ECONOMY – 1993

JANUARY – ~~FREBRUARY~~ FEBRUARY

OUTLOOK FOR 1993: *It's a time when SA could either be shaped or consumed in a melting pot of irresistible political and economic forces*

The year of the crucible

STAR 2/1/93. (49)

IT IS the basic optimism of the human race which leads us to believe that the billion-year-old routine of planet earth entering a new orbit around the sun can somehow make our lives new, different and better.

South Africa has seldom needed to cling to such a hope more than it does now with the soil still fresh on thousands of graves, the great uncertainty of our political future and with our economy starting the new year on a life-support machine.

If the optimism with which we celebrated earth's new orbit is to translate into a real "happy new year" we need to remind ourselves, as an English author of some note did a few hundred orbits back, that the fault (and implicitly the solution) lies not in the stars, but in ourselves.

South Africa's future has not been predetermined, leaving us helpless pawns and mere witnesses to the unfolding of some cosmic design. The slate ahead is clean, providing South Africans and their leaders with the opportunity to write what we will.

When the earth begins yet another orbit in about 364 days time, the southern tip of Africa can be bathed in sunshine or it can be a dark, devastated wasteland The next 364 days are that important — it will be

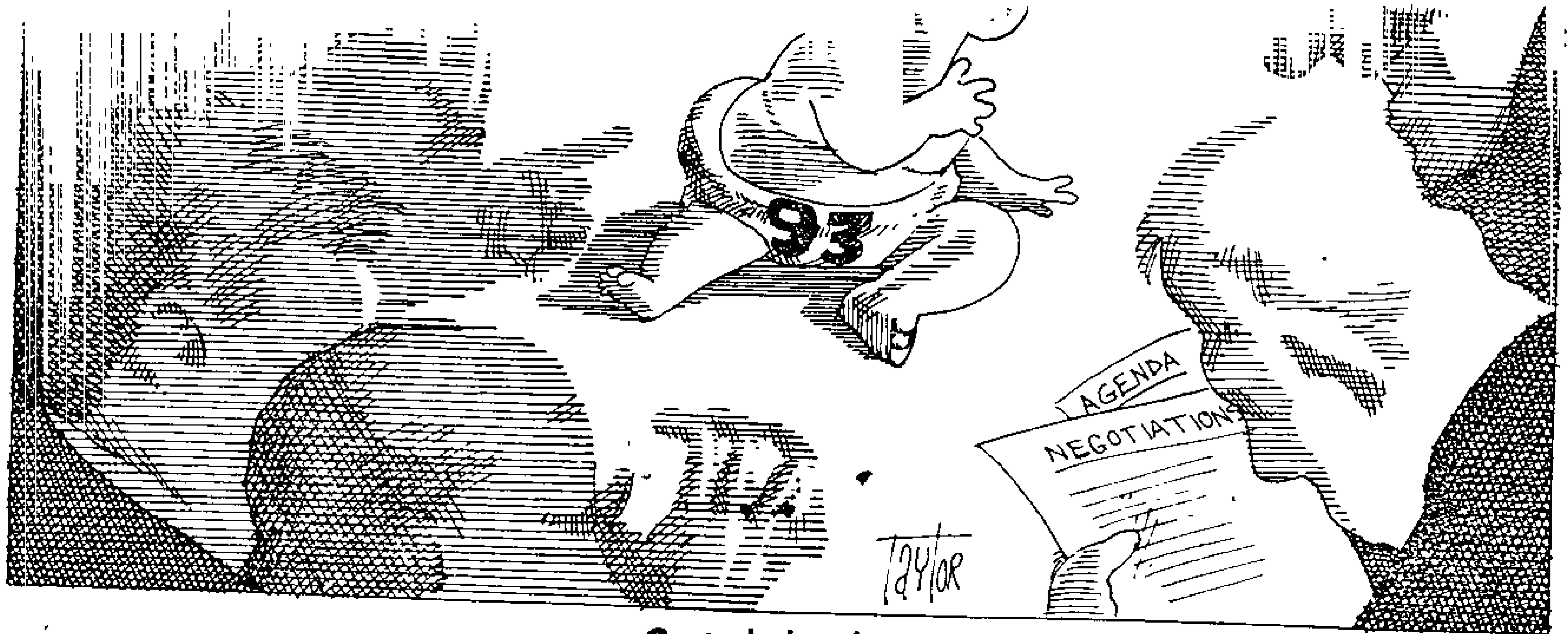
people with little or no acces to formal political mechanism of expression will express thei anger and frustration in th only way available to them — through violent acts.

There seems little or no prospect that the socio-economic upliftment required to give people a real stake in the country will be possible in 1993 and the formal structuring of the black political environment which would allow for the expression of political differences through legitimate channels is a long, slow process.

While the real problems associated with violence will continue to prevail for much of the year, at least the "Third Force"-type activities will show a marked decline as the government of the day at least begins to act to pull its security establishment into line.

If the violence continues at anything like 1992 levels, it will make the negotiation process much more difficult. The possibility of holding any kind of election in the present climate is remote. The environment must be stabilised first and that seems like too big a task to be accomplished in just a single orbit of the sun.

It implies that as far as domestic political developments are concerned 1993 could almost be divided into two sections. The first few months of the year should see fairly rapid progress toward a settlement with a new multiparty mechanism installed fairly early in the year.



Custody battle.

NOW, as seldom before, South Africans need to draw on their fortitude as they are swept along in a vortex of influences which feed on each other and which will, in the next 364 days, decide their destinies. GARY VAN STADEN reports.

When the earth begins yet another orbit in about 364 days time, the southern tip of Africa can be bathed in sunshine or it can be a dark, devastated wasteland The next 364 days are that important — it will be the year that makes or breaks South Africa.

THERE are two powerful and interrelated forces which will help determine what South Africa looks like one year from today. The first contains the consequences of the dynamic and our domestic and political transition and the second, over which we have less control, is the performance of the global economy.

As far as the latter is concerned South Africa has cause for concern The economic giants of the global system — the United States, the European Community and Japan — start the year in deep recession where the prospects for growth much higher than 1,5 percent or 2 percent seem remote.

The United States and the EC will spend much of the year (and a few more after this one) struggling to reduce growing budget deficits which have been real impediments to economic growth over the past 12 months.

The size of these deficits is such that they soak up all available capital — money which should have been spent on investment which generates growth and creates jobs. That trend will continue into 1993 and while there are signs that the global economy will perform better in 1993 than it did in 1992, the improvement will be so slight as to make no real difference to those of us on the very edge of that global economy.

There will simply not be enough growth at the "centre" to allow for any meaningful "trickle down" to the periphery.

Germany, one of the locomotives of global growth for decades, is struggling to absorb the cost of reunification which is causing inflation, high interest rates and social and political instability. This inflation, high interest rates and instability sends ripples through the global system which become a tidal wave by the time they reach the southern tip of Africa.

Japan is struggling through its worst economic downturn since the end of World War 2 and the cracks of its domestic political rockface are growing alarmingly wide — more ripples. The United States, even with ill-advised fiscal stimulation of its economy, will grow by 2 percent at most and that will not be enough to ease its deficit and unemployment problems — still more ripples.

EAST and central Europe and the former Soviet Union have established a "first claim" on any developmental and investment capital which may escape the deficit and core investment nets. The potential for instability in east/central Europe and the Commonwealth of Independent States (CIS) is the first concern of the "core" nations such as the US, EC and Japan and these economies have become giant sponges soaking up money — often into a bottomless pit And still the ripples come.

The implications of these series of ripples for the South African economy are fairly severe — no investment (even if domestic conditions permitted such a move), very little development aid, only a very slight upturn in our economy (again domestic political conditions will be paramount), a growing budget deficit as the government spends more and more and collects less and less, and the prospect that our 1992 trade surpluses are replaced by a current account deficit.

The budget deficit will almost certainly imply tax increases — most likely indirect taxation, such as VAT and petrol levies. The picture is not totally dark as some economic growth will take place, but we cannot realistically expect that the surge of growth our economy needs to sustain the political transition and to invest in the future will materialise.

Which brings us to the domestic political situation and the close link between domestic politics and economic growth. It is not so much a link as a "Catch 22", because while the political process depends to a significant degree on economic growth and a redistribution of wealth and socio/economic upliftment, economic growth is the hostage of the political process Even if global conditions permitted foreign private investment on a substantial scale, domestic political conditions are such that the risk is not worth the potential return.'

There are two issues of paramount importance as far as the domestic political situation is concerned. First, the levels of violence must be reduced and, second, we must have clarity on where the negotiation process is going and how we intend to get there. The issue of violence is the most important.

Private investors in the global economy are far more concerned about stability than they are about the ideological leanings of any particular regime.

There is little to indicte that 1993 will be a lot better in this regard than 1992, although the intensity of the violence in Natal and the PWV (the core areas of the problem) should decline. But 1993 will not see the end of the conflict simply because few of the underlying causes have been adequately addressed.

Forget about political competition and ethnicity as root causes.

Political competition does not have to be expressed in violent terms and the real problem of ethnicity is the exploitation of this concept by elites such as Chief Mangosuthu Buthelezi and the Inkatha leadership.

WE HAVE wasted so much time already attempting to treat these symptoms of the problem rather than the underlying causes. Political intolerance, largely the consquence of a lack of formalised political structures in much of our country, and our history of attempting to force unwanted and unrepresentative structures on the majority of our people and poor socio-economic conditions are the real problem areas

It is a statement of the obvious that poor and alienated

... developments are concerned 1993 could almost be divided into two sections. The first few months of the year should see fairly rapid progress toward a settlement with a new multiparty mechanism installed fairly early in the year.

A transitional authority should be in place by the end of the first quarter, or at least by the end of the second.

THIS will also help to speed up the process and even the levels of violence should show some decline But then the issues become more complicated.

Constituent assemblies, interim constitutions, federalism, minority protection and governments of national unity will raise the political stakes and progress will become far more difficult and protracted — a protraction our economy will have great difficulty sustaining. As the certainty of the early months of 1993 gives way to the uncertainty again, the economy will suffer.

Economic constraints will grow more acute and without clear progress toward an election late in 1993 or early 1994 the year would have been a failure The signs are there that these problems can be resolved, with clear signals of willingness to compromise emerging from the major players in this political game.

The year 1993 will be the crunch year. Clear progress toward a final settlement must be made and an environment conducive to free and fair elections created. Our economy, given prevailing global conditions, cannot sustain another year of failure.

The earth's new orbit around the sun brings no guarantees of success only the opportunity to revive the innate optimism in all of us. If nothing else, 1993 must be the year of living hopefully

● *The author is political analyst at Kaplan and Stewart Inc. Stockbrokers and a senior researcher (PhD), department of politics, University of Leicester, England.*

Imports surge is a threat to rate cut

STimes (Buss) 3/1/93

ALL EYES are on the dwindling trade surplus as a massive surge in imports late in 1992 could put paid to an early cut in interest rates.

Deputy governor of the Reserve Bank Ernie van der Merwe says another cut in the bank rate, mooted after last month's encouraging inflation figures, could be put on hold if the balance-of-payments trend continues.

"If this is a short-term phenomenon then we don't have a problem. We can easily borrow overseas to cover ourselves for a few months," says Dr van der Merwe.

"But if it is long-term then we might have to review our liberalisation of monetary policy. But I don't believe our balance of payments is in trouble yet. We still have enough to pay for two months' imports."

November's trade surplus of R113-million was the lowest for nine years as drought-related food imports surged, down from a monthly average over the past two years of R1,5-billion.

Surprise

The trade surplus started to dip sharply in September and October to around R800-million, but the November drop appears to have taken everyone by surprise.

The Department of Finance is likely to accelerate its application for IMF assistance, although certain conditionalities such as an economic restructuring could be required prior to any IMF funding.

Hopes for further cuts in interest rates have been spurred by a fall in the November consumer price index to 11% from 11,7% in October.

Dr Jaap Meijer, deputy governor of the Reserve Bank, says the scope for further easing in interest rates is narrowing despite lower inflation, but "that does not rule out the possibility of a further lowering in rates".

Azar Jammine of Econometrix says the narrower trade surplus is probably a temporary phenomenon.

By CIARAN RYAN

Dr JAAP MEIJER

"Machinery imports appear to have risen sharply, indicating that factories are replacing old equipment, in which case it is a positive sign and could indicate that the economy is turning round.

"If the economy is on the mend, then I forecast that we have about a year before we have to start limiting our economic growth because of the impact this would have on the balance of payments.

"We must not forget that the most damaging of sanctions, financial sanctions, are still in place."

Further cuts in interest rates would place additional pressure on the balance of payments, as cheap money would encourage higher imports.

The Reserve Bank will want to maintain a strong balance-of-payments surplus while financial sanctions remain in place. This is likely to be reversed once a new government is elected and the door is opened to new overseas loans and development aid.

"We are a very under-borrowed country with total foreign debt of R50-billion relative to a gross domestic product of R300-billion," says Dr Jammine. "Once a political settlement is in place we could raise this to about 40% of GDP without too much difficulty."

Deficit

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The prospects for single-digit inflation depend on how Minister of Finance Derek Keys tackles the growing budget deficit, says Dr Jammine.

Higher indirect taxes in this year's Budget would have a short-term inflationary effect but less serious longer-term effects.

If the government borrows its way out of the fiscal crisis, it will be forced to monetise the debt as the interest bill mounts, creating serious longer-term inflationary pressures.

"But the real problem is the size of the public sector," says Dr Jammine.

Optimism for SA economy in 1993

STAR 4/1/93

By Michael Chester (49)

South Africa could launch into 1993 in a spirit of cautious optimism, SA Chamber of Business president Spencer Sterling said in a New Year message to the business world yesterday.

Recent public statements by all the main political groups of commitment to the elimination of violence lent impetus to probable improvement.

Prospect

There was also the prospect of an early resumption of constitutional negotiations, he said.

"Looking back on 1992, many South Africans will feel a sense of disappointment and disillusionment with a year that started out so full of promise but ended with none of the anticipated political or economic progress having been achieved," Sterling reflected.

"The year brought a significant degree of retrogression with the breakdown of the constitutional negotiation process, an escalation in regional and sectoral violence, a continuation of the worst drought in history and progressive deterioration in the world economy — all of which had a devastating effect on the South African economy.

"The cumulative effect was an enormous increase in unemployment and human suffering. Seldom, if ever before, has this country been faced with so many daunting political, economic and social challenges.

"However, in spite of the vast number of formidable and at times seemingly intractable problems with which we will be faced, I believe we have the opportunity in the coming year to lay a solid foundation for a future peaceful and prosperous South Africa."

New encouragement had been provided by commitments to end violence and negotiate political solutions.

Equally encouraging, Sterling added, was the recent establishment of a National Economic Forum.

It had provided an unprecedented opportunity for business, labour and the Government to reach consensus on new economic policies.

Negotiate

Signs of real progress on the political and economic fronts meant South Africa could enter 1993 in a spirit of cautious optimism.

This was "provided we are prepared to dedicate ourselves unselfishly to the task at hand and negotiate in good faith with a clear understanding of the issues at stake".

Sterling added: "What will be required of the leaders of this country in all walks of life will be vision, courage, conviction, honesty and integrity.

I believe they will be forthcoming."

Get ready to have your pocket picked

STM 4/1/93 (49)

Years of economic mismanagement have dragged government finances into a mess. Think-tank researchers believe the 1993 Budget will force consumers to fork out an additional R7,5 billion in higher VAT and fuel taxes to counter the rising tide of national debt, reports MICHAEL CHESTER.

BY SUBTLE hints more than firm commitment, the Government has already alerted South Africans to brace themselves for new tax shocks in the 1993 Budget that will be spelt out on or about March 17.

Increases in the VAT rate from 10 percent to 13 percent or higher — in tandem with moves to abolish the sales tax on basic foodstuffs — have been been mentioned in whispers that have deliberately been made loud enough for everyone to overhear.

Also on the cards may be another upward twist in the fuel levy, bringing new pressures on petrol and diesel prices. No doubt the motive has been to use the rumours as shock absorbers.

What the latest bulletin of the Econometrix research unit sets out to do is explain *why* it now looks almost inevitable that VAT and the fuel levy will be strapped to the whipping post.

In short, it argues, the Budget will be virtually forced to thrash more revenue out of them both to help avert a still further deterioration in a financial crisis that has grown to the worst on record.

But don't shoot the messenger. The new Minister of Finance, Derek Keys, brought in from outside the political arena to use hard-nosed business tactics to try to sort out the mess, may have no alternative.

Econometrix director Dr Azar Jammine concedes the tax increases may be the only treatment at hand to start bandaging the wounds inflicted on the national accounts by at least two decades of bungling and mismanagement.

He thinks it best to come eyeball-to-eyeball with the hard facts — and bite the bullet.

The logic is based on a review of the severity of problems amassed by a government out on a spending binge it should have seen it could not afford, with state debts piling higher and higher.

The 1992 Budget predicted that state expenditure would work out at R101 billion and revenue at R85 billion, leaving a deficit of R16 billion to be borrowed from somewhere, at an enormous cost in interest charges.

Results have turned out even worse than that. Revenues have been running well under forecasts, largely because of cutbacks in spending by individuals and companies alike as a result of the recession, meaning less cash exposed to taxation.

Meanwhile, the cost of maintaining a bloated civil service has spiralled even higher.

Even the Director-General of Finance, Gerhard Croeser, had admitted the critical gap between government income and expenditure — the deficit to be filled in by borrowing at high interest rates — looks likely to soar from an initial estimate of R16 billion to at least R23 billion.

An ordinary South African consumer/taxpayer could easily lose interest when such multiple telephone numbers are tossed around inside the mysterious world of high finance.

However, the Econometrix think-tank, with an unrivalled ability to bring such issues down to earth, underlines the economic repercussions that eventually hit everyone when the Government over-shoots its budget.

For instance, if the 1992/93 deficit proves to be as high as R25 billion, which it suspects is likely, that is the equivalent of no less than 7,5 percent of the sum total of the economic clout of South Africa, which the gurus call gross domestic product.

No more the wiser?

Jammine explains in simple terms the implications if the Government fails to staunch the gush of red ink on the national balance sheet.

The interest charges on total public debt equalled no more than a modest 5 percent back in the 1970s. As government splurges worsened year by year, the public debt had grown to such dimensions that by 1991/92 the interest payments were equal to no less than 16 percent of the national budget.

Jammine estimates the 1993 Budget will reveal interest charges equal to a staggering 19 or even 20 percent of expenditure — the largest single item in the entire Budget, even overtaking the 18 percent allocation going to education.

"It is impossible to go on this way indefinitely," he says. "Unless the Government learns to pull in its horns, especially with cutbacks in spending on a bloated civil service, it will trigger a bout of hyper-inflation that will turn South Africa into a banana republic."

Happily, the new Minister of Finance had already proposed cropping state spending by 3 percent in real terms by reducing the size of the civil service by 30 000, or about 5 percent of all the bureaucrats.

"Even so," adds Jammine, "there is little clarity yet about either the feasibility or the time-scale of such cutbacks and one therefore deduces that revenue will also have to be increased significantly to reduce the budget shortfall."

Derek Keys . . . doing his best to repair the damage caused by excessive government spending.

That turns the spotlight on to taxation.

Econometrix feels it highly unlikely the Government will have the audacity to worsen the income-tax rate on individuals, who had been shouldering an increasingly unfair share of the tax burden.

In any event, even leaving the actual tax rates alone, the Government would rake in an additional R7 billion in the 1993/94 budget year as inflation continued to push more individuals into higher income brackets and all the snags of fiscal drag.

Higher company taxes?

Here again, the researchers point out, the repercussions of inflation on business profits can be relied on by the Government to reap additional revenue — about R1 billion more next year.

Also, a new minimum company tax, which they predict will be reintroduced, should boost revenues by R500 million or perhaps as much as R1 billion.

They believe a tax on dividends may be reintroduced, though bringing in less than R1 billion. And they feel there is a vague possibility that a tax on pensions may be introduced to raise an extra R5 billion — "but", they add, "it is unlikely such a dramatically sensitive new tax will be introduced by the present Government".

That switches the focus to indirect taxes.

Econometrix reckon there may be further rises in Customs and Excise duties — enough to collect an additional R300 to R400 million from items such as beer and cigarettes. Inflation, however, should net an extra R2 billion.

All in all, if the Government decided to leave all tax rates at current levels, inflation alone could be depended upon to boost revenues and finally net the tax collectors a total of about R89 million.

Unfortunately, that would still leave a huge deficit of around R23 million, threatening to swell to R30 million unless the Government slashed its spending.

It means, argues Jammine, that VAT rates and the fuel levy must be seen as obvious targets in the next budget.

He estimates that a hike in VAT from 10 percent to 13 percent, plus an increase of 15 c/litre in the fuel levy, should bring in an additional R7,5 billion or so. That would trim the deficit down to R16 billion, or a more reasonable 4 percent of gross domestic product.

However, cuts in VAT to zero on basic foodstuffs would cost no less than R1,5 billion in revenue losses. So it was possible that VAT may have to climb even higher than 13 percent on non-essential items, perhaps running to 15 percent on luxuries.

But there could be a backlash for inflation, which optimists have forecast should soon be in retreat.

Econometrix calculates that a 3 percent rise in the VAT rate could lift inflation back higher by about 2,4 percent. Also, an increase in the fuel levy of 15c/litre (equal to a 10 percent rise in petrol prices) would add a further 0,3 to 0,6 percent to the inflation rate.

"It may well put paid to hopes of single-digit inflation by 1994," warns Jammine.

Yet South Africa would face an even worse predicament in the longer run if the government ostrich ducked its head back in the sand and decided to borrow its way out of its problems, and risk the national debt running out of control. □

> *"Tax increases may be the only treatment at hand to start bandaging the wounds inflicted on the national accounts by at least two decades of bungling and mismanagement."*

Brisk start for economic policy's year of action

BDAY 4/1/93 (49)

SIMON WILLSON

NEW Year economic policy resolutions will be enacted earlier than usual in 1993 if initial indications prove accurate For the first time in years there is a buzz about the economy's policymakers as they turn over the calendar and prepare for a year of reform and restructuring

Restructuring, indeed, will become a familiar term during the next few weeks Having missed its original release deadline of November last year, the Finance Department's long-awaited consultative blueprint for altering the fundamentals of the economy is due for publication before this month is out

The plan is likely to be one of several proposed alterations to economic policy to emerge early in the new year Others will probably concern monetary targeting, open market operations in the money market and the financial rand

Although Finance Minister Derek Keys continues to rejoice in calling the restructuring plan a "normative integrated economic model", there is no disguising the plan's origins or its intentions. Its origins lie in the repeated need to abort economic upswings during the '80s, which led senior policymakers and advisers to question the very base on which these unsustainable recoveries were founded.

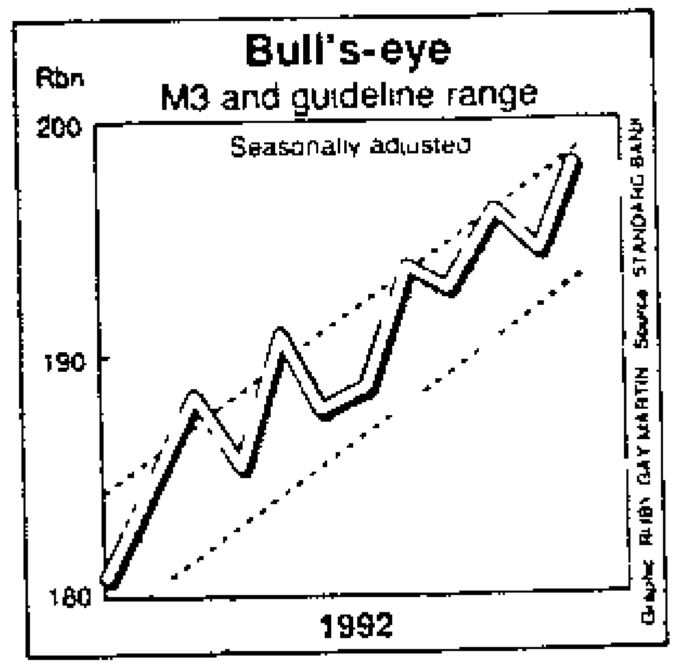
Throughout 1992 Reserve Bank Governor Chris Stals led a growing body of opinion that sought to divert economic policymaking away from the short term, calling instead for a restructuring of the economy that concentrated on medium-term objectives. The relative success of recent economic restructuring in Africa co-ordinated by the IMF probably contributed to the momentum of the domestic restructuring bandwagon.

The economic reforms of the IMF's enhanced structural adjustment facilities (Esafs), implemented since March 1986 among 27 sub-Saharan countries, offered local planners a proven restructuring formula which had been tried and tested in SA's own backyard By southern Africa's own modest economic standards the formula appears to work, and the standard IMF Esaf can be expected to have served recognisably as a point of origin for the Keys model

In intention too, SA's restructuring plan has an eye on the IMF Although the economy's medium-term wellbeing is indeed the plan's ultimate aim, there is a shorter-term by-product which has also been a consideration in its compilation. The sub-Saharan Esafs were not gaily assembled by each host country's economic planners they were accepted, grudgingly in places, by countries whose very viability depended on extended access to IMF funding A condition of drawing on such finding was that the Esafs be implemented to maximise, in the fund's eyes, its chances of repayment.

Access to IMF drawdowns looms equally large in SA's short-term economic future If the coming cyclical upswing is not to be aborted as were its three immediate predecessors, the current account must be allowed to run into deficit — a normal state of affairs in the external accounts of a developing country Given the likelihood of continued private sector hesitation in recommitting international investment to SA pending a sound and durable political settlement, an IMF standby facility for the balance of payments is an essential prerequisite

The Keys plan, therefore, is also designed to prepare the groundwork for the inevitable IMF requirements that will accompany restoration of SA's drawing rights. Such preparation also explains the Finance Department's unusual release, early last month, of the IMF report on the SA economy. The report, drawn up after a visit by IMF representatives in September, made a series of very Esaf-sounding recommendations and it will be no surprise to see many of them addressed directly in the Keys model.



Other economic policymaking likely to take shape early in the new year will have a less distant horizon. For the past two years the Reserve Bank has set the annual money supply target range towards the end of the first quarter

The Bank has usually waited to see the fiscal thrust tabled in the March Budget before committing itself to a guideline range for broad-money M3. This tradition looks set for a change this year.

In tune with the greater urgency about economic policymaking in 1993, Governor Stals is likely to issue this year's M3 guideline range before the end of this month. By establishing the Bank's monetary intentions early in the year, Stals hopes to add greater certainty and predictability to policymaking

Government has removed a lot of the traditional Budget imponderables by committing itself to reducing real state consumption spending in both the current fiscal year and in 1993/94

By setting the 1993 M3 target this month, the Bank will be tacitly accepting the validity of this commitment. After the impressive match-up last year between M3's growth and guideline, depicted in the chart, monetary targeting remains a central feature of medium-term financial planning and one that the authorities are likely to develop further in the next year or two. The limelight could well be shifted gradually from M3 to a narrower monetary aggregate in the search for a more sensitive fine-tuning instrument.

The Bank could also be pondering a tightening of its financing of the money market at its discount window. Further restrictions on the extra liquidity the market can draw on — at a price — from the central bank would both help enforce the M3 target and contribute to restraining inflationary expectations.

Stals hinted at a tighter discount window regime in November when he warned the banks not to drop deposit rates after the one-point cut in Bank rate to 14% — the implicit threat being that the Bank could oblige institutions to keep deposit rates up through open market operations at the discount window

The Bank's main option in seeking to curb hasty resort to the window by overextended institutions is to juggle with the types of bill eligible for discounting at the window The Bank could, from a specified date, decide not to discount certain paper; Land Bank bills are understood to be vulnerable to such a switch

Economic policymakers seem to have spent much of the festive season agonising over the financial rand. Although the investment unit has rallied from its end-1992 lows, it remains so volatile that is proving more of a hindrance than a help to foreign investment The authorities' strategy of intervening to reduce the size of the finrand pool and thereby support the price of the unit has not worked in its nine months of operation and is due for a rethink

What could be under consideration is a change of tack to erode the finrand's discount to the commercial rand by broadening the use of the investment unit instead of narrowing it. Recent policy towards foreign investment through the finrand has concentrated on reducing the options of non-residents holding the unit. The decision to restrict foreign purchases of residential property with finrands was one such move.

The authorities now seem to be tilting back towards opening up finrand opportunities for non-residents. The idea would be to encourage foreigners to buy the unit, take the plunge and invest in SA rather than hold finrand deposits for the running yield and flee at the first sign of trouble.

Any economic policy changes of this type that are in the pipeline can be expected to emerge without much prevarication during the next few weeks. They will set the pattern for what seems sure, in economics as well as other fields, to be a year of action.

Economic growth will remain slow

B/Day 4/1/93. (49)

FAIRLY slow economic growth in SA is expected to continue in 1993, according to a worldwide preview conducted by AP-DJ.

It says given the risk of inflation rising as far as 13%, government is widely expected to keep interest rates firm.

The outlook for the commercial rand is also negative with forecasters expecting it to come under pressure from a rise in the dollar. Foreign exchange controls, high inflation and hopes for a world recovery should help industrial share prices rise. However, gold shares are expected to suffer from the dollar's strength.

The US economic performance is expected to be the best among major world powers. GDP growth is expected to average 2,8% over 1993, following growth of about 1,5% in 1992. Inflation is expected to remain subdued, rising no further than 2,75% by the end of the year.

Low inflation is expected to ensure interest rates remain low and optimism over the economic upturn is expected to be reflected in a steady rise in the dollar. Equity prices are expected to rise, too, encouraged by prospects for low inflationary growth.

Gentle slide

In Japan a gradual slowdown in the economy and an even more gradual decline in inflation are the likely hallmarks of Japan's performance for 1993. The former is expected to slow to 2,1% from about 2,4% while the latter will fall to 1,9% from about 2,0%.

Interest rates are expected to stay low throughout 1993. This, along with a likely recovery in the dollar, is expected to keep the yen on a gentle slide for most of the year.

The currency is likely to get some support from the country's growing trade surplus. Stock prices are expected to remain firm, supported by low rates but capped by the disappointment over the country's economic performance.

The British economy is expected to show a slow recovery from recession, with GDP growing up to 1% after shrinking by that much in 1992. Economists expect inflation to remain subdued around current levels of 3,0% but to start bouncing back later in 1993 as the impact of sterling's mid-September departure from the exchange rate mechanism (ERM) and 15% depreciation against most major currencies feeds through the economy. End-1993 inflation is estimated at 3,5%.

Interest rates are expected to remain down for most of the year, although they too could start rising again toward the end of 1993. Sterling, meanwhile, should regain some of its losses as investors take heart at the country's economic recovery. Equities are also expected to gain, helped both by the general upturn in confidence and the low level of interest rates.

The French government is hoping the economy will expand in 1993 but recent currency devaluations by several of France's main trading partners will cut the country's export competitiveness. Economists reckon this will ensure GDP growth is capped at 1,1%.

High interest rates, dictated by the franc's ERM membership, are expected to ensure inflation falls to 2,6% by the end of the year from 2,8% late in 1992. With Germany facing a slowdown, rates in all ERM member countries are expected to fall. This is expected to help equity prices rise.

In Germany a largely stagnant economy in the western part of the country, along with inflation that should slip to 3,0% by the end of 1993 from 3,7% at the end of this year, is expected to ensure that the Bundesbank keeps reducing interest rates through the course of the year.

Although the Deutschemark is expected to remain firm against its European counterparts, it is expected to slide against most other major currencies. Economists forecast gains in equity prices will prove limited as a result.

In Australia a slight pickup in growth is expected to feed through into a slight increase in inflation. Gross domestic product growth is forecast to total 3,0% in 1993. Inflation is seen up at 3% by the end of the year, after declining to 1,2% in late 1992.

Interest rates are expected to end 1993 above current levels, given the new inflationary threat, and this will temper any gains in Australian shares.

For Taiwan the country's trade surplus is expected to decline further in 1993 — to about $9bn from $10,4bn in 1992. The economy should grow by as much as 7,0% with inflation ranging between 3,0% and 5,0% at the end of the year.

Economists doubt there will be much change in the government's interest rate policy and expect equities to post fresh gains on the year.

Optimistic touch in Sacob outlook

(49)

B/DAY 4/1/93

CHAMBERS of commerce and industry are cautiously optimistic for 1993 with the proviso that the country's leaders capitalise on the signs of real political progress.

ANDREW KRUMM

In his new year message, Sacob president Spencer Sterling said despite a disappointing 1992, he was cautiously optimistic about 1993, should the country's leaders dedicate themselves to the tasks at hand.

"Recent public statements of commitment to the elimination of violence ... together with the process that has been put into motion toward the resumption of constitutional negotiations in the new year, are very encouraging."

Sterling said the establishment of a National Economic Forum and excellent early summer rains contributed to his optimism.

"With these signs of real progress on the political and economic fronts ... I believe we can enter 1993 in a spirit of cautious optimism, provided we are prepared to dedicate ourselves unselfishly to the tasks at hand," he said.

"To embark on this path constitutional negotiations must be resumed, violence must be curbed and the economy restructured to provide for economic growth with meaningful wealth creation and equitable wealth distribution.

"This window of opportunity for a peaceful and prosperous SA will require honesty, vision and courage on the part of all leaders."

The Northern Transvaal Chamber of Commerce said government should not tamper with the economy unduly, and prolong the recession in 1993.

Chamber executive director John Toerien said the possibility of increased indirect taxes together with a planned 3% cut in government expenditure would harm an already precarious economy.

"In such circumstances the hoped for economic recovery towards the middle of 1993 will, to our mind, be postponed and the expected growth rate of 0,5% for the year as a whole will not be achieved."

Toerien said surplus capacity in the economy heralded another year of declining fixed investment, although this would take place at a slower rate than in 1992.

"There are also positive factors such as an expected further decline in of inflation and interest rates, the prospect of an improved agricultural season, and a somewhat better international trade situation," he said.

MONEY MARKETS by Hilary Gush

Liquidity in the festive season leaves treasurers puzzled

BDM 4/1/93

(49)

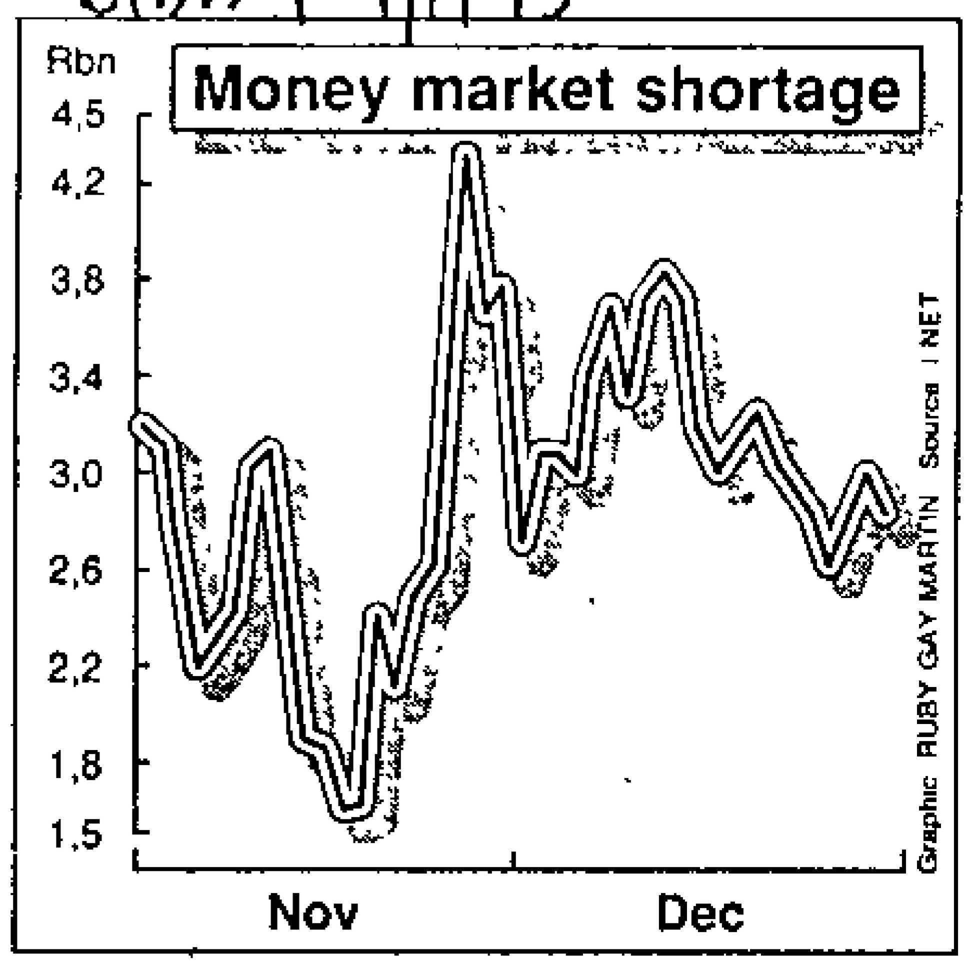
THE money market has been unexpectedly liquid in a month traditionally characterised by high spending levels and an inflated shortage.

With the shortage as high as R3bn in the first three days of the month, most players had expected the market to be drained of all liquidity by mid-month with Reserve Bank assistance reaching R5bn as the new year drew near.

However, the shortage did not pass the R3,9bn mark last month and hovered around the R3bn level. On Christmas Eve, at R2,5bn, the shortage was near its lowest level in the month.

Treasurers expressed surprise at the relative liquidity. Market conditions during the festive season are often tight as cash — in the form of early salaries and year-end bonuses — is taken out of the system and put into the public's pockets.

Reasons put forward for the lower-than-expected shortage were varied. Some dealers said as government spending was traditionally higher in the first and fourth quarters of the fiscal year, government had recently been running down its deposits with the Reserve Bank in order to finance expenditures.



Others argued the Corporation for Public Deposits (CPD) had been buying money market assets throughout the month in a bid to invest before rates came off, as well as help the market. They estimated CPD investment to be worth around R2bn.

However, a senior Reserve Bank spokesman denied claims that the CPD had lent a helping hand to the market, saying that it had been "inactive" in the month. Much CPD-held paper which matured in December meant that on balance the CPD had probably drained a little cash from the system as against adding liquidity.

He said December had been a "mystery month in the market" and an uptick in the shortage to around R4,5bn this week could be expected.

Although players expected the month-end shortage to be higher as year-end tax payments drained market liquidity, at R2,4bn the level on Wednesday was the lowest recorded in the month — down from Tuesday's R2,8bn.

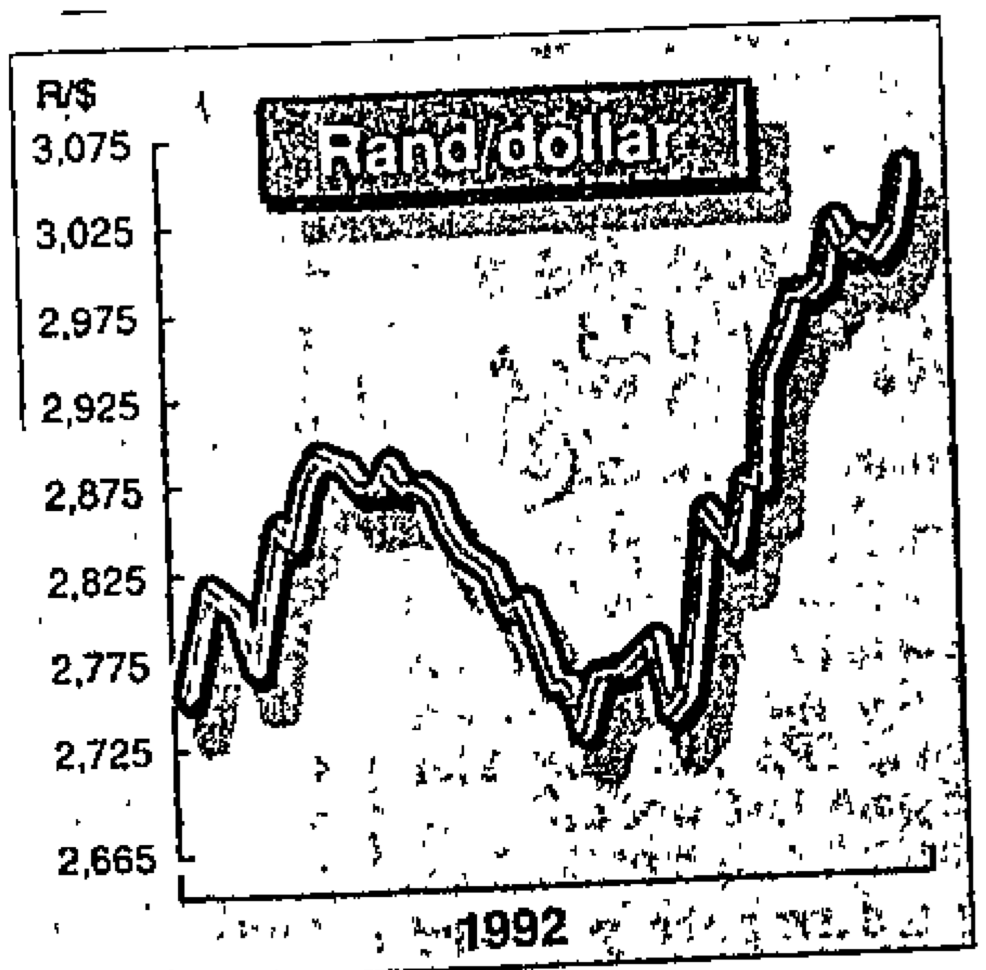
The level of the shortage on New Year's Eve will be released by the Bank today.

Hopes of a Bank rate cut were heightened last week with the release of November consumer inflation and money supply growth data. Consumer prices rose by a year-on-year 11% — down from October's 11,7%. Growth in the broad money supply kept within the Bank's 7-10% guideline range.

If Bank Governor Chris Stals's past monetary stance is anything to go by, hopes of an imminent rate drop can be ruled out. Although he seems prone to bouncing surprises on the market, Stals is cautious and it is unlikely he will cut the rate without looking at the broad economic picture. He may even wait for the release of fourth quarter figures and early Budget proposals before relaxing monetary policy.

In a tired capital market medium-dated gilts came down by as much as 33 points on news of the better inflation figure. Long-dated stocks were less active, coming off 14 points on Wednesday. Dealers said that had the market been fuller, the effect would have been more marked. Some queried whether the dip in rates was the start of a mini-bull run, a correction in the bear trend or whether, in fact, it was mere window-dressing by a few fund managers.

Uncertainty still dominates sentiment, with inflationary expectations still strong, particularly in the light of a possible VAT rate hike and fuel levy increase. The proof will be in the pudding. There is no telling yet what the new year and the Budget will bring.



Graphic RUBY GAY MARTIN Source I-NET

Dollar bulls push Bank into a loss

(49) GRETA STEYN

THE dollar bull run had pushed the rand down to levels low enough to trigger forward cover losses for the Reserve Bank, a spokesman confirmed at the weekend.

The Bank's forward cover losses are for government's account and represent an increase in the state debt.

Losses loomed as the rand reached record lows against the dollar of more than R3,06 last week, battered by a rampant US currency. Players expected the dollar bull run to continue in 1993.

Bank gold and foreign exchange GM James Cross confirmed that recent pressure on the rand would cause a turnaround in the Bank's forward cover position. "Profits made in the first half of the year could be wiped out by the current pressure on the rand," he said. He added, however, that the financial year to March 1993 should be considered as a whole and that it was possible the Bank could end square.

Government has tried to reduce this forward cover debt. The latest available figure for the debt — R8,7bn — was issued in September. BDAY 4/1/93.

Economists said the Bank's monthly balance sheet suggested this figure had grown by more than R433m in November after a small increase in October.

Expectations of further dollar gains would not only put pressure on the Bank's forward cover book, but would cause headaches for the Bank's foreign exchange management. Cross said that dollar strength triggered short-term capital outflows on maturing forward cover contracts for third currencies.

☐ To Page 2

Bank loss

BDAY 4/1/93 (49)

☐ From Page 1

Economists said a dollar surge in the new year could delay a decrease in Bank rate if dollar strength caused severe problems for foreign exchange management. However, short-term capital outflows could be offset by the trade account.

A dollar surge next year would see a turnaround from the relatively stable situation in 1992. The average rand/dollar exchange rate was R2,8522 in 1992, compared with R2,7613 in 1991. Economists' early predictions put the average rate for next year at about R3,13.

The dollar gained almost 2% against the Deutschmark in a week of sharp movements in a thin and nervous market.

The Bank's forward cover losses arise from its providing cover to the banking system. These losses are for government's account and are reflected on the Bank's balance sheet as an asset. They form part of government's liabilities and were recently formally added to government's debt, taking it up to 45% of GDP.

Rand slides to new low against strong $

49 CT 5/1/93

By ARI JACOBSON

THE rand fell 2,5c yesterday to hit a new low of R3,0763 against a strong dollar as German political turmoil saw global investors sell the Deutschmark in favour of the US currency.

Local dealers are forecasting a low of R3,10/12 against the dollar by the end of the week.

Reserve Bank gold and foreign exchange GM James Cross said the Bank was "happy" with the rand's level, and that it would help lift SA's exports this year.

"It simply means more in foreign exchange earnings as long as the dollar price of our goods does not depreciate," said Cross.

He agreed that a weaker local currency against SA's major trading partners could act as a catalyst much needed export-led growth

Frankel, Max Pollak's economist Mike Brown added "we have been waiting for the strengthening of the dollar for some time".

He said that the weaker dollar between April and October had, in tandem with the drought (increased imports of among others maize), impacted on SA's trade surplus.

Brown pointed out that the buoyant dollar would lift local exports to a significant recovery by the second half of this year.

However Old Mutual economist Ursula Marits pointed out that rand cost of imported oil would rise as a result of the weaker rand.

"And this is already noticeable in the under-recovery on the landed cost of petrol."

She added that most of SA's imports are in non-US denominated currencies, in which the rand has remained relatively stable and from a negative perspective would encourage further imports.

Marits said that early signs of a recovery in the US held promise for SA's commodity driven export growth but added that other major trading partners such as Germany would only realise fully-fledged growth in late 1993.

The rand's value is based on a weighted index of SA's trading partners — with the US dollar holding the highest weighting and the DM next in line.

Inflation levels are also taken into account and the rand is depreciated by the difference in the producer price index locally versus the basket of traded currencies.

Cross said that this so-called real value of the rand had appreciated for the year to December based on the favourable performance of SA's inflation rate.

● A dealer said extensive Reserve Bank support for the rand was unlikely as the Bank did not have the extra reserves to have much of an effect on the market.

SA share of regional GDP is 77%

2774 DIRK HARTFORD 49

SA contributed 77,2% to the nominal GDP of the southern African region — consisting of 11 countries — in 1990, according to the Development Bank of Southern Africa (DBSA).

Angola (6,3%), Zimbabwe (4,9%), Botswana (2,3%) and Zambia (2,3%) were the only other countries to contribute more than 2% to southern Africa's GDP. The other countries are Swaziland, Namibia, Mozambique, Malawi, Lesotho and Tanzania.

Botswana (1,87 pula to $1) had the best exchange rate with the dollar in 1990, with SA, Swaziland, Namibia and Lesotho on $2,56 to the rand. At the other end of the scale were Mozambique (1 038,13 metacais) and Tanzania (196,6 shillings).

Life expectancy at birth is highest in SA (65) and lowest in Angola (45,5).

Botswana, Lesotho, Swaziland and Zambia all enjoy an adult literacy rate higher than SA's 70%, while Mozambique has the lowest literacy rate at 32,9%. BDay 5/1/93.

Malawi is the most densely populated country in the region with 74 people per square kilometre against only two in Namibia and Botswana. SA has 31,2 people per square kilometre. Zambia had the highest urbanisation rate (49,9%) with SA a close second at 49,6%. Malawi had only 11,8% of its population in the cities in 1990, according to the bank.

Mandela unveils new bid to boost economy

(49)
STAR
5/12/92.

SVEN LUNSCHE

ANC president Nelson Mandela has committed himself to a vigorous anti-trust policy "to inject competition into the economy and create new ownership structures".

Anti-trust policies are set to replace large-scale nationalisation as the ANC's major tool in breaking down the concentration of economic resources.

Mandela, opening an ANC workshop on anti-trust, monopolies and merger policies yesterday, also expressed deep concern about the state of the SA economy.

"We need to address the feeling of exclusion of the majority from the economic mainstream. We remain of the view that the economy is owned and controlled by a little white enclave and that this is entirely unsustainable given the socio-political landscape," Mandela said.

● See Pages 10 and 13

Anti-trust legislation had been identified by the ANC as one of the tools to address "this legacy of apartheid".

"We have repeatedly been informed by prospective foreign investors that the SA investor environment is quite hostile because of the stranglehold of the conglomerates on the economy," he added.

● TO PAGE 2.

STAR 5/12/92

Mandela

● FROM PAGE 1.

Mandela emphasised, however, that anti-trust policies needed to be fashioned to suit local conditions and should be applied with flexibility. It would be successful only if there were a change in the minds of those who currently controlled the economy.

Anti-trust measures were only one of the ways of addressing the problems of South Africa's "rapidly eroding economy".

Mandela said he was particularly concerned about the effects of inflation (rising food prices, in particular) and unemployment on the lifes of most people.

"I am shocked that only 3 percent of school-leavers will be absorbed into the formal economy next year.

"I am also concerned that the levels of investment are declining as rapidly as they are.

"I'm all too aware of how this eroding economy will challenge a fledgling democracy and thus appeal for the establishment of an interim government of national unity as soon as possible," Mandela said.

The workshop is set to formalise detailed anti-trust proposals by the ANC, but includes input by large companies, such as Anglo-American, the Competition Board and international experts.

NEWS Work week may be cut to 40 hours ● Hunt for Cash Competition

Plans to beat recession

Sowetan 5/1/93

By Ike Motsapi

Unions propose shorter week to stave off feared retrenchments and salary cuts:

49

THE country's two trade union federations are considering shorter working hours instead of retrenchments as options for employers while the economic recession bites deeper in 1993.

Among the options considered is that workers should work fewer hours. That is, instead of working 46 hours a week, unions propose that these should be cut to 40.

Mr Sam Shilowa, assistant general secretary of the Congress of South African Trade Unions, said: "Obviously all trade unions are discussing ways of dealing with retrenchments

"A number of options are being discussed at present but the other factor that is worrying is that many companies are experiencing industrial restructuring.

"I want to emphasise that there are no deals involved because no finality has been reached on the matter as far as Cosatu is concerned."

Shilowa said the trade union federation has impressed on employers that where job cuts "were to take place this should be stopped".

Mr Mahlomola Skosana, the first assistant general secretary of the National Council of Trade Unions, also said the federation favoured shorter working hours rather than retrenchments.

Less working hours

He said the country was facing one of its worst recessions in years and that it was imperative that people should be kept employed.

Both Cosatu and Nactu agreed that:

- Fewer working hours should be considered as an alternative to retrenchments;
- Groups of people should be kept together in a companies; and
- People should be retrained in other skills to make them productive.

Skosana said Nactu considered salary cuts as the last alternative to retrenchment. He said, however, that salaries should not be cut below the inflation rate

He said: "There is a lot of debate regarding this factor because we believe there are other alternatives to wage cuts.

"What worries us is that management give themselves bigger increases while at the same time cutting the salaries of employees.

"For instance, last year management received average salary increases of up to 28 percent."

Skosana said it was for these reasons that trade unions, as one of the important components of social and economic development, have approached both business and the Government to establish a tripartite forum which will address the pressing issue.

Call for SA rand to join 'world of free capital flows'

49 AG 5/11/93

Business Staff

A CASE for South Africa's currency to be integrated into "the world of free capital flows" is made in the latest edition of the London-based Gold Mining newsletter.

It says, in its main article, that Minister of Finance Derek Keys's recent tightening of exchange controls may reduce the volatility of the financial rand, but will not necessarily attract foreign investment.

If South Africa is to become fully integrated into the world economy — and compete efficiently for investment from abroad — its currency must be integrated. It must also provide "an economic and political environment attractive to investors".

It was referring to the new regulations that oblige South African firms wanting to invest abroad to finance the entire project from offshore funds, unless it can be shown to be of "immediate" value to the country.

The journal notes that prior to this announcement companies already were severely impeded from making overseas investments because of the need to exchange the necessary capital through the financial rand system.

The discount between the financial and commercial rands has long been a barometer of foreign assessment of political risk in South Africa.

However, the discount is affected by other factors, including the sharply increased demand from South African firms this year for overseas investment funds.

Mr Keys's action came as the discount between the financial and commercial rand widened to 46 percent from 10 percent at the beginning of the year.

It says the recent outward investment of companies is hardly surprising, given the availability of funds in the country and the less-than-enticing local investment scene.

"The recent large deals show that these South African companies were even prepared to pay a premium of around 40 percent (the financial rand discount) in order to invest overseas.

This may reflect the lack of available and suitable investments or some level of political risk the companies are discounting on comparable local opportunities.

The article says a high financial rand discount does make South African shares relatively cheap for overseas buyers.

The gold industry is currently on an average dividend yield of more than 11 percent to foreign investors.

"However, the result of volatility has made the serious investment in South Africa by foreign investors very difficult.

"For those investors who have held South African stocks, in particular gold shares, the value of their investment has fallen appreciably."

The level of foreign holdings in the mining industry has continued to fall — to less than 13 percent in June this year. The lack of interest, combined with a falling gold price, pushed the JSE gold index to a seven-year low. In dollar terms, the index is 160, the lowest level since 1978.

The prognosis for the financial rand is that it will continue to recover slowly.

There is speculation the Government would like the discount to reach zero, which would produce a once-off bonus for foreign investors holding South African shares.

However, this also would produce lower dividend yields for foreign investors - and high yields have been a hallmark of South African shares.

ANC spells out measures to end the economic crisis

STAR 8/1/93.

By Sven Lünsche

(49)

The ANC has provided a more detailed sketch of its monetary and fiscal policies to move the economy out of its present crisis.

In an article in the latest Finance Week, Trevor Manuel, the head of the ANC's Department of Economic Planning, stresses, however, that the success of a broad economic strategy depends "upon first securing a comprehensive political settlement".

In order to pull SA out of "the quagmire of the present" a rapid movement to political settlement is required before work on an economic strategy can begin.

"I make this point from the experience of having campaigned for new investment in a democratic SA. The absence of political certainty, with its corollary, the ever-increasing violence, tends to render all those efforts worthless," Manuel says.

He also questions whether the National Economic Forum (NEF), which will hold the key to a joint economic strategy, can hold its own in a climate of political hostility.

Apart from agreement in the NEF on a five-year strategic plan for socio-economic upliftment, Manuel calls for a range of "second-wave initiatives" within the realm of fiscal and monetary policy.

On the fiscal side, the ANC calls for a substantial improvement in the delivery of state spending, especially in housing, education and health.

The necessary initiatives to achieve this should include:

- The establishment of audit trails to trim excessive wastage.
- The implementation of performance audits.
- The establishment of judicial processes to guarantee accountability of expenditure.

He says the emphasis on the revenue side should focus on the question of under-collection, rather than on a "knee-jerk response towards increased direct and indirect taxes.

"Even if, at the end of a detailed examination, it is found that tax increases are unavoidable, these will have to be minimised by phasing them in over a five- or six-year rolling budget plan."

Commenting on monetary policy, he supports the current Reserve Bank policy of maintaining positive real interest rates.

But Manuel proposes that existing exchange control restrictions should remain until measures have been implemented to encourage foreign capital inflows and stabilise the current account.

WORLD STOCK MARKET PROSPECTS FM 8/1/93 (49)

Waiting for the dust to settle

The shocks of 1992 have yet to be fully absorbed by cautious world investors

In spite of the late-year rallies, a ragged, yo-yo 1992 for the global equity markets ran out in an uncertain, questioning mood. After the initial exuberance the past 12 months proved a sobering experience: economic recoveries in the US and Britain that failed to match expectations, recessions which started in Japan and Germany and a European currency crisis.

Inflation may be off the top of the agenda but there are no guarantees that the slow resumption of economic growth now forecast for the main industrial nations will be smoothly achieved.

Even in the US, where confidence in a rebound in corporate earnings is highest and record amounts of cash have poured into stocks and bonds, there is concern that Wall Street, lynchpin of equity markets, is discounting too much. In addition the honeymoon with the imminent Democrat administration could wear off once President Bill Clinton's economic policies become more visible.

In Tokyo traders stood and clapped the end of 1992 — but more in relief than celebration of the third successive year in which the market has shown a net decline. Equities fell 2% in the final session to leave the Nikkei Dow 29% below the high reached on the first day's trading and under the 17 000 mark which is now considered the benchmark line.

But at least the meltdown, threatened when the Nikkei Dow index collapsed by 40% to 14 309 in August, appeared to have been averted by the government's US$86bn spending measures and its arm-twisting of public- and private-sector fund managers.

European markets, like their economies, were held in the thrall of German monetary policy. No fewer than 11 Euro equity indices hit their lows as the flight into high yielding D-marks put pressure on currencies, a lid on economic growth and, in October, the crack in the European Monetary System.

The upheaval, which saw Britain and Italy devaluing out of the system with Spain and Portugal realigning exchange rates within it, lifted equities off the worst.

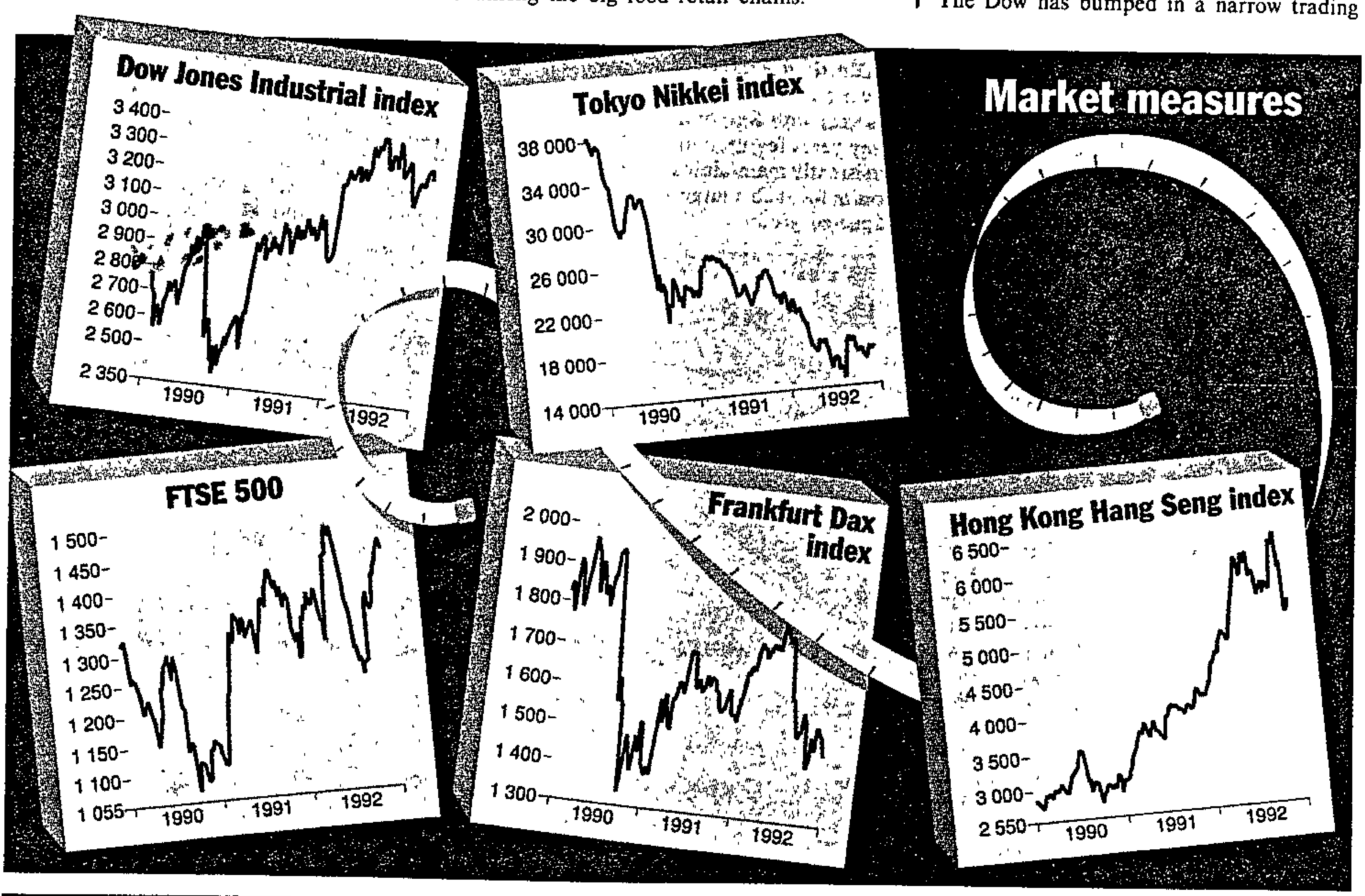
In the UK's case, the 15% devaluation of sterling ignited share prices with a 25% charge in little more than six weeks, pushing the FTSE 100 index to a record high, trimmed slightly by the start of a price war among the big food retail chains.

Switzerland remained the most serene field for investors. The Zurich market had its low point in January and it bobbed through the rest of the year, ignoring gloomy forecasts of isolation resulting from Swiss voters' narrow rejection of membership of the new single European trade area, to close at the top.

The fastest climbing exchanges had mixed fortunes. Hong Kong was up by 50% at one stage before the row between Britain and China over increased democracy for the colony cut it back; Thailand fell back from a 35% gain to a net 25% and Mexico lost more than half its initial improvement.

Politics also put the skids under Taiwanese stocks — falling 28% despite forecasts of 20%-25% corporate profits growth — after the first fully free elections since 1948 gave the opposition Democratic Progressives nearly a third of parliamentary seats.

Looking into the coming 12 months no leading market matches Wall Street for anticipation even though the fall from grace of IBM, which has halved to an 11-year low, has dampened the performance of the Dow Jones Industrial Average of 30 blue-chips. The Dow has bumped in a narrow trading



Source: I NET

range under a ceiling around 3 400, prompting worries of a technical sell-off if it fails to break out.

By contrast the Nasdaq (over-the-counter) stocks have again had a sparkling year with a 15% climb (on top of the 57% achieved in 1991) to bow out at its best on December 31.

Corporate America has again capitalised heavily to rebuild balance sheets with cheap debt and equity For the second year running funds have flooded into the market, a record US$838bn (up 42%) was raised by companies of which $72bn (up 29%) was equity with 600 new listings.

A net $9bn also flowed into equity-based mutual funds during the first 11 months — nearly the previous year's equivalent figure.

Investment houses, which two years previously were laying off staff, again rolled up a new record in underwriting fees — $6,7bn against $4,5bn.

Profit forecasts are good after the restructuring costs, in general, absorbed in 1991 when earnings fell by a quarter. It is estimated that 1992 earnings were up 35% and this year growth will be 20%.

But there are anxieties that on a prospective earnings multiple at the end of 1993 of nearly 17, share prices already reflect this growth — the average p:e of the past 10 years has been 12,3. The danger, according to some analysts, is that the New York market has been driven by liquidity rather than performance and any disappointment with the Clinton government could lead, at best, to a consolidation.

The prospects for Japan are almost universally bleak with economic growth down from 3,5% to 1,6% and estimates that bad debts in the banking sector could be at least $162bn — almost double the fiscal boost.

Corporate earnings for the fiscal year to March 1993 are forecast to be 30% down after falling by 36% in the previous 24 months, and zero growth is foreseen during 1993-1994.

With an average prospective p:e of 55 on Japanese stocks, and no recovery in earnings predicted for another 18 months, occidental analysts expect the Nikkei Dow index to hover between 15 000 and 20 000 — with the top end provoking heavy profit-taking. Japanese securities houses are patriotically more hopeful after a collapse in their business with daily turnover averaging only $127m — only a sixth of the "bubble" year of 1989 when the Nikkei Dow was 130% higher.

The view of London is that with government policy floundering, the economy growing by only 1% this year, shares are already fairly valued and may already be discounting the next cut in interest rates, expected to bring bank base rate down to 6%. Profits which dropped 20% in 1991, may show a 6% gain for 1992 and estimates for the current 12 months suggest 10%-15% growth.

London also had a miserable year for takeovers which fell by a quarter to just £7,5bn (the peak was £55bn in 1989). In sharp contrast to Wall Street, London's community of financial advisers saw their fees slump by 24% to £110m They were £1,4bn just three years earlier

UK equities could be hampered by their already high average p.e of 17 and the fact that, with unemployment continuing to rise, government borrowing to fund the £47bn-£50bn budget deficit will keep up long-term interest rates.

However, much still depends on Germany for Britain — even though no longer tied to the D-mark — and the other European exchanges. Twelve months ago a cut in German interest rates was considered inevitable but the Bundesbank proved obstinate

This year the move seems even more inevitable with the German recession deepening and, if inflation is to be contained, it will require a reining in of wage demands and steadiness of the D-mark against the dollar. Even though German company profits are seen as sliding further the prospect of cheaper D-marks, and the ripple effect this would have on all European countries, has led investment strategists to recommend an increased weighting of portfolios towards the UK and the Continent. ■

AFFIRMATIVE ACTION FM 8/1/93

A test of experience

Leading US academic Thomas Sowell debunks the myth of the deprived

There is a story, which I hope is apocryphal, that the Paris police were chasing a criminal who fled into a building Their first thought was to surround the building, but they realised that the building was so large and had so many exits that they didn't have enough policemen. So they surrounded the building next door, which was smaller and had fewer exits.

Much academic research in the social sciences follows this pattern of reasoning.

Often we don't have information on the variables that matter, so we surround other variables, using statistics that the Census Bureau, the Congressional Budget Office or someone else has supplied.

Last year, for example, the media and politicians seized on statistics which showed that US blacks received less pre-natal care and had higher infant mortality rates than whites. The obvious answer was more government spending on pre-natal care. Yet the same study showed that Mexican Americans received even less pre-natal care than blacks and had slightly lower infant mortality rates than whites. Pre-natal care was the building next door.

Recently, looking back over my life, I realised that the variables which economists and sociologists can measure are not the variables that matter. Sometimes friends and colleagues introduce me as someone who came out of Harlem and went on to the Ivy League (or better yet, the University of Chicago). But this presents as unique something that was far from unique.

It was not the norm for people in Harlem to go on to college, but neither was it so rare — not among children who grew up in Harlem in the Forties as I did. I am neither the best-known nor the most prosperous person to come out of that neighbourhood in that era. Nor were all of the others basketball players.

All the places where I lived while growing up in Harlem were within a 10-block radius of 145th Street and St Nicholas Avenue. Within that radius lived a boyhood friend named Eddie Mapp, who is today dean of one of the colleges in New York City.

In a building on the corner of 145th Street and St Nicholas lived Leonti Thompson, who grew up to become a psychiatrist, owned property in California's Napa Valley and is today retired and living abroad, while I still have to work for a living. In the same building lived an older boy who also made a name for himself — Harry Belafonte

Within the 10-block radius, at the same time, another fellow grew up to make money and a name — James Baldwin. Someone else who went to college within this 10-block radius, though he lived elsewhere, was a young man named Colin Powell.

Were all these simply rare individuals? Perhaps, but more black men passed the difficult entrance examination for Stuyvesant High School in 1938 than in 1983, even though the black population of New York was much smaller in 1938.

As for the masses of students in the Harlem public schools at that time, their test scores were lower than those of students in affluent neighbourhoods, but not dramatically lower like today, and they were similar to the test scores of white students in other working class neighbourhoods.

Ability grouping was common in Harlem schools in those days. A youngster who was in the top-ability class at his grade level received a solid education that would allow

MONEY SUPPLY FM 8/1/93.

In short (49)

The most interesting monetary aggregrate at present is M0, which has charted a clear course upward since it reversed a declining trend early last year. Latest figures have revised October growth upward from a provisional 18%, year-on-year, to 19,2% — to bring the level to R14,5bn. This follows 18,5% in September. Economists' estimates for November's growth rate are 19%-22%.

This narrow money supply measure consists of notes & coins in circulation, reflected on the books of the Reserve Bank, and cash reserve deposits which the banking sector holds with the Bank. The acceleration in growth is partly attributable to an increase in the reserves banks are required to hold, from 4% of short-term liabilities to 5%. When this came into effect in July, it pushed 12-month growth to 15,6%, up from 6,6% the previous month.

But, allowing for this technical bulge, the figures still indicate a shift to cash balances. This is due in part to the fact that short-term interest rates have fallen relatively less than long-term rates. But it could also be an indication that people are preparing to spend — possibly the earliest sign of an upturn. Certainly, it will make spending easier when the impulse takes them.

Confirmation of a shift towards the short-term comes from other measures — though the trend is less consistent. Over 12-months to October:

- ☐ M1A grew 19,42%. This is up from 12,17% and 10,27% in July and August, but down from September's 23,55%;
- ☐ M1, 20,16% (10,25%, 14,92% and 23,15% in July, August and September);
- ☐ M2, 12,01% (13,12%, 12,55%, 12,77%); and
- ☐ M3, 8,44% (9,66%, 8,46%, 8,73%).

Provisional figures for November show:

- ☐ M3 grew an annualised 9,77% from the base of the current guideline year (mid-November 1991) to a seasonally adjusted R199bn. This is within the targeted range of 7%-10%; and
- ☐ M3 grew 8,76% over 12 months to R199,2bn. ■

FM 8/1/93.

(49) (88)

FINANCIAL MARKETS

Two step

Two forces are at work in the money and capital markets. On the one hand, falling inflation is improving prospects of lower interest rates (see P27); on the other, expectations that the State deficit in fiscal 1992/1993 will be almost double the budgeted R16bn, and concern about the balance of payments is restraining bullish sentiment.

The more relaxed view is expected to prevail in the short term, especially in the money market where demand for credit remains flat. Despite a recent uptick in key rates — on the weekly Treasury bill tender and bankers' acceptances — last year's downward trend is expected to continue. The recent rise related to seasonal factors.

The BA rate is strongly influenced by short-term bank deposit and 90-day TB rates, both of which provide options.

- Banks were expecting large deposit outflows in December as tax payments and forex outflows were set to take place during the month. As a result, deposit rates were increased and the rise in the BA rate followed in line. The shortage in the money market last month started at R2,7bn, hit a low of R2,4bn, peaked at R3,8bn, and ended the month at R3,7bn. In 1991 the low was R519m and the high R2,7bn; and
- 91-day TB rates rose last month as the demand for the paper dropped due to an absence of buyers.

In the first 11 months of last year, however, the general pattern of rates in the money market declined.

The BA started the year at 16,35%. It dropped consistently, bottoming at 11,8% for three days in late November (though it has since moved back into the 12% range). The 91-day TB rate, which began the year at 16,09%, declined to 11,67% in November (but is now at 12,1%).

The declines were a response to a lacklustre year when businesses were reluctant to borrow and portfolio managers chose to keep a significant portion of their funds in cash. A further fall in Bank rate, probably one percentage point, is expected before the end of the first quarter.

In the present situation, liquidity may overflow into the bond market. Standard Bank treasury head John Lloyd says. "As returns fall in the money market, investors are likely to buy in the short-to-medium-end of the bond market."

The capital market was in a bull run from February to October, in line with falling inflation. The rate on the benchmark E168 was 16,48% in February (see graph) and

Continue

 FM 8/1/93. (49) (88)

then started a downward trend, reaching a nadir of 13,7% in October. However the rate moved up sharply in October as concern grew about the dimensions of the budget deficit. It is now trading at marginally above 15%.

As the March Budget approaches, and fears about the size of public-sector borrowing requirement for the next fiscal year become acute, sentiment in the bond market will become more negative. So the recent rise may continue through the first quarter. ■

SA growth 'hinges on world upswing'

(49) CT 9/1/93

Business Staff

THE SA economy would be hard pressed to move meaningfully ahead until a synchronised recovery of the US, German and Japanese economies took place.

This would stimulate a traditional export led recovery, Guardbank Unit Trust fund managers said on the release of quarterly results yesterday.

A positive outcome of the political transition process would be crucial to attract overseas capital, they said.

This fragile confidence factor would also be vital in determining investment levels locally in both financial markets and new industrial capacity, the key driving force for job creation.

- The market value of the Guardbank Growth Fund totalled nearly R1,5bn with the overall unit price rising 10,51% for the 12 month period.

Income

Income distribution for the six months to end December of 60,90c a unit (55,40c) brought the total for the year to 112,10c per unit (118,07c).

Over the quarter the Fund's effective equity content increased from 71,94% to 76,41%.

The top 10 holdings were Liberty, Premier, Richemont, Stanbic, SA Breweries/Bevcon, First International Trust, Rembrandt, FNB, Sasol, Charter Consolidated.

- The market value of the Guardbank Industrial Fund, launched in last April, totalled more than R11,6m.

The overall increase in the unit price over the nine months to December 31, including capital appreciation and reinvestment of the attributable income distribution, aggregated 17,19%.

The income distribution of 3,4c a unit for the six months to end December brought total income distributions for last year to 5,11c.

Value

- The market value of the Guardbank Resources Fund totalled more than R41m at year end with the unit price showing an overall decrease for the year of minus 8,5%.

The fund outperformed the JSE Gold, Coal, Diamonds and Mining Producers' Indices which reflected total returns of -25,46% -39,66%, -34,09% and -23,80% respectively.

The income distribution for the six months to end December of 4,09c a unit brought total 1992 distributions to 7,84c a unit (1991: 7,73c per unit).

- The market value of the Guardbank Income Fund totalled R153,6m at year end with the overall increase in the unit price over the 12 month period including capital appreciation and reinvestment of the attributable income distribution aggregating 23,58%.

A final distribution of 7,98c a unit brought the total for the year to 16,89c (18,47c).

Political deal ANC priority

49
ARG 9/1/93

The ANC wants a "comprehensive" political settlement to precede economic planning after the failure of its efforts to win foreign investment in the face of continuing civil unrest.

SVEN LUNSCHE
Business Staff

THE ANC has provided a more detailed sketch of its monetary and fiscal policies to move the economy out of its present crisis.

In an article in the latest Finance Week, Mr Trevor Manuel, head of the ANC's Department of Economic Planning, stresses that the success of a broad economic strategy depends "upon first securing a comprehensive political settlement".

In order to pull South Africa out of "the quagmire of the present", a rapid movement to political settlement is required before work on an economic strategy can begin.

"I make this point from the experience of having campaigned for new investment in a democratic South Africa. The absence of political certainty, with its corollary, the ever-increasing violence, tends to render all those efforts worthless," says Mr Manuel.

He also questions whether the National Economic Forum (NEF), which will hold the key to a joint economic strategy, can hold its own in a climate of political hostility.

Apart from agreement in the NEF on a five-year strategic plan for socio-economic upliftment, Mr Manuel calls for a range of "second-wave initiatives" within the realm of fiscal and monetary policy.

On the fiscal side, the ANC calls for a substantial improvement in the delivery of state spending, especially in housing, education and health.

The necessary initiatives to achieve this should include:

- The establishment of audit trails to trim excessive wastage.
- The implementation of performance audits.
- The establishment of judicial processes to guarantee accountability of expenditure.

He says the emphasis on the revenue side should focus on the question of under-collection, rather than on a "knee-jerk response to increased direct and indirect taxes".

"Even if, at the end of a detailed examination, it is found that tax increases are unavoidable, these will have to be minimised by phasing them in over a five or six-year rolling budget plan."

Commenting on monetary policy, he supports the current Reserve Bank policy of maintaining positive real interest rates.

But Mr Manuel proposes that existing exchange control restrictions should remain until measures have been implemented to encourage foreign capital inflows and to stabilise the current account.

SA and Zimbabwe in the same league of big State spenders

S Times (Buss) 10/1/93

Business Times Reporter

SOUTH Africa and Zimbabwe are on the same footing when it comes to government spending, says the Southern African Economist.

In drawing a number of parallels between the two economies, the Zimbabwean journal highlights the worst nightmare of many SA businessmen.

It says excessive government spending in both countries threatens to derail economic reform programmes and jeopardise their central banks' efforts to curb inflation.

The central banks in both countries have embraced a tight monetary policy with high interest rates to slow money-supply growth, but this has been thwarted by high levels of government spending, which is 35% to 40% of GDP in SA and 40% in Zimbabwe.

The magazine says the SA government's deficit before borrowing, which was originally estimated to be 4,5% of GDP, has been revised upwards to 6% (latest estimates are that it will be closer to 8%).

Zimbabwe has forecast a deficit of 9%, although food imports, necessitated by the drought, could push this even higher.

The magazine says that while the SA Reserve Bank blames the drought for costing the country 1,8% of GDP, analysts lay the inflation problem squarely at the government's doorstep.

Economists in Zimbabwe agree that their government has contributed significantly to inflation through borrowing to finance its debt. "It has been one of the major causal factors of high monetary growth," says Zimbabwe's First Merchant Bank assistant economist Danny Dube.

The magazine says the SA Reserve Bank has kept money supply growth at 7% to 10%, and this has brought down the inflation rate and prompted cuts in the Bank rate.

Familiar

The Reserve Bank of Zimbabwe's (RBZ) tight monetary policies seem to be slowing down money-supply growth, which is was estimated to be 23% in October. However, the CPI inflation is around 46% from an average 28% last year.

Zimbabwe's promise to slash the public service wage bill from Z$300-million a month will also sound familiar to many South Africans. At independence in 1980, the government committed itself to cutting back on the number of civil servants from 62 000 — it has since swelled to 200 000.

SA Finance Minister Derek Keys has announced plans to cut the number of civil servants by 30 000 to help reduce the budget deficit.

But it remains to be seen whether this can be successfully implemented and if it will prove sufficiently draconian, says the magazine.

A further similarity is that excessive current expenditure is damaging to both private sectors as the State saps up the nation's resources to finance its deficit.

Scant financial resources at higher prices have a debilitating influence on private sector investment.

In both countries, an increasing number of companies are going to the wall, workers are being retrenched in an effort to maintain profitability, and more individuals are becoming insolvent.

The prospects for the two economies to grow are diminishing as the two nations struggle to create jobs for hundreds of thousands of school-leavers.

Increased welfare spending for the poor and jobless to avoid intensified political discontent would send government expenditure spiraling, and with it inflation

Another bad omen would be another drought this year which would force both countries to import food, creating further inflationary pressures.

The magazine says such a scenario would spell economic trouble for Zimbabwe and SA.

The dollar looks firm for '93

S/Times Buss 10/1/93 (49) 874

BANK Credit Analyst's Outlook 93 expects the global economic recovery to continue through this year but at a rate that will still be considered disappointing. Gross domestic product growth will be between 2% and 3%, less than half the rate of post-war recoveries in their early stages.

BCA says new US President Bill Clinton's team does not have much room to stimulate without spooking the financial markets and that the jury is still out on whether the American supercycle can be extended further.

America's economic recovery has occurred because monetary policy has been extraordinarily expansionary and budget deficits have ballooned as a result of massive bail-outs and fiscal stabilisers.

It is not clear whether a more severe economic shakeout has been avoided or merely postponed. If the US government debt ratio continues to spiral upward, as seems likely, the economy and financial institutions would be put at great risk in a few years and the long-term decline in living standards would continue.

The dollar will remain firm for most of 1993, primarily because America's business cycle is ahead of those of other major countries. However, BCA says the secular long-term trend of the dollar remains bearish.

Other industrialised economies will lag America. They are depressed and either do not have the policy levers to stimulate or, in the case of Germany, do not want to.

The bull market in American equities is not yet over, but it is very mature. It is still being fuelled by low interest rates and Federal Reserve expansionism, both of which have sustained mania-type conditions. However, valuations are very rich and some cyclical indicators have started to deteriorate.

China and most of south-east Asia will continue to boom, although not as rapidly as last year.

BCA says inflation will remain low, averaging under 3% for the year, but says that short-term interest rates have seen their lows. Rates are likely to drift moderately higher in 1993 because credit demands are strengthening.

Long-term treasury bonds will move in a narrow band with a risk of moving higher if the economic recovery gains a lot of momentum.

BCA does not regard anywhere in Africa as worthy of its research. Yet SA will not operate in isolation. The tack for South African investors is to act on the information to the best advantage.

MONEY MARKETS by Tim Marsland

Govt debt a key issue this year

THE bulls will be encouraged by this week's sharp drop in capital market yields. But clumsy marketing of government's ballooning debt in 1993 will quickly send them in search of other hunting grounds.

The debt is a key issue facing the market this year. Too much stock dumped on the market will send rates soaring and ultimately raise government's borrowing costs. So the Reserve Bank, which sells government stock, will be hoping Finance Minister Derek Keys has other tricks up his sleeve when he announces his Budget in March. A combination of higher taxes and borrowing will limit the effect on the bond market.

B/Day 11/1/93.

Institutions, with expected cash flows of about R40bn, clearly have the cash to lend government.

One way for the Bank to raise funds without hurting the market could be for it to twist the arms of the institutions and encourage them to take parcels of stock.

The market frowns on this sort of practice as the institutions usually get preferential rates.

(49)

The Bank has moved away from this vogue in recent times, but faced with marketing billions in government paper, it could be tempted to follow this route.

So far, the Bank has done a fine job of selling government debt, helped by the bull run in the second half of the year.

Turnover in RSA bonds for the financial year to end-December saw it trade about R190bn in the bonds, easily making it the biggest player in the market. Of this, net financing took care of about R11bn.

But a question mark hangs over its ability to sell debt in a bear market.

Apparently, the Bank made a loss in the the bear market last year, but still made a profit for the year.

What a pity it would be if bears mauled the market, forcing the Bank to repurchase all the debt it managed to sell during 1992.

focus on monopolies

Sowetan 11/1/93

Tito Mboweni, a senior ANC economist, outlines the movement's policy towards monopolies. At the recent ANC workshop on antitrust policy, broad agreement was reached on the need to change radically South Africa's current competition law:

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WHAT IS ANTITRUST POLICY? Antitrust policy is interchangeably referred to as competition policy as well.

The usage of the concept of antitrust originates from the United States in the 1880s when trusts was the common legal name for new combinations and the opposition to them was called the antitrust movement.

The trust as a legal device was soon abandoned but the antitrust name has continued. So basically antitrust is competition policy.

Protection of competition

Antitrust policy therefore aims at the promotion and protection of competition. It acts dispassionately against monopolies, and dominant firms (market dominance), anti-competitive behaviour or collusion and anti-competitive mergers.

In the United States, the law (Sherman Act and subsequent amendments) has given powers to the Federal Trade Commission (FTC), the Antitrust Division of the Justice Department and other agencies to ensure that competition is promoted and protected.

Celebrated cases

The most celebrated cases of US antitrust actions are those which involved Standard Oil, AT&T and IBM.

In the UK, there is a strict definition of monopolies. Two types of monopolies are identified by the law.

These are scale and complex monopolies. Scale monopolies would exist where a person, company or members of an interconnected group of companies have at least 25 percent of market share.

Complex monopolies would exist in situations where persons and companies which are members of a group, have at least 25 percent of the market and conduct their affairs by agreement in such a way as to prevent, restrict or distort competition.

In both cases, and subject to the recommendations of the Monopolies and Mergers Commission Merg (MMC) and acceptance of these by the Secretary of State for Trade and Industry, the persons, company or companies in question would be forced to divest so that they hold less than 25 percent of the market share.

Separation of powers

The UK has a triangular institutional framework, with clear separation of powers, to implement competition policy, that is, the office of Fair Trading, the Monopolies and Mergers Commission and the Department of Trade and Industry.

Variations of these exist in other countries, most notably Germany.

Tito Mboweni

Our workshop did not delve into the details of such issues as the level at which a monopoly can be said to exist or the sort of institutional framework which would be appropriate for South Africa.

Strict procedures

However, there seems to have been some general preference for the UK type triangular institutional arrangements with a proviso that the minister for trade and industry should be compelled by strict procedures in responding to professional recommendations.

What is clear to us though, is that both the current competition law in South Africa and the institutional framework within which competition policy operates, will have to change radically in order for a fresh start to antitrust to be realised here.

> **"What is clear to us though, is that both the current competition law in South Africa and the institutional framework within which competition policy operates, will have to change radically in order for a fresh start to antitrust to be realised here"**

The discussions at our workshop also focused from time to time on the issue of conglomerates and there was a general feeling (perhaps not a consensus) at the workshop that a special commission may have to be put in place to deal with the issue.

Related issues

The issue of conglomerates and antitrust are not as separate as other business people would argue. We are of the opinion that a policy dealing with antitrust should also make suggestions on how to approach the issue of conglomerates and conglomerate power in the ecomony. The issues are somewhat related.

Antitrust may sound somewhat negative as far as some people are concerned. However, this should not be the case.

The concept of antitrust is popular on the ground and as such there is a preference to use it prominently than competitions policy.

There is no contradiction between the two. At the end of the day, antitrust is a pro-business policy and it is relevant here in South Africa as well.

Govt seals funding but faces tough year

Bdony 12/1/93. (49)

GOVERNMENT had completed its financing from the capital market for the 1992/93 year, with additional funding required coming from the Public Investment Commissioner (PIC), a senior Finance Department official confirmed yesterday.

The Finance official said: "There is no crisis looming in government's financing." However, he said the poor economy meant government faced a tough 1993/'94 in terms of revenue.

A Reserve Bank spokesman said the Bank raised about R11bn from the capital market in the year, and about R1bn-R1,5bn in Treasury bills (TBs). JSE figures show central government owes the capital market about R124,334bn through its RSA stock. It also owes about R4,5bn in TBs.

Government borrowed the rest of the income to cover its shortfall from the PIC and possibly from other public sector agencies. Latest Bank figures show government has R6,142bn on deposit at the Bank, a decline of R3,615bn over two months. Nedbank chief economist Edward Osborn said the decline was seasonal.

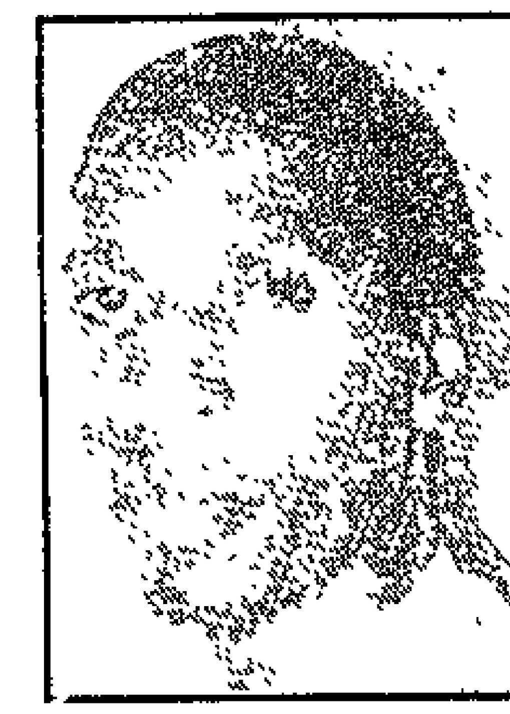
TIM MARSLAND

Government had already acquired R22bn in loans to cover its deficit. It still needed about R8bn to cover the likely deficit of R30bn for the whole year, providing there was no hiccup in government spending. Of this, between R5bn and R6bn could be in the form of TBs and the remainder borrowings. Government could also run down its deposits at the Bank, which it did in 1991/92.

Osborn said government overall finances peaked around the middle of the financial year, after which it "lived off the fat it had collected" until the next Budget.

Government deposits were highest in July at R11,471bn. One dealer was sceptical that government had completed its financing, saying it had no credibility when it came to budgets. Another said he doubted the PIC had the funds to lend government. He said the PIC had been a net seller of bonds late in 1992 as a result of payments to laid-off government workers.

The neglect of black human resources is a major stumbling block to generating sustainable economic growth in South Africa, Bax Nomvete says in a magazine article. **Mzimkulu Malunga** reports:



SOUTH AFRICA'S ECONOMIC SURVIVAL depends on its ability to nurture black entrepreneurship, says the former secretary general of the Preferential Trade Area for East and Southern Africa (PTA), Dr Bax Nomvete.

Writing in the 1993 issue of *Portfolio*, a magazine focused on black business, he says the neglect of black human resources is a major stumbling block to generating sustainable economic growth in the country.

Africa - including South Africa - needs "innovative policies" to generate development, says Nomvete, now executive director of the Africa Institute for Policy Analysis and Economic Integration (Aipa).

Unfortunately, the trend in most of Africa is short term and ad hoc responses to developmental challenges, as opposed to the formulation of new policies and translating them into "feasible programmes of action".

Like other African countries, South Africa remains an exporter of raw materials with an uncompetitive industrial sector.

"The economy is run by parastatals and white-owned conglomerates with large doses of state intervention," he says.

Initial emphasis should be on strategies for restructuring the country's economy and strengthening its indigenous capacity for growth. For South Africa to meet the basic demands of the majority of its people, the economy has to grow at an average of about five percent a year. But it is doubtful whether this

'It is necessary to expand the capacity of the economy and open up new avenues for the undoubted entrepreneurial capabilities of the majority sector of the population - the blacks'

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Sowetan 14/1/93

target can be attained. "We may even experience negative growth," he says.

Manufacturing production is declining and so is the income from mineral and agricultural commodity exports.

Economic democratisation is essential in bringing about growth, he says.

While some advocate strong affirmative action programmes to level the economic playing field, the problems run much deeper, Nomvete contends. Upliftment programmes alone cannot resolve South Africa's woes.

"Radical changes in mind sets and policies are needed throughout the country's political economy.

"It is necessary to expand the capacity of the economy and open up new avenues for the undoubted entrepreneurial capabilities of the majority sector of the population - the blacks," argues Nomvete.

In a world dominated by emerging regional economic blocs, South African participation in the likes of the PTA and the Southern African Development Community (formerly known as SADCC), will be crucial, Nomvete says.

Tighter purse for govt's big spenders

BDAY 14/1/93.

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TIM COHEN

PRETORIA — From next year, government departments will find it much more difficult to raise additional funds from the treasury.

State Expenditure Department director-general Hannes Smit said yesterday his department intended applying the rules for post-Budget allocations more strictly.

Only in situations of real need, like major disasters, or other events that could not be anticipated, would the State Expenditure Department recommend additional allocations, Smit said.

Smit, recently promoted from deputy director-general, said this strengthening of the rules would form part of a broader policy of promoting a real reduction in state expenditure.

Departments would also be encouraged to take longer-term views of their expenditure, Smit said, adding that his department was considering allowing departments to carry over unused current expenditure to the next financial year, thereby alleviating the need to spend all available funds before the end of the financial year.

Progress had already been made in this respect as unexpended capital funds could be rolled over to the next financial year.

Smit said the solution to financial discipline did not lie in extended powers for the department but in promoting sound financial management. One aspect would be to provide departments with greater management autonomy.

The system whereby departments had to draft management plans annually and submit expenditure reports three times a year would have to be strengthened.

The introduction of a "commitments register system", involving a weekly report to the Cabinet on state expenditure, would have to be expanded, he said.

Asked about the department's role in monitoring the TBVC states' budget overruns, Smit said these states had encountered budgetary problems which proved to be of a "structural nature". The problems gave rise to questions about the states' long-term economic viability and their institutional capacity. All the states consequently built up substantial budget deficits which had been financed mainly by increasing their overdraft facilities.

To harmonise economic, financial and institutional policy and practices, the SA government recently entered into bilateral co-operation agreements with eight of the 10 "regional" governments. But the establishment of a single controlling body would be contemplated only within an amended constitutional framework, he said.

Keys faces daunting deficit-cutting task

STAR 15/1/93.

By Sven Lünsche (49)

	1992/93		1993/94	
	BUDGET	ACTUAL	NO TAX HIKES	WITH TAX HIKES
EXPENDITURE	101	103	111	111
REVENUE	85	77	90	98
DEFICIT	16	26	21	13
AS % OF GDP	4,5	8,0	5,8	3,6

Budget scenarios (R billions) provided by Econometrix

Finance Minister Derek Keys will have difficult decisions to make if he is to trim the deficit before borrowing to a more manageable level next year.

A deficit of R28 billion, or 8,4 percent of gross domestic product (GDP), is widely expected in the current fiscal year, which is well above the budgeted level of 4,5 percent of GDP and represents the main threat to significant economic recovery.

In effect, Keys has only two options — to cut government spending and/or to increase tax rates, particularly indirect taxes such as VAT and the fuel levy.

Keys has already stated his commitment to cutting real government spending by three percent in 1993/4 and says a hike in VAT is on his agenda.

In its latest Quarterly Economic Monitor, Absa provides an outline of the options and their potential dangers.

The first is to reduce the defi cit at all costs, using a combination of the two.

"However, this would also mean the economic growth rate would be further constrained and thus pose problems for state revenue," Absa says, adding, though, that such a move would improve the exchange rate and thus benefit the inflation rate.

The alternative is to curb government spending without tax increases, which would limit the impact on reducing the deficit, but improve the growth rate and enlarge the tax base.

The greatest danger of such an approach is its potential inflationary impetus, Absa adds.

The Econometrix research institute goes a step further and provides some detailed figures for 1993/4, assuming that Keys succeeds in slashing state spending by three percent next year.

Assuming that tax rates are not raised, expenditure could rise to R111 billion and revenue to R90 billion, based on higher personal tax income via fiscal drag and an increase in nominal tax on companies, VAT and excise duties.

This would leave a deficit before borrowing of R21 billion, or 5,8 percent of GDP, still well above the Government's long-term target rate of three percent.

Assuming VAT goes up to 13 percent, as is widely expected, and the fuel levy is raised by 15 percent, Econometrix estimates state revenue at R98 billion and the deficit at R13 billion, or 3,6 percent of GDP.

However, the latter course would bring with it a rise in the inflation rate to about 13 percent on average this year and reduce economic growth to one percent at best, instead of the 11 percent and two percent respectively if no tax hikes are introduced.

Econometrix warns that there is no guarantee that Keys will succeed in slashing state spending by the desired three percent.

"If he succeeds only in preventing any increase in real spending, the deficit for 1993/4 will be R3 billion, or one percent, greater than outlined.

"If spending were to rise in the some way as it has done historically, then one could add R6 billion (two percent) to the deficit scenarios," Econometrix says.

The institute says it is not yet clear which options the Government is considering, although political resistance to a higher VAT rate might see such a hike accompanied by a cut in the VAT rate on basic foodstuffs.

White household income drops

BDay 15/11/93

(49) KELVIN BROWN (1285)

WHITE households' share of total personal income in SA fell to 54% from 62% between 1978 and 1988, reported the Central Statistical Service (CSS) yesterday.

Over the same period, black households increased their share to 34% from 27%.

A small increase was recorded for coloured and Asian households.

The report found that the redistribution of income in SA had been taking place for more than a decade.

The CSS examined household income and expenditure between 1978 and 1988, including in the self-governing territories and the TBVC states.

Coloureds, Asians and blacks recorded the highest growth in per capita income. Over the 10-year period the per capita income of whites grew by 14,4% a year, while the increase for the other groups averaged 17%.

Black household expenditure also increased over the 10-year period. In comparison with 1978, it increased by more than 6% to reach 38% in 1988.

Although white households still accounted for the largest share of total household expenditure, their share fell to 49,5% from 57% in 1978.

The report found also that the change in the income earned by black households had the biggest influence on the GDP. For every R1 increase in black household income, GDP would increase by R1,25.

A similiar improvement in white household income would increase GDP by only R1,04. For coloured and Asian households the effect was R1,16 and R1,15 respectively.

Various results were reported on the inclination to save. All four groups' inclination to save fell over the 10-year period. The report found that in 1988 South Africans were likely to save only 3% of their total income, while in 1978, 9% was saved.

BDAY 15/1/93.

Leaders 'sobered'

IN ADVANCE of a possible meeting with President-elect Bill Clinton next week, ANC president Nelson Mandela has given the Washington Post an upbeat assessment of the state of constitutional negotiations.

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He and other political leaders had been "sobered up" by events of the past year and by the state of SA's economy, he said.

He indicated he would urge the ANC national executive to call for the lifting of remaining economic sanctions once a date for interim government elections had been set and a multiparty transitional authority had been established.

Govt set to end year close to Budget

BDAY 15/1/93. (49)

GREATA STEYN

GOVERNMENT has kept a tight rein on spending during the current fiscal year and looks set to end the year close to Budget in spite of higher interest payments and spending on drought relief.

According to a statement released by the Finance Department last night, exchequer issues in the first nine months of the fiscal year were up 17,2% from the previous year. The budgeted increase in spending was 16,5%.

Economists had feared spending could end the year about 20% up and contribute to the deficit headache.

They said it was possible the eventual outturn would be less than 20%, although it was difficult to predict spending in the final quarter of the fiscal year — seasonally a period of heavy spending. A spending spree in the last three months would present a major setback.

The revenue situation has also improved from the crisis in the second quarter of the fiscal year when receipts fell on a year-on-year basis. During the third quarter, receipts resumed a growth trend, increasing income for the first nine months of the fiscal year by 4,4% to R55,08bn. The budgeted rise was 15,7%.

The deficit — the shortfall between revenue and spending — was R18,11bn in the first nine months of 1992/93, which is already higher than the budgeted deficit of R15,927bn (4,5% of GDP).

Economists' forecasts are for an eventual deficit of R28bn-R30bn, which implied an acceleration in spending if the revenue situation continued to improve.

TIM MARSLAND reports that the Public Investment Commissioners (PIC) had committed itself to lending government R5bn by March to fund the rest of the deficit, PIC director Badie Badenhorst confirmed yesterday. He dismissed claims that the government pension fund was stretched for cash because of the laying off of public servants. "We have more than enough cash to fund the deficit."

Badenhorst said the surplus on government pensions averaged R1,5bn for the year, which the commissioners could invest. This means the PIC would have lent government R16,5bn to fund the deficit.

Over December, the surplus was R138m. The surplus shrinks during the first three months of the year, but rises after March when government workers are paid their bonuses.

Badenhorst said the R5bn would come from surplus income, debt redemptions and coupon payments. The PIC holds 48% or about R55bn of government's issued debt of R124bn.

Badenhorst said the PIC would still have excess cash available over and above the R5bn loan. He said the PIC would not have to sell stock to lend cash to government.

Scandal forces out Denmark's premier

STAR 15/1/93.. (46)

COPENHAGEN — Denmark was plunged into political turmoil after Prime Minister Poul Schlueter announced that he was bowing out after a decade in power because of a long-brewing refugee scandal.

Schlueter (63), said he would hand his resignation to Queen Margrethe today after a judicial report into the treatment of Tamil refugees concluded that he misled parliament in 1989.

Schlueter, a conservative, protested that he was innocent. He told a news conference. "I find it difficult to see that reality justifies the conclusions. But they are there and that is the decisive thing. So be it."

His departure ended an era in which Denmark, the current president of the European Community, was transformed from one of the "sick men" in Europe to one of the continent's most solid economies.

Schlueter said he wanted to appoint his own successor, Finance Minister Henning Dyremose, without calling elections.

But two small centrist parties holding the balance of power between the government and main opposition refused to say if they would support the government.

A Supreme Court judge's report held Schlueter responsible for being unaware that the justice ministry acted illegally in preventing Tamil refugees joining relatives in Denmark in the late 1980s. — Sapa-Reuter.

Poul Schlueter . . . 'conclusions are there.'

Keys won't do any miracles

(49)

S Times (Buss) 17/1/93

By KEVIN DAVIE

FINANCE Minister Derek Keys's economic model — once punted to give new direction in the next Budget to an economy which has lost its way — is now due for release only once the Budget is all but finalised.

Originally scheduled for release in November, allowing sufficient time for comment before the Budget, the 16-chapter tome will now be publicly available about a month before Minister Keys stands up in Parliament to deliver the Budget on March 17.

The model, which quantifies SA's economic options and suggests strategies for growth, is understood to have been completed in Afrikaans and is being translated into English.

A task force is expected to compile a shortened, more accessible version of the full report, which insiders say tends to be a ponderous, detailed explanation of sometimes abstruse economic theory.

But delays in its release are not the only reason for the increasing likelihood that the model will not shape economic policy in the short term.

The worsening economy, well-placed observers say, has left Mr Keys with little room for manoeuvre in the next Budget.

"Economic restructuring makes sense only in the context of fiscal restraint; there is little political consensus on the need for such restraint," says a source.

"The Budget is most likely to be no more than a holding operation," says another.

Japie Jacobs, special adviser to the Finance Minister, is understood to have promised the Economic Forum in December that he would table the model at the Forum later this month.

"The model provides a comprehensive description of the SA economy," says a Finance Ministry spokesman.

Severe

"It quantifies resources available for economic development and identifies constraints that inhibit more rapid growth.

"It also shows the effects on the economy of alternative policy options with the objective of finding ways to put available resources to the most productive use."

The spokesman says the document will inevitably deal with budgetary restructuring "but in a broad sense".

Business Forum chairman David Brink of Murray and Roberts describes the model as "a long-term thing" which is unlikely to be dealt with in the next Budget: "The restraints are so severe there is little room for manoeuvre."

While the Economic Forum is yet to see the model, it was briefed in December by Mr Keys on the problems he faces in drawing up the Budget. The Forum was invited to make suggestions on the understanding that Mr Keys and not the Forum would carry the political responsibility for the Budget.

Forum participant Ebrahaim Patel of the SA Clothing and Textile Workers' Union says labour has given broad and preliminary comment to Mr Keys, indicating "eight or nine" key elements of a Budget which labour could support.

These include establishing broad consensus as far as this is possible, greater expenditure on social development and job creation, making tax collection more efficient, decreasing tax exemptions to big business, wiping out mismanagement and corruption through tighter controls, and ensuring that money is not used for party-political purposes in the run-up to democratic elections.

Labour would also be keen to see new taxes implemented rather than higher VAT which hurts the poor. An example might be taxes on a proportion of pension contributions but exemptions for people below a certain ceiling.

"The economy is showing signs that it might have turned," says an economist.

"Mr Keys can drastically reduce the deficit but that will kill the economy. He has to try and recreate confidence and address the deficit problems with a three- or four-year plan."

Bull dollar causes Reserve Bank losses

(49)

CT 18/1/93

From GRETA STEYN

JOHANNESBURG. — Forward cover losses incurred by the Reserve Bank in November and December could have reached as much as R725m, according to figures on the Bank's balance sheet.

The losses are government debt and are reflected as part of "other assets". The December statement of assets and liabilities shows an increase of R292m in this item after increases of R433m and R81m in the previous two months.

Economists said the dollar bull run had pushed the Bank into a loss situation.

UAL economist Dennis Dykes said forward cover losses were incurred when the exchange rate fell quicker than the interest rate differential between SA and its trading partners.

It was likely that the Bank had incurred losses during the recent dollar bull run, but this had probably been offset by profits made earlier in the year.

The Bank's balance sheet also shows a R1,5bn fall in foreign exchange reserves, probably also reflecting the effects of the dollar bull run.

AHI economist Nick Barnard said the quarterly rollover of forward cover on third currencies had probably meant substantial dollar outflows in December.

The strong dollar could also cause the Bundesbank to keep German interest rates high. If SA interest rates fell, the relatively cheaper cost of credit could cause SA companies to switch from foreign to domestic trade credit. This would knock the foreign exchange reserves because the foreign debt would be settled before switching.

An extended dollar bull run could further depress the reserves if fears of currency depreciation sparked "leads and lags", with importers rushing to buy forex and exporters delaying sales.

● **Tim Marsland** reports that it was unfair to insinuate that the Reserve Bank had failed to stabilise the financial rand rate through intervention, Governor Chris Stals said at the weekend.

Stals was reacting to market speculation that the Bank planned further steps to boost the investment unit.

This included increasing the amount of finrands banks could hold overnight. At present banks are restricted to holding amounts of between R500 000 and R2m.

A dealer said: "This means when the market shuts in the afternoon, we have to sell off whatever finrands we're holding at the best price we can get. It causes sharp price movements late in the day."

Stals said the intervention was introduced mainly for the purpose of managing domestic liquidity.

On the possibility of IMF and World Bank facilities being made available to SA, he said: "It is still very uncertain when IMF facilities (to cover temporary balance of payments deficits) or World Bank finance (for project development) may become available."

Another dealer said raising the amount of minimum quotes to $2m from R2m was also under consideration.

Stals said authorised dealers in financial rands had to decide the minimum level for themselves.

Asked whether there were any plans to widen the investment uses of the finrand for foreigners, he said the Bank had no plans "at this stage".

Stals says Bank's critics are unfair

(49)

TIM MARSLAND

IT WAS unfair to insinuate that the Reserve Bank had failed to stabilise the financial rand rate through intervention, Governor Chris Stals said at the weekend.

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BDay 18/1/93

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Bank faces big forward cover loss

BDay 18/1/93

GRETA STEYN

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An extended dollar bull run could further depress the reserves if fears of currency depreciation sparked "leads and lags", with importers rushing to buy forex and exporters delaying sales.

Tax hike 'designed not to hurt growth'

(49) BDM 18/1/93.

GRETA STEYN

PRESIDENT F W de Klerk had signalled tax increases in the March budget would be structured carefully to avoid a blow to business confidence, economists said at the weekend.

De Klerk, noting that tax increases would be unavoidable, said efforts would be made to ensure growth sectors were affected "as little as possible". He was speaking after meeting government service employee representatives on Friday.

Economists said De Klerk's concern with economic growth indicated that the extra tax burden would be spread thinly across VAT, the petrol levy, customs and excise duties and fiscal drag.

There had been speculation that Finance Minister Derek Keys was to reintroduce the minimum tax on companies after representations from the ANC, but this now seemed out of the question.

Senekal Mouton & Kitshoff economist Louis Geldenhuys expected tax increases to be spread over indirect taxes. While a hike in personal taxes was unlikely, there would be no compensation for fiscal drag.

Even reducing the deficit to 6% of GDP — double the accepted norm — would require an extra tax take of R5bn-R6bn.

Most of the increase in revenue could come from a hike in VAT to 13% while certain basic foodstuffs were zero-rated.

A further substantial inflow (just over R1bn) could come from adding 10c to the petrol levy, an increase of 6% in the fuel price. An additional R500m could come from raising customs and excise duties.

Economists said a further source of revenue hinted at was taxing a portion of current pensions contributions. But the Life Offices Association (LOA) had asked government to avoid this course of action.

De Klerk said on Friday government had no immediate intention of changing the tax status of state pension fund gratuities. That means government has rejected the LOA's recent call for the equal tax treatment of lump sum payments between the private and the public sectors.

DUMA GQUBULE reports that some economists warned against tax increases while the economy remained in recession.

Old Mutual's Terrence Moll said he was not convinced tax increases were the best route to solving the deficit.

□ To Page 2

Deficit should be reduced gradually

(49) CT 19/1/93

By ARI JACOBSON

THE government deficit should be reduced gradually over several years according to stockbroking firm Davis, Borkum, Hare in its latest newsletter.

The deficit is expected to measure a massive R28bn for the 1992/93 financial year, which would make that some 8% of gross domestic product (GDP), against the accepted norm of 3%.

The broking firm points out that although "the fiscus is in a shambles" it has to a large extent been brought on by the recession and so the Minister of Finance Derek Keys "is advised not to over-react".

It adds that "deficits only have an appreciable effect on inflation or the capital (through government borrowings) in the long run".

A partial solution preferred by the Amalgamated Banks of SA (Absa) is to reduce spending and increase taxes in the coming budget.

But it mentions in its latest Economic Monitor that this would constrain economic growth although it could benefit the inflation rate as consumer demand is dampened.

Another alternative it says "is to curb government spending without increasing taxes, which would keep the deficit high but economic growth would improve marginally and so would the tax base".

Absa blames the current predicament, with the deficit, on government's excessive spending which has led to higher tax burdens.

Syfrets in its economic review says that "the most obvious solution is for government consumption expenditure to be curtailed in favour of capital spending programmes".

It adds that revenues in the coming year would be insufficient without tax increases "and it is therefore inevitable that indirect and perhaps direct taxes will have to increase in the coming budget — regardless of the depressed state of the economy".

"We expect an increase in the fuel levy and that Vat will rise to at least 13% — though basic foods stuffs will be exempt."

The review adds that a lower deficit will be far easier for a new government to manage.

"But one thing is clear is that the government is not decided whether to risk a high deficit (7%) next year or bring it down (to 5%) in very difficult circumstances."

ANC chief worried about jobs

Mandela's offer on sanctions

STAR 20/1/93.

By Michael Sparks and Hugh Roberton

The ANC would be prepared to call for the lifting of sanctions if business strove to increase employment and agreement were reached on holding nonracial elections by the end of the year, ANC president Nelson Mandela said in Washington yesterday.

Organised business reacted cautiously to Mandela's statement. Spokesmen said even if sanctions were lifted immediately, unemployment levels were unlikely to change dramatically.

Mandela told a Washington press conference: "If I could get an assurance from business that they would be able to make a contribution to cutting unemployment and would put a freeze on retrenchments, and if we had a date fixed for an interim government and elections, then I have said I would be prepared to go to my organisation and urge that we call for a complete lifting of remaining sanctions."

Mandela, who is in Washington for Bill Clinton's inauguration today, said he was deeply concerned about high levels of unemployment and the state of the economy, and that to delay its recovery would make it difficult for a democratic government to change.

He added: "Once sanctions are lifted, there would be no reason why the World Bank and the IMF (International Monetary Fund) should not get involved in helping us build up the economy. We are already in contact with the World Bank on ways in which it could help the country."

● Interim govt key to World Bank loan - Page 18

Business leaders said last night they were also concerned about unemployment, but creating jobs was not a simple matter, although lifting sanctions would contribute to greater investment.

Johannesburg Chamber of Commerce chief executive Marius de Jager said business did not create jobs for the sake of creating jobs, but risked money and capital in an attempt to make a profit.

"Business cannot create jobs because Mandela says he will lift sanctions."

But, De Jager said: "The lifting of sanctions would contribute to creating the kind of stable and predictable society that business needs in order to operate."

SA Chamber of Business director-general Raymond Parsons said while business shared Mandela's concern about unemployment, the possibilities of job creation lay in better economic prospects beyond sanctions.

Parsons said: "What matters now to investor confidence and economic growth is South Africa's ability to reduce violence and show internal political progress and stability.

"Employment levels will rise again if we can boost business confidence by getting the politics and the economics right, in which sanctions play a minimal role."

At the press conference Mandela said he was being pressured into giving advance assurance that Inkatha Freedom Party leader Chief Mangosuthu Buthelezi would be given a high position in a future government of national unity.

He said the ANC was not prepared to give such an assurance, although it would strive to include all major parties in the government if it won the first free elections.

Call to boost small businesses

ADRIAN HADLAND

PRETORIA — Government funding of small business in SA should be increased from R800m a year to R4bn to stimulate growth and employment in the economy, Frankel Max Pollak Vinderine chief economist Mike Brown said yesterday.

The increase, from 0,3% of GDP to 1,3%, would generate more than 200 000 jobs a year and would shift SA to a more competitive and efficient economic structure, Brown said.

He was one of several speakers addressing businessmen in Pretoria yesterday on means of improving investor confidence in SA.

The Platform for Investment conference, which included contributions from senior executives of Sanlam, Ernst & Young, Frankel Max Pollak Vinderine and the HSRC, was the result of comprehensive research undertaken locally and abroad, Sanlam media relations senior manager Boet van der Spuy said.

Brown said the contribution of small businesses to SA's GDP had increased from 5% in 1980 to 17% by 1991. "We are not doing anything to encourage it and yet it is happening."

The advantages of investing in small business development included the low capital cost of job creation (R15 000 per job as opposed to R50 000 in the formal sector), the political acceptability of encouraging small business, the fostering of an entrepreneurial spirit and the promotion of regional development.

Brown said multiplier effects also had greater resonance when applied to the lower income community as a result of capital savings and improved labour intensities and consumer power.

The promotion of small businesses could be achieved by the establishment of a more sympathetic operating environment.

This included tax incentives, deregulation and the reduction of bureaucracy as well as the provision of education and training, business skills and access to technology. Linkages should also be generated between small and big businesses by encouraging subcontracting, tendering and by lifting barriers to competition.

The stimulation of small business, with higher government and private sector expenditure on housing and development infrastructure, would improve SA's economic health and make it more attractive to foreign investors.

B/DAY 20/1/93

(49)

R2bn cut from deficit projections

BDAY 21/1/93.

(49)

GRETA STEYN

DEFICIT projections for the fiscal year had been revised downward by about R2bn, economists said yesterday.

The general consensus is now of a deficit of about R26bn rather than earlier forecasts of R28bn-R30bn. In November, Finance Minister Derek Keys put the deficit for the year at R28bn, or 8% of GDP.

Absa economist Pierre Morgenrood said he had reduced his deficit forecast to about R26bn after government last week released encouraging spending figures. For the first nine months of the fiscal year, expenditure was up 17,2% — slightly more than the budgeted 16,5% rise.

Econometrix saw the possibility of a deficit of below R26bn, if present trends continued. An Econometrix assessment of the economy said the latest government finance statistics showed the expenditure and revenue situation was better than the worst case scenario feared a couple of months ago.

Extrapolation of the pattern in the first nine months of the fiscal year yielded a possible expenditure figure for the full year of R101,2bn (budget R100,6bn) and revenue of R76,5bn (budget R84,7bn) — leaving a deficit of R25,7bn. This was an improvement on the R28bn-R30bn worst case scenario, the report said.

Rand Merchant Bank economist Rudolf Gouws was less optimistic than other economists polled. He predicted a deficit of about R27bn on spending of almost R103bn and revenue of R76bn. The fiscal crisis would deepen in 1993/94, with a deficit of R30bn becoming increasingly likely, he said.

Economists have generally included an estimate for this year's spending on drought relief in their predictions for the

☐ To Page 2

Deficit

BDAY 21/1/93.

(49)

☐ From Page 1

current fiscal year, although the spending was not in the Budget and it is not clear how much will actually be spent this year.

However, Keys said earlier this year he was considering adding to this year's figures the full amount of drought relief to be spent over three years (about R4bn). If he decides to take this route, the deficit will be pushed up to R28bn-R30bn.

Reserve Bank head of economics Ernie van der Merwe said the Bank would reflect the cash flow situation. Even if the Exchequer accounts showed the full R4bn for this year, the Bank would only count funds actually spent.

Economists said a decision to reflect the drought spending in the current fiscal year would yield two deficit figures for the year — an "accounting deficit" which would be higher than the Bank's "cash flow" deficit.

Efforts to obtain information on how much would be spent on drought relief in the present fiscal year and how this would be reflected in the Exchequer accounts proved unsuccessful.

Interest rate speculation discounted

STAR 21/1/93.

By Sven Lünsche

Reserve Bank sources are discounting money market speculation of an imminent cut in interest rates.

A Bank official said yesterday that economic circumstances at present did not justify a further relaxation of monetary policy.

Economists added, however, that an expected sharp drop in the inflation rate for December, which should be announced next week, could ease the Bank's stance.

Inflation in November was running at 11 percent and a fall to around 10 percent in December could well justify a one percentage point cut in the Bank rate, given the still sluggish economic conditions.

Trading on the money market has been extremely quiet this week, with the BA 90-day rate remaining stuck in the 12,1 to 12,2 percent range, amid speculation of an imminent cut in the Bank rate.

The ability of the Reserve Bank to reduce interest rates significantly is also being hampered by the maintenance of real interest rates by SA's major trading partners, say Absa economists in the latest Economic Spotlight.

"The Reserve Bank's determination to maintain a stable real effective rand exchange rate means real interest rates will be kept at levels comparable to overseas rates."

Consequently, "the rand will depreciate proportionally to the inflation differential between South Africa and its main trading partners".

Absa expects short-term interest rates of two percent in real terms this year and an average inflation rate of 11 percent.

A snippet of good news on the deficit

CT 21/1/93 (49)

From GRETA STEYN

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Less optimistic

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Africa think-tank begins

STAR 22/1/93.

CAPE TOWN — Statesmen attending the Interaction Council summit have called for a conditional cancellation of Africa's foreign debt and have emphasised the need for a free press to check rampant corruption on the continent.

The council, a think-tank of eminent international leaders, yesterday began three days of talks on Africa's marginalisation and ways of reintegrating African states into the mainstream of the international system.

Former British prime minister Lord James Callaghan is chairing the summit. Other former heads of state include Nigeria's General Olusegun Obasanjo, Zambia's Dr Kenneth Kaunda, Portugal's Maria de Lourdes Pintasilgo and Angola's Lopo Fortunato do Nascimento.

President de Klerk, ANC deputy president Walter Sisulu, Inkatha leader Mangosuthu Buthelezi, Nobel Peace laureate Archbishop Desmond Tutu and Mr Justice Richard Goldstone will brief delegates on the political transition in this country.

The Cape Town summit, the first to be held in Africa, is mandated to discuss problems such as Africa's economic decline, poverty, illiteracy and ethnic tensions, and to recommend viable measures to bring about changes for the better.

The summit's findings and recommendations will be communicated to government leaders.

At yesterday's session speakers emphasised the need for stability and security. They concurred that the welfare of the continent's people — not weapons — was the best guarantee for security.

The improvement of basic, secondary and tertiary education and the need for regional training were also stressed.

Speakers expressed alarm at the incidence of Aids in Africa. By the year 2000, health officials expect to have more than 6 million registered Aids cases compared with the current 1,7 million. — Sapa.

Joint Committee on Home Affairs (Public Service Labour Relations Bill [B 13—93 (GA)]).

OTHER MEETING

TUESDAY, 9 FEBRUARY 1993

Management Committee of Parmed Medical Aid Scheme.

Enquiries: W. Fourie, Head: Committee Section, Tel. (021) 403-2568, Beltel Page No. 3199.

(22 January 1993)

Gesamentlike Komitee oor Binnelandse Sake (Wetsontwerp op Arbeidsverhoudinge vir die Staatsdiens [W 13—93 (AS)]).

ANDER VERGADERING

DINSDAG, 9 FEBRUARIE 1993

Bestuurskomitee van Parmed Mediese Hulpskema.

Navrae: Mnr. W. Fourie, Hoof: Komitee-afdeling, Tel. (021) 403-2568, Beltel bladsyno. 3199.

(22 Januarie 1993)

NOTICE 55 OF 1993

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

CANCELLATION OF REGISTRATION OF A TRADE UNION

I, Gerhardus Coenraad Papenfus, Assistant Industrial Registrar, hereby notify, in terms of section 14 (2) of the Labour Relations Act, 1956, that I have cancelled the registration of the South African Film and Theatre Union with effect from 11 January 1993.

G. C. PAPENFUS,

Assistant Industrial Registrar.

(22 January 1993)

KENNISGEWING 55 VAN 1993

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

INTREKKING VAN REGISTRASIE VAN 'N VAKVERENIGING

Ek, Gerhardus Coenraad Papenfus, Assistentnywerheidsregistrateur, maak hiermee kragtens artikel 14 (2) van die Wet op Arbeidsverhoudinge, 1956, bekend dat ek die registrasie van die South African Film and Theatre Union met ingang van 11 Januarie 1993 ingetrek het.

G. C. PAPENFUS,

Assistentnywerheidsregistrateur.

(22 Januarie 1993)

NOTICE 56 OF 1993

SOUTH AFRICAN RESERVE BANK

49

Statement of assets and liabilities on the 31st day of December 1992

	1992-12-31 R	1992-11-30 R	Change R
Liabilities			
Share capital	2 000 000	2 000 000	—
Reserve fund	93 325 065	93 325 065	—
Notes in circulation	12 445 041 022	12 207 815 597	237 225 425
Deposits:			
Government	6 141 754 422	7 598 360 802	(1 456 606 380)
Provincial administrations	—	114 055 883	(114 055 883)
Deposit-taking institutions	2 335 163 025	2 568 972 437	(233 809 412)
Other	80 779 077	77 856 787	2 922 290
Other liabilities	5 029 818 662	5 221 644 602	(191 825 940)
	R26 127 881 273	**27 884 031 173**	**(1 756 149 900)**
Assets			
Gold	6 082 606 618	6 389 004 647	(306 398 029)
Foreign assets	3 021 230 515	4 177 566 857	(1 156 336 342)
Total gold and foreign assets	**9 103 837 133**	**10 566 571 504**	**(1 462 734 371)**
Domestic assets:			
Discounted bills	3 754 080 000	3 771 120 000	(17 040 000)
Loans and advances:			
Government	—	—	—
Other	1 548 009 593	1 498 652 713	49 356 880
Securities:			
Government	835 573 759	453 580 219	381 993 540
Other	122 985 045	1 122 985 045	(1 000 000 000)
Other assets	10 763 395 743	10 471 121 692	292 274 051
	R26 127 881 273	**27 884 031 173**	**(1 756 149 900)**
Rand per fine ounce	R915,13	R911,09	R4,04
Gold holdings in fine ounces	6 646 713	7 012 485	(365 772)

Pretoria, 8 January 1993.

C. J. SWANEPOEL,

General Manager.

(22 January 1993)

WORLD ECONOMIES FM 22/1/93

Head to head

(49) (34)

With the political demands of the Cold War out of the way, the global powers can now devote their resources to competing on an-

continue →

other front.

For the foreseeable future, the countries that made up the former USSR are out of the international race, whatever its nature. So Lester Thurow, described by the London *Financial Times* as "one of America's leading celebrity economists," examines the major three economic trade blocs in his book *Head to Head: the Coming Economic Battle among Japan, Europe and America.*

He concludes the key to victory will be the ability to meet new challenges.

The unexpected twist in his analysis is that Japan and America will have difficulty adapting, in spite of their enormous strategic strengths.

He identifies America's problems. It must:

☐ Reduce consumption and the deficit and increase investment;

☐ Reform its abysmal school system; and

☐ Downgrade "financial short-termism" and upgrade concern for human resources.

The dimensions of the fiscal problem emerge from former President George Bush's final budget, which projects a deficit of $300bn or more for the foreseeable future. This is assuming a freeze on discretionary spending in cash terms from 1995. Without the freeze, the deficit could rise to $400bn by the end of the decade. This means a budget deficit of 4%-5% of national income — modest by SA standards but potentially destabilising in any economy.

The other problems may be even more difficult to solve, if only because of the absence of a clear yardstick for measuring performance.

Japan must:

☐ Convert from export-led growth to domestic-led growth because the rest of the world will compel it; and

☐ Accept all the consequences of a regional market in the Pacific, including freedom of investment.

It may be that the new economic plan, approved by the Japanese Cabinet in June, will go some way towards meeting the first requirement. According to a recent *Fuji Economic Review*, its principal goal is to transform the country into a "lifestyle superpower" as well as an economic superpower.

Pleasure-seekers

The Economist Tokyo bureau chief Bill Emmott, in his book *The Sun Also Sets*, argues that Japan is being transformed from a nation of producers to a nation of consumers, from a nation of workaholics and savers to a nation of pleasure-seekers. This should shift demand from offshore importers to domestic consumers and reduce the huge trade surplus.

But the need for freedom of investment could be obstructed indefinitely by what *Fuji* refers to as "vested interests and the regulations that support them."

Thurow believes that, with no immediate imperative, these countries are less likely to come to grips with their problems than Europe which, he says, will have the best chance of emerging as victor because it will be forced into change.

The Europeans may go forward or they may go backward, he says, but they cannot avoid making choices.

It is ironic that the speculative pressures and the uncertainty, which have swept monetary union on to the rocks, may prove beneficial in the long run. They have established that the present halfway house is inherently unstable and the financial and political stress thrown up by market pressures merely proves the need to strengthen it.

What Europe will have to do, he says, is:

☐ Go to the end of the logic of economic integration; and

☐ Embrace the emerging market economies of eastern Europe.

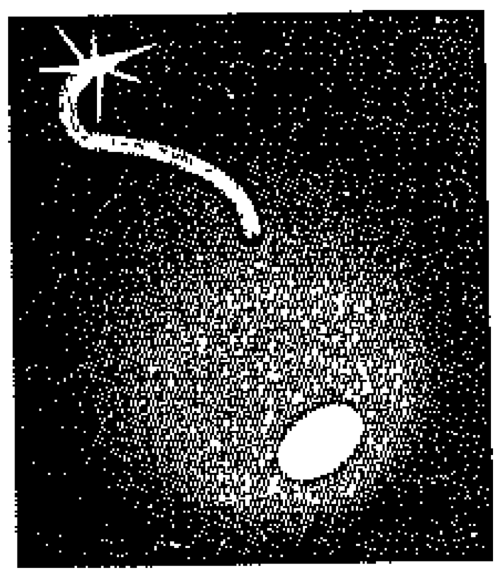
He also believes Europeans will do what is necessary "not because they are wise and far-sighted but because they have no choice."

His line of argument is that even if monetary union is postponed this will not invalidate the broader array of convergent interests that have driven the European movement for the past 40 years. Each phase of integration will be politically more stressful than the one before. But, since it is almost impossible to imagine the core states wanting to reverse the process, one must suppose they will gradually solve the difficulties of going forward. ■

THE BUDGET FM 22\1\93

Borrowing into oblivion (49)

It's not enough to cut spending: the debt bomb must be defused



A crisis is looming in State finances With personal incomes falling in real terms, corporate profits flat and spending sliding sharply, Exchequer receipts are way below expectations in fiscal 1992-1993. In the nine months to December, they amounted to only R55,1bn — up about 4% on the first nine months of the previous fiscal year and below the pro rata budgeted amount of R63,5bn. Expenditure at R73,2bn was up 17,2%, way over the inflation rate and ahead of the budgeted year-on-year increase of 16,5%.

So the deficit of R16bn, budgeted last March, could top R30bn by this March — or 8,5% of GDP.

But the revenue shortfall is compounding, not creating, a problem which has its roots in government's increasing, and increasingly unproductive, share of GDP. Figures provided by the Reserve Bank for the calendar years 1980-1991 show total Exchequer issues rose from R13,5bn to R84,6bn. This is an increase of nearly 527% over a period in which inflation rose only 352% and it pushed government spending, as a ratio of GDP, from 22% to more than 28%.

Even worse, the increase was largely in consumption. While capital expenditure rose 46,5% from the fiscal year ending March 1982, to R3,3bn in fiscal 1992, current consumption rose 688% to R85bn. As a percentage of the total, capital expenditure fell from nearly 13% to less than 4%.

The most visible symptom of the dimensions and unproductive nature of expenditure is the expanding public debt and the escalating cost of servicing it. Total interest-bearing debt of central government rose from about R19,9bn in fiscal 1981 to R114bn in 1992, while annual interest costs rose from R1,1bn to R13,9bn.

But the cost of debt is more than a measure of mismanagement; it has become a time bomb. For the deficit is being swollen by the cost of funding it. If interest costs are stripped out of the 1992-1993 Budget, says Nedcor Bank chief economist Edward Osborn, the core budget (the difference between revenue and expenditure) would not show a deficit. Whatever the will to keep the Budget deficit within 3% of GDP in the years ahead, the interest bill on existing debt will make it almost impossible to achieve. Growing exponentially, it is consuming an ever-increasing proportion of financial resources, generating ever-larger deficits.

Osborn has made a projection (see graphs) based on yearly growth in:

- Inflation of 12%, real growth of 3% (therefore nominal GDP growth of 15%);
- Revenue 15%;
- Non-interest expenditure 12%; and
- Coupon interest rate of 12,5%.

He put the discount on stock at 15%

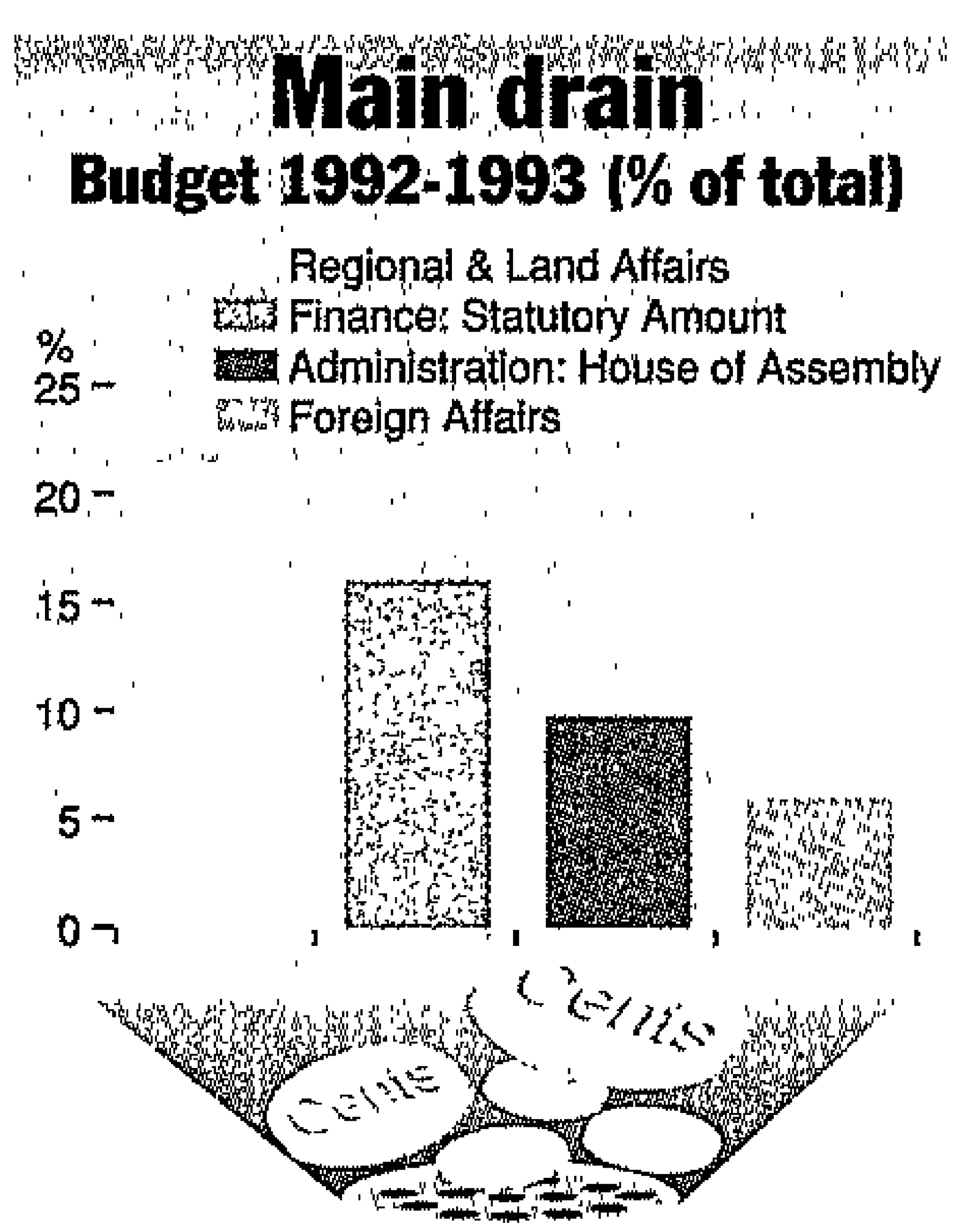
"Despite these favourable assumptions, the model projects that, by 1994, the interest charge will be R20,7bn (the ratio of interest to expenditure 18,2%), the deficit R33,4bn (7,5% of GDP) and interest-bearing debt R186bn (42,3% of GDP). By 2003, the interest charge will be R104,3bn (28,8%), the deficit R79,4bn (5,1%); and interest-bearing debt R819,3bn (53%)."

How did it happen?

Not surprisingly, a comparison of increases in departmental votes, based on figures published in the *Budget Review 1992*, shows that, in absolute terms, most pressure in recent years has come from the vote under "Finance. Statutory Amount," which is the cost of State debt. This climbed 300% from R4bn in the fiscal year ending March 1985 to this year's budgeted R16bn — an increase of R12bn.

The vote for Foreign Affairs jumped more than 600%, or R5,2bn, to R6bn. Of this year's budgeted amount, R5,1bn was allocated to "Development Co-operation. TBVC countries" (a euphemism for uncontrolled fiscal transfers to TBVC countries).

Another big spender is "Administration. House of Assembly." This is up R8bn, or more than 730%, to R9,8bn. However, the figure for 1984-1985 represented only part of the year's expenditure because of a reallocation of white education from other sources to this vote. A comparison with 1985-1986 shows an increase of R7,5bn or 300%



Of this year's budgeted R9,8bn, R6,5bn goes to Education & Culture, R1,3bn to Agricultural Development and R1,9bn to Welfare & Health Services. White education, then, is largely responsible for the increase — a development which is difficult to explain in view of the racial disparities in per capita expenditure on education

The biggest single item budgeted for the current fiscal year was the vote under Regional & Land Affairs, introduced in the 1992-1993 fiscal year, replacing the defunct and disgraced Department of Development Aid and incorporating the former Planning and Provincial Affairs In the current year, an amount of R21,5bn was allocated. Of this:

- R11,7bn went to provincial administration, and
- R8,7bn went to governments of self-governing territories, of which R8,3bn was for current expenditure.

According to the Department of State Expenditure, in the 1984-1985 fiscal year the first item was included in the vote for Constitutional Development & Planning. A comparison shows an increase in expenditure of 160% or R7,2bn to R11,7bn The second item was included in the vote Co-operation & Development — an increase of 760% or R7,6bn to R8,7bn

It is not just the rate at which allocations to the TBVC countries and the non-independent homelands are rising that is cause for concern More serious is that the SA government, and therefore the taxpayer, has no control over how these transfer payments are used. Apart from the question of spending priorities, there is the issue of control

Tomorrow's policy-makers are left with the consequences — a spiralling debt which is sucking an increasing ratio of the Budget into its vortex The only way to halt the process is to extinguish the major portion of debt A phased reduction of spending over a period of years, while essential, will not be enough to remove this debt mountain.

As a future government is likely to be under enormous pressure to spend heavily to satisfy at least some of the aspirations of a deprived constituency, the continued existence of this debt mountain has the potential to foster economic disaster and political instability.

The obvious answer is to apply the proceeds of the privatisation of State undertakings to repay the debt and leave a future government with at least a clean debt slate in the face of other financial and economic challenges.

In the peculiar circumstances of political transition, this is not a decision that should be made by the prevailing government alone. Some encouragement may be drawn from the fact that, for the first time, this year's national Budget, which is due mid-March, will reflect options which a Minister of Finance has discussed with a wide range of people and organisations outside the ambit of his party. So, while the "ruling" party is seriously constrained, especially regarding privatisation, by its own impending demise, it has the will and means to gather a wide range of support for a fire sale of State assets.

Moves could be initiated towards privatisation with the backing of the National Economic Forum (NEF). The co-operation of major trade unions represented in the forum is crucial to the implementation of any policy moves, as is the tacit approval of the ANC. This organisation has only recently abandoned nationalisation as a major policy platform and privatisation has been political anathema. But ANC leaders will have to ask themselves whether it will be easier to explain to the mass of its supporters that resources are not available for adequate health and education, for instance, or to tell them that State assets are being sold.

Finance Minister Derek Keys is expected to discuss the Budget with the NEF once the "normative integrated model" is available. It will spell out the costs of various policies

There are those who will argue that the debt burden can be monetised — but the cost would be counted in inflation, most likely in hyperinflation.

Alternatively, taxes could be raised — or could they? A closer scrutiny suggests that this may not be done so easily:

☐ Income tax. Corporate taxes, says the SA Chamber of Business, "are much higher than in many overseas countries The nominal corporate tax rate in 1991 was 35% in France, 34% in Germany, 38% in Britain, 35% in Italy and Canada, against SA's 48%. Effective corporate tax rates in Germany, Britain and the US are of the order of 14%, whereas in SA they are frequently well above 30% and moving up." Taxes beyond a certain level reduce the potential of the economy to create jobs.

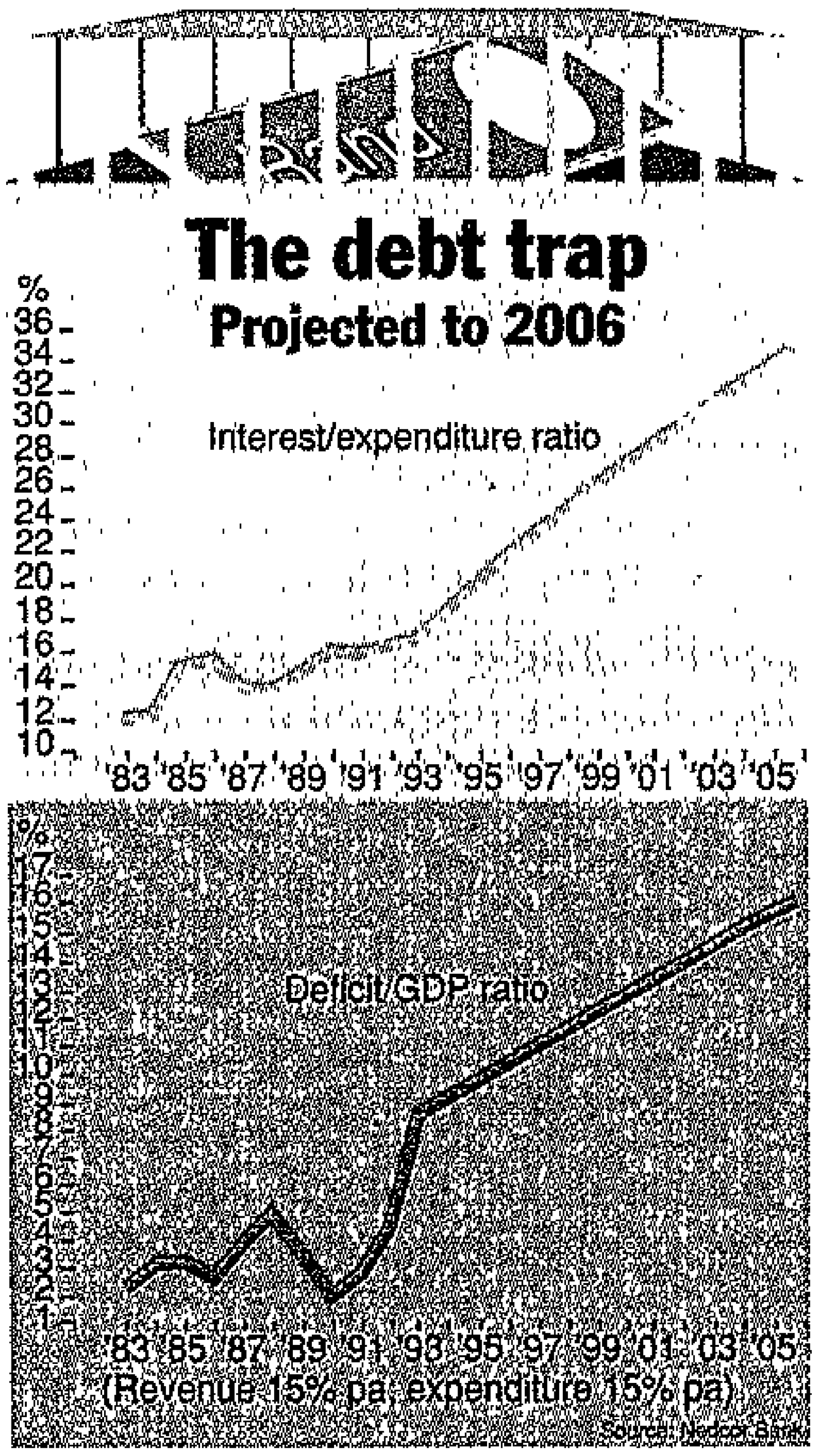
With individuals, there is a point of diminishing returns, when people are prepared to leave the country, pour resources into avoiding and evading tax or even forgo income rather than pay additional tax;

☐ Sales tax. Though low by international standards, an increase will spark another bout of inflationary expectations as producers and retailers increase prices out of all proportion to the Vat rise and this will be followed by similar demands for wage increases;

☐ Tax on pension contributions. This would ensure the State eventually had to spend more on old age pensions; and

☐ Capital gains tax. Whatever the merits or demerits, the amount raised would be small.

There may be some scope for increasing the take from fuel levies — "by about a



sixth," suggests Old Mutual economist Terence Moll "SA petrol prices are modest by international standards and have fallen sharply in real terms since the late Seventies." But this is a drop in the ocean.

A third option is to slash expenditure. But it will need to be done on such a scale that it would create enormous hardship and erode the productive potential of existing assets.

Undoubtedly, delivery systems can be rationalised. A particularly pernicious aspect of the present system is that departments are not allowed to carry over current surpluses from one year to the next and future budgets are based on past expenditure. This discourages saving and encourages spending.

Osborn advocates: "What is needed is a careful examination of all functions: a zero-budgeting validation and, where necessary, the elimination of functions or the amalgamation of departments with the same functions. There should be: no costly severance packages; a re-examination of pension rules and privileges; the elimination of parliamentary and other State tax-free salary and privilege arrangements." He suggests also introducing user charges to cover the full cost of the provision of services — or the privatisation of some government services.

His other suggestions are: bringing TBVC and national State administrations under control; revising the Customs Union Treaty; and confining Geis payments "to those who clearly can demonstrate the need for export incentives."

Rand Merchant Bank economist Rudolf Gouws suggests lower salary increases in return for relative job security in the public sector "at a time when there is the biggest fall in private-sector employment since World War 2 Though job cuts are being made, the scale is dwarfed by private-sector retrenchment Moreover, public servants have far better severance packages " And he argues for the scrapping of automatic notch increases

Measures such as these must be implemented But they will not solve the debt problem

Apart from social backlogs which create political pressures, there is a self-fulfilling economic imperative that will hinder a return to prosperity The workforce must acquire the skills that will make SA competitive and empower workers economically To ensure there is money to fund training, bold moves must be made now

It will take time to privatise major State undertakings but some public-sector assets could be disposed of easily -- for instance, whatever is left of the fuel reserves (probably worth several billion rands), or the shareholdings of the IDC, valued at R3bn at current market prices. Certain undertakings could be privatised speedily expensive curative services — and some State functions. As a yardstick of the efficacy of this financing endeavour, if even R10bn could be raised, the expected deficit would drop to only 5,6% of GDP instead of the expected 8,5%

Some evidence that the ANC may accept such a move came in the policy document adopted at the national conference in May last year. Outlining the options to be considered were an increase in the public sector "in strategic areas" and a reduction "in certain areas in ways that will enhance efficiency, advance affirmative action and empower the historically disadvantaged . . " This could scarcely be more vague. But what is significant is that the second option was mooted at all. In our current financial circumstances, it is a straw worth grasping.

The forthcoming 1993/1994 Budget will be a policy milestone for another reason. For the first time, the year's financial blueprint will be the responsibility of a man who has proved his ability outside of government. He is used to answering to a more exacting constituency than his ministerial predecessors have faced in more than 40 years.

The Bill will have to face the scrutiny of a broad constituency, the political and intellectual bounds of which are as yet untested. If it cannot be persuaded of the need for privatisation under present circumstances — or the Treasury Ministers fail to present the option convincingly — whatever political settlement is finally achieved will lack the vital support of a rational economic foundation. Therefore it will fail.

Keys is holding a fiscal bomb, the burning fuse of which is getting shorter by the day. The proceeds of significant privatisation now will enable its short fuse to be extinguished. If that does not happen, the best that can be hoped for from the forthcoming Budget is that the bomb will be tossed — adroitly, we have no doubt — to his unfortunate successor in a new but disastrous SA. ■

Broad support for PWV development think-tank

(49)

PETER DELMAR

AN ECONOMIC and development forum for the PWV was launched yesterday with the support of business, government, trade unions and all major parties except the CP.

More than 25 organisations were represented at yesterday's launch of the PWV Economic and Development Forum. They included the Regional and Land Affairs Department, the TPA, the Afrikaanse Handelsinstituut (AHI), Johannesburg Chamber of Commerce and Industry (JCCI), Fabcos, Nafcoc, regional services councils and local authorities. The governments of Bophuthatswana and KwaNdebele were also represented.

Political parties were the NP, DP, SACP and PAC, while labour was represented by Cosatu, Nactu and Fedsal.

ANC delegate Ben Turok told the launch the PWV had possibly one of the most distorted economies in the world in terms of discrepancies between rich and poor and urban and rural populations. While these would have to be addressed, Turok said the ANC did not envisage "any demolition job being done on the economy. We want to take a positive view, so that the good things which exist are extended throughout the region."

BDay 22/1/93.

He said the PWV forum had a wider representation than the national economic forum and its launch was a "good omen" for a future SA.

Transvaal MEC Olaus van Zyl said economics and development were often discussed at other forums, but did not always get the necessary attention. The PWV body, which he called a "people's forum", could afford a better opportunity for discussing these issues.

Pieter Haasbroek, representing the AHI and the JCCI said the business sector realised it could not create an environment conducive to economic growth by itself and that this would have to be the result of discussion and debate.

According to the launch documents, the forum could involve itself in a number of projects. These could include low-cost housing using labour intensive methods, using large-scale purchasing to benefit small- and medium-sized enterprises and developing specific policy proposals for issues affecting growth and employment.

Economic forum for PWV region set up

STAR 22/1/93.

Staff Reporter 49

A major first step to formulating an economic development strategy for the PWV region during the political transition was taken on Wednesday with the launch of the region's Economic and Development Forum.

The launch of the forum was attended by representatives from business, civic and political groups in Johannesburg.

According to a statement by organisations taking part, the objective of the forum is to promote and encourage economic growth and development.

Described as possibly the most representative economic forum in the country, the new body includes the ANC, PAC, Cosatu, the National Council of Trade Unions, the SA Chamber of Business, the TPA, the Afrikaanse Handelsinstituut and the Civic Associations of the Southern Transvaal.

Reading out the forum's aims in Johannesburg, TPA MEC Dr Olaus van Zyl said the main objective was the promotion of the growth and development of the PWV in the interests of its inhabitants.

Initially, the forum hopes to concentrate on three socio-economic components to ensure growth and development as well as dealing with tension arising from the lack of development.

The first involves a rapid-review overall analysis with a time-frame of six months.

The emphasis in this review should fall on trends and their consequences, such as the decline in the gold price, industrial change, the impact of the shift of public financing of services and a possible "kickstart" to economic activities.

After linking the studies, it would be possible to move towards a growth and employment strategy with policies for the framework of the PWV region, says the document.

According to the organisers, one area which the forum was likely to attend to was the initiation of low-cost housing using labour-intensive methods, aimed at developing small and medium enterprises. It would also develop proposals for the more effective use of technical colleges and technikons with a view to improving technical skills in the region.

It would also look into developing policies to influence the allocation of public funds in a way that would encourage economic growth.

It is estimated that the activities of the forum will cost about R1 million a year.

Welcoming the initiative, the ANC's Ben Turok said he hoped the representation on the new forum would strengthen the process of transition in South Africa.

"The representation on this forum is wider than that of the National Economic Forum, and we warmly welcome this," he said.

The PAC also welcomed the new forum, but stressed that more training should be emphasised to break the gap between the rich and the poor.

MANDELA AND SANCTIONS

ANC sets tone for relations with business

(49)

WHILE some find the call to freeze retrenchments naive, others feel it signals a more pragmatic approach towards dealing with business, writes DUNCAN INNES.

STAR 23/1/93

NELSON Mandela's statement this week that he was willing to ask the ANC's national executive to call off sanctions if business froze retrenchments and made a "significant contribution" towards reducing unemployment has caused ripples within the business community.

Many see this statement as yet another example of the ANC's misunderstanding of the way business functions. They argue that sanctions have largely been revoked, so even if the ANC drops its call for sanctions, it would make little difference to business

Calling for a freeze on retrenchments before an economic upswing is in place puts the cart before the horse: first there should be stable conditions for economic growth so that investments can occur. These, in turn, will reduce unemployment.

Some see in Mandela's statement signs of a greater awareness of the economic crisis in South Africa and a more pragmatic approach towards dealing with business. They argue that business should respond accordingly, taking Mandela's proposal seriously. However, it is very unlikely that Mandela's proposal will win wide support within the business community.

Business is not a single homogeneous entity It is a multitude of different enterprises, some aligned in federations which are either industry-based (the Chamber of Mines, Seifsa, Bifsa) or culturally based (the Afrikaanse Handelsinstituut, Nafcoc)

These federations are autonomous. Within their ranks, wide differences of opinion exist, especially on controversial issues such as Mandela's proposal. How, then, will the ANC respond if some businesses freeze retrenchments and others do not?

The second problem is that many businesses, which held back on retrenchments last year in the hope that the economy might turn, have now been forced to retrench or face collapse Their difficulty is that they might simply not be able to afford to freeze retrenchments for a further period.

Related to this is the argument that the only way to ensure that business stops retrenching and reduces unemployment in the longer term is to provide a stable socio-political and economic environment within which business can operate — something South Africa does not have at present.

However, on the more positive side, it is possible to detect in Mandela's proposal signs of a change of heart within the ANC which might contribute, albeit in a small way, to a more stable environment for business What is clear from the proposal is that the ANC wishes to return the economy to a growth footing and that it is willing to jettison ideological and political obstacles used to restrict economic growth.

Some sections of the business community will no doubt welcome this more pragmatic and realistic approach from the ANC. They will draw strength from the fact that Finance Minister Derek Keys's message on the economic crisis South Africa faces has been heard at the highest level within the ANC, this might begin to improve business confidence

But regardless of how business responds to the proposal, there is a very important message in what Mandela said which all sections of the business community would be foolish to ignore And that is that while the ANC is becoming more aware of business's needs, it will not respond to these without asking for something in return

What Mandela is in effect saying is that if business wants the ANC's support in getting sanctions lifted and in gaining access to the IMF and World Bank, then the ANC expects business to work broadly within the framework of ANC policy on unemployment.

This approach will characterise the ANC's attitude towards business during the next few years

If business wants ANC support in promoting exports, the ANC will first want to know what business is doing to promote black advancement. If business wants access to cheaper credit, the ANC will want to know what business is doing to develop black housing and township facilities If business wants access to wider markets, the ANC will want business to put a stop to monopolistic tendencies and collusion within its ranks.

During the next few years business will have to adjust to the fact that the ANC is going to try to assert its influence over the white-dominated business power structure The extent of that influence and the way in which business responds will be the subject of intense debate.

● *The author is manager of The Innes Labour Brief and is co-author of* Power and Profit: Politics, Labour and Business in SA *(Oxford University Press, 1992).*

World Economies' Influence in 1993

SOUTH 23/1 - 27/1/93. (49)

Although South Africa may be on the tip of the African continent, we are still part of the international environment and trends overseas have a major influence on our economy. The reason for this is that we are defined as an "open" economy. This is because approximetely 25 percent of goods and commodities produced in South Africa (i.e. domestic product) are sold overseas.

On the other hand, roughly a quarter of goods used in South Africa are imported. In addition, the economies of our main trading partners are far larger than our own economy, resulting in us having little influence over world markets.

Because of South Africa's open economy trends impact in a variety of ways. Firstly, overseas growth determines the demand for our exports and thus the amount of imports that we can afford to buy. Secondly, world growth determines the price of commodities which we import or export. Thirdly, international sentiment determines South Africa's access to overseas capital and, as illustrated in the case of sanctions, access to overseas trade markets.

Although South Africa exports a variety of goods, ranging from textiles to base metals, the major part of our export income is earned from commodities such as gold, base metals and diamonds - accounting for 74 percent of our total exports. Gold remains our biggest export (although it has declined in importance in recent years). It accounts for around 30 percent of our total exports while base metals and minerals account for around 15 percent and 12 percent respectively.

Manufactured exports have grown in recent years as a result of the general export incentive scheme with chemicals and textiles being some of the biggest manufactured exports. Unfortunately, South Africa has very little control over the export performance of these goods. The decisions to buy these goods are made by major overseas counties and these decisions are strongly influenced by the state of their own economies. Our major export markets are Europe and Asia. Within Europe, the United Kingdom, France, Germany and Switzerland are the most significant countries. In Asia, Japan and Taiwan are important. Europe and Asia became increasingly important during the sanctions years as American markets were closed off to us. Trade to the USA fell from 9.5 percent (as a percentage of the total) in 1985, to around 5.4 percent by 1990.

The view on the future prospects for our exports is that they will benefit, on a lagged basis, from the expected recovery in the world economies in 1993. This growth is expected in terms of both volume and prices. In addition, the abolition of sanctions and export incentives should also provide a positive stimulus to our export market.

Economy still languishing in fear of drought

(49)

S/Times (Buss) 24/1/93.

By ZILLA EFRAT

HOPE of economic recovery this year could evaporate if good rains do not fall soon.

Most of the summer rainfall area, which encompasses 85% of SA's agricultural land, experienced poor rains in January.

Worst hit have been maize farmers in the Eastern Transvaal, an early planting region, and some sugar growers in Natal who are suffering enormous damages.

SA's maize producers — who planted some 3,4-million hectares by the end of December at a cost of close to R1,8-billion — are anxiously watching the skies.

If there is no rain over the next week, 60% of the maize crop could be lost. If they do not get rain by mid-February, they face a crop disaster.

Growers of sunflower seeds, grain sorghum, ground nuts and dry beans are in a similar position.

The next three months will also determine the fate of many sugar growers and livestock farmers. Fruit growers in the Western Cape appear to be the only growers who are doing well.

Economists say the effects of further drought this year will be even more painful on the economy than last year.

Many farmers are still reeling from last year's dry season. Reserves have been depleted, the animal pool has shrunk and plant roots have been damaged.

SA Agricultural Union (SAAU) chief economist Dr Koos du Toit says many farmers are heading towards the end of the road despite government aid last year. They may not survive another year of drought.

Some sheep farmers can no longer afford to feed their flocks and some sugar growers are in such a poor financial position they cannot get loans from the Land Bank.

Real agricultural production is estimated to have declined by 15% to 20% last year and to have caused a fall of two percentage points in total economic growth.

Economists say a similar drought will retard an economic upswing this year and could delay it until 1994.

Imports

It could push up food prices, limit any further fall in interest rates and create problems in balancing the budget. Government will receive less revenue from agriculture and may have to give farmers further assistance.

Finance Minister Derek Keys says government, despite its budgetary problems, will not turn its back on the agricultural community if the drought persists.

Imports could also rise, placing increased pressure on the balance of payments.

National Maize Producers' Organisation (NAMPO) senior economist André Ferreira says another crop failure will lead to higher maize imports than the R2-billion brought in last year.

SA, which consumes about 6,5-million tons of maize annually, had reserves of about 2,9-million tons in 1992. These have been depleted and there are fears that this year's maize crop could be smaller than last year.

Economists say poor agricultural conditions will have ripple effects on those who serve the agricultural sector and on the whole economy.

The impact on employment could be grave. Afrikaanse Handelsinstituut economist Nick Barnardt estimates that 15 000 jobs were lost, directly and indirectly, as a result of 1992's drought. He believes a further 75 000 to 80 000 jobs could go if the conditions are repeated.

Dr du Toit says without government intervention, there could be an exodus out of farming on a scale never seen before. The impact on rural economies and urban areas could be severe.

Dr du Toit says about 65% of SA's maize crop is still young. "If there are good rains soon, the picture can change dramatically."

Drought relief spending exceeds budget

BDAY 25/1/93 (49)

GRETA STEYN

GOVERNMENT had already spent more on drought relief than budgeted and was considering further spending this fiscal year, State Expenditure spokesman Pieter Coetzee said at the weekend.

Responding to questions on drought aid, he said government had spent R447,9m by end-December. The Budget had made provision for drought relief spending of R400m during the year to March 1993.

"The possibility of speeding up certain expenditures (originally intended for future financial years) is being considered at the moment, but details are not available," he said. Government had said a further R3,4bn would be spent in future years.

Coetzee added that "practical considerations" would determine the extent to which extra spending on drought relief would put upward pressure on state expenditure in the remainder of the fiscal year. The move to speed up drought relief would not, however, increase liquidity in the economy. In addition, other spending items were under control.

"Apart from possible agriculture expenditure, the State Expenditure Department is not aware of any other expenditure item that will cause overall spending to be heavy in the last quarter of the fiscal year," he said.

Finance Minister Derek Keys said earlier this year he was considering accounting for the full amount of drought spending of R3,4bn in the 1992/93 fiscal year, even if it was spent in future years. However, Coetzee said only funds that were actually spent during the fiscal year would be reflected in the year's figures.

An economist said government could transfer funds to the paymaster-general account before the end of the fiscal year

☐ To Page 2

Expenditure

(49)

☐ From Page 1

for drought aid in the following year.

A transfer to the paymaster-general account would be reflected as spending in 1992/93, even if the cash was still actually with the Reserve Bank.

Government might want to take this route to keep the deficit down in the next fiscal year, as it was widely accepted that 1992/93 was a "disaster" year for government's finances.

Such a move would be in line with Coetzee's statement that extra spending on the drought this fiscal year would not increase liquidity in the economy.

Economists said previous fiscal years had been characterised by a spending spree in the last three months. Coetzee's statements signalled that, barring unforeseen circumstances, success in reversing the decades-old trend was in the offing.

Latest government spending figures were close to the overall budgeted increase, despite the drought figures.

However, interest payments because of high borrowings and extra spending because of the drought could worsen the picture. Nevertheless, even if the deficit for the last quarter widened to R8bn (from an average of R6bn over the first three quarters), government's deficit for the full year would still be less than the "worst case" scenario of R28bn.

Private development groups dominate (49)

LINDA ENSOR

CAPE TOWN — Non-government development organisations had stepped in to fill the vacuum caused by inadequate government structures and were now disbursing more than R2bn a year, Independent Development Trust vice-chairman and CE-designate Wiseman Nkuhlu told a gathering of world statesmen at the weekend.

At a meeting of the Interaction Council, which consists of former world presidents and prime ministers, Nkuhlu said there were about 10 000 non-governmental organisations in SA funded by overseas governments, development agencies and foundations, and the domestic private sector.

Attempts to establish consultative structures were proving difficult and time consuming, and were being retarded by distrust, violence and political conflict.

Nkuhlu stressed the importance of continuing with development and experimenting with new approaches to development to gain experience before a new government took over. BDay 25/1/93

"The building of institutions takes time. Five years is a very short time to establish institutions and then deliver.

"If issues of economic management are not given attention now, including institutional arrangements, the new government will be forced to devote the first three years to these issues and will have only two years of meaningful delivery before it faces another election," Nkuhlu said.

● See Page 2

Alarm over savings and loans loophole

B/Day 25/1/93. (49) 258

PETER GALLI

THE Reserve Bank expressed concern at the weekend about the possible use of the Co-operatives Act to circumvent banking legislation and allow savings and loans institutions to be established.

This move follows the announcement last week of the formation of the Metropolitan Housing Finance Co-operative (MetCo) — the first such company to apply for registration in terms of the Co-operatives Act — which would use a R25m IDT loan to provide personal and housing loans to underprivileged communities.

MetCo director Ben Pieters said a co-operative offered "the most meaningful way of attaining the legal stature of a savings and loan institution outside the Deposit-Taking Institutions Act".

A Registrar of Deposit-Taking Institutions spokesman said while there could be an opening in the Co-operatives Act that allowed this, "one set of legislation should surely not be used to circumvent another".

The writing of a Mutuals Bank Act was under consideration and initiatives towards such legislation were already under way, the spokesman said.

However, Registrar of Co-operatives Louis du Toit said he did not believe MetCo's activities went against the conditions of the Deposit-Taking Institutions Act.

"Initially MetCo will be acting only as a loan agency and this is quite permissible under the Co-operatives Act. When considering any application we take all other legislation into consideration," he said.

According to the Reserve Bank, so long as IDT funds have been granted by government, a bank or company there is no problem with a company like MetCo being established to lend out that money.

"However, as soon as money raised from the public is used by a company not registered as a bank to facilitate loans, this is in contravention of the DTI Act as that money is seen as a deposit."

MetCo plans to sell shares to its members — who will be the only people who qualify for loans — to create an additional source of capital.

The Registrar of Deposit-Taking Institutions spokesman said such an arrangement could be regarded as a deposit and MetCo would then fall foul of the Act.

However, Du Toit said the shares in the co-operative were "membership fees" and therefore did not circumvent the Deposit-Taking Institiutions Act.

The Registrar of Deposit-taking Institutions and the Registrar of Co-operatives are to meet next week.

● See Page 3

Forum aims to boost growth

Sowetan 25/1/93

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POLITICAL, labour and business organisations on Thursday launched the Pretoria-Witwatersrand-Vaal Economic and Development Forum aimed at boosting growth and alleviating the job crisis in the country's most productive region.

Described as "possibly the most representative economic forum in the country", the new body includes the African National Congress, Pan Africanist Congress, the Congress of SA Trade Unions, the National Council of Trade Unions, the SA Chamber of Business, the Transvaal Provincial Administration, the Afrikaanse Handels instituut and the Civic Associations of the Southern Transvaal.

Reading out the forum's aims in Johannesburg, TPA MEC Dr Olaus van Zyl said the main objective was the promotion of the growth and development of the PWV area in the interests of its inhabitants.

"The Development Forum will, within its means, consider and ... initiate action respecting the full spectrum of socio-economic and physical development issues, related to the political context within which the region functions."

MONEY MARKETS by Tim Marsland

Govt likely to fall back on capital markets for borrowing

BDay 25/11/93 (220) 49

THE Public Investment Commissioners may not be government's white knight this year.

For the 1992/93 year, the commissioners would have lent government R16,5bn, which was more or less all the pension fund manager could afford.

But for 1993/94, it will have far less cash to throw around. It should sit with about R12,5bn for the year. This will come from R1,5bn in surplus funds from civil servants pensions and stock redemptions of about R2,5bn.

A further R8,5bn will come from coupon payments from government stock. PIC holds 48% or about R55bn of government's issued debt of R124bn.

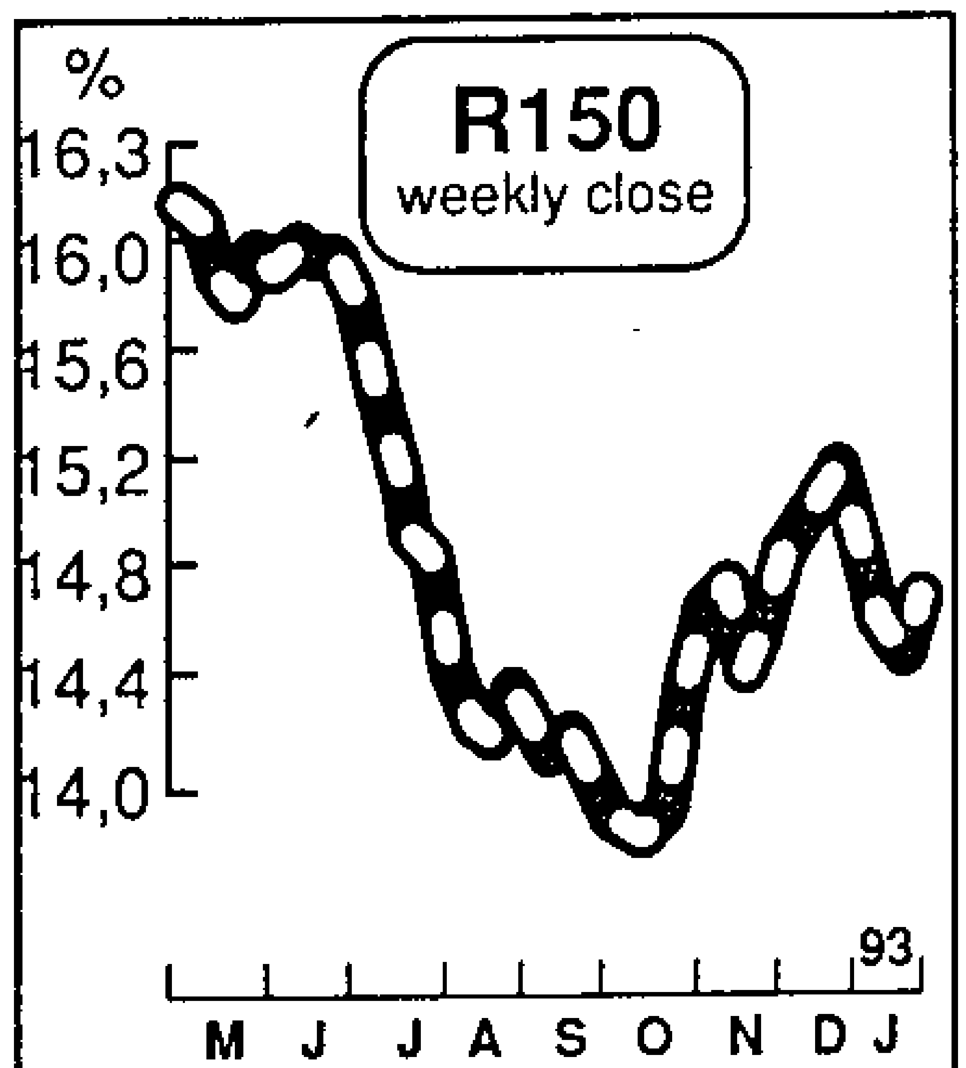
It also holds 3% of Eskom's total issue of R58bn and has a number of other investments.

Government is looking at a deficit of around R21bn for 1993/94. This assumes expenditure of R105bn and revenue of R84bn, an increase of 8% and 17% respectively on 1992/93. It also assumes a 3% cut in government's real expenditure. So government will need to borrow far more from the capital market than many believe.

If this proves to be true, hopes for yields of lower than 14% on long bonds appear to be a misplaced dream as supply rapidly outstrips demand.

The tug-of-war between lower inflation and the higher deficit with interest rates in the middle is going to be interesting.

The bulls had better watch out.



Graphic: LEE EMERTON Source: I-NET

For everyone's sake, boost the economy, argues **Political Reporter Kaizer Nyatsumba**

Disarm sanctions weapon now

STAR 26/1/93. (49)

FOR some months there have been indications of a feeling in a powerful section of the African National Congress that South Africa's economy will continue to go to the dogs unless a political settlement, leading to stability, is reached quickly.

It is this realisation, which both big business and the Government worked hard to promote, that is largely responsible for the new resolve in the ANC to get multiparty negotiations resumed and to speed up the transition to democracy.

ANC president Nelson Mandela, more than any of his colleagues in the leadership, has in recent months shown an appreciation of the country's parlous economic state and has repeatedly urged that a political settlement will have to be reached expeditiously so that the economy can start to grow.

In Washington last week, he also said he would be willing to call for the lifting of the remaining sanctions if business strove to increase employment and if agreement was reached on the need for elections for a constituent assembly to be held before the end of this year.

While one can understand the ANC's wish to use sanctions as a bargaining chip to keep Pretoria moving towards an interim government and elections, South Africans can, in fact, no longer afford the luxury of arguing about whether or not sanctions should go. Millions of our fellow citizens, mostly blacks, are unemployed and do not know from where their next meal will come.

Sanctions, once a powerful weapon used effectively to bring Pretoria face to face with the consequences of the lunacy of apartheid, are as anachronistic today as are the Azanian People's Liberation Army's attacks on whites.

Sanctions must go now — and reasons for this are legion.

South Africa is experiencing one of the worst economic meltdowns in its history.

More people are being retrenched by the day. With no hope of getting jobs, some returning exiles — that is, those who were brave enough to come back — turn to crime for survival.

The crime rate has soared to the extent that felony is now almost a national pastime — and more criminals are spewed *out* of jails which, we are told, are bursting at the seams. The police, discredited and overworked, no longer have any motivation for making arrests, because they know the people they apprehend today are likely to be out on the streets tomorrow, plying their trades again.

As more and more people retire to bed on empty stomachs and feel they have no stake in the much-vaunted "new South Africa", they become susceptible to accepting cash — anything from R200 to R1 000 appears to be the going rate — in exchange for committing murder. The violence spirals.

The rand, once stronger than the US dollar, continues to shrink, white collar crime proliferates and corruption in the public sector becomes the order of the day.

Financial sanctions must go, and go now, before South Africa becomes "a typical African country" and slides at supersonic speed towards mob rule — thus becoming ripe for *coups d'etat* African-style. What the country needs desperately is immediate access to the World Bank and the International Monetary Fund, and massive investment to create jobs.

The lifting of sanctions alone, of course, will not be a panacea. The initial benefit of such a move will be more psychological than material, both in South Africa and abroad.

More important than the lifting of sanctions will be the reaching of a political settlement and the creation of stability in the country to engender investor confidence — but the end of sanctions is an important step on this path.

All political players need to realise that the political and the economic situations are inextricably linked.

The sooner a political settlement is reached and stability attained, the sooner the economy will begin to turn around as investment starts to pour in.

That, however, does not mean that preparations for that economic turnaround should not be made now, with the lifting of remaining sanctions being the first move.

The problem with some people in the ANC leadership is that, unlike their followers on the ground, they live in luxury in formerly white suburbs and are assured of ANC cheques at the end of the month from foreign governments favourably disposed to the organisation.

The South African Council of Churches, the Pan Africanist Congress and the Azanian People's Organisation argue that the lifting of sanctions now would be premature, with Azapo and the PAC saying it is widespread corruption and mismanagement — not sanctions — which have so ruined our economy.

A white minority government, they say, is still comfortably in power and apartheid remains intact. Until these two are gone, they contend, sanctions remain a necessity.

But it is now increasingly probable that elections for a constituent assembly will be held within the next 18 months, and that some form of new government will be in office before the end of 1994. To say preparations for economic growth should begin when that happens seems shortsighted to this writer.

But then Azapo and the PAC have been opposed to just about anything else that has happened so far — the relaxation of the cultural boycott and the subsequent visits to South Africa by foreign musicians, suspension of the armed struggle by the ANC and Codesa-style negotiations, etc.

The lifting of remaining sanctions will have to take place despite their vociferous objections. □

Stals seeking debt rescheduling

STAR 24/7/93

LONDON — South Africa would seek a new rescheduling agreement with its commercial bank creditors before the current pact expires at the end of 1993, the Governor of the Reserve Bank, Dr Chris Stals, said yesterday.

The current arrangement covers $5,5 billion of SA's total external debt of $18 billion, the rest not being subject to any restrictions over payment.

"Before the end of this year, we will have to come to a new arrangement with the foreign creditors on what's going to happen to that debt," Stals said.

The central bank governor was in London to address the City of London Central Banking Conference organised by Cityforum and sponsored by the World Gold Council.

Stals said that theoretically the $5,5 billion would immediately become payable unless a new agreement was reached.

He said the debt was small in terms of developing country indebtedness worldwide, but was a serious problem for South Africa whose total foreign reserves amounted to $3,5 billion.

Political change

"The major problem is that we have a country that is undergoing major political changes. It's a matter of time before a new kind of government takes over responsibility," said Stals.

This made it very difficult to enter into a new agreement with the country's 230 commercial creditors at this point.

"Ideally, we would like to have not only a longer-term arrangement, but a final arrangement," Stals said.

"South Africa has made substantial repayments on its foreign debt over the last eight or nine years and we will want to continue and repay that total amount but, obviously, it will have to be spread out over a reasonable period of time."

One banker, who was involved in the negotiation of the current rescheduling pact, said SA would have little difficulty in selling such a deal to creditors.

The debt has been subject to three rescheduling arrangements since international banks imposed a freeze on new credits to South Africa in 1985.

Stals said that under the current rescheduling, SA would pay banks three instalments this year. Taken together with its other commitments, the country would pay $1,5 billion this year.

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Stals said relations between SA and the multilateral financial institutions were gradually being normalised.

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~~456~~

Studies

He said the World Bank had been carrying out feasibility studies in SA and that the International Monetary Fund (IMF) regularly carried out consultations.

"But so far we have not had to apply to the IMF for any financial assistance and the World Bank has not committed itself to any assistance to SA, pending political developments," Stals added.

"All these things will become much easier when an interim government is in place." — Sapa-Reuter.

B/Day 26/1/93

NEWS IN BRIEF

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Delegations to Davos

GOVERNMENT and ANC leaders will again make presentations at the World Economic Forum in Davos, Switzerland, this weekend.

The government delegation includes Finance Minister Derek Keys and the ANC is also expected to send a senior delegation. Last year, the forum was addressed by President F W de Klerk and ANC leader Nelson Mandela.

Political flux 'hampers agreement'

Stals seeks deal to extend foreign debt

(49)

BDay 26/1/93.

LONDON — SA faced difficulties in negotiating a new foreign debt agreement with its creditors at this point because it was undergoing major political change, Reserve Bank Governor Chris Stals said yesterday.

Reuter reports Stals — in London to address the City of London Central Banking Conference — said it was a matter of time before a new government took over responsibility. This made it very difficult to enter into a new agreement with the country's 230 commercial creditors.

"Ideally we would like to have not only a longer-term arrangement but a final arrangement. SA has made substantial repayments on its foreign debt over the last eight or nine years and we will want to continue and repay that total amount but, obviously, it will have to be spread out over a reasonable period of time."

The current arrangement covers $5,5bn of SA's total external debt of about $18bn.

"Before the end of this year, we will have to come to a new arrangement with the foreign creditors on what's going to happen to that debt," he said.

Stals said theoretically the $5,5bn would immediately become payable unless a new agreement was reached. This was small in terms of developing country indebtedness but was a serious problem for SA whose total foreign reserves amounted to $3,5bn.

One banker, who was involved in negotiating the current rescheduling pact, said SA would have little difficulty in selling a longer-term deal to the creditors.

Stals said under the current rescheduling, SA would pay banks three instalments this year. Taken with its other commitments, it would pay about $1,5bn this year.

He said relations between SA and the multilateral financial institutions were gradually being normalised. "So far we have not had to apply to the IMF for any financial assistance and the World Bank has not committed itself to any assistance to SA pending political developments. All these things will become much easier when an interim government is in place."

GRETA STEYN reports that Stals also argued the merits of SA holding a substantial part of its foreign exchange reserves in the form of gold. Building up gold reserves was not only motivated by the fact that SA was a gold producer, but also by gold providing "the comfort of possessing a usable international reserve asset which does not represent the liability of another country. This quality makes gold freely usable at all times."

Over the past three years, as the balance of payments situation had improved, SA's official gold holdings had risen from 3,1-million fine ounces in December 1989 to 6,6-million fine ounces at the end of last year, accounting for about 52% of SA's total gold and other foreign reserves.

Economy an obstacle for schools plan

49

TIM COHEN

CAPE TOWN — An economic scenario plan for education spending paints a sombre picture, predicting that the full financing of high schools will be impossible in 2002 if SA does not have at least a consistent 2% annual growth rate until then. BIDAY 27/1/93

Assuming government's education renewal strategy is put into practice, SA requires at least a 3% annual growth rate to continue financing tertiary education according to the current plan.

The plan, released yesterday, assumes that at least 82% of scholars will receive nine years' school education, 95% of it financed by the state.

It also assumes 75% of the last three years of schooling will be state financed, and technikons will grow by less than 8% a year and universities restricted to a growth of between 2,5% and 5%.

The learner:educator ratio would be increased to a level of 35:1 at primary schools and 32:1 at secondary schools.

At a constant level of expenditure of 6% of GDP, the state spending on education would increase from the current R22,5m to R37m in 2008.

According to this scenario, if SA continues to show no economic growth, as it has for some time, the state will not be able to fund tertiary education by the turn of the century.

Its ability to fund high school education will be cut by about a third by the year 2008 if SA does not show any growth.

However, if SA grows at a rate of 4% a year, the state will be able to decrease its spending on education in the year 2002 and maintain the same standards.

Conservative forces 'may try to crush union movement'

B/Dom 27/1/93.

49

DIRK HARTFORD

SOME conservative forces in the liberation movement might be tempted to try to crush the trade union movement in the future but they will not get away with it, says ANC economic planning spokesman Tito Mboweni.

Mboweni, who was addressing about 300 businessmen at a conference on the joint challenge for unions and management yesterday, said the temptation to crush trade unions was a real one which could best be avoided by developing an understanding of trade unions and encouraging them to play a constructive role.

Trade unions had been disempowered in many countries in post-colonial Africa in the name of the "national interest". But this would not happen in SA as the trade union movement was strong and independent, Mboweni said.

He said it would be foolhardy to expect trade unions to vacate the terrain they occupied. Instead, the role of unions in economic policy formulation would increase in the future and membership would continue to grow.

Already the union movement was engaged in jointly working out policy packages on macro-economic issues with government and business and it was essential that trade unions remained part of this process.

Mboweni said he thought the ANC's alliance with Cosatu would be a long-term one as the union movement sought to ensure that the accords it reached with the ANC were implemented by an ANC government.

Meanwhile, Mercedes Benz SA's human resources spokesman Ian Russell told the conference it was important for regional development forums to be represented at the national economic forum.

He said the Border/Kei economic forum had submitted a document to Finance Minister Derek Keys outlining its proposals for regional reconstruction.

These included asking for a moratorium on ending decentralisation benefits to the region, a big injection of investment for housing, a rural development initiative and the establishment of a strategic institute to facilitate human resources development in the area.

Russell said employers were not satisfied their interests were being represented properly nationally.

'needed'

ent by the taxpayer in struc- group operations so as to optimum tax efficiency with- nercial and legal constraints

NEWS IN BRIEF

Denard opts to quit SA

BOB Denard, the veteran French mercenary who led coup attempts in at least two African countries, is to leave SA for France, where he faces arrest and a jail sentence, on Sunday.

Denard said in Pretoria yesterday he had received documents allowing him to travel to France.

He was sentenced to five years in prison by a Paris court last year for his part in an aborted coup attempt in Benin in 1977.

Denard said he was returning of his own free will. "I want to clarify my situation, and hear the accusations levelled against me, against which I have never had a chance to defend myself."

Housing exhibition

LOW-cost housing company McNaughton Victor will host the three-day Afribuild '93 exhibition to showcase solutions to the national housing crisis at Nasrec, Johannesburg, from July 30.

Concern over judge

THE General Council of the Bar of SA added its voice yesterday to the concern at news reports alleging Supreme Court judge W H Booysen was a member of the secret Afrikaner Broederbond's executive council.

Bar council chairman Brian Southwood said it was fundamental to the administration of justice that judicial officers not only be impartial but that they be perceived to be impartial.

Funds for education

THE Japanese government has granted R228 500 for educational projects in disadvantaged communities in SA, the Japanese embassy said in Pretoria yesterday.

US house salessoar

SALES of previously owned US homes jumped 5% in December to a 13-year high, helping boost sales for the year 8,7% to the highest level since 1988, a property trade group said yesterday.

REPORTS. Sapa-AFP, AP-DJ, Business Day Reporters.

Govt debt 'will not push up rates'

BDay 27/1/93 (49)

GRETA STEYN

GOVERNMENT's borrowing requirements in the next fiscal year were not expected to put upward pressure on long- or short-term interest rates, economists said yesterday.

They predicted government would not have to borrow more in the next fiscal year than it did in the 1992/93 year, as Finance Minister Derek Keys was expected to announce a deficit of 6% of GDP or about R22bn in the March Budget.

A 6% deficit would be achieved only by raising VAT to 13%, increasing the fuel levy by 10c/*l*, raising customs and excise duties and possibly increasing other taxes, economists said. They believed it was not possible to cut back enough on government spending to avoid raising taxes, as Sacob suggested this week. The organisation said pinning down the increase in spending to below 7% would obviate the need to raise taxes.

Most economists expect an increase in spending of 8%-10%. Rand Merchant bank economist Rudolf Gouws said it would be difficult to get the increase in spending down to single digits. The state's wage bill would rise by about 10%-11%, in spite of the 5% overall increase in public servants' salaries, because of the effect of notch increases. He doubted Keys could announce an increase in spending substantially below 10% without endangering his credibility.

Without tax increases, revenue would rise by only about 9%, yielding a deficit of R30bn. At 8,5% of GDP, Gouws argued a R30bn deficit would be unacceptable and billions of rands in extra tax would have to be found to bring the deficit down to a more acceptable level. Most economists believed Keys would opt for 6%.

Sanlam economist Johan Louw said a 13% VAT rate with zero-rating of basic foodstuffs would be a major ingredient of a Budget strategy to avoid a deficit of more than 6% of GDP. At R22bn, the expected deficit would not place upward pressure on interest rates as the capital market could easily accommodate that level of borrowings. He said short-term interest rates such as the prime overdraft rate should also not be adversely affected by the Budget, as the deficit would be lower than in the present fiscal year.

Economists are forecasting a deficit in the present fiscal year of about R26bn — excluding extra spending on drought relief. The possibility of huge spending on drought relief being reflected in this fiscal year could push the figure up to R28bn-R30bn.

Shortfall expected in Receiver's income

BDay 27/1/93.

GERALD REILLY

PRETORIA — Government's tax income problem is worsening by the month, says Absa senior economist Adam Jacobs.

He was commenting on the latest income tax and VAT collection figures released yesterday by the Finance Department, which show the total take from both sources in the April-December period was R44,7bn — R27bn short of the R71,5bn budgeted for the whole financial year.

Income tax revenue in the nine months was just more than R32bn and VAT revenue was R12,644bn.

The Budget expectation for the financial year was R50,484bn from income tax and R21,019bn from VAT.

Although state revenue would be boosted by provisional tax payments next month, it would miss the Budget target by a substantial margin.

The recession's effect on the business community was reflected clearly in shrinking company tax and VAT. In the first six months of the financial year, company tax take was 19% down on year-earlier figures.

Absa estimated that tax income at the close of the financial year would be R9bn below the budgeted figure.

GEIS fraud probe could involve millions

BDay 27/1/93.

PETER DELMAR

INVESTIGATORS in the Trade and Industry Department and the Office for Serious Economic Offences are investigating cases of alleged General Export Incentive Scheme (GEIS) frauds involving millions.

A department spokesman confirmed the investigations, but said it was impossible to attempt to estimate the amount involved.

It was believed, however, that the department was looking into several dozen cases. The spokesman said current investigations showed the revised GEIS guidelines published late last year had apparently closed many of the system's loopholes.

The guidelines required more detailed disclosure of GEIS claims and attempted to tighten up on the accountability of senior company executives making claims.

"Claimants are (now) much more careful and attentive in completing their claims.

"As claims which have to comply with the revised guidelines are being processed only now, it is somewhat early to arrive at firm conclusions about their effects," the spokesman said.

An Office for Serious Economic Offences spokesman said investigators checking allegations of abuse of the Phase VI vehicle local content programme were also looking at abuses of GEIS.

These GEIS probes were, however, incidental to the Phase VI investigations, he added.

SA's recovery expected to be 'painfully slow'

BIDAY 28/1/93. (49)

ANDREW KRUMM

SA COULD expect "painfully slow" economic recovery in the second half of 1993, as continuing economic malaise abroad held little hope for an export-led windfall, Southern Life chief economist Mike Daly said yesterday.

In his quarterly review, Daly said a crippled consumer-led recovery in the US, painful economic adjustment in Japan and restrictive monetary policy in Germany had seen international economic growth forecasts revised downwards.

The result was that local export volumes would at best only match 1992's modest performance, while SA trade had shown no tendency to break its downward trend.

This was the scenario, even though a further weakening of the rand in 1993 — to at least R3,20 to the dollar — could provide a significant boost to non-gold mining exports and other dollar denominated exports.

"It appears the economy will have to forego the traditional strong net export growth, both in volume and in price terms, that in the past has served as an engine of recovery."

He said a turnaround in the agricultural position in 1993 was vital for a positive real economic growth rate.

"The further deterioration in real agricultural output in the third quarter of 1992 contributed materially to the 5,5% annualised drop in GDP, the largest of the recession so far."

This brought the decline in real GDP for the first nine months of 1992 to 1,5% compared with the same period last year. The Reserve Bank now expected 1992 as a whole to show a 2,0% GDP decline, he added.

"So far the indications of a return to the normal agricultural season are positive following good rains until late December, but follow-up rains in the next two months are vital."

Excluding agriculture the rate of decline in other economic sectors had worsened in the third quarter, falling from an annualised rate of minus 0,5% in the first two quarters to just more than minus 1% in the third quarter.

Reasons for this decline included political uncertainty and SA'a adverse balance of payments situation, prompted by heavy maize imports to offset the effects of the drought.

"Long-term business confidence is very fragile and fixed investment spending critically depressed, boding ill for a hoped-for internationally competitive economy in the next few years," he said.

Daly said the manner in which government planned to confront the budget deficit, which was expected to reach 8% of GDP in March, was a third area of uncertainty.

Revenue

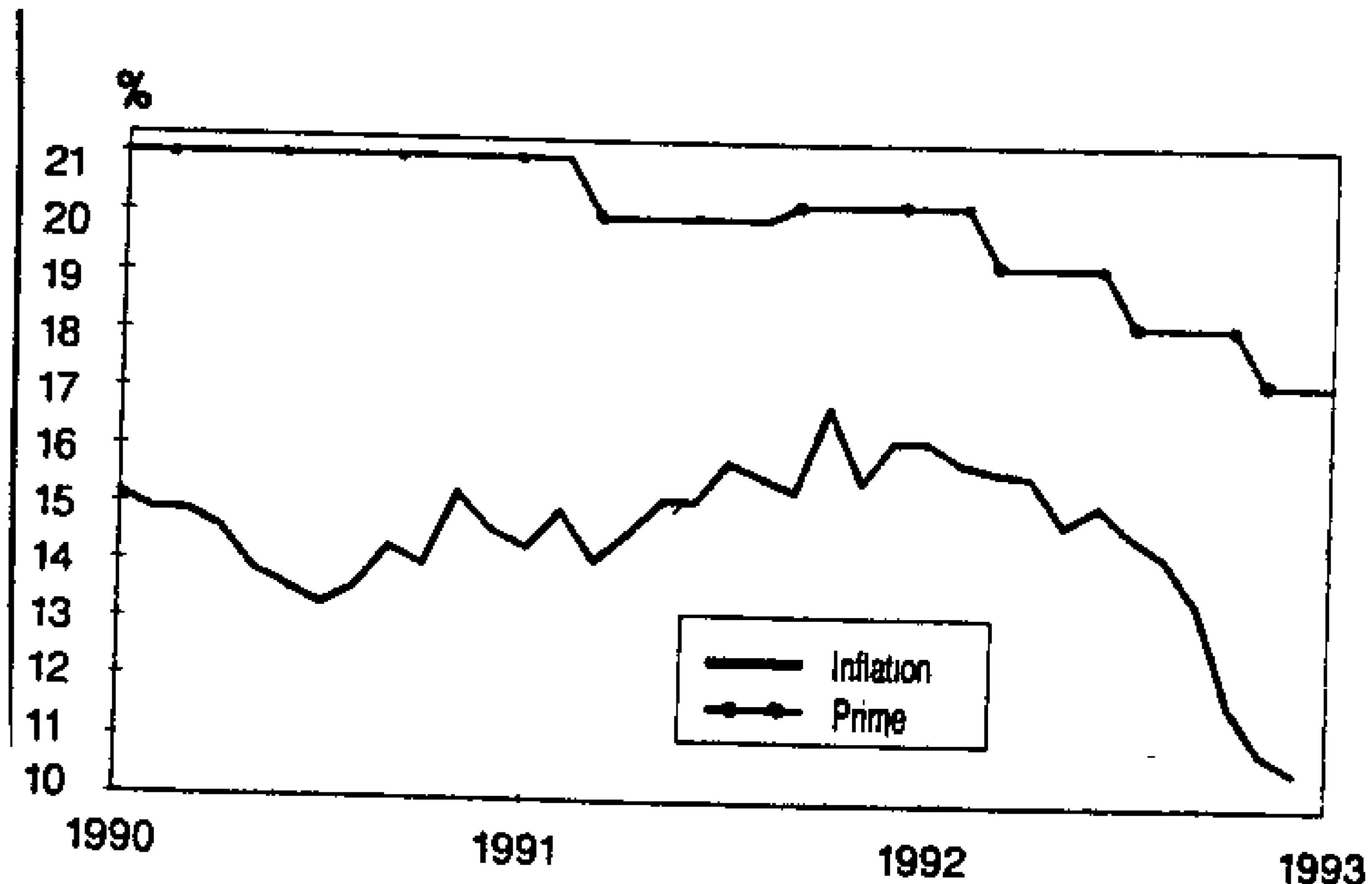
"It is probably a foregone conclusion that individual taxpayers will receive no relief against fiscal drag, which implies further downward pressure on private consumption expenditure." Private expenditure declined by about 3% last year.

However, the benefit to the exchequer would be substantial, so that with an increase in VAT to 12%, and increases in the fuel levy and excise duties, revenue would likely increase by 15% in the new fiscal year.

