BALANCE

OF

PAYMENTS

1990

Strong action against forex offenders

(74)

Sowetan 15/3/90

THE financial rand system would be retained and strong action would still be taken against people who contravened exchange control regulations, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said it remained the view of the monetary authorities that the existing control measures could not now be relaxed

Over the past year the Reserve Bank had taken various administrative measures to apply controls more effectively. Strong action was being taken against offenders.

From time to time there had been rumours that the financial rand system would be drastically revised or even abolished.

While there could hardly be complacency in view of the many offences over the past year in the use of the financial rand, the abolition of the system could not be entertained at this stage.

Referring to the exchange rate, he said the rand had been reasonably stable since last June as a result of the improved balance of payments position.

In the eight months to the end of February 1990, the effective exchange rate appreciated by 4,6 percent.

In fact the Reserve Bank had had to buy foreign exchange to prevent a further appreciation since there was uncertainty over the duration of the improved conditions in the foreign exchange market.

Exports rise by 25,5 pc

Sowetan 15/3/90 (74)

THE surplus on the current account of the balance of payments rose from R2,9b in 1988 to R4,1b in 1989, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said it was the fifth successive year a surplus had been posted amounting to a total of R26,3b or an average of three percent of the GDP.

The improvement on the current account in 1989 occurred chiefly in the second half of the year

Finrand will be kept 'for protection'

74

LESLEY LAMBERT

CAPE TOWN — The financial rand would be maintained as a measure to protect foreign reserves and the commercial rand against the adverse effects of unpredictable short-term capital movements to and from SA, Finance Minister Barend du Plessis said in his Budget speech yesterday.

In spite of rumours that the finrand system was to be drastically changed or abolished, SA was not yet in a position to relax existing exchange control measures. BDay 15/3/90

However, it would consider the finrand system from time to time, Du Plessis said.

The Reserve Bank had taken administrative steps during the past year to apply more effective exchange control measures, and had introduced harsher punishment for those who contravened the regulations.

Although many fraudulent uses of the finrand had been reported last year, it remained a necessary protective measure in the current environment of uncertainty.

To illustrate his point, Du Plessis pointed out that the financial rand exchange rate had appreciated 25,6% between November 30 last year and February 6 and then fallen 14,6% towards the end of the month because of uncertainty in foreign perceptions.

Expect a growth rate of only 1%

B/Day 15/3/90

74

MIKE ROBERTSON

CAPE TOWN — A growth rate of only 1% could be expected in SA this year, Finance Minister Barend du Plessis said yesterday.

He also predicted SA would obtain a R6bn surplus on the current account of balance of payments, while the exchange rate of the rand should remain stable.

In his Budget review, Du Plessis said the slowdown in the world economy would probably be reflected in a prolonged consolidation phase in SA.

While a soft landing for the international economy as a whole was generally predicted, this implied that only a mild expansion of real exports from SA could be expected.

Adverse

A stronger gold price than 1989's was expected, since a price of more than $400 an ounce had been maintained since November.

This higher price, coupled with mild growth in the international economy, could counteract the expected adverse impact of lower commodity prices.

The outlook for agriculture was less favourable than last year's, and coupled with stronger fiscal and monetary policies, this would contribute to a slowdown of economic activity.

Taking these factors into account, a growth rate of only 1% was projected for this year.

It was also expected that real gross domestic expenditure would show a further, but slight, decline.

Lower domestic spending was expected to lead to a substantial decline in the volume of imports, and the net result should be a surplus of R6bn on the current account of balance of payments, Du Plessis said.

He also said: "This surplus should be sufficient for the further debt repayments that have to be made during 1990. The maximum amount that has to be repaid on foreign debt in 1990 is calculated to be R6bn. The actual repayments will most probably be considerably less. The exchange rate is therefore expected to remain stable."

Du Plessis said the prospects of a lower inflation rate were exceptionally favourable in the light of: present restrictive monetary policy; a decline in real government spending; a more stable exchange rate; and an expected smaller increase in money supply.

However, the extent to which inflation actually declined would depend on the success achieved in resisting unreasonable salary and wage demands.

Govt allocates R3bn to reducing forward cover losses

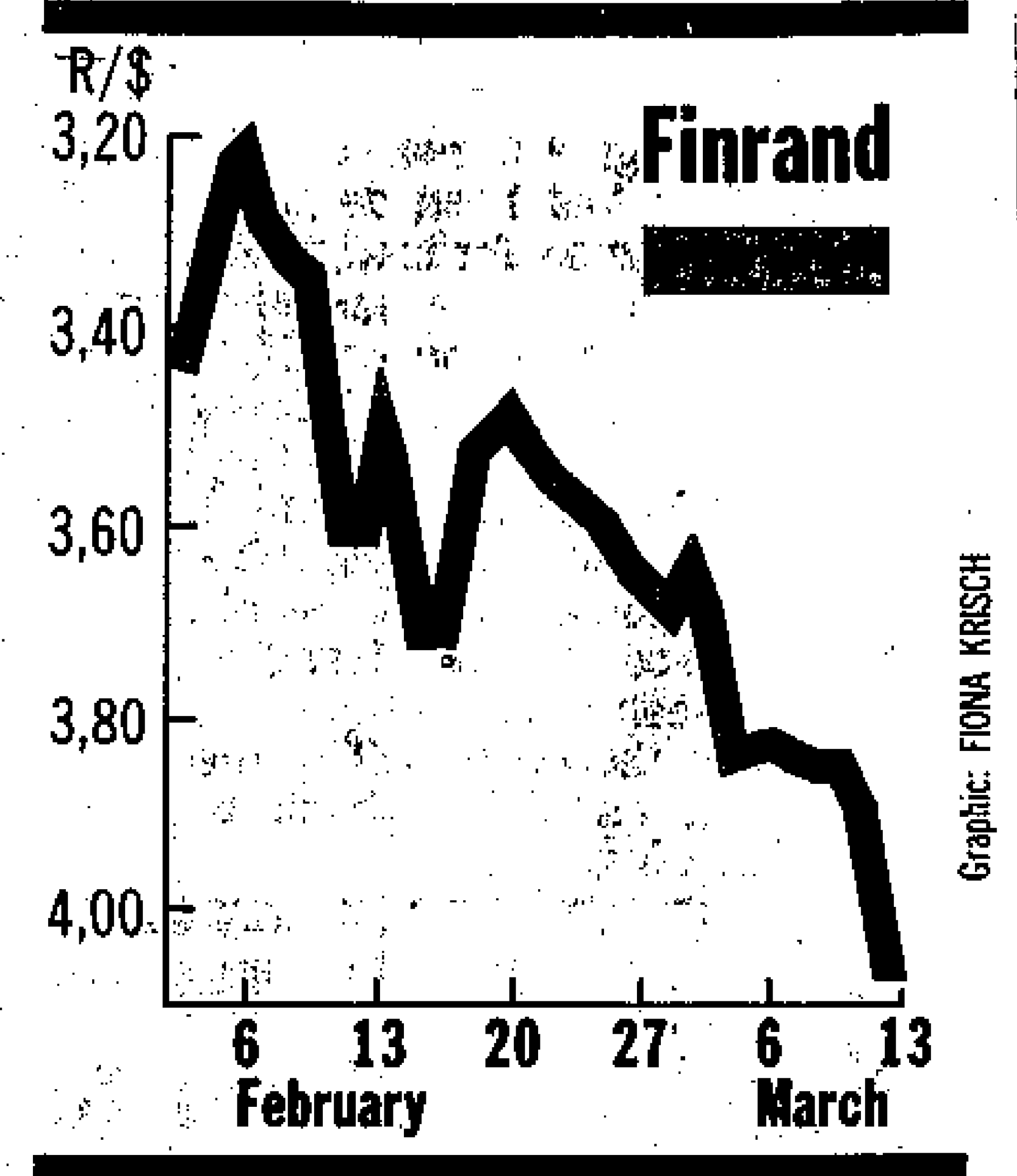
LESLEY LAMBERT

CAPE TOWN — Government will use R3bn from last year's larger-than-expected R6,97bn Budget surplus to reduce net losses on forward cover transactions incurred during the year as a result of rand depreciation.

The losses arose from enormous deficits, related to the depreciation of the rand, on the forward cover facility provided by the Reserve Bank. The deficits, which amounted to R14bn last month, were financed by new money.

In a bid to limit the inflationary effects of increases in the money supply and the banks' credit extension, government decided to use capital from the surplus after borrowing to reduce the losses, rather than plough the surplus capital back into the money stream. Other financing options included non-bank loans or even higher taxation, but these were not appropriate.

Du Plessis said it was not necessary at this stage to further reduce the accumulated losses because a slight upward movement in the commercial rand in October last year, had resulted in surpluses on the forward cover book.



Finrand plunges as doubts mount

LIZ ROUSE

THE financial rand plunged almost 5% to R4,06/08 to the dollar yesterday from Monday's close of R3,88/90, reflecting increasing foreign uncertainty about SA's political future. B Day 14/3/90

Foreign fears were compounded in the afternoon when Nelson Mandela called for the cut of all diplomatic ties with SA and the intensification of sanctions.

However, the plunge in the finrand protected the JSE against the effects of falls in precious metal prices following a surge in the US dollar.

The equities market closed mostly firmer, although cautious ahead of the Budget.

Johannesburg currency dealers reported chaotic trading conditions as strong selling pressure developed on the finrand. Major dealers were sorting out deals well into the night.

The collapse of the finrand was attributed to a foreign scramble to get out of the SA currency, created previously through large dealings in high-yielding Eskom stock, said Max Pollak & Freemantle's Archie Shapiro, doyen of arbitrage dealing on the JSE.

Shapiro said foreign buying of Eskom stock had dried up on growing uncertainty about SA, following the unsettling level of R4,37 (23c) to the dollar on August 25 1989, and peaking at R3,15 (almost 32c) on Feb-

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Finrand plunge

B Day 14/3/90 (74)

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ruary 6 this year when sentiment was still buoyant.

In contrast to the activity in finrand, the commercial rand traded quietly lower at R2,1698 against the stronger dollar, down on Monday's close of R2,6063.

Gold slid as low as $395,60 yesterday following the London morning fix of $400,40 and Monday's closing price of $399,20/70. The afternoon fix was R397,25. Platinum declined to $497,50/$498,50 after the morning fix of $500,40. The afternoon fix was $498,45.

Comex gold futures yesterday added to the losses in overnight markets on general selling as the dollar shot up to a two-and-a-half year high against the yen.

Analysts said the dollar's continued rise weighed heavily on gold. They said a sharp fall in the Tokyo stock market may have encouraged investors to liquidate gold holdings in a bid to raise capital to cover margin needs.

Barend to fight fiscal drag

MIKE ROBERTSON

CAPE TOWN — Finance Minister Barend du Plessis is expected to table a Budget of not more than R73bn this week and its highlights are likely to be a concerted effort to eliminate fiscal drag, and possibly small decreases in actual rates of taxation.

Du Plessis has promised real cuts in government expenditure but cautioned against expecting too much in the way of tax cuts as "there will be a lag in the time it will take some of the expenditure cuts to materialise to their full extent".

Although Reserve Bank Governor Chris Stals and Finance director-general Gerhard Croeser have called for the deficit before borrowing to be matched against capital expenditure, rather than the internationally accepted guideline of 3% of GDP, this is unlikely to be achieved.

The actual deficit can be expected to be in the region of 3% of GDP, higher than the R7bn being predicted by most economists.

On the spending side, defence and public works budgets can be expected to be kept in check at current levels of R9,9bn and R1,7bn respectively. The defence budget is likely to be reduced.

Du Plessis has listed government's spending priorities as: education geared towards SA's manpower needs; primary health care — preventative medicine; and shelter (housing).

Departments dealing with these areas, particularly Stoffel van der Merwe's Department of Education and Training, are expected be be the only ones to record real

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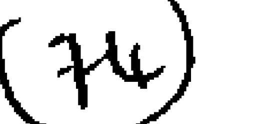
Fiscal drag



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increases in budgetary allocations.

The net effect will be to increase the amount allocated to education (at present about 19% of the total Budget) and health (9%), while reducing the amount allocated to protection services (23%).

The percentage of total Budget funds currently allocated to housing is just over 1% and, although a substantial increase can be expected, the percentage figure will not change much.

Croeser has said only a small decrease can be expected in the amount government spends on servicing its debt (R9,8bn was allocated last year).

He said although government used the receipts of the Iscor privatisation to reduce its debt burden, for monetary policy purposes it also borrowed extensively to reduce liquidity in the market.

Had government not borrowed, a decrease of R500m in the cost of servicing its debt could have been anticipated, he said.

Although government is committed to reducing marginal tax rates to a maximum of 40% at the income level of R100 000, as opposed to the present 45% at R80 000, any dramatic move in this direction can be discounted.

This is because government is committed to reviewing import surcharges. While the total abolition of the surcharge is unlikely, a sharp reduction, followed by a gradual phasing out, is likely.

Government is also finding the elimination of fiscal drag a costly exercise, especially as it attempts to alleviate problems at the bottom end of the tax scale.

Although Du Plessis has said in Parliament that existing GST exemptions are a blunt instrument when trying to provide relief for the poor, he is unlikely to tamper with them until the introduction of VAT.

☐ GERALD REILLY reports from Pretoria that economists expect real tax relief.

Volkskas economist Adam Jacobs estimated Du Plessis would be in a position to grant relief of up to R3bn and calculated it would cost R2bn merely to eliminate the impact of fiscal drag. If goverment continued its fiscal discipline Du Plessis would be able to make substantial concessions in the 1991/92 Budget.

Stellenbosch Bureau for Economic Research chief Ockie Stuart said compensation of fiscal drag should be a priority.

Is there a hard reality behind the loans euphoria?

Ever since the Mandela release, there has been government euphoria over the chances to secure foreign loans. What is still to be seen however, is whether the funds will come through, reports ALAN HIRSCH

SHORTLY after the release of Nelson Mandela government economists began to make statements more optimistic on the supply of foreign finance than any made since the 1985 debt crunch.

Francois Botha, in charge of Eskom's foreign borrowings, remarked that positive political developments had made it possible for foreign banks to review their policy on loans to South Africa. This seemed to justify the expressed hope of the governor of the Reserve Bank, Chris Stals, that political reform would make it possible to roll over maturing loans and to attract new short term finance.

Balance of payments figures released this week by the Reserve Bank seem to confirm that South Africa's international liquidity is improving. Gross reserves have increased steadily from R5,3-billion at the end of last year to R5,9-billion at the end of February. Reserve Bank sources indicate that the bank's exchange control department has approved many more loans in recent weeks than has been the pattern for years.

These indicators mean less than they appear to, however. Reserve Bank approval of loans doesn't necessarily mean the loans have been confirmed — much less that the funds have come through.

Moreover, a boost in gross reserves is to be expected in the first quarter of the year because most major scheduled loan repayments take place in the second and fourth quarters. And the current economic slowdown in South Africa may well have slowed imports faster than exports, boosting the current account of the balance of payments. The improvement in the reserve position doesn't therefore necessarily mean more loans have flowed into the country. If new loans have come in, Sanlam chief economist Johann Louw suggests trade credits might be a major component.

During the Mandela release euphoria a rumour began to circulate that South Africa had applied for a new loan from the International Monetary Fund. Though the amount allegedly applied for was a meagre $250-million, the symbolic importance of the resumption of IMF facilities would have been immeasurable. Diplomatic sources indicate, however, that no such application has been made and were it to be made, it would stand no chance of success until reform had proceeded much further.

Economists have stressed that it is not likely that major new loans will flow into the economy. This would require a greater commitment from creditors than merely rolling over existing loans — a commitment not justified at present by South Africa's political or economic prospects and inhibited by financial sanctions pressures.

At least a third of the debt maturing this year consists of bearer bonds which cannot be extended, mostly issued by parastatals especially Eskom.

Nevertheless, extending existing longer term debt (that fall outside of the agreement reached with foreign banks on short term debt last year) could make an enormous difference to South African economic prospects this year. According to the highest estimate of repayment obligations (Nedcor's), South Africa will have to pay as much as $3-billion (at least R8-million) this year if there is no rescheduling. The figure is more than even the most optimistic estimate of South Africa's balance of payments current account surplus this year: Sanlam indicates this might be as high as R7-billion.

New bonds would have to be issued to compensate for the capital outflow but it is most likely that any major new international bond issues might be undertaken by South Africa's parastatals. The inflexibility of the bearer bond repayments makes it all the more essential that the long term loans are extended.

Even if some long terms debts of parastatals are rolled over, the balance of payments position of the country will remain tight. Sanlam's relatively optimistic forecast predicts that the current account surplus will more than compensate for capital outflows but checks on domestic credit will remain tight. It expects a prime lending rate of about 18 percent at the end of 1990. Nedcor's more cautious view is the rate will be about 19 percent at the end of this year.

US banks sell SA loans

Finance Staff Star 9/3/90

Three major US banks have resold their loans to South Africa at a considerable loss rather than reschedule them, it was reported today.

Figures made available by the Investor Responsibility Research Centre show that Bank of America, Continental Bank Corp and First City Bancorp of Texas had sold their loans, which were caught in the debt standstill net, at about 70 US cents to the dollar.

The combined total of the loans converted was between $35 million and $40 million.

Of the 100 banks questioned only 11 said they had loans outstanding to South Africa, while none of the banks said they advanced loans to black businesses in the country, as granted by an exemption in the Comprehensive Anti-Apartheid Act on new loans to SA.

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FOREIGN LOANS FM 9/3/90

Tea and sympathy

A roll-over of 50% of maturing bond issues could effectively save R1,3bn worth of foreign exchange this year, says Eskom's Francois Botha. And a recent study estimates this could add as much as 0,5% to the growth rate, he adds.

Botha believes prospects for refinancing are encouraging. Just returned from a trip abroad, he foresees "a new phase in international relationships. On previous occasions we received lots of hot tea and warm smiles but were, together with other SA borrowers,

FM 9/3/90

cut off from international funding."

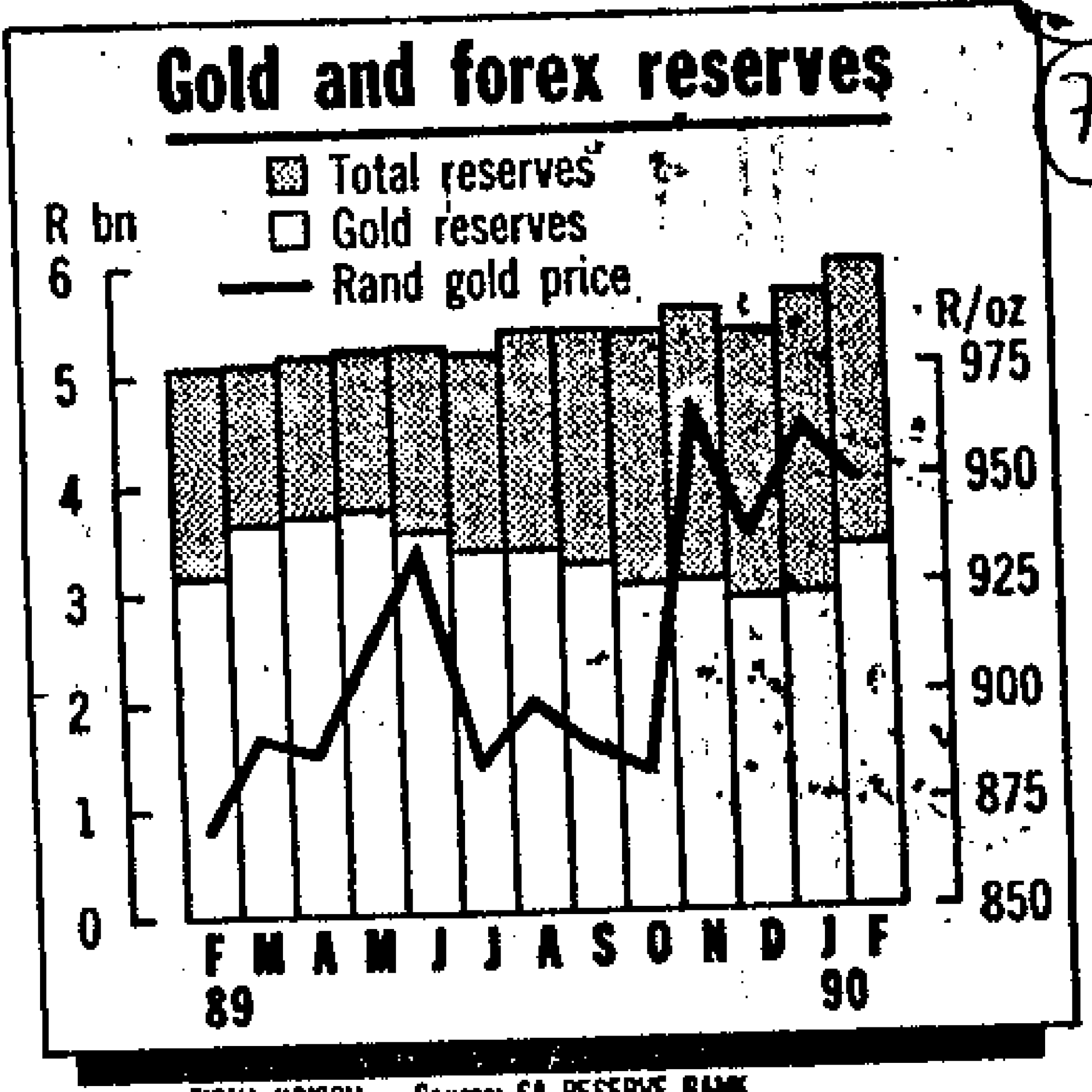
Now: "Recent developments in SA have definitely made it easier for banks to reconsider. Most European banks appear to be reviewing policies towards SA ... Though we must not expect immediate change, initial moves are in the right direction. Conversations in Europe, the UK and, to a lesser extent, the US, hinged not on whether further sanctions should be imposed, but on ways of lifting existing sanctions."

Botha says there is "strong demand in Europe for high-yielding SA paper."

Though Eskom is in "a comfortable funding position," it is eager to exploit any possibilities for the long-term benefits of returning to international markets. "In the years in the financial wilderness, we were always conscious we could lose the fine reputation built up over years. A borrower can't afford to be absent for any length of time and still expect a first-class rating."

The cost of being out of step with the world is more than the R30bn capital outflow since 1985. It must also be counted in "the loss of many former friends who finally decided we're not good company." ■

Better reserves delight Stals



Graphic: FIONA KRISCH Source: SA RESERVE BANK

NEIL YORKE SMITH

SA's gold and foreign exchange reserves increased by R250,1m in February to R5,95bn, from R5,7bn in January.

Despite a lower rand gold price of R949,17 (R962,04) an ounce, the value of gold holdings increased R446m to R3,37bn.

The significant boost in gold reserves reflected a 0,5-million ounce increase in physical gold bullion holdings to 3,5-million ounces.

Reserve Bank Governor Chris Stals has stressed his policy of rebuilding gold reserves. The boost helped inspire confidence in the Bank's ability to fulfil this policy as there appeared little pressure to unvoluntarily liquidate gold holdings, economists said.

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Reserves

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Foreign currency holdings, fell R196m to R2,58bn (R2,77bn).

A rough conversion showed the dollar value of total reserves to be $2,33bn compared to $2,23bn the previous month.

"We were also able to repay some short term foreign debt, so the actual improvement is better than appears at first," Stals said in an interview yesterday.

Stals said he was delighted with improvements in reserves during the past two months.

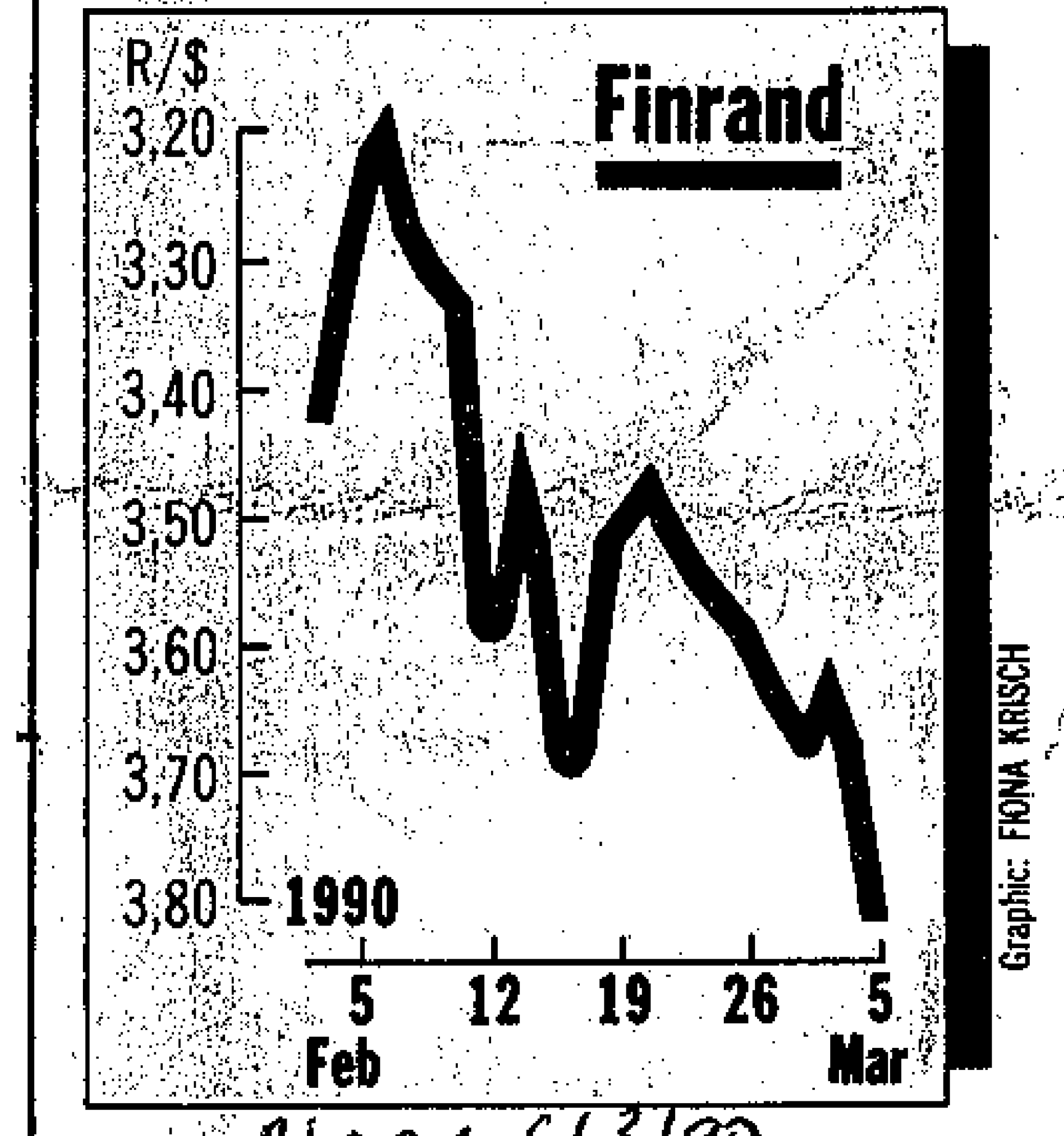
He attributed the improvements to a combination of factors including the maintained healthy current account surplus and easier access to foreign finance.

