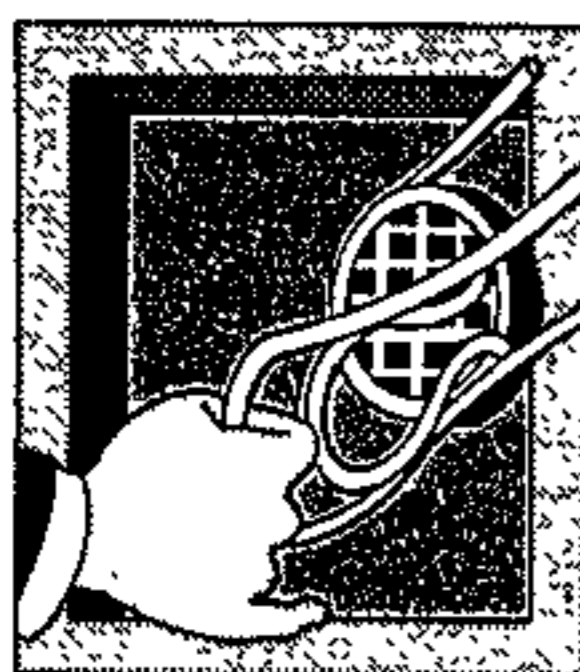
However, Gouws's belief that GDE growth will be low or zero this year is not shared by all. Some believe that while production has been increasing, so has consumption. And if the BOP has improved, it has been at the expense of inventories. Which spells still more pent-up demand.

So, while the good news is good, the bad news is bad.

And a rerun of last year's long-delayed interest rate rises will be disastrous both medium- and long-term. An immediate one percentage point increase in interest rates seems appropriate. And a sober approach to fiscal policy is essential. While the gold price is not within our control, government expenditure theoretically is. Unless the 1988-1989 fiscal year brings a radical change in policy and implementation, good export fortunes will be dissipated as rapidly as in the past. ■

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Time to make a stand

■ Even its limited "independence" is in jeopardy



If central banking be the art of the possible, the style of SA's central banker was seriously cramped in 1988 — at least until the two percentage point increase in Bank rate on November 2.

Whether 1989 offers more or less freedom to act independently, according to the dictates of monetary policy, probably depends on the pattern of power that emerges when the present interregnum in our political life is over. Until then the critical factor may be the extent to which Governor Gerhard de Kock uses his own initiative.

Certainly, the nominal independence of the Bank (if that is how it can be described) has been under political siege — with movements in official interest rates for most of the year scarcely reflecting De Kock's market approach to monetary policy. The Bank has been constrained, De Kock admits, by factors outside the marketplace. And despite his eight-year crusade to depoliticise movements in key rates, they have never been more political than they are now.

His attempt, last March, to implement a recommendation in the report of his Commission of Inquiry into the Monetary System and Monetary Policy, that Bank rate be changed frequently and by small margins, met failure. Each of the four moves — from 9,5% at the start of the year to 14,5% at the end — came only after weeks of hard work on the part of the Bank to persuade government the hike was essential.

The success of powerful lobbies in delaying necessary increases in Bank rate, and De Kock's inability to implement timeously the market-related policies for which he has fought since his appointment in 1981, does suggest that the Bank is now no more than an arm of government — another bureaucratic appendage through which politicians can subvert sensible economic policy to dubious political purpose.

De Kock has said often enough that it would be naive to expect total independence for the Central Bank — "government decides on and accepts responsibility for economic policy and this is the way it should be."

He says, however, that

provided the Bank stays within the broad framework of official policy it should have freedom to operate in the money, capital and forex markets. And he agrees "that means interest rates must be free to move in response to the markets and monetary policy actions."

Clearly then, the political constraints on interest rates of recent months represent an erosion of even the governor's limited view of the Bank's independence.

Theoretically, the Bank enjoys a large measure of autonomy. It is entirely in the hands of about 700 private shareholders, who may not own more than R10 000 worth of the Bank's total capital of R2m. Shareholders appoint six of the 12 directors; the others, including the governor and his three deputies, are appointed by the State President (SP) for five-year terms.

Despite his appointment by the SP, De Kock is no political yes-man. He has on several occasions spoken bluntly on government expenditure. "I believe it is the duty of the Bank to point out the consequences of excessive spending and of the size of the deficit."

One such occasion was his Annual Address to stockholders in August 1984. In the fiscal year ending March 1984, total government expenditure, budgeted to grow only 10,3%, grew 16%. And the budgeted deficit of 2,4% of GDP before borrowing, became an actual 3,5%. With a similar situation emerging in the 1984-1985 fiscal year, De Kock criticised high government spending.

In recent months he has sent tactful but firm messages to government on the need to hold down spending. At the *FM* Investment Conference in November, he made it clear

that to reduce downward pressure on the rand and limit upward pressure on inflation "there should be little if any increase in real spending in 1989."

On December 2, when latest indications were that the deficit before borrowing would be R10,6bn against a budgeted R9,9bn, he repeated the message that government spending was the key to successful economic policy. Announcing there was no immediate need to increase Bank rate, he added his decision was based on the estimate that the increase in the deficit would be no higher than R700m — after predictions in the private sector that it could be R2bn-R3bn up on forecast. (In the event it may be lower than R700m — not because of lower spending but because of larger than expected revenues.)

The right mix of monetary and fiscal policy is crucial, he stresses. "It's like mixing a martini. Any good bartender will tell you how important it is to get the right proportion of gin and vermouth. If the mix is wrong the result is a flop."

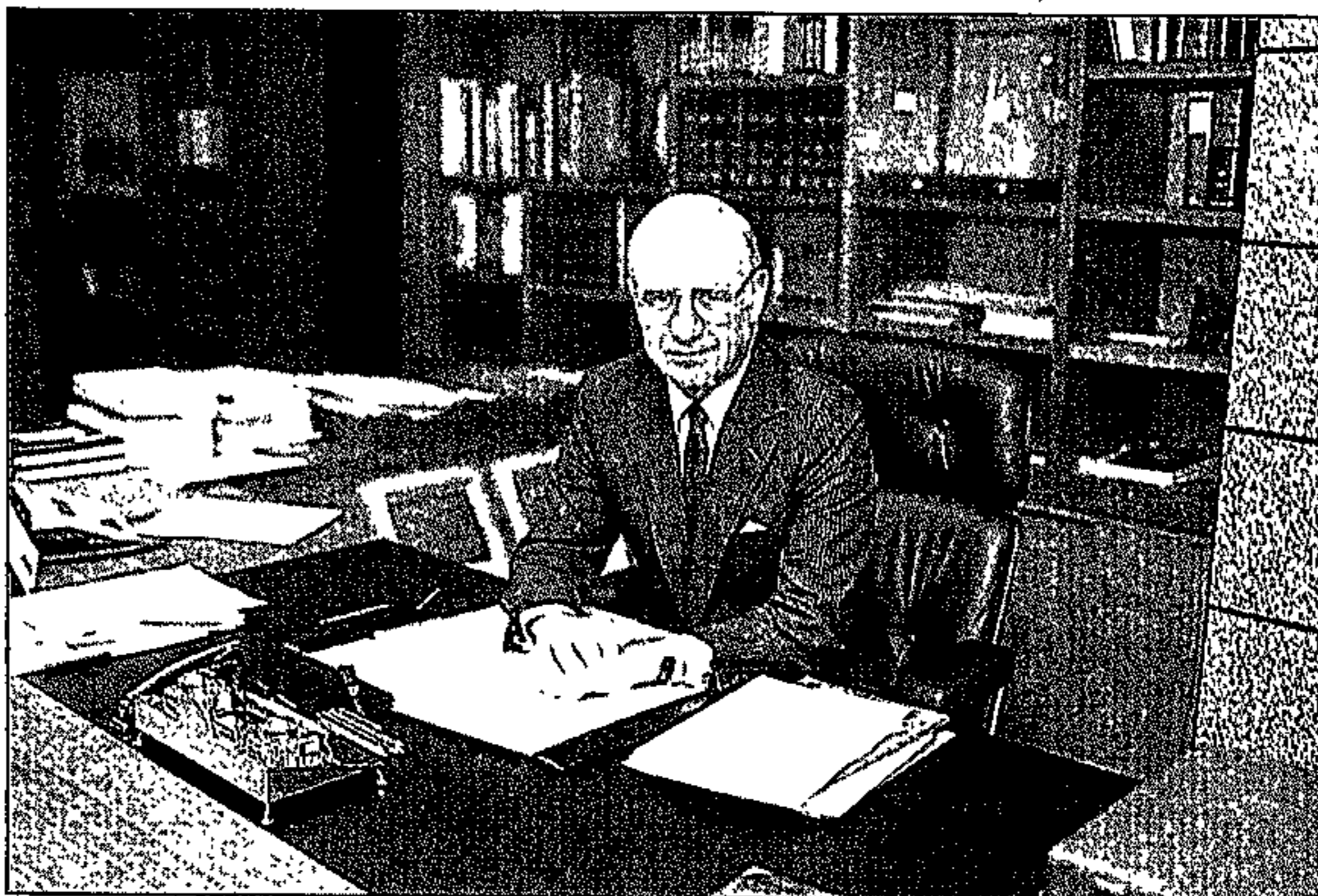
He argues that, without fiscal restraint, it is "in practice very difficult to keep down money supply growth. Monetarists tell you if you keep down growth in the cash base of the banks, closing the discount window if necessary, you will be able to contain inflation. True, but if fiscal discipline is lacking, there are consequences. Interest rates will go sky high in the short term, banks will call in loans, there will be insolvencies, unemployment, suicides. No central banker can allow that to go too far."

In which case he is particularly vulnerable to political decisions which disrupt co-ordination of monetary and fiscal policy. On two recent occasions a surge in government

spending has thrown overall policy out of kilter. One was the runaway expenditure of 1983-1985, the other was the decision last year to give teachers a 7% increase from December 1 followed by an announcement of a 15% increase in civil servants' salaries (including, once again, teachers) from January 1.

However, whatever problems there may be in co-ordination, De Kock insists there is no lack of co-operation between the Bank and Treasury. "In some countries, there are such clashes. That is not the problem here."

In that case, the problem clearly lies elsewhere (our



Governor Gerhard de Kock... no political yes-man

THE ECONOMY

(49)

Is the new optimism justified?

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building and, while passing the 10th floor, congratulates himself that nothing has gone wrong.

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INTEREST RATES

A beguiling Indian summer

The unexpected buoyancy of business activity at present, which is explained elsewhere in the issue and which is by no means untoward, is something of an Indian summer. Businessmen who allow themselves to be beguiled could face sharp consequences before the year is out.

Simply put, the unexpected buoyancy of our large industrial trading partners, and of commodity prices, is maintaining business activity in the face of measures aimed at avoiding overheating. If it continues at current levels for too long, an increase in prime rate to over 20% is going to become inevitable.

In the face of continuing inflationary pressures abroad — especially in the US and Britain — interest rates in these economies are rising and could still rise quite sharply. In due course we will have to follow suit, especially if local businessmen are to be encouraged to finance their trade abroad. The proceeds will help to keep the reserves sweet in the face of lower dollar earnings from gold.

But apart from that, and despite the decline in the rate of inflation last year to just over 12%, the large increases in the domestic money supply remain a major inflationary factor. Unless demand is curbed to within the ability of the local economy to supply, the inflation rate is going to race ahead again.

As there is always a lag in response to tighter monetary

policy — and it has not yet even been tightened noticeably — it will be some months before these inflationary pressures may be seen, but sure as eggs is eggs they are there. And in the absence of sufficient monetary restraint, interest rates are going to have to rise.

As the cost of money has become such a political issue, the Reserve Bank may have a battle to get a higher rate structure agreed by politicians who have farmers in their constituency or face Conservative Party opposition. As we argue a few pages on, it is important for the Bank to assert its limited independence and avoid the delays this time that prompted such a sharp Bank rate increase towards the end of last year.

No one expects Pretoria to exercise the spending restraints that are necessary to curb aggregate demand. Fiscal policy is clearly going to take up all the funding slack that higher tax revenues will allow — and possibly even more. What would be prudent now — for the Bank inevitably reacts too late to warning signals — is for the interest rate structure to be allowed to rise gradually in anticipation of a spendthrift Budget in March.

But, perhaps after all, that is too much to expect. In which case the prudent businessman will watch his stock levels warily so that he avoids having to finance untoward inventory levels from increasingly expensive bank facilities. ■

guess it is in the Cabinet) and implementation of co-ordinated policy can by no means be taken for granted.

After the natural predisposition of politicians to overspend, one of De Kock's most serious problems is the influence of those who believe in the existence of an economic Utopia that can be achieved through application of direct controls.

"Some people argue we should make the fight against inflation the priority and keep up the exchange value of the rand. They accept that the price includes higher interest rates and lower government spending and/or higher taxes.

"Others say growth and employment creation are the priority and accept that the price in the short term might include exchange rate depreciation and higher inflation. Whether one agrees with either of these views, they are honest respectable arguments.

"The problem lies with those who tell government it can have it all without pain. If it was that easy everyone would do it and no country would be in trouble. You have to pay a price for economic stability. I believe that price includes realistic exchange and interest rates and a Budget deficit which is not excessive."

With the worldwide depoliticisation of currency exchange rates, SA's monetary authorities have had a measure of success with the rand. Though there is much to support an argument for a still lower rand as a means of restoring a comfortable surplus on the current account, De Kock has at least been able to counter suggestions that the rand should once again be pegged.

He has not been similarly successful in explaining to the uninformed the relationship between the deficit and interest rates.

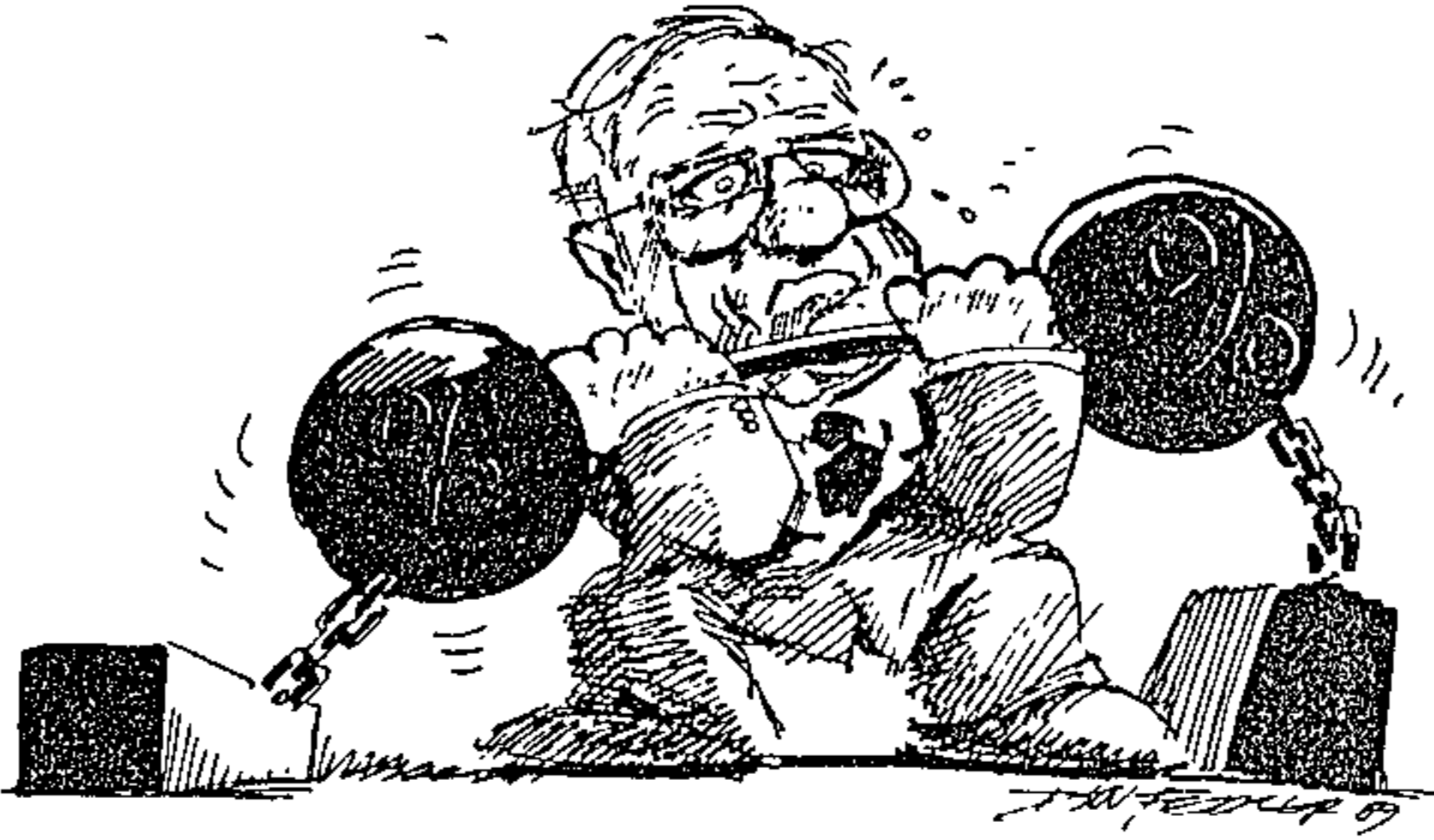
He regards the 1988-1989 budgeted deficit of 4,9% of GDP as too high for present circumstances — "though I don't want to be dogmatic about the right size of the ratio and there is nothing sacrosanct about the 3% widely regarded as appropriate for stimulating growth without fuelling inflation."