Daly forecast a further two interest rate cuts in 1993, which would reflect progress in reducing the inflation rate. In the next few months inflation would touch 10%.

"When local economic recovery takes hold, which now looks like it could take place in the second half of this year, inflation will continue to fall as operating efficiencies are reaped," he said.

This implied good inflation numbers in 1994 as well, Daly said.



Interest rates have not yet responded to the recent drop in inflation

Tax hikes linked to government spending

By Sven Lünsche STAR 28/1/93 (49)

Government spending in the 1993/4 fiscal year will have to fall by more than three percent in real terms — the guideline set by Finance Minister Derek Keys — if significant tax increases are to be avoided.

Southern Life economist Mike Daly warns in the latest Economic Comment that large increases in interest payments on the national debt will put even more pressure on spending to be curtailed.

"Everything possible should be done to eliminate some of the wastage that occurs in key areas, for example foreign affairs, which includes the independent and self-governing terretories, education and defence," Daly says.

Despite Keys's commitment to lower state spending, Daly expects the Government to raise VAT from 10 to 12 percent (with more zero ratings on basic foodstuffs), increase the fuel levy and provide no relief against fiscal drag in the next Budget.

These measures could boost revenue by at least 15 percent in 1993/4, after a projected five percent rise in the current year.

"An expenditure increase of eight percent in nominal terms could then imply a deficit before borrowing of less than six percent of gross domestic product (GDP), which would be a small improvement on this year's expected eight percent," Daly says.

"A second year of a large deficit will be risky and unsettling for the capital market, but provided a coherent plan is put forward for government finances in 1993/4 with the backing of all political groups, the risks may be acceptable," he says.

He adds that a "negotiated and de-ideologised" privatisation programme should be revitalised as soon as possible to finance government fixed investment spending.

Commenting on the impact of deficit reducing measures, Daly says the expected tax increases will weaken the chance to break the range of inflation of 10 to 17 percent this year.

Higher indirect taxes, while having a deflationary effect through reducing consumer spending power, will show up as a technical rise in the consumer price index (CPI).

Without tax hikes the inflation rate could fall to as low as nine percent in the third quarter, says Daly.

He calls on the authorities to further exploit the recent gains on the inflation front by lowering short-term interest rates, which would return the economy to a positive growth rate and thus boost revenue collections.

On current evidence, though, he still expects the Reserve Bank to cut interest rates by at least two percentage points from Bank rate's current level of 14 percent.

Nigel Bruce argues that a spendthrift President Clinton would do nothing for growth in the US or anywhere else

Thatcher, Reagan had their economic policies right

STAR 28/1/93.

49

IT ALMOST goes without saying that the buoyancy of the United States economy and its government's foreign policy are vitally important to South Africa. We have an extremely open economy here while the US is the world's largest market.

Ordinary folk probably didn't really need Allister Sparks to point this out to them, as he did in your newspaper on January 20. But having done so, he might have based his remarks on an economic analysis that is rational. His was not. So his conclusion that the economy will improve if President Clinton turns spendthrift is suspect.

Nor is it the first time that he has used your newspaper to express the view, for which there is no foundation in fact, that the policies of the Reagan and Thatcher era are responsible for lack of sustained economic growth in the US and the recession in Britain.

He writes that Clinton has "committed himself to some seminal changes that will effectively end that disastrous era that produced a decade of corporate greed and excesses, followed by a hangover of debt and plant closures that plunged the American and British economies into crisis and sent a ripple around the world".

But he has got cause and effect wrong. It was the recidivistic tendencies of both the Bush and Major administrations (although in Britain it began before Lady Thatcher was ousted) that plunged these countries into a period of declining growth. Had they adhered to the "simple-minded 19th century economic liberalism" to which Sparks alludes, the outcome would have been very different.

That period of economic liberalism brought greater real benefits to the ordinary folk of the industrialising countries than had ever occurred in the world before.

Likewise the policies of Thatcher and Reagan in the 1980s unleashed such a burst of creative enterprise and capitalist endeavour that it brought about one of the longest periods yet recorded of economic growth with stable prices. It also brought about the final downfall of the tyranny of communism. The world is more free today than it was before Reagan and Thatcher.

This era did mean a reduction in government spending and social benefits before taxes could be cut and other supplyside reforms introduced to restore economic vitality. Those achievements were solid and enduring.

Economic prosperity never endures indefinitely. But when the time came for productive resources to be renewed, the earlier policies of sound money and stable prices were abandoned. The situation was made worse by the failure of GATT negotiations and other artificial restraints.

Unsound money fed directly into high inflation, causing rises in asset and property prices and large-scale borrowing on inflated assets. When corrective action was taken — through monetary restraints and higher interest rates — property prices fell badly, businesses collapsed and homeowners found mortgage commitments exceeded the value of their homes.

In Britain the recession was deepened by an exchange rate fixed to the European exchange rate mechanism.

German unification created an inflationary surge that the Bundesbank curbed by raising interest rates to levels incompatible with what was required to maintain sound money practices in Britain. Until that link was broken last September and market forces allowed to determine the exchange rate, Britain's moderate downturn was turned into perverse deflation.

The Conservative government for only a short period reverted to Keynesian expansion and unsound money. It led almost immediately to inflation. By attempting to rig the markets through the ERM, it perpetuated and exaggerated its error.

The Reagan-Thatcher era was never a period of "unbridled capitalism" or of "greed and excesses". Of course, government intervention was curbed and state ownership of resources was reduced. However, in Britain spending on national health actually increased significantly.

It was an era in which the individual was encouraged to face the realities of his own needs rather than demand collective protection from increasingly impoverished governments. Significantly, even Britain's Labour Party expelled its Marxists and moderated its socialism as the benefit of the Thatcher era became evident.

Sparks has quoted Robert Kuttner's thesis in The Star before. It is that the era of the Cold War is over, but so too is a period of "unbridled capitalism". The last time Sparks quoted Kuttner there was coincidentally an article in the Financial Times by Sam Brittan pointing out with delicacy but incontrovertible logic that Kuttner was premature in his supposition.

If Clinton does attempt to speed the US economy out of recession by spending (his "people first" economics), the danger of inflation and recurring recession will be very high indeed, especially in view of excessive domestic borrowing.

But Sparks can be sure that unbridled laisser-faire has not yet been attained anywhere, although its pursuit as an optimum cannot be a bad thing — as indeed the early Reagan-Thatcher record shows.

There was nothing wrong with the Reagan-Thatcher policies. They were entirely appropriate to circumstances. It was their abandonment and subsequent correction that turned an economic correction into a recession.

And, of course, the recession will end as balance sheets adjust once again to sound money policies and stable prices, reducing trade barriers, flexible exchange rates and domestic policies aimed at encouraging enterprise. Kickstarters like Sparks and Kuttner, if their advice be accepted, will do more harm than good. I doubt that Clinton is going to be their man. □

● *Nigel Bruce is editor of the Financial Mail.*

It would be wise for South Africa to move cautiously instead of blindly participating in regional integration in Southern Africa, say experts who spoke to **Mzimkulu Malunga**: Sowetan 28/1/93 (49).

WITH SOUTH AFRICA'S EMERGENCE from long years in the wilderness, the euphoria which prevailed two years ago about regional integration is steadily disappearing.

Fuelling the dampened mood on regional integration in the Southern African sub-continent is the recent failure of the two major economic groupings to merge.

The Southern African Development Community (SADC) — formerly known as SADCC — has ruled out any merger agreement with its sister organisation, the Preferential Trade Area for Southern and Eastern Africa (PTA).

Also, a study commissioned by the South African Chamber of Business (Sacob) and conducted by Pretoria-based Africa Institute, cautions the enthusiasts for regional integration.

There is even a school of thought that South Africa need not join either of the PTA or SADC, a view rejected by a leading political economist and director for the Centre for African Studies, Mr Eugene Nyathi.

"Even though South Africa is the strongest economy in the region it should use that within the context of belonging. It is to our advantage to be part of both PTA and SADC," he says.

Belonging to the two can allay the fears of domination by this country's neighbours.

Products not competitive

South Africa's products are not competitive in places like Europe, but they are in Africa, so it makes sense to integrate this country's economy with the rest of the continent, argues Nyathi.

"South Africans should stop thinking we are some lost part of Europe," he says.

Turning to the PTA and SADC, he asserts the sooner these groups break the artificial divisions between them, the better for notions of regional integration.

Though ideally the SADC's main objective is to harness investment in the region while PTA focuses primarily on breaking down the trade barriers in the Southeastern parts of Africa, there is a lot of duplication between the two.

For instance, nine out of ten SADC members are also members of the PTA. Only Botswana does not belong to this organisation.

The PTA has 19 members, from Sudan down to Lesotho.

SADC membership consists of Angola, Botswana, Namibia, Tanzania, Mozambique, Malawi, Lesotho, Swaziland, Zambia and Zimbabwe.

Economists say, when SADC was still SADCC, to a certain extent it made sense for the organisation to maintain a separate identity from the PTA, but with its recent transformation into a group targeting mainly regional integration, there is no need for the two to maintain separate structures.

Eugene Nyathi ... leading political economist.

Nyathi says that even the international community is getting weary of funding two organisations which share the same objective and operate in the same area.

What seems to be missing is the political will among members of both organisations, he says.

"Until such time that there is a political will to balance the national and regional interests, it is doubtful whether PTA's honourable ideals will be achieved," says Nyathi.

Regional integration will remain a "pipe dream" as long as PTA and SADC do not resolve current contradictions.

Africa Institute's senior fellow, Mr Erich Leistner, who conducted Sacob's study, says much as South Africa should integrate its economy with the rest of Africa, the country must also strive to make its exports more competitive elsewhere in the world.

Though Africa is an important market for South Africa, it is a relatively small one. Currently, sub-Saharan Africa only accounts for a fifth of the country's exports.

"There don't seem to be prospects for a dramatic change to that in the near future," he says.

Combined income of countries in sub-Saharan Africa, excluding South Africa, is equivalent to that of Belgium, according to Leistner.

He puts emphasis on co-operation instead of integration. The former is already being practised throughout the sub-continent in the form of air links, electricity supply and railway lines whereas the latter would mean complex political problems.

However, as posturing and power playing continues between PTA and SADC, informed sources suggest many within these groups are in favour of a merger.

Global revival to top Davos agenda

BDAY 28/1/93 (49)

ZURICH — Ways to revive a flagging world economy and help troubled East Europe will dominate a major conference of political and business leaders in the Swiss ski resort of Davos today.

Organisers expect about 1 500 participants — including 20 heads of state — at the 23rd annual World Economic Forum, which will run until Tuesday.

With US President Bill Clinton in his second week in office, there will be strong interest in the likely economic strategy of the new administration.

"Clinton needs to revive the Uruguay Round of GATT and he needs to revive co-operation among G-7 countries," says David de Pury, a top Swiss industrialist attending the forum.

The only Clinton official confirmed as attending is Lawrence Summers, who has been nominated Treasury Undersecretary for International Affairs. Organisers said yesterday other members of the Clinton team might also attend.

The long-stalled GATT negotiations to liberalise world trade will be a key talking point in Davos, as they were last year when speakers said a new trade treaty was essential to stimulate the global economy.

Twelve months later the outlook is for only a feeble recovery of global output of goods and services in 1993 and a further rise in unemployment.

GATT Secretary-General Arthur Dunkel will be in Davos again to rally support for a quick end to trade talks, still held up by differences between the US and the EC.

As last year, there will be a focus on how to help former communist economies of eastern and central Europe and, as one Swiss businessman put it, "stop them going down the drain".

Russia is sending a delegation led by Prime Minister Viktor Chernomyrdin and four deputy prime ministers.

Other leaders from the ex-communist bloc will include Presidents Zhelyu Zhelyev of Bulgaria, Nursultan Nazarbayev of Kazakhstan, Leonid Kravchuk of Ukraine and Stanislav Shushkievich of Byelorussia.

Czech Prime Minister Vaclav Klaus and his Slovak counterpart Vladimir Meciar will answer questions about the recent division of Czechoslovakia into two separate states.

The Davos forum traditionally provides an opportunity for political leaders to discuss bilateral disputes away from the attention of their national media.

There will be no special initiative to help solve the Bosnian conflict, although there will be a session on the Balkans.

Israeli Foreign Minister Shimon Peres and his Egyptian counterpart Amr Moussa will be in Davos. They might take the opportunity to discuss Israel's expulsion of more than 400 Palestinians.

Both men are scheduled to address a briefing session about the Middle East tomorrow. — Sapa-Reuter.

Increase in taxes 'will depress weak economy'

GERALD REILLY (49)

PRETORIA — Tax hikes in the 1993/94 Budget would further depress a weak economy, Northern Transvaal Chamber of Industries president Reuben Rutowitz warned yesterday.

Speaking at the chamber's annual meeting, he also warned against economic manipulation aimed at political advantage. BDAY 29/1/93.

On the expected huge Budget deficit, he said: "The increasing deficit has been with us for a long time and to try and correct it in one fell swoop would be a grave error." It should be reduced to manageable proportions over a period to avoid placing unneccesary pressure on the economy and pushing the country into depression.

Rutowitz said Finance Minister Derek Keys's statement last year that South Africans were not overtaxed was irresponsible.

South Africans had been impoverished over a long period, particularly in the past 10 years. A factor had been uncontrolled government spending.

The increase in personal taxes between 1981 and 1991 had eroded personal incomes at a rate more than twice that caused by inflation.

Referring to recent disclosures of government corruption and financial mismanagement, Rutowitz said if the amount involved was taken into account it could be asked where the SA economy would have stood had the funds had been well managed.

On the year ahead, Rutowitz said the signs of growth were not encouraging. A better agricultural year was a prerequisite for growth.

He emphasised that to generate confidence in overseas investors and attract capital, three issues had to be tackled urgently: a satisfactory agreement on the future constitution had to be reached, violence had to be curtailed and a stable labour force had to be in place.

Weather is still the wild card

(49)

W/Mail 29/1-4/2/93.

Weekly Mail Reporter

AS the farmers wait for rain, the economists wait to see whether they should be predicting negative or positive growth rates for 1993.

Another year of economic decline would make it four in a row: by far the longest recession of the post-war period and possibly the most severe in South Africa's economic history.

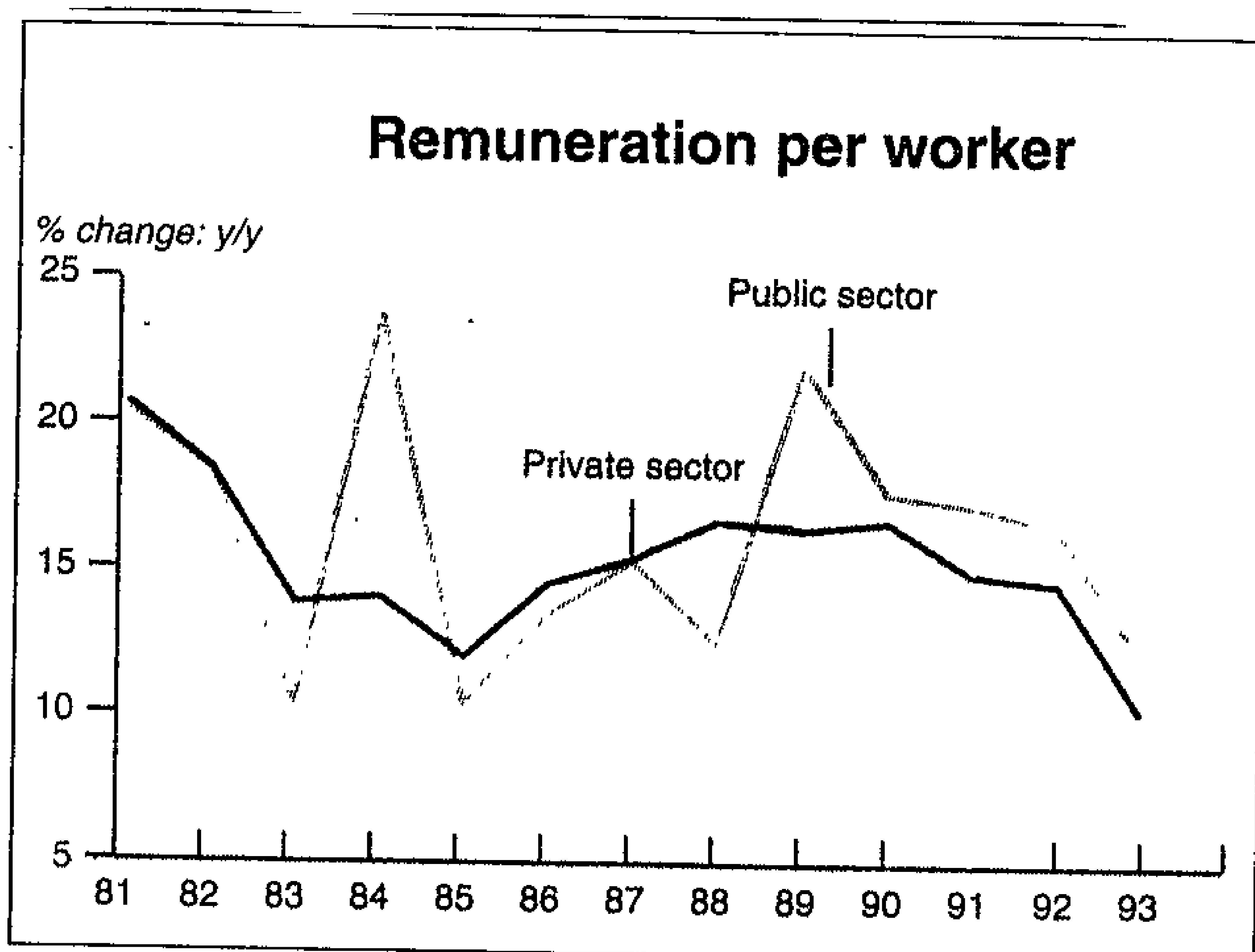
But it's already clear that even if the economy does grow this year, prospects are for no more than what Old Mutual chief economist Dave Mohr calls an "economists' turnaround". Ordinary people are unlikely to feel any marked improvement in their living conditions as yet.

Amalgamated Banks of South Africa (Absa) senior economist Adam Jacobs is one who now believes the economy is heading for another year of negative growth, primarily because of the drought. In December Absa was predicting that this year's maize crop would be around 5-million tons, approximately double last year's 2,5-million tons (the average for the previous decade had been around 7-million tons). But Jacobs has since lowered his estimates and now expects that this year's crop will "of the same order as last year".

Also, he expects tax increases in the March Budget which will depress domestic demand. And the world economy is still in a downswing, so South Africa's export growth will continue to be poor.

The result: Jacobs forecasts gross domestic product (GDP) will fall by 0,5 percent to 1 percent in real terms (taking inflation into account) in 1993.

By contrast, Sanlam chief economist Johan



Source: Absa

Louw is expecting a positive GDP real growth figure of around 0,5 percent this year, a change from the negative 2 percent estimated for 1992, although not yet an economic upswing.

So far the drought looks less bad than last year's and that alone could ensure a better economic growth picture. But the weather remains the wild card — Louw comments that all depends on the next two to three weeks.

Mohr is for the moment still assuming a reasonable agricultural season and is therefore no more pessimistic now than he was two months ago.

He expects a small (under 1 percent) positive real growth figure this year. He doesn't believe there will be major tax increases (there have been some predictions of, for example, VAT at 15 percent) and points to more optimistic recent trends in certain economic indicators, such as retail and car sales, as well as to the 3 percent cut in interest rates during 1992.

"With luck the economy could be in the process of bottoming out — compared to the steep decline it was in for most of last year," says Mohr.

The prospect of an economy bumping along the bottom of the cycle is not a terribly cheerful one — although it's better than the alternative of further decline. But there are few factors this year which would provide a real stimulant for growth.

Retrenchments and high unemployment levels mean consumers have no income to spend. On average those who do have jobs have less buying power because wage and salary increases have been averaging below the inflation rate so that real incomes have been eroded.

Lower debt levels should eventually help to make it possible for consumers to start spending again, as should lower interest rates. But consumer spending is only likely to take off significantly once the employment picture improves.

Prospects for 1994, however, are somewhat brighter. Louw hopes for 2 percent to 3 percent growth next year, because an improvement in the international economic situation should help South Africa's exports and there should also by that time be positive developments on the local political front.

NEWS IN BRIEF

Govt, ANC in Davos

49

TWO SA Ministers and two top ANC officials will speak in Davos, Switzerland, at the World Economic Forum which begins this weekend. BIDAY 29/1/93

The offices of Finance Minister Derek Keys and Public Enterprises Minister Dawie de Villiers confirmed that they would be attending the conference.

ANC constitutional specialist Kader Asmal and economist Tito Mboweni will present papers.

their ability to create jobs, their industrial rela- transport company,

Weather is still the wild card

49

W/Mail 29/1-4/2/93.

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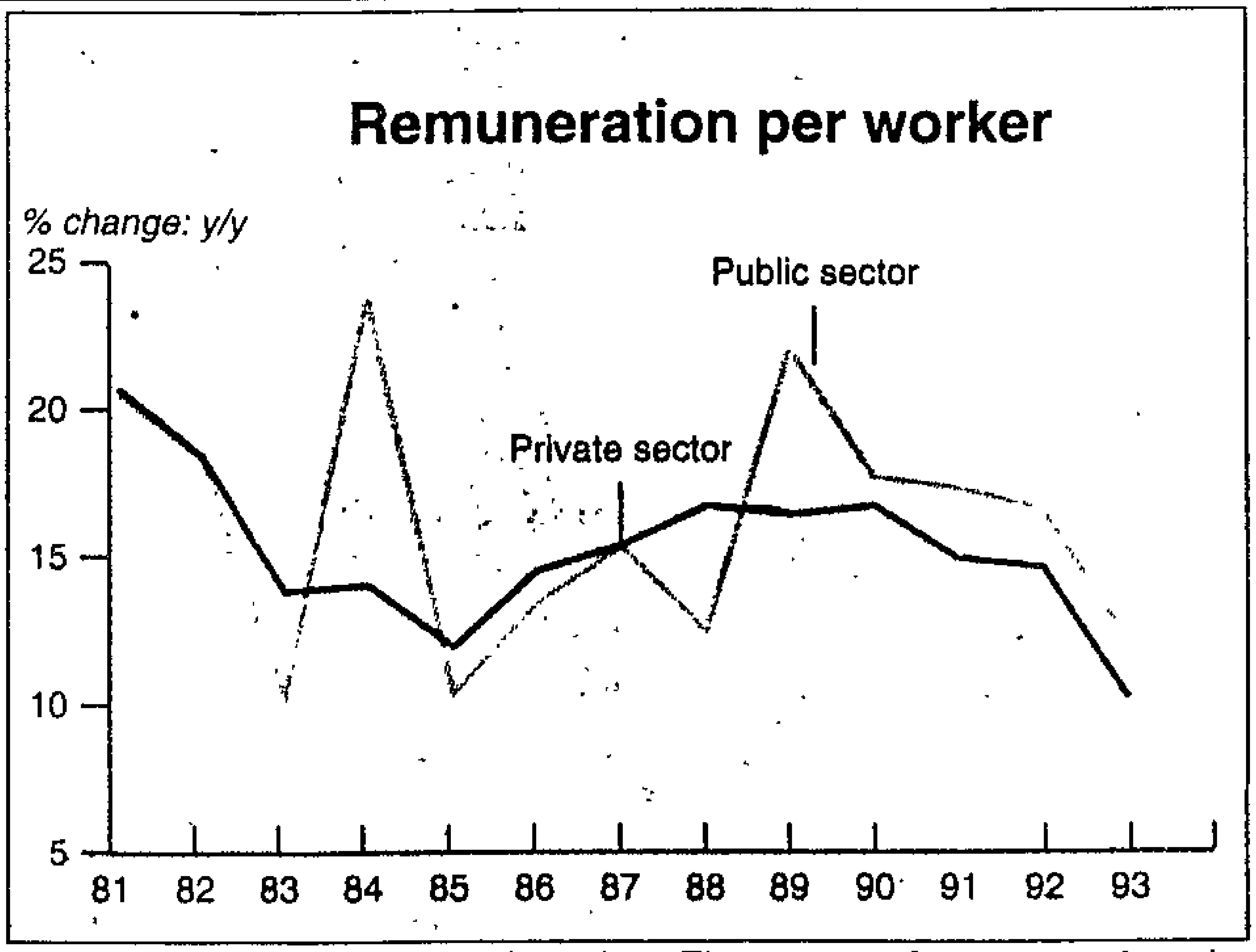

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Merging paths to recovery

STAR 29/11/93.

(49)

PATRICK LAURENCE talks to Finance Minister Derek Keys and ANC financial spokesman Trevor Manuel and finds that prospects for economic dialogue are good.

DEREK Keys and Trevor Manuel occupy opposing positions on South Africa's political spectrum but share one trait: a capacity to engender optimism in a generally bleak situation.

Keys, a former businessman in his 60s, is the Minister of Finance in the De Klerk administration; Manuel, a former detainee who was not even born when Keys qualified as an accountant, is the head of the ANC's department of economic planning.

Keys has a sense of humour. He can detect human foibles. But instead of sneering and using them as an opportunity to score petty points, he laughs in sympathy, recognising, it seems, that they exist as much in himself as his adversaries.

Immediate past chairman of Gencor, one of South Africa's major mining corporations, Keys has the ability to defuse tensions and personal animosities and to ensure that the economic issues are debated in an amicable but rigorous manner.

Manuel is a thoughtful man with a gravitas which belies his relative youth. He had made an ideological odyssey from black consciousness to nonracialism and is a respected member of the ANC, having being elected to its national executive and "shadow Cabinet" or national working committee in 1991.

He admits frankly that he is a political appointee to the department of economic planning. "As you can imagine, it was a vertical learning curve," he says of his crash course in economics.

As a man who has had to learn quickly he does not approach his task with a doctrinaire attitude; he is prepared to listen and be persuaded by the facts. As he talks, one is reminded of John Maynard Keynes's aphorism: "When confronted with the facts, I change my mind."

Keys, reflecting on the changes in ANC economic policy from strong commitment to massive nationalisation to espousal of a mixed economy with a strong private sector, smiles and quotes V S Naipul.

Naipul, contemplating a politician who came to power via the street barricades, writes: "I detected in him a certain melancholy which I have seen before in those who exchange the security of agitation for the insecurities of power."

Keys smiles as he quotes Naipul. It is a friendly smile, not a smirk. He is understanding of, rather than condescending about, his ANC interlocutors in the debate on economic questions.

Manuel compares Keys favourably to his predecessor as Minister of Finance, Barend du Plessis. "His approach is different," Manuel says. "There is a greater openness, a willingness to interact."

The two men, and the interests and organisations they represent, have much to debate. As Manuel notes: "The (ANC's) department of economic planning and the Ministry of Finance in no way mirror one another."

But, while the two men come from different backgrounds, their thinking converges on several vital points.

Manuel represents a deprived constituency but recognises the danger of raising taxes precipitately to fill State coffers for increased spending on the poor. He notes that the tax base in South Africa is relatively small — because of the large number of poor, and mainly, black people — and concedes that to "push up taxes" may simply create opportunities for tax evasion.

Sense of humour . . . Finance Minister Derek Keys.

Keys is similarly wary about raising taxes rashly. He is acutely aware that the expanding army of State bureaucrats has been financed by raising taxes and that the top marginal rates are already high: 48 percent for corporations and 43 percent — "which comes in at an early stage" — for individuals.

Manuel, like Keys, is concerned by high and rising government consumer expenditure and the consequent decline of investment expenditure by the State.

"An ANC government is unlikely to push up social expenditure," Manuel remarks of the immediate future. Instead it will concentrate on improving the "delivery system". He prudently adds: "But it will be a hotly debated issue."

Ideological odyssey . . . ANC's Trevor Manuel.

Manuel recalls a recent speech by the ANC president, Nelson Mandela, in which he warned that the inequalities inherited from the apartheid system could not be eliminated overnight by an incoming ANC government. Manuel hails the speech as a brave one at a time when "everyone is talking of elections".

Keys, who has called on the ANC to end the "economic civil war" by halting its campaign for sanctions, disinvestment and civil disobedience, refers with satisfaction to another recent Mandela declaration: one in which he offered to call off the sanctions campaign in return for a decision fixing a date for the installation of a transitional government of national unity and a commitment by businessmen to halt retrenchments.

"Mandela has been turned," Keys says. His tone, however, is one of pleasure, not triumph.

Corresponding with a growing mutual awareness that South Africa can no longer afford a continuation of the "economic civil war", that it is a form of self-injury, is an appreciation of the pressing need for foreign investment if South Africa is to reverse its economic decline.

But, of course, the points of convergence between Manuel and Keys have to be contrasted with divergences in their thinking.

The ANC has moved away from prescribing nationalisation as a panacea for the ills and inequities of South Africa's economic system but — as Manuel makes clear — it has not given up the idea entirely.

Manuel, who speaks openly about the need for "State intervention" to tackle specific problems, warns: "It is not a completely dead issue . . . The role of the State is an issue to be revisited." Noting that the ANC is concerned about the concentration of economic power in the hands of "a minority of the white minority", he cites anti-trust legislation as a possible form of State intervention.

Keys, far from wanting State intervention, thinks that government plays too big an economic role already. He quotes Paul Volcker, a former head of the Federal Reserve Bank in the United States, about the primacy of market forces over the edicts of kings and resolutions of congresses.

But, unlike some of the major corporations, Keys is not unduly worried by the ANC's present consideration of anti-trust legislation as an instrument of economic policy. He sees it as a substitute for, not an addendum to, its dwindling enthusiasm for nationalisation. "It is a hell of a lot better than what they started with," he reckons. □

There is money in diplomacy

SOUTH 30/1-3/2/93. (49)

Lynda Loxton concludes a two-part series on the challenges facing foreign policy in a new South Africa:

ECONOMIC issues will dominate South Africa's post-apartheid foreign policy as the country seeks to achieve the sustainable growth needed to support major social reconstruction.

Not only will the domestic economy have to be drastically restructured, but external economic links will have to be fashioned anew to ensure maximum benefits.

Domestically, the manufacturing sector will have to emerge as a more significant earner of foreign exchange. It will have to change from being an import substitution sector serving a wealthy minority in the domestic market.

It depends on imported machinery, equipment and technology, and these imports are financed, not by the sale of manufactured goods, but by the sale of primary products, particularly mineral products.

According to Centre for Southern African Studies co-director Professor Peter Vale, there is a growing recognition that this path is not only inequitable but that it cannot be sustained in the years ahead.

"The manufacturing sector will have to become orientated to the needs of the majority of the people and become a very significant generator of foreign exchange," he said in an interview after a three-day conference on professional diplomacy in a changing world. The conference was held in Cape Town recently.

"In a world in which the terms of trade are moving rapidly against primary products, South Africa and the other countries of Southern Africa need to become more significant producers of beneficiated mineral and other primary products," Vale said.

'The most powerful countries act like a headmaster in an unruly school'

At the same time, South Africa's destiny is inextricably linked to that of southern Africa. The country is also an inseparable part of a continent which is facing the threat of marginalisation in the global political economy.

South Africa will be affected by the overall regional environment and it needs to become involved in promoting stability in the region — a region which is characterised by extremely inequitable relations and which is still feeling the effects of South African destabilisation.

"Achieving this restructuring will require a major diplomatic effort in the years ahead," said Vale.

But this will not be easy.

"It is important to recognise that we are not operating in a global environment which is immediately favourable to the interests of a country like South Africa.

"We are entering the era of global liberalisation and there is a danger that this liberalisation may become a highly unequal process where the countries of the South are expected to liberalise and open up their economies. This might not necessarily be matched by liberalisation by the countries of the North towards the South, which will not promote growth.

"Therefore, the kind of foreign policy that we will need, will have to reach beyond the kind of neo-mercantilist, export promotion of the sell-sell kind.

"What South Africa will need is an approach that seeks to maximise the potential advantages and gains of existing relations and institutions. But it must also work in concert with countries affected in similar ways to change the rules of the game of the global economy in a way that is more favourable to a country like South Africa and the rest of Africa.

"More specifically, what is going to be required is a diplomatic effort that seeks first to maximise the available post-apartheid dividend and seeks to secure the best possible terms in a number of the major marketplaces of the world, for example, the European Community and North America and the South East Asian countries.

"Secondly, we are going to be required to forge a mutually beneficial and equitable new relationship with the southern African region that takes account of the interests of other countries and the imbalances in existing relations."

Vale said it was clear that the end of the Cold War had ushered in a new era of "issue diplomacy", in which the previous obsession with security had been replaced with a wider ranging concern with issues that affect the daily lives of people around the world.

Solutions to these issues could only be achieved through ensuring that organisations such as the United Nations truly represented the interests of all nations and were no longer controlled and manipulated by one or two great powers.

This would be difficult because of the "rather uncertain attitude of the world's richest and most powerful countries. They all say that they are for multilateral co-operation in international organisations, but they sometimes tend to see themselves rather as the headmaster in a rather unruly boys' school," said Vale.

One suggestion was that South Africa join the Organisation of African Unity and the Non-Aligned Movement to press for a greater representation of the South on the Security Council of the UN.

The present Security Council was an anachronism and represented a balance of power that had long ceased to exist, said Vale.

REDISTRIBUTION

Spreading the muck won't help the beans grow

STAR 30/1/93. (49)

REDISTRIBUTION of wealth is not the solution in South Africa as it does not address the problem of turning disadvanteged members of society into producers, writes ELIZABETH CLOGG.

THE discussion on new dispensations in both local and central government is bedevilled by many myths. One of these is the belief that redistribution of wealth, as a remedy for past inequalities, is novel in the South African experience. A second is that, in future, local or regional government will be in a position to provide certain free services to residents. A third is that a single-city tax base will remedy the ills of the black townships.

The problems with redistribution as a solution tu inequities is that it does not address the real problem, which is that of turning that section of the population which is disadvantaged into producers. What is not generally recognised by the public or admitted by the Government is that in 1948 SA came under the control of a socialist party.

South African socialism has taken the form of cushioning the supporters of the NP by patronage and in the form of huge increases in the public service. By 1986 only 30 percent of the Afrikaners in employment were not employed in State and parastatal institutions.

In Parliament on April 14 1986 the then Minister of Finance stated that in 1948 the Afrikaners earned an income equal to only 48 percent of English-speaking people. He continued: "All these years we have been using a progressive tax scale precisely with the view to the redistribution of income."

In spite of 40 years of this applied socialism, his statement was that, at that date, 60 percent of all income tax and 75 percent of all company tax was being contributed by the English-speaking population, that 68 percent of white families who had two children at school did not pay enough tax to cover the cost of their schooling, and that 94 percent of parents with two children at school and one at university did not pay enough tax to cover the costs of their education.

There is no reason to suppose this situation has altered very materially in the last six years.

What has been the effect of redistribution on what was, in 1948, an undeniably disadvantaged community? Certainly, if one considers the opulence of Pretoria and Verwoerdburg, there has been a shift in wealth, but when we consider the tax statistics it is abundantly clear there has not been a commensurate increase in the productivity of this section of the community.

Even more serious is the effect that the misguided policies of the NP had on the even more disadvantaged black communities. The result of the application of the Verwoedian policies, which were intended to confine them as "hewers of wood and drawers of water", was to cut them off from the education and opportunities which would have allowed them to become producers in capacities other than unskilled employees.

The net result has been that our tax base, in terms of the proportion of the population represented by those supporting the English-speaking ethic of free enterprise, has not been adequately increased as a proportion of the population.

Tied to the misconceptions about redistribution is the idea that governments have money and with that money can provide free services. The only money a government has, other than that illegitimately acquired by debasing the currency, is the money contributed in taxes. In the sphere of local government the manifest failure of NP social engineering in the shape of separate development is being replaced with the equally simplistic belief that throwing towns together with single tax bases will solve the problems of the past. Thus Alexandra, where problems have been compounded by the neglect of NP governments, is persuaded to believe that the rate base of Sandton, if split, would eradicate the appalling conditions of the town.

Nothing could be further from the truth. The money that should have gone into Alexandra is not in the paved roads of Sandton. It is invested mainly in the salary and pension bill of provincial and central government, but also in government real estate, in useless airports in homelands and in free-standing toilets in the veld.

While it is true that in the immediate future the equitable distribution of municipal, residential and business rates would alleviate running costs in Alexandra, the infrastructural backlog must be met from central government funding, which can only come from drastic cuts in government spending.

The ANC, on the other hand, if our own past and the pattern of African states is to be a precedent, is determined on just the type of redistribution that has been followed for 40 years. There is little indication that either the NP or the ANC is facing the reality that without rapid recruitment into the ranks of producers of wealth, the future is grim indeed.

● *The author is a Sandton town councillor.*

JOB MARKET

Entrepreneurs the real heroes of economic life

S Times 31/1/93 (Buss)

By KEVIN DAVIE (49)

WHILE historians and economists have not always agreed on what it takes to create wealth, entrepreneurship is now widely regarded as part of a successful formula for achieving economic growth.

Small Business Development Corporation managing director, Ben Vosloo, says it is unfortunate that in SA the pursuit and creation of wealth is still treated with some degree of suspicion.

"Business is often seen as evil in spirit and selfish in purpose while the entrepreneur is regardrd as a vicious exploiter of workers.

"In reality, entrepreneurs are the heroes of economic life."

Dr Vosloo says the key role of entrepreneurship is generally underestimated. Production is not possible without raw materials, labour and capital, but the entrepreneur plays the key role in that the other factors are not self-mobilising.

"If the entrepreneur is not in the saddle the production machine comes to a standstill."

Dr Vosloo says the vast majority of businesses in SA are small and medium enterprises (SMEs) with small business (both formal and informal) by far the largest.

"Of the more than 800 000 formal business entities in SA, an estimated 91% or 720 000 can be classified as SMEs. Their share of GDP is about 45% and they employ approximately 2,4-million people or 17% of the 14,3-million economically active population."

Dr Vosloo says if the informal sector is included, this involves a further 4,4-million people and accounts for a further 15% or so of GDP.

He says small businesses feature largely as the dominant force in job creation in the high-growth economies of the Pacific Rim: "In Japan 99% of all private, non-primary businesses are classified as small and are largely accounted for by the practice of establishing stable commercial linkages with large firms.

"Over 6,5-million small businesses exist of which 800 000 support the manufacturing and assembling activities of the large export corporations so well known in world markets."

Small enterprises have created more than two-thirds of the new jobs in the US since the 1970s while Fortune 500 companies pruned between four and 5-million jobs.

Says Dr Vosloo: "The message is abundantly clear: if you wish to have a vigorous, expanding economy, you must have a vigorous expanding small business sector."

He stresses though that small and large business should not be viewed as competitors, but rather as partners in the economic structure.

During economic recessions small businesses tend to react faster to new opportunities and stimulate economic growth by providing work for the unemployed and lesser educated.

Large businesses are better able to withstand short-term fluctuations, providing stability.

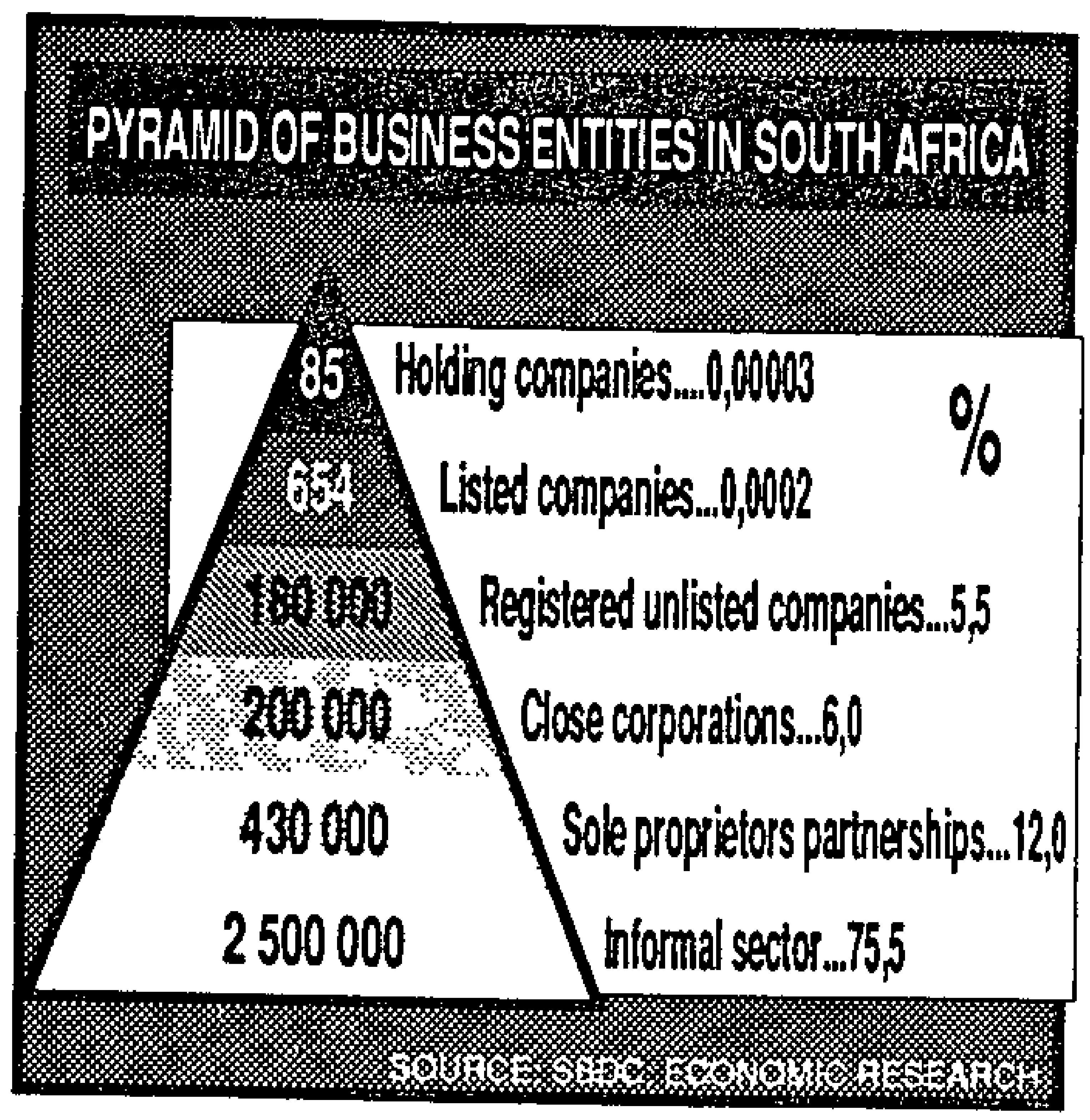
He says the secret of success of many prosperous countries lies in the inculcation of an entrepreneurial spirit where people are less restricted if they work for themselves.

Although every society needs regulations to ensure health and safety, protect the environment and bring in government revenue, the balance of the scales must not be tipped against enterprise.

"The more people can concentrate on running their businesses, the better for jobs.

"All regulations should be scrutinised against criteria of necessity, effectiveness and predictability. The path to economic growth lies in building businesses, not barriers."

Dr Vosloo says while there are elements in society who ache at the prospect of working from nine to five, entrepreneurs can hold down three jobs and work happily from five to nine.



No rain, no economic growth, BoE forecasts

BDay 1/2/93 (49)

LINDA ENSOR

CAPE TOWN — If no rain fell before the end of February, the SA economy would probably experience negative growth again this year, Board of Executors senior portfolio manager Rob Lee said in the January issue of BoE's Investment Outlook.

Prospects for domestic economic growth had deteriorated and the consensus forecast for real GDP growth this year seemed to have moved down from 1%-2% to 0%-1%.

"However, unless the political negotiations collapse again and a renewed spiral of violence occurs, there is a high probability that economic activity is close to its bottom and that the trend towards the end of the year will tend to be upwards," Lee said.

Assuming satisfactory political progress, it was highly likely that 1994 could show the first reasonably positive growth rate since 1989, with "very possible" growth of 3%-4%.

Some of the negative factors which would hold back growth this year were a poor export performance owing to weak international economic conditions and a continued high level of agricultural imports because of the drought and import-intensive capital projects.

It was also likely that consumer spending would show a real decline of about 1% or more on account of low wage and salary increases, retrenchments and a heavy tax burden. The reduction in the number of public servants would have a negative impact in the short term, fixed investment would probably show a marginal decline and inventories would continue to fall, albeit at a slower rate.

Lee's expectation of growth in 1994 was based on assumptions of sustained political progress, an improvement in the international economy, the lagged benefit of lower inflation and interest rates, a turnaround in inventories and the impact of large investment projects.

In addition, there was the possibility of SA regaining access to IMF and World Bank assistance after the installation of a transitional government.

The fall in December's inflation figure to 9,6% meant Bank rate would be reduced by 1% within the next few weeks, with further reductions possible in mid-year if the fiscal deficit was cut and the present squeeze on the foreign exchange reserves was alleviated.

Further cuts in Bank rate would require good rains and installation of a transitional government.

Lee said the recent equity market rally had pushed earnings and dividend yields back to record lows, making the market vulnerable to negative shocks such as the spate of bad company results which would come through in the next few months.

"The market will receive support from expected positive political progress, and from somewhat lower interest rates, but we remain of the view that in the short to medium term the upside in equities is limited while the potential downside is significant."

Equity market valuations in the US were also unsustainably high and the deteriorating Japanese economy meant the Nikkei was risky and yet to find its ultimate bear-market low.

GNP growth of 1,5% for OECD countries had been forecast, with a 2,7% growth forecast for the US, 1,1% for the UK and -0,2% for Germany.

SA nudged aside as Davos confronts weightier matters

Bloom 1/2/93.

JIM JONES in Davos

(49)

The world has not forgotten SA, at least not entirely. But as weightier economic problems preoccupy the 1 300 government and business leaders from around the world cloistered here at the annual meeting of the World Economic Forum in the Swiss ski resort of Davos, it is difficult not to fear that SA is being confined to the netherworld of the no-hope nations.

The meeting thrusts world business leaders together in an intensive think-tank. Ideas that emerge are those most likely to colour international business attitutes and strategies for the next 12 months.

The leaders come mainly from the industrialised countries or those countries whose economies are developing rapidly The fact that the only Africans are from SA and a handful of countries bordering the Mediterranean, seems depressingly significant.

SA is itself inadvertently to blame. The length of our negotiating process is seemingly incomprehensible to business leaders with other things on their minds; endless reports of violence reinforce views that we are headed for perdition, and our own recession and limited immediate prospects persuade prospective investors that our country does not deserve a second glance.

Prospective investors are deterred by perceived country risk. And they have more weighty matters on their minds.

The world's economists, finance ministers, bankers and business leaders are mesmerised by the persistance of the world recession, the intractability of economic distortions and the sheer difficulty of changing the situation.

The theme of Davos this year is "Rallying all the forces for global recovery". But the problems seem overwhelming at times. Forum president Klaus Schwab put it gloomily as he opened the formal proceedings: There has been a complete breakdown of credibility in political leadership almost everywhere; the economic recession is deepening in most countries; and the ghosts of the past are rising, notably in central Europe, where war rages in the former Yugoslavia.

But while the problems look the same, the world has changed. Schwab listed the shift to multipolar geopolitics, the increasing difficulty of managing global interdependence, and the accelerating rates of social and technological change.

Schwab suggested topics which needed to be addressed. But then, on the platform and during workshops, the Americans blamed the Japanese, and the distortions caused by that country's growing trade surplus; the Japanese retorted that the Americans' own propensity to import rather than manufacture was the true cause of distortions.

The Europeans talked about free trade and expanding the EC but found it difficult to disguise the tensions which still affect relations between the community's present members and others on the periphery who are hoping for membership and expanded markets.

Everyone wanted the others to open their doors further to imports while they themselves quietly contemplated futher barriers to foreign competition in domestic markets. And then there was growing concern at the emergence of new trading blocks apart from the EC and the North American Free Trade Area.

Deep national rivalries surfaced regularly.

From the platform, Akio Morita, Sony's patrician chairman, robustly rejected US suggestions that the solution lay in Japan stimulating its economy and absorbing greater volumes of imports. Rather, he argued, the US should return to the business of manufacturing the goods its own industries and consumers demand.

His wisdom was echoed by others

☐ POEHL

and reflected the realisation that much of the wealth creation of the '80s was an illusion, based on speculation and trading in financial assests rather than the creation and trade of tangible products.

Morita said he would not welcome an economic recovery if that simply meant a return to the last decade's speculative ways.

Others agreed with Morita, stressing the view that long term recovery and growth were what were needed. But there was no easy agreement on how that would be achieved.

Portugal's Prime Minister Anibel Cavacao Silva called for the early establishment of a European central bank as a means for governments to co-operate against currency speculators. His suggestion was rooted in a fear that the poorer European countries such as Portugal and Greece would have a limited say in the EC's financial policies if Germany's Bundesbank extended homogony.

High profile US economist Lester Thurow wanted fast growth for his country's economy. He pointed out that President Bill Clinton needed that for his 1996 re-election hopes. But Thurow talked of growth that either did not draw in imports or which was protected from them. He endorsed Clinton's emphasis on building infrastructure but raised hackles among the free marketeers in Davos with the implicit suggestion that the US should raise barriers to imports to protect any recovery from foundering on rising trade imbalances.

Fred Bergsten of the Institute for International Economics, the US economic think-tank, placed the blame for the world's and US's problems on Japan's persistent trade surpluses.

He called for tax cuts in Japan to stimulate domestic demand and thereby to cut Japan's trade surplus. And he wanted that to be underpinned by a global accord managed by the G-7 nations which would prevent the yen from again become undervalued. He also wanted fiscal tightening in Germany, which would lead to lower interest rates as Germany would meet deficit financing for its unification.

Morita's retort: Rebuild your industries "Japan did not force Americans to buy imported products," he snapped. Former Bundesbank president Karl Otto Poehl cautioned Thurow against the Keynesian approach to stimulate investments. He preferred the creation of an environment favourable for growth.

Of course, Japan had its own fears. A representative of Japan's Ministry of International Trade and Industry (MITI) expressed concern about the mooted formation of an East Asian trading block from which Japan might be excluded. Singapore's foreign minister Kan Seng Wong hastened to assure the man from MITI that the proposed block would not restrict trade. And he was vigorously supported by Rafidah Aziz, the head of Malaysia's own MITI, who claimed that the east Asian arrangements were designed simply to facilitate co-operation and development among the countries of the region.

Wong talked for his country and region. So, too, did Argentina's President Carlos Saul Menem, who appealed for an urgent completion of the Uruguay Round to keep Latin America from being returned to "the dark age of disintegration and instability".

How could a stagnant and turbulent SA possibly hope to compete successfully for the world's attention against all those scenarios?

An incomplete picture of economist Keynes

KDM 1/2/93 (49)

JOHN MAYNARD KEYNES, Hopes Betrayed 1883-1920, by Robert Skidelsky (Macmillan, R69,99)

AT A TIME when the world is struggling to move out of recession, there is a new focus on John Maynard Keynes whose most important work was sparked by the '30s Depression. The first volume of the biography does not, however, provide much for economists to think about. It is a detailed account of his personal life, social milieu, his role in public life and the history of the time rather than his development as an economist.

The book ends in 1920, 16 years before the publication of The General Theory of Employment, Interest and Money. But 1920 marked Keynes's publication of The Economic Consequences of the Peace, a fierce criticism of the Treaty of Versailles. Skidelsky writes that the publication of The Economic Consequences made Keynes famous.

An interesting anecdote in the run-up to Keynes's decision to write the book is the SA connection. Keynes had originally envisaged SA Prime Minister Jan Smuts making a dramatic public stand against the treaty: "Keynes still saw himself as briefing Smuts; he did not yet see himself in a starring role. The possibility of having to take the lead was forced on him by Smuts's own withdrawal." There are extracts from letters between the two men, with Smuts saying he did not see "great profit in a regular attack on the treaty" and Keynes eventually deciding to vent his strong feelings in a book.

Skidelsky also provides an insight into the evolution of the international financial system with an account of Britain's financial crises during the war. It is a fascinating thought that the financial collapse threatening in late 1916 could have ended the war before America declared war on Germany.

Financial collapse was threatening because of Britain's huge debt to the US. Skidelsky says the US Federal Reserve Board brought on the crisis by telling banks to cut back on loans to Britain. (The move was apparently a deliberate attempt on the part of the Federal Reserve Board chairman to end the war.)

But this "peace without victory", so desired by Keynes's friend Virginia Woolf, was not to be. Skidelsky notes, without commenting on the irony, the British were "saved" from financial collapse by the Germans who launched a major war effort to cut off Allied supplies from the US. The US declared war on Germany, and the rest, of course, is history.

Another irony in this tale is that Keynes's role in all this was to control Britain's spending. This contradicts the popular view of Keynes and Keynesianism as pro-government spending. A further contradiction of popular Keynesian "myths" was his strong stance against inflation while the war was on; he did, however, modify his war-time position on inflation after the war.

Skidelsky does not deal with Keynesianism; the man and his time is the central focus. He paints a picture of a privileged life for Keynes at Cambridge, as an undergraduate of King's College at a time when the college, founded in 1441 by Henry VI, was "on the crest of a wave". The social atmosphere at King's in Keynes's time was largely determined by Oscar Browning (O B), of whom Skidelsky writes "the central thing about him" was his love of boys and young men. O B's tours of Europe were "riots of irreverence and snobbery".

Of major importance in his life as a Cambridge undergraduate was his membership of a secret, exclusive society of intellectuals, the Cambridge Conversazione Society, or Apostles.

The society "undoubtedly bred an attitude of superiority". Skidelsky comments on the wider social implications of the society, saying the most striking thing about it was its Britishness: "Their own exclusiveness was rooted in the larger exclusions of English life: exclusions which ensured their own membership was drawn from the small group which had survived an elaborate selection procedure which started with birth."

The chapter entitled Lytton, Duncan, Maynard contains letters of a highly personal nature, providing an account of the love triangle between the three men. Lytton Strachey, for instance, accuses Maynard of being a "safety bicycle with genitals" for stealing Duncan Grant from him. Reading the letter is almost an intrusion, somewhat like listening to the Charles/Camilla tape, it is so personal.

Then there is the little gem after Keynes has been made a fellow at King's: "I play the part admirably, perhaps it belongs to me, but I should like to rape an undergraduate in the Combination Room, just to make them see things a little more in their true light."

Students of Keynes familiar with the famous quote in the General Theory on "animal spirits" as an essential feature of entrepreneurship will encounter a different animal spirit in this biography. The second volume is awaited for a more complete picture of the economist.

GRETA STEYN

Keys confident of 4% annual growth rate

JIM JONES (49)

DAVOS — Finance Minister Derek Keys said at the weekend he believed that even on its own, SA could regularly manage an annual economic growth rate of 4%.

Addressing a subgroup at this year's annual meeting of the World Economic Forum, Keys said the 4% rate could be achieved and sustained by drawing on SA's own resurces, without foreign investment.

However, he made it clear that 4% growth would barely allow the country to provide enough jobs.

Keys, one of five South African panel members, told the meeting that the minimum annual growth rate needed to prevent unemployment rates rising was 3,5%. Only when growth reached a sustainable 7,5% could a start be made in reducing the absolute numbers of unemployed.

The other panel members — Inkatha's Frank Mdlalose, Cosatu's Ebrahim Patel, the ANC's Kadar Asmal and David Brink of the National Economic Forum — all emphasised SA's determination to pursue economic growth despite remaining political differences. BIDAY 1/2/93.

However, their audience was comparatively small and drawn largely from South Africans attending the forum or from former South Africans who had taken their skills elsewhere.

Eurotunnel CE Sir Alastair Morton, who left SA more than 30 years ago, wanted to know how SA could cope with its skills gap. By delivering education more effectively, Patel answered, and by refocusing on technical education.

Keys believed SA business could itself provide or attract the skills needed.

Panel moderator Joseph Nye of Harvard University asked how economic aspirations could be fulfilled. By holding out hope for change, Asmal replied, and through a "job pact" based on sustainable growth and not through traditional public works, Patel added.

Patel had already indicated that economic accord was more than just a possibility. He told the meeting that SA's union movement was shifting away from con-

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Debt payment query on capital outflows

CT 1/2/93

(49)

From GRETA STEYN

JOHANNESBURG. — Large net capital outflows — possibly exceeding R1bn — which battered SA's gold and foreign exchange reserves during November and December could indicate failure to secure rollovers on long-term debt payments, economists said at the weekend.

Economists said the fragile capital account of the balance of payments (BoP) could dash hopes for a significant easing in monetary policy this year — and Reserve Bank governor Chris Stals could keep interest rates high to protect the BoP.

They added that concern over the capital account had overshadowed recent favourable developments on the trade front and concerning inflation.

Standard Bank economist Nico Czypionka speculated that the capital outflows were the result of SA parastatal borrowers' inability to secure rollovers on two large long-term debt payments — and not a seasonal exercise with loans repatriated overseas for the year-end and returned in January.

Czypionka believed the Bank was preoccupied with the capital account after large net outflows in November and December. While no statistics were yet available, Czypionka argued the available BoP statistics indicated substantial outflows. He said the fall in the foreign exchange reserves in spite of a healthy trade balance was evidence of capital outflows.

However, AHI economist Nick Barnardt warned that the recent weakening in the rand/dollar exchange rate could trigger short-term capital outflows. This could have been a factor in December, when the rand was under major pressure. Quarterly rollover of forward cover on third currencies had probably meant substantial dollar outflows in December. A prolonged dollar bull run could also trigger "leads and lags", adding pressure on the BoP.

Customs and Excise figures showed the combined trade surplus for the last two months of 1992 was R2,8bn, which implied a current account surplus of about R1bn (after subtracting net service payments from the trade balance). However, the Bank's holding of gold and forex reserves fell by almost R2bn over the same period, indicating huge outflows. Barnardt said technical factors not related to actual capital outflows could also have led to a fall in the reserves, so that the calculation should be used only as a rough estimate.

Bank could ease policy, says Stals

B/DAY 2/2/93. (49)

TIM MARSLAND

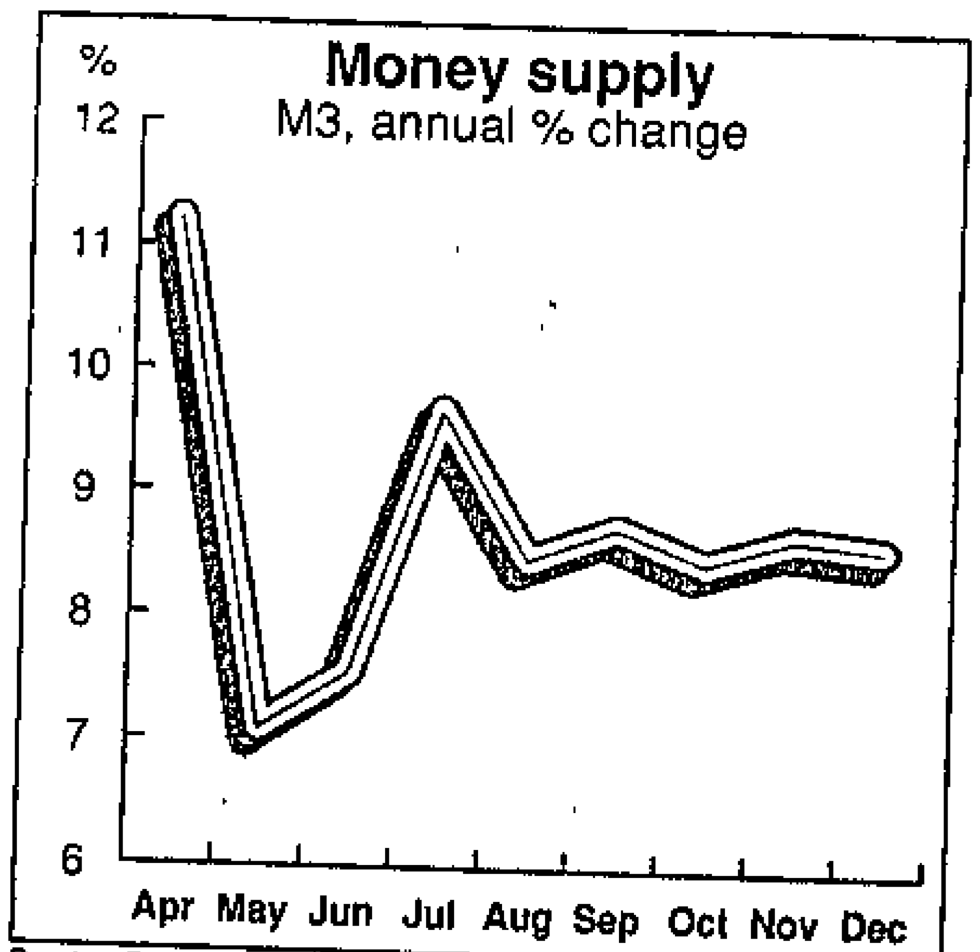
THE Reserve Bank would announce its new short-term monetary policy in the next few days, Governor Chris Stals said yesterday.

He said this could indicate a relaxation in monetary policy.

Stals was "quite satisfied" with December's money supply data, released yesterday, which were "in line with what we want". The broad M3 measure grew by a year-on-year 8,58% for December compared with November's 8,66%. Growth from the guideline year — the fourth quarter of 1991 — was 8,47% compared with 9,68%.

Stals said: "This is confirmation that we have a stable monetary policy. A relaxation of monetary policy is possible, but we have not taken a decision yet."

He would release a more comprehensive monetary policy in the next few days. In it, he would address policy on interest rates, the target range for money supply, gold



Graphic RUBY-GAY MARTIN Source RESERVE BANK

and foreign exchange reserves, government finances and the Budget.

He said "everything looks good" in terms of economic indicators. There had been some pressure on reserves, but he did

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Stals B/DAY 2/2/93

(49)

☐ From Page 1

not attach too much importance to this.

Stals said he still had to see Finance Minister Derek Keys on the Budget.

Today's meeting of the Bank's board would address routine matters, he said.

A money market dealer said commercial banks were becoming impatient with the Bank, and would cut home loan rates within the next two weeks regardless.

An economist expressed satisfaction with the money supply data. "We couldn't have asked for a more powerful incentive for a Bank rate cut.".

He said the Bank might lower its target growth range for money supply to 6%-10% from the current 7%-10%.

Credit extended by all monetary institutions to the domestic private sector rose by a year-on-year 6% in November compared with 8% in October, indicating money creation was slowing, he said.

● See Page 4

AHI warns Keys on tax increases

BDAY 2/2/93 (49)

DUMA GQUBULE

AN AFRIKAANSE Handelsinstituut (AHI) delegation which met Finance Minister Derek Keys last week has warned sharp tax hikes in the coming Budget could seriously damage inflation and growth prospects for the year.

It added that tax hikes could possibly plunge the economy into its fourth year of declining GDP.

The delegation called for a freeze on government's wage and salary bill to remove the need for sharp increases in tax.

In a statement released yesterday, AHI president George Huysamer said the organisation had "urgently requested government and the civil service to reconsider the prospect of a general 5% salary increase and thus to obviate any substantial tax increases".

The country's economic and fiscal situation rendered any rise in the public sector's wage bill, and the private sector's tax bill, unaffordable.

AHI economist Nick Barnardt, who was a member of the delegation, said the fiscal crisis was threatening to destabilise the economy.

Barnardt said the delegation had recommended a medium-term deficit reduction programme to reduce it to 6% of GDP in the next year.

This would require that government freeze its wage and salary bill to limit spending to below R110bn.

The fiscal crisis and the potential effect of significant tax increases were too serious for government to consider whether such a move was politically feasible, he said.

On the revenue side, the AHI reluctantly conceded that fiscal drag would have to be tolerated, raising an extra R3bn above the R80bn in tax receipts that could be expected in the absence of effective tax increases.

Another R4bn could be raised from a one percentage point increase in VAT, a small hike in the fuel levy and excise duties. The measures would result in revenues of R87bn, a two percentage higher inflation rate and a deficit of about 6% of GDP, which the private sector could absorb.

Barnardt said a 5% increase in government's wage and salary bill would result in government having to raise tax revenues of R92bn, which the economy could not absorb.

Any attempts to do so would have a negative effect on the economy, resulting in GDP growth of -1% or worse for 1993 and an increase in the inflation rate of about 4,5 percentage points.

Tax 'freeze' one of Cosatu's Budget aims

(49) DIRK HARTFORD

COSATU would be willing to help Finance Minister Derek Keys confront his budgetary constraints if his Budget allocated resources directly to finance economic reconstruction, and if government immediately stopped all expenditure on apartheid-related departments.

Cosatu general secretary Jay Naidoo said yesterday the federation wanted a "Budget freeze" with direct and indirect taxation being maintained at the same level as this tax year.

The National Council of Trade Unions is also opposed to any increase in taxes on individuals. BIDAY 2/2/93

Cosatu wanted all bureaucratic perks and deals purged, Naidoo said. "All civil servants, including the President, should pay tax and the practice of golden handshakes and housing and travel privileges for the state elite should be abolished."

Government corruption would be stopped only by firm financial controls. Cosatu wanted the income and expenditure sides of the Budget brought under one government department, and each government department audited to identify areas of wastage and corruption.

Cosatu and others were discussing the need for an independent tax commission to rationalise government income and expenditure and make it more efficient.

While Naidoo conceded that the deficit could not be ignored, he said priorities should be identified and addressed over time.

Cosatu believed these priorities to be the housing, education, health, job and training needs of ordinary people.

The active involvement of multilateral agencies — such as the Development Bank of SA — would assist in delivering resources to people who needed them.

The restructuring of the public service was also high on Cosatu's agenda.

● See Page 3

Penny has dropped — it's the economy that needs uplifting

BDAY 2/2/93.

SIMON BARBER in Washington (49)

IT'S THE economy, stupid," was the organising motto of Bill Clinton's run for the presidency. It also underlies the sudden willingness, indeed haste, of the SA government and ANC to reach agreement on a new, more inclusive, political order.

Both now share an appreciation of what failure to agree will cost in terms of the country's growth prospects. More importantly, however, both appear to be on the same page in terms of basic philosophy. Thanks to Finance Minister Derek Keys, there is little difference between them on fundamental questions of why the economy is broken and what must be done to fix it. As they plead the cause of judicious macroeconomic policies and fiscal discipline, many senior ANC officials are starting to sound as if they have just emerged from crash courses at the University of Chicago.

If they are sincere, the question is how long they will be able to keep this up once they are formally in power. It is an awkward question because the answer may rest in large measure on how much democracy they will have to contend with, at least in the early going. Too much, and the kind of market-based economic take-off SA needs to meet the expectations of its people may be aborted.

So, at any rate, suggests Peter Berger, author of The Capitalist Revolution and co-director with Anglo-American's Bobby Godsell of the 1988 South Africa Beyond Apartheid project.

In a recent article, Social Ethics in a Post-Socialist World, he warns that, for all its virtues, democratic capitalism — the combination of market economy and democratic policy — is not a foolproof panacea for every human dilemma. It will not, for example, in and of itself, resolve ethnic and racial hatreds.

"We must be careful," he writes, "not to substitute a right-leaning utopianism for the left-leaning one of the past. . . . The notion that (everything) can be solved either by the market or by democracy, or a combination of the two, is fully competitive with some of the more grandiose socialist delusions."

Berger, whose own motto is "Beware the prophets of a just society", prefers to proceed on the basis that in this imperfect world the balance of empirical evidence favours democratic capitalism. It is a "best bet" system which, relative to others, has demonstrated a capacity "to lift large masses of people from abject poverty to decent levels of material life and provide political regimes that establish respect for elementary human rights."

Much post-Cold War rhetoric, especially that emanating from the new administration in Washington, asserts that democracy and market economics are but two sides of the same coin. This is a risky analogy, Berger argues. It is true that successful market economies tend to release democratising pressures. SA, though he does not say so specifically, might be a case in point.

It is also true, as even Joe Slovo might now be willing to admit, that there have been no socialist democracies. On the other hand there are plenty of market economies that have taken off in the absence of democracy.

Indeed, and but for a few oddities like the US, that has tended to be the rule, starting with the industrialised democracies of western Europe.

Britain can scarcely be said to have been a democracy in the 18th century when the industrial revolution began. Even less Germany or France. None of the Asian tigers sprang to life under democratic regimes. Japan's post-war success might seem an exception until it is remembered that the foundations were laid in the singularly undemocratic Meiji period a hundred years earlier. Spain and Chile are more recent cases in point.

As for the formerly socialist societies in eastern Europe, "one may well conclude that an important reason for their present difficulties is that they are attempting to make both transitions simultaneously". In general, therefore, it might be wiser — if less comforting — to accept that in most instances there will be a "sequencing of marketisation and democratisation".

Of course, SA is already marketised. Hitherto, the question has been whether it would remain so under new "democratic" management. But the question has lately changed: will the new management be able to sustain a market economy if it is as truly democratic as it says wants to be? Berger's reasoning shows why the question should at least be asked and why the next government, starting with the proposed transitional executive, could be excused if it erred in the direction of autocracy (so long as it did not become a kleptocracy as well).

"It is safe to say that no economic take-off can occur without pain. The pain, inevitably, will not be equitably distributed throughout the population. Initially, very likely only a minority will benefit from economic growth. In a democracy, this minority is easily outvoted, especially if populist politicians agitate the majority that either feels the pain, or, minimally, does not see any tangible benefits as yet." That seems a pretty fair description of the problem the next SA government will face as it attempts to carry out the kind of adjustment policies that either the World Bank and IMF or simple good sense will require. If anyone doubts it, take a look at Zambia's new democracy.

For most of SA's population, the arrival of nonracial government may be psychologically liberating; in material terms it is bound to be disappointing. "Distributional coalitions" — both existing ones, like the unions, and no doubt new ones — will rapidly exploit the newly open system to get their slice of the pie at the expense of the general welfare and long-term growth prospects. Pressure to take what Trevor Manuel calls the Icarus Option will be all but impossible to resist. And this is before purely political resistance to the new order is taken into account.

The logic of the situation (and it must be noted he does not address this particular one, focusing more on China) leads Berger to conclude that an "interim ethic" which accepts "the possibility of the benevolent autocrat" should be considered. In other words, established democracies — especially the US which does tend to get a little utopian on such matters — should not be too dogmatic if countries in transition have less than perfect human rights records.

Short-term abuses should, in Berger's view, be weighed as "the price for spreading prosperity soon and widespread prosperity eventually, especially as democracy is likely to appear as the latter occurs".

The real question is, where are the limits? Using tanks against unarmed civilians? Using them once only? Regularly? What about a network of political prison camps? What about the use of torture by the security forces? Occasionally? Regularly? And so on. The *real* moral dilemmas almost always get lost in current debates over human rights, especially if either democracy or the market or both of these are proposed as panaceas."

Of course, the new SA will be able to get away with more unpleasantness than most. Unlike China, it does not pose a trade threat to the US. More importantly, Nelson Mandela and the ANC are heroes to those who shout most loudly on human rights questions. So if they feel they have to knock a few heads, fine. Just make sure it's done for the right reason. The economy, stupid.

Nedbank: little chance of rate cuts before Budget

BIDAM 2/2/93 (47)

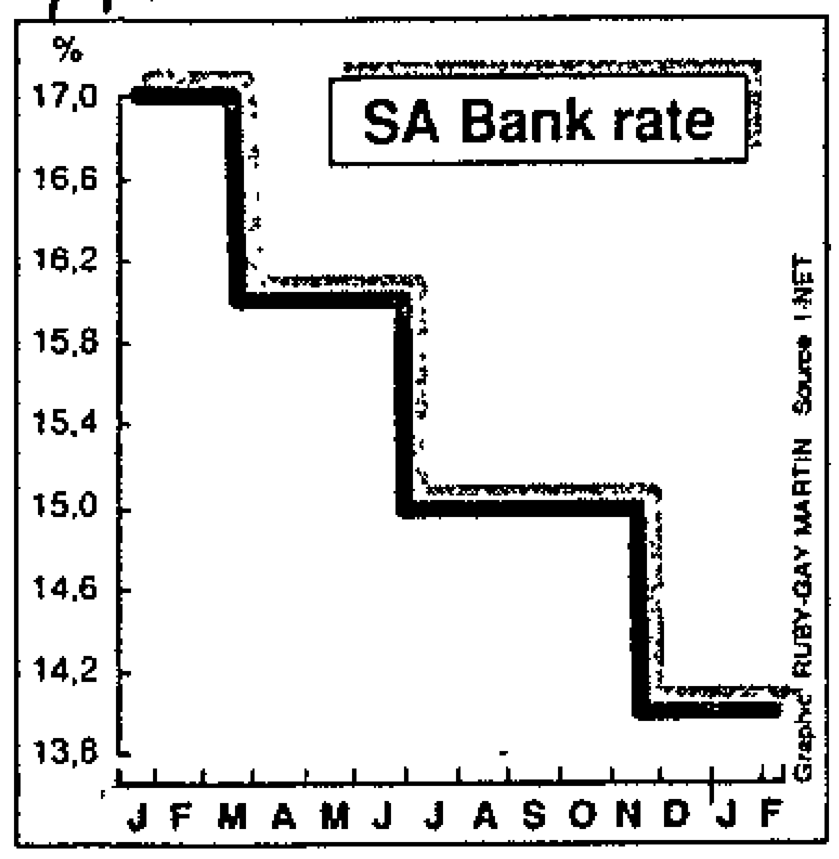
TIM MARSLAND

THE Reserve Bank might postpone any cut in interest rates until the inflationary effects of the March Budget were properly assessed, Nedbank said in its latest Economic Profile released yesterday.

It said a further one percentage point cut was possible over the next few months, based on the expectation that the consumer price index might show further declines to a low of around 9,5% in March.

But, concern over the balance of payments, particularly regarding the large debt repayment that fell due in 1993, as well as continuing payments for maize imports, might add to the Bank's reluctance to further ease monetary policy.

Nedbank said it had revised its GDP forecast for 1993 downward to 1% from 2%, because of the poor rainfall.



Lower inflation over the past few months had led to expectations of lower interest rates.

However, the March Budget was likely to include measures — in particular a hike in the VAT rate, as well as the fuel levy — that would increase the inflation rate.

Nedbank said the monetary authorities also remained concerned about the level of foreign exchange reserves, foreign debt and political developments.

These factors could lead the authorities to decide against any move in the Bank rate.

It said that political factors appeared to be moving in the right direction, but the increase of crime and political violence had hurt business and household confidence.

Nedbank forecast an average rate of 15,5% for government's R150 long bond for the end of 1993 and 13,5% for the Bankers' Acceptance (BA) rate.

Commodity prices remained under pressure for most of 1992, it said.

A positive outlook for general economic expansion globally could result in higher commodity prices and if this materialised, would benefit SA exports.

But, commodity price improvement was likely to be modest and there was also the continuing danger of Russian dumping of commodities, the report said.

Record year for Charter Life

ANDREW KRUMM (48)

LIBERTY Life subsidiary Charter Life reported record increases in both new business and total premium income in the year to end December 1992. BIDAM 2/2/93

Chief operating officer Mike Jackson said yesterday the increases were largely due to success in packaging assurance products for financial institutions.

"New business income rose 42,5% to R46,23m for the year, against R32,4m in 1991. The increase in the company's total premium income, however, was even more marked, rising 42,7% from R57,7m in 1991, to R82,4m last year."

Jackson said Charter was one of the first life assurance companies to successfully exploit the synergy between life assurers and financial institutions. "As a result we can use these institutions' networks to distribute our products."

He added that in the past year Charter Life had restructured its idea of client servicing from a production line concept to a team servicing one.

This allowed policyholders to deal with one person as opposed to "five departments". Charter Life's investment funds were managed by Liberty Asset Management, he said.

Report 'will not affect SA firms'

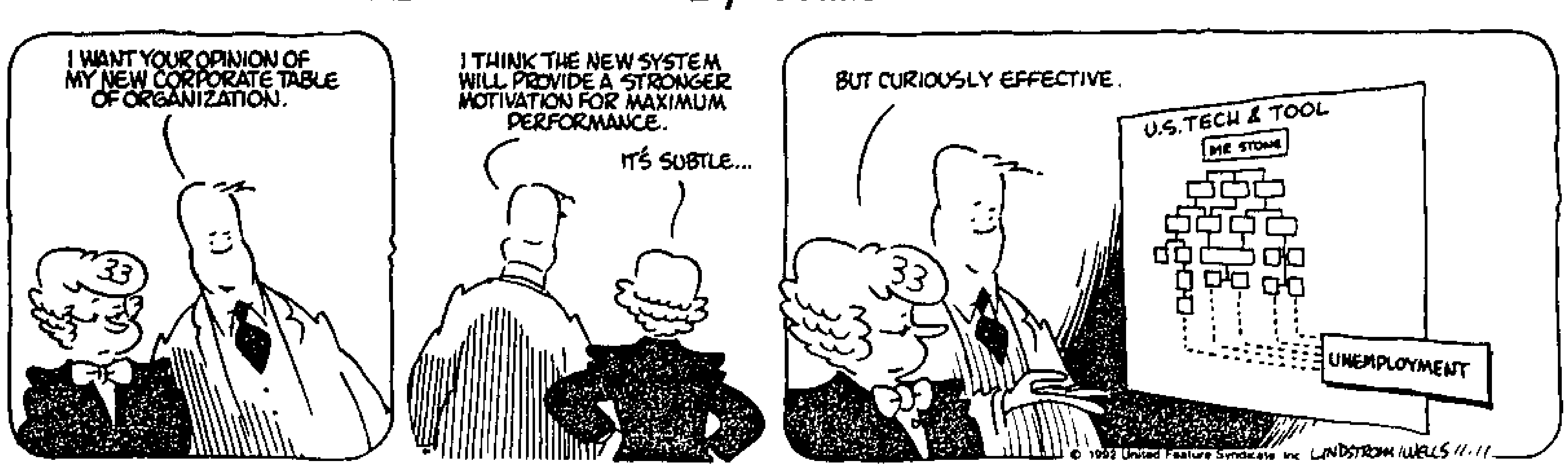
JONO WATERS

THE report by Japanese authorities clearing SA of dumping ferro-silicon manganese would not affect local producers, which did minimal business with Japan, industry leaders said yesterday.

Highveld Steel and Vanadium MD Trevor Jones described the report as "expected and a non-event", though it could mean "a tightening of prices".

Samancor MD Hans Smith said the news would not have much effect on the company, and would make no difference to profitability.

EXECUTIVE SUITE By William Wells and Jack Lindstrom



New monetary policy within days — Stals

CT 2/2/93 (49)

From TIM MARSLAND

JOHANNESBURG. — The Reserve Bank would announce its new short-term monetary policy in the next few days, Governor Chris Stals said yesterday.

He said this could indicate a relaxation in monetary policy.

Stals was "quite satisfied" with December's money supply data, released yesterday, which were "in line with what we want".

The broad M3 measure grew by a year-on-year 8,58% for December compared with November's 8,66%. Growth from the guideline year — the fourth quarter of 1991 — was 8,47% compared with 9,68%.

Stals said: "This is confirmation that we have a stable monetary policy. A relaxation of monetary policy is possible, but we have not taken a decision yet."

He would release a more comprehensive monetary policy in the next few days.

In it, he would address policy on interest rates, the target range for money supply, gold and foreign exchange reserves, government finances and the Budget.

He said "everything looks good" in terms of economic indicators. He noted there had been some pressure on reserves, but did not attach too much importance to this.

Stals said he still had to see Finance Minister Derek Keys on the Budget.

Today's meeting of the Bank's board would address routine matters, he said.

A money market dealer said commercial banks were becoming impatient with the Bank, and would cut home loan rates within the next two weeks regardless.

An economist expressed satisfaction with the money supply data. "We couldn't have asked for a more powerful incentive for a Bank rate cut".

Credit extended by all monetary institutions to the domestic private sector rose by a year-on-year 6% in November compared with 8% in October, indicating money creation was slowing, he said.

- Disappointing summer rainfall has forced a downward revision of SA's GDP growth for 1993 from 2% to 1%, according to the Nedbank economic unit.

In its latest monthly economic profile the bank said despite good rains in October and November, follow-up rains were urgently required to avoid a repeat of last year's poor maize crop.

Cosatu wants 'budget freeze'

(49)

CT 2/2/93

Own Correspondent

JOHANNESBURG. — Cosatu would be willing to help Finance Minister Mr Derek Keys deal with his budgetary constraints if money was allocated to finance economic reconstruction and the government immediately halted all expenditure on apartheid-related departments.

Cosatu general secretary Mr Jay Naidoo yesterday said the federation wanted a "budget freeze" with both direct and indirect taxation kept at the same levels as this tax year.

The National Council of Trade Unions is also opposed to increasing taxes on individuals.

Cosatu especially wants all the perks and special deals of the state bureacracy "purged", Mr Naidoo said.

"All civil servants, including the State President, should pay tax and the practice of golden handshakes and housing and travel privileges for the state elite should be abolished."

Government corruption would only be halted with firm financial controls, Mr Naidoo said.

Cosatu wants one government department to deal with the income and expenditure sides of the budget and an audit done of every government department to identify wastage and corruption

He said the federation was discussing with other interested groups the possibility of establishing an independent tax commission to rationalise government income and expenditure.

Cosatu believed housing, education, health, job creation and training should enjoy priority in the budget, he said.

Institutions to help fund deficit

BDay 3/2/93 (49)

TIM MARSLAND

ONE-third of institutions' cashflows would go towards funding the Budget deficit, while the rest would be funded by the Public Investment Commissioners (PIC) and other sources, analysts said yesterday.

Martin & Co director Carmen Maynard said the Budget deficit for 1993/94 was likely to be around R23bn, or 6% of the Budget. Combined with rollovers in RSA stock of nearly R6bn, this meant the borrowing requirement would be around R28-R29bn.

Maynard said the PIC, which manages government's pension fund, had indicated it would be able to finance around R12bn. If the banking sector took up R5-R6bn, this would leave R11-R12bn for the institutions.

This would amount to about a third of their expected cashflow. This was "quite high by historical norms but manageable in an environment of falling money market yields, lack of attractive opportunities in the property market and relatively limited supply of desireable equity scrip".

An economist said government was making big demands on what was a relatively small market.

The likely result would be higher yields as the year progressed. The deficit remained a substantial sum that government was seeking from the market. Institutions' purses would also be stretched by funding demands from parastatals. About R6bn in parastatal bonds fell due for repayment this year.

He said institutions might come under fire for investing so heavily in government bonds.

An analyst said institutions also had about R25bn in cash on deposit at banks. Life assurers currently held R14bn in cash while private sector pension funds held R10bn.

They might also consider investing this in the capital market, particularly as shorter-dated instruments were offering poorer returns than longer dated instruments, the analyst said.

However, institutions would be reluctant to lend to government for too long a period. Government would probably have to borrow in the short- and medium-date area, he said.

Maynard said single digit inflation would test the resolve of bears who took long bond yields above 15% recently on Budget deficit concerns.

In June 1978 — the last year SA had single digit inflation — the yield on long term bonds was 10,7% compared with the current 14,16%.

"Admittedly, that was the era of prescribed investment requirements and investors require real yields today," she said.

Economy gains more buoyancy

TOM HOOD, Business Editor

(49) AG 3/2/93

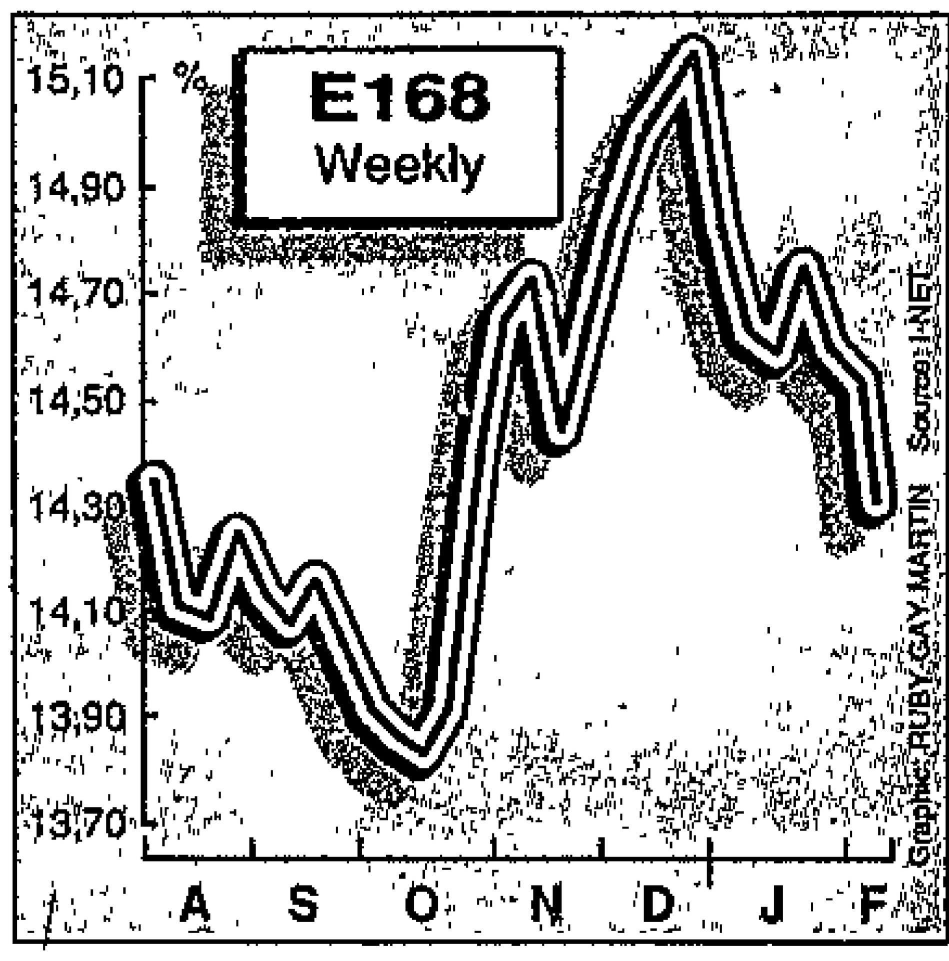
SOME sectors of the economy are no longer bouncing on the bottom but are gaining buoyancy, according to Reserve Bank figures.

Sales of manufactured goods rose strongly in September and October to exceed those for October 1991.

Wholesale sales also rose after hitting a low in August. In September and October they exceeded the year-ago figures.

Retail sales for October were higher than a year ago but in November and December they fell behind those for the same months of 1991.

Bull run on capital market bonds



TIM MARSLAND (49)

CAPITAL market bonds strengthened in hectic trade yesterday amid bullish sentiment on hopes for an early cut in Bank rate and a lower than expected increase in the VAT rate, dealers said.

A dealer said a report quoting Reserve Bank Governor Chris Stals as saying he was considering relaxing monetary policy was the main mover behind the bull run. Another report that VAT would be increased to 12% had provided further impetus. The market had expected VAT to be increased to 15%.

The bull run was interrupted only towards the end of the day on profit-taking,

☐ To Page 2

Bonds BDM 3/2/93.

(49) ☐ From Page 1

the dealer said.

With capital market bonds, yields fall as the bond strengthens, making it worth more.

The government's long-dated R150 bond yielded 14,450% from 14,190% while Eskom's E168 yielded 14,300% from 14,530%. In the medium area, Telkom's TK07 yielded 12,625% from 12,910%

One dealer said the market would continue to strengthen until the options close-out tomorrow, after which it would probably reassess direction.

He expected the R150 to hit 14,00% "in the next few days".

Another dealer said talk of a two percentage point cut in Bank rate was being bandied about. However, a one percentage point cut was more likely.

He said investors were looking beyond the Budget deficit woes for 1993/94 and were taking the view that fundamentally, bonds were looking cheap.

Meanwhile, the commercial rand hit a new low against the stronger dollar at R3,0956, compared with its previous close of R3,0898.

Downswing will carry on into '93 — economist

(49) BDay 3/2/93

ADRIAN HADLAND

PRETORIA — S's economic downswing would continue vll into 1993, Rand Merchant Bank economist Rudolf Gouws predicted yesterday.

Speaking at an ISRC seminar on political and econom developments since President F W e Klerk's watershed speech in Februar 1990, Gouws said the prospects for a reovery had been helped by the improving nflation rate.

"The fact that nflation is now below 10% is a major acievement," he said.

A convergence in political parties' thinking and policies on the economy was cause for optimism and the development of business forums in SA was also a good sign for the future.

But the poor state of the global economy, declining terms of trade and export volumes, a tight moetary policy and the drought would all dlay the bottoming out of the downswing.

"Things are gettig worse but at least they are getting wose at a slower pace."

Finance Minister Derek Keys faced some tough decision in the coming Budget, but cutting state expenditure and raising taxes were essential, Gouws said.

He argued that SA's massive "collapse in savings", the emphasis on labour-intensive rather than capital-intensive investment and the public sector's growing claim on resources had fuelled the current crisis.

This year's 5% increase in public service wages had been too high, he said.

Gouws also called for a reduction in the 48% company tax in line with international rates of closer to 38%. "Why would anybody come to SA if this is the kind of tax environment they will have to face?"

Government needed to reverse its antipathy towards big business, Gouws said. "Unless the present mindset is reversed, we will simply not create any jobs."

Despite SA's severe long and short-term economic problems and the overlapping structural and cyclical difficulties, Gouws said he was optimistic SA would begin its recovery later this year.

Self-serving fixes threaten to prolong the global recession

BDM 3/2/93.

JIM JONES in Davos

(49)

THE recession which has plagued and preoccupied the world's industrial nations for three years is unlike any other in recent memory. Other post-war declines have largely been due to short-term or cyclical factors. Generally, they were amenable to conventional stimulatory treatment. Not this time around, according to the economists and businessmen brainstorming at the World Economic Forum's annual meeting.

They believe this recession is complicated by the convergence of cyclical and structural shifts, and they are at a loss to come up with anything other than conventional cures.

If conventional short-term treatment is inappropriate, so, too, is treatment which does not take account of differing regional and national recessionary factors. Policies appropriate for the US would be inappropriate for the EC. That, in turn, brings the risk of increased protectionism which would stall chances of a worldwide recovery.

Former French prime minister and author of several best-selling economics texts, Raymond Barre, summed up the complexity of beating the recession by pointing to this convergence of cyclical and long-term structural factors.

Recession started to bite as the worldwide expansionary phase ground to a halt in 1989/90. It came with the inflation that had taken grip in the freespending '60s and that had been tackled only in the '80s when governments introduced and persisted with anti-inflationary measures.

To succeed, these measures had to be accompanied by an extensive financial cleanup. Banks' balance sheets needed restructuring after years of over-easy credit extension domestically and internationally. With banks in the US, Europe and Japan no longer willing to extend easy credit, governments could not rely on simple reflationary policies to kick-start faltering economies.

Cyclical economic developments were amplified by the structural factors of the globalisation of competition — firms in the industrialised nations faced competition on all sides from countries with lower or more appropriate labour input costs.

To that has been added the accelerating rate of technological change which, almost overnight, it often seemed, left well-established manufacturers uncompetitive and with obsolete manufacturing capacity.

The businessmen know what they want — recovery which avoids the mistakes of the past, open markets for their products and protection from imports.

Business, particularly in the US, is getting back to basics and firing executives who cannot manage firms out of their problems. Manufacturing firms which scrambled to establish or to acquire financial services offshoots in the '70s and '80s are shedding them fast. Profits once generated by financial transactions have been transformed into losses and the headaches of inappropriately structured balance sheets.

But knowing what one wants is not the same as devising appropriate and politically acceptable policies to achieve those aims.

In the US, unemployment is running at less than 7% and the labour market is operating flexibly as Americans' real wages and living standards adjust.

Europe is a different matter as rigidities in the labour market restrict job mobility, as the cost of labour remains higher than the cost of capital and men are replaced by machines, and as social security systems act as disincentives to the creation of economic activity.

Most Europeans have yet to face up to the likelihood that they will have several different jobs in their lifetimes and that this means regular training and retraining. In some countries they also have to face up to the reality that social security payments cannot be open-ended.

Nor has the EC fully come to grips with the problems associated with the massive unemployment in the former communist bloc and in other less developed countries on Europe's borders. Migration into the richer European countries — particularly into Germany and Austria — is being met by resurgent racism and violence. But while Europe's businessmen and politicians talk soberly of creating jobs that would persuade prospective economic migrants to stay at home, protectionist instincts prevent European markets from being opened to goods from developing countries.

In the US, more relaxed fiscal policies seem appropriate to stimulate capital investment in new plant and infrastructure. In Germany, and by extension the EC, stricter fiscal discipline is needed so that the unification of Germany is not financed by rising government borrowing and advancing interest rates.

Japan has still to deal with the deflation of the financial balloon on which its recent growth was founded. Its conventional approach is to seek ever larger trade surpluses and to maintain the structural and legal barriers to foreign entry into its market. Japan, perhaps more than any other country, has to accept that globalisation of markets does not simply mean that it can go on generating rising trade surpluses by exporting hi-tech goods.

East Asian countries increasingly resent Japan's strategy of establishing abroad factories which are often little more than assembly plants for Japanese-made components. They want technology transfers, not just jobs. Their response has been to initiate a regional co-operation bloc, in part to facilitate technology transfers denied to them by Japan.

European businessmen complain about the danger of the US "uncoupling" itself from the rest of the world. Uncoupling is the new buzzword for the protectionism the US might feel is necessary to prevent economic recovery being aborted by the deficits caused by soaring imports.

Uncoupling and protectionism are cynically criticised by the very Europeans who have placed limits on Japan's share of the EC's motor market. And this week the Europeans were complaining about Washington's plans to favour domestic companies in federal tenders. Europe already does that, and Washington's move is retaliatory.

The usual pathetic calls for playing fields to be levelled translate into the usual depressing attempts to tilt the pitch in the bleaters' favour. Regular calls for a completion of the Uruguay Round of GATT are accompanied by public recognition that the round cannot be completed without compromise.

But such statesmanlike protestations are transparent. Protectionism is politically expedient and is advancing. Under those circumstances, the outlook for the economically developing countries will continue to look bleak for as long the industrial nations continue to fumble towards narrow solutions to their own problems.

SA will need to factor that into its economic planning.

Star 3/2/93

Foreign financing vital — Sanlam

(49)

South Africa's deteriorating balance of payments position needs foreign financing aid, according to Sanlam's economic research department.

In the latest edition of the financial institution's Economic Survey, Sanlam says the net outflow of short-term and long-term capital continued into the fourth quarter of last year.

This was due to the ongoing repayment of debt inside and outside the debt standstill net and the sharp appreciation of the US dollar, which led to the outflow of mainly short-term capital via forward cover.

Other private sector economists have estimated that large net capital outflows of possibly over R1 billion occurred in the last two months of 1992.

Reserve Bank figures show that its holdings in gold and foreign reserves fell by almost R2 billion in November and December, indicating huge outflows, economists say.

Sanlam believes there is sharp downward pressure on foreign exchange reserves.

"The balance of payments (BoP) position now appears to be less favourable than was thought until recently," it says, despite the improved performance of the foreign trade account.

Sanlam estimates the current account of the BoP yielded a surplus of about R600 million during the December quarter after taking into account the net payment of about R1 billion a month for foreign services and transfers.

Total surplus

The financial institution calculates the total surplus on the current account for the year was about R4,3 billion, compared with R7,4 billion previously.

Sanlam warns that the battered BoP position makes it "important that significant progress be made with the process of political reform so that foreign financing assistance can be obtained.

"Otherwise the balance of payments could be a serious inhibiting factor in the process of economic recovery." — Sapa.

Star 3/2/93

Figures point to upswing

Economic statistics issued by the Reserve Bank this week hold out the hope that some sectors of the economy are no longer bouncing on the bottom, but are gaining buoyancy. The Reserve Bank's figures show that sales of manufactured goods at constant prices hit a low in August, but rose strongly in September and again in October to exceed those for October 1991. ● Page 18

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Star 3/2/93

RB figures hold scent of recovery

(49)

By Derek Tommey

Statistics issued by the Reserve Bank this week hold out the hope that some sectors of the economy are no longer bouncing on the bottom, but are gaining buoyancy.

The Reserve Bank's figures show that sales of manufactured goods at constant prices hit a low in August, but rose strongly in September and again in October to exceed those for October 1991.

The index of wholesale trade follows a similar trend.

Wholesale sales hit a low in August, but rose in September and again in October when they also exceeded the year-ago figure.

Although sales eased slightly in November, they remained higher than a year ago.

However, any improvement in economic activity had not reached the consumer by December.

Although October retail sales figures were higher than a year ago, in November and December they fell behind those for the same months of 1991.

Retail sales in December in constant terms were, in fact, 4,5 percent lower than a year earlier.

On the other hand, mortgage advances have continued their steady rise.

At the end of November they had reached R81,5 billion, which was some R12 billion, or 17,3 percent, higher than a year earlier.

But given the actual fall in other bank advances, there is more than a suspicion that a substantial part of the money raised against mortgages was used for business purposes.

Nonetheless, it indicates some growth in the general level of business.

The same can be said for the figures for total domestic credit extension.

Much of the increase was in mortgages; another part was in loans to the Government.

But overall they still indicate some growth in activity.

Credit card purchases suggest that there has been some improvement in confidence — if one accepts the contention that people use their cards for purchases only when they are certain they can meet their credit-card debts.

Credit-card purchases processed in November amounted to R1,04 billion, which was some R135 million, or 14,9 percent higher than a year earlier.

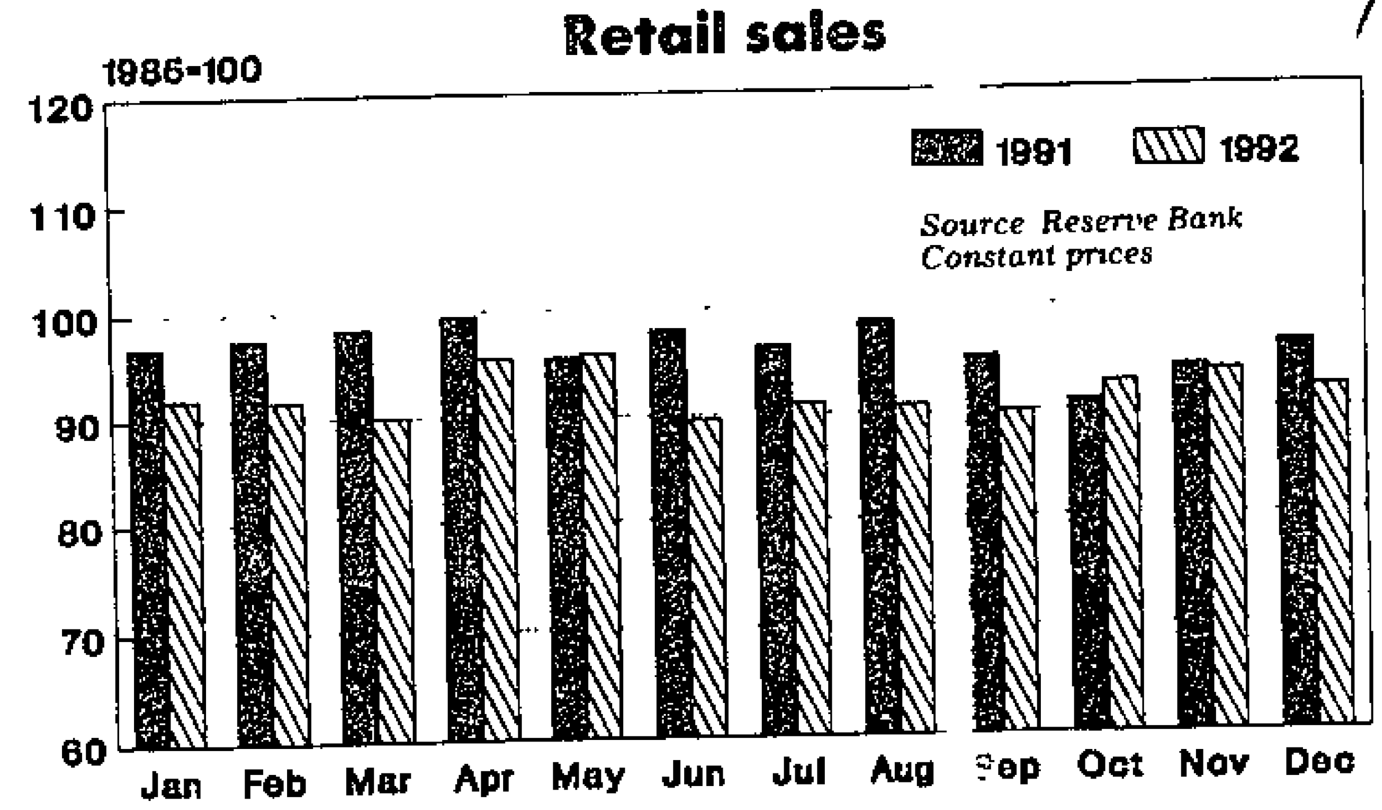
The renewed willingness to spend was highlighted by the success at the weekend of Seeff's Key Largo development in Observatory, Johannesburg.

Some R6,2 million worth of townhouses — virtually all on offer — were bought off-plan in the two days they were on sale.

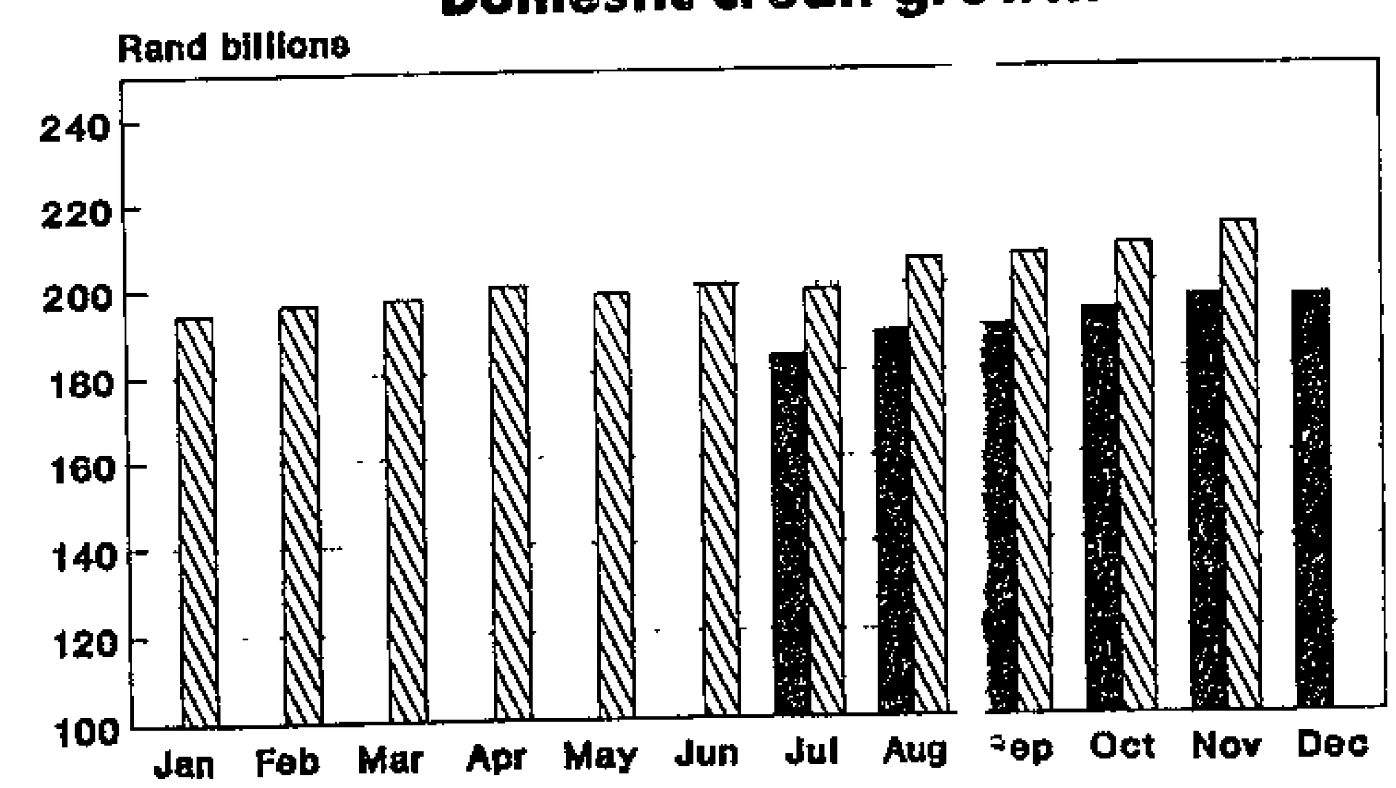
Keenly priced and requiring only a small deposit, so many people found them an attractive proposition that they were prepared to buy immediately — which suggests there has been a welcome improvement in recent days in consumer sentiment.

This view is reinforced by the comment of a leading industrialist: "We've survived 1992, which we didn't expect to do, so 1993 holds no fears whatever."

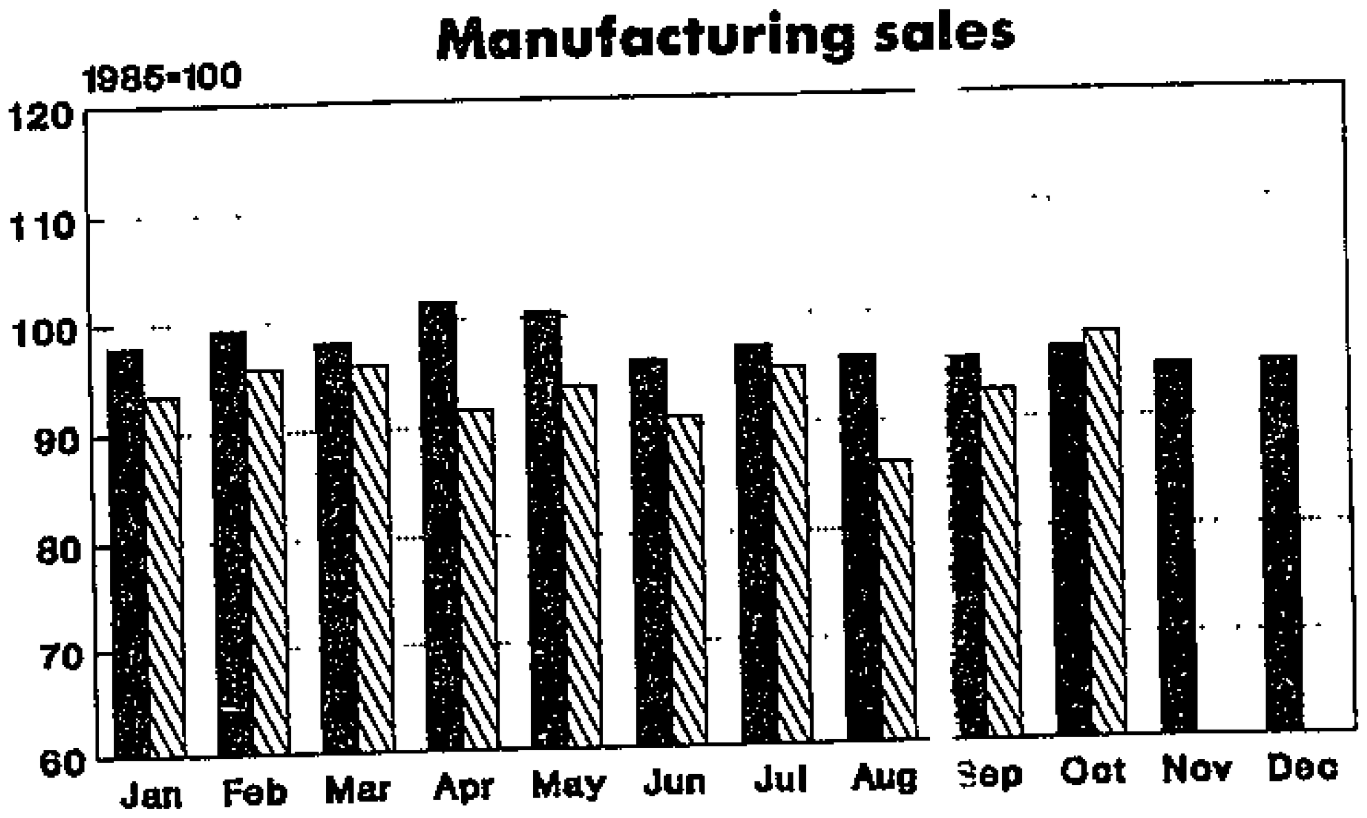
Retail sales



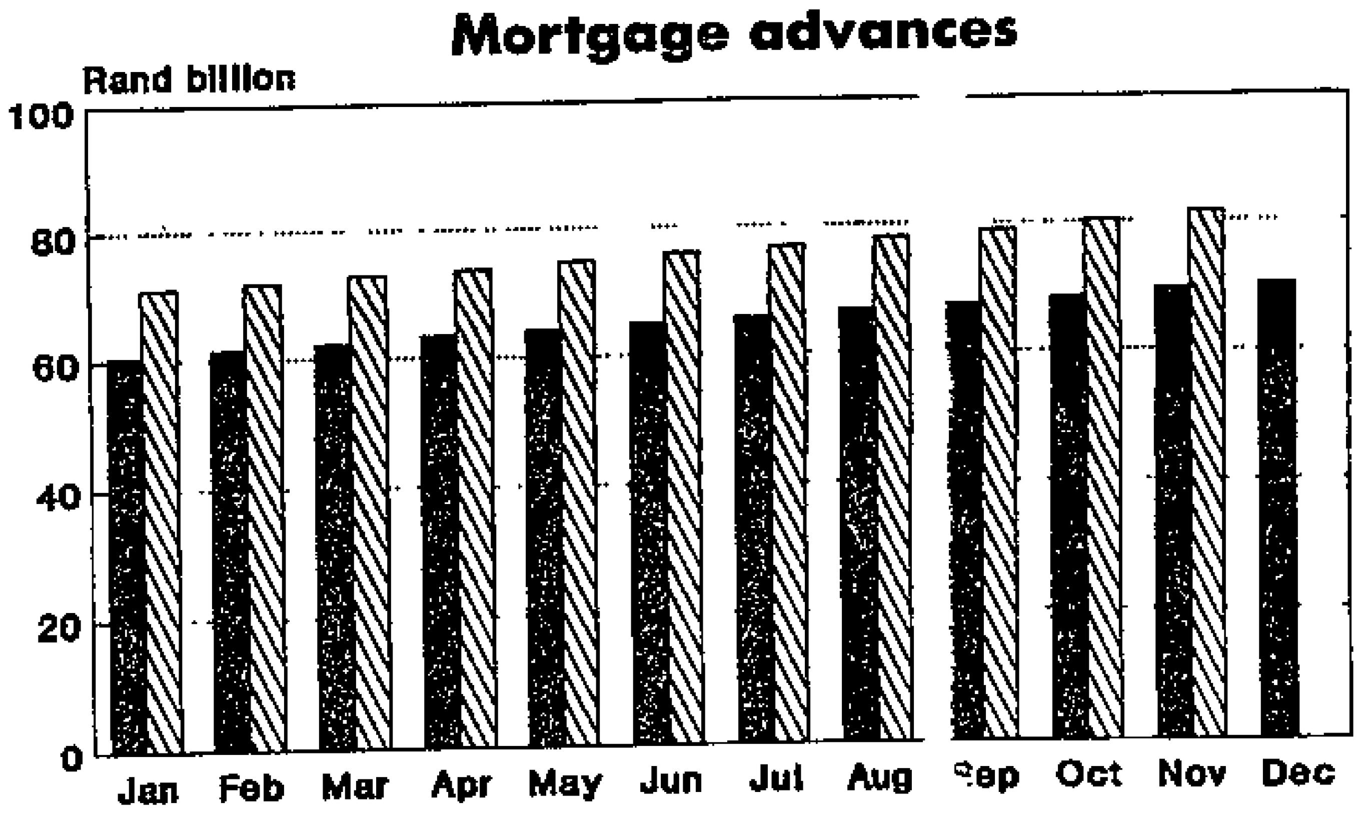
Domestic credit growth



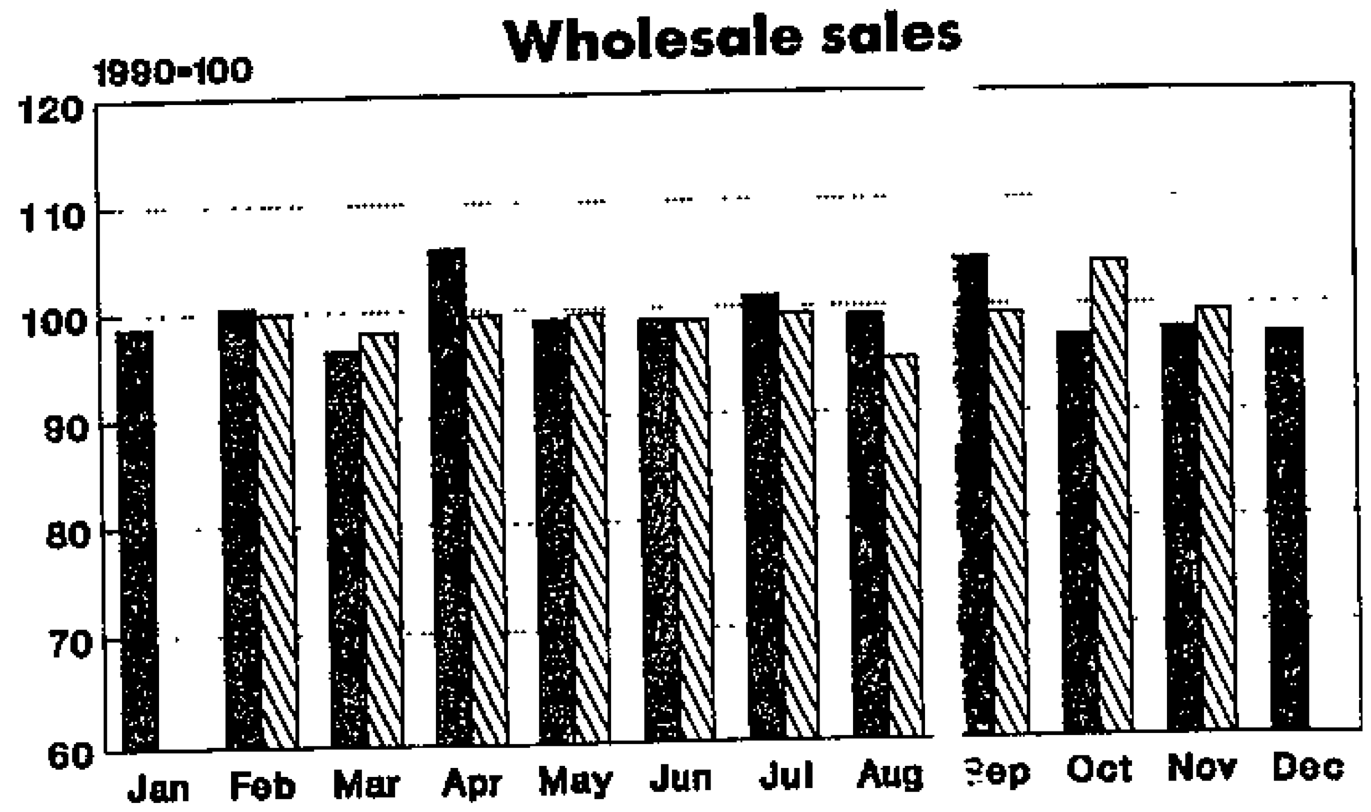
Manufacturing sales



Mortgage advances



Wholesale sales



Big business not optimistic

Sowetan 4/2/93

■ **Top executives are deeply divided:**

By Mzimkulu Malunga (49)

BIG business is deeply divided on the political situation likely to prevail this year.

Contrary to 1992 when the majority were optimistic about positive political developments — which could stimulate business confidence — executives are divided into three groups.

A report compiled by the Bureau of Market Research at the University of South Africa shows that 32 percent of top executives expect the political situation to worsen in 1993 while 31 percent are optimistic and 37 percent unsure.

This is the eighth report on the opinions of the top 100 industrial companies listed on the Johannesburg Stock Exchange.

As for business confidence, 34 percent foresee an increase, 32 percent believe confidence will be eroded and 34 percent does not know what to expect.

An overwhelming majority of executives are anticipating increased pressure to implement their social responsibility programmes.

Many also expect the unemployment figures to remain high as forecasts count on only 0,5 percent economic growth in 1993.

Pessimism about gold, the price of the country's principal foreign exchange earner, is high. The commodity is expected to trade at R1 031 to R1 089.

Though 60 percent expect a decline in strike actions, the labour movement will continue to play an influential role.

Shaky recovery is on a knife's edge

BIOM 4/2/93. (49)

LINDA ENSOR

CAPE TOWN — The economy is balanced on a knife's edge of continued recession and modest recovery, and is still vulnerable to the impact of negative factors, Old Mutual chief economist Dave Mohr says in the quarterly Economic Monitor.

There were signs of fragile recovery in the fourth quarter which indicated recession might have bottomed out, he said. Retailers had indicated Christmas shopping had been better than expected, new car sales had recovered and there had been a sharp rise in notes and coins in circulation in November and December.

But 1993 would be a tough year. A GDP growth rate of 0,5% at best was forecast, assuming rainfalls, progress of political negotiations, a stable gold price and slight recovery in consumer spending.

Mohr said positive factors which historically heralded an economic recovery were missing at present. Interest rates were unlikely to fall much further and there might not be any improvement in external conditions in the next year to 18 months.

"Any recovery is bound to be slow and could be derailed by even a mild shock."

A strong positive factor was the continued fall in short term interest rates and another 1% cut in Bank rate was expected soon. The underlying inflation in the economy should also ease moderately, though the measured inflation rate could rise on the back of increases in the VAT rate, petrol prices and excise duties.

Mohr said world economic growth should accelerate slightly this year, leading to an uptake in domestic export volumes. But a sustained world recovery would have to wait until next year or later.

Negative factors which would slow down the rate of economic recovery in SA included consumer and business pessimism, measures such as higher taxes or cuts in state expenditure to reduce the Budget deficit, continued retrenchments and deterioration in the balance of payments position which could slow or delay further cuts in interest rates.

Domestic fixed investment should level off with total real fixed investment likely to sink below 1992 levels, having already fallen by 21% since its 1989 peak.

The man in the street could expect little joy as wage increases were unlikely to exceed the inflation rate, employment would continue to fall and taxes were likely to increase.

"The depressed state of the economy is underscored by the forecast that even with interest rates falling, real personal consumer spending is likely to show no growth this year following an estimated fall of nearly 3% in 1992," Mohr said.

He warned that unless the trade account improved significantly, the state of foreign reserves could dominate monetary policy decisions and limit the drop in interest rates. A tighter fiscal policy to address the deficit could push the economy further into recession.

Interest rates should fall two percentage points this year, though could be slowed by the balance of payments situation.

Regarding commodities, Mohr said Old Mutual remained bearish about prospects for gold, especially in light of the threat of sales of existing stocks into the market. Commodity prices were still weak and unlikely to improve before 1994.

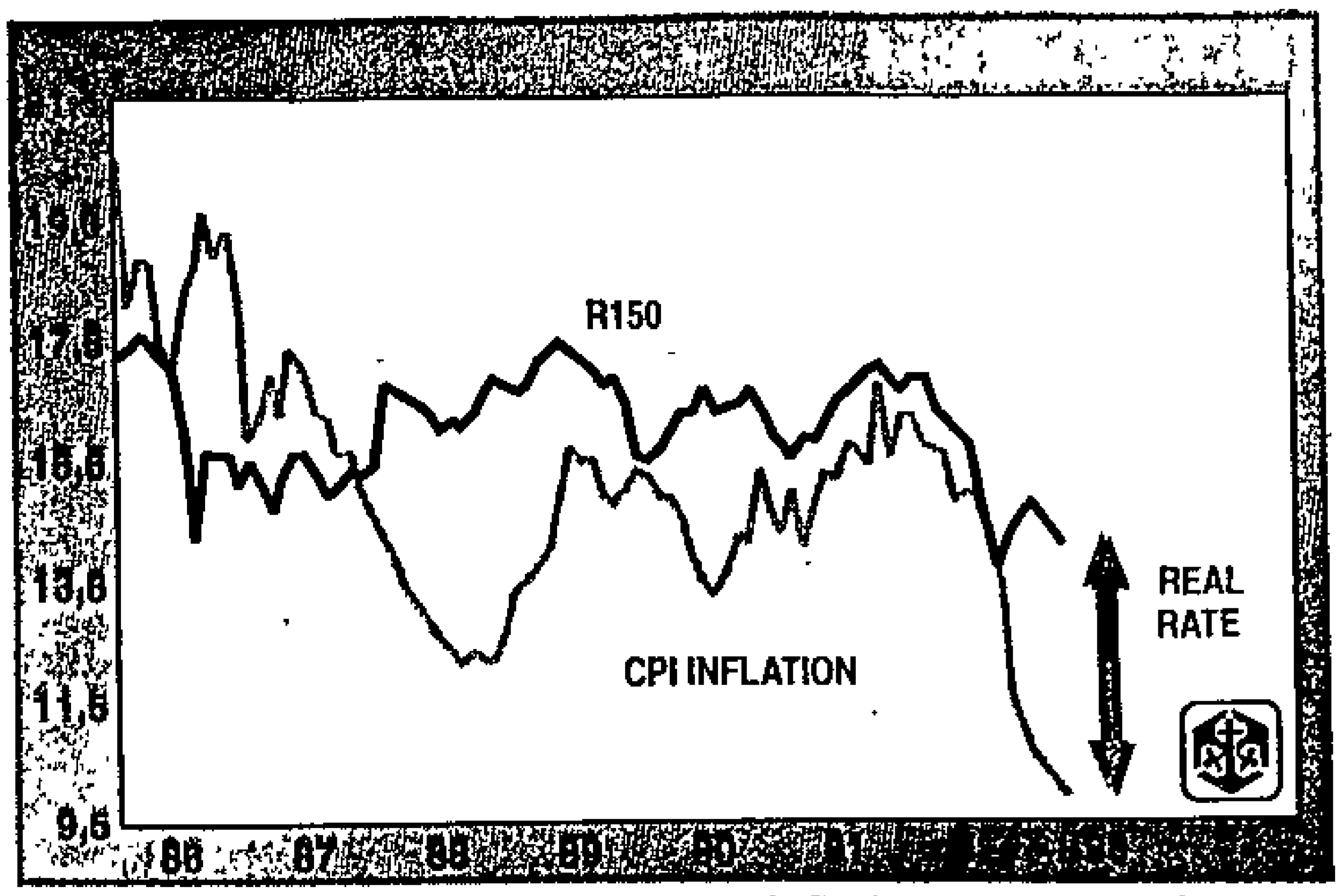
STAR 4/2/93 (49)

Sanity returns to capital market

Some realism came back into the market yesterday after the key R150 fell 30 points on Tuesday from 14,45 percent to 14,15 percent, before closing at 14,19 percent.

The market movement was explained by expectations of a Bank rate cut yesterday. It was also fuelled by good inflation and money supply figures and the belief that VAT would rise to 12 percent and not 13 percent.

During the morning the bond traded between 14,17 to 14,22 percent, but on news that there would be no Bank rate cut, rates went to 14,30 percent before closing at 14,25 percent.



RSA long rate versus inflation

Economy in balancing act

(49) CT 4/2/93

By AUDREY D'ANGELO
Business Editor

THE economy will be "delicately balanced" this year, Old Mutual economists say in their Economic Monitor.

Positive factors are that inflation has fallen faster than expected — and interest rates "should fall by about 2% over the year, although this could be slowed by balance of payments concerns".

But, economist Rian Le Roux emphasised in a presentation in Cape Town yesterday, although there are signs of a recovery it will be slow and fragile and most of the benefits will be felt next year.

This will be "a tough year for finding jobs", with many companies still trimming their workforces, and wage and salary increases are unlikely to beat inflation.

However, said Le Roux, there was a possibility that consumer spending was already increasing in reaction to the three cuts in interest rates last year.

Retailers had done better than they expected over the Christmas season and car sales had kicked up quite strongly. This was backed up by a real rise in the value of notes and coins in circulation.

The economy would probably grow at the rate of 0,5% this year, with "much higher" growth in 1994.

The strongest positive factors for 1993 were "the downcycle in short term interest rates," and the steep fall in inflation to 9,6%.

The lower interest rates would not only ease individuals' cash flow problems but "relieve financial constraints on companies and help to bring an end to corporate rationalisation and cost-cutting."

Another positive factor was that relatively good rains had fallen over large areas of SA, improving the chances for a more normal agricultural year.

"A healthy rise in farm output would strongly support a moderate recovery during the course of the year."

Negative factors included indications that most South Africans were pessimistic about prospects for 1993. "A depressed state of consumer and business confidence would slow the pace of any recovery and might even delay it altogether as consumers repay debt rather than spend and companies continue to cut costs and curtail spending."

The size of the government's deficit before borrowing, was also cause for concern.

So was the fact that "retrenchments were continuing unabated up to the middle of 1992 and are set to continue even in the early stages of recovery, as employment tends to lag the business cycle."

Discussing the outlook for lower interest rates, the Monitor says that this could depend on fiscal policy as well as the balance of trade position.

Star 4/21 93

(49)

Keys buoyant on economy, politics

By Shaun Johnson
Political Editor

CAPE TOWN — Finance Minister Derek Keys is bullish about the prospects for significant economic and political progress this year, saying: "I'm not worried. We can roll."

In a wide-ranging exclusive interview with The Star — conducted a year after the former Gencor chief entered Government — Keys also said there would be much more consultation than in the past with non-governmental parties on the Budget, scheduled for March 17.

"It's not in anybody's interests to go into a 'deal' with me in terms of which they become co-responsible," he said, but "I want to make sure that I have discussed the issues with all the important players".

He hoped he could present a "responsible" Budget, which would maintain the downward trend in inflation.

Keys described his admiration for President de Klerk in frank terms, and expressed confidence about convergence between the Government and the ANC on economic issues.

He said he would be addressing the problem of pensions in detail in his Budget speech — the compilation of which was "obsessing" him.

Keys said he had received "remarkable" co-operation from his Cabinet colleagues, especially insofar as financial belt-tightening measures were concerned.

He said he was delighted that ANC president Nelson Mandela had attached such importance to his views in a ground-breaking interview in The Star last year: "... That was the first example of a political leader giving primacy to the economic considerations."

Describing De Klerk as "a political genius ... our hope for doing something good", Keys said he had not given any thought to a possible political role for himself in the new South Africa.

Keys said he was not feeling ill-effects from the stress of being Finance Minister — and revealed he had had the desk removed from his office in the parliamentary complex. He preferred to work from a small conference table or a comfortable seating area, he said.

● Full interview — Page 11

Star 4-12-93 (49)

Stals offers both carrot and stick

By Bruce Cameron

CAPE TOWN — Reserve Bank Governor Dr Chris Stals said yesterday there was scope for a further reduction in interest rates, but warned that if general economic conditions followed the same trend as in 1992/93, rates could bounce back up later in the year.

At a press conference in Cape Town, he painted a grim picture of the state of the economy.

He said it was difficult to say when the Reserve Bank discount rate, which now stands at 14 percent, could be adjusted, but added: "The position is encouraging and I think there is scope for a reduction."

Monetary policy of the past three years had aimed at achieving a more stable financial environment.

"Not all the set goals have been achieved, however, and financial discipline will have to be retained in 1993, although some scope for a slight relaxation has been created."

Interesting

He said he found it interesting that commercial banks were not taking the initiative in reducing interest rates as they had last year.

Stals suggested this could be ascribed partially to the shortage of money in the markets, created by the expected R28 billion government budget deficit.

He warned that if there were further declines in foreign reserves, in the order of R1 billion or more, and if the Government's deficit for 1993/94 remained as high as the current year's deficit, "interest rates could well go up later this year".

He said there was a lot of pessimism over prospects for the economy, but that there were a number of important developments that could improve the position.

These included encouraging signals from the US economy, encouraging signs from local agriculture, a few new large investment projects, a new determination among political groupings, and greater interest in the economic debate.

Star 4/2/93

OM sees danger in drastic govt cutbacks

(49)

By Sven Lünsche

Old Mutual has warned the Government that to slash the deficit before borrowing drastically could send the economy straight back into recession at a time when it is showing signs of a mild upturn.

Presenting Old Mutual's latest Economic Report, economist Dave Mohr says growth should be more of a priority than "alleviating the current government financial crunch".

He adds, however, that as soon as the recovery begins, the Government must act tough on the deficit, bringing it back to the 1980s average of three to four percent of gross domestic product (GDP).

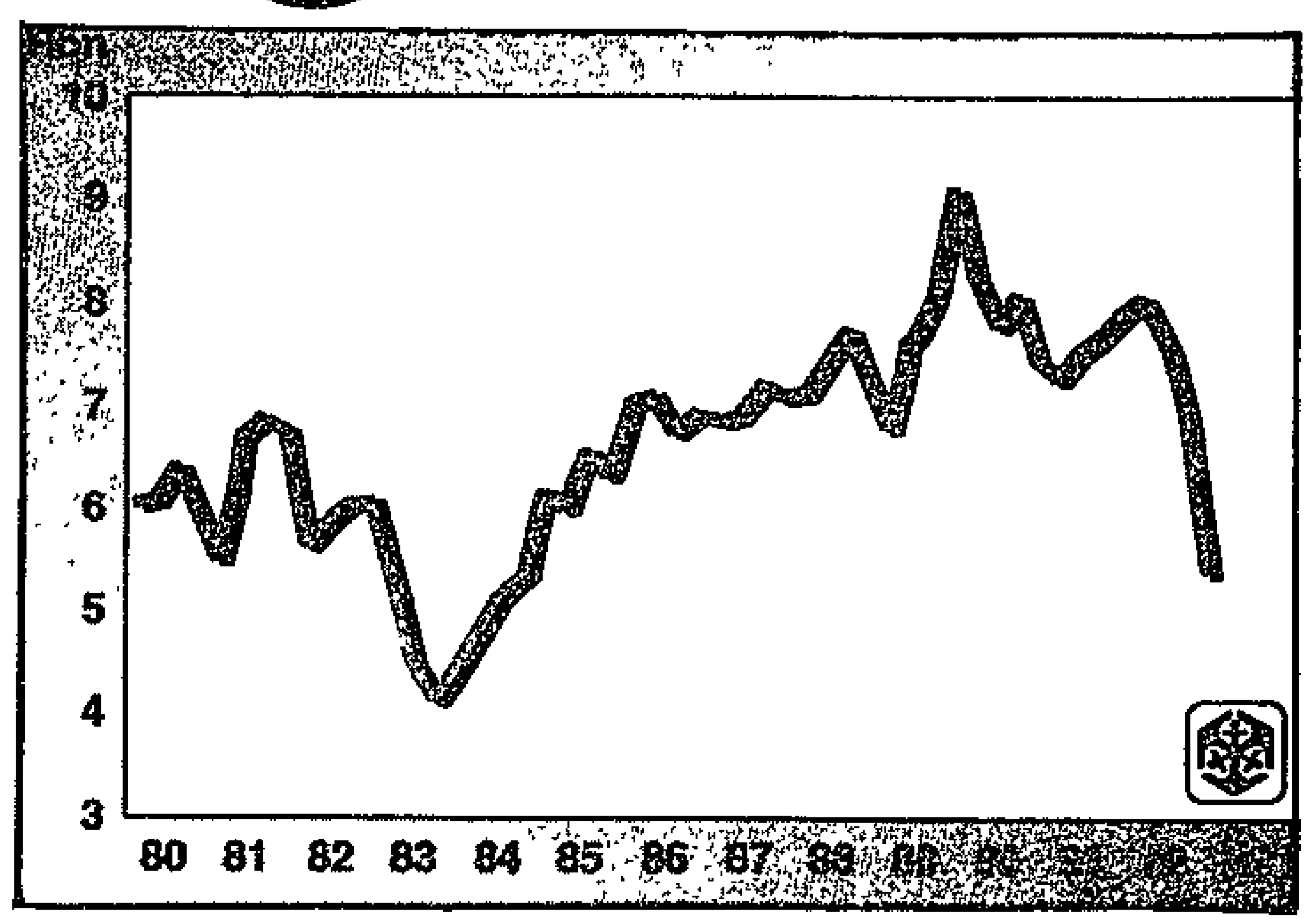
For the current fiscal year a deficit of eight percent is expected.

Mohr advocates a deficit of five to six percent for 1993/4.

In proposing a more cautious approach to the deficit, Mohr opposes large-scale income tax or VAT increases.

"Raising taxes substantially in this year's Budget would undermine private consumer spending, discourage firms from investing, and prolong the current recession — perhaps worsening the deficit in the process."

He is also pessimistic about the Government's aim of cutting real spending by three percent in 1993/4.



Agricultural gross domestic product (at constant 1985 prices)

"Serious efforts to reduce spending imply cutting government staff numbers, which is a slow and initially expensive process.

"Only after several years does a government actually succeed in cutting its labour costs in this way."

As an alternative, he suggests that modest tax hikes and careful cuts in less productive areas of government spending could prevent the deficit from spiralling out of control until the economic revival eases the pressure on state finances.

Once the economy is growing, it will require the Government "to keep spending growth well below revenue growth ... steadily compressing the deficit back to manageable levels".

At this stage, Old Mutual warns, the economy looks set to remain delicately balanced between continuing recession and a modest recovery in the months to come.

"Any recovery is bound to be slow and could be derailed by even a mild shock ... there is plenty of scope for things to go wrong," Mohr says.

At best, he forecasts a GDP growth rate of 0,5 percent for 1993, as both private consumer spending and investment expenditure look set to show no real growth at all.

On the downside, Mohr says the following factors could keep the economy in recession:

David Mohr ... government must act tough on the deficit

- The widening budget deficit and efforts by the state to raise revenue through higher indirect taxes, which would inhibit spending.
- If exports failed to increase and hefty agricultural imports continued, the balance-of-payments situation would become more precarious and could delay interest-rate cuts.
- A continued lack of business and consumer confidence.

He adds, however, that a number of developments, including further interest rate cuts in the wake of falling inflation and improved agricultural production, could help sustain the recent trend of better retail and wholesale sales.

Keys pledges to aim for low tax increase

(49)

BDay 5/2/93

GRETA STEYN

CAPE TOWN — Finance Minister Derek Keys signalled yesterday he would do everything in his power to keep tax increases in the next Budget as small as possible as economic growth was the top priority.

However, some progress would be made in reducing the deficit, and Keys did not rule out the likelihood of tax increases raised by President F W de Klerk in his opening of Parliament speech.

Speaking in Parliament, he said: "Dealing properly with the deficit is important — very important — but it is not the most important issue in this year's Budget. More important will be to ensure that the Budget allows for growth and reinforces the positive economic moves which have been put in place in the course of the past year."

Keys indicated he attached considerable importance to public opposition to tax increases. He said while it was ultimately a Cabinet decision how much extra tax had to be raised, it would be risky to disregard the opinions of those who disagreed with the prevailing wisdom. Government should not avoid a wide-ranging discussion of the Budget issues, even if that course posed certain problems.

He also disclosed that the deficit in the present fiscal year would be more than the 8% of GDP expected late last year. He told a media briefing it would probably be "a little larger" than 8%. This would bring the deficit to about R30bn, compared with a budgeted R16,5bn.

Organised commerce and industry and labour have called on government not to increase taxes in the next fiscal year. However, De Klerk said in his opening of Parliament speech tax increases would be unavoidable.

Keys indicated yesterday some progress would be made in bringing down the deficit. Asked whether it would be reduced to a level that would allow Reserve Bank Governor Chris Stals to cut interest rates, he said: "I'm a deal maker. I'll do what can be done." Stals earlier this week noted a reduction in the deficit was a prerequisite to his cutting Bank rate.

Keys was optimistic that inflation would remain in single digits this year. He noted there had been surprise at the speed with which inflation had fallen below 10% and scepticism that it would remain there. "I don't think we are going back to double digits. I think we're down here to stay."

He said annualisation of the monthly increase in the CPI over the past four months yielded an average of 5%. "At this

☐ To Page 2

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☐ From Page 1

Keys

BDay 5/2/93.

four-month average inflation rate the price level in five years' time will be less than 60% of what it would have been at the bad old rates of 1991 and before. Continued for another five years it drops to a third of the high inflation price level."

Keys also defended his decision to grant assistance to major investment projects in terms of Section 37E of the Income Tax Act. The move recently came under fire in the IMF's assessment of the country's economic situation. Noting that the main thrust of IMF criticism was the effects of the tax breaks on the revenue situation, he said the sacrifice in revenue was "nothing more nor less than government capital expenditure facilitating private investment — precisely what we want".

If SA had no plans to correct the Budget situation he would agree with the IMF, but having decided to take action to rectify the situation it was appropriate to increase government's capital expenditure while decreasing the consumption element

COMPANIES

Bonds weaken in confused trade

TIM MARSLAND

CAPITAL market bonds ended weaker in volatile trade yesterday after a flurry of conflicting reports confused the market as to which direction to take, dealers said.

The long-dated Eskom 168 bond yielded 14,440% from an overnight 14,280%, while government's R150 long bond yielded 14,380% from 14,240%. In the medium aread, Telkom's TK05 yielded 13,120% from 12,940%. BDM 5/2/93

With bonds, higher yields mean the bond has weakened and is worth less.

In the case of the E168, for every 0,01% rise in the yield the capital value of the bond declines R505 per R1m invested.

Dealers said morning trade focused on the midday options close-out. Bonds weakened from opening levels as some players pushed the market weaker. However, the close-out became a "non-event" when rates settled between option strike levels.

News in the morning that the petrol price would be increased soon spurred the bears to drive yields higher.

They were given further teeth later in the day by reports quoting Finance Minister Derek Keys as saying that the deficit for the current year would exceed 8%.

However, a later report quoting Keys as saying single-digit interest rates were possible excited the bulls. (49)

But they remained confused as to exactly what the authorities' intentions were.

A dealer said Reserve Bank Governor Chris Stals had said on television on Wednesday night that while monetary policy could be eased now, interest rates were likely to rise later in the year.

He said this was confusing. "Either rates are going up or they are going down. The authorities can't have it both ways."

Another dealer said the market might have misread Keys' statement on the deficit, not realising he was referrring to the current financial year rather than 1993/94.

He said bonds were likely to weaken further today, but believed a correction was healthy as the market "had come a long way in a short time", referring to the bull run earlier in the week.

Star 5/2/93

Cure sought on joblessness

A short-term working group of the National Economic Forum has appealed for submissions on strategies to address unemployment in the country. The NEF working group identified three key areas that needed to be addressed in the area of job creation: State tenders, public works programmes and special employment projects. Submissions should be in writing and reach the NEF interim secretariat by February 23.

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FM 5/2/93 (49)

MONEY SUPPLY FM 5/2/93 (49)

Hobson's choice?

Depending on which measure of money supply one chooses to follow, the latest Reserve Bank statistics give either reassuring or alarming news. If one looks to the broad measure M3 as a pointer to inflationary pressures, there's cause for celebration. Since April, when M3 last touched 10%, the trend has been downwards. Annualised M3 from November 1991), seasonally adjusted, grew 8,47% in December, from 9,86% in November.

Viewed with the consumer price index (CPI) figures for December — which for the first time in 15 years moved back into single digits — the medium-term outlook for inflation is encouraging.

Since April M3 has stayed well within the Bank's guideline 1992 money supply growth of 7%-10%. Actual growth in the 12 months to December was 8,58% to a provisional R198,3bn, from a revised 8,66% (R199bn) in November.

Less encouraging is that the narrow aggregate M0, defined as notes and coins in circulation and deposits by deposit-taking institutions with the Bank, has grown considerably. Many economists regard M0, known as the monetary base, as a more valid pointer to future inflation than the broader aggregates. This grew by 23,8% in the 12 months to November (the latest figure available), against 19,2% in October.

Unfortunately, M0 figures are notoriously volatile. In October-November it grew 8,3%, against 0,5% and 3% in the previous two months. December's M0 may turn out to be low, since November's uptick was reflected in an upturn in M3 of 2,5%. M3 slid 0,3% between November-December.

Figures for year-on-year growth in the monetary base are also fraught with technicalities. In February 1991, the amount in deposits required to be lodged with the Bank was dropped from 5% to 4% of short-term liabilities, phased in over four months. The result was a fall in the aggregate, with year-on-year declines between October 1991 and March 1992. So the figure against which the most recent M0 is measured is low.

Credit aggregates for November seem to support M3 growth figures. Total domestic credit extension over the 12 months to November grew 8,65% to R213,2bn. Growth in the month was 2,1%. Most of the impetus came from net claims on the government sector, which rose to R7,2bn from R3,8bn the month before. Private-sector credit growth was sluggish, rising 6,98% year-on-year to R206bn, or 0,5% in the month. ■

THE ECONOMY

Now's the time to reflate

(49) FM 5/2/93.

One swallow doesn't necessarily make a summer. But the sharp decline in CPI for December, accompanied by lower money supply growth, has heightened expectations of a further drop in interest rates.

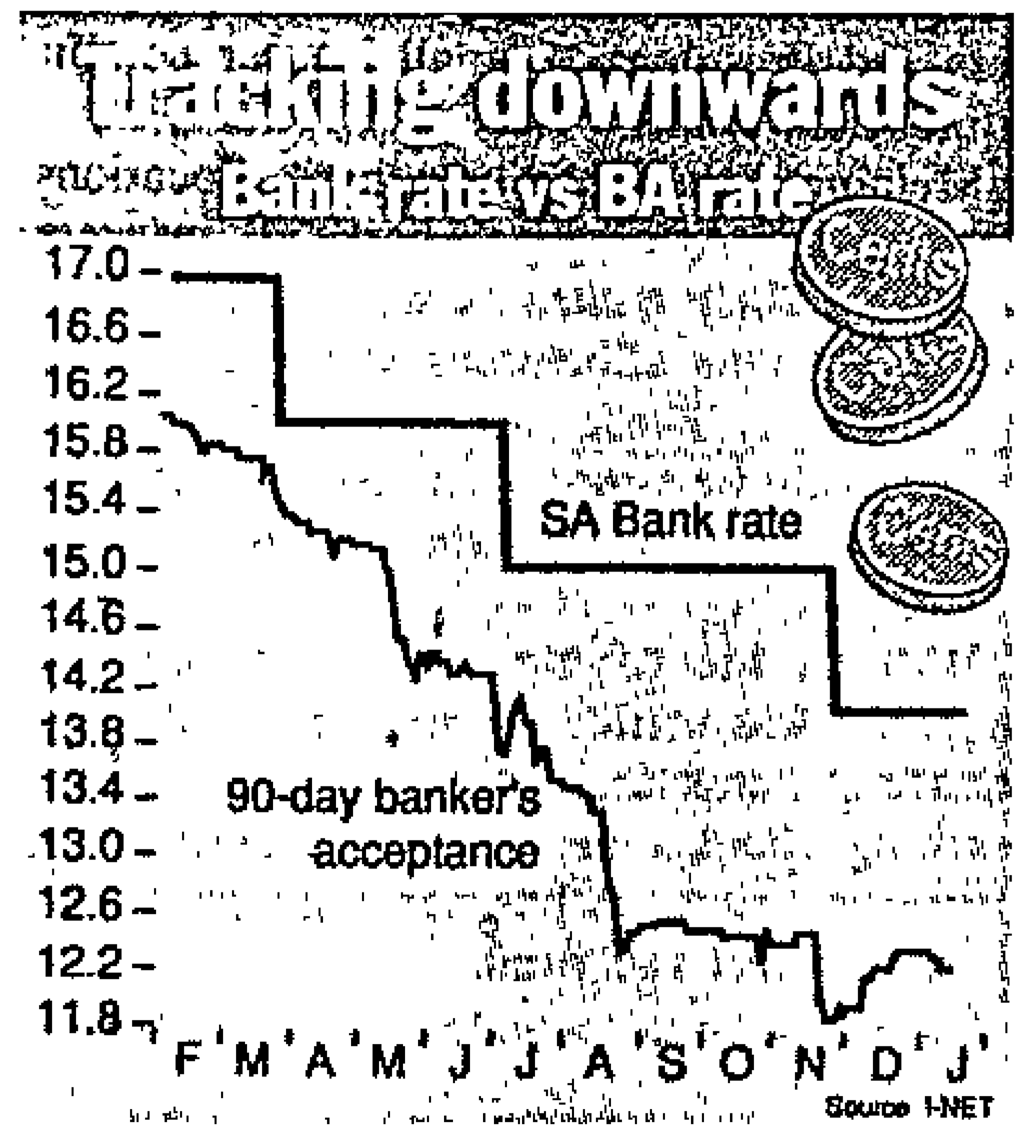
Lowering interest rates would be good for an economy that hasn't seen positive growth for about three years. It would have immediate implications for easing the debt burdens of, for example, farmers, homeowners, manufacturers and importers.

The prime overdraft rate has come down from a high of 20,25% in November 1991 to 17,25%. With year-on-year CPI inflation at 9,6% in December — implying a real interest rate of nearly 8% — Reserve Bank Governor Chris Stals must be under enormous pressure to cut the Bank rate again.

But a number of factors could limit his room to manoeuvre — chief among them pressures on the balance of payments and the likelihood of higher Vat and fuel levies as two means Finance Minister Derek Keys has of attacking the Budget deficit. Both measures are likely to give renewed impetus to inflation — at least in the short term.

Following the decline of year-on-year inflation to 9,6% in December and a dip in the broad money supply M3 in the same month to 8,58% from November's 8,66% (see p31), Stals indicates that a relaxation in the Bank's tight monetary policy is possible. Apparently a new short-term policy announcement will be made soon. He's expected to address interest rate policy, money supply, gold and foreign exchange reserves, government finances and the Budget.

Standard Bank chief economist Nico Czypionka notes a drop in nominal interest rates on the back of lower inflation doesn't necessarily imply a loosening of monetary policy as real interest rates may not have fallen.



Economists note SA's real interest rates are high compared with most of its main trading partners Japan's is around 3,8%, the US 3,1%, Germany's 7,2% and the UK's 3,4%.

Sanlam chief economist Johan Louw believes a reduction from 14% to 13% in Bank rate is imminent, to be followed by a corresponding lowering of the prime overdraft rate from 17,25% to 16,25%.

Absa chief economist Hans Falkena also expects a fall in interest rates, noting that the market has already discounted this view. The three-month BA rate, at which prime corporate clients lend from commercial banks, is around 12,15%, almost 2% below Bank rate — at which commercial banks borrow from the Reserve Bank.

It may be that balance of payments problems have become a more important determinant in monetary policy than reducing inflation which, till now, has been the Bank's prime focus. But Czypionka believes a cut in prime of at least one percentage point is called for, regardless of BoP problems.

The Bank will have to assess the outlook for the balance of payments in view of the recent fall in foreign reserves and foreign debt repayments of about R5bn (US$1,6bn) which fall due this year.

Pressure on the balance of payments means SA will have to generate enough of a current account surplus to fund outflows on the capital account. Nedcor Bank chief economist Edward Osborn says the Reserve Bank may be troubled by the thought that a loosening of monetary policy will boost economic activity, triggering a rise in imports and narrowing the current account surplus. This will impair SA's ability to meet foreign debt commitments.

But Stals says: "Disappointing reserves are largely the result of the deterioration in the current account, itself mostly due to the drought. Thus the problem of lower reserves cannot be solved through monetary policy."

Rand Merchant Bank economist Rudolf Gouws expects a current account surplus of R5,4bn if 1993 is a normal agricultural year. This could drop by R1bn-R1,5bn if there is another year of drought. But Osborn predicts a R3bn current account surplus — significantly less than the debt commitment.

There's little doubt that a jump in the Vat rate and increase in the fuel levy would have inflationary consequences. Osborn calculates a three-percentage-point Vat increase will increase the inflation rate by 2,5%.

Stals offers reassurance that the inflationary effects of a Vat increase will not influence monetary policy. "A Vat increase should have a one-off effect on prices. This should not be inflationary, as inflation is defined as continuous price increases Admittedly any Vat increase could fuel inflationary expectations through wage and price hikes, but this is unlikely in the current depressed economy."

Also inhibiting further cuts in interest rates is the need to reduce the expected Budget deficit of about R28bn. Fiscal expansion through additional borrowing means the private sector has to be squeezed (through high interest rates) to ensure overall demand is controlled.

Czypionka believes the authorities are finally beginning to control expenditure This is supported by recent figures Exchequer issues rose 17,2% in the first nine months of the fiscal year in spite of higher interest payments and spending on drought relief, well below economists' forecasts of 20%.

It is, of course, likely that a drop in interest and mortgage rates will further ease inflationary pressures and partially offset the inflationary consequences of any increase in Vat or the fuel levy

Single-digit inflation is a triumph for Stals's relentless anti-inflationary policy. It seems he can now allow himself the indulgence of a further decline in Bank rate without too many negative side-effects. ■

THIRD PARTY FM 5/2/93

Lawyers in the dock

The Office for Serious Economic Offences (Oseo) has instituted five criminal prosecutions against attorneys for allegedly defrauding the Multilateral Motor Vehicles Accident Fund. More cases are pending and the "third party" fund has reserved the right to take civil action to recover losses. The insolvent MMF's deficit exceeds R3bn.

Oseo has not yet been able to bring a case against any insurer which acted as agent for

* continue →

Financial Mail

THE ECONOMY

(49)

Only two cheers

FM 5/2/93

With inflation at a 15-year low and money supply growing even more slowly than inflation — meaning it's declining, in real terms — most countries would be rejoicing. There'd be dancing in the streets, and the proclamation of special public holidays. Here, all we get is gloomy economists predicting that it won't last (see *Economy*).

Is this just a reflection of innate Calvinist masochism? Certainly, it's hard to get euphoric about the economy on a day in which minibus drivers — once regarded as the great success story of black business — have turned much of the Johannesburg CBD — notably the streets around the JSE and 11 Diagonal Street — into an urban guerrilla war zone.

What hope can there be for renewed economic growth when the financial centre can so easily be paralysed? It may make little difference whether any individual stockbroker can get in and out of his office. The point is: how can we expect foreign investors to commit themselves to a society in which violence is so near the surface and can bubble up so suddenly, with no warning?

More to the point, there's an underlying fear that — without detracting from the discipline Reserve Bank Governor Chris Stals has imposed on us — our apparent economic gains have been brought about by weakness rather than strength.

Inflation has come down partly because of anomalies over the base and partly because of a slackening in a previously intolerable rate of food price increases; low growth in money supply reflects crumbling demand for credit, because of recession; and a surprisingly solid trade surplus, despite a slack world economy, hides the fact that a poor export performance has been outweighed by a cap on imports imposed by even poorer domestic demand — again reflecting local economic woes.

That is why these achievements, though necessary, are not adequate conditions for renewed growth, and our real interest rates will stay high, by world standards (see *Economy*)

Moreover, hovering in the background is the March Budget, for which we are now being softened up to expect increases in Vat and fuel taxes, with the ancillary message that we should be happy if direct taxes are not raised too.

Could anything be more absurd, on general principles, than to slap higher taxes on an economy just struggling to come out of the longest recession in 60 years? Sadly, that's the pass to which 45 years of Nat misrule, corruption and overborrowing have brought us. But for Finance Minister Derek Keys' new broom, it could have been even worse.

It has, of course, long been accepted that no amount of financial discipline will bring economic revival without a political settlement and a recovery in world prices of the commodities that — despite success in broadening the range into manufactures — still make up the bulk of our exports.

What this week's anarchy in Johannesburg may have shown is that, even if a political settlement can be negotiated, it won't help if relatively small groups of dissidents set their mind on disrupting the flow of society. And if this is what a couple of hundred taxi drivers can do to Johannesburg, imagine what havoc the AWB, MK or Apla could create throughout SA. ■

Sliding towards a banana republic

Weekly Mail Reporter (49) (880) W/Mail 5/2 - 11/2/93.

AS the government's budget deficit threatens to reach crisis proportions, Finance Minister Derek Keys may find he has little room for manoeuvre when he draws up the 1993/94 Budget to be presented next month.

Increases in the Value-Added Tax (VAT) rate, the fuel levy and excise duties appear certain, following President FW de Klerk's comment to public servants last month that there would have to be tax increases in the Budget.

Tax increases could bring Keys into direct conflict with the African National Congress and organised labour, despite the support he has expressed recently for wider public participation in economic decision-making.

The Budget is on the agenda of the National Economic Forum. The ANC has called for more efficient tax-collection methods and has mentioned new taxes — for example, on capital gains, wealth and property. The Congress of South African Trade Unions this week called for a "freeze" on tax rates, and for cuts in government "apartheid" expenditure and restructuring of the civil service.

Keys may not have many options in the short term. The government's deficit has spiralled as the recession has continued and revenue from VAT has lagged way behind expectation. Nedbank chief economist Edward Osborn says VAT collections have been running at up to R500-million a month lower than Budget projections.

The gap between the government's income and expenditure, estimated in the 1992/93 Budget at R15,9-billion, or 4,5 percent of GDP, is likely to turn out close to double that. Most economists expect a figure of around R28-billion, or 8,4 percent of GDP. And this could rise to R30-billion, depending on how the government writes off agricultural debt, says Osborn.

Next month's Budget will be starting from the large deficit already run up, and the deficit will grow exponentially unless action is taken to ensure expenditure grows more slowly than revenue. A widening deficit feeds upon itself since the interest paid on the government's ever-rising debt then contributes to increased government expenditure. Interest costs are already running at more than 16 percent of expenditure.

It's an explosive situation, warns Osborn, and a "banana republic" situation could develop rapidly unless the gap is closed. If a new government inherits the unsatisfactory accounts of the present one, it might find the "Kinshasa option" — printing "funny money" to pay civil servants — the only way to extract itself from its budgetary problems.

The latest Amalgamated Banks of South Africa (Absa) *Quarterly Economic Monitor* outlines two options for the government: to reduce the deficit by curbing government expenditure and increasing taxes, thereby constraining growth; or to curb expenditure without increasing taxes, so that the deficit would remain high but the growth rate could improve marginally.

The Afrikaanse Handelsinstituut (AHI) this week adopted the second Absa alternative, calling on the government not to increase civil servants' pay at all and not to increase taxes sharply, on the grounds that this could exacerbate inflation and prevent growth.

Osborn argues for expenditure cuts, but also sees tax increases as inevitable. The government must do as much as possible on the expenditure side, he says, through such measures as reconstructing ministries. The recent announcement that civil service salaries would rise by only five percent means a big saving in real terms, even though with salary notches the effective increase will be closer to nine to 10 percent, he says.

The government must also re-examine its transfers to the "self-governing" homelands and "independent" TBVC states, over which it must tighten fiscal control.

Osborn adds that a revision of the treaty governing the South African Customs Union (SACU) is essential. The SACU formula works against South Africa, which is making large payouts to Botswana, Lesotho, Swaziland and Namibia, as well as the TBVC states.

One source of increased revenue for the government will be fiscal drag — where individuals who get pay increases to compensate for inflation enter higher tax brackets and find themselves paying a higher proportion of their income in tax.

Lower inflation means that fiscal drag will make less of a contribution, but the AHI has estimated that it will net the government an extra R3-billion in the 1993/94 fiscal year. The AHI expects that a one percent increase in the VAT rate would increase government revenue by a further R4-billion.

Osborn expects VAT to rise to 12 percent or 13 percent. It is unlikely to be raised to 15 percent, as some have predicted, because "this would knock out what wind there is left in the economy", he says.

ARG 6/2/93

Call for Southern Africa forum

JOHANNESBURG. — A leading South African economist has called for the setting up of a non-executive, expert economic forum for the sub-continent run on the lines of the developed world's Organisation for Economic Co-operation and Development (OECD).

In Nedbank's latest Guide to the Economy, chief economist Mr Edward Osborn says an Organisation for Southern African Co-operation (Osac) would be in the best interests of all the countries in the region.

His call follows the recent key conferences held by the Preferential Trade Area (PTA) and Southern African Development Community (SADC) — both of which ended without reporting significant progress towards better economic flows in the region or the thorny issue of South Africa's membership.

Mr Osborn says Osac, an idea orginally put forward by Dr Erich Leistner of the Africa Institute, would be the "least likely (regional economic body) to encounter friction".

Osac's purpose would be to "bring to the attention of the countries, advice on actions or policies for the benefit of all members".

South African membership of the PTA or SADC would be likely to generate mistrust because of the country's economic size and strength.

"The problems of giantism would be overwhelming," he argues, "South Africa would have to be subject to all sorts of imposed and self-imposed restraints and limitations to maintain any sort of harmony within the organisation."

Mr Osborn envisages Osac operating in a similar manner to the OECD and points out the latter body "has no executive functions and, accordingly, is not a political body. All members enjoy equal status and its work is confined to analysis and recommendation in the interests of members". — Sapa.

Interest rate dip on cards

Star 6/2/93

FINANCE STAFF

TRACY Ledger of FNB's treasury department says there is a generally held belief among her banking colleagues that there will be a drop of 1 percentage point in interest rates before the end of the month.

Ledger was one of the speakers at The Star FNB Investors' Club meetings held earlier this week.

But she cautioned that Reserve Bank Governor Chris Stals would not jeopardise long-term economic growth for a short-term solution. Large reductions in interest rates in an effort to boost the economy were unlikely.

"Stals has gone on record that his main aim is to establish a framework on which future economic growth can be based."

Ledger explained that this framework must incorporate the following:

- Managing money creation, and the amount of credit available.
- Maintaining positive real interest rates, as these encourage savings and generate investment.
- Controlling increases in total bank credit.
- Increasing reserves to equal three months' imports.
- Maintaining a stable and effective exchange rate.
- Developing a sound financial infrastructure with a low level of inflation.

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And you can't assume interest rates must be cut because inflation is down. "Put simplistically, high interest rates are a deterrent to borrowing, which means that spending slows down, and the whole economy slows down," she said.

"This in turn brings down the CPI (consumer price index). Food prices comprise about 30 percent of the CPI basket. Recently there have been very good declines in food inflation. If the drought ends and deregulation of control boards continues, it will bring down the price of food considerably.

"But should the CPI fall further, the scenario for further reductions in interest rates looks more promising," she added.

Warning sounded on deficit action

CT 6/2/93 (49)

By AUDREY D'ANGELO
Business Editor

THE Government should not try to slash its deficit before borrowing in this year's Budget "otherwise the economy may lurch straight back into recession", Old Mutual economists advise.

"For the time being growth should be more of a priority than alleviating the government's financial crunch," they say in a Special Focus on the deficit and its dangers, in their Economic Monitor.

"But immediately a recovery begins, government must act tough on the deficit, bringing it back to its safe 1980s average of 3% to 4% of gross domestic product (GDP).

"Otherwise rampant inflation and/or renewed recession are all too likely in due course."

The Minister of Finance, Derek Keys, announced this week that the deficit would exceed the forecast 8%. He said the IMF had warned, when it was expected to be 6%, that the country was in danger of falling into "the debt trap."

This is the situation in which too large a proportion of a country's income is spent unproductively on servicing loans.

The Old Mutual economists say that 'simple' solutions like slashing spending or hiking up taxes "may just entrench the current recession further.

"A combination of tactics is needed to keep the deficit under control while encouraging economic growth — but the hazards of economic instability in a few years' time are troubling."

Pointing out that government deficits normally rise in periods of recession — when tax revenue falls and the need for unemployment benefits and other forms of income support increases — only to shrink in boom periods, they say: "Under normal circumstances where recessions last only a year or two a large temporary deficit might not matter much.

"But the recession currently hammering SA is the longest since the Great Depression of the 1930s. And even in the event of an economic recovery government revenues will take a while to pick up again."

They say the impact of any deficit depends on how the money is used: "Spending on classrooms, dams and highways, for example, should eventually facilitate faster growth in the economy as a whole, leading to higher tax inflows for government and paying off the costs of the original investments."

But spending on even the most necessary projects which will give no financial return, such as maintaining law and order, implies that at some time taxes will have to rise to cover high interest payments.

The good, bad and filthy

S Times (Buss) 7/2/93.

THE bad news is that the economy may have hit rock bottom. The good news is that foundations can now be built for an economic recovery. Comment by **KEVIN DAVIE.**

49

FINANCE MINISTER Derek Keys showed the press his "filthy pictures" this week. These are a set of charts which he has used to warn the Cabinet and the ANC of the poor state of the SA economy.

Mr Keys showed the filthy pictures to the ANC's Trevor Manuel who briefed Nelson Mandela. Mr Mandela's response was to say it was time to return to negotiations.

Mr Keys's briefing took place as the March 17 budget is being finalised. The deficit could top R30-billion for the year. The economy shrunk by 5% during the second half of last year.

Confident

It might be expected that Mr Keys's message — the kind that shocked the ANC — may be all doom and gloom. But not so.

He is surprisingly confident and with good reason. Annus horribilis has brought the best news since the late 1970s — single-digit inflation. If the trend continues, single-digit interest rates should follow.

Stable prices and cheaper money provide a foundation for growth.

The economy has helped bring the key players close to a political settlement, providing another important foundation: improved stability and confidence.

South Africans have learned in recent months not to hold their breath for foreign investment. Foreigners will only invest once domestic investment has created a more attractive investment environment.

The Columbus, Alusaf and Namaqua Sands megaprojects are important in this context, says Mr Keys.

A political settlement will give access to a major source of foreign finance, the IMF and World Bank, providing another foundation for growth.

But the burgeoning budget deficit could, by itself, derail the transition as it will soak up resources and stifle the economy.

The deficit — heading for over 8% of GDP this year — could be reduced in the next budget to the manageable level of 3% of GDP but only by savaging the public sector, further damaging an already shell-shocked economy.

As noted by Mr Keys, the deficit — the largest in SA's history — does not pose any immediate threat as the savings it will draw are not being put to productive use.

But the growth which cheaper money, stable prices and improved politics will bring will be choked if the deficit is not brought back soon to prudent proportions.

Mr Keys's economic model, now due for release in a few weeks, is a four-year plan to put the economy on a competitive footing. The plan is to reduce government consumption expenditure to free up resources for new investment.

Most observers believe Mr Keys will budget for a deficit of about 5% or 6% of GDP. Government expenditures are being cut and are likely to be further cut in coming years as the costly government machine is rationalised and overhauled.

This brings the prospect of lower taxes in the future, but higher taxes in this budget even though President de Klerk and Mr Keys are aware that taxpayers have diminished will and ability to pay new taxes.

Oil

Frankel Max Pollak economist Mike Brown estimates that Mr Keys will need to find about R6-billion in new sources of revenue.

He suggests Vat at 13% will bring in R4-billion, fuel tax of 7c/litre will fetch R1-billion, R300-million to R400-million will come from higher sin taxes and R500-million to R1-billion from further sales of the oil stockpile.

Mr Keys's job will be to convince the over-burdened taxpayer that while this year may not produce the goods, it will provide the base for much better years.

"The economy has hit the bottom; now the foundations for future growth can be built," says Mr Brown.

State moves to stem flow from customs union

(49) (TEC)

S Times (Buss) 7/2/93

By CIARAN RYAN

THE GOVERNMENT is moving to cut back the payment of billions of rands of taxpayers' money to SA's partners in the SA Customs Union (SACU).

One official says Minister of Finance Derek Keys intended to unilaterally withdraw SA from the customs pool last year once he became aware of the financial burden it imposed on SA, but was dissuaded from doing so by the Department of Foreign Affairs.

Perhaps the most contentious aspect of the customs pool is the R1,7-billion paid to the TBVC homelands in 1991/2 from SA's share of the customs pool.

This additional source of funding for the homelands — over and above the 1992 budgeted assistance of R3,7-billion — has only recently been brought to light. It has never been voted by Parliament.

An ANC spokesman says: "It's absurd. This is a way of disguising government subsidies to the bantustans."

The government is attempting to devise an alternative customs agreement, a development which has serious implications for Swaziland and Lesotho, which rely on the customs union for more than 50% of their total revenues.

"We gave notice a year ago that the financial burden of the customs pool was becoming too high," says Gerrie Breyl, deputy director-general at the Department of Trade and Industry.

"We have to look at an alternative system of economic co-operation which perhaps goes beyond the present boundaries of the customs pool."

Friends

SA contributes 90% of all revenue to the customs pool, yet its share of receipts declined from 73% to 44% over the last decade, prompting calls for the disbanding of SACU.

SA received just R3,64-billion of the R8,14-billion collected in the common customs area (CCA) from customs and excise duties and surcharges in 1991/2. Botswana, Lesotho, Namibia and Swaziland (the BLNS countries), SA's partners in SACU, took R2,8-billion from the pool in 1991/2 and this year will take in excess of R3-billion.

This, say some observers, is the price SA had to pay for buying friends in the region. But with a SA budget deficit of nearly R30-billion this year, SACU is coming under intense scrutiny.

The same formula that applies to Botswana, Lesotho, Namibia and Swaziland for purposes of calculating their share of the customs pool is applied to the TBVC states.

Nedbank economist Magan Mistry, writing in the latest Nedbank Guide to the Economy, says a major reason for SA's declining share of the pool is the slower rate of increase in its imports compared to that of the BLNS and TBVC states.

Because excise duties are counted in the formula, SA's partners receive payment for beer and other excisable goods even where these are made and consumed in SA.

Department of Trade and Industry director-general, Stef Naude, says the payments to SA's partners "are becoming unaffordably high to us".

"The distribution formula of the common income pool has the effect that the BLNS countries receive a minimum payment equal to 17% of the value of their total imports, including their imports from SA which of course make no contribution to the pool."

Mr Breyl says SA's partners in the customs pool receive closer to 20% of the value of their imports.

The BLNS countries are unhappy with aspects of the current agreement, particularly the time lag between the end of a fiscal period and payment for that period (Customs and Excise waits up to two years before paying).

In terms of the formula for sharing the revenue pool, the value of imports to BLNS and TBVC states are inflated by 42% to compensate them for loss of fiscal discretion and the price-raising effect of a SA-determined tariff structure.

Rejected

Because of sharp fluctuations in revenue received by the BLNS countries in the 1970s, a stabilisation factor was introduced into the formula which guaranteed revenue of between 17% and 23% of the value of each country's imports. Repeated attempts to increase the stabilisation factor were rejected by SA.

Professor Colin McCarthy of Stellenbosch University, a former adviser to the government on the SACU, says the effect of this stabilisation factor is to inflate the value of BLNS imports by 60%.

Withdrawing the TBVC states from the customs pool would enable the government to lower or avoid increasing VAT by about one-and-a-half percentage points, but would leave the homelands with about R3,6-billion less revenue than spending.

Commentators have advised government not to disband the SACU in order to solve short-term budgetary problems.

"The feeling in the ANC is that the SACU can become a building block for a wider regional trading bloc," says the ANC spokesman. "But we have to decide whether the compensation paid to our partners is fair in view of the inflationary effects of submitting to SA's trade policy."

Star 8/2/93 (49)

OECD model mooted for southern Africa

A leading South African economist has called for the setting up of a non-executive expert economic forum for the sub-continent run on the lines of the developed world's Organisation for Economic Co-operation and Development.

Nedbank's chief economist Edward Osborn says in the bank's latest quarterly "Guide to the Economy" an Organisation for Southern African Co-operation (OSAC) would be in the best interests of all the countries in the region.

His call follows the recent key conferences held by the Preferential Trade Area and Southern African Development Community — both of which ended without reporting significant progress towards better economic flows in the region or the thorny issue of South Africa's membership.

Osborn says OSAC, an idea orginally put forward by Dr Erich Leistner of the Africa Institute, would be the least likely regional economic body to encounter friction and tensions.

This would be ensured as OSAC would have no executive functions or pretensions. Its purpose would be to bring to the attention of the countries advice on actions or policies for the benefit of members and the region.

South African membership of the PTA or SADC would be likely to generate mistrust because of the country's economic size and strength.

Osborn envisages OSAC operating in a similar manner to the OECD and points out the latter body "has no executive functions, and accordingly is not a political body with internal power relationships, all members enjoy equal status, and its work is confined to analysis and recommendation in the interests of members".

Membership of OSAC would be on an equitable basis and would probably be Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe and Zaire.

Keys and Stals in tug of war over interest rates

B/Day 9/2/93. (49)

GRETA STEYN

WATCHING interest rates come down had been like watching paint dry, Finance Minister Derek Keys said last week. With that comment, Keys indicated his frustration at Reserve Bank Governor Chris Stals's tardiness in moving on the monetary policy front.

But if Keys has concerns about monetary policy, Stals is worried about fiscal policy. He said failure to deal with the deficit could see interest rates rise this year. The warning sent a slight tremor through the markets where nerves have been tested to the utmost by Stals's waiting game on interest rates.

Stals was, however, reluctant to elaborate on fiscal policy. It was not his role, he said, to discuss the Budget. Likening the Finance Minister and the Reserve Bank Governor to a shark and a visitor to a pub near the beach, he said: "We have a good understanding. I don't go into the sea and he doesn't come into the pub."

But to use Stals's metaphor, Keys did enter the pub and made his presence felt.

"There is plenty of room for interest rates to come down," he said, noting that "inflation is now in single digits and pointing strongly downwards. We are entering a sane economic era and it is possible to do things that seemed out of reach 12 months ago."

The main difference between Keys and Stals lies in emphasis on economic growth. While Keys wants a Budget allowing for growth, Stals's only comments on fiscal policy are that the deficit must be reduced.

SA's deficit, at more than 8% of GDP in 1992/93, is more than the IMF's "debt trap" level of 6% of GDP. The "debt trap" means government is locked into huge borrowings every year simply to service its debts. Last year government budgeted for R16,3bn in state debt servicing — more than the budgeted deficit of about R16bn. The deficit eventually soared to almost double the budgeted level, leading to huge borrowings.

The interest burden on the extra loans further reduces the room for manoeuvre when it comes to cutting the deficit; government will for years to come remain locked into a high level of borrowing simply to service its debt.

Theoretically, long-term borrowings are supposed to finance capital spending, but only about R6bn of the R30bn deficit in the 1992/93 year represents capital spending.

If government is to wriggle free from the debt trap to move closer to the theoretical ideal, its borrowings will have to come down. Stals has emphasised two ways of achieving this — cutting government spending and raising taxes. Stals said an increase in the VAT rate, even though it would raise inflation, would not be seen as a reason to tighten monetary policy. But failure to reduce the deficit could even cause interest rates to rise later this year.

Keys's emphasis on growth raises a third approach to reducing the deficit as a percentage of GDP. A robust economy would automatically provide relief, as GDP would be larger and revenues healthy. Within the Finance Department, increasing attention is being paid to the relationship between growth and the problems of debt and interest costs.

Cutting spending dramatically and raising taxes substantially could depress economic growth to such an extent that little progress is made in reducing the deficit/GDP ratio.

Keys's emphasis on economic growth indicates he is aware of the dangers of dramatic action to tackle the problem. But what about the danger of inaction, of falling deeper and deeper into the trap? Was this danger the reason for Stals's delay?

Keys, however, was confident last week of producing an acceptable deficit. "I am a deal maker. I will do what can be done," he said.

Faced with a huge interest bill and a battle-scarred economy, there is very little he can do. Most economists expect a deficit of about 6% of GDP, from more than 8% this fiscal year.

A growing economy would make Keys's job that much easier. Growth and investment spending would be boosted by a cut in interest rates, with inflation much lower than at the start of previous upswings. No wonder Keys is frustrated over the pace at which interest rates are falling.

☐ KEYS

LETTERS

Strict new money supply guidelines

Stals makes another cut in Bank rate

BDM 9/2/93 (49)

GRETA STEYN

RESERVE Bank Governor Chris Stals last night announced a one percentage point cut in Bank rate from 14% to 13% after days of feverish speculation in the financial markets.

Bankers said last night they would announce reductions in their prime overdraft and home loan rates today in response. The prime overdraft rate is at present 17,25%.

The move was not expected to be repeated in the near future as Stals's statement was accompanied by a stern warning that interest rates might have to rise if balance of payments (BoP) problems persisted.

Stals also announced strict new money supply guidelines and vowed to keep a tight lid on money supply growth. The new target range for growth in money supply from the fourth quarter of 1992 to the same period this year is 6%-9%, down from 7%-10%. There was room for an increase in real economic activity without any significant further growth in the money supply, he said, because of large increases in the stock of money over the past five years.

BoP problems were draining liquidity from the money market, and there could be pressure on the Bank to respond by printing money. Stals said: "A continuing overall deficit on the BoP may in due course again lead to higher interest rates which the Reserve Bank should not try to neutralise by the creation of more money."

The decline in SA's gold and other foreign exchange reserves of more than R3bn over the past four months had already had a restrictive influence on the availability of domestic liquidity. If the decline continued, it would work against further reductions in interest rates, even if inflation developments remained positive.

Stals emphasised BoP developments "urge a cautionary monetary policy", noting that earlier interest rate cuts had probably contributed to the massive outflow of capital at the end of last year. Net capital outflows were R3,5bn in the fourth quarter and for the first time in a long period the Bank had had to make a drawing of R800m on a foreign loan to shore up reserves.

On government finances, he warned that a deficit of more than 8% of GDP would not be sustainable once real expenditure by the private sector increased again. Positive developments, however, included a low rate of growth in credit and a fall in consumer and producer inflation to single digits. Total credit extended to the private sector grew by only 7% in the year to November 1992. The PPI had risen by single digits since November 1991 and it was especially encouraging that the domestic component of producer inflation had also started slowing down.

TIM MARSLAND reports that FNB MD Barry Swart said last night the bank would today announce reductions in its prime and

☐ To Page 2

Rate cut

BDM 9/2/93 (49)

☐ From Page 1

home loan rates

Most banks' home loan rates are 16,75% while prime is at 17,25%.

Nedbank MD Richard Laubscher said the rate cut was a positive sign in the light of international rate cuts last week and lower inflation locally. "We will review our prime and home loan rates today."

Standard Bank MD Mike Vosloo said. "We have been anticipating a cut in Bank rate for some time so the move hardly comes as a great surprise. Obviously we will be looking at the situation today and will respond in due course."

Absa would review the situation today.

● See Page 8

Tight monetary policy to continue, Stals warns

(49) ARUS 9/2/93

SVEN LÜNSCHE

JOHANNESBURG. — Reserve Bank governor Dr Chris Stals yesterday committed the bank to a tight monetary policy for 1993 despite announcing a one-point cut in the bank rate.

In a comprehensive policy statement outlining the drop in interest rates, he set money supply guidelines of six to nine percent for 1993, a mere one point lower than the seven to 10 percent target range for 1992

The guidelines apply from the fourth quarter of 1992 to the fourth quarter this year and, according to Dr Stals, take into account the need for an increase in the money supply to support an expected rise in real gross domestic product (GDP) in 1993.

Explaining the reasons for the persistent tight course of monetary policy, he said South Africa's gold and foreign exchange reserves and the balance of payments had shown a marked deterioration in the past few months.

This trend continued in January when the total reserves fell by a further R316 million from December to R8,79 billion — their lowest level since December 1991.

The gold content of the reserves last month was virtually unchanged from December at R6,06 billion, but the forex reserves component dropped from R3,02 billion to R2,73 billion.

The reserves peaked in August at just over R11,5 billion but have fallen since then as a result of smaller trade surpluses and higher foreign debt repayments.

In January R116 million was repaid in foreign loans, Dr Stals said

Economists estimate that South Africa will have to meet a further R4 billion in foreign debt commitments this year.

Of the balance of payments, Dr Stals said that after renewed capital outflows of R3,5 billion in the fourth quarter last year the surplus on the current account for 1992 fell to R4,4 billion from R7,4 billion in 1991.

He warned that the declining tendency in the gold and other foreign reserves would militate against further reductions in interest rates, irrespective of what the inflation rate may do in the future.

"In fact, a continuing overall deficit on the balance of payments may in due course again lead to higher interest rates, which the Reserve Bank should not try to neutralise by the creation of more money."

Dr Stals also indicated that a failure by the government to bring its fiscal deficit under control could further militate against an easing in monetary policy.

Expecting a deficit of more than eight percent of GDP for 1992-93, he cautioned that such a deficit "would not be sustainable once real spending by the private sector increased again".

Given the slide in the surpluses on South Africa's foreign accounts and the large deficit, he attributed the cut in the bank rate solely to the recent drop in inflation below 10 percent and the continued drop in M3 money supply growth rates.

"Interest rates can be reduced at this stage without signifying any fundamental easing in monetary policy," he said.

Washington Letter
by SIMON BARBER

World Bank won't give SA any fast fixes

CT 9/2/93 (49)

IT IS now common cause between the major parties — and indisputable, to boot — that the longer South Africa takes to get its political and constitutional house in order, the bleaker its economic prospects The ANC and the government have evidently agreed to let this linkage force the pace of negotiation In a sense, both sides have acknowledged they are under equal pressure from the sanctions applied by the invisible hand of the marketplace

In most respects, this is an excellent development But, as always, there are downsides One is the temptation to exaggerate the economic consequences of not reaching a settlement in order to impose quick-fix constitutional arrangements from the top down Another is the overselling of the degree to which aid and investment will start gushing in once a non-racial government has been established

Third, some of those making this dubious pitch may actually believe it themselves and thus feel less inclined to abandon certain old and cherished ideas, confident that whatever they do will be subsidised by an outside world anxious to assist in building a new South Africa This is a dangerous delusion

Foreign donors and lenders may have encouraged it elsewhere in the past Now, thanks to experience and tight resources, they have been obliged to re-evaluate

Exuberant abandon

A clear understanding is therefore needed of what will actually happen on that glorious day when the ANC finally decides to declare South Africa open for business Or at least of what will not happen In which regard, consider the World Bank, an institution which many who should know better persist in regarding as the ultimate sugar-daddy

A lot of people seem to have got it into their heads that as soon as some kind of interim government is in place — whether it be the transitional executive that is supposed to take over around mid-year, or the elected assembly pencilled in for early 1994 — the bank will begin shovelling cheap money into the economy with exuberant abandon. John Chettle, former director to the South Africa Foundation's Washington office, has predicted lending on the order of a billion dollars a year

The same figure appears in promotional literature for the forthcoming "Made in USA" trade expo in Johannesburg, whose organiser, David Altman, says he got the number from banks and other supposedly knowledgeable sources in South Africa

Such projections betray a basic innocence of what the World Bank is and how it operates — an innocence, it must be said, for which the bank's own public relations machinery is partly responsible.

Two kinds of loans

Last year, I asked Marilou Ingram of the Africa Department's external affairs office for help in preparing a straightforward description of how the standard World Bank loan worked. She gave me a stack of policy speeches by the department's chief, Edward Jaycox. What I needed was the disbursement handbook.

The key concept to haul aboard (and a phrase that did not once pass Ingram's lips) is the project cycle.

The International Bank for Reconstruction and Development — which is the bit of the bank South Africa will chiefly be dealing with since, at this stage anyway, its per capita GNP is too high for it to qualify for the concessional support of the International Development Agency — offers two basic kinds of loans

One, by far the larger category and accounting for 70% of current lending, is for investment projects. The second is to assist pre-agreed sectoral and structural adjustment programmes.

In each instance, the bank provides the borrowing country with foreign exchange to purchase imports on terms — last year's average rate was around 7,7% — it would not be able to obtain on the open market. About 40% of project loans are confinanced by other governments and commercial lenders.

Projects typically financed by the bank encompass agricultural and industrial development, transport, education, health and nutrition. Borrowers have to work out for themselves what they need, though the bank helps identify priorities.

Water, sewerage

This is what it is doing in South Africa now It is studying the economy and figuring out how best to advise the borrower when there is one There isn't one currently because the bank's executive board has decided it will not lend until there is a government that at least pretends to represent the population.

Nonetheless, stage one in the cycle — project identification — can be said to have begun. Areas in which the bank thinks it could make a contribution include health and education (finance for clinic and school construction and training for teachers and medical staff) and urbanisation.

One strategy under consideration is to invest in water and sewerage in areas outside city centres. The idea is to raise land values and mobilise capital for housing development.

At all events, it will be up the new government to make the final cut on what it wants to do The process generally takes between one and two years, according to the bank's guidelines. In South Africa's case, allowing for work already done, say a year from the time the government become eligible to borrow.

The next stage is project preparation. The bank needs to see a detailed plan, which must, among other things, take into account whatever happens to be the institution's fixation du jour. Women and the environment top the chart at the moment.

Planning is largely the borrower's responsibility, though the bank is generally willing to advance up to $1 m (about R3 m) per project from its Project Preparation Facility Help can also be sought from UN agencies, regional development banks and bilateral donors. This phase tends to last between one and three years

Turning sour

Presently, it would be wise to err on the longer side. A recent review of the bank's project portfolio, the Wapenhans Report, has revealed that the share of projects with "major problems" has been rising steadily, to 20% in 1991, the majority in Africa.

Thirty percent of projects in their fourth or fifth year of implementation were judged to be turning sour, including 43% of those dealing with water supply and sanitation "This may mean longer preparation time," wrote bank president Lewis Preston in a cover note.

Assuming South Africa is recognised as a borrower by year's end, chances are it won't be ready to present the bank with acceptable plans before 1996 Even then, no funds will begin to be disbursed until stages three and four — appraisal and negotiation — have been completed These can consume the best part of yet another year At which point loan proceeds are placed into the "pipeline" to be tapped as work on the agreed projects moves ahead to the bank's satisfaction The lifespan of the standard project is around six years

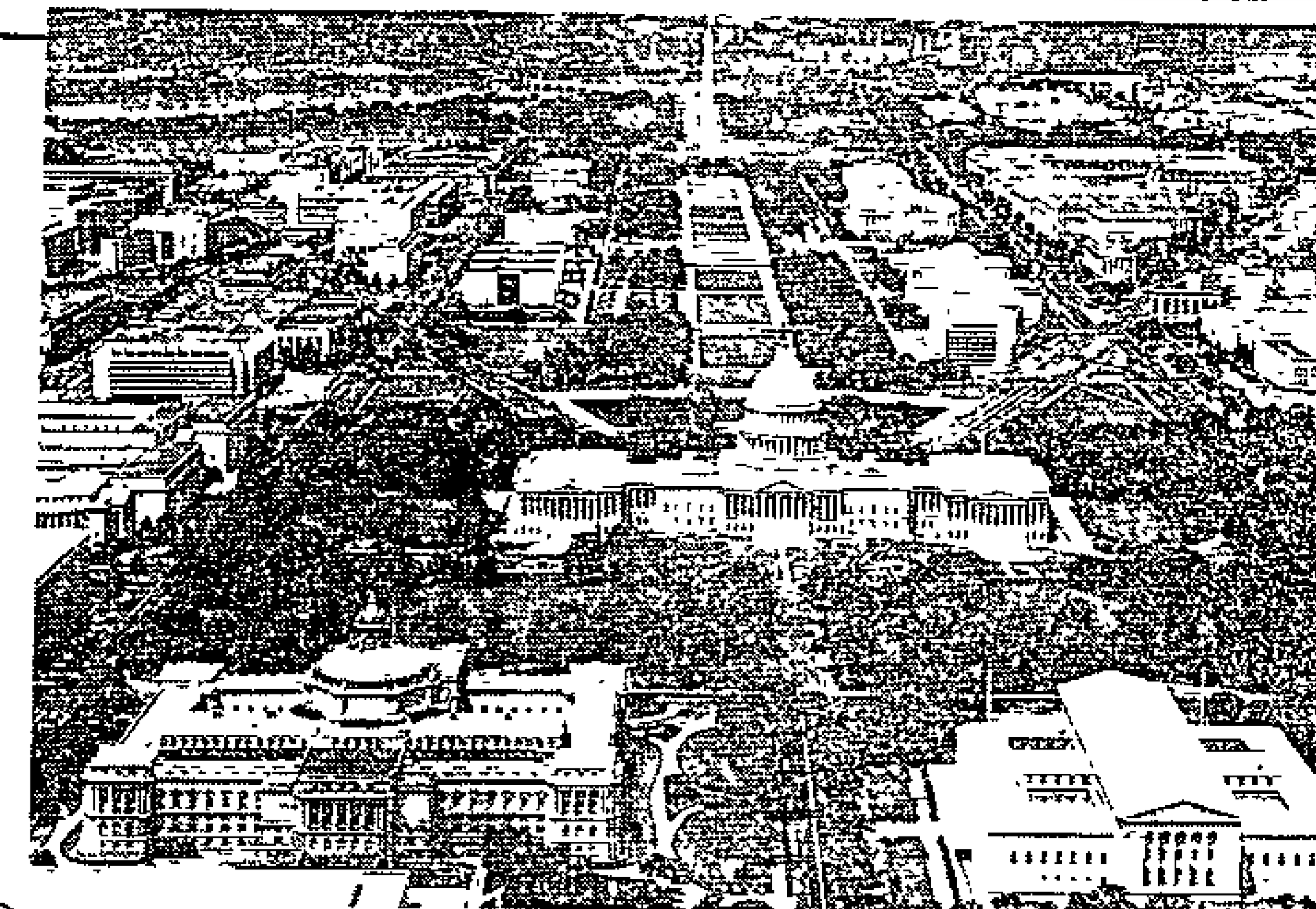
To be sure, there is also the possibility of an adjustment loan not tied to any specific project. But this will not be instantaneous either. The new government will not only have to justify it, but also commit to certain economic policies and convince the bank that they are sustainable. This may be beyond the capacity of an interim government, even an elected one.

Furthermore, such loans do not come in lump sums, but rather in tranches payable as agreed reforms are implemented. Most are to enable the borrower to purchase an agreed list of imports

Generally, the borrower must prefinance the imports and claim reimbursement later

None of this is to say the bank won't be helpful It will be, as a lender, adviser and stimulator of investment by others.

It may even be a useful scapegoat. But it isn't going to provide any fast fixes No one is going to do that There are no sugar daddies



MONEY CENTRE ... Washington DC, home of the World Bank which is considered by many who should know better as the ultimate sugar-daddy.

R12,5bn made available to fund govt's deficit

BI Dmy 9/2/93. (49).

TIM MARSLAND

THE Public Investment Commissioners (PIC) would make available R12,5bn to fund government's deficit for 1993/94 out of its R17,7bn cash flow, director Badie Badenhorst said yesterday.

Of the R17,7bn, R5,2bn was invested in the money market and could be made available to government, but he was reluctant to wind down his cash book.

The PIC administers R51bn in government pension funds and R13bn in other public sector funds.

Of the pension funds, 8% was invested in equities and 92% in fixed interest securities. In total, the PIC held 54% of government's total issued debt of R128bn.

The PIC also had funds invested in Eskom, Transnet, Umgeni and Telkom stock.

Some funds were invested in municipal bonds.

The R5,2bn invested in the money market was primarily in negotiable certificates of deposits and capital project bills.

Badenhorst said the PIC consulted the Reserve Bank before making investment decisions.

"We have to keep an eye on the monetary policy effects of any transaction we do. We are essentially chasing the same goals as the Bank," Badenhorst said.

About R3,2bn of government pension money was invested by six independent pension funds.

These were Sanlam, Old Mutual, Syfrets, Southern Life, Standard Merchant Bank and Investec Asset Management, Badenhorst said

The PIC rated the performance of its pension funds against these six.

Only one showed better returns than the PIC, he said.

For the past three and a half years, government pension funds showed a return of 3% above the actuarial bond index, he said.

Government's pension fund at R33bn makes up the lion's share of the R64bn under PIC management.

The PIC also manages the independent homelands' pension funds.

SA can forget about quick fixes from sugar daddy donors

BDay 9/2/93.

SIMON BARBER in Washington (49)

IT IS now common cause between the major parties — and indisputable, to boot — that the longer SA takes to get its political and constitutional house in order, the bleaker its economic prospects. The ANC and government have evidently agreed to let this linkage force the pace of negotiation. In a sense, both sides have acknowledged they are under equal pressure from the sanctions applied by the invisible hand of the marketplace.

In most respects, this is an excellent development. But, as always, there are downsides. One is the temptation to exaggerate the economic consequences of not reaching a settlement in order to impose quick-fix constitutional arrangements from the top down. Another is the overselling of the degree to which aid and investment will start gushing in once a nonracial government has been established. Third, some of those making this dubious pitch may actually believe it themselves and thus feel less inclined to abandon certain old and cherished ideas, confident that whatever they do will be subsidised by an outside world anxious to assist in building a new SA. This is a dangerous delusion.