Restrictive monetary policy had encouraged importers to use foreign financing and with pressure on the US dollar last month, SA traders were encouraged to repatriate dollars on export deals, he said.

The current account was healthy but most capital inflows continued to be short term, and this was unlikely to change quickly, Stals said.

"There is still no evidence of long term capital investment into SA," he said.

On SA's ability to meet foreign debt commitments this year, Stals said: "Current account and short term capital movements have worked in our favour and there is little doubt SA is in a position to meet foreign debt commitments this year."



BI Day 6/3/90

Finrand gripped by bearish sentiment

GRETA STEYN 74

A RENEWED bout of bearish sentiment gripped the financial rand market yesterday to send the investment currency plummeting almost 4% from Friday to close at \$0,2617 (R3,82).

The finrand was quoted as low as \$0,2578 by one bank and at these levels was back to where it was before its climb on foreign optimism about SA's political future.

The currency peaked at \$0,32 before the about-turn — sparked mainly by political fears but also fuelled by a belief that SA golds were overpriced.

Dealers said financial rands were being created by the sale of SA equities in London. The market started long of financial rands, and with no buyers in sight in a nervous market, dealers did not want to hold on to rands. The market was thin with small sales exaggerating price moves.

On gilts, market talk is that most of the SA capital market stock held by foreigners is now in the hands of individuals. Institutional investors in SA gilts are switching out of gilts into the money market.

One banker said a large-scale move into one-month deposits at banks had taken place, mainly because money market yields were higher than capital market yields.

This switch of investments by institutions had had no effect on the finrand. It was the result of a new marketing focus by banks to make foreigners aware that investment in the SA money market was allowed, the banker said.

Govt 'need not borrow'

GRETA STEYN

GOVERNMENT has already borrowed R2bn for the next fiscal year and will have virtually no need to borrow more on the private capital market, say economists.

This should emerge in next month's Budget, along with the announcement that part of the tax bonanza received this year will be used to reduce government's debt to the Reserve Bank for forward cover losses.

Economists say substantial pre-borrowing and huge investments in government stock by the Public Investment Commissioners (PIC) will virtually do away with the need to sell more RSA stock on the private market.

Talk is that about R2bn was pre-borrowed at favourable interest rates in December and January, when government capitalised on the foreign buying spree of SA gilts. Official spokesmen say this figure cannot be confirmed until the Budget, but acknowledge pre-borrowing took place.

The R2bn is expected to go towards financing the deficit in 1990/91 — put at about R7bn by most economists — and is not likely to be used to reduce the forward cover debt.

Frankel Kruger economist Mike Brown says: "It would be sound economics to use current income to pay the forward cover debt."

Current revenue in the 1989/90 fiscal year is expected to exceed budgeted projections by about R4bn. Talk is that about half of that will be used to reduce the forward cover debt, now at about R14bn. Such a move will amount to "money destruction" as the current revenue, taken out of the system, will not be returned. This offsets the money-creating effect of the forward cover losses.

Debt other than for forward cover losses will be redeemed from privatisation

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Govt borrowing

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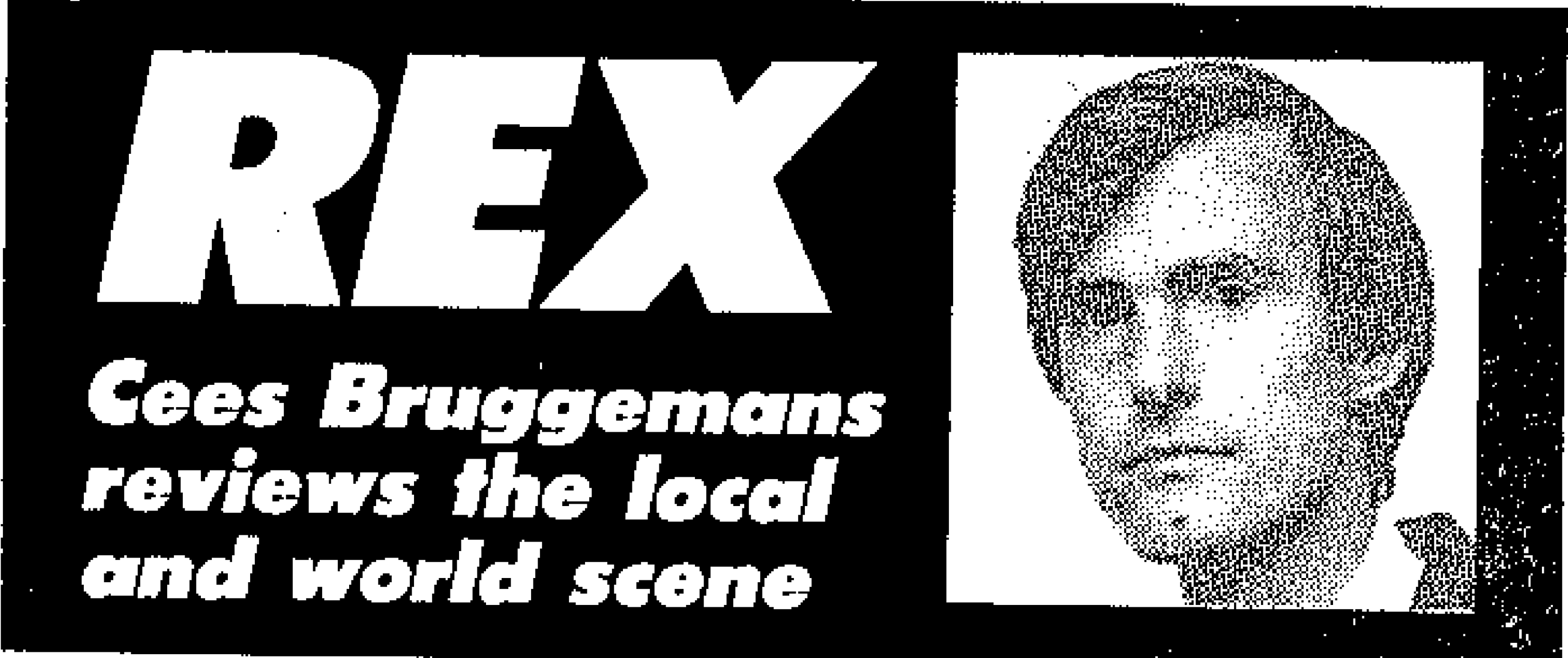
proceeds and not new borrowings. Brown expects an inflow of R1bn-R2bn from privatisation.

Another reason government will not need to borrow from private investors is the PIC, which invests the state's pension funds in government stock. The PIC can provide about R6bn in the new fiscal year.

Interest as a percentage of GDP grew from 2,9% in 1978/79 to 3,9% in 1988/89, and last year 15% of the total Budget went towards servicing government debt.

Brakes stay on interest rates



THE arguments in favour of lower interest rates are about to grow louder.

There will be two schools in favour of lower rates. There are those who believe that the economy will be unnecessarily depressed by keeping rates high for too long, and that overkill will result if the authorities do not ease up fairly quickly.

Such a macro-economic argument will be supported by analysis of liquidity in financial markets. A slowing economy and a strong balance of payments should ease liquidity in the financial market in the coming months. It should remove the current upward pressure on rates, and increasingly cause expectations of downward pressure, market forces seeking self-fulfilling outcomes.

Blocking these private views will be the official policy stance.

The traditional aim of the authorities has been to balance conflicting objectives — seeking to maintain price and balance of payments stability while promoting economic growth. There is a serious attempt under way, however, to break with the past. Such an attempt is never without cost, and a shift in policy balance may not come about without some sacrifice. The authorities do not give the impression of wishing to maximise economic growth in the short term.

By all appearances, growth is taking a back seat while attention is focused on getting the financial fundamentals back on track.

This policy stance, however, is not as drastic as it may appear. Much depends on the current strength of the economy and its likely response to financial discipline.

A growing private view is that the interest cost burden will grow too heavy, giving rise to accumulated weakness, which combine to slow the economy until we experience overkill. Following this kind of reasoning, business destocking lowers production by supplier companies. To contain cost, they in turn lay off labour, and refuse demands for pay increases.

Reduced profitability and consumer incomes further reduce spending, affecting business expansion plans and fixed investment spending.

If that were not enough, exporters may be suffering from lower export prices, farmers from less rain, and consequent smaller crops, while the Government itself may also be reversing its largesse, adding to the downturn in the income-spending spiral.

This description of possible events has the makings of a fearful downswing cycle if the financial brakes are kept tight for too long.

Much, however, depends on current sentiment and consequent attitudes, and these may not facilitate a fearful slide, indeed quite the contrary.

The business sector appears to be in excellent financial shape. Although it makes sense to trim short-term finances further, most obviously by destocking, there may not be a major reduction in business spending generally.

If confidence remains intact, especially the view that policy action is strengthening the economy's fundamentals, and that this period of consolidation will be followed by a sustainable growth cycle, companies are not going to cut into their vitals.

With skilled labour in chronic short supply — even the most general of labour skills seem to be affected by shortages — most companies may not want to lay off workers for what may be a limited period of slow growth.

Business made its radical cost savings in the mid-1980s and has ever since been running lean, resisting adding labour.

There may, therefore, be a distinct downside limit to which employment will be cut. Also, bearing in mind perennial shortages and trade-union strength, there is probably a downside limit to which real wages may suffer.

Taken together, it may put a prop under consumer incomes and spending, which was knocked away in the mid-1980s recession, but which may now remain largely unscathed.

Private fixed investment is largely a matter of available cash flow and management's view of the future. Both suffered drastically in the mid-1980s and fixed investment nosedived. This is not being repeated to any extent in the current consolidation.

Cash flows may be under pressure from higher interest burdens and tax changes affecting depreciation schedules. But in the aggregate these pressures do not appear overwhelming.

Bearing in mind a generally improving outlook for the early 1990s, business may not hang its head for too long. With opportunity knocking, and a general lack of spare capacity, business is likely to continue positioning itself for the future.

It may, therefore, be a shade too pessimistic to read too much downward drift into the current financial discipline because the economy is essentially keeping its head up. There are special areas of concern, such as certain exports and agricultural crops, but these effects may be localised and temporary and should not be taken as the norm.

This is not merely an exercise in positive thinking for its own sake, or an attempt to reason away a cyclical profile.

Instead, it emphasises structural strengths which were largely absent in the past three business cycles, and the future also looks a good deal better.

Financial market players see an inevitable liquidity build-up as the authorities succeed in achieving their objectives. A strong balance of payments, further strengthened by favourable changes in capital flows, must eventually lead to easier money-market conditions and downward pressure on interest rates.

However, one should remember to ask the referee for permission to change playing fields.

Reserve Bank Governor Chris Stals seems to be guided by longer-term goals which appear to make him determined to keep the economy from re-accelerating too soon after an easing in interest rates.

The authorities appear to have a two-year horizon to reduce money-supply growth and inflation, rebuild the net foreign reserves and transform the foreign debt.

This requires putting the economy in a new harness of permanently high real interest rates and to slowly change bad old habits.

Therefore, expect the Reserve Bank to drain away any unwanted liquidity from the markets until it is ready to allow rates to ease, possibly only very late in the year and guided by a noticeable decline in inflation.

B/Day 22/2/90.

Major US banks pledge to keep up SA pressure

SIMON BARBER

WASHINGTON — Two major US banks yesterday applauded President F W de Klerk's initiatives but pledged to maintain the financial squeeze on SA by not advancing new loans and continuing to press for maximum repayment of debt.

However, both blasted financial sanctions legislation proposed by Congressman Walter Fauntroy, warning that it would force SA into default and result in "$3bn in annual debt relief for the SA government".

"There is much to be done to create a more just society that would enable the banks to change their policies," said Morgan Guaranty credit policy committee vice chairman Rodney Wagner in hearings before Fauntroy's International Finance Sub-committee.

Manufacturers Hanover executive vice president John Simone said the banks would continue "to extract a significant amount of precious foreign exchange" from SA and to deny new lending in order to "discourage much needed foreign investment" and send "the strongest signal possible that apartheid must be dismantled".

Servicing

Defending the banks' acceptance of the third interim arrangements agreed upon last October in Brussels, Simone said the terms meant SA could expect a 3% decline in real per capita income this year and rising unemployment.

"SA's foreign debt is approximately $20bn. Based on an average interest rate of 9% and assuming a principal repayment schedule of 10 years, total debt servicing is estimated at $3bn a year.

"Even if a portion of the amount is financed through sources outside the US, our forecasts indicate that, unless gold prices average above $400, SA cannot meet total repayments under existing arrangments without further reserve loss."

Simone added that the outlook for the gold price "falls considerably short of the $445 and $437 which held in 1987 and 1988".

Fauntroy's Bill — the SA Financial Sanctions for Democracy Act — would oblige banks to demand 20% repayment of principal a year and require the divestiture of any 10-year exit agreements entered into under the second interim arrangements to be divested by 1993.

B/Day 22/2/90

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Stals relaxes curbs on foreign exchange

GRETA STEYN

BDay 21/2/90

(74)

IN A new monetary policy strategy that effectively relaxes exchange control a little, the Reserve Bank is allowing banks to invest dollars overseas on a temporary basis.

The move will help the Bank achieve the dual purpose of putting a brake on rand appreciation while keeping the money market short of cash. The action was made necessary by continued substantial dollar inflows.

Reserve Bank Governor Chris Stals, responding to a question on the rand exchange rate at the Frankel Kruger Vinderine investment conference in Johannesburg yesterday, noted the close link between exchange rate and interest rate policy.

He said: "The Reserve Bank this morning offered banks the opportunity to invest spot dollars overseas on a temporary basis. This will counteract liquidity inflows into the money market and keep the rand exchange rate stable."

He noted the cash shortage in the money market had declined from R5bn to below R3bn. This was partly the result of Reserve Bank intervention in the foreign exchange market.

"The Reserve Bank has intervened heavily in the foreign exchange market to prevent the rand from appreciating. This action complicates our efforts to keep liquidity scarce in the money market."

The Bank's dollar purchases imply a continuous inflow of rands into the banking system. Stals said the Bank had to find a way to keep the exchange rate stable without putting more rands into the system.

Recent reform initiatives by President F W de Klerk sparked a dollar inflow into SA — mainly trade-related loans. Stals, a week after the opening of Parliament, put the gross foreign exchange inflows at R1,5bn for the month and bankers yesterday said the stream of new dollars, which put immediate upward pressure on the rand, had not abated.

● See Pages 3 and 7

SA trade surplus doubles to R1,1bn

CMC Times 20/2/90

By ARI JACOBSON

SA's trade surplus for January doubled to R1,1bn compared with R535m the previous year, in spite of a higher import bill.

Imports rose 27% on a month-on-month basis and 14% year-on-year — but most of the rise was due to inflation rather than increased volumes.

The trade surplus — the balance between exports and imports — on a month-on-month basis for January was outpaced by December's R1,6bn because of what economists termed a "seasonal trade surplus squeeze".

Frankel, Kruger Vinderine economist Mike Brown says the surplus of R1,1bn puts the policy-makers' target of R6bn for the year well within reach.

"This kick-up in imports is a regular trend for January," says Brown.

Trust Bank's chief economist Nick Barnardt said it was not valid to compare month-on-month figures because of the seasonal effects.

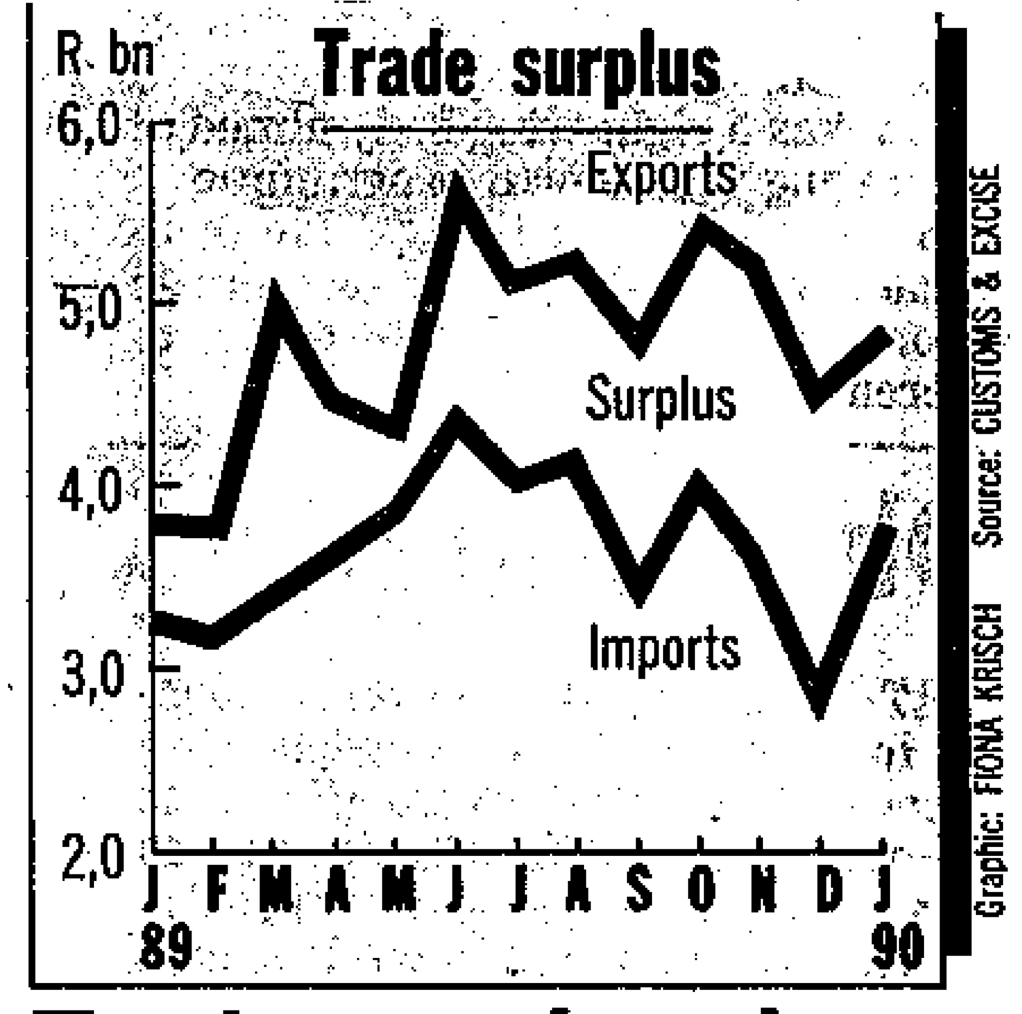
"The rise in the year-on-year trends for January can be explained away by the price effect on imports over the year."

Barnardt attributed about 1% of the growth in imports to increased volumes.

Mike Daly, Southern Life economist, said there was a 10% decline in imports for the three-month period to January against the prior quarter.

"While exports were also down over the relative quarters," says Daly "the previous period had been exceptionally good months for exports."

Daly said buoyant gold and non-gold commodity prices would stabilise the balance of payments over the remainder of the year.



Trade surplus drops to R1,1bn in January

GRETA STEYN

SA's trade surplus dropped to R1,1bn in January from R1,6bn in December after higher exports failed to offset an import surge.

Customs and Excise figures released yesterday show imports rose by more than R800m (to R3,78bn) and exports by about R290m (to R4,87bn). The category of unclassified goods — consisting mainly of gold and including arms — accounted for the increase in exports (up by R400m.)

Since the rand's exchange rate against a basket of currencies remained virtually unchanged, volumes of both exports and imports must have picked up in January.

Safto economist Bruce Donald noted exports, on a seasonally adjusted basis, grew by 7% in dollar terms between December and January.

On imports, he said: "The higher level of imports in January is indicative of the relative strength of the SA economy. The economy is coming off a high plateau and it appears that it is taking longer than expected for the restrictive economic measures to take effect."

Machinery imports (up 18%) and transport equipment (up 26%) indicated continued buoyancy in the investment cycle.

Trust Bank economist Nick Barnardt said the trade surplus was in line with expectations and the imports increase should be seen against December's seasonally weak figure. He emphasised the year-on-year increase in the surplus of more than 100% indicated the improvement of the balance of payments (BoP) situation.

AP-Dow Jones reports Rand Merchant Bank economist Rudolf Gouws said imports were still declining, "although we still have a long road ahead before we can feel comfortable about the BoP".

The finrand plunges further (74)

GRETA STEYN

FEARS over SA's political future rocked the financial rand market yesterday, bringing the investment currency's slump since ANC leader Nelson Mandela's release to about 13%.

The finrand plunged to $0,2713 (R3,6850) yesterday from Wednesday's $0,2837 (R3,5250). It hit a low of $0,2690 from a high of $0,2780 in a day of fretting over ANC talks underway in Lusaka. Before Mandela's release, the currency peaked at $0,32 after President F W de Klerk's speech at the opening of Parliament.

However, the main players emphasise the market is thin and price movements are exaggerated. The less prominent operators are said to be overreacting to the sale of SA equities by American and Swiss investors and their nervousness is sending prices lower in mainly speculative deals.

By late yesterday afternoon talk in some dealing rooms was that positive news would come from Lusaka.

"The finrand could whiplash right back if that materialises. I've never seen the market this nervous before," one top dealer said. B/Day 16/2/90

Sapa reported dealers as saying at the moment there was little demand for the financial rand and that international operators were waiting for developments.

A spokesman for First National's Treasury division said:"There are no buyers, there are no sellers. The only movement is from people with long positions whose deals are moving from brokers and banks and back again."

STEPHEN RICHTER reports that the

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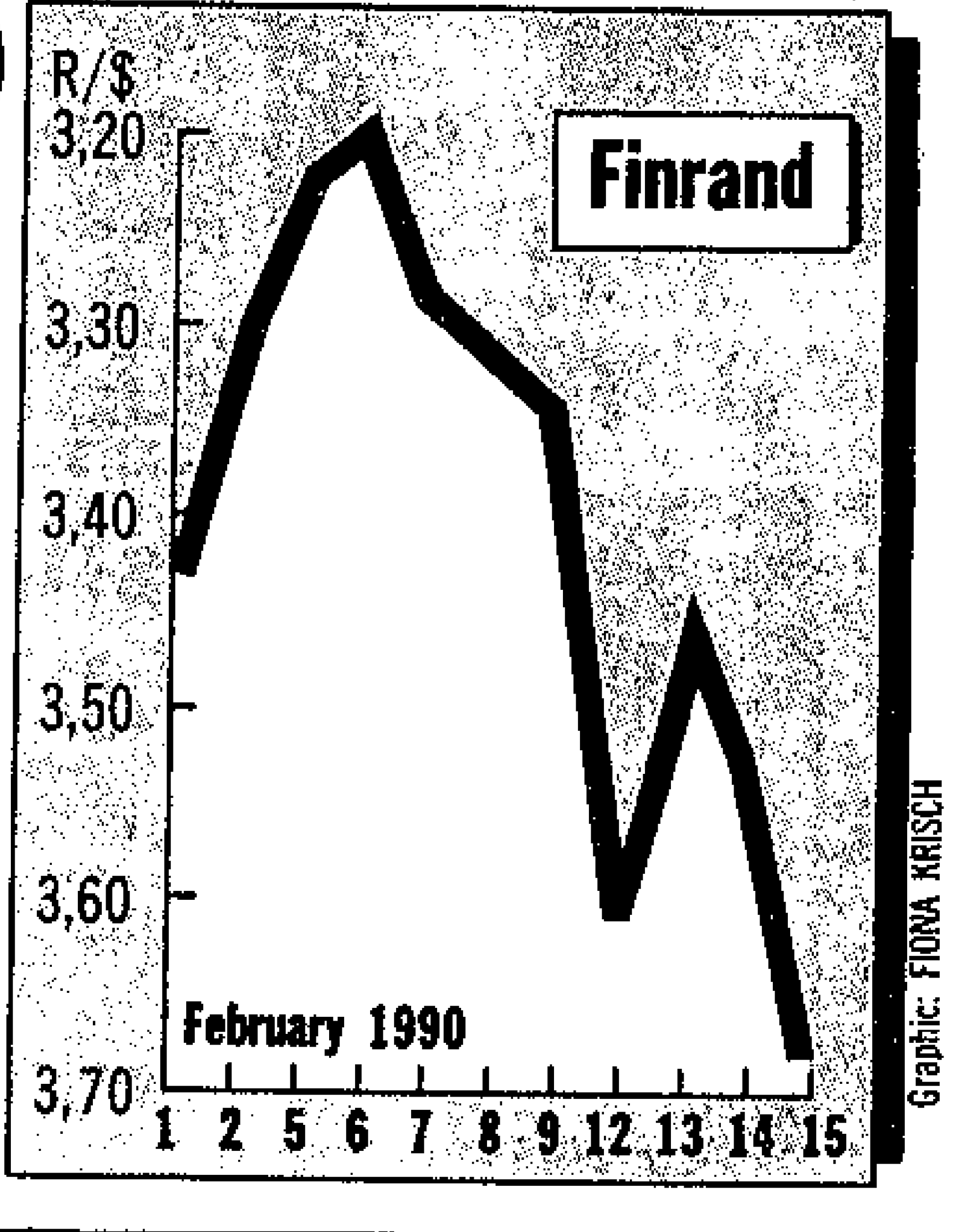


Finrand

B/Day 16/2/90 (74)

☐ From Page 1

JSE overall index rose by 46 points to finish at 3 137, after reaching a high of 3 153 during the day. The industrial index firmed by 25 points to 3 076, while the all gold index was 26 points higher at 1 947.

Dealers indicated that local institutions came in as strong buyers due to the lower financial rand and the firmer gold price. But share prices ended below their intraday highs on mild foreign selling.

The heavy selling evident on Wednesday did not appear yesterday, but many local individual investors seem cautious, which was reflected in the lower prices for marginal mines.

Industrials continued to be supported by institutions and blue chips such as Barlows and Iscor firmed.