He advocates lower spending — "but if, rightly or wrongly, that does not happen, it is important to finance the deficit in a non-inflationary way."

The right prescription, he says, then becomes higher taxes. "If fiscal drag doesn't go far enough, it may be necessary to raise the rates."

If tax doesn't go up and the deficit remains too large, interest rates will have to go up, with government borrowing crowding out the private sector.

"If government spending cannot be curbed, and taxes cannot go up and interest rates may not go up, the only remaining option is that money supply and total spending will increase exces-



stead to mitigate its blunders — which he has more than once spelled out — through persuasion. Confrontation is not within his style and, given the character of the Nat administration, this may well at times in the past have been the best means of cushioning Pretoria's more flagrant excesses.

Trouble is that in the past two years he has become progressively less successful and the country is paying a heavy price as a result.

Former Fed chairman Paul Volcker is the man acknowledged

to have squeezed inflation out of America. He too was not a completely free agent in that he could have been replaced, as the previous governor Bob de Jongh was here after he defied government over exchange controls.

Asked recently what the president should expect from the Fed and what the Fed should expect from the president, he replied: "I'm tempted to say silence from both sides. But . . . so much depends upon personal relationships. I certainly think that they owe each other a willingness to communicate . . . I do think, under our system, in monetary policy the Federal Reserve has to go off and in the end make its own decisions."

Today, the Reserve Bank is at bay. It is under fire for allowing a substantial capital flight, though the governor knows the line cannot be held by the exchange controls he has to administer — his commission's report says as much. He admits culpability for inflation because he did not limit growth in the money supply to predetermined targets, seeking justification from the belief that if government had wanted him to do so without

financial disruption it would have moderated its own spending.

If De Kock had not been around these past two years with his patient persuasion, maybe government excesses would have been greater and the cost to the country higher. On the other hand, De Kock is a man of international stature whom the rustic politicians of this country cannot dismiss without grave consequence. His policy of persuasion is becoming less effective and his credibility correspondingly lower. There is no one in the Union Buildings to match his intelligence and knowledge of economics. Maybe it's time he went off and made his own decisions before he becomes a spent force.

Sure, there is a risk that in open confrontation with government he might be sacrificed and replaced by some control maniac.

No reasonable person could be sanguine about that. But if De Kock does not stand by his views and back them with action, in time his sensible economics will be corrupted by the exigencies of political convenience. Of what good will he be then?

sively, the rand will depreciate and inflation will take off."

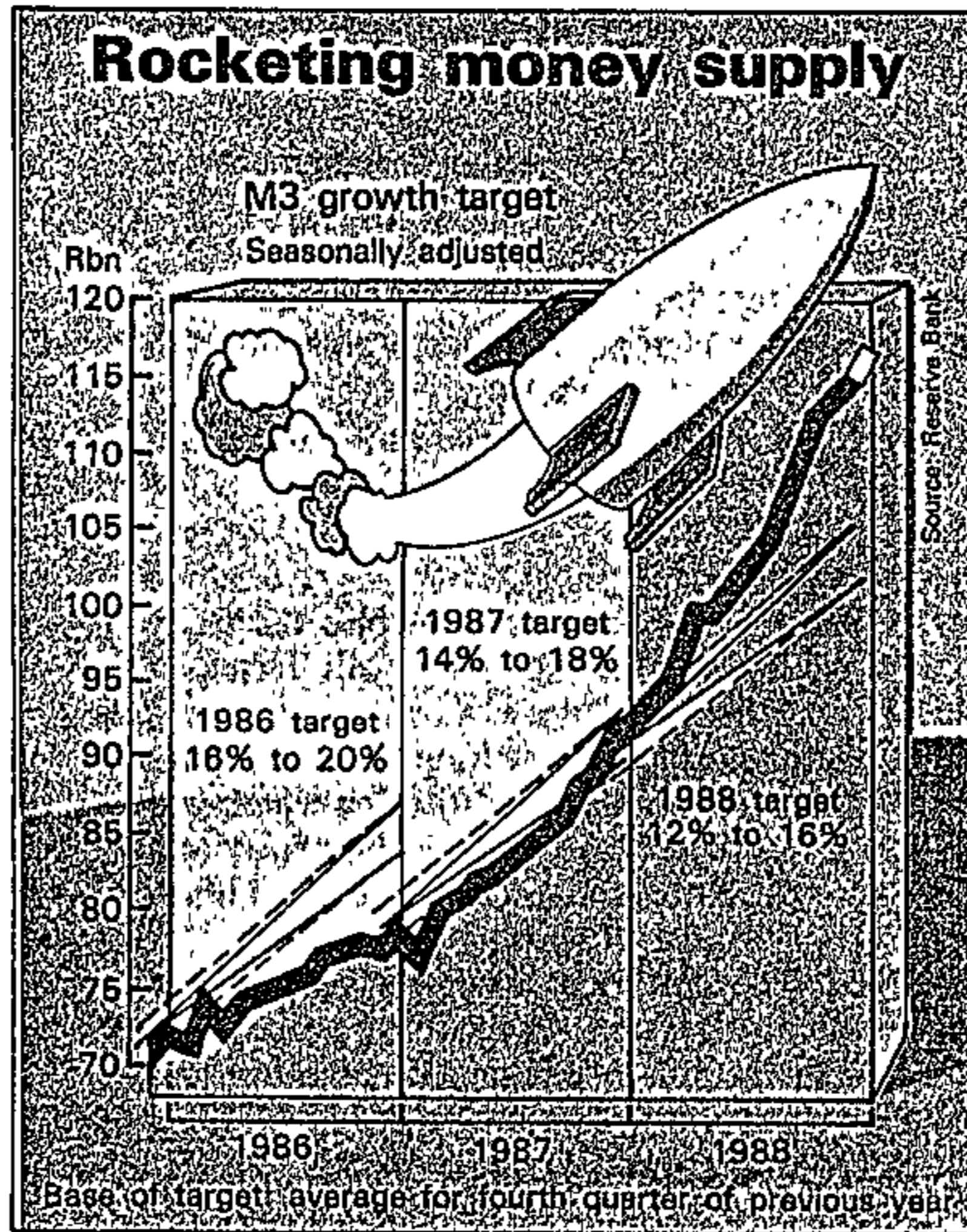
How successful will he be in avoiding the fourth ghastly option?

His tightrope act of 1988 succeeded in curtailing growth of demand, he says. Gold and foreign exchange reserves have stopped declining and the rand's sharp fall has been halted — despite further large debt repayments in recent months.

But the inflationary impulses of excessive money supply growth will be a while working their way through the system. He acknowledges the price of tardy increases in official key rates has yet to be paid in full, both in the form of taxes and further inflation.

De Kock clearly does not see himself in the position of the chairman of the Federal Reserve System in the US or the head of West Germany's Bundesbank. Perhaps that is a fault. In both those countries the Central Bank has a degree of independence that represents a real check on the sovereignty of government. Low inflation is the result.

De Kock, while drawing attention to government's folly, does acquiesce and try in-



SA working towards a totally restructured economy

By AUDREY D'ANGELO
Financial Editor

SA must have a totally restructured economy which can grow at a higher rate than is now possible — “and we are working on it”, the Minister of Finance, Barend du Plessis, said yesterday.

He told city business people at a meeting of the Seeff/Cape Times Executive Breakfast Club that a major, cohesive package to help SA adjust to the international situation was now emerging.

This would include the selling off of State enterprises which could be run as a business, to free funds for vital projects, the building of more black housing, which was an employment multiplier with no import content, and inward industrialization. Deregulation was a vital part of this package.

The Minister also emphasized the need to limit population growth by encouraging family planning “because if population growth is such that it devours the growth of our economy we are not really growing at all.”

If the population continued to grow at its present rate, he warned, “we face a tidal wave of job-seekers.”

He gave strong hints that taxation would not have to go up to meet the increase in public service salaries, and that there might be some relief from fiscal drag.

“When I present my additional Appropriations Bill I think you will find a pleasant surprise,” he said. “We promised when we increased salaries that we would be able to finance it.”

The Minister also said it was necessary to protect people who were saving for their old age from the ravages of inflation, but raising the tax threshold



Barend du Plessis

meant that many more people were exempt from paying tax.

Discussing the present economic situation the Minister said the biggest challenge the SA economy had to face was operating internationally without help from a bank.

This country had not had access to international finance since 1985, and it had lost about R25 billion worth of assets in paying off debt. But, slowly, the situation was beginning to thaw.

However, in order to be able to repay foreign debt SA must have a balance of payments surplus of at least R5 billion this year. In happier times it would have been able to have a period of growth lasting until there was a deficit of from R3 billion to R4 billion before it was necessary to apply the brakes.

Now, tragically, a growth rate of 3% was too much for the capacity of the economy and it was necessary to slam on the brakes.

“We need a totally restructured economy that will grow at a higher rate than is now possible,” the Minister said. “We are working on it now.”

Fasten your belts, SA is crash landing

by TREVOR WALKER
Finance Staff

to meet its foreign debt obligations.

IN AN unprecedented investment conference in Johannesburg this week, the Minister of Finance and the governor of the Reserve Bank admitted to the need for an "austerity budget" on March 15.

Budgetary policy is normally kept under close wraps until delivery to Parliament, but this year, the monetary and fiscal policy directors are clearly worried about the state of the economy.

Finance Minister Mr Barend du Plessis told the conference the country needed "austerity in the budgets of government at all different levels, and especially in the main budget for central government."

Dr Gerhard de Kock, head of the Reserve Bank who followed Mr du Plessis at the conference said "the mix of monetary and fiscal policy remained too accommodative and expansionary during 1988."

Dr de Kock said that while South Africa had been trading profitably with the rest of the world, investments in the country had been pulled out with ever increasing momentum.

This meant that the country's foreign exchange reserves had fallen by nearly 16 percent last year to R6,7-billion, but calculated on a dollar basis had slid over a third to \$2,8-billion dollars.

High local inflation, fuelled by undisciplined government spending had led to an ever-cheapening rand and it was this aspect which worried both officials.

Mr du Plessis said the net outflow of capital from South Africa increased last year and in the past four years no less than R25-billion had left the country.

Dr de Kock said R10-billion had been repatriated "outside the net" which was put in place by the government in 1984 when the country was unable

Dr de Kock told the conference that "there can be no question of any relaxation of either monetary or fiscal policy in the months ahead."

"It is imperative that an appropriately restrictive mix of monetary and fiscal policy be applied."

Dr de Kock said "the demand for credit and the rate of increase of the money supply is still excessive and must be curbed."

Banking economists said this was a clear indication that interest rates could be expected to remain at their present high levels.

Mr du Plessis had the final word when he said the process of adjustment to the money embargo that had been placed on the country was far from complete.

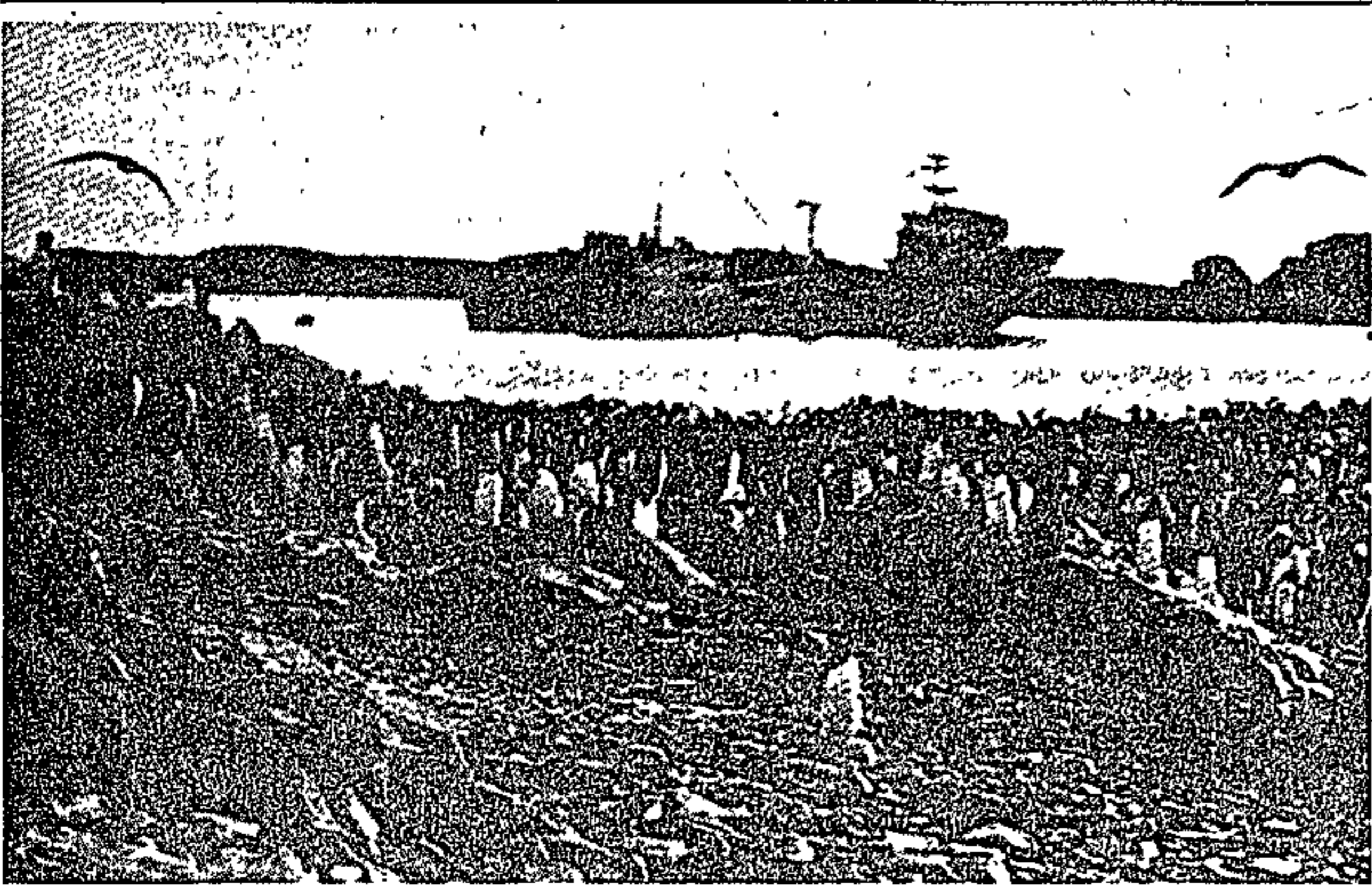
"This year we will have to generate a further surplus on the current account of the balance of payments to meet the country's international capital commitments."