Foreign donors and lenders may have encouraged it elsewhere in the past. Now, thanks to experience and tight resources, they have been obliged to re-evaluate.

A clear understanding is therefore needed of what will actually happen on that glorious day when the ANC finally decides to declare SA open for business. Or at least of what will not happen. In which regard, consider the World Bank, an institution which many who should know better persist in regarding as the ultimate sugar daddy.

A lot of people seem to have got it into their heads that as soon as some kind of interim government is in place — whether it be the transitional executive that is supposed to take over around mid-year, or the elected assembly pencilled in for early 1994 — the bank will begin shovelling cheap money into the economy with exuberant abandon.

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Such projections betray a basic innocence of what the bank is and how it operates — an innocence, it must be said, for which the bank's own public relations machinery is partly responsible. Last year, I asked Marilou Ingram of the Africa department's external affairs office for help in preparing a straightforward description of how the standard World Bank loan worked. She gave me a stack of policy speeches by the department's chief Edward Jaycox. What I needed was the disbursement handbook.

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One, by far the larger category and accounting for 70% of current lending, is for investment projects. The second is to assist agreed sectoral and structural adjustment programmes. In each instance the bank provides the borrowing country with foreign exchange to purchase imports on terms — last year's average rate was 7,7% — it would not be able to obtain on the open market. About 40% of project loans are co-financed by other governments and commercial lenders.

Projects typically financed by the bank encompass agricultural and industrial development, transport, education, health and nutrition. Borrowers have to work out for themselves what they need, though the bank helps identify priorities. This is what it is doing in SA now. It is studying the economy and figuring out how best to advise the borrower when there is one. There isn't one currently because the bank's executive board has decided it will not lend until there is a government that at least pretends to represent the population.

Nonetheless, stage one in the cycle — project indentification — can be said to have begun. Areas in which the bank thinks it could make a contribution include health and education (finance for clinic and school construction and training for teachers and medical staff) and urbanisation. One strategy under consideration is to invest in water and sewerage in areas outside city centres. The idea is to raise land values and mobilise capital for housing.

It will be up to the new government to make the final cut on what it wants to do. The process generally takes between one and two years, according to the bank's guidelines. In SA's case, allowing for work already done, say a year from the time the government is eligible to borrow.

The next stage is project preparation. The bank needs to see a detailed plan which must, among other things, take into account whatever happens to be the institution's *fixation du jour*. Women and the environment currently top the chart.

Planning is largely the borrower's responsibility, though the bank is generally willing to advance up to \$1m a project from its project preparation facility. Help can also be sought from UN agencies, regional development banks and bilateral donors. This phase tends to last between one and three years.

Currently, it would be wise to err on the longer side. A recent review of the bank's project portfolio, the Wapenhans report, has shown that the share of projects with "major problems" has been rising steadily, to 20% in 1991, the majority in Africa. Of projects in their fourth or fifth year of implementation, 30% were judged to be turning sour, including 43% of those dealing with water supply and sanitation. "This may mean longer preparation time," wrote bank president Lewis Preston in a cover note.

Assuming SA is recognised as a borrower by year's end, chances are it will not be ready to present the bank with acceptable plans before 1996. Even then, no funds will begin to be disbursed until stages three and four — appraisal and negotiation — have been completed. These can consume the best part of yet another year. At which point, loan proceeds are placed into the "pipeline" to be tapped as work on the agreed projects moves ahead to the bank's satisfaction. The lifespan of the standard project is about six years.

To be sure, there is also the possibility of an adjustment loan not tied to any specific project. But this will not be instantaneous either. The new government will not only have to justify it, but also commit to certain economic policies and convince the bank that they are sustainable. This may be beyond the capacity of an interim government, even an elected one.

Furthermore, such loans do not come in lump sums, but rather in tranches payable as agreed reforms are implemented. Most are to enable the borrower to purchase an agreed list of imports. Generally, the borrower must prefinance the imports and claim reimbursement later.

None of this is to say the bank will not be helpful. It will be, as a lender, adviser and stimulator of investment by others. It may even be a useful scapegoat. But it is not going to provide any fast fixes. No one is going to do that. There are no sugar daddies.

Strict new money supply guidelines

Stals makes another cut in Bank rate

BDM 9/2/93

49

GRETA STEYN

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The move was not expected to be repeated in the near future as Stals's statement was accompanied by a stern warning that interest rates might have to rise if balance of payments (BoP) problems persisted.

Stals also announced strict new money supply guidelines and vowed to keep a tight lid on money supply growth. The new target range for growth in money supply from the fourth quarter of 1992 to the same period this year is 6%-9%, down from 7%-10%. There was room for an increase in real economic activity without any significant further growth in the money supply, he said, because of large increases in the stock of money over the past five years.

BoP problems were draining liquidity from the money market, and there could be pressure on the Bank to respond by printing money. Stals said: "A continuing overall deficit on the BoP may in due course again lead to higher interest rates which the Reserve Bank should not try to neutralise by the creation of more money."

The decline in SA's gold and other foreign exchange reserves of more than R3bn over the past four months had already had a restrictive influence on the availability of domestic liquidity. If the decline continued, it would work against further reductions in interest rates, even if inflation developments remained positive.

Stals emphasised BoP developments "urge a cautionary monetary policy", noting that earlier interest rate cuts had probably contributed to the massive outflow of capital at the end of last year. Net capital outflows were R3,5bn in the fourth quarter and for the first time in a long period the Bank had had to make a drawing of R800m on a foreign loan to shore up reserves.

On government finances, he warned that a deficit of more than 8% of GDP would not be sustainable once real expenditure by the private sector increased again. Positive developments, however, included a low rate of growth in credit and a fall in consumer and producer inflation to single digits. Total credit extended to the private sector grew by only 7% in the year to November 1992. The PPI had risen by single digits since November 1991 and it was especially encouraging that the domestic component of producer inflation had also started slowing down.

TIM MARSLAND reports that FNB MD Barry Swart said last night the bank would today announce reductions in its prime and

□ To Page 2

Rate cut

BDM 9/2/93 (49)

□ From Page 1

home loan rates.

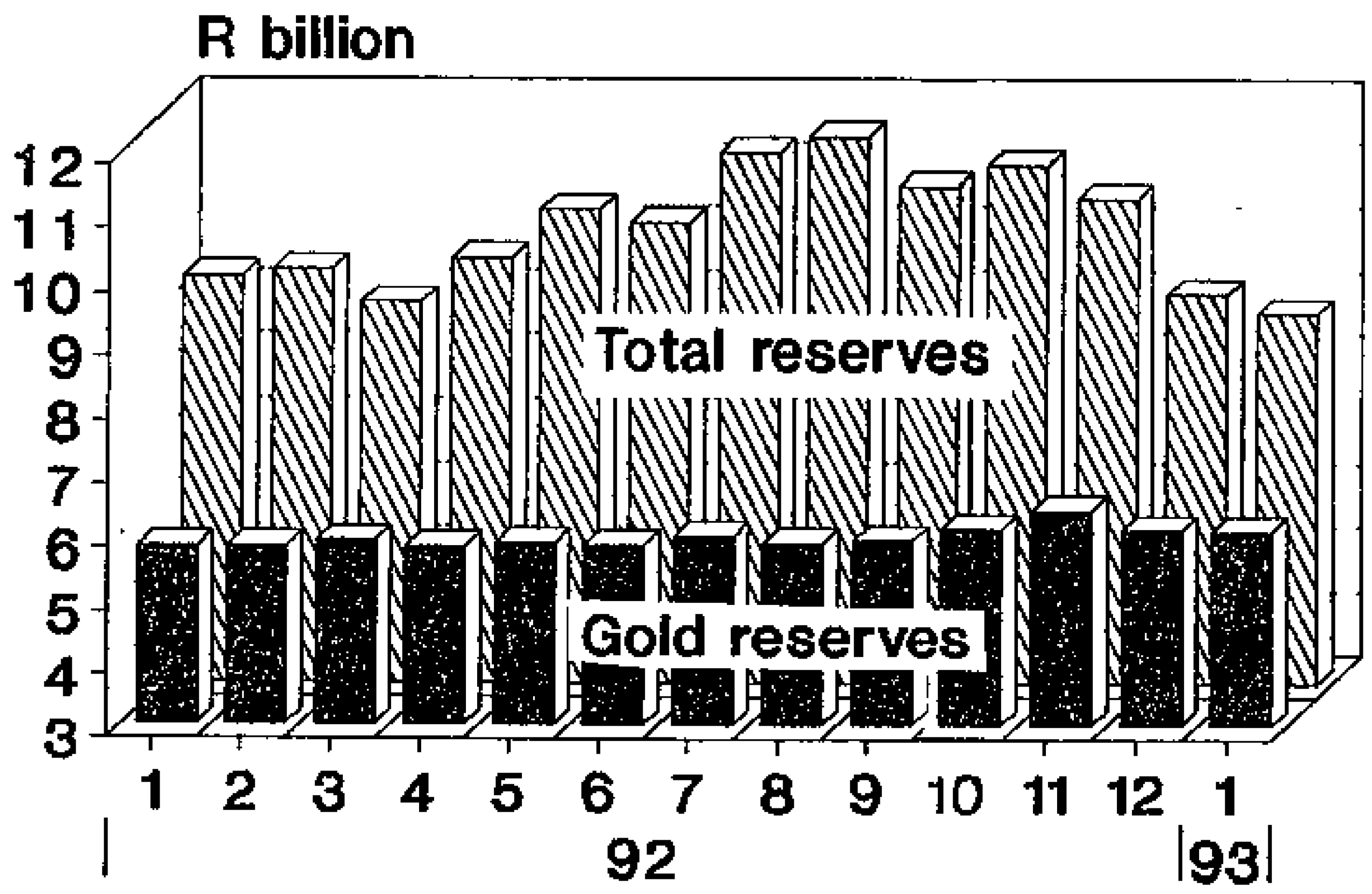
Most banks' home loan rates are 16,75% while prime is at 17,25%.

Nedbank MD Richard Laubscher said the rate cut was a positive sign in the light of international rate cuts last week and lower inflation locally. "We will review our prime and home loan rates today."

Standard Bank MD Mike Vosloo said "We have been anticipating a cut in Bank rate for some time so the move hardly comes as a great surprise. Obviously we will be looking at the situation today and will respond in due course."

Absa would review the situation today.

● See Page 8



South Africa's gold and foreign exchange reserves.

Tight monetary policy to continue

STAR 9/2/93

By Sven Lünsche

49

Reserve Bank governor Dr Chris Stals yesterday committed the bank to a tight monetary policy for 1993 despite announcing a one-point cut in the bank rate.

In a comprehensive policy statement outlining the drop in interest rates, he set money supply guidelines of six to nine percent for 1993, a mere one point lower than the seven to 10 percent target range for 1992.

The guidelines apply from the fourth quarter of 1992 to the fourth quarter this year and, according to Stals, take into account the need for an increase in the money supply to support an expected rise in real gross domestic product (GDP) in 1993.

Explaining the reasons for the persistent tight course of monetary policy, he said South Africa's gold and foreign exchange reserves and the balance of payments had shown a marked deterioration in the past few months.

This trend continued in January when the total reserves fell by a further R316 million from December to R8,79 billion — their lowest level since December 1991.

The gold content of the reserves last month was virtually unchanged from December at R6,06 billion, but the forex reserves component dropped from R3,02 billion to R2,73 billion.

The reserves peaked in August at just over R11,5 billion but have fallen since then as a result of smaller trade surpluses and higher foreign debt repayments.

In January R116 million was repaid in foreign loans, Stals said.

Economists estimate that SA will have to meet a further R4 billion in foreign debt commitments this year.

Of the balance of payments, Stals said that after renewed capital outflows of R3,5 billion in the fourth quarter last year the surplus on the current account for 1992 fell to R4,4 billion from R7,4 billion in 1991.

He warned that the declining tendency in the gold and other foreign reserves would militate against further reductions in interest rates, irrespective of what the inflation rate may do in the future.

Higher rates

"In fact, a continuing overall deficit on the balance of payments may in due course again lead to higher interest rates, which the Reserve Bank should not try to neutralise by the creation of more money."

Stals also indicated that a failure by the government to bring its fiscal deficit under control could further militate against an easing in monetary policy.

Expecting a deficit of more than eight percent of GDP for 1992-93, he cautioned that such a deficit "would not be sustainable once real spending by the private sector increased again".

Given the slide in the surpluses on SA's foreign accounts and the large deficit, he attributed the cut in the bank rate solely to the recent drop in inflation below 10 percent and the continued drop in M3 money supply growth rates.

"Interest rates can be reduced at this stage without signifying any fundamental easing in monetary policy," he said.

Sacob trims its growth forecast

STAR 9/2/93

By Sven Lünsche 49

The SA Chamber of Business (Sacob) has scaled back its economic growth forecast for this year in response to evidence that the economy has weakened once more since the beginning of the year.

Presenting the Chamber's Business Confidence Index (BCI) for January, chief economist Dr Ben van Rensburg said recent developments suggested that economic growth was unlikely to exceed 0,5 percent. In December he had forecast one percent growth.

"The lower growth prospects are supported by the performance of certain key economic variables in the past two months, which have sunk back after improving in preceding months," Van Rensburg said.

The most striking feature is the renewed sharp reversal in retail sales growth since October last year. The Central Statistical Service expects retail sales in January to have shown a sharp 7,2 percent drop.

This, in turn, is expected to work its way through to manufacturing production volumes, which have already fallen slightly from positive growth of 0,4 percent in October to a decline of 1,8 percent in November.

Other evidence of a renewed downturn include the weaker new car sales in January, as well as the BCI itself, which fell to 92,9 in December and January from 93 in November.

Business confidence in November showed a strong improvement on indications that the economic downturn had bottomed out in the fourth quarter of last year.

Van Rensburg ascribed the renewed pessimism to a general scaling down of growth expectations after much of the year-end optimism was based on the "bunching of both production and sales as a result of disruptions to the economy in August".

He lists five key factors that would determine the level of economic growth this year:

- Progress on the political front.
- The levels of violence.
- The performance of the world economy.
- Prospects for the agricultural sector.
- The extent to which the Budget will promote or hinder economic growth.

The Budget in particular is seen as a crucial determinant of economic prospects.

Sacob director general Raymond Parsons says: "The Budget proposals could move the economy from intensive care to the recovery unit or to the morgue."

Sacob says the government will have to reduce the expected R30 billion (nine percent of GDP) deficit in 1992-93 to about six percent in 1993-94 through a combination of cuts in spending and increases in taxes.

Confidence index takes a knock

CT 9/2/93

Business Editor

THE uncertain political and economic outlook, a rise in the number of insolvencies, disappointing rains in some areas and lower import and export volumes combined to dent business confidence in December and January.

The SA Chamber of Business (Sacob) confidence index (BCI) for the two months eased to 92,9% after rising in November to 93%. It was 90,1% in October.

But Sacob's director of economic policy, Ben van Rensburg, pointed out that although its forecast for economic growth in the current year had been reduced to 0,5% "this still represents an improvement over the negative growth of 1992."

The manufacturing sector expected better conditions in a year's time.

The weak state of the economy was nevertheless emphasised by a sharp rise in insolvencies and liquidations in 1992 compared with 1991.

"The number of insolvencies in SA exceeded 4 000 in 1992, which is 30% higher than in 1991, while the number of liquidations is likely to have increased by a similar percentage," Van Rensburg says in his commentary on the BCI.

"Against this background, it is more important than ever to take all possible measures to rebuild both business and consumer confidence.

"The success of political negotiations and the forthcoming Budget will be crucial in this respect.

"It is essential that policy makers do not take positive economic growth for granted during 1993. There are still many things that could go wrong."

Sacob director-general Raymond Parsons commented yesterday that there would have to be a delicate balance between bringing down the budget deficit, expected to be at least R30bn — or 9% of gross domestic product (GDP) — and improving prospects for growth.

Parsons said the government must be seen to have a responsible plan to reduce the deficit but not at the expense of growth. The deficit should be reduced over two or three years and not in one single budget.

"We don't want a budget that pulls the economy out of intensive care and into the morgue."

And, he said, it was vital to reduce the deficit in a way that would achieve the co-operation of the main stake-holders in the economy, and avoid any increases in direct or indirect taxes this year.

Van Rensburg says in his commentary that the deterioration in the BCI in December and January, after a significant improvement in November, showed growing uncertainty over economic prospects for 1993.

Five key factors that would determine the level of economic growth were:

- Progress on the political front;
- Levels of violence;
- The performance of the world economy, on which demand for SA exports depends;
- Prospects for the agricultural sector; and
- The extent to which the forthcoming Budget helped or hindered growth.

had the better for them. A minimum stan- Sapa.

Power to shut schools

CAPE TOWN — A Bill which will enable the white own affairs Education Minister to close down Model C schools was published yesterday.

The Education Affairs Amendment Bill says a state-aided school may be shut down "if the Minister considers it necessary", and after consultation with its governing body. (52)

An Education Department spokesman said drafters of the legislation had considered specifying in the Bill the circumstances in which the Minister could close a school.

"But if you mention one thing and you don't mention another, there may be problems," he said. "The Minister won't close the school unless there's a valid reason for it."

One scenario in which a school might be shut down was if its numbers dropped too low, he said. BIDAY 10/2/93.

There would be no guarantee that a school which had been closed would be converted to a state school for all races or retained for other educational purposes. — Sapa.

Direct tax increases 'not the answer'

GERALD REILLY

PRETORIA — Tax hikes in the March Budget would damage the economy and stretch the recession into 1994, economists said yesterday.

Absa economist Adam Jacobs said no Finance Minister in the past 50 years had been confronted by the tortuous dilemma facing Derek Keys. (49) (52)

The need to increase government income was obvious. But trying to achieve this by raising the tax burden on companies and individuals would accelerate the economic decline.

Individuals would be particularly hard hit by a tax hike. BIDAY 10/2/93.

An indirect discretionary tax route might be the way to go. What was needed was a restructuring of the system to encourage savings and investment, without necessarily raising direct tax. Without this and foreign investment, an economic recovery would be out of reach.

AHI economist Nick Barnardt said: "We have warned government of very serious implications for the economy if taxes are raised. However we would be misleading our business constituency if we failed to indicate that a moderate, cautious increase seemed inevitable." Government would have to focus on decreasing expenditure. But there was no escaping the conclusion that at the end of the day a tax hike could stretch the recession into 1994.

Stellenbosch University Bureau for Economic Research economist Nils de Jager said if the stategy adopted amounted to an increase, it would further strain the economy unless balanced by cuts in state spending. Without this, consumer confidence would take a dive, disposable incomes would shrink further and hopes of a recovery in 1993 would probably vanish.

De Jager said a bureau survey showed that last year disposable incomes declined 2,5% — a major reason for the economy's inability to move out of recession.

Deregulation bites SAA

Local economy in the spotlight

Sowetan 11/2/93

By Mzimkulu Malunga

■ Man behind moves for a European super state is key speaker:

(49)

SOUTH Africa's economic relations with the rest of the world will be in the spotlight at a conference to be held in the northern Transvaal from April 27-30.

Leading economists and financial gurus from both inside and outside South Africa have been lined up as speakers at the gathering.

Sponsored jointly by the Aspern Institute and the Institute for a Democratic Alternative for South Africa (Idasa), the assembly will also be addressed by politicians, trade unionists, academics as well as senior executives in the public and private sectors. A major focus will be on learning from comparative experiences in other parts of the world

Commenting on the conference, Idasa projects director Dr Alex Boraine said: "We believe this is an exciting opportunity to further dialogue between key South African and international policy advisors as well as decision makers at the time of dynamic developments both locally and globally The man at the centre of moves to construct a European super state, Jacques Delors, will deliver the keynote address on *Global economic trends of the 1990s Lessons from the past and a glimpse into the future* "

A representative of the Organisation of African Unity (OAU) will explore the roles economic groupings such as the African Development Bank (ADB) and the Southern African Development Community (SADC) can play

Andre la Grange, the chief executive of the Development Bank of Southern Africa, will look at the impact the involvement of the International Monetary Fund (IMF) and World Bank will have on the country's economy

Finance Minister Derek Keys will debate the influence the General Agreement on Tariffs and Trade (Gatt) could have on South Africa's future trade policy with Gatt Review Board head Peter Tulloch.

The conference will be opened by ANC president Nelson Mandela.

War for capital could leave SA out in the cold

BDay 11/2/93 (49)

CAPE TOWN — Competition for international capital was likely to intensify in the next decade as the US and Europe become net importers of capital and Japan consolidated its role as the world's saving nation, Kissinger Associates Inc economic analyst and consultant Alan Stoga said at a news briefing yesterday.

Former US secretary of state Henry Kissinger set up the New York-based institute which advises clients in the US and other parts of the world about economic and investment trends.

Stoga said that in the context of a scarcity of international capital, SA would have to embark on an aggressive hard sell campaign — even if the political situation in the country was resolved.

"SA will have to find capital; capital won't find SA," Stoga said, adding that the country was a relatively unknown investment location for foreign investors.

He emphasised the key objective for a future SA government should be to ensure the predictability of the investment environment. Investors were otherwise indifferent to ideological systems provided they achieved a return on their investment and could export their profits.

LINDA ENSOR

Stoga believed that instead of exchange controls SA should be creating conditions to attract investment. "It is a fallacy to distinguish between domestic and foreign investment. Investment is investment. To create special conditions for foreign investors will be regarded with suspicion as these can just as easily be removed."

Stoga expected real international interest rates to remain quite high throughout the next decade with the result that debtors who could not afford to pay them or meet the debt criteria would be wiped out.

He noted that whereas international banks were at the forefront of foreign investment in the 1970s and 1980s this role had been taken over by private portfolio managers of institutions such as pension funds. They were seeking returns greater than those achievable in the low-interest rate US environment. The US debt crisis had marginalised the banks out of the international financing business.

In the past three years gross portfolio investment from the US and Europe into developing countries amounted to $70bn.

BUSINESS No respite for ailing ecor

Confidence in business takes another knock

(49)

■ **Value of rand against the US dollar also a factor:**

Sowetan 11/2/93

By Mzimkulu Malunga

DESPITE hopes that economic conditions will improve this year, business confidence declined by 0,1 percent to 92,9 during December and January.

Dr Ben van Rensburg, economic policy director of the South African Chamber of Business (Sacob), this week said the internal political situation, the violence and the performance of the world economy were among the causes.

Not entirely negative

Eight of the 13 factors which Sacob takes into consideration in its monthly gauging of business confidence contributed to the decline.

Issues, such as the unemployment rate, retail sales, the rand's value against the US dollar, the gold price, companies' performances as well as the volumes of exports and imports, influenced the slump.

Unemployment showed no signs of easing during the past two months, about 4 000 companies went bust during the same period, while the gold price hovered well below expectations and retail sales plummet.

However, the situation was not entirely negative.

The inflation rate dropped below 10 percent for the first time in 14 years and manufacturing production increased marginally.

Though agricultural production is not going to reach anticipated levels, it is expected to be higher than last year, a factor that will have an influence on the entire economy.

Production will rise

Business is also worried about the continuing Government debt which is expected to be around R30 billion during the 1992-93 tax year.

Van Rensburg says a number of structural constraints are likely to prevent any significant improvement in the economy.

"Sacob believes that it is more important than ever to take all possible measures to rebuild both business and consumer confidence.

"The success of political negotiations and the forthcoming Budget will be crucial in this respect," he says.

Gloom pervades economic forum

Star 1/2/93.

(49 (56A)

DAVOS (Switzerland) — With the world economy stubbornly weak, business and political leaders are looking to US President Bill Clinton to lead the way to global recovery.

A bold proposal that Clinton should call a special summit of the Group of Seven (G7) rich industrial nations early this year to forge a programme for growth was welcomed at the weekend by many of the 1 500 participants at the annual six-day World Economic Forum in Davos.

But a US decision to levy dumping penalties on foreign steel has raised anxiety that Clinton may start to move the US along the road to protectionism.

"They're worried about the new US administration," Massachusetts Governor William Weld said.

The idea for a G7 meeting came from Fred Bergsten, a top US economist and former government official, who said the G7 had fallen into disrepair and needed reinvigoration as the world entered its third year of "virtual stagnation".

His recipe for growth included substantial extra Japanese fiscal stimulus, a 20 percent yen appreciation, fiscal tightening in Germany, and interest rate cuts in all major countries.

Former Bundesbank (German central bank) president Karl Otto Poehl said he strongly supported the idea for more G7 co-ordination.

Henry Kaufman, a leading US economist, once known as Dr Doom for his gloomy predictions, also gave his backing, particularly for a co-ordinated "de-escalation of official interest rates".

Halfway through the conference, the 10 percent devaluation of the Irish punt in the European Community's exchange rate mechanism came as a reminder of the strains that Germany's high interest rate policy had put on its EC partners.

The general mood at the conference, which ends tomorrow, is of gloom about the state of the world economy and the stalling of the six-year Uruguay Round talks to liberalise world trade.

The US steel dumping decision last Wednesday has made many question whether Clinton can be counted on to help rescue the trade talks, which have stumbled mainly over differences between the US and the EC.

But others cautioned against reading too much into the dumping decision.

They said it was preliminary and the outcome of a process begun under the previous Bush administration.

That said, there was general agreement a new world trade treaty could not be reached before the present US deadline for an accord ran out in four weeks.

Gatt director-general Arthur Dunkel did not say how he thought the situation could be resolved, but senior EC officials said Clinton aides had signalled the deadline could be put back.

Argentine President Carlos Menem summed up Latin American worries about the lack of progress on the Uruguay Round of trade negotiations.

"Failure would force us to repeat past errors, increase poverty in our countries and lead to the formation of trading blocs. The promise of a new economic order would rapidly fade," he said.

As at last year's forum, the need to help the economic and political reforms of the former communist countries of eastern and central Europe was high on the agenda.

West European speakers said that while the EC pursued its goal of economic and political union based on the Maastricht accord, it must not lose sight of the potential dangers on its eastern doorstep.

"If eastern and central Europe go down the drain, if political instability and war start to erupt in those regions, I don't think it will help much to talk about Maastricht because we might lose a lot of what we gained in the West," David de Pury, co-chairman of Swiss-Swedish engineering group ABB, said.

New Russian Prime Minister Viktor Chernomyrdin, on his first foreign trip since taking office six weeks ago, assured the conference he would push ahead with radical economic reform.

Dispelling speculation that he might switch from market policies, he said: "We are not only for reform, but we intend to deepen and broaden it." — Sapa-Reuter.

- State slips deeper into debt trap — overspends R5-bn
- Drought the main cause as deficit for the year doubles

R30-bn in red

49

ARG 12/2/93

BRUCE CAMERON, Business Staff

THE government has overshot its budget for the year by R5 billion — about five percent up on its original estimate — pushing the deficit for the year close to a massive R30 billion.

The government has fallen deeper into a debt trap in spite of major efforts to trim spending. The main cause has been the ravaging drought which shrank the agricultural sector in the last three months of 1992 by 70 percent and the dramatic fall-off in government income over the past year.

The government deficit, close to R30 billion for 1992/93, is now expected to be close to nine percent of gross domestic product (GDP) after an original estimate of 4,5 percent.

These figures follow confirmation of a further sharp downturn in the already shrinking economy in a Central Statistical Service announcement yesterday that the economy contracted on an annualised and seasonally adjusted rate of 5,1 percent in the last three months of last year. The final figure for 1992 was a negative growth of 2,1 percent with the contraction in the agricultural sector as the main reason.

The government deficit is now way above the International Monetary Fund recommended maximum of three percent of GDP.

The IMF considers any amount over six percent as creating a dangerous "debt trap" where more and more of the country's resources go merely to pay interest on debt, seriously inhibiting the State's ability to meet the demands of social programmes, let alone build up infrastructure.

The figures are expected to be confirmed when notice of an additional budget for the past year is given by Minister of Expenditure Mr Ami Venter in parliament today.

When former Finance Minister Mr Barend du Plessis presented his final budget of R100,7 billion last March, he anticipated a shortfall in revenue of R16 billion.

His budget was based on estimates worked out before the full effects of the drought were felt.

But as the year progressed, the downturn in the economy bit into the government's already eroded revenue base and tax receipts fell as people lost jobs and consumer spending fell.

Government sources indicated today that the sharp drop in revenue below estimated receipts was in itself a major cause of the overspending with unbudgeted interest having to be paid on mounting new debt.

Other reasons for the overspending were the funds allocated to drought relief, extra money to cover shortfalls in the government-controlled motor vehicle third party fund, extra spending on health and hospitals and retrenchment packages for civil servants.

Govt to ask House for extra R5bn

Drought drags state spending over budget

(49)

B/Day 12/2/93. Gen

GRETA STEYN

GOVERNMENT is expected to ask Parliament to approve more than R5bn in extra spending in the 1992/93 fiscal year when the Additional Appropriation Bill is tabled in Parliament today.

Most of the overrun is the result of drought relief, with economists expecting the rest of government's expenditure to end the fiscal year close to the targets.

They said the huge overspending was not cause for concern as it was due to abnormal circumstances. The expenditures would not put pressure on capital market rates as the funds for the extra spending had already been raised on the market.

Excluding drought relief, economists said there was clear evidence of fiscal discipline in the year ending March 1993. The overrun in spending excluding the drought is expected to be less than R1bn, or about 1% of the original Budget, well within internationally accepted norms.

The Additional Appropriation Bill is tabled annually in February to authorise spending not included in the previous year's Budget. The Bill will provide official figures for the 1992/93 deficit — which has been the subject of much speculation and a major factor putting upward pressure on capital market rates.

Today's figures are likely to show overall spending in 1992/93 about 22% up on last year. The final outturn is likely to be more than R105bn, from a budgeted R100,7bn.

Revenue is expected to end the fiscal year at about R75bn-R76bn (budgeted: R85bn), bringing the overall deficit to about R30bn or slightly more than 8% of GDP. Revenue is likely to be only about 4% up on the previous fiscal year, compared with a budgeted increase of about 16%.

Until recently, economists were forecasting a R26bn-R27bn deficit, as they had been unaware of the inclusion of massive spending on drought relief this fiscal year.

The R5bn spent on drought aid contrasts with initial expectations of maximum expenditure on relief of R1,4bn. Former Finance Minister Barend du Plessis in the last Budget created a R1bn drought disaster reserve which was intended as a "ceiling" on spending overruns as a result of the drought. Further spending on drought relief was intended for future fiscal years, taking the full amount to R3,8bn.

However, Du Plessis' successor Derek Keys reversed the approach with a decision to "take the knock" this fiscal year.

Economists said this would give him slightly more room for manoeuvre in future as he would not be locked into huge amounts of relief spending.

Included in the drought relief spending is R2,4bn which government used to write off farmers' debt to the Land Bank. Finance officials said the funds had already been raised to repay the bank. The nature of spending on debt write-offs would not provide a fiscal stimulus to the economy.

The State Expenditure Department, concerned that the overrun on spending and the huge deficit could spur anxiety in the markets, will clarify the figures today.

Reserve Bank doubles activity in bond options

BIDAY 12/2/93.

(49)

TIM MARSLAND

RESERVE Bank activity in the options on bonds doubled to R44bn in the nine months to December, with total turnover from its trading activities hitting a record R234bn.

Bank Deputy Governor Chris de Swardt said yesterday options were used mainly to assist in its market-making activities and not for funding purposes.

The Bank's market-making activities resulted in government's stock now trading at lower yields than parastatal stock compared with a year ago.

He said the Bank had achieved record turnover in government bonds in the first nine months of the year. Turnover, excluding options, was R190bn compared with R42bn in the previous year. Gross purchases were R89bn and sales were R101bn, resulting in net sales of R12bn.

De Swardt said the market preferred to invest the bulk of its funds in the medium to longer area. From April to December, 53% of turnover was in the medium term, compared with nearly 60% of the turnover in the long term in 1991/92.

Just 3% of Bank transactions were done in special deals. These were where institutions had approached the Bank seeking parcels of stock.

About 47% of deals were with banks, of which 40% were with merchant banks. Brokers accounted for 46% of deals and insurers 4%.

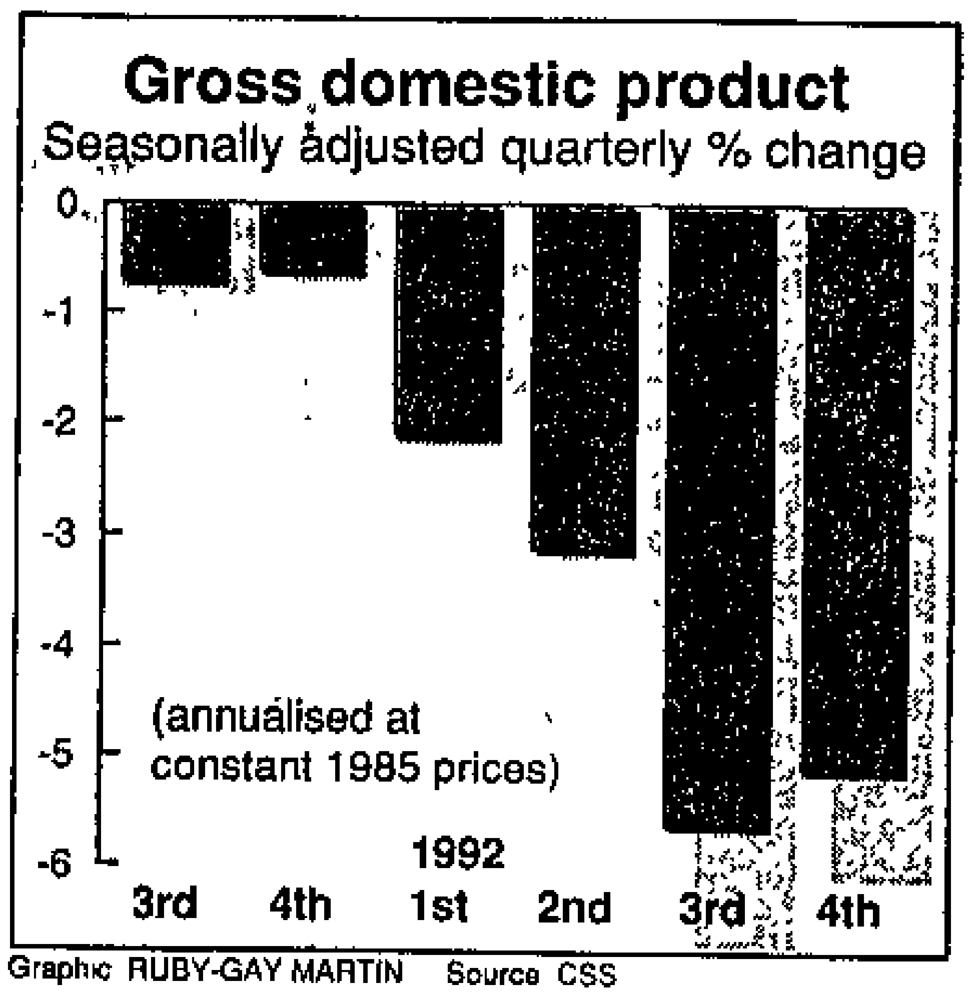
On the money market during January, the Bank had to offset a decline in notes in circulation of R500m, and a net maturity of Treasury bills of nearly R800m, by letting Corporation for Public Deposits (which manages local authorities' funds) assets to the value of R1,2bn mature.

The Bank's gold and foreign exchange transactions during January added R240m to money market liquidity, but with changes in government deposits the money market shortage increased by R782m.

A dealer said increased shortage was surprising in view of the recent Bank rate cut. It confirmed that the Bank had cut its rate to bring it into line with the lower real rates resulting from lower inflation, rather than having eased policy.

Bank figures showed foreigners continued to shun the capital market, investing just R785m compared with R1,4bn in the previous year.

An analyst said this was mainly due to US investors not buying bonds because the weaker financial rand had led to significant capital depreciation of their bonds. A US investor would have achieved a return of just 0,5% on a bond bought at the beginning of the year, he said.



Graphic RUBY-GAY MARTIN Source CSS

Signs of slower slide in economy

GRETA STEYN (49)

THE economy continued to shrink in the last quarter of 1992, falling by an annualised 5,1% in real terms, Central Statistical Service (CSS) figures show.

But the CSS figures provided evidence that the speed with which the economy was shrinking started slowing down at the end of last year.

In the preceding quarter, the fall in GDP was an annualised 5,6%. This was the worst quarterly annualised decline in the recession. BIDAY 12/2/93

CSS said real GDP for the year as a whole fell by 2,1% after declines of 0,5% and 0,4% in 1990 and 1991.

Economists had expected a small increase in GDP in 1992 before the drought pushed the economy into its worst year of recession.

Agricultural production collapsed last year, and was the main reason for the further fall in GDP in the last quarter. Real agricultural output fell by a massive 70% in the fourth quarter — the worst quarterly figure for the year.

The rate of decline in this sector accelerated from about 20% in the first quarter.

Non-agricultural GDP also fell in the fourth quarter, but at a slower rate than in the third quarter (down 0,9% against 1,1%). The only sector to notch up an increase was mining (0,8%) while manufacturing fell by a substantial 3,7%. (All the figures are seasonally adjusted and annualised quarterly changes.)

Economists are predicting a 0,5%

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Economy

BIDAY 12/2/93. (49)

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growth rate for 1993, but some recently revised the figure downwards.

Econometrix said zero growth now seemed more likely as the drought still appeared to be a factor while the gold price was disappointing.

Economists said recent indicators that the economy had not yet turned around included weak retail sales and new car sales in January.

Real retail sales are expected to be down by 7% in the first month of the year, while new car sales were 8,6% down

● Comment: Page 8

Sacob calls for debate on exchange rate policy

BDAY 12/2/93.

(49)

ANDREW KRUMM

SACOB yesterday called on government to refer discussion of exchange rate depreciation to the National Economic Forum, following calls for devaluation of the rand.

Reacting to an Afrikaanse Handelsinstituut (AHI) appeal to let the rand exchange rate absorb part of the pressure on the balance of payments, Sacob said SA's BoP constraint was a structural problem that had to be addressed "holistically".

Sacob chief economist Ben van Rensburg said exchange rate policy, together with tariff protection and other policies, would have to be set in accordance with any structural adjustment programme that the country could embark on.

At this stage prospects for the agricultural sector indicated agricultural imports would be significantly reduced.

He cautioned that depreciation now would be a "knee-jerk" response.

"A sharp depreciation in the value of the rand would necessitate a rapid creation of money, giving rise to inflationary pressures and create instability in the financial markets."

Van Rensburg said a depreciation of the rand could be regarded as a concession to SA's inability to maintain stability.

However, AHI chief economist Nick Barnardt argued that the nearly R4bn decline in the BoP surplus between March to December 1992 was not related to structural problems in the economy. Domestic overspending and financial indiscipline had been tightly controlled since Reserve Bank Governor Chris Stals took office in 1989, Barnardt said.

Rather, the current pressure on the BoP has arisen from the Reserve Bank's "stated mission" to support the external value of the rand.

The artificial use of a full one-third of existing net foreign exchange reserves to support the rand resulted in the unusual situation of a growing BoP deficit in a deepening recession.

Exogenous influences such as capital outflows and abnormaal agricultural imports would not disappear in 1993, and the Reserve Bank would again be "forced" to support the exchange rate at an artificial level.

SA could see a replay of the recent BoP trends. Erosion of BoP surplus could possibly delay the domestic economic upswing by two years.

Should the Reserve Bank allow the exchange rate to decline sufficiently to head off any further loss of reserves, such a policy would have a neutral influence on the M3 money supply.

"Within this context BoP and exchange rate considerations would not necessarily present a severe stumbling block in the way of modest decline in nominal interest rates — although any perceptible decline in real interest rates is out of the question," he said.

BUSINESS Nactu says State must find other sources of revenue

Labour vehemently opposed to VAT hike

Sowetan 12/2/93.

(49) (820) (143)

By Mzimkulu Malunga

LAST STRAW Cut spending on the TBVC states and self-governing territories:

AS THE BUDGET DATE APPROACHES AND debates on tax increases hot up, labour believes the Government has to prioritise cutting unnecessary expenditure instead of effecting tax hikes to raise revenues.

On March 17 Finance Minister Derek Keys will be in the spotlight when he presents the national Budget.

A report released by the National Council of Trade Unions advocates alternative means of boosting revenues as opposed to increasing indirect taxes such as VAT — which hit the poor hardest.

Central to Nactu's argument is the belief that the Government is using the taxpayers' money against the taxpayers themselves.

"Revelations of covert operations being funded with the taxpayers' money or of the consistent corruption and maladministration in the State-funded bantustans are a frequent occurrence," argues the report.

The Government contributed over R12 billion to the TBVC states and self-governing territories during the 1992-93 financial year.

Cutting spending on defence and the tricameral parliament — both of which consume a substantial share of the budget — could put the State on a much healthier financial footing.

The deficit for the current financial year is hovering at R30 billion — about nine percent of the national income.

The report also highlights unnecessary tax exemptions and focuses on pension funds.

"The pension fund exemption is a particularly regressive one and the rich benefit more from this system than the poor. In fact, the unemployed and low-wage earners get nothing at all," says the report.

The total scrapping of pension fund tax exemptions or a drastic reduction could contribute towards solving the Government's financial crisis.

Increasing VAT while the economy is in a recession will not only have a negative effect on consumer spending but will deliver the death blow to industry and commerce.

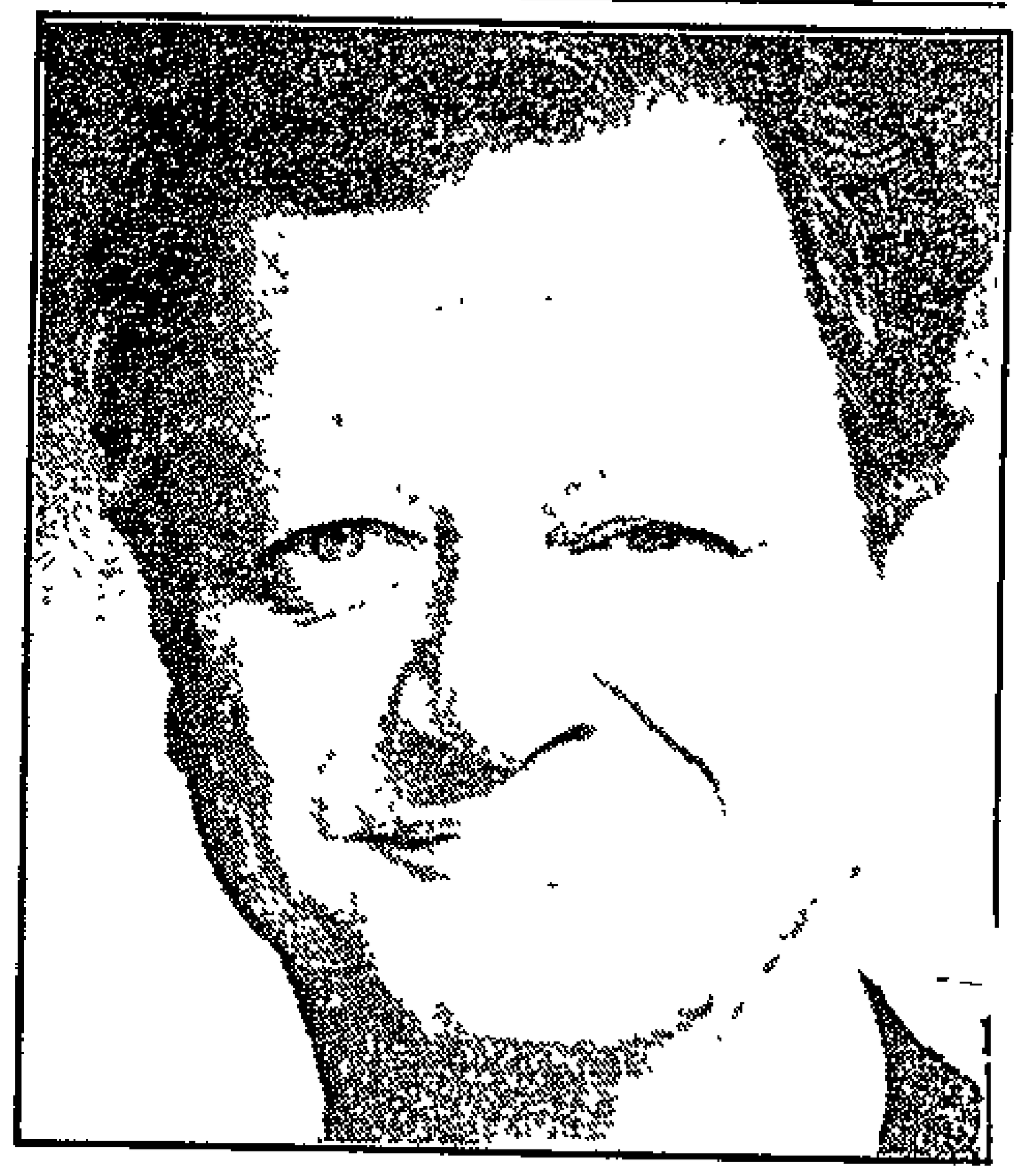
The collapse of industrial and commercial sectors will lead to further retrenchments as the consumer demand dampens.

Increasing tax substantially on property owners on any additional fixed properties they may possess, such as second homes, is one alternative measure the Government can explore.

Also, the implementation of agricultural land tax could contribute a great deal to the national coffers.

On agricultural land tax the report argues: "These properties have in the past been heavily subsidised by the Government for political reasons. Now would be a good time for the recipients of this unfair advantage to start paying back."

Revenues collected here can be used for the development of small-scale farmers.



Finance Minister Derek Keys

SA's GDP takes 5,1% tumble

(49)

CT 12/2/93

By AUDREY D'ANGELO
Business Editor

SA's gross domestic product (GDP) fell by a seasonally adjusted and annualised 5,1% in the fourth quarter of last year, after a 5,6% fall in the third — showing that the recession is still firmly entrenched — according to figures released yesterday by the Central Statistical Services (CSS).

This means that it fell by 2,1% in 1992 after falling by 0,5% in 1990 and 0,4% in 1991.

Economists forecast growth of 0,5% at most in 1993 — provided the drought is over and a political solution found.

They forecast another year of negative growth if the drought continues and political negotiations fail.

The CSS figures show agriculture suffered most in the fourth quarter. It fell by a disastrous 70,3% on a seasonally adjusted and annualised basis.

The fall in other sectors, on the same basis, was 0,9%.

Mining rose marginally by 0,8% and service industries by 0,7% but manufacturing fell by 3,7%.

Old Mutual economist Rian Le Roux said a slight improvement in retail and wholesale trade indicated that consumers might be spending more as a result of lower interest rates, which had come down by 4% from their peak.

But he pointed out that the manufacturing, electrical and construction sectors were still very depressed. "The massive fall in the agricultural sector has brought it down to the lowest level since 1984, at least.

Le Roux said lower interest rates, including the further 1% cut announced this week, would not work miracles for the economy in the short term.

"Foreign demand for exports, and commodity prices, are still weak. And real prime rate is still very high. The main thrust of monetary policy is still deflationary.

"The economy should do a little better this year but that must be led by agriculture.

Sanlam chief economist Johan Louw said the fact that GDP had fallen slightly less in the fourth quarter than in the third indicated that the recession might be bottoming out.

"There are indications that this tendency is being continued in the current quarter but there is no positive sign of an upswing yet."

Boland Bank economist Francois Jansen said the combination of the drought, the political stalemate and the breakdown of negotiations last year were the main factors responsible for the deepening of the recession.

"Total GDP is now 4,5% lower than at the start of the recession in March 1989.

"We are now into our 16th quarter of the recession and if the drought does not break and no political solution is found I expect a negative growth rate of -1% or minus 2% this year."

THE RAND

Coming down to earth

There is great significance, both beneficial and adverse, for the balance of payments (BoP) in the rand's recent depreciation against the US dollar.

On the upside, export receipts will rise, benefiting the current account surplus: SA must generate a surplus on current account to fund outflows on capital account in large foreign debt repayments which fall due this year. On the downside, the US$1,6bn foreign debt increases in rand terms.

Last week, the rand fell to an all-time low against the dollar. It's dropped 60% against the US currency since 1984, when R1,20 bought $1,00. It now takes just over R3,12.

Nedcor Bank chief economist Edward Osborn estimates that roughly 70% of exports are US dollar-denominated Admittedly, cross rates (rates against currencies other than the dollar, but derived via the dollar) are material for other major trading partners, like Germany, the UK and Japan.

Over the past year, the dollar has strengthened against the D-mark (DM) and sterling while more or less holding against the Japanese yen. The DM lost roughly 6% and sterling around 26% against the dollar. The rand depreciated roughly 11% against the dollar in that period, indicating that imports from SA are cheaper for the US, Japan and Germany and more expensive for the UK.

Rand depreciation gives export industries some relief from the mid-1992 period when the rand strengthened against the dollar. Exports of R68bn in 1992 were roughly 20% of GDP. In terms of currency settlements, Osborn estimates the dollar accounts for 70% of total exports, the DM and pound 6% and the yen 3%.

Dollar denominated imports, which Osborn reckons account for around 45% of SA's total, will cost more to land, fuelling inflation He estimates 17% of imports are in DM, 11% in yen and 10% in sterling.

In addition, rand depreciation against the DM, dollar and yen means foreign debt commitments increase. Fortunately, they are spread over a large number of currencies, but a significant amount is in dollars Debt is valued in dollars to make sense of the total exposure, estimated at about $18bn.

Of $1,6bn foreign debt to be repaid this year, Osborn says much is in DM and US dollars, with some in yen, EMU and sterling. It's split into three components: affected debt, tied up within the standstill net since 1985; converted debt, previously inside the net but converted into longer-term loans; and unaffected debt, outside the net. Of unaffected debt, of which $700m-$800m is to be repaid this year, Osborn estimates that roughly 50% is in DM and about 25% in dollars.

All foreign debt to be repaid this year may not have a similar breakdown. Affected debt largely originates in short-term trade debt financing, whereas unaffected debt mostly comprises public-sector debt financed through foreign bonds

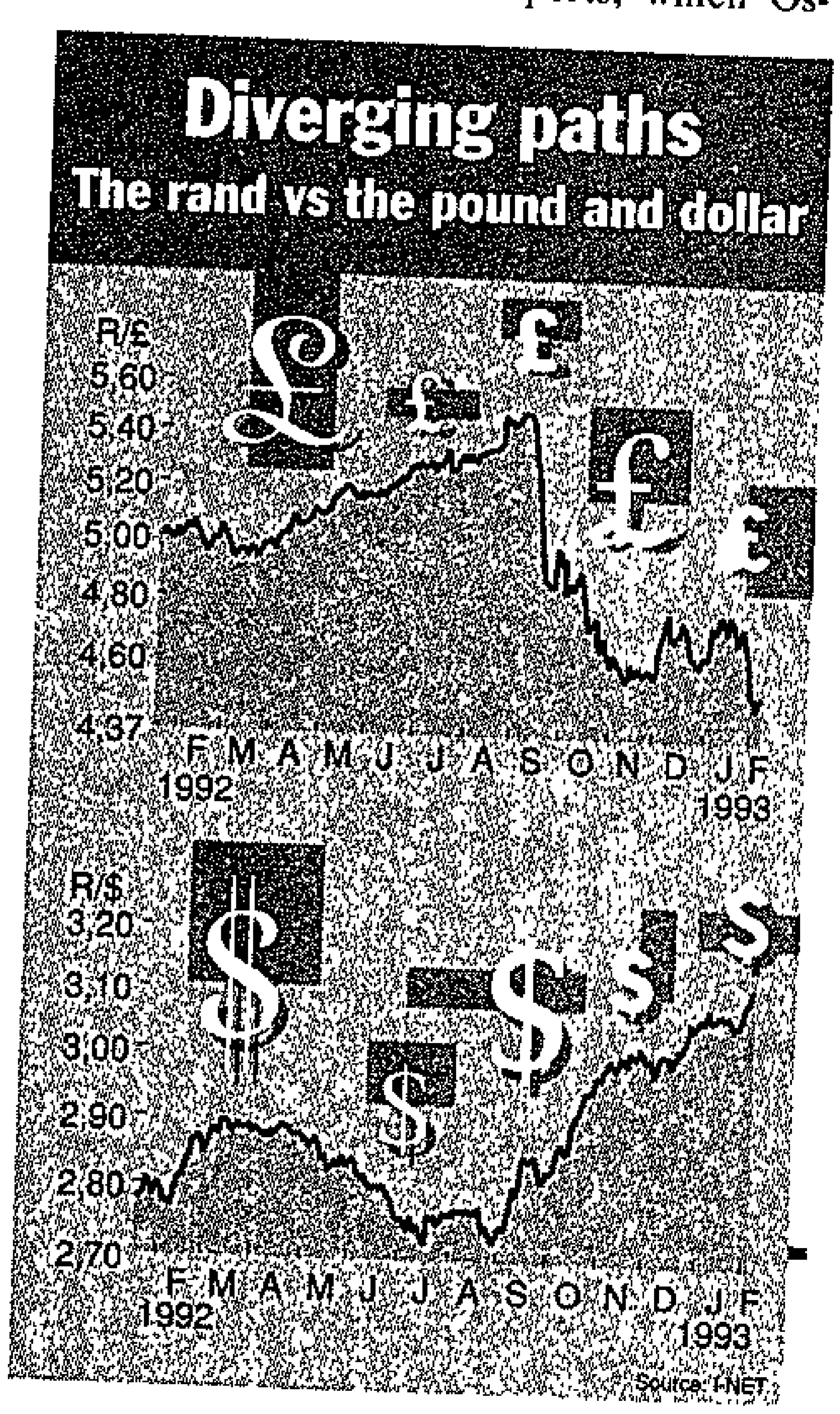
Dollar appreciation is also likely to have an impact on Reserve Bank forward cover activities, where losses will jump, as most forward cover is dollar denominated.

SA's balance of payments is under increasing pressure. Reserve Bank Governor Chris Stals told a media conference last week that "the surplus on the current account of the balance of payments declined from the record R7,4bn in 1991 to about R4bn in 1992 The severe drought led to a sharp drop in agricultural exports and a substantial rise in agricultural imports

"It was also disappointing that the net capital outflow continued in 1992, at a level more or less the same as in 1991, when the net outflow exceeded R6bn," Stals said.

As the total capital outflow exceeded the surplus on the current account of the balance of payments, net gold and foreign exchange reserves fell by about R2bn last year At end-December the Bank's gross gold and other foreign reserves were R9,1bn

Dollar appreciation will ease current account pressure but increase pressure on the capital account. On balance, rand depreciation is probably positive for the BoP ■

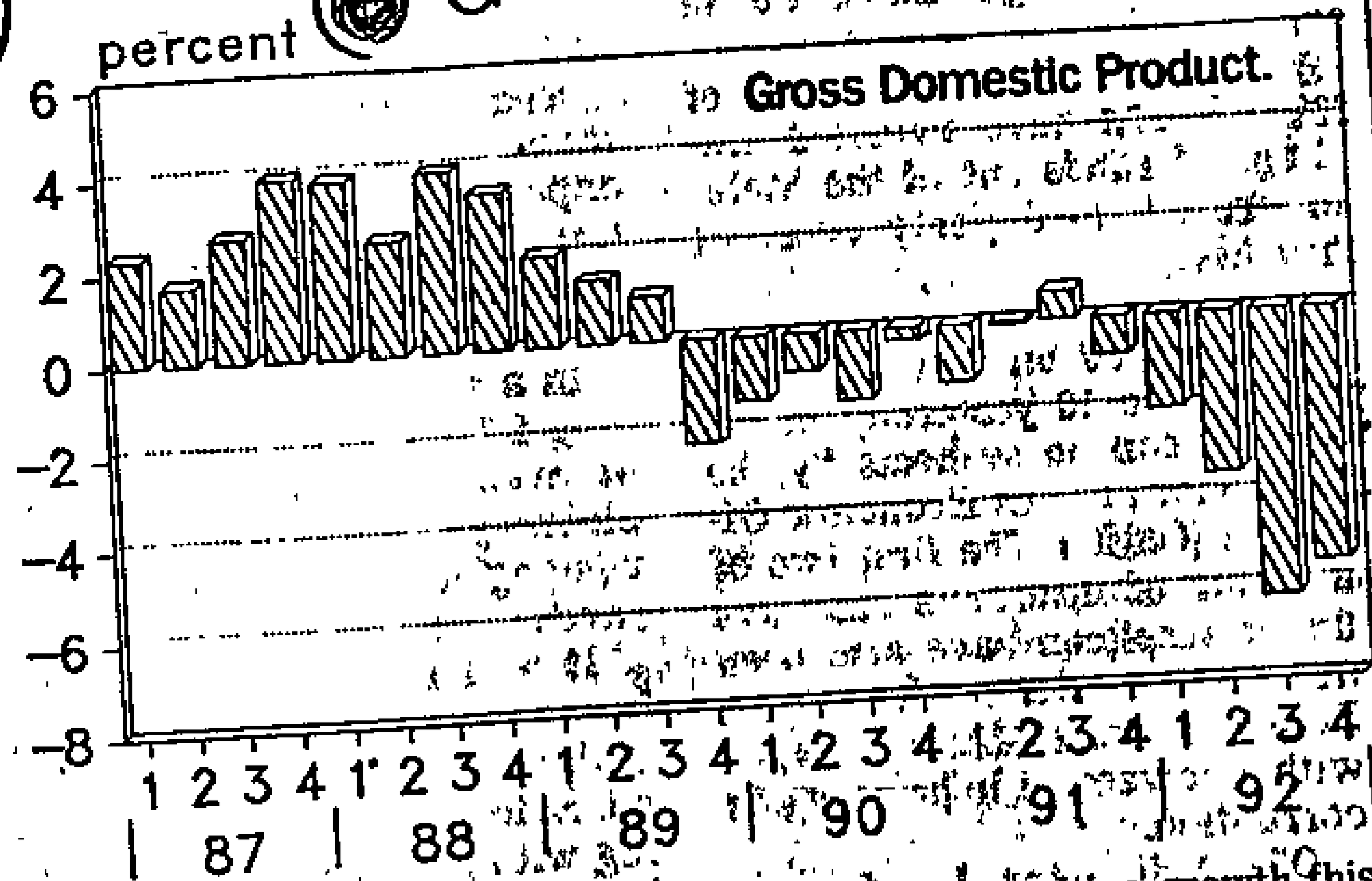


Star 12/12/93

Economy still contracting

(49) Gen

By Sven Lünsche



A further sharp drop in agricultural production slashed economic growth by an annualised 5,1 percent in the fourth quarter last year.

In the preceding three quarters the economy, as measured by changes in the gross domestic product (GDP), had contracted by 5,6, 3,1 and 2,1 percent respectively.

Growth in the agricultural sector declined by a staggering 70 percent in the fourth quarter, after a 64 percent plunge in the third quarter, as the December rains came too late to have any impact on production.

For the year as a whole agricultural output fell by 24 percent, while non-agricultural production was 0,9 percent lower.

The total economy consequently contracted by 2,1 percent last year after declining by about 0,5 percent each in 1990 and 1991.

According to the figures, which were released by the Central Statistical Service (CSS) yesterday, the poor economic conditions were not limited to the agricultural industry.

Output in the manufacturing sector last year fell by 3,2 percent, in the construction sector by six percent and commerce by 2,1 percent.

All other sectors showed positive growth, according to the CSS.

The economy is expected to show modest positive growth this year as agricultural conditions return to normal.

However, recent poor sales figures from the retail and automobile sectors have caused renewed concern about the resilience of the economy.

As a result the SA Chamber of Business recently scaled back its GDP growth forecast from one to 0,5 percent for 1993.

SA stolen dry

CT 12/2/93

Fraud exceeds national income

By ARI JACOBSON

FRAUD in South Africa over the past eight years exceeded the country's total production for last year.

This puts the shocking scale of the financial fraud in the country at more than R350 billion, according to Johannesburg accountants. The figures have been confirmed by the police.

South Africa's GDP for 1992 is expected to be in the region of R340bn.

"No one seems to realise the seriousness of the situation," the chief of the commercial crime unit, Major-General Martin Nel, said.

"art of the problem is that "while armed robbers receive a substantial sentence, white collar criminals, with a pen in hand, could in certain instances receive a suspended sentence".

Financial fraud began escalating since the re-introduction of the financial rand, to work in tandem with the commercial rand, in 1985. This led to foreign currency abuses commonly known as "round-tripping", which now run into billions.

"The country's morals are at an all-time low," said Mr Stuart Morris, deputy executive partner of Johannesburg accountants Aiken and Peat.

In a statement his firm said the value of transactions underlying the fraud was in excess of R350bn.

The firm laid some of the blame for the erosion of ethical standards on the rapid and substantial change taking place in South Africa.

"Political uncertainty and social unrest have shortened the time horizons of all economic players and created a motivation to get rich quick no matter what."

Aiken and Peat said the value of "ordinary" fraud investigations alone has grown from R1 billion in 1988 to R7bn in 1991, "equal to more than half the GDP produced by the entire agriculture, forestry and fishing sector".

The value of economic crime has increased by 74% over the previous year.

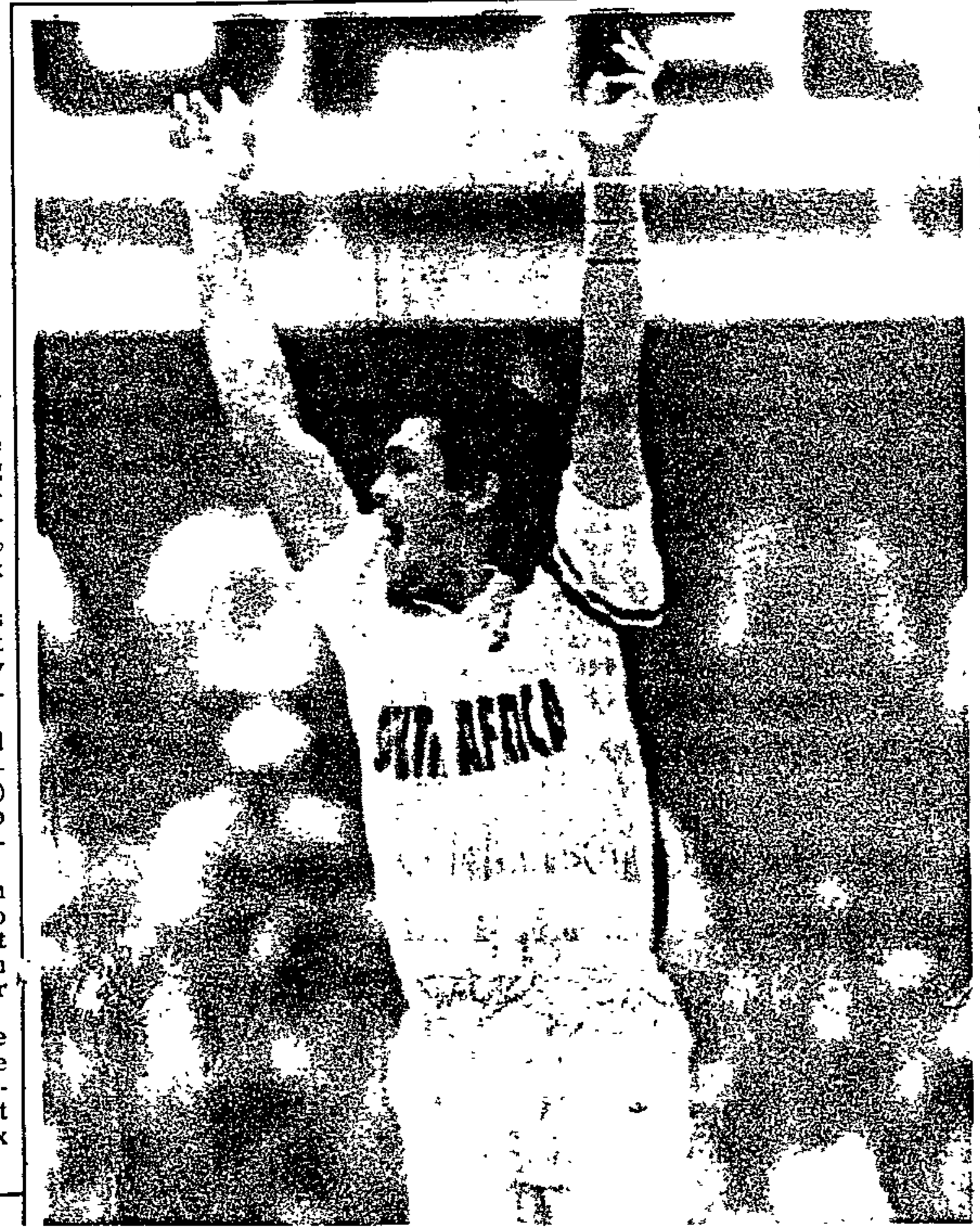
Mr Morris, who is also the president of the Johannesburg Chamber of Commerce and Industry and a leading fraud investigator, pointed out that over 50% of total fraud came from forex illegalities.

He said about 25% of the frauds were committed by management and between 10% to 20% by government and quasi-government institutions.

The situation has deteriorated so rapidly that an Office for Serious Economic Offences (OSEO) was started up in March 1992 to deal specifically with "white collar crime".

Mr Morris believes that tough new measures are starting to have an impact on frauds "but the problem is enormous and can only be hoped to be cured over the next few years".

In recent times there have been the Masterbond saga, the failure of Fundstrust, possible irregularities under scrutiny at Tollgate Holdings and forex scams totalling billions.



JOY ... Springbok Meyrick Pringle jubilates after taking the wicket of opening West India batsman Brian Lara for 13 in th second match of the interna tional cricket series between South Africa, We Indies and Pakistan. Watched b 20 000 delighted fans in Po Elizabeth yesterday the Springbok won the match by six wicket confounding critic the odds and their opponent The next match in

SA's growth rate falls

CT 12/2/93 (49)

Business Editor

SOUTH AFRICA's gross domestic product (GDP) fell by a further 5,1% in the fourth quarter of last year. This means the economic growth rate fell by 2,1% last year after dropping 0,5% in 1990.

The agricultural, manufacturing, electrical and construction sectors were the worst hit.

● SA's GDP takes 5,1% tumble — Page 11

THE ECONOMY 49 FM 12/2/93

Limiting the damage

There is an interesting dichotomy in the economic news this week. Reserve Bank Governor Chris Stals, by cutting the Bank rate, has given the official nod to further declines in interest rate levels, which should help business. Yet, in contrast, the SA Chamber of Business (Sacob) has revised its December forecast of 1% growth this year to nil in the face of declining business confidence.

This is not a situation which will make it easier for businessmen to chart their way through difficult waters in the coming year. For sure, business activity will be better this year than last; no growth in the economy is certainly preferable to the 2% contraction which hurt us all last year. But that is solace rather than encouragement.

What does give room for some modest optimism, however, is Derek Keys's statement in Cape Town last Thursday that he expects the inflation rate to remain in single figures this year. Coming from the horse's mouth, that suggests that any increase in Vat in next month's Budget should be, at worst, modest. In the present circumstances, no other person can influence inflation more profoundly than can Keys.

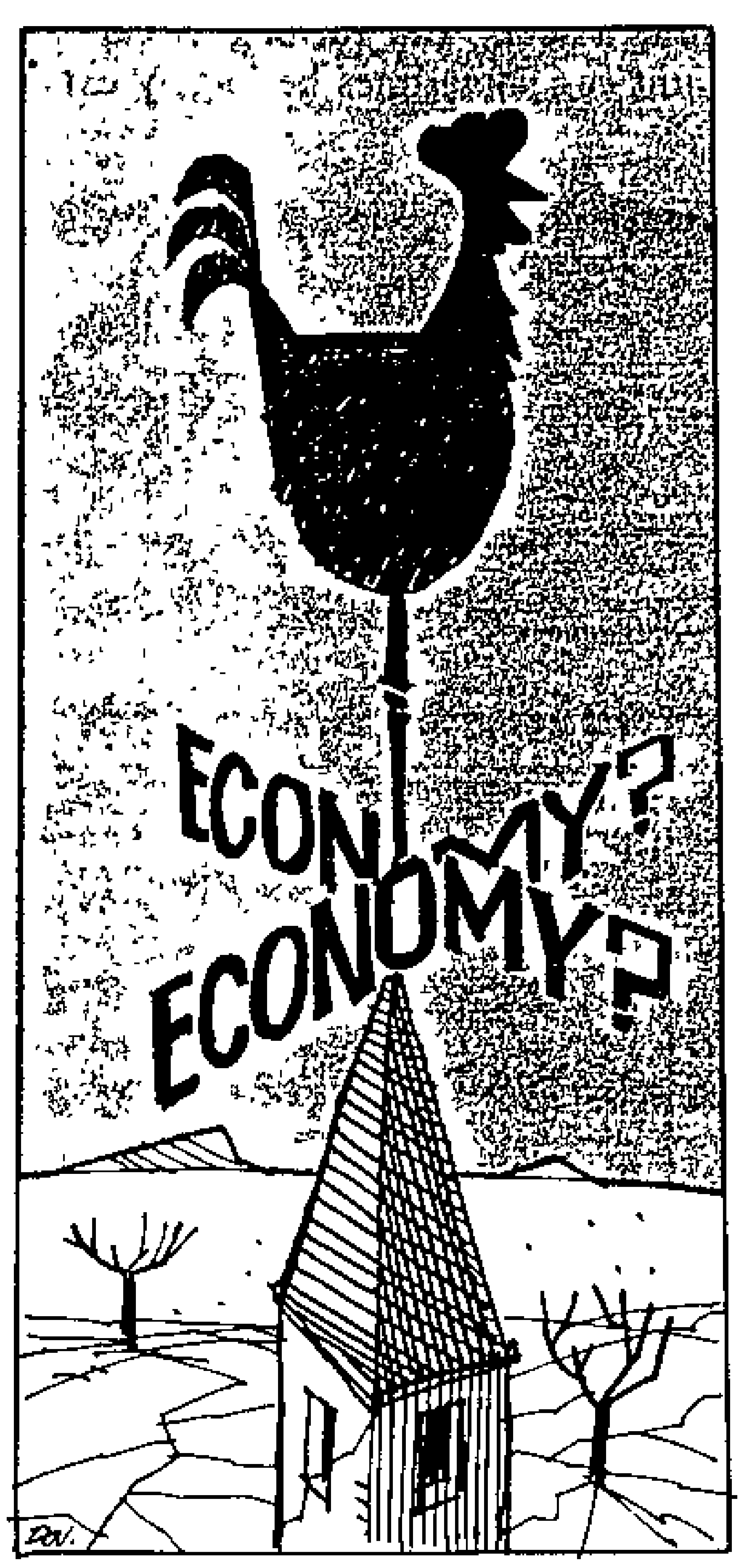
Certainly, any increase in taxes next month will cause Sacob's growth forecast to be pushed down into negative figures again; contract (rather than expand) government revenues, which are flagging rather badly; and aggravate unemployment.

The efforts made over the year to contain current government spending, while they might appear modest to those not accustomed to dealing with a bureaucracy, are, nonetheless, encouraging. They might enable the deficit before borrowing to be held below 9% — but they won't achieve a substantial reduction.

In fact, the options open to Keys in this Budget are very limited indeed. It is too late for a significant privatisation to reduce government's massive debt, the servicing of which is a heavy burden. Meaningful tax reform is out of the question while the ANC, which insists on participation, struggles to formulate a view on the matter that is Politically Correct without being economically destructive.

The chances are, therefore, that Keys's Budget will seek at best to be anodyne; it certainly will not be neutral. A 9% deficit before borrowing reflects a level of spending that should have the neo-Keynesians, or kick-starters, at the SA Perm, Nedbank and Old Mutual in paroxysms of delight.

Added to that is the stimulus that will flow from the latest monetary targets announced by the Reserve Bank. These will be within the range of 8% — which, by European standards, is still more than double what it should be in an economy in which there is no growth.



Whether, of course, this latter stimulation will prevail in the face of decline in both demand and investment is the key question. Investment at present requires an act of faith far beyond rational assessment. There is very little Keys can do in the Budget that will foster that sort of blind belief. All he can hope to do is limit the damage.

Lower interest rates will eventually have an impact on demand. Our guess is that there remains considerable scope for further easing, provided balance of payments constraints can be avoided.

In fact, demand is so low at present that there is a chance that the Reserve Bank may find itself faced with the prospect of having to foster money supply growth to meet its target, rather than restrict aggregates.

A very worrying phenomenon is the continuing capital haemorrhage. More than R40bn in potential investment funds has fled the country, for few sound economic reasons but various political ones, since the crisis of the mid-Eighties.

The employment and housing which those billions could have engendered should be on the conscience of the political activists who still encourage this disinvestment — and those clergymen who attempt to preserve the chastity of Marxism through capitalist intrigue.

Our guess is that Keys will fashion a Budget predicated on a political settlement that will bring about an interim government, or one of national unity, before the fiscal year is out. Once that is in place, the climate for the renegotiation of foreign loans and renewed access to appropriate IMF facilities could transform economic prospects.

Millions of people will, of course, suffer while the political process towards a settlement drags on. There is no need for this to happen. The ANC's Nelson Mandela has apparently accepted Keys's analysis emphasising the parlous state of the economy.

In the end, a vigorous growth rate here will depend on the multiplying stimulus of a broader world economic recovery. Meanwhile, a united effort from government, political parties, trade unions and the clergy could bring about a climate of greater stability. This would go a long way towards reducing domestic constraints to investments — which would be much more important than a kick-start Budget next month.

Regardless of what happens in the economies of our main trading partners, we are not entirely hostage to world trends. We're still substantially the masters of our own economic destiny. ■

INTEREST RATES FM 12|2|93 49

Don't hold your breath

It wasn't entirely unexpected. With disproportionately high real interest rates and favourable economic indicators, it was inevitable that Reserve Bank Governor Chris Stals would yield to pressures to drop Bank rate.

This he did this week, as the *FM* predicted, by trimming one percentage point off the Reserve Bank's key rediscount rate to make it 13%.

But he had some comfort. Domestic inflation in December was down to 9,6% year-on-year, its lowest level in years, growth in the broad money supply M3 is well within the target range, and central banks in Europe and Japan had cut key interest rates.

Commercial banks were quick to react, reducing prime overdraft rate by a similar percentage to 16,25% and dropping mortgage rates to around 16%. One could almost hear the sighs of relief as hard-pressed borrowers eased their belts a notch or two.

With demand for credit rapidly diminishing (as figures on bank lending for the previous quarter clearly show), is the stage being set for further rate cuts this year?

The answer is almost certainly a qualified yes. Stals has problems — in particular controlling spiralling State spending and keeping the balance of payments in surplus to aid foreign debt repayments.

A SHRINKING LOAD

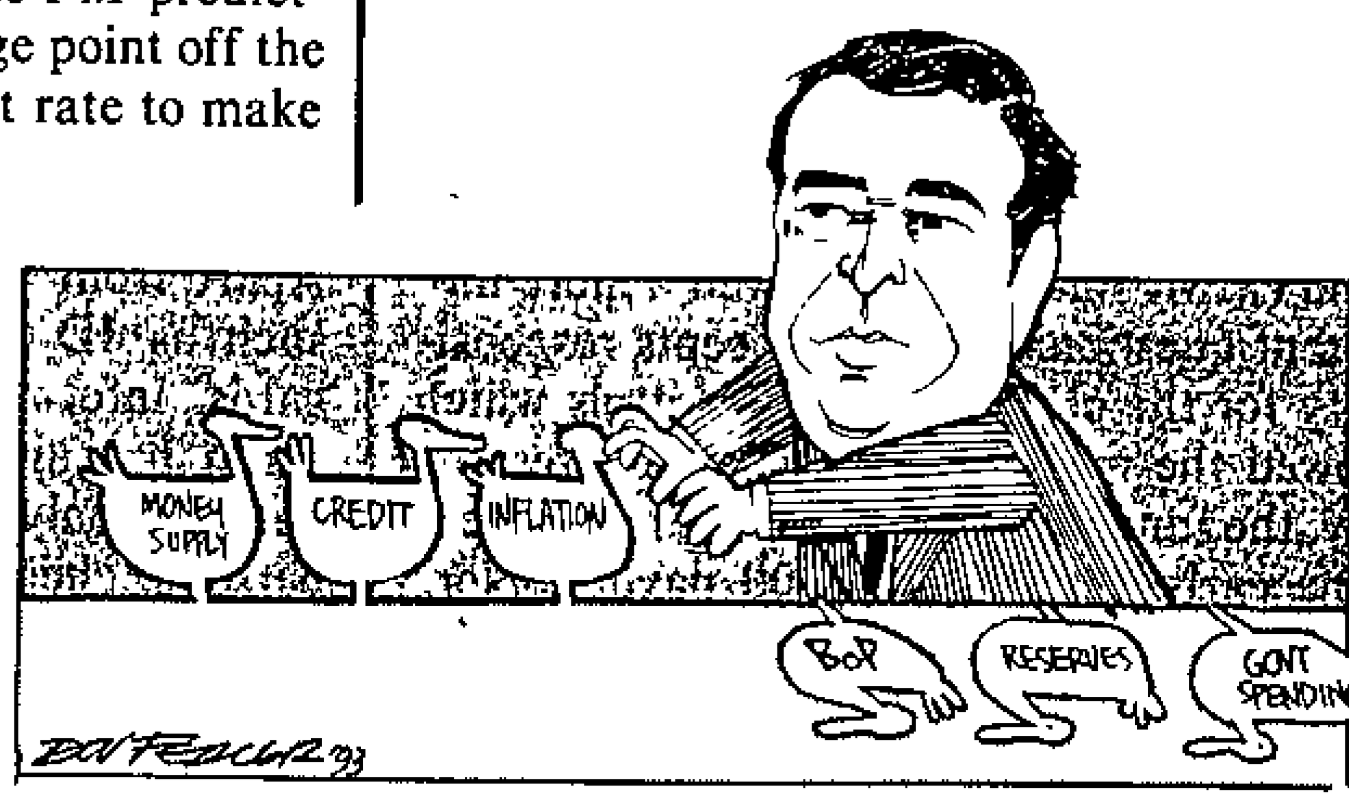
Monthly repayment on a R100 000 mortgage bond for 25 years

Change in mortgage rate	Rate %	Monthly repayment R
1/12/1989	20,75	1 739,32
16/4/1991	19,75	1 658,21
1/11/1991	20,00	1 678,45
1/3/1992	19,00	1 597,68
1/7/1992	18,00	1 517,43
16/9/1992	17,25	1 457,64
19/11/1992 ...	16,75	1 418,00
1/3/1993 ...	16,00	1 358,89

Source: Nedbank Economic Unit

But, for now, Finance Minister Derek Keys is upbeat about getting a grip on State spending. And though they might push up inflation in the short term, higher indirect taxes widely forecast for his Budget should restrain demand further, which could give Stals more room to manoeuvre.

That assumes Keys's measures will work. Frankel Pollak Vinderine economist Mike Brown is cautious: "We seem to be in the early stages of a serious public debt trap. We'll only know next year whether we're getting out of it or deeper into it. Meanwhile, Stals may choose to sit tight."



Absa economist Dominick Sutton points to the worsening state of the gold and foreign exchange reserves: "Forex reserves are now only about US$900m. When you consider foreign debt repayments this year of about $1,6bn, this doesn't leave much scope for further interest rate reductions."

UAL economist Dennis Dykes says the declines in reserves and narrowing in the trade surplus have squeezed liquidity. "The result has been that market-related rates did not lead official rates as they did in the first three quarters of last year."

Stals is only too aware of these difficulties. He notes that the decline in reserves of R3bn in the past four months "has already had a restrictive influence on availability of domestic liquidity." If this continues, "it will militate against further reductions in interest rates, irrespective of the inflation rate."

Dykes says the picture could change if the agricultural import bill is reduced. "Unfortunately, capital outflows look likely to continue at the present rate until investment confidence returns — in other words, when a political settlement is reached."

Will inflation play along?

There's the rub. Lower interest rates can boost business confidence and create a more stable environment for investment. This, in turn, could help any political agreement reached.

But inflation might not play along. It should decelerate in the first quarter, especially as the lower mortgage rate should chop the housing index, which accounts for more than 20% of the Consumer Price Index. But indirect tax increases, announced in the Budget, would counter the downward trend. Stals has already said he will look beyond such one-off effects on the inflation rate in reviewing Bank rate.

Nedcor chief economist Edward Osborn, for one, believes real interest rates might not be as high as everyone thinks: "If you strip out of CPI the seasonal factor of fresh produce prices and exclude the mortgage component of the housing index, you get core inflation for December of 12,5%. This is not as healthy as the Bank would want."

A worrying sign is that short-term interest rates, notably bankers' acceptances and Treasury bills, which for most of 1992 tracked the underlying inflation rate after Vat, are now around 12%, above December CPI — indicating interest rates may have bottomed.

Also, lower interest rates could spark demand, not right away but in the next year or two, when Budget deficit strains could be the greatest.

Perhaps by setting new money supply growth guidelines at 6%-9%, from a previous 7%-10%, Stals is issuing a gentle caveat that the battle against inflation is far from over. ■

RESERVES

Forex fallout

FM 12/2/93.

It had been hoped that January would provide some relief for the gold and foreign exchange reserves after the previous two months of large declines. But it was not to be. The month saw a 3,9% running down of total reserves to US$2,9bn (R6,1bn). This marks a decline of more than 30% from August, when reserves peaked at $4,2bn.

The brunt of the decline was in foreign exchange holdings, which fell $100m or 10,1% from the end of December to $890m (R2,7bn). This has serious implications for SA's debt repayments for the year, which should total about $1,5bn.

The effect of the slide was less noticeable on gold reserves, thanks mainly to an increase in holdings of 1 393 oz to 6,6m oz. The Reserve Bank's valuation of gold holdings fell R3,89/oz to R911,24/oz.

Between the end of December and January, the London afternoon gold fix fell from $332,9/oz to $330,45/oz. ■

ABSA FM 12|2|93

Sudden departure

Bob Aldworth has come back before, but this time his long career in banking may finally be over. Absa, SA's largest banking group, dumped Aldworth as an executive director this week because of alleged financial "irregularities" that benefited him, not the bank.

continued

BUSINESS

Stop paring, start cutting

W|Mail 12/2 - 18/2/93 (49)

The Reserve Bank's caution on lowering interest rates is understandable with a weak balance of payments. But such tight monetary policy might be inappropriate.

By **HILARY JOFFE**

THE one percentage point cut in interest rates announced by Reserve Bank governor Chris Stals this week will do little to relieve the pressure on recession-battered consumers and businesses, raising the question of whether the cut was enough.

Stals indicated the timing of his announcement was a response largely to the release of the December consumer price index (CPI) figures, which showed inflation had fallen below 10 percent for the first time since 1978. Real interest rates (the difference between interest rates and inflation) had therefore increased considerably, he noted, so that "nominal interest rates can be reduced without signifying any fundamental easing in monetary policy".

The cut in Bank rate (which sets the trends for other interest rates, because it is the rate at which the Reserve Bank lends to the commercial banks) from 14 percent to 13 percent simply reduced the real rate to the approximately three percent at which Stals has tried to keep it in recent years. Following the cut the prime overdraft rate charged by most banks stands at six percent in real terms.

Stals stressed that a further cut in Bank rate was not possible at present, mainly because of the weak balance of payments (BoP) situation and the large deficit in government finances.

South Africa's gold and foreign exchange reserves have fallen by more than R3-billion over the past four months, because the surplus run up on the current (foreign trade) account of the BoP has been insufficient to cover the sizeable capital outflows recorded recently.

Rand Merchant Bank economist Rudolf Gouws says it would have been irresponsible for the Reserve Bank to cut rates by more than one percentage point given the uncertainty about the BoP and the large fall in gold and foreign exchange reserves. There is scope for further cuts later, he adds, noting that interest rates have already declined by four percentage points since this time last year. "This week's cut will not in itself reawaken the urge to spend but it's part of a process which will eventually see the economy turn," says Gouws.

But University of Durban-Westville economist Stephen Gelb queries whether such tight monetary policy is appropriate. There may not be an argument for negative real interest rates, he says, but there is a strong case for relaxing monetary policy to allow much lower positive real rates.

The economy is in deep recession and the political situation is not likely to lead to significant improvements in the economy in the short to medium term, says Gelb, adding that there is nothing sacred about a three percent real interest rate.

Current monetary policy is aimed at defusing inflationary pressures in the economy and Stals has often argued that too rapid wage and salary increases are a major cause of inflation. Gelb says rising wages do make a contribution to inflation but argues tight monetary policy is a very blunt instrument with which to knock inflation out: "It throttles the whole economy in an attempt to force wage increases down — it creates more unemployment, more bankruptcies and makes the fiscal situation worse."

A more appropriate way of controlling inflation would be an explicit incomes policy, says Gelb, in which wage increases and increases in other forms of income (such as profit and therefore prices) were targetted on the basis of an agreement by all parties. Such a policy must involve more than just wages if the trade unions are to agree to it. An agreement of this sort is possible if the National Economic Forum gets its act together.

Consumers struggle

YEARS of rising taxes and higher prices have severely eroded household finances, with the position of the average consumer now no better than it was 20 years ago, Sanlam's latest *Economic Survey* shows.

In 1991, personal disposable income per head in real terms was at approximately the same level as in the early 1970s. Total real personal disposable income rose by only two percent a year during the 1980s, down from 2,6 percent in the 1970s.

Sanlam says in nominal terms, pay packets grew faster in the 1980s than in the previous decade but an increasingly heavy personal tax burden weakened consumers' financial position. Personal tax as a percentage of current income rose from an average eight percent during the 1970s to around 13,5 percent in 1991.

Sanlam predicts that 1993 will be another difficult year for consumers. However, further interest rate cuts should reduce the financing costs of bonds and of credit. Also, the cost of living is expected to increase less rapidly: Sanlam's economists predict an average inflation rate of about 10,5 percent for 1993, down from 14 percent last year.

Punching holes in economic myths

W|Mail 12/2 – 18/2/93 (49)

Nedbank chief economist Edward Osborn has questioned some cherished received opinions about the South African economy.
REG RUMNEY *reports*

Economic dissident ... Nedbank's Edward Osborn

ICONOCLASM is not what you'd expect from the banking environment. But such is the grip of the prevailing monetarist orthodoxy among South Africa's influential bank economists that Nedbank/Nedcor chief economist Edward Osborn stands out as almost an economic dissident.

Described as the last serious Keynesian, Osborn has just published an article puncturing a series of misconceptions about the South African economy.

"The Mythology of Macro-Economics" seeks to shed light on a considerable body of received opinion about the South African economy in both conservative and not-so-conservative circles.

And in the week before Reserve Bank governor Chris Stals cut the bank rate, at least partly because inflation in single figues seemed under control, Osborn questioned the official inflation figure.

Indeed, Osborne alone among bank economists readily questions the reliance on monetary policy alone to bring inflation under control, rather than to look at the whole picture.

Most importantly, assisted by Kevin Lings and Magan Mistry, Osborn has over the years directed his economic unit in doing some original research, particularly into trade, which has thrown up interesting results.

What are the received opinions Osborn, as a critical economist, is keen to disabuse fellow economists and ordinary people of?

Many relate to the magic wand solutions put forward as the answer to South Africa's economic problems. Many are merely held as given, across the political spectrum. Other economists will surely take issue with some of his conclusions, but it is not necessary to have a nest of singing birds, merely to have vital debate.

Just some of the deeply held beliefs Osborn discounts are as follows:

●It's a myth, according to Osborn, that unemployment stands at 40 percent in South Africa. The simple fact is, that South Africa has no comprehensive system of registration of the unemployed and so there is no comparable basis for statements about unemployment. Osborn does not deny the number of workseekers in South Africa is high, but stresses the way unemployment is often worked out is not reliable. The available stats, of fair quality, give employment figures. And there are rough estimates of the economically active population.

"In 1990 the total estimated employed, including agriculture and domestic service, amounted to 7,95-million, which is nearly 60 percent of the estimated economically active population of 13,42-million."

However, 60 percent employed is not the same thing as 40 percent unemployed, because those not in formal employment include those in subsistence agriculture, those self-employed as well as those actively seeking employment.

●Another myth, and a belief held by among others the International Monetary Fund (IMF), is that South Africa needs to promote labour-intensive industry.

Osborn points out the more labour-intensive the industry the greater the skill requirement of the labour. Clothing, footwear and leather products are the labour-intensive industries in South Africa. All these require considerable skill, manual dexterity and flair, and involve a lot of training.

In South Africa a low skill level, for historical and sociological reasons, militates against proceeding too hastily along this route. Among other reasons is a high wage rate which has made labour-intensive industry uncompetitive with the Far East.

●It's also a myth that the cure for unemployment is through industrialisation. Osborn says that it just isn't going to happen, unless we have a command economy, where such things are done by fiat. Industrialisation happens because businessmen take decisions to set up businesses, based on their perception of risk and market opportunities. Modern technology means the scope for industrial growth organically making a dent in unemployment is limited.

●Osborn disputes that South African industry is increasingly capital intensive. Again, this idea is held by the IMF. The evidence for a trend towards capital investment at the expense of labour comes from rising capital/labour ratios for the manufacturing sector as a whole. This, says Osborn, arises from the fallacy of aggregation. Looked at closely there is no significant capital thickening in industry sub-sectors.

There have been large discrete bouts of capital investment in particular industries, such as the iron and steel industry in the early 1970s, the synthetic fuels industry in the late 1970s, and the pulp and paper industry in the early 1980s.

●The "high road" expectation that a sustained economic growth of five percent a year will solve the unemployment problem is born of hope and delusion and is improbable.

"Growth in excess of five percent has only occurred in the boom years 1962 to 1965, 1967, 1970, 1974 and 1980 and 1981, but never on a sustained basis. Furthermore, employment increase in those particular years was in excess of five percent in only 1965 and 1980."

●South Africa's trade policy has traditionally been aimed at import substitution and inward industrialisation.

Far from being introspective South Africa has one of the most open economies in the world in terms of the contribution of exports to gross domestic product. As in other countries import substitution has been part of development policy. Inward industrialisation is an idea whose time has passed with sanctions.

Osborn says South Africa's protectionism has not been exceptionally high in comparison with other developing countries.

"According to a World Bank study South Africa's average of 25 percent protection compares with India's 80 percent, Brazil's 50 percent, and Kenya's 40 percent; it is high, however, compared with the developed countries such as six percent for the United States and the European Community, but instead in those countries effective non-tariff barriers abound.

●The idea that the General Export Incentive Scheme (GEIS) has led to a rapid expansion of exports of manufactured goods is dismissed. Osborn points out his unit's research shows the GEIS has not been particularly impressive in encouraging exports, and there is good reason to believe a large proportion of GEIS payments are being made gratuitously to exporters who would be exporting anyway.

State debt hits danger level

BRUCE CAMERON (49)
Business Staff ARG 13/2/93

THE total accumulated State debt is reaching R140 billion of which R30 billion was added this year.

Interest alone on the debt in this budget year will be about R18 billion, a spokesman for the Department of Finance has confirmed. This interest is approaching 20 percent of total government spending.

With Finance Minister, Mr Derek Keys, expected to budget for a deficit of about 6,5 percent of the Gross Domestic Product, more than R20 billion again will be added to the accumulated total.

The size of the debt is starting to limit the ability of the state to meet demands for social spending and much needed infrastructure.

The size of the deficit is above the danger level set by the IMF of six percent of GDP, at which stage it predicts a country will move rapidly into a position where the majority of its resources go towards servicing debt. The safe level is three percent.

For the 1992/'93 budget year, government borrowing has reached nine percent of GDP.

However, Mr Keys, who has committed himself to reducing the deficit, pointed out recently that, if it had not been for government spending, the economy would have been in an even worse position than it was now.

All set for better times

(49) ARU 13/2/93

BRUCE CAMERON
Business Staff

STAND by for liftoff! The government, walking a fine economic tightrope, intends to push ahead with measures to stimulate the economy this year.

Government sources confirmed that a top-level meeting of Finance Minister Mr Derek Keys, Reserve Bank governor Dr Chris Stals and senior advisors took place last week to discuss ways of getting the economy back on its feet with this week's cut in the bank discount rate as a step on the way.

The national economic forum is to play a key part in the plans with tough negotiations ahead to get government economic proposals accepted.

Underpinning the plans will be next month's Budget and Mr Keys' economic package for the restructuring of the economy.

The government faces a delicate balancing act between the need to meet the short term demands of the tottering economy and long-term targets of sustained growth.

Indications are that the government may be planning to do a deal through the national economic forum to get political acceptance for a jump to 12 to 13 percent in Value Added Tax in exchange for zero rating a few more items, probably in the food line.

The government desperately needs new sources of income to reduce the soaring national deficit. Even if agreement can be reached on VAT, however, government sources say it will be difficult to bring the deficit for 1993 much below 6,5 percent of the gross domestic product.

Early indications are that Mr Keys will put aside the long term risks of another high deficit in the 1993/94 in order to keep government stimulation of the economy going.

Government and private sector economists fear that any steps to cut back the deficit to the safe zone of 3 percent would send the economy into another dive and push unemployment ever higher.

With the economy contracting by 2,1 percent last year and total employment shrinking for the first time since the reces-

Turn to page 3

All set for better times

From page 1 (49)

sion started, economists said this week that the position would take another turn for the worse, if government spending was seriously curtailed.

Government sources said the weekend meeting of Dr Keys and Dr Stals resulted in the earlier than expected drop in the bank rate by one percent in effort to provide another prod to the ecponomy. ARU 13/2/93

Mr Keys has recently gently chided economists who have been making doom and gloom predictions, telling them to look at the more positive aspects as well.

These more positive elements were spelt out by Deputy Minister of Finance, Mr Theo Alant, in an interview this week.

He said that after four years of recession there was "no reason why the economy should not move into a new growth phase".

His reasons include signs of improvement in the American economy and the impact it will have on world trade and commodity prices, R29 billion South African industrial and mining projects including the Columbus stainless steel plant and the expansion of aluminium smelter Alusaf; signs that the worst of the drought is over; and the falling inflation rate and consequent drop in interest rates.

He underlined the greater political consensus being achieved both on the economic as well as the political front.

Political agreement and indications that South Africans were again prepared to invest in South Africa would stimulate much-needed foreign investment.

Star 13/2/93

Govt overspends by R4,5 billion

(49)

MAGNUS HEYSTEK, BRUCE CAMERON and SAPA

CAPE TOWN — The Government overshot its budget for the year by R4,5 billion — about 5 percent up on its original estimate — pushing the deficit for the year close to a huge R30 billion. This means that the Government has fallen deeper into a debt trap despite major efforts to trim spending.

The figures were announced as the country prepares for a drastic Budget next month. Increases have been predicted in personal tax, VAT and the petrol price. And a further blow comes on March 1, when recipients of income from retirement annuities will have to submit tax returns to the Receiver of Revenue which will be assessed in terms of the PAYE system — instead of the SITE system which had previously been the case (full report on Page 1).

Agricultural sector

The main cause cited for the Government's overspending has been the ravaging drought, which shrank the agricultural sector in the last three months of 1992 by 70 percent, and the sharp fall-off in Government income over the past year, pushing up the amount of interest paid on the increasing debt.

Falling income, drought push up interest debt

The Government deficit is now expected to be close to 9 percent of gross domestic product (GDP) after an original estimate of 4,5 percent.

These figures follow confirmation of a further sharp downturn in the already shrinking economy. The Central Statistical Service announced this week that the economy contracted on an annualised and seasonally adjusted rate of 5,1 percent in the last three months of last year. The final figure for 1992 was a negative growth of 2,1 percent.

The Government's deficit is now way above the International Monetary Fund's recommended maximum of 3 percent of GDP.

The IMF considers any amount over 6 percent as creating a dangerous "debt trap", where more and more of the country's resources go merely to pay interest on debt, seriously inhibiting the State's ability to meet the demands of social programmes, let alone build up infrastructure.

The figures were confirmed at a press conference yesterday.

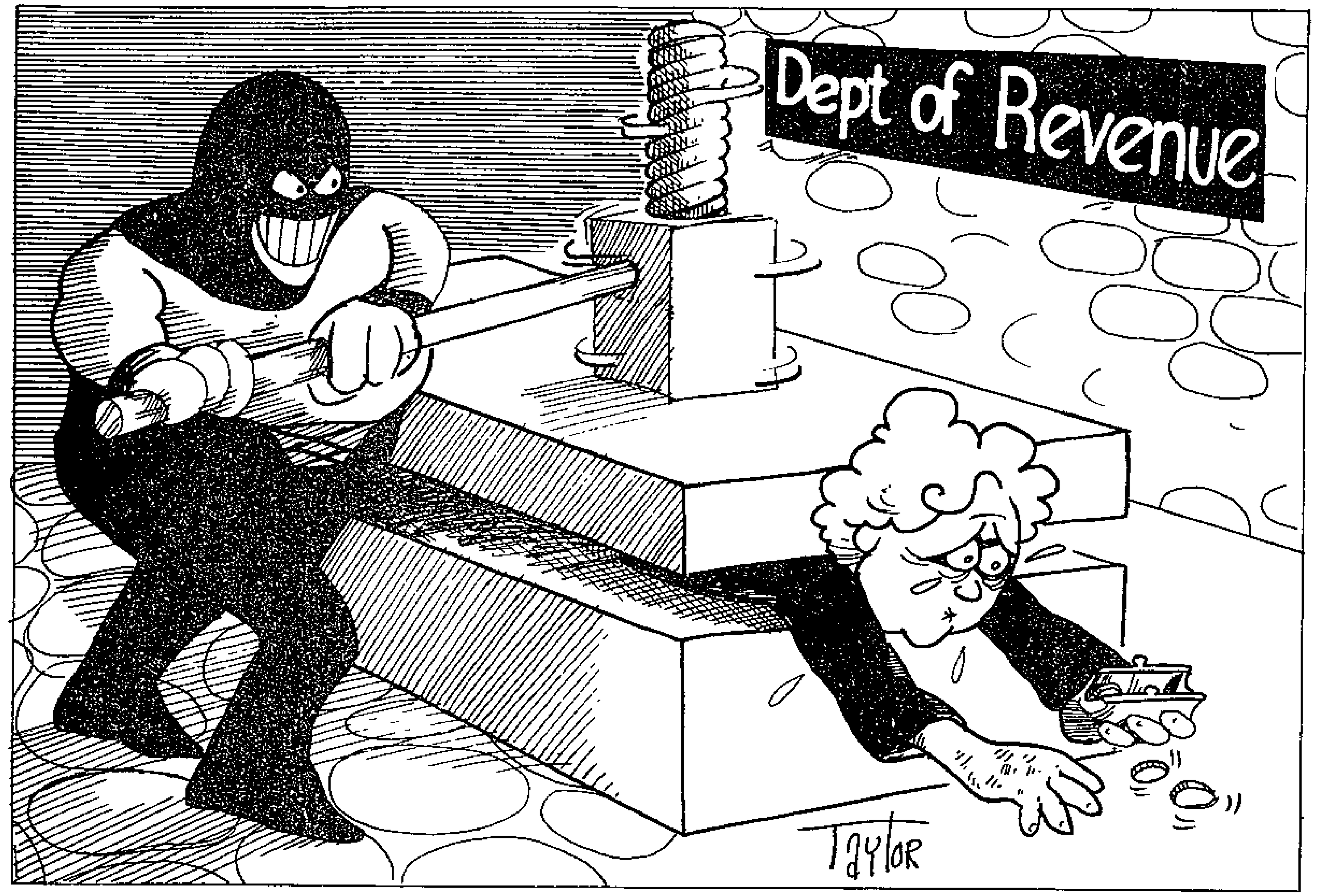
Another indicator of the critical state of the economy was provided by the Small Business Development Corporation (SBDC) this week, when it announced that there had been a nett loss of between 300 000 and 400 000 jobs in South Africa through retrenchments in the past three years.

The figures were provided by the SBDC's senior general manager, Jo Schwenke, at a conference on "Positively Managing Retrenchment" in Johannesburg on Thursday. He said the number of jobs lost since 1989 was more than the 340 000 job opportunities created by the SBDC during its 11-year existence. Schwenke said one of the solutions was that big companies should, as far as possible, retrain before retrenching.

Equipping employees

"This retraining should not just be lip service, but a serious attempt at equipping their employees with something of value to enable them to make it on their own. If big companies are prepared to spend some of their social responsibility budgets on their surplus employees, the least they need to do is to provide retraining to equip the employee with marketable 'doing skills'.

"In addition, they could also provide loan financing for the launching of the new businesses," Schwenke said.



Private sector urges fiscal commission

49

CT 13/2/93

JOHANNESBURG. — An Interim Fiscal Commission should be set up to advise central government on its finances as South Africa moves towards a new constitution, a private sector initiated forum recommends.

The Nedcor and Old Mutual sponsored Professional Economic Panel believe the immediate establishment of such a body would "send out the signals about fiscal management which will help restore investor confidence".

Speaking in Johannesburg yesterday, panel co-ordinator Dr Robin Lee said the IFC would advise the interim government on vexing fiscal questions around state spending and its financing.

The Commission would also deal with the "generally accepted" belief that there will have to be a redistribution, or re-allocation, of public expenditures under a new government.

Dr Lee said this would help to "vigourously address" the creation of an economic climate conducive to economic growth.

He suggests the Commission could be drawn from fiscal experts in the government, the democratic movement and private sector and would replace existing fiscal bodies, like the Standing Advisory Committee on Tax Matters.

The IFC could be constituted under present legislation as a conventional "commission of inquiry", the panel's full report proposes, and would be financed from the state's budget.

Govt doubles up on dept savings

(49) CT 13/2/93

By ARI JACOBSON

GOVERNMENT savings, from all its departments, have virtually doubled for the fiscal year to March 1992/93.

The figure has risen from the previous year's R230m to the projected R433m for the fiscal year under review.

At a press gathering in the Cape yesterday to discuss the additional budget expenditures, a spokesman pointed out that "we have been stricter then ever before and turned down about R1,4bn in additional expenditure requests".

He mentioned that "circumstances changed" which allowed certain departments to become net savers.

He pointed out that this situation occured in the National Health, Mineral & Energy and Internal Affairs departments.

The spokesman added that all the departments had been involved in rationalisation and cost cutting progrgammes, to enhance efficiency and this had led to the budgeted increase in expenditure being close to forecasts.

The budgeted figure of R98,8bn in government spending, has been increased by a further R6bn or 0,6%, to R104,9bn. And at least R1bn of that will be financed from the sale of assets.

The addition to government spending includes a further R740m from the higher then expected budget deficit, which in turn has brought on larger financing charges for state debt.

The deficit has grown from the estimated 4,5% of gross domestic product (GDP) and now stands at 9% of GDP.

In addition a carry-over of R2,4bn, owed to the Land Bank and expected to be paid over three years, will now be settled on a once-off basis in this financial year. An amount of R293m for drought aid programmes has also been set aside, as has another R123m via the department for Regional and Land Affairs. A sum of R620m has been earmarked for the SA Rail Commuter Service Corporation, R222m to the TBVC states in the form of food aid, road projects and personnel expenditure, while the Justice department will receive about R32m for its Legal Aid Board and to implement reform proposals advised by visiting special envoy Cyrus Vance.

The House of Representatives will be provided with an extra R184,8m and the House of Delegates an added R74m for the building of schools and houses.

Social upliftment expenditure is given a further R422m boost and R659m will go towards the provincial administrations.

Government spending put at R104,87-bn for the year

(49)

S/Times, (Buss) 14/2/93.

By CIARAN RYAN

THE budget deficit for 1992/3 will be R29,8-billion, or 9% of gross domestic product, director-general of state expenditure Hannes Smit confirmed on Friday.

This is twice the level budgeted at the beginning of the year.

The Additional Appropriation Bill, tabled in Parliament on Friday, pushes government spending up by R6,04-billion to R104,87-billion for the year.

Of this, R1,04-billion has already been financed through the sale of state assets. The additional spending figure includes R479,7-million which was already announced in the main budget, reducing the actual excess to R4,5-billion.

The biggest item on the list is R2,4-billion, which will be used to repay farmers' debts to the Land Bank. Mr Smit said this amount would have been repaid over three years, but by paying it now, the government saves R107-million in interest.

This amount was not put in the main budget when the severity of the drought was already well known to avoid disruption of the capital markets

The total drought relief package is billed at R3,4-billion, as against initial forecasts of R1,4-billion.

The interest on state debt has risen by R740-million to R17,04-billion as state revenues undershot expenditure, forcing the government to increase borrowings.

An amount of R620-million is earmarked for the SA Rail Commuter Service Corporation and a further amount of R23-million for bus commuter subsidies.

Contained

Foreign Affairs asked for an additional R192-million, Finance for R119,2-million, the House of Representatives for R184,7-million, Agriculture R308-million, Regional and Land Affairs for R1,27-billion, Local Government and National Housing for R153,2-million and Public Works for R105-million.

Self-governing territories will receive an additional R629,9-million, of which R421-million is for social upliftment

Mr Smit says that other than scrutinising homeland budgets, the government had little further control over how money was spent.

He says every effort was made to keep spending increases down.

If the unavoidable increases — drought relief, SARCC subsidies and higher interest on state debt — are stripped out of the figures, spending increases were contained to within 1% over the original budget.

Agriculture sets free market plan

By TERRY BETTY

DRAFT labour legislation in agriculture was handed to the Manpower Minister on Friday advocating a free market system and the decriminalising and deregulation of labour law. The draft, drawn up by the legal profession and evaluated by the agricultural unions and Nampo, proposes the right of free association, collective bargaining, with the right to negotiate individually, and conditions of service can be adapted to climatic conditions.

It also includes proposals that parties try to resolve their own problems or reconcile them at a low level, and that a special labour court will be available in each magisterial district. S/Times, (Buss) 14/2/93.

The right of workers to strike and the right of employees to lock out their workers is recognised.

A breach of employment condition would not be a punishable offence but may be referred to the special labour court for an order to correct the breach.

However, if the court order is ignored then a crime has been committed.

Iveco trucks into SA

By DON ROBERTSON

THE Italian-based Iveco truck giant plans to make a "considerable" investment in SA in the next few months.

The intention is to expand its operations in SA to meet the local and sub-Saharan markets and slots in with its planned globalisation strategy which has seen it recently move into Turkey, India and China. (EP),

Iveco's major shareholders are Fiat and Magirus Deutz and a decision to invest in SA could spark off a flood of interest by other large Italian conglomerates, says Jean Sauvaire, international operations director.

Mr Sauvaire is on a short visit to Johannesburg for discussions with Truckmakers, a subsidiary of Automakers, which owns Nissan SA.

Iveco has been represented in SA for more than 15 years, providing technology for the manufacture of the Samil military trucks manufactured by Truckmakers. This association was strengthened in 1989, when Truckmakers began production of Iveco's TurboStar for the commercial market. S/Times (Buss)

Partner

14/2/93

Iveco has now decided to expand its range of trucks for the local and adjoining markets and is looking for a partner. Discussions are continuing with Truckmakers, but no decision has yet been taken. An investment of at least R50-million has been suggested.

Mossie Mostert, managing director of Truckmakers, says he has been "very comfortable" with the association over the years.

The plan to expand its range of trucks "does present certain problems for our group, considering that we already handle the full range of Nissan Diesel products. For this reason, it may be more advantageous for Iveco to consider an investment through a third party."

Master plan to PEP up the SA economy

S/Times (Buss) 14/12/93 (49)

By KEVIN DAVIE

EFFECTIVE controls could easily bring savings of between 10% and 30% — R10-billion to R30-billion — of public spending, says a new Nedcor/Old Mutual report.

The Professional Economic Panel (PEP) of economists, businessmen and politicians recommends a 22-point action plan to be able to attract new investment and improve economic performance.

PEP says political stability and development pacts will need to be negotiated: "The three pacts support each other; failure in any one undermines chances of success in the others."

Transfer

Key recommendations, which are much more detailed than the first scenario by Nedcor/Old Mutual, which largely concentrated on the mass provision of housing and electrificiation, are:

- The transfer of state-owned housing stock by an interim government to existing occupiers;
- The establishment of a more independent Reserve Bank appointed by Parliament and not the President;
- The setting up of a fiscal commission with statutory powers answerable to Parliament and not to any minister or government of the day. The commission will address the implementation and formulation of fiscal policy;
- The establishment of a performance auditor's office within the Auditor-General's office to counter the gross wastage and ineffectiveness of public spending;
- The creation of a socio-economic council to involve as many constituencies as possible in the decision-making process;
- Setting up an industry and trade development council (ITDC) based on Japan's Ministry of International Trade and Industry to develop a unified industrial vision and strategy ... "something which SA sorely lacks at present".

PEP is chaired by Nedcor director Colin Adcock. It includes representatives from large and small business, trade unions, the ANC and Free Market Foundation.

The sponsors' brief was to develop detailed, practical strategies to improve the total economic situation and create a climate for a sustainable economic upswing.

The brief also included plans for greater job creation, an accelerated education strategy and attention to the problem of the "lost generation".

PEP says SA's economic decline during the past 20 years is well known. It says 17-million people live below the subsistence level and six million are unemployed.

Steps to increase domestic and foreign confidence in SA include sustainable growth, wealth creation and redistribution, greater attention to the needs of the poorest, a clear industrial strategy and export orientation

PEP says new institutions should be adapted from existing institutions and no additional taxation or government expenditure should be required.

It recommends setting up a trade and industrial policy project immediately, as establishing the ITDC will take at least a year.

PEP wants more spent on export promotion as SA only spends 25% of Australia's and 10% of Taiwan's expenditure on such promotion. "The panel proposes that export promotion be financed from a foreign trade levy pegged at 0,15% on all import and export transactions. This will provide R180-million a year."

It also recommends the establishment of enterprise development status for targeted exporters. This confers the same benefits as export processing zones but are legallly rather than geographically defined.

Grant

Another specific proposal is to restructure the Unemployment Insurance Fund, which has resources in excess of R1-billion, which "could be used more effectively without infringing on employee rights".

PEP also recommends a public works programme to be funded by an annual grant starting at R1-billion.

A special Cabinet post should be created to champion small business and create a larger role for small and medium enterprises (SMEs).

Oppressive controls which hamper the economy should go. PEP envisages a greater role for the Competition Board in this regard.

Panel co-ordinator Robin Lee says the prolonged economic slump is a severe threat to a successful transition to democracy. "A strong sense of urgency has resulted in the Panel focusing on proposals that are immediately actionable."

Talks progress needed to boost economy, says DP

TOS WENTZEL
Political Staff

49

SUBSTANTIAL progress in negotiations and moves to get the country to live within its means were necessary to improve the economy, Mr Ken Andrew (DP, Gardens) told a joint session of parliament.

He was speaking on the second day of the debate on the president's opening-of-parliament speech.

He said the Democratic Party was firmly committed to continued strengthening of the democratic centre in South Africa so that its vision of hope and a decent future for all citizens would become a reality.

The economy had performed satisfactorily in only two important areas: the balance of payments and inflation. Almost every other indicator of economic performance ranged from poor tp disastrous.

Substantial progress had to be made in negotiations so that confidence, investment and economic growth could result.

The country had to live within its means. Large budget deficits before borrowng were unacceptable and simply postponed the day of reckoning.

Duplication and wastage implicit in the own affairs departments, national states and the TBVC countries should be eliminated without further delay.

Corruption should be rooted out wherever it occurred An ombudsman should be appointed to investigate all complaints.

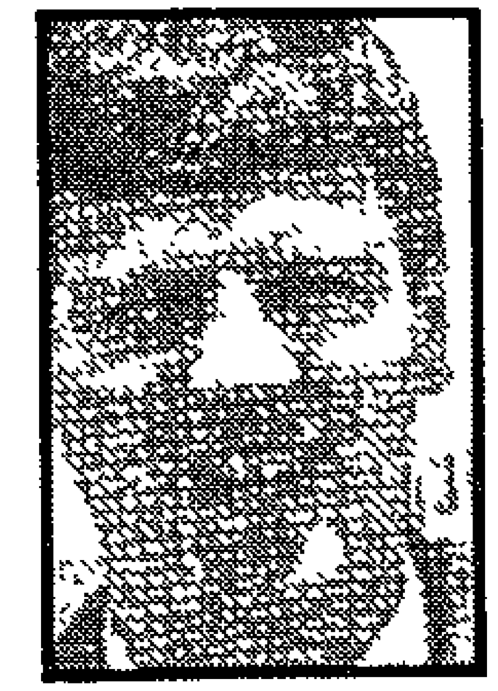
"The government performance in this regard is dismal," Mr Andrew said.

"It resists inquiries for as long as possible, then sits on adverse reports for months and, finally, few senior officials and no politicians suffer, however ghastly and disgusting the corruption that is revealed.

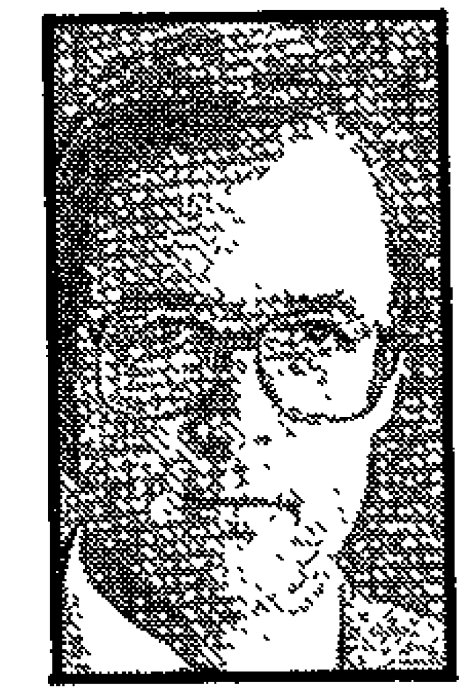
Ken Andrew

Jacob de Villiers

Jan van Eck



Leon Wessels



Peter Gastrow

Hernus Kriel

"On the contrary, cabinet ministers deny any responsibility and even have the nerve to claim credit for having set up the inquiry in the first place. This is totally unacceptable.

"In respect of the recent homelands scandal, the government was warned repeatedly over many years by the DP, the media and the auditor-general. Yet the corruption, wastage and theft was allowed to continue unabated."

What needed to be known now was whether the government was prepared to take responsibility for the proper and effective spending of the billions of rands poured into the bantustans every year.

Ordinary people were sick and tired of seeing billions in their hard-earned money going down the drain or being corruptly distributed as largesse for bantustan elites.

Minister of Regional and Land Affairs Mr Jacob de Villiers said strengthening the powers of the auditor-general and ombudsman was among measures against corruption in self-governing territories. Legislation against corruption had also been strengthened.

In Lebowa a committee had been appointed at ministerial level to oversee the implementation of the recommendations of the De Meyer Commission. Reports had been sent to the attorney-general for possible prosecutions.

Good progress had been made in police investigations after the Parsons Report on irregularities in Kwandebele and cases would be referred to the attorney-general.

The South African government and those of the self-governing states agreed that the present regional dispensation had to be scrapped.

Mr Jan van Eck, the Independent MP for Claremont who supports the ANC, said many rumours that the ANC, the party of "liberation", and the National Party, the party of "racist minority domination", were getting into bed with each other were causing great confusion among the ANC and NP rank and file membership.

The ANC and the NP were partners in negotiation but not electorally.

"We will try and wipe out the NP at the polls in order to deny them a position of power in the future."

Any power-sharing between the ANC and the NP in a future government of national unity would not be a cosy relationship. It would be no more than a pragmatic, temporary get-together for the specific purpose of ensuring that the transition from racist minority rule to democratic rule took place in as stable an environment as possible.

The ANC would not agree to any proposals that tried to prevent it from obtaining true democracy and majority rule, without domination and discrimination.

"Once the relatively short-term government of national unity has expired, any future coalition governments would only happen at the request of the majority party.

"It is useless for the NP to hold out the hope that the ANC as outright winner in a democratic election would help it as a minority to keep a hold on governmental power."

Those who complained about the regular bilateral discussions between the ANC and the NP should realise that, as happened at Codesa, no new dispensation was possible unless the ANC, which represented the overwhelming majority of black South Africans, and the NP, which represented the white and Afrikaner minority, reached agreement.

Minister of Manpower Mr Leon Wessels said ordinary South Africans were impatient and wanted the negotiations leading to a new constitutional system to be completed.

Then they could become co-rulers through an executive of national unity and a constituent assembly elected on the basis of proportional representation.

The proposed charter of fundamental human rights would be one of the cornerstones of a new system. It also provided for the rights of both employers and employees.

Mr Peter Gastrow (DP, Durban Central) said urgent steps were needed to reshape the police in time to meet various challenges.

Only a police force which had the support of the population would be able to deal effectively with problems. The matter needed to be tackled by the police force itself and by those at the negotiating table.

As far as the police were concerned, there were encouraging indications that some far-reaching changes were taking place at the top levels of the force.

At the negotiation level the government seemed to resist some form of multiparty supervision and control in the period leading up to an election. The longer the government resisted this, the less likely were the chances of the police changing in time to meet the demands that lay ahead.

Minister of Law and Order Mr Hernus Kriel said the country could not go into an election in an atmosphere of violence.

Violence was undermining confidence in the negotiation process.

The time had arrived for political parties, among them the ANC and Inkatha, to talk directly to each other. The government could not continue being the messenger between them.

Borrowings push interest costs up

BDay 15/2/93

(49)

GRETA STEYN

MASSIVE borrowings in the 1992/93 fiscal year pushed interest costs up to R17,04bn against a budgeted R16,3bn, figures released at the weekend by the State Expenditure Department showed.

Economists warned that the full effect of the extra borrowings this fiscal year would only be felt in future years. Nedbank chief economist Edward Osborn estimated this year's setback could add about R4bn to spending in the next fiscal year.

The R740m overrun on the cost of state debt in this fiscal year was the result of a huge budget deficit. The department said the deficit was 9% of GDP at R29,8bn — double the budgeted level of 4,5% of GDP.

Government would end fiscal 1992/93 with a spending overrun of R6bn, but of that amount about R1bn was financed from the sale of assets. Also included in the overrun in expenditure was R479m announced in the Budget, meaning the actual overrun was R4,5bn, the department said.

The spending and deficit figures released on Friday indicated a shortfall in revenue of about R9,5bn — an amount that had to be raised through borrowing in the capital market. Officials said borrowing for the 1992/93 year had been completed.

All the budget votes had spending overruns, with drought relief being the major factor. The biggest overrun was on regional and land affairs: almost R1,3bn. The total expenditure of regional and land affairs was the only vote to outstrip spending on state debt, at R22bn.

Included in the land and regional affairs overrun was an additional amount of R629,9m for the self-governing territories. Included in this amount was R421,8m for social upliftment, which had been funded through the sale of assets, and R123,4m for drought aid. A further R659,3m had been provided to the provincial administration.

The transport vote had an overrun mainly because of subsidies. An amount of R620m was provided for the SA Rail Commuter Service Corporation. Further provision was made for bus commuter subsidies (R23m) and capital expenditure carried over from the previous year.

Foreign Affairs' overspending was explained by aid to TBVC countries. Funds were given to food aid (R31,1m), road projects (R40m) and personnel expenditure (R151m).

MONEY MARKETS by Tim Marsland

Reserve Bank may mop up liquidity

THE Reserve Bank may be planning special steps to mop liquidity out of the money market over March. (49)

The traditionally difficult year-end sees R2,5bn flowing into the system in drought assistance. Interest payments, chiefly on the R150 and R153 bonds, will add R2,5bn but this will be offset by tax payments.

The Bank is unwilling to let up on the daily shortage (note the high shortage in January), but it should nonetheless be an easy month for the money market.

The Bank will obviously try to limit the money flow into the market. B|DAY

It could make use of special Treasury bills or it could look at playing around in the currency markets. On the Treasury bill front, the weekly tenders should fulfil the Bank's needs, so it will probably look to other areas. 15|2|93.

One thing it will not be able to do is us the chance to sell government debt because of the year-end.

Whatever steps it plans, it will give a useful insight into what the Bank's thinking on interest rates will be over the next few months.

According to Bank data, banks recently started rediscounting SA Reserve Bank bills at the window for the first time since they were introduced last year.

However, SA Reserve Bank and Treasury bills are not being used as much at the window as in November. In that month, SA Reserve Bank and Treasury bills accounted for 66% of utilisation at the window compared with 59% in January.

Land Bank bills remained at 24% while utilisation of bankers' acceptances rose to 17% in January from 9% in November.

Time to widen finrand uses

BDay 15/2/93. (49).

TIM MARSLAND

FOREIGNERS have used the financial rand as their South African whipping boy ever since it was reintroduced in 1985. Political turmoil, a feature of SA life, invariably sets off a new round of selling, which constantly puts pressure on the finrand rate.

Fact is, the finrand no longer facilitates or attracts foreign investment in SA — it deters it. Foreign investors are put off by the unit's volatility.

The Reserve Bank has attempted of late to take the rough edges off finrand volatility through intervention, and is implementing a range of new trading rules — such as quoting rates on the same basis as for the commercial rand — for local banks, which should increase stability.

But to eliminate the wide discount between the financial and commercial rands, there needs to be increased demand for the unit.

At some stage — probably only once an interim government is firmly in place — some suggest the finrand should be scrapped along with most exchange controls. Others believe the finrand should not be scrapped. Rather its exchange rate should be brought into line with the commercial rand's and the finrand mechanism kept in place to handle severe shocks to the investment system.

But before scrapping or equalisation can take place, Bank Governor Chris Stals will want to see a healthy position on SA's reserves. Also, he will want to see an attractive real interest rate in SA to encourage foreign investment. This would also discourage a flood of capital from SA by institutions wanting to invest in better rates offered offshore.

So how can the Bank increase demand? It may well be time for it to widen the finrand investment uses to include the property and money markets.

The most visible — and politically difficult — change would be to property investment.

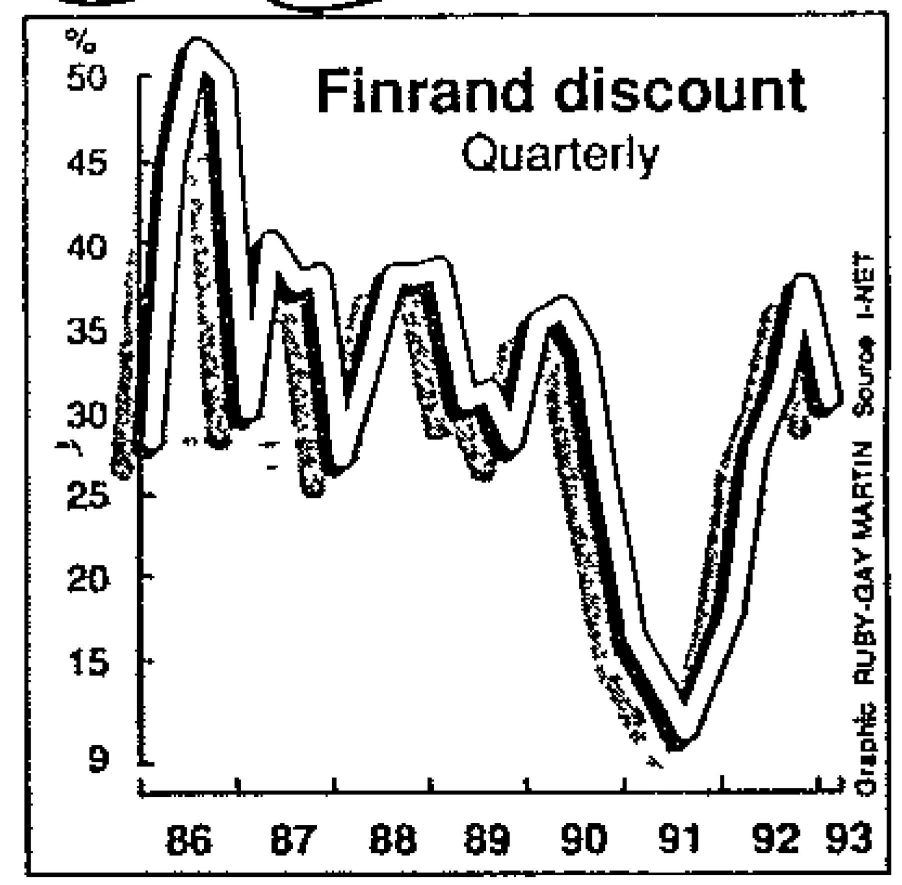
Non-residents could use the finrand to buy property up until 1989 when a politically sensitive NP, under pressure in the western Cape at the time of the September election, scrapped non-resident purchases of property through the finrand.

As usual, the NP took the route of appeasing a few in the white minority rather than using financial common sense.

Former Finance Minister Barend du Plessis admitted in 1989 that, since 1985, just R1,275bn had been invested in property in SA through the finrand. Of this, R52m had been invested in agricultural property and R306,6m in residential property. Almost all of these investments were at the top end of the property market, particularly wine farms in the western Cape.

Non-resident property purchases were made half through commerical rands and half through the finrand.

Considering that the total finrand pool is estimated at a conservative R100bn, property purchases of R1bn would have little real influence on the exchange rate. However, the perception of increased demand might be enhanced enormously.



The next area the Bank could target is the money market. About R6bn in finrands are on deposit at SA banks. These deposits earn non-residents up to three times the return available to a resident South African. Like the gilts market, the investment is made in finrands while interest is paid in commercial rands. Also, non-residents are not taxed on these deposits.

The Bank could consider allowing finrand investors to use instruments such as bankers acceptances, negotiable certificates of deposits and even Treasury bills.

This would give non-residents a much wider investment choice and, with the current high interest rates non-residents are getting, they would be unlikely to sell their stakes en masse.

A further step could be to reintroduce rules — scrapped in 1990 — which allowed non-residents to finance working capital or current expenditure in non-listed companies. Now, finrand investment can be used for only fixed assets in those companies. These rules were scrapped, apparently to curb finrand fraud.

Economists estimate that, from 1988 to 1990, about R1bn was invested in non-listed SA firms through the finrand.

The bottom line is there is an urgent need to increase demand for finrands to narrow the discount. While the Bank will have to ensure strict policing of new investment — SA has been hit by billions in finrand fraud — only by increasing demand will SA at last be able to scrap (or at least minimise) the adverse effects of its exchange control millstone.

BOOKS

Star 15/2/93

Govt revenue shortfall renews fear of tax hike

(49)

By Sven Lünsche

Government's revenue income slowed further towards the end of last year, renewing fears that significant tax increases will be inevitable in the forthcoming Budget.

Central Statistical Service figures released at the weekend show that total revenue during the first 10 months of the current fiscal year (April '92 to January '93) at R63,16 billion was only 3,2 percent up on tax income of the same 10 months in fiscal 1991/2.

If this trend continues total revenue for the current fiscal year is set to fall at least R10 billion short of the budgeted R85 billion target and exert further pressure on the Government's deficit before borrowing.

Tabling the Additional Appropriation Bill in Parliament on Friday the Minister for State Expenditure, Amie Venter, said that the deficit looked set to reach R30 billion, or nine percent of GDP, for this fiscal year — it was budgeted at 4,5 percent of GDP.

Venter asked Parliament to approve more than R6 billion in extra spending for the remainder of the fiscal year bring total revised expenditure to R104,9 billion.

As the bulk of this extra amount will be dedicated towards drought relief measures, economists are suggesting that the government has otherwise managed to contain expenditure to within budgeted targets.

This is confirmed by the CSS figures. For the first ten months of 1992/3 state spending amounted to R81,06 billion, a rise of 15,3 percent over the corresponding 10 months of the previous year in line with the increase proposed in the Budget.

This is the one cheery item contained in the latest figures for Finance Minister Derek Keys.

He has committed the Government to cutting real expenditure by three percent in 1993/4 and the latest evidence of fiscal discipline should make the achievement of this goal that much easier.

It is also evident that Keys is not aiming at an immediate large-scale cut in the deficit from the expected nine percent of GDP to the internationally accepted level of three percent.

Instead a deficit of six percent is more likely next year as a more gradual approach will prove less damaging to economic growth.

However, spending cuts on their own will not be enough to reduce the deficit even to these more realistic targets and it seems inevitable that a range of tax increases, both direct and indirect, will be tabled next month.

The options currently being examined include a hike in VAT from 10 to 12 and possibly 13 percent, a 15c rise in the petrol price to boost income from the fuel levy and lifting the top marginal tax rate from 43 to 44 percent

Given the continued slowdown in revenue it would not be surprising if all these options find their way from the drawing board into Keys' Budget presentation.

One of the major stumbling blocks in reducing the deficit is the continued surge in the state debt.

Of the R6 billion in extra spending Venter said that R740 million would go towards provisions for the cost of state debt, which he forecasts would exceed R17 billion in fiscal 1992/3.

Other large amounts, apart from drought relief, were dedicated to the Rail Commuter Service Corporation (R620 million), the TBVC and self-governing states (about R850 million) and provincial administrations (R660 million).

Venter said that of the R6 billion in extra spending an amount of R1,04 billion had already been financed.

Star 15/2/93

Total state debt now reaching R140 billion

(49)

By Bruce Cameron

The total accumulated State debt is reaching R140 billion of which R30 billion was added this year.

And interest alone on the debt in this budget year will be about R18 billion, a spokesman for the Department of Finance has confirmed.

This interest is approaching 20 percent of total government spending.

With Finance Minister Derek Keys expected to budget for a deficit of about 6,5 percent of the gross domestic product, more than R20 billion will again be added to the accumulated total.

The size of the debt is seriously starting to limit the ability of the state to meet demands for social spending and for much needed infrastructure

The size of the deficit is above the danger level set by the IMF of six percent of GDP at which stage it predicts a country will move rapidly into a position where the majority of its resources go towards servicing debt.

The safe level is set at three percent.

For the 1992/93 budget year Government borrowing has reach nine percent of GDP.

However Keys, who has committed himself to reducing the deficit, pointed out recently that if it had not been for government spending the economy would have been in an even worse position that it is in now.

Derek Keys will have to walk a dangerous tightrope, writes **Michael Chester**

Star 15/2/93

Now for a 'boardroom' Budget

(49)

BUDGET Day on March 17 may prove one of the most significant dates yet encountered by South Africa in fixing a course toward a new economic future. In recent years, annual budgets have been regarded as little more than tinkering with temporary adjustments to the brake or accelerator pedals rather than planning a route to credible longer-term goals.

Now, however, for the first time since South Africa turned its back on the outside world to test the disastrous policies of apartheid four decades ago, it will be a hard-headed businessman rather than a political partisan who spells out the economic agenda for the next 12 months.

When Finance Minister Derek Keys delivers the 1993 Budget address, political rhetoric is almost certain to be cut to the bone.

MPs are likely to feel they are seated at a high-finance boardroom meeting, under the scrutiny of a mass of shareholders no longer restricted to a white electorate, rather than at a political scrummage between the Government and opposition benches.

The former chairman of the Gencor mining and industrial empire was handed the Minister of Finance portfolio by President F W de Klerk last year to test whether a blunt no-nonsense business approach was a better alternative to political acrobatics in trying to solve growing national economic problems.

So Keys is likely to be more concerned with the hard realities of the balance sheet of national accounts than currying political popularity. Observers forecast he will tackle the Budget speech as he would a chairman's report to shareholders, with economic credibility ranked more important than layers of political varnish.

That in turn means little chance of pretences of waving magic wands to make problems vanish. The medicine Keys prescribes is likely to be based on effectiveness rather than palatability.

The ailments to be cured have been multiplying for years — and stayed largely neglected by a Government that has postponed drastic treatment and so allowed the maladies to worsen.

Though the Government has tried to look severe in lecturing consumers about the errors of living beyond their means, its own slide into a quagmire of debt has been catastrophic.

Speculation about the contents of the 1993 Budget would be much different if Derek Keys had been handed a clean slate — instead of a bundle of financial statements dripping with red ink.

At the crucial moment when the vast majority of South Africans expect to see a gushing flow of rewards from democratic reform, the 1993 Budget will reveal that the State cash-box contains more IOUs than banknotes.

It is only from closer examination of feasibility studies that it becomes clear that it will take a hard slog that may take a decade or longer to close the chasms between supply and demand for more housing, improvements in the education system, better health services, and more jobs.

Keys brings from the business world a formidable reputation for genius in cracking major problems. But his talents will be stretched to the limit on March 17

Even the billions run deep into double digits when studies estimate the millions of rands required to close the black/white gaps in basic living standards.

When the Finance Minister opens the State bank vaults, however, he will be confronted with howling creditors rather than rows of gold bullion needed to meet all the bills.

The worst headache he has inherited is the mountain of debt the Government has accumulated as predecessors allowed budget deficits to grow bigger and bigger.

Economists have already sounded warnings that a final count of the 1992/93 Budget balance sheet will show that Government debts grew by a massive R30 billion or more — almost double the R16 billion shortfall that had been forecast.

Worsening year by year, total central Government debt had already swollen from less than R20 billion in 1981 to a stunning R114 billion by fiscal 1992.

There is more to the stunning size of the debt pile than meets the eye. What alarms economists is the crippling burden of interest charges on it all.

Nedcor Bank's Edward Osborne has compiled an economic model that underscores the dangers ahead if solutions are not found. Even in a favourable scenario, with an assumed real economic growth rate of 3 percent a year, he forecasts the cost of interest rate bills alone will soar well above R20 billion in 1994 — en route to more than R104 billion by the year 2003 on current trends.

Dr Azar Jammine at Econometrix believes Keys will be forced to increase VAT from 10 to 13 percent (allowing for the dropping of tax on basic food items) and give an upward twist to fuel levies to hold a lid on the problem.

Keys himself has hinted that tax increases look unavoidable — though adding a pledge to keep any increases as small as possible.

The fundamental difference in the approach to the 1993 Budget is the way Keys, as a businessman more than politician, is talking over all the options with a wide range of outsiders. The discussions confirm that his paramount concern is a faster economic tempo.

"Dealing properly with the deficit is important — very important — but it is not the most important issue in this year's Budget," he told Parliament last week. "More important will be to ensure the Budget allows for growth and reinforces the positive economic moves put in place in the course of the past year."

It all leaves the new Minister of Finance with a complex juggling act to perform, made especially tricky in front of an audience that may expect too much in the approach of election time.

The task would have been made a lot easier if the performance did not have to be tackled while balanced on a tightrope that Government debt problems have made look perilously frayed. □

Minister defends R17-m subsidy for 'elitist' event

Political Staff (4) (240) ARG 16/2/93

THE government has disclosed that it allocated a grant of R17 million to a company in the ailing Tollgate Holdings group for running this year's South African Formula One Grand Prix.

But it has not yet paid the money to the company, Motor Racing Enterprises, and will not do so unless the firm can prove it is sound.

National Education Minister Mr Piet Marais gave this assurance in parliament yesterday during a debate on the additional budget.

Democratic Party education spokesman Mr Roger Burrows asked Mr Marais how the government could justify spending so much money — about the same amount as the total government subsidy for other sports — on such an "elitist" event.

Mr Marais said that only 16 Grand Prixs were held every year and there was much competition to host them. Hosting the Grand Prix would also benefit the country through the inflow of funds and technology.

He estimated that the event would stimulate a turnover of R120 million in local and foreign exchange.

Mr Burrows asked whether the minister could guarantee the R17 million would not be paid if the company went bankrupt or the event did not take place.

Mr Marais quoted passages from the government's contract with Motor Racing Enterprises, which guaranteed that no payment would be made if the company went into liquidation, or judicial management, or if the event was not held.

State spending 'eats 36% (49) of GDP'

CAPE TOWN — The Additional Appropriation Bill, introduced in Parliament yesterday, would result in central government expenditure totalling 36% of GDP, DP Finance spokesman Ken Andrew said yesterday.

Despite government protestations that much of the expenditure was due to factors that could not be foreseen, Andrew said the fact remained that government spending was "out of control". BIDAY 16/2/93.

State Expenditure Minister Amie Venter said if unavoidable items were excluded from the estimated overspending, the overspending resulting from normal activities would amount to 0,8% of spending envisaged in the Budget.

The estimated overspending would total R4,5bn while the estimated overspending resulting from normal activities of departments amounted to R769m, Venter said.

Venter listed the "unavoidable and unforeseen" expenditure as R740m for state debt servicing, R2,4bn for drought relief, R180m for retrenchment of personnel and R620m for

TIM COHEN

funding the operating deficit of the SA Rail Commuter Corporation.

It was originally expected that the corporation's operating deficit would be financed in part from Transnet dividends. However, Transnet showed a loss and was unable to pay the expected dividends, he said.

Andrew said state revenue was far below budget, resulting in a "disastrously high deficit before borrowing". In these circumstances, one would expect a net reduction in government spending, not an increase.

The total budgeted increase in spending this financial year was 21,4% over last year, Andrew said.

Even after an adjustment for drought relief, government expenditure had increased to nearly double the inflation rate. "So much for the fiscal discipline that we are repeatedly promised, year after year, by this government."

Sapa reports MP Jannie Momberg said SA's fiscal system was bankrupt, which made it highly unlikely that a future government could succeed in governing the country.

R4,5bn overspent by govt

BD 16/2/93. (49)

TIM COHEN

CAPE TOWN — Provincial governments, self-governing territories and own affairs administrations were responsible for almost half the estimated R4,5bn overspent by government.

Figures provided by State Expenditure Minister Amie Venter yesterday show that institutions outside of central government overspent by R1,8bn, excluding the R2,4bn spent on drought relief channeled through the House of Assembly's budget.

Venter announced that the Additional Appropriation Bill, presented yesterday, made provision for R661m in additional expenditure by provincial administrations, R2,9bn by the own affairs adminstrations of the three Houses of Parliament and R629m for self-governing states.

Excluding the R2,4bn provided for drought relief, this amounted to R1,8bn.

Assistance to the self-governing territories were broken down into, among others, R175m to reduce socio-economic backlogs, R169m for capital projects from the sale of assets, R123m for drought relief.

Of the provincial administrations, Transvaal was granted an extra R290m, the Cape R186m, the Free State R96m and Natal R88,4m.

Addressing the question of capital expenditure for socio-economic backlogs, Venter said it was originally estimated that an amount of R695m would be spent in the 1992/93 financial year.

Administrations and departments had subsequently indicated that an amount of R516m would be required. This amount, and the amount of R265m spent last year were provided for from the R1bn gained through the sale of strategic oil reserves.

R500m had been made available for the building of housing and related infrastructure and R264m had been requested this year, he said.

European vs Anglo-American capitalism

BP 16/2/93.

EDWARD BALLS (49)

A COMMONLY cited criticism of Anglo-Saxon economic practices is financial short-termism. US and UK companies, the conventional wisdom goes, are hampered by banks that have no stake in their long-term success and will not lend other than for short-term projects. But differences in financial practices tend to reflect deeper variations in the structure of corporate ownership and control across countries, according to Colin Mayer of Warwick University, and Julian Franks of the London Business School (Corporate Control: A Synthesis of the International Evidence, London Business School).

Franks and Mayer describe two models of corporate governance. In the outsider system the takeover threat is the main discipline on incumbent managers. The insider system relies, instead, on internal, committee-style supervision of management decisions. The outsider system is characterised by a large number of listed companies, whose shares are frequently traded in a liquid stock market and in which there are few intercorporate equity holdings. The insider system, by contrast, has fewer companies which are vulnerable to takeovers, and a web of cross-shareholdings, so that incumbent managers tend to have considerable discretion.

Japan, Germany and France fit the insider model. They all have a relatively small number of companies whose equity is publicly quoted and traded on the stock exchange and thus vulnerable to takeover. The UK had a little under three times as many quoted companies as Germany in 1991 and twice as many takeovers in the '80s.

Within the listed companies, there is much greater concentration of ownership in the insider economies. Of Germany's listed companies, 85% had a single shareholder who controlled more than 25% of the stock in 1990 compared with only 16% of the top 200 listed UK companies. Of these same UK companies, 77% had a largest shareholder with no more than 10% of the total equity.

Company shareholder profiles in the insider economies are also markedly different from the Anglo-Saxon economies. German companies held 42% of the total equity of quoted Germany companies in 1990, while banks accounted for a relatively modest 6%. In the UK, companies held only 10% of total equity while the majority of shares were held by non-bank financial institutions and private individuals.

The Anglo-American outsider system, Franks and Mayer argue rather charitably, is best suited to corporate activities which involve subjective assessments of future prospects and in which takeovers are motivated by disagreements over corporate strategy. True, studies tend to find little or no relationship between past company performance and hostile takeovers. But nearly 80% of executive directors either resign or are dismissed within two years of a successful hostile bid.

The Continental insider system, by contrast, may be better suited to activities in which there is a direct need to control quality of product, management and employees. Performance tends to be monitored by a committee or supervisory board including workers, bankers and experts from related companies who have a direct stake in the company's future. So while Anglo-American companies dominate speculative fields such as oil exploration, biotechnology and pharmaceuticals, in manufacturing it is Japanese and Germany companies that still lead the world. — Financial Times.

REVIEW

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Star 16/2/93 (49)

Curbs on Govt spending

Tighter financial controls and an improved system of reporting expenditure have been introduced to keep State spending in check. ● Page 5

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Budget: Govt asks for extra R4,5bn

(49) (246)

By CHRIS WHITFIELD
Political Staff

CT 16/2/93

THE government has asked Parliament to approve additional spending of R4,5bn for the 1992/93 year, most of which it claimed was the result of unforseen factors such as the drought.

Presenting the Additional Appropriation Bill yesterday, State Expenditure Minister Mr Amie Venter said the estimated overspending resulting from normal activities of departments amounted to about R770m.

The additional amount he asked Parliament to ratify was the result of the cost of servicing state debt (R740m), drought relief (R2,4bn) and providing for the operating deficit of the SA Rail Commuter Corporation (R620m).

The Democratic Party lashed out at spiralling central government expenditure, saying it was running at close to double the inflation rate and amounted to 36% of the gross domestic product in 1992/93.

The R4,5bn amounts to a 5% increase on the government's original estimate and pushes the deficit close to R30bn. The budget for the 1992/93 year would be just over R100bn, Mr Venter said.

Star 16/2/93

(49)

Tighter checks on Govt spending

Political Staff

CAPE TOWN — Tighter financial controls and an improved system of reporting expenditure have been introduced to keep rising State spending in check.

Minister of State Expenditure Amie Venter told Parliament yesterday that the Cabinet had decided that additional funds would in future be approved only for absolutely unforeseen and unavoidable expenditure, and that the shift from a need-orientated to an affordable budget was also being pursued in individual departments.

The Cabinet had also decided that surplus funds should be rolled over so that departments could do "multi-year" planning.

The Government was also to introduce a system of auditing draft estimates.

Other measures included:

- Replacing the unwieldy financial management system, introduced in 1976, with a new computer system.
- Developing financial expertise in the civil service.
- Harmonising the financial instructions and systems of regional governments and central Government.
- Strengthening and refining internal financial controls.

In a sharply critical speech in the debate on the Additional Budget, Democratic Party finance spokesman Ken Andrew told MPs that Government spending had increased at close to double the rate of inflation.

"Now we have proposed additional expenditure in a shrinking economy that will result in central Government expenditure of 33 percent of GDP in 1992/93."

Describing Government spending as being out of control, Andrew added: "This financial year (spending) is now budgeted to increase by 21,4 percent over last year.

"Even if one adjusts for drought relief, Government expenditure has increased at close to double the rate of inflation."

He said that with State revenue being far below budget, there was a disastrously high deficit before borrowing.

"In these circumstances one would expect a net reduction in Government spending, not an increase.

"Then one needs to ask: are we getting value for money? The answer must surely be a resounding 'no'.

"How much of the hundreds of millions or rands allocated to poverty relief has actually reached those who are suffering? Very little, I would suggest," said Andrew.

Star 16/2/93

Saved by small business

(49)

Solutions to critical socio-economic problems look elusive as SA moves towards reform. The Small Business Development Corporation argues that the answers depend on moves to unleash the full potential of budding business entrepreneurs, reports MICHAEL CHESTER.

THE first priority of future government policies should be to unleash the full potential of entrepreneurs in the small and informal business sector to generate the faster economic tempo needed to tackle the country's unemployment crisis and a downward slide in living standards.

A more dynamic economic performance, rather than political rhetoric, holds the key to solutions to pressing socio-economic problems — from joblessness and housing shortages to improved education and health services.

That is the main theme that comes across in a new publication entitled *Strategies for Economic Growth* compiled by Dr Ben Vosloo, managing director of the Small Business Development Corporation (SBDC), and released yesterday.

Copies of the document have been sent to leaders across the entire political and businesss spectrum to inspire a wider and more down-to-earth dialogue on economic planning.

"SA can blame its poor economic growth and chronic unemployment problem on its dismal failure to launch more entrepreneurs into the economic mainstream," writes Dr Vosloo.

A national strategy to stimulate and foster entrepreneurship had become imperative.

Among first objectives should be:

- The removal of all unnecessary legal and administrative contraints at national, regional and local levels of government.
- The introduction of new tax policies that encourage the launch of more small business ventures.
- The provision of community-based programmes to assist self-employment initiatives with loans, training schemes and guidance on starting and running a business enterprise.

The potential results had been shown in several overseas countries, especially in East Asia and around the Pacific Rim where economic miracles had held outsiders spellbound.

Worldwide, the impact on employment had been tremendous, from affluent western nations to weaklings that had astonished global rivals when they used small business to flex formidable economic muscles.

In the US, when the oil crisis triggered recession in the 1970s, small business enterprises had created no fewer than 20 million new jobs to counter the loss of between four and five million jobs in the large corporations.

In Japan, vigorous economic expansion owed its successes to the creation of as many as 6,5 million small businesses. Today, a phenomenal 99 percent of all private firms in the non-primary sectors were classified as small.

Turning back to South Africa, Dr Vosloo writes: "Business is often seen as evil in spirit and selfish in purpose, while the entrepreneur is regarded as a vicious exploiter of workers.

"In reality, entrepreneurs are heroes of economic life. They are the backbone of a country's economic development.

"The role of government, which can either hamper or encourage entrepreneurship, is increasingly regarded as crucial.

"International experience has now shown us that if the operating environment is hostile to private enterprise and relatively unconstrained competition, it makes little sense to mount costly promotion and assistance programmes."

SA also needed to put its educational priorities in order. Most school-leavers and other job-seekers could blame their unemployment plight on the mismatch between the output of the education system and skills required by the market place.

Not only should racial distortions and imbalances be eliminated but academic bias in the education system should be corrected, with resources redirected from academic to technical skills. School classrooms should also be used to encourage the development of latent entrepreneurial talents.

SA faced urgent and immense challenges in the upliftment of the population in spheres such as housing and health services. A sound education system promoted economic growth that should bring other development goals within reach.

"Small business is now regarded as an essential part of a successful formula for achieving economic growth," Dr Vosloo adds. "In the high growth economies of the world, small businesses figure largely as the dominant force in job creation."

It is not only the voice of small business that is heard in the arguments. More clout to the theories is added by support from a foremost leader of the world of big business — Dr Anton Rupert, who created the huge Rembrandt tobacco and liquor empire and who has led the crusade to knock down apartheid barriers to black enterprise ever since the SBDC was founded in the early 1980s.

"Against poverty, crime, inflation and a burgeoning bureaucracy, one must emphasise the positive characteristics of a politically vibrant young population and the vast opportunities offered by an unsaturated urban market that is growing at an accelerated pace," he writes in a foreword.

"And on the broader canvas lies the rest of Africa, where unequalled trading opportunities are rapidly opening up to SA.

"If the natural entrepreneurial drive of ordinary people can be encouraged and channelled into constructive business enterprise, our economic future could be among the most exciting in the world.

"SA is undoubtedly at a critical juncture of its political, economic and social history. What is needed are comprehensive strategies to promote economic growth and employment creation to meet the rising political and economic expectations of all South Africans."

Dr Rupert goes on. "The irony of the present situation in South Africa is that the protagonists of socialist intervention will hold that central planning is necessary to achieve a better deal for the masses which the 'capitalist' market-economy has allegedly failed to produce.

"This is due to the fallacy in the minds of people in the large Third World component of our society that the ideology of apartheid can be equated with the economic system of 'capitalism'. Hence our battle is to convince people of the advantages of individual freedom and enterprise as opposed to the dangers of socialist interventionism and centralist planning.

"The simple truth is that while political freedom can be given on a platter, economic independence and well-being have to be earned through productivity. This is the lesson Africa is now learning the hard way." □

'Build curbs into constitution'

Keys pushes for fiscal safeguards

B/DAY 17/2/93. (49)

GRETA STEYN

FINANCE Minister Derek Keys yesterday placed economics on the political agenda by calling on constitutional negotiators to build fiscal responsibility into a new constitution.

He told the Frankel, Pollak, Vinderine investment conference SA should include a clause in the constitution preventing the use of borrowings to finance current expenditure. There should be no borrowing for current expenditure at a regional level. "It should be written into the constitution that regions should be self-financing other than on capital expenditure."

ANC spokesman Tito Mboweni rejected the idea of building financial limits into the constitution. "We agree that there should be formal limits, but the constitution should not be used for that aim."

Keys said the whole "government machine" needed to be redesigned to free up resources. "We cannot do what needs to be done simply by being frugal." A better designed structure should come about as a result of political negotiations.

Keys also said the deficit in next month's Budget would be tackled "in a responsible manner and with conviction", but not in a way that slowed down progress towards an economic environment that favoured growth and risk-taking and provided rewards for those who did.

However, speaking at the same conference, Reserve Bank Governor Chris Stals called for "austerity measures" in the Budget to help "bring inflation to its knees".

He called on businesses to constrain price increases and for labour to support average wage and salary rises with corresponding increases in productivity. "All South Africans will eventually share in the benefits of such a joint and co-ordinated effort now to finally break inflation."

The fight against inflation was not to make paupers of people, but to give the millions of unemployed a chance to earn a decent living in a stable financial environment. He rejected the notion of a trade-off between inflation and economic growth.

He also rejected calls to depreciate the rand exchange rate, saying this would make it difficult to pursue existing money supply objectives and would require an upward adjustment of interest rate levels to offset the inflationary effect.

On the financial rand, he said one of the key elements in phasing out the unit would be getting rid of the foreign debt standstill.

The finrand had become increasingly volatile as it was now also a speculative currency.

● See Pages 3 and 8

IDC unbundling put on hold until after Budget

BDay 17/2/93.

EDWARD WEST

LIFE companies were major investors in most valued listed share stocks, and an unbundling of assets, leading to a dividend distribution, would attract dividend taxes, Industrial Development Corporation (IDC) GM Malcolm Macdonald said.

One of the greatest problems inhibiting the unbundling of corporate assets was the notion of the deemed dividend upon which life companies paid tax on dividends.

This made unbundling a major disadvantage to life offices, and was a major obstacle in the unbundling of corporate assets.

The unbundling of the IDC's National Selections (Natsel) and Industrial Selections (Indsel) could not be completed before the Budget, and was now planned for April. The IDC hoped to realise about R500m from unbundling, said Macdonald.

It was hoped the definition or status of the deemed dividend would change after the Budget, thus facilitating the unbundling process, he said.

Assurance industry sources said the sixth schedule to the Income Tax Act would be abolished this year, which would remove life assurers' objections to the unbundling process as it meant dividends would not be taxed. The abolition of the sixth schedule and a revision of the Insurance Act would probably be referred to in the Budget, a source said.

Macdonald said the full value and mechanics of unbundling had not yet been decided, as two merchant bankers were in the process of placing values on the unlisted investments.

Although the IDC would have to buy back Natsel and Indsel's unlisted investments — making up less than a quarter of the total investment value — it was important to realise fair value for those investments in terms of the outside shareholders, he said.

Indsel's unlisted investments include stakes in ERF, Algorax, Richards Bay Minerals, Richards Bay Smelters, L & C Steinmuller, Delfos and Atlas Copco, Automotive Overseas Investments, Alusaf, Advanced Foods Research and Sappi Management Services. Natsel's unlisted investments included stakes in the same companies.

Indsel's listed investments at Monday's trading prices amounted to about R600m, while Natsel's totalled about R486m.

Their listed investments include shares in Sappi, Sasol, Palabora Mining, Implats and CG Smith.

Star 17/2/93

Economic malpractices curb growth – Minister

(49)

STAR 17/12/93

CAPE TOWN — Government expenditure had to be contained and the productivity and international competitiveness of the economy lifted to a far higher level to raise economic growth, Deputy Minister of Trade and Industry David Graaff said yesterday.

Introducing second reading debate on the Harmful Business Practices Amendment Bill, Graaff said one of the first goals of consumer protection must be to generate viable and sustainable job growth through economic progress.

The Government could not do it alone, and it would require the will of the masses to energise the economy.

The Government would also have to support economic policies sympathetic to economic life and liberty.

Private property and freedom of contract were institutions which merited strong recognition in any Bill of Rights.

"These values must be protected and jealously safeguarded if the widely experienced human suffering caused by a struggling economy is to be ameliorated."

Intervention, such as provided by the Harmful Business Practices Act, was sometimes necessary to protect these values.

"When commercial behaviour deceives the consumer, he is entitled to look to the Government for help."

The Act had introduced a system of consumer codes which would serve various purposes, including guidelines for possible ministerial action.

They outlined the difference between acceptable and unacceptable commercial conduct, and furnished a basis for consumer education.

The Bill also provided for the appointment of a curator in cases where urgent action was required to prevent the squandering of the public's money or its removal from the country.

There were 80 investigations by the Business Practices Committee in progress. — Sapa.

ANC welcomes proposal for fiscal safeguards

Star 17/12/93

By Sven Lünsche (49)

The ANC has welcomed proposals by Finance Minister Derek Keys to provide safeguards for sound fiscal principles.

Keys told an investment conference in Johannesburg yesterday that borrowings for current expenditure by regional governments should be prohibited in a future constitution.

ANC economist Tito Mboweni said this morning that Keys' ideas were "sound", as excessive current expenditures were a problem for the present government and could prove problematic for a future government.

He added, however, that the constitution should not be loaded with detailed financial proposals, but that sound financial guidelines should rather be laid down by parliament.

Such rules should include limiting the government's deficit before borrowing to three percent of gross domestic product (GDP) and only allowing additional borrowings if they were used towards financing capital spending, Mboweni said.

Addressing the annual investment conference of stockbrokers Frankel Max Pollak Vinderine, Keys outlined a long-term strategy of tackling excessive government spending.

He said that as part of this strategy and "to run a responsible country that has growth potential" some fiscal safeguards would have to be built into a new constitution.

Borrowings

One of these safeguards would limit regional governments to borrowings in order to finance capital spending.

The current negotiations allowed for a re-design of the government's fiscal set-up.

Until a new constitution had been established, however, there was little the government could do about spending trends in the TBVC and self-governing states.

Keys reaffirmed his commitment that government spending would be cut by three percent in real terms in the forthcoming Budget, although the latest drop in inflation meant that in nominal terms, spending could now rise by only about seven percent instead of nine or 10 percent.

He had the full backing of the cabinet for his fiscal stringency package, Keys said.

In his address to the conference Reserve Bank governor Dr Chris Stals said the country required a further fall in inflation from its current levels of just under 10 percent.

"The rate of inflation is still relatively high compared to the rates of inflation that now apply in the industrial countries with whom SA producers must compete," he said.

To bring inflation to its knees, however, it would be necessary for government also to make an important contribution through austerity measures in the Budget for 1993-94, for businesses to contain price increases and for labour to support average wage and salary rises with corresponding increases in productivity.

US economist criticises SA monetary system controls

US economist Alan Stoga tells an investment conference in Johannesburg yesterday that SA's general image makes investing here less attractive than in southeast Asian countries. Picture: BRIAN HENDLER

WILSON ZWANE

TOP US economist Alan Stoga yesterday criticised SA's monetary system, saying it kept much-needed capital away. (49)

Addressing an investment conference at a Johannesburg hotel, Stoga said SA's general image, which was characterised by a shortage of skills, high wage demands, violence and unpredictability, made investing in SA less attractive than investing in the southeast Asian countries.

Stoga, who is Kissinger and Associates MD and chief economist, said business people he had been talking to in the US had "lost the habit of thinking about SA".

Even after a new government had been installed in SA, foreign investments would not automatically flood the country, he said, adding that it was easier to impose sanctions than to lift them.

Stoga said slow economic growth throughout the world had increased competition for capital.

This competition was bound to get more severe in a year or two when the world economic situation improved. BDay 18/2/93

He said in order to attract investment, SA had to do away with its capital controls, privatise its industries and shy away from adopting protectionist policies.

On job creation, Stoga said no jobs could be created in a contracting economy. Public works programmes could play a role in the creation of jobs but that would have to be backed by the private sector's involvement.

A core element of a growing economy was infrastructure and SA had to entice the private sector to contribute towards the development of its infrastructure, he said.

Palamin takes knock but shareholders get payout

BIDM 18/2/93

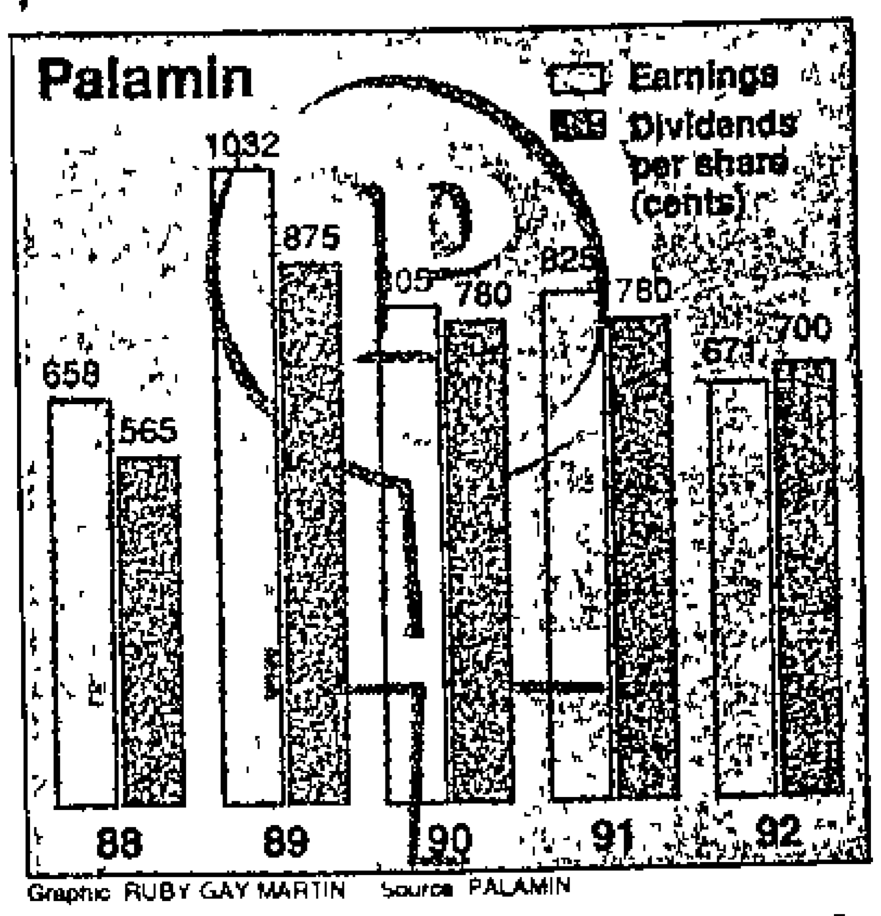
JONO WATERS

PALABORA Mining (Palamin), SA's largest copper producer and owned by Rio Tinto Zinc, reported a sharp drop in earnings a share in the year ended December 1992 as profit was knocked by flat rand copper prices, lower copper metal sales and rising costs.

Earnings before extraordinary items amounted to 671c (825c) a share.

Palamin paid out all its earnings to shareholders — a final dividend of R3,10 a share was declared — bringing the total payout to R7,00, compared with R7,80 the previous year.

The group normally pays out 90% of earnings to shareholders, but company secretary Keith Lendrum said yesterday that the company paid out "a 100% dividend instead of 95% as planned as the difference was only R10m".



Graphic RUBY GAY MARTIN Source PALAMIN

Palamin does not publish turnover figures in its year-end statement, but the company said operating profit fell to R374m (R452m).

MD Frank Fenwick was not available for comment, and the group gave few details of the volumes of copper metal and concentrate sold.

Pre-tax profit fell to R392m (R458m) and Palamin paid out R202m (R225m) in tax and lease considerations.

After-tax profit dropped to R190m (R234m) and extraordinary items of R8,67m (R10,9m) pushed attributable income to R199m (R244m)

Lendrum said "better than expected" copper prices averaged R6 596/t (R6 537/t) on a 5% drop in metal sales to 108 000 tons. However, copper concentrate sales more than doubled.

Output from Palamin's smelter was "below budget", Lendrum said, but declined to say whether this reflected lower recoveries from the plant.

He added that the project to upgrade the ageing smelter was at "an advanced stage". Most of the work would be completed by mid-year.

Profurn performs strongly despite liquidation setback

BIDM. 18/2/93.

MARCIA KLEIN

IN A difficult year to end-December which included the liquidation of ultimate holding companies Supreme Holdings and Supreme Investment Holdings, Protea Furnishers (Profurn) reported a 15,4% rise in attributable earnings to R6m (R5,2m).

Earnings a share were reduced to 6c (7,3c) on an increased number of shares in issue.

CE Alex Maraney said yesterday the results were achieved in a difficult trading environment, which included the severe effect of the liquidations.

A 20,2% turnover rise to R158,2m reflected good trading in November and December and the inclusion of several new stores.

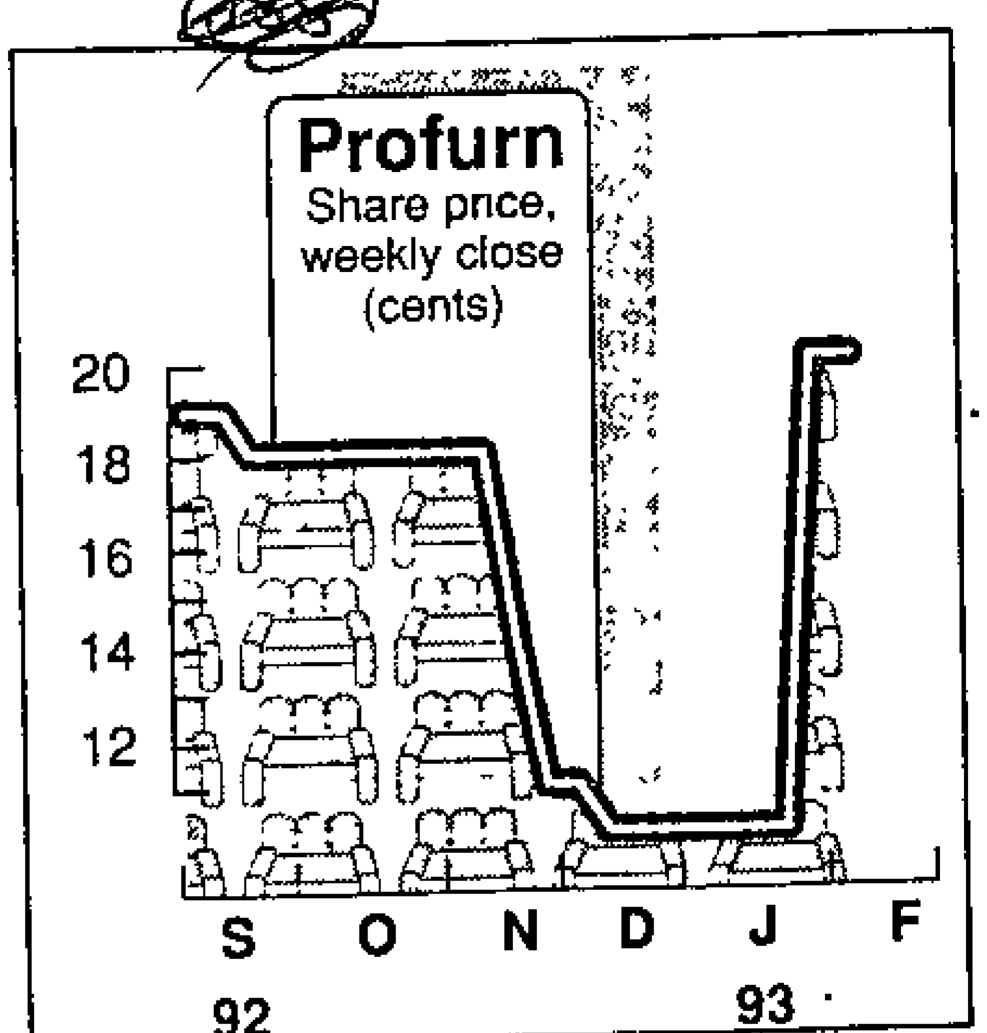
Operating profit was 13,8% higher at R26,3m with the pressure on margins reflecting difficulty in obtaining supplies.

The interest bill rose 16,7% to R14,9m.

Financial director Brian Rosenberg said agreement had been reached between the liquidators, the trustee for the holding companies' debenture holders, Profurn and other parties to capitalise R45,3m debt due to the liquidated holding companies. The agreement, awaiting approval of debenture holders, would see controlling companies receive 252-million shares at 18c each in settlement of the debt.

If the debt were to capitalised, results and gearing would reap substantial benefits, he said.

Gearing would be reduced to below 15% from 200%, and would be kept low as Profurn would not use borrowings to expand.



Graphic LEE EMERTON Source I-NET

Taxation was reduced by 2,9% to R4,7m, bringing profit after tax up 21,7% to R6,6m. But after an increase in profit attributable to outside shareholders, attributable profit was 15,4% up on the previous year.

An R8,5m extraordinary item referred to provisions for losses from the closure of 11 stores.

No dividend was declared.

Maraney said results were now comparable with the major furniture groups. Debtors provisions amounted to 38,4% (25,4%) of the gross debtors book.

Bank scraps paper rule

BIDM 18/2/93

DUMA GQUBULE

THE Reserve Bank has bowed to pressure and scrapped a regulation which had been hampering the development of a significant commercial paper market in the country.

It relaxed the requirement that companies wishing to borrow from each other by issuing commercial paper should have commercial bank endorsement for the transactions.

The Reserve Bank, however, restricted such transactions to companies with a net asset value of R100m. The minimum amount for the transactions is R1m.

Standard Merchant Bank treasurer Chris Kenny said yesterday the Reserve Bank had cleared a major obstacle to the development of a commercial paper market in SA.

He knew of only two corporate issues which had been floated last year.

Some major corporates had not been prepared to seek bank endorsement, believing they were more creditworthy than some the major banks involved.

Economy urgently needs restructuring

Finance Staff (49)

CAPE TOWN — Restructuring the economy was at least as urgent as constitutional negotiations, Sanlam's outgoing chairman, Dr A J van den Berg, said at the annual meeting yesterday.

He said South Africa was at a crossroads.

"If we do not act purposefully — and soon — our economy could be damaged to such an extent prospects for a successful constitutional dispensation could be seriously impaired."

He said there was no room for petty bickering.

Van den Berg called for action against those involved in corruption, misappropriation of funds and dubious business ethics. STAR 18/2/93

He said a lack of integrity at all levels of society had given rise to nationwide concern and had a negative effect on business confidence here and overseas.

The country had an extensive infrastructure, an abundance of raw materials and human potential. But it was necessary to enlarge the economic cake.

"Then only will it be possible to give to those who do not have," he said.

More emphasis should be placed on investment than on consumption.

Export promotion should be accelerated, foreign investment encouraged and the State's functions should be limited to providing services which could not be provided by the private sector.

With unemployment reaching extremely serious proportions, labour-intensive infrastructure projects should be promoted, he said.

Dr A J van den Berg . . . restructuring is urgent.

Higher overnight limits on finrand

BDM 19/2/93. (49)

TIM MARSLAND

THE Reserve Bank yesterday gave permission for banks to increase their overnight holdings of financial rands, a move seen as necessary to offset downward pressure on the unit.

Bank foreign exchange GM James Cross would not disclose the new limit.

The finrand came under pressure in the wake of the new trading system that inverted the quote from dollars to rands, raised the minimum amount of deals and narrowed margins. The Bank's announcement yesterday came after angry banks cocked a snook at the authorities by quoting the finrand in US cents on their screens.

Bankers said they were protesting against the new quoting system. However, in practice they continued to trade under the new system.

Banks wanted increased limits because previously they were forced to sell off their positions at 4pm. This frequently meant they had to give up the day's gains by selling at a lower price to offshore interests.

As a result, the currency weakened.

One dealer said banks were frustrated by the new finrand trading rules as their margins had been cut drastically. The spread had been narrowed from 400 to 100 points. A further step was to make the minimum professional quote $1m — more than double the previous minimum. Some banks yesterday dropped the level to a minimum of $500 000.

The finrand ended at R4,6300 against a previous close of R4,6250.

Sources said the Bank had spent about $100m propping up the rand over the past two weeks. A source said the Bank had been in the market as it had considered the unit to be undervalued. The Bank had created the impression of heavy intervention — which some dealers put at up to $300m.

Old Mutual chief economist David Mohr said the rand should be allowed to depreciate slowly over time. The Bank's activities were putting continuing pressure on reserves. Nedbank chief economist Edward Osborn said he would prefer the rand to find its own level. The Bank had limited resources and it did not make sense for it to go against the trend in the market.

Currency dealers said the Bank intervened in the market again yesterday. The rand hit a low of R3,1370 in the day, before ending at R3,1308 from an overnight R3,1153. A dealer said the rise was on the back of an unexpected surge in the dollar, boosted by the unveiling of US President Bill Clinton's economic package.

A diligent public works scheme can deliver the goods

BDAY 19/2/93.

IRAJ ABEDIAN

49

MIKE Muller raises interesting questions about public works programmes for SA (Business Day, January 8). Muller's prime intention, as he asserts, is "to temper the enthusiasm with an understanding of what they can and cannot achieve". To this end, he defines the concept of public works programmes and proceeds to consider its possible applications and related issues in SA.

To have a useful debate, we need to clarify what it is we are talking about. Muller, with reference to the Keynes-Robinson debate more than 40 years ago, talks of public works programmes possibly as digging holes and filling them.

This is a misrepresentation of the concept. Neither in the international literature, nor in any of the organisations Muller refers to in his article, is there any such concept as the basis of a proposed national public works programme. Yet the concept means different things to different people, and a clear definition is necessary.

A labour-based public works programme should be a well-conceived and organised set of projects capable of large-scale employment creation (hence income generation). It is also a skill learning exercise for the participants and an infrastructure-creating process.

All three characteristics are essential components of any anti-poverty policy package. As such, the funding of the programme would come primarily, although not exclusively, from public resources, with emphasis on access to resources by all communities.

A national public works programme is particularly appropriate for SA. Reinforced by the mounting political uncertainties, and exacerbated by recurrent and ever expanding recessionary cycles, the levels of unemployment and poverty have reached alarming scales. Poverty in the country is concentrated in the rural areas and townships, where the great majority of people live.

Against this backdrop, one of the major components of a complex solution to SA's socioeconomic problems has to be a co-ordinated grid of labour intensive public works programmes.

Public works programmes assist the target population by offering direct employment and training, while incorporating educational schemes. As such, at the individual level this is an "enabling approach". It avoids the pitfalls of indignity, dependence creation and dependency promotion so commonly associated with anti-poverty social welfare schemes.

Equally important, these projects also act as a catalyst in furthering grassroots participation in national development. At community level this is an "empowering approach".

Provided the public works programme is incorporated into the macroeconomic policy in a consistent way, it has further benefits:

☐ The programme can pave the way for economic growth. Internationally, public works programmes are shown to have the highest multiplier effect on the local economy;

☐ With its low propensity to import, such a programme will have minimal balance of payments effects;

☐ It will offer the most cost-effective means of redressing the backlog of socioeconomic amenities;

☐ The programme is affordable. Over the past decade every Budget has had numerous allocations for projects such as "employment creation", "emergency relief", "training funds" and so on. What needs to be done is to consolidate all such allocations into a single fund for a labour-based national public works programme; and

☐ It is the most viable means of attracting foreign aid. In fact, the conditions attached to many international donations are the very principles that underline public works programmes.

What about the homelands? Muller is concerned that scarce resources might be wasted on the homelands which, he says, are the least promising regions. Such generalisation is inherently invalid. True, none of the homelands is entirely economically viable. But many parts of them are. And many activities in these areas are sustainable, provided adequate supportive infrastructure is in place.

Assessments of the economic viability of an area and related issues are, to a large extent, those of individuals and communities, not the authorities' choice. We need to safeguard against a national public works programme becoming yet another mechanism for a grand social engineering scheme.

Individuals must choose and communities must be involved, not only in project proposals, but more so in supporting and funding. Otherwise we would face endless wish lists. To the extent that the homelands and other rural areas in the country have economic potential, the public works programme will be instrumental in providing support for their economic development.

A labour-based programme should not separate the country into homelands and rural "white" SA. Muller's presumption that the discussion around a national public works programme is a "homelands-based debate" is completely misinformed. The emphasis must be on the existence of economic potential, not on the status quo of any given region or economic sector as such.

Muller says SA has "historically used too much capital to create too few jobs". What he ignores is that resource allocation does not take place in a vacuum. Much of capital intensification in SA is policy driven. It is the result of a misguided monetary, foreign exchange and fiscal policy mix of more than 20 years.

Much of this capital intensification took place between 1960 and 1980. Over this period the sector with the highest rate of capital intensification was construction. This is in sharp contrast to Muller's assertion that construction "is among the least of the culprits". Manufacturing and agriculture were second and third respectively.

Over the period, a combination of negative real interest rates, overvalued foreign exchange rates and substantial fiscal subsidies in the form of investment and depreciation allowances tipped the balance in favour of capital, as opposed to labour use. To reinforce this, the education and training policies of the country failed to address issues of productivity enhancement and skill generation. Faced with this combination, all sectors went capital intensive, some more than the others. The extent of capital intensity was also influenced by the technological parameters of the sector itself.

The question of capital versus labour use deserves much attention. Simple fiscal treatment of the subject, whether in full support of capital use or in favour of labour use, is bound to prove distortionary and counterproductive.

A programme would naturally have to be implemented in carefully planned phases.

A public works programme is neither a panacea against unemployment and poverty, nor an infallible cure. Among the more common reasons for the failure of a public works programme to live up to expectations are insufficient scale, technical hastiness and incompetence, ad hoc national development arrangements, organisational infirmities, imbalance between centralisation and effective local involvement, and a tendency to bureaucratisation.

Economic growth is a necessary, but not sufficient, condition for poverty alleviation. As a high profile redistribution mechanism, a national public works programme would make a real contribution to stabilise the situation and make growth possible.

☐ Abedian teaches economics at UCT and is a member of the National Drought Consultative Forum's employment task force.

Business community urged to defend itself in the political arena

STAR 19/2/93.

By Derek Tommey (49)

The business community should enter the political arena and start protecting its own interests by countering economic views hostile to its existence, says Selwyn McFarlane, finance director of SA Breweries.

Speaking at the SAICA 1993 Reporting Awards Dinner in Johannesburg last night, he also said that annual reports were windows into the free market system and their scope should be broadened.

McFarlane said that South Africans were being endlessly bombarded on radio, television and in the media with proposals and counter-proposals about the new constitution.

"Perhaps an even more fundamental debate ... concerns what the appropriate economic system should be.

"Much of this economic debate is actually seeking to uproot the very foundations on which our competitive free-enterprise system is based.

"Fundamental concepts that are entrenched in our whole method and purpose of operation are being subjected to searching questions.

Selwyn McFarlane . . . act now before it is too late.

"Does that not worry you?" he asked what he termed the cream of corporate South Africa.

McFarlane warned that for business to react only after the politicians had decided what was in their best interests would be too late to be relevant, and called for business to be active now. But business would have to be prepared for debate and be able to say what makes the poor richer.

It would have to move into the areas and forums where debate is taking place and it must also set up its own discussion groups.

"Things are going on out there that seriously impinge on our turf, on our own areas of expertise; things that we had better be influencing or, better still, directing. So, the first action is to join the debate — and see that we win convincingly."

He said that only the capitalist system had consistently demonstrated the capacity to generate wealth and provide the means to uplift the masses — and this should feature as the focal point of financial communications.

The corporate community should seek to communicate with the public through their annual reports. These should be broaded to be pertinent to all of the key stakeholders and should emphasise the value-added statement.

"This incredible tool now, more than ever before, needs to be taken out of our armoury and put to proper use.

"Wouldn't it be fantastic to see at least some of our major corporations announcing their results by starting off with a discussion of how much value they have added to the South African economy as a whole, and how it has increased over the year.

"Then, have them deal with the extent of, and movement in, the participation of the various stakeholders".

COMMERCIAL PAPER (49)

FM 19/2/93.

More heat than light

It had been hoped that the Reserve Bank's new regulations governing commercial paper — effectively the rules and conditions allowing companies to borrow from each other without recourse to a bank — would open the way for a vibrant commercial paper market. This is the case abroad but the effect could be exactly the opposite.

True, a major obstacle to the market's development under the previous regulations, the requirement that a deposit-taking institution must endorse each issue, has fallen away. That requirement had come about under pressure from the banks, who saw their position as lenders threatened.

Nevertheless, a number of provisions, notably new disclosure requirements, do anything but encourage a commercial paper market. While most potential players welcome the principle of greater disclosure, they are opposed to the form it takes. They feel the obligation on the issuer, at the time of issue, to produce its most recent financial statements, as well as disclosing capital, reserves and liabilities as certified by its auditors, amounts to a duplication of the auditor's job — and additional cost.

In addition, issuers are required to estimate the amount of commercial paper they expect to raise that year — an extremely

continued

FM 19/2/93 (49)

difficult, if not impossible, task

Corporate Paper Forum joint chairman Mike Lammas fears these provisions will induce potential issuers to look for other sources of finance where disclosure requirements are less onerous, such as bankers' acceptances, which are expressly excluded from the definition of commercial paper.

Moreover, because no ceiling is placed on the maturity of commercial paper, the disclosure requirements come into play only at the time of issue. The Bank Supervision Department of the Reserve Bank agrees this could be problematic, but says: "The onus is on the investor to obtain this information from the issuer and make his own value judgment."

Lammas is quick to point out that this flies in the face of the principles behind the Jacobs report, which calls for greater disclosure and the closing of loopholes. He suggests the UK example could have been followed where only listed companies — which meet London Stock Exchange disclosure requirements — can issue commercial paper. UK commercial paper has a maximum tenor of two years.

A further problem for corporates relates to the prohibition on market-making in paper to obtain overnight funding. Head of the technical committee at the Association of Corporate Treasurers, Tom Makinson, says this will be inhibiting, since most market-making in commercial paper would be to raise overnight funding. "This seems to have been included at the insistence of commercial banks, who want to protect their profitable overnight lending activities"

The Supervision Department says this provision was included because of a "concern that overnight loans would be received under the guise of commercial paper."

But Lammas says the Bank's position is anomalous: "They include call bonds in the definition of commercial paper — instruments which by their very nature can be considered as a means of overnight funding since they can be 'called' at any time."

Market-making in debentures with a longer than five year tenor is also prohibited. Says Lammas: "The intention, as with the disclosure provisions, seems to be to prevent a fiasco of the Masterbond or Supreme kind. But this should be the role of the Companies Act and other regulations."

Companies with net assets of more than R100m can issue paper in minimum blocks of R1m. Commentators view the net asset condition as arbitrary and no measure of financial health. "A firm with net assets of more than R100m could be going to the wall while one with lower assets could be going strong," says one.

The Supervision Department agrees the net asset requirement is problematic but points out that it was included as a compromise with the banking sector

Both conditions fall away if an issue is bank endorsed or listed on an exchange; the issuer is government or backed by government; or the term exceeds five years ■

Economy, inflation and rates are linked directly

STAR 19/2/93

(49)

The reduction in interest and bond rates cannot be seen separately from the underlying factors that led to this move in the first place. There is an interwoven relationship between inflation, interest rates and the real and financial economy.

Sanlam's economist, Pieter Calitz says: "The lower interest rates (the bank rate is already down from 18 percent in October 1989 to 13 percent at present) follow on the sharp decline in inflation, which in turn, is a direct result of the weak economy and the stringent monetary policy followed during the Stals era.

"After nearly four years of progressive decline in economic activity there are still no clear signs of meaningful recovery until late this year."

He said the lower targets set for monetary growth are indicative of the continuation of a strict monetary policy stance. Lower inflation and further cuts in interest and bond rates can therefore not be ruled out.

Lower interest rates should be conducive to faster economic activity generally, especially if its goes hand in hand with lower inflation. But the immediate net effect is difficult to ascertain because on the one hand, lower interest rates may spur increased investment and higher credit financing, while on the other hand, it may also have a negative effect on savings and on the spending capacities of persons with a fixed income.

Further, lower domestic interest rates (especially real rates) relative to those overseas, may discourage the inflow of foreign capital and or accelate outflows.

"The lowering of the bond rates follows directly on the reduction in prime rate to 16,25 percent. The building societies are in the process of closing the gap between prime and bond rates.

"The lower bond rates will lead to slightly lower bond repayments. But here again, one should take into account that the bondholder can decide either to retain the additional money or keep the repayment amount of his bond unchanged, and by doing so, shorten the redemption period of the bond."

"But in the light of the present severely depressed state of the economy, I doubt whether the lower interest and bond rates will have a material effect on the economy.

"Factors such as the continued sluggish economic growth in the industrialised countries, the retention of certain sanctions, the overall weak financial position of consumers, the delayed effect of the severe drought, the lack of domestic and foreign confidence and important inherent structural shortcomings in the SA economy, are also delaying the start of the next upswing."

THE BUDGET

Will it be a curate's egg?

(49) FM 19/2/93.

Finance Minister Derek Keys faces the daunting task of somehow reducing the Budget deficit without inhibiting economic growth. He's talking of raising taxes to lower the deficit. However, this is likely to crimp economic activity — and it was largely lower-than-expected activity that caused the deficit to balloon in the first place.

The deficit problem must be resolved. SA is edging towards a debt trap, where government is compelled to increase borrowings merely to service debt, and more and more resources are used to redeem debt interest, inhibiting the State's ability to fund infrastructural spending and social programmes.

Servicing government debt is already interfering in the market's allocation of resources. Nedcor Bank chief economist Edward Osborn has warned this year's Budget deficit — estimated at R29,8bn or roughly 9% of GDP — could add R4bn to spending in the next fiscal year, taking total interest costs to around R21bn.

However, in parliament last week Keys stressed that while "dealing properly with the deficit is important — very important — it is not the most important issue in this year's Budget. More important will be to ensure the Budget allows for growth and reinforces the positive economic moves put in place in the course of the past year."

Analysing government expenditure in fiscal 1992-1993 suggests reducing the deficit will not be easy. Education (roughly R23bn), interest charges (R17bn), health (R12bn), defence (R11bn), police (R11bn) and pensions (R9bn) accounted for R83bn or 79% of this year's expenditure forecast of R105bn.

Spending cuts

Economists reckon defence is the only area where real spending cuts might occur. But any savings here will probably be offset by more spending on police to control the rising incidence of crime and violence.

"Health, education, interest charges and pensions account for around R62bn. These are politically sensitive, making it difficult to curb expenditure on them," says Sacob's Ben van Rensburg. Despite this, Keys has reaffirmed his pledge to trim government spending by 3% in real terms.

It seems the only cost-effective way to expand these facilities will be to improve efficiencies and productivity. The public-sector wage bill accounts for roughly 56% of this year's total State expenditure.

The Afrikaanse Handelsinstituut (AHI) has urged the authorities to keep public servants' salaries constant in nominal terms. Sacob has added its voice to this call. Meanwhile, government is talking of increasing public-sector salaries by roughly 5%.

AHI chief economist Nick Barnardt believes there is significant scope to chop unnecessary bureaucratic expenditure — particularly in health and education. "There is significant duplication among government departments; for instance, any number of departments fall under the health ministry".

Econometrix director Azar Jammine claims re-incorporating the homelands into SA and dismantling their bureaucracies could save at least R2bn a year. There are roughly 230 000 public servants in the six homelands, and CSS reckons their total salary bill will top R5bn in 1992-1993.

Jammine says teachers, nurses and others providing essential services must continue their work, no matter what kind of constitution there is. It is at the executive and administrative levels that big savings are possible.

The grant to the homelands from SA this fiscal year was just under R9bn. Government and the self-governing territories recently agreed on legislation to enable them to rationalise services — though commentators argue this was done for political reasons as a precursor to re-incorporation.

Director-general of State Expenditure Hannes Smit says that, other than scrutinising homeland budgets, government has little further control over how money was spent. This will have to change.

There may be scope to slash spending on agriculture, R6bn this fiscal year, largely as a result of the drought. Van Rensburg believes it could be held at R2bn.

But the biggest cause of the huge deficit remains revenue shortfalls. A depressed economy means both taxable profits and employee remuneration (hitting income taxes) are lower. The change to Vat (which firms were not properly equipped to implement) also hit collections. On current trends, the Vat shortfall will be some R4bn. The shortfall on income tax will be around R8bn.

With little scope to cut expenditure, Keys will have to raise taxes to get government debt under control. This much he's already said.

Lifting Vat from 10% to 12% or 13% is predicted, with perhaps some (ill-advised) concessions to the poor in zero-ratings on food Fuel taxes will also go up.

But UAL economist Dennis Dykes predicts Vat at 12% will generate an extra R4bn or so while jacking the fuel levy up by 10c/l will generate around R1bn — not enough to narrow the deficit to acceptable levels. "The real answer is to get the economy moving again," he asserts.

Last year the IMF argued a hike in tax rates would destroy growth prospects. It added the tax burden on whites is high even by the standards of industrialised countries (where significant health and welfare services are provided to taxpayers). Wealth redistribution, it contends, can be achieved only by economic growth.

Raising taxes

In spite of that, Keys is likely to raise personal and company taxes Even if personal tax rates are pegged the authorities are likely to leave income tax thresholds where they are, allowing fiscal drag to generate higher collections.

Without greater economic activity, which will come about only with revived political confidence, the tax hikes planned may be insufficient to cover next year's full deficit. The shortfall will have to be met by additional borrowing, aggravating the debt burden.

Keys is right to say the Budget shouldn't stifle economic growth. How he intends achieving this while at the same time generating more taxes we will hear on March 17. ■

MASTERBOND FM 19/2/93.

Who will blink first?

The offer last week by Dubai-based Geap International to secure control of Fancourt, the luxury golf resort near George, has effectively been rejected by Masterbond's curators. And a legal storm over the validity of

continue.

GROSS DOMESTIC PRODUCT

A few bright spots

It's not the start of the upturn. It's probably not even the end of the decline. But it may be the start of a slowdown in decline. This is clear from GDP figures for the final quarter of last year, which show that the effects of a crippling drought and weak demand are still with us.

Seasonally adjusted and annualised GDP fell 5,1% (at constant 1985 market prices), not quite as bad as the third quarter's -5,6%. By factor incomes — after subtracting indirect taxes and adding subsidies — the major dips came from agriculture, 70,3% (-64,2%) and manufacturing, 3,7% (-3,4%). Excluding agriculture GDP fell only 0,9% (-1,1%).

Old Mutual economist Johan Els says the non-agricultural sector was hit by the weakness of construction and manufacturing. "And agriculture did worse than expected."

There are positive signs. The drought in the interior seems to be over and trade and catering grew 1,2% after seven straight quarters of decline. Els says this may be an early sign of upturn. "If so, one can expect a little growth in manufacturing soon."