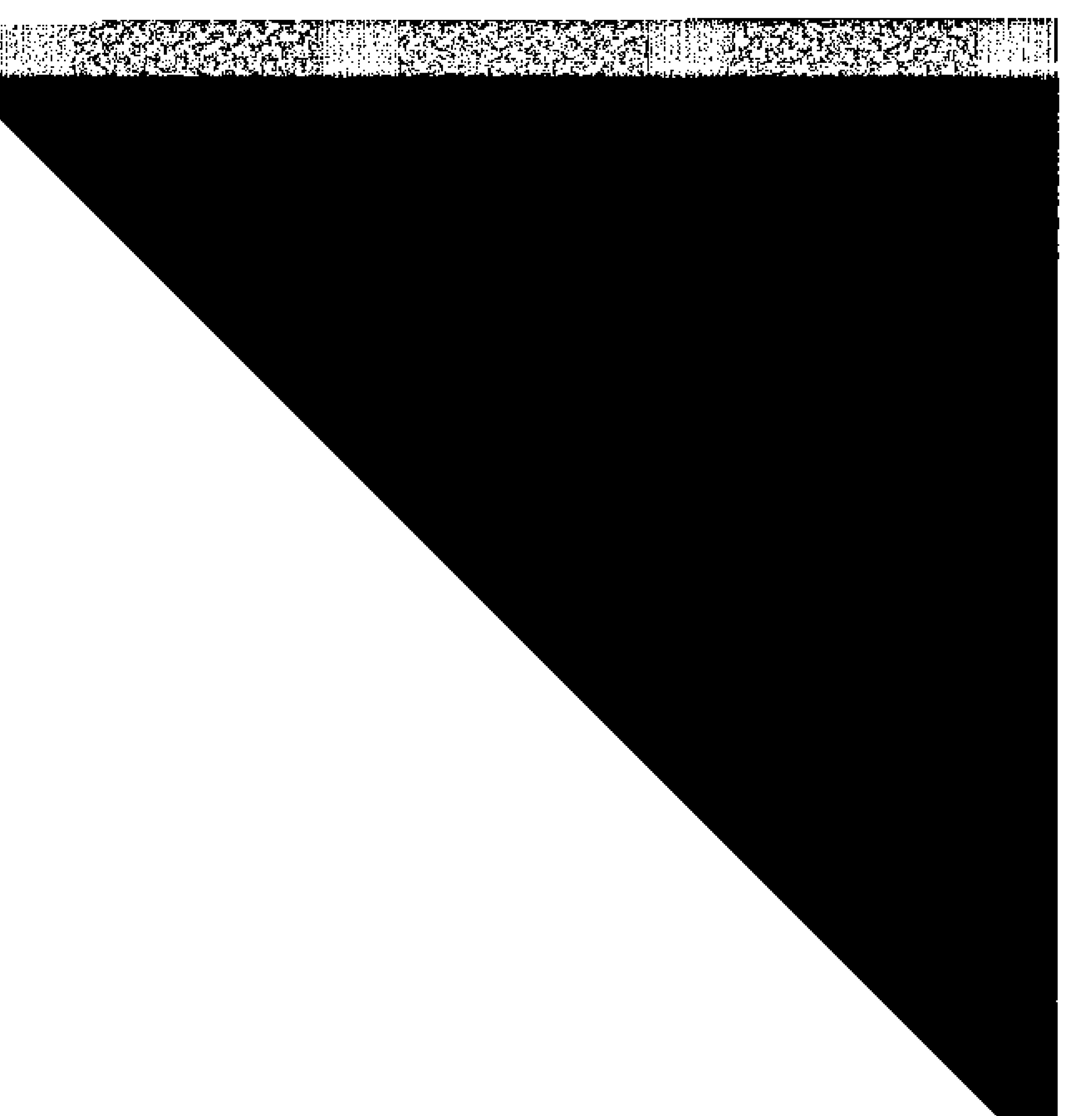
ROBERT GENTLE reports that there was renewed interest in SA gold shares from London as stockbrokers and market makers there decided recently evoked scenarios of nationalisation of key sectors of the economy would not necessarily materialise.

A trader said after the JSE closed, London-based Smith Newcourt, Deutsche Bank and McIntosh Martin & Co were looking to buy SA gold stocks "at any price".

A spokesman from Johannesburg-based Martin & Co confirmed that sister company McIntosh Martin & Co had been in the market, but said others like First Boston and Laing Cruickshank had also been active.

However, he said it was part of a general day of two-way trade which had produced "reasonable volumes".

"It was mostly mostly gold and mining house shares," he said.



FM 16/2/90

THE RAND

Keeping the lid on

When positive sentiment after State President F W de Klerk's opening address to parliament sent the financial rand sharply up two weeks ago, the commercial unit held steady at just over R2,5/$. When the finrand plunged on Monday, on fears over nationalisation and SA's economic future, the rand remained just over R2,5/$.

For some time, the Reserve Bank has opted for currency stability — keeping the rand just under US40c.

With gold threatening to break through the US$400/oz-$420/oz band, a decline in imports relative to exports and a measure of optimism building up, reserves have been replenished and there has been upward pressure on the rand. But the Bank has bought dollars to hold the currency down when necessary, say forex dealers.

This policy has merit — it takes some uncertainty from the lives of importers, exporters, investors and borrowers. It is an opportunity to rebuild foreign reserves. And the comparatively low rate of exchange gives SA exports a competitive edge in international markets, which shores up the vulnerable surplus on the current account.

It may also help the authorities over the many exchange control booby traps created by the two-tier exchange rate. By eliminating the discount between the financial and commercial units it removes the opportunity to round-trip. On the other hand, it leaves the option of reviving it without renewing embarrassing legislation (*Economy* February 2).

But, if upward pressure persists, it would be a mistake not to allow the currency to find its own level. An artificially low currency is as detrimental to an economy as an artificially high one. While the latter is a subsidy for importers, the former is a subsidy for exporters and a cosy shelter for local producers.

Keeping the rand too low when foreign exchange is coming in, fuels inflation in several ways. First, by selling rands to depress the currency, the Bank expands the banking system's cash base — something it has been struggling to constrain for more than two years. Second, the protection it provides fosters inefficiency and reduces productivity. Finally, holding the price of imports unnecessarily high adds to costs.

This, of course, rebounds on exporters and makes prices less competitive on world markets. But the more myopic among them persist in looking for short-term advantages and recently have come to look on a rand/dollar rate of anything less than R2,50/$ as economic sabotage.

Yet this is far below the rates of the previous decades.

Under the 1944 Bretton Woods Agreement, exchange rates were fixed and devalued or revalued only at intervals. In this period, the rand could always buy more than $1. When fixed exchange rates were scrapped in SA in 1979 and replaced by a flexible rand/dollar pegging policy, the value of the rand increased — powered largely by a rising gold price. On January 3 1981, it stood at $1,36, a six-year high. In the first half of 1982, it sank below $1. By September 1983, when the Bank stopped quoting a daily rand/dollar spot rate, the unit was about US88c-90c.

After that, it has been downhill most of the way. Exporters have been the beneficiaries.

It is not so much a question of giving other sectors a turn to reap the benefits of the changed situation. The central issue is the strength of the economy. Like interest rates, the exchange rate prices money — and an unrealistic price undermines the efficiency of the markets, misallocating resources and undermining the economy.

While ironing out temporary fluctuations may be useful, in the long term the value of the rand must reflect its potential. ■

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RESERVES FM 16/2/90 (74)

Filling up

Despite repayment of about R1bn short-term liabilities by the Reserve Bank, reserves rose R381m (US$145m) to R5,7bn ($2,2bn) in January, a figure last seen in June 1988.

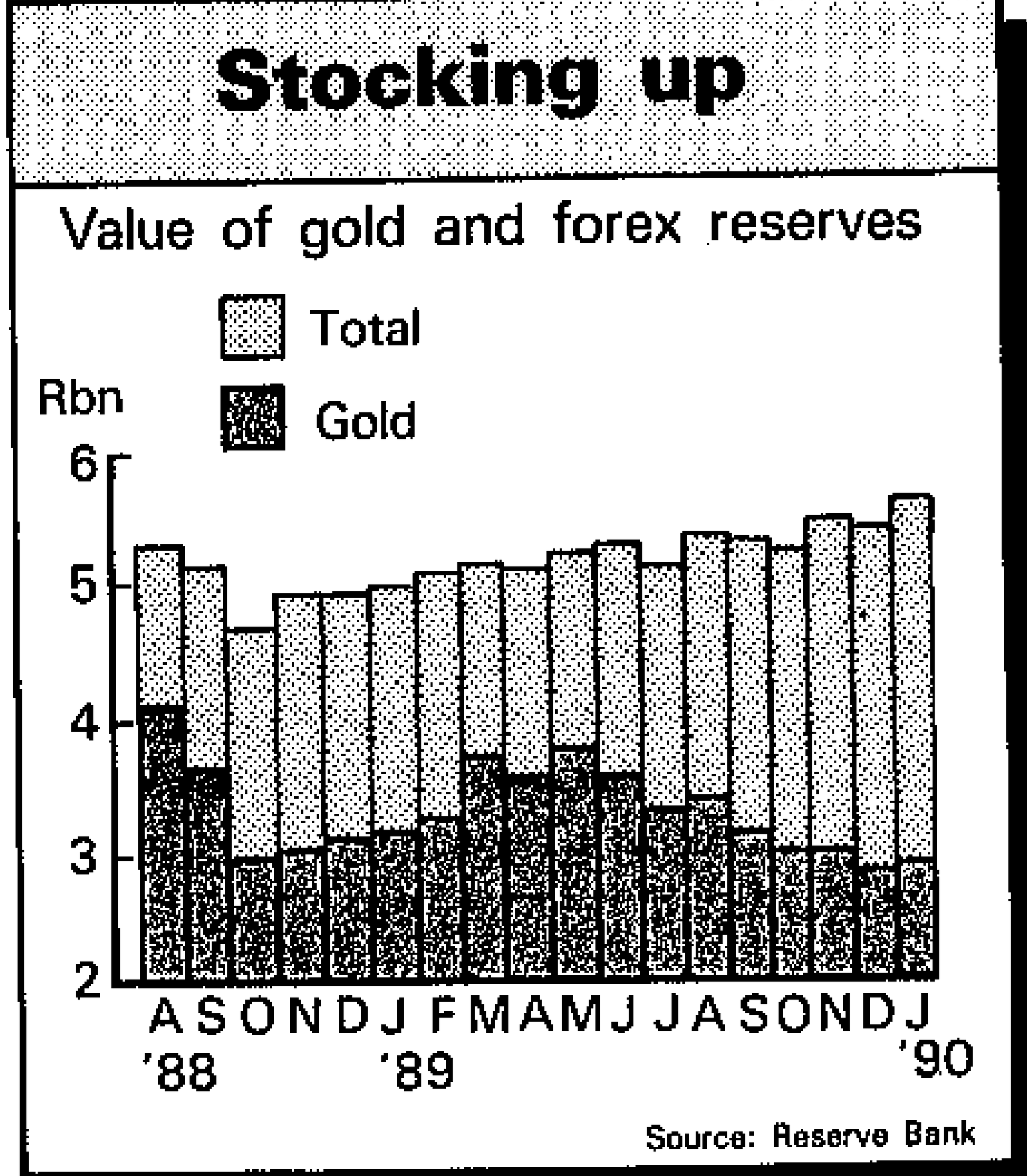
Forex reserves shot up from December by R343m ($132m) to R2,8bn ($1,1bn). Trade figures, due this week, will give a clearer signal whether the increase came from an improvement in the trade surplus or from technical capital inflows generated on the capital account of the balance of payments.

Trust Bank economist Nick Barnardt believes it could be a bit of both: "The fall in the dollar against the rand generates inflows on the capital account, while cooling of the domestic economy, and less demand for imports increases the surplus on current account."

The decline in the dollar and a more stable rand prompt importers and exporters to use offshore rather than onshore trade credit — creating capital account short-term inflows.

The lower dollar also leads to favourable renewals of forward cover contracts at lower exchange rates, resulting in fewer outflows.

Spurred by a higher rand value of gold at R962,04/oz (R937,32 in December), gold reserves also rose. In January, they were R37m ($12,4m) higher at R2,9bn ($1,1bn), despite a slight reduction in actual gold holdings by about 40 000 oz to 3,035m oz.



Signs that the reserves were improving started in December when, despite large foreign debt repayments of about $180m capital and more than $300m interest, reserves fell only R212m ($37,3m).

Barnardt cautions, however: "Seasonal factors on the current account are always more promising in the first quarter than the second, with the added prospect of heavier foreign debt payments in June." ■

...g to sell products all ...er the world. It's very competitive." ■

FW's SPEECH FM 9/2/90 (304A)

Business reaction

The predictably optimistic business reaction to President FW de Klerk's speech on Friday has been tempered with more cautious views.

While the long-term outlook has improved markedly business leaders say stability, economic reform and real negotiations are preconditions for breaking out the champagne.

"Business has a pivotal role in ensuring the president's initiatives are followed through to a successful conclusion," says Johannesburg Consolidated Industries CE Murray Hofmeyr.

He adds that future political and economic systems will be vital in influencing foreign investors to return.

"SA business must continue to argue the case for moving away from the obsession among some white South Africans with groups and group rights. They must also insist with equal forcefulness on the need to ensure that the process of wealth distribution is achieved through sound economic measures and not on the basis of reward and punishment."

Ron Haywood, Deputy Director-General of the SA Chamber of Business, says the improved foreign climate could encourage overseas companies already invested in SA to proceed with expansion plans. But, while new investment will undoubtedly be a longer-term option, of more immediate concern is re-opening export markets.

"The door is now open for serious negotiations. The world will be watching and stability will be a major factor in investment decisions," he says. Haywood remains convinced economic mismanagement played a major role in the disinvestment of many US companies.

"We have been perceived as a risk area. In addition, the Sullivan Principles and US tax legislation made it too costly for many companies to stay in SA."

Wayne Mitchell, executive director of the American Chamber of Commerce, maintains De Klerk's speech has created "an aura

FINRAND FM 16/2/90 (74)

Bursting the bubble

When the financial rand (finrand) fell 13% on Monday — from an opening US31,3c to a low of 27c during the day — conflicting reports come from dealers as to the cause.

Some say not all the movement was caused by foreign sales of equities or gilts. Overseas, dealers take positions in the finrand itself and their operations accelerated the fall. A local merchant banker spoke of a large sell order from London, which he believes was a debt arbitrage — a foreign creditor selling SA debt via the finrand.

FM 16/2/90

"Many overseas dealers thought that was the time to take some good profits in finrand, which has risen steadily in recent months."

A London dealer reports investors who took long positions before the weekend sold on Monday. Though against exchange control regulations, it is even thought some local banks and brokers took positions over the weekend which they offloaded early on Monday. (The local market is only allowed to take intra-day positions — between the morning opening and afternoon close.)

Causation often works in two directions. After Nelson Mandela's Sunday speech was reported on Reuter, the market went into a tailspin. As confidence waned, foreign investors sold and the finrand dropped; as the finrand dropped sentiment turned more negative, leading to further selling of SA equities and gilts.

Foreign and local selling caused Eskom 168 to close higher at 15,57% compared to 15,32% on Friday. But large quantities of gilts did not find their way into the market. Gilt dealers reported hardly any large sell orders and said the high yields and profits earned by foreigners still outweighed the political risk. "Gilt buyers are different from buyers of equities," a dealer says. "They're not taking a view of capital appreciation."

The finrand may have been overbought

Mandela ... Sunday speech

FM 16/2/90 (74)

and due for correction anyway, says a dealer, "after its steady rise this year. A market always swings at the end of a trend. We expect the finrand to consolidate between 27,5c-30c as foreigners get used to the changing political situation."

□ On Tuesday, the investment currency moved between 28,30c-29,50c. The market expected another sharp movement after Mandela's speech in Johannesburg. ■

Finrand plunges on market jitters

Business Day Reporters

JITTERS shook SA's financial markets yesterday in the wake of ANC leader Nelson Mandela's release — sending the financial rand plunging as capital market rates shot up and the JSE suffered a sharp setback.

Euphoria evaporated as it dawned on both local and foreign investors that SA's political future was fraught with uncertainty. Concern over Mandela's firm belief in nationalisation, coupled with reports of unrest, awoke the bears and sent the bulls running for cover.

The barometer of foreign perceptions, the financial rand, nosedived about 7% in a day of unprecedented volatility.

The investment currency's initial strengthening was followed by a dramatic reversal after Mandela reiterated his belief in nationalisation.

The market started the day long of finrands, reflecting last week's anticipation of positive sentiment on Mandela's release.

The initial strengthening to US$0,3143 (R3,18) sparked a bout of profit-taking, and this pushed the unit lower. But then the bottom fell out on Mandela's nationalisation statement, and the finrand was quoted as low as $0,2685 (R3,7243). It ended the day

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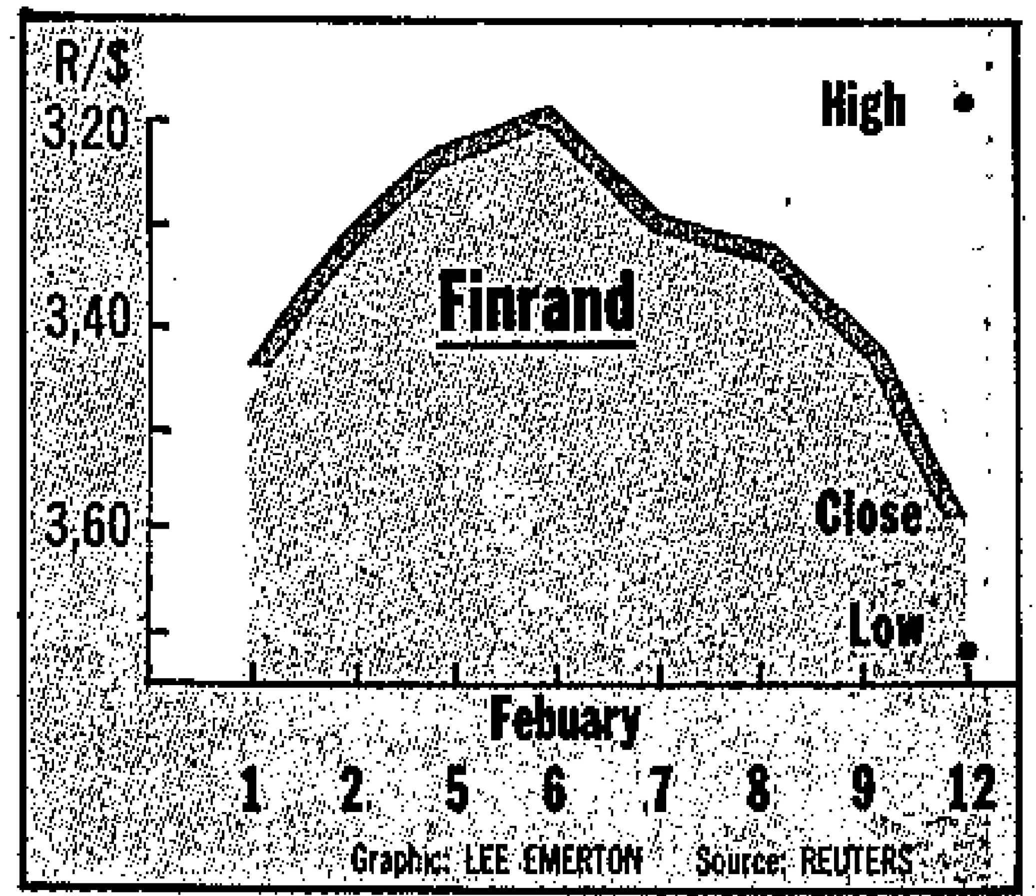

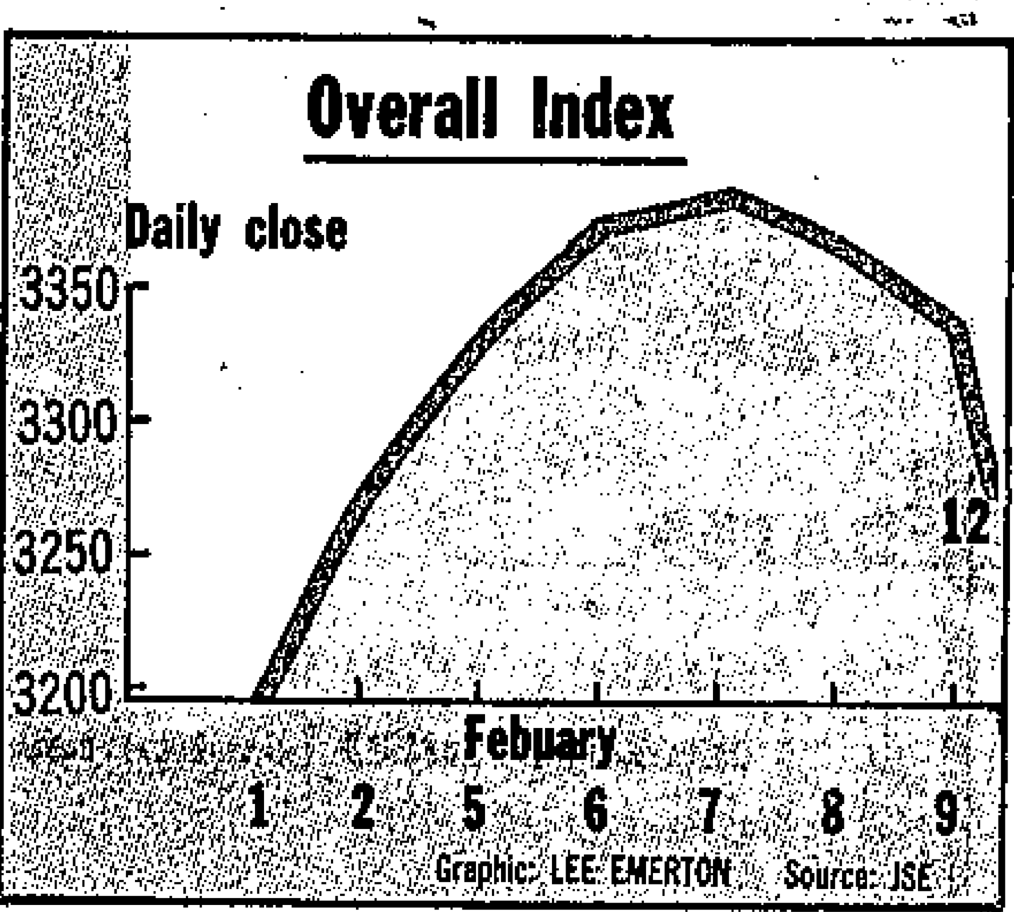

Finrand

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— described as "torrid" by one top dealer — at $0,2793 (R3,58).

"This just proves it is more than premature to speculate about the abolition of the finrand," economist Louis Geldenhuys of stockbrokers George Huysamer said.

Dealers expected the JSE to open higher, but with both local and foreign buyers withdrawing from the market, the lower finrand gave scant support to share prices, and the overall index closed 2% down at 3 273.

"We initially thought the downturn was because of the lower gold price, but the market was unsettled by Mandela, who does not seem to be managing things well," a dealer on the floor said.

Bullion markets initially remained unruffled by the news from SA. A Zurich dealer said the situation was a bit like Eastern Europe. "There are so many possible interpretations. Everything seems to have changed, but nothing has really happened yet." However, gold later jumped more than $3,00 to close in London at $418,65 as the market belatedly woke up to the prospect of supply shortages.

In the capital market, yields on the bellwether Eskom Loan 168 shot up to 15,54% from Friday's 15,31% close.

"Mandela's statements are making the jobbers nervous," JD Anderson's Piet van Schaik said.

As the financial rand weakened and a few West German sell orders appeared, the market was gripped by fear that foreign investors could start offloading their R5bn holding of SA gilts.

ROBERT GENTLE reports the futures market gave Mandela's weekend speech the thumbs-down yesterday from as early as 7am, pushing opening prices about 25 points lower and producing a steady stream of selling orders.

After Mandela's midday remarks on nationalisation of gold mines, gold index futures fell almost 100 points, pulling the other index futures along. "After lunch there was panic dumping," said a trader from Greenwich Futures. "It was as if someone had poured a bucket of cold water over the euphoria generated since F W de Klerk's parliamentary address."

Comment: Page 8

Finrands to linger awhile

S/Times 11/2/90

(74)

By Dirk Tiemann

FINANCIAL rands are here to stay in spite of the political changes introduced by President De Klerk, say economists and bankers.

Most economists polled by Business Times say views about SA have not changed sufficiently to allow abolition of the finrand.

The differential between the commercial rand and the finrand is still too large.

Reserve Bank Deputy Governor Jan Lombard says the differential would virtually have to disappear to justify abolition of the finrand. He suggests maintaining both rands to establish whether the economic changes occurring are structurally sound.

Professor Lombard believes that in the long term, yields on investments in SA remain attractive to foreign investors.

Interest yields on gilts need to be at least 20% for non-resident investors to compensate for political uncertainty .

Nedbank economist Ted Osborne says scrapping of the finrand would remove all control over capital outflows should the political and economic position deteriorate.

Standard Bank economist Nico Czypionka says that although the finrand causes a distortion in its function as an exchange control measure, it should be maintained for the foreseeable future. The necessary economic results have not yet been delivered to allow a return to a single rate.

A dissenter is the University of Cape Town's Brian Kantor. Professor Kantor says it would be a good idea to scrap the finrand.

He believes that all exchange controls, including the finrand, serve only a limited purpose. Although they may prevent large capital outflows, they also prevent money from coming into SA.

Money market absorbs R1,2bn

Forex reserves boom in wake of FW speech

MIKE ROBERTSON

CAPE TOWN — SA's foreign exchange reserves had increased by R1,5bn so far this month and by R2,5bn since the beginning of the year, Reserve Bank Governor Chris Stals said yesterday.

Stals told a briefing that most of the increase this month had come after President F W de Klerk's speech at the opening of Parliament.

The Governor said the Bank was of the opinion that the present level of the rand against a basket of currencies was more or less right. To allow it to appreciate any further would not be in the interest of exporters.

To keep the the rand stable the Bank had been buying dollars, he said.

This explained why, despite the increase in the reserves, there had been very little appreciation in the rand, Stals said.

As a result the Bank had created extra liquidity in the market, but fortunately it had had a sponge — the money market shortage — to mop up this liquidity.

In the week to yesterday, the money market shortage had been reduced from R5,4bn to R4,2bn.

Stals said the Reserve Bank had no intention of loosening its squeeze on banks. If the inflow of short-term capital from abroad continued it could jeopardise the Bank's efforts to reduce inflation.

Some counter action, aimed at neutralising the effect of the capital inflow on the domestic liquidity situation and on interest rates, might be called for.

Stals said he believed it was quite possible that some overseas banks had preempted last Friday's announcements as there had been an important change in attitude making it easier to raise short term loans linked to trade transactions.