Mr du Plessis said the country's money reserves remained under pressure as the average value of the rand against all currencies fell by about 13 percent in 1988.

He also noted that while it had been hoped to hold the increase in supply of money to between 12 and 16 percent, it had in fact risen by nearly a third during the year, despite the increase in the bank rate from 9,5 percent to 14,5 percent.

Mr du Plessis hinted that the budget would contain various measures designed to tap further the revenues generated by companies.

He said of the 280 recommendations in the Margo Commission's report on taxation in South Africa, about 40 were rejected and 50 implemented. He said a further 40 were expected to be implemented in the near future.



Penguins sunning on the rocks as the Bahia Paraiso, background, spills its fuel into Antarctic waters, killing krill, shore birds, penguins and other wildlife over a 13km radius. American Environmental Defence Fund lawyer Bruce Manheim said the sinking could have been avoided, sparing the Antarctic one of its worst environmental disasters, if the captain of the Argentinian ship had listened to warnings of US officials not to travel through those waters.

Van der Linde provides the thrills for early Killarney crowd

by ADRIAN PHEIFFER

Motoring Correspondent
ONE of the largest crowds seen at a motor sport event in the Western Cape had packed Killarney by mid-morning today.

They were rewarded by the sight and sound of the fastest saloon cars in South Africa roaring around the circuit during their final practice sessions.

Hennie van der Linde in his Nissan 300ZX surprised everyone when he outpaced Sarel van der Merwe's Audi to take pole position on the grid.

Supersarel had to be content

with the second-fastest time. He was closely followed by Hannes Grobler in his brutal looking Nissan Skyline and the sleek Ford Sapphire driven by former South African champion Ian Scheckter.

Van der Linde's fastest lap bettered the record by 0,6 of a second.

In Class B Killarney favourite Johan Coetzee placed himself ahead of the Porsche 911 of Garry Dunkerley and current champion Dick Sorenson's Skyline.

These three were closely followed by Western Province rally champion Serge Dam-

seaux (Toyota) and Ivor Raasch (Mazda RX7).

Cape Town's Neville Rossouw (Skyline) sent shockwaves through Class C when he recorded the fastest time in this group.

In the race for Sabat Clubman Cars, the first event on the programme, Deon de Waal (Rover V6) took an early lead, outpacing the similar car driven by East London's Ray Brooks.

When Brooks retired on the fourth lap, the chase was taken up by Neville Rossouw (Datsun) and Jan Kriel (Toyota).

WHILE THE ECONOMY BOOMS, JOBS STAGNATE

By HILARY JOFFE

ONE reason South Africa has failed to address the problem of high unemployment in the 1980s is that economic growth has fallen behind population growth. But another — as recent statistics confirm — is that economic growth itself is failing to generate many jobs.

The economy grew by three percent last year, but employment, outside agriculture, rose by only one percent. A substantial number of jobs were lost in mining. And in industry, manufacturers raised output without employing many more workers.

Finance Minister Barend du Plessis said this week that growth in non-primary sectors exceeded 3,5 percent in 1988. Employment growth in these sectors was 2,7 percent, with an increase of only 1,1 percent in the number of black (African) workers, according to the latest Central Statistical Services figures, which cover the period to September. The total of 4,3 million represents an increase of only 1,5 percent over the 1984 figure.

In the primary sector of the economy, employment in mining and quar-

rying fell by over eight percent. Chamber of Mines figures reported this week show the average number of gold mine employees last June was down 40 765 (seven percent) on the previous year, as the gold price fell and mine working costs rose. The coal mines had lost 6 554 jobs (also a seven percent decline).

The job creation record in secondary industry last year was at least positive. But employment growth in manufacturing lagged well behind the economic growth rate — the number of jobs increased by only 1,3 percent over the year and employment levels are still slightly below those of 1984, CSS figures show.

The latest employment figures are an improvement on those of previous years. The number of jobs outside agriculture actually fell in 1983 and 1985, and increased by less than one percent in 1986 and 1987.

The main job creator of the past decade has been the government. Sanlam economist Johann Louw estimates that between June 1980 and June 1988, the number of government employees increased from

850 000 to just under 1,3 million. But the private sector created only 30 000 new jobs.

One important reason for joblessness has been the lack of new investment. And where there has been investment, in manufacturing in particular, it has tended to make factories more capital-intensive rather than providing more jobs.

Gross domestic fixed investment fell in real terms every year since 1981, but the trend has now been reversed. According to Du Plessis, total fixed investment grew by about five percent in real terms last year.

However, Louw points out that a substantial portion of investment spending last year was on residential buildings — particularly black housing — rather than new plant and machinery.

Federated Chamber of Industries senior economist Roelof Botha points to "deepening capital-intensity" in the manufacturing sector, with a trend towards automation. "From an economic point of view, it's a good thing — but it's not good from a social point of view," he says.

As the formal sector has increasingly failed to provide jobs, unemployed people have had to turn to the informal sector to earn a living.

Botha says: "Employment creation in the formal sector of the economy has been only marginal over the last decade. Without the informal sector, employment trends would have been catastrophic." Research indicates that 150 000 of the 350 000 people who enter the labour market each year go into informal sector activity, he says.

The FCI is among those who believe that South Africa's growth and employment figures would look much better if the informal sector were included. Botha believes it accounts for about 30 percent of total economic activity — and this is not included in figures on the gross domestic product.

But Louw reckons 30 percent is an overstatement — he believes it is unlikely that the figures underestimate economic activity to such an extent. At most, informal sector activity might add 10 to 15 percent to GDP, he says.

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Growth down but less anxiety about politics

By DAVID FRIEDLAND
partner with Arthur
Andersen & Co.

BECAUSE of the importance of owner-managed businesses, The Argus, Arthur Andersen & Co and the Graduate School of Business at the University of Cape Town conducted a survey of owner-managed business chiefs in the Western Cape.

Main findings show a perception of reduced growth, but less concern for political issues; executives consider both implementation of Resolution 435 and the present internal political climate to have a stabilising effect on the economy.

More than 4 000 chief executives were invited to take part in the survey. The fact that over 800, or more than 20 percent responded, speaks to the integrity of the findings and the high level of interest on the part of owner-managers.

Respondents were primarily English-speaking, over the age of 40, with businesses employing approximately 50 employees, with annual turnover below R2-million. In other words, results are weighted towards smaller businesses.

Owner-managers perceive a prime overdraft rate of 19 percent by June 30, 1989. This is significant as the survey indicates that owner-managed businesses are financed predominantly by bank overdraft.

A continuing upward spiral in the 1989 inflation rate to 16 percent is expected. Interest rates and deterioration in exchange rates were cited as the main factor influencing the inflation rate. The petrol price increase was ranked to have the least impact.

The previous survey predicted that the Western Cape economy was in an expansionary phase but 71 percent of respondents now believe the region's economy in 1989 will not improve relative to 1988.

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About 52 percent of respondents expect an increase in

THE ARGUS BUSINESS SURVEY 1989

sales in monetary terms; 30 percent believe sales will remain the same while 18 percent forecast a decline.

Translated into percentage terms, businesses (52 percent) predicting an increase in sales expect sales to increase by 18 percent. This translates into a 2 percent rise in real terms.

However, if one recognises that 48 percent of respondents forecast a decline or same level of sales in 1989, it is apparent that the owner-managed business sector will report a reduction in sales in real terms in 1989.

The benefits of improved productivity have been recognised because 88 percent of businesses are taking steps to increase productivity.

Computerisation and cost control systems were cited as examples of productivity tools.

While owner-managed businesses use the bank as the major source of finance, an overwhelming trust is placed on the accountant/auditor as the advisor to owner-managed businesses.

In pricing of products and services, 36 percent of respondents set prices on the basis of what the market can bear, while 26 percent use a cost-plus fixed mark-up method. This clearly demonstrates that the owner-manager does not concern himself too much with conventional pricing policies, but tends to adopt a very practical approach.