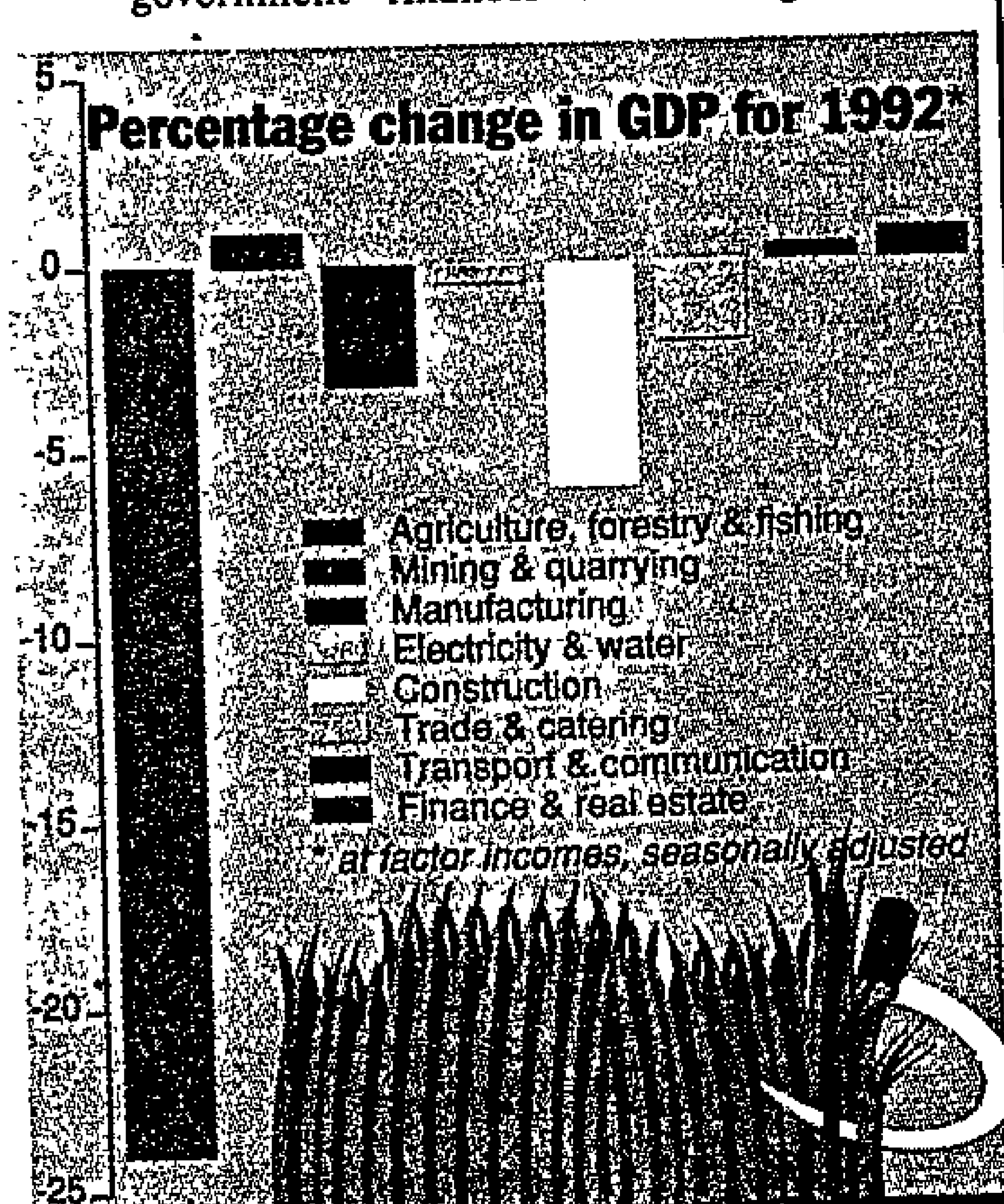
Mining and quarrying grew 0,8% in the final quarter, from a 0,2% drop in the third and small growth in the previous four quarters. Chamber of Mines economist Francois Viruly says this — and year-on-year growth for the sector of 0,9% — reflect gold output increases and a small rise in coal exports.

Viruly says there are signs that world gold demand is rising and output growth will level out in 1993. "Strong demand for physical gold holdings should underpin the market."

But economists do not expect sharp growth for SA in 1993, as happened after previous downturns. Reasons are the state of government finances and the gold and foreign exchange reserves and slow growth in the world economy. Says Sanlam's Johan Louw: "A tough Budget to contain the rising deficit will dampen demand. And our reserves will not cope with a rapid recovery."

Louw predicts growth for 1993 of 0,5% "at best." Old Mutual's forecast is about zero.

☐ GDP in 1992 fell 2,1% at market prices (-2,4% at factor incomes), after declines of 0,5% and 0,4% in 1990 and 1991. ■



Soiling the economy

Source: CSS

TAX TREATIES

Exit Dutch uncles

The US-Netherlands Double Tax Treaty — long a welcome tax haven for multinational corporations — will be replaced by a much tougher treaty imposed on the Dutch by an exasperated US. The Dutch — shrewd traders that they are — have long been adept at tweaking the US eagle's beak by offering international companies a favourable jurisdiction for registering intermediary holding companies to receive dividends and other income from international operations.

In particular, the Dutch have offered multinationals (including SA groups) an attractive route to extract profits from US operations at generous combined Dutch-US tax rates. This has long annoyed the US Internal Revenue Service, which, correctly, perceived the Dutch as operating on the edge of what was reasonable and acceptable.

The present treaty dates from 1948, but its end is nigh. In December the Netherlands and the US signed a draft of a much tougher treaty. Though the draft could still be amended, its spirit is clear. The most important changes, says Deloitte & Touche tax partner Philip Dieperink, are intended to restrict the benefits of the US treaty to Dutch residents and counteract the interposition of a Dutch holding company.

The new treaty will become effective on the first January 1 after both governments ratify it. It does permit a Dutch taxpayer to apply the old treaty in the first year that the new one becomes operative.

Sentiment in the US has swung sharply against commitment to treaties that allow third parties, resident in neither treaty country, to deprive the IRS of significant tax revenue. Under the existing treaty, various forms of profit taken out of the US by Dutch companies — notably interest, dividend and royalty income — are taxed lightly or not at all.

At the same time, the Dutch settle for a modest tax take, leaving multinationals a handsome reward for choosing the Dutch route for bringing foreign profits home. So angry are the Americans with overgenerous tax treaty arrangements in general that Congress last year also considered introducing a general ban on what the US might consider tax treaty abuse.

The new draft treaty with the Netherlands, in line with this sentiment, includes a comprehensive anti-abuse article. What's

BUSINESS Economic growth benefits from liberal politics

Africa's outlook 'bright'

Sowetan 19/2/93 .

49

By Mzimkulu Malunga

INVESTMENT Emerging blocs in Europe and America make regional trade inevitable:

CONTRARY TO MEDIA reports which paint Africa as poor and racked by civil wars, investment prospects on the continent are looking brighter, says vice-president of the African Development Bank (ADB) Mr Tekalign Gedamu.

Speaking at a high-profile investment conference held in Johannesburg this week, he argued that as sweeping winds of political liberalisation in Africa blew at a faster pace, so did chances for long term economic growth.

"There is no doubt in my mind the that market-oriented reforms embarked upon by a large majority of African countries will lead to increased private sector investment," said Gedamu.

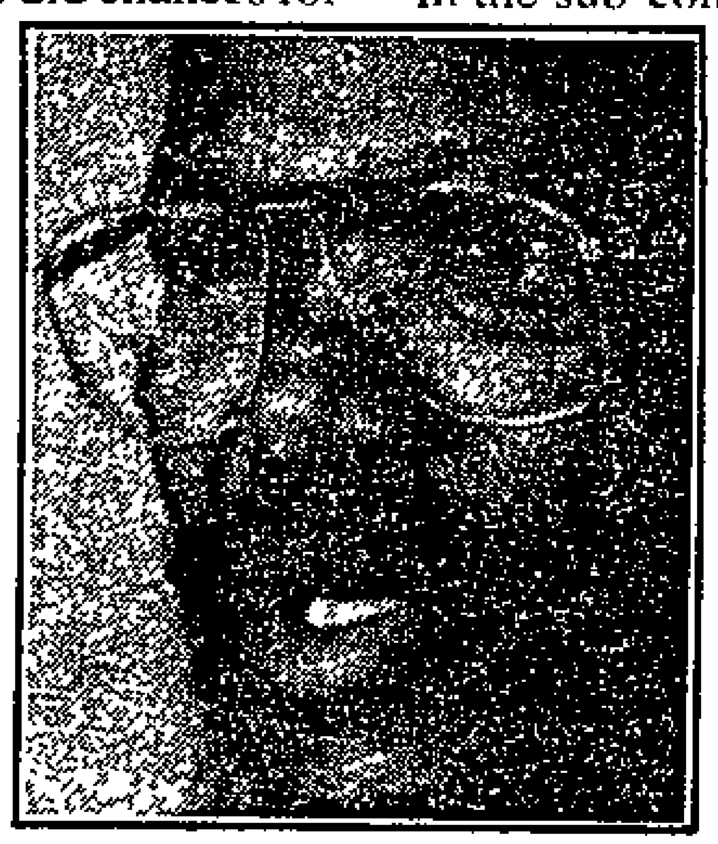
The conference, organised by Frankel, Pollak, Vinderine, was addressed by finance ministers and senior bankers from seven Southern African countries.

Speaking at a panel discussions on *Opportunities in sub-Saharan Africa*, various ministers and bankers outlined investors' incentives in their respective countries.

The Southern Africans made strong calls for the strengthening of the already existing regional economic groups to foster the sub-continent's development. They highlighted emerging regional trading blocs in Europe and North America as one of the facts making regional co-operation inevitable in Southern Africa

The drought which struck the region recently also featured high in the speeches.

However, the obvious worry in most the speeches was continued political uncertainty in South Africa — regarded by many as better equipped to play a catalytic role for development in the sub-continent.



Mangosuthu Buthelezi

Echoing Gedamu's words, Botswana's finance minister, Mr FA Mogae, said there was a distorted perception that Africa countries were corrupt and worthless.

"I am an African and I am not corrupt," he said Mogae said his country had the most liberal foreign exchange regime in Africa and the lowest interest rates on the sub-continent.

Botswana — often held up as an African success story — had a skilled labour force which could be valuable to investors.

The Mozambican commerce minister, Mr DG Tembe, said though the peace process in Angola was meeting with serious difficulties, the process of the dismantling of apartheid and the peace agreements in Mozambique signalled a new era of social and political harmony as well as common development and prosperity.

Tembe said his government attributed an important role to direct foreign investment as a necessary tool to complement the initiatives of domestic entrepreneurs.

Also, the economic recovery programme, supported by the International Monetary Fund (IMF) and the World Bank has helped to reduce the inflation rate drastically and reformed the pricing and systems.

The senior economic adviser in the Zambian finance ministry, Mr Jacob Mwanza, said the philosophy of the new Zambian administration was the state should only play a facilitatory role instead of determining prices or output.

"This year is the one to complete major reforms of Zambia's economic policy and set foundations for sustained growth in the private sector," he said.

Lesotho's finance minister, Mr AM Maruping, said the was a need for collaborative effort in the region as part of Third World co-operation, a popular view in economic circles of various developing countries. He mentioned the Lesotho Highlands Water Project as one of the classic examples of regional co-operation.

In a keynote address, the chief minister of KwaZulu, Chief Mangosuthu Buthelezi, said political organisations should refrain from raising people's expectations about what a future South Africa could deliver.

"The new government in South Africa will have to operate within the confined constraints of a ravaged economy whereby contributory factors such as uneconomical and discriminatory apartheid policies, political and labour unrest, sanctions and disinvestment, have left our economy almost bereft of resources," he said.

Banks take the rap for Africa's mess

(49)

W/Mail 19/2 - 25/2/93

Two books place a critical spotlight on World Bank and IMF economic policies in Africa. By **VICTORIA BRITTAN**

IN a serious challenge to the World Bank and the International Monetary Fund's prime position in African policy-making, two new books examine the continent's dramatic decline over a dozen years and challenge the orthodoxies of these, the two most powerful institutions on the continent.

Alternative Development Strategies in Sub-Saharan Africa, edited by Frances Stewart, Sanjaya Lall and Samuel Wangwe, and *Africa's Recovery in the 1990s*, edited by Giovanni Andrea Cornia, Rolf van der Hoeven and Thandika Mkandawire, are both published by Macmillan in Britain. They appear against the background of Africa's deep economic crisis in the 1980s, and its continuation into the 1990s with little sign of improvement.

Richard Jolly, deputy executive director of the United Nations children's agency, Unicef, says Africa remains the highest priority for Unicef's aid because it is the one continent where the health and education status of children has deteriorated in recent years and is projected to worsen further in the 1990s. However, other donors are becoming more inclined to cut their losses and target their aid to places with less of a record of failure.

The grim economic situation in three-quarters of African countries is disputed by no one, but a bitter intellectual battle rages over the recipes for improvement. Some long-term goals such as industrialisation have virtually disappeared from current thinking, preoccupied as it is with crisis management.

For over a decade, structural adjustment programmes (SAPs) drawn up by the World Bank and IMF have been the key policies for Africa. They have focused on the stabilisation of macro-economic imbalances, removal of structural bottlenecks, and growth.

Although SAPs have been judged successful in Chile and Indonesia, they have had little success in Africa beyond middle-income countries such as Cameroon and Mauritius. And, while bank officials claim at least fragile achievements across the continent, most others — particularly Africans — blame the harsh regime of SAPs for cuts in employment, and in health and education budgets, which have put the entire social fabric at risk.

In the past few years, under pressure from Unicef, and Jolly in particular, SAPs have been modified to take into account the social dimension and particularly the protection of the most vulnerable groups. But the decline in per capita GDP goes on, and social services cuts mean new generations of less educated, less healthy citizens for the next century.

"There is a greater consensus about the importance of the social dimension, but total consensus certainly has not been achieved," says Dr Giovanni Andrea Cornia, an economist at Unicef and one of the editors of the optimistically titled *Africa's Recovery in the 1990s*

Frances Stewart introduces *Alternative Development Strategies* by looking at the contradiction between current policies and long-term objectives. She cites three long-term objectives for Africa: industrial development, increasing food production and human resources development. She then asks how the well-known effects of current policy — falling employment figures, school rolls and investment in infrastructure — can be reconciled with those objectives?

The bank and the fund are responsible for the policy advice which has brought about these effects. In addition, the same advisers so encouraged increased production of the primary products which make up 90 percent of Africa's exports that their prices have fallen disastrously. Among major export commodities, coffee, copper and cotton have all dropped by about 25 percent over the past 30 years and cocoa, the only one to be worth more than in the early 1960s, has been on a declining trend since the mid-1970s.

These price trends are not going to be reversed. What could be, she says, is the structure of exports. Stewart's book shows that, compared with South Asia, where between 1965 and 1987 primary products fell from 63 percent of exports to 36 percent, in low-income African countries they rose from 92 percent to 94 percent.

Among other major problems she identifies is the reduced local control which has been a result of the privatisation encouraged by SAPs; and the excessive liberalisation of imports which has led, in Ghana for instance, to de-industrialisation, as the textile industry has collapsed under the impact of imported second-hand clothes from Europe. "African countries basically lost control of their policies in the 1980s," she comments.

Both books emphasise new strategies which the authors — who include distinguished African economists — believe could work. These include:

- Growth of indigenous food crops by increasing resources given to this area such as subsidies on fertilisers and other inputs, and lending no more to traditional export areas such as coffee.
- Commodity price support schemes.
- Support for rural non-agricultural development.
- A serious bid for industrialisation.
- Boosting human resources by improved targeting of aid so as to increase the proportion for education and health.

Most important of all, they propose cancellation of at least part of official debt, and conversion of Africa's debt to the bank and the fund to low-interest, long-term loans, thus avoiding the massive transfers that amounted to $1,1-billion (R3,3-billion) in 1989. They also propose a write-down of one fifth of private sector debt, which would provide an extra $800 million (R2,4-billion) for Africa annually.

Many of these ideas have been put forward repeatedly by Unicef, the United Nations Development Programme's Human Development Report and the Economic Commission for Africa, but they have a long way to go before being accepted as a real alternative to the World Bank/IMF's unsuccessful prescriptions for Africa's desperate situation. — The Guardian News Service

New proposals to pep up the economy

W/Mail 19/2-25/2/93 (49)

Weekly Mail Reporter

NEDCOR and Old Mutual have put together a diverse panel of economists and experts as a follow-up to their scenario exercise.

The zippily acronymed Professional Economic Panel came up with — not a scenario — 22 concrete and wide-ranging proposals to improve the economy in toto and create a climate for a sustainable economic upswing.

As important as the proposals themselves is the way the panel sees them being put into effect.

The panel addresses the "how-to" and "what" of restructuring and sees economic reform having first to gain political and popular support through three major pacts. These are a negotiated agreement on the political and constitutional process, a similar agreement on the security forces, and an agreement aimed at socio-economic development based on economic growth.

Furthermore, it wants to decrease the number of existing institutions by adapting those to new ends; make all institutions and organisations transparent with clearly designated accountability; implement proposals as soon as they gain legitimacy; and, read the panel's lips, "no additional taxation or government expenditure should be required".

The proposals do contain some familiar free-market solutions, as wholesome as apple pie, such as the sancrosanctity of the Reserve Bank's independence, the need for exports to garner foreign exchange, deregulation and ways to strengthen the small business sector.

The panel proposes some other powerful changes. Among them is the transfer of all state-owned housing stock and the land on which it stands into the hands of existing owners. Politically this visible and dramatic move would create a real sense of change. And it would have a huge economic impact and empower many people.

Economically, it would give the new home owners access to capital, with their homes as collateral, improve rates and service charge payments in the townships, and remove the maintenance burden from the public sector. The panel acknowledges it does not solve the pressing problem of the homeless.

Equally important, in the light of the huge waste of public money through inefficiency and theft that has come to light recently, is the setting up of an independent Performance Auditor's Office within the Auditor-General's Office. This office would undertake performance audits according to generally accepted, random auditing practices, of any publicly funded department or programme.

Another allied suggestion is the setting up of a fiscal commission, as a permanent statutory body, to look into tax and general fiscal policy, including reducing corruption, inefficiency and poor targeting of spending, and reallocation of spending.

The panel also has specific ideas to get greater efficiency and equity in spending on education, in other words getting a bigger bang for the education buck. This includes expanding and improving pre-primary and primary education.

The panel also recommends restructuring:

- The civil service. A code of conduct is proposed for the transition, and procedures for disclosure of information should be negotiated. Draft summaries of all legislation, particularly in African languages, should be widely disseminated. Channels for shaping proposed legislation before presentation to the cabinet should be strengthened.
- The security forces, for obvious reasons.
- The media, to create a free, accessible and diverse system.
- The Unemployment Insurance Fund to make it more effective.

There are too many proposals to do justice to here. Some others are a youth development programme, public works programmes, and introducing market days.

Higher tax only option, says expert

STAR 20/2/93

FINANCE STAFF

(49)

A DRASTIC cut in Government expenditure was vital, Sanlam chief economist Johan Louw said in Cape Town yesterday. Writing in Sanlam's latest economic survey, Louw said: "On top of that, Finance Minister Derek Keys will have virtually no option but to increase taxes in his first Budget.

"The alternative is an unacceptably large deficit in Government finances, even after expenditure has been reduced," he said.

At the same time Keys had to be careful not to seriously dampen general economic activity, "so the increases are expected to be mild".

Sanlam expected the following change to taxes to be made:

- VAT: An increase from the present 10 percent to 13 percent. However, a larger range of basic foods and services would be exempt from VAT — alternatively, the rate might be increased to 12 percent without further exemptions.
- Fuel levy: An increase of about 10c a litre.
- Higher excise duties.
- Corporation tax: No change.

DEREK KEYS: Must be careful not to dampen economic activity.

Louw said these proposals would result in a revenue increase for the State of about 16 percent. This would mean a deficit before lending in the order of R22 billion, or 6 percent of GDP.

The deficit before borrowing for the 1992/93 financial year was likely to be about R30 billion, or 9 percent of GDP. A deficit of R16 billion was budgeted.

Regarding the economy, Louw expected no noteworthy recovery before late in 1993.

He said favourable developments such as the lower inflation rate and lower interest rates had been overshadowed by the negative influences.

These included the continuing violence and unstable political situation, poor export opportunities due to limited foreign growth, the low gold price, lower domestic spending due to the impoverishment of consumers, and disappointing fixed investment.

The drought also remained a factor and the Budget was expected to have a mildly dampening effect on general economic activity.

"At this stage a real economic growth rate of about 0,5 percent is expected for 1993, compared with an estimated rate of minus 2 percent for 1992, minus 0,4 for 1991 and minus 0,5 for 1990," Louw said.

'Restrictive' budget for '93

(49)

CT 20/2/93

By AUDREY D'ANGELO
Business Editor

THE budget on March 17 will have a slightly restrictive effect on the economy in spite of the continuing recession — and "will not contribute to higher company profits this year", Sanlam chief economist Johan Louw forecasts.

But the government's high borrowing requirements "should not stand in the way of easier conditions on the money and capital markets".

And there will be scope for monetary policy to be relaxed, with further cuts in short-term interest rates.

Forecasting an average inflation rate of 10% for the year, Louw says its fall may be checked by higher taxes and excise duties — and by higher food prices later this year as a result of the drought.

He expects the effective value of the rand against the dollar to fall by about 6,5% over the year, compared with an effective depreciation of about 5% in 1992.

Louw devotes his February Economic Survey to a preview of the budget. He points out that the government's deficit before borrowing of about 9% of gross domestic product (GDP) gives Minister of Finance Derek Keys no option but to cut spending and raise taxes.

"However it is expected that he will keep the (tax) increases as moderate as possible so as not to dampen the economy unnecessarily."

Louw expects Keys either to raise VAT to 13% with a wide range of basic foods being zero-rated, or to raise it to 12% without further exemptions and increase the top marginal rate of personal income tax.

He does not expect any change in the company tax rate.

"The expected fiscal action should have a moderately dampening effect on general economic activity in the light of:

- The smaller rise in government expenditure (actually a drop in real values).
- The tax increases and the expected smaller budget deficit.

"Seeing that the average citizen's disposable income will remain under pressure, suppliers of durable goods — cars, furniture and domestic appliances — can expect sustained poor business conditions."

However, he continues:"The fact that the budget proposals should not have a stimulating effect on the economy will enable the monetary authorities to follow a slightly less stringent policy."

And in spite of the relatively large borrowing requirement the government will have in the coming year "we nevertheless think that long-term rates will tend downwards in the months ahead bearing in mind:

- The decline in short-term rates envisaged.
- The lower inflation rate.
- The generous contribution to the (government's) borrowing needs by the public investment commissioners and the limited alternative investment possibilities."

Laws that make an ass of SA's economy

(49)

S Times (Bus) 21/2/93.

MORE than 90 laws, policies and practices inhibit the South African economy, says the Nedcor/Old Mutual sponsored Professional Economic Panel.

"The problem is that small and medium emerging enterprises (SMEEs) are shackled The need to reform is urgent," says PEP

There has been such legislative diarrhoea over the years that there is now more than one Act for every word the average person knows in his or her mother tongue"

PEP has listed these laws and practices where a majority of PEP members were in consensus The list is confined to the removal, relaxation or reform of obstacles to SMEEs

PEP says most South Africans live under conditions in which the enforcement of most laws is arbitrary, impossible or manifestly absurd Bad law leads to abuse and corruption

"Corrupt officials and politicians use such laws to get at rivals and to collect bribes and protection money"

By KEVIN DAVIE

PEP has compiled a 60-page document on legal and policy reforms needed to free the economy and create a vibrant small and medium enterprise sector

Subjects as diverse as animal slaughter and cigarette smoking are addressed, including

● The common law of product safety liability is adequate to deal with cases such as animal slaughtering and meat processing Grading could be introduced on a voluntary basis for the export and First World sector

● Bakeries and butcheries should be treated as ordinary businesses special licensing provisions should go

● Entry barriers into trades, occupations and professions should be systematically and critically examined "As a rule, formal qualifications should be replaced entirely by tests of competency"

● Close corporations are still subject to excessive formalities, such as registration, record-keeping and reporting

● Most government housing would be condemned under building standard or slum laws Prohibitions on the private sector have exacerbated, if not caused, the housing shortage Building codes and minimum standards should be scrapped in low-income areas to allow maximum opportunities for owner-builder and SMEE building contracting

Protection

● A computer system should be used to register property transfers, mortgages and leases, allowing conveyancing to be scrapped in simple cases "Technology can provide better protection than conveyancers The only merit in the present system is that it protects conveyancers," says PEP

● The small claims court should be extended to include legal personae, such as SMEEs (at present, only individuals can use these courts) The value of small claims should be increased to R10 000

● The Deposit-taking Institutions Act makes SA one of the most difficult and costly countries in which to establish a deposit-taking institution "In the real world, especially in black communities, the DTI laws are transgressed by many stokvels, savings and loan clubs and co-ops," says PEP

"The formal financial institutions are unjustifiably regarded as somewhat of a sacred cow in SA It is clear that greater relaxation is necessary in the interests of SMEEs and the economy in general"

● Credit controls should be scrapped in their entirety

Absurd

● Switzerland, a country the size of the Transkei, has 300 independent electricity companies, 100 of which produce electricity PEP says electricity vending in SA should be decriminalised

● An explosion of SMEEs occurred in the Ciskei after businesses with fewer than 20 employees were exempted from the Factories, Machinery and Building Work Act, despite the extremely unfavourable political climate "A South African version of the Ciskei Small Business Deregulation Act should be adopted"

● The present absurd situation where gambling is only allowed in the homelands should be normalised, subject at most to controls found in other countries

● The Businesses Act (which substantially deregulates licensing provisions but is yet to be implemented in some provinces because of opposition from bureaucrats) should be brought into operation throughout the country

"There is probably no other single measure that could create a greater number of opportunities for SMEEs than this All the potential resistance has been raised and identified It is clearly based on self-serving elitism and vested interests"

● Zoning should be sufficiently relaxed to allow for unobtrusive home businesses "The automatic or default position should be that home businesses are allowed, to the extent that they do not unduly disturb neighbours"

ROB LEE .. co-ordinator of the PEP panel

● Hotel and boarding room grading should be optional

● The import of all used products for resale in the informal sector should be exempt from import quotas and duties

● SMEEs should be exempt from labour legislation, which has been designed for big business and organised labour "The majority of workers and job seekers are not respresented by unions, and it is their interests that have to be served"

● All forms of black title to land should be automatically converted to ownership

Access

● All SMEEs of a certain size should be exempted from as many levies (such as regional service) and charges as possible

● All licensing, except where special circumstances which clearly apply, such as in the sale of liquor and firearms, should be abolished There should be free and easy access to the liquor trade at both production and distribution levels

● The right to dispense medicines should be decontrolled so that the law provides for no more than that a qualified person distribute prescription medicines

● Private, competing postal services should be allowed to the Post Office

● The right to public interest or class actions in the courts should be introduced

● Private use of trains on existing tracks should be encouraged immediately Trains could be bought or leased from Spoornet

● The Stamp Duties Act, which applies to a wide variety of agreements, contracts, licences and documents, should be repealed as soon as possible

Bizarre

● All restrictions on the provision of telephone products and services should be lifted and the statutory telephone monopoly should be phased out

● Transfer duty in mortgage and land registration should be abolished

● SMEEs should not be required to register their employees with the Unemployment Insurance Fund

● A bizarre situation has arisen where the state employs costly teams, such as the Diamond Squad, to lay traps to prosecute (persecute!) people engaged in a mutually volitional trade

"Clearly, no one is harmed by such trade except a tiny vested interest There is an argument for restriction on trade in uncut diamonds, namely that the international diamond cartel is of great value to SA

"However, it is doubtful whether this argument can justify the fact that IDB offenders are sent to jail for longer terms than murderers"

Next year will be better . . .

S/T (Buss) 21/2/93

DIAGONAL STREET

By Teigue Payne

AS THE year continues, investors may increasingly hear prognostications that industrial shares are fully priced

If investor attention this year is diverted to mining shares, as has recently been the case with golds, industrial shares could slide silently sideways — which, given inflation, is effectively a derating. If some nasty jolt occurs on overseas markets, or locally, they could come down with a thud

Given the present levels of the leading industrial shares which make up the Industrial Index, they seem to have decidedly modest upside potential unless prospects for South Africa change radically

In 1991 the year after political reforms and the suspension of the ANC's armed struggle, the Industrial Index performed exceptionally well, rising 38%. By comparison, the Mining Producers Index rose 13% and the All Gold Index fell 6%

Over 1992, the Industrial Index rose 4%, the Mining Producers Index fell 27% and the All Gold Index fell 28%

It could be argued that 1993 will be a year of recovery for industrials because of expectations of a better year in 1994. Many economists are forecasting virtually zero economic growth in 1993, but at least moderate growth in 1994

The first problem with this line of reasoning is its echo of *deja vu*. In what year recently was next year not going to be better?

Finance Minister Derek Keys referred to the next-year-will-be-better syndrome in his address to the Frankel Pollak Vinderine investment conference this week

He said that expectations that more revenue would flow in the future because of higher economic growth had supported many decisions to increase government spending in the past

That next year generally did not turn out to be better is confirmed by the dismal average real GDP growth rate of 1% a year in the decade ending 1991. The results of jumping the gun in government overspending are now patent

On the JSE, the question is whether investors will, after so many disappointed expectations in the past, go on believing in next year

The second question about next year is whether investors can continue to rely on the warm updraught of inflation which repeatedly facelifted company profits in the past. For the first time since the early 70s, SA's consumer inflation is below 10%

Dr Chris Stals, governor of the Reserve Bank, at the same conference, pointed out that while SA's current inflation might seem low it was still unacceptably high at two or three times that of SA's major trading partners

Also at the same conference, Chief Minister Mangosuthu Buthelezi made the surprising, refreshing statement. "Price stability is probably a government's most important role"

The message is clear from a number of quarters: *aluta continua* against inflation. Which means investors can no longer take for granted that it will drive up their shares as quickly as it did in the past.

Indeed, the downtrend in inflation must be causing many managers of industry some headaches. After becoming accustomed to riding a rising balloon, it is difficult to immediately adjust to a descent

The result is that little, if any, growth — even in nominal terms — can be expected in the aggregate profits of Industrial Index companies in 1993

And in 1994, even if it is a better year, growth in profits may be modest. This will follow virtually zero growth in the aggregate profits of Industrial Index companies in 1992

Conventionally, the stock market discounts future earnings trends by a year to 18 months, so forward price earnings ratios are a more telling measure than historic price earnings

On the current outlook for earnings growth in 1993 and 1994, the forward price earnings of the Industrial Index is now at a high level of about 14, a level not seen since 1970

Against the priceyness of industrial shares is the sure return offered by real interest rates — and they will stay that way if Dr Stals has his way. Or the hope of higher returns on the bond market

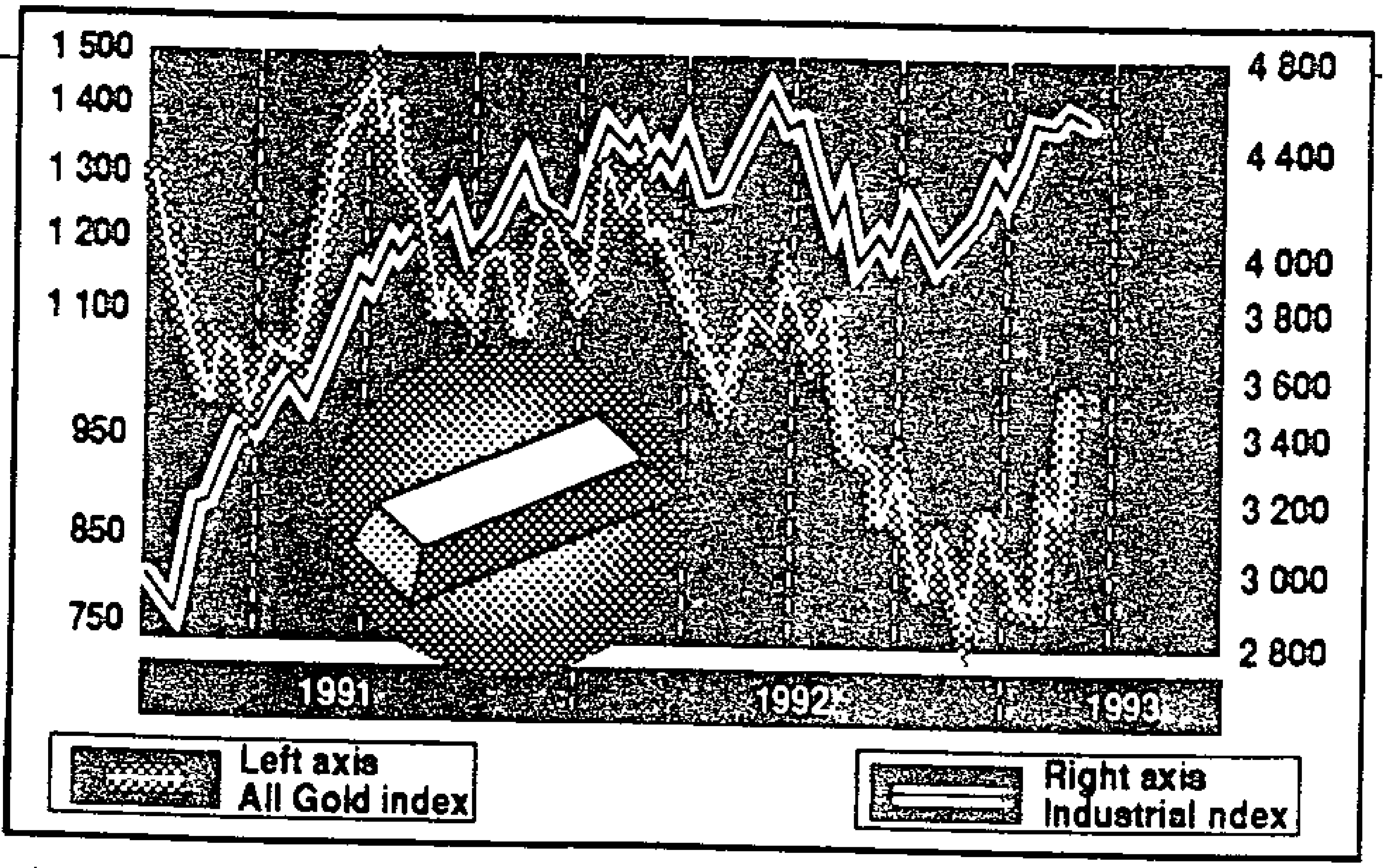
Or the possibility that the mining boards may be reawakened with an upturn in the commodity cycle after a five year downcycle — though that upturn has also been the subject of many false calls recently

All of which is not to say that no opportunities exists on the industrial boards

With government consumer spending being checked and little growth expected from private consumers, traditional consumer sectors appear fully priced for the moment

The electronics and engineering sectors could see a lift with increased GDFI spending this year, much of it related to section 37E incentives. And some Cinderella sectors, such as furniture and motor, may also be worth considering

But one thing is certain: the search for value among industrials will be harder this year



RINGO IS TIRED OF SEEING RED

S Times (Buss) 21.2.93

OFFICE furniture companies have been through a torrid couple of years, but Mathieson & Ashley's executive chairman Winky Ringo — tired of seeing red ink filtering into his companies books — has been using the slow months to reshape the group's strategy

He talks of a "new financial era" for the company, and pivotal to survival and success is the expansion of the group's mass-merchandising, office products centres. The cash-and-carry chain OfficeMart has been allocated R24-million for expansion, which will see store openings in Johannesburg, Pretoria and Randburg in the next six months, moving nationwide next year

In the first calendar year of operation, M&A's three OfficeMart stores were stunted by start-up costs, resulting in a R2-million bottom line loss. But Ringo is more interested in the sales of more than R36-million clocked up in the 12 month period as a barometer of future prospects

The warehouse-type stores have identified a huge demand for cut-price stationery, which is likely to account for more than half of OfficeMart's takings in the current year.

M&A's results for the six months to end December are due to be published within the next five weeks

CHERILYN IRETON

☐ RELAXED ANC president Nelson Mandela, who was treated for flu-like symptoms in the Park Lane Clinic in Johannesburg this week, was a surprise visitor to the ANC's international solidarity conference at Nasrec yesterday.
☐ The ANC said that Mr Mandela had been given a clean bill of health after tests, but had been told to take two weeks of complete rest to recover from exhaustion

ANC plumps for end of sanctions — in weeks

By CHARLENE SMITH

FACED with a collapsing economy, the ANC yesterday proposed a deal that could mean the end of international trade and financial sanctions against South Africa within weeks.

It asked the international anti-apartheid community at a conference in Johannesburg to lift sanctions once a date had been set for non-racial elections and agreement reached with the government on certain measures leading to joint rule.

All this could be achieved within weeks. Reconvened multi-party talks early next month will most likely dispose of the remaining hurdles — setting up a transitional joint executive, the creation of independent electoral and media commissions, and the introduction

moval strategy coupled with pro-investment moves was not followed.

The ANC is keen that World Bank aid should come into the country as soon as possible. A conference in early May could contribute toward this.

The World Bank will participate in a conference in Johannesburg sponsored by the SA Foreign Trade Organisation and the SA Institute of Civil Engineers to advise contractors on how to compete for World Bank projects on this continent.

Africa is a major recipient of the R50-billion awarded by the World Bank each year for development.

280 (49)

Opportunity

International Monetary Fund assistance will not be forthcoming until a

sanctions — in weeks

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The ANC put the proposal before about 500 guests from five continents, many of them key anti-apartheid activists, attending the International Solidarity Conference near Johannesburg.

The oil and arms embargo will remain in place until a democratic government has been elected.

Resolved

The ANC said that, once the preconditions had been met, sanctions affecting diplomatic relations, gold coins, trade and trade credits, new investment, loans and other financial links should be immediately lifted.

It also recommended that no representative of the present government be granted accreditation by any international organisation. "This can be resolved once an interim government of national unity is established."

The ANC is concerned that foreign supporters should ensure that, once sanctions go, there is a concerted campaign to lift sanctions at city, state and national level in their respective countries.

It does not want SA to be in the position of Namibia which, nearly three years after independence, still has sanctions operating against it in many cities and states, particularly in the US, because an effective sanctions-removal strategy coupled with pro-investment moves was not followed.

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Opportunity

International Monetary Fund assistance will not be forthcoming until a democratic government is in place after multi-party elections.

However, the ANC believes that the removal of sanctions soon will give businessmen and the IMF the opportunity to begin studying options for the rapid implementation of development projects to contribute toward ending violence by providing work and opportunity.

These steps come after weeks of the ANC studying the impact of continued sanctions on the economy, coupled with its concern about a national unemployment figure of 48 percent and as high as 80 percent in some townships.

ST 21/2/93

49

PICK 6

GOSFORTH PARK
2 lucky punters received R528 837.70 each. Numbers: 7; 1, 4, 5, 10; 15; 9; 12.

GREYVILLE
Only 3 punters netted a dividend of R104 595.60 each. Selections 11; 2, 7; 7; 8; 7; 2.

MILNERTON
There were no winning tickets. Dividend carried over. Combinations. 6; 6; 6; 2; 3; 8.

Paper I

SOON-to-be-released private p... pers and tapes show that Roo... Alex Haley's monumental Pulitz... Prize-winning bestseller traci... his family's origins to West Afric... was an elaborate hoax.

So reports the Village Voice, "politically correct" New Yo...

Sanlam does not expect Budget to provide relief

BIDAY 22/2/93.

(47)

LINDA ENSOR

CAPE TOWN — Little relief could be expected from Finance Minister Derek Keys's upcoming Budget and it was likely to be restrictive, Sanlam chief economist Johan Louw predicted in the February Economic Survey.

Louw forecast moderate tax hikes, resulting in an increase in revenue of about 16% and a deficit before borrowing of about R22bn or 6% of GDP. Government was expected to budget for an increase in expenditure of about 8%.

He forecast an increase in VAT to 13% with a zero-rating on basic foods and services, a 10c a litre fuel levy hike, higher excise duties and an unchanged company tax rate.

He expected a relatively smaller rise in government expenditure, tax increases and a lower budget deficit, which, together with the recession, would contribute to restraining the real economic growth rate to 0,5% this year.

"The budget as a whole will not contribute to higher company profits ... and the average citizen's disposable income will remain under pressure, suppliers of durable goods can expect sustained poor business conditions."

However, the restrictive fiscal policy could see an easing of monetary policy and further reductions in the Bank rate this year.

He said Keys would not have much room for expansion. While the economy had been in the grip of recession and unemployment was reaching alarming proportions, the level of foreign reserves could not accommodate a strong economic revival. He forecast a balance of payments surplus of about R3bn (R4,4bn).

Revenue would be about R75bn compared with R85bn budgeted; expenditure of R105bn (R100,7bn budgeted); and a deficit before borrowing of about R30bn (R16bn budgeted).

Louw predicted an average inflation rate of about 10% for 1993 if only moderate adjustments were made to VAT and the fuel levy, and the weather normalised. The value of the rand on a weighted basis was expected to drop an average 6,5% (5%).

Long-term interest rates should tend downwards on the back of the expected decline in short-term rates, lower inflation, limited alternative investment options and the Public Investment Commissioner's role in meeting government's borrowing needs.

MONEY MARKETS by Tim Marsland

Rules can spur debt market

THE new regulations on commercial paper, which appeared in the Government Gazette last week, are to be welcomed.

Potential borrowers now have the ground rules from which an active commercial paper market can spring up. Clarity on some issues is still required, but this will happen as the market develops. The Corporate Paper Forum meets tomorrow to discuss some of these issues.

Grumblings about the high level of disclosure the new rules require are without foundation. Any wise investor would like to know about the health of a company before lending it the minimum R1m the new rules require.

The ruling is not a problem for listed companies since they mostly disclose their business anyway. The problem will be for non-listed firms, who are often secretive about their business.

One area of confusion involves a ruling on overnight call bonds. Call bonds are defined as commercial paper in the new rules. But call bonds are designed to be immediate — they can be called at any time. Apparently this was done to please the banks who were upset at having the rule lifted that commercial paper should be endorsed by a bank. (49)

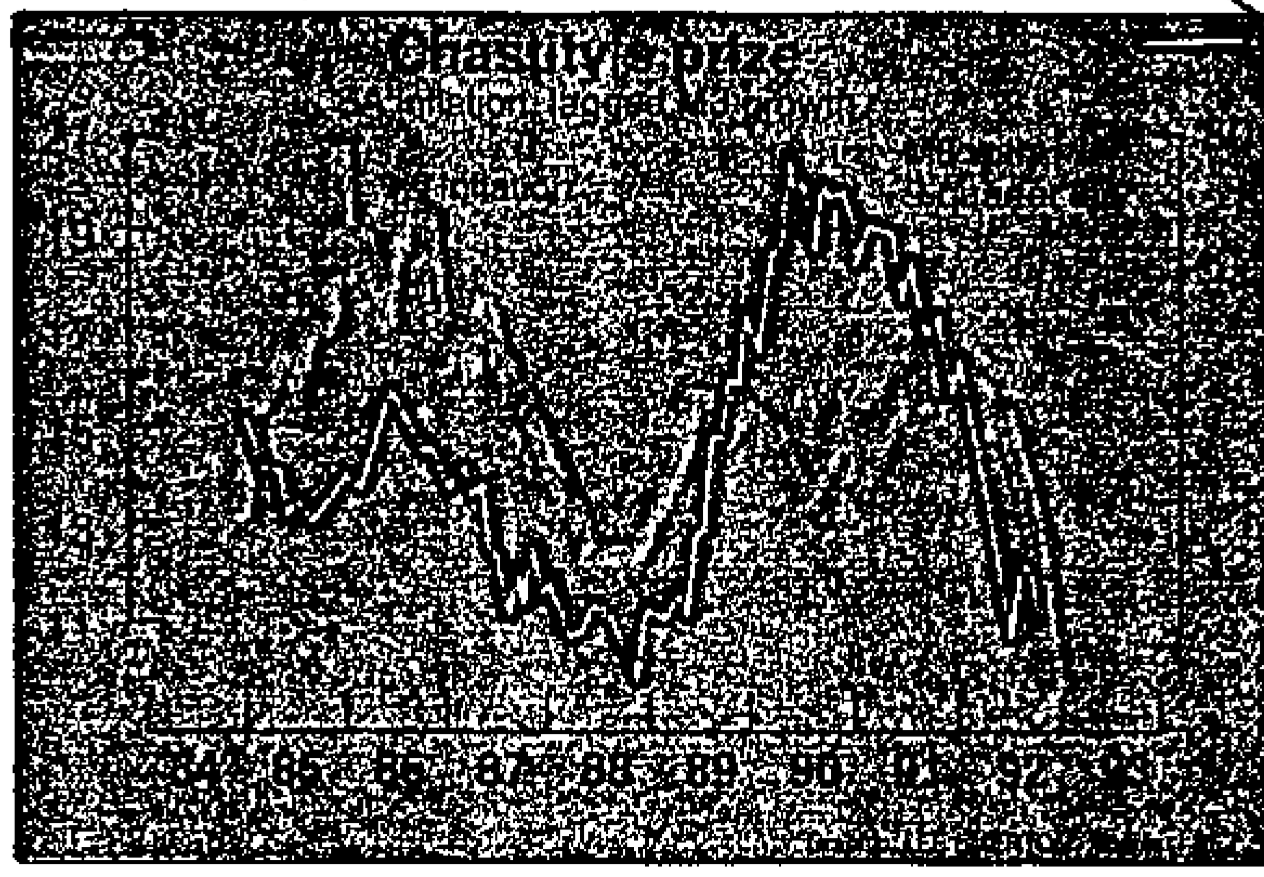
Another point of concern is that corporates have to disclose how much paper they wish to raise in the next year. Corporates reckon this is difficult as they do not know in advance where the cheapest source of funding will be. BDM 22/2/93.

But investors need to know a corporate is not going to flood the market with paper. Some sort of compromise will be required. The main obstacle to the development of the market remains the limited number of companies who can effectively enter the market.

THE WEEK AHEAD by Simon Willson

Broad money growth set to square up to new target

BDAY 22/2/93 (49)



PUBLICATION of the **January money supply** data later this week carries a special attraction, as it is the first time broad money growth will be measured against its new guideline range for 1993.

Expansion of the broad money supply could hardly have ended 1992 on a finer note: M3 growth from the base of its guideline year (the fourth quarter of 1991) was 8,5% in December — straight down the middle of its 7%-10% target range.

Meanwhile, the annual rate of increase in M3 steadied at levels comfortably below 10% in the second half of last year, coming in at 8,6% in the 12 months to December. The on-target money supply pattern was one of the factors that prompted the one-point Bank rate cut to 13% earlier this month.

This week M3 growth will be stacked up against its new 1993 guideline range of 6%-9%. The range is based on the fourth quarter of last year, and is the lowest M3 growth corridor adopted by the Reserve Bank since monetary targeting began in 1986 — when the debut range was a laughably loose and inflationary 16%-20%.

Anxiety will have been felt in some quarters about how low and narrow the 1993 M3 range is. There is still doubt about whether the increase in nominal GDP (national output in cash terms) will stagger into double digits this year, so a broad money growth target centred on 7,5% is, on the face of it, a tightly notched chastity belt.

However, as Reserve Bank Governor Chris Stals has mentioned, the licentious and wanton M3 target ranges of the past have sharply lowered the income velocity of money circulation (nominal GDP divided by money supply). Therefore a higher level of economic activity can first be accommodated by a greater velocity of circulation.

But there is another reason for accepting another year of rigorous monetary targeting: the effect it is having on inflation. The tumble in consumer inflation to 9,6% in December — its first single-digit outturn since mid-1978 — was a huge surprise to many analysts. A continued slowdown in inflation had been expected but not a plunge of 1,4 percentage points from November's 11%.

The December drop was unforeseen because the chief statistical contribution to disinflation had already been factored into the rate when VAT dropped out of the CPI two months earlier. Mortgage rates had not yet eased again, and the rise in food costs were decelerating only slowly.

But aficionados of monetary targeting will have been less surprised at the December dive in inflation. Among the deeply held beliefs of hardened monetarists is a conviction that the annual percentage change in the CPI lags year-on-year M3 growth by nine calendar quarters. Simply put, it is a theory that inflation will follow money supply two years down the line. Germany's Bundesbank is a long-standing convert to this article of monetarist doctrine.

The chart plots SA inflation against annual M3 growth with a nine-quarter lag, and shows starkly why the plummeting inflation rate in December will have been a bit of a yawn to monetarism devotees. It also helps to explain why a Reserve Bank committed to reducing inflation will feel it has to stick to restrictive monetary targets for the time being. SA is only now reaping the benefits of severe monetary restraint at the end of 1990.

SA's **January inflation** rate may also emerge by the end of the week, and will arrive in a market still getting accustomed to single-figure inflation. Food accounts for a fifth of the CPI basket, so any extension to the falling food prices which helped post unchanged average prices during December should have a similar effect in the January data. Only looming tax and excise increases in next month's Budget appear to be able to spoil the single-digit party.

Internationally, the provisional measurement of **UK fourth-quarter GDP** is published today and is unlikely to show any evidence of recovery. Third-quarter growth was revised from an initial quarter-on-quarter annualised 0% to 0,1% but, since then, demand and output have looked sickly and UK interest rates have been cut to 15-year lows to try to revive them. Any signs of life are unlikely to have come in time to show up in the GDP figures for the December quarter.

The advance readout of **US fourth-quarter GDP**, which showed quarter-on-quarter annualised growth of 3,8%, gets its first revision on Wednesday. The final third-quarter rise of 3,4% was revised down from an initial 3,9% after inventory updates, and something similar could befall the final figure for the quarter just ended.

There will not have been time for the tax increases announced last week by President Bill Clinton to affect **US February consumer confidence** when the figure is published tomorrow. Although the variable has risen for three consecutive months and stood at 77,0 in January, the administration's package of tax increases could dent consumer sentiment in subsequent measurements of this figure.

Sooner or later, the stock market bubble will burst

BDay 22/2/93

(49)

FRED CROOKS

IN 1985, Ravi Batra wrote a remarkable book, The Great Depression of 1990, and updated it in 1988 after the stock market crash which he then described as a "mini crash" despite the severe 22,6% plunge in the index.

His main theme is that historical determination is clearly evident in the cyclical nature of recessions and depressions, money growth, inflation, government regulation and the growth and decay of societies.

Recessions have occurred in the US economy at roughly 30-year intervals, interspersed with serious depression every 60 years, during the 1820s, 1870s and 1930s. And he calculated that a long, deep world depression would begin in 1990, and last at least six years. So the big question is: are we in a depression already or are the Americans justified in thinking that the recession is over?

Batra reasons that the primary cause of depressions is the unequal distribution of wealth which reaches extremes just before each slide into the abyss. About 1% of Americans owned 36,3% of the national private wealth in 1929. After declining to 21% by 1949, it rose steadily: last year the Federal Reserve said the top 1% of US households increased their share of private net worth from 31% in 1983 to 37% in 1989.

The deployment of this money is skewed in favour of speculation and away from productive investment, causing a financial panic when the bubble bursts and an accompanying depression ensues.

Right now, the stock markets and their derivatives, the futures markets in the US, UK and some Asian markets are no more than casinos. Money deployed in the futures markets exceeds stock market capitalisation by large multiples and annual turnover in shares on the stock markets has risen to about 80% of their quoted value. They are no longer investment vehicles.

The behaviour of the American stock markets in particular is instructive. The Dow Jones industrial index contains the 30 so-called blue chips. Many of these companies are in deep financial trouble and some are technically bankrupt, yet the price to earnings ratio for this group is about 40 — their earnings are about 2,5% of their quoted share values on average. The index reached 3 440 on June 2 1992 and has declined about 150 points since.

The Standard and Poor 500 Index accounts for 500 of the largest corporations and boasts a price to earnings ratio of about 26. It reached a high of 443 in December and is a few percentage points lower now.

The rest of the public stocks are sold "over the counter" or are contained in indices such as Amex. These secondary stocks are enjoying unprecedented popularity. TV advisers repeatedly say these stocks have brighter prospects than their struggling peers, and consequently they continue to make new highs. Clearly a divergence has developed indicating uninformed buyers are participating in the game of picking winners. These unwary gamblers should take cognisance of a few points.

Firstly, at no stage during the 20th century has the price to earnings ratio of the Dow Jones index been so high. Just before the 1929 crash it was a dizzy 20 or so.

No index rises indefinitely. Forecasts are for a Dow Jones index at 3 600 and Standard and Poor 500 at 454. These are probably wishful empirical calculations and the potential for loss is far greater than the likelihood of profit. What happens if or when these levels are reached?

Examination of a long-term chart of the Dow Jones industrials index shows a resistance line for prices going back to its inception and containing the highs of 1929, 1965, 1973 and 1983. During 1984 prices breached this line at an index level of 1 250, and in a scant eight years were almost 300% higher at 3 440. Technically this is known as a "blowoff".

It is frightening to see this phenomenon on any chart and it always portends an even more rapid and deeper reversal of prices, at the very least back to the resistance line which then becomes a support line. Cyclical analysis using the Fibonacci series indicates a progression of market reversals culminating in October 1995 with the index at either 1 450 or an unimaginable 750!

Ralph Elliott used what he called the "Laws of Nature" to analyse and predict stock prices with astonishing success, and his disciples continue to emulate his achievements in real life trading competitions, outperforming all other systems consistently. This school predicts a massive market correction during the next few years.

Looking abroad, it is evident that the other two major economic giants do not share America's optimism. The Japanese stock market is more than 60% down from its 1989 high and German stocks are below their 1987 pre-crash highs while the American stocks are about 30% higher, UK stocks about 20% higher and SA industrials 100% higher than their pre-1987 crash highs. Have prospects really improved since those heady days?

British euphoria after the election of the Tories in April 1992 and after the October devaluation are prime examples of top of the market madness. Industries are flagging and have long been in decline. Consensus is that a cheap pound will stimulate exports — but who is buying?

Budget and national deficits have become topical since Ross Perot highlighted it during the US election campaign, but how many people really understand the implications?

A $4-trillion debt has so many noughts that it boggles the mind, but simply stated it translates to $16 000 for every American citizen, or more than $50 000 per average household. In 1990 the federal reserve stated that 90% or 84-million of these households had an average net worth of $57 000 each. It will therefore take the entire stock of private assets owned by virtually all Americans to repay the national debt. US prosperity rests on the quicksands of international credit. The current ratio of US debt to GNP of 2,6:1 was last recorded in 1929.

Whether by accident or design, the US administration engineered a criminally brilliant plot to dupe its creditors. It refrains from printing money thereby keeping down inflation and interest rates and instead issues IOUs called treasury bonds, backed by faith and trust in the government alone and redeemable in 30 years time, mostly to foreigners and big banking institutions in the US. It is not far-fetched to envisage a run on these "practically worthless, unbacked "securities" by some of the giant Japanese banks who are dangerously undermargined, thereby creating a panic akin to the banking crisis of the early 1930s.

Adding to these woes is the mounting balance of trade deficit. This feature accompanied many of the earlier depressions, but the latest version must be viewed with alarm. Since 1984 the dollar has lost more than 50% of its value against the Deutschmark and the yen; yet this devaluation failed to give the US a trading edge against its competitors. Trade also requires credit and world liquidity is ebbing according to the International Bank Credit Analyst, which is punting the risk of a repeat of the 1987 global stock market crash.

It also points out that "investors in US securities who ignore Japan do so at their peril. Japanese still own $200bn of US securities, mainly government bonds. They stopped buying securities in 1987 and helped to cause the crash that year. Outright repudiation of American assets in a financial panic would be much worse."

In all this it is difficult to find room for optimism and it might be prudent for genuine investors to stand aside from the overheated financial markets until the situation resolves itself.

☐ **Crooks is a lifelong student of stock markets. He lives in Howick, Natal.**

Wronsley slates lack of controls

Govt spending in a shambles, report finds

BDay 23/2/93. (49)

Political Staff

CAPE TOWN — Former auditor-general Peter Wronsley has sharply criticised government for massive misspending and a lack of financial control in government departments.

His report, tabled in Parliament yesterday and signed by his successor, Henri Kluever, showed losses of millions of rands and a financial shambles in the 10 homelands. He said Transkei, Venda and Ciskei owed R3,3bn in loans and overdraft facilities but were unlikely to be able to repay them. Bophuthatswana had built an R18m hotel school without authorisation.

Wronsley said he was unable to express unqualified audits on the accounts of three government departments and 14 statutory institutions. No audit opinion could be expressed about the accounts of the National Housing Fund (Blacks) and the Human Sciences Research Council.

Wronsley, who retired for health reasons, said his office had been pressed about the high costs of its audits but these objections "sometimes imply or explicitly propose that auditing should be curtailed". He said there could be "no question" of any fiscal ceiling being imposed unless the function of his office was changed.

His report — which notes unauthorised expenditure of R4,1m, appropriations of R107,8m being withheld and R113,1m written off — is a serious blow to government, which is facing increasing criticism for its "gravy train" plans for pensions and gratuities for public servants and MPs.

In his report, Wronsley disclosed:

- R460m granted by the Cabinet to the Reinsurance Fund for Export Credit and Foreign Investments to take responsibility for defaults on Armscor contracts;
- The six non-independent homelands had debts and overdraft facilities of R478,7m, guaranteed by government;
- Serious problems and shortcomings in the SA consulate in New York;
- R1,7m paid for boreholes in a homeland under the nutritional development programme but not used for this purpose;
- R1,2m in financial assistance to training centres not taking place in accordance with the contract;
- R120 000 of Drought Relief Fund money being spent, unauthorised, on an obelisk;
- A day clinic built in Seshego for R11m in August 1988 but still unused;
- A R7m sports stadium in the squatter township of Botshabelo "still largely unutilised";
- Infrastructure for three resettlement sites in the Transvaal at a cost of R13,6m "without any people settling there"; and

The DP said Wronsley's report reflected an alarming picture of snowballing national debt and runaway overspending.

● See Page 4

DP accuses the government of 'scorched earth policy'

(49) ARG 23/2/93

Political Staff

THE government stood accused today by the Democratic Party of pursuing a scorched earth policy in running up State debts of R113 billion.

This figure was revealed in the 501-page report of Auditor-General Peter Wronsley, who retired at the end of last year, for the 1991/92 financial year.

According to the report, the R113 billion debt was 41 percent of South Africa's Gross Domestic Product for 1991/92, compared with 32,3 percent in 1980/81. The interest, raising costs and management costs of the State debt in 1991/92 was R18 billion.

Mr Geoff Engel, the Democratic Party MP for Bezuidenhout, said the Auditor-General's report "reflects an alarming picture of snowballing national debt and runaway expenditure".

In 1991/92 State debt had increased by R19 billion, Mr Engel said, and predicted the debt would increase to R141 billion in the 1992/93 financial year. This reflected "a R51 billion or 55 percent increase over the past two years".

"The interest burden of the National Party's excesses will become the largest component of this year's Budget.

"The scorched earth policy of civil service expenditure is continuing as if there is no tomorrow for them.

"Once again the National Party has demonstrated neither the willingness nor ability to transform and cleanse itself economically.

"It cannot continue indefinitely looking to the overtaxed public instead of looking inwards to itself to slash expenditure, corruption and graft.

"Until the State President appreciates the concept of political responsibility in the economic affairs of our nation, we will remain doomed to a scenario of falling wealth, rising unemployment and resultant higher crime," Mr Engel said.

Liabilities outside state debt net on the increase

BIDAY 23/2/93 (49)

TIM COHEN

CAPE TOWN — The auditor-general's report, tabled in Parliament yesterday, has brought to light a myriad of liabilities outside the state debt net, including guarantee obligations of more than R26,5bn.

According to the auditor-general's report on appropriation accounts, financial guarantees granted by various banks and financial institutions involved government in huge contingent liabilities.

During the 1991/92 financial year, guarantee obligations granted by various banks and financial instutions amounting to R56m were realised.

As of March 1992, the total state debt ammounted to R113,3bn, made up of R103,9bn in long-term debt and R9,3bn in temporary debt. During the year, state debt increased by a net R19bn.

Any debit balance in the gold and foreign exchange contingency reserve account, which amounted to R12,5bn at March 31 1992, would also form a contingent liability to the State Revenue Fund. The total state debt figure also did not include loans to the National Housing Fund of R677m.

The state's total obligations would also include its responsibility to the state pension funds, which are currently under review following findings that these funds were 50% underfunded. The report noted "certain problems" were encountered in attempts to register the funds in terms of the Pension Funds Act.

The Act requires that to be registered, the registrar must be satisfied that the state of the funds is sound or that adequate financial arrangements have been made to place it on a sound financial footing.

The report said "certain legal problems" required further attention by the Chief State Law Adviser.

It said the largest of the five state pension funds had listed investment of R33bn with the Public Investment Commissioner.

An actuarial assessment of the fund had resulted in the actuary stating that the particulars furnished were inadequate.

After making "certain adjustments" it appeared that the funding level was consistently improving and if this trend continued the fund would attain the level of full funding in a natural way.

Although the accumulated shortfall of R23bn in March 1988 had increased to R28,9bn at March 1991, the funding level had improved from 41% to 51% which indicated that the financial position of the fund had been stabilised.

DP Finance spokesman Geoff Engel said the report reflected an "alarming picture of snowballing national debt and runaway overexpenditure".

Govt audit shock

CT 23/2/93 (49)

Misspending is 'massive'

By BARRY STREEK
Political Staff

THE government was strongly criticised yesterday by the former auditor-general Mr Peter Wronsley for massive misspending and lack of financial control.

Details of soaring state liabilities — including debt, financial guarantees and pension fund shortfalls totalling more than R186 billion — were given in his shock report, tabled in Parliament yesterday and signed by his successor, Mr Henry Kluever.

The report also documented losses of millions of rands and financial chaos in the 10 homelands.

The report is a serious blow to the government, which is facing increasing criticism for its "gravy train" plans for pensions and gratuities for civil servants and parliamentarians.

It says the "independent" homelands of Transkei, Venda and Ciskei owed R3,3 billion in loans and overdraft facilities but were unlikely ever to be able to repay them.

The fourth "independent" homeland, Bophuthatswana, built an R18m hotel school without authorisation.

Mr Wronsley also said he was unable to express unqualified audits on the accounts of three government departments and 14 statutory institutions.

Mr Wronsley, who retired at the end of last year for health reasons, revealed that his office, which reports to Parliament, had been pressured about the high costs of its audits but he said these objections "sometimes imply or explicitly propose that auditing should be curtailed".

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● The six non-independent homelands had debts and overdraft facilities of R478,7m, guaranteed by the government.

● A day clinic built in Seshego for R11m in August 1988 was still used.

● Infrastructure for three resettlement sites in the Transvaal at a cost of R13,6m "without any people settling there".

The Democratic Party said last night that Mr Wronsley's report reflected an alarming picture of snowballing national debt and runaway overexpenditure.

Inside:

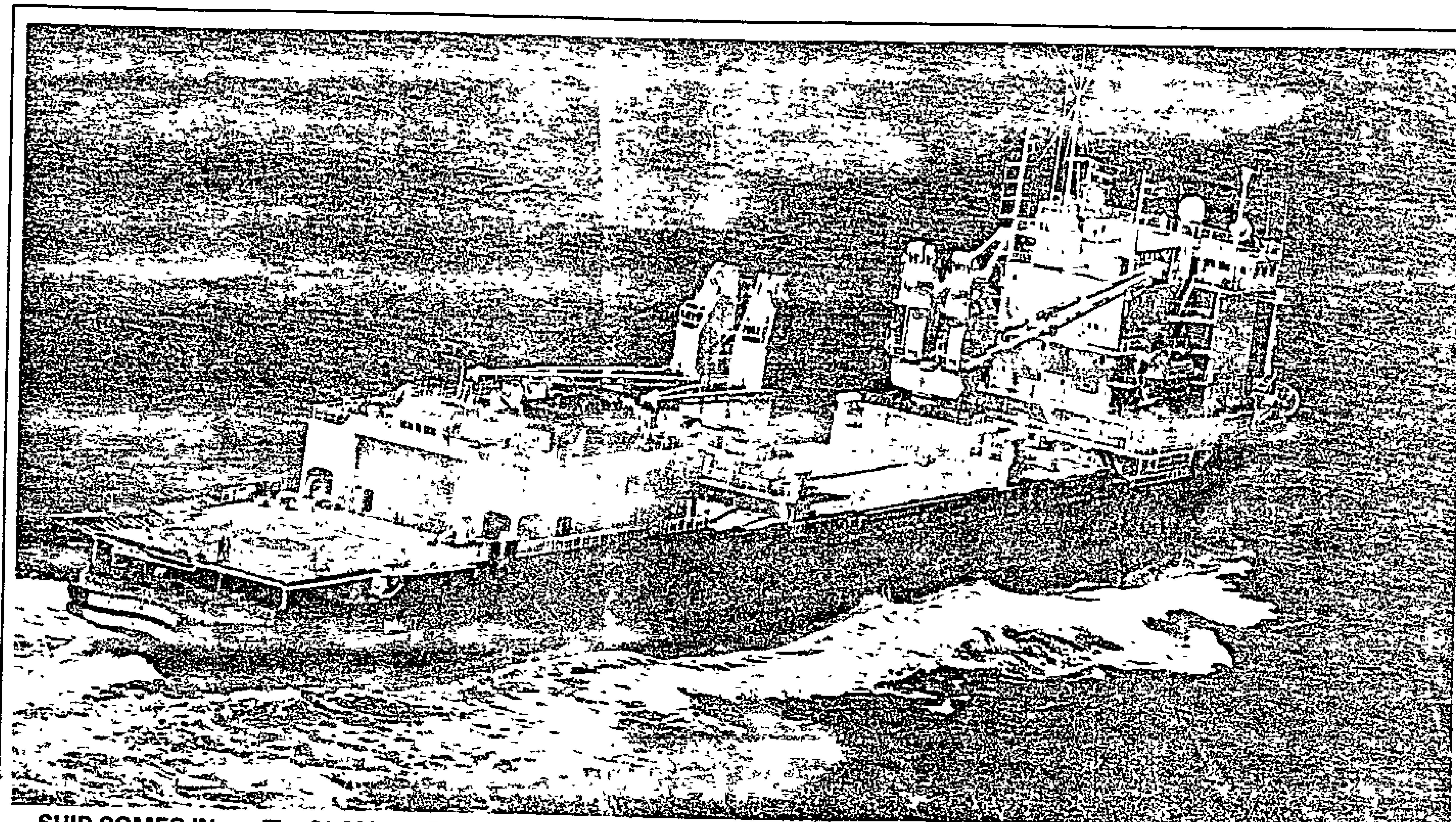
● HOMELAND MONEY MESS

● MILLIONS LOST IN VEHICLE FRAUD

● R1m FOR SADF BOMB DAMAGE

● R1,3m FOR 'TERROR' POSTERS WRITTEN OFF

— Page 2



SHIP COMES IN . . . The 21 000-ton Russian Arctic supply vessel Juvent, bought by the SA Navy and expected to arrive in Simon's Town today, was yesterday about 500 nautical miles off the West Coast.

Picture ANNE LAING

Navy's Russian ship arrives today

Staff Reporters

THE Russian arctic supply vessel replacing the veteran SAS Tafelberg replenishment ship is expected in Simon's Town this morning.

Yesterday the 21 000-ton, R40,92-million Juvent was 500 nautical miles off the West Coast.

The Kaliningrad-registered vessel, which will be renamed, was launched at the Kherson shipyard in Ukraine in 1991.

The ship cost the South African Navy about a third of the price of building a new one here.

Alterations to re-equip the ship for duties in the navy will be done at the naval dockyard in Simon's Town.

Defence Minister Mr Gene Louw said last week the ship's ice-breaking capability would be invaluable considering the navy's recent involvement in assistance operations in Antarctica.

The Juvent will be manned by the crew of the SAS Tafelberg.

The cost of the ship comes out of the navy budget.

Positive view of interim govt

BDAY 24/2/93. (49)

LINDA ENSOR

CAPE TOWN — About 68% of owner-managers of western Cape businesses believed an interim government would have a positive effect on their operations, a survey by Arthur Andersen, Wesgro and UCT's Graduate School of Business found.

The 460 business owners who participated in the survey predicted negative real growth for 1993 and 75% predicted that current employee numbers would remain static or decrease further this year. However, most believed the economy would improve over the next two years.

"The fact that employment is expected to rise at a lower rate than sales shows employers either intend taking up considerable slack in their productive labour capacity or that they intend making their workers work harder," Arthur Andersen's André du Plessis said yesterday.

More than 55% of respondents said sales decreased or remained the same in the past year and 49% of them predicted that sales would remain static or decrease further. Exports were becoming increasingly important with 45% of the businessmen surveyed saying that their exports had increased during the year.

The businessmen blamed political issues, monopolistic price adjustments and high interest rates for fuelling the inflation rate. A bank overdraft rate of 16,75% by June this year was forecast, falling marginally to 16,25% by December.

The four most significant threats to growth or survival were political settlement, the recession, inflation and violence, with foreign competition regarded the least important.

The Graduate School of Business's Bruce MacDonald said the disregard for foreign competition showed a lack of appreciation of the effect of opening up the SA economy.

"Business owners in the western Cape are likely to be shocked out of their complacency once they meet competition from world-standard players," MacDonald said.

'Dithering' leaders slated

LEADERS did not appear to care that the longer SA remained in confusion, the more the country's future was damaged, SA Federation of Civil Engineers and Contractors (Safcec) president Peter Clogg said yesterday.

Clogg said potential investors were watching the country and drawing their own conclusions.

"They don't say much, they just invest elsewhere. And once they make a firm commitment, they are lost to us.

"The longer our confused scenario continues, the more we are damaging our own future.

"Is that understood in high places? It is hard to tell, but the perception is almost that they don't care," Clogg said.

Whites contemplating emigration because of deteriorating living standards, increased violence and little political progress would not solve SA's problems.

But by working together, South Africans could "find their feet". BDM 24/2/93

The country's future would be assured "if only those in positions of leadership could put aside selfish considerations, face reality and take a constructive approach to the future". — Sapa.

SONS 2430

Rental perk costs taxpayers R3-m

Ministers 'drowning in gravy'

STAR 24/2/93.

49

By Peter Fabricius
Political Correspondent

The Government was "drowning in gravy", the Democratic Party said today after disclosures that Cabinet Ministers were paid more than R3 million last year to live in their own homes.

Peter Soal, the party's MP for Johannesburg North, said he would try to raise questions about the housing payola in Parliament this afternoon, and would certainly grill the Government on the issue during debate on a motion on corruption by DP leader Dr Zach de Beer on Friday.

"I'll be wanting to know why this scheme was introduced in the first place, when it was introduced, and what the total pay-out in taxpayers' money has been to date."

ANC housing adviser Professor Michael Sutcliffe said: "We demand that there must be a means of redressing this scandalous state of affairs.

"My personal view is that they have a moral duty to pay all that money back to the State."

The disclosure of how much compensation Ministers received for living in their own homes in Cape Town, Pretoria or Durban came in response to a question by Soal.

In a written reply, Public Works Minister Gene Louw said the money was the basic rental the State paid to the Ministers to hire their own homes for them to then live in, plus general maintenance costs, use of their own furniture and kitchen equipment, cleaning and gardening services and municipal services and taxes.

Minister of Trade and Industry David Graaff was the biggest winner in the scheme. He was paid R9 337,91 a month last year for the "inconvenience" of living in his own homes in Cape Town and Pretoria.

The payouts for 1992, after tax deductions for the 1992 calendar year, were:

- Graaff: R112 054,97.
- Jacob de Villiers, outgoing Minister of Regional and Land Affairs, who also has homes in Cape Town and Pretoria: R93 680,15.
- Pik Botha, Minister of Foreign Affairs: R83 418,53.

● To Page 3

Ministers 'drown in gravy'

STAR 24/2/93.

● From Page 1

- Sam de Beer, Minister of Education and Training and of National Housing: R82 733,12.
- Dr Rina Venter, Minister of National Health: R82 262,53.
- Louis Pienaar, outgoing Minister of Environment Affairs and of Home Affairs: R82 051,52.
- Dr Org Marais, outgoing Minister for Administration and Tourism: R81 618,38.
- Dr J N Reddy, former chairman of the Minsiters' Council in the House of Delegates: R80 067,10.
- Adriaan Vlok, Minister of Correctional Services: R79 956,47.
- Dr W A van Niekerk, chairman of the President's Council: R79 096,57.
- Baldeo Dookie, former Minister in the HoD: R78 563,88.
- Yunus Moolla, former Minister in the HoD: R78 195,27.
- Abe Williams, incoming Minister of Sport: R77 284,63.
- Derek Keys, Minister of Finance: R77 266,95.
- Dr Kisten Rajoo, former Minister in the HoD: R77 124,13.
- George Bartlett, Minister of Mineral and Energy Affairs: R75 045,68.
- Dr Kraai van Niekerk, Minister of Agriculture: R75 029,71.
- Leon Wessels, Minister of Manpower: R74 854,32.
- Gerald Morkel, Minister of the Budget in the House of Representatives: R71 649,09.
- Anthony Julies, Minister of Health Services in the HoR: R69 906,39.
- Alex van Breda, Chief Whip of Parliament: R64 139,28.
- Keppies Heyns, deputy chairman of the President's Council: R65 427,04.
- Dr Theo Alant, Deputy Minister of Finance: R61 453,90.
- Fanus Schoeman, Deputy Minister of Constitutional Development: R59 931,45.
- Johan Scheepers, Deputy Minister of Land Affairs: R56 746,16.
- S V Naiker, Minister of Local Government and of Housing in the HoD: R51 358,96.
- Gene Louw, outgoing Minister of Defence and of Public Works: R41 175,80.
- General Magnus Malan, outgoing Minister of Water Affairs and Forestry: R40 967,56.

Reports 'bad news', admits De Klerk

(49)

Political Staff

CAPE TOWN — President de Klerk has described as "disconcerting" the spate of recent reports of questionable spending in Government departments. STAR

He was speaking at an impromptu press conference after meeting Baroness Lynda Chalker, Britain's Deputy Minister of Foreign Affairs, in Tuynhuys. 24/2/93

Chalker was asked whether regular reports of things going wrong with Government finances had damaged the confidence of the Western world in the South African Government.

She said every government "must deal with the problems of fraud and corruption where they occur".

De Klerk said there were two things a government could do to act against fraud. The first was to take better preventive steps. Secondly, investigations could be opened to bring guilty people to court.

"This we have done consistently. Yes, it is bad news when simultaneously you now get disclosures about that type of thing in more than one department. It is disconcerting. But the very way the Government has been handling this instils confidence in the Western community that the Government is dealing with this," he said.

On the Auditor-General's report on Government misspending, Democratic Party leader Dr Zach de Beer said the time had come for the electorate to turn against the National Party at the ballot box.

DP finance spokesman Jasper Walsh said the Government should hang its head in shame.

STAR, 24/2/93.

Public-works programmes in pipeline

By Bruce Cameron (49)

CAPE TOWN — The government is considering a new series of public works programmes to stabilise economic activities and create temporary employment opportunities.

Dr Japie Jacobs, special economic adviser to the Minister of Finance and main architect of the government's soon-to-be unveiled economic plan for the future, hinted that such a plan was under consideration.

He was talking at the opening of the Cape Town branch of the Islamic Bank last week.

He said, however: "Such public work programmes cannot serve as a basis for sustained growth and, moreover, do not provide a substitute for private-sector-driven economic growth."

Dr Jacobs warned that economic conditions "will worsen before they can improve".

He said although there was a temptation to reflate the economy and allow interest rates to decline further, this was "a recipe for disaster".

He said that growth in the economy could come only from productive investment, increasing exports and improving productivity.

Mandela rumour knocks stock market confidence

(49) CT 24/2/93

JOHANNESBURG. — Selling pressure after unfounded rumours that ANC president Nelson Mandela had been shot knocked the financial rand and futures contracts, dealers reported yesterday.

The financial rand lost ground to end the day weaker at R4,5950 to the dollar from R4,5050.

Dealers said near month equity-based futures contracts — those set to expire on March 15 — were trading at a discount to the spot market which reflected the lack of confidence in the stock market.

The near month all share contract traded at 3 425 points compared with the spot index at 3 447 points and a previous close of 3 447 points.

The industrial index traded at a 50-point discount to the spot index at 4 445 points compared with a previous close of 4 502.

The gold index traded at 1 005 points compared with the spot 1 008 points and a previous 1 001 points.

The equity futures contracts are priced at the index level multiplied by R10 and expire on a quarterly basis. Investors pay an initial margin of about 10% of the value of the contract price into an account at the SA Futures Exchange.

Price movements are either credited or debited from the account daily depending on the index level.

One dealer said the market was waiting for direction.

Under present conditions, the March close would have little effect on the JSE as investors were more likely to switch into the March 1994 contract because it was about 4% cheaper than switching into shares.

As a result, the rally in share prices, which dealers had believed would coincide with the March close-out, might not occur, he said.

Normally, the futures market pre-empted the spot market, but this was not necessarily the case now.

Since June, the all share futures contract had mostly traded at a discount to spot.

● On the JSE the Overall Index was 16 points softer at 3 447 and the Industrial Index shed nine points to 4 503. The Gold Index lost six points to 1 008.

A senior dealer said some small foreign buying was being registered in south african golds, but only at the lows. He said the weaker financial rand was likely to be the major reason for the nibbling.

In golds, Vaal Reefs came off lows to end R1 lower at R181, while Kloof lost 25c to R32,75.

Platinum-related stocks were under pressure as Rusplats lost R2,85 to R60, Impala lost R1 to R39,50 and JCI slipped R1,50 to R50,50.

In the banking sector, Absa lost 15c to R9,40 and Firstbank dipped R1 to R66. NBS gained 50c to R14.

● Leppin Holdings and Quagga Holdings issued cautionaries on share trading.

'nformal sector can boost development

How to build the economy

Sowetan 25/2/93 (49)

■ **CHRONIC UNEMPLOYMENT** Support, inspiration must be given to entrepreneurs:

By Mzimkulu Malunga

SUSTAINABLE ECONOMIC GROWTH in South Africa will depend on the type of inspiration and support given to the entrepreneurial society, says the managing director of the Small Business Development Corporation (SBDC), Dr Ben Vosloo

"South Africa can blame its poor economic growth and chronic unemployment problem on its dismal failure to launch more entrepreneurs into the economic mainstream," he argues.

About 720 000 of the 800 000 formal entities in South Africa were small to medium sized enterprises (SMEs).

They employed about 2,4 million people or 17 percent of the entire economically active population. SMEs together accounted for 45 percent of the national income, Vosloo said.

"The informal sector contributes a further 15 percent to the national income and jointly this sector and the SMEs employ over six million people.

"This is the area the SBDC believes if properly nurtured could act as the heartbeat for development in this country," Vosloo said.

Adding its voice to the ongoing debates on strategies which could be pursued to bring about sustainable growth in the economy, the SBDC outlines various case studies from other parts of the world needing perusal when formulating future economic policy in this country

Dr Ben Vosloo

The argument centres on several key areas which the corporation's economists suggest could enhance prospects for growth.

Creating a suitable political environment, accompanied by corporate tax incentives could attract foreign investment - one of the aspects believed to be crucial to kick-start the economy

Although countries of southeast Asia or the so called "Pacific Rim" achieved high economic growth by using massive state intervention, this measure produced negative results in the bulk of the developing world.

"The main reason is that state intervention is an extremely complex task which calls for special skills, flexibility as well as an enabling political and cultural environment," Vosloo says in the SBDC's report

Ghana a model of development

Sowetan 25/2/93 (49)

By Mzimkulu Malunga

...if it follows East Asian example, says World Bank:

GHANA can become Africa's model for development within the next 15 years if it follows the examples of East Asian countries, says the World Bank's research study published this month.

Since 1983 the average Ghanaian income rose 2 percent a year as the economic recovery programme under the auspices of the International Monetary Fund (IMF) and World Bank began to bear fruit.

"If the necessary changes are made in Ghana, the acceleration of growth could begin before the end of this decade," the report says.

However, as the situation stands now, Ghana remains a poor country with an economy that depends on raw materials and cash crops like cocoa.

Bank may act on money shortage

BIDAY 26/2/93

(4-9)

TIM MARSLAND

THE Reserve Bank was likely to inject liquidity into the money market today to aid cash-strapped banks because of the high daily shortage, market sources said yesterday.

The shortage is expected to reach R5bn today compared with yesterday's R4,3bn and its recent steady R3,5bn.

The shortage reflects the amount of money banks have borrowed from the Bank which normally rises towards the end of the month.

A Bank spokesman said the Bank might issue repurchase agreements to ease the banks' positions.

The repurchase agreement will probably be done by the Corporation for Public Deposits (CPD), which is managed by the Bank.

The agreements means that the Bank, through the CPD, offers to buy back specified paper assets from banks in order to help them over the liquidity hurdle.

The pressure should ease next week as R1,5bn in interest payments on government's mega-capital market issues are paid into the market.

Normally, tax payments would offset this, but the spokesman said there was a mismatch between the two.

The Land Bank will also repay its R1,1bn LB99 loan which matures on Monday. The money will come from the R2,4bn in drought aid it received from government. The rest of the R1,3bn will flow into the market during March.

The Bank spokesman said the increased liquidity in March would give the Bank room to play with. He said the high shortage was also to do with the pressure on the Bank's gold and foreign exchange reserves.

The Bank had bought short-term assets which would mature during the month and it would use these to keep the shortage under control.

A senior money market dealer said the inflows during March would help short-term interest rates, which were being pushed higher because of the increased shortage. Overnight call rates had risen to about 11,50% from 11,00% earlier in the month.

He said the added liquidity would push rates back to the 11% level.

Protests planned against tax hikes

Keys to meet Cosatu for Budget talks

B|DAY 26/2/93

(49)

DIRK HARTFORD and LLOYD COUTTS

FINANCE Minister Derek Keys has called an urgent meeting with Cosatu today to discuss the Budget as disclosures of government corruption fuel the labour movement's opposition to increased VAT, PAYE or petrol tax.

Cosatu is believed to be preparing a series of actions at the offices of the Receiver of Revenue around the country to highlight its demands to end government corruption and for a Budget directed at creating jobs and providing housing and education.

A spokesman for Keys was not able to comment on the meeting.

A Cosatu spokesman confirmed Keys was due to meet union leaders in the second week of March, but had asked for the meeting today. He would not comment "at this stage" on Cosatu's planned actions around the Budget.

However, a Cosatu source said high-profile Cosatu leaders were planning occupations of Receiver offices during the week before the Budget announcement. And lunchtime demonstrations, meetings and rallies — planned for March 16 — were being discussed in Cosatu structures.

He said Cosatu was particularly irked by the role of the IMF, which it believed was pressing government not to zero-rate basic foodstuffs. "The IMF gives us one impression and then goes to government with another agenda," he said.

Cosatu was opposed to any allocations to the "bantustans, tricameral Parliament and secret operations" and wants to stop all golden handshakes, he said.

Meanwhile, the Co-ordinating Committee on VAT has called a meeting of a wide range of organisations to discuss the Budget. It said yesterday Cosatu, the ANC, the PAC, small business organisations and churches, among others, would meet in Johannesburg because of "the continuing crisis of poverty and the crisis of legitimacy and credibility of the Budget".

The meeting would discuss the lack of progress in the zero-rating of food and basic services, continuing high food prices and government's failure to improve the poverty relief programme.

The committee said it had made it clear to government that it would not support any overall increase in the VAT rate and that money to pay for zero-rating should come from an end to wasteful government spending and corruption.

Although the committee would soon be meeting Ministers and relevant corporations to discuss zero-rating of basic services, medicine and medical services, it was clear that these would not be accommodated in the Budget.

It said the key issue at the meeting was likely to be the disclosures of "gross mismanagement, waste and corruption in government spending".

Proposals included the establishment of a tax commission to review the tax system with a view to making it more equitable and efficient, and an audit commission to supervise all government spending programmes.

No upswing this year, says AHI

Bldny 26/2/93. (49)

TIM MARSLAND

THERE would be no upswing in the economy in 1993, although sporadic spikes or a levelling out in economic activity were possible, the Afrikaanse Handelsinstituut (AHI) said yesterday.

AHI chief economist Nick Barnardt, releasing the AHI's Inflation Barometer, said the predominant feature in early 1993 was the virtual "total absence of any substantive indication that a recovery phase will commence in the course of the year".

Most of the traditional driving forces of economic growth had faltered in recent months, he said.

The balance of payments surplus which characterised the first three years of the recession, turned into a net deficit of about R5bn in the past nine months. He blamed this on the drought, the fall in SA's international terms of trade and capital outflows driven by political instability and an appreciation in the dollar.

"Consequently, SA's foreign reserve stock .. shrank dramatically."

Though nominal interest rates fell, real interest rates rose. The result was a decline in the leading indicator, which led the business cycle by about a year, to its lowest levels in seven years late in 1992.

"The safest GDP growth forecast for 1993 is somewhere between 0% and 0,5%," he said.

Barnardt said the AHI's latest inflation indicator was at 10,8% for the first quarter of 1993 compared with 11,2% in the previous quarter.

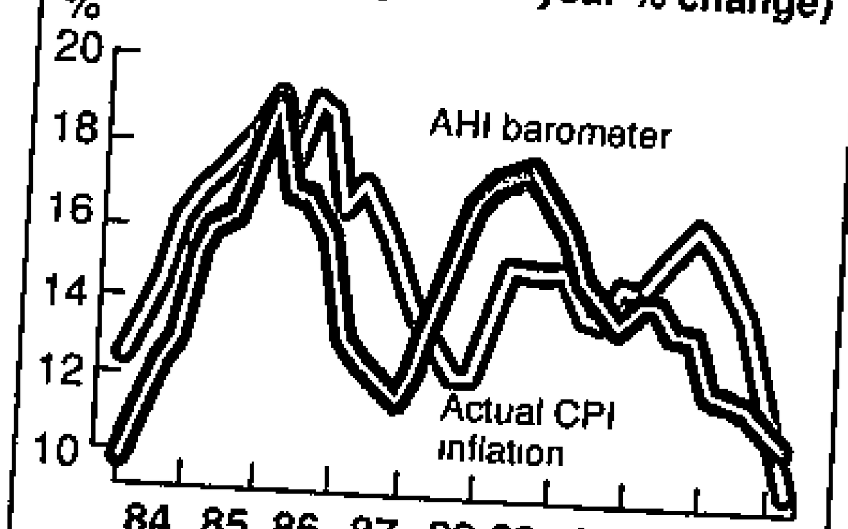
He said the indicator "provides possibly the best available indication of underlying inflation".

The Central Statistical Service reported official inflation, as measured by the consumer price index (CPI), at 9,7% for January earlier this week. Barnardt said CPI could continue to fall during the first quarter.

But Barnardt said the preconditions for sustained single-digit inflation had not yet been created.

Sapa reports Econometrix director Azar Jammine said yesterday next month's Budget would hold important signals to business on inflation. To deal with the huge deficit, Keys's plan would be made up of a mix of more borrowing, cutting government expenditure and increasing taxes.

AHI barometer vs CPI
(Quarterly data, year-on-year % change)



Graphic LEE EMERTON Source AHI

VAT body seeks Budget summit

STAR 26/2/93 (49)

Consumer Reporter

The Co-ordinating Committee on VAT (VCC) has called for an urgent Budget summit between trade unions, political organisations, business and church groups.

The VCC wishes to discuss the March 17 Budget and the "lack of progress" in persuading the Government to zero-rate basic foods and services

VCC chairman Bernie Fanaroff said yesterday that the summit would look at the "legitimacy and credibility" of the Budget in the light of high food prices, and the Government's failure to improve poverty relief programmes and to exempt basic foods and services from VAT.

Fanaroff said although the VCC believed that progress towards reaching an agreement with the Government had been made last year on zero-rating basic foods, nothing had been done since then.

Although the VCC would be meeting other Ministers and relevant corporations soon to discuss zero-rating of basic services, medicines and medical services, it was clear this would not be accommodated in the Budget.

Fanaroff said the VCC would not support an overall increase in the VAT rate.

UK to open regional aid office in Pretoria

Star 26/2/93.

By Kaizer Nyatsumba
Political Reporter

The British government will set up a regional aid office in Pretoria before June to help shape and run Britain's bilateral aid programme in South Africa and other countries in the region, British Deputy Foreign Minister Lynda Chalker said yesterday.

Addressing a lunch hosted by the South African Institute of International Affairs in Johannesburg, Chalker said her government had decided to establish a regional aid office, to be called the British Development Division in Southern Africa.

Chalker said her government had committed more than R300 million by itself and through the European Community to help drought-affected areas in southern Africa.

Britain, she said, would assist South Africa's integration into the international community, including early restoration of the country's access to the International Monetary Fund and the World Bank.

Lynda Chalker . . . peaceful transition important to Britain.

The United Kingdom wanted a successful transition to a stable, democratic and prosperous South Africa. She therefore welcomed the ANC's decision last week to recommend the lifting of economic, trade and financial sanctions on this country as soon as the transition to democracy was in full swing.

She said peaceful transition in South Africa was important for all in the region and not just South Africans.

Overhaul of tax system proposed

STAR 24/2/93

Consumer Reporter

The Congress of South African Trade Unions (Cosatu) has made several proposals it says will restore the legitimacy and credibility of the budgeting process.

Cosatu said in a media release yesterday that it would submit these proposals for discussion at the Co-ordinating Committee on VAT (VCC) Budget summit on Monday. 49

Its proposals include:

- The appointment of a tax commission to review the entire tax system to make it more equitable and efficient, and to relieve the tax burden on the poor.
- The appointment of an audit commission to supervise all government spending programmes, to investigate mismanagement, waste and corruption and to make recommendations on how to avoid them in future.

● **VAT body seeks summit – Page 13**

Keys calls urgent talks over budget

CT 26/2/93 (49)

Own Correspondent

JOHANNESBURG. — Finance Minister Mr Derek Keys has called an urgent meeting with Cosatu for today to discuss the budget as revelations of government corruption fuel the labour movement's opposition to increases in taxes such as VAT, PAYE or petrol tax.

Cosatu is preparing a series of protests at the Receiver of Revenue offices countrywide to highlight its demands against government corruption and for a budget aimed at creating jobs and providing housing and education.

A Cosatu spokesman yesterday confirmed Mr Keys was due to meet union leaders in the second week of March, but had asked for a meeting today. He would not comment on the protests, believed to be planned for March 16.

A Cosatu source said the organisation was particularly irked by the role of the IMF which it believed was pressurising the government not to zero-rate basic foodstuffs. "The IMF gives us one impression and then goes to the government with another agenda," he said.

A spokesman for Mr Keys was unable to comment on the meeting.

Meanwhile, the Co-ordinating Committee on VAT (VCC) yesterday called for a budget summit with a variety of groups.

The VCC said groups such as Cosatu, the ANC, the PAC, small business organisations and churches would meet in Johannesburg because of "the continuing crisis of poverty and the crisis of legitimacy and credibility of the budget".

'No upturn until 1994'

ET 26/2/93 (49)

By AUDREY D'ANGELO
Business Editor

THERE is no reason to expect an economic recovery before 1994, three leading economists said this week.

First National Bank chief economist Cees Bruggemans says in his quarterly Business Brief that he expects destocking and retrenchments to continue until quoted companies are convinced by outside factors that their prospects are improving, recover confidence and start to expand again.

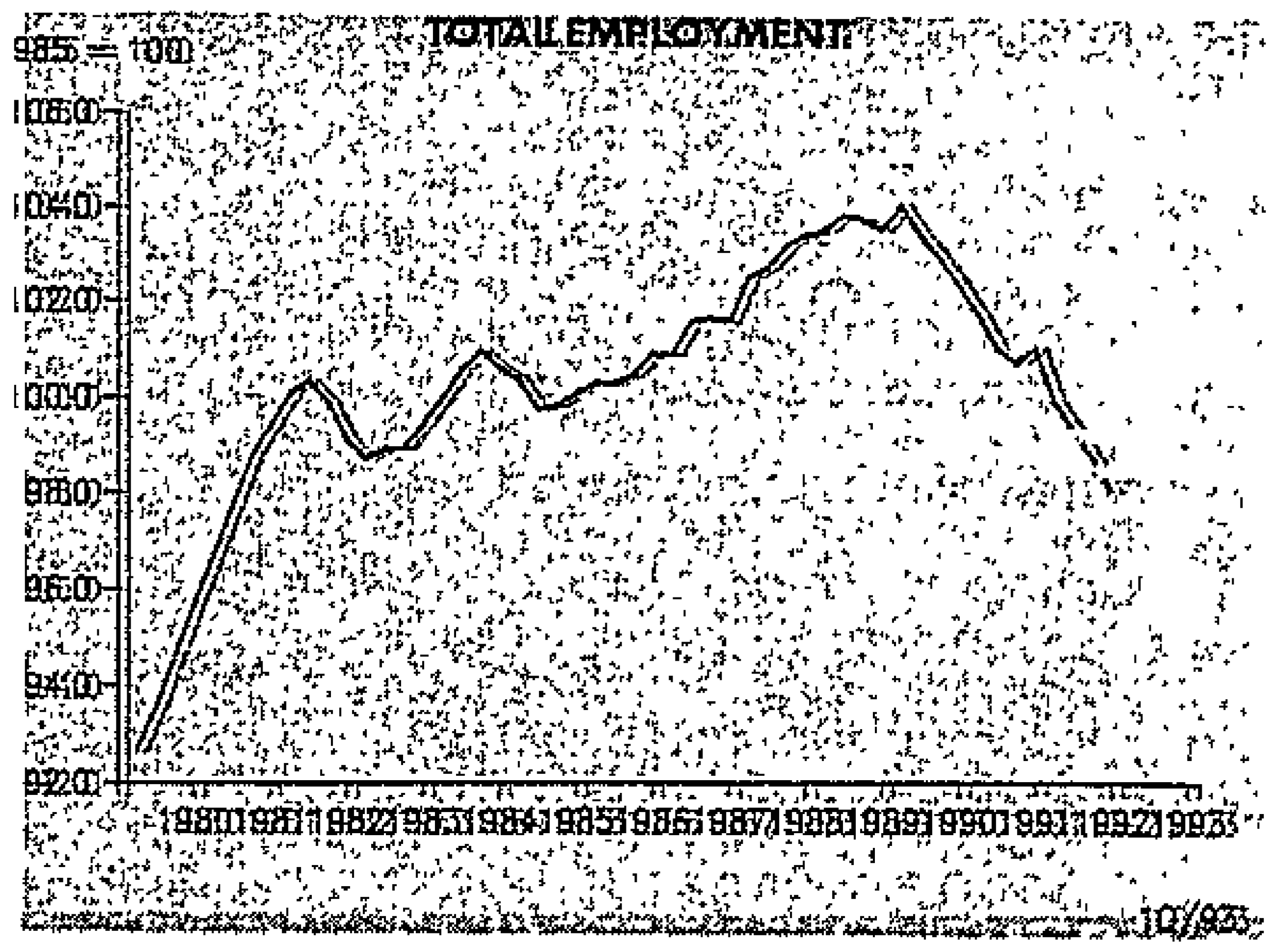
Afrikaanse Handelsinstituut economist Nic Barnardt predicts zero growth this year, even if agricultural production picks up.

And Econometrix director Azzar Jammine is quoted as saying in Johannesburg yesterday: "Over the next 18 months you're looking at an economy that won't collapse, yet at the same time it's not going to pick up to any marked degree."

Bruggemans says forecasts of recovery later this year are usually based "on the assumption that destocking in the economy cannot continue indefinitely and that labour shedding is about to come to an end, in addition to any agricultural rebound."

But industry surveys showed that "technically there is more room for stock reduction and it may therefore be premature to hope for structural limits to brake the pace of commercial destocking soon."

He points out that the



recession is not the only reason for the disappearance of many jobs.

"When it comes to labour shedding the picture is even more complex. In the US 'downsizing' has become the norm in nearly every industry in recent years.

"However, aside from the cyclical aspects, the US economy is seeing a clear trend of labour substitution by capital".

In SA both fixed investment and employment levels have been falling for the past three years.

"This is potentially a contraction without end, with each round of cost-cutting lowering final demand and creating renewed incentive for further cost-cutting."

In the absence of exogenous factors to restore confidence, business would continue to cut costs "like a willing donkey following the carrot to the promised land."

The key fuel in SA's economic engine room was the prospect for corporate profits — "not so much the actual level of profits, as the directional change in profits."

The main factors influencing this were SA's export performance, monetary and fiscal policies and general level of confidence.

"Published figures of quoted companies suggest that the general decline in company profits ended a year ago," says Bruggemans.

"However, unlike previous business cycle upturns, there has been no follow-through as yet. Company profits are not on a clear recovery path but remain stuck at low recession levels.

Bruggemans points out that there is little hope of outside factors providing a quick fix.

The US recovery could take from 12 to 18 months and Europe and Japan were still slowing down.

"None of this promises a quick turn of the commodity cycle, cerainly not in 1993 and perhaps not in 1994."

SA GDP up by 9,9%

CT 26/2/93

Preliminary estimates show South Africa's Gross Domestic Product increased by 9,9% (at current market prices) following an increase of 12,8% in 1991, Central Statistical Services (CSS) said yesterday. (49)

However the official GDP figure is based on the benchmark — constant 1985 prices.

Measured at factor incomes, the rate of increase was 13,1% in 1991 and 10,4% in 1992.

CSS said the smaller increase in 1992 could be attributed mainly to a decline of -9,8% in the value added of the agricultural sector, "with this exclusion the GDP increased by 11,4% in 1992 compared with 1991".

The remuneration of employees in the non-agricultural sector increased by 12,7% over this period and the operating surplus by 9,4%.

The total operating surplus, including the agricultural sector, increased by only 6,9%.

Corruption claims: Govt to answer today

~~SOWETAN~~ (49) CT 26/2/93

Political Staff

THE government will today defend itself against mounting allegations that it is hopelessly corrupt.

This morning State Expenditure Minister Mr Amie Venter will address a press conference on corruption and later in the day the House of Assembly will debate a private members' motion on the issue tabled by Democratic Party leader Dr Zach de Beer.

The decision to call the press conference comes after a spate of revelations, including corruption uncovered in the government's third party fund and in former auditor-general Mr Peter Wronsley's annual report on general affairs for 1991-1992.

LABOUR

A little discord with the accord

W/Mail 26/2-4/3/93.

The ANC-Cosatu 'Reconstruction Accord' —election pact meets Marshall Plan —has enthusiastic support from some unionists but others are worried about the top-down approach. By **FERIAL HAFFAJEE**

THERE is some discord over a "Reconstruction Accord" or election pact the Congress of South African Trade Unions is planning with the African National Congress and others.

But the federation's two biggest affiliates have given it the thumbs-up. Last week the 270 000-strong National Union of Mineworkers gave the accord its "unanimous support". And sources indicate that the national executive of the 273 000-strong National Union of Metalworkers of South Africa "will support the accord".

Although still in drafting, the accord is intended as a Marshall Plan to rebuild the economy, tackle unemployment and provide basic benefits and services, (national health, national pensions, housing and electrification) under a new government.

It will probably form a sizable chunk of the ANC's election manifesto and, believes the federation, "it offers something for the non-ANC members of Cosatu as well as members of other trade unions ... to which many coloured and Indian workers belong".

This plan can also win more voters "than an election platform of empty promises", believes Cosatu.

The accord would work in three parts: a joint election platform, a programme to plan exactly what the accord will look like and who it would include and then finally implementation and monitoring once a new government is in place.

The ANC's new plans for a five-year government of national unity may throw things into disarray. Not necessarily, believes Lisa Seftel, Cosatu's campaigns co-ordinator. Although it is "ANC-Cosatu" driven, anybody who supports its ideals can become a party to the accord.

Seftel says Cosatu head office officials have made Reconstruction Accord presentations to affiliate unions "who have given it wide support".

This may be so, but the very fact that the campaign is being taken from the head office down to the affiliates has caused some consternation.

"The process of its implementation and development came from the top and not from the bottom," believes National Union of Metalworkers of South Africa official Roger Etkind, speaking in his personal capacity.

"There is not a single (congress) resolution of Cosatu that allows the federation to go this far," believes a labour analyst, adding "to go this far, a special Cosatu congress is necessary".

Salim Vally, a national education officer at the South African Commercial, Catering and Allied Workers' Union, also speaking in his personal capacity, says "decision-making is being ceded to individuals and Cosatu needs an open debate on worker democracy and the impact of the accord on trade union independence.

"Part of the problem is that you need accessibility experts to simplify the mountain of material on economic issues.

"Unions just don't have the time to discuss these issues," he says.

Etkind says the accord has no "mass currency" and "without mass support, it will have no teeth".

Some of the federation's campaigns are "overcentralised and have not achieved their objectives". He cites the anti-VAT and the Anglo-American campaigns as examples.

Vally suggests part of the problem is Cosatu's "abandonment" of key campaigns like the living wage campaign and the failure to convene the workers' summit. "Policies can't be made in a vacuum," he says.

National Education, Health and Allied Workers' Union general secretary Philip Dexter, speaking personally, said the accord is "positive for labour ... because the ANC has no real labour policy".

But he warns: "Without campaigning, the accord will be meaningless."

Vally suggests unions negotiate time off to allow workers to discuss issues like the NEF and the accord and that Cosatu campaigns be revitalised.

Cosatu should build up a set of key demands related to the accord, like a moratorium on retrenchments, around which workers can mobilise.

Etkind doubts whether an ANC government or a government of national unity will be able to deliver on workers' expectations: "The Reconstruction Accord can be used to control the expectations of the masses," he says.

"Cosatu is convinced that the ANC is the only political organisation with the will and capacity to implement such a programme of reconstruction and development," the federation said in a statement this week.

No more yellow machines

W/Mail 26/2-4/3/93 (49) ~~HA~~

By LISA SEFTEL, Cosatu campaigns co-ordinator

FOR the Congress of South African Trade Unions, job creation is the number one priority at the National Economic Forum (NEF) and it is at the top of the list of issues we would want included in a Reconstruction Accord.

While our chief concern is to restructure the economy to create long-term sustainable jobs, our second strategy hopes to address the more urgent crisis of jobs and poverty through a national labour based public works programme.

It is reliably estimated that a budgetary allocation to a public works programme of R6-billion could create more than 300 000 jobs.

For Cosatu, a labour-based public works programme is a well-conceived and organised set of projects that is capable of large employment creation, skills training and infrastructure creating.

A key aspect of the programme is the fact that it is labour-based, therefore able to employ significantly more labour per unit of expenditure than in conventional capital intensive methods of construction. No more yellow machines on site.

Cosatu has been part of the Employment Task Force of the Consultative Forum on Drought which is planning a public works programme.

The programme could be launched in April if it is approved at the NEF and public funding made available.

Cosatu is also negotiating with the five civil engineering federations through the National Committee for Labour Intensive Construction to hammer out an agreement committing the civil engineering industry to labour-based construction on state projects.

No investment hinders growth

W Mail 26/2 - 4/3/93

(49)

Weekly Mail Reporter

IS the economy trapped on a zero growth path because it is short of investment capital? Or is the lack of investment merely a symptom, rather than a cause of the problem?

Special economic adviser to the Minister of Finance Japie Jacobs last week weighed in on the side of those who argue that a shortage of capital is inhibiting the investment needed for higher economic growth rates. He distanced himself from one current school of thought, which holds that political uncertainty and lack of business confidence, rather than a lack of finance, has held back investment spending.

But in an address to the Frankel Pollak Vinderine investment conference, Jacobs emphasised the need to use domestic capital more productively, rather than simply calling for more foreign investment. "We can finance a fairly high and ambitious rate of growth if our capital-output ratio can be lowered, if our production processes can become more labour intensive, if we can eliminate dissaving in the public sector and if we can employ our resources more productively," he said.

Gross domestic investment represented about 17 percent of gross domestic product in 1992, and the bulk of this (around 15 percent of GDP) was for replacement, rather than new assets. Jacobs estimated that investment would have to rise as high as 27 percent of GDP if an economic growth rate of 4,5 percent was to be achieved by 1997 (consensus among economists is that at least four to five percent is needed to reverse rising unemployment).

Jacobs said options for financing investment included:

- Raising personal and corporate savings rates through higher economic growth and lower direct tax rates.
- Eliminating dissaving by the public sector — "a tall order as long as economic growth remains sluggish". Jacobs pointed out dissaving by government would amount to about seven percent of GDP this year and said no developing country could run its economy on such a basis.
- Arresting the outflow of capital and receiving direct foreign investment, rather than foreign loan capital.

Keys aims to cut *and* grow

(49) ARG 27/2/93

BRUCE CAMERON
Business Staff

FINANCE Minister Mr Derek Keys has committed himself to reducing the huge government deficit over a few years in a way that will not undermine the potential for economic growth.

Speaking at a Cape Town Chamber of Commerce luncheon yesterday, Mr Keys admitted his freedom of movement in the budget was limited.

He pointed out that at almost R30 billion, "this is the biggest budget deficit ever generated by this country.

"But, I want to give you the assurance that on March 17 (Budget Day) I will produce, if humanly possible, a way of attacking the entire budget deficit over a period in a way which I hope will not derogate from the pursuit of economic growth and will actually assist it in some ways."

Indications over the past two weeks have been that Mr Keys will look to reducing the government deficit from its high of 9 percent reached in the current budget year to about 6,5 percent for the 1993/94 year.

Finance Minister unveils plan for economic lift-off

ARG 27/2/93

Invest – or die

■ High on the agenda of finance minister Derek Keys is a plan to resuscitate the economy. He is about to present this plan to the public for comment.

BRUCE CAMERON, Business Staff

INVEST or die — that's the clarion call to business people by the Minister of Finance, Mr Derek Keys.

Speaking yesterday in Cape Town, Mr Keys lifted the veil on the government's plan to put the economy back on its feet. But he warned the future was in the hands of commerce and industry.

Trade protection barriers and government export subsidies had to go and about an extra R15 billion a year had to be made in the manufacturing industry if South Africa was to claw its way out of its four-year recession back to long-term growth.

But, warned Mr Keys, the success or failure of the plan would depend to a large extent on the private sector's ability to have the confidence to invest.

Speaking at a Cape Town Chamber of Commerce luncheon, Mr Keys said the plan was not a final blueprint but a discussion document. A 40-page easy-to-understand summary of the 600-page report would be published before Budget Day on March 17.

Mr Keys indicated he had little doubt that the main thrust of the document would have to be accepted by the business community and all political groupings if South Africa was to become competitive internationally.

"But if this vision is incorrect I want to find out as soon as possible," he said.

It was only by being competitive internationally that there could be real growth in the economy and with it the creation of jobs.

Mr Keys mentioned two main thrusts:

■ The gradual scrapping of all protection barriers with both import tariffs and export subsidies being phased out; and,

■ An increase in capital investment with government and parastatal investment being increased from four percent to seven percent of Gross Domestic Product a year and in the private sector from 12 to 15 percent of GDP a year. (This would require a further approximately R15 billion a year in capital investment.)

South Africa had to enter an age of greater investment in the manufacturing industry and to move towards non-assisted exports.

Mr Keys said he did not think the government plan had all the answers but he pointed out "if we want a longer-term future we have to start down this road".

The plan was what the government economists were saying and was not prescriptive. He emphasised he wanted a response from everyone.

Mr Keys said everyone, whether employer or employee, had to start thinking in world terms: "A wage claim in Cape Town competes with a wage claim in Indonesia. A cost factor here competes with a cost factor somewhere else."

Mr Keys said South African industry had become used to the degree of protection offered by the government in the past. This now had to be stripped away.

Confidence was a key factor. He said the changes made by President De Klerk in February 1990 had been welcomed by businessmen. They had also realised that the changes would result in uncertainty.

"But we have had three years now. It is time to decide what to do."

He warned the "collective decision" of business was critical.

"Commercial conditions will become harder but the prizes for those with sharp swords will be greater."

Mr Keys said he had no doubts about the abilities of South African entrepreneurs,

Keys: Govt economic model before budget

CT 27/2/93 (49)

By AUDREY D'ANGELO
Business Editor

A SUMMARY of the Government's long-awaited economic model — suggesting how the economy should be restructured and protectionism gradually removed — will be released before the budget on March 17, the Minister of Finance, Derek Keys, promised yesterday.

He told members of the Cape Town Chamber of Commerce at the Mount Nelson hotel that it was "based on the assumption that the Government is going to strip away the trappings of a more protected life, but at a pace that does not terrify anyone."

It was intended that public investment would be increased from 4% to 7% of gross domestic product.

But this was not supposed to spearhead economic recovery.

It was hoped that private sector fixed investment would rise to 15% and that the lead would be taken by the manufacturing sector.

This was the type of investment which suited SA and was the best way of providing jobs. There could be no growth without it.

"The age of greater investment in manufacturing industry directed at non-assisted export has dawned."

Keys said these might be strange words from someone "facing the biggest budget deficit ever generated by this country.

"But I want to give you the assurance that on March 17 I will produce, if humanly possible, a way of attacking the budget deficit over a period in a way which I hope will in no way derogate from economic growth, and will actually assist it."

Urging manufacturers not to wait too long to invest, Keys said the level of uncertainty had trebled after the State President's speech in February 1990.

"But we have had three years, and that is time for us to decide what we are going to do. Are we going to follow opportunities or sit on the fence for an indefinite period?

"We have reached the point when your collective decisions could be the controlling factor."

Keys emphasised that he would not advise business people to invest when there was no basis for doing so. But they should not hold back when opportunities presented themselves.

"Commercial conditions are going to be harder. But the prizes for those with sharp swords are going to remain as great as ever."

SA business people and the workforce were handicapped by the fact that they were accustomed to doing business in a world in which the Government played a certain part and gave a certain degree of protection.

There would be a transition time. The situation would not be threatening. "But if we want a longer-term future we have to start down this road."

The nature of the world had changed.

"It has become a more demanding arena — and it is not going to change back. That means we must get it across to the people who work for us the simple fact that a wage claim in Cape Town competes with a wage claim in Indonesia."

'Corruption could be R5bn'

(47)

cr 27/2/93

Political Staff

GOVERNMENT corruption over the past 18 months could have cost the taxpayer R5 billion, it was estimated yesterday.

Democratic Party MP for Bezuidenhout Mr Geoff Engel suggested that because the auditor-general's scope was limited corruption revealed in his report "could be only the tip of the iceberg".

His allegation came in a day of bitter debate in Parliament as the government attempted to defend itself against allegations that it was rotten with corruption.

President F W de Klerk, apparently anxious that perceptions of rampant maladministration do not gain ground, sat in on the debate, sometimes interjecting angrily as opposition members spoke.

Mr Engel was speaking during the fiery debate on a private members motion introduced in the House of Assembly by DP leader Dr Zach de Beer.

Dr De Beer's call for an independent commission of inquiry into revelations of corruption in the homelands and in government departments was rejected by the government.

Retiring Regional and Land Affairs Minister Mr Jacob de Villiers said it was unnecessary because the present dispensation would be changing soon.

Mr Jasper Walsh, the DP MP for Pinelands, said that South Africans were punch drunk as they watched their assets being frittered away on an orgy of self-enrichment.

He said the government's reaction to allegations of corruption was "pathetic".

The Conservative Party, which supported the DP call for an independent commission, said the public now considered politicians to be a "bunch of crooks".

It said the government was busy with a cover-up about the commission of inquiry report into corruption and maladministration in KwaNdebele.

The third Parsons Commission report was handed to the State President on September 18 but still had not been released, the CP said in a statement, issued by its spokesman on land and regional affairs, Mr Jan Hoon.

The CP MP for Barberton, Mr Casper Uys, said everybody in government was bent on "grabbing a last slice of the cake".

Audit commission formed

THREE top private sector auditing firms are represented on the Audit Commission which was appointed yesterday by the State President, a statement issued by the Minister of State Expenditure, Mr Amie Venter, said.

The commission will be responsible for financial supervision over the office of the auditor-general and ensure that standards of audit are acceptable.

Speaking in Parliament yesterday, Mr Venter vigorously defended the government, saying corruption and mismanagement were not being swept under the carpet.

The government agreed corruption was "totally unacceptable", he said.

Mr Amie's statement came as deputy Regional Affairs Minister Mr Andre Fourie said former auditor-general Mr Peter Wronsley's word was not "gospel" just because he was a "so-called independent".

Mr Fourie will be promoted to Minister of Regional and Land Affairs on April 1.

Tax increases predicted

STAR 27/2/93 (49)

FINANCE STAFF

THE Budget next month will hold important signals for business on the direction of inflation, says Econometrix director Dr Azar Jammine. To deal with the huge deficit, Finance Minister Derek Keys's plan would probably be made up of a mix of borrowing more money, cutting Government expenditure and increasing taxes, Jammine told businessmen in Johannesburg this week.

He said VAT would probably go up to 12 percent and personal taxes would also be raised, particularly on the top earners, as a quid pro quo to persuade organised labour of the need to increase VAT. It was important to raise taxes to fight inflation in the long term. If Keys were to borrow more money to finance the deficit, expected to be R30 billion, without raising taxes, the country risked falling into a debt trap.

As debt continued to mount, it would eventually reach a stage where the Government could not raise taxes fast enough to pay the interest on the debt. In an attempt to get out of this fix, more money would have to be printed, leading to soaring inflation. However, Jammine expected that inflation would remain at its current levels of around 10 percent for the next two years because monetary supply had stabilised.

Businesses should build their financial strategy with a keen eye on inflation rate movements, he cautioned. If inflation was going to rise, businesses should then invest in equities and build up stock levels to become non-liquid.

If inflation were to drop further, managers should invest in gilts and property and avoid building up stock. Because of the expected lacklustre economic performance, Jammine advised business managers to keep stock levels low and be wary of investing in equities because returns were unlikely to be sparkling.

Invest or die, Keys warns SA business

STAR 27/2/93 (49)

OWN CORRESPONDENT

CAPE TOWN — Invest or die — that's the clarion call to South Africa's business people by Finance Minister Derek Keys.

Speaking in Cape Town yesterday, Keys lifted the veil on the Government's plan to put the economy back on its feet. But he warned that the future was in the hands of commerce and industry.

Trade protection barriers and Government export subsidies had to go, and about an extra R15 billion a year had to be made in the manufacturing industry, if South Africa was to claw its way out of its four-year recession back to long-term growth.

Confidence

But, warned Keys, the success or failure of the plan would depend to a large extent on the private sector's ability to have the confidence to invest in the country.

Speaking at a Cape Town Chamber of Commerce luncheon, Keys said the plan, which would now be known as the Normative Economic Model, was not a final blueprint but a discussion document. A 40-page easy-to-understand summary of the 600 page report would be published next month before Budget Day on March 17, he said.

Keys indicated he had little doubt that the main thrust of the document would have to be accepted by the business community and all political groupings if South Africa was to become competitive in the international arena.

"But if this vision is incorrect I want to find out about it as soon as possible."

It was only by being competitive internationally that there could be real growth in the economy and with it the creation of jobs.

The two main thrusts mentioned by Keys were:

- The gradual scrapping of all protection barriers with both import tariffs and export subsidies being phased out.
- The increase in capital investment with Government and parastatal investment being increased from four percent to seven percent of gross domestic product a year; and in the private sector from 12 to 15 percent of GDP a year.

South Africa had to enter an age of greater investment in the manufacturing industry and had to move towards non-assisted exports.

Keys said he did not think the Government plan had all the answers, but he pointed out that "if we want a longer-term future we have to start down this road."

He emphasised he wanted a response from everyone and said there had already been strong criticisms from some members of the Government's economic advisory committee.

Keys said everyone, whether employer or employee, had to start thinking in world terms.

Interim rule is best bet for local business

(49)

S/Times

[Cape Metro]

28/2/93

By JEREMY WOODS

NEARLY 70 percent of business owner-managers in the Western Cape believe an interim government will have a positive impact on their business.

This is one of the main conclusions of the Western Cape Business Survey published this week by top accountants Arthur Anderson, Wesgro, the promoters of Western Cape economic growth, and UCT's Graduate School of Business.

The 460 business owners who participated in the fifth annual survey, said general political issues, monopolistic price adjustments and high interest rates were the main causes for fuelling inflation.

They also predicted negative real growth for the current year, though the overall tone of the survey is one of guarded optimism, with brighter longer term prospects.

The four most significant threats to the future growth or survival of companies were found to be political settlement, the recession, inflation and violence.

Surprisingly, at a time when the Cape economy is opening some of its doors, foreign competition was regarded as the least important threat.

But, Bruce McDonald, of UCT's Graduate School of Business, believes this shows a lack of insight.

"Business owners in the Western Cape are likely to be schocked out of their complacency once they meet competition from world-standard players."

McDonald said: "We thought we had the best rugby team in the world until we actually went out there and played against them. Local businessmen may find they have a similar experience."

CAPE BUSINESS

Christo convinced SA economy still has pep

S|Times [Cape metro] 28/2/93 (49)

By JEREMY WOODS

DESPITE the ravages of the worst recession in South Africa's history — plus the uncertainty of a fast-changing political future — one of the country's shrewdest financiers, Christo Wiese, boss of the R7,5-billion Cape-based Pepkor group, has never been more optimistic.

Against an almost countrywide depression in the business community about economic and political uncertainties, Wiese declared this week:" I have never felt more optimistic about South Africa's economic and political future. Its an almost unqualified vote of confidence."

And for a man who took a family business called Pep Stores and built it into a lean, rich conglomerate embracing companies like Checkers, Shoprite and Smart Centre stores, investors shrug off Wiese's vision of the new South Africa at their own financial peril.

"While recognising we live in a world where things can go dramatically wrong, look at Russia today, the risks incurred of reversing what has already been achieved are even greater than those that lie ahead," he says.

Walls

The big question for everyone running a business is: What about the country's political future?

"The first major hurdle to overcome in the new South Africa is the age-old problem of the rich old millions and the poor young billions, a minority which creates wealth and a majority with none."

The answer, Wiese believes, is the same the world over.

"Either the old millions build higher walls round their homes, or they reach over and say 'let's make life better for everyone'," a process which he feels is well underway here.

And what about the economy, as it bumps along the bottom of the country's worst recession, and a steady drip of talented executives pack up and head overseas?

"It's going to be a tough year, but I believe we are over the worst. Growth should start coming slowly in the third quarter of this year at about one to 1,5 percent of Gross Domestic Product."

Wiese is adamant South African businessmen are better off than most of their counterparts in Europe and America.

"Many of those that leave, find life difficult overseas and recent immigration figures show net inflows into South Africa.

"You must never forget this is a worldwide recession and it's much, much worse in the UK and America than here. Twelve hundred small businesses a week have been going to the wall in the UK for the last three years and millions of unemployed there have no prospect of getting a job.

"Property prices in London collapsed and homes are being auctioned off at 35 percent of their purchase price. No one uses the expression 'as safe as houses' anymore."

Wiese maintains that businessmen, particularly in the Cape, are having a comparatively easy time.

"If a UK retailer woke up in a place like the Waterfront, he would think he had died and gone to heaven. At least people are still spending money here, there is building going on and businesses aren't closing down and selling off their factories for 30 percent of their building costs as they are in some countries."

Edited by JEREMY WOODS

One of the hidden lifesavers for the South African economy is the large backlog of infrastructure programmes that need to be developed such as electrification, housing, and road building, which if implemented would have spin-off effects to a variety of industries.

"This gives South Africa a huge advantage, and, if properly financed and handled, could lift us out of recession," says Wiese.

Wiese has recently purchased the Lanzerac Hotel and wine estate at Stellenbosch. He is also replanting 45 hectares of vineyards.

"That shows confidence "It takes five years before the vines produce good quality wines."

Private investments apart, the public companies under the Pepkor banner will continue their phenominal rate of growth when the group's year end finishes at month end.

Growth

In his chairman's statement for the first six months of the year, Mr Wiese said earnings growth (earnings per share up 16 percent), should be maintained for the full year.

"This appears to be the case," he said. "We have more than R500 million cash in our companies and are always looking to buy companies that complement our existing businesses. We feel now is the time to invest in this country's future."

RORY STEAR
Looking for deals

SA DEBT OUTLOOK IMPROVING

S1 Times (Buss) 28/2/93. (49).

SOUTH AFRICA is comparatively underborrowed and might be able to repay its foreign debt without negotiating another interim arrangement, says Standard Bank chief economist Nico Czypionka.

SA has repaid and converted into longer term debt almost $10-billion of the short-term debt caught in the debt standstill, and at the end of this year will have another $5-billion to go.

Mr Czypionka says in Standard Bank's Economic Perspectives that SA has reduced its debt/GDP ratio to 16,9% from 42,9%, as the debt has been repaid without taking on substantial offshore loans.

SA's debt/export earnings ratio has fallen to 64,9% from 127,2%, placing SA in a foreign indebtedness situation similar to South Korea but far better off than Egypt, Brazil, Argentina and Australia.

However, SA has to pay a premium on interest on its loans because of the debt standstill and the political situation, says Mr Czypionka.

He says SA will owe $5-billion of standstill debt at the end of 1993, when the third interim arrangement expires. Any technical default on this would be out of the question, as it would intensify downward pressure on the rand and throw out Reserve Bank attempts to stabilise the nominal effective exchange rate.

Mr Czypionka says the Reserve Bank has two options: it can get creditor banks to convert the debt into medium-term stock, which would be tradeable, or it can return to "business as usual", under which SA repays the amount, ~~but~~ it is ~~immediately~~ re-advanced under normal terms and conditions.

The benefits of this would be that the cost of finance to SA would be lowered and foreign lenders would benefit because they would no longer have to have double reserves as a result of SA being technically in default.

Mr Czypionka says this should be coupled with SA being granted access to the IMF. Borrowing from the IMF may not even be neccessary if this leads to the perception among lenders that SA borrowings are effectively backed by the IMF.

He says that in practice access to the IMF will only be possible once some sort of interim government is in place, and if that government makes inroads into a structural adjustment programme.

Employment of funds

Economy — 1993

MARCH.

Budget summit 'because of govt corruption'

CT 1/3/93

Own Correspondent

JOHANNESBURG. — A wide range of political and community organisations today hold a budget summit here because of their concern about government mismanagement and corruption, the Co-ordinating Committee on VAT (VCC) said yesterday.

VCC spokesman Mr Bernie Fanaroff said the summit was called to discuss the credibility of the budget, which seems set to fail in addressing increasing poverty and soaring food prices.

The failure of the government to improve its poverty relief programme would also be discussed.

"The government has always claimed there was a lack of money to implement these poverty relief programmes but the huge waste of money through mismanagement and corruption makes nonsense of this argument," said Mr Fanaroff.

He said although the VCC would meet ministers soon to discuss the zero-rating of basic foods and medical services, it did not seem as if this would be accommodated in the budget on March 17.

Mr Fanaroff said the summit would also discuss ways of improving emergency food programmes, particularly as Operation Hunger reported that poverty was increasing daily, and the government's "disastrous" nutritional development programme had failed.

The establishment of an audit commission to monitor government spending and a tax commission to review the entire tax system would also be discussed.

Apart from politicians and civil servants, these commissions should also include representatives of major organisations, he said.

(49)

'93 budget may hit personal tax

CT 1/3/93

(47)

By AUDREY D'ANGELO
Business Editor

INCOME tax paid by individuals will be raised in next month's budget, Rob Lee, economist and senior portfolio manager at the Board of Executors, forecasts in his latest Economic Outlook.

He says the Minister of Finance, Derek Keys, will not announce this increase. "The insidious effect of inflation moving taxpayers to higher tax bands (fiscal drag) does the job for him.

"A gesture in the direction of alleviating this impact is possible, but on the other hand some effort to demonstrate that the wealthy are being hit is likely.

"It is not clear what form this will take, although an increase in the level of estate duty seems on the cards. Fears that the tax on dividends will be reimposed are probably unfounded."

Lee says another bank rate cut is unlikely before the third quarter, given the current pressure on foreign exchange reserves, but he expects at least one before year end.

"Satisfactory political progress will ease foreign capital outflows, while the balance of payments pressures resulting from the drought should lift after mid-year.

"We expect the inflation rate to rise temporarily above the 10% level after the budget but to drift back into single digit range by year-end.

"It now seems quite possible that inflation will remain below 10% throughout 1994."

Discussing the international economy and its effect on SA, Lee says economic growth in the US seems to be accelerating.

"But a fully-fledged international recovery will require the economic power houses of German-led Europe and Japan to take up the running.

"This will take some time because both Japan and Germany are still in the economic downswing phase.

"An international economy strong enough to pull commodity prices up is unlikely until well on in 1994, particularly as commodity stocks are at high levels."

Money supply growth down

CT 2/3/93 (49)

GROWTH in the broad money supply in January was below the guideline range set by the Reserve Bank for 1993, figures released yesterday show.

Year-on-year growth in M3 — cash in circulation and all deposits with banks — shrank to 5,4% in January from December's 8%. Growth from the guideline year base (the fourth quarter of 1992) plunged to -4,51% from 11,29% in December.

The Bank last month set its new guidelines for acceptable growth in money supply at 6-9%. At the time it said it took into account the need for an increase in the money supply to support an expected rise in real GDP.

Nedcor Bank chief economist Edward Osborn said the data reflected the "absolutely stagnant state of the economy".

Had the economy been in an upturn, the growth rate would have been significantly higher.

While the low growth indicated there was some room for the Bank to cut interest rates, it was unlikely to do so as it had other problems to deal with — poor foreign exchange reserves and the balance of payments position.

Old Mutual economist Rian le Roux, said the unexpectedly large drop in the money supply growth in January reflected the real weakness in the economy and reducing inflationary pressures.

"There is now no doubt that Stals' strict monetary policy is starting to have an effect.

"Even although inflation could rise temporarily on the back of tax increases, if the current account situation improves in the second half of the year, it will pave the way for a further cut in interest rates." — Own Correspondent, Business Staff

Contracts soar on SA futures exchange

By ARI JACOBSON CT 2/3/93 (49)

POLITICAL and economic turmoil has turned the SA futures market into a big hit as investors are forced to hedge against an uncertain future.

"Its quite amazing but SA is now ranked as the 10th largest exchange based on contracts on the overall futures index," said SA Futures Exchange's Patrick Birley yesterday.

Birley points out that "the downside" to possible permutations for the new SA are having to be hedged in the futures market and those that have taken positions on the JSE are backing a possible fall with a counter in the futures market.

As a futures dealer put it "you can bet both ways on the futures exchange".

The SA Futures Exchange had another record month in February with about 272 000 futures and options contracts trading to boast an underlying asset value of R7bn.

The investor is only required to pay a margin or percentage (about 10%) of the face value of a futures contract.

Birley adds that there has also been a sharp increase in the expertise needed in this industry among professional fund managers.

"The perception of futures and options as purely speculative tools is being replaced with the realisation that hedging has long-term benefits and this can be gained by including derivatives in portfolios."

'Investment is key to reform'

(49)

CT 2/3/93

JOHANNESBURG. — Increasing investment will be the key element in SA's economic reform plan, according to Deputy Finance Minister Theo Alant.

Speaking at the opening of the German Technology Trade Fair here yesterday, Alant said as yet unreleased economic plan drawn up by the ministry would "restore investment to its proper place in the macro-economy".

"Gross domestic investment has steadily declined over the past decade, to some 16% only of GDP; to revive it, the government will take the lead by cutting back on consumption expenditure, freeing both public and private resources for investment expenditure," he said.

Government investment spending would increasingly be directed into urban infrastructure such as housing, sanitation and water as well as educational and health facilities.

Alant said an industrial policy geared towards expanding exports would be introduced.

Alant also said a support programme for industrial innovation would be set up soon to complement government's existing backing of technology development. — Sapa

Rand continues plunge to new lows

(49) CT 2/3/93

IN a quiet trading session, the commercial rand broke new record lows against the dollar to end at R3,1535/50 against the US unit.

On Friday the rand finished at R3,1475/90.

Local traders are anticipating the rand to trade down as low as R3,16 to R3,17 to the dollar this week.

They attributed the domestic unit's unsavoury behaviour to an expected Bundesbank rate cut sometime in March and the dollar's "rise to stardom" in world currency markets.

A forex manager expected the dollar to break key resistance at 1,6650 marks this week, which would push the rand softer, he said.

Against the British pound the local currency finished weaker at R4,5330/67 from Friday's R4,4757/4810 close. Against the Deutschmark the rand was unchanged at the weekend close of 0,5231/36.

The financial rand ended softer against the dollar at R4,54/55 from R4,5280/380 on Friday. Dealers attributed the weaker trend to the fact that they were trading for a new account date. Despite early weakness, dealers said sentiment was fairly bullish on expectations of a speedy return to multi-party talks.

MONEY MARKET

Money market liquidity, which waned on Thursday as the shortage rose above the R5bn mark for the first time in over three months, was slightly better on Friday and Saturday.

From Thursday's R5,1bn the shortage eased to R4,5bn on Friday, but was slightly higher on Saturday at R4,62bn.

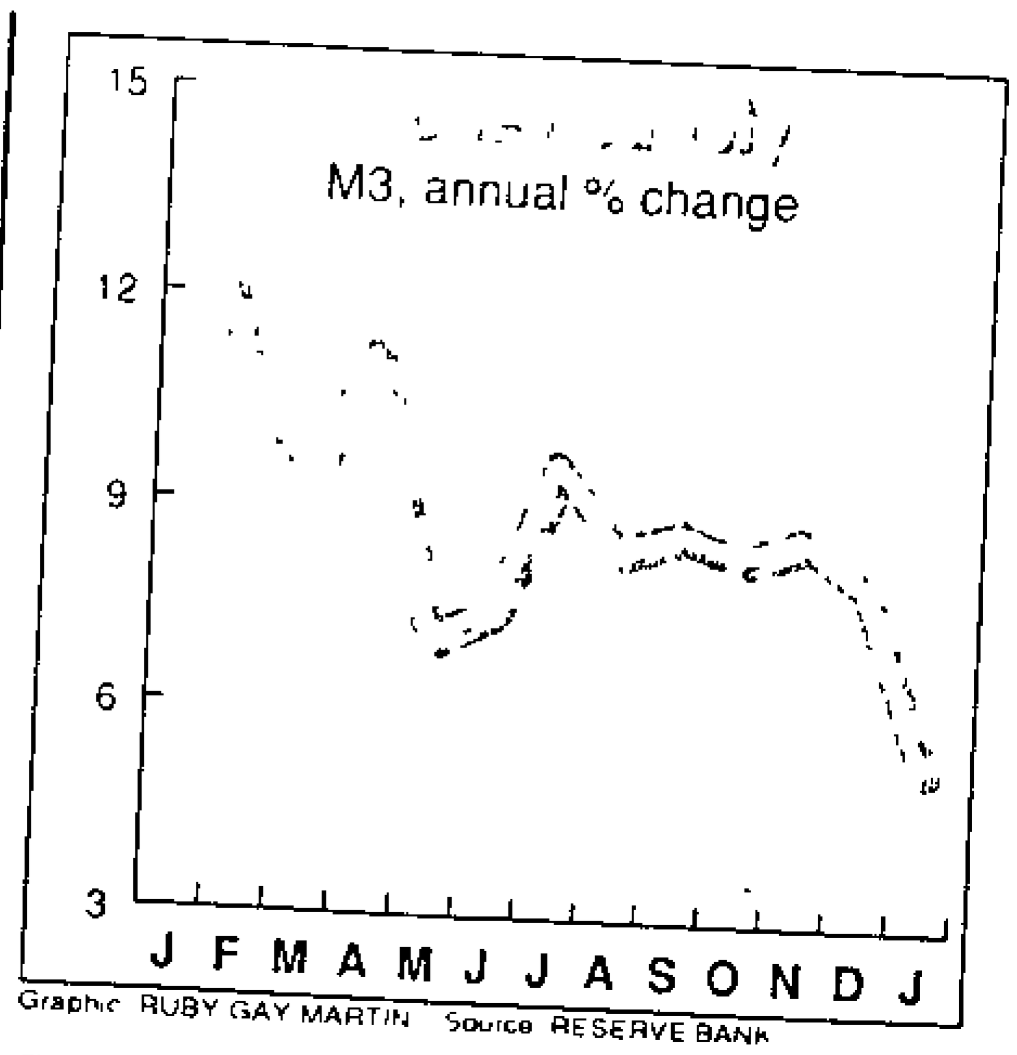
The 90-day liquid BA was static at between 11,5% and 11,6% following an unchanged average rate of 11,32% on three-month treasury bills at Friday's tender.

CAPITAL MARKET

In a weaker capital market, rates on key long-dated stock rose. From a weekend 14,48%, the yield on Eskom's bellwether E168 was up 12 basis points at 14,60% towards the close. The rate on the government's benchmark R150 bond was also higher at 14,55% from 14,43%.

Dealers said trade was very thin, and expected a quiet market until the March 17 budget.

JSE figures show capital market volume tumbled to R905m on Friday from R3,2bn on Thursday. — Business Staff, Sapa



Graphic RUBY GAY MARTIN Source RESERVE BANK

Money supply growth shrinks

TIM MARSLAND

GROWTH in the broad money supply in January was below the guideline range set by the Reserve Bank for 1993, figures released yesterday show.

Year-on-year growth in M3 — cash in circulation and all deposits with banks — shrank to 5,4% in January from December's 8%. Growth from the guideline year base (the fourth quarter of 1992) plunged to -4,51% from 11,29% in December.

The Bank last month set its new guidelines for acceptable growth in money supply at 6-9%. At the time it said it took into account the need for an increase in the money supply to support an expected rise in real GDP. BIDAY 2/3/93.

Nedcor Bank chief economist Edward Osborn said the data reflected the "absolutely stagnant state of the economy". Had the economy been in an upturn, the growth rate would have been significantly higher. While the low growth indicated there was some room for the Bank to cut interest rates, it was unlikely to do so as it had other problems to deal with — poor foreign exchange reserves and the balance of payments position. Osborn said interest rate cuts also depended on inflation. Official inflation was running at 9,7% in January, but underlying inflation was 12,8%. He said the latest figure did reflect the stability in the Bank's monetary policies.

Confidence among small businesses on the wane

Star 2/8/93

(BD) (49)

Small businesses are unlikely to invest or employ more people this year, according to South African Chamber of Business and Small Business Development Corporation survey of confidence levels.

The survey indicates that small businesses are more pessimistic about prospects for the economy this year than the last quarter of 1992's survey.

"High finance costs and low market demand are the biggest constraints on investments at this time. Some degree of absorption of cost increases is expected in the sector, and a trend towards tighter control over cash flows is also expected to emerge," the survey said.

The survey said small businesses were concerned about the high levels of crime and violence, and political development were expected to have a negative impact on the sector.

"It is clear from these results that there is still a large amount of uncertainty within the small business sector, and that if it is to play the important employment and wealth-creating role that many policy-makers envisage, then policies aimed at creating an environment more conducive to entrepreneurship and small and medium enterprise development will be necessary," the survey said.— Sapa.

Star 2/3/93

'Govt misused R5-bn'

The Government has misused an estimated R5 billion, the ANC claimed last night.

In a further indication that the current corruption scandal is hardening attitudes towards the March 17 Budget, the ANC said there was rampant abuse in Government circles.

Government expenditure of R3 million for 29 Ministers to live in their own homes last year was "a depressing exposure of how the National Party Government abuses taxpayers' money".

The payouts were made with the full knowledge of President de Klerk and it was unacceptable to say they were in accordance with ministerial status.

The ANC urged the Government to consider the needs of the majority of taxpayers in its allocation of public funds. — Political Reporter.

'More economics in talks'

Political Staff

THE multi-party planning conference should consider the participation of organised business and labour in the negotiation process, says the South African Chamber of Business (Sacob).

Sacob director-general Mr Raymond Parsons told a media briefing in the city yesterday "developments on the political front will be ... crucial to the performance of the economy in the year ahead".

Business confidence would be strengthened "if the main economic players — business and labour — were involved in economic aspects of resumed negotiations", he said.

It was important that "economic dimensions of the political process" were included when full-blown talks resumed.

"There must be many ways we can make a contribution," said Mr Parsons.

For example, he suggested that Codesa III — or whatever the new forum was to be called — could have hearings on economic matters at which the organisations could make an input.

● **Budget will deflate economy — Page 9**

49 CT 3/3/93

ARG 3|3|93

'Invite economic players to talks'

BRUCE CAMERON
Business Staff

IT was absolutely necessary to fill the economic vacuum which had built up in constitutional negotiations, South African Chamber of Business Director-General Raymond Parsons has warned.

Although he was not demanding a seat at the negotiating table, Mr Parsons said yesterday that a mechanism should be found to invite the main economic players into the negotiations to ensure the economic dimensions were properly discussed.

This could include asking economic players to provide information to the next round of multiparty talks.

Mr Parsons did not feel the Economic Forum was sufficient to meet the needs of putting the economic case in the constitutional debate.

He said there was a need for a fundamental look at the role of government in the economy This should form part of the constitutional negotiations.

The three fundamental issues were:

- Identifying those things which only the government could and should do.
- Identifying those issues which the government should see were done but not do itself.
- Identifying what the government should not do at all.

Mr Parsons said additional mechanisms also had to be considered to ensure discipline in government spending.

Measures that should be considered included were:

- Strengthening the powers of the auditor-general.
- Writing fiscal restraints into the constitution.
- Making more use of the private sector to audit and manage government spending.

Economic model on March 9

THE government's economic reform plan would be released on March 9, eight days before the budget, a Finance Ministry spokesman confirmed on Tuesday.

The spokesman said Finance Minister Derek Keys' Normative Integrated Economic Model would be presented to the National Economic Forum and the media on March 9.

South African Chamber of Business director general Raymond Parsons said that the economic model would create a framework against which the budget decisions would have to be assessed. (49) CT 3/3/93

Deputy Finance Minister Theo Alant said on Monday the key element of the plan would be to "restore investment to its proper place in the macro-economy".

Budget will deflate economy — Jacobs

CT 3/3/93 (49)

By ARI JACOBSON

THE upcoming budget will be "most unpopular" by deflating the economy — with unemployment set to dive further, said special advisor to the Minister of Finance Japie Jacobs at a Sanlam conference yesterday.

"The government is reluctant to increase taxes in the current tough economic climate but at the same time is unable to finance the necessary services required for the coming year," said Jacobs.

Jacobs, while not wishing to elaborate on specific issues in the budget, mentioned that the "budget will not be stimulatory based on the strong need to reduce the government's deficit".

He said "having sat in on budget meetings recently — the decision taken by government is not to destroy the economy further, through overspending."

"Its an onerous task but we must eliminate dissavings," said Jacobs. He added that job creation programmes could be introduced to balance the otherwise restrictive budget.

He said that the "long term budgetry objective is to decrease personal and company tax rates but there is no scope for this at present."

He pointed out that there were fundamental rather than cyclical deficiencies in the SA economy and "so there is a dire need to redirect the boat".

Jacobs said dissaving could be turned into savings through a salvation plan that included the reduction in the government's consumption expenditure and the rise in productive spending "to improve the long-term potential of the country".

LINDA ENSOR reports that tax increases in the forthcoming budget should be avoided or kept to a minimum in the light of the precarious state of the economy, Sacob president Raymond Parsons said at a press briefing yesterday.

He noted that in order to place the economy on a more productive basis, the tax burden should not be made heavier and urged government to accept that the best way to address the budget deficit was through economic growth.

Parsons argued that an increase in the VAT rate and in other direct and indirect taxes at a time when the economy was contracting was likely to heighten the severity of the recession.

He said Sacob thought it unwise for VAT to be increased as it would place more pressure on disposable incomes and have inflationary consequences. Any increase should be kept as low as possible.

Sacob estimated that an increase in VAT rate to 13% would raise an additional R3,5bn in revenue while increases in fuel and other indirect taxes could add about R1bn.

However, because of prevailing pressure on disposable incomes, increased taxes of this nature would reduce collections in other areas, so the net contribution to the fiscus would be lower than envisaged.

Parsons said one of the major tasks of the upcoming Budget was to guard against "overkill" as wrong decisions could easily push the precarious economy further into recession.

Parsons believed that government had little option but to try and reduce its spending in real terms still further, and may have to accept a deficit higher than 6% if they were unable to do so.

Environment 'need not be relegated' (49)

MARIANNE MERTEN

ENVIRONMENTAL awareness should not take second place to economic and development concerns, visiting economics professor Christopher Lingle, of Loyola University in New Orleans, said in an article recently published by the Free Market Foundation. BDM 3/3/93.

"The choice is not between economy and ecology. These goals are compatible, and in many ways inseparable," he said.

It would be necessary to establish correct incentive structures that balanced the demand for environmental stability and the need for individual freedom.

Lingle's warning that government intervention was more often than not the cause of environmental damage has contradicted current SA demands for government action to protect the environment.

The foundation approached Lingle because of his market-orientated approach to environmental issues, foundation training director Marc Swanepoel said.

"Many of the environmental issues relate to property rights and problems occur in areas where property rights are not clearly defined," he said.

The foundation's approach was to establish clearly defined property rights and allow class actions when problems such as river or ocean pollution occured.

A market orientated solution would give people access to courts rather than create a new environmental law, he said.

Although poverty was a problem in SA, communities could become involved in saving the environment. "People must see it is a viable way of life."

Sacob cautions on tax increases

Bday 3/3/93 (49) LINDA ENSOR

CAPE TOWN — Tax increases in the Budget should be avoided or kept to a minimum in the light of the precarious state of the economy, Sacob director-general Raymond Parsons said at a news briefing yesterday.

He noted in order to place the economy on a more productive basis, the tax burden should not increase and urged government to accept that the best way to address the Budget deficit was through economic growth.

Parsons argued that an increase in the VAT rate and in other direct and indirect taxes at a time when the economy was contracting was likely to heighten the severity of the recession. Sacob believed a VAT increase would place more pressure on disposable incomes and have inflationary consequences.

While Sacob estimated an increase in VAT rate to 13% would raise an additional R3,5bn and increases in fuel and other indirect taxes could add about R1bn, increased taxes would reduce collections in other areas.

Parsons said one of the major tasks of the upcoming Budget was to guard against "overkill" as wrong decisions could easily push the precarious economy further into recession.

Finance Minister Derek Keys was faced with a difficult balancing act.

"On the one hand he needs to give attention to the structural issues, and on the other he is faced with demands for additional government consumption expenditure set against a narrow tax base that has little, if anything, to give."

Parsons believed government had little option but to try and reduce its spending in real terms further, and might have to accept a deficit higher than 6% if it was unable to do so.

To achieve a deficit before borrowing of 6% of GDP — assuming there were no tax increases, GDP grew 1%, an average inflation rate of 9,5% and about R8bn in additional tax revenue — government expenditure would have to be cut by 9,4% in real terms. This appeared unlikely.

The two other alternatives proposed were for no tax increases and a 3% real cut in government spending which would bring the deficit down to 7,8% of GDP or for R5bn in additional tax and a 3% cut in real spending in which case the deficit would fall to 6,5% of GDP.

The worst combination would be higher direct and indirect taxes and a cut in government spending.

Parsons said the business community would judge the Budget on the basis of two criteria, namely the extent to which it helped rebuild business and consumer confidence and the extent to which it recognised present realities but also provided a clear indication of the direction to be pursued in future.

Parsons stressed of equal importance to the Budget were political developments and he urged that when multiparty political negotiations resumed, they should include an economic dimension.

Apartheid likened to affirmative action

BIDAY 3/3/93 (49)

BILLY PADDOCK

THE policy of apartheid had been an ambitious affirmative action programme and in spite of its all-encompassing nature, it was still a dismal failure, former Pacific Research Institute policy analyst Jim Peron writes.

In a monograph — Affirmative Action, Apartheid and Capitalism — published by the Free Market Foundation and released yesterday, the author claims to debunk "widely held myths about economic power, discrimination and affirmative action".

He places affirmative action in a historical context in SA in order to show how this policy proposal is not new, but a revised form of apartheid.

"This means that affirmative action in SA will help relatively well-off blacks, not poor blacks, and it will come at the expense of those whites who are relatively less well-off," Peron said.

Another major contention in his study is that economic power and political power are not the same thing and that poverty is an economic problem that needs economic, not political solutions.

"Affirmative action is a political solution to an economic problem and that is one reason it doesn't work," Peron said.

He said the business community had to foot the bill for apartheid which "kicked it in the teeth and now because of the injustices of that system, advocates of affirmative action are suggesting we kick business in the teeth again".

He concludes with an analysis of the economics of discrimination and claims to show why the free market would tend to discourage discrimination and why politics tends to increase it.

However, he defends affirmative action from a classical liberal perspective, stating that businesses have the right to voluntarily establish affirmative action programmes.

In another study on Industrial Policy, Wits University's Industrial Economics Prof Duncan Reekie contends that competition policy perversely penalises success.

He argues that state-owned firms be handed over to a unit and that units be given away to all South Africans to either keep or sell for cash. Units could also be sold by government for rands or foreign exchange to fund infrastructural projects.

A taxing question — how can Keys avoid a lynching?

BDAY 3/3/93. **GRETA STEYN** (49)

NOTHING focuses the mind so much as the knowledge that you'll be hanged in the morning. With that comment, Finance Minister Derek Keys has made it clear the Budget will draw criticism from all quarters. But Keys might escape a lynching if he manages to structure tax increases imaginatively.

It takes a brave man to announce tax increases to a hostile public. A seemingly interminable tale of corruption and an already high level of taxes have caused business and labour to unite in strong opposition to plans to raise more revenue.

The main focus of criticism from business quarters has been the fear that higher taxes will knock economic growth. But growth is not the only objective Keys has to bear in mind; the labour movement keeps reminding him of the importance of an equitable distribution of the tax burden. There is often a trade-off between equity and efficiency, between economic justice and long-term growth. A tax structure which promotes an efficient allocation of resources is not necessarily just. And in the SA context the often conflicting aims of equity and efficiency need to be weighed carefully.

Orthodox economic wisdom holds that indirect taxes are more efficient. However, an indirect tax such as VAT hits lower income groups hardest and favours efficiency at the expense of equity. In SA, with its skewed income distribution, such an imbalance is potentially explosive.

There is little doubt that the VAT rate will increase in the Budget, but what is not yet clear is the rate and structure of the tax. An IMF mission to SA put pressure on Keys to keep the tax "pure" because it fits in with the fund's concept of economic efficiency. The fund's argument is that the poverty safety net should be improved to respond to poverty with direct assistance, rather than tamper with the VAT system. However, even government acknowledges that the poverty safety net has been an utter failure.

If government is to soften the blow of an increase in a regressive tax such as VAT it will at least have to zero-rate basic foodstuffs. There is still a strong possibility that the rate will be raised to 13% with zero-rating of foodstuffs, in spite of signs that 12% without zero-rating was more likely. Hopefully, Keys will be strong enough to withstand pressure from the IMF, whose insistence on ignoring political conflict and treating economics as a "pure science" has led to trouble in many parts of the developing world.

Higher customs and excise duties are also expected in the Budget; these will also hit poorer sections of the community harder. Keys will be able to sell an increase in the VAT rate and in "sin" taxes far more easily if he can demonstrate that the rich will carry a substantial part of the burden of increased taxes.

There is intense speculation that top income earners face a higher marginal tax rate — an increase from 43% to 44%. While this would fly in the face of promises made by Keys's predecessor Barend du Plessis, Keys has emphasised that he has no obligation to deliver on Du Plessis' promises. Relief from fiscal drag for low income earners is a strong possibility too. This is also the group that will complain the most about a higher VAT rate.

Government is expected to raise estate duties and close loopholes as a precursor to introducing a capital transfer tax. Although little revenue would be raised, the move is a symbolic step towards an equitable distribution of the tax burden.

There has also been speculation that top income earners might be taxed on a portion of their current pension contributions. Talk is that it would be a symbolic move rather than a revenue-raising exercise. Following the furore caused by the Jacobs committee's proposal on that score, government has already indicated no major changes are in the offing for pensions taxation.

Talk in the pensions industry is that any pensions tax changes have been put on hold because of the unequal tax treatment of public and private sector pensions. Equal treatment is widely seen as a prerequisite to any changes and the present battle between the Public Servants' Association and the state has seen government promise to stick to the status quo for the time being.

But pensions industry sources say an overhaul of lump sum taxation, including equalising public and private sector pensions, could yield up to R300m in revenue.

The figure would be more than enough to allow government to abolish the Marketable Securities Tax (MST), regularly cited as a reason for the low volumes on the JSE. Would abolishing a tax on trade in equities be politically acceptable? Only if Keys managed to convince his audience that scrapping MST is intended to facilitate unbundling of big conglomerates, reducing the concentration of economic power. He might also balance the move with a tax on dividends. While that would be a strange move for a former businessman, it might be motivated by the need to show that those who have the ability to pay are being taxed.

Many orthodox economists would argue that raising the tax rates of top income earners would be a disincentive to the people most needed in the economy. Former British Chancellor of the Exchequer Nigel Lawson in 1988 explained his decision to drop the top marginal tax rate as follows: "Excessive rates of income tax destroy enterprise, encourage avoidance and drive talent to more hospitable shores. Far from raising additional revenue, over time they actually raise less."

The argument brings to mind the famous diagram first drawn on a serviette in a Los Angeles restaurant. The Laffer curve showed that, at already high rates of taxation, a further increase in tax rates would lead to a fall in revenue.

But the bulging US deficit has all but consigned the Laffer curve to the rubbish bin, along with leftovers of other 1980s excesses. The failure of the "supply-side" economics Laffer underpinned has forced US President Bill Clinton to announce tax increases that would hit the rich.

No doubt the Clinton tax increases have come at a convenient time for Keys, who will need every bit of ammunition he can get. But the debate in Britain seems to be going the other way and there are many who would see similarities between Britain and SA.

One of seven "wise men" who reported to the UK Treasury on the issue, Cambridge professor Wynne Godley, said it would be perverse in the extreme to respond to exceptionally low private spending by fiscal restriction. Financial Times writer Samuel Brittan commented: "Simple horror at the size of prospective UK budget deficits is not a sufficient reason for adopting restrictive fiscal policies this year."

He argued that the view that the deficit was potentially explosive and had to be curbed soon would be reasonable — if the economy were operating at the normal rate of capacity utilisation, and growing at its trend rate.

The SA economy is operating below capacity and has not grown for some years, while inflation is on a downward trend. There are definite similarities with the British situation. However, there are also major differences between SA and Britain that make simple comparisons impossible. SA inflation could turn around again quite easily, a scarcity of capital means the public sector "crowds out" the private sector and spending demands are enormous.

Nevertheless, there is strong resistance to tax increases at a time when there is little sign yet that the economy has moved out of recession. Keys will have to do some fancy footwork to avoid a lynching.

Budget faces 'death trap'

Soweten 3/3/93.

(.49) (~~320~~)

By Ismail Lagardien
Political Correspondent

MOLOTOV COCKTAIL Higher taxes without cuts in spending will be explosive:

SOUTH AFRICA'S ECONOMY WAS in "the danger zone" and the country could land in "a death trap" if the next Budget did not address rampant State spending, Sacob said yesterday.

SA Chamber of Business executive director Mr Raymond Parsons said in Cape Town the Government should start reducing its own spending and increase growth so that the deficit could be reduced.

It is estimated that South Africa's deficit will be at least nine percent — three time higher than the internationally acceptable level — when the Budget is tabled in Parliament on March 17.

Describing a potential catastrophe, Parsons said the economy needed "corrective action" and warned that if the Budget introduced higher fuel prices, higher direct tax and VAT and no reduction in State spending it would be an "economic molotov cocktail".

He explained that Sacob felt that any tax increases — including VAT — should be avoided or, if at all possible, be kept to the absolute minimum.

"The economy is in the intensive care unit and this Budget will determine whether it goes into the recovery room or into the mortuary," Parsons said.

200 000 jobless at

Court told of

NEWS FEATURE *Swords drawn to fight Government after revelations of wasting money*

VAT Budget blues may turn to blows

Sowetan 3/3/93

By Mzimkulu Malunga

UNPOPULAR TAX Finance Minister is in a tight corner over tax: (49)

TENSION IS MOUNTING AS Finance Minister Derek Keys prepares for his Budget on March 17.

During a budget summit held in Johannesburg this week, political organisations ranging from the ANC, PAC, small business groups, the trade union movement as well as a number of non-Governmental organisations, unanimously decided to reject the forthcoming Budget.

The centre of the dispute is the Government's attempt to mobilise public opinion to raise taxes, particularly the unpopular Value-Added Tax.

Widening the gap between the viewpoint of the Government and organisations like the VAT Co-ordinating Committee (VCC), is the massive mismanagement of public funds by the Pretoria administration.

Rumour denied

There is a rumour that a number of organisations, including the VCC, which opposed the implementation of VAT in 1991, had accepted the Government's proposal to increase VAT to about 13 percent during the current Budget.

But in the light of revelations of widespread Government corruption, where ministers are paid millions from taxpayers' money to stay in their homes, these groups felt there was no justification for tax hikes.

Cosatu's representative, Neil Coleman, told *Sowetan* that at no point had the VCC agreed to an increase in the rate at which VAT is levied.

Even during previous contact with Keys, the VCC reiterated its opposition to any form of tax hikes. "We made it clear to Keys that any tax increases would be unacceptable," says Coleman.

The Government' corruption scandals have not only sparked anger among those who attended the Budget summit yesterday but the business community as well.

Last week the influential South African Chamber of Business (Sacob) expressed its concern about the revelations and called for vigorous action to restore public confidence in the Government and how their money is spent.

Of its business confidence index for January, Sacob voiced its anguish over the skyrocketing Government debt, which is expected to increase to around R30 billion during the 1993 Budget.

There are internal consultations of the VCC on the types of action to be taken "around Budget day".

The organisation says basic foodstuffs as well as water, electricity, medicine and medical services have to be exempted from VAT altogether.

Small business people should be assisted to cope with the effects VAT has on their enterprises, argues the VCC.

Intensification of a properly structured poverty relief programme in the form of feeding schemes is needed as a matter of urgency. The VCC will meet Health Minister Rina Venter on March 29 to discuss the issue.

The VCC says there is a need to establish a fund for a major reconstruction programme, which would not only focus on relief projects but on job creation as well.

"We do not believe the current Government has the political will to implement this programme but we say it has the public's money, therefore they have to establish such a fund," he says.

The administration of such a fund should be jointly handled by broadbased organisations such as the National Economic Forum, the Drought Relief Forum and the National Housing Forum.

Equalisation of State pensions must also be placed high on the agenda.

Derek Keys ... tension mounting.

Business wants more political clout

Biz Day 3/3/93

TIM COHEN

CAPE TOWN — Organised business, increasingly uneasy about whether government adequately represents its interests in negotiations, has made a bid for a more direct role in the political process.

Sacob director-general Raymond Parsons said yesterday although his organisation accepted that political groups should be the principal parties at negotiations, a method for other bodies to make contributions ought to be structured into the process.

He said a possible way to achieve this would be to have hearings on topics discussed by the new negotiating forum and for the forum to call for contributions by interest groups.

Sacob was particularly interested in what fiscal constraints should be written into a constitution and the role regional government could play in imposing fiscal discipline.

Sacob would also favour the strengthening of the powers of the auditor-general.

Organised business is understood to be concerned about the influence Cosatu has on the negotiations process through ANC "surrogates".

There was concern business interests were not adequately represented by government's delegation, whose understanding of economic issues business believed to be inadequate.

Hints of tax increases

Budget will be unpopular, warns Jacobs

BDAY 3/3/93 (49)

LINDA ENSOR

CAPE TOWN — This Budget could well go down as the most unpopular in living memory, Finance special adviser Japie Jacobs said yesterday.

Hinting strongly of the inevitability of tax increases, he said the effect of the Budget would be deflationary. Unemployment levels were expected to rise.

He told Sanlam financial advisers it was a pity the first Budget presented by Finance Minister Derek Keys would be in such difficult circumstances. "We are very, very reluctant in a period of recession ... even stagnation, to increase taxes but we cannot finance services at prevailing standards. We will have to adjust and reduce government consumption expenditure gradually in order to make more resources available for productive investment. Our long-term goal is to bring individual and corporate tax rates down but conditions are not right to do this now."

Jacobs stressed the Budget would tackle structural economic problems. The most important of these were the Budget deficit of about 9% of GDP and government dissaving (currently 7% of GDP).

"The impact of the Budget cannot be stimulatory. It will reduce dissaving but its overall impact on the economy will be somewhat deflationary."

The effect of economic restructuring would inevitably be that the economy would go down for two years and unemployment would probably increase. To compensate, government would consider public works and job-creating programmes in circumstances where an early economic turnaround was not likely.

Jacobs said he had held discussions with World Bank economists this week, and they felt confident about the economy as long as fundamental problems were addressed correctly. Referring to the new US economic package, he said increasing taxes was unpopular but necessary to put the Budget on the proper basis.

Jacobs said pension fund taxation would not be touched on in the Budget, but he would not comment on speculation regarding a tax on dividends, on state pension funds or on a further decrease in marketable securities tax.

He said the long-term economic model assumed an average annual economic growth rate of 3,6% over the next five years, reaching 4,5% by 1997. It was hoped by 1997 to absorb the annual increase in the labour force of about 400 000.

General savings would have to increase from the 17% of GDP to 26% — implying a growth of nine percentage points in GDP, equal to about R25bn. A further aim was to increase fixed investment to 22% of GDP (7% state and 15% private sector).

● See Pages 3 and 10

Reserve Bank 'no' to special housing drive

PETER GALLI (4-7)

THE Reserve Bank has ruled out the possibility of giving special attention to the housing sector, Reserve Bank Deputy Governor Jaap Meijer said last week.

He said while the Bank placed much value in a well-housed nation, it had ruled out the possibility of a housing drive as a way of lifting the economy from its present cyclical downturn.

Meijer, who was speaking at the official opening of the Silver Lakes Country Club Estate in Pretoria, said that although he was bullish about 1993, he believed the housing market would get off the ground only next year. BDM 3/3/93

"Personally, I believe that future mushrooming demand will boost residential prices considerably.

"People trying to read the future of the residential property market should take note of what happened with property prices in Harare and Windhoek after the political changes that took place in Zimbabwe and Namibia," Meijer said.

Anglo American Property Services (Ampros) is the developer of the Silver Lakes estate, and chairman Gerald Leissner said R19,8m worth of residential land sales were concluded in its first year.

"This constitutes a 60% market share of residential land sales in the area with a price tag of R80 000 or more, or 40% of all residential land sales in Pretoria," he said.

The 1 400 stands on offer at the R200m, 256ha estate range in price from R83 500 to R160 000 and have an average size of about 1 000m².

The development is hosting a Classic Homes Show, in which eight homes worth R4,5m are on display — from March 5-7 and March 12-14. In addition, a number of home improvement products, furnishings and other related products will be on show.

ANC and allies gear up to lift all sanctions

BDay 3/3/93 (49)

SIMON WILLSON

NAIROBI — The ANC and sympathetic international pressure groups have prepared co-ordinated plans to lift remaining sanctions on SA once a date for nonracial elections has been announced, ANC economic planning chief Trevor Manuel said yesterday.

Manuel told an investment conference the ANC was confident that the point of irreversibility in SA's transformation to democracy was in sight.

"So confident are we that the prospects for transformation are real that the ANC has already communicated to its vast network of international solidarity organisations that the remaining financial sanctions should be lifted as soon as an election date is announced.

"It is also anticipated that the ANC, supported by the international anti-apartheid movement, will be pro-actively engaged in securing the lifting of these sanctions," Manuel said.

He placed strong emphasis on the tightening of competition policy in SA, saying one of the SA economy's structural deficiencies was "the phenomenal stranglehold" conglomerates had on the economy.

The conglomerates' position excluded the indigenous population from the economic mainstream and created an investment climate that was hostile towards foreign investors, he said. "It is necessary thus to enhance overall economic performance through the introduction of a competition policy that is likely to unbundle the conglomerates."

Black entrepreneurs had been relegated to the fringes of the economy by apartheid, and SA business had to be deracialised if it was to be sustained. "The development of a black managerial class is one of the fundamental elements of an affirmative action programme to be undertaken in the context of justice and the utilisation of human resources on a wider scale than before."

Trends in the world economy made it essential for countries outside the major trading blocs of the advanced industrial economies to forgo greater co-operation. A democratic SA would therefore be compelled to promote economic co-operation in southern Africa. It was likely that a democratic SA would seek membership of the African Development Bank in pursuit of such a pan-African commitment and to forgo greater economic linkages across the continent.

Expectations that SA would become either a regional benefactor or a locomotive of growth for southern Africa were unrealistic, Manuel said. A strategy to address regional imbalances should instead grant other countries greater access to the domestic SA market and thus bring about a more equitable pattern of visible trade.

Regional solutions would also have to be found to problems arising from the historic distortions to transport flows and from labour migration.

Sacob warns Govt against 'overkill' on VAT and tax

Star 3/3/93

(49)

By Sven Lünsche

The SA Chamber of Commerce (Sacob) has come out strongly against a rise in the VAT rate in the forthcoming Budget.

In a briefing to parliamentary correspondents in Cape Town yesterday Sacob Director-General Raymond Parsons said: "It would be unwise to increase VAT at this time and we urge that any increase that may have to be introduced is kept as low as possible."

However, Parson admitted that some tax increases could be unavoidable given the precarious state of the fiscal deficit.

Sacob was particularly concerned at the timing of a VAT rate hike.

"Imposing a higher VAT rate on a contracting economy is likely to increase the severity of the recession and could result in only a minimal increase in collections and reduced collections from other taxes.

"It could also re-politicise VAT just when the system had been accepted by both consumers and businesses," Parsons added.

Target

In nominal terms he estimated that lifting VAT from 10 to 13 percent (assuming that further exemptions are limited) could raise R3,5 billion with a further R1 billion coming from other tax adjustments.

Against a backdrop of declining disposable incomes, increased taxes would undoubtedly reduce collections below the targeted R4,5 billion.

Sacob admitted, however, that in the absence of tax increases a meaningful reduction in the government's deficit before borrowings was virtually impossible.

Without tax increases, Parsons estimated that — assuming GDP growth of one percent and average inflation of 9,5 percent — the state will raise an additional R8 billion in fiscal 1993/3 from existing taxes.

"To achieve a deficit before borrowing of not more than six percent of GDP, this implies that government would have to contain spending to around R105 billion — a reduction of 9,4 percent in real terms."

Given that even Finance Minister Derek Keys' commitment to a real spending cut of three percent has drawn widespread scepticism, Parsons admitted that this was an impossible task.

"Some increases in taxes might therefore be contemplated," he said.

Preferably though Keys should try and reduce spending still further and may have to accept a deficit higher than six percent.

"The deficit is also a structural problem that has developed over a number of years.

Time frame

"It is therefore inappropriate to try to correct this problem in a single Budget and we recommend that a broad commitment is made to reduce the deficit to internationally acceptable level over three years," Parsons said.

He also warned that the Budget generally had to guard against "overkill" given the precarious nature of the economy.

"The Budget should aim at rebuilding consumer and business confidence, recognise present economic realities and provide a clear indication of the direction to be pursued in the future."

Sacob also used the opportunity to revise some of its economic forecasts for 1993.

The Chamber now expects GDP to increase by a mere 0,5 percent, gross domestic expenditure to fall by 0,3 percent and inflation to reach nine percent by year-end (see table).

SACOB FORECASTS FOR 1993

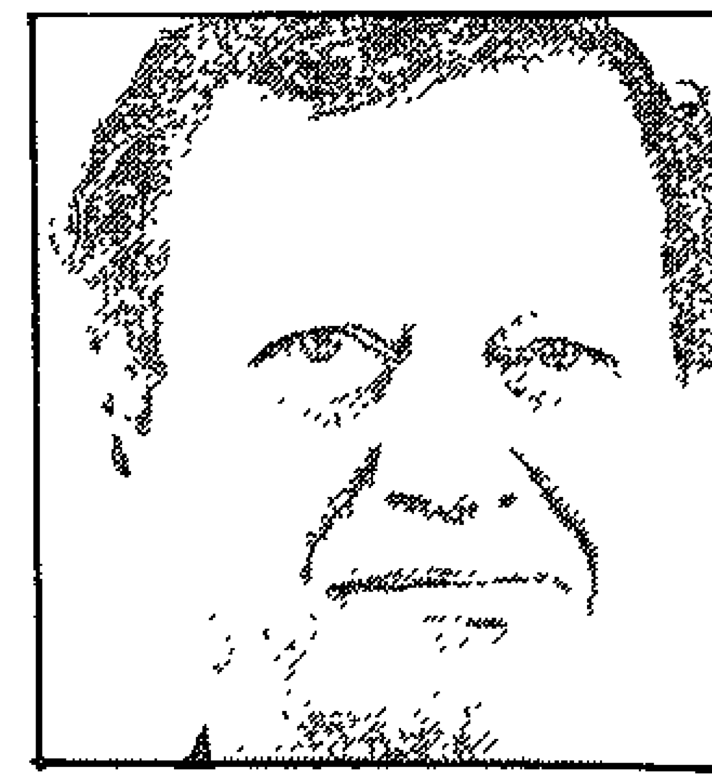
	1991	1992	1993
Private Consumption Expenditure (%)	0,2	-3,5	-0,5
Govt Consumption Expenditure (%)	5,7	2,0	-3,0
Gross Domestic Fixed Investment (%)	-8,4	-12,0	-2,5
Investories	—		+
GROSS DOMESTIC EXPENDITURE (%)	-0,4	-2,8	-0,3
Exports (%)	1,2	2,0	1,8
Imports (%)	2,5	1,0	-0,5
GROSS DOMESTIC PRODUCT (%)	-0,6	-2,1	0,5
Inflation (% at Year-end)	16,3	9,6	9,0
Prime Overdraft Rate (Year-end)	20,25	17,25	15,25

Keys's economic model sets 3,6% growth target

Industry faces call to actively step up investment spending

Star 4/3/93

(49)



Derek Keys . . . Future of economy in the hands of business.

By Sven Lünsche

A rise in private sector investment spending and a more open and competitive economy are the main targets of Finance Minister Derek Keys' long-awaited economic adjustment programme.

A Finance Ministry spokeswoman said yesterday that the Normative Integrated Economic Model would be presented simultaneously to the National Economic Forum (NEF) and the media next Tuesday.

Not only will the model include Keys' long-term economic vision it will also set the guidelines for the Budget proposals to be presented to Parliament eight days later.

Details of the economic model have been sketchy but over the past few weeks its main features have been outlined by Finance Department officials.

The key focus of the programme will be to boost investment spending by the private sector.

Keys said this week that the future of the economy was in the hands of business and that the success or failure of his plan would depend "to a large extent on the private sector's ability to have the confidence to invest in the country".

His deputy, Theo Alant, confirmed this at the opening of a trade fair on Tuesday. "A major element of the plan will be to restore investment to its proper place in the macro-economy," he said.

The special adviser to the Department of Finance, Dr Japie Jacobs, put some more detailed figures on the investment targets.

He reportedly told Sanlam executives this week that fixed investment must be lifted to 22 percent of Gross Domestic Product (GDP) from its present level of around 16 percent.

The private sector should account for 15 percentage points of the planned investment (at present 12 percentage points) and the state for seven percentage points (four percentage points), Dr Jacobs said.

Keys also indicated that the economic model would focus on improving the world competitiveness of SA industry through a gradual scrapping of all protective barriers. Both import tariffs and export subsidies would be phased out.

Competitiveness

"It is only by being competititve internationally that there can be real growth in the economy and with it the creation of jobs," he said.

Jacobs also provided detailed economic statistics which will form the framework to the model's proposals.

It assumes a yearly economic growth rate of 3,6 percent over the next five year to reach 4,5 percent by 1997. Such a growth rate would help to absorb the estimated annual rise in the labour force of 400 000 by 1997.

General savings would have to rise from 17 to 26 percent of GDP — a rise in current terms of about R25 billion.

A key to reversing the recent fall in savings levels would be to halt government dissaving over the past few fiscal years and the Budget is likely to contain some first steps in this direction.

Sacob director-general Raymond Parsons said earlier this week that the economic model would create a framework against which the Budget decisions will have to be assessed.

Keys has stressed that the model was not a final blueprint for future economic policy and open to discussion.

The likely and most suitable forum for such debate is the NEF which over the past few weeks has settled down to the serious business of formulating long-term and short-term economic policies.

Star 4/3/93 (49)

ANC dampens 'unrealistic expectations'

NAIROBI — The African National Congress has warned black Africa not to expect the end of white rule in South Africa to solve its economic ills.

A senior official of the ANC bluntly told participants at an economic conference here that other African states must promote growth and development and trade in their own countries.

Trevor Manuel, the head of the ANC's economic planning unit, told the bankers and investors: "Africans must not rely on unrealistic expectations that SA will either become a regional benefactor or a locomotive of growth for the rest of the region."

African states needed to improve their infrastructure to obtain access to the South African domestic market, while SA should grant favourable terms to its neighbours to allow trade to flourish, he said.

After more than two decades of stagnation and falling living standards in sub-Saharan Africa, many states have hoped the end of sanctions against apartheid would see a black-ruled SA become the engine of growth for an entire region.

In a sharp departure from the radical language of the ANC's underground days, a sober-suited Manuel told delegates SA was in a state of economic decline and that many problems were structural.

"Unless we promote a balanced form of development which embraces much of Africa, outstanding and potential security problems will not be addressed in a non-militarised manner."

At home, South Africans must create a climate of political certainty to help economic growth.

SA's economy accounts for about 57 percent of southern and eastern Africa's gross domestic product, according to SA Foreign Trade Organisation figures. — Sapa-Reuter.

R520m Post Office loss

BDay 4/3/93

BUSINESS Day incorrectly reported yesterday the Post Office suffered a loss of R50m more than budgeted for. In fact, the utility incurred a loss of R520m compared to an expected R570m loss. Business Day regrets the error.

Japan steel exports up

JAPAN's steel exports in January rose 3.5% from the same month a year ago to 1.24-million tons, marking the ninth consecutive month of year-on-year gain, the Japan Iron and Steel Federation reported in Tokyo yesterday. A spokesman said sharp increases in exports to China helped offset plunging exports to the US in the wake of anti-dumping duties on carbon steel imports.

REPORTS: Sapa, Business ... Reuters, AP-DJ

China spends R9m on office block

BDay 4/3/93

TRACY SCHNEIDER

THE Great Wall Group, a trading company founded by the mainland Chinese government, has bought a R9m office block in Bedfordview to start its business venture in SA.

The office will be opened officially at a function this evening.

China's trade with SA previously was conducted discreetly through Hong Kong until political changes in SA prompted it to introduce direct trading links last year.

Exhibitions are now planned in both countries, starting in Johannesburg in April with a trade expo organised by the China Council for the Promotion of International Trade.

The Great Wall Group will be involved in an exhibition in SA in September, when 100 corporations will display a variety of goods including textile, industrial, chemical and hardware products. SA businessmen will be invited to exhibit in Beijing in March 1994.

"We came here with the express purpose of facilitating trade and economic co-operation with SA," said the group's business manager Qingguo Jiang. "Apart from the Bedfordview offices, we have R2m in other assets and are looking into other real estate opportunities and joint investments with local businessmen. We also are hoping to invest in factory and manufacturing plants."

And China and SA Trading GM Chenxiong Liu said: "About 200 Chinese businessmen will come to SA to meet their counterparts and discuss business."

'Tax hike will slow economy'

BDay 4/3/93

GERALD REILLY

PRETORIA — The tax hike to be imposed in the March 17 Budget will slow down an almost static economy further and stagnation will continue into 1994, economists say.

Stellenbosch Bureau for Economic Research economist Nils de Jager said yesterday consumer confidence was at a low ebb anyway and would be depressed further as disposable incomes shrank.

Sales would decline further, spare industrial capacity, now at about 20%, was likely to increase, as would unemployment and crime.

The conventional Keynesian medicine for a rundown economy, De Jager said, was to increase state spending directed at creating jobs and to reduce taxation. However, in government's present Catch 22 situation, this was impossible.

It could be said taxation was being raised to pay interest on government's massive debt which had reached 9% or nearly R30bn.

Interest on the debt was the largest single Budget item, even exceeding the education vote.

De Jager said the debt problem had been aggravated by government writing off R3,6bn in drought aid in the coming financial year instead of over three years as first intended.

But, De Jager added, perhaps the most worrying consequence of higher taxation was the impetus it would give to greater unemployment.

Absa senior economist Adam Jacobs said tax hikes would contract the economy further and could result in government's tax take from companies and individuals actually decreasing in spite of the hikes.

"We are caught in a vicious circle with company profits and taxpayers' incomes threatened by declining consumer demand and growing unemployment," he said.

Jacobs said another serious consequence would be a further shrinking of personal savings.

De Klerk rejects mine loss claim

BDay 4/3/93

CAPE TOWN — Government was not liable for losses suffered by SA company Swissborough Diamond Mines, President F W de Klerk said in Parliament yesterday.

Replying to a question by Luwellyn Landers (LP Durban Suburbs), he said government had told Swissborough director Josias van Zyl there were no acceptable grounds for the appointment of an independent inquiry into the alleged confiscation of the company's interests when the Lesotho government revoked its mining leases as part of the Lesotho highlands water scheme.

Van Zyl had been told to direct any claims to the Lesotho authorities. The Swissborough issue is pending before the Lesotho high court.

The question had been why government had not intervened after SA nationals had suffered a R1bn loss. De Klerk said it had to establish if the loss had been suffered, and then if intervention was required. — Sapa.

Chamber call for wage restraints

MARIANNE MERTEN

THE Northern Transvaal Chamber of Industries had urged that wage restraints be included in Finance Minister Derek Keys' model for economic restructuring, it said in a statement yesterday. BDay 4/3/93

The Keys model, due to be published next week, is thought to address economic restructuring to promote the productivity of resources.

Wages had risen over the past three years despite negative growth to such an extent that it had increased the unit cost of production, a chamber spokesman said.

Wage increases had created a structural economic problem which could not be addressed by only looking at wage restraints, but other factors such as export incentives and government control needed to be examined.

Star 4/3/93

The men of the future

Economic realities are forcing together formerly staunch enemies, reports TREVOR GRUNDY from Harare for the Star Africa Service.

A NEW generation of southern African businessmen and politicians are bringing about an improvement in relations between South Africa and Zimbabwe that the old-guard hardliners had been unable or unwilling to achieve.

The establishment of full diplomatic relations will still have to await the installation of an interim government in South Africa, which is expected next year. But in the meantime important advances are being made under the pressure of hard economic reality.

According to one Zimbabwe ruling party official who asked not to be named, "the days of the hardliners in both countries are coming to an end".

Last week Derek Keys, South Africa's Minister of Finance and Trade and Industry met Zimbabwe's Minister of Industry and Commerce, Christopher Ushewokunze, in Cape Town.

Ushewokunze's trip to South Africa — the first by a black Zimbabwean cabinet minister and the first which enjoyed the support of President Robert Mugabe — was prompted largely by pressure from the domestic textile industry.

"The industry could collapse," a Midlands mill owner said during the Cape Town talks.

(49)

A communique, issued after the meeting, said the two leaders had paid special attention to textiles and clothing, to Zimbabwe's surcharge tax on imports, and to trade expansion, including a common approach to tourism.

South Africa undertook to seek an early interim solution for the problems facing Zimbabwean textile exporters. Higher import duties have crippled the Zimbabwean textile industry and Pretoria's refusal to renegotiate an earlier trade agreement — largely because of Harare's militant support for sanctions against South Africa — is causing anxiety among Zimbabwean businessmen.

Ushewokunze asked for a waiver of duties for the next six to nine months. But, informed sources say, the Zimbabwean Minister was told in no uncertain terms that now is the time for Mugabe and some of his more militant Ministers to cool their language when they talk about the South African Government.

A highly placed official who attended the Cape Town talks said the now obsolete 1964 Trade Agreement would be renegotiated within the next few weeks. "Believe me, the atmosphere was good in Cape Town. Keys and Ushewokunze are men of the future. They are almost post-apartheid people and they want to see the region work," the official said.

South Africa's trade representative in Harare, Andre Brink, described the meeting as one which would establish a basis for better economic relations between the two countries. He was enthusiastic about an indaba on tourism scheduled for May in Durban and said he hoped the Zimbabwean Minister of Tourism would accept an invitation to attend. □

FIXED INVESTMENT

Consuming the seed corn

A shift from investment to consumption spending over the past decade has eroded the capacity of the economy to grow, say JCI economists Ronnie Bethlehem and Peter Perkins. In the latest JCI monthly report, they predict the trend will continue this year and that SA's fixed capital stock will fall for the first time since 1947.

The absolute decline means that new domestic fixed investment — the difference between gross domestic fixed investment and provision for depreciation — will be negative. This comes at a time when new domestic fixed investment, as a percentage of GDP, has fallen sharply from 14,1% in 1981 to 2,2% in 1991 and an estimated 0,8% in 1992.

The ratio, says the report, has been "criticised on the ground that, in some cases, fixed capital stock which has been depreciated is still in use and that the figure for fixed capital stock published by the Reserve Bank is therefore understated. However valid this might be, the ratio nevertheless reflects the trend in investment performance during the Eighties, a decade which saw investment being squeezed out by increasing consumption expenditure."

The report points out also that there has been a collapse in the savings of general government. "The Reserve Bank has revised its figure for 1990, from savings of R944m (September 1992 *Quarterly Bulletin*) to a dissaving of R1,1bn (December 1992 *Quarterly Bulletin*). Dissaving was R8,6bn in 1991 and we estimate dissaving of R13,8bn in 1992. Further dissaving of R11bn is forecast for 1993."

Private-sector savings are also falling. The report predicts that personal savings, which rose an estimated 4,9% in current prices in 1992 (a fall in real terms of 7,9%), will fall 27,7% in 1993. And corporate savings, which fell an estimated 8,6% in current prices in 1992, will fall a further 6,3% in 1993.

A measure of the confidence crisis which has disabled SA over the past decade is that, though savings have been low and falling, demand for investment funds has been even lower. This emerges from a comparison of two ratios:

☐ Gross domestic savings (GDS) to GDP; and
☐ Gross domestic fixed investment (GDFI) to GDP.

Quarterly Bulletin figures show that, after 1984 when the savings ratio at 22,5% and the investment ratio stood at 24,4%:

☐ The first ratio fell from over 24% in 1985 to 18,6% in 1991 and 18,4% in the first quarter of 1992; while
☐ The second ratio fell from 23,3% to 18% and 16,7%.

So the supply of domestic savings exceeded demand for investment funds.

Now GDS has started to fall faster than GDFI as a percentage of GDP. In the second quarter of 1992, both ratios stood at 16,3%.

And, in the third quarter, GDFI/GDP, at 15,8%, exceeded GDS/GDP of 14,9%.

Both ratios, of course, are painfully low, compared with the early Eighties. And something is urgently needed to provide SA with the will and the means to invest.

Says the JCI report: "How the country will contrive its way out of this kind of growth trap has become the job of the newly established National Economic Forum, comprising organised business and labour and also government."

OUT OF STEP

The recent controversial appointment of *The Economist* editor Rupert Pennant-Rea, as deputy governor of the Bank of England, continues to cause disquiet.

The London *Daily Telegraph* reports: "The furore over Pennant-Rea within the Bank has been magnified by the revelation that he once signed a petititon supporting the legalisation of cannabis."

While this has little relevance to his central banking skills, it heightens the perception that he is an unsuitable appointment to a top job in a traditional institution. Last month a former deputy governor, Sir Kit McMahon, described the appointment of Pennant-Rea, who first learnt of his selection on the morning of the announcement, as "a breathtaking insult" to the Bank. "Whatever his intrinsic merits may prove to be," said McMahon, "he has prima facie no qualifications for the job."

A top management reshuffle is expected to provide back-up in day-to-day operations for Pennant-Rea, whose only experience in central banking is a short spell as a Bank of England economist in the Seventies. The new deputy governor will also not be expected to provide the hands-on management which has been the hallmark of his predecessor, Eddie George. George will take over as governor from Robin Leigh-Pemberton in July.

GOLD FM 5/3/93

China syndrome

China emerged as the world's largest gold consuming country last year, according to estimates from the American Precious Metals Advisors (Apma) consultancy organisation. It suggests China may have consumed more than 800 t of gold or 26m troy ounces in 1992.

Apma says in its latest MetalsFAX newsletter that China probably imported 500 t to satisfy demand from private gold consumers and another 35 t of domestic gold production was also absorbed. China's central bank possibly bought another 300 t, either for its reserves or to help satisfy raging domestic demand, the newsletter says.

Apma MD Jeffrey Nichols says some market observers are sure a substantial part of the 400 t of gold disposed of by the Dutch central bank late last year was taken by China's central bank — perhaps 150 t-200 t (4,8m/oz-6,4 /oz).

He estimates that central bank net gold sales last year reached 650 t. In addition to Holland, the big sellers were Belgium (202 t) and Canada (about 100 t). Other sellers included Iraq and Abu Dhabi, both making distress sales, according to Nichols. Iraq sold about 175 t to keep its economy going while Abu Dhabi sold 125 t-150 t to cover its losses in the Bank of Credit & Commerce International.

BULLION BREAKDOWN

Gold in 1992 (million troy ounces)

Production	
Mine output	58,4
Forward sales/loans	9,0
Other short sales	10,0
Official sales	20,9
Old scrap	7,5
Eastern bloc sales	15,0
Total	120,8
Consumption	
Jewellery	76,0
Industrial	8,7
Net private investment	36,1
Total	120,8

Source: Apma

Apma says that, apart from the central bank sales, downward pressure was put on the gold price in 1992 — pushing it to its lowest level in seven years — by disposals by the former Soviet Union and short sales by

continue →

FM 5/3/93.

THE BUDGET (49)

No quick fix possible for Keys

In present circumstances there is not a great deal that this month's Budget can do to facilitate a quick return to prosperity. It can, of course, set the trend for sustainable recovery by curbing spending — which will promote greater price stability — and encouraging saving and investment. And it is important that it does so.

But the Budget cannot overcome the constraints of political obduracy — it could not during the apartheid years and it cannot now.

And that is where the greatest constraint lies.

There are some measures that can be taken to begin the long road back to sustainable economic recovery. What Finance Minister Derek Keys appears to have going for him are the substantial advantages of greater price stability (an inflation rate of 9%), earlier intimations that he will be able to curb excessive government spending and, if there is only 0,5% economic growth this year, the swing from a 2% contraction last year will impart considerable impetus.

The Budget deficit, however, at close to 9% of GDP, remains a substantial problem. Its solution is not through higher taxes which, over years, by contracting the revenue base will prolong rather than solve the problem. But short-term tax increases seem inevitable to redress the income shortfall caused by recession.

They would not be appropriate to finance government's dissaving or such exogenous factors as drought relief. To spread the load as widely as possible, an increase in Vat appears most logical. If inflation is to remain below 10% — as Keys seemingly expects — the increase should be modest.

Chances are that he will let fiscal drag provide whatever else he needs to make up the financing shortfall.

What we do not need is some Clinton-type attempt to soak the rich to finance increased social security benefits and reduce a Budget deficit. The outcome of the Clinton package is more likely to be a constraint on US economic growth — prospects for which are now encouraging — and consequently to maintain an uncomfortable federal deficit. He is taxing more to spend more while the deficit can look after itself.

The temptation here will be for Keys to be argued into what is called a neo-Keynesian countercyclical stimulation. The constraints of politics and deprivation of IMF stand-by facilities may make those who would not ordinarily support such measures waver. That would be unfortunate.

As we argued only a few weeks ago, the 9% Budget deficit is of itself a massive fiscal stimulus. Anything more will run the danger of fanning inflationary pressures once again. In view of the political and IMF constraints, too, there will be those who will, in desperation, argue for covert protection and bounty to stimulate seriously flagging investment.

Both, of course, have already been applied in some form — protection through a weak currency, apart from specific barriers, and bounty in the form of Geis. If anything, they are measures that should suffer the weight of reduction.

We have to steel ourselves to accept that the economy has been set on a path that in the short term must increase austerity. If 40% of the workforce is unemployed now, that will get much worse over the next 12 months.

While wage claims are moderating in most industries, settlements have been so excessive over the past decade or so that their obverse — higher unemployment — is inevitable.

This is the outcome to those who opposed apartheid without concern for what economic measures would mean for ordinary folk. SA's slump has been aggravated by recession at our major trading partners, but that is not the cause of our misery. It goes back to those who encouraged a block on borrowing abroad and an outflow of investment. This caused a massive capital haemorrhage that is continuing in the absence of political settlement. The Western recession followed the slump here, it by no means precipitated it.

The greatest challenge facing policymakers here is clearly to stimulate investment while continuing to apply the policy measures we have discussed.

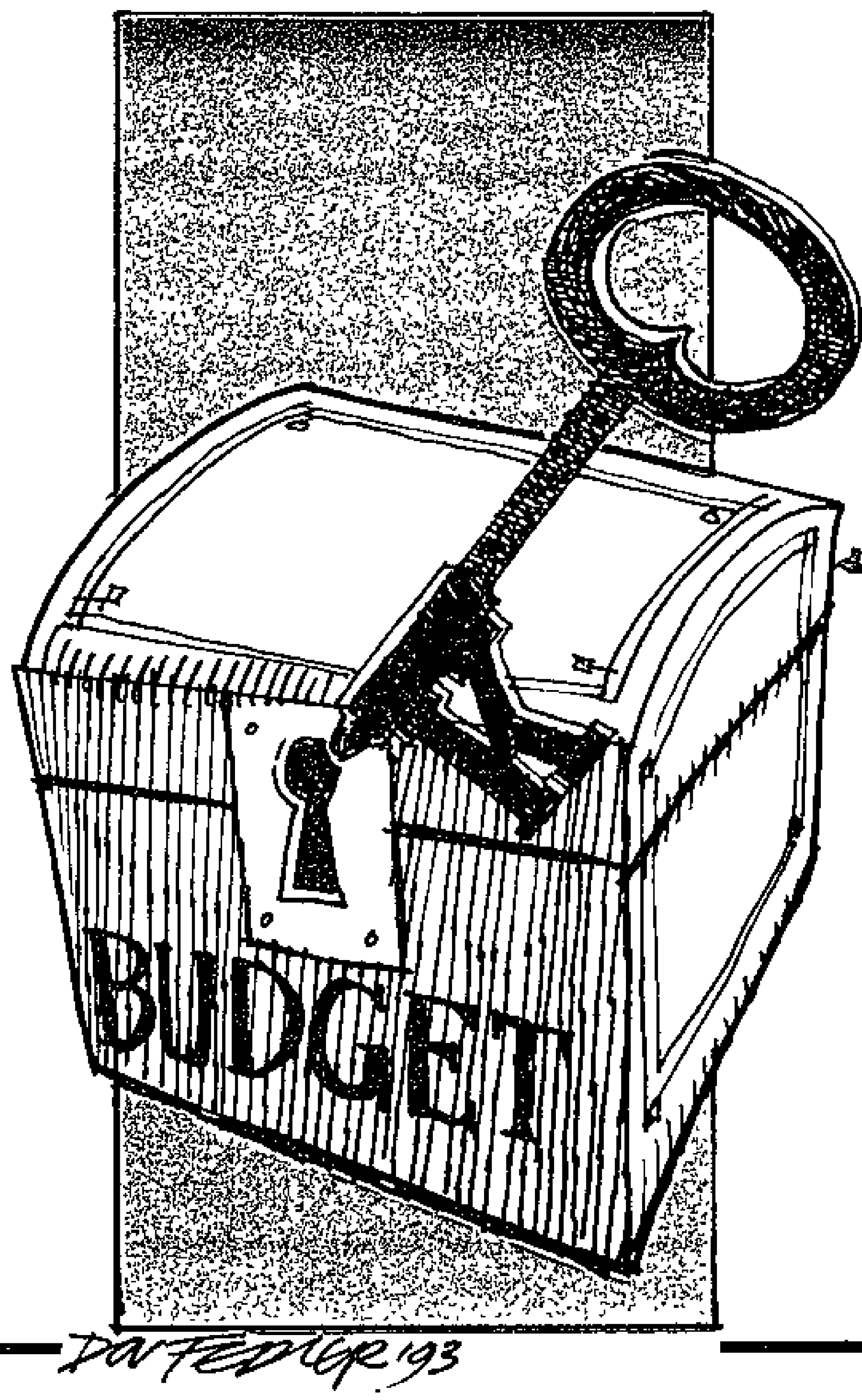
The decline in investment since the mid-Seventies has been steep and two periods of upswing have fallen far short of the peak reached then. The latest forecast shows that net domestic investment (gross investment minus depreciation) could be negative this year

In addition, net reserves (gross reserves minus bank loans) are negative, despite the recession and the favourable trade balance. We are now in the unfortunate position of living off our fat — to put it another way, we're eating the seed corn.

To encourage savings and investment, however, it is necessary to reduce interest rates, which is difficult in view of the need to maintain a trade balance to repay foreign debtors.