Stals said SA had recorded a R4,1bn surplus on the current account last year and predicted a R6bn surplus this year. The figures for the growth in GDP last year were not yet available but he expected it would be in the region of 2%. He expected 1% growth in GDP this year.

He said government expenditure for the financial year to the end of March would be more or less in line with the Budget prediction. Revenue, however, would exceed the esimates by a substantial margin.

Accordingly the deficit before borrowing would be much smaller than the R9,9bn provided in the Budget.

Stals said he expected the deficit to be very close to 3% of GDP which had long been regarded as the maximum acceptable limit. Asked to put a figure to the anticipated deficit, Stals said it would be in the region of R7bn.

Stals said he believed government should move away from the 3% limit. The deficit should not be allowed to exceed total productive capital investment. "In other words government should not borrow to finance current expenditure."

Asked whether there had been any indication that SA would be allowed to borrow from the IMF as a result of the changes announced by De Klerk, Stals said there had been not yet been any movement in this direction.

However it was quite possible SA would not be able to qualify for loans for purely financial reasons. However it needed evidence that it could borrow from the IMF to make it easier to borrow from other sources.

Outlining his expectations for the coming year, Stals said that while the business cycle was in a downward phase the busi-

□ To Page 2

Reserves

□ From Page 1

ness mood remained fairly positive, if not optimistic.

The Bank, he said, was of the opinion that it would be premature to start relaxing its restrictive policy at this stage.

The restrictive monetary policy also had another short-term stabilisation objective which was to address excessive increases in bank lending and in the money supply.

"We cannot now abort our fight against inflation just because of an unexpected and, perhaps in some respects, opportunistic inflow of short-term capital in the country that may flow out again as easily as it is now flowing in."

Stals said that even if political conditions in SA changed he was not certain there would be an inflow of development capital. SA would have to compete with the rest of the world for rapidly diminishing supply of development capital.

De Klerk's speech lifts forex reserves by R1-bn

STAR 9/2/90 (74)

CAPE TOWN — South Africa's foreign exchange reserves have risen significantly over the past six weeks, the result of improved international perceptions following recent political reforms, according to Dr Chris Stals, Governor of the Reserve Bank.

Dr Stals said reserves had increased by R2,5 billion over that period and by R1 billion since last Friday, when President FW de Klerk announced the most radical reforms in more than 40 years of National Party rule.

He expected that the release of Nelson Mandela, jailed leader of the African National Congress, might trigger a further increase in foreign reserves from their present level of around R7 billion, equivalent to nearly two months imports. Mr Mandela's release is awaited within days.

Dr Stals stressed that he did not expect capital flows to continue at this rate for long, and he ruled out any change in the country's debt management strategy as a result.

Improved international perceptions of South Africa would, however, make it easier to roll over some of the R7 billion in debts falling due this year outside the rescheduling agreement, he said.

Dr Chris Stals

Dr Stals emphasised that the country had so far attracted mainly short-term, speculative funds rather than the medium-to long-term capital that he said South Africa needed.

We have seen some hot money flowing into South Africa since President de Klerk's address, he said, noting that these were mainly opportunistic investments with the expectation that there could be some appreciation in the exchange rate.

Dr Stals added the Government would act to maintain stability of the rand exchange rate in the face of capital inflows.

However, this would have an impact on domestic liquidity and interest rates which could jeopardise efforts to reduce last years 14,7 percent inflation rate.

If the inflow were to continue for more than two to three weeks, the bank would have to take action to absorb excess liquidity through domestic money market operations.

Dr Stals said it might be too soon to say what the reaction of foreign financial institutions would be to Mr de Klerk's speech. "We have seen an important change of attitude of many foreign bankers since last September and it has become easier to raise short-term loans for trade transactions."

However, Dr Stals ruled out significant changes in the countrys exchange control regulations. He pointed out that although foreign capital inflows had accelerated markedly in recent days, the trend had begun as far back as September 1989.

The inflow represented an easing of the situation, but there was little evidence of a change in attitude on long-term foreign loans and capital investments.

"Despite recent changes in the political situation and the improved perceptions of the economic outlook over the medium term, 1990, is to be a year of economic consolidation," Dr Stals said.

Nevertheless, the inflow was in contrast to a total accumulated net outflow of R30 billion between 1985 and last year. "For each of those five years, R6 billion had to be siphoned off to pay foreign debts, rather than be spent in the economy".

Relaxing restrictions now would be premature, he said, pointing to the policy objectives for 1990:

- Consolidating the balance of payments and replenishing gold and foreign exchange reserves.
- Curtailing rises in bank lending and money supply.
- Bringing down inflation.
- Further economic restructuring, including consolidating the foreign debt situation, simplifying exchange control, ensuring reasonable rewards for savings and having built-in incentives for the most productive use of all available capital resources.

Predicting a one percent growth rate for 1990, Dr Stals said that while it would be tempting to create higher growth artificially, "we feel that in the medium- to long-term this would not be the right policy.

"It is important to continue with the programme for the 1990s and consolidate the economic situation," he said. — Financial Times and Political Staff

Forecast of higher current account surplus for 1990

BI/PG 8/2/90

(74)

CHARLOTTE MATHEWS

A HIGHER current account surplus is forecast for the 1990 balance of payments (BoP) than in 1989 by Nedbank economist Maganlal Mistry, writing in the February issue of the bank's Guide to the Economy.

But, he warned, the increase in the current account surplus to R6,6bn in 1990 from R4,5bn in 1989 or, in dollar terms, to $2,4bn from $1,7bn, would not be enough to meet the expected higher debt commitments in 1990.

"The chances are that there will have to be further recourse to borrowing from foreign banks, thus moving the country's net reserve position into negative figures," Mistry said.

Mistry's estimate of the 1990 surplus is in line with a recent forecast by Reserve Bank Governor Chris Stals that it would be between R6bn and R7bn.

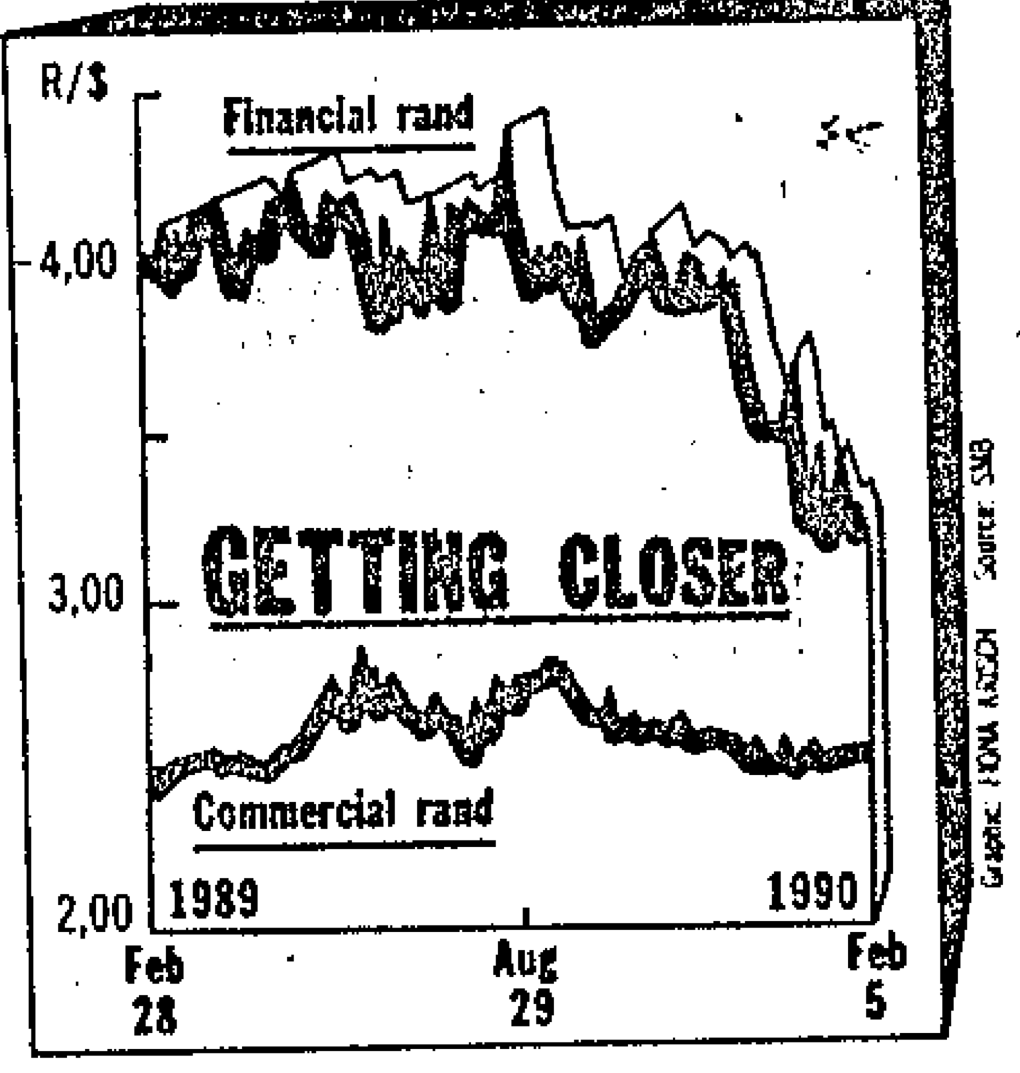
The Nedbank economist's figure of R4,5bn for 1989 is above Finance Minister Barend du Plessis's recent estimate that it would be between R3,5bn and R4bn.

Mistry said three factors would affect the BoP in 1990 — the global economic environment, commodity prices and the domestic economic and political situations.

The higher current account surplus forecast for 1990 would result from exports increasing at a faster rate than imports during the year.

Commodity prices had softened during the second half of 1989 as a result of a slowdown of some of the industrial economies. But gold and platinum prices had firmed recently above 1989 levels.

"Further price increases are likely because of the favourable fundamentals for both metals," Mistry said.



Finrand's upside limited — analysts

GRETA STEYN

DRIVEN by continued bullish sentiment towards SA in the wake of President F W de Klerk's watershed speech, the financial rand yesterday improved by almost 3% to US$0,3140 from Friday's US$0,3050.

With the commercial rand at $0,3930 yesterday, this brings the discount between the investment unit and its commercial counterpart to 20% from Friday's 22%. The discount reflects foreign investor confidence in SA. It averaged more than 30% in 1989 and about 38% in 1988 and 1987.

Finrand dealers said there was strong investment demand from Europe as well as speculative demand in London. However, prominent players in the market believe the investment currency's upside potential is limited.

Rand Merchant Bank's London-based associate RND International sees $0,32 as a strong resistance level. MD Geoff de Jager said: "The political sentiment might be favourable but the harsh realities of economics are likely to dampen the speculative optimism.

"The commercial rand is currently too high and I see both currencies nearer to $0,30 than $0,40. Economic fundamentals suggest SA cannot afford an overvalued currency and that puts a lid on the finrand's potential."

Standard Merchant Bank's Chris Kenny also saw $0,32c as a probable peak in the current rally.

"If the commercial rand stays where it is, that level implies a particularly narrow discount of 18,75%."

Foreign demand for SA gilts could abate at that level, as the returns foreigners could earn were likely to become relatively less attractive.

Stals optimistic that country's debt burden will be eased

STATE 3/3/90

SVEN LUNSCHE

(74)

STATE PRESIDENT FW de Klerk's historic speech has greatly improved prospects for the South African economy, Reserve Bank Governor Dr Chris Stals said yesterday.

And economists added that Mr de Klerk's policy statements will go some way in alleviating the country international economic isolation.

"Most foreign banks will take their lead from their country's politicians, but short-term trade credits will be more easily accessible," Dr Stals said.

"However, longer term loans from the international community and the International Monetary Fund will take much longer to achieve," he said in an interview with the Saturday Star's political staff.

Nevertheless, some stockbrokers and economists expect more immediate benefits in the form of reduced sanctions.

Stockmarket dealers in London said one effect of Mr de Klerk's moves may be that economic sanctions against South Africa will be eased, resulting in improved trading prospects for South African companies.

And Wayne Mitchell, executive director of the American Chamber of Commerce said that a climate has been created whereby the US could give recognition to the bold steps taken by the SA Government.

"This could be expressed by the US in the form of the repeal of certain clauses in the Comprehensive Anti-Apartheid Act or at least the staving off of any further sanctions," Mr Mitchell said.

Both the US Congress and international economic agencies, like the IMF, have indicated that renewed contacts with SA in the form of trade links and new loans would depend on the progress made on the political front.

Dr Stals said that loans would be more forthcoming from Europe and the Far East, as bankers there act more independent ly than their colleagues in the US, who are restricted by the Anti-Apartheid Act.

However, more immediate benefit will certainly be experienced on the debt front.

The country's debt repayments this year total R7 billion. Much of this debt will mature this year, but the latest moves will help local debtors in converting it in terms of the 10-year loan option.

Dr Stals indicated that as much as R3 billion of the debt could be rolled over, as 70 percent of this year's debt consisted of maturer bearer bonds and trade credits.

He also expects that there will a significant slowdown in the outflow of capital, while local financial markets could benefit from a renewed surge in foreign investments.

"The improved outlook will enable us to accumulate some foreign reserves and bolster the gold and foreign exchange reserves.

"We are looking at a situation in 1990 where we can cover the capital outflows with the surplus on the current account and will accumulate the foreign reserves we need so desperately," Dr Stals said.

Commenting on the State President's statement that South African would report a surplus on the Budget in the 1989/90 fiscal year, Dr Stals explained that this meant that after borrowing the fiscus will end the year with a surplus of cash.

"We borrowed more than we required which allowed us to contribute about R1 billion into the stabilization fund and complement the present monetary and fiscal policy," he said.

Most economists are expecting a deficit before borrowings of between R5 billion and R7,5 billion for the current financial year, compared with the orginally budgeted R9,9 billion.

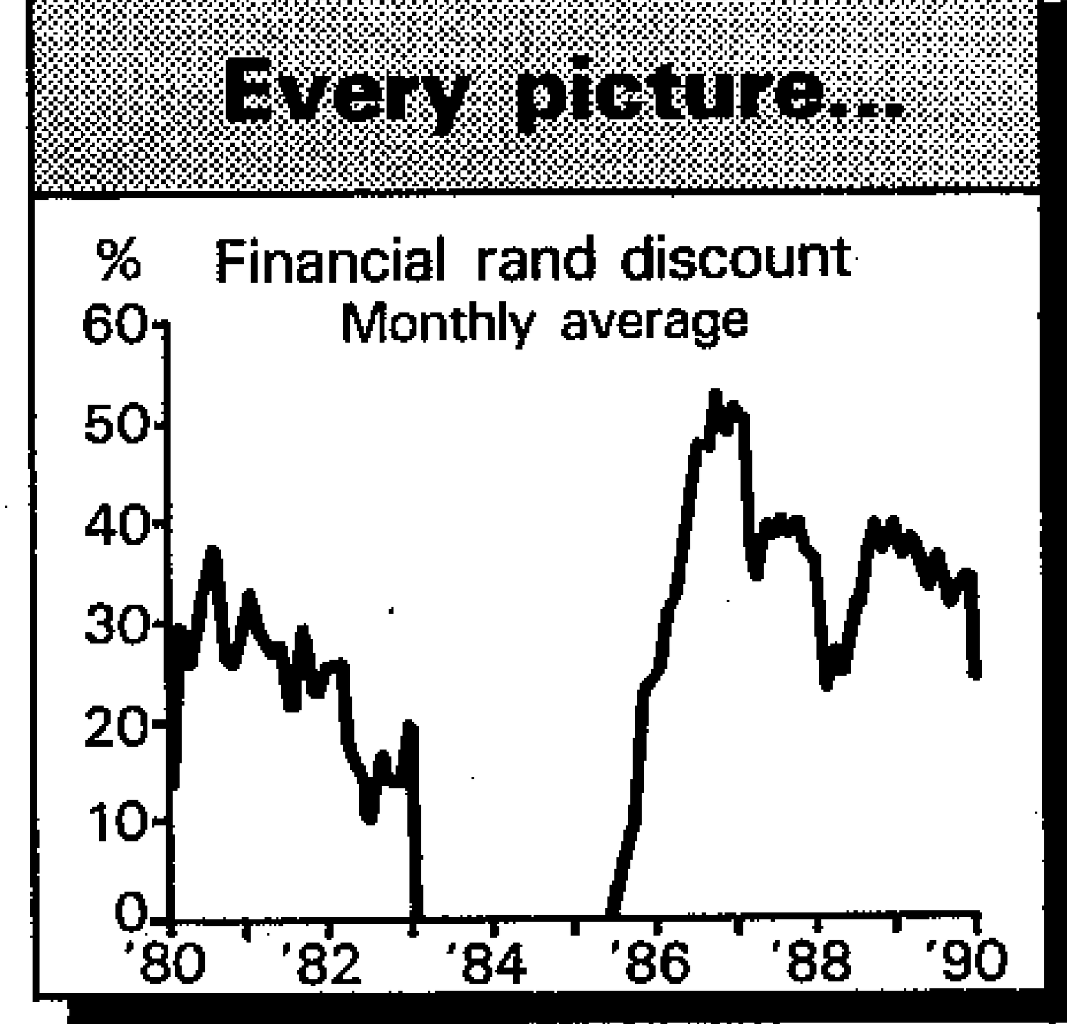
FM 2/2/90 (74)

FINANCIAL RAND FM 2/2/90

Confidence measure

The financial rand will not be abolished — even if its discount against the commercial rand is eliminated. Reserve Bank Governor Chris Stals says: "SA's image would be damaged if the finrand were abolished only to be reintroduced a short while after, because of capital outflows and a reversal in positive political perceptions." (74)

He says: "Unless policy makers are confident that a recurrence of capital outflows of the last few years is unlikely, the finrand will remain. However, "if the two merge, it's not unlikely the Bank will intervene to keep them



together. But if it becomes too costly, the two will be allowed to drift apart once again."

He believes the gap will continue to decline, with foreigners accepting lower yields because of the lower political and economic risk.

The slight retreat at the start of the week from a recent high of US30,3c on January 26, to US29,5c on January 30, reflected technical as well as financial and political factors.

These arose from the fact that settlement date for purchases made through finrand accounts, moved from February 5 to February 20. Settlements are made on London Stock Exchange settlement dates, at approximately two-week intervals — though on this occasion a holiday in New York on February 19 is shifting the next settlement date an extra day.

Each fortnight, as the day of reckoning approaches, demand for finrands rises, leaving dealers who have sold short in the unit in a vulnerable position. This further pressures demand, pushing the unit to a temporary high.

This meant that, though still available after February 5, finrands became too expensive for most of the market and attention turned to slightly cheaper February 20 finrands.

In the broader context, the investment unit was pushed in two directions. Some buoyancy was the continuing rise of the gold price to over $420/oz on Monday. There is not always an absolute correlation between the two, but there is an indirect link in that rising gold generates confidence in the economy and optimism in the markets.

However, in the run-up period to the opening of parliament, political apprehension built up.

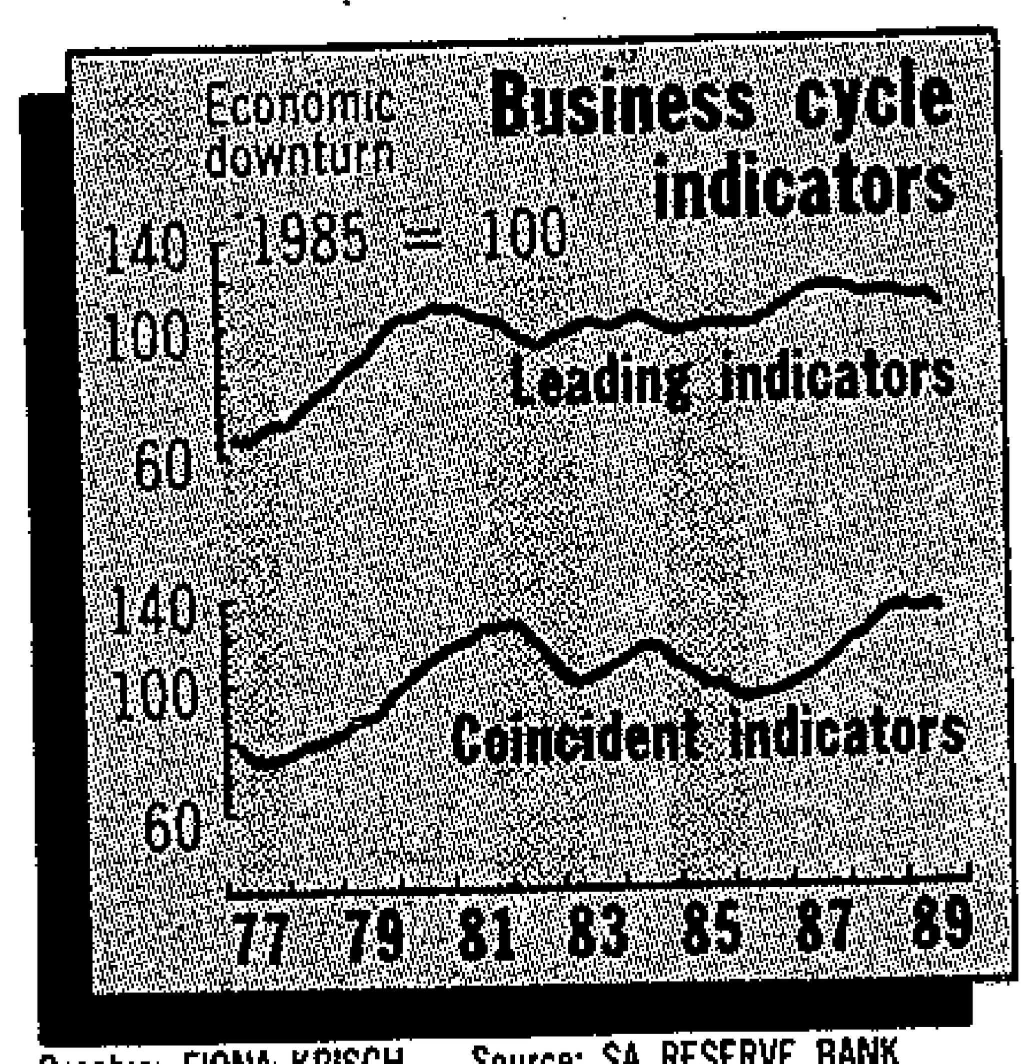
There were new question marks in the ongoing debate about negotiations and a future political and economic dispensation. These were created by publication last week of a statement by Nelson Mandela, on future nationalisation under the ANC of certain key industries and news from his wife Winnie that further problems had arisen in relation to his release.

An important aspect of the recent rise in the value of the investment unit is that the erosion of the margin between the two currencies greatly improves the operational effectiveness of the dual currency system. The larger the discount, the greater the incentive to abuse the two-tier exchange rate. ■

Exports could cushion debt payment blow

BDay 3/1/1990

GRETA STEYN



Graphic: FIONA KRISCH Source: SA RESERVE BANK

SA FACES a year of strict financial discipline as it crosses the hurdle of huge foreign debt payments while continuing efforts to curb inflation and reduce government's stake in the economy.

The first year of the 1990s is likely to be a transition period, one in which some economic "housekeeping" will be done as the country adjusts to policies aimed at crushing inflation and building up foreign exchange reserves.

Economists believe 1990 will see a downturn in economic activity rather than a recession. They are looking to net exports and the informal sector to cushion the blow of a foreign debt payment which could total $2,4bn this year.

Simpson McKie economist Graham Boyd says exports might well prove to be a prop keeping the economy from slipping into near-recession. He points to last year's unexpected 7% surge in export volumes as a sign of health.

Although export growth should be lower in 1990, Boyd says it is coming off a high base and the slow-down in the world economy is not likely to lead to an absolute fall in the volume of exports.

"The expected slow-down in the world economy is likely to be confined to countries such as the USA, Canada and Britain, and is not expected to be marked in the other industrialised countries."

Another positive factor for the economy, says Boyd, is improved inventory management.

"Involuntary build-up of inventories is

☐ To Page 2

Debt payment

BDay 3/1/90

☐ From Page 1

likely to be low and the ratio of inventories to spending should not reach a level that will force dramatic cut-backs in production as demand slows."

Standard Bank economist Nico Czypionka believes pressure on the balance of payments (BoP) due to huge debt repayments may be less than feared.

"I would be surprised if the worst case scenario of a $2,4bn outflow materialises," he said, adding he was hoping improved perceptions of SA would see roll-overs of about $1bn.

He expects the informal sector to stay the economy's fall, contributing to stability by alleviating the unemployment problem.

Economists expect real growth in GDP to be only 0,5%-1% for 1990 — lower than the population growth rate of about 2,7% a year. The failure of economic growth to keep pace with population growth means a shrinkage of per capita wealth.

With economic growth virtually stagnant, the ever increasing number of job-seekers will to a lesser extent find work in the formal economy.

The Bureau for Economic Research (BER) sees "insignficant, if any" growth in employment in the non-agricultural sectors of the economy.

Rand Merchant Bank's Rudolf Gouws notes unemployment of unskilled and semi-skilled workers will continue the cyclical rise which started in the second quarter of last year.

Wages and salaries should grow at a slower rate than in 1989 and personal disposable income will probably be lower in real terms. Consequently, hardly any real increase in total consumer spending is expected while expenditure on durables is set to decline by more than 10%.

On the corporate side, spending on fixed investment is expected to remain more or less on the same level as this year's (about 20% below the 1981 level in real terms.)

Inflation is set to decline to 13%-14% at the end of this year (from about 15% at end-1989) and interest rates are expected to soften at a slower rate, in keeping with Reserve Bank Governor Chris Stals's wish to keep a comfortable margin between the inflation rate and interest rates.

While a certain amount of hardship during the period of adjustment can be expected, economists also point out the economy has over the past few years been much stronger than expected.

The growth rate for 1988 was recently revised upwards to almost 4% — a figure earlier believed impossible to attain given the BoP constraint. In addition, the Reserve Bank's leading indicator has been declining at a relatively moderate rate, pointing towards a slow descent into a downturn.

THE RAND

Going somewhere?

FM 5/1/90 (74)

With the financial rand at FR3,5/US$ on the first trading day of 1990, its discount to the commercial rand was down to 28%. This was the lowest since May 1988 when the discount dropped to 24,5%, climbing steeply thereafter.

Though the rise in the gold price since mid-November has attracted substantial foreign investor interest, dealers say the relationship between gold and the finrand is not direct. With gold hovering uncertainly around $400/oz on Tuesday the correlation between the two is zero.

The divergence was first seen when gold rose from an August average of $360 to $367 in September, $372 in October, and $394 in November. By the end of that month it moved to more than $400. But the finrand stuck at FR3,9/$ until mid-December.