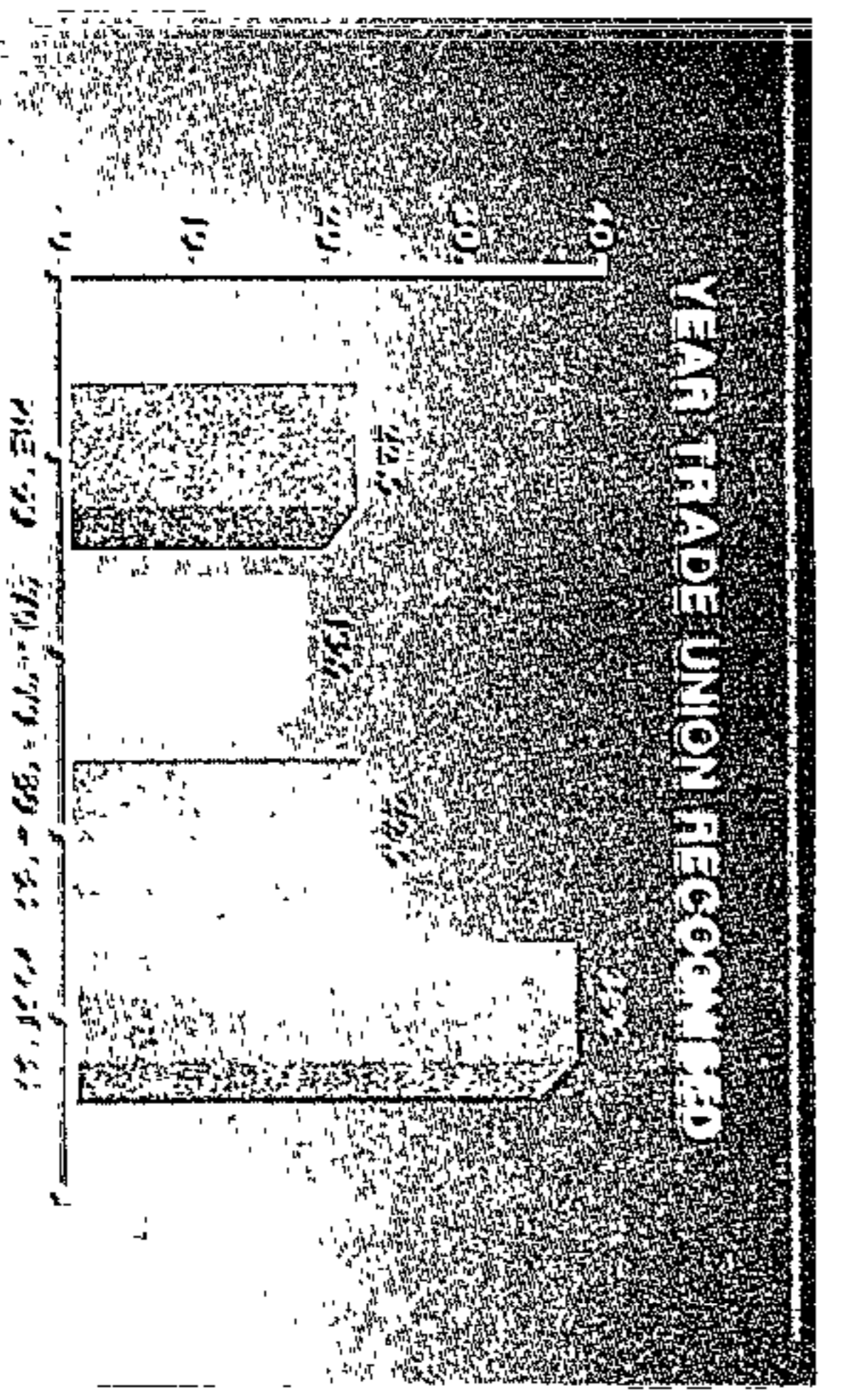
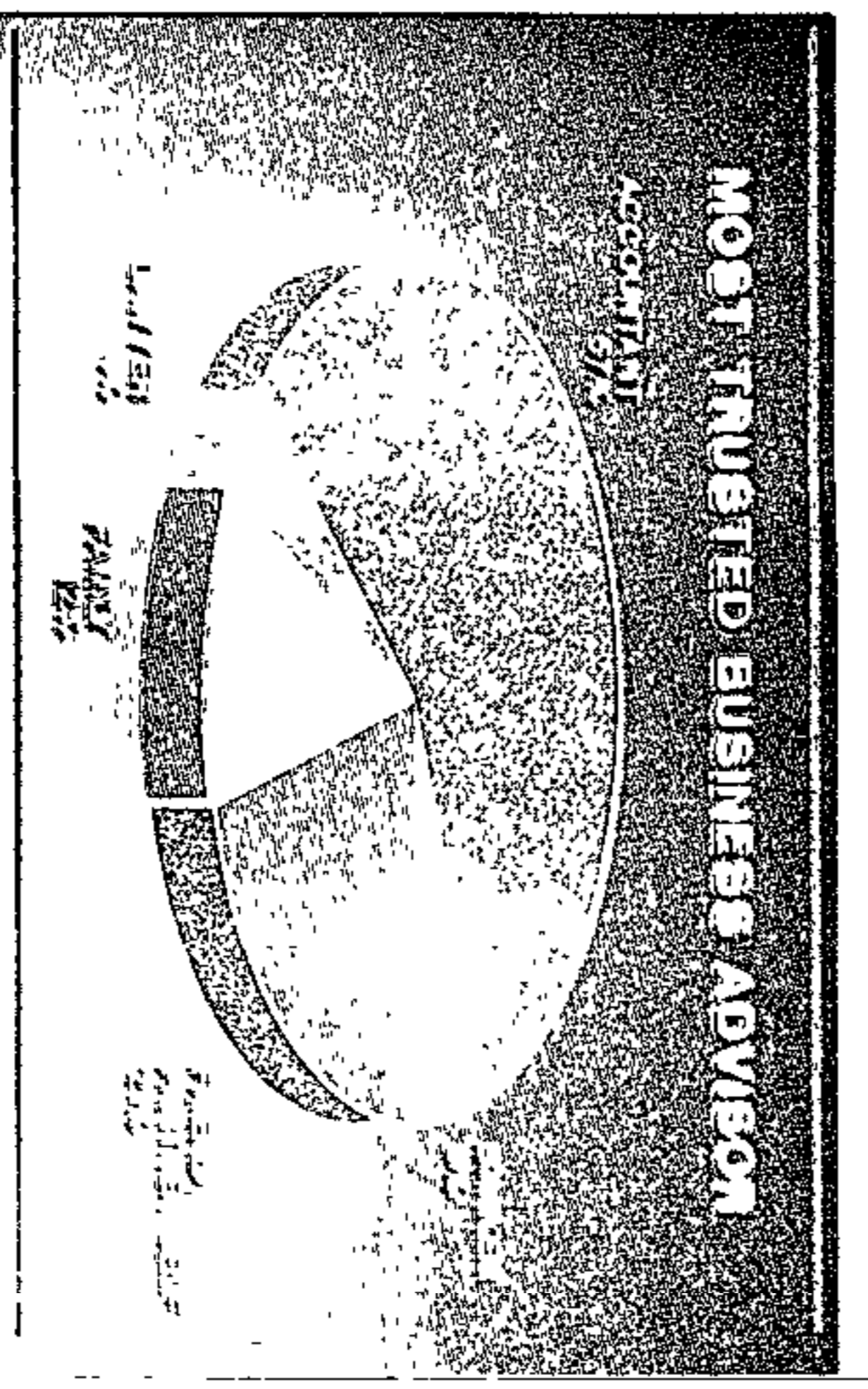
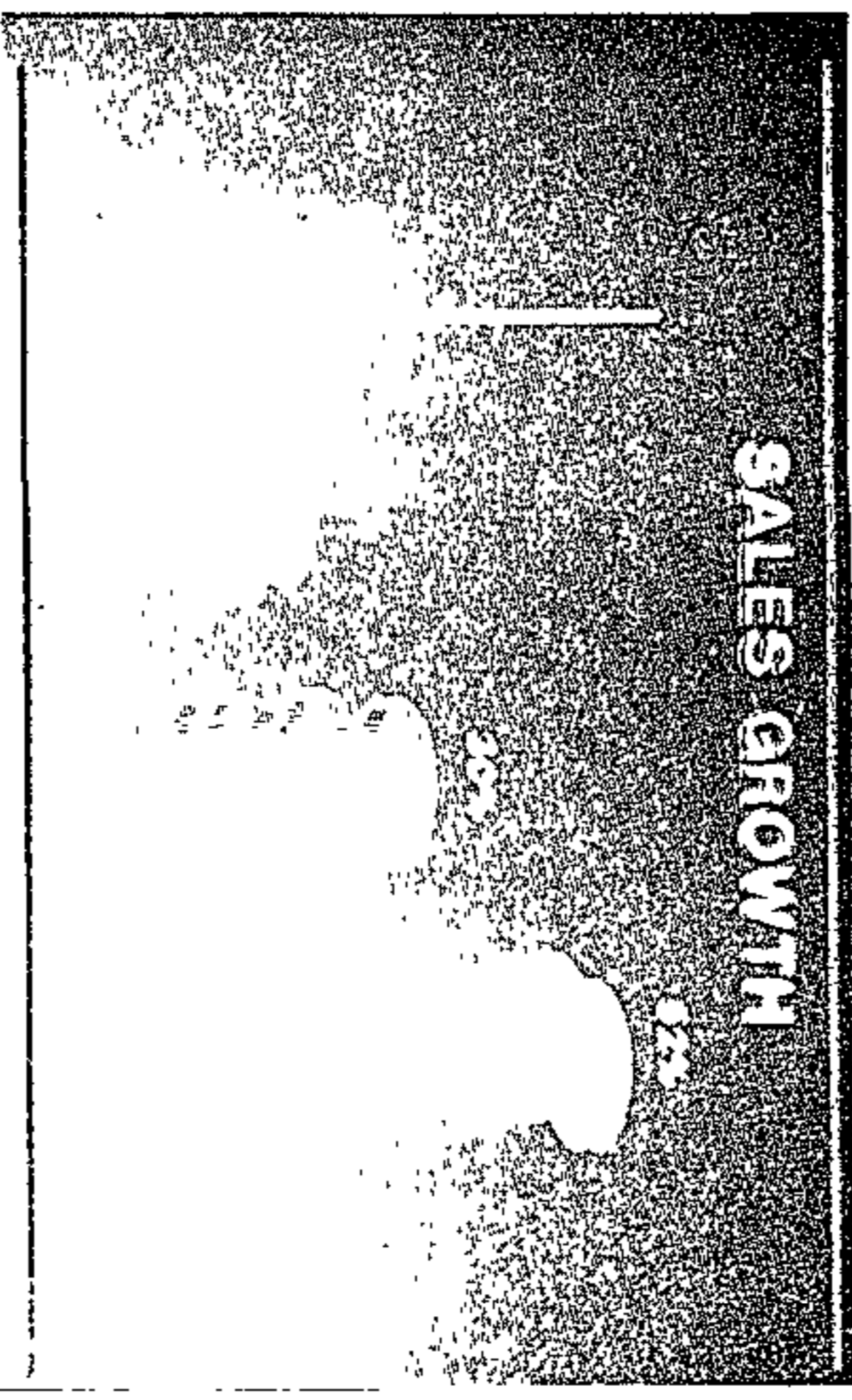
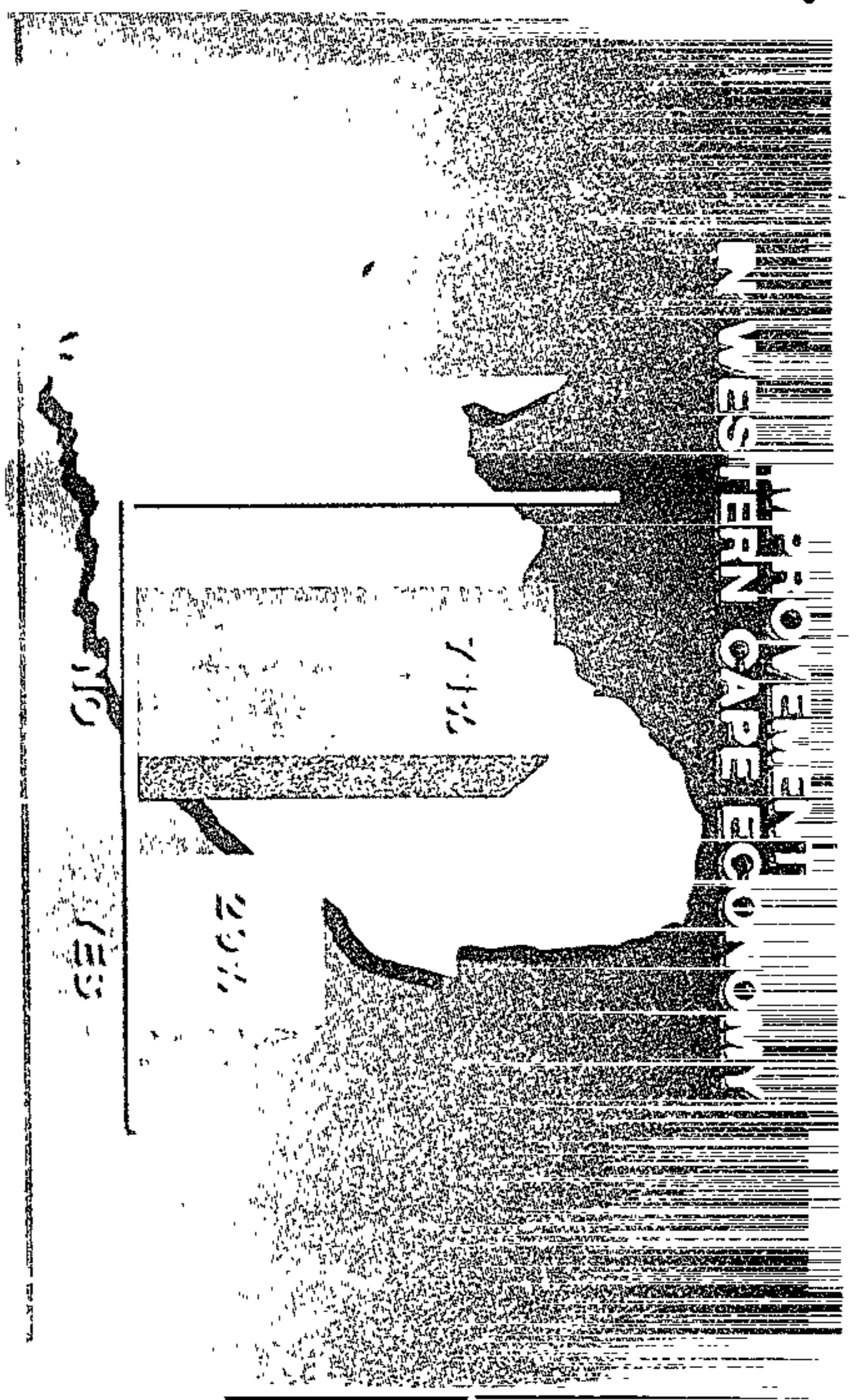
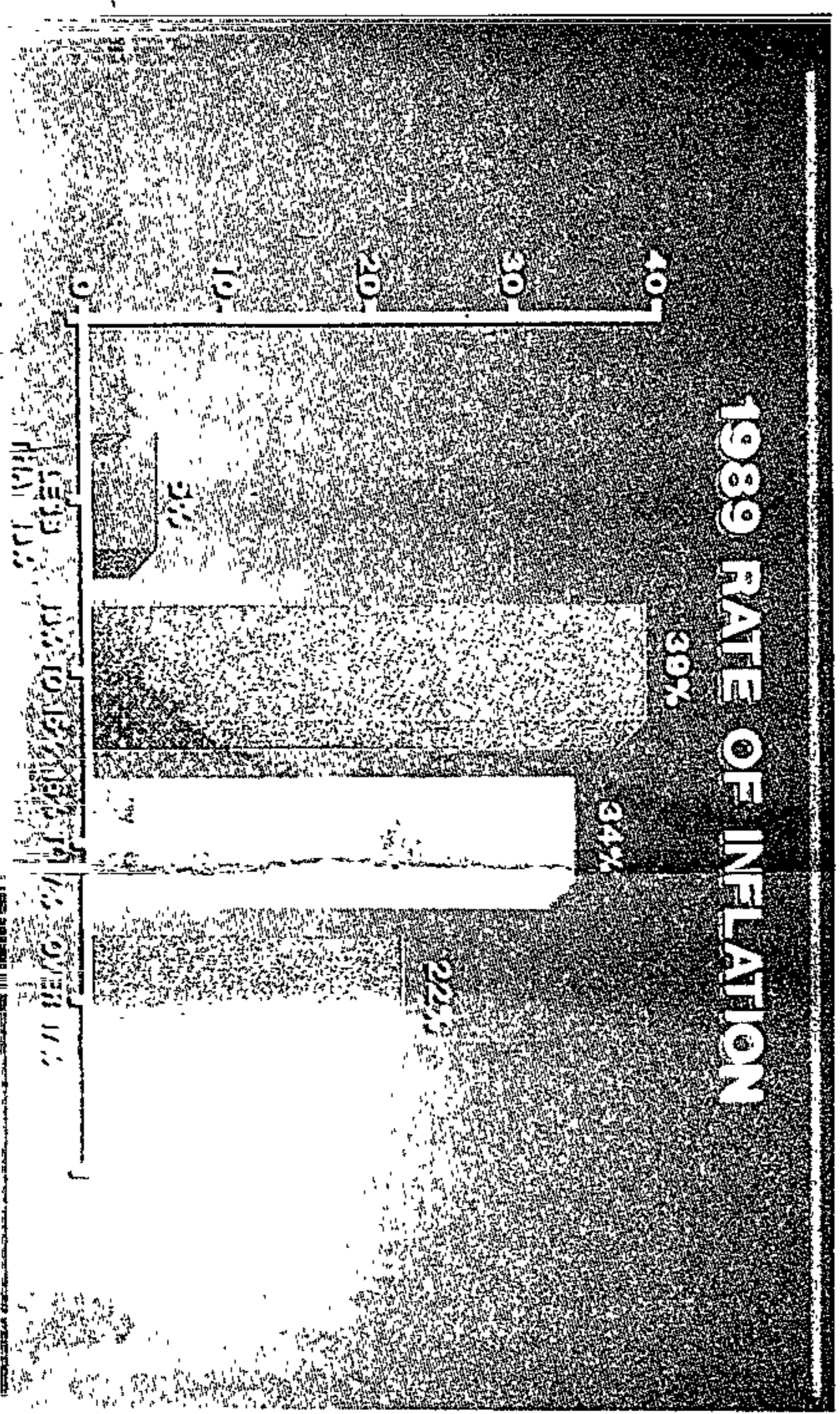
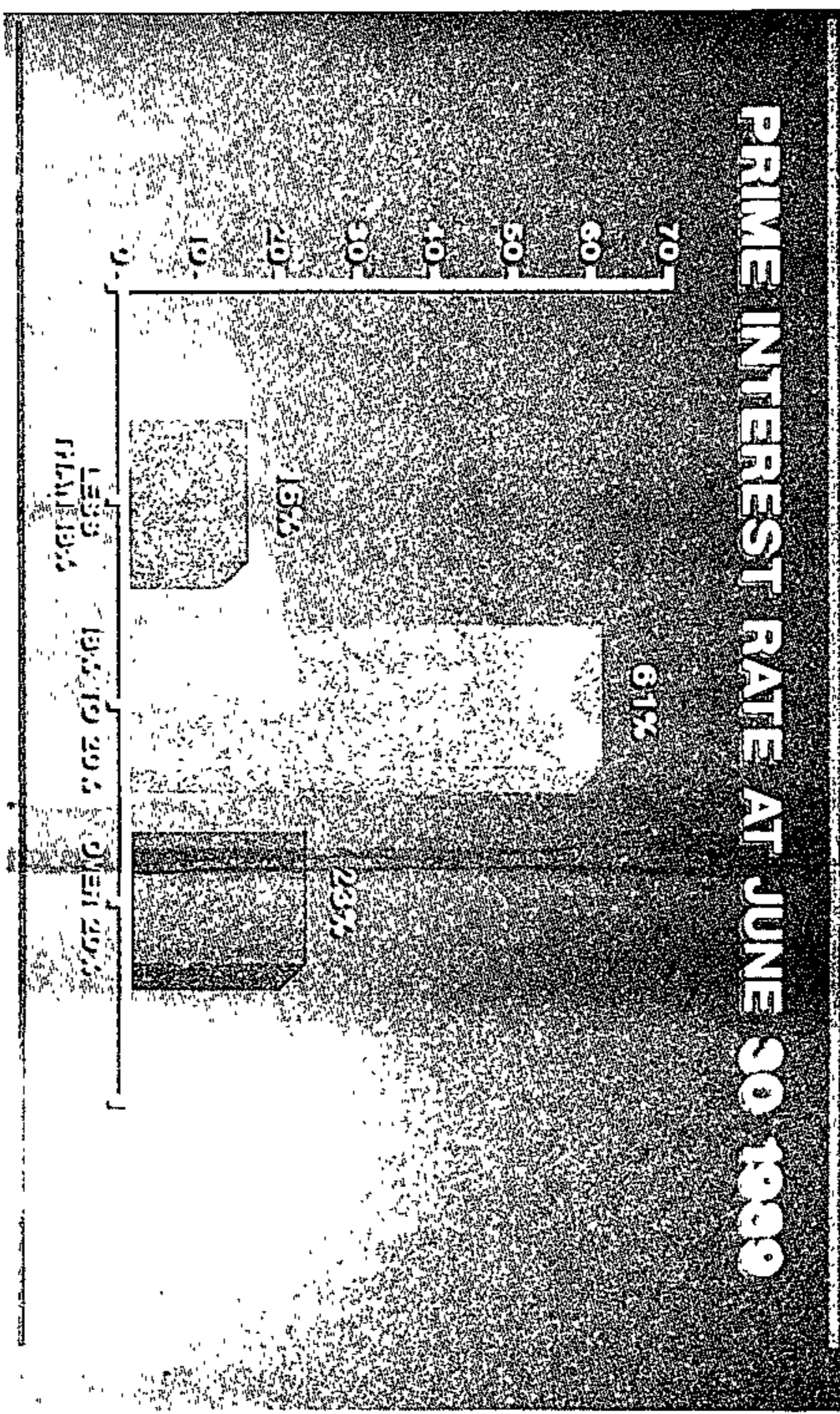
Asked "How important to your business decision-making process are income tax considerations?" an overwhelming 86 percent regard income tax as being important.