Renewed access to SA's IMF facility would change that almost immediately. That is the key not only to returning foreign investment but — and much more important — also to encouraging domestic fixed investment.

Those who persist in opposing it for political reasons should reflect that even a "legitimate" government will not be in a position to restore growth instantly. ■

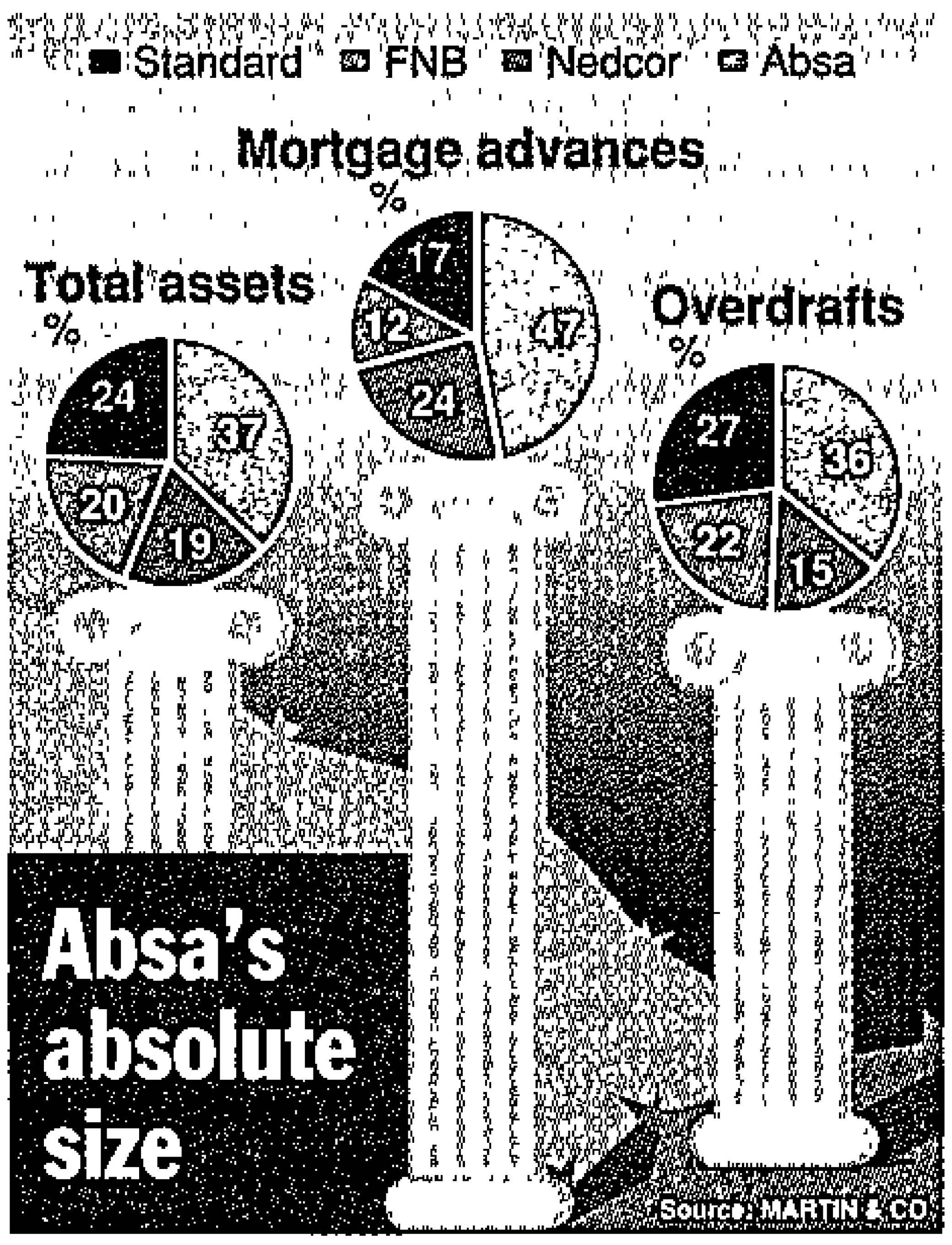


sise the warmth of their former relationship, Badenhorst relates that just a week after the listing, "Standard announced its entry into the home loan market with a mortgage rate 3% below ours. The effect was to wipe R60m off our revenue. Even so, we managed to meet the profit objectives set out in the prospectus."

The later plays in the development of Absa are well known. Badenhorst says he recognised early on that United Bank was too small to be able to grow organically into the giant he foresaw. His first attempt was to negotiate a relationship with Nedcor, which was struggling with a huge and embarrassing foreign exchange exposure.

When that failed, Badenhorst concentrated on Volkskas. That brought in its wake the battle for control of Allied — which involved not merely widely publicised hostility between Badenhorst and Allied CE Kevin de Villiers (of De Villiers' making, alleges Badenhorst) but also the entry of Standard and, more openly, FNB. In fact, FNB's involvement embraced a public war between the two groups to buy Allied shares on the floor of the JSE — to the delight of shareholders and brokers.

Absa Mark I, comprising United, Allied and Volkskas, was brought into being in April 1991. Nine months later, Badenhorst was locked in intricate negotiations with Sanlam's Marinus Daling to determine whether the ailing Bankorp could be brought within Absa's ambit. A fortnight after talks began, a deal was concluded. It was announced in late January 1992.



It is the inclusion of Bankorp, making Absa the agglomeration it is today, which has raised most questions about the ultimate viability of the banking group.

Stockbroker Martin & Co partner and banks analyst Richard Jesse says the rationalisation of the cultures of United, Volkskas and Allied has been handled well. The real worry is to determine what's left inside Trust Bank, an integral part of Bankorp. "Everyone's terrified there are more bad apples poisoning the barrel," he says.

Trust Bank has been a banker's nightmare ever since, under Sanlam's Fred du Plessis, the decision was made to go for market share at the expense of banking prudence. The campaign netted Trust Bank a lot of business — much of it of the kind nobody else wanted. The result was a financial mess which not even two rights issues within a year to raise R880m could repair.

Badenhorst's response is that, of all people, he is well aware of Bankorp's problems. "That is why we took the action we did over Tollgate and Bester Homes. That's why I have restructured the Rusfurn board and why new money is now flowing into the FSI and W&A groups."

Did Badenhorst, as part of Absa's rescue price, negotiate a R1bn accommodation facility with a Reserve Bank already perturbed about Bankorp's continued viability? Badenhorst will say only that what was in place when Absa absorbed Bankorp was left in place. "I've signed a secrecy agreement and I can't say more."

However, intriguingly, DI 900 returns from Bankorp for July and August 1991

Continued on page 26

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Continued from page 23

reflect debt provisions of R2,9bn in each month. Then, in September, the return suddenly reflects nil.

That suggests there was a rush to correct a mistake — but the size of the specific provision compared with that of other banks leads to the conclusion that it must include an accommodation facility from the Reserve Bank, of perhaps as much as R1,5bn. Of course, nobody is telling — but it was alleged at the time in banking circles that the Reserve Bank accommodation was engineered to satisfy Absa's demands ahead of concluding the Bankorp takeover.

Absa's year-end results are due in May. Since this is the first annual report to deal with the enlarged group, it is particularly important.

Analysts expect it to be forthcoming about the size, extent and underlying reasons for bad debt provisions. Asked about these, Badenhorst growls restively that "the necessary provisions will be adequate."

The market is expecting earnings for the year of 112c-115c a share and a dividend of 40c-42c. "That's interesting," Badenhorst retorts, adding that every analyst attached to the JSE and the institutions is endeavouring to get an inside track on how well Absa is performing.

"The reason," he says, "is that Absa is just about the only banking sector stock which is tradeable. The rest are tightly held. I'm not about to make it easy for anyone to decide whether to take a large position in this company."

There cannot be a swift or simple conclusion about a banking group which is so large and so important. Analysts see signs of management instability in a company which arbitrarily dismisses key people from a department one week and then cavalierly imports others from the UK for another department a few days later. And they fear that Absa's pool of managerial talent is second-rate.

Badenhorst says such comments merely illustrate the poverty of understanding in the financial community.

The share has fared poorly against the Banks index over the past year. That says much about the concerns felt by investors and analysts. Badenhorst understands these. They will be taken care of when the group reports in May.

Meanwhile, he resolutely refuses to give any indications which might help investors determine whether, with the share at low levels, this is the time to accumulate the stock. "They must decide that for themselves" is all he will say.

Much depends on Badenhorst and his personal perceptions of Absa's future. He says he will retire when he is 60 — in four years' time. By then, he expects Absa to be established unassailably as SA's premier bank.

So far, the building society clerk has shown himself a match for SA's best banking brains. He says we have only seen the opening rounds in what he clearly expects will be a long battle. On the evidence, Badenhorst looks as though he will not only stay the course but could even have a few unpleasant surprises for Absa's competitors.

David Gleason

Budget may not be all bad news

BIDAY 5/3/93. (4-9)

GRETA STEYN

BAD NEWS in the Budget was expected to be tempered by tax breaks for small business and public investment spending aimed at job creation, sources said yesterday.

The moves are understood to be part of Finance Minister Derek Keys's long-term restructuring plan, due for release next week. It is expected that small businesses with a turnover of below R1m will pay a few percentage points less income tax than other businesses, while there may also be personal income tax relief for individuals employed by these enterprises.

Public sector investment projects are expected to be undertaken in a labour-intensive way to maximise job creation. Sources said it was not yet clear whether specific amounts would be set aside for job creation, or whether the issue would be tackled by maximising the labour content on public investment projects.

The National Economic Forum's short-term working group is studying job creation proposals, with small business and public works key features of the suggestions received.

While only minor aspects of the Keys plan are expected to be translated into action this fiscal year, Keys will show how the Budget fits in with the long-term strategy.

He is expected to demonstrate in the Budget that a start has been made to move away from government consumption towards fixed investment. He is also expected to unveil a strategy to bring the deficit closer to the level of government fixed investment spending, with the eventual aim of equalising the deficit and capital expenditure by government. The elimination of government dissaving — the use of savings to finance consumption — is a key element of the plan.

By ending government dissaving, Keys hopes to unleash billions for spending on fixed investment by the private sector. His plan will sketch ways in which private sector investment will be encouraged, including an overall reduction in the company tax rate and the abolition of import surcharges on capital goods.

Keys has emphasised that he wants to avoid "unilateral restructuring", and the model will be widely debated. One aspect expected to be controversial is the attention given to the effects of union wage bargaining strategies on unemployment and inflation.

FM 5/3/93 (49)

STRUCTURAL CHANGE

Where are the limits?

With little impetus coming from domestic demand or from exports, estimates of GDP growth in 1993 are in the 0,5%-1% range. But, surprisingly, an important precondition to economic growth has been in place for about a year. First National Bank's *Business Brief* points out that what is needed to brake the pace of a contraction is a directional change in company profitability. And "published figures of quoted companies suggest the general decline in company profits ended a year ago."

In contrast to previous business cycle upturns, this has not been followed by a quick resumption of growth — "company profits are not on a clear recovery path but remain stuck at low recession levels."

This is a big factor behind rationalisation, which is threatening to shift the structural limits of destocking and labour shedding.

"There is little exactness in the nature of these so-called structural limits. Stock levels reached a secular high of 34% of GDP in the mid-Seventies, after which a major decline commenced. Today, stock levels are only 17% of GDP." A recent Sacob survey suggests that this will continue in the first half of 1993 "and any turnaround is likely to be gradual."

Issues relating to labour shedding are even more complex. Says *Business Brief*: "In the US, sizing down has become the norm in nearly every industry in recent years. However, aside from the cyclical aspects, its economy is seeing a clear trend of labour substitution by capital as business fixed investment spending has been recovering over the past year, but job growth has not." In SA, employment has been falling sharply and steadily since the end of the Eighties, while the ratio of capital to labour has been falling since the early Eighties — despite a decline in gross domestic fixed investment over the same period (see P35).

The trends represent a challenge to decision makers in government and the private sector ■

Star 5/3/93

Cape bank got secret help – Keys

(49)

CAPE TOWN — The South African Reserve Bank had provided assistance to the now defunct Cape Investment Bank (CIB) on various occasions from October 12 to early December 1990, Minister of Finance Derek Keys said yesterday.

In a special debate on a report of the Joint Committee on Public Accounts, he said assistance had been provided secretly so as not to alert investors of CIB's liquidity crisis and precipitate instability in the banking system and the economy.

He said the Reserve Bank, acting as a lender of last resort, had bought Eskom stock valued at more than R800 million at favourable rates after the CIB was forced to run down its portfolio of off-balance sheet Eskom stock.

The stock was funded by large depositors who were withdrawing their funds from the CIB before the introduction of the Deposit-taking Institutions Act, which restricted off-balance sheet activities by deposit-taking institutions.

The size of the portfolio and the trend in interest rates had made it difficult for CIB to offload its Eskom stock without incurring losses.

In November 1990, CIB's auditors told the CIB board and the Bank that CIB's financial statements could not be finalised because of off-balance sheet losses of R15,37 million.

The Reserve Bank then agreed to a final assistance package of R15,37 million to remove the off-balance sheet losses. But the funds could not simply be given to CIB because this would result in the true state of affairs being reflected in the financial statements.

A simulated transaction, in which R300 million was lent to CIB for 116 days at 1 percent, was instituted. The capital sum would be reinvested at the Reserve Bank at 17 percent as collateral.

The interest differential provided R15,37 million in CIB's favour.

Keys said the funds remained under Reserve Bank control and markets were not substantially affected by the transaction. Because the transaction would expire before the financial year-end of both parties, it had not been necessary to reflect it in financial statements.

The transaction had been neither sinister nor underhand, but was a bona fide mechanism to provide central bank assistance to an ailing bank without attracting the public's attention.

After investigations into CIB's credit risk by its external auditors, the Office for Deposit-taking Institutions and an independent merchant bank in early 1991, it became clear that CIB was unable to survive.

The Registrar of Deposit-taking Institutions, after consulting the then-Minister of Finance, Barend du Plessis, applied for the provisional liquidation of CIB, which was granted in May 1991.

On the day that CIB was provisionally liquidated, the Reserve Bank again provided assistance by compensating all depositors up to R5 million per deposit. — Sapa.

Sanco's flights of fancy

w/mail 5/3-11/3/93.

(49)

By REG RUMNEY

ALONG with Satanism, capital flight from South Africa has attracted a great deal of attention recently.

Tapping into that near-hysteria is a document produced by the End Loans to South Africa group and the South African National Civic Organisation (Sanco). It is titled: "Bank Capital Flight — South Africa's Next Economic Catastrophe".

The authors say capital flight is substantial, mentioning an estimate of $12-billion to $55-billion over the past two decades.

"Massive amounts of money have been siphoned out of the country under apartheid. A wide range of commentators and academics have analysed the issue in depth. While attempts to quantify the exact amounts of money have hit some difficulties, including varying definitions of 'capital flight', there appears to be a consensus that South Africa has been suffering from a serious capital flight problem for some time, involving tens of billions of rand."

The report goes on to dismiss the thoughtful and carefully stated reservations of an eminent bank economist about the sums loosely tossed around as the size of capital flight.

"As information on capital flight surfaced, a rather predictable response downplaying the problem emerged in the form of Nedbank economist Edward Osborn, who in particular questions the quantification of capital flight. However, Osborn does not deny capital flight exists, but simply suggests rather weakly that the major conglomerates would have little reason to misinvoice."

Osborn actually wrote: "But in any case underinvoicing of exports as a general practice is most unlikely in South Africa because of the dominance in the export field of a limited number of large reputable companies that have nothing to gain, and much to lose, from such malpractice."

Osborn's main point is that it is impossible to prove illicit capital movements have occurred and impossible to estimate their magnitude from official statistics. He specifically examines and dismisses previous analysis.

We all know, from criminal cases, that illicit exporting of capital does occur. It should be stopped. Indeed, the document makes one practical suggestion: that a specialist unit be set up to detect and block illegal capital flows from South Africa.

Playing up the problem may be as damaging as playing it down.

The document rightly calls attention to the flight of "funk money". But it confuses capital flight with investment through the finrand, a mechanism whose whole purpose is to neutralise capital outflows. And it links capital flight and banking expansion overseas without a shred of actual evidence, to beat Sanco's favourite dog, the banks.

The focus on "capital flight" itself diverts attention from South Africa's real problems of creating a safe and stable environment in which business can flourish. It is a phrase perforce loaded with connotations of illegality and shady deals though its broadest meaning is only the departure of capital from the country.

The main outflow of capital from South Africa remains capital redemption payments under the debt standstill arrangements. These have been huge, but not contrary to the African trend for private sector foreign investment to flow out rather than in, and began long before the debt standstill. However, those capital redemption payments in turn haven't hurt economic growth because there's been more than enough capital in South Africa to fund the low level of investment we've suffered because of poor business confidence.

South Africa's focus should first be on creating the right conditions for investors to want to invest here.

If there is no confidence in the country's future, capital will flow out, exchange controls or not.

Lower interest rates fail to impress weak economy

(49)

ARG 6/3/93

BRUCE CAMERON
Business Staff

LOWER interest rates would not push the economy towards recovery, Reserve Bank Governor Dr Chris Stals, warned this week.

Dr Stals said political uncertainty was the main reason for the stubborness of the economy to turn around.

In Europe and the United States lower interest rates are being used as a key factor to stimulate the sluggish world economy. The German Bundesbank, more concerned about rising inflation and the long-term effects on its economy, has been making cuts reluctantly and under great pressure from, particularly, its European Community partners.

Dr Stals said lowering the interest rate further would not stimulate the economy.

"The economic situation is dominated by political uncertainty."

Dr Stals' remarks come in the wake of repeated calls by Finance Minister Derek Keys to the private sector to show greater confidence in South Africa by investing in industry.

But this week South African Chamber of Business director general, Mr Raymond Parsons, said at a media conference in Cape Town that the key to confidence lay in Mr Keys' hands.

Mr Parsons said a lot depended on the government's economic model for the long-term development of the economy and whether Mr Keys, in his budget on March 17, stuck to the broad principles of the plan.

Absa warns of unpopular budget

CT 6/3/93

Business Editor (49)

THE budget on March 17 could be "the most unpopular in living memory", Amalgamated Banks of SA economists Charles Jonker and Carel Gronum say in their Econoweekly forecast issued yesterday.

They expect a VAT increase of 2% or 3%. "Tax on dividends, state pension funds and unchanged tax on marketable securities are in the pipeline".

They think a 1% cut in bank rate can be expected in the middle of the year, with a strong possibility of a second cut in the third quarter.

Jitters as rand slips and slides

Star 6/3/93 (49)

A jaundiced view on local counter

WHERE will the buck stop as the rand continues its slide? Our FINANCE STAFF report.

THE rand's precipitate drop since breaching the three-to-one mark against the dollar in November is causing concern among some dealers.

This week, the decline accelerated, the local counter losing more than a cent between Monday and Thursday morning, taking it from R3,1543 to R3,1665.

A dealer said yesterday the rand was expected to fall to R3,20 in the next few weeks as the dollar strengthened in the wake of an expected cut in German interest rates. The rand yesterday lost a further cent against the dollar before recovering near to R3,1575.

Commercial bank currency dealers are taking a jaundiced view of the local counter; this week Standard Bank dealers had the rand on a six-month basis at about R3,26 to the greenback compared with R3,23 on the same basis less than a month ago.

Face value

Economists are quick to point out that the movements in no way suggest the Reserve Bank is going to let the rand drop out of sight, even if at face value the decline represents an annualised fall of about R1 against the dollar.

However, currency dealers note that the Reserve Bank is conspicuous by its lack of intervention in the market in the form of dollar-buying — a consequence of heavy balance-of-payments pressure on its foreign currency reserves.

Keith Lockwood, of the SA Chamber of Business, plays down the significance of the decline, although he makes the point that it could have an adverse influence on the sentiment of investors.

Weak currencies push up operating costs because they are associated with high import costs, often high inflation and the diminution of returns when dividends are converted into "real money" and transferred abroad.

As yet, the phenomenon is not considered out of the ordinary, even though this week's movements are out of line with the trade-weighted adjustment necessary to compensate for the inflation differential between South Africa and its main trading partners.

According to Lockwood, the nominal exchange rate of the rand against a trade-weighted basket of currencies had, by the close on Wednesday, come down 2,24 percent over the past three months.

"On an annualised basis, that is in the 9 percent ballpark, which approximates with the inflation rate differential between South Africa and an average of its major trading partners."

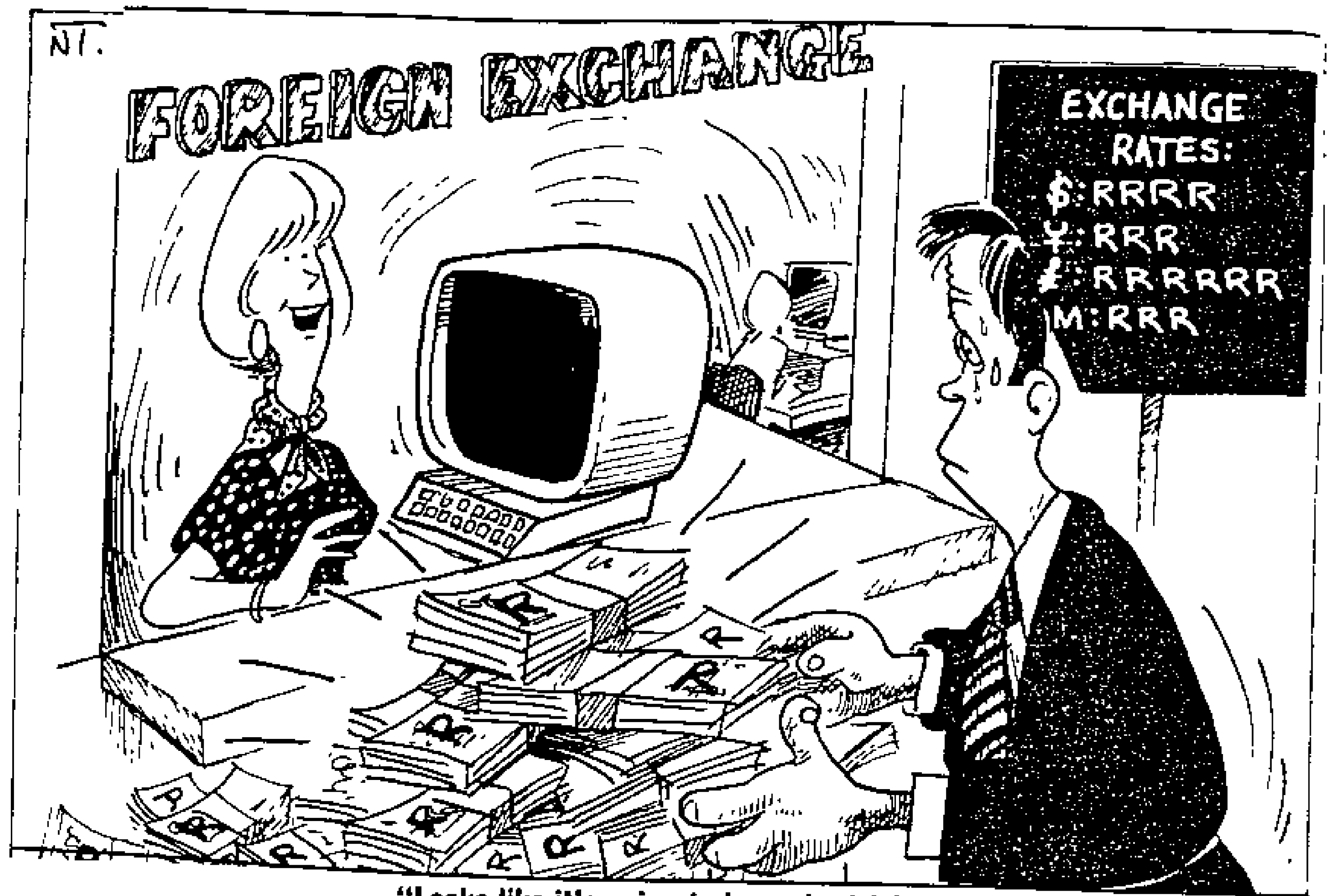
Increase

Nedbank economist Edward Osborne estimated recently the rand would be in the region of R3,30 to the dollar by the end of 1993 — also corresponding to a 9 percent trade-weighted decline over the year. However, say currency dealers, at the rate the rand is dropping, it could end the year closer to R3,50 to the dollar.

An immediate effect of the rand's drop against a number of major currencies came this week when most vehicle manufacturers announced bigger than expected price increases, attributing them to recent hardening of the Deutschmark and the yen.

While SACOB supports Reserve Bank measures to protect foreign reserves by allowing the rand to depreciate, the organisation opposed a recent Afrikaanse Handelsinstituut proposal that the Bank let the currency weaken significantly because of the "unanticipated" consequences this might have.

"The only way the Reserve Bank can allow the currency to drop that way is by greatly increasing the money-supply growth rate, which would be inflationary and exacerbate the cost of imports, further delaying economic recovery," said Lockwood.



"Looks like it's going to be a short trip, sir."

The PAC on wealth, land, nationalisation, property and the azan in your pocket

S/Times (Buss) 7/3/93.

(49)

A PAC government would replace the rand with the azan, according to a draft document detailing the organisation's economic policy.

The PAC — which according to one survey will get 1% to 3% of the vote, just behind the Democratic Party, which will get between 2% and 4% — says it chooses a "democratic, socialised economic system".

But the PAC does acknowledge some role for market forces.

"The conventional market of Western Europe, if it has to exist, has to find its place within the dynamics of initially heavy state involvement.

"The size of this marketplace is expected to increase with time as the country moves from the warlike and post-warlike situation to normal conditions."

By KEVIN DAVIE

The PAC says nationalisation is not the only key programme of socialisation.

"Nationalisation does not, by itself, democratise the ownership of the economic resources by the citizens of the country; it does not by itself empower workers via part ownership rights of economic corporations and participation in financing, investment, production and employment decisions."

Critical

But the PAC does not envisage the state controlling all economic assets.

"PAC is not for the concentration of political and economic power, with the rest of the population merely receiving directive after directive."

It says "the increasing participation of the economically marginalised African majority is critical and a must".

The PAC says the existing distribution of income, wealth and all productive resources is the consequence of military defeat of the indigenous African people.

"Liberation can only be attained by the redistribution of income, wealth and all productive resources equitably to all who regard themselves as Africans."

Redistribution should not be for past injustices and must not be welfarist or paternalistic.

"The African people will not be given fish but be helped to get fishing rods and be trained how to fish."

The PAC says the economically marginalised should be provided with access to productive resources, such as land, finance, capital, credit, technology and economic organisations.

It wants more land to be made available at break-even prices for industrial estates to facilitate black entrepreneurship.

Employed Africans with viable ideas will be encouraged to leave their employment. They will be paid a salary for one to two years from an "Entrepreneurial Promotion and Development Fund"

A policy option is for land to be "de-commodised", whereby land shall cease to be bought and sold at a market price.

"Land will be redistributed per PAC's definition of an African which is not based on colour, creed, race, place of origin but on loyalty, self-recognition and recognition by others

Access

"The size of each unit will be determined by the intended use: the degree of prevailing landlessness; economic efficiency and effectiveness in the use of land.

"Every citizen of Azania shall have access to the land on a leased entitlement and the right to pass this lease to their children but not to sell the land itself."

The PAC says compensation will be paid in the form of interest-bearing government bonds.

It says it recognises that, in terms of the needs of the majority, SA is a very poor country. More emphasis will have to placed on manufacturing ventures and technological development.

The export of precious stones and gold shall only be encouraged as a means to generate resources to prop up and promote the agricultural and manufacturing sector.

Motor manufacturers will be pleased to hear that the PAC singles out this sector as one that "shall deserve all necessary support because of its critical linkages with the manufacturing sector as a whole".

But the industry will be restructured and will emphasise the production of affordable cars for the majority of citizens.

Frank

The PAC stress that their proposals are in draft form for comment. Policy will be formulated in frank face-to-face discussions with interested parties.

● The Frankel Kruger, Sanlam and Ernst & Young Platform for Investment estimated that, after reviewing all survey evidence in HSRC and other surveys, that the ANC alliance would win 46% to 50% of the vote if an election was held soon.

The NP (or De Klerk alliance) would win 26% to 30%, the IFP 13% to 15% and the CP/right wing 3% to 5%.

Next came the DP (3% to 4%) and then PAC/Azapo (2% to 3%).

CIB's R50-million Bank guarantee

S|Times (BUSS) 7/3/93 (49)

RESERVE Bank Governor Chris Stals says guarantees to Cape Investment Bank depositors could amount to about R50-million — more than half of which could be recovered when CIB's final liquidation comes through.

The Reserve Bank agreed to compensate CIB depositors to the tune of R5-million each when CIB was placed in provisional liquidation. "This is part of our function as lender of last resort. Every bank runs into liquidity problems at some point."

Reserves fall by R490m

GOLD and forex reserves fell R490-million or 5,6% in February after dropping R300-million in January.

This dashes hopes of another cut in the bank rate as it gives the Reserve Bank little room to relax its monetary policy, says Nedcor chief economist Edward Osborn.

The Reserve Bank sold 10% of its gold holdings in January, which Mr Osborn says is probably to finance debt repayments, part of which fell due in February. The balance is to be paid in August and December this year.

Productivity building plan

THE CSIR has launched a programme to help increase productivity in the depressed building and construction industries.

The council says that for every 1% increase in productivity in the R8,2-billion industry, savings of R300 000 can be achieved each day.

A new range of electronic information tools has been developed for the smallest to largest companies. Quantity surveyors, architects, engineers, contractors, manufacturers and suppliers of equipment will now have co-ordinated tools for increasing productivity and cost effectiveness.

3,2% more in revenue

(49) S|Times (BUSS) 7/3/93

REVENUE collected for the Exchequer during the first 10 months of the 1992/3 financial year reflects an increase of 3,2% compared with the corresponding 10 months of the previous financial year. The CSS reports that this amounts to only 74,3% of the 13,2% increase budgeted for.

7/3/93

Office space

Netsys wins major deal

PRETORIA-based communications specialists Netsys International has won a contract against five large international companies, including conglomerates from France and the US, to supply a R3-million SA-designed and built computer

Dealers urge hedging against weakening rand

Star 8/3/93

By Neil Behrmann

LONDON — Foreign exchange dealers are advising companies dealing with South Africa to hedge against rand exposure.

In the past five months, the rand has appreciated considerably against European currencies, particularly sterling, the Irish punt, Italian lira and several Scandinavian currencies.

But despite the sharp fall in SA's inflation rate to 9,6 percent, the rand has been weak as inflation in its main trading partners has averaged around three percent.

By its managed rate policy, the Reserve Bank aims at keeping the real rate of exchange constant.

In other words, the weighted average of the rand declines by the difference in inflation between SA and its main trading partners. This is now about six percent.

The policy has worked for several years. The dollar has the biggest weighting so the rand is a quasi-dollar-block currency.

Inflation differential

In 1991 and early 1992, for example, the rand would appreciate or decline by about six percent against European currencies if the dollar rose or fell by around 10 percent.

In recent months, however, the relationship appears to have broken down. The depreciation of the rand has been greater than the inflation differential.

At the end of August, the commercial rand peaked at 36,70 US cents and has since depreciated by 16 percent against the US unit.

It has fallen by the same amount against the yen and has appreciated by only 2,5 percent against the German mark. Against the pound, the rand has soared by 22 percent.

But if the sterling component of the weighted average is excluded, the commercial rand has performed abysmally in the past six months. The financial rand rate was around 32 US cents at the end of 1991. That is where the commercial rand is now.

Most SA economists examine the commercial rand in terms of inflation differentials and, on the face of it, a decline in inflation is good for the rand.

One of the variables

But inflation is only one of the variables in determining market expectations of a currency's rate. Economic weakness, expectations of falling interest rates are others. Moreover, there are balance of payments factors.

SA's current account surplus fell to an estimated R4,4 billion in 1992 from R7,4 billion in 1991, mainly due to the drought and its impact on foreign trade.

Capital outflows were R6 billion, of which R3 billion took place in the final quarter as a result of foreign debt repayments. The reserves have also dropped sharply, leaving little leeway to support the currency.

Thus, while the financial rand is bearing the brunt of short-term capital flows, the commercial rand is under pressure from debt repayments. It is not surprising that Reserve Bank governor Dr Chris Stals has said the country's balance of payments, particularly the capital account, calls for caution.

Star 8/3/93

Fall in reserves limits scope for cut in rates

(49) (49) (49)

By Sven Lünsche

A renewed sharp fall in the gold and foreign exchange reserves has limited the scope for further large-scale interest rate cuts this year.

The Reserve Bank's monthly statement of assets and liabilities, released at the weekend, shows the total reserves declined from R8,79 billion in January to just below R8,3 billion last month.

This is their lowest level since December 1991 and a sharp 28 percent below the peak of R11,55 billion recorded in August last year.

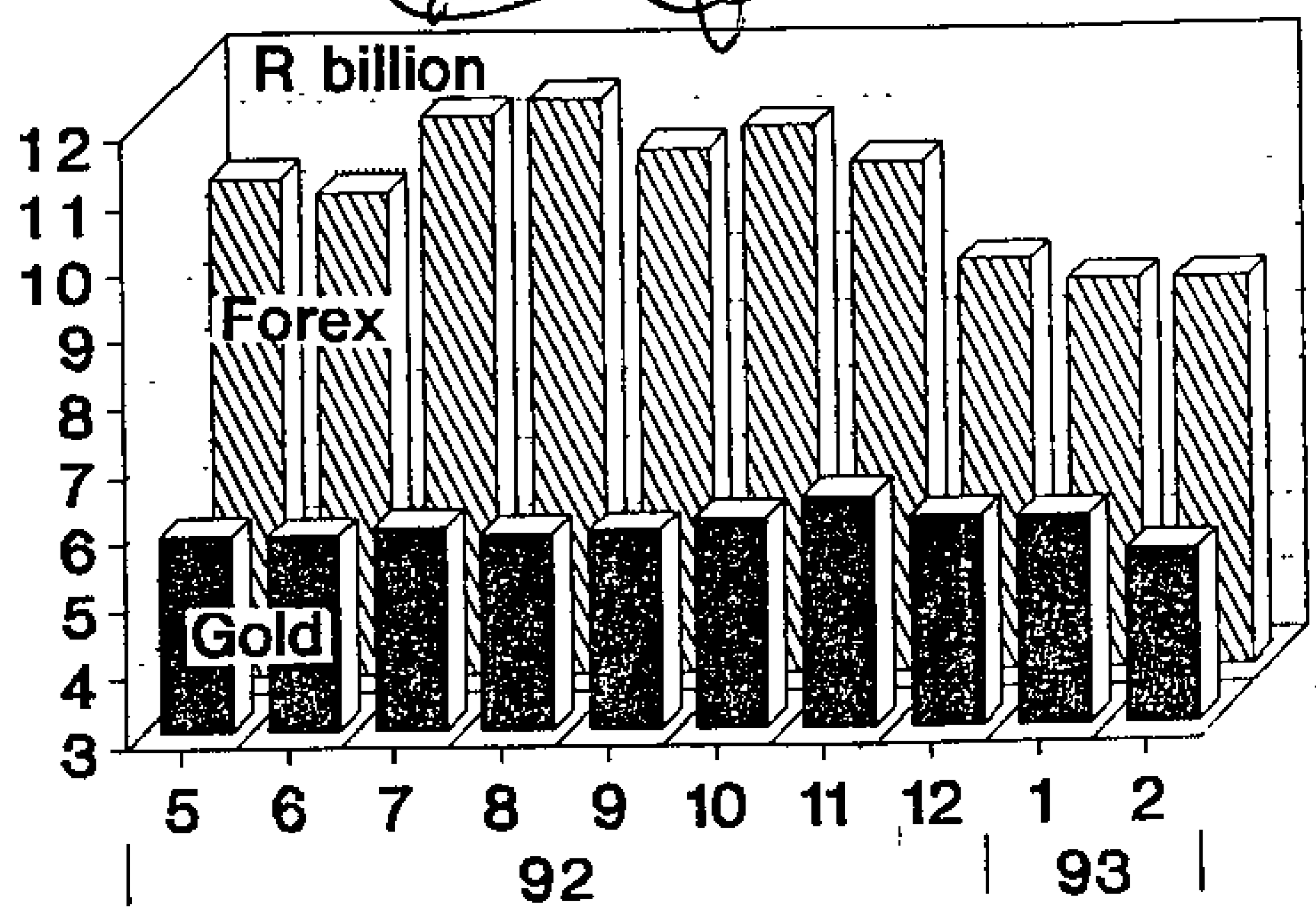
When announcing the latest interest rate cut last month, Reserve Bank governor Dr Chris Stals warned that further cuts could be inhibited by a continued decline in the reserves.

One point

Economists said today that in the wake of the lower reserves only a further one percentage point cut in the bank rate should be expected this year.

After last month's drop a two percent reduction had been widely forecast.

Stals has been aiming at a reserve level equal to cover three months' worth of imports. In August the level was equal to almost 2,3 months but has since dropped to about 1,5 months.



SA's reserves are at their lowest level since December 1991.

A strong forex reserve level is essential for the country to maintain a surplus on the current account of the balance of payments and offset large outflows on the capital account.

This is particularly crucial this year as SA has to meet about $1,5 billion in foreign debt payments under its agreement with foreign creditor banks.

Large debt commitments, coupled with slower export revenues, have been mainly responsible for the decline in the foreign exchange reserves since mid-1992.

However, in February it was the gold reserves which showed a sharp reduction of more than R500 million.

The gold reserves fell from R6,06 billion to R5,52 billion — their lowest level since September 1991 — while the foreign exchange content showed a slight improvement to R2,78 billion (R2,73 billion in January).

While the value of gold increased as a result of a lower rand-dollar exchange rate to R931,29 an ounce (R911,24 an ounce) the physical volume of the gold holdings fell markedly from 6,65 million to 5,92 million ounces.

This indicates that the Reserve Bank sold gold on the market to raise additional foreign exchange as some debt commitments fell due in February.

The effectiveness of lower interest rates was queried last week by Stals, Bruce Cameron reports from Cape Town.

Stals warned that lower interest rates would not push the economy towards recovery.

Uncertainty

He said political uncertainty was the main reason for the stubborness of the economy to turn around. "The economic situation is dominated by political uncertainty."

This was in sharp contrast to Europe and the United States where lower interest rates were being used to stimulate the sluggish world economy.

Even the Bundesbank, more concerned about rising inflation and its long-term effects, had been making cuts reluctantly to boost growth in Europe.

Stals' remarks come in the wake of repeated calls by Finance Minister Derek Keys to the private sector to show greater confidence in South Africa by investing in industry.

Keys, however, is set to call for continued monetary stringency to provide a long-term incentive for investment, when he discloses his Normative Economic Model tomorrow.

NEWS Lawyers' seminar on corruption ● Striking teachers meet to chart way forward

Voting rights for all answer

Sowetan 8/3/93. (49)

■ **ONLY WAY** Get rid of Government

By Josias Charle

THE ONLY WAY to curb corruption and fraud in South Africa was to enfranchise all citizens of the country, Mr Moss Mavundla, a Pretoria-based attorney said at the weekend.

Speaking at a seminar organised by the Law Society of the Transvaal to debate corruption and fraud in the public and private sector, Mavundla said corruption and fraud were caused by political and economic factors.

"The Government has for the past 44 years managed to run the country down and the private sector is now reeling from an economic depression. Socio-economic factors also contribute to the corruption," Mavundla said.

Voters must be in a position to remove the government of the day in the event of a scandal if the perpetrators insisted on remaining in office.

Mavundla, who is also a senior official of the Pan Africanist Congress, said corruption on the part of the Government had been the concern of the silent majority for years.

He cited a few cases of Government corruption to drive his point home. These included the "Info scandal" the "Inkathagate" affair and the recent revelations that Cabinet Ministers were being paid vast sums of money to stay in their own homes.

"Those who are enfranchised paid lip service to the corruption on the part of a regime that wasted the taxpayers' money and paid billions of rands to multi-state presidents, ministers and departments."

Speaking at the same seminar, a Pretoria Supreme Court judge, Mr Justice Pickard, said he supported the view of establishing a permanent commission of inquiry to probe corruption in the public and private sector.

He said such a commission should have powers of access to evidence and information quickly and effectively in order to be able to get to the core of the problem.

"There is no point in commissions sitting for many years without submitting reports. The issue of speedy investigation is important to restore the faith of the public in the system," Pickard said.

REST IN PEACE ... Mourners at the funeral of two slain African National Congress cadres, Mr Sizwe Mkhwanazi and Mr Mplyakhe Mthombeni. They were allegedly killed by police at Sebokeng, Vereeniging, last Friday. Police said the men died in a shootout while police were investigating the murder of a policeman. Families of the two men and the ANC have disputed the police version.

Teachers meet today to decide on strike

Sowetan 8/3/93.

■ **Schools staff want their demands met first:**

By Lulama Luti

WHETHER Soweto teachers will go back to school is to be decided during a meeting at the Ipelegeng Community ... a meeting scheduled to take place this week

place a moratorium on all pending retrenchments.

According to Sadtu Soweto president Mr Matakanye Matakanye they had information that 518 teachers

MONEY MARKETS by Tim Marsland

Reserve Bank maintains a neutral stance on rates

(49)

BIDM 8/3/93.

THE Reserve Bank's policy on interest rates would remain neutral for the moment, Bank Governor Chris Stals said last week.

Asked his views on the likely direction of interest rates, he, naturally, would not be specific. "The Bank obviously cannot predict what interest rates are going to do."

However, the Bank based its forecasts on the underlying market forces, and Stals highlighted three forces which were working against each other at present:

- The declines in the foreign reserves were absorbing or reducing liquidity;
- An expected decline in government deposits with the Bank would add to private sector liquidity; and
- Low demand for credit reduced pressure on rates.

He said the market could decide best what should happen to interest rates on balance.

This was unless the Bank would "be prepared to change the course of events by creating more or less money".

He pointed out that the Bank's policy at this stage was to smooth out very short-term and temporary fluctuations in the liquidity situation.

On balance, as the Governor said, the declining reserves remained a problem.

Note Friday's record R5,3bn money market shortage, which sources at the central bank blamed on disinvestment.

They also hinted at the possibility of an upwards spike in interest rates, should the capital outflow continue.

Understandably, the market reacts with horror at suggestions that interest rates could rise.

But clearly it is something that should be borne in mind, particularly if there is no let-up on reserves.

The outflows are not explained by drought-related imports, as the Maize Board put payments of just R42m through last week and has only R24m left to pay in the current import programme. Total outflow as a result of maize was R1,6bn. Time will tell what was behind the high shortage, but in the meantime the debt markets will keep a close watch on developments.

Rand continues slide

From TIM MARSLAND

JOHANNESBURG. — The rand continued its headlong fall into uncharted territory yesterday, setting a new low of R3,1920 against the dollar during the day as a flood of importers scurried to buy dollars, dealers said.

The unit closed at R3,1863 from Friday's R3,1628. It has lost 1,5% against the dollar in the past two weeks.

Against the basket of currencies — which the Reserve Bank uses to determine the value of the rand — it was also weaker and against sterling it was at R4,6113 from R4,5987.

The rand recovered somewhat in the afternoon after the Bank entered the market and speculators who bought dollars in the morning resold them.

A dealer said R3,20 was a major psychological level and once the rand broke through it, the unit could fall to R3,30.

Another dealer said importers had rushed to take cover against further rand weakness, which was causing a capital outflow from SA. He expected further panic covering in the next few weeks.

He said the leads and lags between the export and import activities could not explain the entire capital outflow as exporters, who sell offshore-earned dollars to buy rands, had to complete the currency transaction within seven days of the shipment.

Were this the major reason, the gap between the two should already have narrowed, which did not appear to be the case.

The financial rand ended easier at R4,5750 from Friday's R4,5500. (49) CT 9/3/93

Recession loses grip

Sowetan 9/3/93

SOUTH Africa's longest economic recession since the thirties may be nearing its end, says the director general of the South African Chamber of Business (Sacob), Mr Raymond Parsons. In a Sacob's monthly Business Confidence Index (BCI) briefing yesterday, Parsons however warned that a lot of caution has to be exercised because a lot of things could still go wrong both in the economic and political spheres. Contrary to speculation, the forthcoming Budget would not be as bad as expected. 49

Rand plummets (49) to set new low

BIDM 9/3/93

TIM MARSLAND

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Economists come under fire

Sowetan 9/3/93.

(49) (185)

Major barrier to affirmative action in SA, says Sachs:

ECONOMISTS were neither flexible nor pragmatic and were the major barrier to affirmative action in South Africa, University of Cape Town law professor and ANC executive member Dr Albie Sachs said yesterday

He spoke at the launch of a new book, *Affirmative Action in a Democratic South Africa*, to which he is one of eight contributors.

The book is being promoted by the Cape Town Chamber of Commerce and follows a symposium on the subject held in August 1992

The editor, Mr Charl Adams, said by way of introducing the 164-page publication that it was aimed at creating an opportunity for debate on a subject which had been given a great deal of negative publicity and had been used as a political bogeyman by both the left and right.

Adams, a Stellenbosch Business School graduate and current Human Resources Manager of the Cape Town Chamber of Commerce, said the term affirmative action was better defined by the Afrikaans translation *Regstellende Aksie*, or Corrective Action, which implied that some wrong had to be put right

Keys publishes SA's five-year growth plan

CT 10/3/93. (49)

From GRETA STEYN

JOHANNESBURG. — Finance Minister Derek Keys yesterday unveiled a five-year plan to raise SA's growth rate to 4,5% by 1997 through cutting taxes, slashing government spending and raising fixed investment.

The strategy, which Keys described as a classical supply-side approach, also envisaged an inflation rate of 5% by 1997, employment growth and income redistribution. If the aims were reached over the next five years, 1,3m formal jobs would have been created.

One of the main elements of the plan was to reduce government's role in the economy to free up resources for the private sector. The total tax burden would be reduced while massive spending cuts would be needed to push the deficit down from the present 9% of GDP to 2,25% — lower than the previous 3% benchmark.

The aim was to cut the corporate tax rate to 40% from the present 48%, lower the ceiling of individuals' marginal tax rate to 40% from 43%, eliminate fiscal drag and scrap import surcharges. A shift from direct to indirect taxes was an important proposal, with the share of Vat and excise duties in revenue rising.

The plan aimed to free resources for productive use through the elimination of government dissaving — the use of long-term loans to finance consumption spending. The budget deficit would represent only government spending on fixed investment, with all current spending financed from current revenue.

The projections were a far cry from the present fiscal year with only a fifth of the deficit spent on fixed investment while the rest was current spending. Dissaving by the public sector as a whole was 4,8% of GDP in 1992, but would be zero by 1997 if the plan's aims were realised.

Investment, seen as the engine of growth, was projected to rise to almost 26% of GDP from the present 15%. Government investment would also increase from the present low levels as part of the shift away from consumption, but the main thrust of the surge in investment was expected to come from the private sector. The model assumed capital inflows in the critical interim period up to 1997 to finance fixed investment expenditure.

A rise of about 80% in manufacturing investment — in real terms — was projected for the five-year period, with overall private fixed investment seen at 15,3% of GDP from the present 11,4%.

The policy document also assumed significant improvements in productivity and warned that without productivity gains, the need for investment and foreign finance would be even greater if the target growth rate was to be achieved.

A possibly controversial part of the strategy was the emphasis on "effective competition" in labour markets. The model was critical of the system of collective wage bargaining, saying "adversarial" industrial relations had led to capital-intensive production and job losses. However, the document stressed that the strategy could not be implemented without commitments from the government of the day, labour and business.

Keys, who emphasised there would be no unilateral restructuring, yesterday presented the strategy to the National Economic Forum. He said the forum's labour representatives had criticised the labour market aspects of the plan. "The labour movement has offered to correct that part of the model, and I gladly accepted."

Finance special adviser Japie Jacobs, asked whether government would start implementing the five-year plan in next week's budget, said it was important to show that a step was being taken in that direction. "But we cannot address all the tax strategies in the budget," he added.

The strategy's sequence begins with fiscal and financial stabilisation and export promotion before moving on to liberalisation of import tariffs.

ANC believes plan may not meet the poor's big needs

ARG 10/3/93

(49)

BRUCE CAMERON Business Staff

THE government's proposed blueprint for economic recovery was met with mixed reaction today — the business sector giving it a qualified welcome and the African National Congress expressing substantial reservations.

The South African Chamber of Business said it was broadly supportive of the basic thrust of the model.

Sacob also warned next week's Budget would be "judged against the targets set by the government in its own model".

Sacob said unless Finance Minister Mr Derek Keys made some progress in the Budget towards the model's goals "the credibility of the model and the Budget will be severely undermined."

Sacob underscored the objectives of reducing the overall tax burden and the relative contribution of direct taxes.

Mr Trevor Manuel, head of the ANC's department of economic planning, said in an initial reaction there would obviously be a large body of consensus on its objectives, but there were some very "disconcerting" issues.

His main cause of concern was that there was no focus on what he saw as the main structural deficiency in the economy — unequal distribution of wealth.

The Democratic Party and Afrikaner Volksunie cautiously welcomed the Keys economic reform plan. However, they both warned that much of the model's success would depend on the government's ability to practise fiscal and monetary discipline.

Plan to raise growth to 4,5%

CT 10/3/93

'Staff Reporter

FINANCE MINISTER Mr Derek Keys yesterday unveiled a five-year plan to raise South Africa's growth rate to 4,5% by 1997 through cutting taxes, slashing government spending and raising fixed investment.

The strategy also envisaged an inflation rate of 5% by 1997, with employment growth and income redistribution. If the aims are reached over the next five years, 1,3 million formal jobs would have been created.

After the announcement yesterday, Cosatu officials met Mr Keys and presented to him proposals for the independent tax and audit commissions it envisages for the monitoring of state expenditure.

The delegation also outlined Cosatu's demands concerning the VAT zero-rating of basic foodstuffs, water, electricity and medical services and its opposition to any increase in either direct or indirect tax.

A statement issued by Cosatu after the meeting yesterday said the planned tax commission could be charged with reviewing the entire tax system by September 1993 to enable its recommendations to be embodied in the 1994/5 budget.

● **Keys unveils SA's five-year growth plan — Page 9**

ARGT 10/3/93 49

Bad news for taxpayers likely in Budget next week

BRUCE CAMERON
Business Staff

A TOUGH Budget is certain next week as the government takes its first tentative steps to implement an economic blueprint to pull the economy out of its longest recession since the great depression of the early 1930s

Finance Minister Mr Derek Keys yesterday unveiled the model which aims to resolve the country's economic woes within five years.

But in his first Budget his options are limited by conditions he has inherited — and taxpayers can expect bad news.

Promises of major tax reductions in the model cannot be met in this Budget but a swing away from direct to indirect taxation will be initiated with an increase of two to three percent in VAT and a higher petrol levy.

But, in a move to protect the poor, Mr Keys is expected to abolish VAT on a range of basic food next Wednesday.

Key elements of the model are:

- To switch the negative current growth rate to a positive 4,5 percent by 1997;
- To tailor government spending to meet its revenue;
- To cut tax rates, particularly company rates, from 48 to 40 percent over the next five years;
- To reduce inflation to five percent by 1997;
- A substantial increase in capital investment by the private and public sectors, adding a further R51 billion at 1985 constants;
- The creation of an extra 1,3 million jobs;
- The removal of barriers and protective tariffs to help push exports with export-driven growth seen as the starting point for revival of the economy;
- The reduction of government interference and participation in commerce and industry;
- Getting rid of expensive apartheid structures, particularly in areas such as education; and ● See page 15.

nomic restructuring's newly ac- come so entrenched as a fiscal policy

World's eyes will be on the Budget

BDAY 10/3/93.

(49)

JIM JONES

IF THERE is a spectre that haunts Finance Minister Derek Keys, it must surely be the fear that, no matter what political accords are eventually reached in SA, the attitudes of foreign investors will have already hardened.

Many investors abroad have already consigned us to the same benighted future faced by the rest of our continent, and their views will not change easily.

So, when the normative economic model is presented to the ANC and Cosatu for comment and when Keys delivers his Budget speech in Parliament next Wednesday, he is likely to be as sensitive to international reaction as to domestic.

Prospects outlined by the economic model are not cast in concrete. They are based on best possible assumptions on the mobilisation of foreign as well as domestic capital. That, in its turn, will depend on perceptions rather than hard numbers. And Keys, possibly more than any of his Cabinet colleagues, realises that it will be his responsibility to persuade people at home and abroad that SA's economy can be put back on track.

Neither the ANC nor Cosatu will be eager to endorse the economic model in public. That would imply acceptance of responsibility for seeing that it worked. Public acceptance is likely only after the election of a popular government and after the model's projections are seen as having a chance of succeeding. Again, much will depend on how next week's Budget is received.

The IMF has already agreed in principle to making finance available to SA, depending on the seriousness of the Budget. This implies little or no divergence between the strategic aims of the Budget and the five-year economic model.

Populist economics should not predominate next week. But we need not be altogether as lugubrious as Finance special adviser Japie Jacobs who last week tagged this year's Budget as likely to be SA's worst in living memory. Nevertheless, many prospective foreign investors will take their line from the IMF. If the Budget does not persuade the IMF of the seriousness of our economic policies, we might just as well factor foreign investment out of our macro-economic planning.

This year, the last before SA is blessed with its first popularly elected government, will be crucial in persuading local industrialists and businessmen to invest in new productive capacity. They were misled by Barend du Plessis' glib promises of tax cuts a few years ago. And though they know Keys is cast in a different mould, they will not readily believe the economic model's five-year tax reduction targets if a start is not made in this year's Budget.

It may seem unduly harsh to the country's disadvantaged majority anxious to improve living standards quickly, but business is probably the most important factor in the economic equation if we are to reach the 4,5% GDP growth targeted in the model Innovative tax developments such as lower tax rates for smaller businesses could kill two birds with one stone — encourage the formation of new businesses and indicate to opposition groups that wealth redistribution is best achieved through economic growth.

The Budget will have its social objectives. The most obvious will be to equalise social pensions. But the R1,5bn cost of that cannot be met by milking business through higher corporate taxes. Nor can social objectives realistically be met by hiking excise duties on products such as tobacco, alcohol or petrol. Spending increases have to be financed from higher taxes on consumption. VAT will increase overall — the political fall-out could be dissipated by zero-rating basic foodstuffs.

Establishment of differential VAT rates would be a clear signal to foreign investors or lenders of both political sensitivity and the seriousness with which we view the need to curb the Budget deficit.

Criticism of VAT rate increases from the left could also be deflected by creating the impression that the overall tax burden will fall more heavily on the wealthier sector of the community than on the poorer. But as Keys is serious about showing the economic model is supported by the Budget, he will also have to act on his aim of lowering personal income taxes. Individual taxpayers, too, are sceptical of government's promises in the wake of Du Plessis' broken pledges. Providing them with a sign that the economic model has a realistic chance of succeeding will be as important in changing gloomy perceptions as will be persuading organised business.

Keys is unlikely to have prepared a Budget which does not involve some reduction in real government spending. That is despite the social objectives he must address.

Keys's spectre remains our spectre. South Africans themselves must be convinced that the economy can be restored.

SPOT DESK

drop in the jobless rate in tomor-

Not new ideas, but maybe this time they'll be enacted

BDay 10/3/93.

SIMON WILLSON (49)

FINE words, the saying goes, butter no parsnips. As the extract from a 1976 government economic plan illustrates, the laudable sentiments in Derek Keys's economic restructuring programme have been expressed before. All that is required of the authorities now is that the medium-term plan for the economy which successive governments have broadly supported for nearly 20 years actually be implemented.

The structural adjustment proposals published yesterday are, however, more likely than any of their predecessors to be enacted. This is partly because of the dire state of the domestic economy and the socio-political turbulence that springs from it, and partly because so many of SA's trading partners, competitors and subcontinental African neighbours have already carried out similar reforms.

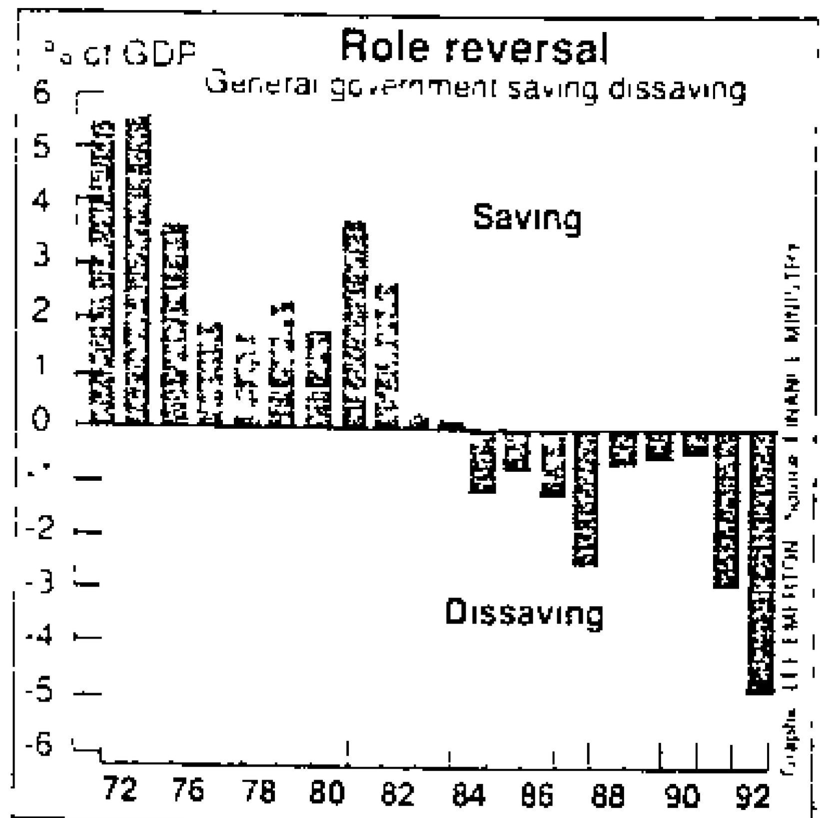
Restructuring now has an irresistible internal and external momentum which it lacked when it was periodically proposed during the last two decades.

Now that national decision-making is a more consultative process than it used to be, economic adjustment will also be a more painstaking and time-consuming process. A longer gestation will, however, merely ensure that subsequent legislation is effective and enduring.

Many of the domestic influences that have now made wholesale restructuring a policy priority have appeared relatively recently in SA's economic history.

As the first chart shows, the government dissaving that the Keys model identifies as such a destructive force is by no means a chronic malaise and really became entrenched only in the mid-'80s.

State dissaving is now a permanent feature on the economic landscape and one of the most prominent signs of the dissolute state of the public finances. It is this slide into laxity and inefficacy in state budgeting that has contributed much to economic restructuring's newly acquired momentum.



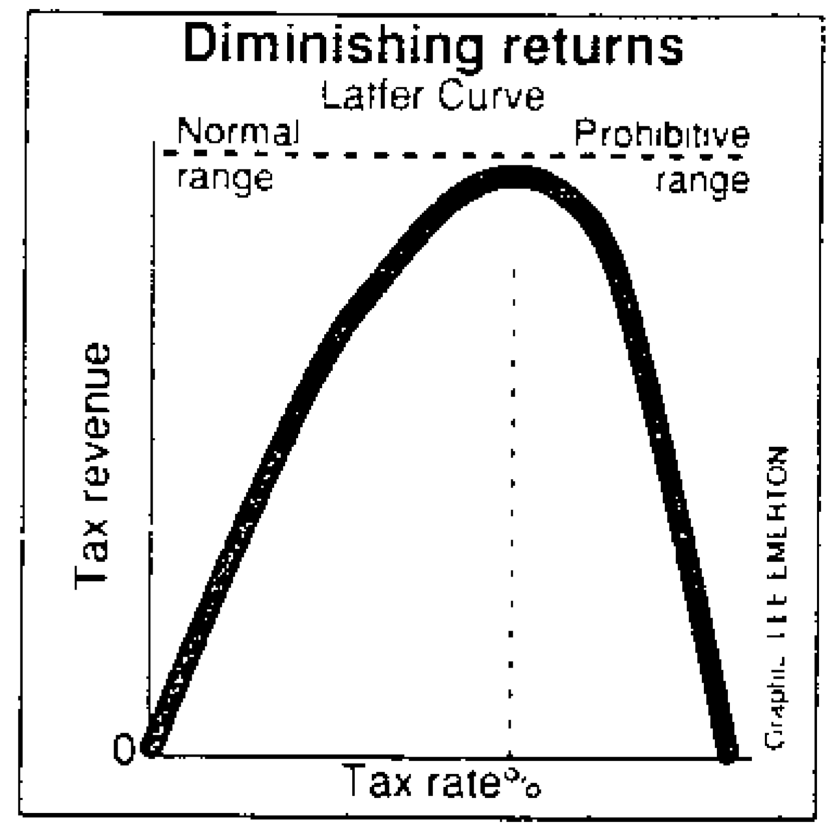
The Keys model associates state dissaving with higher inflation, the widening Budget deficit, the increase in the tax burden, the weakening balance of payments position, curtailed state capital formation and the constraint on domestic investment. The model thus aligns many of the economy's most serious current ills to a single point of origin: simple mismanagement of the public finances. If so many contemporary economic problems can be traced back to one relatively modern source, the required course of remedial action acquires a conveniently narrow focus.

A centrepiece of the Keys plan is, accordingly, the elimination of state dissaving by 1997. Dissaving has become so entrenched as a fiscal policy component that to eradicate it at a stroke would further destabilise an economy already stressed by re-adjustment, so the full five-year span of the plan is to be used to reimpose discipline on public spending. Dissaving's extinction is, however, likely to be all the more permanent for being phased and deliberate rather than instantaneous and improvised.

> "When stimulating measures can again be introduced, such measures should not place the accent on an acceleration of expenditure in the public sector . . . the greatest possible encouragement should be given to the private business sector to increase its investment in new productive capacity." — **Prime Minister's Economic Advisory Council, November 1976.**

The external imperatives that have impelled structural adjustment on the SA economy are just as formidable as its inexorable domestic degeneration. The letters IMF are to be found at regular intervals throughout the model's 17 chapters — an indication of the authorities' acceptance of many of the IMF's prescriptions for economic salvation.

In adjusting the economy to IMF specifications, the Keys plan is merely acknowledging two increasingly evident realities: that tangible benefits arise from the adoption of IMF policies, and that SA will shortly need to draw down on multilateral finance and should waste no time in pre-qualifying for such support.



The enhanced structural adjustment facilities (Esafs) extended by the IMF to sub-Saharan African countries since March 1986 have been conditional on borrower countries restructuring their economies. IMF monitoring of the Esaf economies purports to show significant improvements in economic performance since the implementation of fund-specified reforms.

The IMF has compared average economic performance by beneficiary countries in the three years before Esaf adoption with their subsequent accomplishments, and claims improvements in several key areas Economic growth, savings ratios and foreign reserves levels have risen, while there have been declines in current account and budget deficits and in import propensity.

Another advantage said to be conferred on countries restructuring to IMF blueprints is that of catalytic effect flows — flows of private sector and other non-multilateral finance into a country from non-governmental creditors reassured by the country's adherence to IMF economic norms.

SA, in common with many of its subcontinental neighbours, urgently needs precisely such macroeconomic enhancements and private sector investment interest. Furthermore, SA will probably need IMF balance of payments support sometime next year when the current account moves into cyclical deficit with the onset of recovery. The logic, therefore, of pre-empting IMF conditionality requirements by liberalising and deregulating the economy is incontestable.

The second chart is not to be found on any of the Keys model's 305 pages, but its central assertion underlies the model's candid admission that SA's personal and corporate tax rates are too high.

The chart features the famous Laffer Curve, first scribbled onto a table napkin in 1974 by Arthur Laffer of Southern California University. It shows that, as tax rates rise, there is a point at which exchequer revenues drop due to the disincentive effect. Conversely, the Laffer Curve also states that lowering tax rates can eliminate disincentives, broaden the tax base and raise revenues.

The IMF assessment of the SA economy carried out in September last year is believed to have recommended that Budget deficit reduction be addressed by extending the tax base and reducing tax expenditures rather than by raising tax rates, implicitly to avoid the Laffer Curve effect on revenues. Along with the rest of its conformity with IMF prescriptions, the Keys model appears to accept this reasoning.

focus on economy

Sowetan 10/3/93.

Having been the pariah of the world for so long it is a strange turnabout that sees US companies — many of 49 whom beat a hasty retreat in the '80s — making an almost indecent dash to take advantage of the turning tide in South Africa. **Sapa-AP** reports:

NEW YORK — Sixteen US companies have opened offices or otherwise established economic links with South Africa in the past two years, reversing the disinvestment trend of the late 1980s, a research firm says.

The Investor Responsibility Research Centre in Washington said last week the new investments were helped by former President Bush's 1991 executive order repealing a ban on new US investment in South Africa.

That ban was included in the Comprehensive Anti-Apartheid Act of 1986.

Three firms invested in 1991, the IRRC said, and the other 13 went into South Africa last year.

The IRRC declined to name all 16, saying it wanted to protect its research. But it did say Visa International, Lotus Development Corp and Cummins Engine Co Inc were on the list.

The news was not welcomed by apartheid opponents in the United States.

"It looks like I'll have to deal with this again," said the Rev Leon Sullivan, author of an operating code for companies in South Africa called the Sullivan Principles. The principles called for integration of the South African workplace and fair treatment of workers in the country.

None of the 16 new companies are signatories to the Sullivan Principles, the IRRC said.

The African National Congress, through its president Nelson Mandela, has said it welcomes investment in South Africa, but only when a new government is in place.

On February 18, the ANC formally agreed to govern jointly with whites and other parties for up to five years after the end of apartheid. The current, white-led Government said black people could join the national government in a largely advisory capacity by June.

Sullivan said: "My position still holds that until there is a non-racial government and blacks have the equal right to vote, the sanctions should remain and the objective must be to eliminate apartheid."

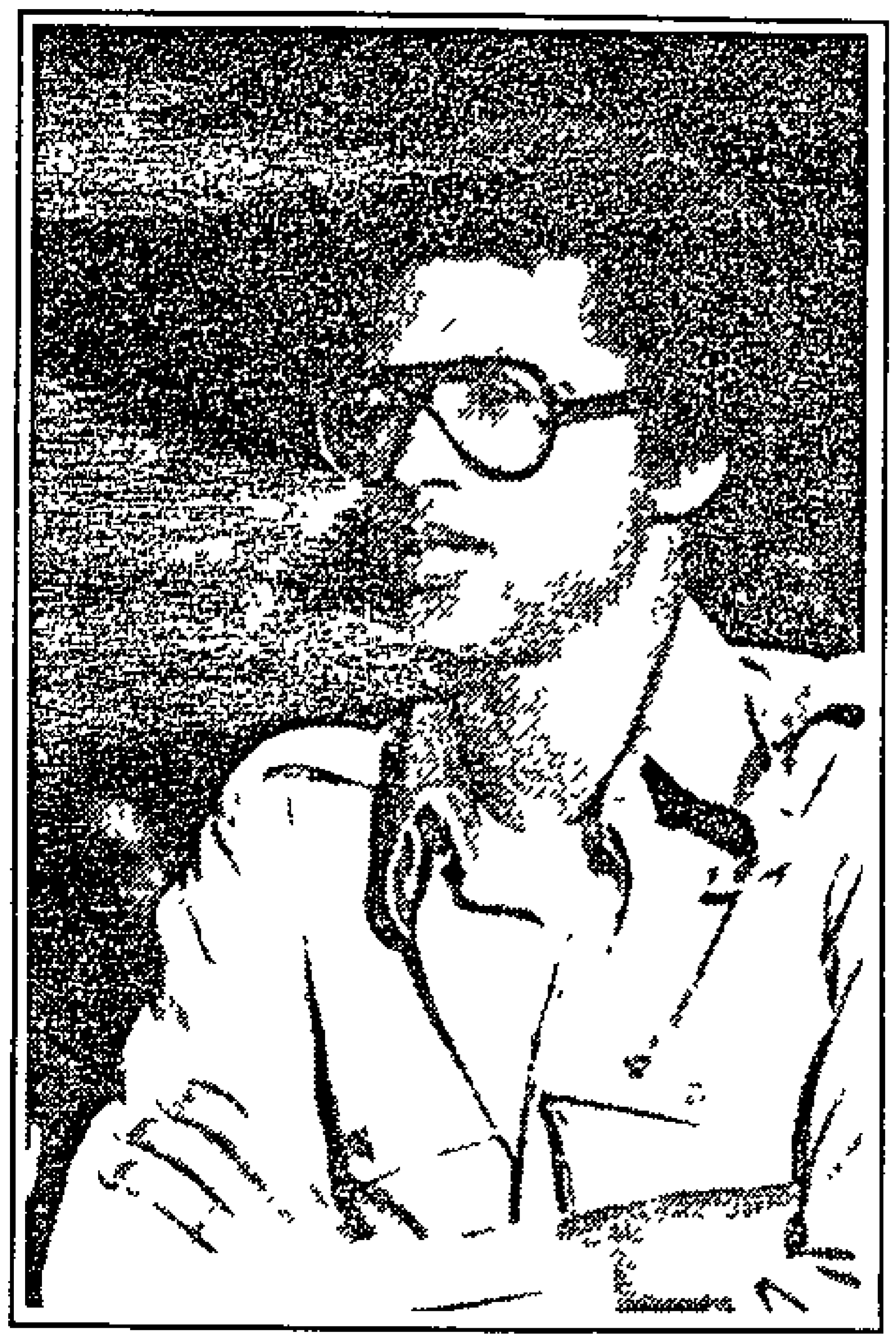
"We must keep the pressure up," he said.

Visa vice—president David Brancoli said that there are six companies with Visa franchises in South Africa. Asked if Visa had any doubts about doing business in South Africa, Brancoli answered: "As long as they (the franchises) observe the operating regulations of the (Visa franchise) programme they are members in good standing."

Richard Eckel, a spokesman for Lotus, said his company went into South Africa in 1991 "in a responsible way" and is a "positive element of change in the country." He said Lotus contributes to community development. "They are happy we are there," Eckel said of the South African people.

An IRRC survey found 119 US companies

Coretta Scott King ... arrested.



Arthur Ashe ... arrested.

currently have direct investment or employees in South Africa.

The new economic links effectively reverse the disinvestment trend that saw 168 US firms sell or close their South African operations from 1985 to 1990, the IRRC said.

Four of the companies on the IRRC list have re-entered South Africa after disinvesting in the mid-1980s.

Steven Zeller said Cummins had no investments in South Africa but did contract with an independent distributor with whom they have a "longstanding relationship" of more than 10 years. They also have an employee on temporary duty there, who has been in South Africa for a year, Zeller said.

The anti-apartheid law was enacted after a national campaign that included arrests at the South African embassy in Washington organised by Randall Robinson, head of Transafrica, an advocacy group.

Among those arrested were Coretta Scott King, former President Carter's daughter Amy, singers Stevie Wonder and Harry Belafonte, Jesse Jackson and the late tennis star Arthur Ashe.

"When the all-clear is given, we would want to see the economy resuscitated. That is not the case quite yet. If I had my druthers I would see the corporations wait until we see this change at mid-year," Robinson said. "My bottom line is: Wait until it happens."

Alison Cooper, an IRRC spokesman, said a number of the 16 companies have a small presence in South Africa. "But it does bump them from one category to another, from no employees to one with employees," she said.

Other companies have chosen not to invest directly but have formed licensing and distribution agreements with South African companies. From July 1991 to the present, the IRRC has found that the number of US companies with non-ownership links to South Africa has jumped from 184 to 290. — *Sapa-AP*

Sacob, AHI laud model for growth

BD 10/3/93 (49)

Business Day Reporter

SACOB yesterday welcomed the release of the normative economic model which, it said, provided an indication of the direction which government would like the economy to follow.

"Sacob is broadly supportive of the basic thrust of the model, with its emphasis on both the need for economic growth and the equitable access of South Africans to all opportunities within the economy.

However, Sacob stressed that the economic and employment growth targets set in the model were the minimum needed to ensure a measure of stability.

A target of only 3% growth in employment by 1997 meant that the present chronic unemployment problem would worsen.

Political progress is heavily dependent on a, strong economy.

"For this reason, it is essential that the government's proposals, and similar proposals by organised business and labour, are discussed as a matter of urgency."

The chamber believed that the forthcoming Budget would be judged against the targets set by government in its own model.

"Should the Minister of Finance fail to make at least some progress towards the attainment of these and other goals contained within the model, the credibility of the model and the Budget will be severely diminished.

"More emphasis needs to be given in the model to the role of foreign investment, since without such investment it would be difficult for SA to achieve its growth and employment targets," Sacob said.

The Afrikaanse Handelsinstituut voiced its approval of the proposals, saying they "merit strong support".

AHI president George Huysamer expressed doubt that the proposals could be achieved within the next three years because of the political consensus needed to implement the measures.

Huysamer expressed the hope that next week's Budget would address the priorities outlined by the model, namely that "an early revival of economic growth must be emphasised, and "a transitional safety net should be in place from early on".

Govt plans new five-year bond

BIDAY 10/3/93

(49)

TIM MARSLAND

FINANCE Minister Derek Keys would announce details of a new five-year capital market bond in the Budget which would be an important source of funding for government in the current year, sources said yesterday.

The Treasury was considering either selling the stock by tender or through the Reserve Bank

A dealer said the Treasury might not issue a new instrument, but rather use one of its instruments already listed. He said the Treasury could consider issuing a bond with a high coupon rate to attract foreigners, but no decision had been taken on the issue's size.

That the Treasury hoped to raise finance in the medium area reflected a lack of investor confidence in lending government money in the long term, a dealer said.

Problems with the zero-coupon bonds, sold by public tender last year, meant the Bank was unlikely to sell the stock by tender.

NEWS FEATURE *An ANC government would go all the w*

ANC will push for 'small' businesses

Sowetan 10/3/93.

(49)

By Mzimkulu Malunga

■ **PROMISING PROMISE** *Government should act as a guarantor for business:*

THE African National Congress would remove all "excessive legislation" preventing small business from flourishing if it became the government.

The deputy head of the department of economic planning, Tito Mboweni, argues that most small businesses do not meet the loan requirements set by financial institutions.

"It is clear that by definition small businesses would not meet the collateral criteria as it stands now but it is for a future government to act as guarantor for the loans given to infant enterprises," he says.

To supplement private sector assistance to small business, the state would, through its financial arm, need to give loans to the Small to Medium sized Enterprises (SME) as well.

"The state should ensure that every department and parastatal has its subcontracting work done by small business," Mboweni argues.

Business know-how

The key to small business development is know-how, which the movement plans to nurture through the establishment of training centres charged with the responsibility of cultivating an entrepreneurial culture in this country

He highlighted services like printing where big business and the government could sub-contract all their printing requirements to small business people

When South Africa finally gains access to international funds in the form of loans from the World Bank or its private sector arm, the International Finance Corporation (IFC), substantial amounts of that money should be channelled into small business

The IFC is in fact waiting for a signal from the ANC to start putting in money for black business development.

Among avenues being explored to help the development of small business were tax exemptions.

Such comments normally raise interest in big business circles as to whether there would be a tax incentive for companies who do business with small to medium sized enterprises.

Tito Mboweni ... promise to promote small business.

However, Mboweni's response to such speculation is categoric: "I think big business actually has too many tax incentives in this country."

The ANC sounds a word of caution to SMEs as well. The government could do all in its power as facilitator for the advancement of small enterprises but the ultimate responsibility rests in the hands of the entrepreneurs themselves

They should be able to seize opportunities when they arise, he says.

Small business people should also refrain from being extravagant and spend money on luxury goods

"We are not saying people should not buy a Mercedes-Benz but we think the money could be used productively to help small business break into the mainstream of the economy," Mboweni argues.

Joint ventures between corporate South Africa and the upcoming entrepreneurs have to be encouraged.

Big business would also have to assist small business people with managerial and financial discipline skills.

Communities should be encouraged to buy from the small businesses in their respective residential areas, he says.

"There is a tendency by people to prefer big chain stores to the small enterprises irrespective of the services offered by the SMEs."

There have been calls from a number of circles for the establishment of a separate ministry for small business but the ANC is yet to make a decision on this issue.

Mboweni, however, cautioned enthusiasts on the notion that such a move could increase bureaucracy and fail to meet expectations.

Though big business executives are often ready to express their interest in working with small enterprises, mainstream companies mostly pay lip-service to small business development.

Hardest hit small business people are black traders in the townships who operate in highly volatile areas where delivery vehicles are stoned by groups of disgruntled youths.

While the ANC has always maintained that such activities are in contradiction of the type of society the movement wants to build, the issue cannot be addressed in isolation

Unemployment and the high school dropout rate in the townships also contribute to the prevailing situation

Since 1976 an average of about 300 000 young people in South Africa dropped out of school in grade four An overwhelming number of these were black.

GRETA STEYN

Aim to eliminate govt dissaving

THE Keys plan aims to reduce the deficit as a percentage of GDP from its present level of about 9% to 2,25% in 1997.

(49)

The aim is to eliminate government dissaving — the practice of financing consumption spending with savings. The deficit of 2,25% will be the same as government spending on fixed investment, at present about 1,7% of GDP.

B|DAY 10/3/93

It is planned to raise spending on fixed investment and reduce consumption spending. Spending is projected to fall from 32% in 1992 to less than 26% by the end of the decade.

The policy document said the extent to which SA would succeed in bringing about the adjustments in government expenditure depended on the extent to which the government of the day was prepared to commit itself to changing the scope and standard of government services to levels which SA could afford.

However, resources then had to be used in a way that would raise the growth capacity of the economy.

The interest on public debt would still rise rapidly at the beginning of the plan's implementation because of the initial high borrowing requirements of the government sector.

Because of the limiting result the elimination of dissaving by government would eventually have on the interest on public debt, consumption spending as a percentage of GDP could start rising again after 1997.

Target rate of 5% inflation by 1997

Keys's plans for growth limit govt role

(49)

BIDAY 10/3/93.

GRETA STEYN

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The strategy, which Keys described as a classical supply-side approach, also envisaged an inflation rate of 5% by 1997, employment growth and income redistribution. If the aims were reached over the next five years, 1,3-million formal jobs would have been created.

One of the main elements of the plan was to reduce government's role in the economy to free up resources for the private sector. The total tax burden would be reduced while massive spending cuts would be needed to push the deficit down from the present 9% of GDP to 2,25% — lower than the previous 3% benchmark.

The aim was to cut the corporate tax rate to 40% from the present 48%, lower the ceiling of individuals' marginal tax rate to 40% from 43%, eliminate fiscal drag and scrap import surcharges. A shift from direct to indirect taxes was an important proposal, with the share of VAT and excise duties in revenue rising.

The plan aimed to free resources for productive use through the elimination of government dissaving — the use of long-term loans to finance consumption spending. The Budget deficit would represent only government spending on fixed investment, with all current spending financed from current revenue.

The projections were a far cry from the present fiscal year with only a fifth of the deficit spent on fixed investment while the rest was current spending. Dissaving by the public sector as a whole was 4,8% of GDP in 1992, but would be zero by 1997 if the plan's aims were realised.

Investment, seen as the engine of growth, was projected to rise to almost 26% of GDP from the present levels of about 15%. Government investment would also increase from present low levels in the shift away from consumption, but the main thrust of the surge in investment was expected to come from the private sector. The model assumed capital inflows in the critical interim period up to 1997 to finance fixed investment expenditure.

A rise of about 80% in manufacturing investment — in real terms — was projected for the five-year period, with overall private fixed investment seen at 15,3% of GDP from the present 11,4%.

The policy document also assumed significant improvements in productivity and warned that without productivity gains, the need for investment and foreign finance would be even greater if the target growth rate was to be achieved.

☐ To Page 2

Keys

BIDAY 10/3/93. (49).

☐ From Page 1

A possibly controversial part of the strategy was the emphasis on "effective competition" in labour markets. The model was critical of the system of collective wage bargaining, saying "adversarial" industrial relations had led to capital-intensive production and job losses. However, the document stressed that the strategy could not be implemented without commitments from the government of the day, labour and business.

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The strategy's sequence begins with fiscal and financial stabilisation and export promotion before moving on to liberalisation of import tariffs. Other features include good governance, promotion of competition, phasing out of exchange control, effective financial intermediation, support for small business, urban reconstruction and a poverty safety net.

● See Pages 7 and 8

Star 10/3/93

The Keys model

(49)

It has taken Finance Minister Derek Keys a year to imprint his signature on the country's economic policy. He has done so with a programme that should result in fundamental restructuring of the economy. Economics Editor SVEN LUNSCHE examines details of the Normative Economic Model and its chances of success.

Derek Keys . . . has given much needed direction to the economy

DEREK Keys's first year as Minister of Finance, as well as Trade and Industry, has been marked by the frustration of encountering an economic mess which could not be dealt with by short-term measures

However, over the past few months he has instituted policies which should lay the foundation for a longer term recovery in South Africa's economic fortunes

Late last year he announced the Government's commitment to cutting real expenditure by three percent in the 1993/4 fiscal year, at the cost of about 25 000 public sector jobs

With the release of his five-year economic restructuring plan yesterday he has given the economy what it most needed — a sense of direction

The plan is not flawless and will undoubtedly encounter opposition from trade unions, interest groups in the business sector, and non-government organisations

But Keys, apart from having the full support of F W de Klerk's Cabinet, has won the respect of ANC president Nelson Mandela and many trade union leaders

His support among extra-parliamentary groupings is largely based on his willingness to make a clean break with past economic policies.

The economic model, for example, blames most of the economic woes currently inflicting the country on "the costly functional and physical separation of people under the apartheid system"

"As the apartheid paradigm is replaced by the new paradigm of an economically integrated society, these very inefficient and costly social, physical and administrative arrangements are vividly exposed," the report says

Keys has also promoted the status of the National Economic Forum (NEF), which over the past few months has succeeded in bringing together various political and economic forces to debate future economic policy

It is thus not surprising that the model was given its first public hearing at the NEF yesterday — Keys will need its support, particularly from the trade union movement, if his restructuring programme is to succeed

In his foreword to the 300-page document, he writes "The implementation of the economic restructuring programme must, as far as possible, be depoliticised "

The cornerstone of his five year plan is to boost economic growth to an annual 4,5 percent by 1997 By then an additional 1,3 million jobs would have been created and the economy should be in a position to absorb new entrants into the formal sector

This is a very ambitious project — last year the economy declined by two percent and both the private and the public sector were forced to retrench workers

But Keys, with the help of the Reserve Bank, the Central Economic Advisory Service and his special economic adviser, Dr Japie Jacobs, has examined all aspects of economic policy in setting his targets

A rise in investment spending both by the private sector and the Government, has been targeted as the major instrument in achieving the required growth and employment rates.

To induce both local and foreign investor confidence Keys is proposing, among other incentives, reduced tax rates, slashing Government current expenditures, more competitive labour policies and dismantling the protectionist barriers that surround many local industries. (Details are provided alongside)

But his model also calls for drastic measures in other areas, including education, housing and health services, and introduces a "social net" to assist those people likely to be affected by some of the drastic measures required by the programme.

Despite his call for a depoliticised economic programme, Keys must ensure that his model is high on the agenda of future political negotiations.

"An effort must be made, through the NEF and in consultation with extra-parliamentary groups, to win the support of the inhabitants of the country for the goals of the model and the policy implications that flow from it," he writes

There are very few personalities in the Government who could achieve such consensus Keys is one of them □

Highlights of the plan

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Tax relief

The model calls for "a lowering of the overall tax burden and a realignment of the tax structure".

In line with this objective, corporate tax rates should be reduced from 48 percent last year to 40 percent by 1997 and the lower ceiling of individuals' marginal tax rate from 43 to 40 percent over the same period. Furthermore due attention to the elimination of fiscal drag is also proposed.

The model also calls for a greater shift from direct (income tax) to indirect taxation (VAT, excise duties).

The shift aims to reduce the share of direct tax in total revenue from 55 to 50 percent over the five-year period of the programme.

State spending

Central to the fiscal reform package of the programme is a cut in Government spending to free resources for productive investment, reduce the growth in the State debt burden and control the inflationary impact of excess expenditure.

At present the Government is spending about R30 billion more than it is receiving in tax income. The model aims, through, among others, discipline in Government salaries at balancing state current expenditure and revenue by 1997.

However, it does make allowance for an increase in capital spending by the State.

In effect the model proposes restricting Government borrowing only for the purpose of capital investment.

Investment spending

A rise in investment spending by both the private and the public sector is vital to the programme's success.

Over the five-year period the model envisages a rise in investment as a percentage of Gross Domestic Product from 17,8 to 24,1 percent, the equivalent of R51 billion in 1985 money terms. Private investment is targeted to rise from 11,4 to 15,3 percent of GDP and public sector investment from 4,5 to 7,8 percent of GDP.

By 1997 the model hopes to have achieved independence from foreign capital as a source of investment, but during the middle of the programme it would require foreign investment the equivalent of 2,8 percent of GDP

Monetary policy

The economic model fully endorses the current independence of the Reserve Bank's monetary policy.

It thus aims at an inflation rate of three to six percent by 1997 (at present 10 percent) and a prime interest rate of between seven to 10 percent (16 percent). To achieve this the Bank's strict money supply targets are being supported.

On foreign exchange control the model says the present political uncertainty necessitated the controls as well as the financial rand system although it had led to serious distortions in the economy.

It was, however, the programme's intention to phase out controls in "due course".

Labour policy

In order to reverse the recent trend towards capital rather than labour-intensive investments the programme calls for greater effective competition in the labour markets and an end of the "adversarial relationship" between organised labour and management.

In one of its most controversial proposals the model argues real wage increases should be contained to 0,75 percent per annum. Wage rises above this level needed to be coupled with productivity increases.

To achieve such greater flexibility in the determination of wage rates relative to productivity it urges a shift away from centralised bargaining through the industrial council system.

Competition

The model suggests a number of steps to improve effective competition among suppliers in the market for goods and services. These include:

- Replacing the powers of the Competitions Board with an independent judicial system which would include a tribunal and a special court of appeal
- Outlawing forms of anti-competitive behaviour, such as price-fixing, market sharing, resale price maintenance and collusive tendering.
- Outlawing interlocking directorates between competing firms.
- Reconsidering the role of agricultural marketing boards
- Substantial administrative fines for anti-competitive behaviour.

Industrial policy

In line with its policy of promoting competitive markets the model seeks to remove substantial protective measures which shield local producers from international competition.

At present the average duty on tariffs imposed on imported goods adds 27 percent to the price of the product. The model seeks to reduce this level to 14 percent via the removal of surcharges, the elimination of formula duties and dropping the ad valorem rates on consumer goods to 30 percent and on other goods to 15 percent.

The industrial policy also seeks to raise exports

Safety net

While the model had been designed to eliminate social costs during the transition, a safety net should be in place "to preserve and re-apply the skills of people becoming unemployed"

The measures include unemployment insurance, special training programmes, support measures for small entrepreneurs and public work schemes

The latter should be labour-intensive and investment oriented and should be funded through the state's capital expenditure budget.

In the longer term the model says welfare measures should be selective and targeted at specific categories of poor groups in society Old age pensions should also be more targeted towards the poor.

Bid to create jobs and cut taxes

Business applauds Keys plan

Star 10/3/93

(49)

By Sven Lünsche

Business has welcomed the Government's Normative Economic Model as an essential framework for future economic policy-making.

Organised business, as well as the trade union movement, were briefed by Finance Minister Derek Keys on the economic restructuring programme at a National Economic Forum (NEF) meeting yesterday.

Later this month both business and labour are expected to respond on details of the economic model.

Releasing the plan in Pretoria yesterday, Keys stressed that consensus by the key players in the NEF — organised labour and business — was essential for the programme to succeed.

Initial reaction from the two major business organisations — the Afrikaanse Handelsinstituut (AHI) and the SA Chamber of Business (Sacob) — was favourable.

The programme aims to create 1,3 million formal sector jobs by 1997.

As part of it Government plans to lower both personal and corporate taxes, but will also seek to limit real wage increases to 0,5 percent a year — that is no more than 0,5 percent above the annual inflation rate.

If the plan proceeds, no sector of the economy will be left untouched in an effort to achieve a dramatic economic turnaround after a decade of stagnation and rocketing unemployment.

The main aim of the model is to achieve an annual growth rate of 4,5 percent by 1997, creating 1,3 million jobs and enabling the economy to absorb new entrants into the job market.

The share of income of the poorest 40 percent of the population should rise from 6,75 percent in 1988 to 10 percent by 1997.

More reports — Pages 13 and 14

These are ambitious targets as the economy last year declined by 2 percent and formal-sector employment levels fell similarly.

The cornerstone of the programme is a sharp increase in investment spending by both the private and public sectors. In 1985 money terms, R51 billion needs to be invested to make the targets feasible.

Among the programme's key reform measures are:

- Reducing the lower ceiling of individuals' marginal tax rate from 43 to 40 percent.
- Cutting corporate tax rates from 48 to 40 percent.
- Limiting real wage increases to 0,5 percent.
- Balancing the Government's current expenditures and tax incomes.
- Reducing inflation to 4 percent.
- Substantial improvements in productivity.

The programme calls for 6 percent of Government finances to be committed to the field of education, for free and compulsory education for at least the basic education phase, and for more emphasis on technical skills training.

AHI president George Huysamer says the strategy proposals merit strong support, but added that the business sector could only play its role "if all political role players commit themselves in a clear and timely fashion to the programme".

Sacob's director-general Raymond Parsons supports this sentiment adding that the targets set were the minimum needed to ensure a measure of stability.

In his reaction Sanlam economist Johan Louw warned that if the plan failed "unemployment will become rampant and standards of living will fall dramatically, with serious economic and political implications"

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THE ECONOMY

The Keys to prosperity

(49) ARG 10/3/93

Finance Minister, Mr Derek Keys, has presented the government's normative economic model with a "vision" of turning the economy around in the next five years. BRUCE CAMERON of The Argus Business Staff highlights the main features.

Major hurdles to clear if economy is to grow . . .

A NUMBER of major problems in the economy have to be overcome if the vision of the government's normative economic model to achieve sustainable growth is to become a reality.

The problems are divided into four groups in the model: functional imbalances; defects in the economic structure; defects in the system; and the problems facing South Africa in the international trade arena.

The functional problems include:

● Government dissaving. By spending more than it was receiving from the taxpayer the Government was mopping up large amounts of amounts that could otherwise have been spent by the private sector on development. The dissaving is equal to the amount government borrows to spend on consumption (such as paying salaries, pensions etc) instead of capital development (roads, new schools and hospitals etc);

● The outflow of funds from South Africe. If the outflow was caused by the need to import capital goods for production the problem would not be as serious but in South Africa money was fleeing the country or was being used to finance debt. This made the situation serious. The outflow reduced the savings base of the country limiting the amount of money available for growth;

● The increasing cost of labour with real wages tending to rise more or decline less than productivity. The rising unit labour costs have made South Africa's exports less competitive on international markets and imports more competitive on the local market. This in turn has stimulated unemployment.

In part the problem has been exacerbated by inflation with employers and consumers passively accepting inflation resulting in an informal system of inflation indexing distorting the efficiency of the market economy;

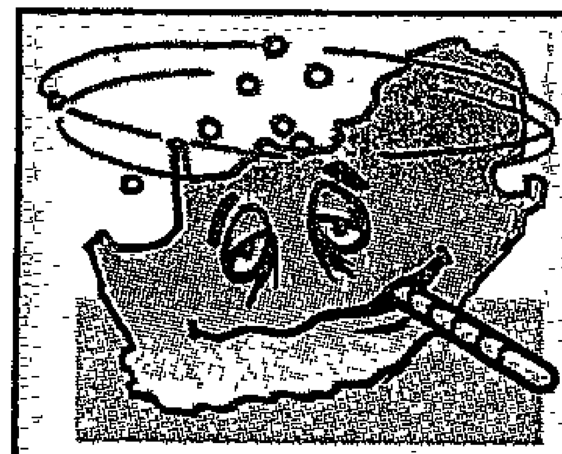
● The lack of business confidence. The report finds the lack of confidence has been caused by a number of factors including: the current political insecurity; shrinking markets for South African products, particularly commoditities; a perceived high tax burden; and the lack of foreign participation in the economy.

The structural defects or market inefficiencies which hamper the performance of the economy include:

● Inflation has created numerous distortions undermining the savings base of the country while artificially influencing the forms of savings (for example, property attracting an undue amount of investment as an inflation hedge), creating unlevel playing fields boosting or penalising entire industries.

● The government's high claim on resources — not only claiming the current 30 percent of the gross domestic product to finance itself but also absorbing a high percentage of top-level manpower;

● Excessive protectionism of local industry which has a long tradition of import replacement. South African import tariffs, ranging from 21 to 27 percent, placed it



An outline of the basic strategy of recovery

MARKET RESPONSES

More investment

		1992 (1)	1997
• Investment	%	15.9	23.1
• Public sector investment/GDP	%	4.5	7.8
• Private sector investment/GDP	%	11.4	15.3
• Private manufacturing investment/GDP	%	3,5	5.3

Greater productivity

• Lower capital/output ratio	3.1	1.7 (2)
• Higher labour/capital ratio index	100	138 (2)
• Improved multifactor productivity % p.a.	-3/4	1 1/4

GOVERNMENT STRATEGY

- Financial discipline
- Tax relief
- Less government
- Industrial reform
- Improved market structure
- Socio-economic reconstruction
- Urban reconstruction
- A safety net

PERFORMANCE OF THE ECONOMY

GROWTH		1992 (1)	1997
	GDP	-2	4 1/2
	EMPLOYMENT	-2	3

Graphic: BOB GRIERSON, The Argus

Priority no. 1 is to curb government spending

THE number one target for turning the economy around is the government's overspending on current expenditure.

The model gives the government five years to reduce the state's dissaving from its current level of 4,8 percent of the gross domestic product to zero.

In other words the government has to stop borrowing to balance its current revenue to cover current expenditure.

A major part of the exercise would be discipline in government salaries and wages.

The model suggests that wage discipline in the public sector would filter through to the private sector.

Benefits would include:

● Freeing more capital for productive investment;

● Stopping the trend towards a debt trap where government debt rises to a level where paying the interest becomes unsustainable;

● Lowering the state impact on inflation; and

● Indirectly contributing to a stronger balance of payments.

The model recommends that government dissaving will have to be eliminated gradually to "avoid considerable disruptions and abrupt shifts in demand and supply".

The model rules out the "highly inflationary" method of using the Reserve Bank to fund its expenditure adding that "credit from private sector banking should be restricted to bridging temporary shortfalls . . ."

On monetary policy, the model recommends the ongoing independence of the Reserve Bank to follow a policy which serves the longer term needs of the country without undue weight being given to short-term considerations, which may concern the government at any particular time.

The Reserve Bank's mission was to continue to protect the internal and external value of the rand primarily by combating inflation. Its main weapon in doing this was the control of money supply.

Limit top tax income rate to 40 percent

A SUBSTANTIAL chop in company tax rates by eight percent to 40 percent and the top rate of direct individual tax by three percent to 40 percent within five years is envisaged in the government's normative economic model.

The architects of the model say both personal and company rates of taxation in South Africa are high in relation to other middle income countries and even industrial countries.

"Lower tax rates would release more funds to be used in the private sector for more productive investment and would also more directly reward greater productivity and efficiency."

Attention also had to be given to fiscal drag with inflation pushing people into higher brackets of tax. This could be achieved with a reduction in the number of tax brackets and the lowering of the top marginal rate to 40 percent.

However it is bluntly stated in the model that the most effective way to get rid of fiscal drag is to "eliminate inflation".

Steps should be taken to lower direct personal tax to its 1984 ratio of 7,9 percent of gross domestic product.

Other recommendations include:

● A shift from direct to indirect tax with VAT and excise duties being increased; and

● A reduction in import duties from the current average of 27 percent to 21 percent.

A key element in reducing taxes would be the reduction in government spending levels.

It is concluded though that by reducing the state's stake in the economy the economy would grow and with it the tax base giving the government more to spend in the end although as a lower ratio of the gross domestic product.

The vision quantified

	1992 PERCENT	1997 PERCENT
Real GDP growth	-2	4 1/2

Restrict pay rises,

:ectec countr es in wor c trade"

The situation had been further complicated by the government's increasing reliance on the tariffs as a source of income.

The tariffs raised the relative costs of producing internationally tradeable goods and artificially reduced the cost competitiveness of South African exports. The protective tariffs also permitted producers to charge more in South Africa than they would receive internationally, reducing the incentive to export

● The dual exchange rate with the financial rand and the commercial rand as well as exchange control has caused serious distortions including: bottling up domestic liquidity, distorting asset prices and domestic interest rate patterns; discouraged foreign investment; and, had given artificial values to the rand. There was also a substantial cost in policing the system. The report however states that under current conditions and the continued debt standstill the system could not be changed immediately;

● Demands for higher wages and collective bargaining had resulted in new technology and industries being capital rather than labour intensive;

● Price fixing by both the private sector and government. Producers and distributors exacerbated the position with over-recovery of input costs fueling inflation. Restrictive practices, collusion, standardisation of professional fees and of escalation clauses in tenders and monopoly prices were all examples. The government's so-called "administered prices" represented a substantial portion of total pricing in South Africa.

Defects in the system include:

● Inappropriate education and training. This included the low number of matriculants studying natural sciences and mathematics; and, the fragmented administration of the education system;

● The entire apartheid edifice which separated people functionally and spatially which "not only limited their productive participation in the economy, but also introduced high excess costs . . .;"

● The institutional system controlling the flow of domestic savings and foreign investment was highly developed and efficient but did not meet the needs of financing innovative ventures by smaller independent businessmen.

Employment growth	-2	3
Average rate of inflation	14	5
Share of income by poorest 40% of households	6¾	10

Accountability to help restore confidence

GOOD government on the principles of accountability, transparency and consistency would be required to restore public trust to enable the implementation of the government's normative economic model.

The agenda of government "reform" would also require a commitment by government to intervene less in the behaviour of market mechanisms.

This would involve "dismantling most of the government's market participatory and regulatory machinery . . ."

The government would have to remain effective in areas where market forces could not work, such as education, training, health, transport networks and underpinning rural and urban settlement and small entrepreneurs.

However the effectiveness of current social programmes had to be examined.

South African expenditure on social services "substantially exceeds the averages of both developing and developed countries".

Without any increased spending "the performance of these programmes can be considerably improved by appropriate rationalisation".

A critical improvement was in the provision of free and compulsory education for at least the basic education phase of about nine years for all South Africans.

A helping hand for small and medium enterprises

THE formal small and medium enterprise sector had to be expanded as part of the plan to improve the economy.

Strategies recommended in the government's normative economic model include:

● Development by private financial institutions of sound screening processes aimed at funding the sector;

● Special incentives to encourage private financial institutions in equity financing of the sector, including arrangements with business development agencies;

● The development of mechanisms to allow the softening or delay of repayment of initial instalments on loans;

● The development of community banking mechanisms in which pooled funds of savers are lent to borrowers from the same community, creating a spirit of self-help;

● Burdensome aspects of tax and manpower legislation as well as so-called minimum standards should be eased;

● Government should adjust contract and tender procedures to assist small business;

● Arrangements should be made to link small and big business, including subcontracting; and,

● Initiation of comprehensive business training programmes.

Sharpening competition

TOUGH new measures have to be adopted to improve competition and ensure the effectiveness of the free market system in South Africa.

Recommendations made in the government's normative economic model include:

● No government involvement in decisions of the Competitions Board and the introduction of an independent judicial system of a tribunal and a special court of appeal;

● Anti-competitive behaviour such as price-fixing, market sharing, resale price maintenance and collusive tendering should be forbidden by law and not by government notice;

● Substantial fines for anti-competitive behaviour;

● Interlocking directorates between competing firms should be outlawed and public disclosure of such positions made compulsory;

● Appeals and other procedures should be streamlined;

● Compulsory notification of all acquisitions.

create more jobs

REAL wage increases will have to be kept to 0,75 percent a year if a targeted extra 1,3 million formal sector jobs were to be created in the next five years.

Labour costs were a vital factor listed in the government's normative economic model for the recovery of the South African economy and the increase in employment opportunities.

Even if the target of 1,3 million extra formal sector jobs could be achieved this would not be sufficient to absorb the growing labour force. Additional attention was also required for the informal sector.

To achieve the formal sector target of an extra 1,3 million jobs in the next five years real wages increases would have to be limited to 0,75 percent a year.

"Larger increases would lead to lower growth in output and employment and would jeopardise the central goal of the programme, namely to absorb the full increase in the labour force in gainful employment."

Average real increases above 0,75 percent a year would be justified only if productivity exceeded the targeted 0,9 percent.

In the model a warning is made that the "currently adversarial relationships in industrial relations must come to an end".

To achieve this it is suggested the reconstituted Manpower Commission in reconsidering legislation on industrial relations should seek greater flexibility in reaching wage rates relative to productivity.

Attention had to be given to the lack of secure space and shelter; essential utilities, such as power and water; and access to market information in the informal sector.

Huge economic gains could be reaped immediately by creating conducive business conditions in black residential areas and along transport corridors linking the areas with traditional areas of employment. As an example hive-type industries could be established along the transport corridors.

In the model it is also suggested that "significant and immediate" employment could come from the provision and maintenance of socio-economic infrastructure.

Policy vacuum

■ World Bank likely to 'wait and see':

By Mzimkulu Malunga

ONCE South Africa has access to international finance, relations with the World Bank will be more symbolic than real, says the Standard Bank's economic division.

According to an analysis on possible future relations between South Africa and the World Bank, that institution is likely to adopt a wait-and-see attitude towards this country. Sowetan 11/3/93.

Quoting sources within the World Bank, Standard's economists report that officials of the World Bank say they will not lend money into what they term a policy vacuum, meaning South Africa has to clarify its economic policy. Even then, the World Bank's response will depend on its acceptance of such a programme.

Keys plan: Cautious ANC nod

CT 11/3/93

(49)

JOHANNESBURG. — The African National Congress yesterday cautiously welcomed Minister of Finance Derek Keys' five-year Normative Economic Model (NEM), saying "for the first time in a long time the government has committed a policy framework to paper and public scrutiny".

A positive development was the recognition that the government's current expenditure had been far too high relative to public investment expenditure, the ANC said in a statement

But the ANC said the proposals on competition and anti-trust policy were "still very weak".

Another criticism was that the document failed to say how the identified economic problems would be solved.

The Congress of South African Trade Unions yesterday said the NEM was a "valid contribution", but it was viewed as a discussion document only.

A positive feature was the "government's commitment to socio-economic reconstruction and a safety net", Cosatu said. — Sapa necessary injections and vaccinations as applicable are administered by a qualified nursing sister, or otherwise arrangements are made for the administration thereof at the local clinic.

At every prison where children are with their mothers a member of the nursing profession is responsible for the necessary supervision This member sees to it that all prescribed directives regarding the care of the children are strictly adhered to and that the children's general health and well-being is promoted

In general it can be mentioned that the Department of Correctional Services places a high premium on the medical treatment of all persons entrusted to its care. In this regard the nursing staff of the Department of Correctional Services are guided by the medical officer (district surgeon) and his prescriptions and orders are meticulously carried out This includes general treatment which can be provided in the prison and prison hospitals, hospitalization in private or provincial hospitals and treatment by specialists.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version

For written reply:

General Affairs:

Revenue/deficit before borrowing: categories

102. Mr G C ENGEL asked the Minister of Finance:

Whether he will furnish information on the (a) latest estimate of State revenue for the current financial or tax year in respect of each category of revenue and (b) expected deficit before borrowing; if not, why not; if so, what are the relevant figures? B263E

The MINISTER OF FINANCE:

The Minister of State Expenditure stated in his Additional Budget Speech on 15 February 1993 that, given the total expenditure figure of R104,877 billion and the estimate of total revenue at that stage of R75,057 billion, the buget deficit may amount about 9 per cent of GDP. This remains the latest state of affairs. As in the past details of the revised estimates of revenue for the 1992/93 financial year will, however, be published in the Budget Review on 17 March 1993.

Land and Agricultural Bank of SA: farms bought

115. Mr A A B BRUWER asked the Minister of Finance:†

Whether the Land and Agricultural Bank of South Africa purchased or bought in any farms during the latest specified period of 12 months for which information is available; if not, why not; if so, (a) why and (b) how many in each province? B240E

The MINISTER OF FINANCE:

Yes.

(a) During the period of 12 months ending 31 December 1992 the Land and Agricultural Bank of South Africa was compelled to buy in farms at public auctions in 129 cases in terms of the provisions of the Land Bank Act No 13 of 1944, since offers to satisfy the Bank's claims could not be obtained at the auctions. The relevant auctions occurred due to the following reasons:

1	Insolvencies of the mortgagor	54 cases
2.	Attachments by other creditors of the property mortgaged to the Bank, in pursuance of an order of the court . . .	9 cases
3.	Abandonment of farming by the mortgagor .	23 cases
4.	*Mortgagor's total burden of debt has escalated to such an extent that the Bank's security margin was eliminated and financial recovery has become impossible .	43 cases
		129 cases

*In these 43 cases the Bank launched a final rescue attempt in co-operation with the State, but the relevant mortgagors could not be furnished with any form of assistance.

(b)

Cape Province	24
Natal	3
OFS	59
Transvaal	43
	129

Powers of Directors-General

123. Mr D H M GIBSON asked the Minister of Finance:

(1) Whether any steps have been taken to implement the recommendation contained in the First Report of the Joint Committee on Provincial Accounts (C5–91), dated 19 June 1991, to the effect that his Department should determine the powers of Directors-General of the Provincial Administrations to compel

Rand's fall may help exports

B|Dom 11/3/93 (49)

TIM MARSLAND

ECONOMISTS have welcomed the recent depreciation of the rand because it improved prospects for the export industry.

Safto chief economist Bruce Donald said recent surveys among the organisation's members showed exporters still saw the rand as an obstacle to export growth.

He said the recent decline in the rand did not compensate for the differential between SA's high inflation rate and those of its major trading partners. Exporters' margins were being squeezed by rising costs on the domestic front.

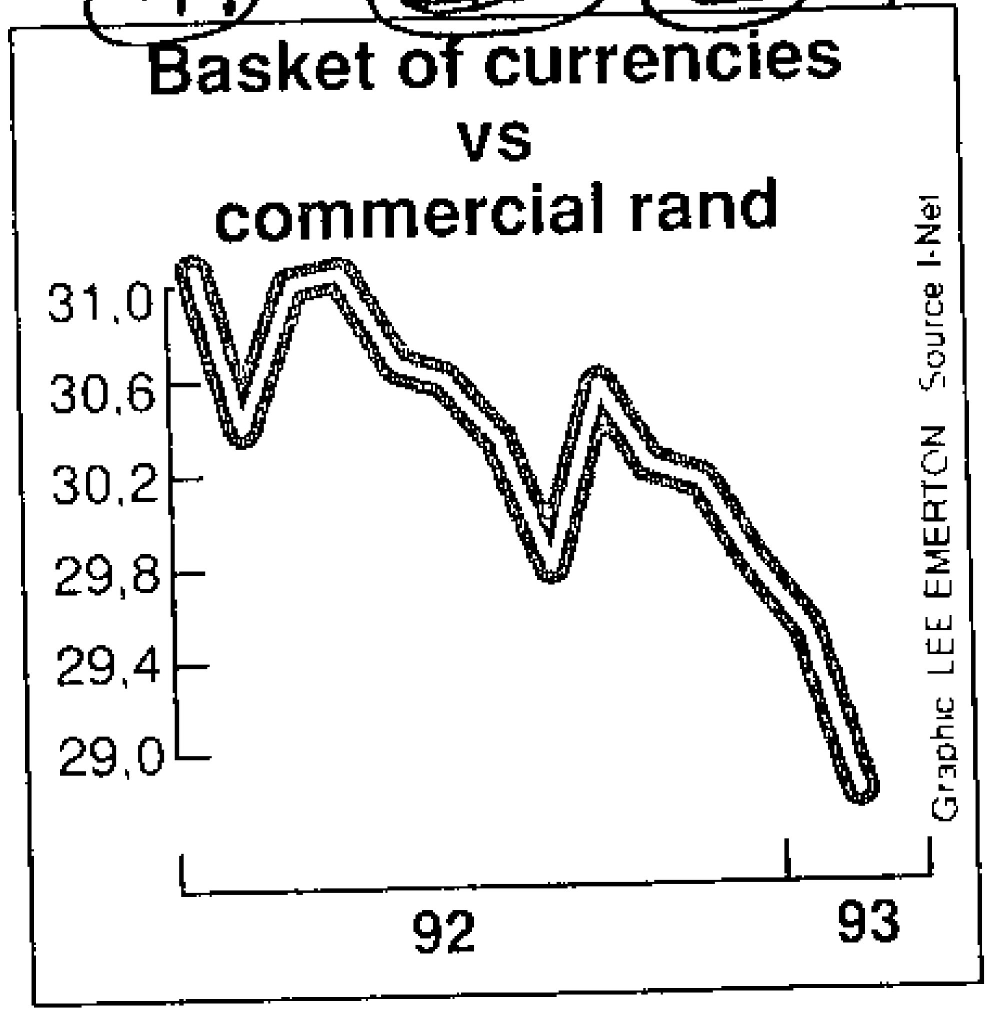
Nedcor Bank chief economist Edward Osborn said the declining rand was providing relief for exporters.

While export volumes would not increase because of the weaker rand, export income in rand terms would.

Commodities and precious metals accounted for about 70% of SA's exports, with the rest from the agriculture and manufacturing sectors.

Importers would be hurt to some extent. However, Osborn pointed out that about 70% of exports were in dollars and possibly 45% of imports were dollar-dominated.

Higher prices importers would have to pay would offset the advantages of the weaker rand to a degree.



Osborn put the rand exchange rate at a conservative R3,30 against the dollar by the year-end.

☐ The basket is a formula used by the Reserve Bank in determining the value of the rand and is made up of the currencies of SA's key trading partners.

The dollar has the largest weighting, followed by the sterling, the lira, the Deutschmark, the yen and the guilder. The Bank has never published the exact formula. The graph is based on an I-Net generated formula.

Zero growth rate predicted for '93

BDM 11/3/93 (49)

LINDA ENSOR

CAPE TOWN — This year would probably be SA's fifth year of recession, and at best a zero growth rate could be expected, Old Mutual senior economist Riaan le Roux said at a presentation yesterday.

Business confidence would remain depressed until economic conditions improved, no turnaround in the "investment strike" could be expected and levels of unemployment would rise as rationalisation in the public and private sectors continued.

The Budget was expected to be deflationary as Finance Minister Derek Keys addressed the problem of a mounting budget deficit, which had reached "dangerous" levels. Le Roux felt it was likely to be the worst budget in history relative to the state of the economy at present.

"This will not be a good news budget for the man in the street," he said, pointing out that the Budget deficit would be the main focus of attention. One consequence of failing to address adequately the deficit would be a sharp rise in government's interest bill.

Le Roux noted that interest payments had risen from about 8% of total tax revenue in 1980 to a current 22,5% and that the interest bill in the 1992/93 fiscal year was expected to have increased by 17%.

Interest costs as a percentage of total government expenditure had also almost doubled since 1980, and unless the Budget deficit was reduced, SA faced the danger of falling into a debt trap which could eventually lead to government being forced to raise taxes to pay interest.

A further consequence of a large Budget deficit would be to heighten inflationary expectations in the economy and undermine gains made by the Reserve Bank's tight monetary policy. Tax increases to bring in an additional net amount of R6bn would be necessary to reduce the deficit to 6,7% of GDP compared with the current 9%. Without tax cuts the deficit would remain high at an estimated 8,4% of GDP.

No relaxation of monetary policy could be expected in the light of falling foreign exchange reserves brought about by a dwindling current account surplus and high capital outflows. A further cut in the Bank rate was unlikely before the third quarter.

Le Roux also emphasised the importance of the Budget containing measures to combat government dissaving. The only way to do this was to cut government spending.

Le Roux stressed the need for the Budget to have credibility. People needed to know the future direction of fiscal policy. Too often in the past government had failed to stay within the confines of its own budget — on average government spending had been 4,5% higher than its "hopelessly optimistic" estimates since 1980.

There would be little money available in the Budget to promote savings and investments or for social expenditure, apart from the equalisation of pensions.

ıry may not be sustained

Budget will determine the future

Sowetan 11/3/93.

(49)

FURTHER PLUNGE Recessionary conditions may be prolonged unless there are positive signs from Keys:

By Mzimkulu Malunga

WHAT comes out of the Budget next Wednesday will determine whether the recession ends or is prolonged, says the director general of the South African Chamber of Business (Sacob), Raymond Parsons.

During a briefing on the organisation's Business Confidence Index (BCI) for February, the Sacob chief said the economy had reached the lowest possible point and could not plunge further. Any improvement depended on positive signals from the Government when Finance Minister Derek Keys presents his Budget.

Increased confidence

Business confidence last month increased by 1,3 percent to 94,2 percent. Some of the key factors that modestly boosted morale in February were manufacturing production, the number of passenger vehicles sold in January, share prices on the Johannesburg Stock Exchange (JSE), the rate of unemployment, as well as the performance of the financial rand against the US dollar.

"While these developments are encouraging, we should be cautious because a lot of things can still go wrong, both on the economic and political fronts," said Parsons.

However, the commercial rand continued to perform poorly against the dollar, while the volume of exports declined and the inflation rate increased to 9,7 percent.

Derek Keys

Good rains which have fallen in many drought-hit parts of the country have improved prospects of better harvests this year —, meaning that the country will not have to import grain and other agricultural products.

Lasting cofidence

Prospects for the resumption of multiparty talks strengthened the positive mood in business circles, though only "tangible progress" could bring about lasting confidence in the business community.

But the economies of South Africa's major trading partners in the Western World are still struggling, a development which spells gloom for this country's exports

Stals seeks labour's support

PETER DELMAR

RESERVE Bank Governor Chris Stals last night urged labour to play its part in ensuring growth and warned that economic restructuring would fail if the Bank's efforts to control money supply were not supported by overall fiscal and labour policies.

Stals told a meeting organised by the ANC's Johannesburg East branch that distorted distribution of wealth and income and a decline in growth and development would result from undisciplined money management, government finance and labour policies.

"Through better training and education and by improved living conditions, the people of SA will be able to become more productive and will therefore justifiably earn higher real salaries and wages. This, however, also needs a positive and constructive attitude towards work and employment," Stals said. (49)

He said the Bank had been tolerant in its attitude to money supply, allowing annual increases of 6% to 9%, despite production growth of only 1% to 2%.

Stals urged independence of the central bank, saying there was a strong temptation for governments to look to the banking sector to create money to finance a part of government expenditure. "It is for this reason that central banks must have some independence from government and must be able to resist political pressures for the creation of more money, and therefore, more inflation with all its disadvantages."

BD 23/11/93

Keys plan marked by old-style apartheid economics, says ANC

BD/Day 11/3/93

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GRETA STEYN

THE ANC yesterday expressed concern over key aspects of Finance Minister Derek Keys's economic model, saying they carried the stamp of apartheid-style economic policy-making.

Economic planning department head Trevor Manuel told a media conference in Johannesburg the model in its present form was unacceptable as it failed to deal with wealth redistribution. Also of concern was the document's approach to the labour movement.

Manuel said the plan would shift the burden of restructuring to the poor by advocating a move from direct to indirect taxes. The problem would be further aggravated by the proposal to peg real wage increases to 0,75%.

"It is ironic that the frontmen of the model were economic advisers to a succession of apartheid governments," Manuel said.

The ANC was concerned that the "over-emphasis" in the document on the unit costs of labour contained a "thinly veiled right-wing approach" to industrial relations which saw labour as a problem rather than a resource.

Cosatu also issued a statement yesterday expressing concern at "a tendency to attack workers' standards and centralised bargaining. We see no possibility of agreeing on economic policy goals on the basis of low wages and poor labour standards."

ANC economic planning deputy head Tito Mboweni said the authors of the paragraphs on labour had no serious commitment to the "golden triangle" of labour, business and state working together.

Asked whether the document should be used as a point of departure for policy-making, Manuel said it was one of many documents that should be taken into account. He stressed the World Bank report was a far more acceptable document.

However, the organisation welcomed the release of the model because for the first time in a long time, government had committed a policy framework to paper and public scrutiny. The emphasis in the document on growth was laudable, Manuel said another positive development was the recognition that government current expenditure had been far too high relative to public investment expenditure.

There was also a recognition that the private sector corporate structure did not provide a good competitive framework. In particular, the ANC welcomed the proposal to outlaw interlocking directorates between firms. However, the proposals on competition and anti-trust policy were still too weak.

Manuel said the document "paid lip service" to encouraging small and medium enterprises, but made no specific suggestions on incentives. Another example of

☐ To Page 2

Keys plan

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☐ From Page 1

lack of detail was in recommending innovation and deregulation in the financial sector.

Mboweni called on Keys to make available the econometric model on which the document was based.

The assumption that resources freed by reducing government's share in the economy would necessarily be transferred to private fixed investment was questionable. At present there was no shortage of financial resources to finance investment; the reasons for the lack of investment lay elsewhere.

● Comment: Page 6

Star 1/8/93

ANC-led government unlikely to raise taxes

By Sven Lünsche

An ANC-led government would be unlikely to raise the overall tax burden from its present level, says Professor Dennis Davies of the Wits Legal Resources Centre and an ANC tax adviser

Davies suggested, however, that the organisation would aim to achieve more equitable revenue income by taking cognizance of vast wealth gaps now prevailing.

Addressing a seminar on taxes in the new SA, organised by accountants Deloitte & Touche, Davies listed a range of changes under discussion by the ANC

He stressed there was very limited scope for increasing the tax burden on persons earning R20 000 to R80 000 a year because they already accounted for almost 80 percent of all income tax payments.

"We are moving in the wrong direction.

"If we want to boost investment spending we cannot raise taxes any further," Davies said

Nevertheless, within these confines, a number of tax changes could be introduced by a future government, which would ease the emphasis on the lower- and middle-income groups to provide the bulk of tax revenues

Davies said these included

- A multiple VAT system with a high basic VAT rate, a lesser rate for essential goods and services and zero-rating for basic foodstuffs

While such a system was more complex, it would be acceptable, given future political realities

- Plugging certain tax loopholes, which have resulted in a marked disparity between the nominal rate of company tax at 48 percent and the effective rate of between 20 to 30 percent
- Reintroduction of a dividend tax, which brought in R408 million in 1990.

Davies said, however, tax on dividends should only be introduced after a careful consideration of alternative systems to avoid the abuse presently existing insofar as tax planning and pension funds were concerned.

- A land tax, which would be costly to implement, but would allow a future government to address tenure patterns in its effort to deal with the legitimate claims of 3,5 million people displaced by apartheid.
- Lifting estate duty from its current level of 15 percent to about 35 percent.
- Excluding immigrants from exemption for tax on interest earned by non-South Africans, which could raise about R200 million.

Davies said the ANC was unlikely to introduce a wealth tax to raise additional revenue

Dennis Davies . . . more equitable revenue income

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(49)

Star 11|3|93

Lack of redistribution plans slated

By Sven Lünsche
and Mike Siluma

Both the ANC and Cosatu yesterday expressed major concerns at key aspects of Finance Minister Derek Keys's economic adjustment programme.

Both organisations, however, welcomed the Normative Economic Model as a valuable contribution to the debate on a future economic structure.

At a press conference yesterday the head of the ANC's economic planning unit, Trevor Manuel, said the model represented the first time the government was willing to address economic issues in a "non-ad hoc" way.

(49)

"It also acknowledged that the current problems facing the economy have resulted from the rigidities of apartheid," Manuel said.

The cornerstone of the model, which has been widely welcomed by business, is sustainable employment creation creation through higher economic growth and investment.

The ANC objected to the programme for not addressing the mal-distribution of wealth in SA and not proposing measures to achieve a redistribution of income.

"The socio-economic focus of the model is extremely weak and we are given no indications of an overall development programme," Manuel said.

He was also critical of plans to shift the total burden more towards indirect taxes, such as VAT.

"This will hit the poorest communities particularly hard as they spend a greater proportion of their incomes on basics."

Both Cosatu and the ANC condemned the programme's labour policy proposals, which include minimal real wage increases and decentralised wage bargaining structures.

"We see no possibility of agreeing on economic policy goals on the basis of low wages and poor labour standards," Cosatu said.

The ANC said the model's "right-wing approach to industrial relation" laid all the blame for high unit labour costs and poor productivity at the door of the workers and did not examine other factors such as capital costs and lack of training.

Productivity key to economic plan

Star 12/3/93

(49)

Goals set by the Finance Minister's new economic model mean a greater focus on productivity. This raises thorny issues, reports MICHAEL CHESTER.

THE new five-year economic model unveiled by Finance Minister Derek Keys, with its aim of a R51 billion surge in investment and the creation of 1,3 million new jobs, has put back on the agenda the issue of productivity

Closer analysis shows that a cornerstone of the model is the emergence of a far stronger industrial sector However, much still depends on winning the confidence of investors to finance expansions that, in turn, generate a bigger overall labour force

The Normative Economic Model, as it has been named, seeks to spur a dramatic increase of no less than 80 percent in new investments in the manufacturing sectors between now and 1997.

The next question is how potential investors can be motivated One of their first demands, quite reasonably, will be signals of radical improvements in productivity

As protection walls are dismantled, vast improvements in the performance of many South African manufacturers will become crucial if they are to cope with competition from overseas rivals.

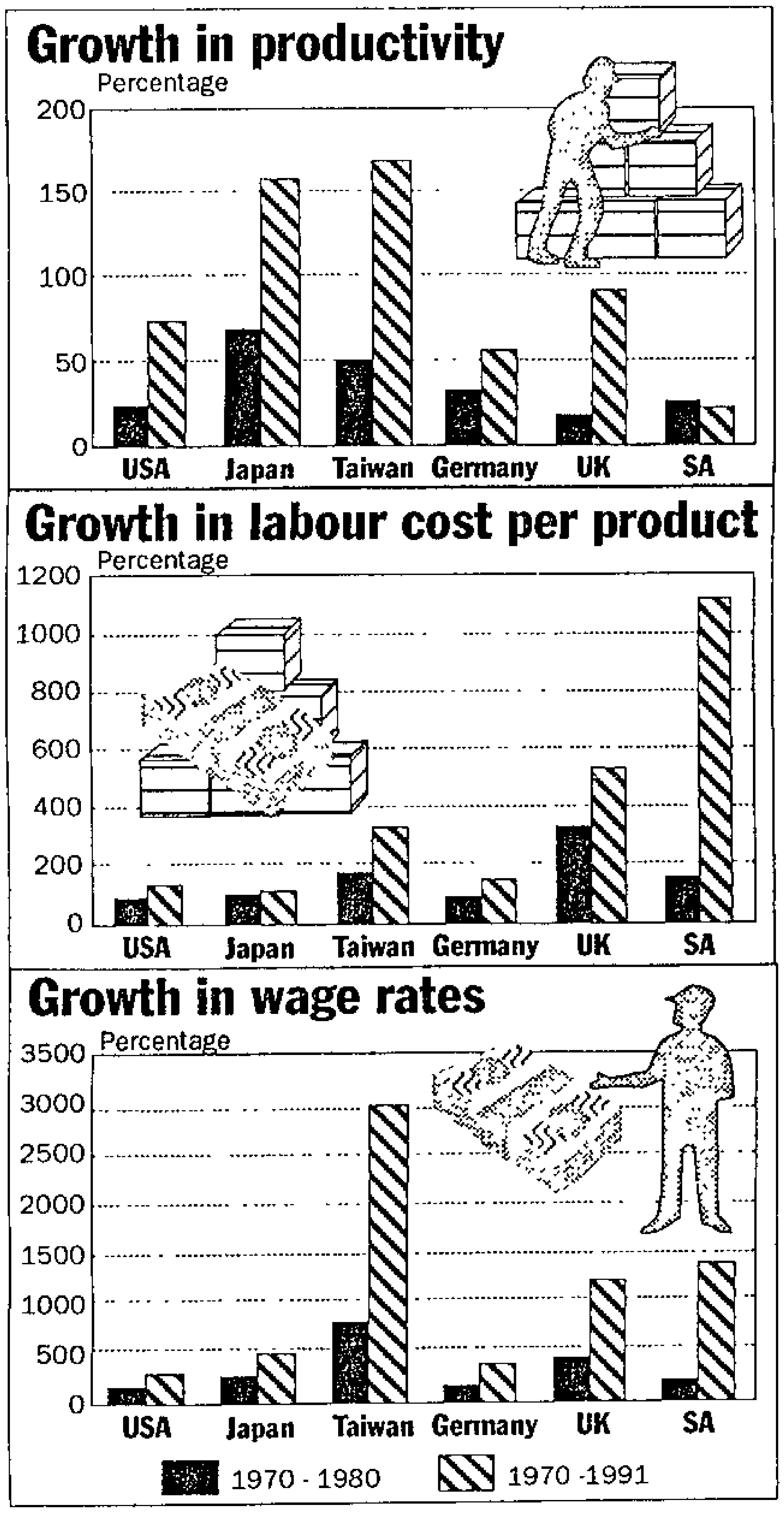
Until now much of the industrial sector has had the luxury of the protection offered by heavy taxes on imported goods. These taxes have, on average, climbed as high as 27 percent of value — 21 percent in tariffs, made worse by special import surcharges.

The new economic model envisages that the protection barriers will be removed in gradual stages, but the ultimate objective means several business sectors will have to begin to brace themselves Comparing price tags is, eventually, the name of the game.

At the moment, export earnings equal no more than R10 of every R100 of goods coming off production lines. Keys wants the value of export shipments to be increased to R23 in every R100.

He has not been alone in following the ease with which producers — sheltered by various protective measures — have grown used to applying a silent system of inflation indexation when it has came to determining both wages and prices

One simply follows the course of domestic inflation to match what has been happening to the consumer price index.



Between 1961 and 1972, price increases were contained at a modest average of only 3,3 percent a year. The annual spiral jumped to 11,2 percent from 1973 to 1978, to 13,5 percent between 1979 and 1984 and 15,2 percent from the mid-1980s to last year.

As South Africa rejoins international players in the world trade, it also again falls under rules laid down by trade policemen such as the General Agreement on Tariffs and Trade, as well as the guidelines of the International Monetary Fund

Barriers to open competition in import/export trade, such as tariff protection on the one hand and excessive export incentive payments on the other, are usually regarded as a no-no

That, in turn, brings a warning from the National Institute of Productivity about what's been happening on the world scene while South Africa has been in isolation.

NPI economist Karin Liebenberg provides a few blunt reminders in the latest issue of Productivity SA. The accompanying graphics spell out the facts about how South Africa has fared in the past two decades when compared with those with whom it must now do battle globally.

What needs to be noted is South Africa's laggard performance in the growth of productivity — set alongside increases in the size of pay packets.

Here, of course, the process of trying to narrow the black/white pay gaps must be taken into account.

But, before all the blame is heaped on the unions, deeper analysis will show that equal if not more blame must be shouldered by the dismal performance of automation programmes. These were started by many employers as they turned to capital-intensive investment rather than labour-intensive schemes.

It was often seen as an escape route out of labour problems — or else a patchwork of devious schemes to win tax kick-backs. It all ended in a vicious circle.

Whatever the arguments, the result has been an escalation in the final measurement of labour costs per unit of production that leaves many South African companies with their backs to the wall in terms of full-scale international competition

Fresh hopes of breaking the vicious circle have been provided by proposals in the new economic model that efforts should be made to contain average annual wage increases to within 1 percent above any current inflation rate — in fact to about 0,75 percent in real terms — unless increases can be justified by evidence of productivity performance ahead of new targets (0,9 percent).

The ultimate objective of matching pay packets to productivity is commendable — the promise of boosting the competitiveness of exports and also slamming the brakes on inflation in general

However, employers should be reminded that the pace of productivity — productivity of capital as well as labour — falls squarely inside the responsibility of good management. □

RESERVES FM 12/3/93.

Gold swapping (49)

Capital outflows in February were countered by swapping a large portion of the Reserve Bank's gold holdings for the use of foreign exchange. The Bank's latest statement of assets and liabilities shows that 726 000 oz were shed in the month, or 11% of total holdings, a reduction of US$223m (R543m). Foreign exchange reserves, which rose in rand terms (R52m) fell only $6m. Total reserves now stand at $2,6bn (R8,3bn) from January's $2,9bn (R8,8bn).

At a later date, the swap will be reversed.

UAL economist Dennis Dykes says: "That way the Bank can raise much-needed liquidity without cutting further into the forex reserves." The Bank can also avoid the effect a large injection of gold directly on to the market would have had on the gold price.

The Bank's valuation of gold holdings rose R20,05/oz in February to R931,29, thanks to a decline in the rand against the US currency over the month. The dollar was worth R3,15 at the end of February from R3,07 at the end of January. The gold price fell during the month, from a London afternoon fix at the end of January of $330,45/oz to $327,60/oz at the end of February. ■

Star 12/3/93

Keys report, synopsis differ

(49)

Controversy is brewing over crucial differences in the economic targets set by Finance Minister Derek Keys's Normative Economic Model and a summarised synopsis.

An inflation target of 5 percent is set for the year 2000 by the original 300-page report, while the summarised version says 1997.

Similarly, the original does not contain a proposal to outlaw interlocking directorates of competing firms, but the summary does.

The report was summarised by six economists.

● **Report — Page 15**

FM 12/3/93. (49)

ANC TAX POLICY

A tenuous grasp of reality

Hopes that the ANC is coming to terms with economic reality are repeatedly dashed by public pronouncements from people who really should know better. The logical case for not taxing individuals' dividend income — which has already been taxed at underlying corporate level — is impeccable and abolition of this tax has been one of the few positive tax reforms of recent years.

Yet this week, legal professor and ANC adviser Dennis Davis said that the tax will have to be re-introduced because "it is unacceptable to allow redistribution to wealthy shareholders at the expense of lower and middle income groups."

Since when is rewarding the providers of risk capital "redistribution"? Only those who do not understand the nature of profits could make such an absurd assertion.

Making matters worse, Davis continued that the "tax leakage and tremendous abuse" regarding pension funds will have to be eliminated. Given existing laws, most private-sector *FM* readers would be only too happy to find out how to "abuse" the pension fund system.

Or is the mere desire to provide adequate retirement income by one's own savings, rather than rely on the handouts of a benevolent socialist state, in itself an abuse?

Finally, Davis warned that it will probably be necessary to place the onus on taxpayers to prove that they have not structured their arrangements merely to gain a tax benefit. Apart from the intrinsic difficulty of proving a negative, the authorities already have quite enough discretion in this direction — as their arbitrary and inconsistent treatment of film and other tax shelters has made clear.

Clearly, there are still elements within the ANC who consider a punitive tax policy an acceptable method of redistribution of wealth. At the same time, others are calling on the business sector to invest and create jobs. Can they not see that these attitudes are incompatible?

It is no coincidence that SA's transition from a low- to a high-tax society has been accompanied by a deterioration in relations between the taxman and his clients (the fact that much of the tax revenue so painfully collected has been stolen or wasted by the kleptocracy only makes matters worse). The higher taxes are, the more it makes sense to minimise one's liability — and it is no man's patriotic duty to pay a cent more in tax than he has to.

In the circumstances, Davis's attempted reassurance that there will be no drastic changes in the tax system in the new SA "because the ANC's tax policy does not differ dramatically from what exists" could be counterproductive. ■

A message from Davos

FM 12/3/93 (49)

Dave Brink is MD of M&R Holdings and chairman of the business group in the National Economic Forum.

SA is more or less on its own. This, perhaps, was the most sobering of messages to come out of the World Economic Forum held in Davos, Switzerland, at the end of January. While the forum provided SA political, labour and business leaders with an opportunity to communicate their visions and priorities to the international community, the message was clear: Africa must address its own problems first and that it was up to SA to become the motor for growth in the subcontinent.

Following 1992's now famous plenary session, which was addressed by President F W de Klerk as well as Nelson Mandela and Mangosuthu Buthelezi, this year's week-long forum provided SA with another platform from which to tell the world where the country was going in terms of growth.

This year a panel, which included Finance Minister Derek Keys, IFP chairman Frank Mdlalose and the ANC's Kadar Asmal, as well as Cosatu's Ebrahim Patel and myself representing the labour and business sectors of the National Economic Forum, addressed the question: "How will leadership in SA create a common platform for economic growth and social development?"

The high-powered audience, which included World Bank managing director Attila Karaosmanoglu, heard that the National Economic Forum consisting of representatives from SA labour, government and business, had established long- and short-term working groups which had already agreed on priorities and had reached a measure of consensus on a common purpose. The Forum's short-term goals are to preserve jobs and to create employment.

But the critical long-term mission is to find a recipe for sustainable economic growth based on equity and improved efficiency, as well as a pattern for redistribution of wealth which is not in conflict with the "growth" imperative. The importance of these goals was stressed by members of the panel at Davos.

Keys, for example, confessing to a "technicolor dream" which included growth of 7,5%, stressed the need for a growth rate of at least 4% to start whittling down unemployment. Patel, highlighting the need for technical education and training, spoke of immediate needs in the fields of education, health care, housing and job creation.

Mdlalose dealt sympathetically with the urgent needs of the poor but agreed that any form of redistribution which destroyed capital would be counterproductive and that economic opportunities had to be developed with a view to sustainable long-term growth. As for Asmal, while acknowledging the need for technically trained people, he stressed the importance of SA continuing to produce graduates in the humanities.

Further discussion tended to reinforce the consensus between the panel members, despite their divergent constituencies. This, I think, came as a pleasant surprise to the moderator of the discussion Joe Nye, associate dean for international affairs at Harvard University, and to many of the foreign delegates. The impression we seemed to give was the importance of teamwork in enabling SA leaders to create a "common platform for economic growth and social change."

We also learnt many lessons from Davos. Among these were pointers on future privatisation and commercialisation. An interactive session on privatisation in Russia, Hungary and Mexico, in which SA's Pieter van Huyssteen took part, heard that, in January 1991, there were 86 private shops and 35 private restaurants in Russia. A year later there were more than 36 000 private companies with 150m stock vouchers issued to 98% of the population.

The lessons learnt by the Russians in the process was the government should not stay involved in privatised companies and that these companies must have maximum transparency — lessons we should heed.

The panel discussion and less formal gatherings in Davos provided us with the chance to explain where we were trying to go. Mick Davis of Eskom, Bobby Godsell of Anglo American, the ANC's Cyril Ramaphosa and Johann Rupert of the Rembrandt Group were singled out as being among the 200 "Global leaders for Tomorrow."

But the only other mention of SA, and that was in passing, came during the opening of the plenary session by Swiss Confederation president Adolf Ogi. Talking on the conference theme of "Rallying the Forces for Global Recovery," he pledged Switzerland's support saying this would extend "all the way to the Cape of Good Hope."

Quite simply, the challenges in other parts of the world and experience of international agencies in Africa tend to divert attention away from Africa and SA. For example, in response to my asking for his views on southern and South Africa, the World Bank's chief economist made the following points:

- ☐ The bank had wasted enormous resources in Africa in the past;
- ☐ The bank has concluded that throwing money at problems in Africa is futile; and
- ☐ There will be a convergence in southern Africa which, simply put, says that "SA will drag the rest up to its level or they will drag you down to theirs." The latter, he suggested, was more probable but it's really up to us.

This was a most sobering message for all participants and makes ongoing consensus and continued attention to growth all the more urgent.

FM 12/3/93.

Continued from page 27

on which it is based."

The document points out that restructuring programmes lack strong, visible short-term advantages, which is why the package must have credibility in the eyes of financial markets, domestic and well as foreign, the business sector, the workers corps, labour and the population as a whole.

Working to SA's advantage is that some of the groundwork has already been accomplished:

☐ Monetary discipline has been maintained which is stabilising the exchange rate and reducing inflation;
☐ Foreign debt has been reduced;
☐ Trade relations have been improved;
☐ Export performance is solid; and
☐ The shift to capital intensity in industry is slowing.

The weakest link in the chain is fiscal discipline and many are looking to next week's Budget as evidence that the process is on track. Jacobs, referring to complaints that the model had no teeth and scepticism about Keys's ability to make meaningful changes in fiscal 1993-1994, expressed the opinion that the Budget might contain "more teeth than people will want." ■

Keys model falters when it confronts the labour market

BDAY 12/3/93.

ALAN FINE

(49)

IT DID not need the official responses of the ANC and Cosatu on Wednesday to confirm that one of the most sensitive and controversial aspects of Finance Minister Derek Keys's normative economic model is going to be its approach to the labour market

Focusing on strikes, wages, centralised collective bargaining, small business development and job security, the report was immediately attacked by the two organisations as having an anti-union bias. This is true in some respects In most, though, it takes an evenhanded approach which, while setting parameters for future negotiation, is vague on its own preferences

Unarguably, though, it raises crucial issues More, then, is the pity that one of its main starting points in the discussion on the impact of labour costs on the economy is introduced through the misuse — either wilful or uninformed — of strike statistics. And it also draws a highly questionable linkage between strike levels and earnings.

Strike levels, it argues, increased by an average 33% a year from 1983 to 1987 This "had a negative impact on labour intensivity of the SA economy (equivalent to) a 7,9% increase in wages" This, it further argues, was worth 483 000 job opportunities.

It goes on to argue the "bright side" — which happens to fit in with the model's requirements. It suggests that, since 1987, strike levels have fallen by an average 14,8% a year This, it says, had a healthy effect on the earlier trend towards greater capital intensivity and "a further reduction of 4,7% per annum ... would bring the strike index back to its 1985 level by the end of the century" which would allow real wages to rise more rapidly.

A cursory examination of strike trends in the past decade (see graph) demonstrates how it is possible to make statistics mean anything you desire To use 1987 as the base year is ridiculous as it was a most atypical year, largely because of the three-week wage strike by 220 000 miners. On the whole, strike patterns have followed a more gentle upward trend throughout, correlating closely with the increase in union membership.

To argue that the five years up to 1987 saw a 33% huge annual increase in strike activity (A) is ridiculous. Therefore so are the conclusions drawn about labour cost increases and lost job opportunities. The same must be said for the clearly inaccurate conclusion (B) that strike levels have been on a downtrend from 1987 to the present and the hope (on this basis) that the trend could continue or even accelerate.

(The model also argues that strike activity adversely affects real wage levels. This is true, hypothetically, under certain circumstances. But it ignores the reality that militant unionism of the '80s won for its practitioners a larger slice of the economic cake previously distorted in favour of business and white labour by legal obstacles to black unionism.)

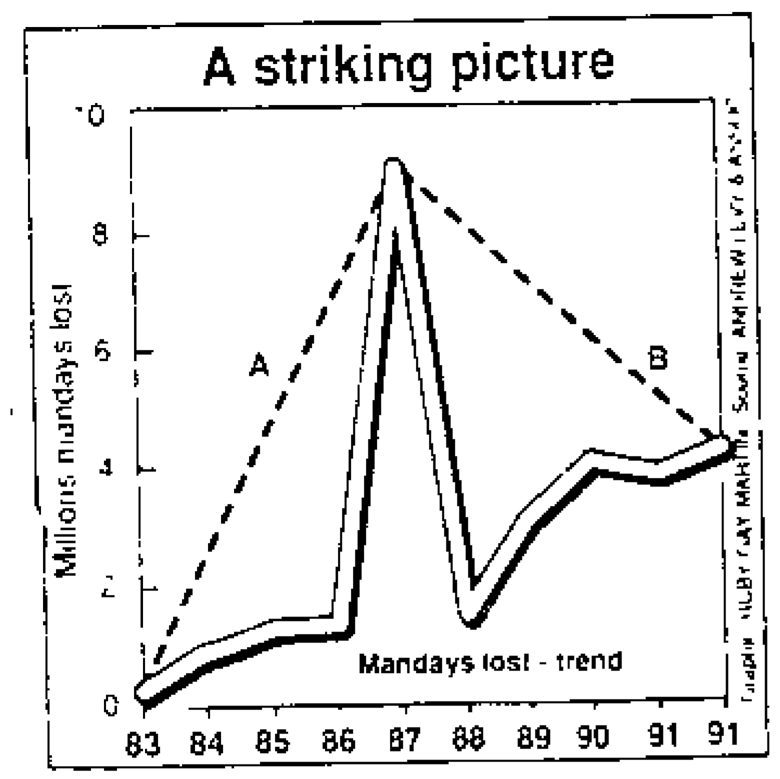
Feeding the presumably sophisticated econometric model used with false information renders this part of the model invalid. And if, as has been suggested, the overall model is dependent on the accuracy and achievability of each of its component parts, the entire project is in trouble

Unless, of course, the nature of the industrial relations system were to change over the next few years. The model certainly talks of the need to develop a less adversarial system, but it is silent on how this is to be achieved. If anything, a number of the (vague) suggestions have the potential to increase, rather than decrease, industrial conflict if crudely interpreted and implemented.

Take job security, for example. The model points out, quite correctly, that "countries which have ensured a high degree of job security for workers by means of legislation (have) found that it impedes the adaptability of enterprises to changed circumstances and (affects) international competitiveness".

Implicit is the suggestion that SA norms on retrenchment are too severe It takes a similar approach to unfair dismissal standards.

Industrial Court guidelines require formal consultation over retrenchment between management and employee representatives to minimise lay-offs and to determine terms of retrenchment, including severance payments. Where individual dismissals for disciplinary offences or incapacity are concerned, the law and court guidelines require both procedural and substantive fairness.



The authors of the Keys model appear to have ignored the effects of these norms on the strike patterns about which they are so concerned. According to Andrew Levy and Associates' data, dismissal disputes triggered 20%-25% of strike activity during the early- to mid-'80s, before Industrial Court adjudication and private arbitration became the norm. That figure was, by last year, down to 4,9%. And last year retrenchment disputes were responsible for 0,2% of man days lost due to strikes — remarkably low given the high incidence of retrenchments.

Whimsical dismissals are no longer possible, more skilled manpower management is a requisite for any successful business and Industrial Court decisions are not as consistent as they might be. But retrenchment and dismissal standards in SA are not overly restrictive — including by international standards. And their benefits in terms of industrial peace cannot be ignored.

Centralised collective bargaining, and the industrial council system in particular, is a more complex area. While the system has, as the model acknowledges, contributed to industrial peace, it can potentially be used by both big business and labour to make entry and survival difficult for new, small business.

Cosatu spokesman Jayendra Naidoo reiterated yesterday the organisation would never accept the dismantling of the system which it saw as crucial to the whole process of industrial restructuring Nor would it accept a blanket exemption from council agreements for small business and/or non-parties.

If that is so, the solution would have to lie in realistic wage differentials between different areas and sub-sectors, and a greater willingness to grant ad hoc exemptions on merit (a process which has already begun) In a nutshell, this means greater flexibility.

Propounding the new Cosatu approach, Naidoo acknowledges the need for a new system of wage determination As does the model. Cosatu sees better training and education and hence higher productivity, as the key to significant improvements in real wages. But it also seeks a new philosophy on grading and skill recognition as part of an overall new approach to wages

Ultimately, a shift to a more decentralised system of wage bargaining — and more restrained wage claims and a less adversarial industrial relations system — will require, in the context of a strong labour movement, a series of trade-offs The nature of those trade-offs is emerging even now in the gold mining industry, where crisis has acted as the midwife.

The elements there have been a greater willingness to share financial and operational information with employees, a direct link between productivity and earnings (the profit-sharing scheme) and — still in embryonic form — a shift to a participative management system resembling German co-determination

Such microeconomic questions may not be the traditional stuff of normative economic models But without it Keys's plan is at worst defective, at best incomplete

Budget likely to include petrol price increase

EDWARD WEST (4-9)

BIDAY 12/3/93

THE continuing underrecovery on petrol and diesel in February has fuelled expectations of price increases of between 10c/l and 15c/l to be announced in the Budget next week.

The Mineral and Energy Affairs Department said yesterday motorists had paid 7,25c/l too little for petrol in February due to the deteriorating rand/dollar exchange rate and an increase in the landed cost.

Since July the underrecovery, which is charged to the Equalisation Fund, has ranged from 15,17c/l to 4,8c/l on petrol and diesel. The 7c/l price increase in October reduced the underrecovery in that month to 8,17c/l from 15,17c/l.

The deteriorating exchange rate from an average R2,75/dollar in July to R3,12/dollar in February resulted in government having to pay an extra 6c/l since July, an Energy Affairs spokesman said.

February's landed cost of petrol increased to 51,99c/l from 50,67c/l in January, while the landed cost of diesel increased to 56,84c/l from 55,9c/l. The underrecovery on diesel was 10,79c/l in February.

Econometrix economist Tony Twine believed a fuel price increase ranging between 10c/l and 15c/l would be announced in the Budget. Government had already indicated that a 7c/l price increase was imminent.

There was no indication yet how much fuel prices would increase above the 7c/l to accommodate higher income requirements by the Finance Department — especially in the light of revenue losses anticipated with the recent VAT zero rating on certain basic foodstuffs, said Twine.

Sacob transport spokesman Peggy Drotsky said an increase of at least 7c/l l was likely.

Star 12/3/93

NEM controversy brewing

(49)

By Sven Lünsche

A major controversy is brewing over crucial differences in the economic targets set by Finance Minister Derek Keys's Normative Economic Model (NEM) and a summary of the report.

The original 300-page document, which was compiled over 12 months by the Central Economic Advisory Service, the Reserve Bank and the Department of Finance, was summarised by a team of six economists led by former Reserve Bank Deputy Governor Professor Jan Lombard in February this year.

When the model was released on Tuesday, reaction to it was largely based on the summarised version.

Since then, however, commentators have discovered crucial differences in the way it represents key findings of the NEM.

At a press briefing on Wednesday, ANC economist Tito Mboweni said it was extremely difficult to the follow key trends of the full report as opposed to those in the summary.

Many of the differences seem to be based on the fact that the summary sets out economic targets for the period 1992 to 1997, whereas the original report uses a longer framework, namely 1992 to 2000.

The key differences that have been identified so far include·

- The NEM sets an inflation target of five percent at the end of the decade; the summary wants this figure to be achieved by 1997.
- Similarly, the original model targets the elimination of government dissaving by 2000; the summary sets a 1997 deadline
- The summary says real wage increases above 0,75 percent per annum would only be justified if coupled to productivity increases of 0,9 percent. In the original report these figures are reversed.
- A proposal in the summary to "outlaw interlocking directorates between competing firms, or disclosing such positions" is not contained in the NEM's report on effective competition.

Keys says in the introduction to the summary: "This memorandum, which is a synthesis rather than a summary, deals with the issues in a sequence which may differ somewhat from the main report."

Nevertheless, the summary was already described as "meatless" two weeks before its release.

Professor Philip Black, UCT School of Economics director and a member of the State President's Economic Advisory Council, said the summary was too vague and did not spell out the policy implications of the basic report.

Keys' recipe will flop - experts

Sowetan 12/3/93.

(49)

Sowetan & Radio Metro

Talkback

with Tim Modise

By Mzimasi Ngudle

FINANCE Minister Derek Keys' economic restructuring plan is a recipe for economic disaster and will be dumped by a future government, economists told listeners in the *Sowetan*/Radio Metro Talkback Show last night.

Professor Lieb Loots, of the University of Western Cape, said the plan paid lip service to those things that were desirable.

Economic disaster

"The plan is a recipe for economic disaster. I do not think any democratically-elected government will implement the plan," he added.

Loots said drastic cuts in taxes would deplete resources and that the capacity to provide services would then be severely curtailed.

Replying to studio host Tim Modise on the possible introduction of a flat tax rate, Loots said:

"I would still retain a progressive income tax rate and not a flat rate, say of 18 percent, regardless of the income.

"The question is how steeply should the tax rise when income rises. Our personal income tax is too high and our tax structure distorted."

Loots said thinking behind the plan that smaller government was best for economic growth was wrong.

"The World Bank found that there is no correlation between the size of government and economic growth. What is important is the economic policy the government adopts."

Such economic policy would depend on the political and economic stability of the country.

Professor Peter Le Roux, also of the University of Western Cape, and Dr Bernie Fanaroff, chairman of the Vat Co-ordinating Committe, were also sceptical:

"The plan will cut the role of the State to a bare minimum. In South Africa, this is not the route to follow.

"A new government will not be able to implement the plan because it is flawed. The answer is to stimulate growth and not to be too strict with the Budget," Le Roux said.

Fanaroff said the Government had been more honest than those in the past. However, there were some problems with the plan in that it did not distribute resources.

"There should be also a commission to restructure the whole tax system," he said.

All the three economists welcomed the zero-rating of some foodstuffs. However, they expressed concern that Keys would announce an increase in Vat when he presents the Budget on March 17.

"The zero-rating of some foodstuffs does alleviate the burden on the consumer. It is to be welcomed given the problems we have today," Le Roux said.

BUSINESS

The model flies into flak

WMail 12/3-18/3/93.

Derek Keys' structural adjustment programme, released this week, is a step forward to broadening economic debate. But as a working model it is seriously flawed, argues **REG RUMNEY**

(49)

Market responses

More investment

		1992[1]	1997
• Investment/GDP	%	15 9	23 1
• Public sector investment/GDP	%	4 5	7 8
• Private sector investment/GDP	%	11 4	15 3
• Private manufacturing investment/ GDP	%	3 5	5 3

Greater productivity

• Lower capital/output ratio		3 1	1 7[2]
• Higher labour/capital ratio	index	100	138[2]
• Improved multifactor productivity	% p.a	-3/4	1 1/4

Government strategy

- Financial discipline
- Tax relief
- Less government
- Industrial reform
- Improved market structure
- Socio-economic reconstruction
- Urban reconstruction
- A safety net

Performance of the economy

GROWTH (%)		1992[1]	1997
	GDP	-2	4 1/2
	EMPLOYMENT	-2	3

SCOPE

(1) Preliminary estimates
(2) Incremental ratio 1992 1997

How the jigsaw fits together

THE spectre of discredited supply-side economics and International Monetary Fund structural adjustment programmes haunts the government's new economic programme

Moreover, at least one of its recommendations puts it on a collision course with labour, which has already hit out at a "tendency to attack workers' standards and centralised bargaining".

Not only are the familiar themes of exports and free market principles interwoven in the document released this week by Finance Minister Derek Keys and his special adviser Japie Jacobs. The Normative Economic Model specifically adopts a broad-brush macro-economic approach, focusing on disciplined government finances and efficient free markets, though mitigated by human development and safety nets.

It does not focus, as does the Nedcor-Old Mutual Professional Economic Panel, on the institutional change and specifics needed for reshaping the economy

To be fair, as Keys says in a foreword to the main 300-page document, this is a discussion document, representing the best advice of government economic advisers rather than a grand plan. However, as with scenarios, any idea that it is not prescriptive must be taken with a pinch of salt

Again, in the government's favour, the programme — for that is what Jacobs called it — doesn't rely on a trickle-down of wealth from the rich to the poor to cater for social problems

Certain central recommendations will be widely welcomed One such is the elimination, by degrees, of government "dissaving" — borrowing to finance current expenditure. Another is the commitment to macro-economic discipline There is general agreement that a lack of discipline would harm growth

But at the same time it ignores completely the various "kick-start" and job-creation plans that have been proposed, arguing that economic growth is paramount

"Large-scale upliftment programmes in a stagnating economy, which are not aimed at promoting sustained economic growth and result in extensive redistribution of income, which in turn has a negative impact on saving, will inevitably restrict economic growth "

By contrast, continue the authors, measures such as training and more efficient production techniques will allow the benefits of growth to reach a larger proportion of the labour force in a growing economy. And they will also promote employment-creating growth.

While calling for training and slating the shackles apartheid placed on the economy, the document comes out strongly against features of the economy which distort prices, including anti-competitive behaviour by business and the price of labour. Higher productivity and wage restraint are seen as essential So central bargaining is condemned as an inefficent pricing mechanism

Supply-side-type tax cuts to spur investment are a significant feature of Keys' document. The authors note the gap between nominal and effective corporate tax rates of 25,1 percent between 1979 and 1984 — yet concentrate on a reduction in nominal company rates from 48 percent to 40 percent by 1997 On the flip side of this, the implication of a heavy emphasis in cutting spending is conveniently ignored — that is user charges or a heavier burden on the very middle class supposed to benefit from an eventual three percentage point decline in the top tax rate to 40 percent in 1997

The authors also put a lot of faith in greater investment as an engine of growth, aiming at an increase of investment as a percentage of gross domestic product (GDP) from 15,9 percent to 23,1 percent by 1997

A cornerstone argument of this and many other conventional economic approaches is that savings need to be encouraged, among other sources of finance, to provide the necessary investment for growth

"Of course," the document states, "the mere availability of the necessary finance will not ensure the desired level of investment .. The investment environment or climate, which determines the inducement to invest, plays a critical role in investment decisions " Of course But the programme still puts the cart before the horse by concentrating on the finance for investment before creating the conditions.

Several fundamental assertions made by the government's economists, for instance the degree of capital intensity in industry or how much of imports represents capital goods, must be questioned

One is that monetary policy has indeed suppressed inflation

The document omits to mention that the recent lower than 10 percent year-on-year inflation rate as measured by the consumer price index has been achieved after years of recession The document suggests an inflation rate declining gradually from where it is now to around five percent by the turn of the century However, if labour and business don't play ball on keeping a lid on prices, the wished for average growth rate will just fade away as the Reserve Bank steps in with punitively high interest rates to keep inflation in check

But then the document's main figures have that familiar fairytale feeling that suffuses scenarios

Indeed, Jacobs, asked how realistic the projected 4,5 percent real economic growth figure for 1997 was, replied that various scenarios doing the rounds merely plucked the figures out of the air But if the necessary preconditions were met, that growth was attainable

The 4,5 percent real GDP growth figure, or the 3,6 percent a year real average growth until the end of the decade depend on, for instance, an annual average growth in formal employment of 2,9 percent and an average decline of 0,5 percent a year in the capital-labour ratio

Competition is the key

WMail 12/3-18/3/93

Weekly Mail Reporter

THE Keys model not only insists on higher labour productivity — it is strongly critical of the lack of competition in South African business.

And the document recommends the final decision on matters brought before the Competition Board be taken out of the hands of the government and put before a "competition tribunal" backed up by a special competition appeals court.

"With regard to the structure of the market, economic concentration, mainly in the form of oligopolies, is a salient feature of the South African economy. These conglomerates are characterised by interlocking directorships and cross-shareholding."

The authors go on to say the existence of concentrations of power cannot be held solely responsible for the lack of effective competition. And they accept the argument that such concentrations could even be an advantage in international competition.

"However, this does not mean that concentrations of power are always in the interests of the community," say the authors. They can lead to uncompetitive behaviour like price determination not based on supply and demand.

Hence the structure and behaviour of the market should be monitored to see that restraints on the entry of new participants and illegal practices like horizontal price collusion should be eliminated.

Among other suggestions, the document recommends:

●Price collusion, market sharing, maintenance of resale prices and collusion on tenders should be declared illegal in terms of the Competition Act, and the competition tribunal should be able to declare other forms of anti-competitive conduct illegal on an ad hoc basis.

●On all prospective acquisitions of a predetermined size, or which could lead to predetermined levels of concentration in specific markets, notice to the authorities should be compulsory.

●Acquisitions, restrictive practices, statutory rights and government concessions which could result in monopolies should be evaluated more critically without sacrificing efficiency.

●Company legislation and tax measures should not restrict competition between conglomerates.

●Higher fines for infringements should be considered.

The document balances calls for regulation with calls for deregulation to remove impediments to entering and participating in the market system. Deregulation, the document adds, does not apply solely to government departments but all government institutions. So decreasing tariff protection is also a form of deregulation.

Foreign competition is often the only source of competition in the small domestic market. The protection of local businesses through protective tariffs or surcharges should be guarded against.

Budget will (49) merely bolster inequalities says the ANC

WMail 12/3 - 18/3/93.

The forthcoming Budget will not redress the imbalances created by 48 years of apartheid, say **NEVA MAKGETLA** *and* **LESETJA KHANYAGO** *of the ANC's Department of Economic Planning*

Next week's Budget will not address the enormous economic and social challenges facing South Africa. These include extreme inequalities and poverty, economic stagnation and escalating corruption and inefficiency in the state.

The Budget represents a crucial instrument in addressing these problems National budgets are not just about number crunching or balancing the books. They express the political priorities of the government of the day. From what we can learn, the 1993/4 budget will show that the government cannot:

- Eliminate racial and gender inequality in its own expenditures, much less on a broader scale
- Address inefficiency and corruption in government spending
- Design democratic and consultative processes for controlling the Budget.

In essence, the Budget will not change the pattern of spending. The largest vote is likely to be education, followed by interest on the deficit, health, defence, prisons and pensions.

Compared to most developing countries, South Africa spends heavily on education and health, in particular. Nonetheless most South Africans still suffer from inadequate provision of social services. South Africans are worse educated and less healthy than people in a score of poorer countries. If we could rigorously redirect spending in these areas, we could vastly improve health and education. We do not need more money, but a Budget which can set appropriate priorities and ensure the effective use of its resources for those in need.

Similarly, we need a clear development plan to ensure the effective and efficient use of government resources to restructure the economy to increase exports and generate productive employment opportunities. By improving tax revenues, growth would also provide a long-run check on deficit spending.

In the absence of a clear-cut development strategy, what does the Budget give us? Last year, the state spent R3-billion — almost three percent of the Budget — on the General Export Incentive Scheme, whose virtues remain debatable. Over the past decade it has also paid for costly strategic projects such as Mossgas.

By themselves, Budget allocations do not tell the whole story. Corruption and goal substitution run rampant through government. The central state has lost control over spending, while tax collection remains woefully inefficient.

The defence budget exemplifies how the Budget process generates corruption and inefficiency. This fiscal year, virtually half the defence vote — some R4,4-billion — went into a secret fund. The Budget gives no information on how that money was spent. Since it gives no goals or targets, effective auditing cannot take place.

This secret defence vote was twice the housing budget or about half the national deficit. In itself, it proves the inability of the government either to break with its brutal past or to ensure the open and accountable use of public funds.

Inefficiency and corruption also plague collection of state revenues. Over the past 10 years, direct and indirect taxes on individuals have risen and, in part because of bracket creep, become more regressive. The introduction of Value Added Tax generated much lower revenue than expected. Meanwhile, company tax stands nominally at 48 percent. In fact, well under 20 percent of company income went for taxes through the 1980s and early 1990s By contrast, in the United States, companies paid between 35 and 45 percent of their income

Because of inefficiency, while the state budgeted for a 4,5 percent deficit this year, the actual deficit will probably come closer to nine percent. In sum, the government has used the Budget, not to address problems of inequity and stagnation, but rather to maintain the privileges of a minority. In the process, it permitted a few corrupt civil servants to loot the treasury

State officials have virtually admitted their inability to overcome apartheid patterns in spending in the coming year.

They have no concrete plans to equalise spending on education. The so-called Education Renewal Strategy foresees an end to inequalities in this area only after 10 years.

The state seems to have no plans to ensure a real shift in health spending from high-cost, inefficient tertiary care to more appropriate primary facilities. It has given neither a clear definition of primary health care nor target dates for changes in funding

In housing, the state has still to establish institutions that can provide adequate shelter for South Africa's homeless and poor An allocation of some R2-billion was made for housing last year; as far as we can tell, that sum led to the construction of fewer than 15 000 homes and a somewhat larger number of site-and-service plots. Much of the funding went through the racially separate houses of parliament, which makes us wonder how much of it actually helped the homeless.

In welfare, most observers expect the state to respond to the demands of the democratic movement by equalising spending on pensions for black and white pensioners Similar expectations were raised last year, only to be disappointed. In any case, the level of government pensions remains low. And the bureaucracy dealing with black pensioners has proven insensitive and slow. As a minimum, we demand an equalisation of pensions.

The Budget process generates corruption and militates against democratic rule Above all, the deep secrecy that surrounds the Budget ensures that, as in the past, a tiny group of white men controls the destiny of the entire nation

True, Finance Minister Derek Keys and others claim they have consulted more widely. But they have never opened up the discussion within individual departments on the use of funds.

The state has repeatedly shown that, for obvious political reasons, it can move toward parity only by increasing overall spending, not by using existing resources more equitably. Only a democratic government can begin to reduce the privileged access to government resources that a minority now enjoys.

Accountable, transparent and fair government is not merely a slogan. It is the product of democratic, open and accountable institutions.

The ANC and others have proposed specific changes that can bring about a more appropriate and efficient Budget, one that can tackle the challenges facing South Africa today. These proposals include:

- A performance auditing agency Like similar bodies in Europe and North America, it would assess state spending not only in terms of financial soundness, but also in terms of efficiency in reaching stated goals
- An independent fiscal commission. The commission would. investigate the existing chaotic and unfair tax and expenditures structure, operate on the basis of open and full consultation and end all secret expenditures.
- A rolling multi-year budget with an overall development plan .

Only an active and representative parliament can ensure that bureaucrats allocate and use funds appropriately.

Government told to knuckle down

ALIDE DASNOIS
Business Staff

(49) ARG 13/3/93

GORDON Young of the Labour Research Service doesn't mince his words: the government's normative economic model, he says, reads like the deathbed confessions of a lifelong sinner.

After spending 40 years expanding the role of government, inflating the currency, interfering in markets and subsidising the inefficient, the National Party government has now "discovered virtue", he says.

"Now they say government must be reduced, the rand must be protected, markets must be freed and subsidies must be abolished.

"It is unlikely that this last-gasp application for sainthood will be entertained".

He notes a close similarity between the government's model and that put forward by the International Monetary Fund — for example, both models project a wage increase of 0,75 percent a year.

"Is it possible that the government has just cribbed the IMF's model?".

Mr Young warns that the plan bears no relation to economic or political reality.

"Investment must be raised from the present 15,1 percent of GDP to 25,6 percent. But how? And by whom? Apart from a small government contribution, most of the expanded investment must come from the private sector, whose recent record of capital formation is pathetic — indeed negative in some sectors".

He is very sceptical of plans to cut the government's share of the gross domestic product while at the same time increasing social spending, even if the economy grows by the projected 4,5 percent by 1997.

He says the model sounds more like an election manifesto than a serious attempt to solve the country's economic problems.

Spotlight on Keys

Wait for the Budget to judge it . . .

CHRIS VENTER

THE use of the world "normative" suggests that the economic structure that we have at the moment is abnormal.

This NEF identifies these abnormalities and basically suggests their removal. Some of the abnormalities are the direct results of separate developmet policies, most are the indirect results of those policies but a few can be ascribed only to bad management policies.

There have been earlier attempts at an economic plan for South Africa. Not one succeeded, mainly because they could not be implemented within the volatility and constraints built into our political system. Others were nothing short of hollow campaign promises and poor budget proposals.

The NEF is different as it was released by the major policy making office in the country as a starting point for discussions on economic policy. This is therefore not a report that can be disputed by the government, as it is the product of government. This is important from another perspective; it means that the ideas and policies expressed in this document have to be sold to the public, business sector, labour unions and the civil service.

The constraints as decribed by the model have to be removed to attain a normal economic system.

These constraints include high tax rates, excessive government consumption expendituire; the persistent outflow of capital; endemic inflation; poor labour output and relations; import protection; the financial rand system; monopolistic and controlled price formation; inappropriate education and training, and bad geographical positioning of the labour force in relation to job opportunities.

This normative model gives recognition to these suggestions from authorities and we must now find a way to sell these ideas to the rest of society.

We cannot help being somewhat sceptical with regard to some elements of implementation of the strategy and it will take the failure of only one element of the strategy for the model to collapse.

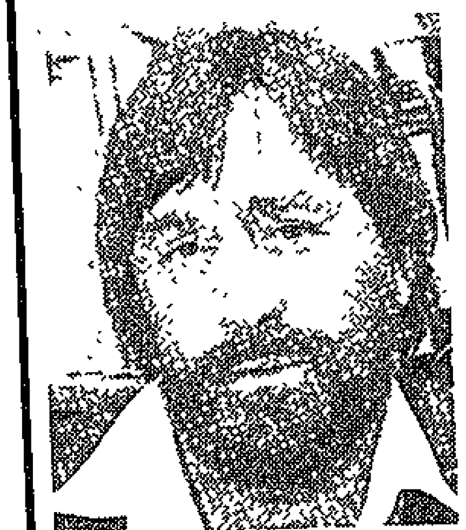
The current situation is not a good starting point for the faith in authorities to compile this model successfully when one considers the following:

- Promises of a gradual decline to 40 percent maximum marginal tax by 1994. It started, stalled and is simply not going to happen.
- We have had promises of fiscal discipline since the days of Finance Minister Mr Owen Horwood. Public finances have since deteriorated beyond comprehension.
- Monetary policy has had limited success so far, mainly because it had to carry the can alone. Was a 6 percent inflation rate decline worth the price in the form of unemployment, government revenue shortfall and decline in industrial output?
- Tax reform has been a myth.
- The government has had a dreadful record on good governance. Wastage and fraud were known to exist for some time.
- Smarter industries need a real turnaround. Protectionism and strange concessions have put the wrong industries in the wrong place. These suicidal industrial policies are continuing.

There is no doubt that Mr Keys will have wide support for his model. The few pockets of resistance will be overcome. The real social and political issues may make it more difficult to implement successfully. Indications of the sincerity of the plan have to be incorporated in next week's budget.

Without all these conditions it will become a non-starter and perhaps the last attempt to steer and manage the economy in the required direction.

■ Weekend Argus has assembled a panel of Cape Town economists to give their views on the ability of the "Keys Plan" to pull the economy out of its four-year recession and set it back on the road to growth.



Dr Philip Black, Director of Economics, UCT and a member of the Economic Advisory Council.

Dr Lieb Loots of the Department of Economics, University of the Western Cape

Mr Louis Fourie, is group economist and group manager, marketing at Boland Bank.

Mr Chris Visser, who is the chief economist of Metropolitan Life.

Vision for 1997 unattainable

LIEB LOOTS

IT is said that in order to be happily married, one must marry the perfect partner. My first impressions of the NEM is that it belongs to that genre.

The vision for 1997 which it presents is indeed desirable. But how is it to be achieved? The plan provides us with an answer which is not only unbelievable, but, in my opinion, dangerous and potentially divisive.

The strategy proposed in the planessentially aims to increase the amount and productivity of investment. Its inspiration is derived from the same philosophical base as Thatcherism and Reaganomics: reduce taxes and cut the size of government. Without these key fiscal pre-conditions, or even with only limited success, the strategy will fail.

The gross domestic product (GDP) share of recurrent expenditure will have to be reduced by a full third, a reduction in the vicinity of R35 billion to R40 billion in 1997 alone.

It seems most unlikely, if not undesirable, that cuts of such magnitude can be effected during a critical period of transition when we have high unemployment and serious alienation from mainstream society.

Even if we accept these cuts can be achieved, how likely are they to result in an increase in total investment from 15,1 percent to 15,6 percent of GDP in 1995? This increase has to happen in less than three years, half of which will be gone by the time a government of national unity (GNU) has been elected. The restructuring of the civil service and public expenditure can only then begin to be implemented. In terms of the logic of the plan, these cuts must happen first if it is to lead to higher investment and growth.

In other words, in something like 18 months, these dramatic cuts will have to be underway with enough credibility to convince investors they will be realised and major political players are committed to them.

Only expectations that policies will be maintained for a significant period of time will prompt investors to resume investment. Moreover, their expectations about the future will have to become dramatically optimistic for them to turn around the massive capital flight of probably more than \$2 billion currently leaving South Africa per year, and increase investment by the huge amount required by the plan.

All of this must happen in the second year or so of the GNU when the constitutional assembly will still be busy drafting a new constitution. If this is not wishful thinking, I do not know what is.

Even if all the above mentioned prerequisites were to happen, as unlikely as it might seem, will it really result in an additional 1 300 000 jobs in the formal sector as the plan predicts?

Plan

(49) ARGT 13/3/93

At the heart of our problem

LOUIS FOURIE

THE Normative Economic Model undoubtedly embodies the heart of South Africa's economic problem and reveals an honest and sincere approach to overcoming it.

It is disappointing that even the primary commentary on the model once again reflects a strong political element which confuses and causes uncertainty among the public as to the correct route to be taken to achieve economic reconstruction.

The central theme of higher economic growth on which the model is based is exciting as is the vehicles for its attainment — higher investment improved productivity.

Many of South Africa's current socio-political problems are directly traceable to an unsatisfactory economic growth rate.

The proposals in the model are in line with current international norms for economic restructuring. I specifically refer to the emphasis on fiscal responsibility, unrestricted international trade and conservative guidelines on inflation.

With reference to inflation, it is gratifying that two root causes in South Africa — productivity and ineffective competition — are addressed.

Continued emphasis on financial stability is also welcomed. This quality, which has become part of the South African economy over the past two years (lower inflation and stable exchange rate), form an essential basis for higher economic growth.

Looking at the emphasis on fiscal discipline, more responsible public debt management and the reduction of the overall tax burden. I believe it to be realistic to warn against the existing disparity between this approach and the expectations and demands of the majority of South Africans. New political decision-makers may very well conclude that social upliftment is a more important medium-term priority than a prudent fiscal approach. The "safety net" for the spectrum of economic victims provided for in the plan nevertheless attempts to alleviate this problem.

It is encouraging that the model stresses responsible governance. South Africa cannot afford to repeat the mistakes of the past — such mistakes could hardly be survived once by a country's economy.

The plan does not offer short-term solutions, but possibilities of gradual recovery for a hard-hit economy.

It's an 'Election Budget'

(49) ARG 13/3/93

WHEN he rises in Parliament on Wednesday, Finance Minister Mr Derek Keys is expected to deliver an "election Budget" — with a difference!

For the first time on Wednesday, when Mr Derek Keys delivers his Budget, the National Party will not be looking to a conservatively-inclined whites-only electorate as it hands out its now-limited largesse.

BRUCE CAMERON, Business Staff

For the first time, the National Party will not be looking to a conservatively-inclined whites-only electorate as it hands out its now limited largesse

With the economy entering its fifth year of recession, the rich and not-so-rich can expect continued pain with restricted assistance to the poor.

Social spending has increased from 32 percent to more than 40 percent of the budget over the past 10 years and most economists feel it cannot go much higher in percentage terms.

The government has little option but to adjust the patterns within the budget with a greater slice of the cake going to the underprivileged.

The first indication of the trend came with Mr Keys's announcement last Wednesday that he will remove VAT on a range of basic foodstuffs — this against the advice of most economists and even from within his own department because of the imbalances and administrative difficulties it causes.

On the spending side the central theme of the Budget will be parity between blacks and whites with pensions being the number one priority.

Other areas where spending will increase on the underprivileged are education and health.

Without solid moves to parity in spending, the National Party will have a major credibility problem in attempting to widen its voter base to the broader canvas of South Africa.

With the first post-apartheid elections scheduled for either late this year or early next year, this could be the last chance for the government to make significant gains in closing the gaps.

Although Mr Keys will announce parity in pensions, it is understood this will come in stages with full parity probably only being reached towards the end of the year.

Initially, an equal across-the-board increase is expected to be announced for all pensioners.

On the education side, the government will be looking towards implementing its new policy of a single education department with adjustments in the current spending patterns meaning the privileged will have to pay in school fees to maintain the comparatively higher standards at their schools.

Spending on education is expected to increase slightly from its 21 percent of the budget hit last year. At the current level of 7,2 percent of the gross domestic product education spending is extremely high by world standards but the spending is heavily weighted in favour of whites.

However, Mr Keys is severely limited by the contracting sources of government revenue and the growing government debt burden.

South African commerce and industry will be watching to see whether he moves to meet the promises of the normative economic model unveiled this week. Of particular concern will be the amount he intends borrowing to balance his books.

If he has to borrow much more than R20-billion they will not look on him with great favour.

Economists are agreed that the amount the government borrows to balance its books, particularly to pay for debt service and civil service running costs, needs to be cut significantly. They also agree that if he cuts costs too savagely or ups taxes and other income sources too high he could do more damage than good.

If he is to bring the deficit down as he is commited to do in terms of the normative economic model he not only has to restrict government spending but will have to increase his tax income as well.

He will pull in more from personal tax by allowing inflation to push people into higher tax brackets, he will up VAT to 12 or 13 percent, increase the petrol levy by an average of 15 cents a litre and look for a bit more in a wide range of levies and tariffs.

But he is also limited here particularly with tariffs such as the import surcharge, which were introduced as protective barriers but on which the government came to rely as an income source.

Picture. ANDREW INGRAM, Weekend Argus.

BALANCING THE BOOKS: The men in the Department of Finance who have been working late into the night trying to balance the books for Wednesday's Budget. Under Director General of Finance, Mr Gerhard Croeser, second left, their main task is to advise Finance Minister Mr Derek Keys on what taxes to raise or not raise. The others, from left, are: Dr Estian Calitz, deputy Director General, Dr Vivian Solomon, political economist, Mr Willie Vermeulen, director, financial planning and Mr Coen Kruger, chief director, financial planning.

Govt could save R5,5bn by cutting public sector costs, claims DP

BDAY 16/3/93

SIMON WILLSON

CAPE TOWN — Government could save at least R5,5bn in the coming fiscal year through cost reductions in the public sector, DP finance spokesman Ken Andrew said yesterday.

Presenting the DP's proposals for the 1993/94 Budget at a parliamentary briefing, Andrew said there was enormous scope for greater government efficiency.

"In tight economic times, the private sector is obliged to reduce costs drastically and there is no reason why the public sector should not be obliged to do so as well," Andrew said.

The DP's shadow budget projected inflation at an average 11% in fiscal 1993/94. It proposed a 5% increase in staff costs — as already laid down by government — and an 11% rise in other expenses, thus keeping non-staff spending steady in real terms. Total government spending should therefore rise by R9,05bn from the 1992/93 total of R101,58bn, excluding drought aid.

Independent efficiency experts and the auditor-general's office should be involved in a general cost-reduction exercise to cut public sector expenses by 5%. Staff providing essential services, such as teachers, doctors, nurses and police, should not be cut back but there had to be a significant reduction in overall staffing levels.

Large savings would result from the abolition of own affairs departments and administrations, and from rationalisation of services provided by central government and the various homelands.

About R1,7bn in additional savings would be generated by restricting defence expenditure to 2,5% of GDP.

"In the past, other departments have had to make sacrifices when defence was a priority and we see no reason why this cannot now be reversed," Andrew said. A fifth of planned defence capital expenditure should be postponed to relieve pressure on the Budget deficit.

Savings in future relief aid could be generated by encouraging the agricultural sector to be provident in times of plenty. This would enable them to draw on their own reserves during lean years.

The current tax system discouraged the use of self-sufficiency to combat drought, and left the farming community vulnerable to natural disaster, Andrew said.

He proposed a "drought bond" scheme, to incorporate attractive tax advantages to encourage savings when the agriculture sector found itself with surplus income. Such funds would be dedicated to drought or disaster relief and, if withdrawn for other purposes, the tax advantages granted would be recouped from farmers.

The DP said a state lottery should be introduced immediately, as it could raise about R800m in the coming financial year.

On the spending side, the DP said the

☐ To Page 2

Public sector

BDAY 16/3/93

☐ From Page 1

education vote should not account for a bigger proportion of the Budget than 1992/93's 19%. But government had to ensure results were achieved and value for money obtained.

The DP called for equalisation of social pensions to include citizens in the TBVC states. Andrew said the means test for pensions eligibility had to be uniform. "At the moment the means test is more stringent for other races than for whites. If the means test is left on a racial basis, pensions will not be fully equalised."

An additional R2bn should be set aside for job creation programmes, focusing on literacy and skills training for young people. In addition, the amount of direct poverty and starvation relief to be channelled through non-government organisations should be increased to R500m and more closely monitored to check for abuse.

A fund of R300m should be set up to assist aspirant farmers in gaining access to land. Government already owned hundreds of thousands of hectares of arable land through the SA Development Trust, and the finance would be needed only to help about 3 000 new farmers establish viable units.

Extra spending of R600m on the police was proposed on top of the increment to keep real spending on policing constant in real terms.

The DP said people aged over 65 should be allowed R10 000 in tax-exempt interest instead of the current R2 000, which would cost not more than R100m. It proposed the VAT zero rating of medicines, but did not cost the measure.

Commercialisation of appropriate enterprises should be rigorously pursued. Proceeds of privatisation should not be used for consumption expenditure nor for window-dressing current Budget deficits.

☐ The Budget speech will be televised on TSS in a direct broadcast from Parliament from 2.15pm to 4pm tomorrow.

Unenviable task for politicians

49

ARGUS 13/3/93

DAVE MOHR

DON'T envy those politicans who will take power in the new South Africa. Unless the economy recovers dramatically, the next government will find itself in a financial straitjacket, unable to raise spending energetically to meet the demands of its constituents.

Government finance reflects the health of the whole economy. And the recession since early 1989 has squeezed government finances sharply. In the 1989/90 financial year, central government budget deficit was at the modest level of below 1 percent of gross domestic product (GDP).

As the economy has weakened since, so the deficit has swelled ominously. It will leap to around 9 percent of GDP in this financial year. So the central government will borrow R30 billion from the private sector to fund this year's budget deficit — compared to a mere R1,5 billion in 1989/90.

The deficit has reached dangerous — though not yet disastrous — levels. Some economists believe, though, that it should be reduced sharply, perhaps to the IMF-recommended range of 2 to 3 percent of GDP.

If it is to be cut, the options available are limited raising taxes and/or cuting spending. But neither of these alternatives is costless or straightforward.

It is sometimes proposed that government should increase income taxes or VAT sharply. This option seems simple, but is singularly unattractive in the present economic climate. Raising taxes substantially in this week's Budget (for example VAT at 16 percent) would undermine private consumption spending, discourage firms from investing and prolong the current recession — perhaps worsening the deficit in the process!

The other alternative is for government to cut spending If it was reduced by one fifth, the deficit would drop below 3 percent of GDP.

But cutting government expenditure tends to be slow and entails political costs It may undermine future growth if valuable services like infrastructure and education are harmed.

What if government tries instead to stabilise the deficit until the recession ends? Modest tax increases (for example VAT at 13 percent, with the zero-rating of some basic foods) and limiting spending growth top 8 percent could reduce the 1993/94 deficit to a manageable 6 percent of GDP. And if all went well, an economic revival would ease the pressures on government finances in due course.

Hopefully this is the strategy chosen by government The Minister of finance has announced that civil service pay increases will be kept down this year, that real government spending will fall slightly and that certain taxes will be raised. Provided these measures are not drastic, the deficit should fall a little, while the risks of renewed stagnation and political disorder are not excessive.

It is crucial, however, that when the economy does begin recovering, government must act tough on the deficit, steadily bringing it back to its safe 1980's average of 3 to 4 percent of GDP. Government should also use its resources more efficiently, and invest more. But grandiose capital projects or efforts to boost social spending soon may simply be out of reach, no matter how desirable they seem.

These financial constraints will create major problems for a new government in South Africa. If this government lacks the foresight to constrain expenditure when it comes to power, state finances could worsen yet further, until the private sector refuses to lend to the government any more.

This will be followed, in due course, by deep recession to bring inflation back to acceptable levels, harming poor people the most.

'Brace for a bad-news budget'

Political Staff 380

HARD-PRESSED consumers are being warned: "Brace yourselves for a bad news Budget." (19) CT 13/3/93

Petrol going up by 15c a litre — possibly more — and a VAT increase of about 3% are just two tough steps expected when the Budget is presented to the country on Wednesday.

But personal and company taxes are unlikely to go up in spite of Minister of Finance Mr Derek Keys's intention to lower the R30-billion budget deficit — and edge the country away from a "debt trap" in which the government is compelled to increase borrowings merely to service debt.

Although economists believe personal tax will be pegged, income tax thresholds could be left where they are and fiscal drag — the effect of individuals' salary increases forcing them into a higher tax bracket — would generate greater collections.

Dr Japie Jacobs, a special adviser to Mr Keys, warned recently that the upcoming Budget would prove "most unpopular" by deflating the economy. He confirmed the Budget would not be a stimulatory one, "based on the strong need to reduce the government's deficit".

Focus on the Bud[get]

(49) ARG 13/3/93

Predictions on budget look gloomy

(49) ARG 13/3/93

LIEB LOOTS

ON March 17 we shall once again witness the quaint ritual of the budget surprise being pulled out of the hat of the Minister of Finance. What should that rabbit look like?

The dramatic rise in the deficit over the last two years has received much attention in the media. While we ought to be aware of the dangers of an unsustainable deficit, it is also risky to try and bring the deficit down too quickly. We are experiencing the deepest recession since World War II and an attempt to cut expenditure and increase taxes too much could only exacerbate the situation. With the investment demand for finance being at an all-time low, the government deficit probably has very little effect on the inflation rate as it can be financed by borrowing on the capital markets. "Crowding out" — pushing private investors out of the capital markets — is also not a major concern at the current time. My advice to Mr Keys would therefore be to bring the deficit down moderately, to about 7 percent of the GDP and to develop a credible plan on how it is going to be reduced over the next few years.

This cautious reduction in the deficit should be brought about by a moderate increase in the VAT rate (given the announced zero-rating on certain food items), an increase in excise duties (sin taxes and the like) and a further reduction in military expenditure. The combined effect of these measures ought to produce the 1,5 percent point reduction in the deficit.

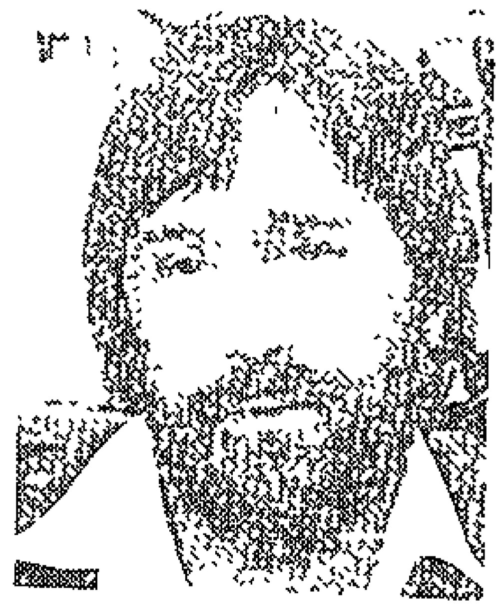
Preference should be given, therefore, to a moderate increase in indirect taxes. This should buy time for the formation of a Fiscal Commission (as proposed by the Professional Economic Panel of Nedcor-Old Mutual, and also advanced in the National Economic Forum) with the brief to advise a transitional-authority on urgent tax reforms and spending restructuring to meet the major fiscal challenges emanating from the political and economic transition.

Social spending is, of course, where the pressure is being felt. It is now generally accepted that there is very little scope for an increase in total social spending. South Africa's poor comparative performance on social indicators, and the startling revelations about corruption, wastage and mismanagement in the public sector, should prompt Mr Keys to direct his energies and managerial experience at increasing the efficiency (value for money) of public spending. Expenditure priorities must change of course, and one welcomes the equalisation of pensions in this regard. However, the realities of the transition to democracy necessitate that while we should try and prevent social spending from rising in real terms, we just have to improve the dismal performance we get for the taxes we pay.

The restructuring of public expenditure and the improvement in efficiency is another task which could be given to the proposed Fiscal Commission to investigate and advise on. It is not something which the minister should tackle unilaterally. He has hopefully learnt from his predecessor that to do this in the area of fiscal policy, could turn out to be an expensive error of judgment. It will be a mistake to try and make significant cuts in most areas of social expenditure before spending efficiency has started to improve.

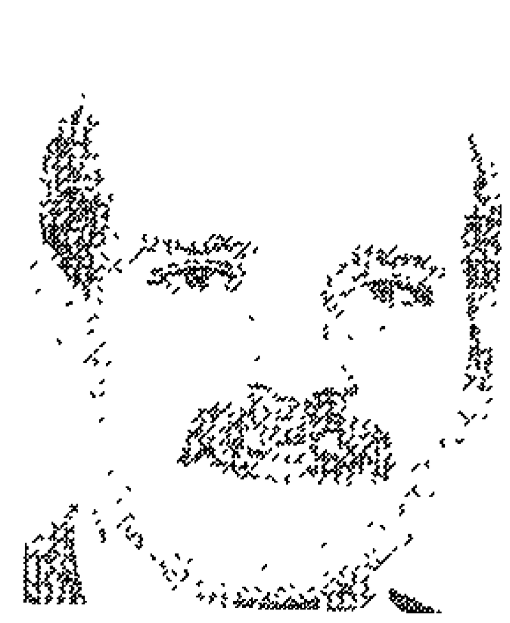
Housing is the one area where a significant increase in spending is desirable and warranted. Given the low base of less than 2 percent of GDP spent on housing and the fact that the actual delivery, although State funded, can come through the private sector, a significant increase will not only be feasible from a fiscal perspective, but not be in contradiction with the need for efficiency to be improved.

The Weekend Argus panel of western Cape economists today look at the options open to Finance Minister, Mr Derek Keys, when he presents his first budget to Parliament on Wednesday.

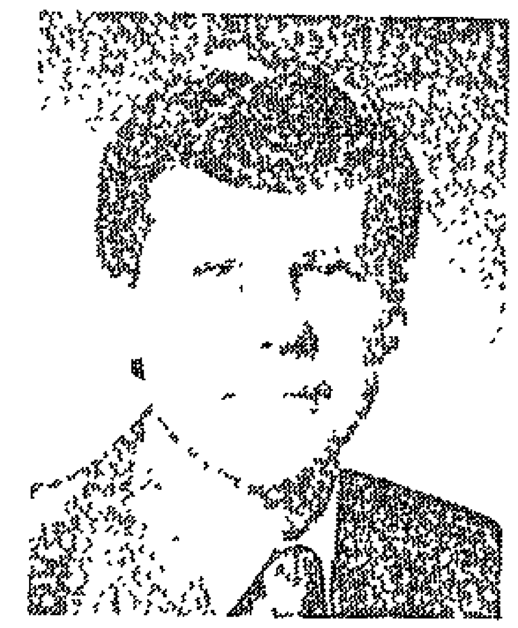


Dr Philip Black, Director of Economics, UCT and a member of the Economic Advisory Council.

Dr Lieb Loots of the Department of Economics, University of the Western Cape



Mr Louis Fourie, is group economist and group manager, marketing at Boland Bank.



Mr Dave Mohr, chief economist of the Old Mutual

Keys needs discipline to unlock door to recovery

ARG 13/3/93 (49)

LOUIS FOURIE

THE Budget speech is to be delivered against a background of the sharpest fiscal setback in the modern history of the South African economy. The challenge facing Mr Keys is to arrest the vicious trend without inflicting further damage to the punch-drunk economy.

It will not be possible to bring about an overnight reversal of the estimated deficit of some R30 billion (8 percent of GDP) to more acceptable levels. In my opinion, Mr Keys needs at least three years to redirect this problematic dissaving trend to eventually reach the point where no dissaving take place, as visualised in the Normative Economic Model (NEM).

Evidently, Mr Keys still intends to follow the principle approach of Mr Justice Margo with regard to tax proposals. Consequently, the contribution of indirect taxes to the state coffers should increase gradually, while direct taxes are decreased However, it is important and to be welcomed that Mr Keys has already spelt it out in the NEM that the total tax burden of the average South African is to be reduced over a 5-year term However, this budget allows little scope for this and is likely to continue to display the opposite trend.

The additional impact of the recession on the country's fiscal problem should not be overlooked. In fact, the excessive deficit is almost entirely due to the underperformance of income tax. Higher economic growth will, therefore, automatically provide a buffer against a further deterioration of the financial position of the state. Nevertheless, Mr Keys will not enjoy the support of a much higher economic growth rate in the next fiscal year

The fact of the matter is the central problem of government finance arose from overemployment in the civil service, whatever the reasons may have been. Thus, the obvious medium-term solution lies in a smaller civil service, that is to say, a smaller state salary account. Only then will it be possible to release sufficient funds for social spending.

Affordability is crucial in this regard, and social expenditure is a function thereof The new international norms in respect of fiscal managment of a country leaves no scope for excessive expenditure, even for the upliftment of lagging communities. We will have to apply available sources more effectively. Still, I am of the opinion that Mr Keys (as with the announcement of a O-rate levy on several foodstuffs) will be making socially-sympathetic announcements in the budget in order to stress awareness of this problem.