This was attributed to a build-up of finrand waiting for an opportunity to leave SA without incurring large losses.

Then, in the last two weeks of December, the finrand rose sharply, despite a slide in gold to below $400. A dealer attributes this to the lack of recent disinvestment and a dearth of profit-taking, which reduced finrand supply "to dribs and drabs." With demand constant, the result is an improvement in the value of the unit.

Also on Tuesday the commercial rand was reaching for R2,5/$, or US40c/R, a level last seen in April. This too was not entirely due to the rise in the gold price. Gold now contributes less than 30% of total exports. Though a rise in the price contributes to bullish sentiment, says Reserve Bank GM James Cross, short-term movements are not significant. "A sustained higher price might be a different story."

In fact, the improvement in the rand predates the recent gold price surge. Reserve Bank Governor Chris Stals pointed out late last year that between the end of June and October 25 the "average weighted value of the rand against a basket of currencies appreciated by about 4%." Though much of this was due to more optimistic prognostications about SA's political future, economists believe even more was due to developments on foreign financial markets and threatening inflation in some trading partners.

"Exchange rates react to differentials between underlying inflation rates," says Econometrix economist Azar Jammine, "because these determine purchasing power." The faster prices rise in one country, the more its currency must fall.

Thus the UK (inflation at 8%) and the US (5%) have seen sterling and the dollar weaken. Only West Germany, with a tight monetary policy which has kept inflation at only 3%, has seen the D-mark outperform all major currencies — and the rand.

So the underlying reasons for the improvement in the two tiers of the currency are not related and their prospects are not equal.

Bank economic adviser Roger Gidlow says: "The commercial rand will be affected by potentially large capital outflows in repayments of debt outside the net." So it will battle to hold its own without considerable help from other factors. But "it still has scope for improvement if foreigners continue to buy gilts and semi-gilts — especially if there is an abatement of equity sales by overseas investors."

Here's hoping. ■

Clearing the way (74)

The target date for the start of the formal futures market is April 2. This is considered in the market to be realistic, allowing for approval of the rules. The guarantees, clearing system, clearing member structures, compliance officers, and so on could all be in place by then, and it's now simply a question of priorities. FM 5/1/90

The cornerstone of the formal operation is the rulebook — yet to be approved. A first draft has been circulated to the SA Futures Exchange (Safex) executive committee for comment.

It is hoped it will be ready for submission this month to the Registrar of Financial Markets, whose approval is needed before a licence can be granted.

Still to be decided is the structure of the guarantee system, which will be discussed this month by the Safex executive committee. Safex Clearing Company (Safcom) will control the clearing function for the futures markets as a non-profit body, probably along the lines spelt out by Franklin Edwards of Columbia University: "Through its rules and regulations and credit-monitoring activities, the clearing association also plays a major role in maintaining the financial integrity of the entire futures industry."

Clearers will pay to, or receive from, Safcom variation margins on net positions daily. Safcom guarantees money due to clearing members.

To ensure it will in turn receive margin payments from clearing members, Safcom requires third-party guarantees.

Should a clearing member default in his margin payments, Safcom retains the right to close out the clearer's open position and to resort to his guarantee to make up any shortfall.

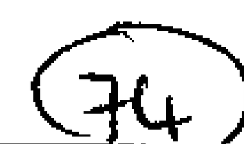
Safcom, as a potential monopoly, was set up as a non-profit organisation to encourage competition between clearing members.

Safex's 23 founding members, who each paid R25 000 for a minimum of four seats, had to hold R10m net assets and be able to obtain, if necessary to meet a default, a guarantee for a further R10m. All founding members are eligible. Four new members have applied to clear as well.

However, not all the founding members may become clearing members, says Safex chairman G T Ferreira. They may clear through another party.

The R20m far exceeds requirements of any futures clearing organisation worldwide:

continue on page 28



Chicago Board of Trade needs US$200 000 and Comex $1m, for example. Safex based its requirement on the international criterion of a 5% default rate, which means a clearing member can cover open positions to the value of R2,5bn. Says Ferreira: "It was decided to be conservative at the start. The amount can always be reduced once the system is running, rather than start low and possibly having to disqualify people if rates are raised."

Clearing members' reward comes in the form of clearing fees, says Safex/Safcom CE Stuart Rees.

Safcom should be ready to roll this month but there is much debate whether it should actually clear in the informal market. There are fears there will be a misperception that guarantees are already in place and the market has been formalised.

This follows previous delays in Safcom taking over the informal futures market. There was a postponement in April, when the system was upgraded to meet increased volumes, and a second in August, when a decision was taken not to allow Safcom to clear until the formal market is established.

The executive committee feels all effort should be directed to the formal market at this stage.

There is also the question of who will guarantee Safcom's clearing if it operates before the formal market is under way. Rand Merchant Bank now guarantees and clears for the futures market.

120 seats were available on the exchange. ■

Capital inflow critical for domestic growth

OUTLOOK 90

Star 5/11/90

74

By AUBREY DICKMAN
Senior economic consultant, Anglo American Corporation

Unprecedented boldness in economic and political reform is transforming the outlook for potential development. For the near future, however, consolidation is still essential.

The South African economy is in a downward phase which is likely to persist through this year. This means that domestic demand will decline in real terms in 1990.

In spite of a slowdown in the world economy, export performance should be positive, and total GDP growth should be around one percent, compared with 3,3 percent in 1988 and an estimated 2,0 to 2,5 percent this year.

Interest rates will remain relatively high in nominal terms in the early part of next year, but could start coming down after that.

The prospect of a good agricultural season is a positive factor on the export front and in helping to temper the adjustment.

The outlook sketched here is typically mainstream one and implies the soft landing scenario — much less severe than that of the 1983-84 period.

If the gold price holds above $400, this could bring a renewed turnaround somewhat nearer but would not permit us to wriggle out of the recessionary net.

Gold averaged $437 in 1988 and only $379 last year. Apart from this, depletion of the reserves, the debt obligations, inflation and the effects of international slackening demand conservative policies.

Unpalatable though it may be in the short term, the firm stand taken by Reserve Bank Governor Chris Stals and Minister of Finance Barend du Plessis is encouraging, especially since the gold price recovery has typically introduced some euphoria which could be overdone.

The complexities of monetary and fiscal policy issues, and the vital questions of government spending and taxation, will be addressed in other articles in this series.

Debt repayment

I shall not pursue these except to note that the task of curbing inordinate spending and avoiding excessive swings in liquidity and money supply, are crucial to medium-term stability and confidence.

Steering a course between the Scylla of debt repayment and other malign sanctions effects and the Charybdis of recession and unemployment is the unenviable — and, as Stals has put it, frustrating — task of official policy.

There is, however, a broader dimension to these problems. South Africa's development has been externally driven: first by diamonds and gold but later, and especially in the post-war pre-oil crises years to 1973, by the demand for raw and semi-processed materials for a burgeoning world economy.

The inflow of capital that accompanied the various phases of exploitation of our comparative advantages enabled industrial diversification to take place. Indeed, foreign capital was attracted by the potential offered by the domestic market.

But the world changed after 1973, and more rapidly after 1979 when the follies of excessive state intervention were increasingly recognised in the early Thatcher and Reagan years.

Dirigist policies in South Africa, and failure to make the best use of human resources, caught up with us just as we were trying, late in the day, to make amends.

The post-1973 oil-induced slowdown in the East, among many other adverse factors, was uncomfortable for a country trying belatedly to adjust to world realities. They left us vulnerable to international recession, technological change and a dubious attitude to developing country debt.

Bad luck, heightened competition from the East, poor policy management and deep-seated socio-political resentment culminated in the capital flight of 1985.

The accompanying chart illustrates the critical role of capital flows until 1984. Although not directly causal (among other things, the mature of the capital inflow had altered), the association with domestic growth is clear enough.

The huge R25 billion outflow in the four years from 1984 to 1988 limited GDP growth to a mere 1,2 percent a year. This still meant running reserves perilously low.

The melancholy consequences were that the latest modest recovery had to be aborted once international trends turned adverse and the pernicious capital outflow persisted.

Reduced outflow

Looking ahead, the worst-case scenario of an $8 billion or roughly R21 billion capital outflow over the four years to 1993 has given rise to official rough projections of a mere two percent annual growth rate, woefully inadequate given demographic needs.

Yet this is relatively better than recent experience, and implies that even with an egregious burden of debt repayment the fresh approach to further economic reform can make us relatively more productive.

Amazingly, a vibrant ecocnomy survives, as Chester Crocker put it recently, despite the best efforts of party politicians, sanctioneers and marxist intellectuals to kill it off. But the germ of survival contains the possibility of a re-awakening.

We can and must do much better than the outcome postulated in the chart. On reasonable assumptions about the world environment, a reduced capital outflow means higher growth. It is as simple as that.

This brings us to the essential interdependence between politics and economics and perceptions about future stability and progress in a truly democratic society.

Yet, to cite Crocker again, there will be no Marshall Plan. We are on our own.

This means that our open economic links with the world have to be buttressed with an open commitment to participate in the success of the market economies which has decisively exposed the grotesque fallacies of marxism.

That we have made a hopeful start is unquestionable, and ongoing initiatives carry great promise. But the world is a relentlessly competitve place. The winning nations have succeeded in restructuring their economies through austerity, the right kind of investment and appropriate wage-productivity relationships.

Inflation is recognised as self-defeating. We have to confront the isses head on, but we have made a remarkable start in establishing a basis for improved capital output ratios.

It is understandably difficult to convince those who have suffered the deprivations of years of ethnic social engineering to accept that a form of state socialism is no longer the answer, as it was for the Afrikaners in the thirties.

No more the luxury of a benign external environment. Nor will international capital flow to countries which embrace discredited socialist goals.

Despite the events in Eastern Europe, the apparent appeal marxist rhetoric still holds indicates how deeply ingrained is the mendacious contention that capitalism and apartheid are bedfellows. The sanctions onslaught, perhaps deliberately, makes it that much more difficult to alter these notions.

Of course, sound macro-economic management is essential to steer the economy through the difficult period of debt repayment. But the real challenge is to promote the acceptance of liberal values.

The new direction we are taking can bring forth astonishing opportunities and development. This will reinforce the fundamentl truth that economic and political freedoms are two sides of the same coin.

% Average Annual GDP Growth

Net Capital Flows

Star 9/1/90

SA gold reserves decline

By Sven Lünsche

The extent to which South Africa's foreign debt repayments deplete the country's gold and foreign exchange reserves was graphically illustrated last month. The reserves fell by six percent in December to R5,316 billion compared with R5,528 billion at the end of November.

In addition to a hefty chunk of the debt that had to be repaid, December is also traditionally a month when year-end trade, dividend and interest payments are made to foreigners. The Reserve Bank in particular dug deeply into its gold reserves to meet these payments.

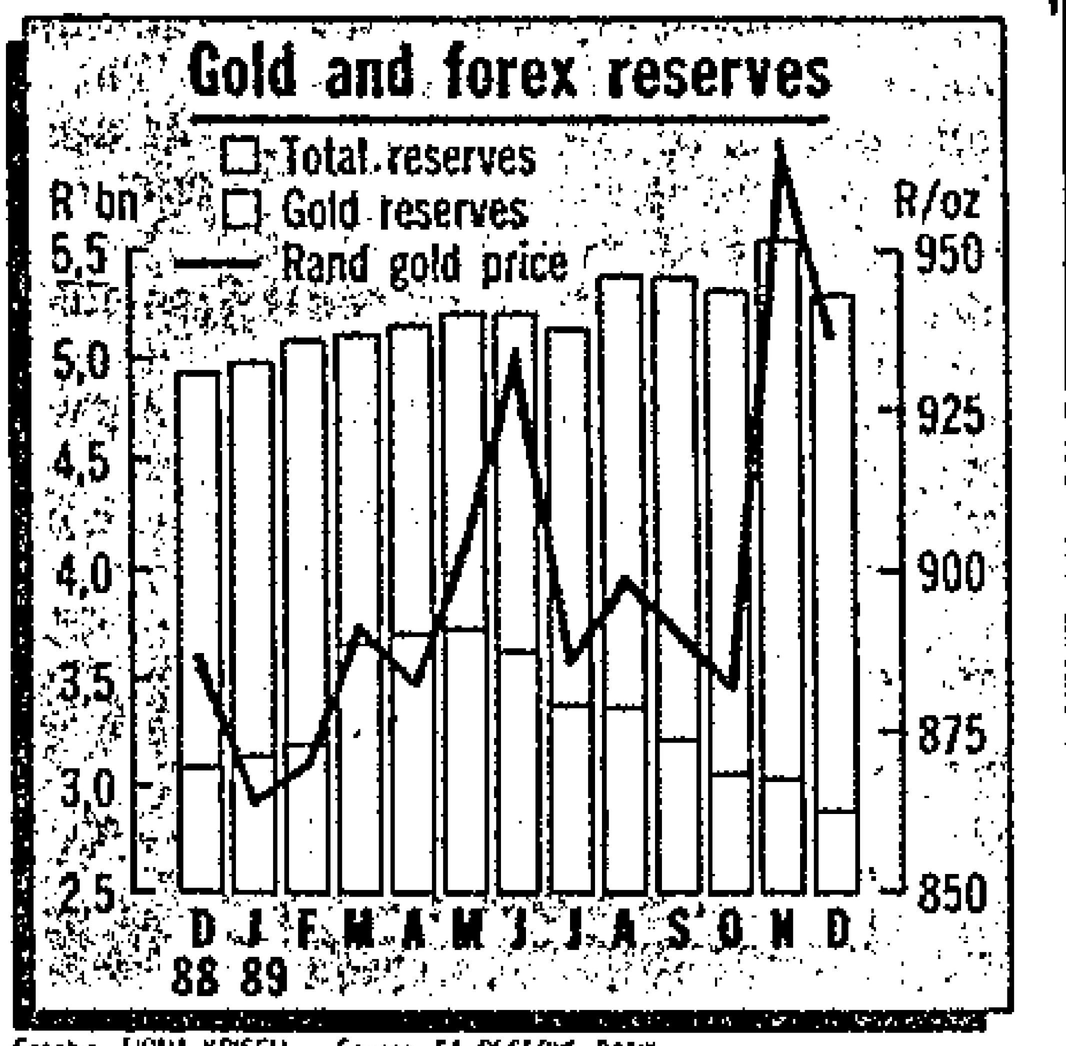
The gold assets dropped by R183,3 million to R2,883 billion from November's R3,066 billion, as its quantity was diminished by 95 000 ounces.

A lower rand gold price in December at R937,32 per ounce compared with November's R967,05, also contributed to the decline, as a stronger rand exchange rate outweighted the improvement in the dollar gold price.

Foreign exchange assets fell by R29,6 million from November's R2,463 billion to R2,433 billion.

The reserve figures also showed that the losses on the forward exchange cover Bank were reduced last month as the Treasury repaid about R1 billion of its R4 billion owed to the Bank for providing the cover.

This led to a fall in the Treasury's balances at the Bank to R8,212 billion from R11,7 billion previously, while its total debt, as reflected in the Bank's "Other Assets", declined from R16,6 billion to R14,9 billion.



Graphic FIONA KRISCH Source: SA RESERVE BANK

SA's reserves are only R212m down

B\Day 9/1/90

HAROLD FRIDJHON

THE Reserve Bank's gold and foreign exchange reserves amounted to R5,316bn on December 31 1989, down by R212m on the November month-end balances.

This is a creditable performance taking into account repayments on foreign debt and the usual battering the reserves receive at year-ends from trade, interest and dividend payments made abroad.

The gold content of the reserves — 3,076-million ounces — were diminished in quantity, down by 95 000oz, and in value.

The Bank's bullion stock, valued at R937,32 an ounce, was shown as R2,883bn compared with R3,066bn at the end of November when the valuation was at R967,05.

Gold share investors should note that the higher dollar price for gold in bullion markets was offset by the stronger rand in dollar terms.

The government's balances at the end of the year, R8,212bn, were the lowest for five months. In November these balances reached an historic peak of R11,7bn.

Part of the reduction came from a repayment of R1bn on the debt of about R4bn which the Treasury owed the Reserve Bank for providing forward foreign exchange cover.

The Treasury's debt to the Bank is reflected in the Reserve Bank's "Other Assets", which reduced from R16,6bn to R14,9bn.

Increase in prime unlikely — Stals

B/Day 10/1/90

HAROLD FRIDJHON

BANKS' margins are being squeezed by the abnormal seasonal shortage in the money market and there is speculation that the Reserve Bank will be asked to increase prime rates.

Reserve Bank Governor Chris Stals said last night no official approach had been made to the Bank.

The banks — commercial, merchant and general— collectively owe the Reserve Bank a record R5,6bn. They are paying up to 21% for overnight wholesale call deposits and up to 22,75% for portions of the central bank's facilities.

Stals said he regarded the present situation as "a passing phase" and the Bank was helping banks as best it could within the parameters of the tight monetary policy.

The Reserve Bank had assisted to the extent of R3bn in open market operations, apart from the R4bn-R5bn assistance which had been given through the rediscount window.

The Bank would continue providing one-day re-purchase agreements (repros), the buying of prescribed assets which the banks had to re-purchase within 24 hours. Yesterday the Bank invited tenders for R400m worth of repros, attracting bids amounting to R882m; the average rate for this facility was 21,28%. These repros would be rolled over, Stals said.

Stals's remarks indicated that it was not on the cards to increase the Bank rate or prime, which cannot be raised without Reserve Bank approval.

He said a more flexible prime rate had its merits but before such a step could be taken many structural changes would have to be made in the Bank's accommodation policy and these had to be investigated.

Stals questioned the effectiveness of the banks' application of their prime rates. How many customers were given rates below prime and what percentage of their lending was at the so-called prime rate? He added that some banks used the bankers acceptances mechanism to give advances at lower rates.

One bank economist said last night that raising Bank rate would be most inopportune. The economy was slowing and the demand for credit was reducing. The gold and foreign exchange reserves were improving and and so was the balance of payments. Raising Bank rate would be applying overkill, particularly as Bank rate and prime were over politicised.

He added that the present market position was cyclical and possibly exacerbated by additional bank lending over the December/January period.

B/Day 11/1/90

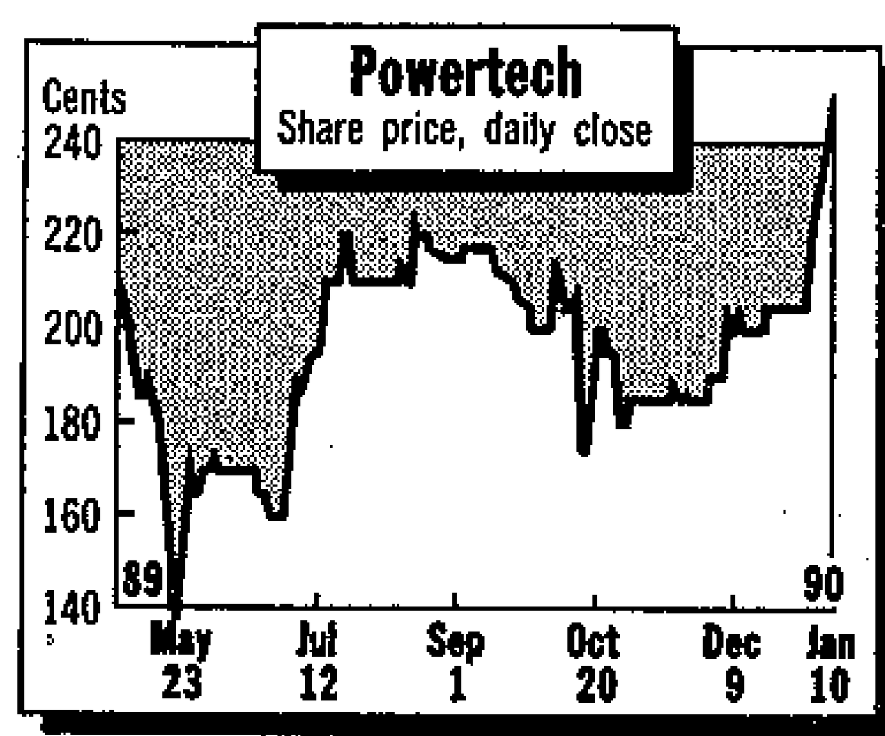
DIAGONAL STREET

Mandela fever gives finrand a sharp boost

MANDELA fever hit trading on the JSE yesterday as unfounded rumours that the jailed ANC leader had been released pushed the finrand sharply higher to pull share prices down for most of the day.

The rumours had no basis, but the finrand held to its higher levels as a big buyer for the currency entered the market. The negative impact on local share prices was, however, offset by a rising gold price towards the close of trading.

Gold was fixed $2 higher at $405,85 at the London morning setting and



Graphic: FIONA KRISCH Source: JSE

improved to $407 in early New York dealings as the JSE was closing. Dealers said sentiment in New York was bolstered by Japanese buying, apparently fanned by concern over the continued slump on the Tokyo stock market.

In fairly volatile trading, the JSE overall index closed 10 points up at 3 182 after easing nine points to 3 163. The all gold index recouped only part of its early 22-point decline to close 10 points off at 3 182.

Industrials continued to move to higher ground and the index rose 15 points to a record 2 982, while strength in mining house leaders Anglos and Gencor kept mining financials on the boil.

Underlying market sentiment remained bullish and dealers reported good demand from London and the Continent for SA shares.

ANGLOS climbed from a low of R124 to end 150c up at R126,25, while GENCOR firmly breached the R12 level after lagging behind since mid-December. The shares closed 45c higher at R12,25 and seems set to go higher.

DE BEERS eased 45c to R64,25 and parent ANAMINT shed 500c to R810.

VAAL REEFS and KLOOF each fell 1,1% to R410,50 and R45,25, respectively. RANDFONTEIN, up 50c to R34,75, and FREGOLD, up 25c to R54,50, went against the softer trend.

MODDER firmed 5c to 485c but was off its high of 490c in good two-way trade on reporting a distributable profit of R5,5m in the December quarter after struggling to cover interest payment on debt of R40m in the wake of losses in the first part of the year.

Leading industrials were mixed as some blue chips came off their peaks, but RICHMON edged up 10c to close at a new high of R19,10 and TIGER OATS moved up another 100c to a fresh high of R27,50.

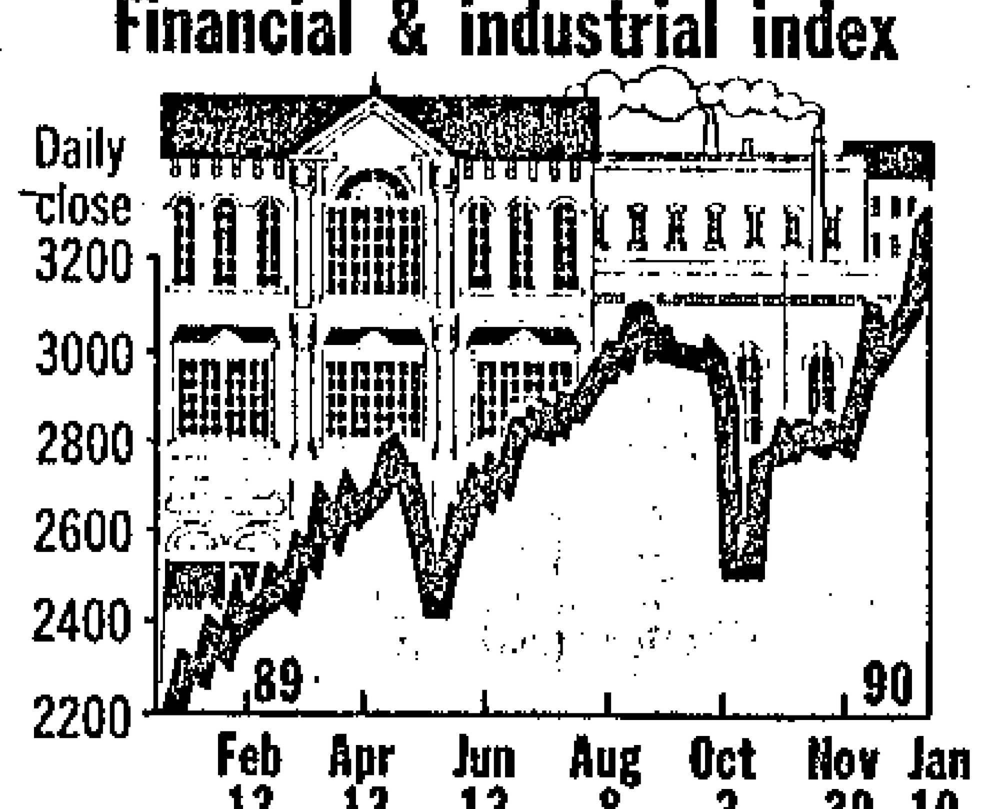
POWERTECH, the high flyer during the 1987 market boom which has languished since the crash, seems to be stirring to life this year. After bottoming at 130c in May last year, the shares have recently attracted good demand and yesterday rose a further 15c (6,5%) to 245c.

Retailer BERGERS rose 10c to a new 12-month high of 160c to lift its gains to 28% so far this year. The company is on the expansion and acquisition trail.

Motor distributor SPARECO slumped 85c (15,9%) to a new low of 450c. Tin stock ROOIBERG had the largest decline of 17,2% (125c) to a new low of 600c. Rooiberg was at a 1989 high of R16,50 in June.

MERVYN HARRIS

Financial & industrial index



Graphic: FIONA KRISCH Source: JSE

Gold pushes firmly through $410 level

MERVYN HARRIS

GOLD breached the $410 resistance level in New York last night as renewed Japanese buying, fanned by concern over the continued slump on the Tokyo stock market, boosted sentiment.

The metal, which was trading at $412, was also buoyed by Wall Street resuming Tuesday's late sell-off on expectations of disappointing fourth-quarter profits.

Only gold mining issues went against the softer trend.

But gold shares on the JSE closed marginally lower as unfounded rumours that jailed ANC leader Nelson Mandela had been released pushed the finrand investment currency sharply higher to hold share prices back for most of the day.

The rumour had no foundation but a big buyer entered the market for finrands, keeping the currency at its higher levels. The finrand strengthened from R3,6630 ($0,2730) to RR3,5450 ($0,2820) to the dollar.

As the gold price began to firm towards the close of trading on the JSE, share prices recovered part of their early losses.

The overall index recouped an early nine-point loss to close 10 points up at 3 182.

Dealers reported good demand for SA shares from London and the Continent and the industrial index rose 15 points to a fresh peak of 2 982.

Gold closed almost $5 firmer in London at $408,75 as a firmer dollar pared gains from its early high of $410,25.