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The number of employees is expected to increase by 6 percent — this growth again emphasises the important role played by these

businesses in reducing the region's level of unemployment. Owner-managed businesses forecast wage increases of 14 percent for 1989, being two percent lower than the forecast inflation rate.

It appears that most owner-managers have not yet been exposed to trade unions — 20 percent of owner-managed business employees are trade-unionised. Of the businesses unionised, 38 percent recognised trade unions only after 1984.

The vast majority of businesses say trade unions had made very little impact. Changes, however, included: greater demands despite reduced productivity, difficulty in firing employees and, on a more positive note, improved communication between employer and employee.



Capital rates at peak?

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Monday 20/2/89
CAPITAL market rates might have already peaked in this cycle and could see a gradual drift-down during the course of the year, according to Davis, Bor-kum, Hare economist Mike Brown.

In the company's latest economic report, Brown says the risk of upward pressure on capital market rates could stem only from a further decline in the gold price and rising domestic inflation.

However, present falls in the gold price had not disturbed the capital markets, and some inflation increase was built into most investors' expectations.

"Current high revenue collections by government and the possibility of further fiscal adjustments in 1989, following the recent petrol price hike, suggest that the Fiscus wishes to curb the deficit before borrowing to below 5% of GDP.

"This borrowing requirement level, which is unlikely to be supplemented by high borrowings from public corporations, should be accommodated by insti-

SYLVIA DU PLESSIS

tutional cash flows without upward pressure being applied to capital market rates."

The proposed privatisation of Iscor should also ease pressures on the capital market if the funds received from privatisation were used to redeem government debt, Brown says.

The current buoyancy in the economy was likely to keep upward pressure on short-term interest rates over the next few months, with tight conditions in the money market continuing.

However, until the general election was out of the way, the authorities were unwilling to see further rates increases.

"Accordingly, the authorities will possibly continue to provide liquidity to the markets through open-market operations, state spending and foreign exchange purchases."

Bearish signals abound

BOTH the money market and the bond market are sending out unmistakably bearish signals as dealers interpret the latest economic indicators, not the least of which is the flagging gold price.

If the bullion price persists on its present course, even at a more gradual rate of fall, the current account and the balance of payments will come under severe pressure, as will the foreign exchange reserves. And, of course, the rand would have to absorb some of the strain.

A drop in the reserves would exacerbate the market shortage, exerting upward pressure on rates.

Last week the Treasury bill (TB) rate rose by 15 points to 15.27%, the highest it has been since the Reserve Bank let the TB rate free to find its own market-related level.

Flooded

The rate for 90-day liquid bankers acceptances (BA) jumped from 15.30% on February 10 to Friday's 16.45%, after having been as low as 15.20%. The descent from the January month-end rate to 15.20% was an abnormality caused by building societies buying liquid assets. And last week's rise is partly market-orientated, partly because the market is flooded with a surfeit of non-prime BAs.

But investor perceptions of where rates might go are reflected in the rates for 90-day non-liquid BAs which were trading on Friday at 16.20%, a rise of 45 points on the week. Rates for negotiable certificates of deposit (CDs), too, are hardening, with six months maturities about 50 points higher at 16.90% and for 12 months at 17%, a 55 point spurt in a week.

Adding impetus to the across-the-board rise



IN THE MONEY MARKETS

Harold
Fridjhon

in rates — the overnight call rate excepted — is the realisation that the hard-core shortage in the market, the extent of the banks' borrowing from the Reserve Bank, is not materially reducing. It stood at R2.9bn at the end of the previous week and at R2.4bn on Friday after the notes issued dropped by R300m, an estimated inflow of R1bn from public servants' pay cheques, and an unquantified amount of other issues by the Exchequer, said to be larger than usual. Offsetting this has been the monthly PAYE drain from the private sector to the Treasury.

On balance, by normal standards, the market should have been comfortable at this time of the year before its liquidity is drained by the February-end tax payments. This year there will be no "normal standards", as I suggested last week, but there is every possibility that my estimate then of a R4bn shortage could be out by at least R500m.

And I can't see this hard-core shortage being reduced next month or in the months that follow because I can't see the gold and foreign reserves being re-built, even if exports rise and imports fall. And even if gold should claw its way back to \$400.

Last week a highly-rated economist predicted that Bank rate — and the overdraft rate — would be increased next month by one percentage point, to a 15.5% Bank rate and a 19% prime. In spite of the probability of a general election this prediction does not appear to be a wild stab in the dark.

If money becomes an increasingly scarce commodity its price must rise unless the Reserve Bank prints money and floods it into the market, a very remote possibility because both the Reserve Bank governor and the Minister of Finance last week said that monetary and fiscal policies should be held on a tight rein. The economist predicted that rates would remain on a high plateau until the third quarter. This would be time enough for a legitimate pre-election reduction to beguile the electorate.

Strait-jacket

Perhaps the right medicine to protect the reserves — and the currency — would be not a one percentage point raise but two percentage points and, perhaps, increased hire purchase deposits and a shortening of the repayment period. But such a move is highly improbable. We lack the statistics to fine-tune these restrictions if they were to squeeze too hard and for too long. And a too-long period in a strait-jacket could over-kill a very delicate economy.

A banker said on Friday that he would not like to see Bank rate go up although he would welcome wider margins for the banks. His bank was just making out at present but he was afraid that a Bank rate rise now when bank lending was starting to ease would do irreparable damage. But not allowing rates to rise might be even more damaging.

THIS WEEK'S AGM

Sharp drop in trade surplus

Fears of renewed BoP squeeze

CRH 10/20/89

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By GRETA STEYN

JOHANNESBURG. — Fears of a renewed balance of payments squeeze were fuelled by a sharp drop in SA's trade surplus in January as the gold price hit its lowest level in more than two years.

Customs and Excise figures show the trade surplus in January was R535,2m — 58% down on December's R1,26bn. A disappointing export performance accounted for the drop while imports remained at a high level.

Exports slid by about R600m from December to R3,85bn and imports rose slightly to R3,32bn. The total surplus was down from January last year's R550m.

The figures were released as gold hit a two-and-a-half year low of \$378,15 on Friday, spelling trouble for the balance of payments. However, the metal rebounded a little and the London afternoon fix was \$380,40 compared with a morning fix of \$378,95.

Bearish sentiment intensified on local markets because of gold's weakness and the worse-than-expected SA trade figures. In the capital market, Eskom Loan 168 climbed to 16,68% at the close on Friday from 16,55% on Thursday and 16,40% the previous week.

In the money market, the three months liquid Bankers' Acceptance rate hardened to 15,65% from Thursday's 15,50% with one discount house

quoting 15,70%. The rate on Treasury Bills rose to 15,27% from 15,12% a week ago.

The markets see a strong possibility of another increase in Bank rate to protect the balance of payments.

Economists agreed Bank rate might have to rise, but not before economic indicators over the next few weeks presented a clearer picture on the economy. They noted the rand was weakening, cushioning some of the effects of the gold price and encouraging a better trade performance.

Rand Merchant Bank economist Rudolf Gouws cautioned against reading too much into one month's trade figures. Although the surplus was weaker than expected, it had come after an exceptionally strong December.

The Trust Bank's Nick Barnardt said: "The key factors for the balance of payments and interest rates are non-gold exports and imports in the next few months. If non-gold exports rise while imports drop, an average gold price of \$380 would still yield an increase in foreign reserves."

Safto economist Bruce Donald said imports appeared to be levelling off, as January's figure was well below November's record of R3,8bn. However, he was disappointed about the weak export performance in spite of a sharp depreciation in the rand.

He said: "With SA inflation running well above that of our trading partners, SA exporters could be pricing themselves out of foreign markets."

No need to raise taxes if govt can control spending

Monday 20/2/89

IF THE Finance Minister could keep the rate of increase in government expenditure within reasonable limits, it should not be necessary for him to raise taxes, Sanlam said in its latest economic survey.

Chief economist Johan Louw said in view of the poor performance of the personal savings effort, steps to make saving more attractive for the individual would be welcomed.

Generally, government's fiscal action should support its restrictive monetary policy in an effort to limit total domestic spending to a level where excessive demands on the balance of payments were not made.

Louw said during the past few years government expenditure had been characterised by the considerable extent to which the Budget estimates had been exceeded. The 1988 Budget gave rise to the hope that renewed attempts would be made to control government spending more strictly and that actual expenditure would deviate less from the original estimates. Unforeseen expenses would, however, mean that total expenditure would again exceed the Budget quite considerably.

"The result is the credibility of the Budget is once more in question."

There could be little doubt that a drop in the rate of increase in government spending was in the national interest — and also a prerequisite for the relief of the heavy tax burden of individuals. It should, in fact, be one of the major instruments utilised to put the economy on the road to faster growth, the creation of more work opportunities and greater prosperity.

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Louw said he expected the general financial situation to tend to be more relaxed in the second half of the year and that the prime bank lending rate would gradually come down and be about 16% by the end of 1989.

The financing requirements of government in the 1989/90 financial year should be accommodated quite readily by the capital market. It was expected the Minister would budget for privatisation to make a big contribution to the funding of the Budget deficit. — Sapa.

3/Day 20/2/89

Revenue rolling in faster than expected

PRETORIA — Government should be rolling in money because it is pouring into state coffers at a dizzying rate, according to a Central Statistical Service survey.

The CSS said revenue collected during the first eight months of the 1988/89 financial year reflected a 28,0% increase compared to the same period of the previous financial year. This year's Budget had made provision for a 13,8% increase.

Revenue collected over the eight month period was 68,5% of the budgeted amount

for the financial year, compared with 60,9% taken by the same time a year earlier.

Tax collections during April to November 1988 had increased by 29,1%. The Budget had provided for a 16,7% increase.

Fuel levy revenue had increased by an enormous 279% to R1,47bn. Surcharges had increased by 123% to R1,1bn.

Income tax rose by 26,5%, mainly due to higher company profits. GST went up by 26,2%, due to increased spending. — Sapa.

НІЗЛОВА УНО ДІВРОБІРЕНІ

• 1988-89 financial year revenue 68.5% of budgeted amount

СНС

Money supply rockets

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M/Dang
21/2/89

GRETA STEYN

UPWARD pressure on interest rates intensified yesterday when it emerged that money supply growth was still out of control.

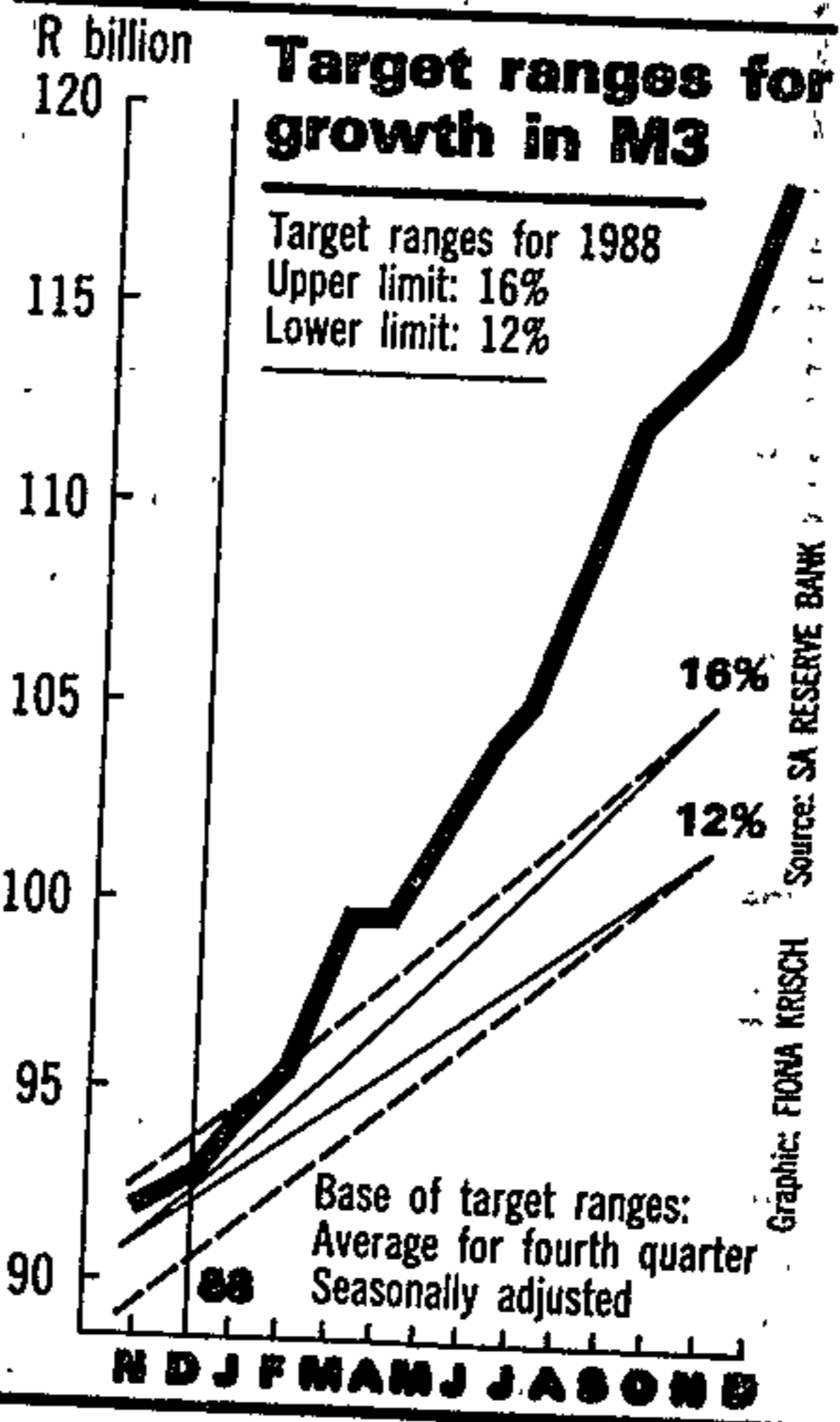
Preliminary figures released by the Reserve Bank showed that M-3 grew by 28,47% in the year to January 1989. The news came as the rand hit R2,50 to the dollar — a level last seen before Bank rate was increased on November 2.

December's M-3 growth was revised upward to 27,55% from a preliminary 26,37% — light years away from the Bank's 12% to 16% target range for 1988.

Old Mutual economist Rian le Roux said: "There is no evidence yet of the economy slowing down. Interest rates will come under upward pressure as Bank rate may have to rise again."

Simpson McKie's John Banos described the growth as "disturbing". Surging money supply growth, a weak gold price and a current account deficit in January were signalling the need for tighter monetary policy.

Bankers said the demand for credit remained high, although mortgage



finance had become less buoyant. In the money market, rates maintained their recent harder trend as talk centred around a possible increase in Bank rate. The 90-day liquid BA rate rose to 15,7% from Friday's 15,65%. Standard Bank's money market chief John Lloyd said money market rates

● To Page 2 →

Money supply rockets up by 28,47%

were expected to remain under upward pressure. The money supply figures, the weak gold price and a tightening in liquidity were bearish signals.

First National group treasurer Mike Steinfeldt said: "The pressures for another increase in Bank rate are building up, but it all depends on the Bank. If the

Bank accommodates the market with repurchase agreements, it could keep the lid on lending rates."

The money supply figures and the low gold price had upset the general belief that rates had peaked.

1/0am
21/2/89

● From Page 1

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R1bn civil service pay hikes 'averted crisis'

CAPE TOWN — Finance Minister Barend du Plessis yesterday defended the R1bn pay hikes government handed to civil servants, saying it had acted to avert a threatening manpower crisis.