It is important for the concept of discipline to become part of the fiscal process, also under a new government system Only then will Mr Keys' attempts to take action will come to fruition.

Distinctions needed in spending cuts

Professor P A BLACK

IT is imperative that the current fiscal deficit should be reduced if we are to avoid falling into a so-called debt trap, that is a situation in which the debt-GDP ratio starts to increase at a cumulative rate and annual interest payments absorb an increasing portion of the government's budget.

The best way to narrow the gap between government expenditure and income is to keep the former in check and to add to tax revenue through an increase in GDP growth — more or less along the lines proposed by the newly released normative plan.

It is generally expected that Mr Keys intends limiting the growth of government consumption expenditure to between 5 and 5½ percent during the next fiscal year. While there is clearly an overwhelming need for better control and the eradication of wasteful spending, it can be questioned whether the proposed limitation should be applied uniformly across all government departments, functions and job categories.

Wage policies in the public sector, and resource allocation generally, should distinguish between individuals and departments on the basis of the contributions they make to the smooth and efficient running of the private sector. The maintenance and extension of our physical infrastructure and the provision of appropriate health and education services all contribute to a more productive labour force and capital stock.

It is also rumoured that VAT will be raised by two or three percent in Wednesday's budget. This increase will presumably shift the emphasis from direct to indirect taxation and bring us closer in line with the tax proposals of the IMF and the government's own normative plan.

But Mr Keys might do even better with a four or five percent hike in VAT, coupled with an extension of zero rating to certain medical products and services. Such an arrangement may well boost his tax receipts to a greater extent, and reduce his deficit concomitantly, while at the same time enabling him to reduce personal income and company tax rates in future years.

'Stop all govt perks'

49

SOUTH 13/3-17/3/93.

COSATU does not want taxes — including VAT and income tax — to be increased in this year's Budget.

The union federation's secretary general, Jay Naidoo, says Cosatu wants Budget allocations to finance economic restructuring. It also wants a halt to expenditure on apartheid-related departments.

The National Council of Trade Unions (Nactu) is also opposed to an increase in income tax.

Cosatu says it wants all bureacratic perks stopped.

"All civil servants, including the president, should pay tax and the practice of golden handshakes and housing and travel privileges for the state should be abolished," Naidoo said last week.

Government corruption should be stopped by firm financial controls. Cosatu wants the income and expenditure sides of the Budget brought under one government department, and each department audited to identify areas of wastage and corruption.

Cosatu is discussing the need for an independent tax commission to rationalise government income and expenditure and make it more efficient.

While Naidoo conceded the deficit could not be ignored, he said priorities should be indentified and addressed over time.

Cosatu believes these priorities to be housing, health and job training needs.

The involvement of agencies like the Development Bank of South Africa would assist in delivering resources to people who need them.

Restructuring the public sector and incorporating the homelands is also high on Cosatu's agenda.

This would mean the demise of own affairs administrations, which would save millions.

A saving of R2,5 billion a year could be made if the homelands were incorporated into South Africa, according to conservative estimates.

According to the Central Statistical Services, the homelands salary bill for their 230 000 public servants would exceed R5 billion this year.

The saving would be made at the level of executive and administrative level.

Cosatu acknowledges that essential services would have to continue.

Lavish perks for chief ministers and their cabinet colleagues have loaded costs significantly.

The six homelands have a combined total of 57 ministers, including chief ministers.

Gazankulu had nine, KaNgwane nine, Kwazulu 12, Lebowa 10, QwaQwa eight, and KwaNdebele nine.

Their total grant from the South African government in the current financial year was just under R9 billion.

Govt must spend efficiently, says Loots

(49)

South 13/3 - 17/3/93

THE Budget is a reflection of government policy and not just a bookkeeping exercise, says Professor Lieb Loots, Director of the Economic Policy Research Project at the University of the Western Cape.

Loots says the huge Budget deficit (about R30 billion) is the consequence of apartheid structures and policies.

The present attempt by the government to cut spending does not address the fundamental causes of the problem, he says.

Increasing government spending was unnecessary, says Loots.

"The challenge in the future is not to increase taxes to spend more, but to spend more efficiently."

Government expenditure is not properly controlled, he says. There is widespread corruption and wastage which has partly caused the budget deficit.

The World Bank and IMF data support the fact that government spending is inefficient, says Loots.

"We spend more of our national income on education than virtually any other country in the world, but we have one of the lowest adult literacy rates in the world.

"Sri Lanka has a per capita income of a fifth of South Africa, but their infant mortality rate is 21 per thousand, while this country's is 70 per thousand.

"They spend less of their budget on health and have a life expectancy of 71 years, while South Africans have a life expectancy of 61 years."

"Once again it indicates the misspending and the money wasted."

Loots says South Africa's problem is worsened by having such a secretive government.

He says that even today he cannot get information from the Department of Finance for his research.

If Finance Minister Derek Keys does not say anything about how to change the structures and policies of the government in spending taxpayers' money, then he is not serious about the budget. He will not be addressing the real cause of the problem, says Loots.

LIEB LOOTS

The government should cut spending by reducing their "bloated bureacracy", not essential services.

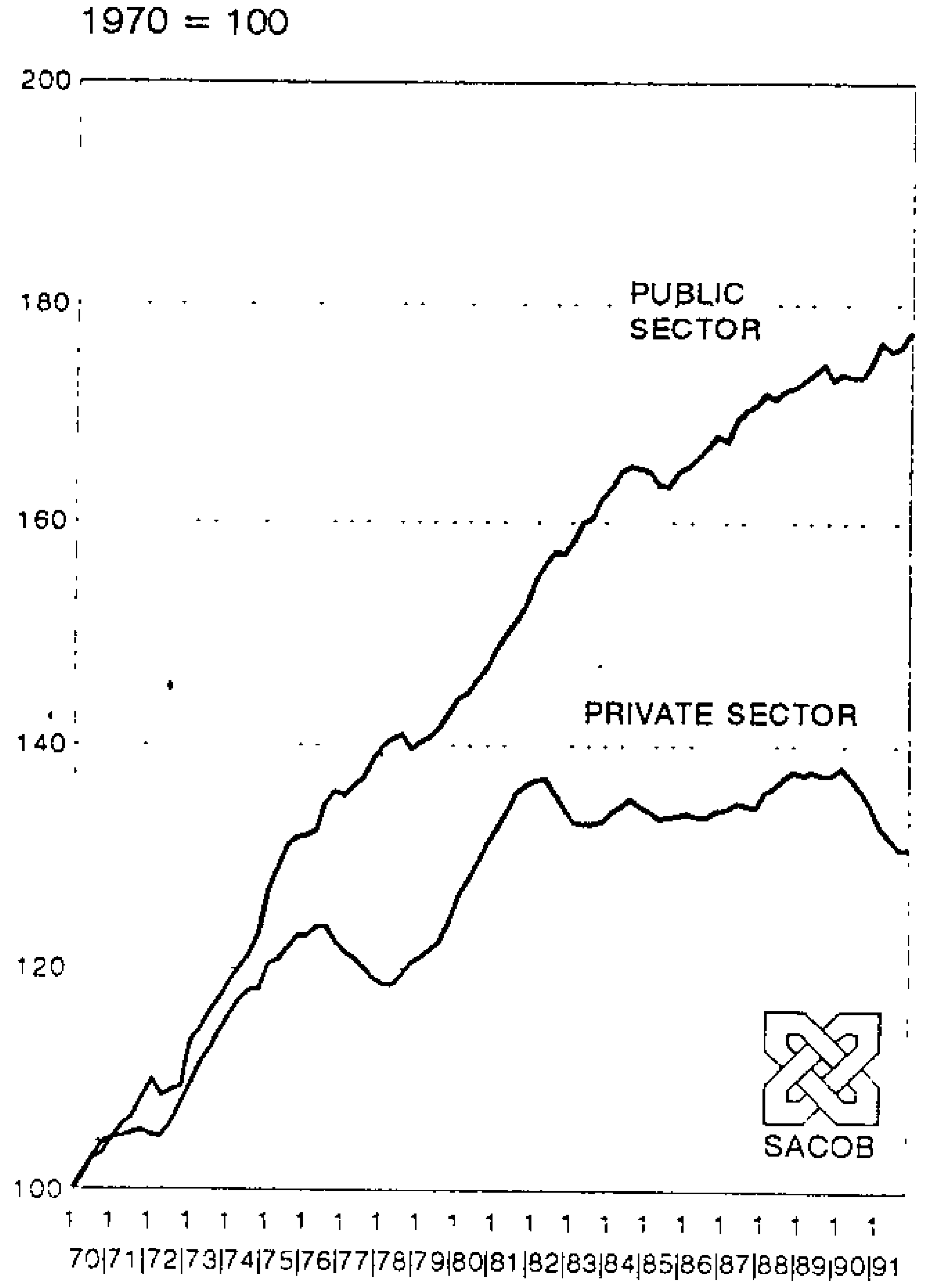
"In cutting expenditure, various departments decide how they will cut costs. But they cut it where the services are being delivered, by cutting teachers, and nurses, they don't cut the bureacracy."

Loots says the government should be made more accountable.

One proposal is that a fiscal commission be formed to advise the government on how to restructure spending, to direct money to areas where it is needed.

Another proposal is to have a proper performance audit of government departments.

Last year the government introduced their version of performance auditing. However, the way in which they implented the plan is a far cry for true evaluation of performance, says Loots.



EMPLOYMENT TRENDS IN THE FORMAL SECTOR: Since 1970, more jobs have been created in the public sector than in the private sector

SOUTH 13/3 -

SOUTH Financial Reporter **Waghied Misbach** sounds out the views of the business sector, trade unions and academics in this preview of the Budget to be announced on March 17.

Taxpayers wait anxiously

IN A RECESSION, is it acceptable that the government increase taxes? That's the big question bugging taxpayers as Budget day approaches. Even the business community is divided on the issue.

The South African Chamber of Commerce (Sacob) says increased taxes will lower the purchasing power of consumers. Sacob says the issue could become a political hot potato.

But Sanlam says an increase, whether we like it or not, is inevitable.

Sacob's director general Mr Raymond Parsons argues that indirect taxes, such as VAT, should not be raised by Finance Minister Mr Derek Keys.

"An increase in indirect taxes will undermine the purchasing power of consumers. This could result in pressure for wage and salary increases to compensate for higher living costs, which would raise inflationary pressure further," says Parsons.

Sanlam chief economist Johan Louw says Keys will have no option but to raise taxes.

"However, it is expected that he will keep the increases as moderate as possible so as not to dampen general economic activity unnecessarily," says Louw.

He expects a hike in VAT from 10 percent to 13 percent, with a wider

'An increase in VAT to 13 percent, even if more foodstuffs are exempted, would raise inflation by about 1,5 percentage points' — Raymond Parsons

range of basic foodstuffs and services being exempted from VAT.

There could also be an increased levy on fuel, about 10 cents a litre, and higher excise duties, says Louw.

Parson argues that an increase in VAT to 13 percent, even if more foodstuffs are exempted, would raise inflation by about 1,5 percentage points during 1993. The increased inflation rate would then reduce the amount of real disposable income — the cash consumers can spend or save after costs or taxes.

Parson estimates a 13 percent VAT rate would raise an additional R3,5 billion (assuming that zero rating and other exemptions are limited).

Another R1 billion could be raised by increasing the fuel tax and other indirect taxes.

But the R4,5 billion raised would be offset by government collecting less in other sectors, because people would have less to spend.

Parsons says Sacob is not opposed in principle to an increase in indirect taxes such as VAT, but is concerned at the timing of the increase.

He says it could make the recession more severe and "repoliticise" VAT when the system has been "accepted by the public".

The result would be a call for more goods to be exempt and this could undermine the system, he says.

The high budget deficit, resulting from the government spending more than it receives, will also be a source of worry.

The deficit currently stands at nine percent of the Gross Domestic Product (GDP) — the total value of a country's output.

Parson says the failure by government to address the high budget deficit will undermine perceptions of this country by organisations such as the International Monetary Fund (IMF) and the World Bank.

The IMF wants South Africa to contain the deficit to about 4,5 percent of GDP.

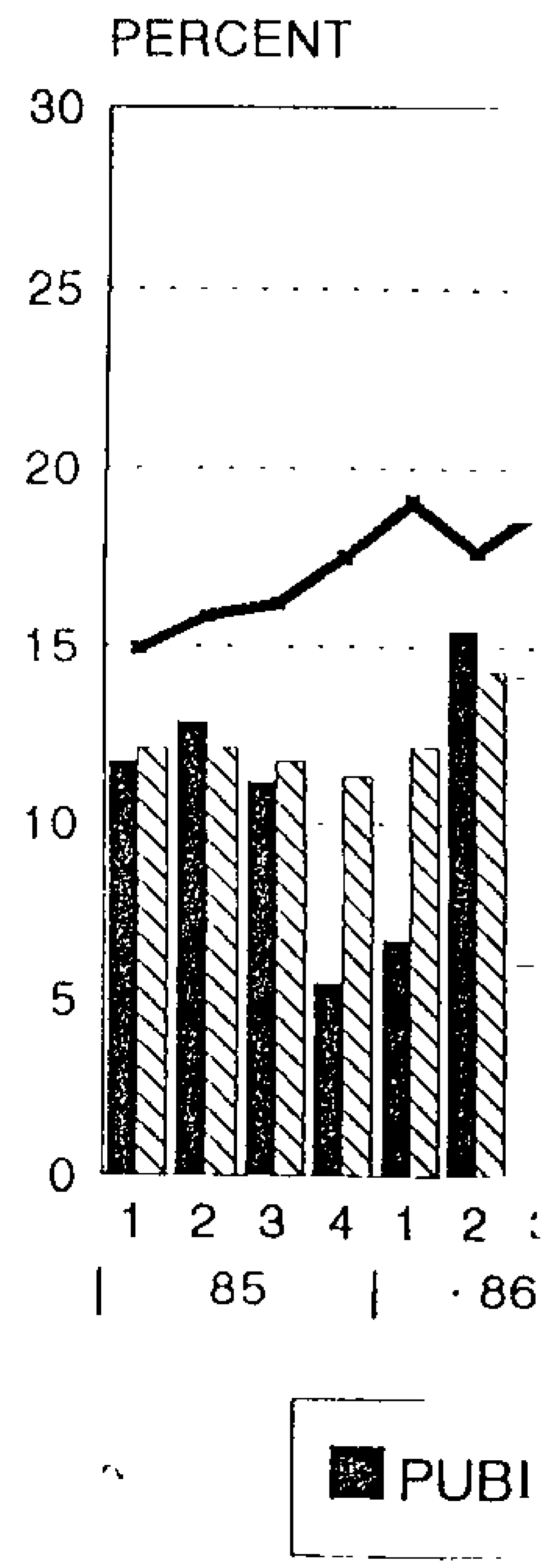
Instead of raising taxes to raise revenue, another way of attacking the deficit is to cut government spending.

Parsons and Louw agree that the government will have to cut the state wage bill if they want to cut spending.

The State wage bill accounts for roughly 40 percent of the government's total spending, says Parsons.

He estimates that there could be a "real reduction" in government spending if the wage increases are kept to five percent and employment levels are not increased.

Parsons and Louw agree that the economy — which is in its worst recession since the depression of the



WAGE AND SALARY INCREA- of inflation

...es for all in SA

SOUTH 13/3 - 17/3/93.

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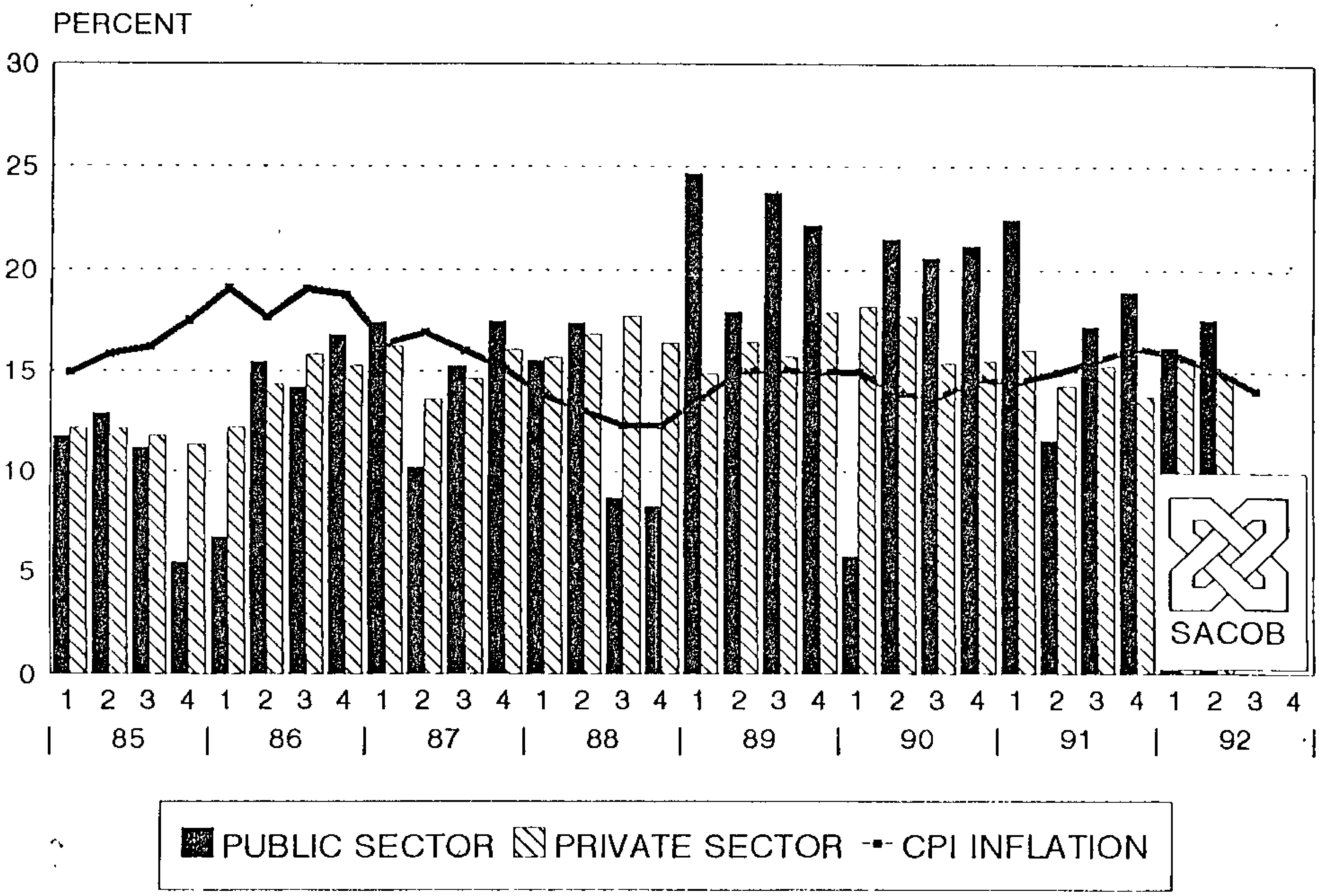

WAGE AND SALARY INCREASES RELATIVE TO INFLATION: Public sector wage increases have consistently been above the leve of inflation

cent of GDP.

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He estimates that there could be a "real reduction" in government spending if the wage increases are kept to five percent and employment levels are not increased

Parsons and Louw agree that the economy — which is in its worst recession since the depression of the thirties — may only recover significantly towards the end of the year.

Prospects of an export-led recovery have become increasingly unlikely as the world economy, which accounts for about 70% of South Africa's exports, remains in recession

Jobs will continue to be lost as the country enters its fifth year of recession. About 300 000 jobs have been lost in the formal sector during these five years.

"There are no signs the retrenchment phase has come to an end, although there are signs that it may be slowing down.

"However if production levels start to increase, labour will once again be absorbed into the formal economy Sacob believes this process will start gaining momentum from the third quarter of 1993."

Parsons estimates that salary and wage increases will be limited to between five and eight percent He hopes the recently launched National Economic Forum will diffuse tensions between business, labour and the government and help to create a more stable environment.

Sacob believes the budget will have to assist small business, which constitute about 40 percent of GDP The National Economic Forum has already been asked to look at how to assist the small business community.

Louw agrees that the economy may make a recovery late in 1993, but he says favourable developments such as the lower inflation rate and lower interest rates will be overshadowed by negative influences.

These include

- the ongoing violence,
- limited export opportunities as the world wide recession continues;
- the low gold price
- decreased domestic spending as consumers become poorer and the disapointing level of fixed investment.

The drought also remains a factor and the Budget is expected to have a mildy dampening effect on general economic activity

March 13 to March 17 1993

Finance Minister Keys needs to cut R30 billion deficit

South 13/3 - 17/3/93. (49)

FINANCE Minister Derek Keys needs to cut the more than R30 billion budget deficit.

The deficit is currently at nine percent of Gross Domestic Product (GDP — or total output of a country).

According to the International Monetary Fund (IMF), South Africa's budget deficit should be around 4,5 percent of GDP.

The current deficit is above the IMF's "debt trap" of six percent of GDP or R23 billion.

The debt trap means government is locked into huge borrowings every year to service its debt.

The deficit has soared and now stands at over R30 billion, compared with the budgeted R16,5 billion.

"Dealing with the deficit is important, but it is not the most important issue in this year's budget," Keys said in a speech recently.

"More important is that the budget allows for growth and reinforces the positive economic moves which have been put in place in the course of the year," he said.

However, it is clear that the huge deficit is the reason why Keys is likely to raise taxes — with negative effects on growth and jobs.

Cutting apartheid spending as a way of tackling the deficit and encouraging growth seems likely to feature in his plans.

Last week Japie Jacobs, Finance special advisor, said that in the current recessionary climate it would be difficult not to raise taxes.

He said it was the government's goal to bring individual and corporate tax rates down, but the "conditions are not right to do this now".

The Budget would not stimulate the economy, he admitted, but would likely be deflationary, that is, cause consumer prices to come down.

Jacobs said Keys' long term economic plan is expected to make the economy contract for two years. Unemployment is likely to increase.

To tackle this increase, the government may introduce public works programmes.

Jacobs said Keys' long-term economic plan, outlined in the Normative Economic Model (NEM), was to have a growth rate of 3,6 percent over the next five years, reaching 4,5 percent by 1997.

It was hoped that by 1997, the economy would be able to absorb the 400 000 jobseekers that annually enter the market.

The 600-page NEM will be released in a summarised version this week, in the form of a 30- or 40-page document.

Keys also warned that the NEM would attempt to strip away the protectionism that has been enjoyed by the South African industries.

The aim is to make them more competitive in the world markets.

Total fixed investment, that is, state and private sector investment into plants and machinery would have to be increased to around 22 percent of the country's total income, said Keys.

Trevor Manuel to give the ANC view on the budget

(49)

SOUTH 13/3-17/3/93

THE ANC's Trevor Manuel gives his organisation's perspective on the budget in Cape Town next week as a guest of the Independent Business Forum (IBF). The forum was set up bu SOUTH, M Br~y and associates and Commlife Insurance Brokers.

Manuel, the head of the Economic Planning Department, will deliver the ANC's message to the business community on March 19, a day after the budget is announced in parliament by Finance Minister Derek Keys.

Manuel is also expected to talk about the National Integrated Economic Model (NIEM), the government's economic model released this week.

The talk takes place at 7.30am on Friday March 19 at the Holiday Inn Garden Court in Newlands.

The cost of attending the talk is R25 a person with refreshments included.

For bookings contact Ms Ganie at 638 5184 or fax at 638 3754.

A bad news Budget, predict the experts

(49) SOUTH 13/3-17/3/93.

By Lynda Loxton

A TAX increase, possibly a two to three percent rise in VAT, is likely in next Wednesday's Budget.

Old Mutual economist Riaan le Roux told a media briefing this week that there was no alternative for the government but to increase taxes.

The economy had never been in such a weak state and the deficit had never been as high as it is now.

"This is not going to be a good news budget," Le Roux said.

The root of the problem was that the government consistently spent more than it earned through tax revenues.

Most of that spending was on salaries and wages rather than on capital invesment to help the economy grow.

This was worsened by the drought over the last year, when government paid out an unbudgeted R3,5 million in drought relief.

Tax revenue fell short of expectations because the government over-estimated what it could raise through VAT and it has started to borrow heavily to make ends meet.

Le Roux said this raised the spectre of South Africa falling into a major debt trap as it had to start borrowing money to pay the interest on the money borrowed, which will be the start of an endless cycle of borrowing.

It was therefore inevitable that there would be some tax increases in next week's Budget, he said.

These could include a VAT increase of between two and three percent, which would raise about R5 billion; a 10 cent increase in petrol, which would raise R1,2 billion and customs and excise duty increases on alcohol and cigarettes, which would raise R0,4 billion. There may be small tax cuts for small businesses or poorer people.

Huge cutbacks in government spending or massive tax increases all round would stall the economy completely.

He said that if the government ended the year with a deficit higher than targeted, its credibility would be eroded completely.

• For more on what the experts predict could be in the Budget, see pages 12 and 13.

Wiehahn hopes for a lean NEF

S/Times (Buss) 14/3/93

By ADRIAN HERSCH 49

EXPECTATIONS about what can be achieved in the National Economic Forum (NEF) should not be raised too high — as its progress will largely depend on developments in the political field.

Nic Wiehahn, architect of the labour reforms at the end of the 80s, spoke about a number of current issues which are set to leave their mark in the labour field.

These include the NEF, affirmative action, labour rights for public service workers, a streamlined Labour Relations Act (LRA) and a Labour Organisation (ILO) for southern Africa.

Professor Wiehahn says that the formation of the NEF and the newly restructured National Manpower Commission (NMC) are to be welcomed.

He says: "Both the NEF and NMC have labour representation, which ensures the necessary element of co-decision making. There is potentially wide scope for achievement — but much will depend on political developments."

Imploded

Professor Wiehahn says that, in the post-Wiehahn era — where "apartheid was imploded in the labour field" — the political situation often played a negative role in the labour area by giving rise to suspicion and mistrust.

Another factor which could restrict the effectiveness of the NEF is if it becomes too large and cumbersome.

"It will have to be flexible, receptive to new ideas and to accept new people, but at the same time it must not become too big."

Professor Wiehahn says affirmative action will have to be handled carefully.

"Imbalances in our society have to be repaired. But I disagree that job placement should necessarily reflect the racial composition of society. Legislation to this effect will be counter-productive and damage the economy.

"We've had so much legislation in the past in all fields which has made criminality where there should not have been, and this must not take place."

But he stresses that some form of affirmative action is essential to redress imbalances

"Affirmative action, even when implemented at one single enterprise, should be seen as part of a macro strategy — it will contribute towards peace and prosperity for the entire country.

"The programme must be accompanied by dynamic training and education for all those directly and indirectly affected Advancement must occur according to merit and tokenism must be avoided. Tokenism lacks genuineness and sincerity."

Professor Wiehahn says that aptitude for the position is essential.

"In applying affirmative action employers often overlook basic requirements, such as leadership qualities that are required for certain positions.

"Where a certain degree and leadership is required for the job, employers are often only too keen to put the person in the job because he has the degree, as they want to fill the position with a non-white. The person's leadership quality is not assessed, usually with disastrous results."

Professor Wiehahn says one should not expect a "quick remedy" to address imbalances and recommends that, as a start, national guidelines be drawn up and issued — rather than legislating for affirmative action. He says that the current LRA should be streamlined.

"The LRA of Kwandebele, for example, contains fewer sections and the sections are shorter and administrative red tape has been drastically cut.

"A good example, which we may have in a streamlined LRA, is the time and cost-saving measures relating to industrial council agreements.

"Instead of publishing the entire agreement in the Government Gazette, which often takes months and is very costly due to all the administrative procedures, there should merely be a clause stating that agreements 'shall be binding on the parties to the council'

Dread

"A copy of such agreement should be submitted to the Department of Manpower as the officially recognised agreement."

Professor Wiehahn says the granting of labour rights to public service workers, which is in the process of occurring, should not be regarded with dread.

He points to the situation of Transnet, where workers were placed under the LRA in 1991, giving them the same rights as private sector workers

Professor Wiehahn was involved in setting up the Transnet industrial council, comprising management and 11 trade unions

"The council is flexible. It comprises six different chambers catering for the different operations, such as Spoornet, Portnet and so on. It even takes the different regions into account.

We must fly the Keys model

S Times (Buss.) 14/3/93

Another plan to fix the South African economy? Why should we take Finance Minister Derek Keys's model seriously? Comment by **KEVIN DAVIE** (49)

APARTHEID — like socialism — created markets which don't work. Government interventionism created an oversized, wealth-consuming bureaucracy. Most SA markets are subject to distortions or inefficiencies.

The result has been decades of declining growth rates as the over-protected and over-regulated economy has been slowly but surely beaten into submission.

We may manage to beat off the current recession but will soon have to put the brakes on when the economy takes off as imports will flood in to meet demand. Our uncompetitive exports will be insufficient to keep our trade account in the black.

We are becoming poorer and poorer. Ensnared in the poverty trap, our population grows faster than the economy, leading to increasing unemployment and concomitant violence. Investors shy from violence, so the cycle starts again.

Tough problems require tough solutions. But there is no mystery to solving SA's economic problems.

We have to sell more products domestically and internationally to generate jobs and growth. This has to be done on a grand scale, creating hundreds of thousands of new jobs a year.

The economy must be opened to greater domestic and foreign competition. Barriers to entry must be dismantled and outlawed. Entrepreneurs will do the rest.

These solutions are not new. Commentators have for years urged that SA's markets should be freed and have warned that apartheid regulation would ultimately strangle the economy to death.

But now a government-appointed task force has adopted a similar approach. Mr Keys's model pulls no punches in outlining what needs to be done to rehabilitate the SA economy.

The programme wants the economy to be liberalised on a phased basis to put it back on an employment-generating growth path.

First into the ring this week were spokesmen for organised labour, who argued that the model had an anti-labour bias. In fact, the model is anti over-regulation.

It wants all markets — the labour market included — to be subject to increased competition. If barriers to entry are to go or to be lowered, labour, like other key economic actors, must face this challenge.

BARGAIN

But labour, like the rest of the economy, has a right to protect its interests. The model says that real wage increases should be limited to no more than 0,75% a year.

Labour will, of course, benefit from the lower basic prices which the model should deliver.

But labour should equally not be subject to any special constraints. It should be able to bargain for maximum wages so long as it does not use restrictive practices to push wages to artificially high levels.

Many businessmen are no doubt delighted to see organised labour raising objections to the model. Some must be terrified at losing the supports, the protection, the regulation and cushy arrangements which they have enjoyed in the apartheid years.

The model is, of course, not flawless. It says labour-intensive industry should not be discriminated against by artificially depressing the price of capital. Yet critics will wonder how this can be reconciled with multi-million rand tax credits allowed for giant capital-intensive projects, such as Alusaf and Columbus.

And while the authors of the model are precise on the need for less government spending, real teeth to back competition policy, lower tariff protection for industry and freer labour markets, they pussy foot on agriculture. Here — wait for it — they want an inquiry.

Is this organised agriculture's survival strategy — ensuring at all times that there is at least one ongoing inquiry that so it can continue with its wicked ways?

The model had hardly been tabled when we heard that it has all been said before (yes, but now by government) and that it would join the dust collectors of other grand economic plans of the past. But the major thrusts of this plan are likely to become policy in due course.

The model represents an attempt to rehabilitate the economy by presenting all stakeholders with a way to get out of the hole which we now find ourselves in.

Relations with the international financial community as embodied in the International Monetary Fund will have to be normalised.

This will be crucial if post-apartheid SA is to attract new foreign investment. Foreign investors will hold on to their money as long as we are unable to dip into IMF credits to meet shortfalls on the balance of payments.

The IMF exists to ensure that member nations are able to meet their financial obligations to one another. However controversial its policies, its stamp of creditworthiness is a passport to new investment and growth.

But the IMF will not advance its funds if it believes that the economic policies of the borrower preclude it from repaying. Like any bank, it requires borrowers to have a financial plan to be able to make repayments.

SA has a small surplus on the balance of payments which will disappear soon after the recession is finally beaten.

PAINED

At that point the choice may be to crank up interest rates and put new constraints on growth or to make an application to the IMF for credits.

The latter, of course, makes more sense, but will require a plan to show how we will grow the economy out of trouble.

Mr Keys's model outlines how this can be achieved. His plan will tramp on the toes of vested interests and perhaps bring even more short-term pain to an already pained economy.

But these reforms are necessary. They may come as a result of domestically produced consensus, which Mr Keys advocates, or from IMF-imposed conditions. But like them or not, they are coming.

JOB MARKET

Competition the new watchword

S1 Times [Buss] 14/3/93.

Finance Minister Derek Keys has unveiled an economic plan designed to create 1,3-million jobs by 1997. How will he do it? KEVIN DAVIE reports (49)

THE great economic debate, unleashed in earnest with the unbanning of the ANC and other political parties, in early days focused on the merits of market systems versus socialist systems

Nationalisation was the watchword. The key protagonists developed their positions as the debate progressed, the focus switching to the twin problems of growth and redistribution.

Finance Minister Derek Keys this week tabled his contribution to the debate. His Normative Economic Model (NEM) is premised on the notion of employment-creating growth.

The model intends transforming the South African economy within this decade from its present status as an under-performer to a performer. In the process, 1,3-million job opportunities will be created.

This might sound like make believe, an impossibility in the current climate of retrenchments, business failures and growing unemployment, but Keys is not proposing anything new.

His elixir is based on tried and tested methods which other economies have successfully implemented during the past few decades while South Africans have been waging the economic warfare known as apartheid on one another.

The plan rests on the principles that SA has to be competitive in foreign markets if the economy is to grow and that it is no good expecting the non-competitive to be able to compete overnight.

The goalposts will be moved on a phased basis so that business is given time to adjust and to learn to compete — much of SA's industry would simply cease to exist if exposed tomorrow to the cruel, competitive world out there.

The NEM says SA's import tax or tariff barrier stands at 21% (weighted by import value) but that this rises to 27% when the effect of special import surcharges still in force are added

Complex

It says that while the normal tariff barrier is comparable to the protective levels found in developing countries, the 27% level puts SA among the highly-protected countries in world trade.

These tariffs raise the relative costs of producing internationally tradeable goods in SA and artificially reduce the cost competitiveness of South African goods in export markets.

But the problem goes further in SA's case "The rather ad hoc process of granting protection to individual industries has given rise to a system which is apparently one of the most complex in the world It lacks transparency, is prone to continuous change and is open to lobbying."

The high degree of selectivity has resulted in wide variances in nominal and effective rates between products and industries. Food beverages and tobacco have an estimated effective protection of 8,8%, while textiles and apparel have effective protection of 93,6%.

Other sectors with high levels of protection are chemicals (50,6%), wood and wood products (39,7%) and "other manufacturing" (62,8%) Manufacturing has effective average protection of 30,2%, according to a study by the Industrial Development Corporation.

NEM's authors say that any domestic-led recovery of economic activity in SA will almost inevitably produce a deficit on the balance of payments and/or a serious depreciation of the rand exchange rate

"The likelihood of such a deficit being financed from inflows of foreign capital is slight A recovery that is export-led, however, requires at the very least the removal of the anti-export bias in the system of industrial protection."

The authors say a revival of economic growth may attract foreign investment, thus easing the pressure on the BoP, but unless this growth is export-led foreign investors are unlikely to be greatly interested.

The plan says this anti-export bias can be countered by giving exporters access to inputs at the best available world prices

Reduce

Options here include establishing export processing zones and extending the rebates allowed on materials used in export processing

The model says the combined effect of lifting the import surcharge and special duties, such as formula duties, could reduce the protective barrier from its present 27% to 18%.

NEM says a possible approach could be to reduce the maximum rates on consumer goods to 30% and on all other goods at 15%, bringing the protective barrier down to an average 14%. But reducing tariff barriers will not in itself create hundreds of thousands of new jobs The authors say economic performance depends heavily on the well-targeted and accelerated development of human capacity.

The currently adversarial relationships in industrial relations must end Competitive behaviour should be encouraged in all markets, including the labour market.

"Certain forms of uncompetitive behaviour, such as price-fixing, market sharing, resale price maintenance and collusive tendering should be outlawed.

"This approach implies a dismantling of most of the government's market participatory and regulatory machinery, which may result in considerable savings for the public sector and the formal and informal private sector, and a reduced bureaucracy "

The model, a major contribution to the debate on how the economy may be best repaired, is proposing a new watchword to guide future policy competitiveness

DEREK KEYS . . . his model is based on tried and tested methods

How to halt runa

S| Times 14/3/93.

TITO MBOWENI says we can expect another apartheid Budget, the bulk of which will be retained by the bureaucracy

GIVEN that the minister who will deliver the Budget this week is Derek Keys, the man who has just released a supply-side macro-economic framework, a lot is expected.

However, people should always remember that a budget is not some neutral set of magic monetary figures which are dished around by the minister.

A budget is one of the fundamental instruments of government policy. It reflects the political priorities and programmes of a particular government. It also has critical implications which, theoretically, should fit into an overall macro-economic programme.

It should come as no surprise, therefore, that the 1993/94 Budget will still contain many aspects of the apartheid system. It is not at all possible that Derek Keys can transcend the apartheid framework of his government.

Previous budgets of the apartheid government have been characterised by racial allocation of resources. For example, spending on education for black and white is still segregated.

Furthermore, previous budgets have revealed a tendency to "throw money at problems" and not solve them at all.

An example is the education allocation. South Africa's education spending is high in comparison with other developing countries.

The problem, therefore, does not lie with the money allocated to education but with the efficiency of expenditure. We do not have a clear development programme within which these resources are allocated.

And herein lies the challenge for the Minister of Finance — to lay before the public a clear developmental strategy which will justify these levels of expenditure.

If one looks at social-welfare expenditure one realises that this has never been a priority for the South African government. Even the most basic information system from which to plan does not exist.

Instead, we have 17 welfare budgets which are formulated separately, according to administration and race, with no clear indication as to which of these is being developed for regional and local needs.

Therefore, welfare spending continues to be racist, with gross disparities existing between black and white. Although we expect the minister to equalise pensions between black and white in a last-minute effort to win votes from the aged, we are not convinced that all welfare spending will be equalised.

However, if he does equalise spending on pensions, the democratic movement should claim victory since we have been campaigning for this for a long time.

Last year the government budgeted for a deficit of 4,5 percent, or R16-billion. However, recent statements by the Minister of Finance and some of the bureaucrats in the finance and state expenditure ministries suggest that the deficit could be as high as nine percent, or R30-billion.

THERE have been enormous problems on the revenue collection side due to the inefficiency of the system and the untimely introduction of VAT.

However, the major problem in our view lies on the expenditure side of the Budget. There are indications that expenditure is completely out of control.

The allocation of funds through apartheid structures, without any details of how such expenditures were carried out, makes it difficult to scrutinise the efficiency of "end use" properly.

The lack of transparency in the budgetary process rules out the possibility of public participation in ensuring that the allocations reach the stated purposes.

The continued existence of secret funds also makes it difficult to assess the government's efficiency in public finance spending. There are no mechanisms in place to ensure that there is sound public finance management.

In our view, it is imperative that clear targets be set for each area of expenditure and a proper accounting system set up which will make it possible for an independent performance auditing office to evaluate the whole budgetary performance.

The continued existence of two ministries in charge of fiscal policy is an additional problem in South Africa. As it turns out, the Ministry of Finance is not in charge of the whole Budget, since the Ministry of State Expenditure is responsible for the expenditure side. This is ludicrous and should be done away with as a matter of urgency.

Further, given that the government wants to shift the tax system more towards indirect taxes, it is important that this does not take place behind closed doors at the Ministry of Finance.

It is imperative that an independent and representative fiscal commission be formed to look at the whole fiscal set-up in the country. The task is so demanding that the present fiscal authorities are incapable of making such a fundamental review of the entire fiscal policy.

The stated intention of the government is to reduce government dissaving from 4,8 percent in 1992 to zero percent in 1997. One would therefore assume that the Budget will make concrete proposals on how this will be achieved.

We are highly sceptical about such stated intentions which are not backed up by any plan about how this will be achieved. While the elimination of government dissaving is to be commended — and one hopes this will take the form of the elimination of secret budgets, strategic investments such as Mossgas and others, we are nevertheless unconvinced that this government has any commitment at all to this goal.

What about bantustan expenditure, for instance? For as long as the apartheid system continues to be the order of the day, it is highly unlikely that government dissaving will be eliminated, and the public will be expected to continue to bail out the government from its fiscal mess.

Finally, we would like to reiterate that there can be no separation between a budget and the political programme of the party in power. The fact of the matter is that the National Party is in power and the Budget will continue to be used to fulfil the apartheid project. There should be no high expectations, therefore, that this Budget will differ fundamentally from the other apartheid budgets. It is still going to be an apartheid Budget.

People should not be led to believe that this Budget will be any different. The figures allocated may look and sound a little more than was budgeted for last year, but these figures tell us nothing in concrete terms about what each rand and cent allocated will be used for.

Actually, there is something like a 66-percent retention rate of the allocated funds within the bureaucracy. In other words, the money budgeted does not reach the people in whose name the allocations are made. It is in this connection that we have argued that a performance auditing office or agency is required.

☐ *Tito Mboweni is a senior economist in the ANC's department of economic planning.*

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tanding in the witness box ow. In the old terminol-.gy, you must be only five eet two inches tall.

Sam: That's exactly why go in for prophecy. SPQR ınd all that sort of thing, 'ou know.

stantia Consensus, how does it feel to be voted the most alluring, seductive girl of the year?

Constantia: It's great, except that every man under the age of 60 is trying to reach Consensus Luck-

she may successful Evidence s

Her po miracles c whizz-bang arresting rapid-cutti

DEREK'S DILEMMA

S| Times 14/3/93.

(49)

Finance Minister Derek Keys presents his maiden Budget to the nation this week against a background of challenging social, political and economic problems. CHERILYN IRETON reports

THE BACKGROUND

● Deficit: The shortfall between what the government spent and what it has collected in the current fiscal year could top R30-billion — almost double the target set by Barend du Plessis last year. This could equal almost nine percent of gross domestic product, triple the international guideline for prudent economic management.

● Tax collections have fallen far short — by around R10-billion — of the budgeted R85-billion due to the impact of the recession and drought on company profits and consumer spending.

● State spending has raced R5-billion ahead of the budgeted R100-billion due, in part, to unforeseen drought-linked demands on resources. Also weighing in are the soaring costs of corruption and fraud in state departments.

● International trading conditions are still weak, with major economies still struggling to shake off the recession.

● The recession continues to hamper the domestic economy, which shrank by 2,1 percent last year. Although there is faint evidence of a revival, spending by the man-in-the-street remains cautious.

● Unemployment is now counted in millions and poverty among the jobless is spreading rapidly according to the declining sales of basic food. Housing shortages remain critical.

● Commodity prices are under extreme pressure and gold is trading at a seven-year low around $326 an ounce. The South African producers are helped only by the weak rand/dollar exchange rate, which is also at a record low of R3,195.

● Confidence in SA as an investment centre remains wonky and access to international finance limited as political violence keeps funders at bay.

● Political settlement crucial to the rebuilding of investor confidence remains some way off, though the resumption of multi-party talks is a plus factor.

● Inflation is one of the few encouraging facets of the economy, with consumer inflation falling to single digits for the first time for many years. Tight control of monetary matters by the Reserve Bank has also successfully limited growth in money supply.

THE CHALLENGE

Despite the limited room for manoeuvre, Mr Keys will be forced to address several critical issues:

● Apartheid-linked inequalities in social spending, particularly on education, health, housing and welfare, need to be eradicated. At least R1,5-billion is needed just to overcome inequalities in state pensions.

● Job-creation programmes need to be implemented, particularly in areas where there is little hope of an early economic recovery.

● Growth needs to be encouraged, not only to get the economy moving but is essential if the government is to lure foreign investment. Small businesses need to be created and nurtured as a means of alleviating unemployment and poverty.

WHAT HE CAN BE EXPECTED TO DO

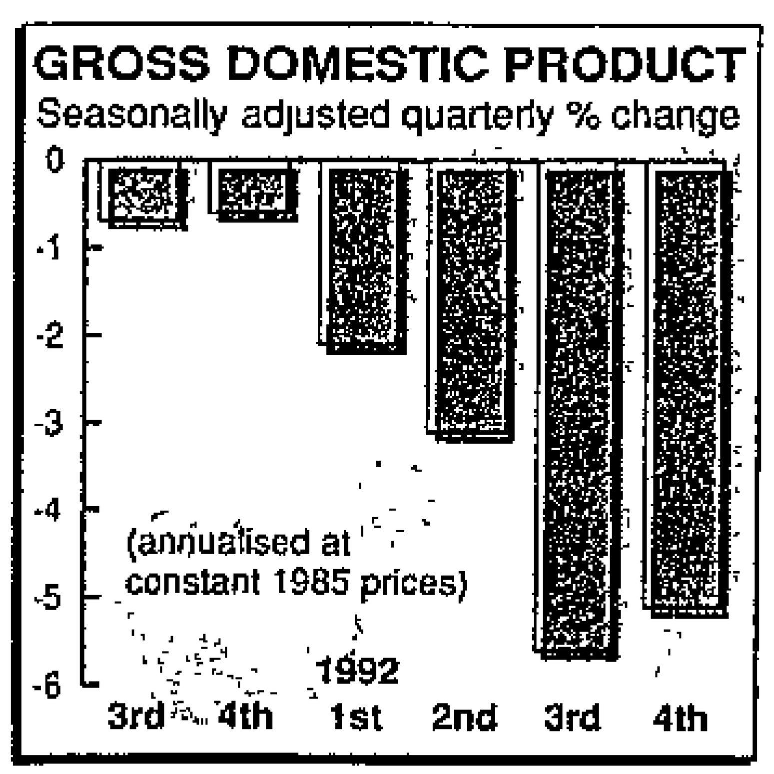
● Tax collection will be increased through indirect taxes. With the business cycle still in the doldrums, Mr Keys is unable to lean directly on the corporate sector for extra income in the year ahead. Personal-tax increases have also effectively been ruled out by the Keys plan which proposes to reduce the tax ceiling to 40 percent over the next five years.

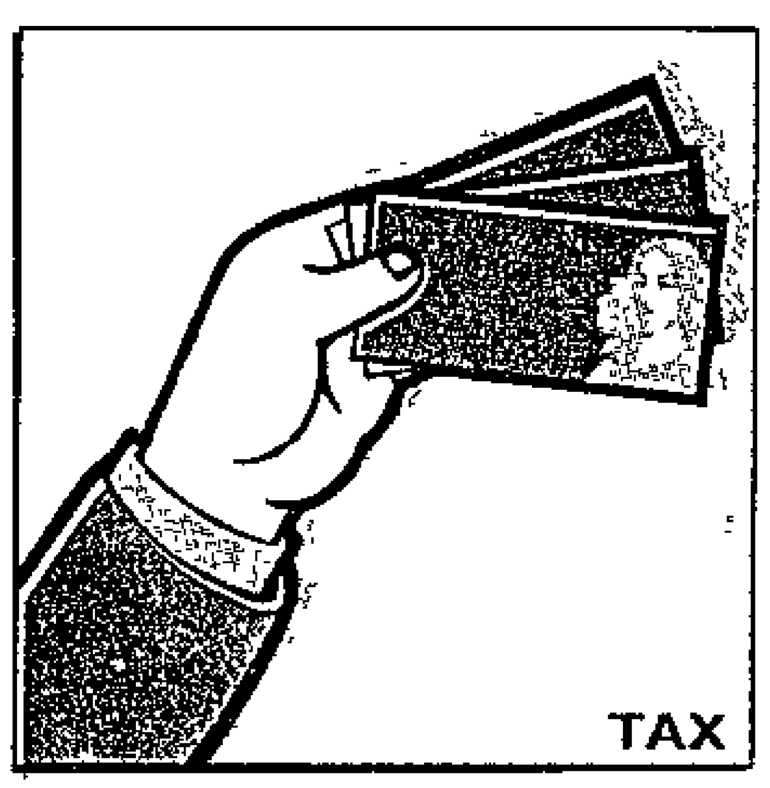
● VAT is set to rise to at least 13 percent, possibly as high as 15 percent after concessions on basic foods granted this week, which Sacob says will cost the fiscus R850-million.

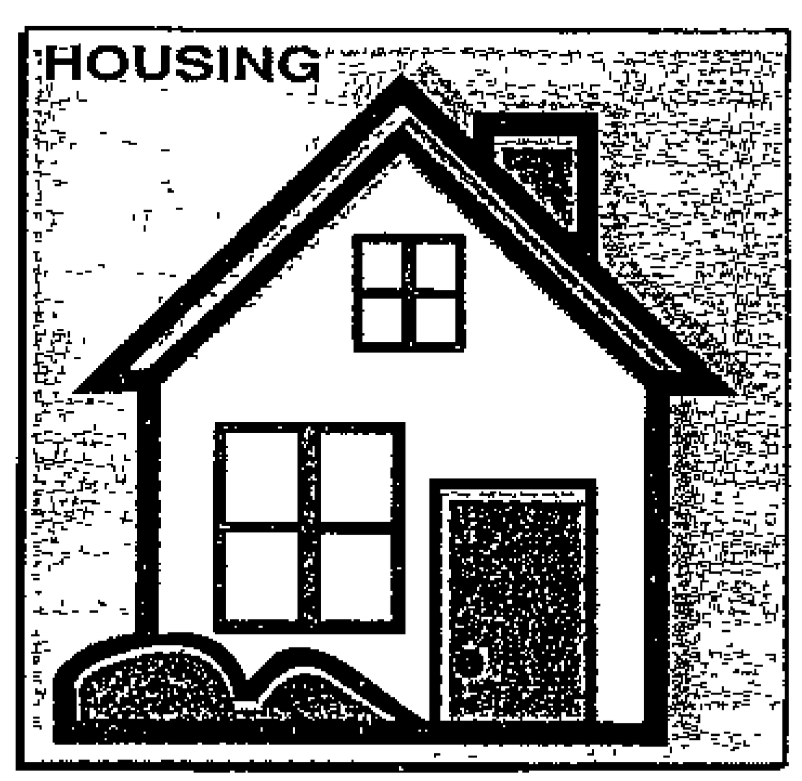
● Fuel prices are expected to rise by at least 10c a litre. One economist suggests that the increase could be as high as 15c, made up of a 10c levy to fund government spending and a 5c price adjustment linked to the continued under-recovery on the landed cost of fuel.

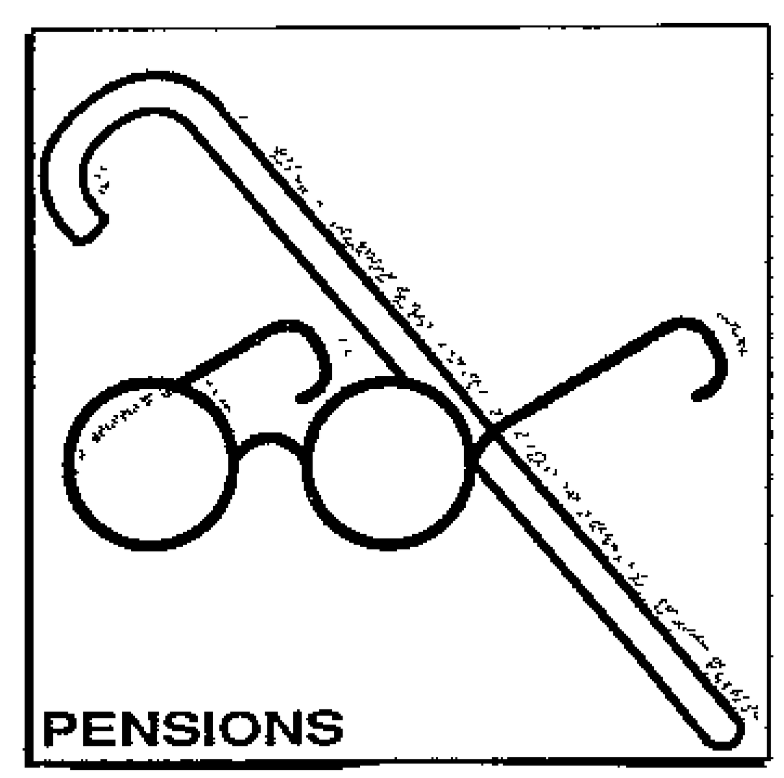
● Small business is expected to receive some incentives.

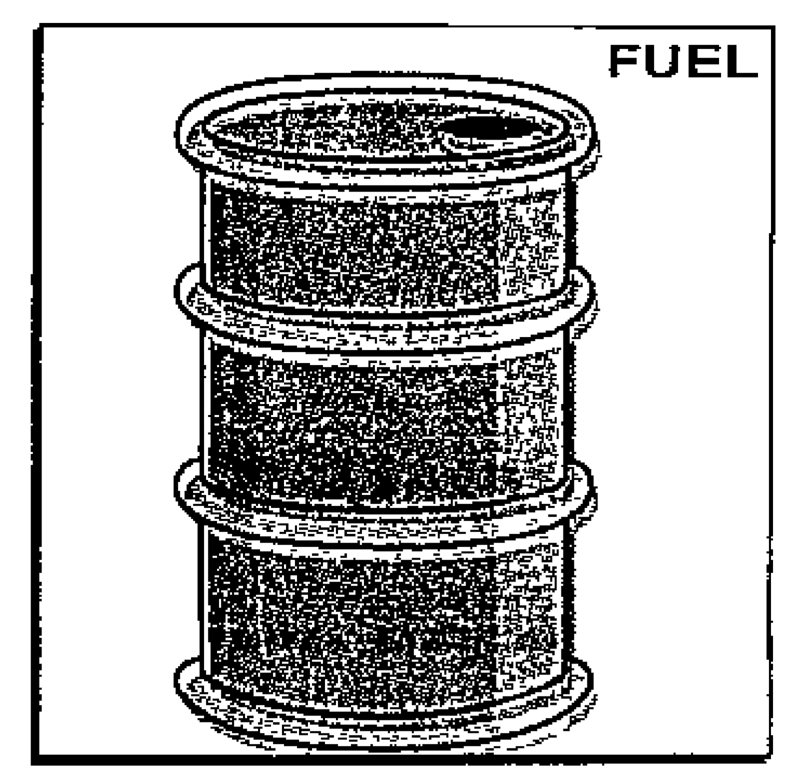
● Defence spending will be cut back further, with the funds being reallocated to health, education and housing. The scrapping of Own Affairs will also result in a significant saving, allowing a further reallocation to priority areas, including spending on the police.

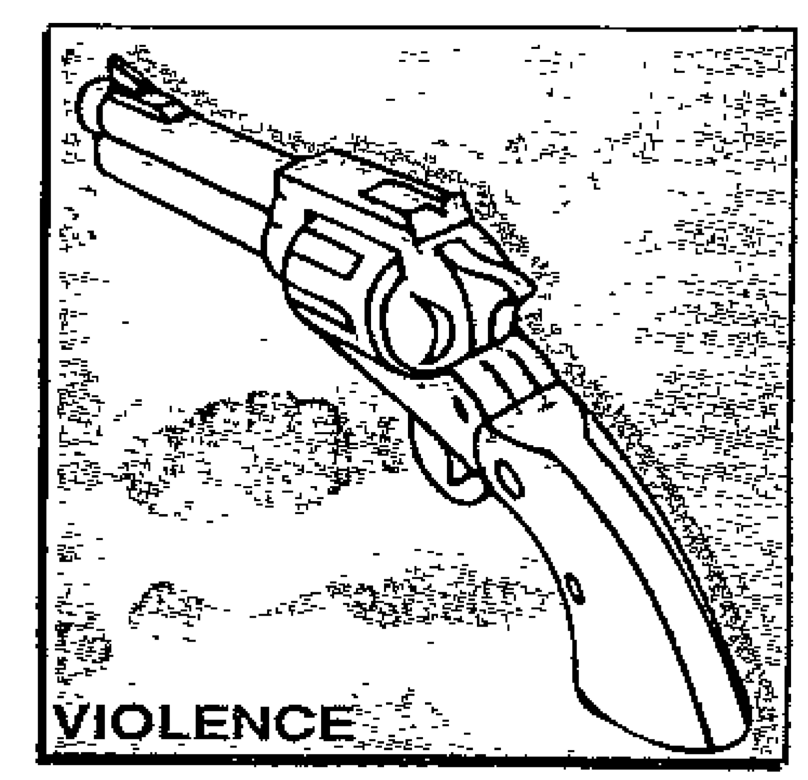












focus on Azapo

Mandla Seleoane, head of Azapo's economics secretariat, spells out the implications of the party's economics policy to **Joe Mdhlela**:

Sowetan, 15/3/93

(49)

A GOVERNMENT run by the Azanian People's Organisation (Azapo) would build a participatory democracy based on the principles of scientific socialism.

Explaining Azapo's economic policy, the head of the economics secretariat, Mr Mandla Seleoane, said the economy would be worker-centred and would be developed towards self-reliance.

The economy would be centrally engineered away from neo-colonialism, imperialism and world capitalist domination which, Seleoane said, did not serve the interests of black people in South Africa.

He said it was important that the economy was worker-centred and valued participatory democracy.

This would be a crucial political weapon in the process of transforming the white-dominated, racist, settler-colonialist and capitalist structures of production.

These processes, he argued, are essential ingredients in revolutionising the political and socio-economic orders.

They would also change and democratise social relations in an Azanian society.

Seleoane said other objectives of the document included the socialist framework for growth with social justice welded into the system.

Economic independence was an essential ingredient.

The repossession and reconquest of land through socialism constituted the historical and material basis for the complete liberation of black people in Azania.

"To obtain total liberation, black people must liberate the land completely from the system of white racism and settler-colonialism which have an adverse effect on the potential capabilities of black people as the rightful owners of the land," Seleoane said.

He argued that it was not possible to realise the liberation of blacks without "liberating the land".

"That is why we in the Black Consciousness Movement believe in the slogan of liberating the land in order to liberate black people."

Seleoane said land, as a basis for development, constituted the foundation upon which various activities of the community could take place.

He said because of centuries of living a landless life, blacks had become passive in relation to their social environment.

"Consequently, the effective realisation of the policy of land repossession and reconquest by black people is primary to the total destruction of the passive relationship to the land."

The Economic Policy Document, he argued, made a case for the transformation of the *status*

Mr Mandla Seleoane, head of Azapo's economics secretariat.

quo, removing from the face of the earth "the racist capitalist social framework which dominates all spheres of social life, including the subservient tribalistic homelands which have historically ensured the maintenance of structural and political domination of black people".

He maintained that a "viable economic policy and strategy for dynamic social and human development in a socialist Azania must deal effectively with the sustained passive relationship of black people to their social environment".

He added that all this would depend "upon the ownership of the basic means of production that primarily serves as the source of national wealth creation as well as the principle of distribution".

Although black workers and peasants were responsible for the production of national wealth, their share of the fruits of their labour was minimal, he pointed out.

As a result blacks were impoverished.

Seleoane said the document did not mince words about the poor quality of life the majority of blacks endured.

This confirmed the failure of South Africa's capitalist system, which thrived on black people's dispossession of land.

He said an Azapo government would where necessary, adopt an economic strategy of expropriating land without compensation.

This land would be re-distributed on the basis of historical political and economic considerations.

Not for the timid

He said organisations of the Black Consciousness Movement, including Azapo, were fully conscious of the "insuperable difficulties" usually cited by those against the socialist order.

"For the BCM, scientific socialism is not an economic policy and system for the timid," Seleoane argued.

He said the BCM rejected as garbage the notion that the redistribution of the land should be on the basis on economic gradualism.

"This notion was based on the premise that the Azanian people would obtain land gradually, depending on the willingness of the current landowners to sell.

"The BCM discards this economic strategy as unworkable and grossly misleading.

"This strategy is based on a false assumption that landowners, both foreign and domestic, would readily avail their land for sale to a socialist government in order for this land to be redistributed among workers and peasants."

The hypothesis overlooked that unequal distribution and private ownership of the land are the major sources of concentration of wealth and income, and social privilege and power in the hands of a small minority.

On agriculture, the BCM would give attention to a process of transforming capitalist farms in order to eliminate exploitation.

The rural villages, the document argued, would be organised into co-operative farms.

In addition, a BCM government would make available "politically committed cadres to mobilise Azanian farm workers to enhance their socialist consciousness.

Seleoane said a crucial aspect of the document was that socialism was not for the faint-hearted.

MONEY MARKETS by Tim Marsland

Liquidity expected to ease over rest of month

BDay 15/3/93 (49)

THE money market seems to be over the worst of its liquidity problems for now.

Friday's shortage at the window dropped to R4,159bn. Seen against the recent record high of R5,287bn, it is far more palatable, although still some way off the R3,5bn it has averaged over recent months.

Banks have been using bankers acceptances at the window, which has been costly, so treasurers will be relieved when it's back to using Treasury bills and the like.

Liquidity will continue to ease for the rest of the month. Government is expected to spend about R4bn this month, which will come out of its account at the Bank.

Short-dated rates have yet to match earlier levels, something the central Bank may be not too upset about.

It may feel that rates were perhaps too low anyway, so it would like to see them hover around these levels for a while. Treasury bills are now near the levels set in November, which the Bank might be more comfortable with.

The market overreacted in January when some players took rumours of a two percentage point reduction in Bank rate as fact. In the end, the Bank rate was cut to 13%, so yields of above 12% in the money market are more acceptable.

It has taken the market a while to drift back into line with reality.

Nervousness surrounding the liquidity has seen corporate borrowers switching away from the overnight market into the three-month and one-year area.

On the capital market, players have been jobbing away their days over the past few weeks. This will change on Wednesday when the Budget is unveiled.

There are likely to be hushed silences when it comes to the deficit — the storm will probably follow afterwards. A light shower at first, with the real thunder on Thursday and Friday once the Budget has been digested. Brollies are recommended.

Deficit predictions range from R22bn to R28bn. It would be wiser — no matter what the official deficit — to tread cautiously.

Government's crystal ball is notoriously badly tuned when it comes to deficits.

An interesting feature on the market this week was the tiny parcels of municipal bonds that have changed hands on the JSE floor. These seldom trade, so it seems someone has taken advantage of the lull to engage in portfolio switching.

Reserve Bank probe after London tip-off

TIM MARSLAND

THE Reserve Bank was investigating claims that a number of South Africans were involved in illegal currency transactions, a senior Bank official said yesterday.

The official was responding to a weekend report that more than 40 SA citizens were involved in illegal forex dealings.

He said the Bank had received information from an SA citizen who fled to London last year amid claims of theft and foreign exchange contraventions.

The man, Roy Myers, had given information to the Bank which had been passed on to the Office for Serious Economic Offences for investigation

Myers, accused of theft and foreign exchange contraventions, fled to London and offered the information to the Bank in exchange for indemnity.

Myers later committed suicide in London.

He had already appeared in a London court in connection with the theft of more than R5m from a Johannesburg pair.

The official said there had been an inves-

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(49)

Bank probe

☐ From Page 1

tigation from the Bank's side into Myers "who was instrumental in getting funds offshore on behalf of others".

He was unable to say how much money was involved in the investigation or how many people the probe affected.

However, "a number of people were affected", he said. BD 15/3/93.

Myers is believed to have passed on information which led to six SA residents being prosecuted in connection with fraud and foreign exchange contraventions amounting to about R350m.

The official said about 10 cases involving foreign exchange irregularities were before the courts at the moment.

(49)

Economists expect UK fiscal policy to tighten

BDay 15/3/93 49

LONDON — A consensus is emerging among UK economists that Chancellor of the Exchequer Norman Lamont will tighten fiscal policy when he unveils his budget tomorrow for the 1993-94 financial year.

The moves may be little more than a first step in a medium-term strategy though, as the fragile state of the economy leaves little room for bold moves. And a rejig of the Britain's annual budget timing will give Lamont a second chance to tackle the deficit in November.

"The big picture is that we're going to see a fiscal tightening starting next week and extending into the medium term," says J P Morgan & Co economist David MacKie. He expects consolidation moves on the order of £3bn or more for the fiscal year starting April 1.

"The budget will have to nod in the direction of tax increases," adds James Capel & Co economist Adam Cole. He says Lamont can convince international markets of his medium-term fiscal policy with a net tightening of £1,5bn to £2,5bn, without recourse to higher tax rates.

Economists say some tightening will convince markets that UK fiscal policy is firmly anchored after the monetary easing that followed sterling's withdrawal from the European exchange rate mechanism.

And any near-term tightening Lamont makes need not be heavy-handed, because the move to a single year-end budget will return the government to the podium for the fiscal 1994/95 budget in November.

If Lamont opts for fiscal tightening tomorrow, economists expect it to be an exercise in fine tuning. MacKie thinks the chancellor can pare back £3bn of previously announced spending plans. Others expect to see tinkering to nudge wealthier taxpayers into higher brackets and generate extra revenue. Another move could be to raise indirect taxes on non-essential items by more than the rate of inflation, pegged at 2,6% in December.

Some economists have also suggested an extension of value-added tax to impose a 5% rate on zero-rated items.

Another topic of discussion is the possibility that Lamont might ease the "full-funding rule" to limit government bond issuance. The current rule says that the public sector borrowing requirement (PSBR) must be fully funded by sales of debt to entities other than banks and building societies. But with the PSBR set to widen, some economists think it should include banks and building societies.

Cole estimates that banks and building societies could buy £5bn or £6bn of government bonds in fiscal 1993-94.

Elsewhere, economists warn against putting too much faith in common wisdom going into the budget. "I think it is pretty clear from the last couple of years that Norman Lamont is quite keen on doing rather surprising and innovative things," MacKie says. — AP-DJ.

Economic blues loom for NP, ANC

Business Staff 49 ARG 16/3/93

THE African National Congress and the National Party are about to inherit each other's economic problems, Dr F van Zyl Slabbert, academic and political commentator, said.

Dr Slabbert said the economic debate was becoming more important than the political debate.

The success of any political agreement would to a large extent depend on the ability of the parties to reach economic agreement.

"More account should be taken of the Derek Keys' debate than the political debate."

In an interview Dr Slabbert said that as the ANC and the National Party moved towards a coalition in a government of national unity they would have to sell each other's economic problems.

The ANC would have to take account of the government's concerns to get growth into the economy.

And the NP would have to take account of the ANC's concerns about populist pressure from those people denied equal opportunity.

"I can't wait to hear what magic Trevor Manuel (ANC head of economic planning) will have which will be different from what Mr Keys has to offer."

The biggest pressure on a government of national unity would be for "budget parity" but the demand for restraint in government spending would remain.

Dr Slabbert said he was encouraged by the emerging economic consensus that was coming from the National Economic Forum.

He also felt business had come through a steep learning curve in adapting to the rapidly changing political circumstances.

"Business men are asking themselves tough questions. They still have some way to go but they have come a long way."

'Africa adieu' not seen for SA

BRUCE CAMERON (49)
Business Staff ARG 16/3/93

SOUTH Africa would not be placed in the same category as other failing African countries — but political settlement was imperative for success, Mr Howard Hughes, world managing partner of the international auditing and management company, Price Waterhouse, said.

Speaking at luncheon in Cape Town yesterday, Mr Hughes who is visiting South Africa, said investors found it much easier to "invest where they do not have to worry about political stability or exchange control".

Although Mr Hughes spelt out still-to-be-met preconditions for investment and growth he was optimistic about the economic future of South Africa.

South Africa with all its natural resources would have an important role to play of the world economic stage when political stability was achieved.

South Africa was seen as the engine of Africa not only because of its own economy but also because of the region.

"What happens here affects and truly matters to the rest of the world."

Apart from political stability, Mr Hughes, said there also had to be reasonably free movement of capital and a freely convertible currency at market rates, Once this happened "foreign investment will inevitably follow".

He warned South Africa "must take steps to ensure that it will be a viable competitor in the global market place".

To ensure success South Africa also had to indentify sectors of industry which could succeed; make investments in high technology; upgrade the education system; and institute labour reforms to ensure a motivated and literate work force.

He reminded South African businessmen they would be competing in world wide markets with highly skilled, highly motivated and highly-focused countries such as the Asia/Pacific.

South Africa had a cadre of highly skilled people but many more were required and they had to have access to the world's most advanced methodologies and technologies.

Mr Hughes said his company with its links in 120 countries could play a significant role not only in putting potential investors in touch with South African businessmen but also in providing services for and advice for the establishment of companies but also in meeting the needs of both the private and public sectors as they "grow and compete".

Brace for Budget blues, warn experts

Star 16/3/93

(49)

By Magnus Heystek
Finance Editor

Prepare for the Budget blues — that's the message from South Africa's top economists.

This year's Budget, due to be presented to Parliament by Finance Minister Derek Keys tomorrow afternoon, is likely to hit taxpayers hard.

It is almost certain Keys will announce an increase in VAT — from 10 to 13 percent — while additional taxes on petrol and imported goods are likely.

Keys has to prepare a Budget that will enable the revenue authorities to extract more money from the system without crippling an already depressed economy.

Sharply higher taxes now would be a major blow to business confidence.

An increase of 10c in the petrol price will increase revenue by R1,2 billion for the year, and is the most obvious and effective method to collect more taxes.

The exemption of a wider range of basic foodstuffs from VAT, announced last week, has killed off any hopes that an increase in indirect taxation could have been avoided.

It is estimated that last week's move will cost the Government about R850 million per annum. This has to be made up elsewhere, and higher VAT on non-exempt goods is the obvious source.

More certain, though, is increased duties on a wide range of consumer goods, including whisky and cigarettes and other tobacco products.

Old Mutual expects Keys to budget for an increase of 7,5 percent in Government spending to R113 billion, while revenue collection is set to rise by 9 percent to R82 billion, leaving a shortfall of R31 billion.

An increase of three percentage points in VAT would yield an extra R4,6 billion, while increased customs and excise duties would add another R500 million.

This year's Budget could also provide a nasty shock for the investment community in the form of a reintroduction of taxes on dividends.

More certain is an increase in estate duty taxation, currently standing at 15 percent for estates worth more than R1 million. An increase to 20 percent in addition to higher taxes on donations is on the cards, experts warn.

Nico Czypionka, chief economist for Standard Bank, said: "The man-in-the-street will be bled anyway, thanks to theft by inflation, a VAT increase to 13 percent, raised personal and petrol taxes, and higher export duties."

● "Sixth Schedule" to go
- Page 16

PPI creeps up on higher energy costs

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CT 16/3/93

By AUDREY D'ANGELO
Business Editor

A 2,9% fall in the index for agriculture and a 2% fall in the index for manufactured food helped to keep the producer price index (PPI) for January low, in spite of a steep rise in the cost of electricity, gas and water.

This reverses the trend for the past few months, when rising food prices because of the drought limited the fall in the PPI and the consumer price index (CPI).

Figures released by the Central Statistical Services (CSS) yesterday showed that the PPI rose by only 0,2% between December and January.

The January figure for all commodities was 7,4% year on year compared with 7,3% in December.

The index for locally produced commodities for SA consumption rose by 8,3% year on year. But the index for the total output of SA industry rose by only 7%, implying that the cost of exports rose less than that of goods sold on the domestic market.

The PPI for imported commodities rose 3,9% year on year, compared with 3,1% year on year in December. But in fact the imported commodities index fell by 0,4% month on month, between December and January.

However, economists point out that the weakening rand means this downward trend will be reversed in the February PPI.

The CSS reports "relatively large monthly increases" in the indices for footwear, which went up by 2%, rubber and plastic products, which went up by 3%, basic metals, up 4,7%, scientific, optical and related equipment, up 3,1%, and electricity, gas and water, up 5,2%.

Prices of mining and quarrying products fell by 1,6%.

Southern Life chief economist Mike Daly said these figures showed that the trend for inflation was still downward. They should feed through to a continued fall in the consumer price index (CPI), even though this trend might be temporarily reversed after tomorrow's budget.

The year on year PPI figures were higher because the rise in January last year had been exceptionally low.

'Excellent'

Old Mutual economist Johan Els said the PPI figures were "excellent".

The positive effect of rains and better agricultural conditions was already beginning to come through.

But "the weakening foreign exchange figures have not come through to the PPI yet. They will affect the February figure.

"However, we still expect the PPI to average 7,5% for 1993."

Metropolitan Life chief economist Chris Visser said he expected the SA component of the PPI to remain low for some time although the imported component would pick up.

"Over the longer term the rand will continue to depreciate but I expect it to stay around its present levels for about six months.

"The PPI is going to remain low for some time, although we shall probably see it picking up a bit towards the end of the year."

Foundation criticises Keys's economic plan

B/Dan 16/3/93.

(49)

ANDY DUFFY

GOVERNMENT's proposed five-year economic plan falls far short of what is required for SA's long-term prosperity, warns the Free Market Foundation.

According to the foundation government must provide an "economic equivalent" of its decision in February 1990 to force fundamental changes on SA's political structure.

The normative economic model unveiled last week by Finance, Trade and Industry Minister Derek Keys contained some elements of what was required, the foundation said.

But "the pace and extent envisaged are disappointing", foundation executive director Leon Louw said.

The foundation said that targets had been set much too low.

The targeted growth rate of 4,5% by 1997 would leave "millions of people jobless and poverty stricken" Louw added. Given the experience of other economies, Keys could realistically have set the target at 7-10%.

The inflation target should have been set at 0%, Louw added. The current 4,5% inflation target would still hamper growth.

Keys' proposals also failed to address privatisation, or the scrapping of exchange controls and protectionism.

"(The model) makes too many concessions to ideas that survive in SA even though they have been dumped by the world's latest 'economic miracles,' " Louw said.

The foundation said inflation should be cut by the Reserve Bank exerting more control over M0, the base money supply comprising circulating coins and notes, plus financial institution deposits.

The virtual lack of M0 growth from January 1990 to December 1991 led to a fall in inflation from 17% to 10% in late 1991, the foundation argued. If continued, 0% inflation by 1997 would be "feasible".

The foundation said government owned enough readily privatisable wealth to provide the poor with benefits of more than R20 000 each.

Where industries were not privatised, the foundation said, monopolies should be broken up.

ANC should be driving a harder bargain with US

B/DAY 16/3/93

(49)

SIMON BARBER in Washington

AS PART of its bid to convert the sword of sanctions into the ploughshare of economic assistance, the ANC hopes to sign a co-operation pact with the state of New York, to go into effect as soon as a "new multiracial government" is in place. The organisation may not see US-style federalism as the right model back home, but clearly it is interested in making use of the original.

A draft of the agreement, apparently readied for signature by Governor Mario Cuomo and ANC president Nelson Mandela when the latter was in the US for President Bill Clinton's inauguration, is circulating. With New York state legislators even now trying to pass a Bill to discourage US banks from lending to SA, the sooner the thing is signed the better

In terms of cold resources, the agreement is likely to be pretty meaningless — the kind of symbolic gesture that local US politicians are prone to when they aspire to strut the international stage. However, its mere existence will perhaps encourage other state and local jurisdictions to stop boycotting American investment in SA when the ANC gives the word

To say this is not to be rude to the ANC. Its heart is now clearly in the right place. But it must be realistic, or that heart is going to be broken, repeatedly.

New York has what it calls "international partnership programmes" with a number of countries. The agreement would extend such a programme to SA "in areas of economic development, education, small business development, trade and investment, culture, science and technology".

The text offers no guarantees that the state will do anything, only that it "may" Left unclear is whether this means it might, if it felt so inclined, or that it will, if permitted to do so by the new SA government. Perhaps subsequent drafts will adopt a less subjunctive word.

Under the heading of economic development, what New York "may" do is "provide advice" Topics might include "the non-white majority's capability to own and control the means of production", "advancing the economic competitiveness of the new multiracial SA" and "structuring a civil service system". Whether New York has anything worthwhile to say on such issues, especially the last, is open to debate.

More importantly, however, the state undertakes to promote trade with and tourism to SA. If all that means is that it will get out of the way and stimulate others to follow suit, the pact is more than worth the paper on which it will be signed. If the state goes further, and provides tangible benefits like scholarships to its universities and technical schools and internships in its public health department, so much the better

And maybe the ANC is asking for too little. Much of what New York "may" do seems to imply nothing more than busy work and travel excuses for bureaucrats. What about asking Cuomo to offer local tax incentives for firms that invest in SA? Mandela should use all the moral suasion at his disposal while he still has it to squeeze substantive advantages out of this country. Remember, once elections are held and a new government is in place, he will be just another African politician.

The good news is that the ANC is trying to do the right thing. Less cheering are its prospects for getting it done. This is because other state and local authorities, and the campaigners who drive them on the issue of SA, continue to have a strange concept of what helping means. The ANC needs to get on their case.

Oregon ended its SA investment boycott last year while the state assembly was out of session. With legislators back at work, some among them are trying to make trouble. What's a little trouble in an obscure west coast state? A lot if it becomes trend, which it might well become, because, until recently, it was a trend the ANC was itself promoting.

A Bill is before the assembly which would reimpose the boycott until the ANC specifically says otherwise. What is dangerous here is not the reimposition — that is just silly — but the accompanying proposal to keep the boycott in force for those companies that do not comply with the ANC/Cosatu guidelines for foreign investors.

This is one of those dangerous ideas that look unexceptionable to the innocent (after all, are not all companies going to have to abide by the guidelines?), but are in fact time bombs if the new SA is serious about attracting investment. For foreign investors, there is a major difference between abiding by a host country's regulations and answering to its authorities, on the one hand, and being hassled by bureaucrats and campaigners back home, on the other.

Let US companies believe that even if an ANC government welcomes them with open arms, their SA operations are going to continue being scrutinised by domestic pests, and they are going to look elsewhere. They are not going to waste time and money filling in reports to satisfy American watchdogs about their SA affirmative action policies when those policies pass muster in SA itself. There are plenty of other opportunities in other countries that do not entail this burden.

The ANC/Cosatu guidelines may well be a decent starting point for legislation or rules that a transitional government might adopt, as long as they are enforced realistically Some of the standards may be a luxury SA cannot currently afford there will be a limit to what investors can justify spending in terms of social work, adult education and on ramps and other facilities to ensure there is no discrimination against the disabled

But that is something South Africans must work out for themselves To let others do it for them would not only be impractical, it would be a humiliating concession of sovereignty So call off Oregon, and find other work for the support groups who were asked to agitate for such initiatives at last November's Riverside Church conference in New York.

By the same token, douse the proposal in the New York state assembly to force banks to disclose their SA activities annually. Even more importantly, start letting the US Congress know that the election of a new government might be the time to drop the federal law requiring US firms in SA to abide by some variant of the Rev Leon Sullivan's employment code. Compliance is expensive and time-consuming, and some argue that it forces a misallocation of resources. Again, SA must set its own rules.

Finally, even with bits of paper like that to be signed with Cuomo, drumming up investment and assistance is going to be hard. When SA has a nonracial government, chances are it will cease to have any special draw on America's attention. Indeed, it may even be that some major US firms that have withstood the boycotts and shareholder activism of the past decade will leave, having stayed put out of sheer stubbornness and a belief that they were helping.

But that is not a reason to keep badgering them. It is one more reason SA will have to find other, more positive ways, to keep itself interesting.

BD 16/3/93

Protests over Budget

PICKETS and marches would be held today at the Receiver of Revenue offices in Johannesburg and Port Elizabeth. These were among events arranged by Cosatu to focus attention on the Budget. A march to Parliament would also be staged, Cosatu said. (49)

Economy cannot afford drastic fix

The Government cannot afford to apply drastic medicine to markedly cut the deficit before borrowing, says Old Mutual economist Riaan le Roux.

Le Roux said at a press conference yesterday that the economy was far too weak to absorb large scale tax increases. STAR 16/3/93

He expects the government to budget for spending increases of 7,5 percent to R113 billion in the 1993/4 fiscal year, while revenue income, excluding any tax hikes, is forecast to rise by nine percent to R82 billion.

This would leave the deficit at an unacceptably high R31 billion, the equivalent of 8,4 percent of GDP. (49)

Such a large deficit will increase the cost of servicing the government's debt, which is already swallowing over 20 percent of revenue income.

Le Roux therefore expects a gradual decline in the deficit, which would be accomplished by a real cut in government spending as well as tax increases to rake in an additional R6,3 billion. (see chart)

	1992/93 Rbn	1993/94 Rbn	% CH
Spending	105,0	113,0	7,5
Revenue	75,0	82,0	9,0
Deficit	30,0	31,0	
% of GDP	8,9	8,4	
Tax increases			
VAT 3%		R4,6bn	
Petrol 10c = R1,2bn		R1,2bn	
C & E		R0,5bn	
Other		?	
		R6 3bn	
Tax cuts		-R0,8bn (?)	
		R5,5bn	
Adjusted deficit		R25,5	
		6,8% of GDP	

Coupled with minor tax cuts worth about R800 million this would reduce the deficit to R25,5 billion, equivalent to 6,8 percent of GDP.

Govt could save R5,5bn by cutting public sector costs, claims DP

BDay 16/3/93 (49) [redacted]

SIMON WILLSON

'APE TOWN — Government could save at .east R5,5bn in the coming fiscal year hrough cost reductions in the public sec- or, DP finance spokesman Ken Andrew aid yesterday.

Presenting the DP's proposals for the 993 94 Budget at a parliamentary brief- ng, Andrew said there was enormous .cope for greater government efficiency.

"In tight economic times, the private ector is obliged to reduce costs drastically ınd there is no reason why the public sec- or should not be obliged to do so as well," Andrew said

The DP's shadow budget projected infla- tion at an average 11% in fiscal 1993/94. It proposed a 5% increase in staff costs — as already laid down by government — and an 11% rise in other expenses, thus keeping non-staff spending steady in real terms. Total government spending should there- fore rise by R9,05bn from the 1992/93 total of R101,68bn, excluding drought aid.

Independent efficiency experts and the auditor-general's office should be involved in a general cost-reduction exercise to cut public sector expenses by 5%. Staff provid- ing essential services, such as teachers, doctors, nurses and police, should not be cut back but there had to be a significant reduction in overall staffing levels.

Large savings would result from the abolition of own affairs departments and administrations, and from rationalisation of services provided by central govern- ment and the various homelands.

About R1,7bn in additional savings would be generated by restricting defence expenditure to 2,5% of GDP.

"In the past, other departments have had to make sacrifices when defence was a pri- ority and we see no reason why this cannot now be reversed," Andrew said A fifth of planned defence capital expenditure should be postponed to relieve pressure on the Budget deficit.

Savings in future relief aid could be gen- erated by encouraging the agricultural sector to be provident in times of plenty. This would enable them to draw on their own reserves during lean years.

The current tax system discouraged the use of self-sufficiency to combat drought, and left the farming community vulner- able to natural disaster, Andrew said.

He proposed a "drought bond" scheme, to incorporate attractive tax advantages to encourage savings when the agriculture sector found itself with surplus income. Such funds would be dedicated to drought or disaster relief and, if withdrawn for oth- er purposes, the tax advantages granted would be recouped from farmers.

The DP said a state lottery should be in- troduced immediately, as it could raise about R800m in the coming financial year.

On the spending side, the DP said the

□ To Page 2

Public sector

BDay 16/3/93 [redacted]

□ From Page 1

education vote should not account for a bigger proportion of the Budget than 1992/93's 19%. But government had to ensure results were achieved and value for money obtained.

The DP called for equalisation of social pensions to include citizens in the TBVC states. Andrew said the means test for pen- sions eligibility had to be uniform. "At the moment the means test is more stringent for other races than for whites. If the means test is left on a racial basis, pen- sions will not be fully equalised."

An additional R2bn should be set aside for job creation programmes, focusing on literacy and skills training for young peo- ple. In addition, the amount of direct pov- erty and starvation relief to be channelled through non-government organisations should be increased to R500m and more closely monitored to check for abuse.

A fund of R300m should be set up to as- sist aspirant farmers in gaining access to land Government already owned hundreds of thousands of hectares of arable land through the SA Development Trust, and the finance would be needed only to help about 3 000 new farmers establish viable units.

Extra spending of R600m on the police was proposed on top of the increment to keep real spending on policing constant in real terms.

The DP said people aged over 65 should be allowed R10 000 in tax-exempt interest instead of the current R2 000, which would cost not more than R100m. It proposed the VAT zero rating of medicines, but did not cost the measure.

Commercialisation of appropriate enterprises should be rigorously pursued. Proceeds of privatisation should not be used for consumption expenditure nor for window-dressing current Budget deficits.

□ The Budget speech will be televised on TSS in a direct broadcast from Parliament from 2.15pm to 4pm tomorrow.

Star 17/3/93

Economic upliftment plan needed, says Hani

(49)

A negotiated political settlement should be accompanied by a major programme of social and economic upliftment, says SA Communist Party general-secretary Chris Hani.

Speaking to a group of Afrikaners in Pretoria last night, he said that for the SACP such a programme involved "a major effort at redistribution".

He said the envisaged redistribution did not involve punitive confiscation of property but a coherent social and macro-economic programme of growth through redistribution.

Hani told the group his party believed that the negotiations process would entail compromises. For this reason the SACP's central committee last month endorsed the ANC's package for the transition. — Political Reporter.

Expect the worst, says Ken Andrew

Sowetan & Radio Metro
Talkback

with Tim Modise

By Isaac Moledi

SOUTH Africans should brace themselves for a tough budget this year, Democratic Party MP Mr Ken Andrew told *Sowetan*/Radio Metro Talkback Show listeners last night.

Andrew said this year's budget, to be presented in Parliament by Finance Minister Mr Derek Keys today, would present another heavy load on the taxpayer.

Sowetan 17/3/93.

Economic recession

He said with the economic recession the country was experiencing, the R30 billion used on last year's budget was expected to double.

He said the apartheid system created a proliferation of homelands and more Government departments. This, he said, led to enormous corruption, maladministration and inefficiency.

"We have a high level of corruption, maladministration and inefficiencies in other sectors of Government departments," Andrew said.

He said his party was looking at ways of laying the basis for long and short-term economic growth.

"With our economy shrinking the way it is at the moment, lack of business confidence has resulted in instability, unemployment and crime.

"We need to create jobs and give training and use the training to build more houses. This will alleviate the suffering of people affected by the downturn crisis," he said.

"I think the problems here are two-fold. It is political and economic.
Firstly, we should concentrate on investment to create more employment. Secondly, the political situation needs to be resolved to increase the confidence of foreign investors."

Cyril, Hillbrow

"I wish to thank Mr Andrew for his address. His discussion about the economic situation and Government corruption was frank.
I agree that the Government should be accountable."

Ham, Cape Town

"I have doubts about your party (DP)."

Abbey, Hillbrow.

"I am also for the removal of the National Party from power. But what you (Andrew) are saying is extremely impossible."

Gill, Johannesburg

49

next Talkback topic

THE *Sowetan*-Radio Metro Talkback Show takes a critical look at the Budget to be presented by Minister of Finance Derek Keys in Parliament this afternoon. You can share your view by phoning Tim Modise between 6pm and 8pm tonight.

Dial the hotline (011) 714-8063

Star 17/4/93

Keys's inspired style

By Peter Fabricius

CAPE TOWN — Expect divine authority for Finance Minister Derek Keys's first Budget which he delivers to Parliament today. (49)

Budget speeches are not great occasions for entertainment, but finance ministers of the past have attempted to make them more so through heavy leavenings of quotations.

In this way they impress their personal style on all the heavy technical stuff about deficits before borrowing.

Dr Nico Diederichs, who served under Prime Minister John Vorster, spiced almost every spoonful of nutritious financial medicine with salty quotations from the Afrikaans bard, Langenhoven.

His successor, Owen Horwood was more diverse in his choice of authorities, but threw in the odd quote from Langenhoven to show that his heart was in the right place.

Next-in-line finance minister Barend du Plessis was far less dependent on other authorities, at least in the literary and philosophy departments.

Keys may be expected to invoke the ultimate authority of the Bible behind his financial policies, if he invokes anyone at all. His most frequent reference is to the scriptures, as one might expect from the man who admits that he gets down on his knees every night to pray for strength to do his job.

Taxpayers, wait for mugging

By ANTHONY JOHNSON and IVOR CREWS

TAXPAYERS can expect a mugging today when Finance Minister Mr Derek Keys presents his first Budget

The minister will have to juggle the conflicting demands of millions of under-privileged first-time voters with promises that the state will finally curb runaway expenditure CT 17/3/93

Experts expect

- An increase in the 10% VAT rate to at least 12%, but probably higher
- A hike in the fuel price of between 10-20c a litre
- Higher taxes on tobacco, alcohol and other "luxuries".
- Using the inflationary effects of earnings to drag taxpayers into higher brackets.

(49)

Mr Keys is expected to use some of these revenue-collecting devices, as well as savings effected by further cut-backs in defence spending, to assist the poor which will comprise the bulk of voters.

Racially-based discrepancies in pension payments are expected to be eliminated this year, but political parties are concerned that the discriminatory means test for pensioners be eliminated as well.

Mr Keys will also be under pressure to divert additional funds to social spending in areas such as education, health, housing and job-creation.

Government sources said that the Budget would also be geared to improving conditions to satisfy the related goals of increased growth and economic investment in South Africa's ailing economy

- Anti-Budget protests have been organised by members of the ANC alliance and public sector workers

● Budget necessities likely to dampen economic activity — Page 11

Star 17/3/93

Light shed on interlocking directorates

By Sven Lunsche

CAPE TOWN — The Government has clarified its policy on outlawing interlocking directorates between competing firms.

Jan Dreyer, the head of the Central Economic Advisory Service (CEAS), said yesterday prohibiting interlocking directorates was not part of the Government's proposals as outlined in the Normative Economic Model (NEM) released last week.

Such a clause, however, was contained in the summary of the report compiled separately by former Reserve Bank deputy governor Professor Jan Lombard.

(49)

Dreyer, the architect of the NEM, said that the proposal in the summary could have been an interpretation of the competition policy as contained in the original model.

"However, only the proposals contained in the full report should be regarded as the official policy of the Department of Finance, the Competitions Board and the CEAS," he added.

All three departments were extensively consulted on the NEM's proposals about improving effective competition among suppliers in the market for goods and services.

"Competition means balancing forces, but does not necessarily involve breaking up big corporations," Dreyer said.

Key to the NEM's competition policy was the establishment of an independent judicial system to replace direct government involvement based on the findings and recommendations of the Competitions Board, he said.

focus on the Budget

Sowetan 17/3/93

The general secretary of the Congress of South African Trade Unions, **Jay Naidoo,** outlines the federation's position on the Budget and forecasts a gloomy year ahead in which the last unilateral allocation of services will be made:

(49)

WHEN Derek Keys opens his briefcase in Parliament today, he will be presenting the last Budget unilaterally decided on by a minority.

Cosatu has on numerous occasions spelt out to Government what is acceptable and what is unacceptable to workers in this country. However, we are not optimistic that the needs of the majority will be reflected in this Budget.

A budget is more than an accounting exercise by a government trying to balance its book between income (revenue) and expenditure. A budget reflects the political priorities of a government: on the expenditure side how much money goes into health and education, and how much into the military and secret projects?

On the revenue side, how much tax is extracted from the poor, and how much from the rich and the large corporations?

The priorities of this Government are such that we do not expect the 1993-4 Budget to reflect the interests and needs of working people and the poor. Already the Government's latest five-year economic plan spells out an approach which runs directly counter to the positions which Cosatu and other mass organisations have been advancing.

The Government's approach includes shifting the tax burden even more on to the shoulders of the poor by increasing indirect tax, such as VAT, and lowering company tax. The Government also continues to whittle away the role of the State in providing basic social services desperately needed by our people, while on the other hand feeding the bloated apartheid bureaucracy.

Holding Budget

In approaching this Budget, therefore, Cosatu has argued that it should be seen as an interim or holding budget, in which spending is held to 1992/3 levels. This Government has no moral right to tax the majority, let alone to raise the level of taxes on them. We have argued that there are a number of ways in which spending can be held down and taxes more effectively used.

There can be a massive reduction in Government expenditure, particularly in areas where there has been mismanagement, wastage and corruption. This does not mean firing teachers, health workers and others providing essential services. Rather, the bloated Government bureaucracy and duplication of apartheid expenditure (such as 17 welfare budgets) needs to be brutally rationalised, together with expenditure on the bantustans where it is not benefiting people living in those areas.

Further unproductive expenditure which doesn't benefit the majority in our country, such as military expenditure, secret operations (covert funding was about R5 billion in 1992) and nuclear programmes, should be cut back drastically or eliminated entirely.

An end to perks for Government ministers and their hangers on, an end to golden handshakes, including for those who are "retiring" after being found with their hands in the till, and an end to "buying back" of pension schemes by civil servants which leads to a massive burden on the taxpayer.

Loopholes

Existing taxation can be made much more efficient and can collect more revenue by closing loopholes which are currently being exploited. For example, companies are supposed to pay 48 percent tax but many of the large conglomerates pay less than half this. The collection of VAT has also been a shambles: while consumers have been ripped off, the revenue is not getting into public coffers.

Cosatu has proposed a three-point plan to control Government spending and eliminate wastage, at the same time as ensuring that services provided by the Government benefit those they are intended to reach. We have put forward these proposals in various meetings with the Government as well as in proposals to the National Economic Forum.

● **Social Spending:** The problem with current social spending is that most of the money allocated doesn't reach those needing the services. The education and health crises won't be resolved, for example, by simply throwing more money at the problem. Large budgets are already being squandered.

What Cosatu is proposing is that budget allocations for social spending should be jointly controlled by various forums which have been set up, such as the housing, electrification, drought and education forums, to ensure that these funds are delivered to the people on the ground.

In addition certain targeted funding is needed to finance urgently needed programmes which are currently being negotiated, such as the public works programmes aimed at providing jobs and training for the unemployed, as well as an emergency feeding scheme to assist those facing famine conditions.

Cosatu is also demanding the immediate equalisation of pensions as one of the most effective ways of alleviating poverty.

● **Independent Audit:** Cosatu is proposing an independent audit of all Government departments. The purpose of this audit would be to investigate Government spending, and to identify where wastage and corruption is taking place.

The audit commission should further have the power to intervene where these problems are identified.

Cosatu has proposed that this commission should begin its work immediately and report to the relevant structures, such as the Transitional Executive Council and the National Economic Forum, by September this year.

Improvement

This would ensure an immediate improvement in controls for the 1993-4 fiscal year, as well as putting forward recommendations for new controls to be put in place for next year's Budget.

● **Independent Tax Commission:** Cosatu has proposed that an independent tax commission should be set up to investigate efficient ways which an interim government could use to gather taxes, and how to ensure that our taxation system is based on equitable taxation, and not on continually shifting the burden onto workers and the poor.

In line with this approach, we have demanded that the Government stop raising taxes such as VAT and PAYE which affect most adversely those who can least afford to pay.

If we are going to have an accountable and efficient government in the future we need to put mechanisms in place now to ensure that government spending is directly related to the actual services which are provided to people.

We need to begin rooting out corrupt practices and bloated bureaucracies now so that a new democratic government will be able to begin the process of social and economic reconstruction, without being sabotaged by those who only want to serve their selfish interests and are not interested in meeting the pressing needs facing our country

Education vote expected to soar

Budget likely to hike taxes, cut spending

BDay 17/3/93. (49)

GRETA STEYN and SIMON WILLSON

CAPE TOWN — A deflationary blend of tax increases and spending cuts is the likely theme of Finance Minister Derek Keys's maiden Budget, to be presented to Parliament today.

Already billed by Finance officials as probably the most unpopular in living memory, the Budget looks set to increase the current 10% VAT rate to 12%-14%.

Further revenue measures are likely to include a hike in the petrol price of 10c-15c a litre, generating about R1,5bn. Increases in customs and excise duties on petrol, alcohol and cigarettes should raise R500m, and estate duties are also set to rise.

Indications are that a reduction in marketable securities tax and a return of taxes on dividend income will not materialise.

The higher taxes, together with an expected cut in inflation-adjusted government spending, will help finance commitments such as the equalisation of social pensions and probable extra allocations to welfare and law and order.

Keys must balance the need for economic growth with the requirement to reduce the deficit to more manageable levels from the present 9% of GDP. He is expected to announce a deficit for 1993/94 of R24bn-R25bn, or more than 6% of GDP — on the high side of economists' forecasts. Spending of about R113bn is expected, representing an increase of about 8% from last year's R104,9bn, which includes drought relief expenditure.

One of the largest spending increases will be on the biggest spending item in the Budget, education. The vote is expected to increase by more than 25% to about 7% of GDP — high by international standards.

The second biggest slice of the Budget will go to servicing state debt, estimated to cost R20bn. Real increases are also expected for the police budget, the TBVC states, housing and other social spending. Defence, at less than R10bn, is expected to remain constant in nominal terms, representing a sharp decline in real terms.

The Budget will have to tackle simultaneously short-term issues such as a soaring deficit before borrowing and increasing requirements for welfare provision. In addition, Keys will have to start the adjustment of state finances to the medium-term targets outlined last week in the economic structural adjustment programme.

DON'T miss Business Day's Budget Special tomorrow. Apart from all the news, analysis and comment, it will include the Finance Minister's full speech in a pull-out supplement with graphs, charts and tax tables — easy to keep for future use.

The already high income tax burden on individuals and companies, as well as the medium-term intention to raise more revenue from indirect taxation, probably means direct tax rates will be unchanged. Rumours persist, however, of a possible percentage point increase to the current top marginal personal tax rate of 43%.

An important source of income is expected to be fiscal drag when tax brackets are not adjusted. Eliminating fiscal drag

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Budget

BDay 17/3/93. (49)

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would cost government about R3bn. Last year relief was given at the bottom end of the scale, where it hits the hardest, but it is understood it would have proved too expensive to repeat the exercise. It was decided not to tinker with the personal taxes until fundamental reform became possible, sources said.

About R1bn will be added to the spending totals because of a move to bring off-Budget government spending onto the Budget. The move, which makes it more difficult to announce a lower deficit, forms part of Keys's efforts to make government more transparent.

While revenue from selling oil stockpiles might be used to finance part of the deficit, indications are that there will be no special allocation from this source for job creation programmes, as there was last year. However, there is likely to be an increase in government capital expenditure from the present level of about R6bn with infrastructure projects designed to maximise labour input. Capital spending has been on the same level for the past few fiscal years as government cut back on that score to finance surging consumption expenditure.

The combination of higher taxes and curbed overall state spending is expected to rein in the 1993/94 Budget deficit to less than 7% of GDP — the first step in reaching the medium-term target of a deficit of less than 3% of GDP by 1997.

● See Page 10

SA living standards on the skids — Bank

CT 17/3/93 (49)

JOHANNESBURG. — Living standards have dropped 13,5% since the start of the recession in 1989, the Reserve Bank says in its latest Quarterly Bulletin released today.

The Bank blamed the deepening recession on low levels of production, expenditure, investment, saving and employment. Another factor was the weakening of the surplus on the current account of the balance of payments, largely due to the drought, coupled with further large capital outflows and a decline in foreign reserves. Of further concern was the substantial rise in government debt.

However, it noted progress in establishing a more stable financial environment, particularly a lower inflation rate.

Conditions were buoyant in the domestic capital market, with the notable exception of the property market.

The Bank said real domestic output declined by 2% in 1992 — the third consecutive annual decline in total production "As a result, living standards, as measured by real gross national product per capita, have now decreased by nearly 13,5% since the start of the recession" in 1989

The drought, uncertainty regarding political developments and subdued international economic growth caused real GDP to decline again sharply from October to December last year. However, the decline was restricted mainly to agricultural and secondary sectors, while the real value added by mining and the tertiary sectors rose moderately.

In the third quarter of 1992, the output level of almost all sectors decreased.

Real spending fell sharply after fluctuating wildly during the year, and for the year as a whole contracted by 2% — markedly higher that the decline in 1991.

Real personal disposable income and weak demand for durable and semidurable consumer goods caused real private expenditure to fall further in the fourth quarter For the year, real outlays of consumers fell 2,5% — the first such decrease since 1985

Liquid BAs scrapped

LIQUID bankers' acceptances had been scrapped with effect from March 10, money market analysts said yesterday.

In terms of the Government Gazette issued on that day, liquid BAs "effectively ceased to exist".

Angry money market dealers said yesterday they had not been aware of the move. One expressed dismay at the ruling, as it "should have been better publicised".

Previously, the liquid BA could be used as collateral for borrowing at the Reserve Bank's window while the non-liquid BA could not. Because the liquid instrument had a higher status, it traded at a lower interest rate to the non-liquid instrument. Now there will be a single BA instrument.

A market source said Bank Governor Chris Stals would clarify the position at a meeting with bankers on March 24. Until then, the Bank would continue accepting liquid BAs for rediscounting purposes.

Budget necessities likely to dampen economic activity

(49) 17/3/93

By AUDREY D'ANGELO
Business Editor

TODAY'S budget may "further dampen economic activity" if — as expected — tax rates are increased and no relief given from fiscal drag, Kevin McManus of international accounting firm Price Waterhouse Meyernel said yesterday.

Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, said he thought the high deficit before borrowing gave the Minister of Finance, Derek Keys, no scope to lower taxes or give substantial encouragement to exporters

"There will be an increase in VAT and the fuel levy and little allowance for 'bracket creep'

"I think there will be fairly substantial emphasis on higher taxes and perhaps a cut in Government expenditure, possibly in wages and salaries.

"Money saved on the Defence Force will probably be shifted to the police. I think we must see defence and the police as an entity for financial purposes.

"There is not much scope for the Minister to increase pensions. He has very little room for manoeuvre."

Discussing the SA Chamber of Business (Sacob) call for a budget that would encourage growth, Stuart said that continuing to have a substantial deficit before borrowing would stimulate the economy to some extent.

"But if he wants to encourage growth in the present state of the economy, measures would have to be aimed at increasing exports.

"I am not sure he can do very much in that way because any tax or import concessions to help exporters would further reduce government revenues."

McManus said "The major focus of the budget will be to reduce government expenditure in real terms by 3%.

"Given a public sector wage bill representing 56% of total state expenditure, defence spending and amounts paid to independent homelands are likely to be the main areas in which expenditure will be substantially reduced."

McManus said the budget would be "a very delicate balancing act", in view of the present unacceptably high unemployment levels

Strong control of money supply growth and reduced real personal incomes had brought the inflation rate down significantly But "it is difficult to see how the economy can, in the short to medium term, afford inflation rates of less than 10% with the accompanying increases in unemployment and social and political instability."

He thinks there is a real chance that Keys will introduce a minimum tax on companies "although it is extremely difficult to determine the impact on improved tax collections.

"No changes are anticipated in the rate of transfer duty. In last year's budget the rate applicable to individuals was effectively increased by between 40% and 67% and that in respect of companies by 40%."

McManus does not expect a capital gains tax to be introduced, or the tax on dividends to be restored.

"We are more likely to see an increase in the rate of estate duty or a reduction in the exemptions available, which have already been eroded by inflation."

He thinks import charges will be increased or at best remain at present levels. Customs duties might also be raised "with the additional benefit of relieving pressure on the balance of payments as imports become more costly and therefore unpopular."

Finrand may boost the bond market

(49)

ANDY DUFFY

BIDAY 17/3/93

THE growing stability of the financial rand should give SA bonds a wider market among foreign investors, according to a leading investment house.

Broker James Capel said that Reserve Bank efforts since October to steady the financial rand by stemming offshore investment meant foreign investors should accept lower yields on SA bonds.

The nominal yield target — the lowest point at which a bond offers an adequate return — had risen over last year to nearly 24% by December as offshore activity by SA companies increased.

But in its latest bond market report, the target has been cut back to 18%, and Capel said it expected the bond to trade in the 18-20% yield range through 1993.

"The Reserve Bank has tightened up and this has made a big, big difference," said report author Jon Bergtheil. "There is nothing on the horizon that will push (the target) up again this year." The fall in inflation to 9,6% had also helped cut the yield requirements.

The new target meant that the real yield for SA bonds dropped to less than 9%, against a global average of 3%-5%. The differential was the result of the risk premium attached to the bonds, and remained at 4%-5%.

Dismay at scrapping of liquid BAs

(49) TIM MARSLAND

LIQUID bankers' acceptances had been scrapped with effect from March 10, money market analysts said yesterday.

In terms of the Government Gazette issued on that day, liquid BAs "effectively ceased to exist". BIDAY 17/3/93

Angry money market dealers said yesterday they had not been aware of the move. One expressed dismay at the ruling, as it "should have been better publicised".

Previously, the liquid BA could be used as collateral for borrowing at the Reserve Bank's window while the non-liquid BA could not. Because the liquid instrument had a higher status, it traded at a lower interest rate to the non-liquid instrument. Now there will be a single BA instrument.

A market source said Bank Governor Chris Stals would clarify the position at a meeting with bankers on March 24. Until then, the Bank would continue accepting liquid BAs for rediscounting purposes.

One dealer said he would ignore the ruling until further clarity was received. He expected the scrapping of the instrument to be phased in over a longer period.

Dealers said the liquid BA rate, at present at 11,80%, would probably rise in line with the non-liquid instrument, which normally traded 20 points above the liquid BA.

The Bank proposed last year that the liquid BA lose its status at the window and that it no longer qualify as part of banks' core holdings of liquid assets.

Absa was the first bank to stop quoting a liquid BA rate on its screen yesterday.

Blowing away the fog exposes Budget myths

BDAY 17/3/93

(49)

NEVA SEIDMAN MAKGETLA

SEVERAL myths have risen up about the Budget. Like all myths, many hold a kernel of fact. But whatever truth they contain seems lost in a haze of polemic, theorising and misunderstanding. We need to blow away some of the fog.

□ Myth one holds that the deficit must be cut. Superficially, this statement seems irreproachable. But it provides a dangerously simplistic approach to the Budget. Above all, it suggests that the deficit is unsustainable, and the solution is to cut government spending across the board. Neither conclusion fits the facts.

The normative economic model buys the myth in simplistic form. Its reasoning follows standard supply-side rules: the government borrows to finance current expenditure, it therefore crowds out private investment. The logical solution: we must slash government expenditures by close to 20% in the next 10 years.

The model's argument substitutes dogma for analysis. On the one hand, as a percentage of GDP, government spending in SA remains around the international norm. By many measures, the deficit is lower than in most European countries. The major concern, then, should be the expansion and specific economic effects of the deficit, not simply its size.

The classical crowding-out argument found the normative model simply does not fit the facts. Statistical analysis shows no consistent relationship between private investment and public spending or interest rates in the past 10 years.

On the other hand, demonising the deficit diverts us from specific causes and effects. The problem is not overspending in general. Government spending has been extremely inequitable, leaving many communitites sorely deprived and others oversupplied with services and infrastructure.

Telling bureaucrats to cut in all departments would thus impose great hardship and injustice. We need targeted cuts to eliminate inefficiency and unjustified privilege;

□ Myth two is that taxes are high. Representatives of business often argue that, at 48%, company taxes in SA are high compared with other countries. When we look at collection, however, we find that in the aggregate, business has paid only under 17% of its income in taxes between 1981 and 1991. That represents a real tax rate of about half that in the US.

Meanwhile, direct taxes have risen steadily from under 10% to close to 14% of personal income.

Overall, despite valiant efforts, even the IMF could not find any evidence that taxes are too high. At just more than 20% of GDP, the total tax burden remains average for middle-income Third World countries.

None of this means that we must raise taxes. It suggests, however, that we should focus on reducing inefficiencies in collection. The current system favours, above all, companies that can hire good lawyers or good liars;

□ Myth three is that SA does not spend enough on education and health. The deplorable state of education and health for most makes greater spending in these areas seem an obvious solution. The cause of this situation, however, is not inadequate spending, but extraordinary inefficiency and inequality in the use of the existing votes.

The budgets for education and health absorb, respectively, 6% and 2,5% of GDP. Both are high by international standards. But the structure of government spending remains largely as apartheid dictated. To this day, state spending on each black pupil comes to only about a quarter of that on each white pupil. In health, the state spent heavily on tertiary care to the neglect of preventative medicine. Black communities had few powers to call bureaucrats to book. As a result, officials could misuse resources for clinics or schools in black areas with relative impunity.

Compared with other countries, the state spends too little on housing, welfare and economic infrastructure, and too much on defence. With rising interest rates, interest payments on the deficit now come to more than R20bn, or about a fifth of all government expenditures;

□ Myth four is that white governments are more efficient. The current scandals around corruption, mismanagement and general misuse of government funds should let us dismiss this myth out of hand. For decades, those governments used their power and resources to favour a minority, imposing great hardship on the majority.

Because government operated in increasingly authoritarian and secretive ways, public oversight of spending grew less and less possible. In the last Budget almost half the military budget came under a secret vote. Secrecy of that kind makes a mockery of accountability; and

□ The fifth myth holds that apartheid is dead. As long as government spending favours whites apartheid survives. But the NP has proven unable to give commitments on equalising government spending between communities.

In its education renewal strategy, the NP foresees an equalisation of black and white education only in 10 years. In health, it cannot provide deadlines for a shift of spending to primary health care.

Of course, we should not be surprised if apartheid still shapes government spending. After all, even as Minister Derek Keys announces his Budget in this new SA, Africans still do not have the vote. As long as this continues, we cannot expect more efficient or just government.

□ The author teaches economics at Wits and is a member of the ANC's economic planning department.

□ Simon Willson's Spotdesk column will resume next week.

ANC insider briefings to raise funds

MATTHEW CURTIN

THE ANC is hoping to raise at least R200 000 in cash for its general fund by offering an exclusive service to the business community: regular confidential political briefings hosted by secretary-general Cyril Ramaphosa.

Ramaphosa has commissioned JSE stockbrokers Frankel Pollak Vinderine to set up the dining club to keep the financial community abreast of political developments and ANC policy.

Business leaders can join the "executive club" for R2 000 a year, in return for which Ramaphosa has guaranteed he will address members — over breakfast, lunch or cocktails — at least six times a year.

BDM

Frankel Pollak Vinderine CE Sidney Frankel said yesterday Ramaphosa undertook to provide "confidential, in-depth briefings of political developments and other topical issues of the day from an ANC viewpoint".

Briefings would include "information and analysis not available to the Press or to the general public".

17/3/93

Frankel said the club would require at least 100 members to be a success, and an upper limit on membership would be imposed.

Ramaphosa's first date with the club is on March 29.

Recession shrivels living standards

BDAY 17/3/93 (49)

TIM MARSLAND

LIVING standards have dropped 13,5% since the start of the recession in 1989, the Reserve Bank says in its latest Quarterly Bulletin released today.

The Bank blamed the deepening recession on low levels of production, expenditure, investment, saving and employment. Another factor was the weakening of the surplus on the current account of the balance of payments, largely due to the drought, coupled with further large capital outflows and a decline in foreign reserves. Of further concern was the substantial rise in government debt.

However, it noted progress in establishing a more stable financial environment, particularly a lower inflatio.) rate.

Conditions were buoyant in the domestic capital market, with the notable exception of the property market.

The Bank said real domestic output declined by 2% in 1992 — the third consecutive annual decline in total production. "As a result, living standards, as measured by real gross national product per capita, have now decreased by nearly 13,5% since the start of the recession" in 1989.

The drought, uncertainty regarding political developments and subdued international economic growth caused real GDP to decline again sharply from October to December last year. However, the decline was restricted mainly to agricultural and secondary sectors, while the real value added by mining and the tertiary sectors rose moderately.

In the third quarter of 1992, the output level of almost all sectors decreased.

Real spending fell sharply after fluctuating wildly during the year, and for the year as a whole contracted by 2% — markedly higher that the decline in 1991.

Real personal disposable income and weak demand for durable and semidurable consumer goods caused real private expenditure to fall further in the fourth quarter. For the year, real outlays of consum-

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Standards

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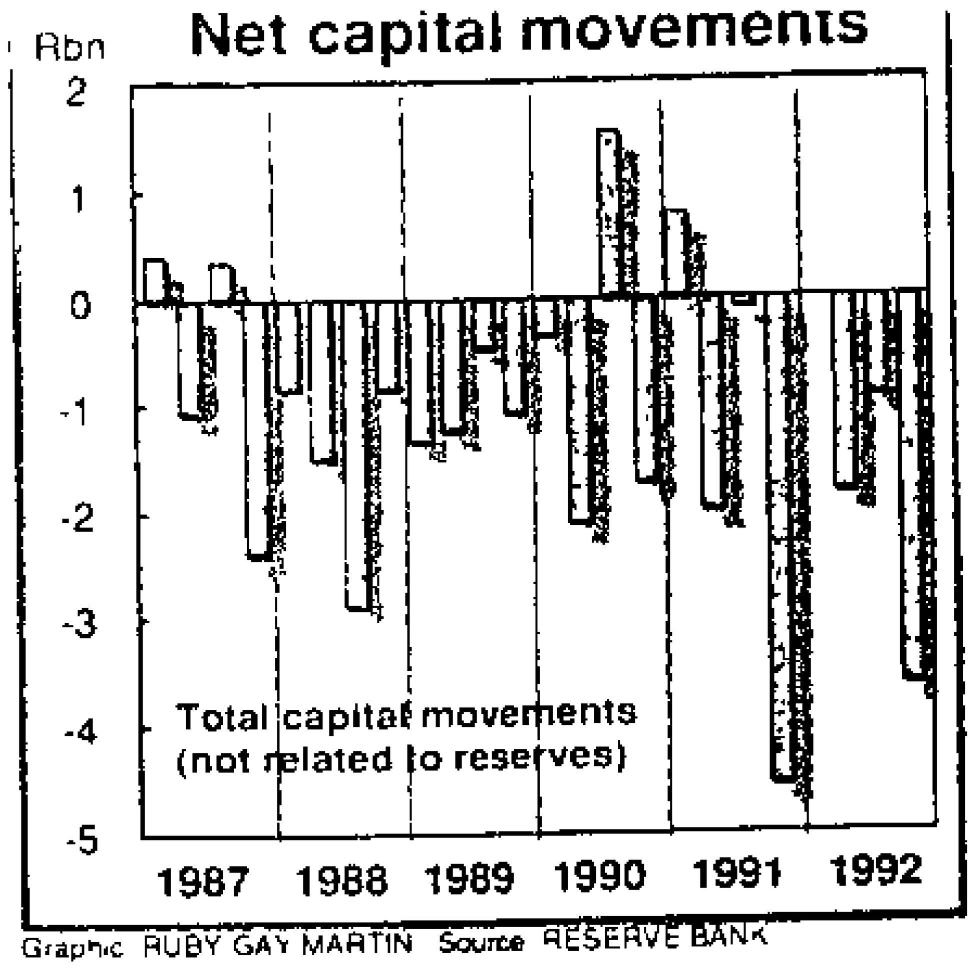
ers fell 2,5% — the first such decrease since 1985.

Real fixed capital stock of the country expanded only marginally at less than 0,5% in 1992. The Bank warned that if this trend was maintained it could seriously impede the economy's growth potential.

Government dissaving caused a sharp fall in gross domestic savings, despite corporate savings rising because of the more conservative dividend policy introduced by many companies.

Household savings rose moderately, "despite the redistribution of income to households with a higher propensity to consume". Households were reducing debt because of uncertainty over pay rises and employment.



Graphic RUBY GAY MARTIN Source RESERVE BANK

Stalled talks sped outflow of capital

49

TIM MARSLAND

THE net capital outflow from SA in the three months to end-December was R3,7bn, bringing the total for the year to R6,5bn, according to the latest Reserve Bank Quarterly Bulletin.

It said the capital account started to deteriorate in the second quarter of last year after a deadlock in the political negotiations process. BDAY 17/3/93

The outflow in the fourth quarter was caused mainly by a decrease in SA's short-term foreign liabilities. The short-term outflow in the fourth quarter soared to R2,8bn from R700m in the previous three months, bringing the total to R5bn for the year from 1991's R3,3bn.

This outflow could have been caused by replacing offshore loans with local loans because of cheaper domestic finance, balance sheet adjustments by foreign organisations at the end of their financial year and appreciation of the dollar in international markets, which led to an outflow of capital through forward cover transactions in third currencies.

The fall of the rand against the dollar could "probably also have led to leads and lags in foreign payments and receipts and therefore to an outflow of short-term funds".

Outflow of longer-term capital rose to R900m in the last quarter from R200m in the previous three months. This was mainly the result of the Treasury repaying a DM250m foreign loan, and also high refinancing costs charged by foreign institutions because of the political risk.

Public authorities changed from being

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Outflow

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net importers of long-term capital (R1,2bn in the first half) to net exporters (R900m in the second half). The private sector exported about R300m in long-term capital in the fourth quarter.

Surplus on the current account of the balance of payments (seasonally adjusted and annualised) fell to R4,3bn in 1992 from the record annual high of R7,4bn in 1991.

The report said a fall in the value of net gold exports was partly responsible for the smaller surplus. However, the drought had also made a major contribution. If agricultural imports and exports were excluded, the adjusted surplus rose in the fourth quarter to R4,6bn from R4,3bn in the previous quarter.

Exchange controls 'soon unworkable'

BDAY 17/3/93

ANDY DUFFY

(49)

SA's foreign exchange controls will become unworkable as the country takes its place in the global economy once more, according to the Bank of Lisbon International.

In its latest update, the bank said that whether or not government scrapped the controversial system, the controls would be rendered redundant by developments outside SA's political arena.

The breakdown of sanctions against SA was expected to increase the movement of funds to and from SA, which would undermine exchange controls. SA's daily foreign exchange transactions currently total just \$4,2bn, compared with \$73bn in Hong Kong.

The bank said the system was also likely to be swamped by investors moving to spread their currency holdings as economies worldwide forged closer links.

And the worldwide trend towards the elimination of exchange controls meant it would also become far tougher for SA to retain the system.

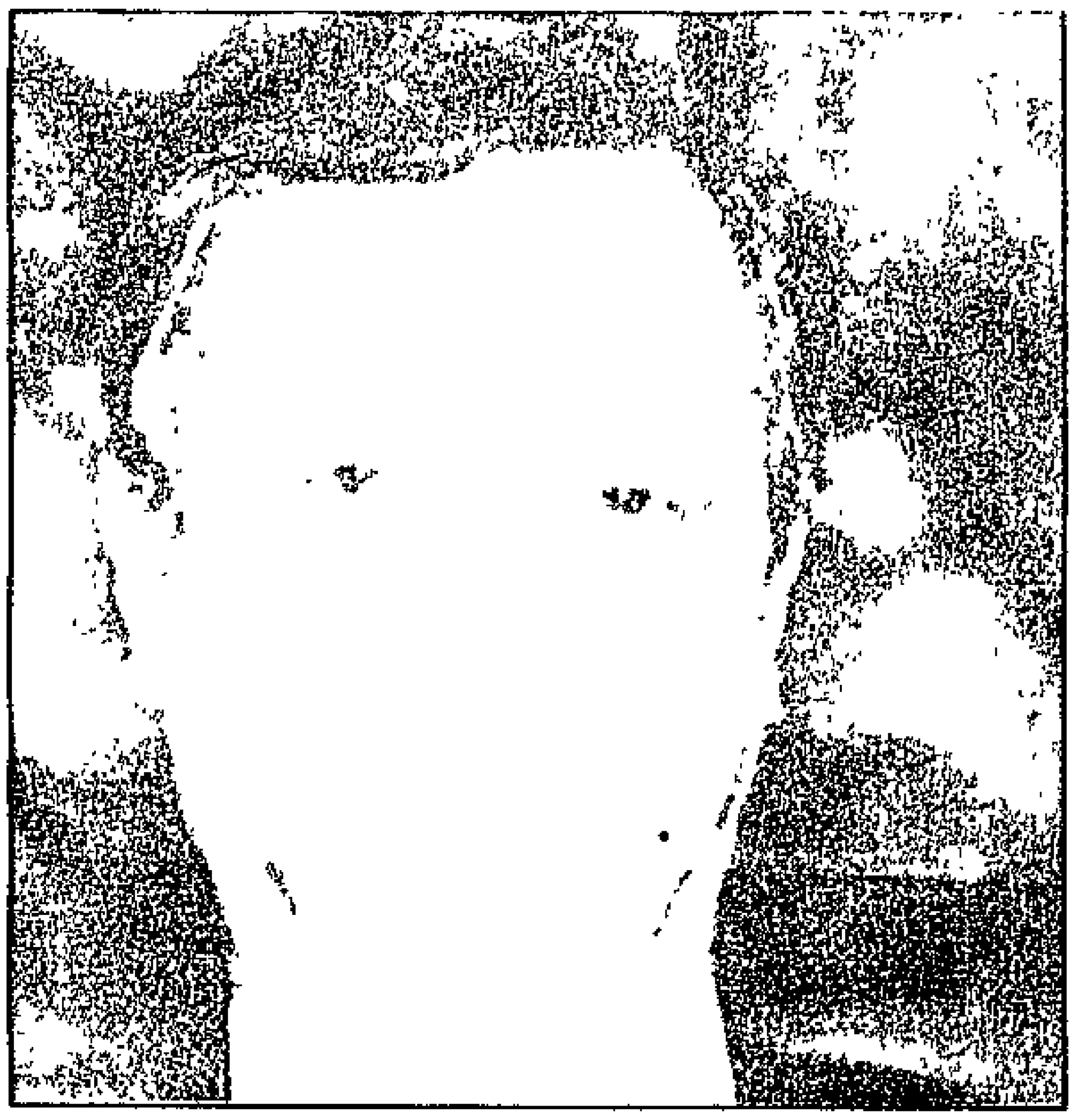
"Exchange controls have become largely redundant in developed countries," the bank said. It was only a question of time before SA was forced to follow suit.

The bank added that even in the period from 1984-89, when sanctions intensified, SA's economy became more open. The share of the gross domestic product taken by imports and exports in those years rose from 56,6% to 57,1%.

That trend, the bank said, "could now start to speed up".

The bank conceded that the removal of exchange controls could lead to the rand's devaluation, given that they form an important component of economic policy.

The recent currency turmoil in Europe had dramatically underscored the impotence of such central control in protecting currencies.



Keys to the solution?

Finance Minster Mr Derek Keys - the nation will be hanging on his every word this afternoon when he announces the Budget.

Keys' budget blues

(49)
Sowetan 17/3/93.

By Sowetan Reporters and Sapa

ORGANISED LABOUR IS SET to oppose the Budget of Finance Minister Mr Derek Keys if it does not address demands that include job creation and the upliftment of workers

The Government is expected to ask for higher taxes when the Budget is tabled in Parliament today because revenue collections last year fell more than 10 percent short of projections

According to the Reserve Bank's *Quarterly Report*, revenue collection in January this year was even lower than the same period last year, resulting in only a 3,2 percent increase in tax collections during the first 10 months of 1992

Members of the South African Democratic Teachers' Union countrywide will engage in a range of protest actions, marches, pickets, work stoppages and rallies today In Johannesburg teachers are expected to march at 1 pm to the offices of the Receiver of Revenue

The Pan Africanist Students' Congress called on its members to support the labour movements The South African Students Congress called on its members at universities not to take part in academic activities today but to participate in marches against VAT

Yesterday countrywide lunch hour factory demonstrations and pickets marked the first phase of a fight against increased taxes expected to be announced in Parliament today

Mr Jay Naidoo, Cosatu's general secretary, yesterday led a march of more than 200 people to the offices of the Receiver of Revenue in Rissik Street, Johannesburg, where they held a picket

Cosatu regional secretary in the Western Cape, Mr Jonathan Arendse, said members would hold a "low profile protest" today, starting with a meeting at St George's Cathedral hall and culminating in a march to Parliament with its affiliate, Nehawu

"The budget isn't going to provide a foundation to overcome problems created by apartheid"

Brian Williams of Nactu

Mr Brian Williams of Nactu said he was not expecting a Budget which would direct itself at "providing a foundation to overcome problems created by apartheid"

Cosatu said the essence of its views revolved around the following

- Zero rating of basic foods, electricity and water medicines and medical services,
- Assistance for small business in respect of the effects of VAT,
- The urgent establishment of an emergency feeding scheme The scheme and its implementation to be negotiated urgently,
- A fund to support the public works programme of the Drought Forum and the National Economic Forum,
- The Government must adhere to recommendations for funding by multilateral forums where they exist,
- Immediate equalisation of pensions as the most rapid way of getting money into impoverished communities,
- Transparency on how the tax on petrol is used, and
- Stabilisation of basic food prices

Jay Naidoo on the Budget - Page 6.

SA's retreat from the fiscal squeeze must begin now

BDAY 17/3/93 (49)

ANDRE ROUX

THERE are fears that the fiscal crisis may have triggered a vicious circle in which a spiralling borrowing requirement is fuelled by soaring interest commitments. Government could lose the confidence of financial markets, become unable to finance its deficit through normal channels and be compelled to resort to money creation. The inevitable outcome would be hyperinflation and long-term stagnation.

These fears are somewhat exaggerated. The relative ease with which the present deficit is being financed suggests that the credit-worthiness of government is not yet in serious doubt among investors.

The trend in the debt-to-GDP ratio is the appropriate variable to watch in assessing the sustainability of the fiscal deficit since it provides a summary measure of the cumulative effects of the Budget balance. At the end of the previous financial year SA's debt ratio stood at 37% of GDP, low by international standards.

This is not to suggest, though, that the current deficit is sustainable. On the contrary, the debt ratio, after declining steadily in the post-war era, began to edge up in the early '80s, and is now escalating rapidly. When the current financial year ends this month the debt ratio will have risen by an extraordinary six percentage points in one year.

In determining the path followed by the debt-to-GDP ratio it is useful to split the deficit into the primary balance (the deficit net of interest) and the interest payments (which one can assume are capitalised through new debt issues). The effect of the former is easily calculated since one can just add the primary balance (expressed as a percentage of GDP) to the debt ratio.

The impact of the interest component, on the other hand, depends on the margin between the real interest rate and the real GDP growth rate. The debt-to-GDP ratio will, for example, automatically increase if the interest rate exceeds the GDP growth rate since the debt will then compound at a faster rate than GDP.

Before the '80s the real interest rate on the public debt remained well below the GDP growth rate. This enabled SA to whittle down its war debts, despite the persistence of a deficit on the primary balance. These fortuitous circumstances no longer exist since the growth rate has declined towards zero while the real interest rate has become positive. This places the debt ratio under continued pressure.

The recession has compounded the problem as an unprecedented three percentage points will be added to the debt ratio by a real rate which is at 4% and a growth rate down to -2%. The prolonged recession is also the main cause of the sharp deterioration in the primary balance to 3,3% — the 1992/1993 Budget provided for a small primary surplus.

SA has therefore reached a fiscal squeeze, heightening the prospect of an uncontrollable escalation in the public debt.

The dimensions of the problem can be highlighted with the aid of two sets of simulation exercises. The first (see table) — based on a scenario which assumes close to zero growth in output, a constant real interest rate of 2%, unchanged tax rates 23,5% of GDP), and static real expenditure — implies a debt ratio which shoots up to an unmanageable 74% by the turn of the century.

Substantial additional revenue would be required to prevent this outcome. If the fiscal authorities were, for example, to boost the average tax rate by half a percent of GDP a year to an eventual 27%, it could hold the debt ratio below 60%. This would be the equivalent to seven successive increments in the VAT rate of 1,5 percentage points each.

Expenditure cuts would also become necessary. Budgeting for expenditure changes equal to the GDP performance of the previous year would contain the debt to an acceptable 55% of GDP.

An alternative simulation (see table) shows that an economic recovery, even though it might only gather momentum towards the close of the century, would go some way towards easing the fiscal crunch. It assumes that growth averages 2,5% a year, spending is allowed to rise at an equivalent rate and the tax structure is left untouched. The debt ratio would then accumulate to 65% by the year 2000. This is still too high for comfort.

Tax reform, directed at raising the average rate to 25%, would confine the debt ratio to around 55%. If, in addition, expenditure increases were delayed in accordance with the guideline proposed above, the debt ratio would peak at an easily sustainable 48%. Under this high growth scenario one would at least be able to satisfy the most pressing demands for improved social services.

What fiscal strategy should be followed in the coming years? As these projections illustrate, the choice will depend crucially on one's outlook for growth. In view of the uncertainties facing the transition it would be unwise to bank on a high growth forecast. One should therefore work on the assumption that the debt ratio will be under sustained pressure for the rest of the decade.

The implication is that we have to begin with a fiscal adjustment programme in the coming Budget. This is a great pity since contractionary fiscal policies are exactly what one would have liked to have avoided in a recessionary climate.

But the surge in the debt ratio simply cannot go unchecked for another year. The implied borrowing requirement would place real interest rates under stress thus feeding back into further debt growth and private sector crowding out.

At the same time, we should be wary of overkill. An attempt to reverse the trend in the debt ratio overnight would require a fiscal contraction that could have serious economic and social repercussions. In concrete terms, this means limiting annual tax increments and expenditure cuts to 0,5% of GDP.

The fiscal strategy would have to rely on a combination of expenditure restraint and tax increases since it is unrealistic to expect that a transitional government will be able to impose the full burden of the adjustment on one side of the Budget. Reductions in taxation therefore have at best a slim chance of being realised in the forseeable future.

By the same token, plans for the introduction and expansion of social programmes will have to be drawn up within a context of tight, and possibly shrinking, resources. To allow government expenditure to expand faster than GDP, as was the case in the '80s, would be suicidal.

It will, of course, not be easy to keep the lid on expenditure as the political imperative to expand services should be high on the agenda. Although such programmes can to some extent be funded through a redirection of existing expenditures, part of the burden will undoubtedly be carried by cuts in public service remuneration.

The picture is indeed grim. An economic revival will change the equations, and enable us to switch to more acceptable taxation and expenditure policies. But SA cannot afford to premise its fiscal programme on a strong recovery.

	Low growth scenario							High growth scenario						
Budget year	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0
Growth rate	0	-1	0	1	2	-1	0	0	1	2	3	3	4	4
Debt ratio *	47,4	52,4	57,1	61,0	64,0	69,2	73,9	47,4	51,2	54,5	57,3	60,3	62,7	65,0
**	46,9	50,8	53,8	55,6	55,9	57,7	58,5	46,9	49,5	51,3	52,6	54,0	54,9	55,8
***	46,3	49,6	51,8	52,7	52,4	54,1	54,5	46,3	48,1	48,7	48,7	48,7	48,1	47,5

*No fiscal adjustment **with tax adjustment *** with tax & spending adjustments

Graphic LEE EMERTON Source ANDRE ROUX

□ Roux is economics professor at UWC, consultant to Investec Asset Management and has been commissioned by the Macroeconomics Research Group to research the Budget deficit.

Cabinet will decide on rands and sense

Star 17/3/93

(49)

The SA Mint may soon halt production of the humble 1c and 2c coins. The proposal underlines the dramatic shrinkage in the buying power of the rand, writes MICHAEL CHESTER.

PROPOSALS by the South African Reserve Bank to halt production of both the 1c and 2c coin, while pushing ahead with plans to introduce R100 and R200 notes next year, reveal the full extent of the shrinkage of the rand in recent years

The future of the two coins hangs by a thread as the SA Mint joins the Reserve Bank in pressing the argument that the 5c coin should be made the smallest unit in new coinage

A final decision will be made at Cabinet level Whether the outcome is an execution order or a reprieve, the issue brings into fresh focus the alarming erosion of the buying power of the rand.

How far the rand has been battered by inflation has been analysed by Robin McGregor, author of *Who Owns Whom* on the Johannesburg Stock Exchange The analysis is intended to provide guidelines to investors on the size of the hurdles they have to clear to defend, let alone increase, the real value of investments

Shocks in the results also reverberate among ordinary breadwinners striving to stay abreast of inflation

Movements in the consumer price index and the purchasing power of the rand have been traced all the way back to 1910 It is from the 1970s, when inflation bounded into double digits, that the record becomes the horror story told in the accompanying graphics

Jolts came on discovery that the value of R1, if measured as 100c in 1970, was halved by 1978 and by last year had plunged all the way down to a feeble 7c

Packages of consumer goods and services that cost R100 in 1970 had increased tenfold by 1990 and by last year cost more than a stunning R1 400

Pragmatists are bound to use the statistics to try to prove that 1c and 2c coins have been reduced to worthless nuisances — no more than irritants when sorting out small change in pockets and purses Do away with them, they say

Daan Naude, assistant general manager at the Reserve Bank, says that has been the verdict of a clear majority of respondents who were invited to comment on the proposal

However, there were reservations inside the commercial sector Naude adds "Several respondents argued that the elimination of the 1c and 2c coins would be inflationary and prove detrimental to the economy. But we disagree

"There is a simple formula to neutralise any inflationary impact Prices would be rounded off to the nearest 5c — meaning cropping a couple of cents off some prices or adding a couple of cents to other prices The end result would be a balance "

SA Mint managing director David Powell argues that the exit of the 1c and 2c coin from production would make a lot of economic sense

He points out that the 174 million new 1c coins that were ordered when introduced in September 1990, plus the 132 million new 2c coins ordered for delivery from August 1991, now absorb no less than 60 percent of the overall production capacity at the SA Mint.

"Even the high technology used at our brand new plant at Verwoerdburg cannot break even on production costs when we are turning out 1c and 2c pieces," says Powell. "Both coins are produced at a loss "

Worse than that, according to the Reserve Bank, the SA Mint is having to turn down the chance of using the hi-tech as the source of valuable new foreign exchange income

"Inquiries about the supply of new coins to several overseas governments have started to flow in," says Naude "It could be turned into a valuable export money-spinner

"The SA Mint is already trying to cope with multimillion-rand orders from Argentina and Israel, but lots more contracts are having to be turned down because of the lack of production capacity

It's ludicrous that we have to miss the opportunity to boost export income when production lines are burdened with loss-makers "

The longer term view of the Reserve Bank about trends is reflected in the plans on its drawing boards

Within the next few months even the R5 note will be reduced to a simple coin Introduction of the new coin, first earmarked for a debut in early 1993, has been postponed only until the current generation of R5 notes starts looking too dog-eared to carry on

Naude confirms the introduction of R100 banknote will go ahead in April next year And consumers can still expect the debut of a R200 note in October 1994

The next issues will follow the wildlife theme set by the lion that stares out of the new R50 note The R100 will bring consumers face-to-face with an elephant The R200 note will have a leopard glaring out at gluttonous cash-tills

Such sky-high denominations seem to make humble 1c and 2c coins look even more insignificant However, the Reserve Bank is having to weigh arguments that even handfuls of cents may sometimes be crucial in the struggle for survival among thousands of families trapped in dire poverty.

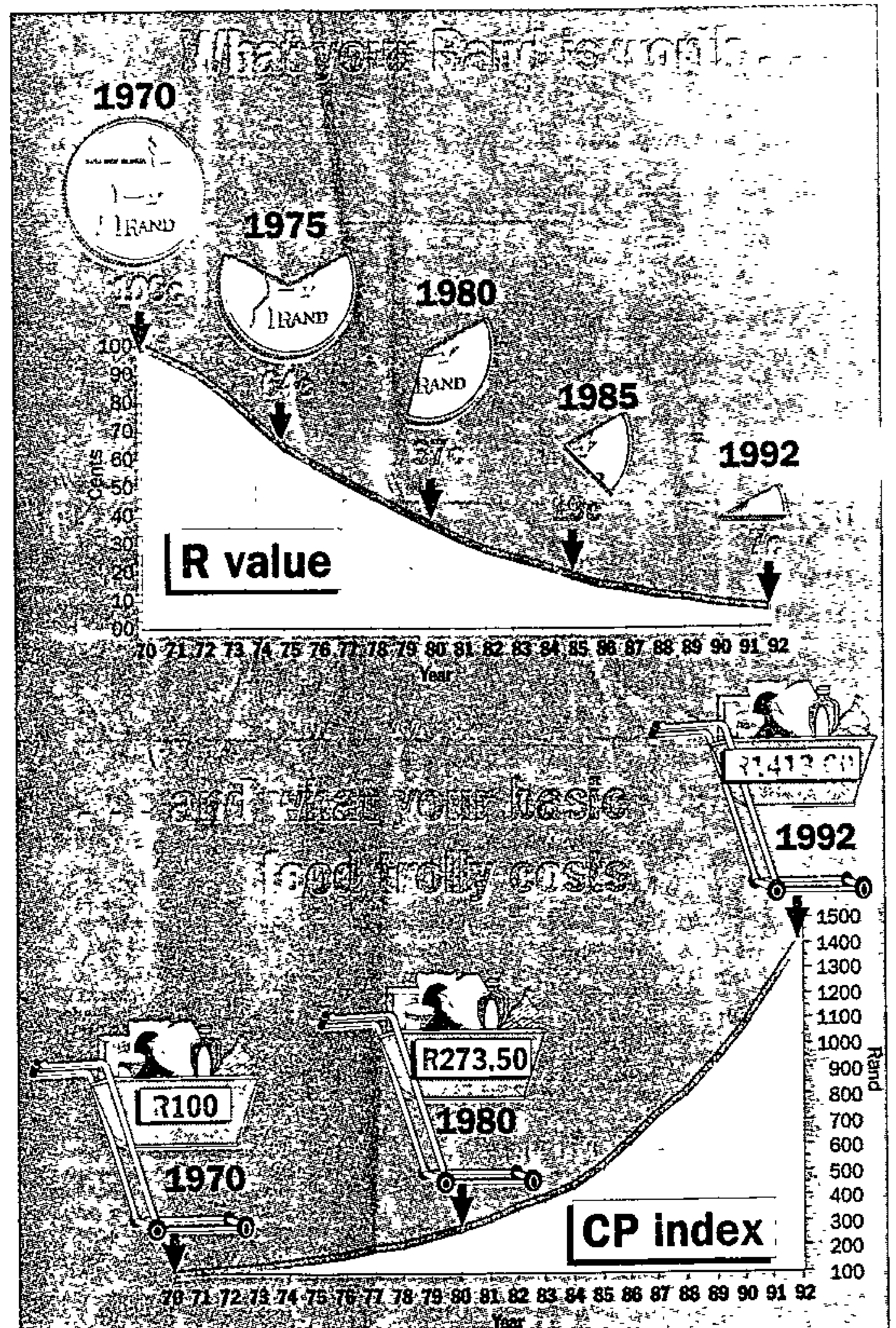
The Reserve Bank and SA Mint may also need to listen to cautions from Biblical voices.

Will the demise of the two coin mean shooting down the two tiny sparrows that are perched on every 1c piece?

The special spot has been reserved for them on every coin of the lowest denomination ever since South Africa starting to mint its own currency back in 1923.

The tradition finds its roots in the New Testament. Matthew 10·29 reads "Are not sparrows two a penny? Yet without your Father's leave not one of them can fall to the ground "

The dire warning must cause a moment of hesitation when the Cabinet — as the final judge — lays down the ultimate decision about pulling the trigger □



GRAPHIC: LIZ WARDER

Star 17/3/93

Shortcomings in collection of revenue

(49)

By Magnus Heystek

The Reserve Bank has taken the unusual step of warning the Government about what it calls structural shortcomings in revenue collection.

It says in its bulletin that collections in the first ten months of the 1992/93-fiscal year were sharply down on budgeted projections.

"The substantial shortfall in Exchequer receipts was partly a reflection of the prolonged and severe downturn in economic activity, but was also due to some difficulties experienced with the collection of taxes.

"The financing of the large Exchequer deficit through the issuing of government stock and Treasury bills presents no difficulty in the current conditions of subdued economic activity.

"However, if the structural shortcomings in government finance are not corrected, these deficits could start crowding out private investment when economic activity starts strengthening again," the Bank warns.

It says Exchequer receipts for the first nine months of the current fiscal year have fallen substantially short of estimates contained in last year's budget (see chart).

"The substantial shortfall . . . also reflected serious shortcomings in the tax structure and some difficulties experienced with the collection of taxes.

"In particular, the receipts from value-added tax were considerably lower than envisaged in the Budget. In addition, income tax receipts rose at a relatively low rate, reflecting lower-than-expected proceeds from personal income tax and a decrease in tax collected from companies."

Year-on-year rate of increase in Exchequer receipts
%

	Budgeted for the fiscal year 1992/93	Receipts in first nine months of fiscal 1992/93
Income tax from individuals	22,5	14,4
Income tax from companies	5,4	−16,7
Value-added tax	12,1	−7,2
Customs and excise duties	28,4	32,0
Total Exchequer receipts	**15,7**	**4,5**

Star 17/4/93

Financial rand set to go, market-watchers predict

By Magnus Heystek
Finance Editor

A strong rumour that the financial rand could be scrapped by Finance Minister Derek Keys in today's Budget swept through financial markets yesterday.

Several callers to The Star suggested that this could be the surprise element in today's Budget, which so far has seemed fairly transparent and predictable.

Such a move, if implemented, would have a major impact on financial markets and would, inter alia, lead to a sharp devaluation of the commercial rand of up to 20 percent.

It would also have a major impact on shares on the Johannesburg Stock Exchange, and capital market rates could soar.

However, Mike Brown, economist at stockbroking firm Frankel, Pollak Vinderine Inc, played down the possibility of such a move, saying this would have a negative impact on the country's foreign exchange reserves. 58

The scrapping of the financial rand — South Africa's "investment currency" — could be done only if it were accompanied by a sharp decline in the value of the commercial rand.

Yesterday the finrand was trading at R4,70 and the commercial rand R3,20 to the US dollar, a difference of 32 percent. 49

While SA's two-tier currency system protects the foreign exchange reserve levels of the country, it discourages foreign investment to a certain extent as the financial rand is volatile. 24

A stable currency is a prerequisite for renewed foreign investment in the country.

A sharp drop in the value of the rand would have a negative impact on the inflation rate but would boost the export sector, especially sectors directly influenced by dollar prices, such as the gold mining industry.

● Keys starts delivering his Budget speech at 2.15 pm.

Star 17/3/93

Living standards down 13 percent since 1989

49

By Magnus Heystek,
Finance Editor

Economic production dropped by two percent last year to make it the third consecutive year in which annual production has declined, says the latest bulletin of the SA Reserve Bank.

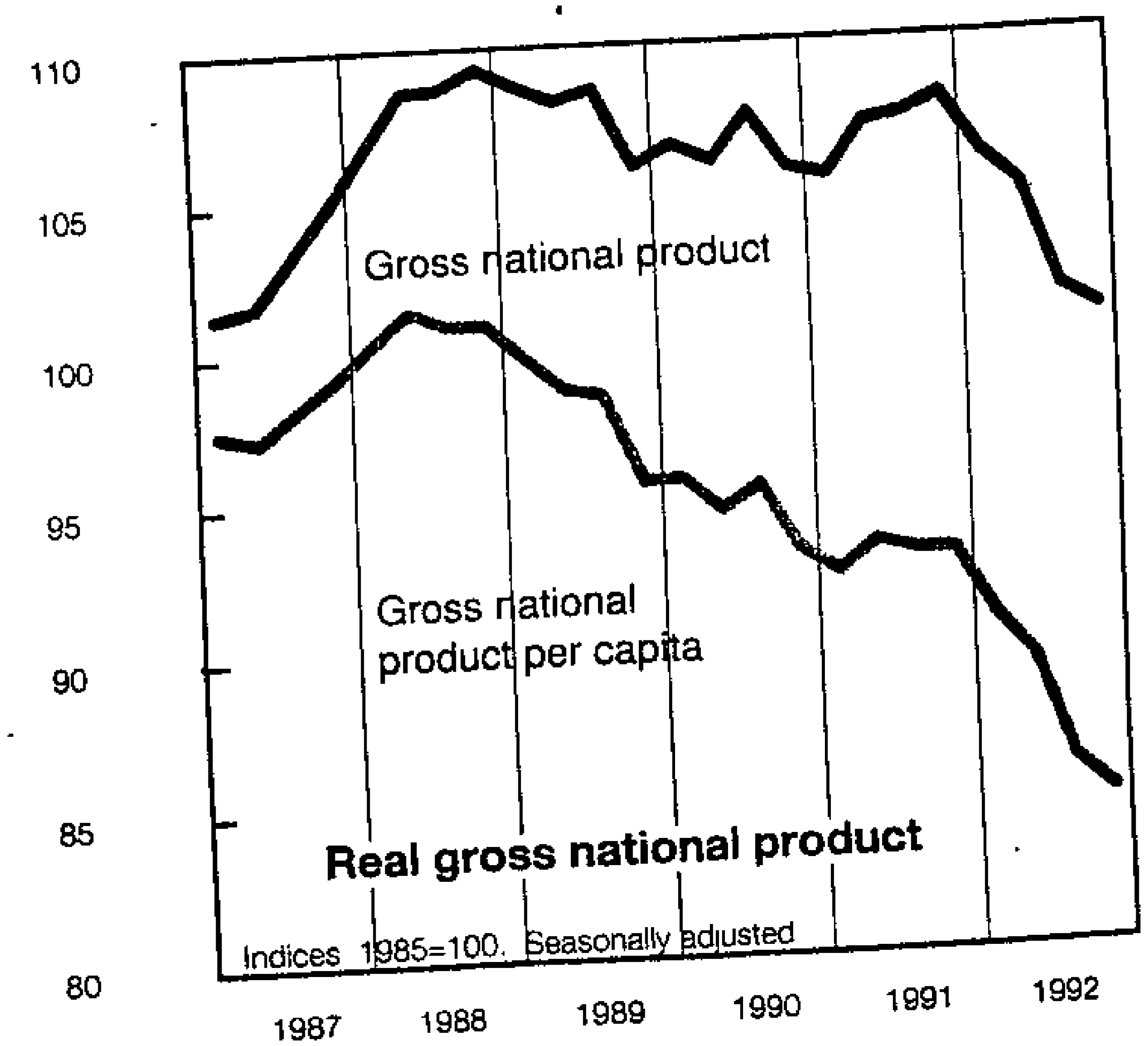
As a result, living standards, as measured by real gross national product (GNP), have dropped by more than 13 percent since the start of the recession at the beginning of 1989.

According to the Bank, economic development in 1992 was characterised by a considerable deepening of the downturn, large capital outflows and a decline in foreign exchange reserves.

The drought has had a marked impact and caused economic production to drop substantially, especially in the fourth quarter of 1992.

Depressed conditions were exacerbated by uncertainty over political developments and a slowdown in the performance of overseas economies.

However, on the positive side, real progress has been made in curbing inflation to bring it under the 10-percent mark for the first time since 1978.



But as a whole, the Reserve Bank sketches a picture of a very depressed economy, with low levels of consumer and business confidence, and a sharp decline in gross fixed investment spending, combined with the Government's ever-increasing share of consumption expenditure, which now stands at 21 percent of gross domestic product (GDP), as opposed to the average of 16 percent in the 1980s.

The Bank says 276 000 jobs have been lost in the non-agricultural employment sector since the beginning of the downturn in 1989.

Most job losses occurred in the mining sector, manufacturing and engineering as well as in transport and construction.

By contrast, employment opportunities offered by the public authorities increased in 1992.

At the end of the third quarter of 1992 (the latest figures available) employment by public authorities was 1,3 percent higher than at the start of the downswing.

The report says that despite the sharply lower levels of employment in the formal sector of the economy, wages and salaries still grew.

However, while real production did not increase, large-scale retrenchments and other cost-savings measures led to an increase of 1,3 percent in labour productivity in 1991 and another of one percent in the first three months of 1992.

The mortgage advances of deposit-taking institutions continued to rise sharply in the fourth quarter of last year, most probably because the flexibility of certain mortgage schemes enabling borrowers to utilise funds for purposes other than real estate transactions and because of the cash-flow advantages of such borrowing.

However, the value of real estate transactions declined sharply by 14,4 percent in 1992.

R3,2 b chopped from deficit

ARG 18/3/93 (49)

Business Staff

FINANCE Minister Mr Derek Keys has sliced R3,2 billion from the controversial Budget deficit.

This meets a commitment to move towards bringing government spending under control.

The final deficit for last year has been put at R28,564 billion or 8,6 percent of GDP.

Total government spending for this year is up an estimated 8,8 percent to R114,154 billion, which is below the rate of inflation.

Mr Keys estimates the 1993/94 deficit will be 6,8 percent of GDP or R25,3 billion.

The eventual target is to get the deficit below three percent of GDP.

The servicing of government debt will cost R22 billion, or 17 percent of this year's expenditure — up from 14,8 percent two years ago.

Mr Keys said current expenditure, excluding the payment of interest on debt, would be an estimated 2,8 percent.

Consumption expenditure, which accounts for civil service pay and the purchase of goods and services, is to increase 8,4 percent.

Civil service pay, which includes the five percent across-the-board increase and notch increases, will average an estimated 11,8 percent.

Capital expenditure will go up 23,9 percent with 43 percent of the amount going on social spending.

At central government level alone, capital spending totals R7,4 billion or two percent of GDP.

BUDGET

Star 18/3/93

Not a 'steroids Budget', says Keys

(49)

Only economic growth would lead to a speedier elimination of backlogs and reduction of individual income tax, Finance Minister Derek Keys said in his 1993/4 Budget speech yesterday.

"This Budget doesn't put South Africa on steroids: it doesn't give a short-lived 'high' of illusion that adjustments aren't all that necessary."

Keys said he was convinced a structurally sound Budget had been submitted that would bear fruit in the medium term — which, if political negotiations made rapid progress, could be closer than thought.

South Africa would, when appropriate, also seek access to International Monetary Fund and World Bank financing.

There were many things which people wanted done, such as eliminating backlogs faster, and reducing individuals' income tax, "but there is no way of our developing a greater capacity to reach these ideals except by getting the economy to grow", he said.

Once economic growth had been achieved, serious attention could then be given to matters such as phasing out marketable securities tax and import surcharges.

"We ... shouldn't think that all now is fine. There remains a very large budget deficit that demands attention."

As the country moved into an upswing, the growth of tax revenues would cut the deficit somewhat, while growing spending discipline under the leadership of the Department of State Expenditure would produce more savings in the next two years, Keys continued.

"I am nonetheless sanguine that the steps taken in this year's Budget to limit the budget deficit to 6,8 percent of the GDP in the coming year will mean there is more room created on the fiscal side for a gradually more relaxed monetary policy approach — which, too, is vital for economic growth."

Keys said he believed the proposed budgetary measures and ensuing policy would serve to stimulate greater international business and investor interest in South Africa.

"The policy course puts the South African economy on a foundation to address our great development problems in a much more imaginative way.

"South Africa will also seek, when the time is ripe, with greater assurance and on a better negotiating basis, to gain access to the conditional financing facilities of the IMF and the World Bank's project finance."

The budget path taken also laid the foundation for sound fiscal policy under any future government, and in several respects agreed with the direction indicated by the Normative Economic Model.

The medium term need not be as far off as it sounded if rapid progress were made with the process of political reform, he emphasised. "Then the expected low economic growth of between nil and half-a-percent for 1993 can already be much higher in 1994." — Sapa.

State gives health and education a R33 b slice

Political Correspondent

49

ARG 18/3/93

EDUCATION and health benefit by more than R33 billion with this year's Budget.

More than R22,7 billion is to be spent on education in 1993/'94 — 19,2 percent up on last year.

This does not include salary increases for teachers or TBVC countries.

A key element is the provision for the start of the long-term financing plan for a single education system under the Education Renewal Strategy.

Of the total allocation for education, R17-million has been earmarked for initial spending to get the strategy started.

● Health services are getting more than R11 billion in the Budget and more than R400 million is to be spent on feeding schemes. The health budget is up 11 percent on last year.

Furthermore, the government is to streamline health services to keep down delivery costs. A committee is expected to make recommendations soon.

The Budget Review says "the straitened economic circumstances necessitate a drastic improvement in the cost effectiveness in health care delivery on the part of all health authorities".

Legislation is to be introduced during this session of parliament to establish a new management model for academic hospitals to give them greater autonomy.

Poverty and the drought have increased the demand for food aid and the government is to spend R400 million this year on the National Nutrition and Social Development Programme.

This will be supplemented with any funds left from the R400 million allocated for nutrition schemes in last year's Budget.

The allocation to the Protein Energy Malnutrition Programme, also administered by the Department of National Health and Population Development, is to be raised to R40 million.

Other departments which will get more are:

● The R6,5-billion police budget for 1993/'94 is up 14,3 percent on last year's allocation. The recently-expanded air wing of the police will be funded from this amount. The Budget Review says greater police visibility is crucial;

● The allocation for prisons goes up 17,6 percent to R1,7-billion. In addition, the Department of Correctional Services is taking "various steps to counter rising costs . . . including the further development of corrective supervision as an alternative service option and controlled early releases. Prison labour is to be used more effectively";

● The justice budget goes up 24,1 percent to R965,5 million — largely to fund structures arising from the National Peace Accord, various boards of inquiry, implementation of new legislation and a higher demand for legal assistance by the underprivileged; and

● The Rail Commuter Corporation is to receive R1,2 billion from the 1993/'94 Budget, with the Exchequer taking full responsibility for its operating deficit.

Transnet had not yet generated sufficient revenue for the commuter corporation's operating losses to be financed from direct payment of Transnet dividends.

The voted amount of R560 million for 1992/'93 had to be supplemented by R620 million — a total of R1,18 billion.

The Commuter Corporation's operating losses appeared to be on budget, while the accumulated debt would be merged in the public debt.

LOSERS

Defence spending slashed by 14%

Political Correspondent

DEFENCE spending has been slashed by more than 14 percent to R9,3 billion, taking inflation into account.

Nominally, the 1993/94 defence budget is 3,8 percent below last year's allocation, but the cut is 14,1 percent in real terms, according to the Defence Vote memorandum.

Most of the cut is expected to be absorbed by the Air Force.

A big cut — 15 percent in nomimal and 24 percent in real terms — is to be made in the Special Defence Account budget. Most of this covers weapons procurement, but also includes covert operations.

"The downsizing of the conventional fist of the Defence Force is regarded as quite acceptable on the present and projected reading of external threats to South Africa," according to the Budget review.

The explanatory memorandum says the cut in the Special Defence Account is due mainly to "the scaling down and cessation of conventional capabilities within the Army, Air Force and Navy as a result of the present perception of the threat and the reduced funds available.

"An attempt has nevertheless been made to maintain conventional operation capabilities at minimum acceptable levels."

The Defence Force will retain its medical capability "at this stage", to provide services to prisons and the police.

ANC challenges Keys on Budget base

BRUCE CAMERON (49)
Business Staff

THE African National Congress has rejected this year's Budget on the grounds it does not meet the country's fundamental needs.

ANC chief economic planner Trevor Manuel has challenged the government to produce the data it based the Budget on to allow the ANC to produce a "proper" development plan for the country.

"We have government departments preparing budgets for themselves without any clear overall development plan," he said.

And he predicted there would be another year of government overshooting its Budget as civil servants "fearing their security of tenure, strip the country".

Mr Manuel said there was no plan for fiscal discipline, or even the "limitation of the gravy train". ARG 18/3/93

He described Finance Minister Derek Keys's commitment to transparency in the budget as "balderdash.

"It was a colonial budget based on the secrecy of the Westminster system."

Mr Manuel harshly criticised the continued existence of the "gravy train", questioning why spending on parliament had been upped by 31 percent.

"Is this for the R824 million worth of golden handshakes for the current members of parliament?"

Mr Manuel questioned what he saw as the continued high level of defence spending and in particular the R3,7 billion allocated to the secret defence account.

"How many houses, clinics or nutrition programmes could this money have supported?"

He complimented Mr Keys on not moving aggressively on the government deficit, saying the ANC was also committed to decreasing it gradually.

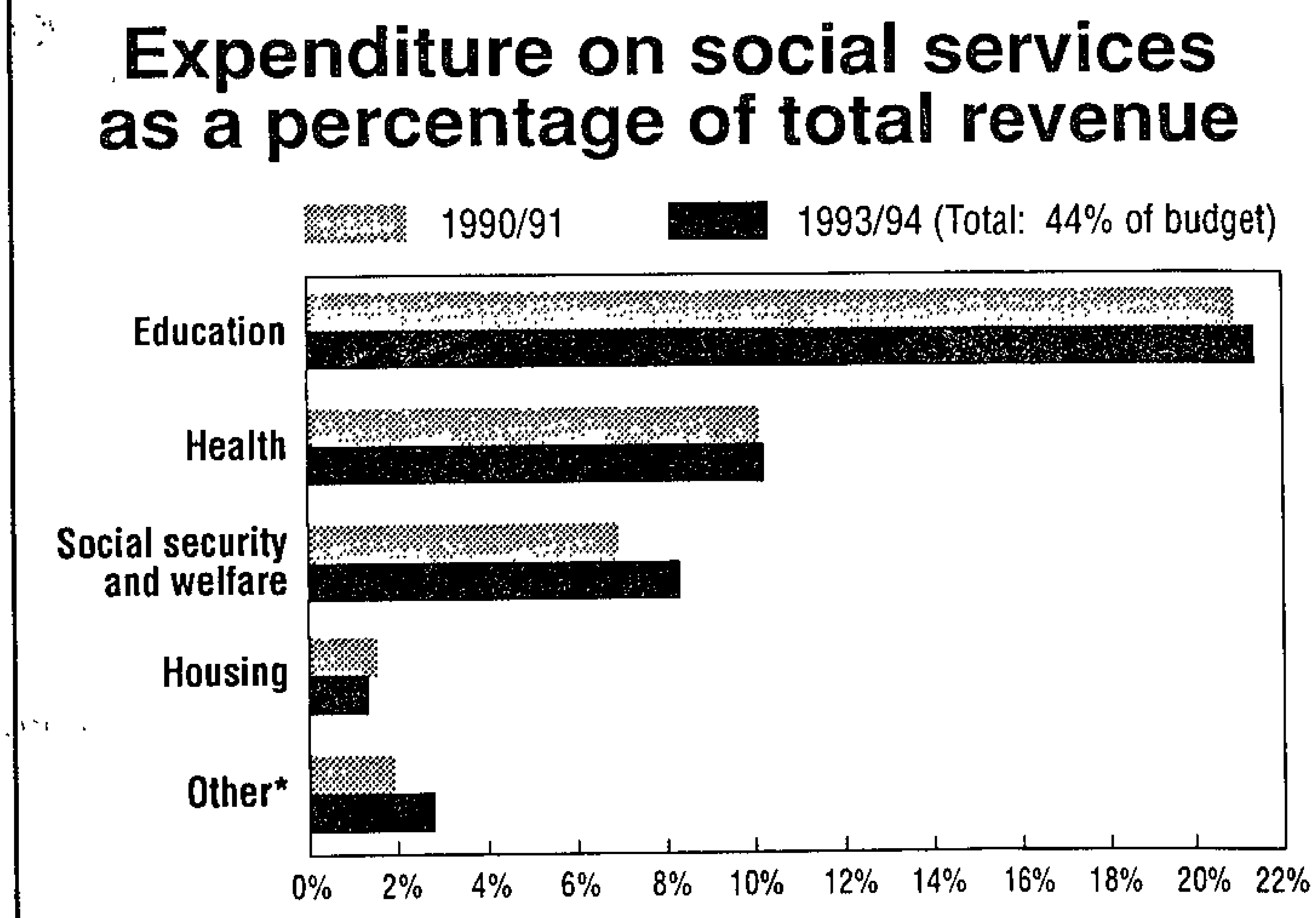
He again called for the establishment of clear budgetary objectives and effective audit trails, which would enable professional, indpendent performance audits; the establishment of a fiscal commission to design a multi-year fiscal reconstruction programme; and, ministerial accountability and increased penalties for civil servants caught with their fingers in the till.

Growing pains

(49) ARG 18/3/93

Finance dept sees slight growth after four long, lean years

BRUCE CAMERON, Business Staff



* Inter alia community development and services

THE economy should show slight signs of growth this year after 48 months of recession.

It is estimated in the Budget Review prepared by the Department of Finance that the growth rate for this year will be between zero and 0,5 percent — up from the negative 2,6 percent of last year.

Living standards will continue to fall because of the 2,6 percent population growth, although not at the same 4,3 percent rapid rate of last year.

The situation of the man in the street will be eased by a predicted further drop in the inflation rate, now down to single digits.

Most of the more-positive developments hinge on the better prospects for the agricultural sector.

After painting a bleak picture of the economy in 1992, in which nearly every economic indicator was in a negative trend, the Department of Finance said the slight growth predicted for this year should be seen as significant — following on the heels of three years of a contracting economy.

The government was looking to a growth in exports, particularly with better agricultural prospects, for the turnaround in the economy. The export growth would be helped by a moderate increase in the Organisation for Economic Co-operation and Development (OECD) countries.

The Department of Finance saw a number of good signals for the improvement of investment and the consequent creation of jobs, including:

- A better agricultural year, increased export demand and the ending of further sanctions;
- The use of proceeds of the sale of strategic oil funds for capital projects; and
- Beneficiation projects undertaken by the private sector.

Inventories which had been run down over the 48 months recession should be built up again contributing to growth in gross domestic expenditure.

After falling by 2,6 percent last year, real private expenditure was expected to rise slightly.

Monetary policy would be kept tight with the long-term objective of containing inflation.

To achieve this, money supply would be restricted to acceptable limits; the rate of increase in credit extension by banks would be kept below the inflation rate; interest rates would remain higher than the inflation rate; attempts would be made to lift gold and foreign reserves; and support would be given to a relatively stable real effective exchange rate for the rand.

The lowering of interest rates "should not be interpreted as an easing of monetary policy" while further reductions would hinge on the balance of payments, the gold and foreign reserves and the inflation rate.

Mixed Cosatu reaction

(49) ARG 18/3/93

Labour Reporter, Political Staff and The Argus Correspondents

COSATU, South Africa's largest labour federation, has sharply criticised the VAT rise, but welcomed several other key elements of the 1993/94 Budget.

Cosatu said it was a "mixed" Budget, containing "regressive" and "progressive" measures.

It criticised tax increases which undercut the living standards of the poor and the absence of proper controls against corruption, inefficiency and mismanagement within government, but welcomed the increase in social services spending, measures to encourage investment and acceptance "of the important role of forums bringing together trade unions, civic organisations and parties excluded from parliament".

● Public Servants Association general manager Mr Hans Olivier said the "paltry" pay increase budgeted for public servants, coupled with the increase in VAT and the price of petrol, meant they were getting poorer by the day.

● The whites-only Mineworkers Union said the tax increases were aimed at the white middle class and were tantamount to "a so-called redistribution of wealth process".

The increased tax load on the white working class could have serious consequences for the economy. Affirmative action and the breakdown of law and order could cause an increase in white emigration, resulting in a major brain drain from an already crippled economy.

● The SA Iron, Steel and Allied Industries Union said white workers would be hard hit by the Budget and blacks would be the only ones to benefit.

● The Consumer Council called the increases in VAT and fuel "a blow to consumers", millions of whom were unemployed and living below the breadline.

● Shoprite Checkers marketing director Mr Brian Weyers warned that the increase in VAT coupled with the petrol price rise would have a damaging ripple effect on prices.

● This move would make already tight household budgets even tighter, said OK Group managing director Mr Mervyn Serebro.

● Pick 'n Pay marketing director Mr Martin Rosen warned that the fuel cost rise would have a negative impact on food prices by pushing up transport costs.

● The South African Chamber of Business, which represents about 40 000 enterprises, expressed concern at the short-term effects of the Budget but welcomed its pro-business stance.

Minister of Finance Derek Keys

● The company tax concession was welcomed by the Steel and Engineering Industries Federation of South Africa and the Small Business Development Corporation.

● Independent Development Trust housing director Mr Ben van der Ross welcomed the government's readiness to provide a further R200 million of bridging finance in the Budget for housing initiatives.

● The Urban Foundation said it was heartening that education had been given pride of place in the Budget.

● Automobile Association spokesman Mr Robin Scholtz said fuel price increases had put motoring even further beyond the means of most South Africans.

● Liquor manufacturers are divided on the merits of the Budget announcements, with South African Breweries describing excise increases as "balanced under the circumstances" but Gilbey's expressing disappointment at the "double blow" of increased VAT and excise tariffs.

● United Tobacco is also concerned about the two-fisted blow to consumers caused by the increase in VAT and excise duty. Finance director Mr Seville Chonin said the Budget provided "little relief".

● The South African Federation of Soft Drink Manufacturers said the 2c a litre increase in excise duty on soft drinks would not have a significant impact on retail prices.

● Chairman of the Life Offices Association (LOA) Mr Neal Chapman said the announcement that life assurers were to be taxed according to the four-fund approach introduced a welcome scientific basis for taxing assurers after many years of arbitrary approaches.

● The Medical Association of South Africa said it had hoped that against the background of increasing costs in the provision of health services and an ailing economy, medical services and medicine in particular would be zero-rated.

● Representative Association of Medical Schemes director Mr Rob Speedie said the private sector would have to pay about R350 million more in the 1993/94 tax year for health services because of the four percent VAT increase.

● The National Progressive Primary Health Care Network (NPPHCN) said that in view of Health Minister Dr Rina Venter's "unilateral" restructuring of health services it was important to watch where the R11 billion health budget announced yesterday was spent.

Upturn in SA steadily fading

Sowetan 18/3/93 (49)

UNION VIEW Local economists cautious about committing themselves about 1993 forecast:

By Mzimkulu Malunga

HOPES FOR AN UPTURN in the South African economy this year are steadily fading, says the influential International Confederation of Free Trade Unions (ICFTU).

The organisation says South African economists, having been proved wrong last year in their forecasts that 1992 would be a good year for business, are cautious about committing themselves on growth prospects in 1993.

Basing its analysis on various indicators, including the contentious issue of Government deficit, the ICFTU says: "Economists expect that real wages are unlikely to go up until the next economic boom, which could be in 1994 or even 1995."

A disturbing trend in this country is what is colloquially termed the "capital strike", the apparent unwillingness by financial institutions to invest in new factories, farms or mines, the ICFTU says

Spending on new plants declined by R10 billion to R23 billion between 1981 and 1992. "Everybody owes a lot of money — government, companies as well as consumers — and confidence is low.

"Consumer spending is falling for the first time since 1985," argues ICFTU.

Not only private sector investment has fallen, government investment spending also plunged 22 percent. Investment by public corporations declined 52 percent.

Releasing the Afrikaanse Handelsinstituut's Inflation Barometer last week, chief economist Nick Barnardt said there was no indication that the much awaited economic recovery phase would start during the course of this year. Outflows of money from South Africa, decline of the country's foreign reserves, trade performance and the rand-dollar exchange rate were some of the factors dampening confidence for an upturn in 1993.

"The safest GDP growth forecast for 1993 is somewhere around 0,5 percent," Barnardt said.

Though the inflation rate came down from 14 percent to about 10 percent late last year and interest rates fell modestly, these were not enough to stimulate business

'Some revival, inflation dip'

(49) CT 18/3/93

Political Staff

SOUTH AFRICA can look forward to a moderate economic revival and a fall in the inflation rate this year, says Finance Minister Mr Derek Keys.

Speaking on the economic outlook in his annual Budget review, he said growth of between only 0% and 0,5% of real gross domestic product (GDP) was anticipated.

However, he added that this was "nonetheless a significant improvement on the falls of 2,1% in 1992 and 0,5% in 1991".

"Still, this growth is much lower than population growth, with the corollary of falling average living standards," he said.

He added that the prospects for a fall in the inflation rate were "favourable".

Mr Keys also said that due to the "moderate economic revival" in South Africa's major trading partners the volume of our exports was likely to grow in 1993.

Despite the better prospects for agriculture, import volumes would also increase because of the moderate economic growth forecast for the country. The result of this will be a smaller surplus on the balance of payments.

The minister said the drought and the lack of investment last year were major contributing factors to the poor economic performance. Social instability also militated against new investment.

Spending spree

Consumer rush to beat April 7 rise in VAT expected

149 ARG 18/3/93

BRUCE CAMERON
Business Staff

HARD-PRESSED consumers hit by a range of tax, tariff and levy increases in the Budget are expected to go on a 20-day spending spree to beat the April 7 deadline for the rise in VAT to 14 percent.

Retailers are expecting the splurge to be followed by the harshest trading conditions since the start of the recession more than four years ago as inflation pushes back into double digits and the wide range of increases start to bite into the pockets of the person in the street.

Apart from the VAT increase, fuel prices have gone up by 10 percent and duties have been increased on a range of consumer products, particularly alcohol and tobacco, while the effect of inflation on individual tax brackets will quietly take more than R5 billion out of taxpayers' pockets.

In all, Finance Minister Mr Derek Keys will get more than R13 billion extra from consumers this year, substantially reducing disposable income.

The surprise increase of VAT to 14 percent was defended by Mr Keys in an interview as necessary to meet the zero-rating on a range of basic commodities.

A rumpus erupted today over the full effect of the additional taxes the government is snatching from consumers with the Department of Finance insisting that the effect will be to push up inflation, running at 9,7 percent a year, by two percent.

Economists were predicting rises of up to three percent today but Finance Director-General Mr Gerhard Croeser stuck to his two percent prediction.

"People are forgetting government expenditure has been curtailed. In the eyes of some people, this could be deflationary."

Reaction to the Budget has ranged from compliments for it being "visionary" to brickbats for the way it hits the consumer as well as claims that it does not sufficiently meet the demands of the poor.

Most economists appeared to be in agreement that the short-term effect of the Budget would be tough on the consumer and the retail industry but in the longer term it would boost growth and job creation.

The African National Congress, although sympathetic to the problems faced by Mr Keys, was highly critical of what it saw as the Budget's failure to tackle the needs of the underprivileged with a cohesive, all-embracing development plan.

There was confusion over the effect of the new company taxing system today and the impact it would have on the Johannesburg Stock Exchange. The new system reduces company tax from 48 percent to 40 percent while imposing a new dividend tax of 15 percent deducted at source.

Mr Keys expected the new system to bring in about the same amount of overall tax but its main effect in his view was that it would help struggling and new companies and stimulate investment.

● See pages 8, 22 and 23

Defence budget to drop by 4%

Political Staff

THE Budget allocation to the Defence Force will drop to R9,3 billion this year, a nominal decrease of 4% or R370 million from last year's figure.

However, in real terms the allocation represents a substantial 14,1% drop.

The police budget will increase by a sunstantial 14,3% in nominal terms to R6,4b, which will be used to fund greater police visibility in residential areas and the recently announced expansion of the aerial wing of the SAP.

The Budget review issued by Finance Minister Mr Derek Keys pointed out that structural changes in the SAP have been made to enable it to be "better accepted by all residents" and a new dvision of community relations has been created.

Under the defence allocation, he said that the "downsizing of the conventional fist of the Defence Force is quite acceptable on the present and projected reading of external threats to South Africa".

An explanatory memorandum on the defence estimates revealed that the defence budget as a percentage of gross domestic product (GDP) had decreased from 4,3% in 1989 to 2,6% in 1993.

(49)

CT 18/3/93

The corresponding figures for a percentage of state expenditure highlight the dramatic nature of the cuts — from 15,7% in 1989 to 8,2%.

Allocation

It said the reduction of the Special Defence Account was "due mainly to the scaling down and cessation of conventional capabilities within the Army, Air Force and Navy as a result of the present perception of the threat and the reduced funds available".

The Correctional Services allocation will go up 17,6% in nominal terms to R1,7bn.

Under Justice a large 24,1% increase to R965,5m stems largely from "structures that had to be created in consequence of the National Peace Accord, various boards of enquiry, implementation of new legislation and a higher demand for legal assistance by the underpriviliged".

...% rate or the new rate would be
...ctions concluded between yes-
rate was announced, and April

...d yesterday by Inland Revenue
...annes Hattingh.
...AT legislation, VAT becomes
...f supply, which is the date the
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...ase even though the time of
...ally fall on or after April 7.
Property Services (Ampros)
...uld absorb the four percent
...n all residential land sales
... end of June.

...big blow' — Page 8

Mrs Nontsikelelo Magoda, 70, (left) and Mrs Madini Jarhes, 66. In front are Mrs Nontando Daki, 70, (left) and Mrs Khulukazi Baleka, 76.

Picture BENNY GOOL

Partying costs go up

By ANTHONY JOHNSON
Political Correspondent

THE price of partying has gone up

Finance Minister Mr Derek Keys yesterday slapped additional "sin" taxes on a wide range of alcohol and tobacco products. The adjustments take immediate effect.

The minister said they would generate additional income for the state coffers of R320 million in 1993/94.

The increases include:

- Beer: 4,8c a litre or about 2c a 340ml can or dumpy (increased revenue of R112m).
- Spirits: 37,7c a 750ml bottle (R50m).
- Cigarettes. 2,45c per 10 and 5c per 50 grams of cigarette tobacco (R99m).
- Pipe tobacco and cigars 5c per kg (R400 000).
- Wine (fortified, unfortified and sparkling): 4c per 750ml bottle (R18,8m).
- Sorghum beer and beer powder: 1c a litre and 5c a kg (R6m).
- Cool drinks and mineral water. 2c a litre (R34m).

● Alcohol firms react — Page 9

(49) CT 18/3/93

MPs get 37% increase

CT 18/3/93 (49)

By BARRY STREEK
Political Staff

A 37% INCREASE in the salaries, allowances and benefits of MPs — up to R78,4m from R57,2m — includes an increase of R16m for new cars for parliamentarians

The increases in allowances and subsidies for MPs comes at a time when the government is refusing to budge on demands for additional increases in salaries for teachers and public servants — although MPs will receive the public sector five percent increase.

A spokesman for the Department of State Expenditure said yesterday 119 MPs became eligible to buy new cars this year. Last year only 15 MPs were entitled to buy cars under the car subsidy scheme.

The total budget for Parliament in the 1993/4 financial year is R113,7m — an increase of R27,2m over the last financial year Most of this increase, R21m, is for the "salaries, allowances and other benefits".

The increases included an extra R2,5m for constituency allowances and R2,8m for salary improvements (the 5% increase) during the 1993/4 financial year.

In the last financial year, R55,2m was provided for the salaries, allowances and benefits for MPs and a further R2m provided under the Improvement of Conditions of Service vote

The budget for the President's Council, which is to be abolished soon, has also been increased from R9,7m to R10,7m.

Pensioners happy over increases

Staff Reporters

ALL social pensioners will receive an increase of at least 7,5% from July 1, Finance Minister Mr Derek Keys announced in his budget.

The increase will also apply to other social allowances and will cost the state R521,5 million.

Black pensioners reacted happily yesterday to the increase Among pensioners visited, some were singing, ulating and shouting at the top of their voices.

Their increase, once parity is reached, is an effective R77 per month — or 26,2%. In September, all pensioners will receive R370.

CT 18/3/93

Chairman for the Phumlani Organisation for the Aged, Mr Sonny Tyatyam, said both the increase and the parity were "great news" and were very welcome.

Cape Times
THURSDAY, MARCH 18 1993

Tough, yes growth, maybe

EVERYBODY knew the 1993/94 budget would require a tightrope act of consummate skill to balance the desperate cry for job-creating economic growth against the limited financial resources available in the midst of what is arguably the worst recession this century.

The political expediency of a short term boost to the economy at the expense of longer term growth must have been there, although few had any real doubt that Finance Minister Derek Keys would resist the temptation. Instead, he has effectively ensured that most South Africans now face another year of economic stagnation, hopefully to consolidate the economy for a new phase of sustained expansion. Consumers will be forced to help realise that goal through a 40% increase in the VAT rate but, mercifully, the expanded net of zero rated basic foodstuffs will cushion the blow for the majority of the nation who can least afford any additional impost. Still, the shift to indirect taxation from bracket-creeping personal income tax and reduced corporate tax is regressive. It is also probably unavoidable.

Expenditure is up most in most of the right places: education, housing (where the funds are going to those in the private sector who know how to use them best) social services, police, tourism, and business development. The middle and upper income groups will pay still more, as they probably should in these times of redistribution. Just when lower interest rates were beginning to have a tentative impact on property costs, the hike in transfer duty will now appreciably increase the burden already extra-weighted by soaring rates in the city's more affluent suburbs. The higher perks tax on company car allowances will be discouraging for so many upper hierarchy employees whose standard of living has been consistently declining for years. Then there is the almost mandatory rise in cigarette and alcohol duties which, however, this time seem unnecessarily tame at just a few cents per smoke or drink.

The Minister believes the budget's initial jolt to inflation, estimated at some 2,4 percentage points on VAT and petrol hike considerations alone, will work its way through the system without a significant rise in the average rate for the year, but there must be some unease on this front. Both the VAT and petrol adjustments are depressingly at the upper limits of expectations; does not the spectre of a price spiral loom again? Please that we may be spared, and if anything

Budget '93

'No kicks now, but gains will be harvested'

(49) CT 18/3/93

Political Staff

THE Budget would not put South Africa on steroids, Finance Minister Mr Derek Keys told parliament yesterday.

It would not give a "short-lived high of illusion that adjustments aren't all that necessary", he explained in an attempt to put his announcements in perspective.

Mr Keys acknowledged that his first budget would probably be "the last that will be entirely the product of the present government".

"I'm convinced that we have submitted a structurally-sound Budget that's going to bear fruit in the medium-term," he said.

"There are many things we would have liked to do, such as eliminating backlogs faster and reducing individuals' income tax, but there is no way of our developing a greater capacity to reach these ideals except by getting the economy to grow.

"Once we succeed in this we shall also be able to give serious attention to other outstanding matters such as the phasing out of marketable securities tax and the import surcharge," Mr Keys said.

It would be a mistake to think that "all is now fine" as there was a very large budget deficit demanding attention.

As the country moved into an upswing the growth in tax revenues would cut the deficit to some extent, while growing spending discipline would produce further savings, he said.

"I am nonetheless sanguine that the steps taken in this year's Budget to limit the budget deficit to 6,8% of gross domestic product in the coming year will mean there is more room created on the fiscal side for a gradually more relaxed monetary policy approach — which too is vital for economic growth," Mr Keys said in his speech.

'Fiscal control not enforced'

CT 18/3/93 (49)

By LINDA ENSOR

FINANCE MINISTER Mr Derek Keys was criticised by ANC economics chief Mr Trevor Manuel yesterday for failing to introduce measures into the Budget to enforce fiscal discipline.

"There is no indication in the Budget that discipline goes beyond aggregate expenditure cuts. Poorly targeted and inefficient delivery of social services will by and large continue through wasteful apartheid structures," Mr Manuel said at a press briefing on the ANC's response to the Budget.

He criticised the absence of clear objectives which would allow for the measurement of performance and said the nature of the internal budgetary process encouraged departments to build fat into their estimates.

"The budgetary process undermines the good intentions the minister may have on exerting fiscal discipline," Mr Manuel said. "Little value can be attached to the stated commitment to discipline and growth."

Inflation will rise — ANC

If discipline was the theme for the Budget, why did the vote for Parliament rise by about 31%, he asked.

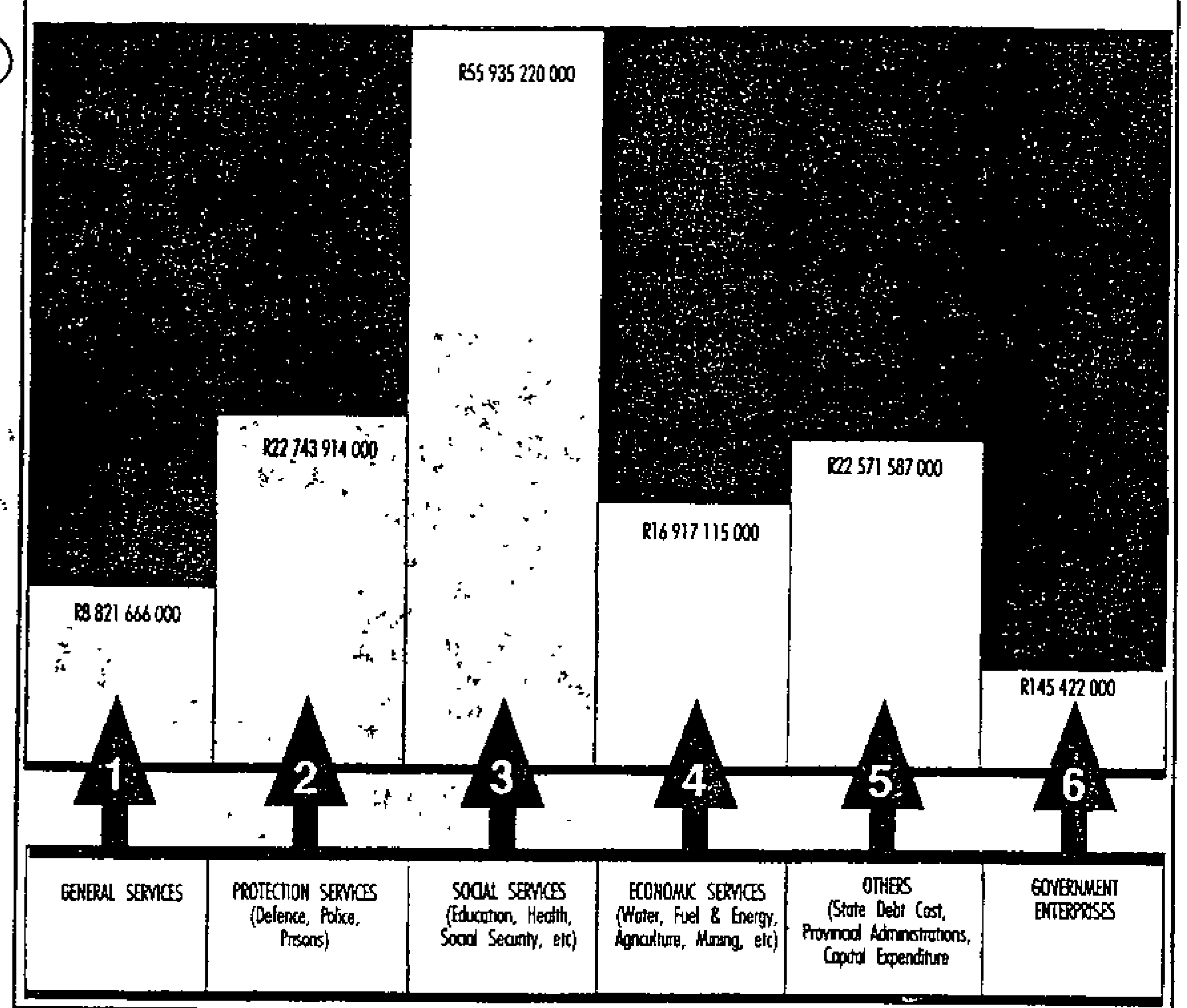
He said the theme of the Budget — discipline and growth — was inappropriate at this stage of political development as it could only be realised after a political transition had brought about stability in society and a degree of predictability in government policies.

Furthermore, there was nothing on the revenue side of the Budget which would promote economic growth. The effective personal tax rate had been increased and the higher VAT rate and excise duties would contribute to the contraction of consumer spending and a 2% rise in inflation, which would affect "the ordinary person in the street" disastrously.

At the same time government expenditure would be kept constant or decline slightly in real terms and as a proportionately higher amount would be used for interest payments, expenditure on goods and services would be reduced in real terms. Neither would the change in company tax have the desired supply-side impact on economic growth, Mr Manuel said.

He believed the budget lacked strategic coherence owing to the absence of any apparent development strategy to provide it with context and direction.

Where the money goes



Revenue R40bn short of

'Govt milking the public'

49

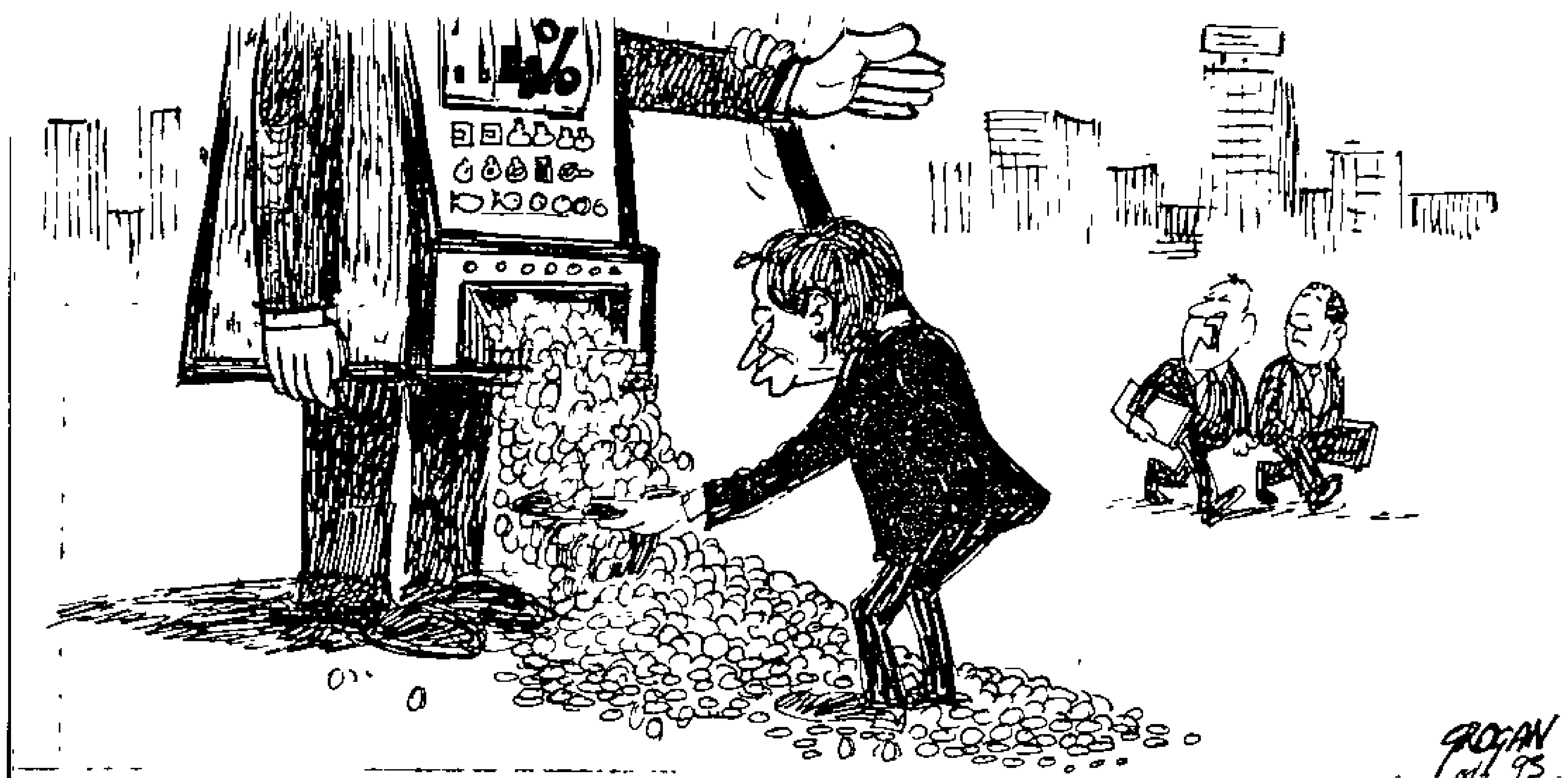
By ANTHONY JOHNSON
Political Correspondent

OPPOSITION parties

depressingly at the upper limits of expectations, does not the spectre of a price spiral loom again? Please that we may be spared, and if anything can help it is the dramatic dual taxation system for companies with its massive drop in the basic rate and the introduction of a tax on dividends which should leave neither the fiscus nor investors out of pocket. The minister may yet gain eternal credit for this move. Depending.

In the meantime the huge boost in MPs car allowances must sound a sadly inappropriate tone. Next year, perhaps, but there can be no justification, absolutely none, for such largesse at this stage. In fact, the budget is disappointing in its relatively mild containment of State expenditure in general, and in the special defence fund and security services in particular. Surely, by now the former could have been scrapped and the latter cut back more savagely?

The State's own house still requires more sweeping. When the dust settles on all the analysis it will remain safe to say that most South Africans would be prepared to make the sacrifices for a better life being called for this year by Mr Keys ..but we expect results.



"He seems to have hit the VATpot."

'Govt has been high-handed'

JOHANNESBURG — Public sector unions yesterday slated the Budget presented by Finance Minister Mr Derek Keys to Parliament as high-handed.

A statement read out at a press conference here by the Post Office and Telecommunications Workers Association president Mr Khalusi Mosunkutu on behalf of a number of public sector unions said a series of high-handed actions and unilateral decisions by the government had plunged workers throughout the public sector and the communities they served into a crisis.