The dollar firmed as the Mark eased on unsubstantiated rumours that central banks were in the market supporting the yen. The dollar rose from DM1,6818 to DM1,6825, and closed at 145 yen from 145,20 yen. Dealers said the strong dollar against the yen had earlier limited Far Eastern demand for gold.

See Page 10

Downturn gathering momentum

By Derek Tommey

South Africa's self-induced economic downturn is gathering momentum, says David Mohr, chief economist at Old Mutual.

He expects the process to continue this year, probably at an accelerating rate.

But unpleasant though Mr Mohr's forecast may be, be believes the situation has resulted in some lessening in inflationary pressure and that it could lead to a drop in long-term interest rates.

Mr Mohr reports a sharp contraction in the value of goods and services, other than farm goods, produced between the second and third quarters.

Mr Mohr

Manufacturing, in particular, felt the cold wind of recession.

Output in the third quarter dropped at an annual rate of 8,5 percent.

On the other side of the coin, South Africans have been cutting down sharply on spending.

They spent 7,3 percent (annualised) less in the third quarter than in the second quarter of 1989. Spending on items such as cars, fridges, radios and TV sets dropped throughout the year.

Although spending on clothing and footwear rose slightly in the first half, it fell sharply in the third quarter.

Mr Mohr says this reduced spending is characteristic of the onset of a downturn and, in this instance, is the result of a tight-money policy, high inflation and smaller wage increases and salary adjustments.

This is necessary if South Africa is to be a position to repay all its debts that fall due this year.

In the next 12 months South Africa will probably have to repay foreign debts amounting to $2,0 billion to $2,4 billion (R5,2 billion to R6,3 billion at current exchange rates).

In order to pay to its foreign creditors these huge sums South Africa will need to earn from overseas 2,5 billion more than it spends there.

This will require a special effort as in 1989 South Africa had a balance of payments surplus of $1,6 billion.

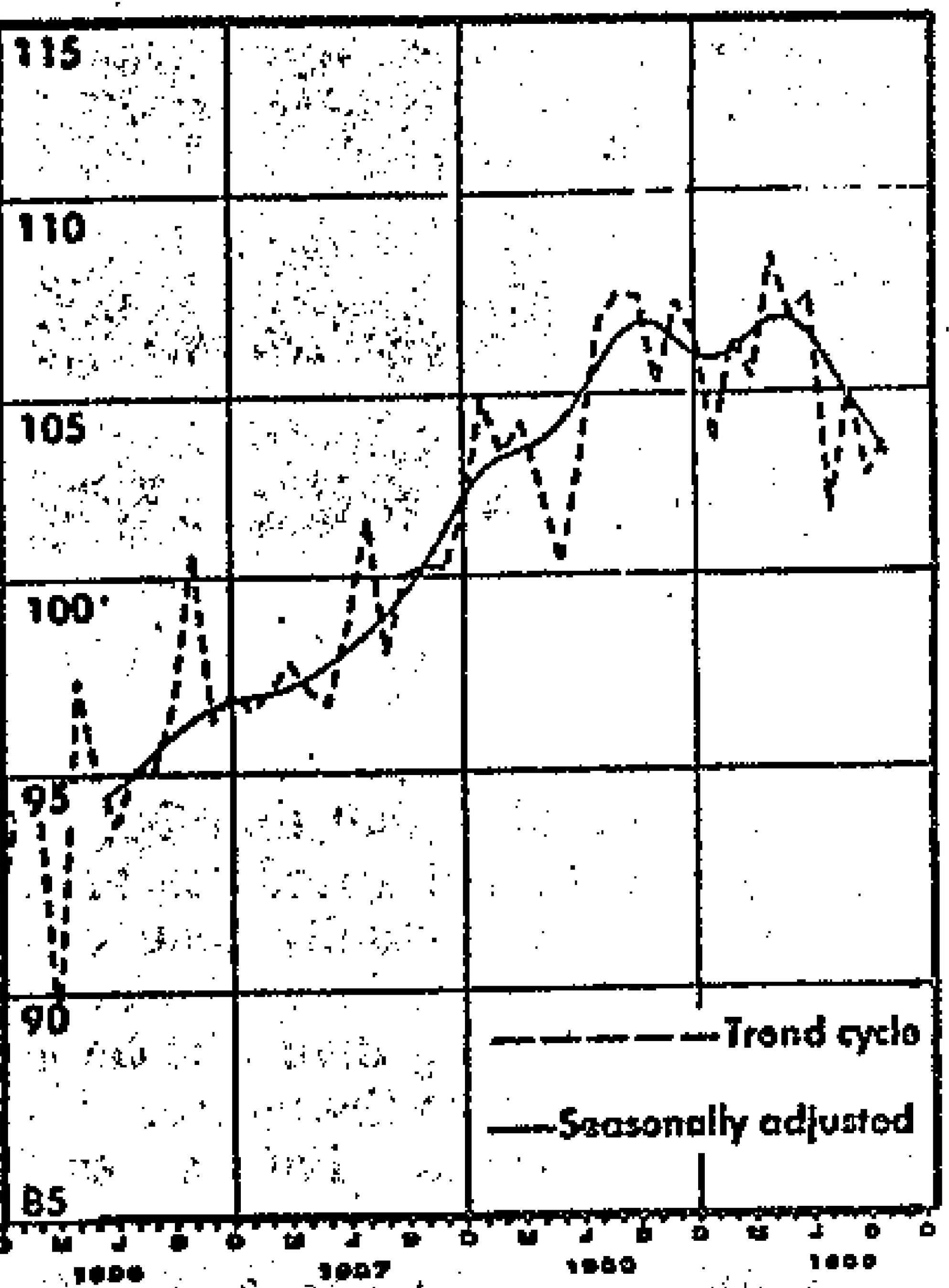
If South Africa is to achieve this $2,5 billion surplus, domestic spending has to be held down so as to limit imports and the amount of money being spent overseas.

However, year-on-year inflation as measured by the consumer price index moved downwards in the third quarter of 1989 after reaching a high of 15,7 percent in June. By November, the year-on-year rate had fallen to 14,9 percent.

Mr Mohr says this is partly the result of a slower rate of increase in food and housing costs. But other items in the consumer price index are showing reduced price increases.

However, there is a danger that food prices could accelerate in the first half of 1990, he warns. This could limit the downward trend in the inflation rate or even reverse it.

As the economy might require further cooling, and as little progress has been made in replenishing foreign exchange reserves, Mr Mohr says that montary policy is likely to remain stringent for some time.



Total manufacturing index, base 1980: 100

He does not expect a significant decline in the prime overdraft rate before the second half of 1990.

The long-term interest rate has droped from around 17 percent to below 16 percent. This is the result of optimism in the capital markets arising from the rise in the gold price in the fourth quarter, clear signs that the real economy is cooling, the levelling off of the inflation rate, smaller government borrowing requirements and signs that government spending will be restricted.

Mr Mohr believes interest rates willd decline further this year as the underlying bottlenecks in the economy — the current account, foreign exchange reserves and inflation — ease more.

SURVIVING THE YEAR-END CRUNCH

Gold and foreign exchange reserves held up well in December in the face of large foreign debt payments. Despite a US$180m capital repayment on December 15 — 1,5% of the total outstanding debt of $12bn — and $300m-plus interest, reserves fell just R212m ($83m) in November to R5,3bn ($2,1bn).

Foreign exchange reserves dropped R29m ($11m) to R2,4bn ($952m); gold reserves R183m ($71m) to R2,9bn ($1,1bn).

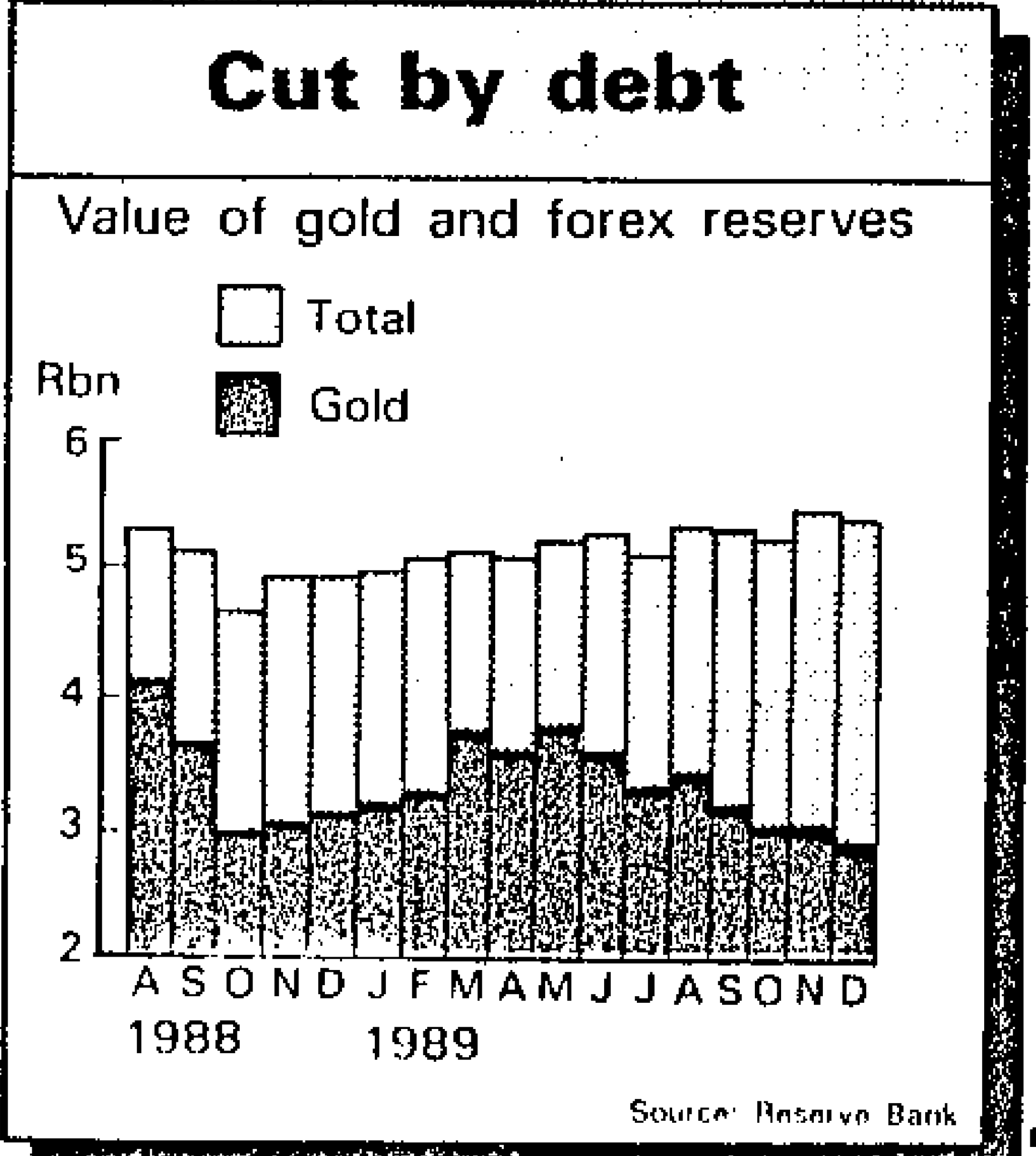
"The current account of the balance of payments is bearing up well," says Azar Jammine, of Econometrix. "Exports have done well and import restrictions have taken their toll on imports."

He believes reserves will remain virtually static during 1990 because of foreign debt commitments of about $2,5bn. "Only in 1991, when debt repayments are less — around $1,5bn — will the reserves pick up."

To add to the pressure from debt payments, the value of gold reserves shrank because of December's lower gold price. The metal was valued at R937/oz, compared with R967/oz in November. The volume of gold holding fall from 3,2m oz to 3m oz.

Gold reserves are now marginally below end-1988's R3bn ($1,3bn) but forex reserves are up from R1,8bn ($778m).

FM 12/1/90



JANUARY 1989.

Timber provides cushion for BoP

TIMBER is proving nearly as valuable as gold as a foreign exchange earner for SA and a cushion to the country's balance of payments commitments, says the January issue of Southern Africa Special Dispatch. (74)

The industry is SA's fourth largest exporter of non-mineral products and earned an average of more than R2bn a year in export revenue over the past two years.

"Yet the industry has grown without the support and subsidies so many other sectors get from the state," says Dispatch.

The importance of the industry to SA's future is more than just wood production.

The article says that although the gold price has improved dramatically, government officials and private sector economists insist that SA cannot rely too heavily on the metal as an export.

The magazine concludes that timber prices are more stable and predictable in the long run and, coupled with the world shortage, will provide a substantial amount of foreign exchange. — Sapa.

B/Day 15/1/90

(74)

Dollar levels expected to stay

LIZ ROUSE

WITH events in Eastern Europe merely enhancing the attractiveness of the DM, last week's G7 intervention suggests that global authorities do not want the dollar to visibly strengthen from current levels.

Standard Bank's comment on international currency developments says that since no public disagreement has been shown to the belief that the Louvre target levels have now been lowered, it is unlikely that dollar sentiment will improve over the near term.

The bank therefore recommends that importers with third currency commitments against the dollar cover forward.

Technical considerations may afford more favourable trading conditions, but extreme caution is advocated in what remain nervous and volatile markets, the bank says.

Current spot rates are DM1,6915/25, £1,6370/80 and yen 144,55/65, while the bank's anticipated trading ranges this week are DM1,65-1,71 £1,62-1,66 and yen 143-146.

An extraordinarly large amount of foreign debt, totalling $2,4bn, falls due this year and the sheer size of capital outflows of this sort will inevitably seriously constrain rand performance.

While the more positive political environment may lead eventually to a reduction in the overall size of capital outflows from SA, the rand nonetheless remains vulnerable to the disequilibrium between total demand for and total supply of the rand, with the latter expected to remain the predominant influence over the medium term.

Standard's recommended strategy is that the potential for dollar weakness suggests that importers with short-dated dollar commitments may remain out of the forward market.

Although the domestic unit remains under pressure against the DM, the cost of forward cover for third currency commitments remains prohibitive.

Exporters with short-dated receivables should cover forward.

The bank's perceived trading range for the week is $2,51/57 while the gold price is expected to trade between $398 and $408.

1990's surplus 'could be R7bn'

(74)

Stals breaks good news on foreign debt

BDay 17/1/90

JOHN STEWART

SA's overall balance of payments (BoP) position was a good deal more favourable than published figures suggested, Reserve Bank Governor Chris Stals said yesterday.

He hinted, too, that the quantum of foreign debt set for redemption during the year might fall well short of the official published figure of R7bn. Moreover, the condition of both the current and capital accounts of the BoP had improved to such an extent that the Reserve Bank had been buying dollars in forex markets. As a result, SA's reserves had been bolstered by R1,5bn since December 31 1989.

Addressing a meeting of the Pretoria Afrikaanse Sakekamer, Stals said there was every prospect that calendar 1990 would end with the current account showing a surplus of between R6bn and R7bn. This was based on the assumption that total gross domestic expenditure would show little or no growth on 1989 — which in turn had shown no real increase on 1988 levels — and that exports, while adversely affected by the expected slowdown in Western industrial economies, would comfortably outstrip imports.

At the same time, he anticipated a sharp slowdown in capital outflows, consolidating the improved trend which began to establish itself in June last year when, he said, total outflow of capital not related to reserves began to fall from R1,9bn in the first quarter and R1,1bn in the second quarter to R244m in the third quarter.

(In an aside, Stals disclosed that published reserves in June 1989 consisted almost entirely of borrowed money, and net reserves had been barely sufficient to cover a few days' imports.)

Increasingly favourable foreign perceptions of changes taking place in SA had altered the outlook for the capital account in 1990, he said.

Whereas total foreign debt obligations amounted to R7bn, this figure represented a "worst-case" upper limit and did not take into account the likelihood that a substantial portion of the debt could be rolled over.

Almost R5bn of the debt falling due this year consisted of maturing bearer-bonds and trade credits which, if offshore sentiment continued to improve, might well be rolled over, Stals said. As much as R3bn could be treated in this manner.

He cautioned against euphoria over heavy (more than R2bn) foreign purchases of Eskom and government stock over the past six months. Non-resident purchases of SA securities through the finrand did not mean "new" money was coming into the country. Nonetheless, it represented changed sentiment, even though non-residents off-loaded about R2bn worth of equities to switch into gilts.

A pleasing, if puzzling, feature was that JSE indices continued to climb despite the 11,9% appreciation of the finrand in the six months to end-December.

Stals said he was growing "increasingly impatient" with money supply increases in excess of 20%, which he attributed to high levels of bank credit extension.

The Bank was determined to maintain

☐ To Page 2

Foreign debt

BDay 17/1/90

(74) ☐ From Page 1

tight money conditions — and countenance market shortages in excess of R5bn — until money supply growth targets were achieved. Pressure from the banks to adopt a more accommodating stance on rediscounting would be resisted. Banks should not merely operate as intermediaries between the Bank and consumers of bank credit, Stals said.

Government spending appeared to be more under control than at any time in the past 15 years. He was confident fiscal 1990 would close with government spending increases on or about the budgeted 15,5%.

He said government's R10bn exchequer balance with the Reserve Bank would be drawn down by no more than "two or three billion" this year, and hinted that the Treasury would continue borrowing surplus to its requirements on the domestic market.

Downturn will lead to tax cuts

STAR 10/1/90

By Derek Tommey

The Budget — just about the biggest economic event of the year — is a little over two months away. This means that the Department of Finance still has a fair amount of hard thinking to do if it is to resolve by Budget Day some of the financial matters bothering business and the general public.

People would obviously like to see some reduction in taxation in the March budget. But they will also expect announcements about the lifting of the 60 percent import surcharge, clarification on what constitutes capital gain and when Value Added Tax is to replace GST.

Latest tax revenue figures remain extremely buoyant, apparently much to the surprise of the authorities.

In the '89 Budget the Minister of Finance, Mr Barend du Plessis forecast tax revenues of R55,2 billion, which was some 25 percent higher than the previous year's estimates but only 11,1 percent up on the previous year's actual collections.

In the eight months ended November collections totalled R41,8 billion. This was 38,4 percent more than the Treasury received in the same eight months of 1988-89 if the R3 billion received from Iscor's privatisation is included, and 28,5 percent up if this money is excluded.

What this suggests is that total tax collections this year could exceed R60 billion and provide room for some reasonable tax cuts in 1990-91. Such cuts are badly needed. Even Government officials admit that income tax rates in South Africa are excessively high and that the ordinary South African has been having a raw deal.

Fiscal drag

However, a decision to cut taxes and the level to which they should be reduced appears to hinge on how the economy performs in February and March. If the economy shows signs of running down some reasonable tax cuts are likely.

But the cuts will be limited if the economy shows signs of being overheated — although some reductions will obviously be needed to counter fiscal drag.

The Minister of Finance, Mr Barend Du Plessis, has promised to make a statement on the import surcharge around budget time. While the import surcharge has not had much apparent effect on curbing imports — the job for which it was intended — it has turned out to be a prolific source of revenue, bringing in some R2,5 billion to R3,0 billion a year.

It is likely the Treasury will not want to lose such a large cash inflow at one fell swoop so there is a possibility that the surcharge will be reduced only in stages over the next two years or so.

The uncertainty about capital gains and how they should be taxed has led to considerable criticism of the tax system recently and has also led to calls for the clarification of these matters.

Currently, it seems that the Treasury is considering determining what is a capital gain and liable for tax by the length of time the investment is held — which is the position in the United States. In addition capital gains taxes are likely to be levied at a much lower rate than income and company tax rates.

If the Treasury decides on this route it would seem a sensible solution to ticklish problem.

However, there are still apparently a few problems surrounding the introduction of Value Added Tax and it is a question of wait and see whether these can be cleared up in time for the Budget.

SA's debt position is improving

Finance Staff

South Africa's foreign debt position has shown a dramatic improvement over the last few months, Reserve Bank Governor Dr Chris Stals said last night.

Speaking at a meeting of the Pretoria Afrikaanse Sakekamer, Dr Stals indicated that the country's debt payments this year could well fall short of the official published figure of R7 billion.

In his address, which was reported in a Johannesburg business daily newspaper this morning, Dr Stals said that as much as R3 billion of this debt could be rolled over, as 70 percent of this year's debt repayments consisted of maturing bearer bonds and trade credits.

He added that the country would also have less difficulties in repaying the debt, as the current account of the balance of payments could show a surplus of up to R7 billion during 1990.

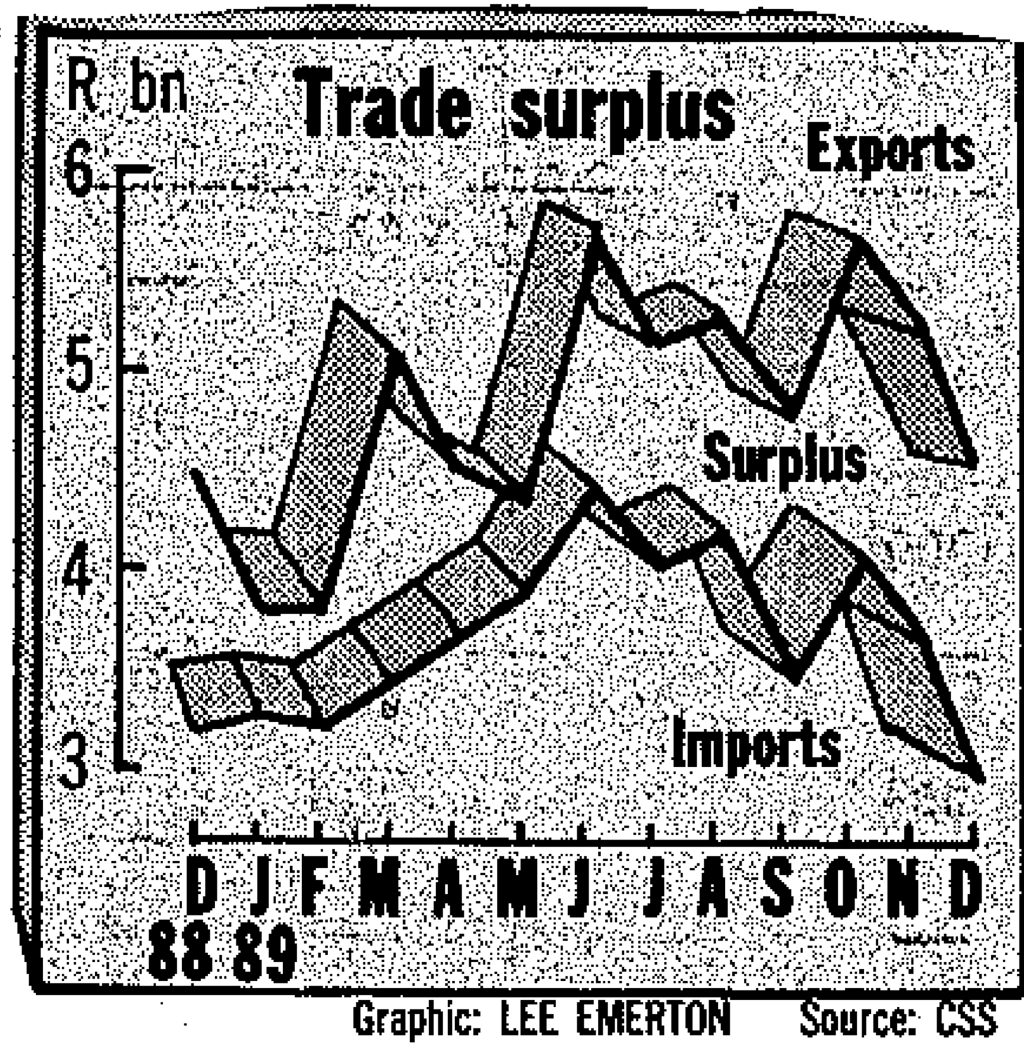
This follows on an expected levelling off in gross domestic expenditure, which already showed no substantial growth last year, and estimates that the trade balance would continue showing a substantial surplus in the year ahead.

At the same time, Dr Stals said capital outflows would continue their sharp downturn, which started this year.

In the first quarter of 1989 total capital outflows were R1,9 billion.

In the following two quarters this figure fell to R1,1 billion and R245 million respectively, as foreign perceptions about South Africa's political future improved dramatically and non-residents emerged as net buyers of gilts on the local capital market.

The balance of payments position had improved to such an extent that the Reserve Bank has boosted the country's reserves by R1,5 billion since the beginning of the year by buying dollars in the foreign exchange markets, Dr Stals said.



Graphic: LEE EMERTON Source: CSS

Lower import bill spurs trade surplus

BIDay 18/1/90 ROBERT GENTLE (74)

THE SA trade surplus in December widened to R1,61bn — the highest monthly figure since March — boosting the overall surplus for 1989 to R13,4bn, an increase of 31% on the previous year.

The figures, released yesterday by the Customs and Excise Commissioner, were positively received by economists.

The driving force behind December's surplus was not exports — they fell from R5,21bn in November to R4,58bn — but the plunge in imports from R3,63bn to R2,97bn.

Economist Piet van Schaik, from stockbroking firm J D Anderson, said in dollar terms, the import bill for the fourth quarter was 9,5% lower than in the previous year.

"If this trend continues, the surplus which Reserve Bank Governor Chris Stals is aiming for this year is comfortably within reach, especially if the gold price holds."

During 1989, SA brought in goods from overseas valued at R44,5bn and sold to foreign markets goods worth R57,9bn.

The big ticket items on the import side were machinery and diverse electrical equipment (R13,3bn), aircraft and associated transport equipment (R6,87bn) and chemical products (R4,7bn).

However, machinery, electrical equipment and minerals registered significant declines in the second half. They had been kept high by pre-emptive buying and planned expenditure on imports, said Safto

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Trade surplus

BIDay 18/1/90 (74)

☐ From Page 1

economist Bruce Donald.

"Import surcharges, the longer-term decline in the rand and restrictive domestic economic measures are finally impacting on imports," he said.

Bringing in the money on the export front were metals and minerals (R5,43bn), vegetable products (R2,34bn) and chemical products (R1,96bn).

The impetus for export growth came from favourable global conditions, strong demand for SA manufactured exports, bumper farming crops and the lower rand exchange rate, Donald said.

The fall-off in export growth in the third quarter came from a weakening of international commodity prices and the rand's strengthening against the dollar.

Nedcor economist Edward Osborne called 1989 "a very good year for trade".

● Comment: Page 8

B/Day 18/1/90

THE MARKET'S 'MANDELA FACTOR'

ROBERT GENTLE

THE likely effect the release of jailed ANC leader Nelson Mandela will have on the finrand has been largely discounted and is already reflected in the present price, broking and banking sources said yesterday.