He also told Parliament the deficit before borrowing as a percentage of the GDP was expected to be lower than the 4,9% predicted in last year's Budget. There were sufficient additional income and loan receipts to fund the spending of the extra R2,6bn he was asking for in the Additional Appropriation Bill.

MIKE ROBERTSON

The total cost of the pay hikes, announced before the municipal elections, amounted to more than R1bn. Of this a sum of R553m was included in the main Budget, leaving Du Plessis to ask Parliament for an extra R536m to fund them.

Du Plessis said government had acted to increase civil servant salaries because the demand for manpower by the private sector was drawing skilled and experienced labour away.

Speaking during the committee stage

5/10/94 21/2/29/49
of the debate on the Bill, Administration and Privatisation Minister Dawie de Villiers said government had satisfied itself before agreeing to the pay hikes that they could be funded out of additional revenues and there would be no need to raise taxes.

He said with six weeks to go to the end of the financial year, revised total expenditure was expected to be R56,556bn. Over-expenditures were expected to be R2,591m.

● See Page 5

By Derek Tommey

Dr Chris van Wyk, managing director of Trust Bank, is most unhappy with some of last year's economic policies.

His reason: in holding down interest rates ahead of the municipal elections the Government also held down Trust Bank profits.

The bank earned R25,9 million after tax and transfer to contingency reserves in the six months to December, it reported last night.

This was an increase of only 7,9 percent on the R24 million earned a year earlier.

It was not much recompense for a 21 percent increase in the bank's business of lending. This lifted its assets by R2,8 billion to R16,4 billion.

Interim dividend

Earnings a share rose from 18,1c to 19,4c. The interim dividend has been lifted from 5c to 5,5c a share.

Dr van Wyk said in the interim statement: "Profit growth was severely hampered by the authorities' reluctance to permit a prime lending rate increase commensurate with increases in deposit rates in August, September and October. This placed untenable pressure on interest margins.

"The situation improved in November and December. In these circumstances the increase of 7,9 percent in net income can be regarded as satisfactory."

In an interview last night he said the losses arising from the Government's refusal to allow the bank to raise interest rates cost it, in terms of net interest margins, tens of millions of rands.

It led to the bank lending

Trust Bank blames economic policies for lower profits

R8 billion at rates one percent to 1,5 percent below what they should have been.

He said the bank had experienced a year of good growth, especially in the provision of home loans and in the area of new cheque accounts.

Between December 1987 and December 1988, home loans had risen by 250 percent to reach R1,6 billion by the end of the year.

Although the margins on building society business were being squeezed a little, it was sound long-term business financed by long-term liabilities.

The security was high, bad debts were infinitely less than in other instalment business, and it was a core product leading to demand for other services.

The bank had been successful in getting new cheque accounts, which had led to an increase in advances.

Other good news was that bad debt experience had improved considerably and income from commissions and fees had increased.

Operating costs increased at a much slower rate than business volumes. The ratio of operating costs to average assets continued to decline as it had in the past two financial years.

Dr van Wyk said he expected a more favourable second half, but that one should not underestimate the risk of uncontrollable



Dr Chris van Wyk

ble external factors taking an adverse turn.

The softness in the gold price had led to increasing uncertainty in business circles.

The price affected almost everything, included consumer spending and the financial markets.

While expectations of lower interest rates later this year might not yet be out of court, the probability of higher rates had increased.

Because the cost of money had started rising before the lending rate, banks were having a difficult time making profits.

He was cautiously optimistic, though the uncertainty factor was high.

One factor that had to be considered was the possibility of a general election. "This could also interfere with the financial system," he said.

De Kock moves to cool overheating economy

Star 23/2/89

49

By Derek Tommey

The Reserve Bank moved last night to cool down the overheated economy by raising Bank rate from 14,5 percent to 16 percent — its highest level since September 1985.

This should lead almost immediately to an increase in the commercial banks' prime rates from 18 percent to 19 percent and a similar increase in all bank lending rates.

This is the sixth increase in bank lending rates since January last year. It means that since then the cost of borrowing money at prime rate from banks will have risen more than 50 percent — from 12,5 percent to the expected 19 percent.

With total bank lending running at R85 billion (though not all of it is at variable interest rates), the expected rise in the prime rate is likely to cost borrowers an extra R500 million a year.

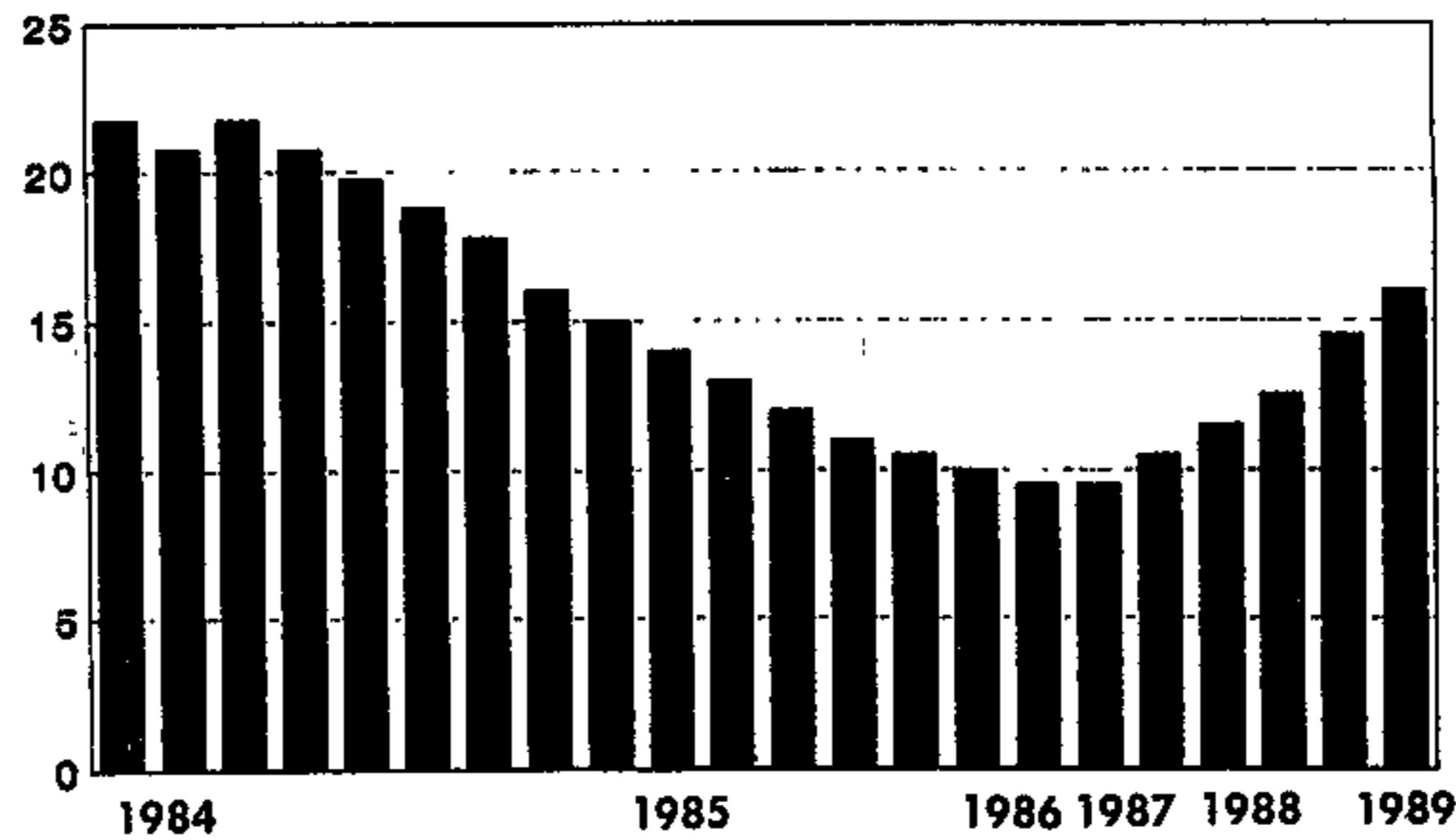
Many large companies are now liquid and the rise in prime is not likely to have any direct effect on their plans.

Shelve plans

However, the possibility of another rise in interest rates, should the present move fail to depress the economy sufficiently, could cause them to shelve plans.

Property developments are the most likely to be constrained by higher rates. Plans to expand manufacturing production, especially if it is for the export market or for import replacement, should go ahead.

Higher HP rates could have a depressing effect on new car



Increases in the bank rate since 1984

sales. But as most new cars these days are sold to companies which deduct the increased costs from their tax payments, the effect of the higher rates is likely to be marginal.

Mortgage rates are expected to rise, but bankers are not certain of the size of the increase.

Mr Kevin de Villiers, MD of Allied, said yesterday prime would certainly rise one percent. Mortgage rates would also rise, but the situation needed to be examined.

Mr Terry Power, general manager of home loans at Standard, agreed that mortgage rates were likely to rise but was unable to say by what figure.

He cautioned borrowers against trying to lessen the interest burden by stretching their repayment period.

If a borrower with a R100 000 mortgage extended it from 20 years to 30 years, he would save R36 a month, but would have to pay an extra R190 000 in capital

and interest.

Housebuyers owe the building societies R30 billion. A one percent rise in the mortgage rate would add R300 million a year to housebuyers' costs.

A housebuyer with a R100 000 bond would have to pay an extra R78 a month. Other bondholders would have to pay a proportionate amount.

Hardest hit will be those who can barely afford the 100 percent, 12,5 percent bank bonds available a year ago.

The monthly repayments on their bonds will have risen by 50 percent in this period, if the rate moves to 19 percent.

It is this area where the increase in interest rates could bite the hardest.

Even so, not all people will be affected because many with subsidised bonds can expect increased subsidies.

It is time, it seems, that the authorities had a rethink about ways to cool the economy. In-

creasing bank rate has been the weapon most used by central banks. But while it might have been an efficient weapon in a relatively unconstrained pre-World War 2 untaxed economy, it seems to have a number of defects in today's tax-driven business conditions.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said last night the need to tighten monetary policy was brought about by three developments.

They were:

- The decline in the gold price from an average of \$437 in 1988 to below \$400 in recent weeks. Over a full year, a \$50 drop in the price would cost SA about \$1 billion at present exchange rates.

- The further rise in interest rates in Europe and the US to levels that in real terms greatly exceed those in SA.

Excessive rise

- The further excessive rise in the money supply in January to a level 28 percent higher than a year ago, which showed that the vigour and duration of the upswing in the domestic economy last year was consistently underestimated.

He said the upswing in total spending and general economic activity was levelling off and that an upper turning point of the business cycle had either been passed or was about to be reached.

But it was intended to reduce the rates of increase in the money supply and total spending to counter inflation and strengthen the balance of payments.

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24/2-2/3/89
w m m c

A forgiving new line from US Citibank

Weekly Mail Reporter

CITIBANK, one of the largest American lenders to South Africa, has decided to extend payment terms on the bulk of \$670-million in outstanding South African debt, forgiving payments of past-due principal until 1992 and allowing until 1997 for the balance to be paid off.

Citibank's rescheduling "reduces the risk of repayment suspension", the bank explained. Since the debt standstill of 1985, it has received only about five percent of the principal it is owed by South African debtors.

The bank's decision, reported in this week's issue of the US newsletter *Africa News*, may be a sign of greater flexibility among South Africa's American creditors. This is something the financial authorities desperately need, given that repayment obligations could total \$5,3-billion in the next three years, according to Reserve Bank figures.

Swiss banks granted loans to South Africa of around R80-million in December and just over R100-million this month. But the European banks have always been more accommodating. Now it seems American banks are moving in that direction, although the Anti Apartheid Act of 1986 bars all new public sector and most private sector loans to South Africa, and almost all major American banks now have policies prohibiting new lending of any type.

According to the *Africa News* report, Citibank has faced renewed criticism from anti-apartheid activists as a result of its decision, with charges that the bank has come to the government's aid in time of need.

US bank loans to South Africa, which reached a record high of \$4,5-billion in 1984, have now dropped to almost half that level (\$2,78-billion), according to US Federal Reserve Board data.

Africa News also reports that the impetus for increased sanctions is coming from state and local authorities in the US, "in response to ongoing constituent pressure".

The targets of the campaign are no longer confined to direct investments in South Africa but include firms with non-equity ties, such as franchise, licensing or management agreements.

"A total of 23 states, plus the US Virgin Islands, 19 counties and 79 cities have sold stock in, withdrawn funds from (in the case of banks) and/or barred purchases from companies involved in South Africa," according to *Africa News*.

From 24/2/89.

GOVERNMENT FINANCES (49)

Asking for more

Overspending on the Budget for 1988-1989 will total R2,6bn, Finance Minister Barend du Plessis told parliament. Conflicting press reports on the amount arose from R979m "statutory over-expenditures" omitted from reports based on the R1,7bn specified in the accounts tabled in parliament.

In the event, revised expenditure for the year will total R56,6bn. Against original estimated revenue of R44,2bn, this leaves a

crude public-sector borrowing requirement (PSBR) of R12,4bn. However, thanks to critical underestimates of revenue receipts, actual PSBR is likely to be much less.

Revenue was estimated to increase 13,8% in 1988-1989, from R38,9bn to R44,2bn. But in the eight months to November receipts rose 28% on the first eight months of the previous financial year.

If this holds for the full year, revenue will total R49,8bn, leaving a PSBR — on Du Plessis' new spending figures — of R6,8bn. This also means that taxpayers will have contributed R10,9bn more than a year ago, which alone would more than cover the original estimated PSBR.

Huge chunks of the overspending go to the TBVC and self-governing states. This is not surprising, given that the various forms of aid, and so on, contributed to these 10 areas

collectively exceed the defence budget, the biggest single official vote.

Under foreign affairs, budgetary aid to TBVC takes an extra R127m. Under development aid, the six self-governing states take an extra R68m. And so on.

But the two big appetites have come from increased public-sector salaries and pensions. Du Plessis suggests that the figures for these total hundreds of millions. His reasons for the increase, mainly of academic interest now, do not bode well for the year ahead.

Noting that nearly a year ago President P W Botha announced that there would be no general salary adjustment in 1988-1989, Du Plessis said the idea was that the private sector would follow suit. Startling facts came to light, which Du Plessis only now reveals.

"Demand for qualified and skilled labour by the private sector markedly increased, on account inter alia of the gratifying economic growth of some 3%.

"To a marked degree this increased demand was satisfied by drawing skilled and experienced labour from the public service. Acting responsibly to avert a threatening manpower crisis, government had no alternative but to advance by three months the general salary adjustment that was to take place on April 1."

So much for P W Botha's original promise to trim the public service.

Now, the higher the overall economic growth rate, the more taxpayers' money will be diverted to the kleptocrats, pushing the growth rate down again. We hardly need the communists to give us lessons in wealth redistribution, or growth minimisation. ■

Auction off the central bank?

24/2/89
119 Fm/12

SA's Reserve Bank isn't the only central bank that comes under fire for destabilising the economy and fuelling inflation. And SA's not the only place where economists don't agree what to do about it. In the US, a trio of Clemson University economists has come up with a solution to end the running debate over Federal Reserve policy: auction off the Fed and let the market dictate policy.

"In conversations with other economists, we have found our proposals labelled 'crazy' or 'too wild,'" say William Kelly, Clark Nardinelli and Myles Wallace in the *Cato Journal*, published by the free-market Cato Institute in Washington. "Yet we have not found any compelling objections to our proposal. Once the novelty wears off, the simple logic of the market solution becomes clear." The Fed gets plenty of advice: adopt a discretionary policy that seeks to manage demand and moderate the business cycle; adopt a strict Friedmanesque money rule so inflation is checked and the Fed doesn't create business cycles in the first place; or move to a gold standard, to prevent authorities from wildly printing money.