The statement said the government's arbitary decision to limit public sector wage increases to five percent was an arrogant presidential edict and constituted an effective reduction in earnings — pushing a large portion of low paid workers deeper into poverty.

The statement spelt out a programme of action which public sector unions would take to resolve the crisis.

Backed by the country's largest union, the Congress of South African Trade Unions, the programme includes a call for the re-opening of negotiations on wages and rationalisation, the introduction of one labour relations act for all workers, intensive consultation to develop a united front against government actions in the puiblic sector, and regional and local actions in support of the programme. — Sapa

Bouquets, brickbats from Cosatu to Keys

JOHANNESBURG — South Africa's largest union, the Congress of South African Trade Unions (Cosatu), yesterday both criticised and praised Finance Minister Mr Derek Keys' first budget presented to parliament.

At a press conference in the city, Cosatu secretary-general Mr Jay Naidoo lashed out at the government for unilateral decision-making.

He said the 40% increase in value added tax (VAT) to 14% was the most significant feature of the budget and would have a major impact on society.

Declaring the increase unacceptable, Cosatu said it was an attack on the living standards of workers and the poor.

"Indirect taxes such as VAT is regressive, and shifts the fiscal burden onto the shoulders of the poor."

The union said, however, it supported progressive taxation, which differentiated between taxpayers on the basis of capacity to pay, such as a progressive PAYE system.

Mr Naidoo said the increase in VAT would have a negative effect on economic growth and result in reduced consumer spending in the middle of a severe and prolonged recession, at a time when production volumes in manufacturing were at a critically low level.

The veteran union activist also paid close attention to the level of corruption scandals being brought to light in South Africa and accused Mr Keys of wasting an opportunity to address the problem.

He said Mr Keys had failed in taking action through setting up an independent audit on government spending, establishing a broad-based tax commission to evaluate revenue and expenditure, and imposing effective controls on expenditure by homeland administrators.

Cosatu expressed its doubt about the government's commitment to seeking broader consensus for an economic model for the country since elements of the draft Normative Economic Model had been included in the budget, although the government had committed itself to negotiating the final economic model.

Welcoming the introduction of a dividend tax, the union said the change to a dual taxation system for companies would be studied more carefully by the union.

"Business has traditionally evaded its responsibility to create jobs on the grounds of the onerous system of company tax. That excuse is now gone."

Cosatu challenged business to ensure that any benefits derived from the budget be translated into investment in labour-absorbing and job-creating projects.

He also welcomed the decision to exempt retrenchment packages from taxation but at the same time called for an end to retrenchments.

The union called for the VAT increase to be scrapped, for an independent audit of public sector expenditure be set up and for a tax commission with trade union representation to review the fiscal policies and mechanisms in South Africa. — Sapa

... target

Political Staff

FINANCE Minister Mr Derek Keys is faced with the task of finding R40 billion — the estimated difference between the government's planned R114bn expenditure and its revenue.

Initially, Mr Keys knocks off R7,5bn, as this is accounted for by capital expenditure which is "quite appropriately" funded by raising loan finance.

The gap is now R32,5bn.

Of this R8bn is related to a corresponding amount of saving that is created within the government's pension funds for its employees and is directly or indirectly derived from the expenditure side of the budget.

Mr Keys says that it would be wrong to fund this from additional taxes as we can regard "pension fund saving and government dissaving" to this extent as cancelling each other out.

The gap has shrunk to R24,5bn.

Mr Keys then argues that it is wrong to impose taxes in an attempt to recapture revenue lost as a result of the recession. He lops off R7bn and is left with R17,5bn.

The minister then looks at expenditure reductions, and states that the past year saw a "largely successful effort" to halt the growth of consumption expenditure by general government. This momentum is to be carried forward, and the minimum target over two years is R5bn.

That leaves R12,5bn — and this is where the taxpayer comes in and pays an additional R6,5 bn as a result of fiscal drag on the existing tax structure, and the rest comes from indirect taxes — mainly VAT.

AVERAGE ANNUAL GROWTH RATE OF SELECTED GOVERNMENT FUNCTIONS

The average annual growth rate of expenditure on selected government functions

General government services	10,1%
Protection services	7,9%
Defence	-2,0%
Police	22,7%
Social services	17,7%
Education	16,2%
Health	15,5%
Social security and welfare	22,4%
Economic services	14,4%
Water supply	22,7%
Agriculture, forestry and fishing	19,4%
Transport and communications	16,3%
Export promotion	39,0%
Interest	21,8%

(The share of protection services in total expenditure has shrunk from 21,8% to 17,9% as a ratio to GDP, from 6,7% to 6,1%. The reduction is attributable chiefly to defence, whose share has narrowed dramatically from 13,7% to 8,4%.

Total govwernment expenditure has an average at about 15% per annum since 1990/1 and its share of GDP risen from 30,5% to 34,2%, although it was 35,4% in 1992/3.)

By ANTHONY JOHNSON
Political Correspondent

OPPOSITION parties yesterday slammed Mr Derek Keys' first Budget for further milking taxpayers while failing to curtail government expenditure.

The government's efforts to relieve the unemployment crisis were also criticised as woefully inadequate.

But there was praise for the belated equalisation of pensions for all races and efforts to stimulate the growth of emerging and small businesses.

The Democratic Party said the Budget came as "a great disappointment" because the government had during a time of acute economic difficulty placed the burden "almost entirely on the public's shoulders and has refused to curtail its expenditure".

DP finance spokesman Mr Ken Andrew said Mr Keys had said in September that there was a need to cut real government expenditure by three percent but that government expenditure was budgeted to increase by 13,9% this year — well above the rate of inflation.

"Government expenditure is clearly still out of control and absorbing a greater proportion of our national resources than ever before. The burden on the individual is going to increase considerably while the government continues spending as if there is no tomorrow."

He said the "glaring omission" in the Budget was the "totally inadequate way in which unemployment and the need for short-term job creation are addressed".

The Conservative Party said the fuel price hike and the increase of VAT to 14% meant that the "ordinary man-in-the-street" would have to dig much deeper into his pocket.

CP finance spokesman Mr Casper Uys said the fact that no allowance had been made for fiscal drag or bracket creep meant that taxpayers would have to fork out R2,5 billion more in personal tax in the coming year.

He predicted that inflation would rise as a result of the high burden on individual taxpayers.

Afrikaner Volksunie spokesman Mr Cehil Pienaar said the increases in VAT and the fuel price were expected but that the effects on inflation should not be underestimated.

Failed meeting, but anti-Budget march continues

Staff Reporter

A PLANNED meeting between public sector workers and Cosatu which was planned to take place at St George's Cathedral yesterday failed to materialise.

And the SA Democratic Teachers' Union (Sadtu), who were supposed to take part in an anti-Budget march on Parliament, were unable to attend because of a protracted mass rally at the Athlone Civic Centre to discuss the crisis in education.

About 150 chanting members of the National Education Health and Allied Workers' Union (Nehawu), Cosatu and SACP representatives marched from District Six to parliament to reject the budget and protest against the government's reluctance to increase a proposed five percent pay rise in workers salaries.

The demonstrators, with banners proclaiming "Unite and consolidate for a democratic public service" and "Workers unite, crush retrenchments", temporarily disrupted traffic during the march which started 90 minutes late.

They were escorted by traffic officers through the city streets and members of the internal stability unit monitored the march which ended shortly before 4pm.

Mr Solly Ngwenze, regional chairman of Nehawu, said the five percent increase salary increase and other conditions of service were hopelessly inadequate.

"We demand that 15% be allocated to those lowly paid workers occupying the lower end of the salary scale."

Speaking at the gates of Parliament, Mr Ngwenze said the Budget would only bring misery to the working class and called for an end to government corruption.

Nehawu and Cosatu handed over memorandums to Lieutenant Louis Krause of the Parliamentary police who was representing Mr F W De Klerk.

Cosatu chairman Mr Johnny Malebo called for an end to corruption and waste and said this year's Budget should not spend money on the army and the bantustans, and the tricameral Parliament should be drastically cut and subject to controls.

It should not increase PAYE or VAT and before cutting wages of public sector workers it should look at improving the way the public sector is run.

He called on the government to enter into meaningful negotiations with all public sector unions.

"We also demand an independent audit into all government departments and ministries to trace corruption and take steps to get rid of corrupt officials before a new government is in place," he said.

● A group of about 50 women protested at Parliament yesterday against what they said was the government's neglect of pre-school and early school education.

R1bn oil reserves for 'backlogs'

CT 18/3/93 (108) (49) (58)

Political Staff

MORE than R1 billion had been spent from the sale of strategic oil reserves on education, housing and socio-economic backlogs — almost R600 million less than originally budgeted.

This was disclosed yesterday by the Department of Finance in its Budget Review, which was tabled in Parliament.

It was originally budgetted that R405,5m would be spent on capital expenditure on education but this had been revised to R255,61m.

Capital spending in the reduction of socio-economic backlogs had amounted to R516,36m — less than the R694,5m budgetted — and the capital spending on housing had totalled R264,16m, down from the R500m budgetted.

Originally, R1 600m was allocated but a total of R1 036,13m was actually spent during the 1992/3 financial year.

The department explained that "in the nature of things capital projects can not always be planned and executed within a single year".

The balance from 1992/3 financial year would be carried over to the 1993/4 financial year to cover the same type of project, the department said.

From page 1

Squeeze

3 (49) CT 18/3/93

The increase was an attack on the living standards of workers and the poor. "Indirect tax such as VAT is regressive and shifts the fiscal burden onto the shoulders of the poor."

Consumer organisations and supermarket chains said the sharp increases in VAT and fuel would "hit consumers right between the eyes" and warned of a damaging riple effect in prices.

The director of the Representative Association of Medical Schemes, Mr Rob Speedie, said the VAT increase had placed private health care "even further beyond the reach of the ordinary man in the street".

There was some good news for the poor, however,- with pension parity between all races to be achieved by September 1 and solid increases in health and education spending.

Defence spending was cut substantially but many of the savings were swallowed up by an increased police budget, designed to curb rampant crime.

Tourism and small businesses were also addressed but most parties slammed Mr Keys's attempt to relieve the massive unemployment as inadequate.

The increased VAT on new houses and increased transfer duty of eight percent on property of over R250 000 will hit an already depressed property market. On the other hand low-cost housing will get some reprieve in the form of lower transfer duties.

Earlier yesterday Mr Keys said at a media briefing that "the financial management of the country is being approached on a business-like basis.

"If there is a businesslike approach from the entrepreneurial sector better times are down the road for the man in the street."

The top company tax rate has been slashed from 48% to 40%, although companies will pay an extra 15% in addition to this on money distributed to shareholders.

Mr Keys said he expected the dual tax rate to be an incentive for new, fastgrowing companies which did not yet pay out dividends.

He said he had refused to make extra provision for housing because there were still substantial sums from previous appropriations which had not been spent.

The best way to create jobs was to provide a climate favourable to private initiative. But "we can't just shut our eyes to the job haemorrhage of the last few years or to the disappointment awaiting thousands of new job-seekers" and even with a rapid economic recovery it would take time for a meaningful rise in jobs.

A supplementary sum of R60m would be set aside to help the National Economic Forum's job-creation initiatives in co-operation with the Department of Manpower.

Ordinary revenue could top R82-billion

Star 18/3/93 (49)

Total ordinary revenue for the 1993-94 financial year was estimated at R82,088 billion, Finance Minister Derek Keys said in his Budget speech.

This is an increase of 9,2 percent from the revised revenue of 1992-93 of R75,169 billion and less than 1992-93's estimated revenue of R84,749 billion.

The R82,088 billion in revenue was about 22,1 percent of gross domestic product, based on a projection at the existing tax rates, and excludes transfers from the National Supplies Procurement Fund (NSPF) and the Central Energy Fund (CEF).

Collections

"On this projection, the ratio of indirect to the total of direct and indirect taxes fall further, from 39,9 percent in 1992-93 to 38,8 percent in 1993-94," Keys said.

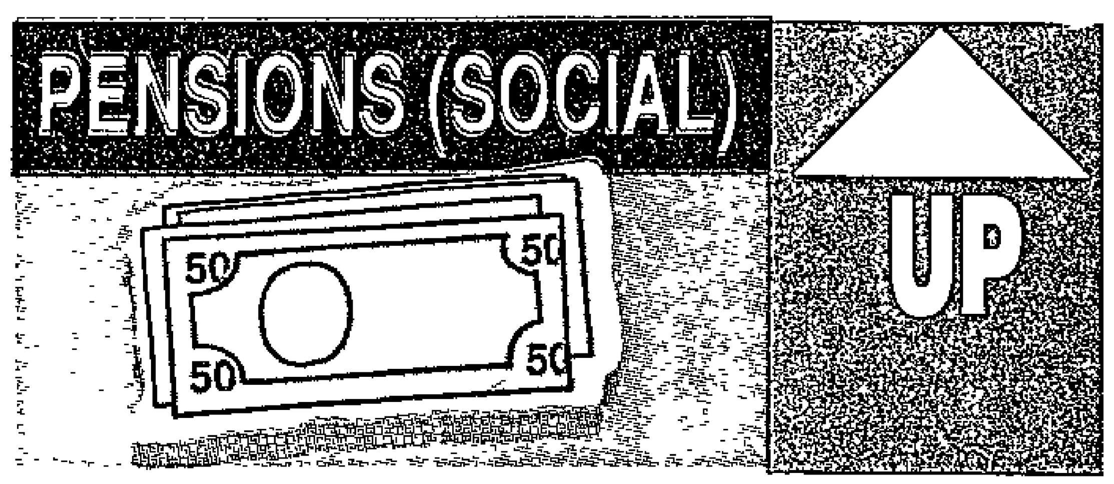
Inland Revenue's collections were estimated to increase by 10,7 percent to R71,396 billion, while collections by Customs and Excise were expected to be virtually unchanged at R10,692 billion.

In addition to total ordinary revenue, Keys said there were also non-recurring capital receipts estimated at R685 million pushing the total estimate of revenue to R82,773 billion.

The non-recurring capital receipts of an estimated R150 million from the NSPF and R535 million from the CEF would be transferred to the State Revenue Account. — Sapa.

(49) ARG 18/3/93

VAT up, but more jobs



Going up — pensions, smokes, booze and petrol. . .

Business Staff

SOCIAL old age pensions for all race groups will be equalised on September 1 after an initial across-the-board 7,5 percent increase on July 1.

This means all social pensioners will be paid a standard R371 a month.

Military pensions are to go up nine percent.

Full details of the social pension increases and the moves to parity would be given by the various own affairs ministers, Mr Keys told parliament.

The increases in social pensions will cost taxpayers an additional R1,2 billion this year.

Based on last year's figures, white social pensions will go up to R371 on July 1, Indian and coloured pensions to R345 and black pensions to R340.

Political Staff

SMOKING and drinking will cost more and boost government coffers by about R320-million this year.

These are the figures are at a glance:

- Beer up 4,8 cents a litre, 2 cents on a dumpy.
- Whisky, brandy and gin up about 37,7 cent a 750ml bottle.
- Cold drinks and mineral water up 2 cents a litre.
- Cigarettes up by 4,9 cents for 20.
- Pipe tobacco and cigars up 5 cents per 50 grams.
- Fortified and unfortified wines and sparkling wine up 4 cents a 750ml bottle.
- Cider and other fermented drinks up 10 cents a litre.
- Sorghum beer up 1 cent a litre and sorghum beer powder up 5 cents a kilogram.

After Keys, comes the big crunch . . .

MICHAEL MORRIS
Political Correspondent
and BRUCE CAMERON
Business Staff

THE man-in-the-street will have to pay out more than R12 billion from the hike to 14 percent in Value Added Tax from April 7 through higher direct taxes as a result of inflation.

In a multi-pronged attack, Finance Minister Mr Derek Keys attempted to curb government spending, cut the deficit and give the economy a push back to recovery in his first Budget.

In the process, taxpayers were mugged by Mr Keys for government overspending with a wide range of tax, levy and tariff hikes.

The extra four percent on VAT — up from 10 percent — is a heavy setback to all consumers.

But, Mr Keys, in his first Budget speech, has moved to alleviate the position of the very poor and the unemployed.

Taxpayers will have to dig deep into their pockets to pay the government an additional R12 billion to help it balance the national books in a R114,1 billion Budget:

- VAT is up from 10 to 14 percent from April 7;
- Fuel prices rise by an average of 15 cents a litre from April 2;
- Dividends on shares will be reduced by a new company tax system which will see direct company tax reduced from 48 to 40 percent. In future, companies will have to pay 15 percent on all distributed profits;
- Direct taxation goes up as a result of inflation, pushing individual taxpayers into

THE BAD NEWS

VAT — UP to 14 percent on April 7.
Petrol — UP 15c a litre on April 2.
Cigarettes — UP 4,9c a pack of 20.
Pipe tobacco and cigars — UP 5c on 50g.
Beer — UP 4,8c a litre, 2c a dumpy.
Spirits — UP 37,7c a 750ml bottle.
Soft drinks and mineral water — UP 2c a litre.
Wine — UP 4c a 750ml bottle.
Sorghum beer — UP 1c a litre.
Sorghum beer powder — UP 5c a kg.
Cider and fortified drinks — UP 10c a litre.
New company tax — 15 percent on distributed profits.
Transfer duty on property — UP to 8 percent on amounts over R250 000.
Company transfer duty — UP from 7 to 10 percent.

THE GOOD NEWS

Income tax — NO CHANGE.
Social pensions — PARITY by September 1.
Public service pensions — UP five percent.
Defence spending — DOWN more than 14 percent.
Education spending — UP 19,2 percent.
Health spening — UP 11 percent.
Military pensions — UP nine percent .
Civil servant salaries — UP 11,8 percent (including notch increases).
Retrenchment payouts — UP to R30 000 TAX EXEMPT.
Boost for small and medium business — UP to R112 million.
Direct company tax — DOWN from 48 to 40 percent.
Transfer duty on cheaper properties — DOWN.
Stamp duty on contracts — ABOLISHED.
Export incentives — UP to R2 billion.
Justice spending — UP 24,1 percent.
Housing spending — UP to R1 048 million.

Public service pensions

Job creation over wide front is a major aim

Business Staff

THE government is moving on a wide front, using hundreds of millions of rands to recreate jobs lost in the recession.

The projects range from government-funded, job-creation schemes to stimulating whole sectors of the economy, like tourism and small and medium business.

Small, medium and informal business is being given a R112 million boost.

Spending on this sector of the economy is up R94 million on last year with R75 million being channelled through the Small Business Development Corporation.

And, if the private sector increases its contribution to the SBDC pioneer fund, the state will consider increasing its share from the estimated R56 million allocated from this year's Budget.

The Development Bank of Southern Africa will get R30 million for various training programmes and for small business in the self-governing territories.

An additional R60 million will be spent by government departments on job creation on top of the R73 million allocated to the Department of Manpower for new in-task training.

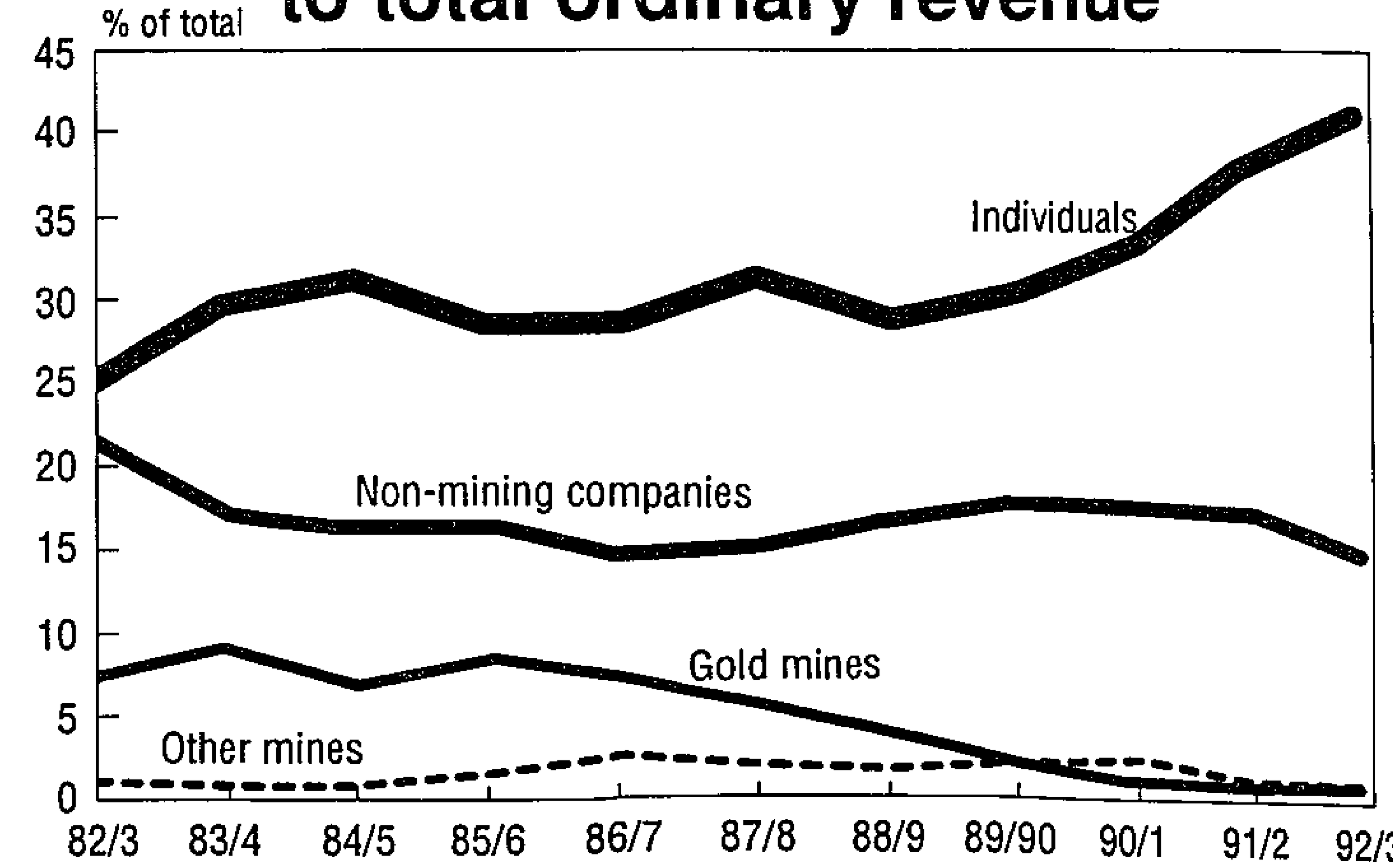
A further R100 million is again budgeted for new regional industrial development projects, while R167,3 million will be spent on projects already approved and under way.

Between August 1991 and November last year, R5 billion was spent on regional industrial development, creating 28 500 jobs.

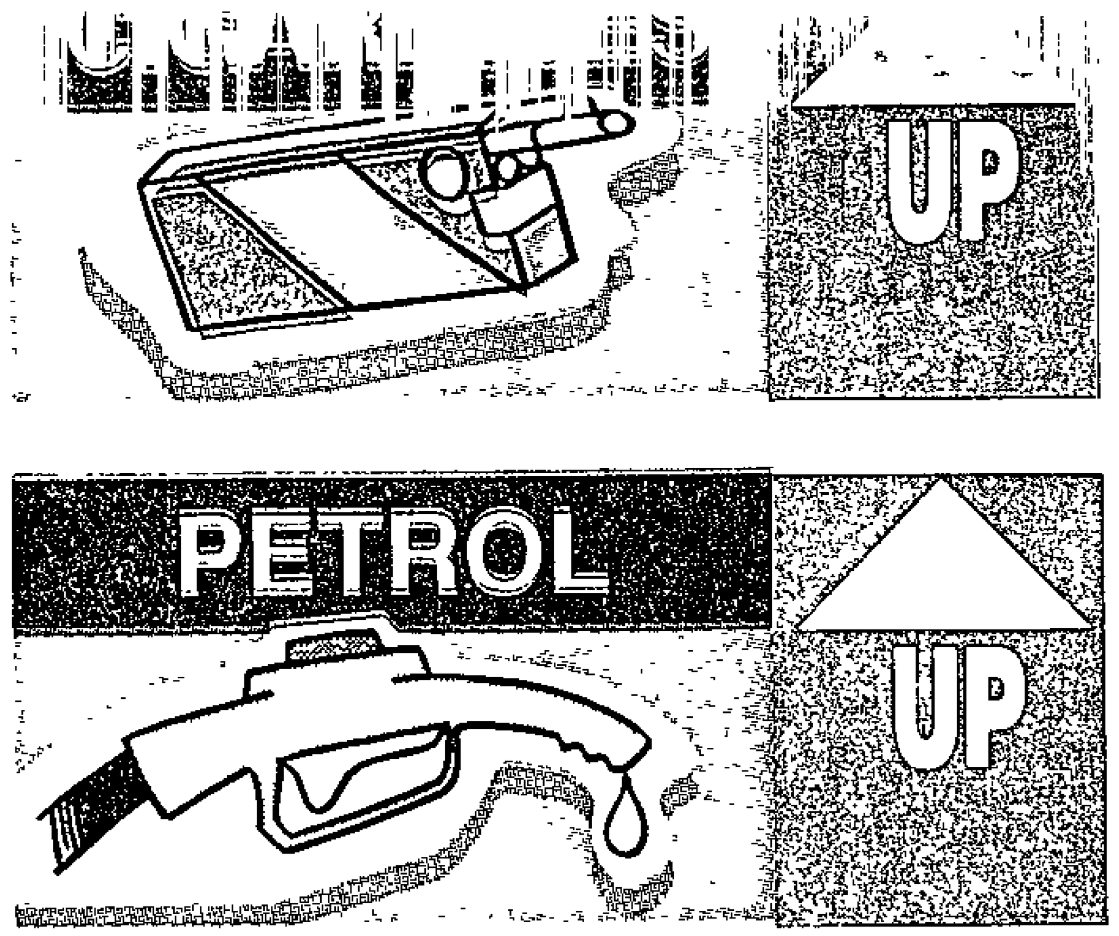
Under the old regional industrial development programme, R491 million was budgeted for this year.

Tourism has been allocated R110 million, with job creation as a major objective.

Contribution of different income taxes to total ordinary revenue



Source: South African Reserve Bank



MARC HASENFUSS, Business Staff

THE price of petrol and diesel would increase by 15c a litre from Friday, April 2, Minister of Mineral and Energy Affairs Mr George Bartlett announced today.

It will cost motorists R7,50 more to fill up a vehicle with a 50-litre tank.

Mr Bartlett estimated that the direct effect of the fuel price increases on the inflation rate would be less than 0,37 percent. He conceded that the indirect effect would be slightly higher.

The indirect effect of the increase, however, could be restricted after the anti-inflationary measures announced by Minister of Finance Mr Derek Keys today.

Elements contributing to the increase are the fuel tax (increased 6c a litre), the unit under-recovery (6c a litre), the Multilateral Motor Vehicle Accidents Fund (3c a litre) and transport costs (0,7c a litre).

We must contain inflation, says finance minister

THE most important long-term objective of monetary policy in South Africa remained the containment of inflation, said Mr Keys.

"Although encouraging progress has been made on this front in recent months, the rise in prices as measured by the change in the consumer price index is still much higher than the average for the leading industrial countries."

The decrease in the inflation rate could be ascribed mainly to restrictive monetary policy and the continuing recession.

M3 money-supply growth was kept well within the guideline range last year.

It was gratifying that the prices of locally produced goods posted single-digit rises for most of 1992, in spite of the impact of the drought on the prices of agricultural products.

The rate at which the prices of imported goods rose, fell sharply from the last quarter of 1991 and turned negative in January and February, last year. There had been slight subsequent increases, fluctuating between 4,1 percent and 7,5 percent.

"There has been a similar fall in the rate of increase in consumer prices. Apart from factors like a high degree of monetary stability and lower production price increases, contributory factors included the fall in house-owner costs following lower mortgage rates and the substantially lower rate of increase in food prices."

He said the guideline rates for M3 money supply growth were reduced from between eight to 12 percent in 1991 and to between six and nine percent in 1993. — Sapa.

● The Tavern of the Seas column and Hugh Roberton's US ISSUES are on page 21 today.

[illegible]
their pay packets;

● "Sin" taxes — on tobacco and alcohol — are up by varying amounts; and

● Property transfer duties for the lower end of the market are to be reduced or dropped, while people buying properties costing more than R250 000 will have to pay 8 percent. Company transfer duties go from 7 to 10 percent.

After his extra take on taxes and keeping government expenditure below the inflation rate, Mr Keys still has to borrow an extra R25,2 billion to balance the books. On the up side of the budget, Mr Keys has:

● Announced parity in social pensions by September 1, when all old-age pensioners will receive R371 a month;

● Increased civil pensions by 5 percent and military pensions by 9 percent from July 1;

● Ploughed hundreds of millions of rands into job-creation schemes which will stimulate entire sectors of the economy — including tourism and the small and informal business sectors;

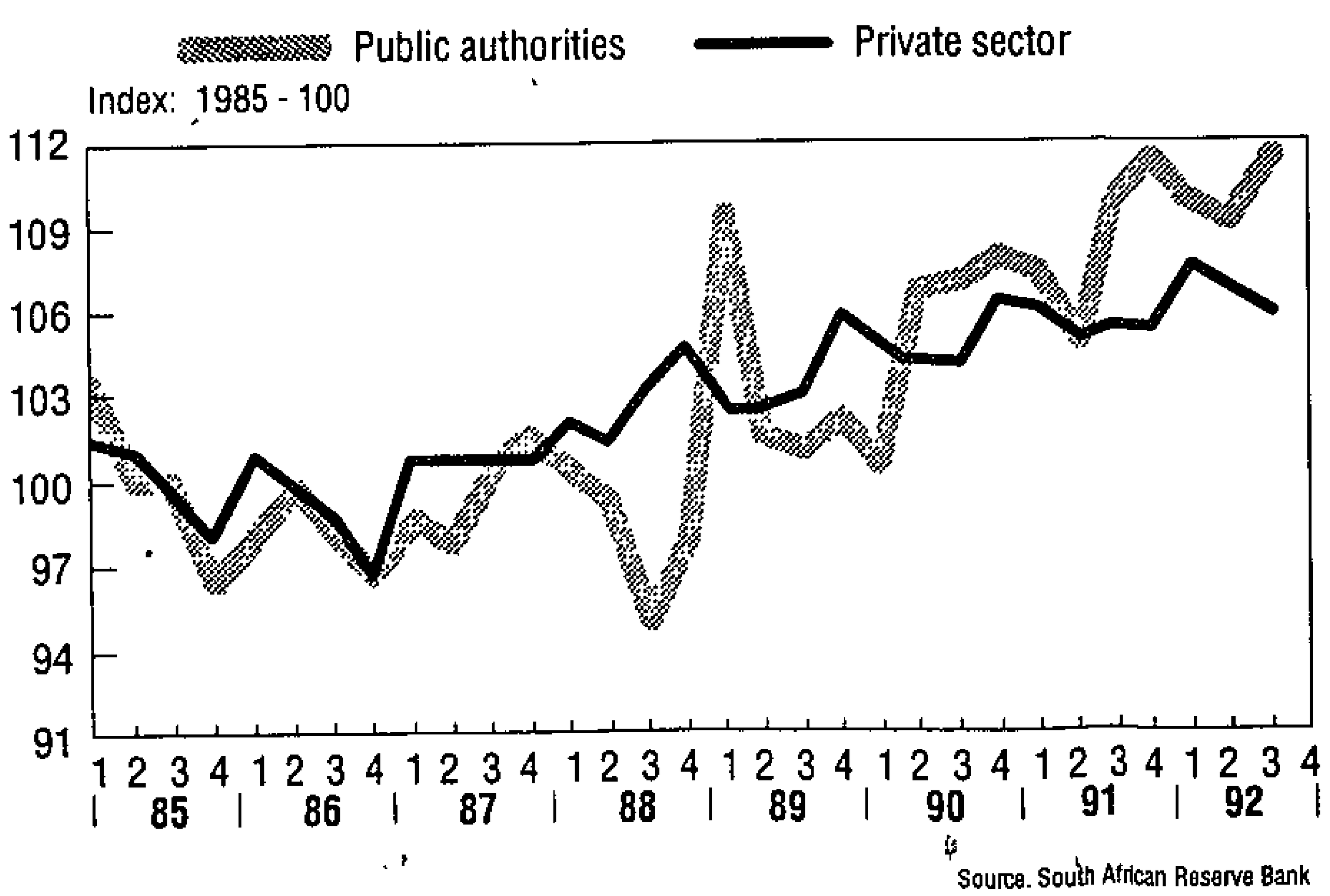
● Laid-off employees, with the exception of top earners, will receive the first R30 000 of retrenchment packages tax free, backdated to March 1 1992;

● Upped civil servant salaries by an average 11,8 percent, including the annual notch increases;

● Upped education spending by 19,2 percent, health by 10,9 and more going to housing;

● Stamp duties on ordinary contracts agreements are to be abolished from April 1;

Real remuneration per worker



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Political Staff

FINANCE Minister Derek Keys has stood firm on the government's promise not to increase public servants' pay by more than five percent.

He confirmed the figure in his Budget speech to parliament and said public service pensions would also rise by an overall five percent on July 1 this year.

Mr Keys also set aside R300 million for possible retrenchments of public servants.

But Budget documents showed that with the usual promotions of public servants, the total bill for remuneration would increase by 11 percent.

A sum of R1,470 billion had been budgeted for the five percent pay rise.

The five percent increase in civil pensions would apply to all pensioners who had retired on or before July 1, 1992.

Those retiring between then and July 1 this year would have their pensions raised by 0,42 percentage points for each completed month of retirement.

Certain classes of pensioners who had built up exceptional backlogs in pensions would be granted bigger increases than the general five percent. These would be in accordance with their dates of retirement so as to ensure a reasonable preservation of the purchasing power of their pensions.

The cost of the pension increases from the State Revenue Account would be R3,14 billion, Mr Keys said.

Transfer duty threshold up

THE exemption threshold for transfer duty is to be raised from R50 000 to R60 000 for residential houses and flats and from R20 000 to R24 000 for unimproved land purchased with a view to building a dwelling.

The rate of duty for natural persons will be adjusted to one percent on the first R60 000, five percent for amounts between R60 001 and R250 000 and eight percent on amounts above R250 000.

The rate will rise from seven to 10 percent for companies.

The rates are applicable from April 7. — Sapa.

Road maintenance gets green light

UP to 75 percent of the estimated R2,430 billion to be spent on roads in 1993/4 would go towards maintenance, according to the Budget Review.

The amount reflected aggregate expenditure by the National Road Fund, provincial administrations and self-governing territories — but excluded the TBVC countries and local authorities. — Sapa.

Company tax down, relief for hard-pressed jobless

THE rate of company tax would be reduced through the introduction of a dual tax system, Minister of Finance Mr Derek Keys said yesterday.

It was proposed the present rate of 48 percent on taxable income be reduced to 40 percent and that a tax of 15 percent on distributed profits be introduced at the same time.

The dual rate should prove an important incentive for the new and fast-growing company.

The more a company exploited investment opportunities and financed itself, the lower its tax rate would be.

Mr Keyes said: "Such investment is not only important from a job-creation perspective, but also can serve to stimulate domestic demand."

He said the tax rate would be cut to 40 percent on taxable income for the years of assessment ending on or after April 1, this year.

A company tax of 15 percent would be levied on all profits distributed by companies from today except for those distributions declared by listed companies before this date, but payable only subsequently. This declaration should have been made public.

● Hard-pressed unemployed people who have lost their jobs through retrenchment are to get a tax exemption on lump-sum payouts of up to R30 000, back-dated to March last year.

Up to now, this concession has applied only to men of 55 or women of 50, but the government had decided that the R30 000 exemption be extended to all retrenchment victims.

"This should provide some relief to employees hard hit by being laid-off in a time of falling employment," he said. The concession will cost the government about R100 million in 1993/94. — Political Staff, Sapa.

Firms urged to speed up affirmative action

ALIDE DASNOIS, Business Staff

COMPANIES which are dragging their feet on affirmative action would do well to speed up the pace, in the new South Africa they may well be legally compelled to employ more blacks and women in higher-paid jobs, says Professor Dennis Davis of the Centre for Applied Legal Studies at the University of the Witwatersrand.

Professor Davis is one of the keynote speakers at a one-day seminar on implementing affirmative action to be held in Cape Town on Monday.

"It seems virtually certain that any Bill of Rights will include measures to redress the wrongs of apartheid in the workplace. Legislation is also likely to be passed".

Affirmative action is unlikely to be implemented through a quota system, he says.

"It's more likely that companies which haven't made an effort in this respect won't get government contracts.

"The government will be obliged to support companies and organisations which have made progress."

Professor Davis also foresees legislation to prevent private companies from applying covertly discriminatory recruiting criteria.

Tougher legislation on sexual harassment, he says, is also on the cards.

Monday's seminar is organised by Eden Africa, a Cape Town-based organisation which specialises in the recruitment of black staff.

For further information, contact Mandy Goldstone or Gillian Evans, ☎ (021) 418 2475 or fax (021) 419 9669.

MARKETS ROUND-UP

Gold at $329,25

GOLD traded at $329,25 an ounce in London today, from last night's $329,45 New York close.

The US dollar slipped against the Japanese yen on the Tokyo foreign exchange market today while share prices surged on the Tokyo Stock Exchange.

The dollar closed at 116,94 yen, down 0,01 yen from yesterday's close in Tokyo.

In active trading, the 225-issue Nikkei Stock Average closed at 18 727,90, up 554,53 points, or 3,05 percent. Yesterday, the benchmark index had gained 205,07 points to 18 173,37, the highest closing this year.

Stock investors were encouraged by a strong showing of Nikkei June Futures prices overnight in Chicago, traders said.

Domestic institutional and foreign investors were among major buyers, they said.

An estimated 400 million shares were traded in the morning session alone, compared to yesterday's volume of 350 million shares.

Toshiaki Yui, an analyst with Nomura Securities, said the current swelling of bullish sentiment and buying in big-capital issues boosted the market.

The government's reported plan to start a new economic package supported the market, he said.

Yesterday, Sozaburo Okamatsu, director general of the Ministry of International Trade and Industry's International Trade Policy Bureau, said the ministry is calling for stimulus measures that will have a quick impact on the economy.

The government had already approved last August a 10,7 trillion yen (US$9,1 billion) package to prop up the sagging economy.

UNIT TRUSTS

LATEST quotations for unit trust funds (GE = General Equity):

FUND	BUY	SELL	YLD	INC DIST	SELL PRICE HIGH	LOW
ABSA:						
GE	141,13	132,04	5,60	7,38	135,81	115,91
Industrial	129,86	121,49	4,35	4,03	125,68	108,5
BOE:						
Growth	154,04	143,93	3,52	5,07	147,59	120,44
Comm Growth	110,94	104,76	na	na	115,15	109,68
COMM UNION:						
Growth	117,99	110,15	4,31	4,75	112,47	94,33
FEDLIFE:						
Fedgro GE	125,09	116,80	4,91	5,74	124,33	106,40
GUARDBANK:						
Growth	2490,87	2319,64	4,83	112,10	2361,95	2027,42
Resources	137,32	127,91	6,13	7,84	142,22	111,38
Industrial	127,26	119,42	5,72	5,11	120,78	98,42
Income	120,74	118,27	14,28	16,89	123,22	110,63
IGI Life:						
GE	128,31	120,08	3,57	4,29	128,22	109,87
METBOARD:						
Metfund GE	194,03	180,25	4,24	na	na	na
Income	111,05	109,89	12,65	na	na	na
METROPOLITAN:						
Metlife GE	115,70	108,08	6,48	6,97	123,53	104,53
MOMENTUM:						
GE	246,86	231,25	4,30	na	235,05	197,51
NBS:						
Hallmark	935,97	874,16	5,23	45,68	903,05	778,17
NORWICH:						
GE	348,98	325,90	4,11	13,40	336,56	294,45
OLD MUTUAL:						
Investors	2553,52	2379,52	3,76	89,46	2772,01	2097,71
Mining	224,84	209,33	4,50	9,43	242,47	172,17
Industrial	364,46	339,57	4,03	13,68	359,79	278,76
Gold	100,25	93,41	5,44	5,08	110,92	69,54
Top Companies	246,68	229,95	4,52	10,39	248,32	194,34
Income	112,53	111,30	12,29	13,68	112,97	104,26
SAGE:						
GE	2350,78	2194,92	4,12	90,50	2367,07	1959,99

JSE firms on Budget news

JOHANNESBURG. —Share prices on the Johannesburg Stock Exchange moved mostly firmer in quiet post-Budget trade on Thursday, with the broader market welcoming Finance Minister Derek Key's move to lower corporate tax.

Dealers said shares were likely to continue their stronger bias during the day.

Shortly after the market's opening, the all share index was four points up at 3,455 and the all gold index was two points higher at 1,071 as "a couple of aggressive local institutional buyers" showed interest in bullion-related counters. The industrial index, which firmed marginally earlier, had slipped three points to 4,445 by mid-morning.

Market leader De Beers gained 50c to R66,50 and associate Anglos rose 50c to R99,00, while on the gold board, Vaal Reefs edged up 100c to R188,00.

Among the few key industrial shares which had traded, Richemont collected 75c or 2,07 percent to R37,00 on the back of strong overnight demand from New York. —Sapa-I-Net and Business Staff.

Wall St retreats

NEW YORK. — Stocks ended lower on Wall Street yesterday after the release of disappointing inflation data.

The Labour Department reported that US consumer prices rose a moderate 0,3 percent in February, in line with expectations. But excluding the volatile food and energy sectors, the index rose 0,5 percent. That compares with forecasts of 0,3 percent and indicates that inflation may be heating up.

The Dow Jones closed 16,21 points down at 3426,74. — Sapa-AP.

London lower

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● Quoted at 10,15am

MINING

Security	Ruling price	Day's move	Div yield	Earn yield
MIN. - COAL				
AMCOAL	8100		5 7	14 6
A-T-COLL	4000		9 3	9 7
AT-COL6%P	400		9 4	
G-F-COAL	650		13 8	21 2
RANDCOL	650		9 2	25 8
SMALDEL	40	SUSP ENDED		
TRANS-NTL	900		8 9	18 5
VIERFONTN	5			12 0
WANKIE	80			67 3
MIN. - DIAMONDS				
ANAMINT	6775		5 6	11 2
BROADACRE	20			
CARRIGS	20			
CDC	175			
DE-BEERS	6650	+50	3 7	8 7
ICH	2500	-50	1	1
TRNSHEX	1650		3 9	11 5
MIN. - GOLD - RAND & OTHERS				
BENONI	20		5 0	17 0
MODDER	52			22 2
DBN-DEEP	1275			16 1
E-T-CONS	165		7 3	15 4
ERGO	470		10 6	10 6
E-R-P-M	950			
EERSLNG	4	SUSP ENDED		
FALCON	150			
GAZGOLD	5			15 7
GAZGOLD-P	15		9 0	
GROOTVLEI	475		10.5	17.5
KNIGHTS	30		6 7	14.3
LINDUM	42			47 5
NIGEL	3	SUSP ENDED		
OSPREY	5	SUSP ENDED		
PRIM-G-M	40			43 5
PRIM-GM-P	37		268	
RANDFONTN	1650		5 8	19 1
RD-LEASE	12			50 9
SIMMERS	12			
STH-RODPT	40			
VILLAGE	110		18 2	16 0
VLAKS	20			
WIT-NIGEL	15			
MIN. - GOLD - EVANDER				
BRACKEN	170		29 4	41 8
KINROSS	3550		6 9	12 5
LESLIE	310		6 5	18 4
WINKELS	3600		1 4	14 9
MIN. - GOLD - KLERKSDORP				
AFR-LEASE	65		26 2	26 2
BUFFELS	2400		10 2	12 3
HARTIES	940		8 0	12 6
SOUTHVAAL	5550	-50	5 1	5 1
STILFTN	350		8 6	7 9
VAAL-REEF	18800	+100	5 9	5 9
ZANDPAN	155		7 6	7 8
MIN. - GOLD - O.F.S.				
BEATRIX	1325		5 3	5 3
FREGOLD	3425		6 9	6 9
HARMONY	1150			
JOEL	105			18 7
LORAINE	178			
OFSIL	7600		8 2	8 2
ORYX	400			
ST-HELENA	2250		5 3	6 6
UNISEL	700		2.1	8 5
WELKOM	1930		8 2	8 2
MIN. - GOLD - WEST WITS				
BLYVOOR	400			8 5
DEELKRL	340		5 9	22 6
DOORNS	78			
DRIES	3600	+25	4.5	7 5
ELANDS	1325		4 5	4 5
KLOOF	3450	+25	2 8	9 6
WES-AREAS	320			21 9
WSTN-DEEP	7200	+50	4 3	4 4
WESWITS	70		8 6	17 7
MIN. - GOLD - CURT				
SALLIES	40			7 5
SUB-N	7			8 6
W-R-CONS	400			
WIT-G-M	125		2 3	8 8
MIN. - COPPER				
BOTREST	50			C-M
PALAMIN	7400		9 5	9 1
Z-C-I	495			3
MIN. - MANGANESE				
ASS-MANG	32500		1 7	4 7
SAMANCO	1825		3 8	6 8
MIN. - PLATINUM				
PLAT				
BARMINE	14			
LEPLAT	62			
LYD-PLAT	4500		2.7	3 6
MESSINA	255			5.4
NORTHAM	1450			
MIN. - TIN				
ROOIBERG	105			

Security	Ruling price	Day's move	Div yield	Earn yield
S-A-EAGLE	5000		3 9	7 8
SOTHERN	2700		2 6	3 9
FIN. - INVESTMENT TRUSTS				
COM-FUND	6175		3 3	4 1
CORWIL	130		9 2	9 2
CRENDEL	180		6 9	10 9
FIT	1130		1 8	2 4
IND-SELE	290		4 1	4 8
INTRUST	285		2 8	3 3
NATSEL	290		5 0	5 6
NATRUST	300		2 5	3 0
TEMPORA	2100		2 0	1 8
TOLUX	3000		3 3	2 6
VESTCOR	90			
YABENG	300		6 8	11 1
FIN. - PROPERTY				
ABBEY	95			
AMAPROP	570		8 8	14 7
BARPROP	130		9 4	11 3
BESTER	5	SUSP ENDED		
BOLPRO	60		8 3	7 8
BRISTOL-I	155		2 6	9 9
COMPASS	70		9 3	6.4
CONFED	2300		2 9	9 2
PROPFIN	350			
DISA	9			
EQUIKOR	6		8 3	25 0
FAIRCAP	10			
FORIM	27		7 4	12 2
GF-PROPS	400		12 5	12 8
GROWALK	20			
MARCONS	145		8 2	8 1
MARSHAL	315		7 6	11 8
OVBEL	50		6 0	8 6
PROPCOR	55			
PUTPROP	100		11 0	14 0
RABIE	30			9 0
RICCIA	10		1.1	1 3
SABLE	900		66 7	17.4
TOMKOR	300		6 7	7 0
FIN. - PROPERTY TRUST				
APEX	260		11 9	11 9
CAPITAL	240		13 3	13 3
CBD-FUND	210		15 1	15 1
CENPROP	255		9.7	9.7
GROPROP	280		13 6	13 6
HIGATE	710		11 5	11 5
HISTONE	170		13 5	13 6
MAINPRO	500		11 1	11 1
METPROP	220		14 0	14.0
PIONEER	330		10 5	10.5
PRIMA	66		15 2	15 2
SANLAND	80		14 7	14 8
STANPRO	160		12 5	12 5
SYCOM	635		12 3	12 3
TAMBOTI	270		12 0	12 0
UMDONI	180		10 4	10 4
FIN. - PROP LOAN STOCK				
ABCON	525		10 7	10 7
AMAPRP-LS	855		12 0	
BARPRP-LS	1025		12 2	
BOEPROP	420		12 8	12 8
COMPASS-D	375		14 3	
GROWPNT	480		14 6	14 8
HYPROP	690		9 9	10 0
KH-PROPS	490		11 0	11 0
NKPROPS	635		10 4	10 4
OCTODEC	305		13 7	13 8
PANPROP	485		14 0	13 7
RLSPROPS	65		18 0	16 7
RICCIA-D	630		9 4	
RMSPROP	400		14 9	14 9

INDUSTRIAL

Security	Ruling price	Day's move	Div yield	Earn yield
IND. - IND. HOLDING				
AFEX-SA	450		3 1	
AMIC	6800	+200	5 3	9 3
A-V-I	15000		1 1	6 3
AVI-CD	14000		3 1	
BARLOWS	4375		4 0	10 0
BIDCORP	4000		2 4	5 9
BIDVEST	7200		2 5	6 3
BIDVESTCD	4900		3 0	
BOLTONS	160		11 9	4 6
BTRDUN	2050		8 0	11.9
CGSMITH	13500		2 3	6 5
CHARTER	4325		2 5	4 7
CONAFEX	345		3 6	
CULLINAN	275			
CURFIN	850		6 0	9 7
DELCORP	865		2 1	5 3
DELHOLD	880		1 7	5 2
EUREKA	50		4 0	8 0
FARM-AG	1000			1 3
F-S-GROUP	100		4.3	
FS-GRP-PO	300		12 0	
F-S-I	210		4 0	
FSI-PORD	550		13 1	
GRINCOR	500		6 0	15.1
HUNTCOR	1600		4.1	8 0
HLH	850		3.8	7.5
IMPERIAL	3000		1.9	4 5
IMPHOLD	1000		1 9	5 0
KLIPTON	165		11 2	14.1
KNJ	85			
LENCO	485		[illegible]	[illegible]

Security	Ruling price	Day's move	Div yield	Earn yield
REX-TRU-A	500		12 0	31.4
REX-TRUE	525		11 4	29 9
ROMATEX	550		3 6	9 2
SAB-IND	150		6 7	18 2
SEARCON	140		3 9	3.9
SEARDEL	185		3 1	16 1
SILOAK	160		16 9	34 1
STERLING	30			3 3
STREBEL	90			
TEX-MILLS	90			
T-E-J	50			29 4
T-E-J-CP	100		14 8	
TRIMTEX	15	SUSP ENDED		
TRIMTRD	15	SUSP ENDED		
UNISPIN	14			
IND. - ELECTRONICS				
ABACUS	13			
ABACUS-CD	20		22.5	
ABS	100		5 2	12 0
ADVTECH	35		7 1	9 4
AF-CABLE	400		5.4	11.4
ALTRON	8100		2 0	6 3
ALTECH	13200	-300	2 2	6.5
ANBEECO	65		10 8	26 2
AUTODEK	17			
AUTOPGE	186		4 3	11 5
CAFCA	60		14 6	37 5
CONTROL	50			6.9
CMS	25		11 1	23.2
DARMAG	35		6 4	26 0
DATAKOR	330		3 5	8.2
DELTA	1050		2 6	5 7
DIDATA-N	300		1 7	5 3
DIDATA	1100		2 0	4 7
ELCENTR	350		7 3	12 2
FMCOTEC	15			
FINTECH	2700	-75	1 4	6 9
GRINTEK	170		2 1	7 9
ISG	250		8 8	13 9
JASCO	50			13 6
KOPP	15		12.5	23.0
LOGTEK	165		6 1	10 7
MULTI	360		6 7	10 5
NUWORLD	110		2 7	12 6
OHIO	26	SUSP ENDED		
PERSTEC	320		3 4	6 8
POWTECH	475		2 0	6 5
Q-DATA	1050	-10	2 1	6 5
REUNERT	3700		2 7	7 9
SILTEK	850		2.7	8 8
SPESCOM	155		3 2	7 6
SPL	510	+10	3 2	7 7
SUPALEK	28		10 7	11 8
TMX	750	+35	4	3
USKO-BCP	15			
USKO-CP	25			
USKO	14			
VENTRON	3000		2 0	6 4
VOLTEX	120		5 6	13 2
IND. - ENGINEERING				
AFROX	9800		1 9	3 6
BERZACK	825		4 8	13 0
BIVEC	600		4 7	12 7
CEMENCO	210			2 1
CHUBB	560		5 4	26 3
CLYDE	45		7 2	24 9
DORBYL	1550		7 0	18 6
ED-L-BATE	1000		3 0	8 9
FENNER	425		5 4	17 2
FRALEX	500		4 2	11 5
ALEXNDR	1000		3 7	10 2
HAGGIE	2400		6 5	12 5
HUDACO	1400		3 8	7 6
INMINS	4			
INMINS-CD	15		85 0	
METKOR	190		7 3	6 9
NEIHOLD	220			
NEI-AFR	320			
SAFETEC	20			233
SCHARIG	520		4 6	15 1
SCHAMIN	185		2 7	8 6
SONDOR	50		10 0	19 1
STANDRO	1050		4 0	11 6
TITACO	55			
TPN	30		21 4	13 2
U-CON	70		6 4	6 6
UNIHOLD	72		12 5	19 9
WINBEL	3			
WINHOLD	3			
WINHLDSP	200		1 2	
WOODROW	65		10 0	29 4
WOODROWCD	90		18 4	
IND. - FISHING				
NAMFISH	650		5 4	13 3
NAMSEA	460		3 8	7 3
NATRAWL	30		6 7	12 3
OCFISH	2150		5.6	9 0
IND. - FOOD				
BRENMIL	200		6 6	13 4
CADSWEP	5600		1 2	2 9
CGS-FOOD	4900		2 1	6.6
CROWN	190	-5		
DELFOOD	880		1 4	4.1
FOODCRP	2750		1.9	6.0
FOODC-P	2800		2 8	
FOODC-D	2225		2.4	
I-C-S	1400		3.2	10.5
I-&-J	4100		2.1	5 7
I-&-J-CD	4200		4.9	
LANGBRG	640	-10	2.5	8 4
LEBAKA	130		7.3	18.5
[illegible]				

Security	Ruling price	Day's move	Div yield	Earn yield
O-K	715		1 4	3.3
PEPGRO	1825		1.5	4 2
PEPGRO-13	1775		4.1	
PEPKOR	1675		1.5	3 9
PEPKOR-13	1650		3 6	
PEP	950		2 0	4.5
PIKWIK	600		2 4	2.5
PICKNPAY	1250		2 4	4.6
REGGIES	13		8 6	16.5
SANLIC	6			
SCOCLIK	550		1 8	4 5
SMART	480		2 2	5.1
SPECLTY	775		4 0	11 2
STORECO	1500		4 0	11.2
TELJOY	260		5 2	11.5
TRADGRO	1650			1.4
TRADHLD	1700			1.1
VAREX	500		7 2	24.3
VAREX-D	550		9	2.9
WALHOLD	280		5.4	14 6
WALTONS	280		5 4	15.2
WOOLTRU-A	6100		2.8	4 8
WOOLTRU	6000		2 8	4.9
IND. - SUGAR				
CG-SUGAR	365		6 3	15 2
CROOKES	475		4 4	13.5
LONSUGR	6000		3.6	9.5
TONGAAT	2025		3 6	10.0
IND. - TOBACCO & MATCH				
LIONMATCH	330		3 7	9.0
REMBR-BEH	1675		1 6	8.1
REMGRO	2375		1 5	7.8
TEGKOR	1450		1 6	8.3
TIB	1525		1 6	8.3
UTICO	9000		3 5	5.8
IND. - TRANSPORTATION				
CARGO	110			
LASER	80			
LONGRAIL	40		10 0	19.0
MOBILE	440	+10	1 4	5 4
MOBILE-CD	430		3 2	
PRESTO	65			9.0
PUTCO	290		11 0	20 9
RACY	54	SUSP ENDED		
TRENCOR-C	1850		3 0	
TRENCOR	1700		1 4	5.6
UNITRAN	1175		2 2	7 7
UNITRANCD	1175		5 4	
VENTEL	100		9 2	21.1
DEVELOPMENT CAPITAL				
AIDA	30		4 0	10.0
AIMARK	6			
BLOCHS	25		23 6	19.6
CENMAG	100			
CHOICE	15	SUSP ENDED		
CITYHLD	90		1 8	4 6
CFC	625		3 5	5 9
DPF-INV	10	SUSP ENDED		
DPF-UNIT	80	SUSP ENDED		
ENROL	78			
INVICTA	70			4 0
INVICTA-D	9300		2	
INVICTA-P	120		12 7	
LEPPIN	20			
MAXMECH	5			44 0
MESTORE	33			
NISWA	30		20 8	41 4
NORVIC	2			
PETRA	5			
QUICKCO	11			
RAPTOR	250		10 0	33 3
ROMENS	10			
ROMENS-P	35			
SHOCRAF	50		2 0	12 6
SPANJRD	85		7 1	16 4
SPICER	12			
VOLTEX-CD	220		6 2	
VENTURE CAPITAL MARKET				
DINETTE	40			
TECFIN	30			7 2

NEWS IN BRIEF

■ OIL prices fluctuated yesterday in a range about 15 cents a barrel either side of the previous close in London but steadied at higher levels in late trading. London futures for May benchmark North Sea Brent Blend crude rose to $18,80 a barrel before slipping back to $18,77. — Sapa-Reuter.

■ MINORCO'S earnings before extraordinary items for the half year to December 31 amounted to US$101 million — an increase of three percent on the previous half-

R112-million boost for small business

SMALL business development programmes are to receive a R112,6 boost.

CT 18/3/93

About R75 million would go to the Small Business Development Corporation and the Development Bank of South Africa would get about R30 million.

(49)

Small business played an important role in the envisaged strategy to promote higher growth by means of the structural transformation of the economy.

The small business sector in many cases provided the only refuge for a growing portion of the labour force who were caught up in the long recession and large scale urbanisation.

Small businesses contributed an estimated 26 percent to the GDP and employed about 38 percent of the labour force.

South Africa was among the countries which recognised the need to encourage small business development through special measures and programmes.

Altogether R112,6 million had been set aside for this purpose. It comprised R97,6 million provided for in the printed estimate, to be increased by R15 million in the supplementary budget. This was a R94 million increase on last year's provision. — Sapa.

R1,048-b to be spent on putting roofs over heads

Political Correspondent

THE government is to spend R1,048 billion on housing this year.

The Budget Review says housing progress depends to a large extent on co-operation between the government and National Housing Forum.

This year, R200 million will be given to the forum "with a promise of more to come and full participation within the Budget in the determination of next year's needs".

With income from various housing funds, from loan service and redemption, this will give a total of R1,659 billion for housing.

Added to this will be the unspent balance from the 1992/'93 housing fund.

It is estimated that a further R800 million or so will be spent on housing by the Development Bank, the South African Housing Trust, the Independent Development Trust and self-governing territories.

The review says: "The total funds available should enable the role players involved to maintain the present rate of housing delivery and, indeed, to accelerate it considerably if the co-operation initiative between the government and the National Housing Forum bears fruit."

(49)(1853) ARG 18/3/93

WINNERS

BUDGET '93 Consumers and motorists face high bills but big boost for housing

Thumbs down for '93 Budget

(49)

Sowetan 18/3/93.

Consumers face tough times in the year ahead:

By Lulama Luti and Themba Molefe

THE 1993 Budget yesterday received the thumbs down from major political parties.

The Pan Africanist Congress and Azanian People's Organisation were unanimous in declaring it "undemocratic" and "unilateral". The Democratic Party said it was "disappointed", while PAC transport secretary Mr Mark Shinners said: "This Budget is a unilateral exercise and it is similar to all budgets before, which have led to the economic abyss that the country is in today. Therefore it is not democratic. "It is friendly to big business and merely offers mild concessions to the consumer in the zero-rating of basic foodstuffs."

Azapo publicity secretary Dr Gomolemo Mokae said: "Much hype has been made of Mr Keys's so-called qualifications for his job. That, to Azapo, is neither here nor there.

"It is inevitable that taxpayers are going to be hard hit and the burden on the individual is going to increase — while the Government goes on spending as if there is no tomorrow."

"Azapo's cynicism is vindicated by the Government's continued sinking of taxpayers's hard-earned cash into the TBVC hellhole and it's tenacious commitment to VAT, which continues to be the scourge of the poor."

DP finance spokesman Ken Andrew said: "The Government has failed to meet the needs of South Africa's people.

focus on economy

The economy is on the brink of collapse as people spend less and buy almost nothing and the Government continues to borrow money for day-to-day expenses, says the Ministry of Finance review. Political Correspondent Ismail Lagardien reports:

SOUTH AFRICA's economy has been free falling since early 1989 and it is this slow but all-consuming plunge that has brought the country to the brink of a catastrophe.

The country's economy has been characterised by a rapid decline in personal income, fewer jobs, increased production costs, low productivity of capital and labour, shortage of skills, declining savings and investments, high inflation and the vulnerable balance of payments.

It is within these parameters that the Budget, which was tabled in Parliament yesterday, should be judged, the Ministry of Finance said.

"Despite expectations that the economic downswing would bottom in 1992 and possibly turn upwards, the recession in fact deepened appreciably last year and now has lasted some 48 months," the Ministry said in its *Budget Review*.

At the bottom of the floundering economic trends lie the uncertainties which followed political negotiations last year, the incessant drought and the slow growth of the major industrial countries.

This has resulted in a 4,3 percent per capita drop in the country's gross domestic product (GDP) — the national income.

This has been in steady decline since 1989 — the per capita drop was 2,6 percent last year.

The only area in South Africa that recorded any, even vaguely, significant growth last year was mining, which grew by 0,9 percent because of the processing of higher quality ore and increased production through longer working hours.

Transport, storage and communication showed a 0,4 percent growth as opposed to 1,5 percent drop in 1991.

Ironic

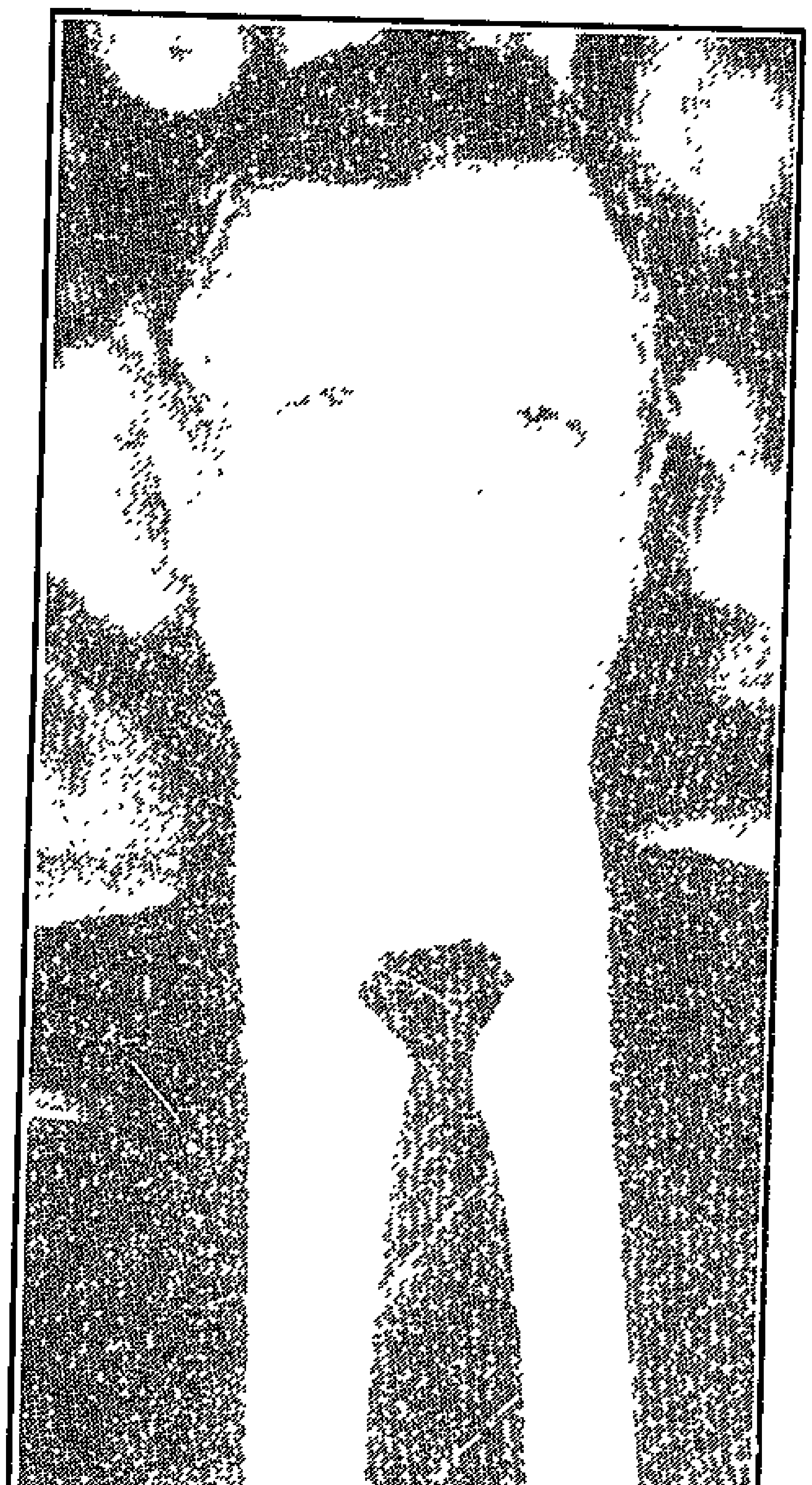
"It is ironic that the transport of imported agricultural products on account of the drought was one of the major factors behind this growth," the *Budget Review* explains.

Agriculture suffered severely because of the drought last year. Real production in agriculture fell by 24 percent after positive growth of 2,1 percent the previous year.

Manufacturing, construction and electricity, gas and water fell again last year by 3,2 percent as opposed to a 2,4 percent drop in 1991.

"The slack domestic demand, poor international economic conditions and low commodity prices, poor business confidence and loss of man-days on account of strikes led to widespread production falls in virtually all the subsectors of manufacturing."

The recession has also tightened the purse of all South Africans — including the Government.



Man of the moment ... Finance Minister Derek Keys.

Private spending on consumables fell last year for the first time since 1985 after a growth in 1991 of 0,3 percent

South Africans spent 2,6 percent less last year.

"Household spending was influenced adversely by factors such as falling real disposable income (salary after tax), rising unemployment and general uncertainty over job opportunities.

"The decline in spending was particularly noticeable in durable goods. Real consumption expenditure (private spending on consumables) on personal transport equipment, for example, fell by some 10 percent," according to the *Budget Review*.

(49)

"South Africa's labour force continued to shrink last year. Unemployment rose by at least 50 percent in 1991"

Sowetan 18/3/93.

Government spending rose only marginally by 0,3 percent last year, as against 5,2 percent the previous year.

Capital spending (investments) in the private and public sector fell on average by 6,9 percent a year since 1989

Fewer people were able to save any money last year and the Government is accused by the Finance Ministry in the *Budget Review* as "the chief culprit" against a slight increase in the private sector's saving

Unchanged

The Government continued to borrow money for the day to-day running of the country.

"Total saving remained virtually unchanged in 1992 but the ratio of personal saving to personal disposable income reached 3 percent from an historic low of 1,5 percent in 1990

"This rise is apparently a reflection of growing concern over future employment and earnings in an uncertain political environment."

South Africa's labour force continued to shrink last year While the official unemployment figure provided by the Finance Ministry is clearly no reflection of the reality, unemployment rose by at least 50 percent in 1991.

This figure illustrates the widespread retrenchments in both the private and the public sector.

It is against this stark backdrop that the present Budget goes before Parliament for debate over the coming weeks and against which the Minister of Finance, Mr Derek Keys, yesterday announced the increase in taxes

Govt drive for 'fiscal federalism'

TIM COHEN

CAPE TOWN — Government intends promoting "fiscal federalism" in preparation for a new, regional constitutional dispensation, says the Finance Department's Budget Review. (49) (~~2~~)

The review ~~was critical of the~~ current state of affairs, saying that when new governmental structures were previously created at the second or third tier, systems for the financing involved were designed on an ad-hoc basis. BDAY 18/3/93

"The upshot of this was a fragmented system which not only had serious inherent flaws with regard to long-term planning by the central government and revenue authorities, but also raised questions concerning accountability for the utilisation of government funds."

The review said the key element of a decentralised system was to reconcile the autonomy of the several tiers of government with the necessity to co-ordinate the fiscal and economic management of the entire country.

Ideally, each government unit at every level should command adequate own revenue sources for the financing of its services, since such authorities could then act autonomously and a direct link could be made between the spending and the taxing decisions of individual units.

This meant that if a community wanted more services it would have to bear the additional expenditure itself from higher taxes. This contrasted with the present state of affairs at regional level where provincial administrations had to look to transfers from the central exchequer for 85% of their revenue.

However, worldwide experience indicated that this ideal was not attainable in practice, and the income of the various tiers would have to be supplemented by intergovernmental transfers.

It was crucial that the system should promote certainty and long-term planning and the new constitution should provide for flexibility and co-ordination without posing a threat to the autonomy of the different tiers of government.

BUDGET IN BRIEF

(44)

REVENUE: On the basis of existing tax rates, revenue of R82,09bn for 1993/94 has been estimated — an increase of 9,2% over the revised estimate for 1992/93. The estimated tax revenue which represents 22,1% of GDP excludes transfers from the national supplies procurement fund and the central energy fund to finance special capital projects. Including the expected capital receipts of R685m from the disposal of strategic assets and oil supplies (which will be treated as revenue in future rather than a below-the-line financing item), total revenue totals R82,773m.

EXPENDITURE: Total expenditure for 1993/94 has been estimated at R114,154bn — an increase of 8,8% over the revised estimate for 1992/93. This includes supplementary proposals amounting to R300m. An amount of R100m has been proposed to stimulate economic growth and job creation and R200m for bridging finance for the National Housing Forum and the Department of Local Government and National Housing. If the 1992/93 drought aid package is left out of account, the increase in total expected expenditure is 12,5%.

FINANCING: After taking into account the supplementary budget proposals, the estimated Budget deficit before borrowing is R25,3bn or 6,8% of GDP.

Loan redemptions will be about R6,8bn this year, bringing the gross borrowing requirement to R32bn. It is intended to finance this mainly from the sale of domestic stock of about R31,6bn including R12,5bn from the Public Investment Commissioners.

18/3/93

TAX PROPOSALS: Individual tax rates remain unchanged, increasing the burden of fiscal drag.

□ The company tax rate falls to 40% (48%) for years of assessment ending on or after April 1 1993, and a new secondary tax of 15% will be imposed on all distributed profits from March 17 onwards.

□ The four fund approach to the taxation of life offices has been accepted and will be proposed in the Income Tax Bill this parliamentary session. The Sixth Schedule to the Income Tax Act would be repealed simultaneously.

□ The last stage of the phasing out of the surcharge on non-gold companies will be implemented.

□ The exemption threshold for payment of provisional tax for married people above 65 is raised to R35 000 from R25 000.

□ The cost of hotel refurbishment will be written off over a period of five years at the rate of 20% per annum.

VALUE ADDED TAX: The rate increases to 14% from 10% from April 7.

FRINGE BENEFITS TAX: The 25% deduction under PAYE of an employee's car allowance for the business use of his own car is increased to 35% from July 1, but the final tax payment will be unchanged

RETRENCHMENT PACKAGES: The tax exemption in respect of lump sums of up to R30 000 paid out at the termination of service will be extended to employees of all age groups and not be limited to the previous 55 years for men and 50 years for women.

TRANSFER DUTY: The exemption threshold for low income home buyers is raised by 20% to R60 000 from R50 000 for the purchase of residential houses and flats and to R24 000 from R20 000 for unimproved land. The rate of duty payable on property valued R60 000 or more was increased to 1% on the first R60 000, 5% on the amount between R60 001 and R250 000 and 8% on higher amounts. For companies the rate will rise to 10% (7%).

STAMP DUTY: Stamp duty of R2 levied on every agreement or contract not specifically listed in the Schedule to the Stamp Duties Act will be abolished as from April 1. Unbundling of conglomerates will be facilitated in draft legislation this session, exempting quoted share transfers by listed companies from stamp duty and other related provisions on a qualified basis.

FUEL LEVY: Both the petrol and fuel levy rise by 6c a litre as from April 2, with further increases to be announced later by Mineral and Energy Affairs Minister George Bartlett. The total adjustment would mean a pump price increase in the PWV of 16c/*l* of 93 octane petrol — a 10% rise in the retail price. Of the fuel levy, 1c would be allocated to Regional Services Councils.

CUSTOMS AND EXCISE:

□ The price of a 340ml can of beer (dumpy) increases by 2c (4,8c/*l*).

□ Spirits increase by about 37,7c a 750ml bottle.

□ Cigarettes increase by 2,45c for 10.

□ Cigarette tobacco increases by 5c each 50g.

□ Pipe tobacco and cigars increase by 5c each kg.

□ Fortified and unfortified wines and sparkling wine increase by about 4c a 750ml bottle.

□ Other fermented drinks such as cider rise by 10c/*l*.

□ Sorghum beer rises by 1c/*l* and sorghum beer powder by 5c/kg.

□ Cold drinks and mineral water increase by 2c/*l* (about 1c each 340ml can).

IMPORT SURCHARGE: No change has been made to the import surcharge.

LAST YEAR'S SURPLUS: The loan surplus available for use in the current financial year was minuscule

LINDA ENSOR

13/04/93

Smaller fall expected in investment expenditure

SHARON WOOD (49)

REAL capital expenditure fell on average by 6,9% a year between 1989 and 1992, but government expected a smaller fall in investment spending this year.

The Budget Review said that apart from the drought the lack of investment in 1992 had again been the major contributing factor to poor economic performance. B/DAY 18/3/93

Gross domestic product had plunged by 2,1% in 1992, after declines of 0,5% in both 1990 and 1991.

Positive factors which lay ahead for investment were a better year for agriculture, a moderate revival in business with SA's major trading partners and the development of new markets.

Additional positive factors were funds flowing from the sale of strategic oil supplies and the commencement of beneficiation projects in response to section 37E incentives.

However, government predicted only a moderate revival in economic growth this year, with real GDP rising by at most 0,5%.

Real private consumption expenditure fell for the first time since 1985, down 2,6% in 1992 compared with growth of 0,3% in 1991.

The Review said household spending was adversely affected by falling real disposable incomes, rising unemployment and general uncertainty over job opportunities.

The decline in spending on durable goods had been particularly noticeable and real spending on personal transport equipment had fallen by about 10%.

The Review predicted a small increase in real private consumption spending in 1993, mainly as a result of the better agricultural outlook.

Inventories, which had been severely depleted during the recession, should be built up again, it said.

This would support the moderate revival and contribute to growth in gross domestic expenditure.

On the trade front, SA's merchandise exports performed tolerably well last year and were expected to continue to grow in 1993.

The Review expected a smaller surplus on the current account of the balance of payments, of R3,5bn compared with last year's R4,3bn.

Modest earnings rise for Minorco

BDM 18/3/93

JONO WATERS

MINORCO, Anglo American's cash-flush mining and minerals associate, reported a modest 3% rise in earnings before extraordinary items and increased its interim dividend by 6% in the six months ended December 31 1992.

Earnings before extraordinary items rose to US$0,60 a share compared with $0,58 a share in the comparable period in 1991. The dividend was increased to $0,19 ($0,18) a share.

Turnover amounted to $608m ($558m) and Minorco reported pre-tax earnings of $109m ($106m). The Luxembourg-based group paid $17,1m ($13,9m) in tax resulting in marginally improved after-tax earnings of $92,1m ($91,7m).

Minority interests in subsidiary companies brought in $9,3m ($6,3m) in earnings before extraordinary items increased to $101m ($98m).

Extraordinary losses resulted from the decision to sell the remaining non-agricultural business in US-based Terra Industries, the sale of the remaining WestGold mining operation and the restructuring of the Beralt tungsten mining operation in Portugal.

These were offset by extraordinary gains recorded by associates Charter Consolidated — the UK industrial group — and Anglo. Earnings after extraordinary items fell marginally to $99,6m ($107m).

Chairman Julian Ogilvie Thompson said the company was in a strong financial position with $1,67bn in cash and short-term deposits.

However, analysts have questioned the pace of the group's transition from an investment to natural resource-based operating company, given Minorco's huge but idle cash bundle.

Minorco and Empresa Minera de Mantos Blancos SA jointly purchased a one-third interest in the Collahuasi joint venture in Chile for $190m in October last year.

However, the group's offer to buy BP's interest in the Australian copper and uranium mine Olympic Dam for $456m failed as Western Mining, which had pre-emptive rights on BP's share, announced it would buy the stake.

Ogilvie Thompson said Minorco's healthy balance sheet and continuing efforts to improve the efficiency of its operations had served to protect the company during economically uncertain times whch were characterised by weak commodity prices. It would benefit from an improvement in the economy

In the year ended June 1992, turnover amounted to $1,67bn and pre-tax earnings stood at to $253m. Earnings after tax and extraordinary items amounted to $216m equal to $1,22 a share. Minorco declared a final dividend of $0,54 a share.

BDM 18/3/93

Bank will still accept BAs

THE Reserve Bank said liquid bankers' acceptances (BAs) would still be discounted by the Bank, in spite of the fact that they had lost their liquid status. (451)

Reserve Bank GM Andre Kok said in spite of notice of the scrapping of liquid BAs in the Deposit-taking Institutions Amendment Act 1993, published in the Government Gazette of March 10, the Bank would "for the time being" continue accepting BAs at the discount window.

"The Act was promulgated last week so legally speaking they (BAs) no longer qualify as liquid assets, but we have always had accommodation arrangements separate from the Act," said Kok.

He added it was likely Reserve Bank Governor Chris Stals would spell out the new accommodation procedures at a meeting with bankers next Wednesday

The Bank proposed in a discussion document released last June that liquid BAs lose their status at the discount window — Reuter

EXECUTIVE SUITE By William Wells and Jack Lindstrom

Govt 'pumped up' state pension funds

(49) TIM COHEN (350)

CAPE TOWN — The official pension funds, far from being bankrupt as thought, had received vast amounts of public funds over the past few years, Parliament heard yesterday. B/DAY 18/3/93

DP MP Brian Goodall said Reserve Bank figures showed that in 1991 employers' contributions jumped by a staggering 115% to R15,8bn, nearly 11 times the level of seven years ago.

This compared with an increase of 23% a year in employer contributions between 1984 and 1989 — in itself very high.

Goodall believed the current rate of funding was excessive.

The official funds are made up of the five state funds and the funds of parastatals and former parastatals

Goodall's interpretation, presented during debate yesterday, casts new light on the long-held belief by several experts that the pension funds were bankrupt.

In reply, Deputy Finance Minister Theo Alant said it was extremely important that state employees have a sense of security in changing political circumstances and that they feel their pensions are secure.

He said employers' contributions to the state funds had increased by about 62% since 1989, compared to the CPI increase of 69% — effectively denying the allegation of excessive funding.

Alant said in debate he did not have the Reserve Bank figures at his disposal, and he was referring only to the five government pension funds. However, Finance Minister Derek Keys, in his speech, indicated the funds were not in as poor a position as thought.

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Pension funds

B/DAY 18/3/93 (49) (350)

☐ From Page 1

"The present level of contributions in the Budget for the state pension funds is in aggregate somewhat more than is required to provide for the annual accrual of the cost of future benefits," he said.

Goodall said that between 1984 and 1989 the ratio of employers' contributions to employees' fell between 2,72:1 and 3,11:1. In 1990 it jumped to 4,6.1 and in 1991 to 8:1, Reserve Bank figures showed.

"There is a very real danger in channeling too much money into the pension funds, instead of into more productive sectors of the economy," he warned.

He said the 1991 contribution to the funds of R15bn was nearly equal to all the investment made that year by government, public authorities and corporations. If the trend continued, SA, instead of being a country with state pension funds, would become a pension fund which happened to run a government, he added

"Government must come clean and spell out exactly what are the actuarial assumptions being used for the official pension and provident funds."

Social services funding 'at limit'

BDAY 18/3/93

(49)

TIM COHEN

CAPE TOWN — Finance Minister Derek Keys said yesterday spending on social services had reached a ceiling and that, in future, spending on social needs would depend on co-operation between government and non-government organisations.

Keys said many people outside government criticised it for its social spending, but substantial resources were already being applied to social services and everyone was aware that in aggregate SA had exceeded prudent limits.

He said spending on social services in general, particularly education, social security and welfare services, rose in round figures from 41% of the total Budget in 1991 to a budgeted 44% in 1993/94.

Spending on social services would increase from R51,7bn in the 1992/93 financial year to R55,9bn in 1993/94.

This included an extra R694m for pension parity and a 19,2% increase in education spending.

Discussing special dispensations, Keys said the current "spirit of reconciliation" should also prevail to allow a melding of private and public sector, non-government organisation and government department, charity worker and public servant, in a common effort to cope with SA's problems in the best way.

This should be achieved by making funding for these worthy causes conditional on a "satisfactory degree of co-operation" between government and all the agencies and organisations outside government seeking improvements in this area.

□ To Page 2

Social services

BDAY 18/3/93

(49)

□ From Page 1

Keys cited the National Housing Forum as an example, saying the forum represented a comprehensive grouping of interests centring on this need.

The forum's discussions with the National Housing Department had already led to an allocation of R200m from the funds under that department's control in 1993/94, with a promise of more to be found, and full participation in the determination of the next year's appropriation.

If a greater cash disbursement in the coming year was required, Cabinet was prepared to provide R200m in bridging finance.

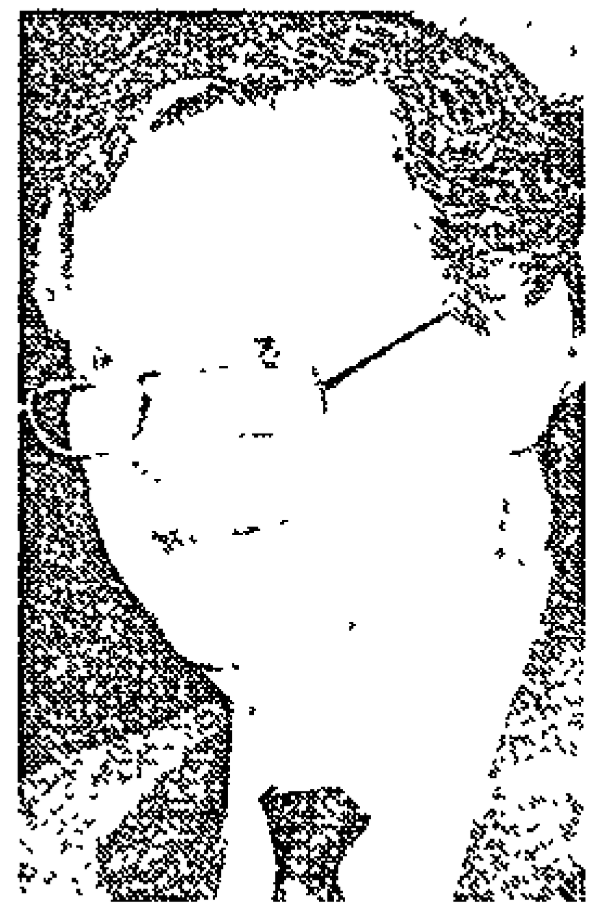
A similar, but not equally developed, case was the work of the national economic forum in the field of job creation, he said. A supplementary sum of R60m would be set aside to facilitate the process of integration within an appropriate and agreed job-creation programme

Other areas would be handled in the same way and, if necessary, special financing arrangements would be put in place.

"In all cases the key condition will be the evidence of an effective pooling of needs and resources between the citizen and the state," he said.

Private entrepreneurs the focus of growth

Keys revamps corporate tax



● KEYS

B/DAY 18/3/93 (49)

SIMON WILLSON

CAPE TOWN — A two-tier corporate tax system to help new and emerging companies was the surprise feature in Finance Minister Derek Keys's deficit-cutting, R114bn debut Budget tabled in Parliament yesterday.

Presenting what he termed "a structurally sound Budget that is going to bear fruit in the medium term", Keys raised the VAT rate to 14%, increased duties on petrol, alcoholic beverages and tobacco and left individual tax bands unadjusted for inflation.

But he also cut the corporate tax rate from 48% to 40% at a stroke, offsetting the revenue lost through the tax reduction by simultaneously introducing a 15% tax on distributed company profits.

The novel secondary tax on companies (STC) is to be levied on public and private companies and close corporations at 15% on dividends payable from today, and is designed to make the corporate tax rate cut revenue-neutral to the exchequer.

STC succeeds Section 37E accelerated depreciation as an investment incentive for companies. The 37E scheme is to be allowed to expire in September this year.

An 8,8% nominal increase in state spending to R114,2bn is projected, although this rises to 12,5% if drought aid in 1992/93 is excluded and to 13,9% — according to the DP — if assessed on a wholly ex-drought basis, thus strictly dashing expectations of a cut in real government spending in the coming fiscal year.

Set against a projected 16,5% increase in revenue to R88,9bn, yesterday's package yields a 1993/94 Budget deficit of R25,3bn or 6,8% of GDP compared with the previous year's record deficit of 8,6% of GDP.

Keys said a 13% VAT rate would have met his revenue requirements, and the extra percentage point had been added to the rate to pay for the extension of zero rating to cover basic foodstuffs. The higher VAT rate would add two points to inflation for a year, although the downtrend in consumer price increases would reduce the overall inflationary impact.

BUDGET 1993

☐ Full text of the Minister's speech special supplement

The increase in VAT was expected to yield a net R5,1bn for the Exchequer in 1993/94, after allowing for a revenue loss of R1,9bn from all zero ratings

By leaving personal tax thresholds unchanged for another year, the Exchequer would automatically rake in around R2,5bn in fiscal drag as inflation pushed earners into higher tax brackets. The unchanged tax structure would yield a total of around R6,5bn in 1993/94.

Tax changes had been focused on indirect taxes and would generate a further R6bn in revenue. Besides the higher VAT rate, the Budget raised fuel tax by 6c/l on all octanes and added 2c to the price of a dumpy of beer, 38c to a bottle of spirits, 2c/l to soft drinks and 2,5c to 10 cigarettes.

Additional increases to the petrol price to compensate for the depreciation of the rand, higher transport costs and payments to the Motor Vehicle Accidents Fund meant a total increase of 15c/l to 97 octane fuel at the coast and 16c/l inland, according to a statement by Energy Affairs Minister George Bartlett.

The higher duties on drink and tobacco were expected to generate R320m in the coming fiscal year. The higher petrol and diesel levies would produce R740m in additional revenue.

Keys said government would keep its promise to propose full pensions parity in the coming fiscal year. Social assistance allowances would be adjusted in two stages: a general increase of 7,5% in July, costing R520m, and full equalisation in September costing R690m.

Education and the various law and order departments were allocated substantial spending increases. The education vote is up a nominal 19,2% at R22,7bn, which excludes the 1993/94 salary increase for teachers and is intended to be the spring-

☐ To Page 2

Keys

B/DAY 18/3/93. (49)

☐ From Page 1

board for the education renewal strategy announced earlier this year.

Justice Department spending is slated to rise 24,1% to cover commitments associated with the national peace accord. Correctional Services' budget is slated to rise 17,6%, and that of police by 14,3%. Defence spending is to be cut in cash terms in 1993/94 when its allocation will be trimmed by 3,8% to R9,4bn.

Explaining the origins of STC, Keys said no further proof was needed that the main source of growth was private entrepreneurs, great and small. Most of SA's entrepreneurs were companies and they needed a favourable climate, of which the tax rate was a crucial element.

"Various special tax concessions relating to companies have been phased out over the past few years, whereby the effective tax rate has risen, but the nominal rate has been reduced only from 50% to 48% — still too high in a global economy into which SA is becoming increasingly integrated and in which the tax trend is clearly downwards."

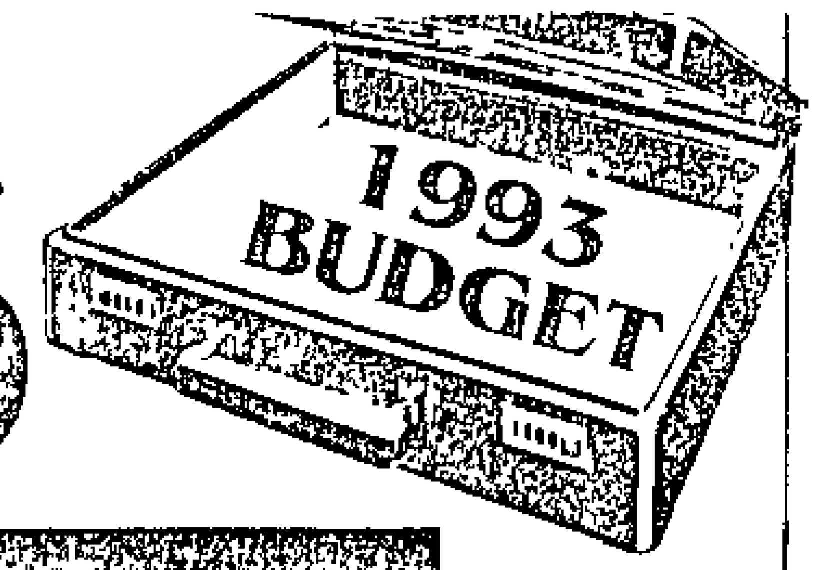
The dual corporate tax rate should prove an important incentive for the new and fast-growing company The more it exploited investment opportunities and financed itself, the lower its tax rate would be. Such investment was not only important for job creation but also served to stimulate domestic demand.

The Budget's greater help for emerging companies through STC is accompanied by a substantial increase in provision for small business development A total of R112,6m is to be made available to small business through the national economic forum, the Small Business Development Corporation and the Development Bank of Southern Africa — over 500% more than was provided in fiscal 1992/93

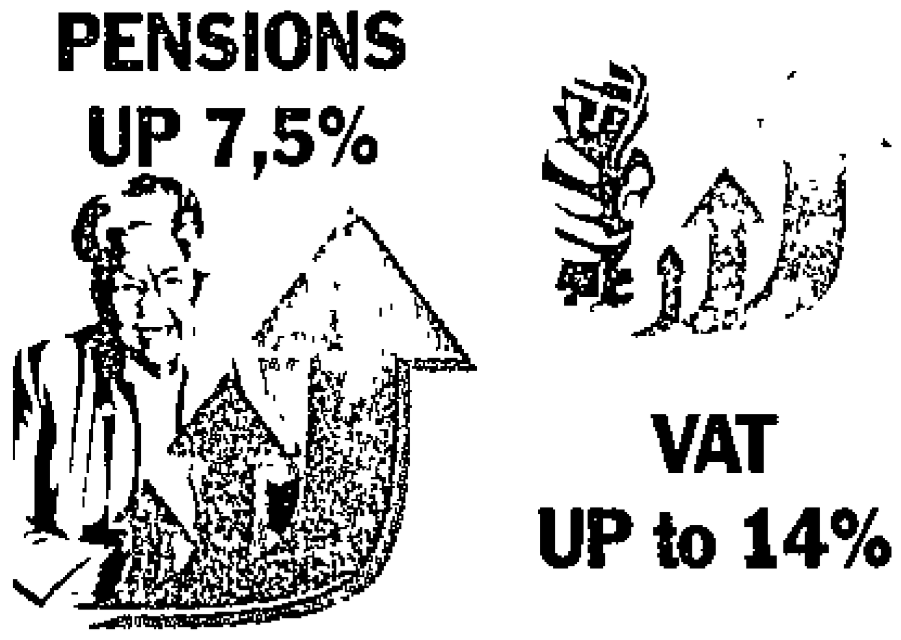
A total of R1,7bn would be provided for housing in 1993/94 but funding would be conditional on "satisfactory co-operation" between government departments and the various non-governmental agencies and organisations in the housing field.

Keys gave lower income homebuyers a tax break by raising the bottom transfer duty thresholds for houses and unimproved land. He raised duty at higher thresholds to bring in an extra R69m in 1993/94

Bad news

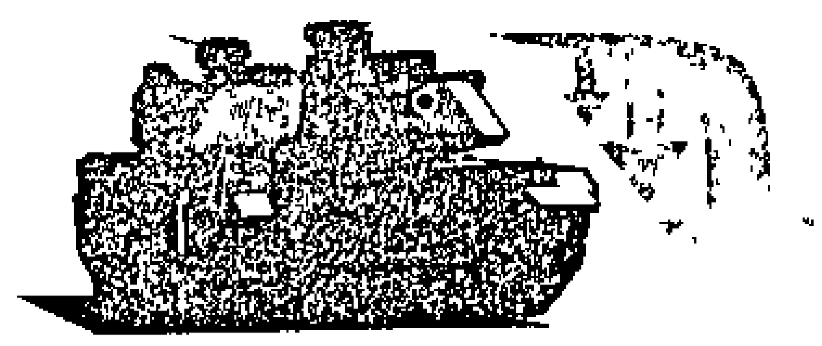


PENSIONS UP 7,5%



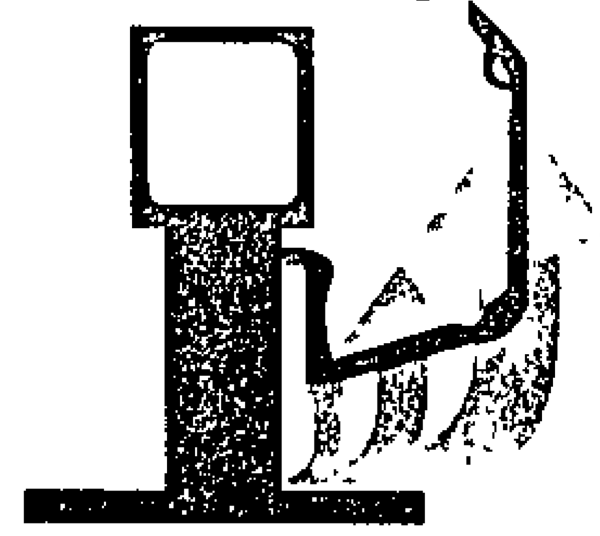
VAT UP to 14%

EDUCATION UP 19,2%



DEFENCE DOWN 3,8%

PETROL Increased by 16c



(And little good news . . .)

Sowetan
18/3/93
(49)

A VAT HIKE, INCREASES in fuel and excise duties on liquor and tobacco, a tiered company tax and pensions parity are the main features of the Budget presented by the finance minister yesterday.

"To be successful in an environment undergoing fundamental change requires that one should choose one's guiding principles with great care. "The two which have guided the construction of this Budget are the need for discipline and the need for growth," Finance Minister Derek Keys said.

The increase in VAT would yield an estimated R5 080 billion for the Exchequer after allowing for the R1,9 billion which will be forfeited in the zero ratings.

Increases in customs and excise duties on liquor and tobacco products, which come into effect immediately, will generate R320 million and additional revenue amounting to R740 million will be obtained from the increase in fuel levy.

Dual tax system

Mr Derek Keys said it was important that company tax be reduced and a means of doing this was by introducing a dual tax system, one part of the tax being levied on the taxable income and the other on distributed profits.

The present rate of 48 percent will be reduced to 40 percent while, at the same time, a tax of 15 percent on distribution profits will come into effect. Civil pensions will increase by 5 percent on July 1 for all civil pensioners who retired on or before July 1 1992 and on September 1 the final equalisation amount of all social allowances will take place to place pensioners of all races on parity. - *Sapa.*

The inside story . . .

The role of the Budget in a plunging economy See page 8

Thumbs down from the major political parties See page 9

Equal pensions for all See page 17

Has Keys broken with 'smoke and mirrors' syndrome?

BIDAY 18/3/93.

GRETA STEYN in Cape Town (49)

THE SA Parliament must be one of the few places left in the world which actually pays someone to operate a lift. Travelling up and down between two floors, the uniformed lift man surely belongs to an endangered species. Will he survive Finance Minister Derek Keys's onslaught on government consumption spending? Or will he and his kind survive to illustrate the DP's ritual charge that the Budget "is all done with smoke and mirrors"?

Keys's oft-stated intention of substantially curbing consumption, raising investment and reducing the deficit was one of the main themes in yesterday's Budget. For the government sector as a whole, the budgeted rise in current expenditure is only 6,5% — a real decline of about 5%, although this may be understated because the 1992/93 base includes R3,4bn in drought relief. However, capital expenditure is estimated to surge by 27,6% in nominal terms, including a huge investment in schools (capital spending by the education department is budgeted to rise by almost 43%).

Keys has met one of the main criteria for judging a Budget — consistency. The Budget is broadly in line with government's own long-term policies. Other measures by which a Budget should be judged are how it fits in with short-term cyclical requirements of the economy and the monetary policy stance, as well as credibility and transparency.

Keys's Budget might be broadly in line with certain long-term policy aims, but that does not mean it will actually represent significant progress towards structural change. Judging the Budget in a long-term context is virtually impossible, as long-term policy objectives are not

trickle-down effect from growth spurred by supply-side policies. The same could be argued of the Budget. Measures to boost growth in the Budget will stimulate the supply-side of the economy — a new system of company tax that encourages investment financed with retained profits, and big allocations for tourism and export promotion.

There is no relief for fiscal drag at the bottom end of the income scale, where the burden is the greatest. VAT remains a regressive tax, in spite of zero rating certain basic foodstuffs, and Keys resisted pressure to do the same on medicines and medical costs. VAT concessions on food should also be judged against the budgeted decline in the poverty safety net, from R440m to R400m. The increase in "sin" taxes also hits the poorer sections of the community harder.

Keys is also likely to come under fire from the left for not doing more for job creation. He clearly came out in favour of a "trickle-down" approach: "The first focus in job crea-

☐ KEYS

the Budget.

These criticisms have to be tempered with praise for substantial increases in social spending. The share of spending on social services has risen from 41,3% in 1990/91, to a budgeted 44%. Social pensions have been equalised and education spending, at 7% of GDP, is well in excess of international standards.

Criticisms should be seen in the context of limited room for manoeuvre. Even if Keys had wanted to throw money at the problem, as his predecessors did, he could not afford to. Servicing of state debt and public service salary bill alone account for about 70% of the Budget. He also points out that a substantial portion of money thrown at problems in previous fiscal years have not yet been spent. About R600m is still left from last year's special allocation for capital spending, housing and reducing socio-economic backlogs financed from strategic stockpile sales.

Overall increase in spending (when drought relief is excluded), is 12,5% — which represents a real increase and it has been argued by the

inflation due to the VAT rate increase, plus more for the petrol levy and customs and excise duty.

Keys suggested the Reserve Bank should be happy with the Budget, but it is possible the Bank will find a deficit equivalent to 6,8% of GDP too high. The market is holding its breath until the Bank pronounces on the Budget. Players are still weighing up negative effects of inflation and a high borrowing requirement with moves to boost growth.

Keys sold his new company tax system as an effort to boost growth, but in the short run it would have an adverse effect on companies' cash flows with a corresponding positive effect on government's cash flow. The longer run effect is that, if all profits are paid out in dividends, the effective companies tax rate is slightly lower at 47,82%. Is this step to boost growth a trick with "smoke and mirrors", as former DP finance spokesman Harry Schwarz used to say? Only to the extent that the positive effects will not be felt in the short run. In fact, the charge of sleight of hand is no longer valid. A major theme of Keys's first Budget was transparency.

There was a clear effort to provide the true picture of government's role in the economy, not just at central level but at lower tiers as well. The move is a far cry from the R2bn off-budget allocation made by Barend du Plessis to the Independent Development Trust in 1990.

The off-budget payment previously made by Telkom to the Post Office and the SA Rail Commuter Corporation subsidy are brought on balance sheet, adding about R1,7bn to the spending total. Keys could have kept these figures off budget if he had wanted to throw money at a problem, or if he had wanted to pull a lower deficit out of the hat. In line with this approach to acknowledge previously hidden amounts, this year's TBVC borrowing requirement hurt the most — and the impact will be immediate. Living standards will plunge

given in the past ...

This time, however, business-sector observers are op-

fect on all commodity prices.

Syfrets economist Elmien

promote growth and discipline as well as the incentives for job creation.

Star 18/3/93

Consumers bear the brunt

By Peter Fabricius and Sven Lünsche

49

CAPE TOWN — Consumers will bear the brunt of Finance Minister Derek Keys's bad-news R114 billion Budget, with a 40 percent increase in VAT and a 16c/l rise in the petrol price.

Keys squeezed drinkers and smokers with a wide range of increased excise duties, ranging from 4,8c a litre on beer to 2,45c more for 10 cigarettes.

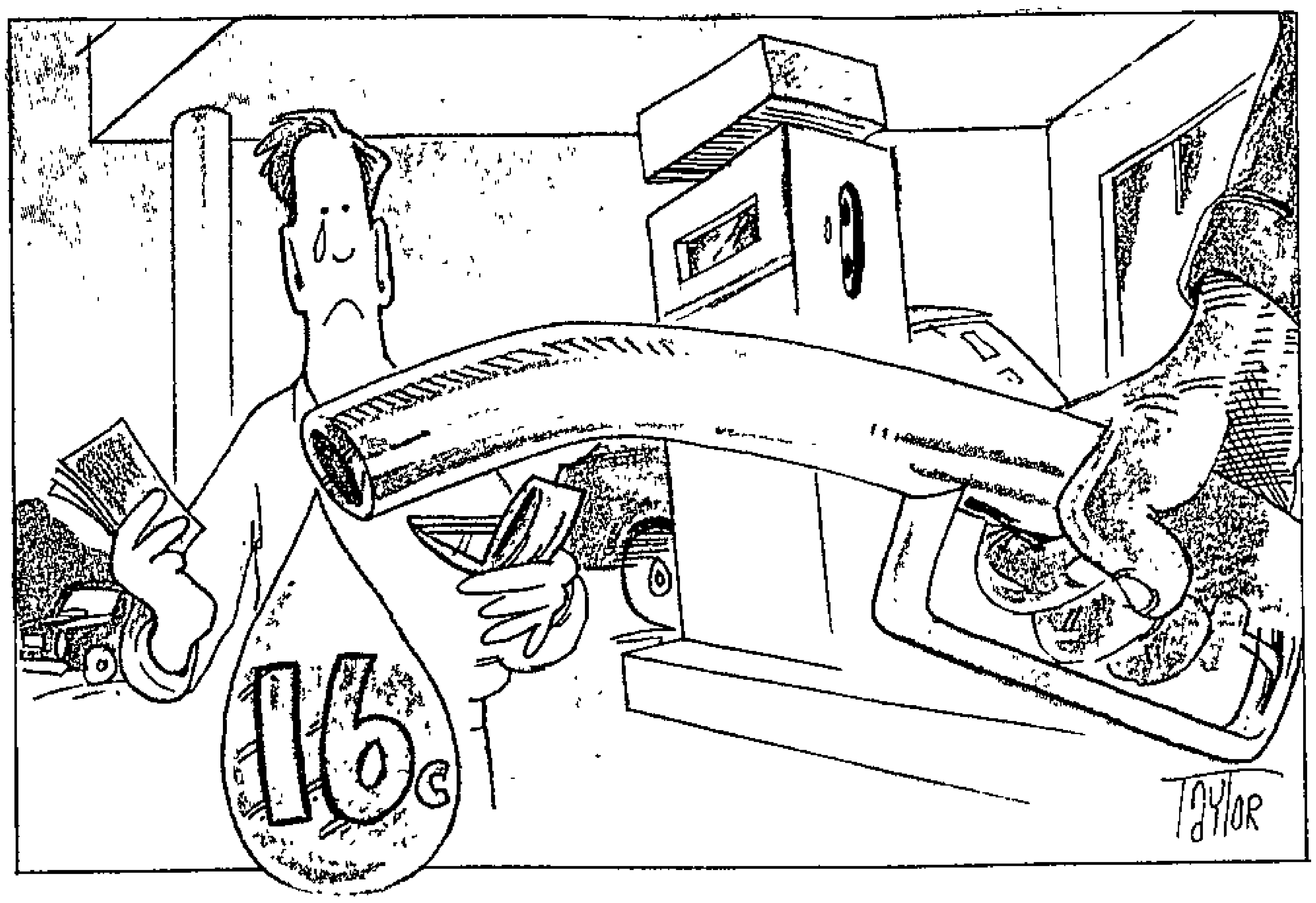
But he offered some relief to the very poor, with full social pension parity among different races, and announced a number of job-creation and other welfare benefits.

His increase in the VAT rate from 10 to 14 percent provoked an outcry.

The new rate will net the Government an extra R7,5 billion, to bring total VAT income to R24,9 billion in the 1993/94 fiscal year.

Although personal income tax rates were not increased, individual taxpayers will make an even larger contribution because of fiscal drag — adding another 15,5 percent to bring their contribution to R37,6 billion.

Companies were given some relief with a reduction in the corporate tax rate from 48 to 40 percent. But this was coupled to a new tax of 15 percent on dividends and other income distribution.



For motorists ... petrol price is going up 16c a litre on regular and premium.

The increases in excise duties on alcohol and cigarettes included:

- An extra 37,7c on a 750 ml bottle of spirits.
- An extra 4c per 750 ml of fortified and unfortified wines.
- An extra 1c a litre on sorghum beer.

And the defence budget fell even in nominal terms by 4 percent — part of a general reduction in spending on protection services from 22 percent of last year's Budget to 18 percent of this one.

Main items of social spending are:

- Education: R22,7 billion, up 19,2 percent on last year.
- Housing: R1,6 billion, up 27 percent.
- Health: R11,07 billion, up 10,9 percent.
- Social security and welfare: R10,6 billion, up 5,7 percent.

Keys kept the overall Budget increase to 8,8 percent above last year's spending of R104,9 billion.

Social pensions of different races are to be equalised by September 1.

White pensions will go up from R345 a month to about R370 in July, coloured and Indian pensions will rise from R318 to about R342 and black pensions from R293 to R315.

By September 1, all pensions will be raised to the white level of about R370.

● **More Reports** - Pages 2, 6, 7, 18 and 21

Budget a painful 'long-term cure'

Keys prescribes a bitter tonic

Star 18/3/93

(49)

By John Spira

Tough muti is what consumers expected from the Budget — and tough muti is what they got.

Expectations of a worst-case scenario did not, however, temper the reaction of consumer groups and opposition political parties, most of whom slammed Finance Minister Derek Keys for hammering another nail into the public's coffin.

In sharp contrast, the business sector lauded Keys for a workmanlike Budget which, although unpalatable in the short term, offered a long-term cure for the nation's economic ills.

Financial experts point to the document's job-creation measures, its stress on fiscal discipline, and the fact that it represents the first step on the road towards healthy growth.

Nevertheless, consumers, having suffered four long years of economic austerity, are understandably running out of patience.

They will be paying more at the pumps and at the store. Equally depressing is the likelihood that their tax bill will rise. Although individual tax rates have been left unchanged, fiscal drag will oblige them to contribute more to the Treasury.

Add in the higher price for drinking and smoking, and the assurances of a more prosperous future are scant compensation.

The additional four percentage points on VAT will hurt the most — and the impact will be immediate. Living standards will plunge further.

There is relief for pensioners and elderly provisional taxpayers, and there is higher spending on social upliftment projects, but for the majority the only light on the horizon is the assurance that things will eventually get better.

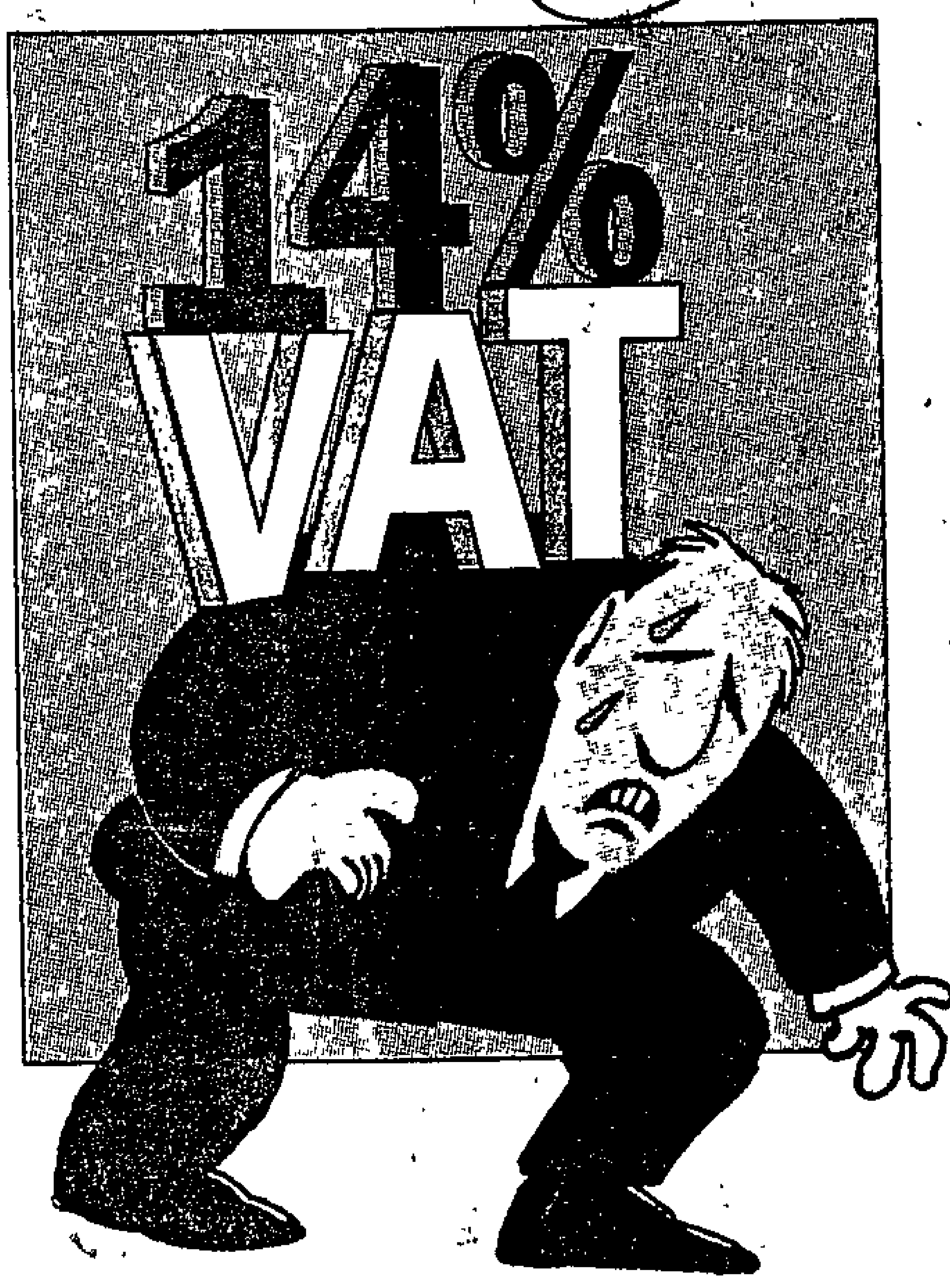
The critics are understandably sceptical, since such assurances have been given in the past ...

This time, however, business-sector observers are optimistic, pointing to Keys's unquestioned resolve and the fact that the Government has reached a point where its spending binge of the past two decades has to be reversed if financial catastrophe is to be avoided.

Consumers fear a renewed inflationary spiral. The Consumer Council noted that the fuel price increase in particular would have a ripple effect on all commodity prices.

Syfrets economist Elmien de Kock estimated that higher VAT, fuel prices and excise duties should add about 2,5 percent to the consumer price index, thereby pushing inflation back into double digits.

Significantly, the Consumer Council, while labelling the higher VAT rate and fuel levy as a blow to consumers, welcomed the measures to promote growth and discipline as well as the incentives for job creation.



Going up . . . VAT is going up to 14 percent.

Budget at a glance

- VAT – up to 14%
- Petrol – up 16c a litre
- Homelands – 21% more
- Education – up by 19%
- Health – 11% increase
- Police – up 14,3%
- Social pensions – parity for all races
- Beer – up 2c a dumpy
- Whisky, brandy, gin – up by 37,7c for 750 ml
- Cigarettes – up 4,9c/20
- Wine – up 4c for 750 ml
- Company tax – drops from 48 to 40%
- Company dividends – 15% tax on profits
- Fringe benefits tax – raised to 35%

Star 18/3/93

Budget 'sends encouraging signals'

(49)

By Michael Chester

Though tax bills threaten to increase over the next 12 months and there is a risk of inflation — at least temporarily — returning to double digits, the Econometrix think-tank said the Budget had sent out "encouraging signals" about the longer-term economic outlook.

Econometrix director Dr Azar Jammine estimated that individual taxpayers faced an increase in collections from R31,3 billion to about R36,2 billion.

While actual rates had not been increased, heavier income tax demands were inevitable as inflation pushed taxpayers into higher marginal brackets — deeper into the fiscal drag syndrome.

Government income from VAT, with the rate lifted from 10 percent to 14 percent, would climb to about R23,5 billion.

However, the Budget had been correct in bringing direct and indirect taxation into better balance.

Jammine, who has sounded repeated warnings about growing government debts and the dangers of State overspending on bureaucracy, applauded moves to check the sharpness of increases in the budget deficit — leaving room for more government investment in productive resources.

The new dual system on company taxes should also encourage an increase in private-sector fixed investment, the main key to overall economic growth and job creation.

The Minister of Finance, in his first Budget, had shown a deep understanding of South Africa's economic problems and the route towards longer-term solutions.

"Most of the basic structural weaknesses in the economy have now been addressed," said Jammine.

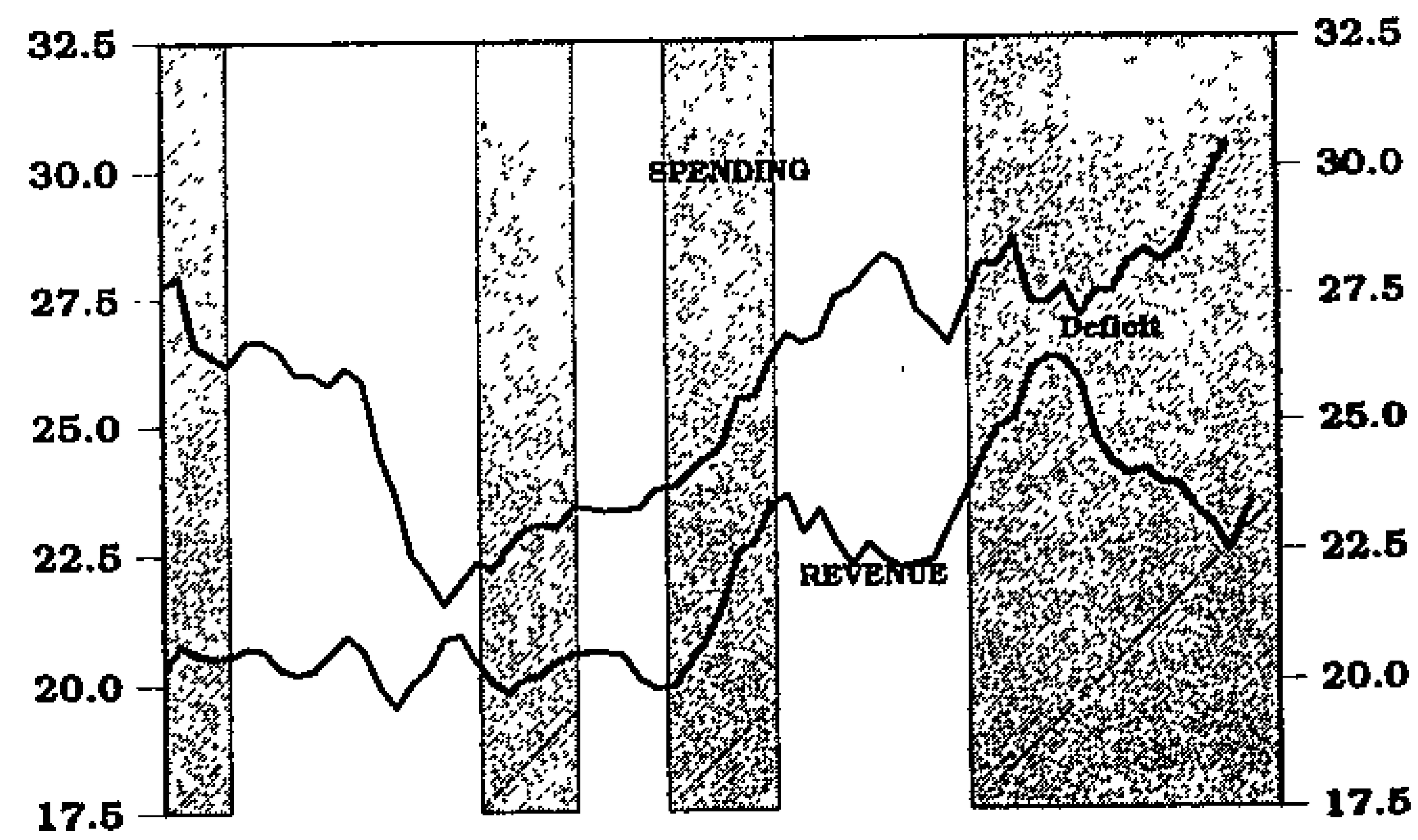
"There are encouraging signals that we may well have set course towards the objectives of the new five-year economic model. At least we are striking off in the right direction.

"The increase in VAT and higher fuel prices may add a few notches to consumer prices and nudge inflation back into double digits as an immediate impact. However, it is possible that inflation will continue an overall downward trend by the end of the year — as long as tight discipline is maintained."

The Small Business Development Corporation welcomed new cash injections of R75 million, the bulk of a total of R112,6 million ploughed into development programmes to assist the launch of small enterprises.

"Countering unemployment remains a top priority," said an SBDC spokesman.

The Johannesburg Chamber of Commerce and Industry said the restructuring of the company tax system had sent business powerful new signals about a restart of the economic motors.



Public finance as percentage of GDP and recessions shaded

Keys steers a stringent course

Star 18/3/93

(49)

By Sven Lünsche

CAPE TOWN — Finance Minister Derek Keys has put the Government firmly on the course of greater financial stringency.

This is most visible in a small but significant reduction in the deficit before borrowing from 8,6 percent of GDP in 1992/3 to 6,8 percent in the current fiscal year.

At the same time, Keys has taken the first steps in achieving the targets he set in his recently released Normative Economic Model (NEM).

The Budget should also receive a cautious welcome from the Reserve Bank, which has been calling for conservative measures as a pre-condition for a further loosening of monetary policy.

The total expected expenditure of R114,15 billion for 1993/4 is 8,8 percent above the revised estimate of R104,9 billion in 1992/3.

Assuming an inflation rate of about 10 percent for the period, it indicates a real decline of 1,2 percent in government spending.

While this is below Keys's stated target of a three percent decline in state spending, the burgeoning demands of social services made a larger cut impossible.

Social services — education, housing, health and social security — account for R56 billion of total budgeted spending, more than offsetting the declining share taken up by protection services.

Income from taxes is budgeted to rise from R75,2 billion in 1992/3 to R88,2 billion this year, a rise of 17,3percent.

The increase will largely be derived from two sources — individual income tax and VAT.

Following the rise in VAT from 10 to 14 percent and including the previously announced exemptions, income from VAT is budgeted to rise from R17,4 billion to R24,9 billion.

Income tax revenue is set to increase by 15,5 percent to R37,6 billion from R32,6 billion.

The resulting deficit before borrowing of R26 billion is economically sensible as a larger deficit would have raised even further the share of government spending devoted to interest payments, which are already high at 17,4 percent in 1993/4.

On the other hand, a larger cut in the deficit would have entailed further tax hikes or slashing government spending, which the economy cannot afford, given its fragile state.

Nevertheless, this is a medicine Keys will have to administer over the next few years.

Government dissaving — the excess of current government spending over current revenue — weakened last year and could decline further as salaries of civil servants are budgeted to rise by 11,8 percent this year.

However, in other areas of state spending the Minister has set the tone for the future. The current expenditure component of the Budget is budeted to rise by a mere 6,5 percent in 1993/4 and capital spending by 23,9 percent.

Sharp criticism from opposition parties

Star 18/3/93

Political Staff

CAPE TOWN — Parliamentary opposition parties have sharply criticised Finance Minister Derek Keys's first Budget.

But some elements of the Budget have been welcomed.

Conservative Party finance spokesman Casper Uys said the most striking element of the Budget was that the man in the street would have to dig more deeply into his pocket to survive.

And the Democratic Party described the Budget as a great disappointment.

Finance spokesman Ken Andrew said: "In these times of acute economic difficulty for people and businesses throughout South Africa, the Government has placed the burden almost entirely on the public's shoulders and has refused to curtail its expenditure."

But Afrikaner Volksunie (AVU) spokesman Cehill Pienaar said that, given the present economic constraints, the Budget was an "honest and open" one.

The CP said that despite the Government's repeated promises over the years to reduce the load on already overburdened taxpayers, this had not been done.

Uys said: "Indeed, by not introducing concessions to counter bracket creep, the burden of personal tax is increasing by a sum of R2,5 billion."

Furthermore, inflation would rise once more as a result of the VAT and fuel increases.

In the sharpest reaction, Andrew said: "Finance Minister Derek Keys has failed to achieve the targets that he set for himself and the Budget. No amount of juggling with the figures should be allowed to disguise that."

However, he said positive elements of the Budget were equal pensions for all races, the paying of part of the fuel levy to regional services councils, bringing previously off-Budget items into the Budget and introducing tax exemptions on retrenchment packages

Sowetan 18/3/93

(49)

Expect the worst, says Ken Andrew

Sowetan & Radio Metro
*Talk***back**

with Tim Modise

By Isaac Moledi

SOUTH Africans should brace themselves for a tough budget this year, Democratic Party MP Mr Ken Andrew told *Sowetan*/Radio Metro Talkback Show listeners Tuesday night.

Andrew said this year's budget, to be presented in Parliament by Finance Minister Mr Derek Keys today, would present another heavy load on the taxpayer.

Economic recession

He said with the economic recession the country was experiencing, the R30 billion used on last year's budget was expected to double.

He said the apartheid system created a proliferation of homelands and more Government departments. This, he said, led to enormous corruption, maladministration and inefficiency.

"We have a high level of corruption, maladministration and inefficiencies in other sectors of Government departments," Andrew said.

He said his party was looking at ways of laying the basis for long and short-term economic growth.

"With our economy shrinking the way it is at the moment, lack of business confidence has resulted in instability, unemployment and crime.

"We need to create jobs and give training and use the training to build more houses. This will alleviate the suffering of people affected by the downturn crisis," he said.

"I think the problems here are two-fold. It is political and economic.
Firstly, we should concentrate on investment to create more employment. Secondly, the political situation needs to be resolved to increase the confidence of foreign investors."

Cyril, Hillbrow

"I wish to thank Mr Andrew for his address. His discussion about the economic situation and Government corruption was frank. I agree that the Government should be accountable."

Ham, Cape Town

"I have doubts about your party (DP)."

Abbey, Hillbrow.

"I am also for the removal of the National Party from power. But what you (Andrew) are saying is extremely impossible."

Gill, Johannesburg

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Doubts over State spending targets

Star 19/3/93

(49)

By Sven Lünsche

CAPE TOWN — Serious questions have been raised about the Government's ability to reduce State spending in real terms in the 1993/4 fiscal year, given the budgeted 12 percent rise in total remuneration for civil servants.

Finance Minister Derek Keys, imposing his mark on the Budget, said State spending in 1993/4 would rise to R114 billion, a rise of 8,8 percent in nominal terms.

Assuming that inflation will average between 10 and 11 percent over the period, it would indicate a real decline in State spending in the region of 2 percent. Over the past 10 years, Government spending has overrun its budgeted targets by an average of 4 percent a year.

Most of these increases were attributed to higher wage packages and other financial benefits to civil servants, and there are already indications that similar developments could ruin Keys's good intentions this year.

President F W de Klerk has stated firmly that pay rises in the civil service would not exceed 5 percent this year.

Yet in the Budget Review, the following assessment is provided: "Despite the relatively small increase envisaged in the payroll of central Government in 1993/4, in terms of the broader classification, remuneration of employees will increase by an estimated 11,8 percent. This has the result that the share of employee remuneration in total expenditure increases further, from 35,9 percent in 1992/3 to 37,3 percent in 1993/4."

Director-General of Finance Gerhard Croeser yesterday said the 11,8 percent would have to be strictly adhered to if the overall spending were to be limited to 8,8 percent.

Yet Old Mutual economist Dave Mohr said the most the Government could afford in terms of lifting total remuneration was 9 percent. "Otherwise the 8,8 percent budgeted target looks almost impossible to achieve."

Croeser broke down the 11,8 percent increase into various categories: 5 percentage points related to the salary increase; 3 percentage points to so-called notch increases; and the remainder to State contributions to pension funds, retrenchment packages and new appointments, particularly in the SAP.

A serious question mark also hangs over the ability of the Government to handle trade union resistance to its 5 percent pay rise limit.

Already the SA Democratic Teachers' Union is threatening nationwide strike action to contest the offer. Giving in to one particular sector would undoubtedly lead to similar demands by others.

Croeser was adamant the Government would not budge.

THE BUDGET

FM 19/3/93. (49)

A new beginning, but no panacea

There can be advantages in being no hostage to political fortune. Finance Minister Derek Keys is beholden to neither the Nat establishment nor prospective leaders of the new SA, and in his first Budget he has accordingly been able to take the necessary stern measures without worrying too much about groans from entrenched special interest groups.

He faced enormous problems. Barend du Plessis' last Budget last year projected a 16,5% increase in State spending; it actually rose by 22,1%, or 18,2% if special drought-related aid is excluded. Only in one year since 1980 has there been a higher increase in actual spending: 22,3%, in 1986-1987. On top of that, recession-squeezed revenue grew by only 4%, against a budgeted 15,7%.

Accordingly, the public-sector deficit is R28,6bn, or 8,6% of GDP, against the budgeted R15,9bn (4,5%). This required borrowing (net of redemptions) of R27,6bn, against the budgeted R13,2bn.

Keys's plans to eliminate the deficit over the next five years rest heavily on a resumption of economic growth, of which as yet there is no evidence.

In a sense, the sheer horror of last year has helped Keys's targeting for this year. He is able to hold the expected increase in actual spending to 8,8%, but if we relate it to planned (instead of actual) spending for 1992-1993, the increase would be 13,2%. That's well ahead of any likely inflation rate and shows that for all Keys's efforts, there's a long way to go before the State's share of consumption of available resources is curbed.

Moreover, we are accustomed to Finance Ministers promising to curb State spending. Year after year they've failed. Until we see the actual outcome, can we be confident that Keys will do any better than his predecessors?

Equally, a 1993-1994 6,8% borrowing requirement (R25,3bn) looks good compared with the immediate disastrous past; but, by earlier standards, it would be unacceptable. Even if — as Keys claims — it can be met without significantly pushing up interest rates, the interest bill will be an ever-increasing burden on generations of taxpayers.

The continued increase in social spending (education, health, job creation, pensions) is to be welcomed; so are the allocations for housing, retrenchments and small business — even though some special interest groups feel they didn't get all they asked for (who ever does?).

As we argue year after year, simply throwing money at problems doesn't cure them unless there are adequate delivery systems. A week in which the Soweto school system yet again seems to have broken down is hardly the time to bewail the inadequacy of spending on education.

And if public-sector pay increases can indeed be held to 5%, there is hope that the unhealthy bias in public-sector spending in recent years in favour of current, as against capital, spending could start to be reversed

Encouraging investment, or capital spending, is one of Keys's main aims and the new dual system of company tax will help here, by taxing retained profits less heavily than dividends. The problem with any new tax, of course, is that, for whatever noble reasons it's introduced, it can become a milk cow — as the notorious import surcharge, which Keys has still not been able to scrap, has shown only too clearly.

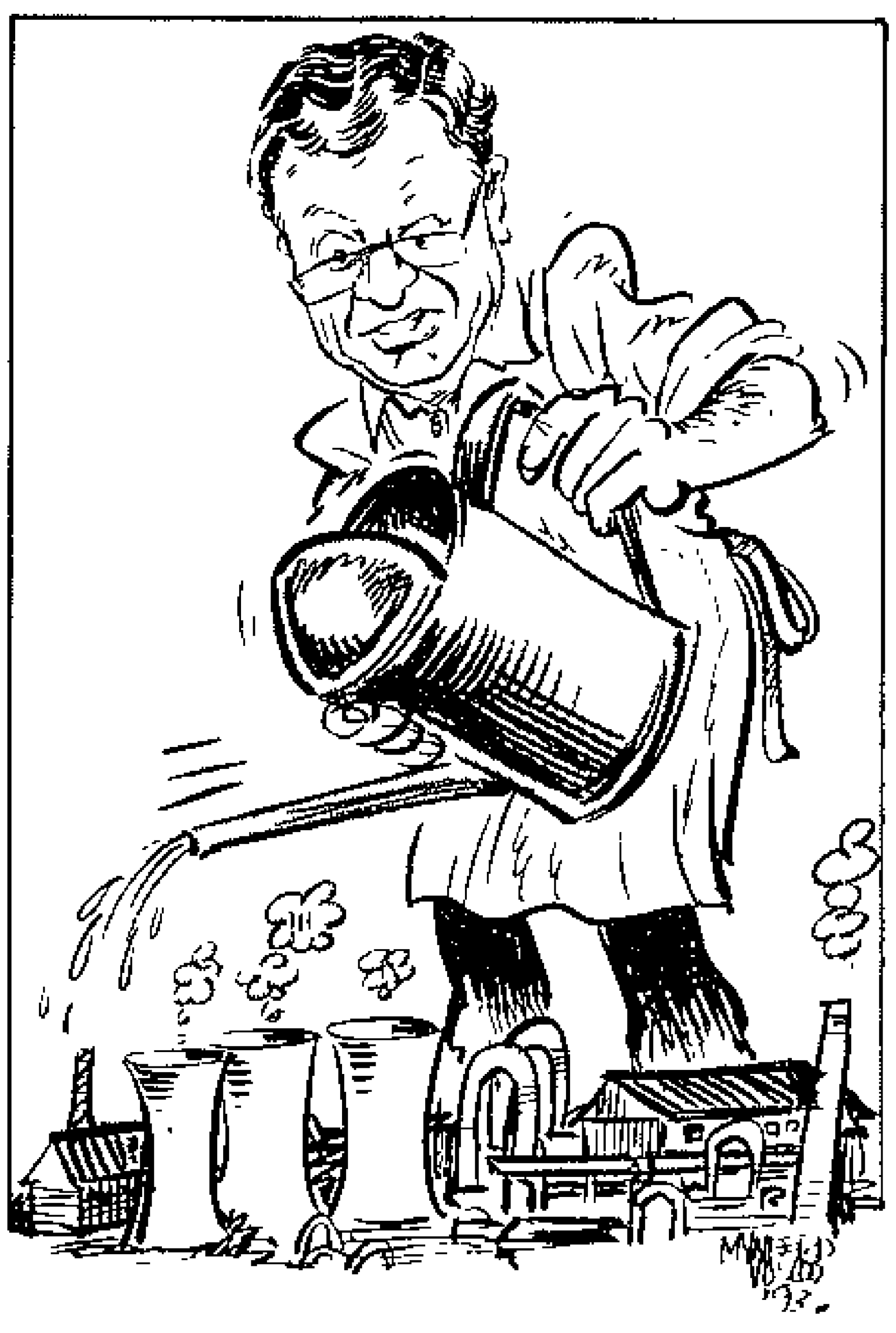
Keys set the new rates to be fiscally neutral. In less scrupulous hands, dual tax could be an easy way to soak the perceived rich by jacking up the rate on distributed profits.

And, of course, it has been repeatedly shown that tax breaks are not the best way to stimulate investment: unless businessmen are sufficiently confident of making profits, they don't invest under any tax (or interest rate) regimen.

It's unfortunate that the hefty increase in Vat has come at a time when recession precludes any cut in individual tax rates so that fiscal drag remains a problem — though, with falling inflation and lower pay increases, less of a problem than it was. And it's illogical that those who pleaded most for zero-rating of foods are now crying loudest at a 14% Vat rate.

What did they expect? What is the alternative? Surely they don't want higher individual tax rates? Those who dismiss Keys's tax proposals should put up their own ideas — and, alas, rabbiting on about the need to eliminate corruption and the extravagances of apartheid does not constitute a coherent fiscal policy.

The increases in the traditional booze, 'baccy and petrol taxes are moderate by recent years' standards, but, with the rise in Vat likely to put up to two percentage points on the inflation rate, Keys wouldn't want to crush consumption spending.



Nobody would choose to present their first Budget in the fourth year of a recession which shows no signs of ending. To combine that with continuing social engineering as we move away from apartheid and eliminate the social inequalities of the past is a superhuman task. Pressures from all sides prevented Keys from making the reforms to which he is still committed — he reiterated some in his admirably logical and lucid speech — and the only real innovation this year is the dual company tax.

We would have liked him to do more; he would no doubt have liked to be able to do more. This Budget must be seen as the start of a new approach rather than a cure of our fiscal ills. Whether it succeeds even on that basis will be clear only as the Exchequer figures and economic data emerge in the months ahead, but at this stage we believe Keys has earned the benefit of the doubt. ■

THE BUDGET IN A NUTSHELL

(49)

FM 19/3/93

Revenue: Expected to rise 16,5% over revised 1992-1993 estimate to R88,9bn. Individual income tax expected to raise R36,2bn (15,8% up on the revised 1992-1993 estimate); Vat R23,5bn (+41,5%); income tax on nonmining companies R11,1bn (+2,8%); gold mines R500m (+3,7%); other mines R425m (-29,5%); and Customs & Excise R11,8bn (+10%).
Expenditure: Estimated at R114,2bn, an increase of 8,8%. Capital expenditure makes up 7,6% of this, an increase of 23,9%. Current expenditure makes up 92,4% of the total, up 6,5%. Of this, R65,1bn is in goods and services (up 8,4% on the previous year) and R22,2bn interest payments (+26,4%).
Financing: Budget deficit projected to be R25,3bn or 6,8% of GDP. Loan redemptions of R6,8bn will push the borrowing requirement to R32bn. This will be financed largely by the sale of R31,6bn government stock.
Health: R11,1bn allocated, up 10,9%.
Small business: R112,6m allocated, up R94m. R75m goes to the SBDC and R30m to the Development Bank of SA.
Job creation: Additional R60m for National Economic Forum; R73m to the Department of Manpower for training schemes for the unemployed.
Social assistance: R521,5m to raise social allowances by 7,5% from July; R694,1m for equalisation of pensions for different race groups, effective September.
Public servants: R1,5bn for general salary increases, effective from July.
Civil and military pensions: Civil pensions to go up 5% from July. Most of the cost will be met by employees' contributions, with a total cost to the Exchequer of R3,1m. Military pensions to go up 9%, at a cost of R5,8m to the Exchequer.
Housing: R1bn, of which the Department of National Housing will make R200m available to the National Housing Forum. The forum may draw a further R200m bridging finance if required.
Tourism: R25m is added to the R85,1m provided in the printed estimate. Depreciation period for refurbishment costs for hotels cut from 20 to five years. No effect on the Exchequer is expected this year.
Regional development: R491m for the industrial development programme.
General Export Incentive Scheme: Of a total of R2bn in export incentives, R1,7bn will go to Geis.
Transport: R2,4bn for roads, of which 75% goes to maintenance; R1,2bn to the Rail Commuter Corp's deficit and R666m to bus commuter transport.
Posts & Telecommunications: R500m towards the Post Office's budgeted operating deficit.
Education: R22,7bn, up 19,2%.
Nutritional programme: R400m, plus R40m for the Protein Energy Malnutrition Programme.
Defence: R9,3bn, a 3,8% cut.
Police: R6,5bn, up 14,3%.
Correctional services: R1,7bn, up 17,6%.
Justice: R966m, up 24,1%.
TBVC states and self-governing territories: R6,2bn, or 21% more than in 1992-1993, to go to TBVC states; R10,7bn goes to the territories, an increase of 22,1%
Fuel levy: Up 6c/*l* for petrol and diesel. With other adjustments, PWV pump price for 93 octane petrol will rise 16c/*l* or 10%, effective April 2. 1c of the levy to be allocated to RSCs from July.
Vat: Up from 10% to 14% from April 7.
Transfer duty: Exemption limits raised by 20% to R60 000 for houses and flats and R24 000 for unimproved residential land The rate for natural persons adjusted to 1% for the first R60 000, 5% on amounts of R60 000-R250 000, and 8% above that. The rate for companies is up from 7% to 10%.
Fringe benefits: The part of the allowance for use of company vehicles liable for Paye is up from 25% to 35%. This is expected to increase the Exchequer's cash flow by R54m.
Nongold mining companies: Surcharge phased out, costing R24m lost revenue.
Stamp duty: Abolished on "ordinary" agreements and contracts. Expected loss in revenue: R10m.
Retrenchment packages: Up to R30 000 will be exempt from tax, retrospective for employees retrenched from March 1992. Expected loss in revenue: R100m.
Provisional tax: Exemption threshold for people over 65 raised from R25 000 to R35 000; R7m will now only be received by the Exchequer in 1994-1995.
Company tax: Normal tax cut from 48% to 40%, but new tax of 15% on all income distributed as dividends. No tax loss expected for the Exchequer.
Beer: Excise duty goes up 4,8c/*l* or 2c/340m*l* can. Revenue gain: R112m.
Spirits: Up R1,17/*l* or 37c/750m*l* bottle. Increase in revenue: R50m.
Cigarettes and cigarette tobacco: Up 2,45c/10 cigarettes; tobacco up 5c/50g. Increase in revenue: R99m.
Pipe tobacco and cigars: Up 5c/kg. Increase in revenue: R440 000.
Fortified and unfortified wines and sparkling wines: Up 6c/*l* or 4c/750m*l* bottle. Increase in revenue: R19m.
Sorghum beer and sorghum beer powder: Sorghum beer up 1c/*l* and powder up 5c/kg. Increase in revenue: R6m.
Cool drinks and mineral water: Up 2c/*l* or 1c/340m*l* can. Revenue raised: R34m.

FM 19/3/93

(49)

lower inflation should all at least improve the general business climate.

The higher Vat will be interpreted by those out to make political gain as inflationary. But that is only temporarily so. For it will work out of the consumer price index next year and meanwhile will certainly help curb consumer demand. That of its own will keep inflation heading downwards.

A theme running through the Budget speech is the need for co-operation between government departments and agencies on the one hand and outside organisations.

"Many organisations to whom I am now appealing are characterised by a strong desire to combat social evils and by dedicated opposition to the government, often combined roughly in equal measure in the most active individuals engaged in their work. It is understood that, as political personae, they feel obliged to characterise the State machine as wasteful, corrupt and inefficient

"Let me appeal to them in their other capacity not to start believing their own propaganda."

If fiscal stability is to be achieved, support must come from all sectors of the community The Budget represents a useful start to restructuring major defects. It is to be hoped its merits will be apparent to all who will reap the benefits of long-term planning. ■

OPINION

Cuban exiles mirror white fears, writes **Hugh Roberton** in Key West, Florida

Waiting for the new dawn

STAR 19/3/93.

(49)

AS THE Storm of the Century raged over the eastern half of the US last weekend, its tail end brought hurricane force winds and torrential rain as far south as the 145 km channel that separates Cuba from the United States. In the midst of it, a tiny raft of oil drums and planking was spotted, its cargo of Cuban refugees clinging on in grim desperation.

By the next morning, they had been rescued and were secure in the US, drinking steaming mugs of coffee and speaking excitedly in staccato Spanish to the many others who have survived the ordeal of fleeing from Cuba in recent months and who now live at a temporary reception facility on Stock Island, a 20-minute drive from Key West.

To speak to them, even through the frustration of a translator, is to hear the concerns repeated, with an almost uncanny precision, of many white South Africans. The mirror image of two almost diametrically opposite societies both facing the certainty of momentous change, but neither confident of how it will evolve or where it will all end, is filled with ironies.

"Castro survives because the security apparatus and the bureaucracy — they make up about half the work force of Cuba — fear for their jobs, their pensions, their privileges, under a new regime," explains Felipe M, an engineer from near Havana. "The communists have lost heart, but they fear change more than they fear the present economic hardships."

Later, with a Catholic priest translating, and in the comforting seclusion of a Key West home, he and a cousin put a different emphasis on things. "Many people want change, but they envisage that it will include wealthy and corrupt Cuban exiles flooding back and taking over the country with their dollars and that all the advances we have made — and to be honest there have been changes for the good under Castro — will be destroyed."

Roberto M concurs. "Look at the exile community in the US. They are mainly white Cubans, from the class that was privileged in the old regime. But most Cubans are actually black, and they suffered great discrimination in the old order, which was removed by Castro. Let us give him credit for that. So it would be fair to say that a majority of Cubans, who are black, have great anxiety about change.

"They want change, but they fear that it will mean slipping into a subservient position, of losing what they have built up over the years. Can we in truth blame them? You say some white South Africans have the same concern. So be it. We should not laugh at them. Rather, if we are serious about change, we should try to reassure them. Change is not going to come easily in Cuba. Many Cubans who are suffering now would still resist it, most of them blacks."

A major obstacle to change, says Manuel S, a former teacher, is the presumption that the new government would be dominated by the present right-wing exile community, mainly concentrated in Miami. "I think they must represent to many Cubans what the ANC exiles represent to South Africans. They are seen as the government-in-waiting, and many do not like what they see. It is a problem for those of us who sincerely want to see change.

"I can understand what worries white South Africans about the new order they see coming. It is what worries black Cubans. They know that communism is finished. They know that Cuba is on the edge of the unknown, that things will have to change. They see it all around them. The decay, the new corruption, the repression, the shortages, the economic collapse. But still they fear what might replace it."

A former nurse, who did not want even her first name published, remarked that South Africa seemed blessed by leaders who wished to negotiate change. "If Castro would just bend a little, and recognise that if he is a true patriot he should seek to ease the way for a new order, then Cuba would be safe. It is his adamant stubborness that puts at risk what is good from the revolution — the schools, the health care, the removal of discrimination.

"What I fear most is that the good will be lost with the bad. There is a lot that has been bad, and still is. That is why I left. But it is still my country and there are some things which have been good and which it will be sad to see wiped out because of the stubborness, the arrogance, of one man.

"The old Cuba was governed by what you could say was a form of internal colonialism. Castro, in his way, brought us into the modern age, and I think many humble Cubans remain grateful to him for the new opportunities."

Why do they not say these things in the presence of the Cuban exile establishment? "We do, but not in front of outsiders. There is quite a vigorous debate on how we should proceed, but we are anxious to present a united front. Our unity is what will make it possible to do something for Cuba. But, yes, we have disagreements. There is no group with an exclusive right to wisdom. Some in the exile community have fixed ideas which have to be changed, as much as the thinking of some people has to be changed," said [illegible] moment, the [illegible] for Cuba? "One [illegible] very close. [illegible] where. There is a [illegible] freedom, for a [illegible] later it will [illegible] In the end, [illegible] he denied [illegible] there will [illegible] not unsure [illegible] not assume [illegible] agree on [illegible] people [illegible] Africa, says [illegible] much [illegible] now. [illegible] there [illegible] goes dark. [illegible] There is [illegible] security [illegible] its life, [illegible] a medi[illegible] die. [illegible] end of the [illegible] communism, and [illegible] failed. But [illegible] place?"

(49) Govt slated on accounts

Political Staff

THE government and various departments have been strongly criticised by the all-party Joint Committee on Public Accounts for the lack of control.

The committee, whose latest report was tabled in Parliament yesterday, unanimously expressed "concern" about various administrative deficiencies, which had previously been reported by the Auditor-General.

In particular, it criticised deficient overall management and control of the Multilateral Motor Vehicle Accidents Fund, its improper planning, serious procedural shortcomings and its poor financial statements. CT 19/3/93

The committee said it had noted the steps taken to rectify the fund's deficiencies and shortcomings but it remained concerned about "the progressive weakening financial position of the fund".

Price hikes 'shocking'

49

Business Staff CT 19/3/93

THE budget was described as "shocking" and "lack-lustre" by Luke Doig, senior economist with the Credit Guarantee Insurance Corporation of SA, at a luncheon in Cape Town yesterday.

He said the drastic fuel and VAT price adjustments were "shocking". This contractionary bias could lengthen the recession.

Depressed domestic demand could induce a further cut in bank rate before mid-year. "This would, however, fly against the narrowing of real rates as a result of an uptick in inflation to 12% in 1993.

"The spectre of a debt trap cannot be disguised — R22bn on servicing public debt is the second biggest single item in the budget."

Graft 'fractional'

JOHANNESBURG. — The level of corruption being brought to light in the South African government is no greater than that which exists in the private sector, according to Finance Minister Derek Keys.

Speaking at a National Party fund-raising banquet last night, Mr Keys said evidence had been given to a commission of inquiry to the effect that corruption in the TBVC states and self-governing territories did not exceed five percent of total consumption spending of R18 billion, suggesting that about R900 million had been "misdirected".

The minister contended the remaining R54bn allocated for consumption expenditure for the rest of the country was subject to only a "fraction of a percentage" of corruption — amounting to some R300m to R500m. (49)

He denied corruption was at the R5bn-level as Cosatu general secretary, Mr Jay Naidoo, had stated. — Sapa (304) CT 19/3/93

'No growth this year'

CT 9/3/93

(49)

MAGGIE ROWLEY
Deputy Business Editor

FURTHER negative economic growth was likely this year in view of the "restrictive" Budget announced by Finance Minister Derek Keys, says Ockie Stuart, director of the Stellenbosch Bureau For Economic Research.

Keys had forecast economic growth of between 0% and 0,5% for the current year but "there is nothing in the Budget that will stimulate the economy in 1993 and it is going to be another very tough year," he said.

The relief provided to companies through the reduced corporate tax rate and the incentive for investment and growth provided in the dual tax rate was unlikely to impact on economic growth this year.

"The effects of these moves will only be evident in the medium term and it is of concern that a future government, which could be in place by the next Budget, will change direction before any positive effects filter through.

"It is possible that a future government would prefer to see the stress on direct as opposed to indirect taxation that has been implemented in this year's Budget," said Stuart.

In his Budget speech this week, Keys said that he was sanguine that the steps taken in this year's budget to limit the budget deficit to 6,8% of GDP in the coming year would mean there was more room created on the fiscal side for a gradually more relaxed monetary policy approach which would also be "vital for economic growth".

"I interpret this as the Minister putting pressure on Reserve Bank governer Chris Stals to further lower interest rates.

"But the latest increases in VAT to 14% coupled with the petrol levy increase will, we estimate, push up inflation by about 3% leaving little room for relaxation in monetary policy.

Comparing the Budget to the government's normative model announced last week, Stuart said one goal of the model was to excersie financial discipline.

"And the Budget definitely did do this in the way of low salary increases for civil servants and cutbacks in certain sectors to provide for an overall 6,5% growth in current expenditure."

However, regarding the provision of tax relief, the Budget had failed to achieve this goal except on reducing the burden on companies. In fact bracket creep and the increase in indirect taxes had lifted the burden on individuals considerably and would put further pressure on disposable consumer income.

Budget gets mixed reaction at forum

CT 19/3/93 (49)

Business Editor

THE budget was praised as a bold move to encourage necessary growth by some speakers at the annual Nedcor and Old Mutual forum yesterday.

But Lieb Loots, a professor of economics at the University of the Western Cape, suggested that the cut in the top rate of company tax to 40% could have been phased in over three years.

ANC economist Tito Mboweni said both the rise in VAT to 14% and the cut in company tax would be criticised.

Mboweni called for a mechanism to control government expenditure and suggested there should be a two-year, three-year or five-year plan to show the clear direction future budgets would take.

Loots commended Finance Minister Derek Keys for retaining a 6% budget deficit before borrowing.

Brian Kantor, a professor of economics at the University of Cape Town, said he thought the deficit could have been reduced by less than 3%.

He pointed out that Britain had taken the longer view in Tuesday's budget and tolerated an 8% deficit in a recession.

Kantor said that, at 14%, VAT was at the level it should have been fixed last year. In fact, he thought VAT could be higher and company tax lower.

Introducing the 15% company tax on dividends to be distributed would cause "major changes in dividend policies and financial structures".

Discussing government spending, Kantor said the reductions were off a very high base. A taxpayers' movement was needed in SA to ensure that good value was obtained for government spending.

And education should not be considered a consumption expenditure. It was the best type of investment, in human capital.

Conversely, spending money on police buildings and hospitals should be considered consumption, and not investment.

Starting the discussion Aubrey Dickman, honorary professor of economics at Wits Business School, said the bold move in cutting company tax brought SA more in line with international norms.

But the economy was now at a critical point. If growth was not forthcoming SA would move further into the debt trap.

Pepkor chairman Christo Wiese said the budget was a step in the right direction. The way out of SA's dilemma was through bold action and imaginative initiatives.

Gerhard Croeser, director general of the Department of Finance, pointed out, in answer to Mboweni's criticism, that in the present transition period there was no mechanism to get together to discuss spending and make long term plans for future budgets. This would come with the interim government.

His department considered the 15% tax companies had to pay on dividend payments compensated for the cut in company tax to 40%.

Eugene Nyati, director of the Centre for African Studies, said he wanted to see performance auditing of the civil service.

Raymond Parsons, director of the SA Chamber of Business (Sacob), said the budget was "transparent, credible and innovative."

The root problem was the level of government spending which had forced Keys to take R12,5bn out of the economy.

This meant the economic recovery would be delayed.

undermentioned emblem in connection with any trade, business, profession or occupation or in connection with a trade mark, mark or trade description applied to goods, other than the use thereof by the said Government or its mandatories.

voormelde Wet, op die gebruik van die ondergemelde embleem geplaas word in verband met enige handel, besigheid, beroep of bedryf of in verband met 'n handelsmerk, merk of handelsomskrywing wat op ware aangebring is, uitgesonderd die gebruik daarvan deur genoemde Regering of sy gevolgmagtigdes.

QUEEN'S AWARD FOR ENVIRONMENTAL ACHIEVEMENT

Interested persons are invited to submit, in writing, such representations as they may care to make in regard to the matter to the Registrar of Trade Marks, Private Bag X400, Pretoria, 0001, to reach him within 30 days of the publication of this notice.

(19 March 1993)

Belanghebbendes word versoek om vertoë wat hulle in verband met die saak wil rig, skriftelik by die Registrateur van Handelsmerke, Privaatsak X400, Pretoria, 0001, in te dien sodat dit hom binne 30 dae na publikasie van hierdie kennisgewing bereik.

(19 Maart 1993)

NOTICE 229 OF 1993

SOUTH AFRICAN RESERVE BANK

49

Statement of assets and liabilities on the 28th day of February 1993

	1993-02-28 R	1993-01-31 R	Change R
Liabilities			
Share capital	2 000 000	2 000 000	—
Reserve fund	93 325 065	93 325 065	—
Notes in circulation	11 466 877 697	11 943 665 226	(476 787 529)
Deposits:			
Government	7 215 721 660	8 097 898 173	(882 176 513)
Deposit-taking institutions	2 089 371 465	1 884 452 339	204 919 126
Other	73 755 361	849 090 415	(775 335 054)
Other liabilities	6 541 345 073	5 238 665 669	1 302 679 404
	R27 482 396 321	**28 109 096 887**	**(626 700 566)**
Assets			
Gold	5 515 374 863	6 058 019 726	(542 644 863)
Foreign assets	2 782 817 695	2 730 308 481	52 509 214
Total gold and foreign assets	**8 298 192 558**	**8 788 328 207**	**(490 135 649)**
Domestic assets:			
Discounted bills	4 620 140 000	4 536 190 000	83 950 000
Loans and advances:			
Government	—	—	—
Other	1 591 918 472	1 554 955 548	36 962 924
Securities:			
Government	610 655 342	874 833 825	(264 178 483)
Other	1 122 985 045	1 122 985 045	—
Other assets	11 238 504 904	11 231 804 262	6 700 642
	R27 482 396 321	**28 109 096 887**	**(626 700 566)**
Rand per fine ounce	R931,29	R911,24	R20,05
Gold holdings in fine ounces	5 922 296	6 648 106	(725 810)

Pretoria, 5 March 1993.

(19 March 1993)

C. J. SWANEPOEL,
General Manager.

Opinion

Budget sets unhealthy precedent

(49) CT 19/3/93

Political Survey
By GERALD SHAW

THE most disturbing feature of the last Budget of the old dispensation is the perpetuation of the infamous Special Defence Account — and the unhealthy precedent which this instrument of unchecked executive power is setting for the future.

The Soviet menace has long since faded and there are no enemies in sight

Why is such a huge sum deemed necessary for special defence purposes — R3.7 billion for 1993-94 — and why on earth must it still be secret and beyond the scrutiny of Parliament?

The Special Defence Account has swallowed up billions and billons of the taxpayers' hard-earned rands in the last 15 years and continues to do so.

Why can we not be told why and how this money is to be spent?

The country's urgent priorities lie elsewhere — in job creation and education and in housing and health care for the impoverished masses.

We are told that the purpose of the Special Defence Account is to finance the buying of costly high-tech equipment, weaponry, jet aircraft, tanks and ordnance. The secrecy has been necessary, it is said, on account of the arms embargo.

What we are not told is that this fund also financed the CCB death squads and other wide-ranging clandestine operations at home and abroad, including the futile wars of insurrection against the legitimate governments of Angola and Mozambique.

Cold War terms

Literally billions were spent by Pretoria on an anti-communist crusade. Moscow's interest in Southern Africa was already vestigial anyway and the Soviet Union was by then mainly concerned with Afghanistan at its back door and its own collapsing economy.

For most of this period the taxpaying South African public were told nothing of our costly sponsorship of Jonas Savimbi's Unita rebels in Angola or our similarly costly sponsorship of the Renamo terrorists in Mozambique.

Unita also enjoyed a measure of support from inveterate cold warriors in the US but without massive SADF sponsorship the civil war in Angola would have petered out in the mid-1970s. The Cuban nuisance could have been taken care of diplomatically without the SADF's recklessly imprudent and pointless campaigns in Angola. In Mozambique, the Renamo mercenaries would have faded out entirely.

But the ANC was seen in Pretoria in stark Cold War terms as a Soviet surrogate, a serious external threat. The purpose of SADF destabilisation was to create a cordon of chaos around our borders which would keep an invading ANC at bay. This ill-conceived policy did nothing to stop the steady *political* advance to power of Swapo or the ANC but it brought untold misery to the region.

If there had been no SADF destabilisation, both Mozambique and Angola could have been relatively peaceful today and looking to Pretoria's economic leadership in a developing regional market.

Instead, a combat-crazed Dr Savimbi is plunging Angola into yet another round of travail and the Renamo warlords are threatening Mozambique with a similar fate. Frankenstein's monsters are out of control.

This is the result of giving the military their head and unlimited resources in a situation calling for political insight rather than military adventuring. Can we sure that this will never happen again?

The SADF's cult of secrecy ha[s] been a royal road to abuse of powe[r] and an open invitation to corruption. The mystery is why the Sout[h] African taxpaying public put u[p] with it for so long. Unflagging SAB[C] propaganda and the uncritical acceptance of the official line on th[e] communist menace are part of th[e] explanation, perhaps, plus the fail[]ure of an influential section of th[e] media to keep the public informed

There is great danger here, no[w] that the last budgetary opportunit[y] has been missed to correct the situa[]tion before the new era dawns There seems little grasp that unwholesome practices which are left unchallenged now could return t[o] haunt us.

Will the Special Defence Fund b[e] allowed to continue in next year'[s] Budget, and in the next, enablin[g] the clandestine security establishment to resume their unwholesom[e] ascendancy, this time for the benefi[t] of new masters, and once again a[t] painful cost to the taxpayers?

What has to be done if the evils o[f] secret funding are not to be perpetuated when the ANC joins the NP in government next year?

The Special Defence Fund needs to be abolished, for a start, and all defence expenditure made subject to proper parliamentary control.

To safeguard the public interest, joint parliamentary committees on defence and intelligence are likewise essential, as in the US, with full constitutional powers of access to information — including classified information — covering the whole range of military and national intelligence activities.

There is no other way Without such safeguards, what will be left of democratic values and standards 10 years from now?

Inflation fears hit capital market

BDay 19/3/93. (49)

TIM MARSLAND

THE capital market weakened sharply in hectic early trade yesterday on the back of higher inflation expectations as a result of Wednesday's Budget, dealers said.

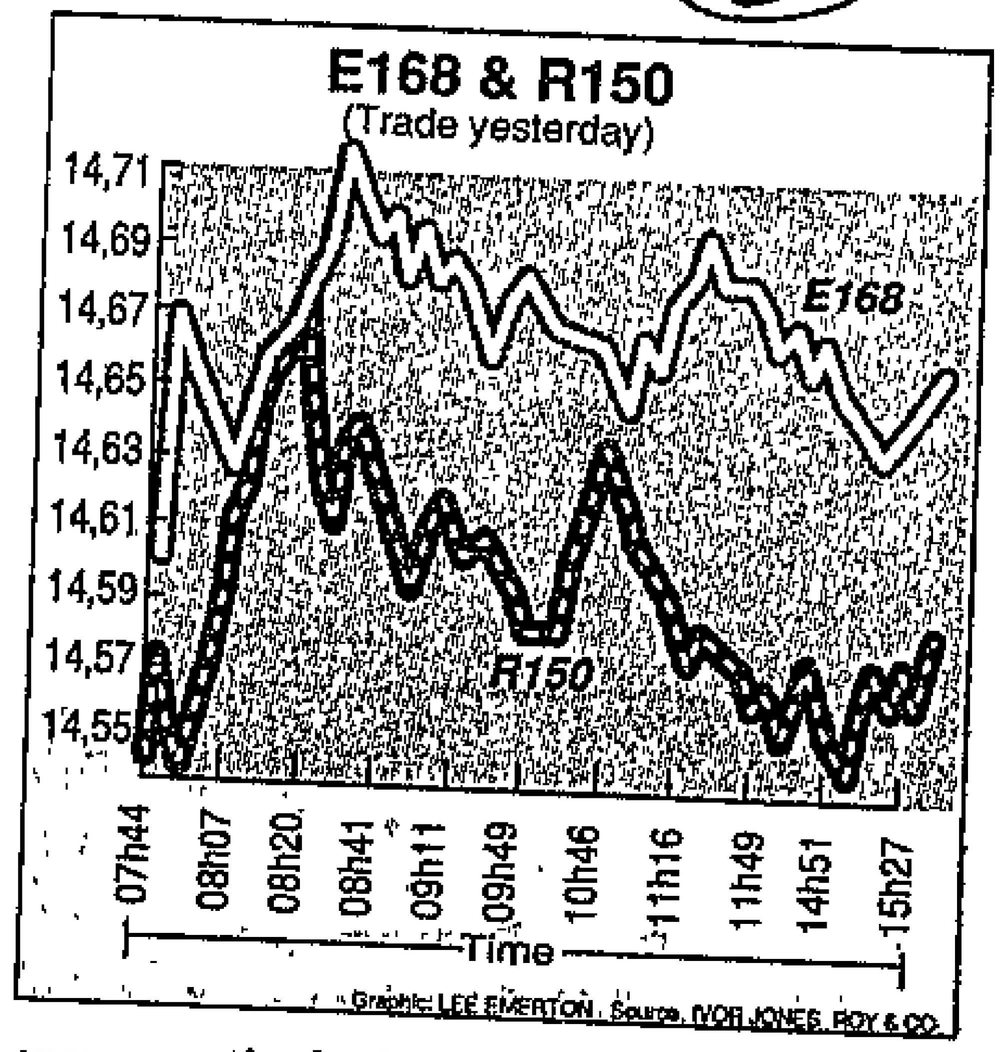
Key stocks fell sharply in a largely speculative market. The Eskom 168 long-dated bond yielded 14,72% at one stage and closed at 14,680% compared with its overnight 14,590%. In rand terms, this meant a loss on the day of R4 452 on a R1m bond.

The higher the yield on a bond, the less it is worth.

Government's R150 yielded a high of 14,680% and a low of 14,550% before closing at 14,590% from an overnight 14,500%.

In the medium area, Transnet's T007 hit a high of 13,750% before closing at 13,735% from an overnight 13,550%. Telkom's medium-dated TK05 closed at 13,740% from 13,600%, while the Land Bank LB00 ended at 14,125% from 13,980%.

Dealers said the Budget's inflationary implications, mainly the new 14% VAT rate and the 16c/*l* rise in the fuel price, were particularly bearish for the market.



Bears also sold on the back of news that R13bn in new money would be required from the market this year to fund the deficit. However, one dealer said the

□ To Page 2

Capital market

BDay 19/3/93. (49)

□ From Page 1

amount was similar to that raised last year, which the market had absorbed "quite comfortably".

The dealer said the market would regain some lost ground today, once the Budget had been better digested, since the underlying trend remained bullish.

A key feature of yesterday's trade was the narrowing of the gap between government and parastatal bonds. Dealers said this indicated that there was a potential oversupply of government bonds as a result of the funding programme.

In another move, the Reserve Bank launched the Treasury's new five-year bond on which it will pay a coupon rate of 10,75%. The new bond, the R160, is expected to be a key source of funding this year.

Investors sought almost R500m of the paper, but the Bank issued only the initial R100m on offer.

Bank GM money and capital markets Andre Kok said the Bank had offered the initial R100m to "test the water" to see what yield the new paper would attract.

Market sources believe the Bank intends issuing about R7,5bn of the bonds.

The paper was issued at a yield of 13,85% which capital market dealers said was in line with similar stocks. The R160 ended at 13,840%.

Reserve Bank allays fears of tighter monetary policy

BDay 19/3/93. (49)

GRETA STEYN

CAPE TOWN — The Reserve Bank yesterday allayed fears that the huge Budget deficit would force it to tighten monetary policy by giving the Budget its stamp of approval.

Bank Deputy Governor Jaap Meijer, speaking at the Old Mutual Budget seminar, said the Bank was supportive of the Budget. "We believe it is a major effort in the right direction and a step towards realising the goals in the normative economic model," he said. However, he said, balance of payments pressure would continue to dominate monetary policy decisions.

Gilt rates have gained 30 points since the Budget as sentiment turned bearish on inflation and fears that the new corporate tax system would encourage a shift from gilts into equities.

One of the main themes at the conference was the concern that government spending was too high and that the expenditure targets in the Budget would be overrun. However, State Expenditure director-general G Smit said Finance Minister Derek Keys would announce next week special measures to curb spending. A measure already taken was that government departments would be able to carry over allocations from the present fiscal year into the next — a move that would encourage savings.

Finance director-general Gerhard Croeser added that Keys had committed himself to saving R5bn in the next two years. It would be difficult to meet the target, given the constraint of huge debt servicing costs.

A number of participants in the seminar raised the idea of creating an independent "fiscal commission" to monitor government finance. Croeser said a transitional government would have a fiscal committee that would monitor government finance and expenditure policies.

Pepkor chairman Christo Wiese criticised Keys for not spelling out the unbundling aspects of the Budget, saying time was being lost.

However, Croeser said government wanted to consult the private sector first before changing legislation to facilitate unbundling.

ANC economist Tito Mboweni said the company tax rate should only have been reduced to 46% as part of a phased reduction, while the VAT rate should have been raised to 12% with more zero-rating. A system of differential VAT rates had to be introduced, with 15% the top rate

He said the special defence account should be eliminated.

Croeser said the Budget would slice 0,25 percentage points off the GDP growth rate, but small growth was still forecast for the year.

University of the Witwatersrand professor Aubrey Dickman said SA was in a vulnerable position — the spending targets were high and if there was another year of recession, the country would be pushed deeper into the debt trap

Unbundling steps 'could go further'

(49) ANDREW KRUMM

LEGAL and financial sources have welcomed government proposals to boost the unbundling process, but say it could have gone further

Hofmeyr Van Der Merwe tax partner Emil Brincker says government could have extended the proposed stamp duty exemptions — allowed to listed companies planning to transfer quoted shares — to non-listed companies.

"The apparent restriction of the incentive to listed companies is unfortunate," Brincker said.

In his Budget review Finance Minister Derek Keys proposed the stamp duty exemptions and said to facilitate unbundling pyramid structures, dividends in specie would be exempt from secondary tax on companies, set at 15%.

Deloitte and Touche tax manager Jocelyn Rindel said government could have used additional measures to assist the process — such as allowing assets to be transferred at book and tax values.

Star 19/3/93

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What the ANC wanted in the Budget

CAPE TOWN — An increase in value-added tax to 12 percent, enlarging the basket of zero-rated goods and a two percent reduction in the company tax rate were some of the alternatives African National Congress economist Tito Mboweni proposed to Finance Minister Derek Keys' Budget.

Responding to a question at the Old Mutual/Nedbank Budget Forum in Cape Town yesterday Mboweni said VAT, after its initial increase, would be raised over two to three years "to 15 percent but with a differentiated basket of commodities".

A multiple-rate system would be introduced, keeping VAT on essential goods lower and increasing the tax on luxury goods.

The company tax rate would be reduced from 48 percent to 46 percent, and not by eight percent as announced in the Budget.

However Mboweni said the direction of company tax rates would be downward over a number of years.

He said Keys's handling of the deficit to reduce it from 8,6 percent to 6,8 percent was commendable, but there was no clear mechanism to restrain government expenditure within the set R114 billion.

He was against raising government expenditure but there needed to be clear mechanisms for monitoring and ensuring that state spending remained within its Budget estimates.

"The problems which have bedevilled public finances are still there," he said.

In addition to setting up an independent fiscal commission to monitor state spending, Mboweni also proposed a different approach to the Budget.

The Budget would not focus on a single year of fiscal planning but would rather approach fiscal expenditure and revenue over a three or four year period.

This multi-year Budget would set the imperatives for yearly budgets and would also outline government's approach "so that people can see what my development strategy is," he said.

Mboweni believed this would create policy consistency and encourage business and investor confidence.— Sapa.

At the same seminar, reports **Sven Lunsche**, the Reserve Bank's senior deputy Governor, Jaap Meier described the budget as "mildly deflationary".

He said inflation could rise by up to two percentage points in the short-term following the rise in VAT to 14 percent and the 16c per litre increase in the petrol price.

"In the longer term, however, this Budget follows the monetary guidelines set by the Normative Economic Model and should be slightly deflationary," he said.

His analysis was supported by a number of economists who argued that the Budget would serve to suppress consumer spending over the next few months, thereby reducing demand inflation.

Despite the deflationary scenario, Meier indicated a further cut in interest rates was not on the cards.

"The recent sharp decline of the gold and foreign exchange reserves and the dwindling surplus on the balance of payments are a new constraint on our interest rate assessment," Meier said.

Star 19/3/93

Budget finds favour overseas

By Neil Behrmann

(49)

LONDON — The South African budget has lifted the financial rand slightly as foreign investors responded favourably to tax changes.

"It was an inventive budget," said John Bergtheil, South African analyst at James Capel.

He said the government's borrowing requirement was in line with market expectations and he ~~was not~~ surprised when bond prices rallied.

Another analyst said the cut in company tax to 40 percent from 48 percent should encourage domestic investment and in theory it should help foreign investment.

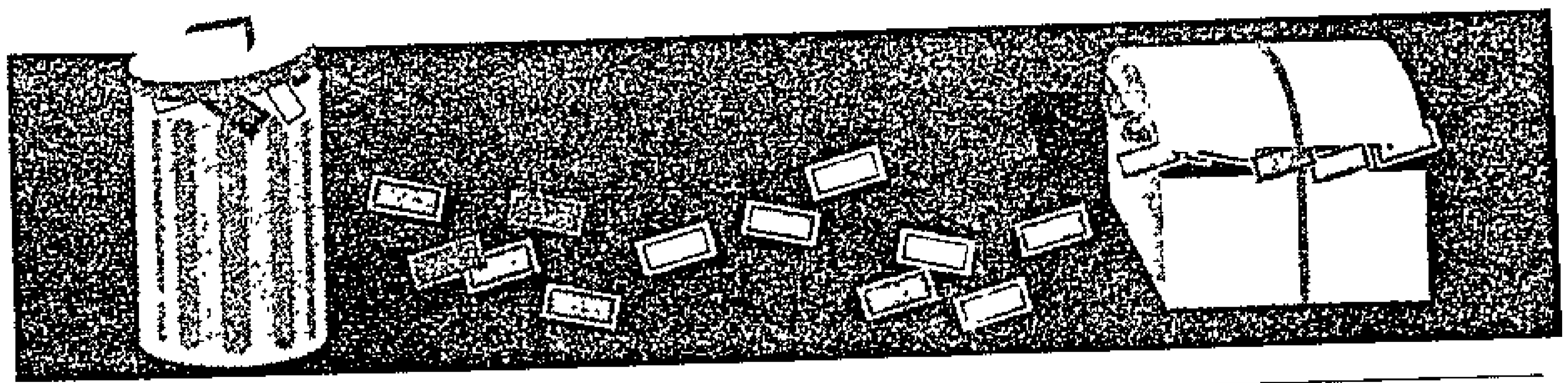
In practice, however, there was unlikely to be much foreign inflow until an interim government was formed, the political climate became more stable and the economy improved.

There was confusion, however, about the implications of the 15 percent dividend tax. Dealers here wondered whether it would make gilts more attractive than shares and help the government finance its budget deficit.

In general, the budget was described by international market players as neutral.

The financial rand has been under pressure recently, say dealers, partly because of continual sales for sterling by Royal Corporation for Del Monte, the European food company.

Once the Royal sales come to an end, dealers expect the FR to appreciate. The supply of this small volatile market will then have narrowed considerably.

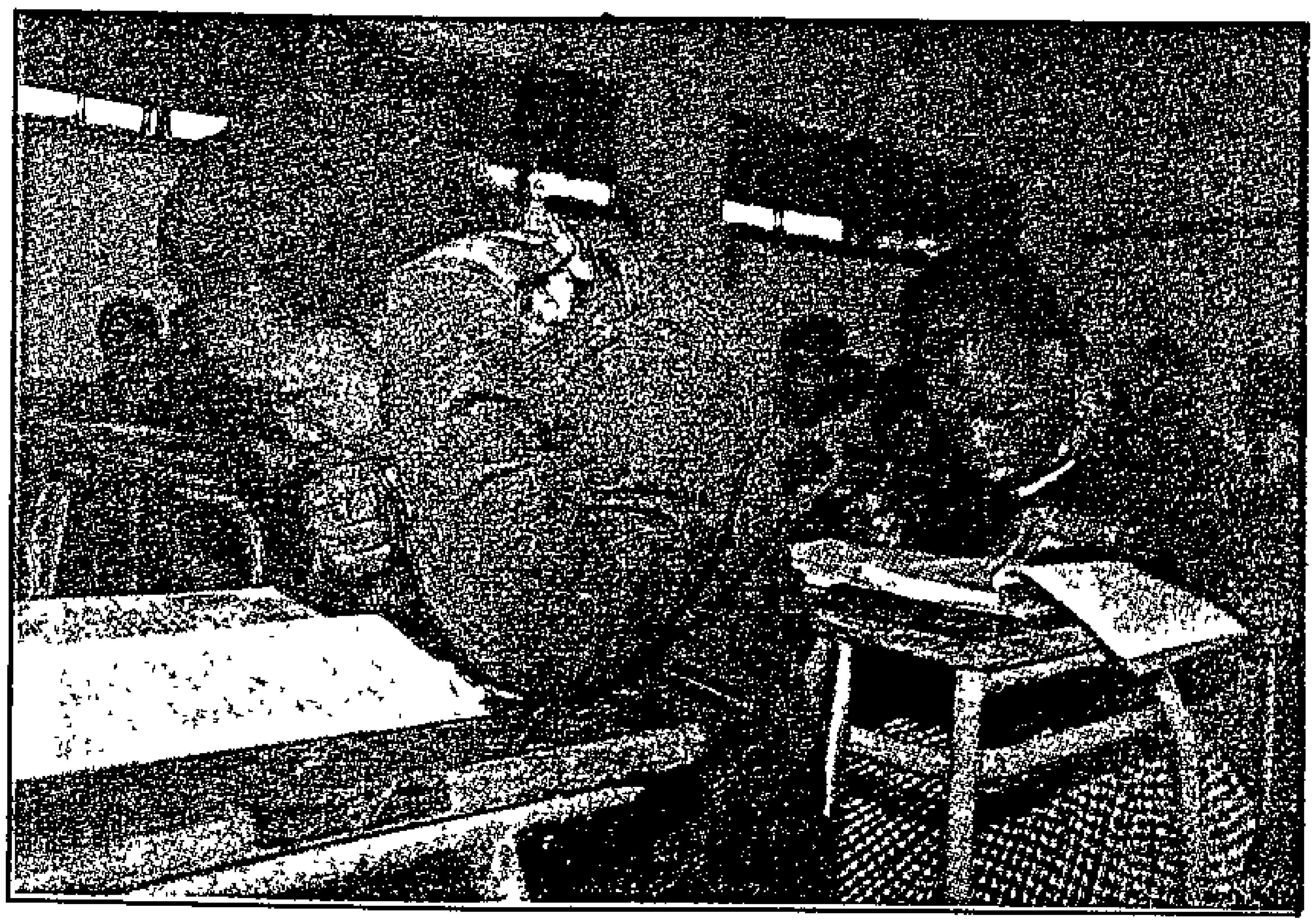


ALLOCATIONS FOR STATE DEPARTMENTS

FM 19/3/93 **(Including statutory amounts)** 49

Department	1992-93 Rm	Budget 1993-94 Rm	Budget % change
State President	21,3	23,1	8,4
Parliament	86,5	113,7	31,4
Foreign Affairs	5 995,2	7 060,5	17,7
National Education	284,1	432,7	52,3
Administration: House of Assembly	9 784,7	8 764,2	−10,4
Education and Training	4 469,8	5 720,0	28,0
Defence	9 704,5	9 335,3	−3,8
Manpower	295,3	325,9	10,3
Public Works	1 909,7	2 220,9	16,3
Commission for Administration	53,5	56,4	5,4
Improvement of conditions of service	2 283,0	1 470,5	−35,6
Justice	777,8	965,5	24,1
Correctional Services	1 484,0	1 744,5	17,5
Agriculture	452,5	1 319,0	191,5
Trade and Industry	3 059,9	3 019,6	−1,3
Mineral and Energy Affairs	687,1	707,6	3,0
Finance	17 882,6	22 688,5	26,8
Home Affairs	288,7	317,6	10,0
Transport	1 998,2	3 216,3	61,0
Administration: House of Representatives	4 853,3	5 241,9	8,0
Administration: House of Delegates	1 659,0	1 824,0	10,0
National Health and Population Development	1 224,0	2 243,0	83,2
Police	5 644,7	6 451,5	14,3
Environment Affairs	207,0	221,0	6,7
Water Affairs and Forestry	389,0	409,3	5,2
SA Communications Service	51,6	54,0	4,6
Constitutional Development Service	41,2	66,3	61,0
Local Government and National Housing	977,5	841,6	−14,0
Regional and Land Affairs	21 647,0	25 193,0	16,3
State Expenditure	606,2	682,0	12,5
Central Economic Advisory Service	4,3	4,9	14,0
Public Enterprises and Privatisation	7,5	8,2	9,3

(In some cases the allocations for 1992-1993 do not match the allocations as originally printed in the Budget estimates. This is due to a shift in functions and a reclassification of expenditure.)



Despite the lack of growth in the economy, education continues to attract funds
Photo: GUY ADAMS

Will money solve education problems?

WMail 19/3 - 25/3/93. (49)

Value for money is as important as absolute sums in educational spending.

By **BARBARA LUDMAN**

EDUCATION'S share of the Budget as a portion of the country's gross domestic product (GDP) should be lower than it is, according to Finance Minister Derek Keys.

"The Department of Finance is trying to control overall education spending at six percent of GDP," he said this week. "But that assumes an economic growth of three percent in real terms."

Although there has been a lack of perceptible growth in the economy for some years, education has continued to attract funds and its portion of GDP has soared to 7,3 percent — a figure pointed to by educationists as proof of the government's commitment (even if inadvertent) to maintaining international standards of educational spending.

"By contrast " Keys added, housing, which the De Loor Commission recommended garner six percent of GDP, will only be getting 0,5 percent.

That slight did not bother the National Housing Forum (NHF), which issued a joint statement (with the minister of national housing) welcoming the R200-million designated for the NHF in the Budget, plus an additional R200-million bridging finance in a supplementary budgetary allocation, for funding for a new Joint Housing Initiative (JHI).

The NHF said it had been negotiating with the Department of Local Government and National Housing for some months for a "new, broadly supported, non-racial housing initiative which focuses on disadvantaged communities". The JHI would use state funds as well as private-sector investment.

There are other allocations for housing and, Keys notes in the Budget, "it is estimated that a further R800-million or so will be spent on housing by the Development Bank of South Africa, the South African Housing Trust, the Independent Development Trust and the self-governing areas".

The education allocation of an aggregate R22,704-billion excludes the "independent" TBVC states and salary increases for teachers. Moreover, Keys notes, it "makes adequate provision for the state of the long-term financing plan for education as expounded in the Educational Renewal Strategy (ERS)".

The publication several weeks ago of the government's revised ERS is one of the more contentious issues in the educational arena, with educationists and teacher organisations accusing the government of having reneged on an undertaking not to restructure education unilaterally.

The Urban Foundation's Education Policy Unit said it believed education had reached a ceiling in terms of its Budget share, now 21,4 percent. The unit noted a shift — believed to be temporary — in favour of tertiary education and substantially increased capital spending.

But, though it seems a good idea to throw money at education problems, some of the targets are being questioned.

"Government policy assumes that its degree/diploma-based upgrading programme will automatically result in improved teaching ... Alternative approaches to teacher training which rely less heavily on pre-service training and more heavily on in-service training may prove both more effective and less expensive," said the Education Policy Unit.

What Keys should have done ...

W/Mail 19/3 - 25/3/93.

(49)

By REG RUMNEY

FINANCE MINISTER DEREK KEYS dispelled a lot of criticism by leaking a fair amount of the Budget's bad news before actual Budget day. For instance, most commentators expected Value-Added Tax to rise, though not by as much as four percentage points.

Keys attracted praise for an imaginative approach to company tax and for addressing the Budget deficit, though there is some feeling he did not cut government spending enough.

But what did Keys leave out? Here are some omissions:

●The most outstanding omission was any alleviation of fiscal drag, a "secret" tax which the Normative Economic Model released last week thoroughly condemned.

●Capital and current expenditure on road infrastructure declines for another fiscal year, at R2,430-billion, or 32 percent of what the fuel levy brings in.

Calls for the redirection of the fuel levy to a dedicated national road fund have been ignored.

The Budget review says a high priority is given to capital spending on existing roads, as against new roads. This implies a continuing reliance on toll roads for new road building.

●Privatisation is not mentioned as a source of income in the Budget speech, for obvious political reasons. This is despite the pending privatisation and listing of state abattoir utility Abakor, and a vow by the government that privatisation is going ahead.

●It is not, as has been pointed out by the Democratic Party, desirable that a much larger proportion of the Budget be spent on education than in the previous fiscal year. Value for money is as important as absolute sums.

●Unemployment was the big issue that deserved some creative thinking but was not imaginatively addressed. Special job-creation programmes which might play a role in kick-starting the economy were not considered.

Though an extra R60-million was voted in the Budget for job creation, it is not clear whether this and other money will be integrated in the provision of essential capital works.

●A state lottery, which the DP suggested could have raised around R800-million this fiscal year, was once again passed over.

●Retired people have received no further exemption on interest income.

●Medicine is still subject to VAT.

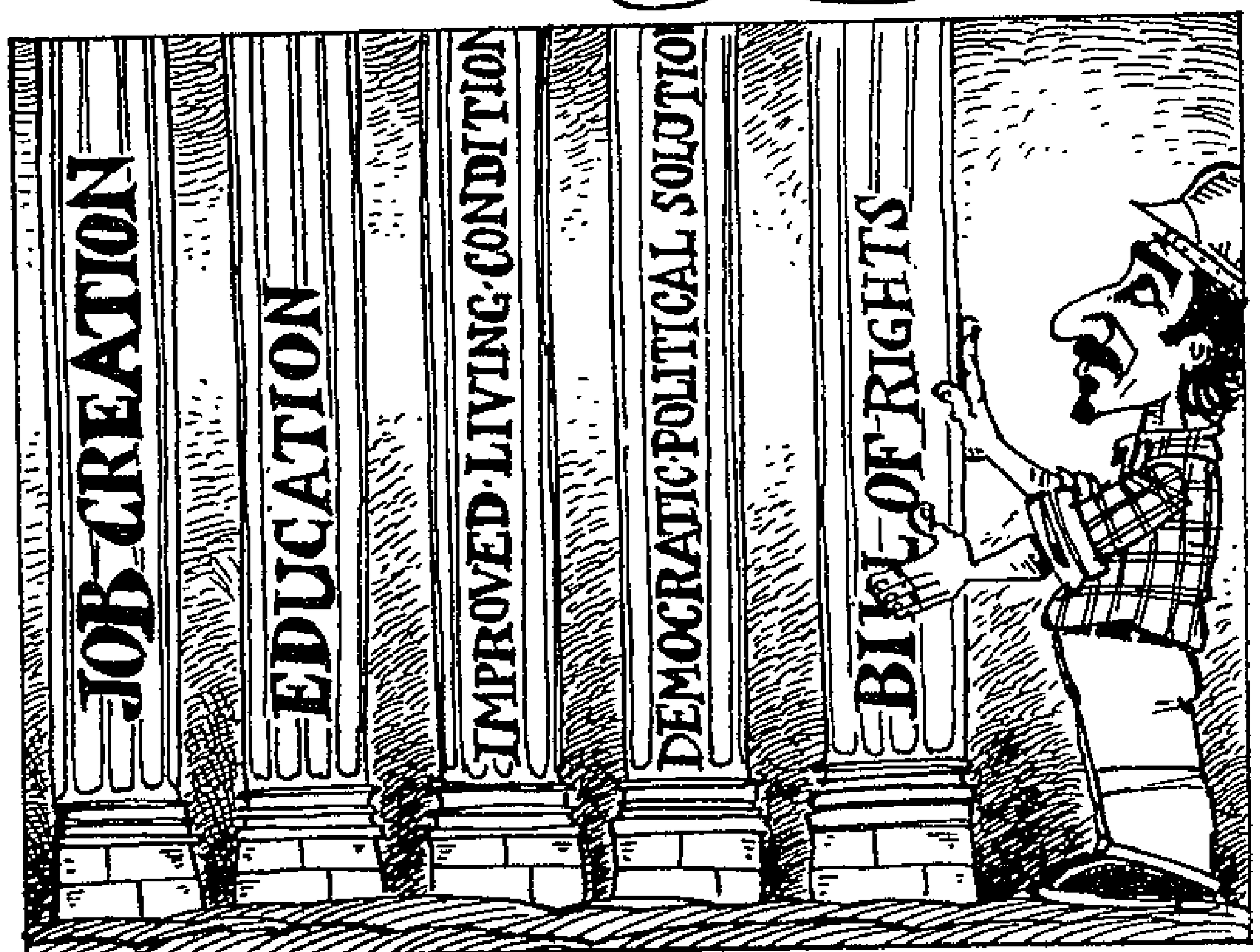
●A capital gains tax was not implemented, but this tax or something similar probably waits in the wings.

The five pillars to replace apartheid

W/mail
19/3-25/3/93.

(49)

Economic restructuring must top the agenda for a new government, says Cosatu general secretary **JAY NAIDOO**



THE slogan Freedom and Bread captures the vision of what the Congress of South African Trade Unions wants of the transition from the nightmare of apartheid to a stable, non-racial, non-sexist South Africa.

Within Cosatu the belief that the events of 1990 would usher in an era of peace and democracy has been replaced by a more sober assessment of the balance of forces and what is required to ensure that the legacy of apartheid is addressed and South Africa is fundamentally restructured at a political, economic and social level.

The core of Cosatu's strategy is the economic reconstruction and development programme that must underpin any political transition.

The five pillars on which the programme stands are:

●A major programme of job creation through short-term public works programmes that can act as a kickstart to the economy as well as directing state resources to extending social services to the excluded black majority living in township ghettoes or in rural areas.

A longer-term strategy on industrial restructuring which can create more sustainable jobs and ensure we focus economic growth on those sectors that are going to meet domestic needs and also locate us in the international world economy.

●Secondly, a major focus on education and training which will address one of the most disastrous impacts of apartheid, Bantu education and the consequent low skills base in the South African economy. This requires a restructuring of the macro education system particularly in regard to the role of secondary and tertiary institutions such as technikons and universities.

But, more crucially for Cosatu, we must put a national training scheme in place and restructure the national and industry training boards so they link wages to a grading and skills development programme.

●Thirdly, such a programme must address the poverty of the majority and ensure that basic necessities such as housing, education, proper health care, electricity and sewerage are extended to all people.

●Fourthly, the rights of people, both at an individual and collective level, have to be protected both at constitutional and legislative level. Such rights should not — as the National Party's Bill of Rights does — protect the privileges of any racist minority. These rights must especially empower grassroots organisation such as civics, women, youth, student, parents and teachers to have power over decisions that affect their lives. In this way we will be able to build an effective countervailing power to that of any unresponsive and unaccountable state bureaucracy.

●Lastly, we must ensure a democratic political solution in the short term viz a non-racial election within a year and the installation of an interim government of national unity based on proportional representation that will adopt such a programme.

Cosatu is convinced that there is no alternative to this approach. Any suggestion that attempts to exclude or marginalise the trade union movement or civics will guarantee a continuation of conflict or what Derek Keys aptly put as the "economic civil war".

Therefore, it is of great significance that institutions such as the National Economic Forum (NEF), the restructured National Manpower Commission (NMC) and a range of industry restructuring committees in such sectors as mining, electronics, textile and clothing, and auto, as well as issued-based forums on electricity, local government and housing have been launched.

It is critical that democratic decision making at an economic and labour level is established now. These institutions are basic pillars on which to achieve a coherent, comprehensive programme of restructuring and move away from the legacy of apartheid conflict and confrontation.

Cosatu sees it as critical to develop programmes that have grassroot support and participation both at the shopfloor and community level. The NMC and NEF are the two institutions through which unions will be able to intervene in developing the macro-economic models and through which checks and balances can be built on the way state revenue is collected and expanded.

These forums are attempting to devise a more coherent approach to the issues of economic growth, education and training, job creation, trade and tariffs and industrial policy development. The added advantage is that they include for the first time the major players excluded by past apartheid regimes and therefore can be used as legitimate platforms for ordinary people to struggle for their rights.

However, these forums or negotiations around the real daily needs and problems of the majority of people can only succeed if employers, particularly big business, and the present governing authority approach such negotiations in good faith.

Cosatu is arguing that state resources must be redirected towards reconstruction and development. Because of the wide-scale wastage and corruption which is revealed daily much tighter controls have to be instituted over government expenditure.

Cosatu is deadly serious about clamping down on corruption and ensuring the presently bloated bureaucracy will not continue to soak up state resources in the future.

Our demands for independent tax and audit commissions are to ensure an overhaul of the tax system to ensure that it is equitable, efficient and effective.

In particular we seek to ensure that the present tax burden is not shifted to the shoulders of individuals and the poor as this government intends with its proposed increase in VAT, PAYE and petrol. We also seek to ensure that state resources are spent in relation to concrete programmes developed in democratic multilateral forums between the major players.

It is unacceptable that the Finance Department wash its hands of the large-scale wastage and corruption and then seek to cover this deficit by robbing ordinary, honest taxpayers of even more of their hard-earned wages.

The minister of finance should remember the tale: "He who pays the piper calls the tune."

Our view is that the majority of people are sick and tired of paying for government corruption and wastage. Civil servants who steal taxpayers' money should not be given a golden handshake but sent to jail.

In the above context of Cosatu's drive for a programme of economic reconstruction and development a debate has ensued about the future of the tripartite alliance of the African National Congress/South African Communist Party/Cosatu.

Cosatu entered such an alliance to ensure that apartheid is defeated and that elections are held for a non-racial, non-sexist democracy.

As we move through this transitional phase the obvious issue is what replaces the apartheid system and how to ensure that democracy means more than just a vote every five years.

The programme for economic reconstruction is our answer. We must ensure that the political process is underpinned by such a programme. At present being debated inside Cosatu, the alliance and the broad democratic movement, are issues of election pacts and the signing of a Reconstruction Accord with the ANC which the ANC undertakes to implement when it becomes the government.