There was therefore unlikely to be a sharp rise in the value of the currency. Sudden heavy buying or selling by non-residents of gilts was therefore also unlikely.

The sources were responding to suggestions that what one trader called "the Mandela factor" may cause sharp movements in the finrand and gilts markets.

"It has already been largely discounted," said a Standard Merchant Bank spokesman, who described the finrand as the real political barometer of the country.

This was echoed by a spokesman from First National Bank, who said that non-residents were now buying SA gilts for purely financial reasons. "If the yields drop to below 20%, we could see some profit-taking," he said.

A Finansbank spokesman said the world may yet get bullish on SA after an eventual Mandela release. This would push the finrand up still further.

But a gilts trader from brokers Simpson McKie said: "I think the finrand has already reached the point where its attraction is starting to wane."

Yields may soon dip to under 20% and if rates moved up any further, it could be a sign to foreign buyers to start taking profits.

"The tone of the market is now bearish and I don't see Mandela making that much of a difference," she said.

Instability

A trader from another broking firm said even if yields dipped below present levels, they would still be among the highest on offer in the world.

A spokesman from a merchant bank took a different tack, saying that cautious German and Swiss investors — whom he estimates at 75% of the market — may see in the Mandela release the beginnings of political instability and start selling.

"It's the Americans that are calling for the release of Mandela, but they're not really in the market anyway," he said.

On a positive note, he said, Mandela's release might take the political heat off London and bring its banks and institutions back into the market.

(74)

Solid rise in trade surplus eases foreign debt burden

Star 18/1/90 (74)

By Sven Lünsche

The trade surplus improved by 31 percent in 1989, boosting chances that the economy can withstand the pressures exerted by the foreign debt repayments this year.

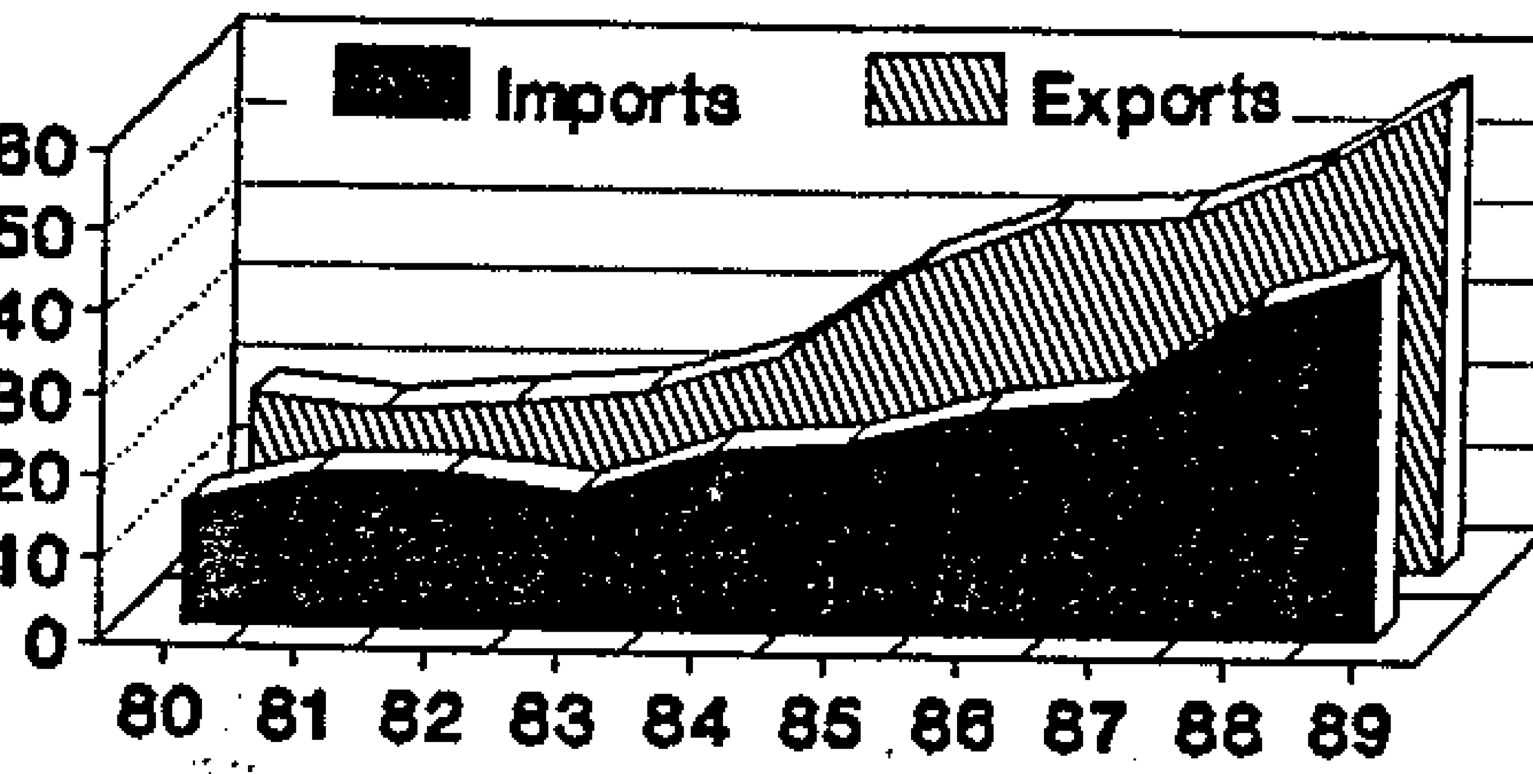
Figures released by the Commissioner of Customs and Excise yesterday show that the surplus had risen from R10,24 billion in 1988 to R13,4 billion last year.

Imports were valued at R44,52 billion, 13 percent up on the 1988 figure of R39,48 billion, while exports brought in R57,92 billion, a rise of 16 percent on the previous year's R49,72 billion.

The rise in the trade surplus has come as a welcome boost to foreign exchange reserves, which have been battered by payments to foreign creditors.

Preliminary calculations by Nedbank economist Edward Osborn show the surplus boosted the current account of the balance of payments to R4,5 billion last year, ahead of the Reserve Bank's estimate of R4 billion.

This was sufficient to meet the debt repayments and also allowed the Bank to build up its foreign exchange reserves in anticipation of further hefty payments this year.



Reserve Bank Governor Dr Chris Stals said on Tuesday that the foreign exchange reserves had been boosted by over R1 billion since the end of December as a result of the improvement in the balance of payments position.

He expected a further rise in the current account to between R6 billion and R7 billion in 1990 as merchandise exports would continue to increase despite the expected slowdown in world growth.

In dollar terms the value of imports actually declined by 2,5 percent and Mr Osborn says that the fall is even greater in volume terms.

Exports in dollar terms remained static, an indication that the value of merchandise exports is already declining.

Most of the growth in exports occurred around mid-year, with monthly figures peaking at an all-time high of R5,7 billion. In December exports totalled only R4,58 billion.

Safto economist Bruce Donald says the moderation in export growth in the final quarter was mainly due "to a peaking of international commodity prices which passed their peak earlier in the year, reflecting the slowdown in global growth".

Some benefits could derive from gold, which Mr Osborn says could average $418 this year, compared with $382 last year.

In 1989 unclassified exports (mostly gold) remained static, rising by less than one percent to R24,53 billion.

A decline in imports, on the other hand, could, even more so than last year, boost the trade surplus.

Imports fell dramatically in December to under the R3 billion-mark for the first time since April 1988, and declined by seven percent between the third and the final quarter.

Nowhere is this more evident than in the imports of machinery and electrical equipment, which for the year as a whole totalled R13,32 billion (1988: R12,43 billion). According to Mr Donald they showed a significant decline in the second half of the year.

According to the Customs and Excise figures, the biggest income-earners in the country, apart from gold, were base metals, which brought in just over R9,02 billion (R6,89 billion).

Mineral products brought in R6,6 billion (R5,1 billion) and vegetable products R2,34 billion.

On the import side, transport equipment valued at R6,87 billion (R5,63 billion) was bought, while chemicals cost the country R4,77 billion (R4,19 billion).

Impala Platinum Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 57/01979/06)
("Implats")

Implats acquires an interest in Western Platinum Limited and Eastern Platinum Limited

First National Corporate and Investment Bank Limited is authorised to announce that, subject to certain conditions precedent, agreement has been reached in terms of which Implats will, with effect from 1 October 1989, merge its Karee mine with Western Platinum Limited (WPL) in exchange for a 27% profit participation in the combined WPL/Karee mine and in Eastern Platinum

PE
USINESS
CENTRE
e is always an
in every business.
you can also find
Uncle in the
outer Business.

CAUTIOUS OPTIMISM OVER SA'S BALANCE OF PAYMENTS (74)

W/Mail 19/1/90 - 25/1/90

NEW car sales dropped by 14 percent in the year to December while South Africa's trade surplus rose by almost 10 percent.

These two sets of figures, released this week, capture the likely shape of the economy in 1990: a moderate recession which provides a basis for South Africa's balance of payments position to improve.

And there already has been improvement, as Reserve Bank governor Chris Stals reportedly stressed at a meeting of the Pretoria Afrikaanse Sakekamer this week.

In off the cuff remarks at the meeting, which was supposed to be a closed one but was reported on by a Johannesburg morning newspaper, Stals admitted just how bad the country's position had been 18 months ago. He disclosed that published gold and foreign exchange reserves in June 1989 consisted almost entirely of borrowed money and reserves had been barely sufficient to cover a few days' imports, the report said.

But Stals said South Africa's reserves had increased by R1,5-billion over the past two weeks. The surplus on the current account of the country's balance of payments for 1990 could well be R6-billion to R7-billion and South Africa is unlikely to have to pay the full R7-billion due in foreign debt repayments this year because it was likely much of this debt (he mentioned a figure of R3-billion) would be rolled over, Stals said.

But in projecting a current account surplus of R6-billion or more, Stals was assuming no growth in domestic spending and exports considerably greater than imports.

The December provisional trade figures published by the Commissioner for Customs and Excise this week, already show the trend. Exports were R4,6-billion, two percent up on December 1988, while imports were R2,97-billion, eight percent down on the previous December.

The decline in imports reflects some success in the financial authorities' attempts to cut South Africa's spending — by raising interest rates and imposing measures such as increased import surcharges — which had some success last year, reflected in gradually slowing economic growth.

Figures for the full year are not yet available but Reserve Bank statistics show growth in gross domestic product in the third quarter of 1989 was running at an annualised rate of just over one percent — compared with nearly four percent in the same quarter in 1988. Most economists estimate a growth rate for last year of around two percent, compared to 3,7 percent in 1988.

Real gross domestic expenditure is estimated to have fallen by about 7,5 percent in the third quarter, with declines recorded in real government consumption spending, fixed investment and inventories, according to the Reserve Bank.

Although fixed investment (in factories and buildings, for example) rose slightly in real terms through last year, by the third quarter it was still at a level in real terms six percent below that of the end of 1985.

Policies aimed at cutting imports tend to have a negative impact on investment: the bulk of South Africa's imports are of capital, rather than consumer goods.

Target ranges for 1989
Upper limit: 18%
Lower limit: 14%
18%
14%
Target ranges for growth in M3
Base of target ranges: Average for fourth quarter
Seasonally adjusted
N D J F M A M J J A S O N D

Money supply growth ... still too fast.
Graph: SARB

And static or falling investment levels tend to mean rising unemployment. Latest official figures show black unemployment falling from 1,2-million in July 1986 to 744 000 in September last year. The September figure of 13 percent unemployment was down on the August figure of 13,1 percent. But economists are sceptical about official unemployment figures, since the formal sector of the economy is not producing enough new jobs to accommodate new entrants to the labour market — and has not done so for most of the 1980s.

Economists' hopes for this year are of a recession which is only a moderate rather than a severe one, but the downturn is expected to continue into next year.

Apart from their emphasis on improving the balance of payments position by "cooling" domestic spending and hence imports, both Stals and Finance Minister Barend du Plessis have made clear their determination to fight inflation this year.

While spending has slowed down, it has not slowed enough, as evidenced by money supply figures which show M3 — the broad measure of money in circulation including both cash and bank and building society deposits — still growing at well over 20 percent, as bank credit continues to be extended to individuals and businesses.

The big question this year will be who bears the burden of the economic slowdown the financial authorities want to see. There are three broad components of domestic spending: private consumption expenditure, government consumption expenditure and fixed investment, by the public or private sectors. Ideally it would be the current, consumption spending, which would be cut rather than the investment spending which affects jobs in the short and long term.

The signals from the government are that it will bear at least some of the burden, by limiting its spending. That too has negative effects for the mass of the population, if it means cuts in already underfunded health, welfare and education budgets.

A moderate recession — some economists still think the economy could grow by two percent this year — will not see the levels of unemployment and hardship seen in the hard days of 1985/86. But on the government's priorities and the policy measures it pursues will depend how the difficulties of this year are distributed among the population.

Stop creating finrands, urges bank MD

HAROLD FRIDJHON

THE authorities should stop the further creation of financial rands which have outlived their usefulness, Nedbank MD Chris Liebenberg said yesterday.

Speaking at an Ellerine's function in Johannesburg, Liebenberg said finrands had served a useful purpose at a time of deteriorating political confidence but now, with confidence improving, disinvestors should be offered a 10-year repayment option through the commercial rand.

The finrand had provided some benefits. It allowed foreigners to withdraw investments — at a discount — without impact on the balance of payments (BoP), and the yields available to investors using the finrand had brought SA investment opportunities to the attention of investors who might never have looked at this country.

"But the negatives far outweigh the benefits. The very high tax-free yields obtainable through finrand investments can hardly enhance the SA image among the international investing public.

"The use of finrands to buy gilts, probably the biggest negative, creates opportunities for parastatals to roundtrip by selling their paper 'cheaply' and investing the funds at high rates with the banks with the consequent impact on M3 (thereby boosting the money supply aggregates)."

Another negative aspect of the finrand was that SA investors could not compete locally with foreign buyers, and the dual price which the finrand created for local assets pushed up domestic prices and "is an engine for inflation". It also allowed disinvestors to switch their relatively low, taxable dividends to very high tax-free interest payments — to the detriment of the BoP and the exchequer.

Looking ahead to when SA again became attactive to foreigners, Liebenberg urged that this should not be done through finrands because the BoP would not benefit from these investments.

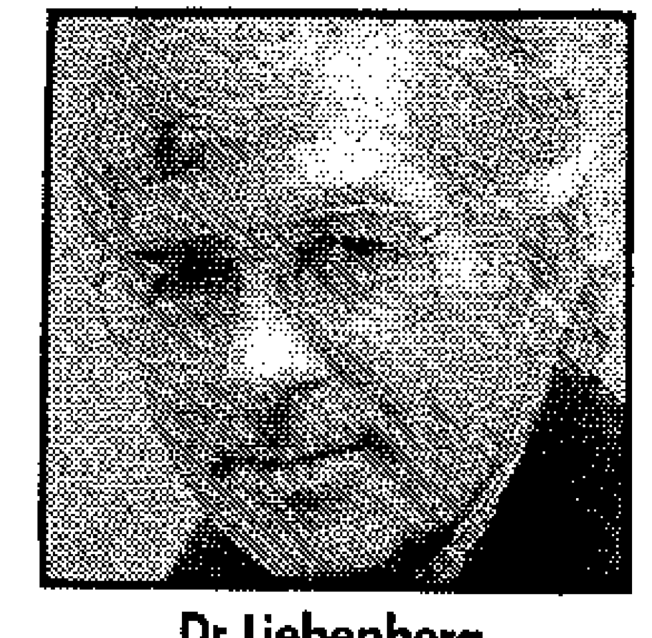
"The authorities should offer disinvestors a 10-year repayment option at realistic interest rates through the commercial rand.

"These 10-year bonds would trade at a discount on international markets as the SA debt does at present. This would give the foreign investor the opportunity to liquidate his investment at a similar discount to that presently obtainable via the finrand but, in the process, we would not have the disruptive effect of the finrand on local markets," Liebenberg maintained.

Scrap the finrand, bank chief urges

Star 19/1/90

(74)


Dr Liebenberg

By Magnus Heystek
Finance Editor

Nedbank MD Chris Liebenberg has caused a stir in the financial markets by calling for drastic changes to the financial rand.

"South Africa no longer needs the financial rand and it should be done away with," he said in an interview yesterday.

But senior deputy-governor of the Reserve Bank Dr Japie Jacobs has denied the Bank soon intends making such a decision.

Embroidering on comments he made on Wednesday at the Ellerine's function in Johannesburg, Mr Liebenberg said yesterday the negative factors of the two-tier currency now far outweighed the positive ones.

"It has served a very useful purpose for South Africa in a time of deteriorating political confidence, but now, with the improving level of political confidence, it has outlived its usefulness."

He said the finrand had brought investors from abroad who would otherwise not have looked to South Africa for investment purposes.

But recent developments posed the question whether the time had not come for the financial rand to be abolished in its current form.

"For instance, the high tax-free yields obtainable through finrand investments can hardly enhance the South African image among the international investing public.

"The use of it to buy gilts is probably the biggest negative factor — it creates opportunities for parastatals to roundtrip by selling their paper cheaply and investing their funds at a high rate with banks with a conse quent impact on the broadly based on M3 money supply," said Mr Liebenberg.

Interest payments

Another factor was that South African investors were having problems competing with foreign investors for local investments.

"It also allows disinvestors to switch their relatively low taxable dividends to relatively high tax-free interest payments, with the consequent impact on our balance of payments and exchequer account."

Mr Liebenberg urged the authorities to cancel the finrand option and offer instead a 10-year repayment period option at realistic interest rates via the commercial rand.

"As it is, flowing from the tremendous discounts on offer, foreign investors in gilts get the equivalent of their capital and interest over a 10-year period through the commercial rand in any event, and then still have the gilt investment in the finrand," he said.

While admitting that the abolition of the two-tier currency was a long-term objective of monetary policy, Dr Jacobs dismissed suggestions that the finrand should be scrapped under present circumstances.

"The finrand mechanism has been a great shock-absorber for the financial systems in a time of political and financial uncertainty.

"It also forms an integral part of the debt rescheduling agreement with foreign creditors. It makes no sense to scrap the financial rand while, at the same time, maintaining the restrictions on foreign debt," he said.

Dr Jacobs said the sharp drop in gilt rates of recent weeks had led to massive savings for the Treasury because lending was done at sharply reduced interest rates.

It is known in capital market circles that the Government has been a selective marketer of government stock, although it had already completed its funding requirements earlier in the year.

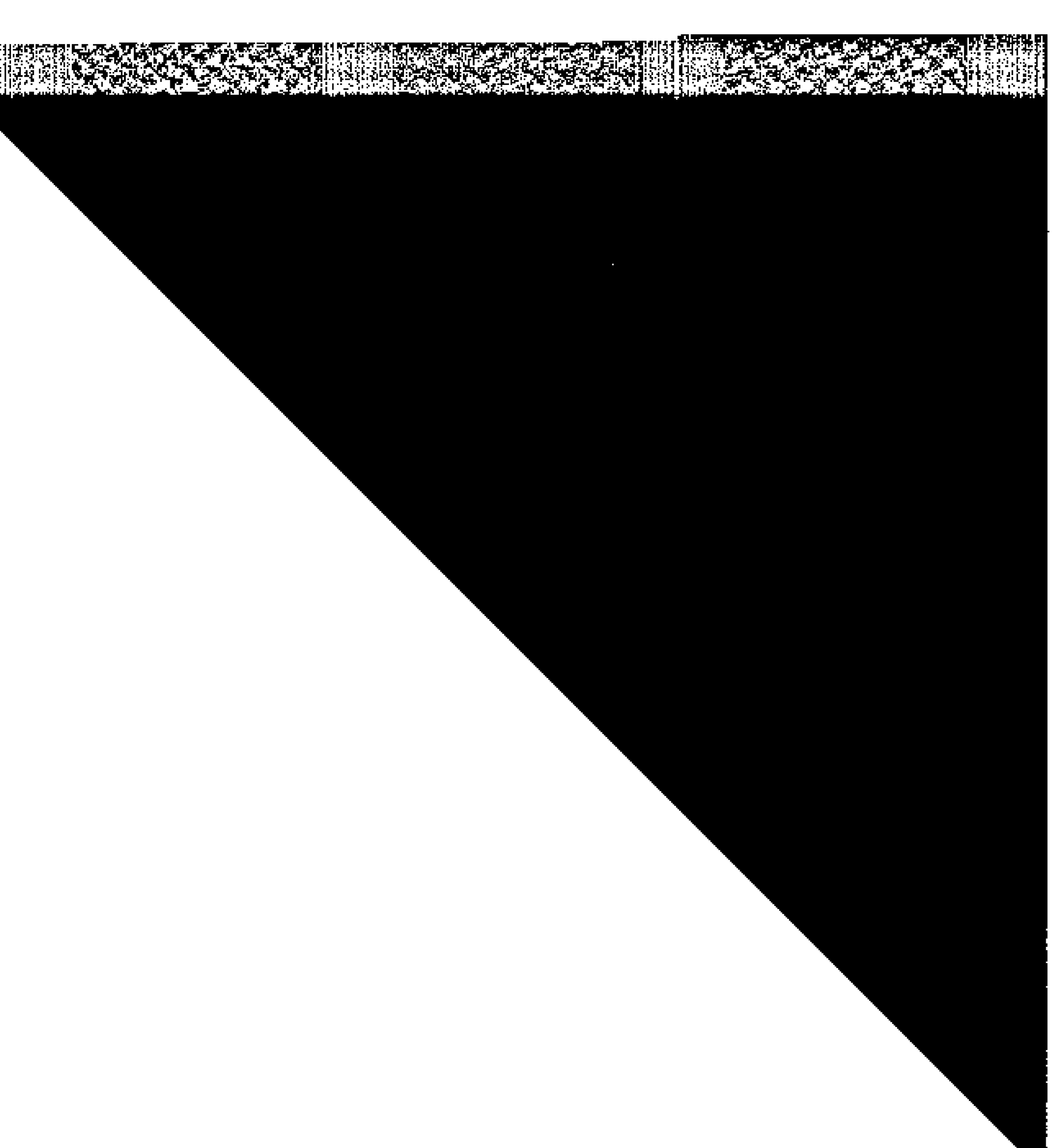
Foreign investors have been particularly heavy buyers of local gilts and semi-gilts, which offer yields of anything up to 25 percent, currently the highest yield on government-backed bonds anywhere in the Western world.

Precarious state

Other economists and anlysts canvassed on Mr Liebenberg's suggestion considered it unlikely that the finrand would be dropped in the near future, especially considering the precarious state of SA's gold and foreign exchange reserves.

Mike Brown, economic analyst at broking firm Frankel, Kruger and Vinderine, said such a move would lead to a sharp drop in the commercial value of the rand, which would be highly inflationary.

It might also, as happened in September 1983 when the two-tier currency was dropped, lead to a sharp outflow on the capital account on the balance of payments.



FORWARD COVER (74) FM 19/1/90

Economy to the rescue

The Reserve Bank's massive forward cover loss is starting to dwindle. The cumulative loss peaked at R17,5bn in October before falling to R16,7bn in November, the first monthly drop since March 1988. In December the loss receded again, to R15bn.

The reason is, fairly obviously, the improving rand. It has gained almost 9% against the dollar since June.

But the Bank is still deeply mired in the forward cover mess and has no clear plan on how to extricate itself, despite repeated promises to do so. It also has no clear plan on how to cover the loss, which would equal 25% of the entire Budget if it had to be repaid in one year.

The Bank seems willing to sit tight and hope tough monetary and fiscal policies will lead to higher real interest rates — through lower inflation — and a further strengthening of the rand.

The Bank doesn't believe the time has come to withdraw from the forward market and let commercial banks hold full responsibility for forward cover, says Deputy Governor Jan Lombard. For that to happen, real interest rates would need to be still higher, compared with our major trading partners.

This strategy has support from local economists. Azar Jammine, of Econometrix, does not expect much exchange rate volatility in the immediate future and thinks the Bank can afford to wait for the effects of the anti-inflation drive.

United's Hans Falkena agrees that the Bank can await foreign and local economic developments before it decides how to withdraw from the market. For example, a cooling down of the US economy should lead to a decline in US interest rates. Slightly higher US inflation also could push real interest rates more in line with ours.

The Bank, however, says it will not simply "sit back and wait for better days" but take "very firm action" to ensure that commercial banks take over its role in the forward market. But the Bank won't say what kind of action it's contemplating. It's ruled out raising interest rates, largely for fear of sending the fragile economy into a recession.

The Bank got into this mess because for years interest rates were set at artificially low, politically expedient levels. When the rand was stable and capital inflows strong, the forward cover loss was minimal. At the end of 1983 it totalled R910m but in 1985, when international concern at the unrest in the townships sent the rand plunging, backing up the commercial banks on forward cover became a very expensive business.

The business became more expensive in December 1988 when the Bank began offering a preferential forward rate for businesses that secured offshore loans. The Bank feared that excessive local borrowing would put upward pressure on local interest rates and hurt efforts to bring in capital from abroad to rebuild foreign reserves.

The preferential rate encouraged foreign borrowing but also subsidised imports at a time when SA was trying to increase the surplus on the current account. (Since October, when the forward cover loss began to decline, the Bank has no longer subsidised imports.)

The loss doubled in 1988 — last February it topped R10bn — and forward cover was suddenly a controversial topic.

Falkena says that given government's refusal to raise interest rates, the Bank had to back forward cover or importers would have had to pay cash on the nail, putting unbearable pressure on depleted foreign reserves.

The question is whether the interest rate policy was valid. Jammine believes it was not: interest rates should have been allowed to rise and then the Bank could have stayed out of forward cover.