Problem is, the authors say, there's little incentive for the Fed to try various approaches to find what's best for the country. Members of the Federal Reserve Board are political appointees who can't be fired. They are attracted to the job by prestige and the power to manipulate the world's biggest economy, so they're likely to try policies only involving lots of intervention and activism — which aren't necessarily the best policies.

The authors propose a plan that rewards a privatised Fed for doing good work. The Fed — and its monopoly power to control mone-

tary policy — would be sold in the open market in a shares issue (initially, sold through a merchant bank or given to all US citizens, who could in turn sell them). The shares could be re-sold at any time.

The tie between central government and the Fed would be severed — except that the Fed, rather than generating profits like a bank, would receive payments from government tied to economic performance. Low inflation, high growth, stable growth and low nominal interest rates would be rewarded.

of dollars for successful policies; the incentive for success would be high.

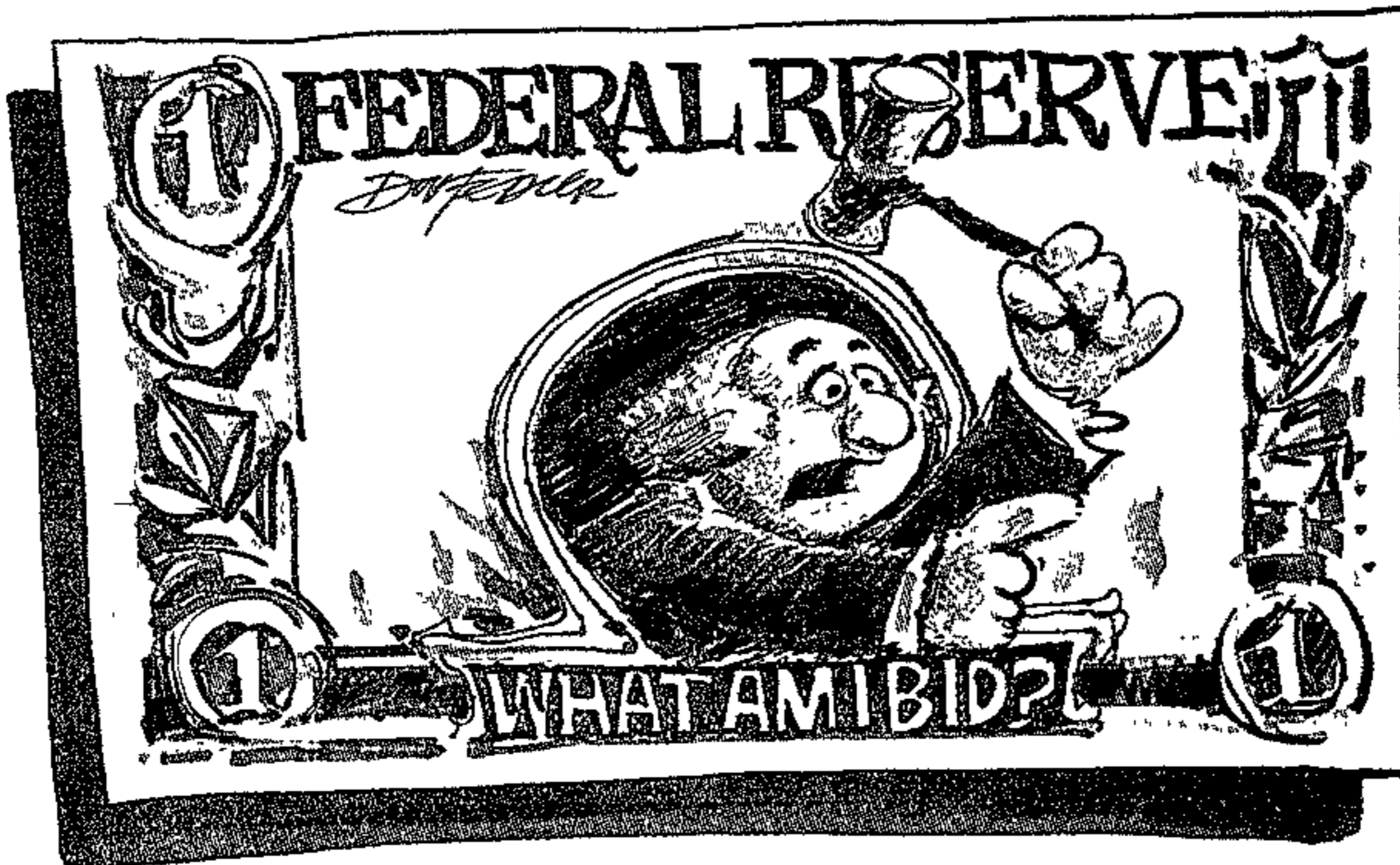
The result? "Debate would move from academic journals, newspapers, and congressional hearings and into the market. Instead of vying for academic honours and political influence, proponents of alternative views will be forced to subject them to the market test. If an economist has a better method of conducting monetary policy, then a corporation could gain profits by buying a controlling share in the Fed and instituting the policy."

If, for example, a strict money rule were instituted with success, government payments to the Fed would increase and the share price would rise. If the policy fails, revenues and the share price fall and "the Fed is fair game for a corporate takeover." Advocates of a gold standard could mount a takeover bid. So could advocates of a Hayekian system of competing currencies, who would end the Fed's monopoly on creating money and

reap rich rewards if the economy flourishes under free banking.

"No unsuccessful policy could survive," say the authors. "Furthermore, as new knowledge leads to new ideas in policy, the market mechanism creates a relatively efficient way for new policies to be adopted. The long march from academic idea to popular approval to governmental adoption can be replaced by the quick implementation of new ideas by corporations seeking profits."

The proposal reflects a big change in thinking on monetary policy: money used to be thought too important to be provided by the market. Increasingly, it's considered too important *not* to be provided by the market.



"If the economy performed well, the Fed would receive a large payment from the Treasury; if the economy performed poorly, it would receive a small payment. The owners of the Fed would have a direct financial incentive to find and adopt policies that lead to optimal macro-economic performance."

In the end, they say, the Fed would belong to those willing to pay most for it — most likely those whose policies best enrich the country. Mess up, and the share price would collapse. Then someone with a better policy would snap up control.

The authors assume shares would be worth about US\$10bn and that the payments formula would grant the Fed billions

Lifeboats launched to save sinking margins

Day 27/2/89

49

THE Reserve Bank has already started to throw lifebelts to the money market; this week central bank support will reach lifeboat magnitude as the market shortage passes the expected R4bn mark.

On Friday market sources estimated that Bank assistance could have reached the R500m mark. It might have been even higher because the help came from a R200m buy-back (repro) facility as well as from an undetermined amount of buying of 90-day liquid bankers' acceptances (BAs) which put liquidity back into the market.

The estimate of how many BAs were bought by the Bank range from R300m to R500m — the amount actually involved falls into the guesstimate category. But the lower figure of R300m would appear to be more accurate judging from the Saturday morning figures issued by the Bank.

On Friday morning the market shortage — the banks' debt to the Reserve Bank — was R2,829bn. This reduced to R2,411bn on Saturday but account must be taken of the R140m increase in the banknote issue to R6,891bn.

Including the R200m repro, the shortage in the market is already R2,6bn and is due to escalate when tax cheques start building up into an Everest-like peak tomorrow night for clearance on Wednesday. That's when the pressure on the banks will come and that is when the Bank rescue service will have to stand by.

This month, more than ever before, banks' margins could be squeezed to mi-



IN THE MONEY MARKETS

Harold
Fridjhon

croscopic thinness because a "technicality" is preventing them raising their lending rates immediately to compensate for the higher cost of borrowing (and of central bank help) triggered off by the Bank rate rise.

For "technicality" read "bureaucratic bungling". The banks claim when they scrutinised the draft amendments to the Usury Act they indicated banks could not comply. Logistically it was impossible and psychologically it could damage the market climate. A time-lag between the announcement of a Bank rate increase and its implementation through the banking system would enable lenders to demand higher rates which could not be legally recouped from banks' debtors.

This was apparent on Friday when the Big Money call rate rose by one full percentage point to a 16,5% top rate from a previous 15,5% and it is Big Money call deposits, largely from the assurers for whom cash assets rank as prescribed assets, that the banks depend for their funding. Fear of where this rate will reach in the next few

days was evident in the tender for the R200m repro offered by the Reserve Bank. The tender attracted bids of R685m at an average rate of 17,30%. And this is relatively cheap money.

On Friday rates, except lending rates, responded to the higher Bank rate. The Treasury bill (TB) rate rose to 15,60% — the highest since September 1985 — from 15,27%. The BA rate, 15,65% the previous Friday, reached 16,40% before Reserve Bank buying reduced it to 16,30%. Non-liquid 90-day BAs jumped 60 points to 16,80%.

During the present period of hiatus no new negotiable certificates of deposit (CDs) are being issued and investors, too, are watching and waiting, but a banker suggested that rates would be: 17,25% for three months, 16,75% for six months and 16,50% for 12 months. This does suggest an easing of interest rates before a possible October election.

The market holds mixed views on the Bank rate rise. Some people believe that the leap to 16% is insufficient to curb demand, bring down money supply and protect the reserves. They argue that the Bank should have administered shock treatment with a 17% Bank rate.

Others, however, say with the still-fresh memory of 1984 that this would do more harm than good to the economy which needs restraining and not bashing. A 19% prime supported by fiscal restraints and curbs on consumer debt could ensure a soft landing by the end of the year — if only gold would reverse its bear trend.

Redistribution of wealth and a booming economy vital for future

CM-712/27/2/89 (49)

From Professor S J TERREBLANCHE
(Stellenbosch):

IN his article "Hark! The first Horseman rides against the rich" (Cape Times, February 20), Ken Owen attacks me on what I have allegedly said 11 years ago. It is of course, anyone's — and especially an academic's — privilege and responsibility to change his opinion and to grow in intellectual and ideological insight.

Nonetheless, Mr Owen is wrong in his accusation that I made a plea for a "radical" and/or "massive" redistribution of income. My recollection is that my speech to "Peil 99" 11 years ago contained a strong plea for increased spending on black education. At the end of the 70s I was still optimistic about a resumption of a high economic growth with a strong demand for skilled black manpower.

Creeping poverty

Unfortunately we are experiencing a decline in the real per capita-income since 1974. Given the political and economic power structures in this country, a large proportion of the "creeping poverty" has been "shifted" on to the poorer half of the black population.

Yes, we are experiencing a redistribution of income in South Africa — the poor are getting poorer! As long as the NP remains the government of South Africa and maintains the apartheid system (and a political system based on statutory defined race groups), creeping poverty will in all probability be perpetuated. It can even deteriorate into galloping poverty... and an even more unequal distribution of income, wealth and opportunities.

In a letter to Business Day (February 14) I made a strong plea for a new government and political reform as the neces-

sary strategy towards a desperately needed high economic growth rate in South Africa: "To attain a high growth rate we must restore normal economic relations with the rest of the world. The only chance to succeed is a new government with a clear commitment and the necessary credibility to dismantle apartheid and to negotiate the transition to a non-racial democracy."

In his article Mr Owen warns "that the closer we come to democracy, the greater the inclination of Western capital to flee".

Must I conclude from this that Mr Owen is not in favour of a process of democratisation? How does he explain the fact that capital is already fleeing the country for at least the last 10 years? Is it not because of the NP government's unwillingness and inability to dismantle apartheid and to negotiate an orderly transition towards a non-racial democracy in South Africa? Mr Owen owes his readers a clear explanation of his stand on reform and on the transition towards a non-racial democracy in South Africa.

I was really surprised by the following sentence in Mr Owen's article: "Nobody will quarrel with the assumption that some wealth must be diverted (sic) to charity in order to avert starvation, or that the maintenance of minimum standards of public health is a necessary social expenditure, or that investment in education is a long-term necessity."

This is a justification for at least some redistribution! A dogmatic free marketeer can easily label it as an updated version of Verwoerdian social engineering and as an attempt "to compel the economy to perform in disregard of economic law".

Could it be that the difference between Mr Owen and myself is only a difference in degree and in rhetoric and not in substance? I want a high growth rate as a prerequisite to finance a better distribution of opportunities and to create a more stable and a morally more just system. I am not in favour of radical redistribution that will have a disruptive effect on the growth potential of the economy. I am definitely not in favour of an economic policy that will boil down to the consumption of the seed corn.

Main difference

Perhaps the main difference between Mr Owen and myself is contained in the following sentence: "Terreblanche has a choice: he can have the booming economy or he can have redistribution, but he cannot have both."

No, Mr Owen, we can have both and it is of the utmost importance to have both! In the delicate trade-off between growth and redistribution we will in the short-run have to give some preference to growth but with a perpetuation of the booming economy we will have to spend more and more on human upliftment to create human resources to maintain the high economic growth rate. And with a booming economy it will also be necessary to redistribute to maintain the legitimacy and the social stability of the system.

If Mr Owen really thinks that a booming economy and redistribution is not possible at the same time, he had better acquaint himself with the growth and redistribution experience of all Western countries, Japan and the four Little Dragons of the East for the greater part of the period since the Second World War.

A man can't
be a

liberal when he opposes free choice and the increase of personal wealth

CH Times 2/2/89

49

WITH a sense of mounting dismay — growth per se is "a good thing"? for once the cliché is apt — I have From Galbraith, languidly wonder-
been reading the recent economics ing if America's great wealth is
textbook written by Professor Sampie enough, the question is acceptable; in
Terreblanche, the Democratic Party's a country where equal division of in-
"liberal" adviser. Published in 1986, it come would give every person about
shows that his conversion to the R200 a month, I find the same question
liberal ideas of economic growth — to obscene. But Terreblanche, attacking
a "booming economy", as he has put it "the golden calf" of growth, says. "The
— is startlingly recent.

His book — *Politieke
Ekonomie en Sosiale Wel-
vaart* — seems to be
pitched at first-year stu-
dents, offering a once-
over-lightly survey of the
ideas of writers from
Adam Smith and Ricar-
do (they get a page each)
through Marx to Samuel-
son and to an American writer called
Harrod, of whom I have never heard.

Keynes gets the obligatory serious
treatment, but his great adversary,
Friedrich Hayek, is cited only as au-
thor of an essay in 1945 putting for-
ward the theory that the market
mechanism generates and disperses
information in a manner which allows
producers and consumers to plan ra-
tionally.

This reference draws from Terre-
blanche the uncomprehending criti-
cism that Hayek's arguments have
merit — but then the factors which
allow for distortion of information, or
deliberate misinformation, must not
be lost sight of. That curious view of
markets seems to represent the full
extent of Terreblanche's attempts to
grapple with this century's outstand-
ing critic of socialism.

Terreblanche treats neo-Marxist au-
thorities with more deference. His
analysis of the relationship between
British colonialism, capitalism and
apartheid rests heavily on O'Meara's
attempt — in keeping with the domi-
nant trends of neo-Marxist thought at
Wits — to blame capitalism for the
emergence of apartheid, so that they
can both be chucked overboard to-
gether.

O'Meara's theories fit neatly into
Terreblanche's life-long hostility to-
wards what he calls the "English Es-
tablishment". For example, he says
(my translation): "The apartheid sys-
tem first found expression at the be-
ginning of the 20th century and in this
the English Establishment was, for the
sake of its economic interests, an im-
portant partner."