On this basis Cosatu is able to effectively mobilise its membership and support a vote for the ANC on the basis of a clear programme that meets their needs.

The main reason for our political and material support of the ANC is that it represents the most organised or supportive political force for transformation. A jointly agreed programme to restructure South Africa and combat poverty has been the cornerstone of our alliance to build a non-racial democracy.

When that vision and programme, as encompassed in the Reconstruction Accord, does not exist, there will be no material basis for the alliance.

The issue of the future of the alliance when a democratic government is elected is being debated within Cosatu. Like any trade union movement in a democratic country we will seek to lobby government not just on the interests of trade union members but the broader interest of the poor in the country. But we will develop our independent programmes at a political, economic, social level and seek to interact and negotiate with other key players to address the interests of all our people.

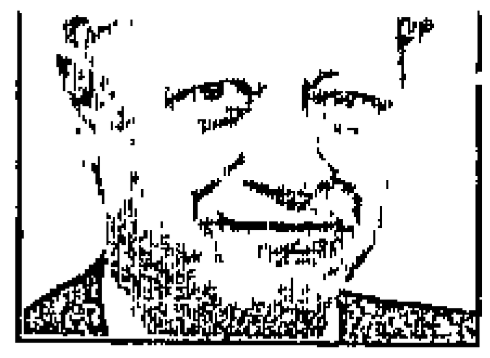
Our bottom lines are:

●There must be coherent approach to economic reconstruction and development.

●We need to develop democratic institutions that include the major stakeholders in decision-making.

●Ensure that industry is restructured at both a private and public sector level to promote efficiency; eliminate wastage and corruption; ensure that we become internationally competitive; ensure proper controls on state revenue and expenditure and that employment is linked to provision of effective and efficient service to all our people; and to ensure that labour standards are enshrined at both an individual and collective level.

Budget /93



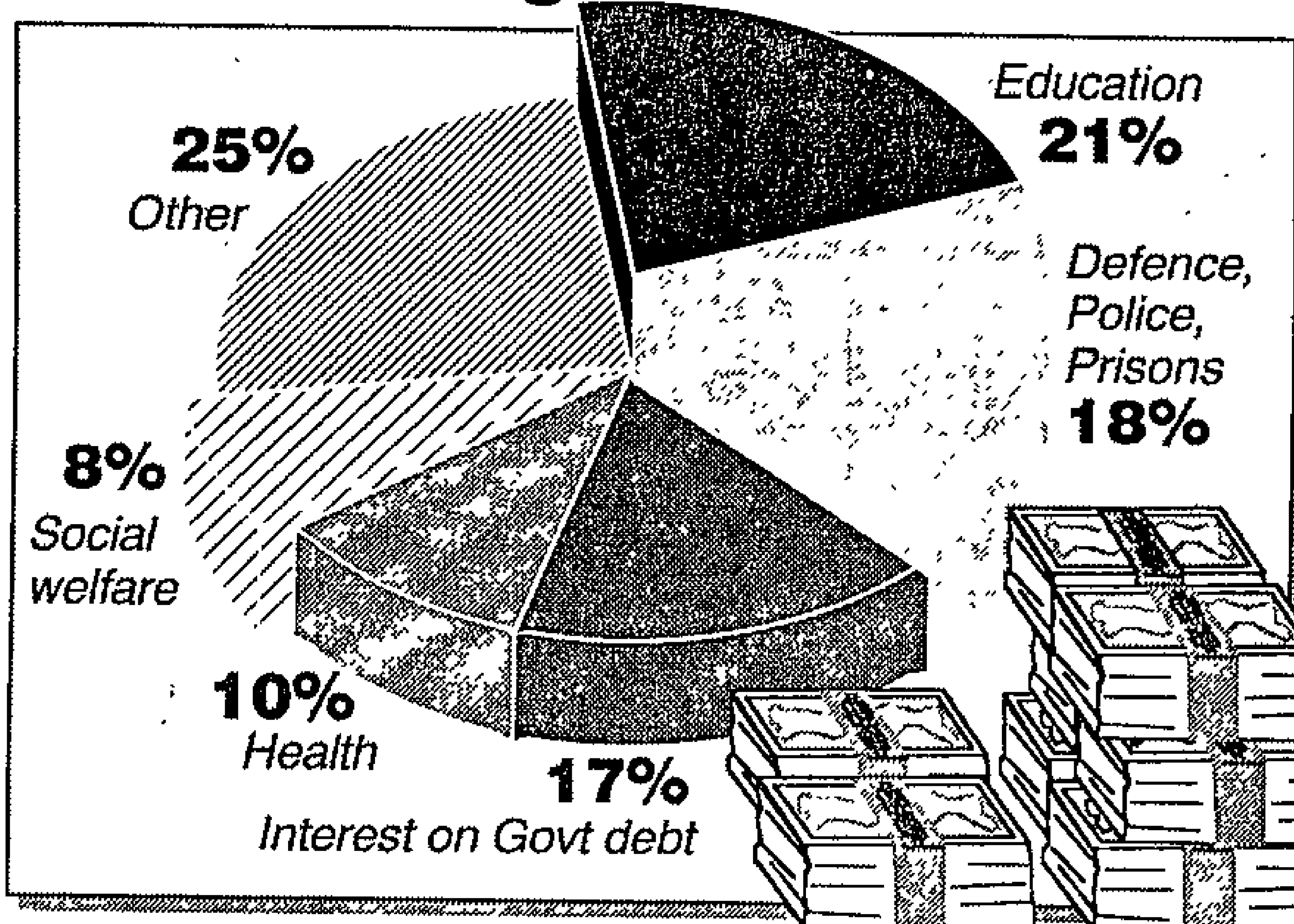
★ How your money is spent
★What the new figures mean
★ What could have been different

Bourgeoisie bears the burden

W/Mail 19/3 - 25/3/93. (49)

Middle-class individuals are being squeezed by the government for the sake of future growth But business has heaved a sigh of relief.
REG RUMNEY *reports*

1993/4 Budget



Key to Keys' plan ... Where the Budget money goes

TAXPAYERS might be puzzled by the first part of this year's Budget theme — "discipline and growth" They might be tempted to remember poet Roy Campbell's condemnation of some South African women novelists and say of Finance Minister Derek Keys' Budget. "He's got the snaffle and the curb alright — but where's the bloody horse?"

Indeed, Keys' business-like supply side Budget this week overtly favoured only the very poor and the corporate sector The rest will have to wait for the longer-term benefits of discipline to come through, if they do

For the hard-pressed individual salary earners of the middle class the Budget was bad news indeed And in this sense it has hampered the economy's ability to grow this year, as personal consumption expenditure crumples further under the weight of a heavier tax burden

For the biggest blows were the failure to adjust the individual tax tables for inflation in any way at all, and an increase in the Value Added Tax rate of four percentage points

Relying on "fiscal drag" or "bracket creep", the phenomenon whereby inflation drags taxpayers into higher tax brackets merely by virtue of cost-of-living increases, will bring in around R5-billion or 15,5 percent more revenue in the 1993-94 fiscal year than in the 1992-93 year

The increased VAT rate, despite zero rating, will garner almost R6-billion or 43 percent more than in the previous year Without the big VAT increase income tax rates themselves would have had to go up quite a bit.

The so-called "sin" taxes on liquor and tobacco were also increased, but only slightly, for an increase in revenue of R320-million.

For the poor, the VAT increase was offset by previously announced zero-rating of a broader range of basic food.

Old age pensions will be increased by 7,5 percent on July 1 The effect of equalising pensions — presumably at the new "white" level of R371 — in September will then mean the amount African pensioners acutally receive, for example, will increase by 27 percent It must be noted, however, this bonus will be delayed by six months.

While there are no obviously "demand-management" measures, these and other government hand-outs will maintain some consumption expenditure

Keys has desisted from cracking down too hard on spending for fear of sinking the economy

Also for the very poor, the much-criticised Nutrition Development Programme, renamed the National Nutrition and Social Development Programme, will get another R400-million

Money will also be pumped into the economy through, for example, the additional R60-million provided for job creation, and the extra R200-million for housing

Corporations at first glance did not get much of a Budget windfall After all, the cut from 48 percent to 40 percent in company tax is designed to gain the same revenue The loss will, says Keys, be made up by a tax on distributable profits. A company will only gain if it ploughs money back into the business and invests in productive capacity And successful companies must pay dividends

But if a company plays its cards right the change will be a boost Econometrix chief economist Azar Jammine reckons that it might seem to favour medium-size companies, but even small companies whose owners are tempted to pay themselves more out of profits will find it more profitable to keep the money in the business

That way they will pay 40 percent tax rather than the top marginal rate of 43 percent

Other favourable implications for business of the Budget was what Keys omitted to do Southern Life chief economist Mike Daly notes there was a sigh of relief when the Budget was presented There had been talk of levies on life assurers, but instead Keys adopted the mild "four-fund" approach and even scrapped the somewhat restrictive Sixth Schedule to the Income Tax Act This basically prevented life assurers from selling pure investment products without any life insurance thrown in, in competition with banks and building societies for short-term investment funds

Daly says there had also been talk of a company loan levy There had even been a suggestion Keys might introduce some levy or surcharge on high earners to finance abolishing bracket creep for lower income earners Keys shied away from touching the income tax tables to cater for fiscal drag at all

While not taxing business, the Budget gives around R2-billion to the General Export Incentive Scheme, whose efficacy has been questioned as a stimulus for exports This is in line with the Normative Model, whose authors believe the scheme cannot be scrapped in the short term

Whether one can separate the economic interests of individuals and companies is a moot point. companies employ individuals

In any case an extra R15-million -- of a total of R112,6-million - is voted for small business, which is an efficient job provider

Also, the labour-intensive tourist industry has been given a boost through reducing the depreciation period for hotel refurbishment cost to five years from 20 years and an extra R25-million, of a total of R110-million, is provided for aid to tourism this fiscal year

Nonetheless the Budget message for the taxpaying middle class is that for another year the struggle to maintain living standards continues

Keys' calculated risk on taxes

W/Mail 19/3 – 25/3/93.

By HILARY JOFFE

ANY Budget which raises taxes runs the risk that this will stifle economic growth and so limit the increase in total tax revenue.

Finance Minister Derek Keys is taking a calculated risk in this week's Budget: he has to deal with the huge gap between government spending and revenue. But if his tax increases lead to "overkill" of the economy, the Budget deficit may turn out higher than the R25,3-billion he has estimated for 1993/94

It's not that the Budget assumes a sparkling economic outlook: it forecasts growth in gross domestic product (GDP) for this year of 0-0,5 percent. The Budget estimates tax revenue will rise by 16,5 percent to R88,9-billion and government spending by 8,8 percent to R114-billion. The expected deficit should therefore drop to 6,8 percent of GDP, from the 8,4 percent represented by the 1992/93 deficit of around R28-billion. And budgeted capital (investment) spending, for which it's considered generally acceptable for governments to run into deficit and borrow, will be at least R7,5-billion, or two percent of GDP in 1993/94.

But the ballooning deficit for the fiscal year just past is in large part the result of over-optimistic economic growth estimates by the Budget drafters. This time last year, along with most private sector economists, they were expecting a GDP growth rate of around one percent for 1992. Instead, drought and slow growth in the international economy contributed to a GDP decline of 2,1 percent. As a result, government revenue was R10-billion below Budget and expenditure was inflated by R3,4-billion in drought aid to farmers.

Keys must be hoping that no droughts, floods or other unanticipated disasters derail his Budget.

And he has to hope that the increase of the VAT rate to 14 percent and rise in the personal tax burden because of fiscal drag will not cause the economic growth picture to be even worse than assumed.

Praying for rain ... Keys must be hoping drought won't derail his Budget

On the spending side, the government is aiming at cost savings of R5-billion over the next two years and so Keys' Budget estimates a real fall in central government expenditure of around two percent, taking into account inflation, which private-sector economists forecast at about 11 percent).

Defence spending by central government, for example, is to fall by two percent in money terms, while the police vote rises by 22,7 percent, education by 16,2 percent, health by 15,5 percent and social security and welfare by 22,2 percent. Interest on the government debt increases by 21,8 percent.

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However, Keys chose to emphasise general government spending, giving gross expenditure figures which include the budgets of the TBVC territories, provincial administrations and self governing homelands. These show spending increasing by 7,6 percent to R127-billion.

Education is the largest single item on the general government budget, increasing by 12 percent to R27-billion or 21 percent of total spending. Of the education total, R23-billion or 88 percent is on pre-primary, primary and secondary education while the rest is on tertiary education.

The second largest spending item is interest on debt, which government's mounting debt burden will take up to R22-billion in 1993/94 — 17,4 percent of total spending and a full six percent of South Africa's GDP.

The health budget of R12,9-billion will account for 10 percent of total government spending in 1993/94; defence for a further 8,4 percent; social security and welfare for 8,3 percent and police for 6,7 percent.

ON THE FOLLOWING PAGES: What the ANC thinks ★ Will money solve education's problems?

What the ANC would have done

W/Mail 19/3-25/3/93.

By GAYE DAVIS

IF Derek Keys was to take up the African National Congress challenge and give it the necessary data to produce a social spending programme, what would be its key elements?

Continuing to reduce the country's deficit — now standing at 8,6 percent of gross domestic product — would be a major concern, according to ANC economics head Trevor Manuel, but it would also seek to redress glaring inequities.

Manuel, answering a question at a post-Budget press conference in Cape Town on Wednesday, briefly spelt out key areas where money would be allocated. These would include:

- Housing — in an effort to reduce a national housing shortage currently standing at around 1,2-million urban units.

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- Gender equality — by helping empower women through such measures as making provision for child-care.
- A major electrification programme.
- Land issues — such as giving small-scale farmers access to land long denied them.
- A job-creation programme, which would not be the sole responsibility of the fiscus but would involve both government and the private sector.

"Only three percent of school leavers in 1992 were absorbed into the economy, according to the South African Chamber of Business," Manuel said. "Unless we grasp this nettle, the potential for instability will remain."

Cosatu chides and praises

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W/Mail 19/3-25/3/93

By FERIAL HAFFAJEE

ITS response to the Budget was classic Congress of South African Trade Unions stuff — at once full of quotable quotes, fury and fuming but not without some praise for Finance Minister Derek Keys, one of its newest friends.

Perhaps Cosatu, like others, expected greater creativity from Keys, the first finance minister to enjoy at least a conciliatory relationship with the labour movement.

The sop the minister threw to labour last week (the Value-Added Tax zero-rating of basic foodstuffs) did not work.

The federation christened his day-old baby "an apartheid Budget drawn up by an illegal, unrepresentative white government".

Predictably, the sharp increase in the VAT rate raised the greatest ire. It would fall heavily on the poor, it was inflationary and would dampen any consumer confidence sending the recession into a flat spin, said Cosatu.

The petrol price increase was "unacceptable" after revelations of enormous graft in the Multilateral Motor Vehicle Fund.

Cosatu railed at Keys' general failure to do anything about corruption and mismanagement. And more specifically, it criticised the Budget's silence on calls for an independent tax audit and a tax commission.

"The minister missed his mark," said Cosatu general secretary Jay Naidoo. "The Budget lacks a clear development path and feeds into an enormous bureaucracy that absorbs an enormous amount of money."

On the other hand, company tax cuts, job-creation plans and tax exemption on retrenchment packages won Keys some kudos.

A single smile among the ANC's snarls

W/Mail 19/3-25/3/93 (49)

The Budget is a clever play of figures which serves more to obscure and confuse than inform, says the ANC.

By **GAYE DAVIS**

DEREK KEYS' maiden Budget has elicited a single bouquet, a barrage of brickbats and a challenge from the African National Congress to be given the data to draw up, within three months, its own plan for social spending.

ANC economics head Trevor Manuel commended Keys' decision to reduce the deficit gradually, rather than damage the economy by doing it in one fell stroke. But he slammed the Budget as a whole for failing to map out a clear programme designed to lift the country out of its social and economic morass or halt corruption and inefficient spending.

Constructed in secrecy and without consultation, the Budget reflected the costed political programme of a ruling party in an election year — despite the possibility of a transitional executive council being installed within weeks, Manuel said.

It offered little to encourage the economy's growth and — beyond general cuts in spending — scant assurance that fiscal discipline would be enforced. In any event, said Manuel, growth and discipline could only be achieved after political transition — not by a government saddled with "inefficient structures, outdated policies and unclear, if not non-existent" spending goals.

The income of ordinary South Africans — most of them living below the poverty line or unemployed — would be eroded further by Value-Added Tax and fuel-levy hikes that could push up the Consumer Price Index by two percent, hurting "not the rich but those who live from hand to mouth".

Delivery of social services, channelled through wasteful apartheid structures, would largely continue to be poorly targeted and inefficient, he added. While the government had "finally succumbed to pressure" to equalise pensions, the ANC could see no reason to delay implementing this for six months, especially as research showed as many as eight people living off one pension in rural areas.

"How much growth could have been stimulated by the R3,7-billion allocated to the South African Defence Force special defence account (only slightly down on last year's R4,4-billion)?"

Merging and transferring to General Affairs the Own Affairs administrations of health, welfare and local government suggested social spending was being equalised. But because black people were still excluded, "we must infer the government still doesn't give a damn about the position of black people", Manuel said.

Allocating 1c of the fuel levy to regional service councils, despite their being neither elected nor accountable, was not serious in itself — but "we are not told which RSC's will get what proportion of the levy", Manuel said.

Keys' references to transparent policy making "must have been said with his tongue firmly in his cheek — the budgetary process does not lend itself to open debate", he said.

In the absence of measures to ensure firm management of the fiscus, it was likely the government would again overspend and that the deficit would grow. Said Manuel: "The ANC says this Budget is a clever play of figures which serves more to obscure and confuse than inform."

Holding government spending down — and using the difference to boost interest payments — would further reduce, in real terms, spending on goods and services. "Overall, therefore, there will not be any stimulation coming from the demand side of the economy," Manuel said.

While it could be argued that reducing company tax to 40 percent would help boost the supply side of the economy, a new 15 percent tax on distributed profits would not leave companies with extra cash to invest.

Instead of further taxing those who already paid, the government should have concentrated on collecting from those who didn't. Said Manuel: "The lessons of under-collection in the 1992/93 Budget appear not have been heeded."

As far as government spending was concerned, the ANC agreed with the need for sound fiscal management — but took issue with what was spent where. "Why increase the vote for parliament by 30 percent when discipline is the theme of the Budget? Is it for parliamentarians' golden handshakes?" he asked.

Budget bid to heal near-dead

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ARG 20/3/93

BRUCE CAMERON
Business Staff

THE question mark hanging over this week's tough Budget is whether it will resuscitate an economy confined to a four-year sickbed.

The opinion of some top businessmen, academics and government officials at the annual Old Mutual/Nedbank post-Budget debate was that South Africa would have to force itself to stand up and totter until the illness of political instability could be cured.

Businessmen had to grasp the limited opportunities offered in the Budget to spur the economy back to health despite the political uncertainty.

Although there was agreement that investment-led growth had to start with business, there was division whether the barriers of political uncertainty would effectively block recovery.

The barriers to be removed not only required agreement between the major political parties but also more certainty about the policies of a future government.

But Mr Christo Wiese, chairman of Pepkor, said the political barrier was not sufficient reason for business to hold back on investments. If there were tax breaks they would invest.

He pointed out as soon as tax breaks were granted for major beneficiation projects such as the Columbus stainless steel project, millions of rands immediately became available.

"The projects did not go ahead because there was stability. They went ahead because the companies could make a profit."

Professor Brian Kantor of the department of economics at the University of Cape Town disagreed.

He said the risk profile was too high both for local and foreign investors.

Most South African businesses expanded through reinvestment of profits as they did not like to expose themselves with borrowings. With profits reduced by the recession and the high-risk profile even South African businessmen were not prepared to take high risks.

He felt the short-term solution lay in more money coming into South Africa from overseas borrowing, even if a premium had to be paid. The pressure on South Africa's reserves should be eased allowing more money into the system to get the economy working.

Department of Finance director-general, Mr Gerhard Croeser, intervened to say that the political risk had risen so high after the break down of Codesa last year it was virtually impossible to borrow money overseas.

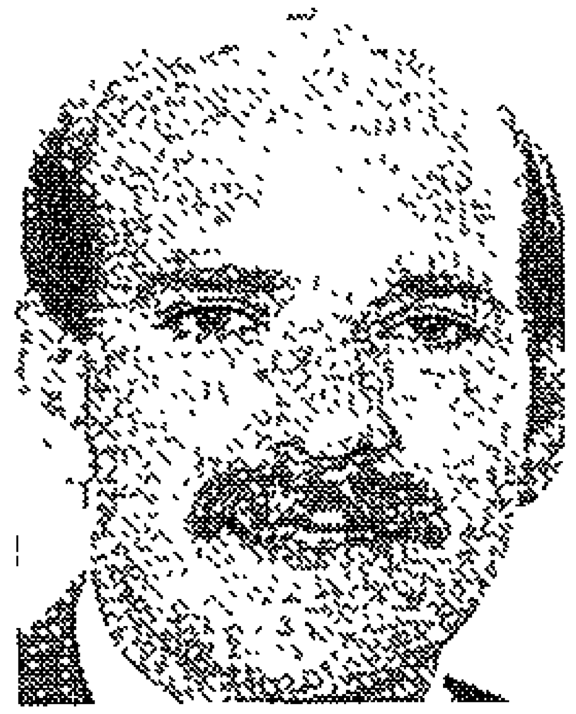
He said immediately before the failure of Codesa South Africa had paid a premium of about 1,5 percent over the benchmark issues. After Codesa broke down the premium had risen to three percent.

Professor Aubrey Dickman, honorary professor of economics at the University of the Witwatersrand, said the most important issue was stop to capital haemorrhage from South Africa, which totalled more than R6 billion last year and was a result of financial sanctions. Sanctions should be dropped.

A Weekend Argus panel of Western Cape economists has given Finance Minister Mr Derek Keys a pass mark with a few brickbats for his first Budget . . .

Dr Philip Black, Director of Economics, UCT and a member of the Economic Advisory Council.

Dr Lieb Loots of the Department of Economics, University of the Western Cape



Mr Louis Fourie, is group economist and group manager, marketing at Boland Bank.

Mr Dave Mohr, chief economist of the Old Mutual

Where the minister lost out . . .

ARG 20/3/93 (49)

DAVE MOHR

THE new boy passes comfortably, but wins no prizes. Finance Minister Mr Derek Keys deserves seven out of 10 for his first Budget.

He loses a mark for putting discipline before growth despite the torpid state of the economy. He loses another for not achieving a better balance between expenditure cuts and tax increases in reducing the deficit.

The third mark is lost because even the moderate spending cuts aimed for seem excessive. The assumptions underlying the revenue figure also look shaky.

But Mr Keys did well by planning to reduce the deficit from 8,6 percent of GDP this year to 6,8 percent in 1993/94. The fiscal position has been deteriorating sharply for the last three years and cannot be corrected quickly, particularly in the middle of a recession.

Expenditure is now budgeted to rise by 8,8 percent to R114,1 billion — a "cut" in real terms of R1,4 billion. Revenue, on the other hand, is budgeted to leap to R88,9 billion — a massive net tax increase of R6,3 billion. The deficit is thus reduced by R7,7 billion to R25,3 billion, with four fifths of this coming from taxes.

Apart from interest on public debt, government spending is planned to rise by only 2,8 percent this year, while a further saving of R5 bilion is aimed at over two years.

Mr Keys did note that social spending is approaching the upper limit of what the country can afford. It comes to 43 percent of the total. It is imperative that pressures for escalating social spending be resisted and kept in line with what the economy can afford.

The Budget also attempts to address growth issues through cutting the company tax rate from 48 percent to 40 percent while introducing a 15 percent tax on dividends. The idea is to raise savings in the economy, thereby encouraging investment and growth. But this weak little measure isn't the key to renewed growth.

New boy Keys passes the test with first Budget

LIEB LOOTS

FINANCE Minister Derek Keys introduced his first Budget with reference to "the natural desire of the new boy to make good . ." How well did he perform?

Out of 10, I shall give him the following marks: Public relations — 9; Innovation — 7; Broader participation/consensus — 4; Macroeconomic management (deficit) — 9; Expenditure restructuring — 5; Efficiency of spending (value-for-money) — 3; Tax reform, etc — 6; Growth — 6. An overall mark of 6 out of 10.

The minister thus passes his first test, but we'll have to reserve judgment on whether he is the man who will help bring about South Africa's economic miracle.

Mr Keys chose to bring the deficit down to 6,8 percent of GDP. If he can bring that about, a firm foundation will be laid for further reductions over the next few years.

The smaller deficit is the result of increasing tax revenue by about six percent and reducing spending by about minus two percent, both in real terms and assuming 10 percent inflation.

My inclination would have been to shift the balance more towards reducing spending and not increasing taxes as much as proposed.

Broken promise, but also a smattering of praise

CHRIS VISSER

MR Derek Keys deserves a score of seven out of 10.

Points against.

■ There is no mention of personal tax relief. There has been no adjustment for fiscal drag for three consecutive years and it is a severe broken promise from a government that promised a gradual reduction of the maximum marginal rate to 40 percent.

■ There is nothing in the Budget to give substance to the so-called new philosophy of transparency in government.

Shell-shocked motorists simply have to pay up for fuel, while non-listed oil companies do not have to disclose profits.

The enormous defence budget is another huge pile of money that is not scrutinised by anyone but the minister.

■ Mr Keys tried to allay fears about misspending and corruption in government as if it did not exist. He should have implemented some strategy to improve control.

■ There are a number of areas of fiscal and economic and economic policy he did not address — exchange control and the costly financial rand system. He did not mention the chaotic Phase VI of the local content programme of motor manufacturers.

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Bonus points:

■ His sincere attempt to eliminate government dissaving. The figures, especially on the revenue side, are much more credible than those we were used to from Mr Barend du Plessis.

■ The concept of taxing distributed earnings is not bad.

It will encourage companies to withhold dividends and could promote investment. It is a better system than that of a minimum company tax or a tax on dividends proposed earlier.

Effective exercise in constraint and optimisation

DR PHILIP BLACK

MR Keys's Budget can be viewed as an exercise in constrained optimisation. He has effectively set himself the task of maximising fiscal discipline (or minimising the difference between government spending and revenue), subject to a set of growth-enhancing constraints.

The latter includes the proposed increase in government capital spending, the various supplementary proposals and the decision not to raise direct taxes.

Viewed from such a perspective, Mr Keys in effect had to do two things: first, given the decision to boost captal spending by 27,6 percent, he had to limit the increase in current spending to about seven percent in order to realise the desired increase of 8,8 percent in total government spending; and, second, given the decision not to raise direct taxes, he had to raise indirect taxes considerably in order to realise the desired increase of 6,5 percent in total revenue.

The fact that these measures will lower the share of government in total domestic expenditure and raise the ratio of indirect to direct taxes will no doubt please the business constituency and the international community, in particular the International Monetary Fund and the World Bank.

Few people will escape the pain caused by the real decline in government current spending and the increases in VAT and other indirect taxes. But these changes should be judged in terms of their opportunity costs.

Govt to keep tight rein on spending

(49) GRETA STEYN

STATE Expenditure Minister Amie Venter is to announce in Parliament today a 12-point plan to save R5bn in government spending over the next two fiscal years.

The plan is expected to put into place a longer-term approach to spending, and as a result departments will be able to carry over unspent amounts from one fiscal year to the next. It is also likely that government will put a tight lid on post-Budget allocations to departments, with only major disasters qualifying for extra expenditure. The drive to increase productivity in the public sector is also expected to receive attention in the plan. Talk is that productivity targets will be formalised and that there will be regular report-backs to Cabinet.

There is also speculation that Venter will announce the formation of special "function committees", including Cosatu and ANC members, to monitor spending. Finance Minister Derek Keys has already indicated that government wants to create these committees through the national economic forum. The committees would be overseen by State Expenditure and would take an in-depth look at specific spending items to determine priorities.

The decision to release the plan follows scepticism that government would not be able to meet the targeted R5bn cuts. Sources say it is also part of a move to achieve more value for money spent.

BDAY 26/3/97

Money down again

Star 20/3/93

Revenue earmarked for same old follies

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JOHN PERLMAN
Chief Reporter

WHEN your government announces that it plans to spend some R114 billion this year — R32 billion less than it expects to earn through crippling new taxes — you can be forgiven for throwing up your hands and saying: "Spare me the details."

But if you had the time and the patience to pore over the Estimates of Expenditure, a document as thick as a telephone book, you would certainly find plenty to make your eyes roll and blood boil. For a start, corruption uncovered last year doesn't seem to have affected the money-flow at all.

In November, the De Meyer Commission issued a 750-page indictment of the Lebowa government for squandering millions. This year, with no assurances that the situation has been rectified, Lebowa has been given a total of R.,34 billion to spend, which is an increase of R501 millior

Last month, the th... Auditor-General, Peter Wronsley, told Parliament that the "independent" homelands were in debt to the South African taxpayer by more than R3 billion. He criticised the South African Government for failing to arrest this headlong slide into debt This year's allocation to these homelands — still part of the foreign affairs vote — is R6,2 billion, up R1,1 billion from last year

DEREK KEYS: He might be smiling now that Budget day is over, but are we?

The homelands will have R16,9 billion to spend this year, more than 20 percent up from last year, plus allowances made by other departments for "manpower assistance" to "neighbouring territories".

Wronsley also told Parliament that he was unable to audit the books of the Human Sciences Research Council This year, the HSRC will have nearly R75 million from the Department of National Education to spend — a nice increase of R7 million

PETER WRONSLEY: He exposed corruption, but homelands are to get more money.

So too with the ongoing controversy surrounding the misuse of the subsidy system in the film industry More than R24 million of Department of Home Affairs money will again be spent on "financial assistance for the promotion of a viable local film industry", just like last year.

Wronsley and others have also expressed concern that secret projects and funds create openings for financial abuse. This year's Budget provides for R434 million, under the Department of State Expenditure, "to finance secret services undertaken by State departments" This amount has been increased by R32 million from last year's allocation

More than a third of the R9,3 billion allocated to defence — a total of R3,7 billion — has been budgeted for a "special defence account" for the financing of "special defence activities and purchases". A number of secret defence projects have been exposed in recent months, including the Directorate of Covert Collection and an operation aimed at discrediting the African National Congress by linking it to the Irish Republican Army

There is other defence spending buried elsewhere in the Budget. The Department of Public Works will be acquiring land for defence at a cost of R83 000, and providing buildings at a cost of R121 million — rather more than the amount of R62 million budgeted for "hospitals and clinics".

Most curiously, the Department of Manpower budgets a total of R8.2 million for various boards to deal with the ins and outs of conscientious objection to military service, an issue receding in both importance and complexity with every call-up

In some departments, allocations seem to fly directly in the face of policy considerations The Kassier report into agricultural control boards found them to be inefficient and wasteful The agriculture vote allocates R405 000 for "boards, commissions and committees" which will do "liaison between the different agricultural industries and production promotion"

The department has also budgeted R4,6 million to "regulate the marketing of agricultural products" Of this, R2,5 million is for the National Marketing Cou l for "reporting and making recommendations in respect of controlled marketing to the Minister of Agriculture" — which is what many thought the Kassier report had done. More than R4 million of all this spending is for salaries

Finance Minister Derek Keys opened his Budget speech by saying this was probably "the last Budget that will be entirely the product of the present Government" But the Budget still bore the marks of some of the stranger bits of National Party policy

The Department of Defence will still spend R3,3 million subsidising school cadet programmes Some R2,8 million will still be spent on publication control, down from last year, partly due to a cut in the Appeal Board's budget And the Department of Local Government and National Housing will still spend part of its community development budget on "ethnological services"

Not everything has gone up The State's contribution to the Unemployment Insurance Fund has stayed at R7 million. The Department of National Health's budget for research into air pollution control has also been pegged, and the allocation for water and waste control research is actually down

It is not clear what one should make of the Department of Correctional Services' decision to cut its budget for "escapes" — from R37 000 to R28 000 Perhaps they have released the most dangerous prisoners anyway

Salaries for the Cabinet are up President de Klerk takes a rise from R218 000 a year to R254 000, while Ministers must make do with R219 000 a year, an increase of R20 000 All in all, this Government is costing us quite a bit more. The "salaries, allowances and other benefits of office-bearers and other members of Parliament" will cost R78,5 million this year, and the President's Council — which apparently still provides 'advice to the State President" — will cost another R10,7 million

And finally, there is the "prestige accommodation and furniture" payout This is described as "compensation to political incumbents for prestige accommodation, the provision and maintenance of prestige furniture, other furniture, works of art and equipment to certain Government departments and administrations for own affairs" With just R8 million available for this, times are clearly tight

Budget is long on medicine

By Lynda Loxton

SOUTH 20/3-24/3/93

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"The intentions of the new man in the job may be good, but he is probably finding himself in the wrong government at the wrong time to bring about his intended reforms." — Economist Lieb Loots, University of the Western Cape

FINANCE Minister Mr Derek Keys this week told South Africa in no uncertain terms it needed some nasty medicine to get the economy right — but, with elections looming, handed out some sweeties to soften the blow.

As he said after his first Budget speech on Wednesday, it did not put South Africa "on steroids (to give it) a short-lived illusion that adjustments aren't all that necessary".

But he was convinced the medicine he provided would work in the medium term. Discipline, he said, was vital for future growth.

Although harsh across-the-board tax increases were expected along with tough spending cuts, the only real shocks were the higher than expected four percent increase in VAT to 14 percent and the fuel price increase of 16 cents.

Customs and excise duty increases were about the same as last year and, with an eye on the forthcoming elections, there were no personal income tax increases.

Also, about R363-million was set aside for schemes to promote small business and boost job creation while tax exemptions on retrenchment packages were extended to everyone — not just the over-fifties

But, as striking teachers paraded outside Parliament demanding higher wage increases, Keys said the country could not afford an increase of more than five percent for civil servants until the "treatment" now being applied took effect

The "treatment" mainly involves trying to keep government spending down and ensuring a deficit reduction from last year's 8,6 percent of gross domestic product (R28,5 billion) to 6,8 percent (R25,3 billion)

Total expenditure in 1993/94 is expected to be R112,7 billion compared to the R118 billion intitally asked by various ministries.

Last year, the government overspent by some R6 billion and many will wait with baited breath to see if they can stick to its targets this year.

The Budget stresses job creation while increasing the police allocation by 14,3 percent to R6,4-billion to combat rising crime bred by political intolerance and unemployment.

Altogether R112,6 million is to be allocated to various programmes supporting the promotion of small business and a further R524 million to job-creation schemes.

Keys said despite the need to cut back of government spending, this money was set aside because "we can't simply shut our eyes to the job haemorrhage of the past few years, or to the disappointment awaiting many thousands of new job-seekers"

Most new jobs should be created by the private sector, but they would be limited until the economy recovered.

However, tax incentives were also provided to encourage companies to retain more of their profits for investment in job-creation projects

This involves an eight percent cut in company tax to 40 percent and the introduction of a 15 percent tax on dividends paid out to shareholders

March 20 to March 24 1993

A mixed reaction to Budget

SOUTH 20/3-24/3/93

By Waghied Misbach

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THERE was mixed reaction to the Budget released by Finance Minister Mr Derek Keys on Wednesday.

The ANC said the Budget was a "clever play with figures which serves more to obscure than to inform".

Describing the Budget as a "product of the National Party", the ANC said people would have less disposable income as VAT and other taxes were increased.

The ANC challenged Keys to provide them with all the "relevant data" so that the organisation could produce a plan for social spending within three months.

"No amount of biblical injunction can bring about discipline and growth. This can only be achieved by sound financial management," the ANC said.

Dr David Bridgman, executive director of the Association for the Western Cape's Economic Growth (Wesgro), described the budget as a "tough one for the man in the street".

The "tough reality" is that VAT was up by four percent, no allowances were made for adjusting personal taxes and there was a 16 cents increase in the price of petrol — all in one day.

"But if we are realistic, it would not be possible to make life much easier for the man in the street this year."

Old Mutual senior economist Mr Rian le Roux said the budget was not good for the economy, and growth was unlikely before next year.

While there were some positive aspects, the fundamental issues remain unchanged, said Professor Lieb Loots, head of the economic policy research project at the University of the Western Cape.

Although Keys emphasised growth and discipline, expenditure was aimed at cutting services and not the large state bureacracy.

A negative aspect was the changing of the company tax rate in "full swing" rather than phasing it in. This meant a loss in revenue which the government had to find elsewhere. This they did by raising VAT from 10 to 14 percent.

Loots said a positive aspect was that Keys did not attack the massive deficit in one go, but decided to reduce it gradually.

"Had this been done too rapidly, it would have pushed the country deeper into recession."

Another positive spin-off was equality in pensions, although this would only be in September.

Extreme disappointment with the budget was expressed by the National Education Co-ordinating Committee (NECC).

The organisation said that the increase of 19.2% in state spending was "completely negated by the framework of unashamed unilateral restructuring".

The Automobile Association said the petrol increase meant motorists were being used as "cash cows" to remedy government over-spending and mismanagement.

"A car is not a luxury. The vast majority utterly depend on motor vehicles for transport," it said

New order creeping up on the old

SOUTH

20/3/93 - 24/3/93. (49)

AS TALK about the "new" South Africa continues, the 1992/93 Budget still provides for apartheid institutions such as the "Own Affairs" structures and the homelands.

But there is a hint of moves towards this still elusive new order as parity in pensions is due in September and defence spending cut by 3,8 percent to R9,3 billion.

Finance Minister Mr Derek Keys also pleaded in his Budget speech for non-government developmental agencies to start co-operating with, rather than opposing, the government to use state money available for social and other programmes

"The country cannot afford two systems," he said.

He said he was approached by the National Housing Forum to provide money for its programmes. But the Department of Local Government and National Housing had a large amount of money for housing projects that had not yet been used and he thought it would be logical and cost-efficient for the two to work together.

Also, he said the National Economic Forum could work closely with the Department of Manpower.

He said there may be some resistance to non-governmental organisations (NGO's) working more closely with the government as NGO's "are characterised by a strong desire to combat social evils and is dedicated in its opposition to the government.

● The Budget provided for the coming elections by making R125 million available.

● SOUTH's budget coverage, assisted by the Friedrich Ebert Stiftung, takes the form of an in-depth focus in next week's edition.

SOUTH 20/3/ – 24/3/93.

(49)

The 90s in Perspective

One of the most far-reaching events in this, the last decade of the 20th century, was the economic downswing both inter-nationally and here in South Africa.

The downswing has been more severe and drawn out than anyone expected. The reason why the world recession has lasted so long is, firstly, the impact of the world' large debt burden coupled with the worldwide fall in asset prices.

The heavy borrowing and subsequent economic growth of the eighties has led to the inevitable reduced spending in the nineties — especially in the United States, the United Kingdom and Japan.

Secondly, high interest rates in Europe, triggered by the expensive unification of Germany, stayed higher for longer than expected.

Lastly, job losses in this recession have been exceptionally severe, affecting even the previously recession-proof service industries.

However, the world downswing, although lengthy, was not as severe as the slump of the mid-seventies and early eighties, when negative growth rate were recorded in the rich OECD countries.

Growth in the OECD rose from less than 1% in 1991, to 1,5% in 1992 and is expected to accelerate to over 2% this year, led by the United States of America.

Overall world growth should accelerate in 1993 but only moderately. This is because prospects in Japan and Germany are still not very good. No substantial rise in commodity prices, gold included, is expected until the world economic recovery accelerates — possibly in the second half of 1993.

Here in South Africa, the economy continued to slip deeper into recession under the impact of a severe drought, a severe rationalisation process in the private sector and static demand for South African goods.

All this resulted in a negative 2% growth rate in 1992 — the fourth successive year of recession.

Whether recession stays or recovery begins depends on several factors which must be placed in perspective. On the negative side, continuing lack of business and consumer confidence could postpone recovery.

Government finance, sluggish revenue inflows and fast State spending have caused a dramatic widening of the budget dificit. This could reach 9% of Gross Domestic Product (GDP) this fiscal year.

Any effort to reduce this deficit through higher taxes or lower spending could slow the recovery.

Employment growth is unlikely to revive before the economy revives fairly strongly. Worker's wages are unlikely to beat inflation by much, if at all. Both these factors will inhibit a revival in consumer spending.

On the positive side, the moderate international recovery should stimulate demand for locally manufactured goods.

Relatively good rains over a large part of the country should improve agricultural performance.

Interest rates have already declined and should decline even further, relieving the strained financial positions of many consumers. Inflation is also on the decline, and, unless it is arrested by an increase in indirect taxes — via petrol, excise duties or VAT — inflation should continue its downward trend in 1993.

Overall, although we believe that the recession is behind us, there is another difficult year ahead.

Tuesday March 16 quotations for unit trusts:

General Equity Funds:

ABSA	141,40	132,29	5,59
BOE Growth	154,67	144,52	3,51
Community Growth Fund	111,05	104,87	n/a
CU Growth	118,11	110,27	4,31
Fedgro	125,26	116,95	4,91
Guardbank Growth	2488,40	2317,33	4,84
IGI	128,23	120,00	3,57
Metfund	193,92	180,14	4,25
Metlife	115,76	108,14	6,47
Momentum	247,02	231,40	4,30
NBS Hallmark	937,16	875,27	5,22
Norwich	349,01	325,93	4,11
Old Mutual Investors	2571,97	2398,29	3,73
Sage	2353,22	2196,47	4,12
Sanlam	1621,55	1519,61	3,41
Sanlam Index	1213,56	1137,25	3,98
Sanlam Dividend	454,52	427,09	4,71
Southern Equity	200,83	188,15	4,03
Standard	1171,40	1100,65	7,06
Syfrets Growth	294,25	275,77	4,45
Syfrets Trustee	116,76	109,45	4,54
UAL	2051,15	1926,25	5,24

Specialist Equity Funds:

Not available at time of going to press

...s of his defence.

Look to the Malays

(Buss) S/Times 21/3/93 (49)

JOHN CAVILL IN LONDON

WHATEVER political solution is found in South Africa it will have to confront immutable economic imperatives if the country is to survive, let alone prosper. Looking at the "daunting agenda" ahead — the need to reduce inequalities of economic opportunity, to foster sharply higher growth to pay for the levelling of the racial socio-economic playing field and so on — the Centre for the Study of the South African Economy and International Finance, based at the London School of Economics, has analysed Malaysia's experience for any lessons it might provide.

The centre was set up by the Commonwealth Heads of Government in 1990 to monitor SA and neighbouring economies and its latest quarterly report offers a brief guide to the New Economic Policy (NEP) which Malaysia has applied for the past 22 years to deal with the problems it faced after independence in 1957 from British colonial rule.

It started with the "Bargain": the majority Malays (53% Muslim) basically traded equal political rights and citizenship with the Chinese and Indian settlers for guarantees that priority would be given to the economic upliftment of the indigenous underclass.

The "Bargain" was written into the constitution but failed to meet its objectives in the 60s under a coalition government of all three ethnic groups.

Industrial development focused on import substitution dominated by foreign companies, who used imported parts to make goods which were sold profitably in a protected domestic market. The new industries were not very labour-intensive and use of advanced technologies produced jobs and rising wages mainly for the educated urban Chinese.

In agriculture, which employed almost two-thirds of the Malay work-force, development emphasis was on increasing productivity by the modernised non-Malay farmers — moving into new cash crops, such as palm oil and timber — not bringing up the peasants, who lacked the capital.

The upshot was serious unemployment among the Malays and a widening of the gulf between their living standards and those of the Chinese and Indians. Average gross domestic product growth of 5,8% for the first 13 years exceeded the population increase but did not benefit most Malays. "Indeed, they were going backwards," says the study. Political gains by two Chinese parties in the 1969 elections provided the spark for trouble. Chinese victory celebrations in Kuala Lumpur ignited vicious ethnic violence and forced the coalition to launch radical change.

Out of it came the New Economic Policy (NEP) in 1970, with three main objectives: national unity, employment opportunity creation and overall economic growth.

WITHIN this broad sweep it targeted specific areas of development in agriculture and sectors of business with growth potential, backed by a programme of government intervention and assistance centred exclusively on Malays, not the economy as a whole.

The plan was anathema to the Chinese business community, but as refugees from Communism and facing possible loss of their assets "they had little alternative but to stay on and make the new situation work to their advantage as much as possible," says the report.

Time moved on, ethnic tensions subsided and thinking softened. Intervention remained a plank of policy and the original goals of the "Bargain" were intact, with refinements.

But the planners realised that all this, including the massive training expenditure to raise Malay skills and economic empowerment, could not be achieved without speedy growth. Twenty-year aims were set: average annual GDP growth of 7%, manufacturing rising 12,5% and exports at the rate of 15%.

That required an environment in which the private sector and non-Malay businesses could prosper and while retaining nationalistic ownership principles, the government brought in a host of measures to attract foreign investment on a joint-venture basis.

The centre's report lists some of the successes over the first 20 years. Growth ran at 7,4% a year up to 1980, 5,2% in the following decade and has accelerated. Between 1970 and 1987 the value of exports multiplied 10-fold to US$18-billion, with manufactured goods growing *four* times faster from a mere US$201-million to US$8,1-billion. Discovery of oil in the mid-70s and the explosion of economic activity around the whole Pacific Rim makes it impossible to attribute everything to the NEP, says the report.

It shows in real household income changes in the first 14 years. For Malays it rose by some 120% while the Chinese gain was 72%. The ratio of average Chinese incomes to Malays narrowed from 2,3:1 to 1,8:1. The shift in employment patterns has been even more dramatic. While the total numbers of all races working in manufacturing has climbed by 120%, Malays have trebled and overtaken the Chinese. Growth and training has seen Malay numbers in all sectors shooting up and all ethnic groups have enjoyed the prosperity which has seen total employment more than double.

The NEP was renewed two years ago. It still referred to the "principle of social engineering" and the need for "some affirmative action," but this was directed principally towards the areas of education and training to provide equal opportunity.

The achievements of the past two decades are also allowing Malays to move away from intervention. Privatisation and deregulation are key aspects in the NEP's new, and staggeringly ambitious, goal — to multiply national income by a factor of eight by the year 2020, or an average annual growth rate of 7,5% and propel Malaysia into the ranks of the fully developed economies.

It has not all been plain sailing, however. The centre's report concludes: "The NEP has also had its share of failures and caution must be exercised in drawing lessons for South Africa."

These are to be examined in its next quarterly report.

JOB MARKET

Advice to bank on

(49) ~~356~~ ~~132~~ ~~119~~ 173

ST Times (BUSS) 21/3/93.

By KEVIN DAVIE

DESPITE present difficulties, there could be bright prospects for SA in the future, says a draft World Bank paper.

"But no miraculous solution or way out should be expected from either the total removal of the apartheid system or some extraordinary windfall coming from a favourable terms of trade shock (such as a sudden rise in the price of gold)," bank staffers say in a discussion document.

The paper is likely to become the formal bank position on SA once responses have been solicited from key parties locally.

The document has garnered some support from the ANC. Economics head Trevor Manuel told a press conference on government's Normative Economic Model that he preferred the bank's approach to that of government's

The World Bank paper says a virtuous cycle of economic effects can be launched in SA if the relation between economics and politics can find a co-operative mode of expression.

It identifies a three-point strategy to reform the SA economy·

- Restructuring the budget to raise public investment in areas of infrastructure and publicly provided services. This should be targeted towards the poor and underprivileged The authors want to restrict the growth of recurrent expenditure in the budget.
- Upgrading the skills of existing workers by improving skills in the short-term and investing in human capital in the longer-term.
- Creating a stable and export-orientated business environment by encouraging a shift in the orientation of the manufacturing sector towards exports in the short-term while providing a longer-term commitment to a stable export-orientated environment.

Impediment

Serious upgrading of skills can only come about through the efforts of the private sector "One viable solution could come through a pact between major employers and trade unions through the provision of training in widely applicable skills.

"The trade unions would play their part by agreeing to limits on strikes and other activities which disturb industrial peace."

A central point is that industrial relations problems have become a major impediment to industrial development, and a pact should therefore have the effect of encouraging a revival in private sector investment, the paper says.

The authors see two rays of light. If a political settlement is reached and social and political instability diminishes, this should ease SA's capital constraint.

"Although conditions in world markets are not at their most encouraging, a political settlement would have the effect of opening access to financial support from both bilaterals and the major financial multilaterals (including the World Bank)."

The second ray of light is that SA has the rare distinction among upper-middle income countries of possessing a low external debt-to-GDP ratio

"Given foreign finance, a path of growth and redistribution will be less vulnerable to external constraints during its transition."

Provision for both education and training has been inadequate on distributional grounds and in terms of future growth needs, the authors say.

"The position on training seems to be a dire one." Only about 9 000 apprentices were identured during 1990, of whom 6 700 were whites. while the number of apprentices has not increased during the 80s.

The paper says that while 280 000 individuals were trained on various public and private training courses during 1990, much of this training was provided on a very short-term duration — one week or less.

Barriers

It says it may be possible to encourage more rapid employment creation through the expansion of small-to-medium scale production activities and through the provision of subsidies on additional jobs created by enterprises with relatively elastic demand for labour.

"The evidence so far indicates that regulatory obstacles are not a major constraint upon the entry of small-scale entrepreneurs It would seem that other barriers to entry, such as capital-market imperfections and entry-forestalling pricing policies of big firms, may need further investigation."

A key strategy will be to reduce the anti-export bias in the economy as it is now structured The paper identifies this as an urgent task.

The authors say a Sacob study found that two-thirds of the disadvantage that South African exporters suffer relative to foreign competitors derives from the higher prices that they have to pay for manufactured inputs.

Complicated

"Ideally, trade policies should eliminate this disadvantage and place exporters in a position of indifference between selling at home or abroad."

The paper says all exporters must have free access to imported inputs. It says that problems in SA's tariff or import duty structure should be addressed quickly. These problems include unevenness in the duty schedule, complicated tariffs and highly unstable tariffs.

Access to government support should be related to export performance. "The Korean government conditioned its allocations of short- and long-term capital to export performance. Tax incentives were also conditional on exports.

"Countries which attempted to follow a more classic infant-industry approach — i.e., produce first under lax standards of the protected domestic market, and then move on to export promotion — were much less successful."

Warming to the Budget

S/Times (Buss) 21/3/93

Not since 1908 has a Budget been presented in SA under such tough conditions as those which faced Derek Keys this week. Comment by **KEVIN DAVIE** (49)

FINANCE Minister Derek Keys, according to a leading businessman, has an uncanny ability to give people a warm feeling, no matter the hardships they and the country are facing.

Another, who has observed Keys at even closer range, says that meeting Keys to raise industry problems goes like this. A problem is raised, Keys makes a joke and everyone laughs.

The next problem is raised with a similar response. And so on until the meeting ends. "Everyone leaves with a warm feeling, but I'm not always sure how much has been achieved," this businessman says.

Keys this week faced the impossible task of clobbering shell-shocked taxpayers and still leaving them with a warm feeling. Only the post-South African War recession between 1904 and 1908 compares with the current one in terms of its stubborness and longevity.

BURDEN

So Keys's task was daunting. But judging from the response, his Budget was pretty warmly received by most. Some spoke of transparency, others credibility; necessary under the circumstances, said others.

One newspaper trilled that it would boost growth. The unions had strong reservations, but one senses these are not strong enough to bring the humiliating backdown they visited on Keys's predecessor, Barend du Plessis.

Dissenters, such as the Democratic Party's Ken Andrew, cautioned that the government had placed the burden almost entirely on the public's shoulders while refusing to curtail its expenditure.

The evidence seems to support Andrew. Despite promised cutbacks in spending, total expenditure will increase by 12,5% this year compared to last if the 1992/3 drought package is excluded.

This increase, worryingly, comes on top of a 22,1% increase in expenditure last year compared with 1991/2, an 18,2% increase if the drought is excluded.

Revenue, meanwhile, increased last year by just 4% because of the weak state of the economy, R9,58-billion less than Budget.

Most businesses would respond to such a fall-off in revenue with drastic cuts in operating costs, but the government, which sees it as a legal requirement to spend at least what it gets in the Budget, carried on last year as though there was no recession.

Now State Expenditure is promising cuts of R2,5-billion a year during the next two years, but this is going to be a difficult task because government's interest bill has meantime jumped by nearly R5-billion to more than R20,7-billion annually.

This is the debt trap which the IMF says SA would hit with a deficit of 6% of GDP (the deficit this year is projected to be 6,8%). Put simply, the costs of servicing government debt become all-consuming as increasing resources have to be ploughed into just paying interest on debt.

Very few government departments will spend less this year than they did last year. White Own Affairs will spend R1-billion less, but then many white parents are now paying much more for education under Model C. Defence spending is down, but R3,7-billion will be spent on arms.

Many central government departments have managed to keep their increases below the projected rate of inflation of 10%. But TVBC and other homeland spending is still rampant.

The TVBC states will get 21% more than last year. Self-governing states get 22% more.

CHALLENGES

Regional and Land Affairs, which takes over the responsibilities of the infamous Department of Development Aid, will spend R3,5-billion more this year compared to last.

Taxpayers are meanwhile projected to pay R5-billion more in income tax and R7,5-billion more on VAT.

This does not leave a warm feeling. But an economy will not grow on pessimism. Back in 1908 we faced similar challenges. Reconstruction after the war was daunting.

Gold mining was depressed. Property values had dropped and there was a skilled labour shortage on the mines. And Union was only two years away.

ANC is invited to help in 1994

• S/Times 21/3/93 (49)

BUDGET NEWS

By MIKE ROBERTSON

IN A break with tradition, Finance Minister Derek Keys has called on the ANC and other interested parties to join him in drawing up next year's budget.

Because the budget is a ruling party's most important policy instrument, its preparation is normally a closely guarded secret.

Mr Keys's offer is a recognition of changing political circumstances in South Africa and a partial recognition of the validity of opposition party complaints that money allocated in the budget is not getting to the people for whom it is intended.

In an interview with the Sunday Times, Mr Keys responded to an ANC call by saying he had a better idea than their suggested appointment of an independent fiscal commission to trace and audit how money allocated in the budget is actually spent.

"They are concentrating in the wrong place. I think the audit side is in tip-top shape. Witness the reports of the auditor-general."

His idea, Mr Keys said, is that members of the National Economic Forum, which includes the ANC and trade union federaton Cosatu, should instead serve on "function" committees overseen by the Department of State Expenditure.

Priorities

"A function committee will take, for example, the question of health and then apply itself to every level of government where health expenditure is taking place.

"It looks through the cross-section and then tries to apportion priorities and settles the basis of the allocation for the next year's budget for that item.

"We have already decided that we would like to see outside representation on those function committees. They will look forward, ensure that spending is planned right."

In this way, Mr Keys said, outside parties, should they believe corruption is taking place in a particular area, would be able to have "an immediate effect on how much money is sent down that channel and in whose hands it ends up. I think that is a much better way of getting an immediate result".

The Finance Minister said that he had already raised this suggestion with certain parties.

"The natural people to be represented (on the function committees) would be the economic forum."

Mr Keys said he was prepared to meet ANC economic head Trevor Manuel's challenge to give the organisation information at his disposal in drawing up this year's budget so that it could, within three months, produce a costed development programme for social expenditure.

"I would love to give him the figures. I would like to have his input," he said.

Quality is now the key word in Malaysia

S/Times 21/3/93 (49)

ECONOMIC planners can take a leaf out of Malaysia's book. Over the past 30 years it has put a number of plans into action which have made it one of South-East Asia's fastest growing economies.

Safto international manager David Graham says that, following serious racial rioting in 1969, the country launched the New Economic Policy (NEP).

It included a number of education and financial concessions aimed at eradicating general poverty and improving the lot of the Bumiputras, or Malays, which make up 55% of the population.

The objective was to increase the Bumiputras' modest share of the corporate sector to 30% by 1990, principally through economic expansion.

Target

Malaysia also introduced a ten-year industrial master plan in 1986 to transform it into an industrialised country. The target was to speed up the expansion of its manufacturing sector and to use its vast natural resources more efficiently.

Mr Graham says the success of these programmes cannot be doubted, even though the NEP did not fully achieve its full target. It had boosted the Bumiputras' share of Malaysia's economic wealth to 20,3% when it ended in 1990.

The country has, however, managed to expand and diversify its economic base. The share of agriculture in GDP has dropped from 23% in 1980 to 17,2% in 1991. Manufacturing has taken over as the main engine for economic growth, accounting for 20% of GDP.

GDP growth in 1991 was 8,8%, following a rise of 9,8% the previous year. It has averaged 6,7% a year for the last 20 years.

Malaysia, a market of 17,8-million people, has benefited from an explosion of foreign investment, particularly from Japan and Taiwan.

Its prime draws have been low wage costs, attractive investment incentives and a reasonably educated work force. It also has more than 100 free trade zones and industrial estates to meet the needs of export orientated operations.

Its major industries are rubber products, cement, cigarettes and semiconductors. It also builds off-shore oil rigs and manufactures fertilisers, pharmaceuticals and textiles.

Despite its declining share of GDP, agriculture remains an important sector, employing 40% of the workforce and accounting for more than 40% of export earnings.

Malaysia is the world's leading supplier of rubber, palm oil, tropical hardwoods and pepper. Crude oil accounts for 25% of its export revenue and the country supplies two-thirds of the world's tin.

Malaysia has, however, been developing a deficit problem because of fast rising imports, especially of machinery to back up its foreign manufacturing investments.

One solution has been to promote tourism. A major tourism campaign in 1990 saw tourist arrivals jump 55% in that year from from 4,8 million to 7,4 million.

The NEP has now been succceeded by the New Development Policy, which covers a 10-year period to the year 2000.

It also aims to achieve a more equitable distribution of the country's wealth, but there has been a major shift in strategy — away from achieving numerical targets of equity ownership to strengthening the Bumiputras' ability to manage, operate and own businesses.

Friendly

The government is also closely monitoring new foreign investment with an emphasis on higher technology, says Mr Graham.

Manufacturing is expected to spearhead economic development and the Malaysian government's catchword for the 90s is "quality".

Mr Graham says Malaysia, although it still has sanctions against SA, is the kind of market South Africans can feel very comfortable with.

Quality is now the key word in Malaysia

S/Times (84557) 21/3/93. (49)

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PUSH FOR REINVESTMENT

49

By JEREMY WOODS

THE setting of an election date for multi-party elections will trigger the biggest marketing drive for foreign investment South Africa has ever seen.

"If there is ever a signal for reinvestment in South Africa it must be the forthcoming election date," says economist David Bridgman of Wesgro, the Western Cape development organisation. S1 Times (Buss) 21/3/93.

All major cities — Cape Town, Johannesburg and Durban — are involved in the marketing push.

Cape Town alone is spending more than R2-million a year on its marketing drive and the other cities are spending similar amounts.

"We are busy preparing ourselves for the election date. Then we'll swing into action," says Dr Bridgman. "We are much more competitive than we think we are, and South African businessmen should wake up to the fact," he says.

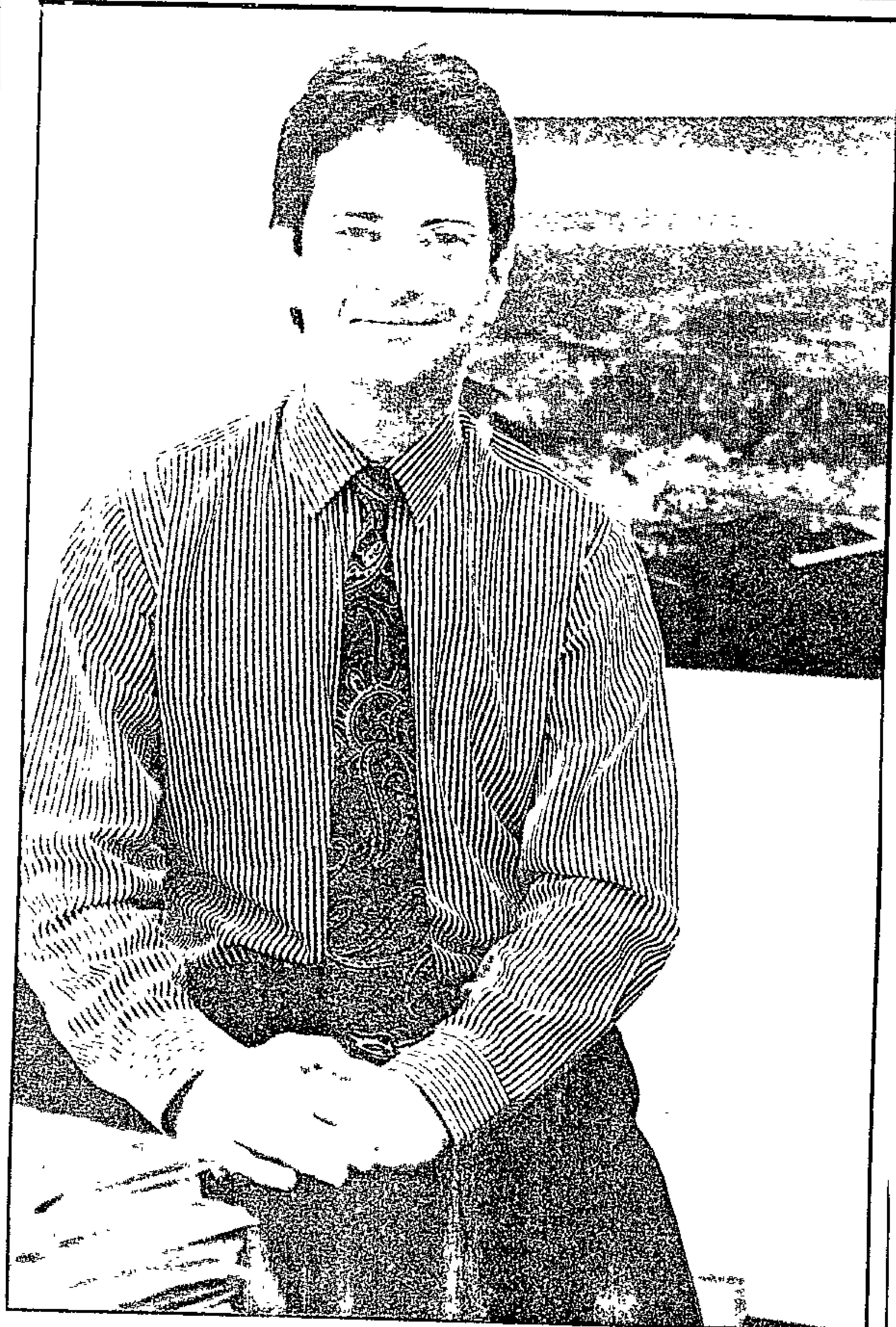
A recent study by Brussels-based Plant Location International, a subsidiary of Price Waterhouse, concluded that SA was one of the most competitive places in the world to establish a manufacturing plant.

The main reasons cited were cheap electricity, outstanding physical infrastructure, good business infrastructure and competitively priced semi-skilled and moderately skilled labour.

"Commercial rands were used in the calculations done for the study, but an overseas manufacturer wanting to set up a plant here to export goods can use the financial rand with an effective 40% discount, plus tax incentives from the Regional Investment Development programme for plant costs, and GEIS when goods are exported," says Dr Bridgman.

"This can result in a pay-back period of between two and three years of the original investment," he says.

Investments in SA can be repaid to the country of origin in commercial rand or via dividends or interest.



DAVID BRIDGMAN . . . ready to swing into action

ST Times (3455) 21/3/93.

Developing a R2bn disaster

By CIARAN RYAN

THE government's Regional Industrial Development Policy (RIDP) is a R2-billion a year failure, according to a recent report.

The report — entitled "An Evaluation of the RIDP and its Preliminary Impact on Regional Development in SA" — by Development Bank of Southern Africa researcher Andre Wilsenach and Andre Ligthelm of Unisa's Bureau of Market Research — says only half the projects approved by the various development boards will eventually be established, based on historical experience.

By scrapping RIDP the government would be able to drop corporate tax rates by a further 7,5 percentage points to 32,5% instead of the 40% announced in Wednesday's Budget, creating a more powerful investment incentive, says Mr Wilsenach.

The RIDP was introduced in 1991 to replace the 1982 Regional Industrial Development Policy (RDP), which was aimed at creating employment and industrial growth in the homelands in the hope that migration to the cities would be retarded.

The RIDP's purpose was to promote industrial development in those regions with a natural potential for development.

Incentives were toned down, allowing for a two-year establishment grant equal to 10,5% of operational assets and a three-year output-based incentive.

"It would seem that on economic grounds the optimal regional policy would be the abandonment of attempts to influence industrial location through a system of incentives," says the report.

"It would be preferable to give priority to national economic development, with an emphasis on sectoral growth."

The report says the best regional policy for SA "would be to have no policy or to follow a non-interventionist approach to regional development, where the market allocates resources based on the natural development potential of the various regions."

Of the 431 projects approved under the RIDP by October 1992, 25% are relocations from abroad, and 60% of these are from Taiwan.

Nearly two-thirds of the projects are located in Regions A (Western Cape), D (Eastern Cape) and E (Natal). Almost a third of all projects approved were in Region E.

Bias

The majority of all applications are still from homeland areas, mainly because development corporations in the homelands are marketing the programme.

The authors say the programme appears to have introduced a rural development bias instead of allowing all regions an equal opportunity to attract development.

Roughly half the applications for RIDP incentives were turned down because they did not meet the government's minimum requirements. Capital investment per job varied from R184 271 per job in Region A to R45 245 per job in Region F (Eastern Transvaal).

Of the projects approved, 10,7% were in plastics manufacturing, 10,5% in textiles, 10% in metal products, 7,9% in clothing, 7,2% in motor vehicles and parts and 4,6% in furniture.

Region E is most popular for textiles operations. Of the homeland areas, Kwazulu is most popular for investors.

No incentives apply in Region H — the PWV area — and a lower level of incentives apply in the Cape Peninsula and larger Durban functional area and Maritzburg

Abused

Under the previous RIDP, generous incentives were offered to new and relocated industries.

These included employee subsidies of up to 95% of weekly wages, interest and rental subsidies, training allowances, electricity subsidies, rebates of between 40% and 60% on outgoing goods, relocation grants of up to R500 000 and productivity incentives.

The 1982 RIDP incentives were prone to abuse and generally considered "the best regional industrial incentives in the world". However, the programme was costly to run and failed to achieve many of its goals.

The report's authors say the scheme tended to attract industries which were reliant on subsidies, with limited potential to sustain viable industrial development.

The report recommends allowing a five-year tax holiday in conjunction with the RIDP and other incentive schemes, such as the general export incentive scheme (Geis).

"The programme was in the first place not designed to attract foreign investment but rather to support regional industrial development on market principles"

Favoured

The report says the new RIDP programme could be used as part of a package of incentives in export processing zones, which the government recently recommended.

If the PWV and Durban areas are included in the RIDP, it may require a lower level of incentives all round, as these would be the most favoured areas for industrial location.

"The inclusion of these areas could result in a large administrative burden, adding further weight to the argument in favour of a tax holiday."

GRAHAM LIMERICK . . . Singapore is encouraging investment from overseas

How little Singapore became a powerhouse

ST Times (Buss) 21/3/93. (49)

SINGAPORE is one of the most successful developing countries in the world. It has grown strongly for 30 years and is now close to the productivity and standard of living of industrialised countries.

Safto Asia manager Graham Limerick says its growth has been based on sound, but tough, macro economic policies. In manufacturing, tourism and financial services, Singapore followed market trends instead of "picking winners".

He says Singapore has no natural resources other than its port and relies on imports for most of its basic requirements. Its prosperity was originally built on the entrepot trade, chiefly crude rubber, timber, pepper and the petroleum trade.

To widen the base of the economy and provide for more rapid growth, an industrialisation programme was launched in 1960. A second "industrial revolution" was launched in 1979.

Mr Limerick says the government was committed to upgrading the economy into one of middle and higher technology and to establishing export-orientated projects.

It aimed to enable Singapore to become the financial, hi-tech manufacturing, communications and servicing centre of the region.

However, the sharply increased wage levels flowing from this strategy and the drop in the demand in the US market (which takes about a quarter of Singapore's manufactured exports) resulted in a recession in 1985 and 1986.

Strain

Strong measures taken by the government brought a quick turnaround with a return to traditional growth levels of more than 8% in 1987. The economic expansion continued in 1988 with GDP growth reaching 10,9%, the highest in 15 years.

Manufacturing dominates the economy's export-led growth. It employs 25% of the working population and contributes roughly 27% to GDP

Singapore has no petroleum reserves of its own, yet it has the third largest refining complex in the world. It accounts for 40% of manufacturing output.

A tight labour market, rising wages and a reluctance to allow in foreign labour has led to a gradual shift in emphasis to higher technology manufacturing, increased automation and expansion of the service sector.

Mr Limerick says that to ease some strain on labour supply, Singapore's government is encouraging overseas investment, especially in neighbouring Johor in Malaysia and on Indonesia's Batam Island

Base

However, Singapore's attractive range of incentives, good location and conducive business environment has helped it attract considerable foreign investment The electronic sector has especially benefited, expanding by more than 30% in recent years.

Singapore has also become manufacturing base for shipbuilding and other heavy industries.

Other major industries include food processing, fabricated metal products, transport equipment, paints, broken granite, soft drinks and cassette recorders

Derek Keys — minist in charge of seductio

(49)

ST Times 21/3/93.

MIKE ROBERTSON talks to Derek Keys about allure, seduction and his Budget

DEREK KEYS is wearing pink and talking of seduction. But the Minister of Finance has not succumbed to the post-Budget fatigue that claimed his predecessor.

In fact, he is in remarkably good spirits and has taken the day off (if talking to the press can be classed as relaxation), which explains the pink golf shirt he is wearing.

As for seduction — well it's a rather complicated, and feminists would say unfortunate, analogy he uses to describe the thinking that went into his St Patrick's Day Budget.

"The government is really in a feminine posture," he says.

"When it wasn't as keen to cherish the private sector; when it didn't realise the importance of getting the private sector to make the investment decisions and was making all sorts of investment decisions — like Mossgas — by itself, it was summing up the situation, deciding what its resources were and how to apply them. It was moving ahead ... a masculine role.

Active

"Once you have decided it is necessary for the private sector to make the decisions then you have to decide how you are going to make the atmosphere conducive. How are you going to make investment prospects look attractive for somebody else? How are you going to seduce them into behaving in the kind of way you want them to behave? This is a feminine role. So I keep putting out here in the hope that I get some kind of response."

And is he ever putting out.

While consumers were whacked with a four percent hike in VAT and are expected to pay R2,5-billion more in personal taxes as well as increased duties on cigarettes, booze and even cold drinks, this was a smiling Budget for the entrepreneurial class.

For one, the business tax rate was cut from 48 percent to 40 percent. Although the introduction of a 15 percent tax on dividends is intended to claw back this giveaway, a businessman prepared to plough back his profits into expanding his concern and creating new jobs will have his taxes cut by a massive eight percentage points.

In the unlikely event of all businesses doing this, the total benefit accruing to them will be a R1,5-billion cut in taxes.

Then there is the R2,5-billion he made available in export incentives; the R112,6-million for promoting small businesses; the R110-million plus a R600-million loan facility from the IDC for the tourism industry; as well as the R837-million available in incentives in the regional development programme.

This comes, of course, on top of the multi-billion-rand break given to businessmen when VAT was introduced.

The philosophy behind it all is simple — if South Africa is to get out of the mess it is in businessmen have to invest and create jobs. It is the government's job to make investing in South Africa as attractive as possible.

But isn't Mr Keys just a little disappointed at the lack of interest displayed by his intended suitors?

No, he says.

"If we are not getting the response it is because we have not made things attractive enough. You can't jaw-jaw people into being active and creative. We have to keep looking for answers."

With this Budget he thinks he has found them.

For starters, the tax rate of 40 percent that will apply to a new business starting up and not yet contemplating dividends puts South Africa in the same league as all the other developing countries seeking investment suitors.

Hopeful

The fact that businesses can write off capital assets in five years and various other tax breaks on offer to potential foreign investors enables Mr Keys to state quite confidently that: "If we don't get foreign investment it won't be because of our tax rates."

As to local businessmen who have hitherto been reluctant to invest, he hopes they will be persuaded by the underlying relatively low rate of inflation and the fact that there is now a degree of certainty about our constitutional future.

"The propects are now extremely good for political progress. When the country has a government of national unity — even the first stage, the transitional executive council — then people will feel a great deal more secure and certain."

Finally, he is banking on what the economist Keynes once described as "the animal factor" when trying to explain why economies came out of stagnation.

"Businessmen like to invest just like a farmer likes to farm. After such a long period of waiting I think people are getting ready to move."

The tax hikes were of course necessary because the government is spending more than it receives. Without the increases and the R5-billion cuts in spending by government departments, it would have had to borrow R40-billion instead of the R28,8-billion proposed in the Budget.

Possible

But couldn't deeper cuts have been made in government spending?

Mr Keys responds that the cuts made were those which his colleague, State Expenditure Minister Ami Venter, thought possible and the tax increases were what he thought was attainable.

And when will the man-in-the-street get a break with a cut in his taxes?

That, says Mr Keys, will come when the economy is growing again.

"Lower individual rates will be a sign of success, not a way out of the woods. Lowering individual rates at this stage would not have contributed to creating growth."

I put it to him that former US President Ronald Reagan, who cut taxes and sparked off a prolonged period of growth in that country, would disagree.

"Ronnie," he says, pausing to chuckle. "Ronnie ran the US from a net creditor position of $200-billion to a net debtor of $420-billion. If the outside world would lend me my pro-rata share of the $420-billion, I could be Ronnie too. It would be nice ... I could do it well. But it's not going to happen."

Too true. All we can hope for is that the man in the pink golf shirt proves to be an alluring seducer.

THE KEYS BUDGET AT A GLANCE

EXPENDITURE: Government spending will rise by 8,8 percent to R114-billion.

REVENUE: After tax and customs duty hikes, government receipts are expected to rise by 16,5 percent.

DEFICIT: To meet the difference between planned expenditure and estimated revenue, the government will borrow R25-billion or 6,8 percent of gross domestic product. The international standard for an acceptable level of borrowing is three percent of GDP.

PERSONAL TAX: No increase but, as a result of inflation resulting in bracket creep, individuals will pay R2,5-billion extra in tax this year.

COMPANY TAX: Falls eight percentage points to 40 percent, but a secondary tax of 15 percent on distributed profits is introduced.

VAT: Up to 14 percent, but exemptions on basic foodstuffs are extended.

DUTIES: Cigarettes up five cents a packet, spirits up 38 cents a bottle, beer up two cents a can, wine up four cents a bottle and cold-drinks up one cent a can.

FUEL: Both petrol and fuel levies are increased — the effect is a 10 percent rise in the pump price or 16c a litre on the Reef.

DEFENCE: Cut by 3,8 percent to R9,3-billion.

POLICE: Increased by 14,3 percent to R6,4-billion.

EDUCATION: Up by 19,2 percent to R22,7-billion.

PENSIONS: A 7,5 percent rise on all pensions while an extra R694-million will be spent to equalise all pensions by September 1 this year.

HEALTH: Up 10,9 percent to R11-billion.

PUBLIC SERVANTS: A maximum salary increase of five percent.

HOMELANDS: Transfers to TBVC states up 21 percent and to self-governing territories by 22 percent.

MONEY MARKETS by Tim Marsland

Budget implications will curtail bear run

(49)

B/DAY 22/3/93

BEARS hungrily sharpened their claws last week after details of government's borrowing requirement were made known.

But their run will be short-lived once the Budget has been properly digested.

If one breaks down the RSA market into supply and demand, then it seems the additional supply may not be as great as some players initially thought.

Essentially, the pool of government paper will swell by R24,9bn in the current year (deficit of R31,6bn less R6,7bn to be rolled over). Of this, the Public Investment Commissioners (PIC) will take up R12,5bn, leaving R12,4bn for the market.

A percentage of this will be raised in the money market through Treasury bills and the like. (For the purposes of comparison, assume the entire amount is to be raised from the capital market.)

To analyse the supply properly, the PIC's holdings of RSA stock should be subtracted from the total amount in issue, since this is not readily accessible by the market.

Total RSA stock in issue will rise to about R146bn this year, compared with R122bn last year. But since the PIC will hold about R53bn of the debt (R45bn last year) the actual supply of government stock the market can access is about R89bn, compared with R77bn last year.

The supply of government paper the market can access will grow by 14,5% this year compared with last year's 17%.

These are key figures, since they illustrate that the increase in supply will in fact be smaller than last year, when the rate on the R150 fell from about 16,5% at the beginning of the year to its current 14,59%.

This was helped on its way by the drop in interest rates but the point remains: bond rates fell sharply despite a 17% increase in supply.

The second factor flowing from the Budget is inflation.

The inflation rate is set to rise to about 12%-13% because of the increase in VAT and the fuel price. This will be a one-off rise which will be worked out of the system after 12 months.

Wily traders already aware of this are chuckling on the sidelines. Perhaps the bears' thinking is that adding one and one will be a bit tough for government again this year. They should be cautioned, though. There is a lean and mean hunter running things in Pretoria this year.

DP attacks 'apologist' Keys

TIM COHEN

CAPE TOWN — It was "astounding" that Finance Minister Derek Keys was so relaxed about wastage and corruption of between R1,2bn and R1,4bn in government, DP finance spokesman Ken Andrew said.

Andrew was commenting at the weekend on a speech made last week by Keys in which he estimated the amount lost to corruption at between R300m and R500m — a rare admission by a government member on the actual amount lost.

Keys said at an NP fundraising dinner that the level of corruption brought to light was no greater than that which existed in the public sector. Of the R54bn allocated in the Budget for consumption expenditure outside the TVBC states, only a fraction of a percentage point was lost to corruption, he said. This amounted to between R300m and R500m.

Keys denied that corruption was anything like the R9bn level alleged by the ANC.

Andrew said Keys — "in his new role as apologist for NP government dishonesty and incompetence" — tried to draw a parallel with criminal behaviour in the private sector.

Keys missed the point that people in the private sector who committed fraud and theft were prosecuted, fined and sent to jail.

But in the public sector government played for time, appointed commissions and, irrespective of what the findings were, very few people were ever prosecuted, let alone sent to prison to pay for their crimes.

Keys's "dismissive attitude" was most alarming. It was insensitive to shrug off a trend towards corruption as inconsequential and it was no excuse to claim the private sector was just as immoral, Andrew said.

The DP believed the capacity of the auditor-general's office should be increased substantially and there should be more scope for more performance audits.

There should also be qualified people available for speedy investigation and prosecution of offenders, while outside experts should be used wherever necessary, Andrew said.

NEWS IN BRIEF

BIDAY, 22/3/93. (49) (49

SA's economic offices

GOVERNMENT wanted to open economic offices in Mexico, Pakistan, Indonesia, India and Australia, the Trade and Industry Department said at the weekend.

It also hoped to establish a presence in Saudi Arabia and the United Arab Emirates, the department said. SA had 45 economic offices covering 53 countries.

Low demand 'will stifle growth rate'

BDM 23|3|93 (49)

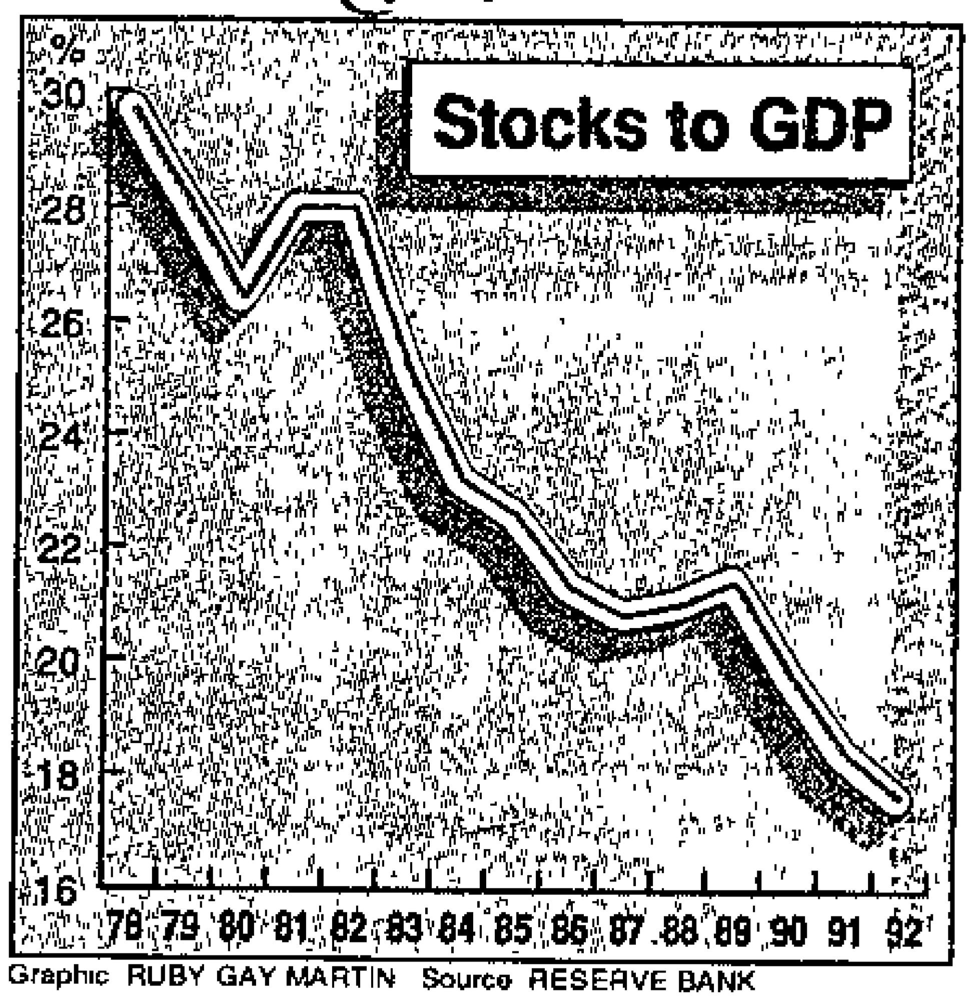
GRETA STEYN

LACK of consumer demand would push SA's growth rate back into the red this year, wiping out the gains of a normal agricultural season, economists predicted yesterday.

They have revised down growth forecasts for the year to take into account the negative effects of the higher than expected VAT rate on consumer spending.

Sacob economist Keith Lockwood said private consumption expenditure would fall by 1,5% in real terms this year instead of 1%, as initially expected. Non-agricultural GDP would fall, dragging the overall growth rate down to "virtually zero" even if there was a significant turnaround in the agricultural sector.

Old Mutual economist David Mohr said it had already become apparent at the end of last year that the economy would have to take off with a vengeance in the second half of 1993 if there was to be any real growth. "Against the background of the Budget, it seems highly unlikely." He expected a fall of 0,5% in real GDP.



Graphic RUBY GAY MARTIN Source RESERVE BANK

The Afrikaanse Handelsinstituut also projected zero growth for the year.

Economists who remain optimistic that growth would be positive have revised down the rate at which they expect the

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Growth

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☐ From Page 1

economy to expand. They said the Budget would prolong the lack of demand in the economy, which had continued in the first quarter after three years of economic decline. The absence of demand was illustrated by the continued running down of inventories. According to the latest Quarterly Bulletin, inventory levels were at a record low of 17,3% of GDP in the fourth quarter of last year. This compares with 30% levels at the end of the '70s and more than 20% in the previous downswing.

Reserve Bank economist Johan Prinsloo said low inventory levels were a sign of the weakness of demand in the economy. There was no evidence yet that businesses were building up inventories in anticipation of a pick-up in the economy, although it was encouraging that the pace of destocking had slowed down. Inventories were cut by R115m in real terms in the last quarter of last year after R516m, R397m and R251m in the preceding quarters.

Lockwood said there was a structural trend towards reducing stock levels which might be arrested once the economy was on a more stable growth path. But he said the sharp fall in inventories also reflected the running down of strategic stockpiles built up during the sanctions era. The ease with which stocks could be acquired and the cost of keeping inventories had encouraged the downward trend.

The existence of excess capacity in the economy further underlined the ease with which stocks could be rebuilt once demand had picked up again. Lockwood said Sacob's surveys of manufacturing showed manufacturers over the next year expected continued decline in stocks.

Destocking is reflected as a fall in investment spending — with the change in inventories taking R1,3bn off spending last year after R2,6bn in 1991.

Life industry 'wasting R1,5bn a year'

BIDAY 23/3/93

SA's life assurance industry was grossly inefficient and wasted about R1,5bn of policyholders' money every year through lapses and surrenders of policies, Pretoria University Department of Insurance and Actuarial Science Professor George Marx said at the Ilpa congress yesterday.

He said such wastage could not be afforded in health care and called for the life assurance and medical aid scheme industries to combine forces to create a safe and sound form of financing for private health care.

Neither of the two industries were able to provide such a system on their own.

Marx calculated the R1,5bn wastage of policyholders' money through lapses and surrenders by assuming that, on average, two-and-a-half years' premiums were lost when policies were terminated.

He challenged the life industry to conduct an independent investigation to verify this figure.

"These terminations mean premiums which were contributed did not end up being used for the purpose for which the policies were taken out, namely death and disability protection and for long-term savings," Marx said.

Whereas in 1991, the expenses of life assurers (excluding claims) represented 18% of their total premium income, the figure for medical schemes was 5,7%.

The disparity was largely the result of commissions paid to intermediaries, which Marx said did not benefit the policyholder.

In the same year life assurers paid out R9,4bn in benefits (excluding surrenders) and medical aid schemes R6,9bn.

In favour of life assurers was they possessed skills of risk, financial and actuarial management — skills profoundly lacking in the medical schemes industry.

Right

"When it comes to the medical schemes industry, it is clear it has been doing things right in terms of administering claims efficiently."

But it had not been exercising proper risk, financial and actuarial management principles and as punishment for this, members were subject to runaway inflation.

The over-utilisation of medical aid scheme benefits, overservicing and fraud had resulted in medical aid scheme contribution rates increasing at 25% a year over the last decade.

Marx suspected that, considering general practitioners control approximately 85% of all health care costs, the major culprit in this was overservicing.

He said there was an urgent need for the life assurance and medical aid scheme industries to combine to provide efficient finance for the public's private health care and for the elimination of their respective weaknesses.

The health financing scheme had to get actively involved in medical care and could not continue merely processing pieces of paper.

"The days are past where the financier of health care can sit on the sideline and merely pay claims. He has to dirty his hands and also move towards managing the care, be it by way of utilisation reviews, bulk purchasing of medicines, by initiating Preferred Provider Organisations or whatever," Marx said.

He suggested the use of seven criteria for evaluating health financing schemes.

The scheme should distinguish between less and more serious conditions; encourage self-discipline and cost-consciousness; move towards managed care; provide for long-term funding of pensioners' costs; provide for emergency treatment in private hospitals; provide for a convenient payment system; and disclose all cost elements.

Strong economic growth forecast

BIDAY 23/3/93 (49)

SA WAS "over the hump" politically and economically and could look to a period of strong economic growth from next year, according to Syfrets Managed Assets MD Leon Campher.

Negotiations were back on track, the drought was broken and propects for the international economy were better.

The one negative threat was the probability of a correction of the US stock market. This usually occurred within 12 months of a US presidential election. As the JSE historically had a 96% correlation with the US market, it was likely the SA market would also suffer a correction.

"Investors should not rush into the stock market at this stage but bide their time and take advantage of the buying opportunities that will emerge later."

Campher said the US economy had emerged from recession in terms of retail sales and manufacturing production. Japan was still in a downturn but hopefully the cut in interest rates there and in Germany would contribute to the achievement of world economic growth next year. This would stimulate the export of SA commodities.

Star 23/3/93

Analysts split over post-Budget outlook

(49)

By Bruce Cameron

CAPE TOWN — The question-mark hanging over last week's tough Budget is whether it will resuscitate an economy confined to a four-year sickbed.

The opinion of some top businessmen, academics and government officials is that South Africa will have to force itself to stand up and totter until the illness of political instability can be cured.

Businessmen have to grasp the limited opportunities offered in the Budget to spur the economy back to health, despite the political uncertainty, they say.

Although there was agreement among participants at the annual Old Mutual/Nedbank post-Budget debate that investment-led growth had to start with business, there was division over whether the barriers of political uncertainty would effectively block recovery.

Christo Wiese, chairman of Pepkor, said the political barrier was not sufficient reason for business to hold back on investments.

If there were tax breaks they would invest.

As soon as tax breaks were granted for major beneficiation projects such as the Columbus stainless steel project, millions of rands immediately became available.

"The projects did not go ahead because there was stability. They went ahead because the companies could make a profit," he said.

Professor Brian Kantor of the department of economics at the University of Cape Town disagreed.

He said the risk profile was too high, both for local and foreign investors.

Most South African businesses expanded through re-investment of profits as they did not like to expose themselves with borrowings.

With profits reduced by the recession and the high-risk profile, even South African businessmen were not prepared to take high risks.

He thought the short-term solution lay in more money coming into South Africa from overseas borrowing, even if a premium had to be paid.

The pressure on South Africa's reserves should be eased, allowing more money into the system to get the economy working.

Department of Finance director-general Gerhard Croeser intervened to say that the political risk had risen so high after the breakdown of Codesa last year that it was virtually impossible to borrow money on overseas capital markets.

He said immediately before the failure of Codesa South Africa had paid a premium of about 1,5 percent over the benchmark issues.

After Codesa broke down the premium had risen to three percent. Any major borrowing would push the premium even higher as the trade in South African paper was very thin.

Professor Aubrey Dickman, honorary professor of economics at the University of the Witwatersrand, said the most important issue was to stop the haemorrhage of capital from South Africa, which totalled more than R6 billion last year and was a result of financial sanctions.

Wiese replied that people could not sit back and wait for the "flashing light" of political stability.

They had to get over the first hurdle and that was to start internal investment.

When tax rates were altered businessmen would invest. Finance Minister Mr Derek Keys was doing what was possible to create a tax profile which would encourage domestic investment.

Overall, there was general agreement that Keys had done the right thing in gradually cutting the deficit and concentrating on the supply side of the economy.

A tough warning came from Dr Jaap Meijer, deputy governor of the Reserve Bank, who bluntly warned politicians that any attempt to stimulate the demand side of the economy to meet short-term growth targets would result in a "straw fire."

Professor Lieb Loots of the University of the Western Cape said, however, correcting the supply side was enough. The main constraint was lack of certainty and predictability of policy in South Africa.

'Quick' action on Cape needs

CT 24/3/93

(49)

By PETER DENNEHY

THE Western Cape Economic Development Forum (EDF), a group of 45 organisations, yesterday pledged to aim for quick results in tackling the region's most vital development needs.

The EDF agreed to structure itself into six commissions to look at the area's most urgent needs. They are:

- Short-term job creation.
- Education and training.
- Economic growth and restructuring.
- Urban development.
- Rural and agricultural strategy.
- Development strategy.

The last-mentioned commission will take a longer-term view and deal with broad policy issues and changes in the international environment, but all the rest will try to identify projects where the actions of the EDF can "make a significant impact within the next six months," outgoing chairman Mr Herbert Hirsch said.

Mr Hirsch told the EDF's

Forum will strive to create jobs

second plenary session yesterday that through these commissions the organisation hoped to tackle the region's most urgent development needs.

"It is time to get down to constructive and results-oriented action," Mr Hirsch said. Most of the commissions are to hold inaugural meetings next month.

"This is arguably the most exciting and encouraging initiative in the Western Cape, and possibly elsewhere," Mr Hirsch added.

Yesterday's plenary session was marked by a high degree of consensus on all issues that were discussed.

The plenary session decided that chairmen of commissions should be given latitude to make statements to the press, but if they wished to take further action they must have this vetted by the steering committee.

Among the tasks of the growth and restructuring committee will be: Identifying key issues that hamper or foster investment; the feasibility of establishing export processing zones and the funding of export support.

Mr Basil Davidson of the ANC said forums were a national growth industry.

"We have the National Economic Forum, and national forums on housing, local government, electricity, 'Water and Sanitation 2000', and even a 'no-name forum'. A transport forum was launched last week, and a new electricity forum will be launched (today)."

"The National Economic Forum is of the most direct importance to us. It will be up to the commissions to relate to the various regional forums," he said.

Mr Adrian Sayers, a delegate from Cosatu, took over the EDF chairmanship from Mr Herbert Hirsch yesterday.

Interest rates to bottom in '93

JOHANNESBURG. — Interest rates were likely to bottom this year before moving higher in 1994, SPL Banking Services said in its March forecast yesterday. (49) CT 24/3/93

The forecasts are carried out monthly among a group of nine economists such as Rudolf Gouws of Rand Merchant Bank, Adam Jocobs of Absa, Eddie Lindeque of Eskom, Ulrich Joubert of Transnet, and Jos Gerson of Davis Borkum Hare.

The forecast shows there is a 53% chance that the prime overdraft rate will be 15,25% by August. This implies a one percentage point cut from its present level, with the rate staying at this level until February.

Twelve-month negotiable certificates of deposit (NCDs) are seen easing to 11,25% by February 1994, which the forecast says will coincide with an early upturn. Whether this lasts depends on the extent to which the Bank applies its "strict monetary policy to the economy".

The forecast sees interest rates moving up again in 1994, which could "limit the upward potential of inflation"

Activity gives capital market a boost

BDM 24/3/93 (49)

TIM MARSLAND

INSTITUTIONAL activity boosted the capital market yesterday as yields dropped to levels last set around the March Budget, dealers said.

Some dealers were confused by the move as not all were apparently aware of the institutional buying — put at about R500m.

Dealers party to the deals said it indicated institutions had regained confidence in the market. They said institutions had digested the Budget and came to the conclusion that bonds were cheap.

The long-dated Eskom 168 bond ended at 14,590% from a previous 14,720% — equivalent to a R6 420 gain in value on a R1m bond. Government's R150 bond was last at 14,480% from 14,630%.

In the medium area, Transnet's T007 yielded 13,955% from 13,910% and Telkom's TK05 yielded 13,790% from 13,910%.

A dealer said the market had been waiting for institutions to set the trend in the market, which up to now had been led by speculators.

Institutions had written about R500m in put options, which was a further signal of confidence that the market had topped out and rates were set to head lower.

Put options give the holder the right to sell stock at a certain level by a specified date.

Speculators also played a large part in yesterday's activity. One dealer said they had expected rates to rise rather than fall and sold stock earlier based on this view. When rates fell, they had to buy in stock to meet their obligations, which helped speed up the fall.

Long-dated bonds strengthened the most. ~~Dealers~~ said Reserve Bank moves to tap the medium end of the market for funds through the new R160 issue which matures in 1996 put a lid on gains in that area.

Added to this was fears that Bank rate would at best be cut by one percentage point this year, which meant institutions favoured the long area rather than the medium and short area as was the case in the past.

Another dealer said the rise was surprising and blamed the fall entirely on short covering by speculators.

He expected the market to range-trade for the next few months.

Another said the focus would be on the money market in the next few weeks, where liquidity was expected to ease due to high government spending flowing into the market.

The excess liquidity would spill over into the capital market, which would help rates to ease further.

Time to act now, says forum

BIDAY 24/3/93. (49)

LINDA ENSOR

CAPE TOWN — The time for talking was over and the focus now was on result-orientated action, outgoing Western Cape Economic Development Forum chairman and Cape Town Chamber of Commerce president Herbert Hirsch said at the second plenary meeting of the forum yesterday.

The plenary, attended by representatives of about 45 organisations, approved the future structure and functioning of six commissions within the forum which would work out policies and action programmes.

The commissions set up were: the overall development strategy commission; short-term job creation commission to deal with short-term and pressing issues; economic growth and restructuring commission; education and training commission; urban development commission; and rural and agricultural strategy commission.

The short-term job creation commission would focus on the possibilities of job creation on a short to medium term basis through the use of public work programmes, special employment projects etc.

The forum was founded in December last year and brought together key business and labour bodies, community and political organisations, provincial, regional and local authorities, central government departments and parastatals and development, service and funding bodies. The aim was to promote economic growth in the Western Cape.

Idasa had provided interim financing of a part-time secretariat to get the forum off the ground but a fund raising drive would be launched shortly, Hirsch said.

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NEWS IN BRIEF

Pilatus campaign

THE World Campaign Against Military and Nuclear Collaboration with SA has shifted the focus of its campaign against the SA Air Force [illegible] Swiss Pilatus PC-7 trainer aircraft from the manufacturer to the Canadian engine supplier Pratt and Whitney.

The Oslo-based organisation's director Abdul Minty, said yesterday the World Campaign intended urging the Canadian government to prevent the PT-6A turboprop engines from being fitted to the Pilatus trainers.

Heyl case postponed

THE sentencing of Stander Gang survivor Allan Heyl was postponed in the Johannesburg Regional Court yesterday. Heyl, 41, was found guilty in October last year on 17 counts of armed robbery, 17 of illegal possession of firearms, [illegible] car theft and one of escaping from detention after pleading guilty to the charges.

He will appear again on May 28.

Hippo is still stuck

THE Bultfontein hippo is still stuck in mud in a farm dam. The TPA nature conservation department yesterday could not say when it would be captured.

Mines 'bosberaad'

THE Chamber of Mines and the NUM are holding a "bosberaad" today [illegible] wage negotiations, the main purpose being to evaluate last year's protracted wage round.

Pupils' protest march

THOUSANDS of Cape Town township school pupils are expected to march to Parliament today to demand the scrapping of examination fees for matrics in support of a call by the Pan Africanist Students Organisation, the Congress of SA Students and the Azanian Students Movement.

Johannesburg pupils are to march on the Braamfontein offices of the Education and Training Department to back the call.

REPORTS: [illegible] Reporters, Sapa, [illegible] Correspondent.

Budget 'will hike inflation by 3%'

B/Day 24/3/93.

(49)

LINDA ENSOR

CAPE TOWN — The Budget's immediate effect would be to raise the inflation rate by 3%, but the average rate for 1993 would be considerably lower than last year's, Sanlam chief economist Johan Louw said in the latest Economic Survey.

The budgetary increases in the VAT rate, excise duties and the fuel price would cause the inflation rate to climb to more than 11% in April compared with December's 9,6%.

Louw expected an average rise in the consumer price index of 10,5% this year compared with last year's 13,9% average. He said the underlying inflationary pressures in the economy had reduced noticeably, mentioning specifically the slower increase in labour costs, higher productivity and lower interest rates.

Although the delicate balance of payments' situation would play a significant role in determining monetary policy, Louw said a drop in interest rates from 13% to 12% in the next three to six months could not be excluded. Long-term rates should also tend downwards.

He expected little growth in 1993, with the Budget playing a significant role in retarding economic activity as a result of the smaller deficit, real decline in government expenditure and tax increases.

"There are, however, signs that the rate of weakening in general economic conditions is slowing down. In addition, the declining inflation rate, lower interest rates and possible favourable developments on the political front, together with the soaking rains that fell recently in drought-stricken areas, should have a beneficial effect on the economy."

Louw stressed the importance of financial sanctions being lifted as soon as possible to ease the pressure on the balance of payments. The unfavourable movements of foreign capital since the end of 1992 and the sizeable debt repayments due this year had resulted in an uneasy balance of payments position.

The slackening of SA exports over the past few months had led to smaller trade surpluses. Louw said the sluggish growth in foreign economies could be expected to worsen a sustained low growth rate for SA's merchandise exports. Gold proceeds could be higher because of the weakening of the average rand-dollar exchange rate while improved agricultural conditions would also have a favourable effect on the trade account.

Interest rates 'to bottom out'

TIM MARSLAND

B/Day 24/3/93

INTEREST rates were likely to bottom this year before moving higher in 1994, SPL Banking Services said in its March forecast yesterday.

The forecasts are carried out monthly among a group of nine economists such as Rudolf Gouws of Rand Merchant Bank, Adam Jocobs of Absa, Eddie Lindeque of Eskom, Ulrich Joubert of Transnet, and Jos Gerson of Davis Borkum Hare.

The forecast shows there is a 53% chance that the prime overdraft rate will be 15,25% by August. This implies a one percentage point cut from its present level, with the rate staying at this level until February.

Twelve-month negotiable certificates of deposit (NCDs) are seen easing to 11,25% by February 1994, which the forecast says will coincide with an early upturn. Whether this lasts depends on the extent to which the Bank applies its "strict monetary policy to the economy".

The forecast sees interest rates moving up again in 1994, which could "limit the upward potential of inflation, as enhanced by the 1993/94 Budget". Given the historical correllation between inflation and the prime rate, the one percentage point drop in prime forecast for 1993 seemed to bring about the end of the downward trend in inflation.

Amended regulations may benefit Telkom

B/Day 24/3/93

MELANIE SERGEANT

TELKOM stands to net a quick fortune from the new amended conditions which will allow would-be cellular phone operators to test their systems.

Until the second licence operator is announced in a couple of months time, companies wanting to test their systems will be charged for a "minimum of R10 000 per interconnection period".

Each potential operator is limited to 30 days of testing. Companies believed to be vying for licences include M-Net, Grinel, Vodaphone, Transtel and a newcomer, SunTel.

The tender to select the second operator is expected to be released by month-end. Telkom has been granted 50% of one licence, and is choosing one or more partners.

Posts and Telecommunications Minister Piet Welgemoed said yesterday each new interconnection would constitute a separate period, and the period of connection would be deducted from the 30 days.

Although Telkom will be one of the operators it will, said Welgemoed, "use its best endeavours to connect (potential operators) ... and to assist (them) in testing interconnection to the public switched telephone network, leased lines or data networks in as short a time as possible".

How to beat rife corruption? First fry a few big fish

B/DAY 24/3/93.

ROBERT KLITGAARD

(49)

CORRUPTION is in the news again, and fitfully, almost schizophrenically, we the public respond. On the one hand we call for firings and purges, for a new constitution and perhaps a new morality. On the other hand, we passively reflect that nothing, really, can be done about corruption. Isn't it everywhere, a fact of life?

Controlling corruption demands a different response, in SA as elsewhere. Corruption is a problem of policy and management. And to combat it we must forge a strategy.

Corruption can be defined as the misuse of office for personal gain. Usage varies across countries and over time and, at any particular place and time, law and custom may not coincide.

Still, virtually all countries have laws that condemn extortion, bribery, "speed money", fraud and embezzlement, kickbacks, nepotism and other forms of corruption. As careful research repeatedly shows, people of every culture well understand the difference between a gift and a bribe, and they routinely name "corruption" as one of their country's most serious problems.

If neither laws nor popular condemnation are lacking, why does corruption exist? It is obvious that corruption is not confined to developing countries, although its effects there are particularly damaging. Nor is corruption confined to the public sector. Corruption occurs in private companies, labour unions and universities. Even in the case of public sector corruption, where the stakes are so high, most forms of corruption involve the private sector. There are bribe givers as well as bribe takers.

Corruption is best understood as a structural problem rather than a problem of deficient morality, education or leadership.

For example, dual exchange rates, such as the commercial and financial rand, invite illicit behaviour. So do quantitative restrictions on imports, the non-competitive provision of services, and regulations, necessary as these may be in particular cases.

It is true, as Inkatha president Mangosuthu Buthelezi and others have remarked, that large public sectors invite more corruption than smaller-sized governments. It is also true, as ANC president Nelson Mandela and others have said, that multiparty democracy will in the long run tend to reduce corruption.

But whatever the mix of public and private, and whatever the type of government, corruption remains a threat. Theory teaches us that a rough formula for corruption holds. Monopoly plus discretion minus accountability equals corruption.

Monopoly, whether public or private, grants the power to charge a higher than optimal price for a service, and to provide less of it to boot. Discretion means that an official has the power to say "how much" without what lawyers call "bright lines" to limit this power. A lack of accountability means that these transactions take place in the dark.

Therefore, in an anti-corruption effort, we should mitigate monopoly, whether public or private. Limit discretion and provide clear rules of the game for bureaucratic behaviour. Above all, as Office for Public Enterprise head Jasper Nieuwoudt has underscored, increase accountability.

Theory tells us more. For example, corruption will flourish when penalties are weak, the probability of being caught low, and rewards for superb performance scant.

Like me, you may be suspicious of theory without successful example. Fortunately, in both public and private sectors, success stories provide the necessary evidence. My book Controlling Corruption presents a number of successful case studies.

Regarding strategies, several lessons emerge.

First, fry the big fish. Big corrupt actors must be publicly named and punished before a cynical public believes that an anti-corruption drive is more than words, more than a campaign against one's political opponents. Importantly, therefore, the first big fish must come from within the party in power.

Second, begin bureaucratic reforms with positive steps that help civil servants. In particular, work with line officials to define ways to measure public sector success, and then link part of the officials' compensation to the achievement of results.

Third, after frying a few big fish, get away from investigating the past and focus on prevention through structural changes: reduce monopoly, clarify discretion, enhance accountability, increase penalties, raise the probability of being caught, and link pay to performance. Also, a government may wish to create a special anti-corruption agency, as in Hong Kong and Singapore, whose role is not just investigating corruption but also working with departments to reform policies and procedures to reduce vulnerability to corruption.

Some political leaders seem to believe they can excuse the apparent absence of a strategy against corruption by saying they were not aware corrupt acts were occurring.

"In no case," President de Klerk remarked at question time on March 10, "where corruption or maladministration has been revealed were there any facts to show that the Minister in charge knew about it, or was negligent. When we discovered irregularities we took firm action and continue to do so."

An "irregularity" may indeed meet "firm action," but corruption should not be conceived as a disembodied event or the act of a shameless rascal. Corruption involves systems of information, incentives and rules. To combat it, we must think through these systems and change them

Successful change requires a strategy against corruption. This may sound obvious, but so-called anti-corruption campaigns often lack just this.

Having a strategy means recognising that we cannot attack all forms of corruption at once, even if we do not declare this publicly. We must distinguish various types of corruption and recognise that they are not all equally harmful, even if we do not say so in public. For example, corruption in the courts or in the police is usually more pernicious than corruption in the customs bureau or the driver's licence department. In general, inspectors of all varieties must be cleaner than service providers must be.

Having a strategy means developing a clear idea of ends and means in the short, medium, and long terms. To be credible, an anti-corruption campaign needs a success in its first six months. But it also requires a kind of five-year plan with phased, realistic goals.

Encouragingly, a wave of new leaders around the world is developing strategies against corruption. Sometimes the anti-corruption crusaders themselves prove corruptible; witness Brazil's recently impeached President Fernando Collor de Mello. But there is a global change in the will to address corruption. There is also a remarkable new activism on this formerly taboo subject by international organisations such as the World Bank and the UN, and bilateral donors such as Britain and France. They can help willing governments with the financing.

But only if we have a strategy.

□ **The author, formerly holder of the Lester Crown chair of economics at Yale's School of Organisation and Management, is now economics professor at the University of Natal, Durban.**

Pressure mounts on govt to reveal basis of Keys's economic model

BDAY 24/3/93

GRETA STEYN

GOVERNMENT economists face a row over mathematical equations underlying the Keys normative economic model if they continue to keep them under wraps.

The ANC and Cosatu have asked to see the econometric equations that form the basis for the model, which projects 4,5% economic growth and 5% inflation by 1997.

It is understood the issue was the subject of heated discussion at a meeting this week of the national economic forum's long-term working group.

Main architect of the model, Central Economic Advisory Services chief Jan Dreyer, said yesterday the equations would be released "eventually".

He warned against attaching too much importance to the econometric model underpinning the Keys restructuring plan as SA could not afford to get bogged down in a technical debate when there were bigger issues at stake.

Dreyer said the model was one of a number on the SA economy. Government would be prepared to disclose mathematical detail once other model builders provided information on their work.

Research by the ANC/Cosatu/Sanco aligned macroeconomic research group includes the construction of economic models and it is understood that the group's Prof Lieb Loots and Stephen Gelb of Natal University will meet Dreyer on Monday to discuss the issue.

Sources said it was hoped they would compare work, share information and debate approaches to model building.

Gelb will make a presentation on his work at the Development Bank today, but it is believed his model is not directly comparable to the normative economic model. Loots is working on an econometric model which will be comparable to Keys's.

ANC deputy economics department head Tito Mboweni said when the Keys model was released: "They call this a model, but I see no model here." He called on government to make available the underlying mathematical equations.

Cosatu economist Alec Erwin said it was necessary to know the basis of the Keys model calculations. He declined to comment on this week's economic forum meeting and expressed confidence that the issue would be resolved.

Econometrics is concerned with statistical testing of economic hypotheses, but an economist said econometric results could not be viewed as absolute truths as they depended to a large extent on the model builder's assumptions. Policy prescriptions based on the Keys model could differ markedly from those based on other academically sound econometric models.

A source who attended the forum meeting said there was agreement that the policy issues were more important than the underlying mathematics.

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Bank to free R1,6bn in reserves

TIM MARSLAND 149

THE Reserve Bank has taken steps to free up R1,6bn in reserves held by banks, according to confidential papers released to the banks yesterday.

The Bank said from April 1 liquid bankers' acceptances would no longer be eligible as collateral for overnight loans from the Bank. It also announced details of its new policy on short-term lending to banks.

By June 1994 the banks' holdings of liquid assets against liabilities would be reduced by about R1bn to R3,1bn. The documents said this was calculated against the banks' January financial statements.

In June last year it was proposed that the ratio of liquid assets to liabilities be reduced to 12% from the current 20%. Under the new rules, the assets would consist only of government-guaranteed paper.

The minimum reserve requirement which banks had to hold at the Bank would be reduced to 1% from 4%, which would free up about R650m.

On its discounting policy, the Bank said paper, such as Treasury bills, Land Bank bills and SA Reserve Bank bills with a maturity of less than three months, would qualify for overnight loans at Bank rate — currently 13%. Paper assets with a maturity of between three months and three years would attract an interest rate one percentage point higher than Bank rate.

Other assets such as long-dated government paper would be accepted as a last resort. The interest rate would be negotiated with the Bank and the loans would be granted for a minimum period.

Bank Governor Chris Stals is expected to release further details this week.

NEWS IN BRIEF

BIDAY 25/3/93

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State's sale raised R5,9bn

THE state received R5,927bn from the sale of strategic supplies and public assets or enterprises, Finance Minister Derek Keys told Parliament yesterday.

By the end of the 1992/3 financial year, R3,762bn from the proceeds of the sale of public enterprises had been utilised by government, including R2,99bn for the redemption of public debt.

He said the sale of R1,5bn strategic oil suplies had been completed and the proceeds paid into the Central Energy Fund.

R1,4bn loan tops up forex reserves

BDAY 25/3/93 (49)

GRETA STEYN

THE Reserve Bank had to use more than R1,4bn in foreign bridging finance in February to shore up dwindling foreign exchange reserves, Bank Governor Chris Stals said yesterday.

This followed foreign debt balances of R882m in December and R767m in January, reversing a year-long trend of not needing to use foreign bank "overdrafts" to top up currency levels.

Stals said SA's reserves had been under pressure since the end of August last year and the Bank had made use of short-term foreign credit facilities since December to tide it over cash flow problems. The Bank had a further R4bn-R5bn in unutilised credit that could be called up if the cash crunch intensified. It was possible that increased credit facilities could be arranged if needed, but the Bank had not seen the need to do so.

He added that pressure on the foreign exchange reserves appeared to have continued into March, but there would be some benefit from the easing of the drought-related squeeze on the current account of the balance of payments (BoP).

Economists said the Bank's use of foreign "overdrafts" meant the monthly foreign exchange reserves figures were overstated. Instead of the published R8,3bn in February, the real level of foreign exchange reserves was only R6,9bn. This meant the reserves had plunged by a massive R4,6bn, or 40%, since its peak at the end of August. On a year-on-year basis, there had also been a substantial decline.

Stals ascribed the squeeze on the reserves to the drought's effects on the current account, adverse "leads and lags" in foreign payments and the country's inability to roll over foreign debts.

The dollar bull run had spurred adverse "leads and lags" as importers rushed to buy dollars and exporters delayed dollar sales. The phenomenon had recently led to bank rate increases in Ireland and New Zealand. The dollar would, however, eventually stabilise — the pressure on the BoP was not a structural problem, he said.

Political conditions in the country militated against SA replacing foreign loans falling due with new loans. However, the

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Forex BDAY 25/3/93

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☐ From Page 1

situation could change once a transitional government was installed.

SA had to repay about R4bn in foreign debt this year, over and above the debt in the standstill net. Stals confirmed there had been bilateral talks with SA's foreign creditor banks on dealing with the R5bn of debt in the net, which theoretically fell due at the end of this year when the present interim agreement expired. He said discussions had been of a technical nature, involving a committee of Finance Department and Bank officials. Any final agreement, however, would have to be signed with government.

Economists said the dollar bull run had not only put pressure on the foreign exchange reserves, but had added to the Bank's woes by triggering forward cover losses. It was reported in the Budget review that the Bank had incurred R1bn in losses as a result of the rampant dollar. However, Finance Minister Derek Keys also noted that the Bank's forward cover book had been placed on a more market-related footing.

Star 25/3/93.

46 pc unemployment rate forecast

(49)

Unemployment could surge from its present level of 35,3 percent to 46,2 percent of the workforce by the end of the decade, according to a team of economic researchers.

Their forecast is contained in a discussion document *Modelling the SA Economy*, sponsored by the ANC/Cosatu aligned Macro-Economic Research Group (MERG), the Development Bank of South Africa and the University of Durban Westville.

Underlying the economic assumptions of their model is a forecast of an rise in SA's real gross domestic product of only 14,9 percent by 1999.

"The model is not a response to or alternative to the model government has put out," said economic research Stephen Gelb, referring to the Finance Department's Normative Economic Model issued two weeks ago. "We see it as part of the contribution to the debate."

The other authors of the model are Dirk Ernst van Seventer of the DBSA and Americans Lance Taylor and Bill Gibson.

Gelb said the structural model dealt with the distribution of income, wealth and power in the economy, but the model would need further work and inputs from other interested parties.

The model provides an analysis between export-led and wage-led growth alternatives. A one percent rise in exports a year would generate GDP growth of 0,24 percent, while a similar rise in wages would spur 0,8 percent GDP growth, it suggests.

The former would lead to a decline in unemployment levels from 35.3 to 35,1 percent, the latter to 34,8 percent.

"It is clear that the model is more responsive to an increase in wages than an increase in exports," the authors say. — Sapa

Star 25/3/93

Component

Star 25/3/93

Benguela still making losses

CAPE TOWN — Diamond sea-mining group Benguela Concessions' loss per share rose to 6,2c in the six months to December from 4,1c for the year-ago period.

(216)

Accumulated loss was R5,2 million (R648 000).

The consolidated income statement shows 9908 carats were produced (16 794 in the previous six-month period to December 1991).

Mining income was R1,1 million (R1,9 million)

Calculation of the loss per share is based on the net consolidated loss after tax, but before extraordinary items for the period of R2,8 million (1991: R1,8 million.)

Prevailing poor sea conditions and the reduction in the fleet of own and subcontractors' smaller mining vessels contributed to reduced diamond production.

Negotiations with BHP Minerals over the establishment of a joint venture for development of the middle- and deep-water concessions has reached an advanced stage, Benguela says.

It says surplus cash in current assets has been "utilised post-balance sheet to redeem major long-term liabilities".

"Negotiations with Namibian Minerals Corporation (NMC) for a joint venture operation in the Namibian Concession held by CDM (Pty) was not successful," it says. — Sapa.

Trade surplus drives up yen

TOKYO — The yen's surge against a backdrop of Russian turmoil suggests it may have acquired the safe-haven status of the dollar, but Tokyo dealers say Japan's huge trade surplus was behind much of the recent gain.

"There is not much demand for the dollar right now, but with Japan's large trade surplus, the need for the yen has been increasing," says a Japanese city bank economist.

Others argue the old market equation — political tension or war directly leading to dollar buying — is no longer valid in the post-cold-war era.

In the nation's current account, Japan posted a record $132,60 billion trade surplus in calendar 1992, up from $103,04 billion a year earlier.

The large surplus means not only Japanese exporters have an abundance of dollars to sell from foreign currency earnings, but also that overseas buyers of Japanese goods need yen, dealers and analysts say.

International capital flows were briefly channelled into the dollar when news broke of the confrontation between Russian President Boris Yeltsin and his legislature.

But the yen benefited more in the longer run, partly because of the recent strong performance of Tokyo stocks.

"World money flows appear to be heading towards the yen when I look at latest currency market movements," says Seiichi Saito, chief dealer at Hokkaido Takushoku Bank.

Indeed, foreigners have turned net buyers of Japanese stocks since early March when the crisis started to intensify.

This move was accelerated by a relatively poor performance in other world stock markets.

German shares, for example, ended near a four-week low as the DAX 30-share index closed with a loss of 37,41 points at 1 661,40 on Tuesday.

"The latest developments in international currency markets do not mean the yen has become a safe haven, but many factors favour it for now," a dealer said. — Sapa-Reuter.

Star, 25/3/93.

46 pc unemployment rate forecast

(335) (49)

Unemployment could surge from its present level of 35,3 percent to 46,2 percent of the workforce by the end of the decade, according to a team of economic researchers.

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The model provides an analysis between export-led and wage-led growth alternatives. A one percent rise in exports a year would generate GDP growth of 0,2 percent, while a similar rise in wages would spur 0,[illegible] percent GDP growth, it suggests.

The former would lead to a decline in unemployment levels from [illegible] to [illegible] percent, the latter to 31,8 percent.

"It is clear that the model is more responsive to an increase in wages than an increase in exports," the authors say. [illegible]

Star 25/3/93

ıinister Derek Keys's Budget gets a mixture of praise and criticism

How good is this document?

Sowetan 25/3/93 (49)

■ CHECK We need a watchdog, says expert:

By Mzimkulu Malunga

THERE IS A saying that nothing can be completely bad or good under the moon and the sun. This could be said about this year's Budget.

After Finance Minister Derek Keys tabled his budget in Parliament last week, he received a mixture of criticism and praise.

Some were bold enough to hail it as the Budget for the much-talked-about new South Africa — but others dismissed it as old-time apartheid economics.

Business is particularly thrilled that company tax has been reduced to 40 percent. This, argues corporate South Africa, will bring the country's company tax rate in line with international standards.

The Budget has set the tone for investment and local business cannot afford to wait forever, says the director general of the South African Chamber of Business, Raymond Parsons.

Some, like the director of the Centre for African Studies, Eugene Nyathi, believe Keys's Budget reflects the Government's lack of political will to break with its unpopular past.

Keys had an option of drastically cutting spending on defence and directing the resources somewhere else where they could be productive, but he did not.

ANC's Tito Mboweni says setting aside money for job creation, housing and small business is a "movement in the right direction"

PAC economic affairs director Moselebanye Malatsi says if there is anything this Budget has done it is to make people finance their own downfall.

No attempt was made to redress the disparities in the South African economy, while the homelands still got substantial amounts from the national coffers.

R5bn from sale of public assets

S 26/3/93

THE state had received R5 927 million from the sale of strategic supplies and public assets, Minister of Finance Mr Derek Keys said. (49)

By the end of the 1992/3 financial year, R3 762m from the sale of public enterprises had been utilised by the government, including R2 994m for the redemption of public debt.

THE BUDGET

Can't please everyone

FM 26/3/93 (49)

The property market — more specifically the residential sector, which only recently began to pick up as a result of lower interest rates — is almost certain to be battered by the Budget.

For starters, the 4% Vat increase and hike in the fuel price will hit the cost of new home construction hard. At the same time, transfer duties on the sale of existing dwellings have been increased — though by raising the exemption ceiling to R60 000, lower-income group purchasers have been assisted.

Attorney-conveyancer Israel Goldberg notes: "The new transfer duty regime is a form of funding for the low-income housing market by the private sector. It begs the question: which is the best vehicle with which to buy property? The cheapest way now is through an individual. But if a company is already the registered owner of a property, anyone who wants to buy it will be encouraged to take transfer of shares in that company."

Both Goldberg and Real Estate Surveys MD Erwin Rode agree that the overall effect of the increase in transfer duty will be to lower living standards as people will be encouraged to buy homes costing less than R250 000 where the duties are less punitive.

Deloitte & Touche points out that higher costs will reduce the number of houses sold. There may also be a rush to buy new houses or contract with a builder before April 7 while the 10% Vat rate still applies.

Commercial property transactions before April 7 will not benefit as the Vat rate at the date of transfer will be applied. But for commercial and industrial property, where the participants all tend to be registered vendors for Vat purposes, the effects of the rise in Vat will be negligible.

Property economist Neville Berkowitz believes the initial impact of the Budget is negative for both the residential and non-residential markets. In a relatively static residential market, the additional 3% transfer duty on houses valued at R250 000 or more will, initially, have to be absorbed by the seller. He feels buyers working off tight budgets will not easily be able to afford the extra 3%.

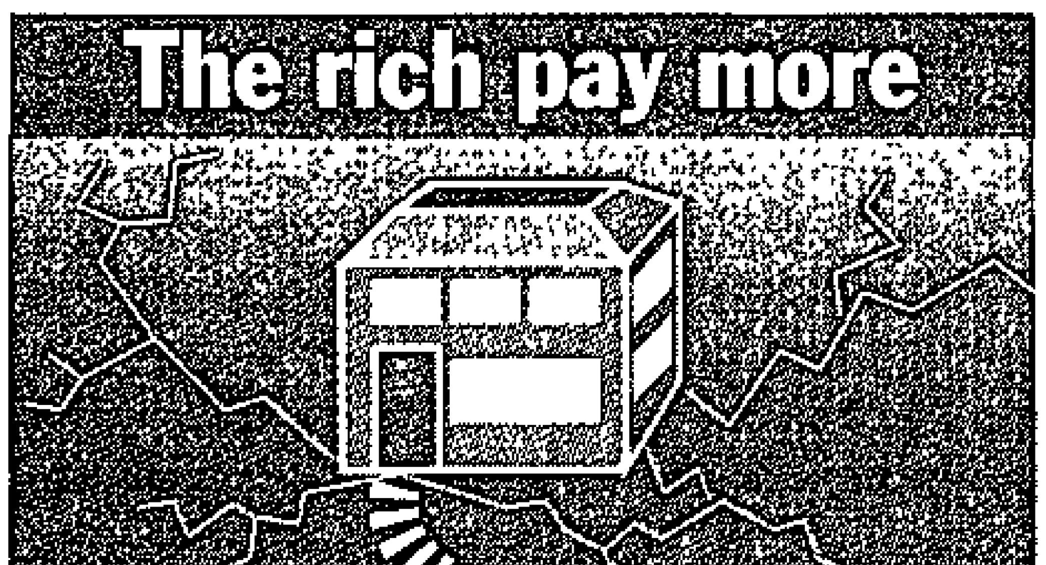
The impact of a four-percentage-point increase in Vat, in the current zero-growth economy, implies that retail spending could fall by 3,6% in real terms — all other things being equal This means turnovers of retail tenants could fall with more serious consequences for their profitability, unless their costs are cut by 3,6%. This is not good news for the retail property market

The manifestations of reduced consumer spending will affect certain manufacturers and distributors who serve the consumer market. This will have an impact on the factory and warehouse property markets Some good news is that the reduction in company tax from 48% to 40% should improve corporate tenants' ability to pay existing or increased rentals — though this is complicated by the new 15% tax on dividends

Meanwhile NBS Devco MD David Govern assures buyers of NBS homes that if they have signed for their house before the Vat increase date, not only will they not pay higher Vat, but will not be landed with additional costs that the fuel price increase will bring to bear on the building industry.

Govern adds: "The increase in Vat, coupled with the fuel price increase, will unfortunately add considerably to the cost of a new house after April 7 as most builders and developers are not in a position to absorb construction cost increases which amount to around 8%-9% We will be looking for ways to soften the blow to home buyers, but even the concession in company tax will assist by only half a percent, as the 8% reduction is only applied to a company's taxable income

"In the 33 years we have traded, the margins have never been as thin as they are in the property development industry today, given the stressed disposable income of our customers, and we do not have 4% to give away, let alone the 8% or 9% represented in the total costs," Govern says.



Transfer duty changes on houses

Cost	Was	Cost	Now	Change %
Individuals				
50 000	500	50 000	0	n/a
100 000	3 000	100 000	2 600	−13,3
200 000	8 000	200 000	7 600	−5,0
300 000	13 000	300 000	14 100	8,5
400 000	18 000	400 000	22 100	22,8
500 000	23 000	500 000	30 100	30,9
Companies				
50 000	3 500	50 000	5 000	42,9
100 000	7 000	100 000	10 000	42,9
200 000	14 000	200 000	20 000	42,9
300 000	21 000	300 000	30 000	42,9
400 000	28 000	400 000	40 000	42,9
500 000	35 000	500 000	50 000	42,9

Source: Deloitte & Touche

He adds: "Unfortunately, the purchaser's situation has been worsened by the fact that higher Vat will further exacerbate the strain on the public purse." ■

BRITISH LEASEHOLD

Changing of the guard

The British government maintains that its proposed reform of the monopolistic and archaic leasehold laws on commercial and residential property would greatly benefit the market and fulfil its electoral promise to "create a nation of inheritors "

The Leasehold Enfranchisement Bill will enable about 750 000 holders of long leases — 20 years or more — to buy freeholds from landlords compulsorily.

The Bill before parliament is coming under ferocious attack from a well-organised lobby of Conservative and institutional interest groups but otherwise enjoys all-party support.

While Conservatives are traditionally hesitant about intervening in property markets, especially where intervention means retrospective breach of contract, the government and its supporters argue that, in practice, no just modern society can afford to treat private contracts and private property as absolutely inviolable

In markets where ownership is highly concentrated, the government argues a duty to interfere, in the name of competition, with the previously near-total power of private property.

But the government maintains that the proposed reforms are true to modern Conservative business principles, in that the changes will enhance competition by fragmenting local landholding monopolies and bring liquidity to the market.

The principle of forcing freeholders to sell their property to long leaseholders was established by the Leasehold Reform Act of 1967. For reasons of administrative complexity, that law excluded residential property. The new Bill removes that anomaly but parliament will ensure that the compensatory mechanism that accompanies it is just and carefully regulated It is proposed to increase the power of the Leasehold Valuation Tribunal, on which judges sit to consider disputes over compensation.

The timing of the reforms, in the midst of the recession and worst ever property glut, is unfortunate for landlords. But for tenants — particularly for office and shop lessees — as the *Financial Times* has pointed out, the very weakness of the property market has given hope to many that lasting changes

(49) FM 26/3/93

Transforming desire into reality

There should be no doubt that last week's Budget contained a strong supplyside growth orientation, despite the inevitable — though temporary — reduction in demand that will flow from consumers having to pay a higher Vat and income tax payers contending with more fiscal drag.

If the burden of having to finance the Exchequer had been lighter on the consumer and heavier on companies, inflation would have been fanned, the return to economic growth delayed and its sustainability jeopardised. The outcome would have been prolonged hardship and unemployment.

The reasoning behind the reduction in company tax and new tax on dividends declared has its roots in the philosophy of the classical French economist J B Say. Simply put, he justified the use of machines to Luddites by demonstrating that the consequent increases in productivity led to faster economic growth which, in turn, brought greater prosperity and created more jobs than would have been preserved if the machines had been destroyed. Thus, supply creates demand.

If this economy is to return to sustainable economic growth, new investment is vital. Not only has investment sagged in four years of recession, but we are now eroding our existing productive resources. We're eating our seed corn.

Whether the Budget alone is sufficiently stimulative of investment must also be questioned. Interest rates, an important determinant of savings and investment, are high in relation to inflation. The problem is that the need to repay foreign debt requires a trade surplus which, in turn, needs the support of real rates of interest.

That constraint would be much less important if, in the event of a trade deficit, SA had recourse to temporary IMF balance of payments support, which has been denied us by the Americans at the urging of the ANC and the clergy.

The efficacy of the Budget's investment incentives is, therefore, as much in the hands of the ANC and Archbishop Tutu as it is in government's own ability to turn official spending restraints from wishful thinking into reality. ■

BUDGET DEBATE FM 26/3/93

Keys on the rack

(49)

Government's unwillingness to accept responsibility for about R18bn that will be pumped into the homelands and TBVC states this year will spearhead opposition attacks when the Budget debate begins in parliament today. DP finance spokesman Ken Andrew says it's futile for Finance Minister Derek Keys to speak of restoring fiscal discipline when he has virtually no control over about 16% of total planned spending

Ministers have repeatedly insisted that they have no control over funds channelled to homelands once they are approved by parlia-

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ment (*Current Affairs* March 5). Three recent government-appointed commissions reported widespread corruption and maladministration in some regions.

Andrew says a significant omission from Keys's Budget speech was any meaningful comment on corruption and maladministration, particularly in the homelands. However, the following day at an NP fund-raising function in Johannesburg he tried to downplay corruption in the bureaucracy. He said it amounted to no more than R1,4bn and was less than in the private sector.

Andrew points out, however, that even R1,4bn is much more than the R740m that will be raised by the proposed new fuel levy; nearly five times the R250m allocated in the Budget to ease unemployment; and enough to equalise old-age pensions almost immediately instead of waiting five months.

He says the Budget also fell short of addressing the fiscal issues of scrapping "own affairs" administrations and gives the impression that no significant savings are planned. Instead of rationalising staff and functions, it seems that officials will merely be transferred to "general affairs" departments and that overall spending will not drop — as was the case when the massive pass laws bureaucracy was dismantled

An indication of government's reluctance to cut back is reflected in this year's "general affairs" Agriculture allocation. It increases by 191% over last year to R1,3bn to provide for the amalgamation of the "own affairs" departments.

Andrew adds the Budget showed that Keys could not meet his commitment made last year to cut real government spending by 3%. "In fact I believe Keys is presiding over a Budget in which government has a greater share of GDP than at any time since World War 2."

He says a problem with Keys's commitment to fiscal discipline is that his immediate predecessors, Barend du Plessis and Owen Horwood, were also repeatedly pledged to the ideal but never able to honour it.

Andrew adds: "I believe Keys is already on that same treadmill." ■

Zimbabwe in credit squeeze

W|Mail 26/3 - 1/4/93.

Weekly Mail Correspondent: Harare

LARGE and small corporate and individual clients of Zimbabwe's finance houses are defaulting on loans due to the current tight credit squeeze facing the economy.

According to one of the largest finance houses here, UDC, there had been a substantial increase in the number of clients defaulting on hire purchase loans which they could no longer afford to pay.

Zimbabwe is undergoing a painful economic structural adjustment process, largely financed and backed by the World Bank and the International Monetary Fund, and is implementing a tight monetary policy to curb demand for credit and reduce a high inflation rate of over 35 percent.

As a result, many companies and individuals are faced with a serious shortage of money.

Several companies have been liquidated with huge losses in employment, while hundreds of Zimbabweans in the low, middle and upper-income brackets have had their houses repossessed after failing to pay mortgage loans.

Many commercial banks and other financial institutions have now adopted more cautious lending policies, following the high rate of defaults, an economist said here.

Building societies, already facing a shortage of mortgage loans, have suspended approving loan applications until the economic climate improves.

A model export plan

(49)

W|Mail 26/3 - 1/4/93.

By REG RUMNEY

PROPOSALS in the government's Normative Economic Model to boost exports strongly resemble those in a recently released draft document emanating from the southern Africa department of the World Bank.

The document on South African trade, drafted by World Bank economists Pedro Belli, Michael Finger and Amparo Ballivan, was disseminated last month for discussion.

Both the document and model:

- Find an anti-export bias inherent in South Africa's trade policy. They both reckon this anti-export bias arises from the handicap on exporters of higher input costs from domestic suppliers than are available internationally.
- Come out against export processing zones.
- Suggest rationalising the plethora of complex and widely differing tariffs on imported goods.
- Recommend a gradual approach to trade liberalisation, starting with giving exporters access to inputs at more competitive prices, whether the goods are obtained domestically or abroad. Domestic industries would continue to be protected for the time being. Eventually import surcharges would be scrapped and duties scaled down.

However, the economists' document is much more explicit and detailed. The World Bank economists note that for the manufacturing sector as a whole protection on inputs raises their cost by 12,6 percent compared to a free trade regime. The burden is not equally spread.

They also note the South African manufacturing sector is a close-knit microcosm of big companies and exporters mostly do not pay domestic prices for their inputs, but buy them at producers' export prices.

This does not apply to smaller companies, who cannot bargain down the domestic price of inputs and have to pay the full domestic price.

According to the economists' calculations, the combined effect of the General Export Incentive Scheme (GEIS) and free-trade equivalent prices on inputs produces, on average, a pro-export trade regime.

However, there is no guarantee inputs will be available at world prices, so these calculations only give an idea of what could be achieved if, in addition to GEIS, South Africa had a more effective system whereby duties paid on imports could be reclaimed by them.

As in the Normative Model, the economists note GEIS clashes with General Agreement on Tariffs and Trade rules and so has to go. Hence, in addition to competitive inputs they recommend a strongly interventionist role for the government. They say the key to switching from an anti-export bias in other countries has been access to government support, particularly capital, being made conditional on export performance. They mention Korea as an example.

The economists do not go into the possibly painful political and other implications of this policy. Neither half of Korea is known to be a pardigm of democracy.

Business, labour get new role

(49)

CT 27/3/93

By ANTHONY JOHNSON
Political Correspondent

ORGANISED labour and business will be invited next week to have a say in determining spending priorities in next year's Budget.

The breakthrough — paving the way for joint decision-making in government — was announced by State Expenditure Minister Mr Amie Venter as part of a 12-point plan to slash state spending by R5 billion over the next two years.

He predicted the programme would help to reduce the tax burden.

For the first time "outsiders" will help decide how the Budget allocates money to government departments, including Defence and Law and Order.

Mr Venter said yesterday that the representatives of business and labour sitting with the government on the National Economic Forum (NEF) would be able to nominate members to make Budget inputs through 15 state-function committees.

He told a press conference yesterday the committees were being established to draft five spending scenarios for each of the 15 departments.

After these had been forwarded to the cabinet, the committees would decide how the money would be spent in terms of the scenario decided upon by government ministers.

Mr Venter said the plan to cut state spending involved setting ceilings in current expenditure, before inflation, at R104,2 billion for 1994/95 and R101,7 billion for 1995/96 — down from the anticipated R106,7 for 1993/94.

Central to the plan will be a change in government budgeting principles from what departments felt was needed to what could be afforded.

Another important aspect of the plan is the scrapping of additional expenditure budgets — the "additional estimates". Only "unforeseen and unavoidable" expenditure will be authorised by Parliament.

Other features of the plan are:

- Ministers or administrators must reduce spending on specific functions to a targeted amount. The function committee will play an important role in setting these targets.
- Unexpended funds will be carried over to the following financial year to eliminate spending on non-essential items at the end of the year.
- A Treasury committee consisting of the Ministers of Public Enterprises, State Expenditure and Finance will advise the cabinet on spending priorities and savings targets

'Legacy of Thatcherism and Reaganomics'

SOUTH 27/3 - 31/3/93.

(49)

THE SOUTH African budget is a legacy of the economic policies of the 1980s — of Thatcherism and Reaganomics.

This is the view of ANC Economic Planning Department head Mr Trevor Manuel, who was the speaker at the Independent Business Forum in Cape Town last week.

He said the gist of these policies was to cut the size of government, shift the fiscal burden onto the poor and free the rich of the tax burden because they are the entrepreneurs.

"This logic then suggests they would invest. Suddenly there is growth which trickles down to the poor. It's all magic.

"The question is: Has it worked? It is best answered by Mr George Bush who is no longer in power."

"The deficit in the US and the depth of its economic problems are all the consequences of the application of Reagonomics.

"With the election of Mr Bill Clinton, and of the Labour Party in Australia, there is a strong signal the world wants to break with that style of economics."

"South Africans appear to be slow learners. And Mr Derek Keys appears to be one of them."

Manuel said the government's Normative Economic Model (NEM), released recently, essentially reflects the Reagonomic plan.

"For the first time in its history, this government is moving away from its ad-hoc approach.

"They are placing on the table for discussion a five-year plan. That is encouraging. The objectives are somewhat vague but in essence there is no disagreement.

"However, redistribution does not feature in the NEM. Perhaps it does not feature because of the emphasis on trickle-down economics.

"More sinister is that trade unions are blamed for the economic malaise in this country. In the NEM, there subtle suggestion that the righ strike would have to be re-evaluated.

"There is enough suspicion in my mind that the NEM should only be regarded as a discussion document coming from an outgoing government that should not arrogate to itself the right to plan for the economy of this country until 1997."

Manuel said the government paid only lip-service to the distribution of income and wealth in the Budget.

"Nowhere in Keys' Budget speech or the review does inequality feature as an issue.

"There is a tendency in the press to portray the Budget as an accounting procedure.

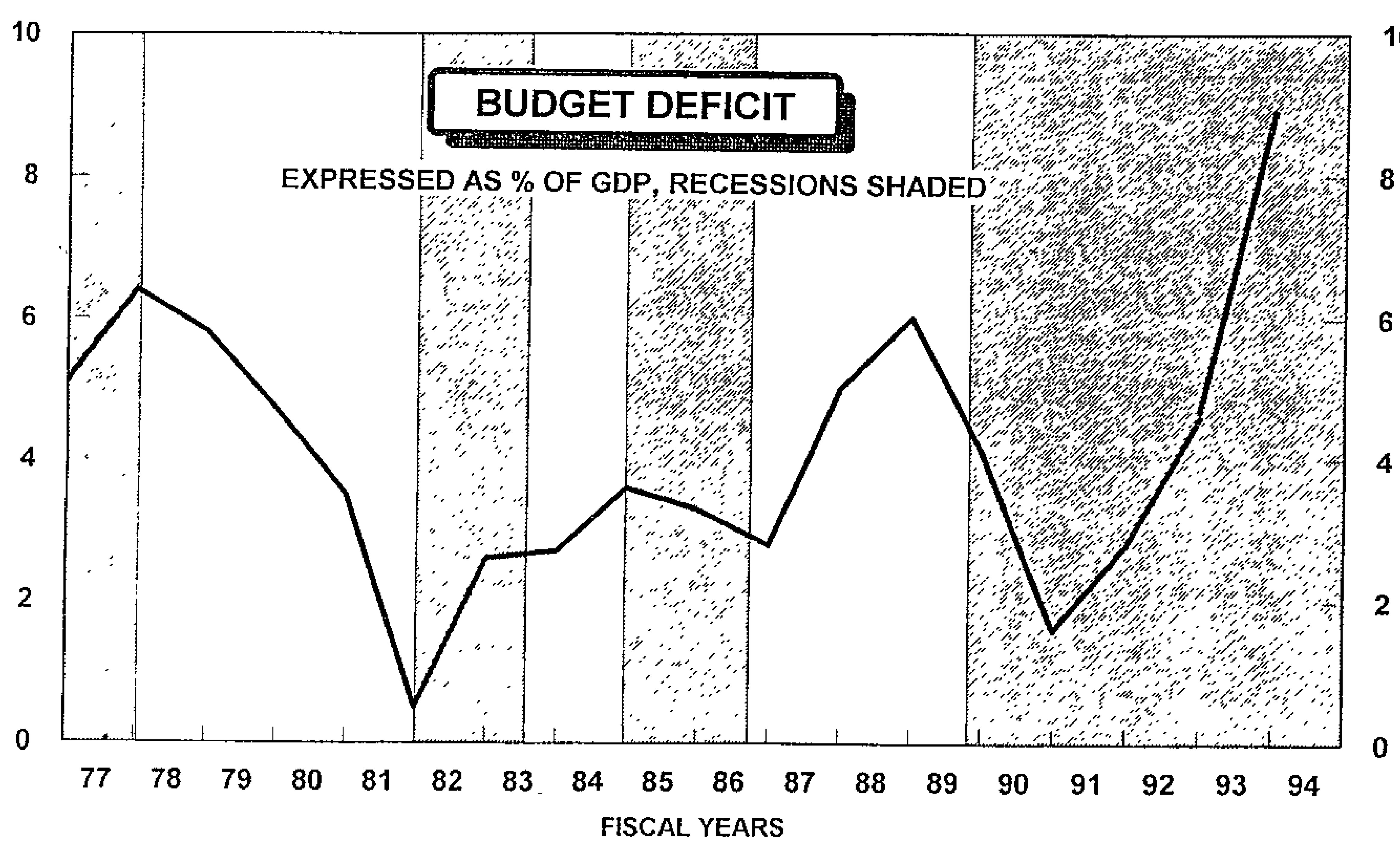
"The SABC decided not to invite political comment on the Budget after it was announced, but then succumbed to pressure. However, the minister was not there to defend himself.

"There is a sense that the budget has nothing to do with politics. In fact, this is a costed plan of the NP in this election year."

He noted that Keys had failed to castigate the government for overspending by R6 billion last year.

"One would have hoped that with the Transitional Executive Council weeks away, there would have been an attempt to communicate with other political players who would participate in the council's finance committee."

Trevor Manuel



BUDGET DEFICIT: The budget deficit, over eight percent of Gross Domestic product, or the output of the country, is the highest in history Graph: Old Mutual

AS the Budget begins to bite, each South African will pay — on average — an estimated extra R1 500 in various taxes over the next twelve months. And who knows what on earth the money will be spent on? In a recent scathing demolition of the Budget, the ANC's economics czar, Trevor Manuel, highlighted what we are being expected to swallow:

"• There is R6.2 billion in this new budget for the TVBC, not to mention another R2.7 billion in loan guarantees. Why prop up these highly repressive regimes that don't work?

• Why must pensioners wait six months for equal pensions, when they face increases immediately? Parliament's budget is up by 31 percent: they are not going to wait six months.

• We are supposed to be thankful that secret defence spending is down to R3.74 billion. Add this to last year's R4.4 billion, and you may find the NP's election fund included in the secret fund.

• The 16c extra on fuel includes 3c for the MMF — which government members have stripped naked. Why don't they recover the money that has been stolen? "

Health spending welcomed but . . .

SOUTH. 27/3-31/3/93

(88) 49

By Justin Pearce

THE SOUTH African Health and Social Services Organisation (Sahsso) welcomed an 11 percent rise in health spending. But it is concerned much of the money will go into the wrong pockets.

"This government is spending more than the World Health Organisation recommendation for a country of our development level, yet health services are woefully inadequate for the majority of the population," said Sahsso national publicity secretary Dr Aslam Dasoo. "This could only mean incompetent administration."

Sahsso was concerned that health services were subject to VAT.

With health services due to be rationalised in line with the abolition of Own Affairs departments, Sahsso criticised the government's unilateral approach to restructuring.

"There has been no consultation with any of the extra-parliamentary organisations on how streamlining, which would affect the health costs and personnel, should be executed," Dasoo said. "Any action by the government, therefore, has no democratic legitimacy and would be rendered unworkable."

Earlier this parliamentary session, Minister of National Health and Population Development Dr Rina Venter announced new legislation to shift the financial burden of health services away from the state.

The draft Medical Schemes Amendment Bill would give medical aid schemes more freedom.

Venter recently announced legislation to check abuse of medical aid funds and shift the financial burden of health services from the state.

"The plan would definitely have a detrimental effect on public health," Dasoo said.

Central to the thinking behind the bill is Venter's assertion that it is "the responsibility of the individual to provide for his own and his family's health care and related costs".

Keys' Housing Blues

By Quentin Wilson 49

THERE'S no place like home, and no place for the homeless in the Budget.

Mr Moses Mayekiso, president of the South African National Civic Organisation (Sanco), argues that the seven million people living in squatter camps are already hardest hit by the budget in general, and the prospect of getting a house is remote.

According to Mayekiso, the R1,2 billion for this year's housing needs is effectively half of what government spent in the mid-eighties.

"Finance Minister Derek Keys has has made a cut in national housing well over 20 percent in real terms (before inflation)."

Mr Trevor Manuel, head of ANC economic policy, accused past housing policy of gross inefficiency.

SOUTH 27/3 - 31/3/93.

"In last year's budget, R2,098 billion went for housing. The ministry of state expenditure says 15 000 houses were built. But at R2,098 billion those houses cost R140 000 each to build.

"The Urban Foundation, however, says these houses are roughly estimated at R22 000. If you add in R7 500 for site and service, then the costs should have been about R30 000 per house.

"So houses that should have cost R30 000 each, have been built for R140 000 instead," Manuel said.

SOUTH 27/3 - 31/3/93.

The maladies linger on

S/Times (Buss) 28/3/93. (49)

The South African economy has been compared to a goose which can lay golden eggs. But is a prostrated goose a more appropriate metaphor? By **KEVIN DAVIE**

IT WOULD be hard to find a more important forum for foreign investors than the survey of South Africa published this week by The Economist.

But the survey explains why investors are not queueing up with their baseball bats to break down the protective walls around SA so that they can invest.

The Economist says a common view is that apartheid was evil and muddle-headed but that at least it did not destroy one of Africa's only dynamic economies.

The danger now, this view holds, is that in a fit of redistributive vengeance, a government of wild-eyed ANC socialists, in league with the SACP, will destroy the wealth-creating parts of the economy.

"There is much talk of babies and bathwaters, and geese and golden eggs."

But, says The Economist, these homely metaphors do not fit the facts. It says there is sadly little sign of a dynamic economy waiting for its neck to be wrung.

"A more apt description of the country's predicament is that a post-apartheid administration will inherit an economy prostrated after decades of incompetent management, over-government and the subordination of economic goals to political ones."

The misery is breathtaking, says The Economist. About 40% of the labour force cannot find jobs in the formal sector. Gross fixed investment is down to a feeble 16% of GDP, only just above the minimum level required to replace worn-out machinery.

Inflation is down, but mainly, confesses Derek Keys, the well-liked Finance Minister, because the economy is "buggered".

Limited

The Economist describes the homelands as "ten basket cases".

"While they export workers, they import government handouts. The so-called TBVC states raise at most between one-fifth and a half of their own revenue."

If the ANC was once peopled by wild-eyed socialists, three years of hobnobbing with foreign politicians, businessmen and visiting delegations from the World Bank have brought illumination.

"The ANC may stand by its aims, but it has had to think again about its means."

Head of ANC economic planning Trevor Manuel "is certainly no fire-breather". A political appointee, he has been on a vertical learning curve, which Mr Keys has been keen to push him up while introducing the ANC "gently to modern thinking in economics".

Mr Manuel has learnt already that a new government's economic options will be limited. "He argues social reform must proceed at a pace which is sustainable.

"Right now he talks more about busting cartels and unbundling industrial giants than taking them into public ownership ... Some revolutionary."

The Economist says most of the ANC's leaders are grudging respecters rather than avid admirers of the marketplace.

It says that until now many maladies have been blamed on apartheid. "When apartheid is over the maladies will linger on.

"Given a safe transition followed by a sound government, SA could begin to tackle its prostrate economy. The problem is that a prostrate economy may itself make a safe transition and sound government unattainable."

'Politics (49) imperilling economy'

IF politicians do not get their act together, the economy will be damaged irreversibly, says Life Offices' Association chairman Mr Neal Chapman. S/Times (Cape Man)

Addressing the Institute of Life and Pension Advisers convention in Somerset West this week, Mr Chapman warned that if the violence did not decrease, the transition process and economy would collapse. 28/3/93

Since the breakdown of Codesa and the bloodshed at Boipatong and Bisho, "despair has filled most of us".

However, the past two months had produced progress.

"I believe there is a new sense of urgency ... among the key political players to reach agreement." — Sapa

Consumers' rand power under threat

ST Times (R455) (49)

28/3/93.

By CIARAN RYAN

PRESSURE is building for an increase in interest rates, says Reserve Bank governor Chris Stals. Last month, Dr Stals hinted that interest rates would soften in the short-term and harden later in the year.

It was widely believed that the Bank had scope for another percentage point cut in bank rate, a possibility now ruled out because of money market shortages, deceptive inflation figures and a looming balance of payments squeeze.

In his Budget speech Finance Minister Derek Keys said that, by limiting the deficit to 6,8% of GDP, "more room is created on the fiscal side for a gradually more relaxed monetary policy".

But despite good inflation news, down to 9% in February, economists now rule out any possibility of further interest rate cuts this year.

"The money market shortage has been between R4-billion and R5-billion in recent weeks, compared with R1-billion a year ago," said Dr Stals this week.

"Liqudity is tight, mainly because of outflows due to the importation of maize."

The three-month bankers' acceptance rate — the rate at which banks lend short-term money to each other — bottomed at 11,41% in February. It hardened to 12% this week, reflecting concern in the banking sector over rising illiquidity in the economy. The money market shortage, a term for overnight lending by the Reserve Bank to commercial banks, dropped from around R3-billion to R2,5-billion last week as rates firmed.

"The potential exists for a rise in interest rates," says Nedcor's Edward Osborn. "If we exclude mortgage interest from the consumer price index we still have double digit inflation."

Mr Osborn warns that the Budget deficit will be closer to R30-billion than the government's projected R26-billion, because state departments will probably overshoot spending budgets.

There is also a risk that the projected 16,5% rise in revenues to R88,9-billion will fall short, as happened last year.

"The government will not be able to make any impact on the deficit this year," says Mr Osborn.

"The country faces a terrible situation. We are now in a public debt trap. Of the R13-billion increase in spending, R5-billion — or nearly 40% — goes towards paying additional interest on public debt."

Mr Osborn says the Budget figures are misleading. A nominal 8,8% increase in state spending to R114,2-billion is projected, but this rises to 12,5% if last year's drought relief is excluded.

Last year's Budget deficit was R29,8-billion, but if drought-related transfers of R3,4-billion are deducted the deficit was R26,4-billion. This compares to Mr Keys's R26-billion deficit before the sale of assets estimated for this year.

Borrowed

Econometrix's Azar Jammine says the only circumstance under which Dr Stals would raise interest rates would be to pressure the ANC to call for the removal of financial sanctions, opening capital flows to SA: "Otherwise, I don't think he can afford to increase rates at this stage."

Dr Stals says the inflationary effects of the VAT increase in the Budget must be distinguished from normal inflation, which is an on-going process of price increases.

"The increase in taxes is once-off and this is not normal inflation. We would expect prices to increase in March and April, but they should decline from there."

Gold and foreign exchange reserves have been whittled down from R9,7-billion in January to R8,3-billion, R1,4-billion of which was borrowed abroad to ease the country's cash-flow crisis.

Gold and foreign exchange reserves will be roughly $1-billion by year-end, sufficient to cover just three weeks imports. Three months cover is normally considered as a prudent minimum.

Minister of State Expenditure Amie Venter on Friday announced a 12-point plan to cut current government spending by R5-billion over two years.

JOB MARKET

Long journeys drain workers

S/Times (Buss) 28/3/93

By KEVIN DAVIE

49

COMMUTING distances for many black workers have become increasingly arduous over the years and may have reduced their effectiveness at work.

A World Bank draft report, aspects of which Business Times reported last week, says the average commuting distance of urban blacks is as much as three times that of unskilled workers in more developed countries than SA.

"Distorted patterns of residential location could be expected to both raise the supply price of black labour and to lower the effectiveness of workers through increased fatigue.

Care

"It is highly plausible that these effects still represent a significant impediment to productive efficiency."

The authors suggest that the future government will redirect capital expenditure to urban infrastructure in deprived areas. Sanitation, water supply, roads, garbage collection and electrification of existing dwellings will be targeted.

"Consideration also needs to be given to the development of new sites in more central urban locations."

Infrastructural needs, such as new schools and clinics, are also identified as probable priority areas.

"Care should be taken, however, to ensure that the locational distortions introduced under apartheid are not extended."

The authors also warn that the programme should not neglect the needs of the rural sector, "otherwise excessive rural-urban migration will be encouraged".

They suggest that workers on public works programmes should be paid about half of formal-sector rates.

Staffing requirements in local government should be assessed in relation to levels of remuneration elsewhere in the economy.

"At present, for example, a primary schoolteacher earns around one and a half times the average black wage — a pay ratio that is well out of line with that observed in other countries.

"Pay restraint may have to be examined as a further device to control recurrent expenditure growth."

The report warns that sustained and higher growth in SA will not be possible without a marked improvement in the performance of the industrial, agricultural and mining sectors.

"This would encourage faster growth than in the commercial, service and construction sectors."

SA historically developed by investing in heavy capital-intensive first-stage processing industries for the export market. In the last decade the terms of trade have moved against primary products and simple manufactured products.

"SA has thus lost much of its gains from trade, while exports have not created sufficiently high income growth."

Agriculture, in particular, in singled out for criticism in the report.

"International comparisons with countries at similar levels of GDP per capita suggest that SA's current share of agriculture in GDP is lower than would normally be expected," the authors say.

Tractors

Although the proportion of arable land (12%) in SA compares favourably with many other agricultural producers, productivity lags badly.

Irrigation accounts for 30% of total value of agricultural production. But only 3,7% of SA's cropland is under irrigation compared with 33% in Asia.

Over-mechanisation has been a feature of SA agriculture: "The use of tractors has been so extensive that the marginal productivity of tractors is effectively zero."

In agricultural marketing and processing "a monopolistic system has transferred value to white producers at the expense of consumers and international competitiveness".

The report says that although mining receives no protection in the domestic market, it buys its input from companies which receive protection and consequently pays more than under free-trade conditions.

"As a result effective protection for the mining industry is negative."

WAITING TO TAKE MULTITUDES HOME: Taxis line up for long trek

Development boss claims big success

(49) (~~173~~)

S Times (BUSS) 28/3/93

(~~89~~) (~~456~~)

By CIARAN RYAN

A TOTAL of 705 projects, with a total investment of R5-billion, has been approved under the regional industrial development programme (RIDP) since 1991.

Replying to criticism of the RIDP in a March 21 Business Times article — drawn from a report by Andre Wilsenach and Andre Ligthelm entitled, An evaluation of the RIDP and its preliminary impact on regional development in SA — RIDP Director-General Coenie de Villiers says the programme is a success, having provided 30 000 jobs since 1991.

"The RIDP is a viable and very effective method to promote industrial development throughout the country, to create wealth, to establish more job opportunities and to ensure a more equitable distribution of development and progress," says Mr de Villiers."

He rejects the report's suggestion that the programme costs R1-billion to R2-billion a year. The RIDP budget for 1993-94 is R739-million, 66% of which is for projects approved under the 1982 RIDP, which is being phased out

He also rejects the report's recommendation of a five-year tax holiday in conjunction with the RIDP: "The present RIDP allows for a more selective approach leading to effective utilisation of State funds. The RIDP is of a kick-start nature. Incentives are only payable over five years."

Bias

RIDP incentives include a two-year establishment grant equal to 10,5% of operational assets and a three-year output-based one. The current RIDP replaced the 1982 programme which offered employee subsidies of up to 95%, interest and rent subsidies, training allowances, electricity subsidies, rebates of between 40% and 60% on outgoing goods, relocation grants of up to R500 000 and productivity incentives.

Mr de Villiers denies that the programme has a rural bias

"The new scheme is aimed at regional economic development rather than at spreading industry to rural areas"

A total of 32% of the projects approved are in metropolitan areas, 29% in intermediate cities, 28% in smaller towns and 11% in rural areas. RIDP incentives vary little outside the PWV or Durban core area — both are excluded from the programme because of "their existing self-sustained economic agglomeration".

Ideal

Mr de Villiers says the ideal regional industrial policy would offer no assistance to industry.

"Most countries offer generous incentives to industrialists and they are vying for foreign investment which introduces new skills, develops homegrown technology, and through multipliers, provides much-needed employment, fixed investment and income."

He says the RIDP is a small price to pay if SA's share of world trade can be lifted from 0,7% to 1,1% in the next three years.

Mr de Villers says some refinements to the programme are being implemented.

"The new RIDP has the potential to reach most of the goals it was designed and planned for. We are confident this will be the case in the coming months and years"

International markets for manufactured goods are growing faster than those for raw materials.

SA's manufacturing sector requires foreign investment and the RIDP is helping to achieve this, he says

Economic growth vital, says Jordan

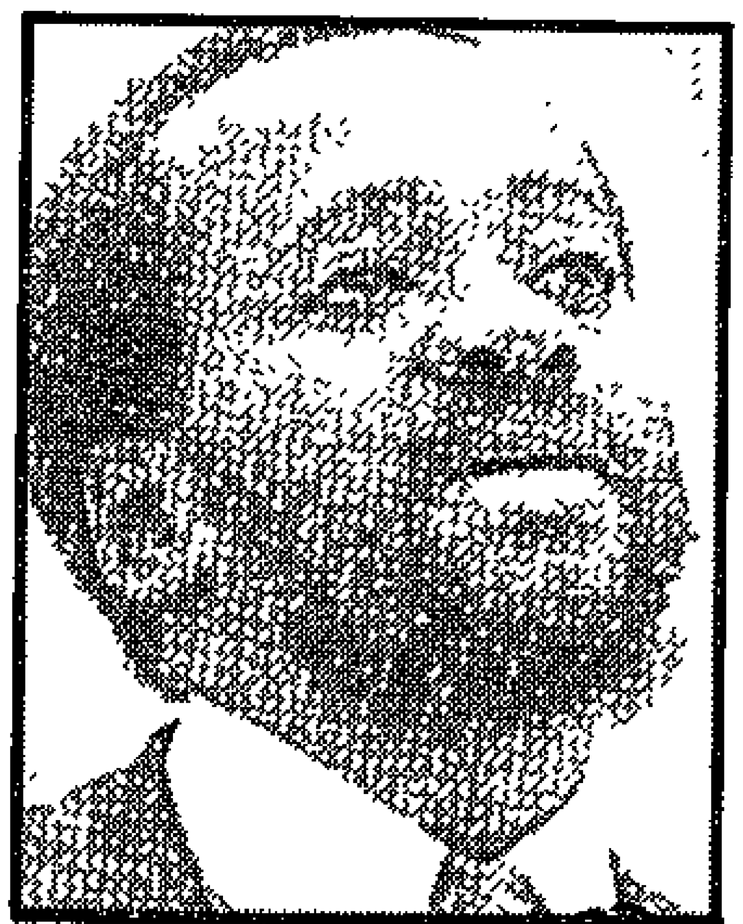
Political Staff

SOUTH AFRICA had to achieve economic growth without becoming an oppressive society, Dr Pallo Jordan, ANC director of information and publicity, said at the briefing.

Dr Jordan said large areas of national consensus had emerged over the past two years, so he hoped that the negotiation process could move forward "with a degree of expedition".

He said that although areas of fundamental disagreement remained, "hopefully these are not so deep that they mean the negotiation process will be sabotaged or break down again".

South Africa could address the maldistribution of wealth only through economic



Dr Pallo Jordan (49)

growth, Dr Jordan said.

"Everybody is in agreement with that." ARG 29/3/93

However, everybody insisted that their path to wealth was the best path.

Countries that had experienced economic miracles and impressive rates of economic growth, especially the Pacific Rim coutries, tended to achieve this in the context of an authoritarian regime.

Mainland China had an economic growth rate of 10 percent, but "let us not forget that the basis of that impressive growth rate was the massacre of Tiananmen Square four years ago".

"We are faced in South Africa with the task of achieving an impressive growth rate, but in the context of democracy.

"We hope to bring economic growth in the context of democracy, and democracy as one of the means to obtain economic growth," Dr Jordan said.

Bank rate cut unlikely — Nedcor

49

TIM MARSLAND

THE Reserve Bank is unlikely to cut Bank rate again this year because of an expected increase in inflation, balance of payments constraints and the Budget deficit, Nedcor Bank says in its latest Economic Profile.

Prime overdraft rates are unlikely to change. However, tightening liquidity in the money market for balance of payments reasons could nudge up money market rates.

The 90-day bankers' acceptance rate could hit 12,5% by year-end, compared with its current 12,10%.

Capital market rates could be pushed higher by factors such as the Budget deficit being understated. Moves by Eskom and other public sector bodies to bring offshore loans onshore as they are unwilling to seek rollovers could also affect rates.

February's inflation rate of 9% is likely to persist for March, then return to double digits in April after increases in VAT, the fuel price, postal charges and rail fares. The report forecasts a 2,8% rise in inflation in April from March, pushing year-on-year inflation to just less than 11%.

3/3/93

Govt has met half its funding needs

TIM MARSLAND (49)

GOVERNMENT had already raised half the R13bn it required in net funding from the private sector for fiscal 1993/94, a meeting of the stockbroking community heard on Friday. BDAY 29/3/93

This left just R6,3bn in new money to be raised, Finance Department deputy director-general Estian Calitz said.

Presenting government's financial "roadshow" in Johannesburg, Calitz said: "This means government's financing for the first quarter of this fiscal year has been completed already."

As news of the meeting between banks, institutions and the Public Investment Commissioners (PIC) became known, key bond rates on the market dropped sharply.

Capital market traders had expected the entire R13bn to be raised from the market. The long-term Eskom 168 was trading at a 14,540% yield from an overnight 14,650%, while government's R150s were at 14,420% from 14,570%.

Calitz told the meeting that institutional cash flows would be R58bn in 1993/94, including the cash flows of the PIC. The Budget made provision for a deficit of R31,6bn. Of this, R6,7bn was to refund ma-

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Funding BDAY 29/3/93. (49)

□ From Page 1

turing stock, R12,5bn was to be funded by the PIC, leaving the rest to be raised from the private sector. Calitz said R2bn of the R6bn already raised came from prefunding activities by the Reserve Bank, while R4bn was raised through other means.

Bank sources said the R4bn came largely through a Finance Department facility, under which institutions were contracted to buy a certain amount of stock in return for a facility which allowed them to switch into other stocks to take advantage of rate changes. The additional R6bn would be raised evenly though the year.

Calitz said latest Finance Department figures showed that parastatals would require about R8bn from the market and the TBVC states about R2bn.

PIC director Badie Badenhorst said this probably would be raised in the money market. The PIC manages TBVC funding on behalf of the Finance Department. Calitz said funding would be done mostly in the medium area. In line with this, the department had listed two new bonds, the R160 and the R161, which would mature in 1998 and 1999 respectively and which carried a 10,75% coupon rate.

Calitz said the department was trying to spread the maturities of the stocks to improve cash flows. It was also examining a system which would link maturity of the funding to the duration of the project which needed the funds.

"We will look at raising short-term funds for short-term projects," he said.

The department was also looking at moving government (tax and loan) accounts to the private sector, to prevent fluctuations in money supply that resulted from tax collections.

Calitz said the department was trying to implement the system as quickly as possible. He expected it to be in place soon should no new legislation be required.

Badenhorst said the PIC had taken up R19,5bn of government debt last year. Of this, R17,5bn went towards the deficit, while R2bn went to drought relief.

Bank money and capital market GM Andre Kok said funding had been done at an average rate of 15,3% last year, but he hoped the rate would drop to 14,3% in the current year. He said the Bank planned to sell about R1bn in the R145 stock and R1bn in the R146 stock. It expected to raise R2bn through the new R160 stock.

Foundation on 'gateway to Africa'

ADRIAN HADLAND

PRETORIA — Promoting SA as the West's development partner and gateway to Africa was now a central objective for the SA Foundation, the organisation heard at its AGM in Johannesburg last week.

Paris director Desmond Colborne said that if effective triangular arrangements could be made between countries of the West, SA and African states, SA could contribute to the revitalisation of the continent. "We in the foundation are determined to show that in our part of the world Afro-pessimism does not apply," he said.

Funded by the private sector, the foundation has been working to attract investment to SA for more than 30 years. With offices in Bonn, Paris, London and Washington as well as representatives based in Singapore, Japan and a number of other centres, the independent foundation was described by its director-general Kurt von Schirnding as SA's pre-eminent business forum.

A foundation statement said: "Our core function is to sustain and expand the interest of foreign investors and financiers in the real potential of this society and the region."

Von Schirnding, in his address, said events since February 1990 had presented the foundation with a unique opportunity to market SA and the region.

Efforts in this regard would lead to the securing of trade and investment and establishment of a liberal democracy and a growing market economy.

He stressed the need for top-level personal contact between SA and foreign businessmen, an opinion to which all four regional directors adhered.

Colborne said while France provided 26% of Africa's total imports and Italy took up 18,6% of Africa's exports, when SA businessmen visited Europe they were "still more reluctant to go to Paris or Milan than to other economic centres". SA could no longer afford to miss the opportunities opening up in two such important members of the G-7 group, he said.

Bonn director Rudolf Gruber said Germany was SA's primary trading partner, after Britain, as well as the primary source of investment. But the steady decline of SA's contribution to Germany's foreign trade volumes — from 1,4% in 1975 to 0,7% at present — had resulted in SA being now far less important to Germany than Germany was to SA.

Washington director Michael Christie said it was essential that SA businesses and regional development organisations targeted specific areas which had investment potential.

"There is a general tendency to take a blanket pessimistic view about the state of SA's economy and our level of competitiveness," he said.

There did exist, however, many areas where SA could offer distinct advantages and opportunities for foreign investors and trading partners.

"We need to avoid blanket assumptions and become far more focused in what we have to offer."

London director John Montgomery said even Britain, in the depths of a bitter recession, was stepping up its commitment to SA with new aid, interest and projects.

A continuing and intensified effort by the British government to stimulate the SA economy by providing aid for health, education and housing schemes had gone largely untrumpeted. Perceived preoccupations about the state of the British economy belied the potential for increased trade and investment opportunities, Montgomery said.

Schirnding said an important objective of the SA Foundation was to bolster its domestic role.

MONEY MARKETS by Tim Marsland

Govt looks to market makers

BDM 29/3/93

THE Reserve Bank is approaching stockbrokers and banks to gauge their views on the appointment of market makers in government stock and will issue a discussion document soon.

A market maker buys and sells a particular stock to enhance marketability, thereby reducing funding costs. The issue has been on the agenda since the Bank took over the market making of government stock in 1990.

The Bank's turnover, at about 20% of the formal and informal capital market, provides potential market makers with food for thought.

(49)

Total turnover for the year was about R250bn. It did 300 deals a day in stock and about 495 deals a day in the options market. These are weighty numbers for any market maker.

Countering this is that the Finance Department might not be entirely open with market makers about what it is doing in the market. It might, for instance, continue doing special deals with institutions At present, these deals make up about 3% of the Bank's business. Not knowing what the other hand is up to can be problematic for a market maker.

The Umgeni Water Board, in particular, has successfully used an external market maker for its stock and it is totally open with its market makers. As a result, funding has become a simple matter for the water authority. Of course, it is much easier for Umgeni to be open with its market makers than it will be for government

These limitations on openness will be the acid test for anyone wanting to go into the market-making business.

Before taking the step, a potential market maker should ensure that the information channel remains unblocked Otherwise there could be lot of cheap paper floating around that the market maker did not know about

ANC doubt over govt cuts plan

BDAY 29/3/93.

49

LINDA ENSOR

CAPE TOWN — Measures aimed at controlling government spending would be ineffective while the existing civil service remained in place, ANC economics department head Trevor Manuel said at the weekend.

He was commenting on an announcement on Friday by State Expenditure Minister Amie Venter on mechanisms to trim state department budgets and to reduce expenditure by R5bn over two years.

Venter's plan was aimed at eliminating government dissaving, a central fiscal goal of Finance Minister Derek Keys' normative economic model. The plan included the introduction of function committees, possibly consisting of national economic forum representatives, to participate in budget planning.

Manuel emphasised that the only way the function committees could work was if the budget was planned in an interdisciplinary way. There was a need for government to overcome the separation between state expenditure and finance.

He said, however, that if the transitional executive council had overarching powers to control finance then the function committees were more likely to be successful.

Venter said budgeting would be based on the general rule that a service which could not be funded under an affordable budgetary ceiling would not be rendered.

Also, each year the Finance Minister would announce in his Budget speech limits for current expenditure for the following financial year. Thus, on the basis of this year's current expenditure of R106,7bn and taking into account the objective of downsizing expenditure by R5bn in equal portions over two years, ceilings for current expenditure in the 1994/95 year would be R104,2bn and in 1995/96 R101,7bn.

Fourteen function committees for different areas of government expenditure would be set up.

These committees would undertake "multiyear" expenditure planning and establish different expenditure options and their implications. It would be the task of a minister or administrator, assisted by a senior official from the State Expenditure Department, to downsize expenditure of a specific function by a targeted amount.

The function committees announced by Venter would supervise spending in the police, justice and correctional services, roads, housing, defence, education, health, welfare, regional industrial development, inter-governmental grants, export trade promotion, nature conservation, agriculture, scientific councils and state debt.

Economic speed-up in city urged

(49)

CT 30/3/93

By MAGGIE ROWLEY
Property Editor

CAPE TOWN had to create economic growth of more than 3% within the next six months if any new form of constitution had a hope of success, mayor Mr Frank van der Velde said yesterday.

In his opening address to the SA Institute of Building Congress for Students being held in the city, Mr Van der Velde said that parallel to the negotiation taking place the Cape Town City Council had to embark on social and economic upliftment through development.

One way of attaining this would be by developing housing that would create more jobs and promote general upliftment.

He said he supported the Old Mutual/Nedcor "Change Gear" scenario, including the rapid supply of site and serviced plots and the building of rudimentary houses on at least 50% of those sites.

"It is essential that within five years every family is housed in a basically health-serviced environment and that the land is provided by the state at prices as close to zero cost as possible.

"We must provide 46 000 new sites in the Peninsula every year for five years — not an impossible task."

Mr Van der Velde said building regulations should help rather than hinder every citizen in finding a legal solution to his housing problems.

He said governments made few serious efforts to rethink what was appropriate and effective for their cities in their own economic, social and cultural context with the resources at hand.

Cities continued to grow and evolve in a manner over which local government had relatively little control.

"Only local government can perform a range of tasks which are critical to local development. The centralisation of decisions and resources imposes a heavy cost. Central administrators cannot know the complex variety of factors that affect the success of projects in local communities throughout the country."

Star 30/3/93

Business is quietly moving SA to economic democracy

Planning a bigger stake for black society in the running of the economy must become a top priority in corporate South Africa, argues the Consultative Business Movement. Companies have been given new guidelines to follow, reports MICHAEL CHESTER.

(49)

BUSINESS leaders at the 1987 Carlton Conference, which was supposed to be a historical landmark in South Africa's march towards reform, were taken aback when then-President P W Botha took the rostrum and roared at them to "leave politics to the politicians" and "stick to the business of business".

Looking back, the business team at the talks can now regard the admonition as an accolade — a back-handed tribute to the imprint that business was making in the reform process while the politicians dawdled.

Botha had been enraged by the way the private business sector was ignoring a virtual political standstill and pressing ahead with democratic reform on its own.

Botha, as both apartheid and his own political career crumbled, must have boiled in anger when the Consultative Business Movement (CBM) emerged a year later — and started building bridges across the chasm he had tried to create.

The whole reform programme entered a new phase as the CBM won more and more credibility across the political spectrum — from the Afrikaner Volkswag to Azapo, spanning the ANC, IFP, NP, Cosatu, CP, Nactu, PAC and the DP.

Even in retirement, P W must have fumed as the CBM explored routes towards democratic change, for instance with an active role in the evolution of the National Peace Accord, supplying secretarial services at Codesa and acting as interim secretariat at the National Economic Forum.

All the time, the CBM concentrated on a simple basic premise: "No political settlement will be permanent without a sound socio-economic foundation."

It has become a premise on which all the main players now seem to agree, even though vital decisions still need to be reached on how the political rudder steers South Africa towards a new future.

The now-now stance of the CBM was spelt out last week with the launch of a new publication entitled "Managing Change" with the significant sub-title "A guide to the role of business in transition".

It is laid out in a foreword compiled by a triumvirate of chairmen — Argus Group chairman Murray Hofmeyr, Southern Life Association chairman Neal Chapman and AECI managing director Mike Sander.

"The most significant initiative which business has taken part in," they write, "is no doubt the National Economic Forum launched in October 1992. Much remains, however, to be done.

"If, for instance, the political transition is not accommodated by economic growth and development, South Africa will not survive the demands placed on it in the next few years.

"The political transition will have to be followed closely by an economic transition which broadens participation and enables all South Africans to share in the economy.

"Nor will political transition alone meet the expectations of the disfranchised, to whom freedom means not only the vote, but also jobs, land, houses and education."

That becomes the whole theme of the book: how business should tackle its own internal reform and establish close community links in the approach to election time — and well beyond.

Forging ahead regardless . . . the Consultative Business Movement can now regard P W Botha's admonition as an accolade.

"We cannot ignore the past when moving into the future, as aspirations feed off past injustices," argue the authors, all of them seasoned executives of the CBM.

"At the same time, business competitiveness increasingly depends on a skilled and productive workforce, sound economic policies, socio-political stability, growing markets and investment. Yet apartheid's legacy has resulted in the exact opposite.

"The moral poverty of apartheid has resulted in an equivalent poverty of human resource development, mistrust and division.

"South Africa has to transform itself from a nation which fights within itself to a nation that works together. In this process, business has a crucial role to play."

Stressing the need for a sound socio-economic foundation, the authors go on: "Future prosperity demands a coherent set of strategies for democracy, peace, growth and development that take account of the inherited legacy of the past, present limitations and future possibilities and aspirations.

"This is the subject of a complex web of negotiations across many spheres, the outcome of which will determine the shape and workability of a South Africa after transition.

"Not everything, however, need wait for the completion of multiparty negotiations.

"Government need not consult before scrapping repressive legislation and business need not wait before investing in productive enterprises. Similarly, programmes of democratisation and reconciliation are urgently required.

"The outcome of the transition will depend primarily on the statesmanship and leadership displayed by political leaders across the spectrum."

The CBM pursues the argument that most South Africans will expect eventual political democratisation to go hand-in-hand with economic democratisation

In turn, it reasons, that means new challenges to business to pave a way towards black economic empowerment — with pro-active measures to ensure black society of a broader role in the ownership and management of the economy.

There's a long way to go, the authors concede, and new strategies are urgent. A few key facts that disturb them:

- Recent studies showed that as few as 5 percent of all South Africans owned between them no less than 88 percent of the country's wealth.
- A massive 95 percent of managerial jobs are held by whites — yet whites will be able to account for only 45 000 of an additional 120 000 higher level managers who will be needed by the year 2000, underlining the CBM call for the urgent integration of more blacks into management posts.
- Blacks hold a mere 2 percent of a total of 2 550 directorships in the Top 100 companies listed on the Johannesburg Stock Exchange.

Pro-active strategies were vital to broaden the scope for blacks to share a bigger stake in the ownership and management of business.

A wide range of options could be selected, from management apprenticeship schemes to larger shares in financial control through equity holdings. Local and international affirmative action programmes had highlighted a number of important lessons to be learnt.

The authors of "Managing Change" by no means turn a blind eye to current realities about the extent of uncertainty, endemic poverty and political conflict.

Instead, they set out signposts to alternative routes that companies can follow to steer through the intense pressures they expect on the whole economic environment over the next four years.

"Those who are pro-active stand to survive and grow," they tell businessmen, "while those who fold their arms and hope the problem goes away may find themselves left in the wilderness."

- *"Managing change", published by Ravan Press and printed by Creda Press, is priced at R44*

Star 31/3/93

Interest rates under pressure — Stals

(49)

Interest rates were currently under pressure to rise because of the squeezing of liquidity in the domestic money and capital markets, Reserve Bank Governor Chris Stals said in Johannesburg yesterday.

He told the annual general meeting of the Johannesburg Afrikaanse Sakekamer the country's declining foreign reserves had led to liquidity being drained from the money and capital markets and had also placed pressure on the exchange rate.

"There is consequently strong upward pressure on interest rates now, and a greater demand for accommodation at the Reserve Bank's discount window.

"The Reserve Bank would not want to oppose these trends for much longer, especially as the capital outflow over which we have no control will continue."

He said the Reserve Bank would not deviate from creating financial discipline and said critics who believed the central bank wanted to push up interest rates were incorrect.

The monetary authorities money supply and did not fix in- controlled the growth in the terest rates.

"You must therefore continually recognise and interpret the underlying trends in market factors," he said.

"Do not depend on the Reserve Bank to bring out a magic wand to give us the interest and exchange rates that we would like," Dr Stals told his audience. — Sapa.

PAC unveils 'socialised' economic policy plan

(49) CT 31/3/93

JOHANNESBURG. — The Pan-Africanist Congress' latest economic policy positions envisage the redistribution of power, influence and control in private and public corporations to realise "actual and potential African managers".

A document released by PAC economic affairs secretary Mr Sipho Shabalal calls for a "socialised economic system" under which equity and ownership would be redistributed to workers and African community-based trusts.

Anti-trust legislation would be introduced.

A socialised economic order was characterised by the combination of the ownership and utilisation of productive economic assets with direct participation of "social producers", the document said.

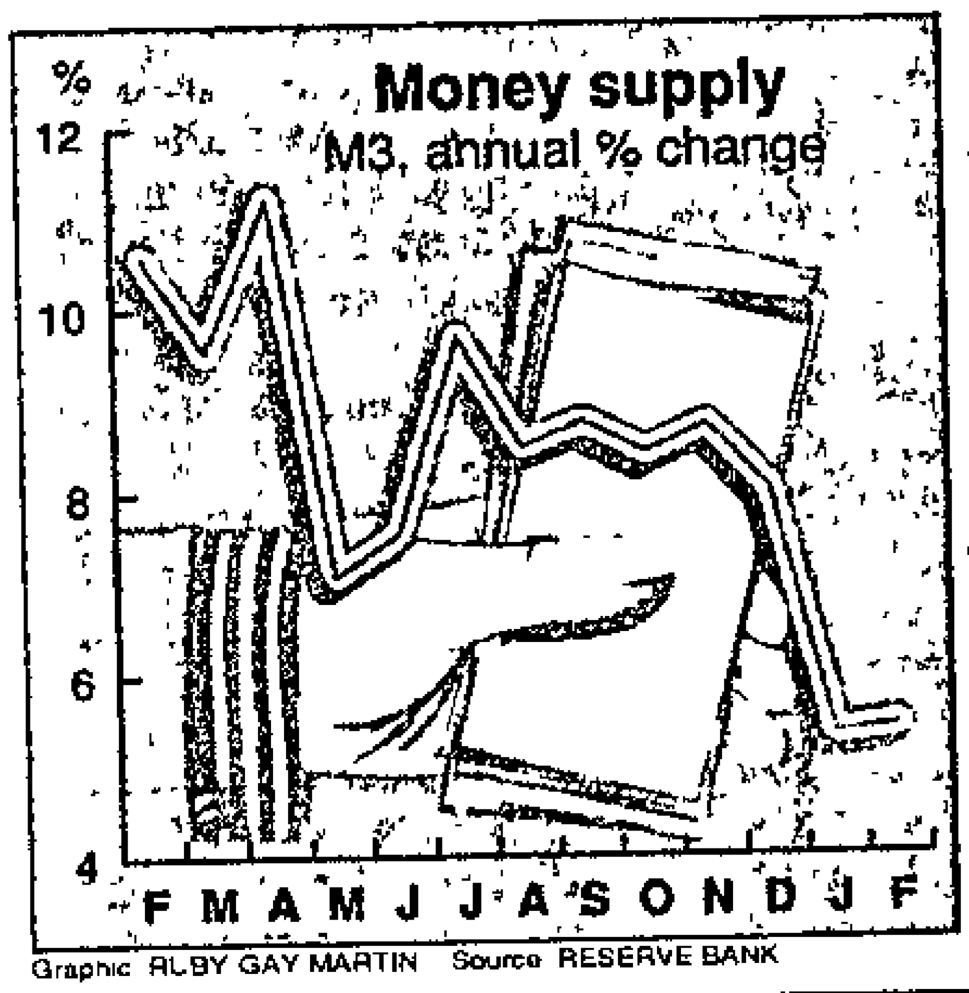
These producers would also be the direct beneficiaries from the products of social labour. — Sapa

Slow growth in money supply

TIM MARSLAND

MONEY supply growth continued at a slow pace in February, reflecting the recession's depth, economists said yesterday.

The broad M3 measure — cash in circulation and all deposits at banks — grew 5,41% in the 12 months to February compared with 5,33% in January, according to Reserve Bank figures released yesterday.



Graphic RUBY GAY MARTIN Source RESERVE BANK

BDM 31/3/93

Growth from the guideline year (the fourth quarter of 1992) was 1,44% after a 4,81% fall in January. In February, the Bank set the guideline for acceptable growth in broad money supply at 6%-9%.

AHI chief economist Nick Barnardt said the figures indicated the next few months would be tough for retailers. "Credit-intensive retailers could be facing the coldest winter in post-war SA." (49)

An economist said growth in credit extended to the private sector slowed to 8,4% from 8,8%. While this was bad news for the economy, it was good news for Bank Governor Chris Stals since it showed that credit was under control.

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Money supply

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☐ From Page 1

Barnardt said the downward trend in money supply was a signal that inflation was in a "fundamental downward trend".

Credit-intensive industries such as car retailers faced a tough year There would be a kick-up in spending ahead of the rise in the VAT rate, but thereafter credit businesses would feel the squeeze

The economist said slower growth in the narrower M2 and M1 measures could be ascribed to investors switching to shorter-term deposits to take advantage of better interest rates. In the year to January, M2 slowed to 8,07% from 10,85%, while M1 slowed to 14,4% from 17,5%

Barnardt said February's M3 figure confirmed that January's number had not been simply a "statistical blip"

Auditor-general fires broadsides

BDAY 31/3/93

49

TIM COHEN

CAPE TOWN — On the eve of the independence of his office, Auditor-General Henri Kleuver yesterday criticised the civil service's lax financial standards and government's slow response to critical reports.

The office of the auditor-general becomes independent of the civil service from today in terms of the Audit Arrangements Act.

Kleuver said yesterday government often reacted to critical reports compiled by his office too slowly, and that some financial irregularities could have been diminished had government acted promptly.

However, he said the amount lost in government due to corruption and bribery was small — about 1% of all spending. Mismanagement and effective financial management was a much bigger problem.

Kleuver said although the civil service was overwhelmingly loyal and honest, a culture of laxity in both the public and private sectors was discernible over the past decade as the country became more and more unstable. An attitude of "let's make a quick buck" had developed.

Kleuver applauded President F W de Klerk's decision to support the creation of an independent auditor-general's office, which he stressed did not imply the privatisation of the office. The Act aimed at freeing the management, administration and conditions of service of the staff from the jurisdiction of the executive.

The main consequence of the Act was that the 1 100 employees of the auditor-general's office would no longer, strictly speaking, be civil servants. The office had a budget of R140m a year of which about R35m was paid to about 30 private auditing firms, he said.

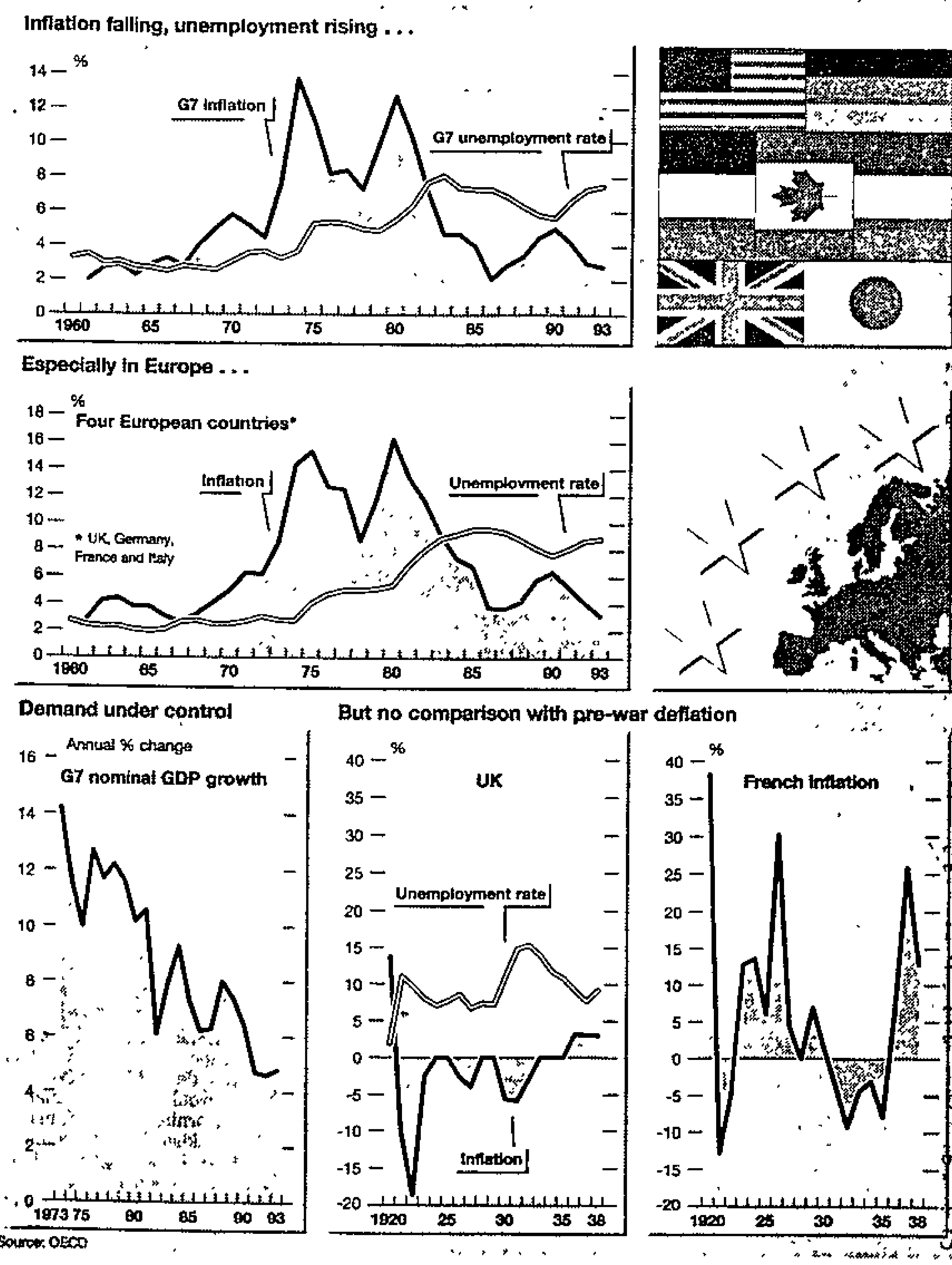
Kleuver said his office was pressing for its independent status to be written into a new constitution and had suggested this to constitutional negotiators.

He said there was no sector of public spending his office did not have the power to investigate, including the secret special defence account.

Deputy Auditor-General Bertie Loots said yesterday the list of parastatals that might be required to adopt uniform financial reporting procedures under the Reporting on Public Entities Act could be published in a few weeks, Sapa reports.

He said regulations drawn up in terms of the Act had already been approved at Ministerial level

Worldwide movements in prices and unemployment



Tide turns in the world economy

Star 31/3/93

These charts suggest a turning point may have arrived in the world economy and a fresh bout of rethinking may now be required. No longer does each successive cycle take inflation to new heights. (49)

The inflationary peak of 1990 was well below the peaks of 1974 and 1980. On the contrary, inflation now seems to be declining steeply from one cycle to the next.

The application of the monetary brakes required to deal with the much more moderate inflationary upsurge of the late 1980s has nevertheless led to a severe increase in unemployment. It will not be surprising if it goes higher than in the previous cycle, especially in Europe.

It is thus worth considering whether the world is approaching a period of secular demand deficiency — a period when output and employment are held down by an inadequate level of private and public spending. — Financial Times.

AG's office becomes public body

Sowetan 31/3/93.

■ Law turns top post into independent structure accountable to the people:

By Ismail Lagardien
Political Correspondent

THE Government has unilaterally and by means of a single piece of legislation turned the Auditor-General's office — the watchdog of State spending — into an independent public body accountable to Parliament only.

From tomorrow the AG, Mr HE Kluever, who was handpicked by National Party leader President FW de Klerk, will become the watchdog of Government spending and be accountable to the people of South Africa.

Accepted

Kluever accepted that Parliament was unrepresentative of South Africa and that the National Party's mandate was received in 1989 from approximately six percent of South Africa's population but asked that the people of this country give his office a chance.

(49)

But, he said the Government had no control over the AG once he has been appointed to office.

"I think any Auditor-General is honour bound to do the job that the tax payer wants him to do," Kluever said. "And I will do that.

"We report to Parliament which admittedly doesn't represent the whole nation, let's be honest, but if that composition (of Parliament) changes, it doesn't really change our role."

Questioned about the rampant corruption and fraud in the Government, Kluever said it was largely overrated as it was "merely a percentage point of the Budget" that was involved.