Again: "One of the most important
apartheid measures ever placed on
the statute book was the South Africa
Act, which was adopted in 1909 by the
British Parliament"

The future

This self-exculpation distortion of
history reaches its apogee in a pas-
sage from Paul Johnson, cited approv-
ingly, which observes that Smuts and
Botha (whom Terreblanche regards,
in old-style Broederbond fashion, not
as Afrikaners but as the English Es-
tablishment) laid down all the main
legislative structures which were lat-
er to become known as apartheid.

The past, however dubiously pre-
sented, is past. It is when Terre-
blanche comes to the main question of
the future — economic growth under
capitalism, or redistribution of wealth
under some form of socialism? — that
his 1986 ideas become truly alarming.

The liberal argument, in a nutshell,
is that South Africa needs rapid
growth, both to free its people from
the oppressions of government and to
create sufficient wealth to eliminate
poverty. Liberals argue that large-
scale redistribution of limited re-
sources will cripple growth, without
substantially changing the lot of the
poor.

This argument has gained great
force in the past decade as even the
Nationalists came to realise that the
expansion of the role of the State (in
order to redistribute wealth or equal-
ise social benefits) merely brought
economic growth to a halt. South
Africa has had virtually no growth
since the mid-Seventies, while the
role of the State expanded monstrous-
ly.

Among government's economic ad-
visers during this lamentable period
was Sampie Terreblanche who, as late
as 1986, still held the view that growth
was a questionable public good. Par-
rotting the amusing but fading Gal-
braith, he asks whether economic

question arises whether the high pri-
ority which is given in the West to
economic growth and worldly success
is not the result of a twisted (but
deeply rooted) interpretation of the
so-called Protestant ethic?"

Destabilising

His own view of wealth-creation is
on a higher spiritual plane. After
quoting one Arthur Wallis as saying:
"We want growth because it enlarges
the opportunities of our children,"
and because it "expands our capacity
to pursue goals of our own choosing,"
Terreblanche carps: "The objection to
this argument is that it is not clearly
indicated what the greater freedom of
choice and opportunity will be used
for, or why it is important for us, or our
children, to have greater opportuni-
ties."

Will somebody please explain to me
how it is possible to call a man a
"liberal" who is so suspicious of indi-
vidual free choice, and so anxious
about the use to which the next gen-
eration may put its wider opportuni-
ties, that he would rather not permit
them to create more wealth? The only
explanation I can discern in his book
is that Terreblanche perceives rapid
economic growth to be "destabilis-
ing", and he so fears destabilisation
that, on the one hand, he proposes a
growth rate to the end of the century
of 3% a year, and on the other hand he
seeks a transfer of wealth from the
"English Establishment" to the poor
blacks in order to maintain a stable
order.

His thinking is in fact much closer,
both in analysis and in policy pre-
scription, to the Wits neo-Marxists
than to the South African liberals who
adhere generally to the thesis of
Michael O'Dowd that rapid economic
growth is both a means of destabilis-
ing apartheid society, and of creating
the wealth that will be required to
maintain peace in post-apartheid
society. The mystery is how Terre-
blanche can be passed off on us as a
"liberal".

It is understandable that the new
Democratic Party might not want to
appoint as its top economics adviser a
free market purist like Brian Kantor
of UCT. It is also understandable that
fear of seeming to perpetuate the in-
terests of the "English Establishment"
might eliminate such men of interna-
tional stature as Aubrey Dickman of
Anglo American or Ronnie Bethlehem
of JCI.

However, if the new party was deter-
mined to have an Afrikaner, it could
have chosen, say, Rudolph Gouws of
Rand Merchant Bank. He is not quite
young enough to be called a yuppie
but young enough to be genuinely re-
formist, and I did see him among the
yuppies at one of Wynand Malan's
election meetings.

Besides, he operates competently in
the commercial environment of Jo-
hannesburg, has free market views,
does not harbour malevolent preju-
dices towards the English Establish-
ment, and understands markets. When
such men are available (I have not
discussed the idea with him, and there
are others), it is incomprehensibly
careless of the leaders of a liberal,
business-funded, English-supported
political party to exhume Sampie Ter-
reblanche.

If I were paranoid, I would think it
a Broederbond plot.



BY KEN
OWEN

Vigorous economy vital, says Heunis

B/Dam 27/2/87

(49) ~~27/2/87~~

PRETORIA — A constitutional dispensation would become shaky and topple if not supported by a vigorous growing economy, acting State President Chris Heunis said at the weekend.

Opening the fifth session of the Qwaqwa Legislative Assembly, he stressed development could be hindered by blackmail through sanctions and disinvestment.

Economic development would determine the pace of political development. For full development, SA was dependent on international trade and capital flow.

Heunis said SA was complicating its task of development by an attachment to Western democratic systems.

It was illogical to hold out that the democratic system of a particular state was the only solution for SA.

On the proposed national council, he said leaders who had not committed



● HEUNIS

GERALD REILLY

themselves to peaceful negotiation should renounce violence and come to the conference table. The proposed negotiating council did not need to be the only or final instrument for negotiation.

Government was anxious to extend talks which were already being held over a broad front. He stressed the urgent need for leaders committed to peaceful solutions to get together now.

"The onus rests on us to prove the option of peace can work, and that there is indeed an alternative to revolution and violence."

Heunis said there was a perception that any group definition conflicted with or excluded fundamental individuals' rights, and that any definition of communities was automatically racialistic and discriminatory. Government, he said, would take the lead in establishing the approach that an imposed group definition was unacceptable, and that groups should form naturally and voluntarily.

GDP growth last year higher than expected

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By Derek Tommney

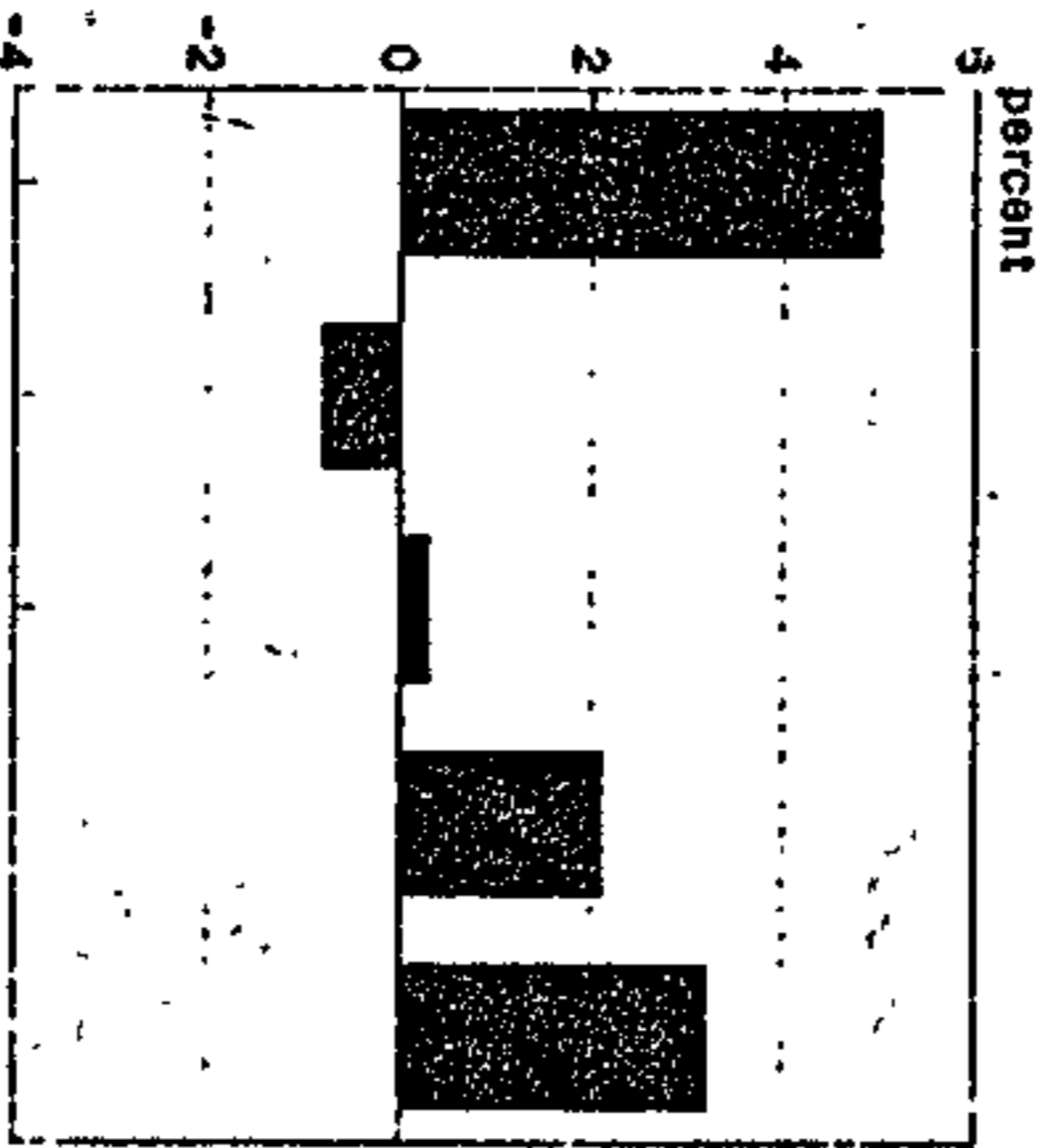
After growing poorer in 1985, 1986 and 1987, South Africans actually grew a little richer last year, according to Government figures issued last night.

This good news comes from the Central Statistical Services which reports that the country's gross domestic product — a measure of the country's wealth before foreign payments — rose last year by 3.2 percent, the biggest increase since 1984. More importantly the increase appears to have exceeded the growth in population.

Just how fast South Africa's population is growing is a matter of debate. There could be a large under-registration factor with distortions also arising from the exclusion from the population figures of the heavily-populated Transkei, Bophuthatswana and Venda.

Government officials estimate that the population is growing by about 2.4 percent. But some economists believe the growth rate could be nearer 2.8 percent.

However, whichever figure you take, GDP clearly grew faster than the population. The result is that after dividing



Gross Domestic Product - annual growth.

the wealth of the country among its population, everyone, on average, will have been a little better off.

In the previous three years GDP growth was well below even the most conservative population growth estimate which meant that in each of those years South Africans on average grew poorer. The news of the 3.2 percent increase

in GDP last year was welcomed by economists, some of whom admitted being a little surprised at the figure. This time last year most were predicting a growth rate of just over 2 percent.

One of last year's more optimistic forecasters and a person who expressed delight at the 3.2 percent growth was Mr Nick Barnardt, an economist with the Trust Bank.

He said that early last year he had been looking for a growth rate of 2.7 percent surprised at the higher rate actually achieved.

Mr Barnardt said the higher-than-expected growth was mainly the result of a strong rise in non-gold exports in the second half of last year which helped produce a trade balance of R5 billion.

"It is the type of growth we expect this year," he added. He expects the GDP this year to grow by at least 2 percent and even 2.5 percent, especially as agricultural, which experienced an 0.9 percent drop in output last year, is expected to expand strongly this year. CSS said the 3.2 percent growth rate

last year followed a decline of 0.8 percent in 1985, virtually no increase (0.3 percent) in 1986 and 2.1 percent in 1987.

In 1984 the growth in GDP was 5.0 percent. You then have to go back to 1981 to find another positive growth rate — 4.5 percent. In 1982 the economy slid back by 0.75 percent and in 1983 by 2.1 percent.

South Africa's poor economic growth rate until recently is highlighted by the CSS comment that in the past four years the total growth in GDP was only 4.8 percent.

In this period the population grew by about 10 percent.

The worst period for the non-agricultural sector of the economy was the second quarter of 1987 when the seasonally adjusted annual rate fell to 0.5 percent.

However, in the succeeding three quarters it was 4.9 percent. It slowed to 1.8 percent in the second quarter of last year, spurted to 6.1 percent in the third quarter and dropped to 3.8 percent in the fourth quarter. The economy as a whole experienced the same growth rate.

Business confidence has taken a knock

By MIKE PAGE, senior lecturer in the Graduate School of Business of the University of Cape Town.

THE 800 businesses taking part in the Western Cape owner-manager/business survey had a total sales turnover of R4 500-million and employed 40 000 people.

Export-oriented businesses tended to be significantly larger both in terms of turnover and number of employees than non-exporting businesses. They were however spread uniformly across all sectors.

Although the manufacturing sector has the maximum average employment, this sector has an average sales figure somewhat less than that of the service sector. This represents a change from last year where the manufacturing sector had the largest average sales and was also significantly larger than the distribution and retail sectors.

Last year 53 percent of the respondents believed the economy was expanding but that the downturn would occur within one or two years. This year only 29 percent believe the economy will continue to improve and for many the expected "downturn" is possibly imminent.

The service sector, which appears to have grown the most during 1988, is relatively more positive for 1989 and 35 percent still believe the Western Cape economy will continue to improve.

Unfortunately real growth expectations were not directly asked of respondents and consequently only 50 percent gave their expectations. This 50 percent consists of the more positive of the respondents and, given their inflation expectations of just over 16 percent, their real growth expectations average about 1.5 percent.

Interestingly companies involved in exporting expected a lower real growth than those not exporting. This, however, is likely to be because they tend to be larger businesses.

Allowing for the 50 percent or respondents not giving information on real growth, it would appear that the growth figure, if positive, is likely to be only marginally so for the entire sample.

Again, when asked about the conditions in the Western Cape for the individual businesses, the service sector was most positive. 54 percent felt the area was improving as opposed to 44 percent for the other sectors.

The dominance of political issues in the minds of respondents has receded significantly since last year and now interest rates and the deteriorating exchange rate are major issues of concern to respondents as factors influencing inflation.

Exporters and larger firms are relatively more concerned about the deteriorating exchange rate with approximately 50 percent of respondents mentioning this factor as the principal or secondary cause of inflation.

Unlike the manufacturing and distribution and retail sectors with their concern for the exchange rate, probably because of possible

import requirements, the service sector is more concerned about interest rates.

Wages were seen as being of lesser importance as a factor influencing inflation.

Additional issues of concern to the export-oriented segment were sanctions and import surcharges. Exporters appear to be more involved with importing materials and components.

When asked whether any major expansion was planned for the year ahead, only 23 percent of respondents said yes. This is not surprising (unless in the sense of being too high) considering the views expressed about the economy.

A significantly higher percentage of companies involved in exporting anticipate major growth as well as a surprisingly high 29 percent of the manufacturing sector.

The type of expansion principally relates to staff and equipment, and for the service sector the importance of staff is reflected in the 66 percent of respondents expecting major expansion to be in the area of staff employment.

The lower percentages for the manufacturing sector result because of the increased mention being made of new products and extending buildings and premises.

With Valued Added Tax on the horizon, I would like to point out the negative view held by respondents about VAT and highlight the differences across the different sectors.

Between 85 percent and 95 percent of respondents across all sectors, and for both language groups represented, believe VAT will reduce their profitability.

This is likely to be because of a perceived increase in the administration of the system along the "production" chain.

The suggested ability of the authorities to police the system could also be a factor, however.

Reduced competitiveness is mentioned as a negative factor by between 80 and 90 percent with the manufacturing sector feeling most strongly followed by the service sector and then the distribution and retail sectors.

It is apparent from the findings that considerable education about VAT is still required prior to its introduction. That the authorities need to be pro-active in this regard is further borne out by the fact that fewer than 50 percent of owner-managers have made significant inquiries about VAT.

The importance of tax in decision-making is clearly recognised by all sectors. Only 10 to 14 percent of respondents in any sector consider tax of little importance in decision-making, while approximately 50 percent see it as being of major importance.

When asked about small business in the townships, the overwhelming majority of respondents reacted favourably. They clearly see this economic activity as leading to opportunities for them rather than being a threat.