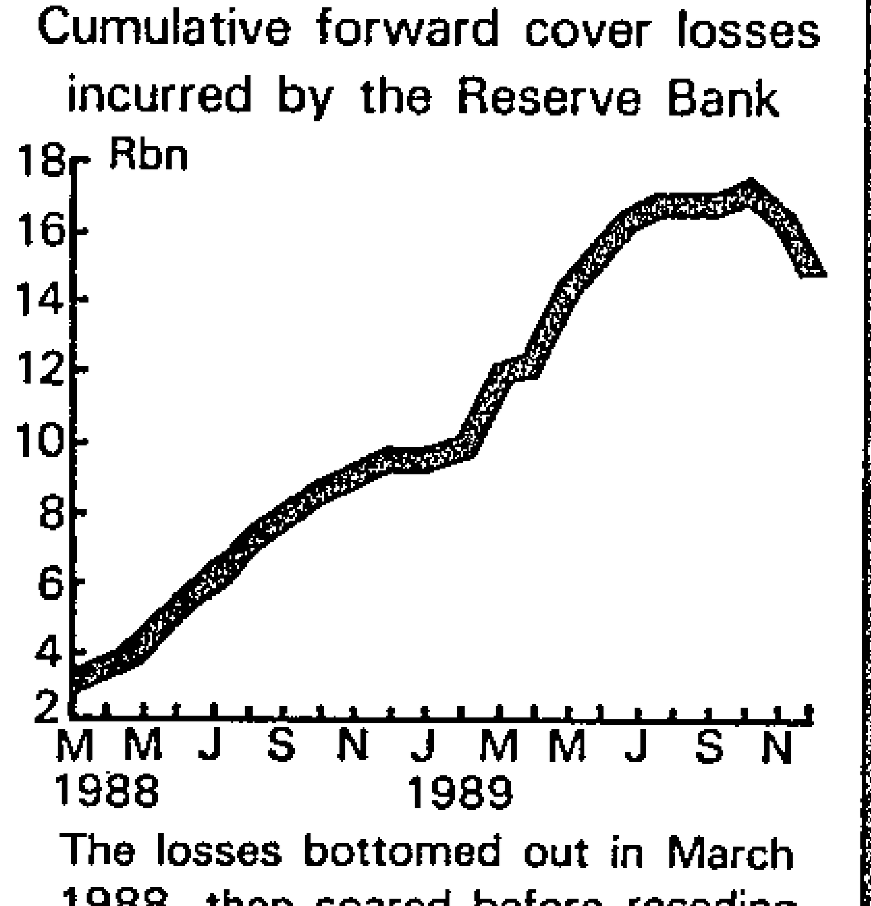
Even if favourable economic conditions limit the loss in future, the Bank will be left with an enormous bill on Treasury's behalf.

Nedbank's Edward Osborn believes the entire amount could be written off. Or, he says, past appropriations and the Bank's accumulated profits — even privatisation proceeds — could be used to reduce the amount.

He argues that the taxpayer should not be forced to suffer the deflationary effects of paying off the loss. Even were government to borrow the necessary funds over a number of years, shifting the obligation to the national debt, higher debt-servicing costs would still be passed to the taxpayer.

"This prolongs the agony for no apparent purpose," he says. "The real price has already been paid in the greatly increased money supply and resulting inflation."

A sigh of relief



The losses bottomed out in March 1988, then soared before receding in November 1989

Source: Reserve Bank

INTEREST RATES FM 19/1/90

Pulling in the reins

The Reserve Bank has indicated that it won't let banks raise prime. But banks are mooting the possibility of raising lending rates to customers who borrow at prime or below. They are being forced to look at this option by the extreme and unabating money market illiquidity that has persisted all month.

Banks say it's difficult to raise some lending rates without raising prime because of intense competition. Some say that if liquidity eases soon they could sit it out and accommodate prime clients.

But the squeeze could continue for a while — maybe into March. In the face of longer-term tightness, banks might reassess the interest charged on new and existing loans, especially overdrafts and HP agreements. "But it's unlikely we'd raise rates on home loans," one banker says.

The Bank has used market illiquidity as an opportunity to follow up its pleas for banks to curb credit by letting the tight liquidity continue. The window shortage, the amount the market owes the Bank, was still as high as R4,3bn this Monday.

Part of that represents overnight loans. Because of a shortage of rediscountable bills, banks borrow overnight against long-term RSAs and Eskom stock at penalty rates of 22,75% — 1,75% points above prime. So with the liquidity squeeze, banks find they are often lending at rates lower than those they are paying the Bank.

Another example of how banks are being squeezed is the rates paid for repurchase agreement tenders, a form of direct Bank aid to the market provided at rates determined by the demand from banks. The Bank has been lending at rates exceeding the 21% prime rate. On Friday banks paid 21,46% — 0,5 percentage points above prime. On Monday the rate fell slightly to 21,43%.

Bank Senior Deputy Governor Japie Jacobs argues that policy is aimed not only at curbing demand for credit, which is determined by lending rates, but also at curbing the supply of credit by banks. "It is unacceptable for banks to continue to expand

EC legislation could boost SA exports

Star 22/11/90

Finance Staff

Environmental legislation in the EC could boost local production of exhaust systems fitted with platinum-based catalytic converters and bring in R2 billion in exports a year.

It is reported today that three manufacturing plants are already on the drawing board, with the first to be built within a couple of weeks by Algorax in Port Elisabeth.

The company expects to export 1 million converters a year from 1991 with the help of technology provided by majority shareholder Degussa AG of Germany.

Two other German companies, linked to local car manufacturers, were also reported to be setting up their own plants but this could not be confirmed.

SA mines 80 percent of the world's platinum.

Lower revenue figures underscore slowdown

Star 22/11/90

By Derek Tommey

The slowdown in the economy is starting to show up in the Government's tax figures.

The latest Treasury statement shows that inland revenue receipts, which include general sales tax, grew by only 8,7 percent in December to R4,09 billion from R3,76 billion a year ago.

In sharp contrast, Inland Revenue receipts in November, after excluding the R3 billion received from the Iscor issue, grew 33 percent to R3,3 billion from R2,54 billion a year earlier.

Slower growth

An analysis of the figures suggests that slower growth in general sales tax receipts could be the main reason for the weaker revenue figures.

At the end of October, GST receipts amounted to R9,4 billion and were running 31,2 percent ahead of last year's.

But in November they amounted to only R1,4 billion, which was 19,2 percent ahead of last year.

This brought down the growth in general sales tax receipts in the first nine months of the fiscal year to 30,8 percent.

Figures for December's GST receipts will only become available in four weeks' time.

Other indications in the Treasury statement of a weaker economy include the lack of buoyancy in Customs and Excise receipts.

Government income from customs duties dropped 11,2 percent in November.

In that month they brought in R201,2 million, against R226,6 million in November last year.

Although excise duties in November were 16 percent higher than a year ago at R202,1 million, this is almost no increase at all in real terms.

The import surcharge has also been affected. It shows only a four percent growth in November to R240,9 million from R230,8 million a year earlier.

However, the Government has a winner in the fuel levy.

This produced R325,5 million in November, some 63 percent more than it did a year ago.

In the eight months to November, the levy produced R2,6 billion — up from R1,47 billion a year ago.

Preliminary figures for the nine months to December show that the taxman received a total of R46,4 billion, some 35 percent more than in the same period last year.

At the same time, expenditure continues to surge ahead.

For the first three quarters of the fiscal year, the Government had already spent 78 percent of the budgeted amount of R66,525 billion.

Defence spending

Spending from April to December totalled R51,87 billion, compared with the R40,93 billion spent over the same period in 1988.

Defence spending at R7 billion was almost 27 percent ahead of the previous year and will once again swallow a major portion of this year's revenue before cuts in spending, announced over the last few weeks, take effect.

The SA Police also exceeded its budgeted estimates, with spending over the first nine months 33,5 percent higher at R1,99 billion.

While the Treasury statement does not contain a breakdown of provincial budgets, it does show that the Transvaal has been a heavier burden on the central Government this year than the other provinces.

Tranfers from the state revenue account to the Cape in the nine months to December were 17,2 percent higher than last year at R1,98 billion.

Transfers to Natal were 9,6 percent higher at R1,07 billion and transfers to the Free State were 15,9 percent higher at R670 million.

But transfers to the Transvaal were 32,8 percent up at R2,45 billion.

It has not been possible to determine exactly what was responsible for the steep increase in the contribution to the Transvaal.

Undisclosed finrand deal knocks firm

BARRY SERGEANT

STOCKBROKING firm Ed Hern, Rudloph Inc, has disclosed that it took a substantial knock arising from an unauthorised, undisclosed position in financial rands taken by one of its employees late last year.

Ed Hern last night said that not only had the losses been made good by the firm, but that the firm's capital had been increased by 65% compared to a year ago.

He said that an "unauthorised, undisclosed position in financial rands was taken by one of our registered clerks which resulted in a loss.

"Reluctant to admit the loss, the person concealed the position and increased it in an attempt to recoup."

Hern said the position was aggravated by large market movements during December.

He added that the loss had been written off above the line, in order that its full extent would impact once and for all.

The alternative was to consider the loss as a below-the-line extraordinary loss, which Hern said the firm would not countenance.

The loss was discovered by the firm's internal audit team early this month. Hern said the directors immediately "closed down" the position and met the shortfall.

Hern stressed that the "financial position of the firm remains absolutely sound, and we have not lost nor do we expect to lose any of our key staff members".

He emphasised that the person concerned did not stand to gain directly from the action, "nor was it a case of so-called 'round-tripping', involving the illegal conversion of financial rands into commercial rands".

Hern confirmed that nobody else personally stood to make money out of the positions, and that the absorption of the differences was a "function of the market".

The matter had been fully reported to both the JSE and the Reserve Bank. Hern said that part of "comprehensively dealing with the event was the suspension of the employee as both a registered dealer and as an employee of Ed Hern, Rudloph Inc".

Hern added: "As a result of this incident, we have improved our control systems to ensure that nothing similar can happen again."

Star 23/1/90 (74)

Gold heading for $500 this year?

By René Hochreiter, analyst Anderson & Wilson

The 22-month gold bear market ended in early October 1989. It seems to have been triggered by British Chancellor of the Exchequer Nigel Lawson's resignation, the resulting crisis for the Thatcher government, the early days of Eastern Europe's revolution, and the Wall Street hiccup.

Technically, gold has broken through its long-term resistance level, with major long-term moving averages crossing in mid December 1989 (right hand graph).

Positive implications

Eastern Europe's revolution has several positive implications for gold.

Should Gorbachev be toppled, huge uncertainty (a factor on which gold thrives) will result. It has also been suggested, however, that Russia could institute a gold backed rouble, thereby reducing supply of gold to the market.

Also, the West may begin switching aid to this area, as it appears a far better bet than either South America or Africa. The ability of the Third World to service its debt may accordingly be impaired.

Recent strength

The US economy appears more vulnerable than in 1987. The rate of decline in the M3 money aggregate is slowing while M1 and M3 appear to have bottomed. Interest rates are declining, and the dollar appears set to go lower, despite its recent strength.

US policy-makers, and the Federal Reserve in particular, are faced with a major dilemma: a more accommodative monetary stance would fuel inflation while a tighter policy would cause havoc in the debt-laden economy.

The Fed's balancing act is accordingly becoming more difficult; any slip could fuel uncertainty with a resulting flow of funds into gold.

Inflation on a global basis is again gaining momentum. Oil priees today are almost 30 percent up on a year ago.

We expect the bullion price to average $440 per ounce during 1990. Considering that the average price for 1989 was $380,80 and that the average inflation rate in South Africa in 1990 is expected to be 14 percent, a dollar gold price of $434 an ounce will be required to maintain current profitability, assuming a rand:dollar exchange rate of 2,70 (1989 August: 2,625).

In rand terms, the gold price averaged R32 102/kg for 1989. A 14 percent increase to maintain the gold industry's status quo would require a price of R36 596/kg. Our forecast average for the year of R38 250/kg therefore indicates that a small measure of increased profitability is possible. (The increase in the rand price of gold has been fairly constant historically — See top graph).

Rand gold price (R-thousand).

Dollar gold price and long term moving averages.

Platinum

Technically, resistance exists at the $430 an ounce level with a first move to $437 being indicated. The next major resistance level is $500 an ounce, at which stage a breakthrough would trigger a move to $720 an ounce.

In terms of timing, the $500 level is expected to be reached towards the end of 1990.

The platinum price averaged $509,57 an ounce in 1989, and the platinum:gold ratio averaged 1,33 for the same period. (The link to gold is an historic fact and unlikely to change, excepting that in major bull markets the ratio is greater than unity, and vice versa in bear markets.) The environmental-hedge nature of platinum shares is an important aspect.

Demand remains extremely strong in the face of tightening European and US environmental laws and with the 1992 European auto-catalyst deadline looming, the shortfall scenario remains intact.

South African producers confirm that demand is strong. Reports indicate that a possible auto-catalyst for diesel engines is being considered and that stationary industrial engines may also be subjected to emission control.

The enigma that the platinum price has remained fairly constant in the face of intense demand can be explained by the fact that future traders and precious metals dealers take their lead from gold.

Fundamental demand

The platinum price therefore does not reflect the fundamental demand for the metal. Most producers, furthermore, have their production tied up contractually.

The price-level of the shares, therefore, often reflect the perceptions of the investor for the outlook of the platinum group metals.

Star 24/1/90

The Star
Finance

Rand weaker against all major currencies

74) Finance Staff

The rand weakened against all major currencies during 1989, and is expected to ease further in the year ahead, according to Senbank's latest *Currency Review*.

The average value of the rand in 1989 was down by 15,4 percent against the US dollar compared with the previous year; by 7,9 percent against the Deutsche mark; 6,7 percent against the Japanese yen and by 6 percent against pound sterling.

Senbank economist Andries van Niekerk expects that the high inflation rate and large capital outflows will impact negatively on the rand, although it has received some short-term relief from the higher gold price.

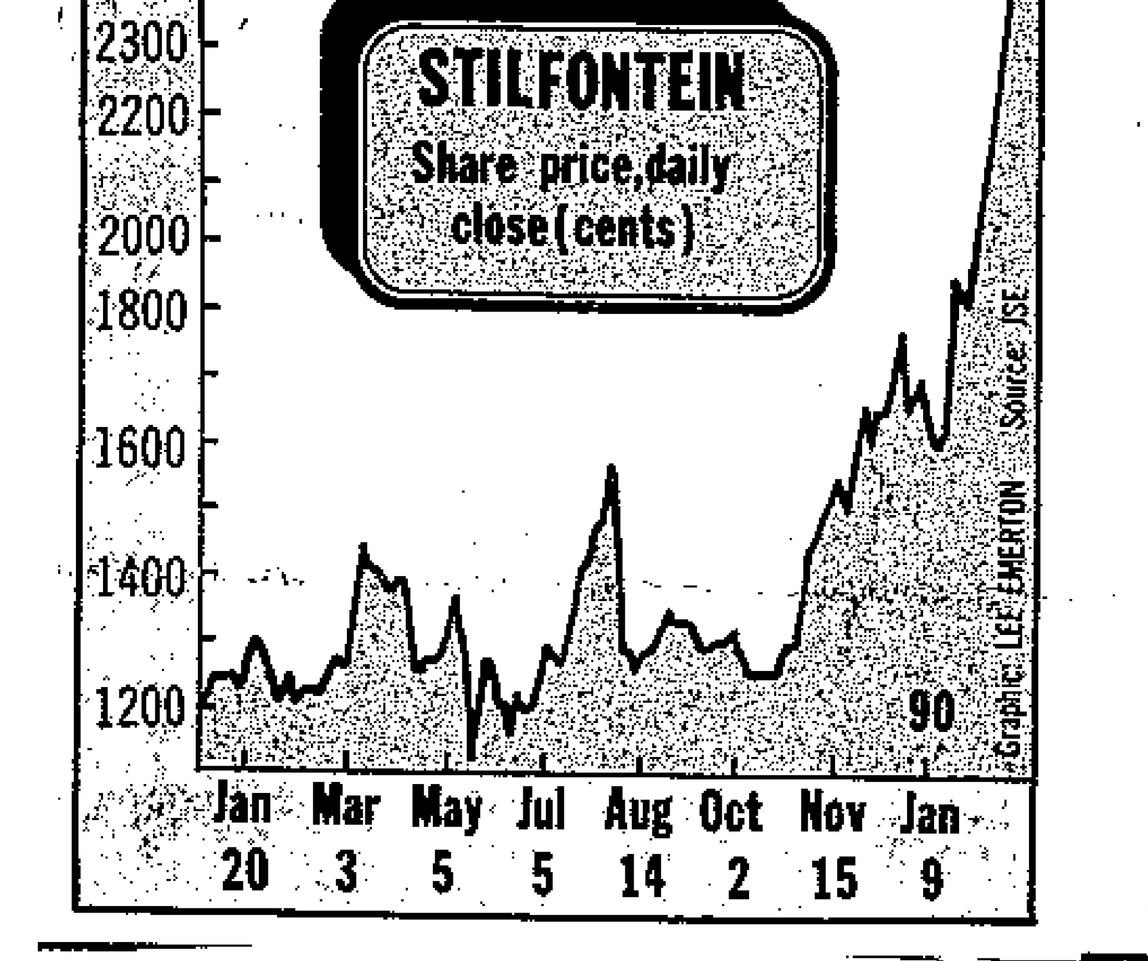
"Until such time as inflation is reduced and the surplus on the balance of payments reaches significantly higher levels, the rand will remain under pressure," he says.

Senbank expects the rate of inflation to decline during 1990 as the economy slows down. But the country's rate of inflation remains considerably higher than that of its main trading partners, eroding its competitiveness in international markets.

In the third quarter of last year, the surplus on the current account of the balance of payments rose to R5,8 billion and for the year as whole a surplus of R4,5 billion is expected.

However, the balance remains under pressure due to large foreign debt repayment, and this will have a negative effect on the value of the rand in the longer term.

Senbank expects that the Reserve Bank will try to keep the value of the rand as stable as possible to help curb inflation.



Release report fuels buying spurt

B/Day 24/1/90 (74)

MERVYN HARRIS

AGGRESSIVE buying by overseas and local investors lifted the JSE all gold index off its low of 2 050 to close 38 points up on the day at 2 092, with buying fuelled by a radio report on the imminent release of jailed ANC leader Nelson Mandela.

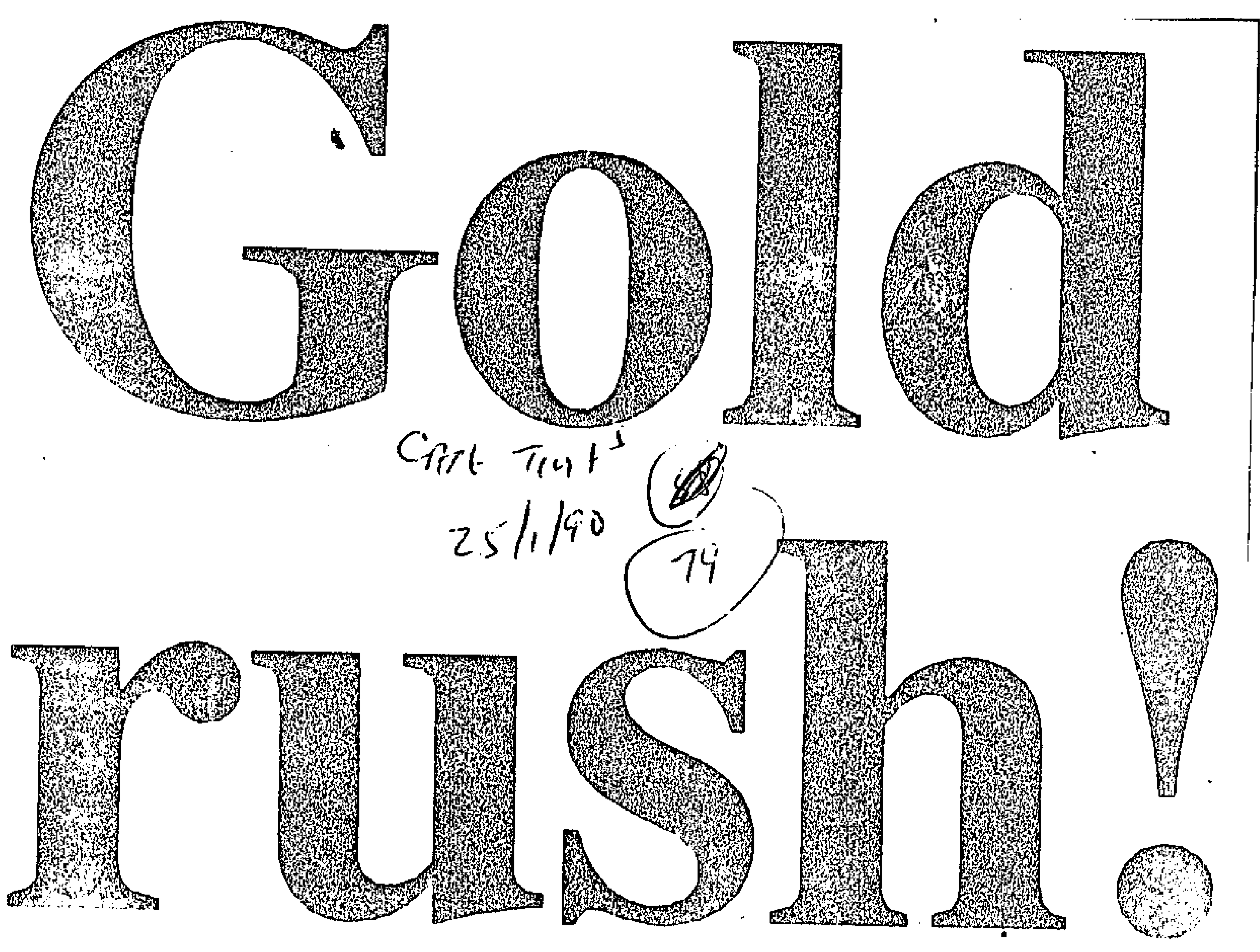
The Mandela speculation mainly affected the finrand investment currency, which rallied sharply to close at R3,4100 ($0,2932) after weakening to R3,5050 from Monday's R3,4450 ($0,2902) to the dollar.

"There is no reason why the finrand should go higher as the release of Mandela should have been discounted. It seems the market was looking for an excuse to push the currency higher, but once the euphoria over Mandela is over I think the finrand will come down," a currency dealer said.

The downward correction in JSE gold shares could be over but quality industrials were expected to come under pressure on nervousness over a faltering Wall Street. So said JSE dealers yesterday after the turnaround in gold shares as the metal rebounded from Monday's lows.

Spurred by a drop in the dollar, gold closed $7 up in London at $412,25.

Foreign demand for SA gold shares was reflected in the surge of more than 25% in Stilfontein to a record R23,50.



Own Correspondent

JOHANNESBURG. — Gold moved into fresh bullish territory yesterday as investors flocked to the metal in a classic flight from paper assets on a crumbling dollar and tumbling world stock and bond markets.

Heavy Far and Middle East buying swept gold up $9 to close in London at $421,25, its highest level since mid-December 1988.

The rising metal created a mood of gold euphoria on the JSE and the all gold index rocketed 140 points or 6,7% to 2 232. Strong buying from both local and overseas investors resulted in several lightweight golds recording gains of between 20% and 46% on the day.

Enthusiasm for golds spread to other sectors of the market to quell fears that the JSE would follow the downtrend of Wall Street as happened in October 1987 and 1989.

The market opened with a flourish on US buying on Tuesday night of SA golds quoted on Wall Street and demand followed throughout the day to lift the JSE overall index 80 points or 2,6% to 3 194. This is just below last Tuesday's peak of 3 261.

"It was an unbelievable market," a dealer said as the value of shares traded climbed to R214,8m from R129m the previous day on a volume of 17,62m shares changing hands against the previous 12,2m.

Overseas demand for SA shares was reflected in a further strengthening of the finrand investment currency to R3,3250 ($0,3007) from R3,4100 ($0,2932) to the dollar, its highest level since the middle of 1988.

Some analysts cautioned that gold's recent rally was motivated more by fear than reason and that higher interest rates could, at some point, draw funds from the metal to bonds.

"I expect gold to consolidate and we could see a small step back before the metal makes a run at the $425 resistance level where many stop-loss orders have accumulated", a Zurich trader said.

Renewed nervousness on financial markets was triggered yesterday morning when the Tokyo stock market dropped by 1,6% to send share prices in London sharply lower on expectations of further declines on Wall Street.

However, London dealers were relieved when Wall Street lost only 50 points in the first hour of trading and the FTSE 100 rallied to close 12,5 down at 2278,6.

Worries over Wall Street pushed the dollar more than a pfennig lower to close in London at DM 1,6830. Traders said foreign exchange markets were turning from events in East Europe to concentrate on economic fundamentals such as interest rate movements.

Govt deficit R4bn less than feared

B/Day 25/11/90

74

GREta STEYN

GOVERNMENT is set to end the current fiscal year with its deficit almost R4bn below the budgeted R9,9bn, as latest figures indicate previous estimates of R7bn were too conservative.

Finance Director-General Gerhard Croeser yesterday said the actual turn-out for fiscal 1989/'90 was likely to be even better than thought last year.

"Revenue is still going strong, and expenditure is under control. We were deliberately conservative in our earlier projections, and now it seems a deficit of between R6bn to R6,5bn is more likely."

At that level the deficit — the difference between spending and revenue — will be comfortably below the IMF's 3% of GDP benchmark and far below the budgeted 4,1%.

However, Standard Bank economist Nico Czypionka, who believes the deficit could be even lower at R5,5bn, yesterday cautioned against making a "song and dance" about the dramatic reduction.

"It has occurred for all the wrong reasons," he said. "Government has milked the economy with excessive taxes instead of cutting spending."

The main reason for the dramatic reduction is a revenue boom, running at an increase of 35% after nine months of the fiscal year. The budgeted figure for the full year is 16%.

In spite of the dramatic reduction in the deficit, significant tax relief in this year's Budget has been ruled out. Government will also not reduce its borrowings as the sale of government stock is a monetary policy weapon.

Reserve Bank Governor Chris Stals yesterday confirmed the sale of government stock was part of the strategy to fight inflation.

"Excess borrowings represent money withdrawn from the market and placed on deposit with the Reserve Bank. As long as this money is not spent again by Government, it represents sterilised funds withdrawn effectively from the private sector."

He added that more than R1bn had been placed in the Treasury's stabilisation account created to keep "sterilised" funds — money taken from the economy specifically to reduce liquidity during periods of overheating demand.

Apart from the transfer to the stabilisation fund, government has paid R1bn to the Reserve Bank to reduce its debt on forward cover losses; an effective "destruction" of money taken from the private sector.

Croeser said this restrictive monetary policy stance should be mirrored by tight fiscal policy, which explained why taxes could not be materially reduced in the next fiscal year.

FM 26/1/90 (74)

And charity sweepstakes — as well as church raffles — skirt the edges of the ban.

The option remains for government to approve a lottery — and then have a private company run it. Schwarz likes that, because "if government runs it, it'll mess it up." ■

THE RAND FM 26/1/90

Rosy crystal ball

The rand will rise against the dollar this year to 42c, or R2,38, by year-end. So predicts the man *The Guardian* dubbed the "high priest of currency forecasting" — US analyst Charles Ramond. (74)

Is he right? Well, last February his *Predex Forecast* said the rand would firm late in the year as high domestic interest rates shrank demand, cut imports and repaired the current account balance. He also forecast that inflation would rise to 15%-16%, reaching 15,3% for the last quarter.

As it turned out, the rand appreciated by nearly 9% against the dollar in the second half of the year and the CPI ended the year at 15,3%.

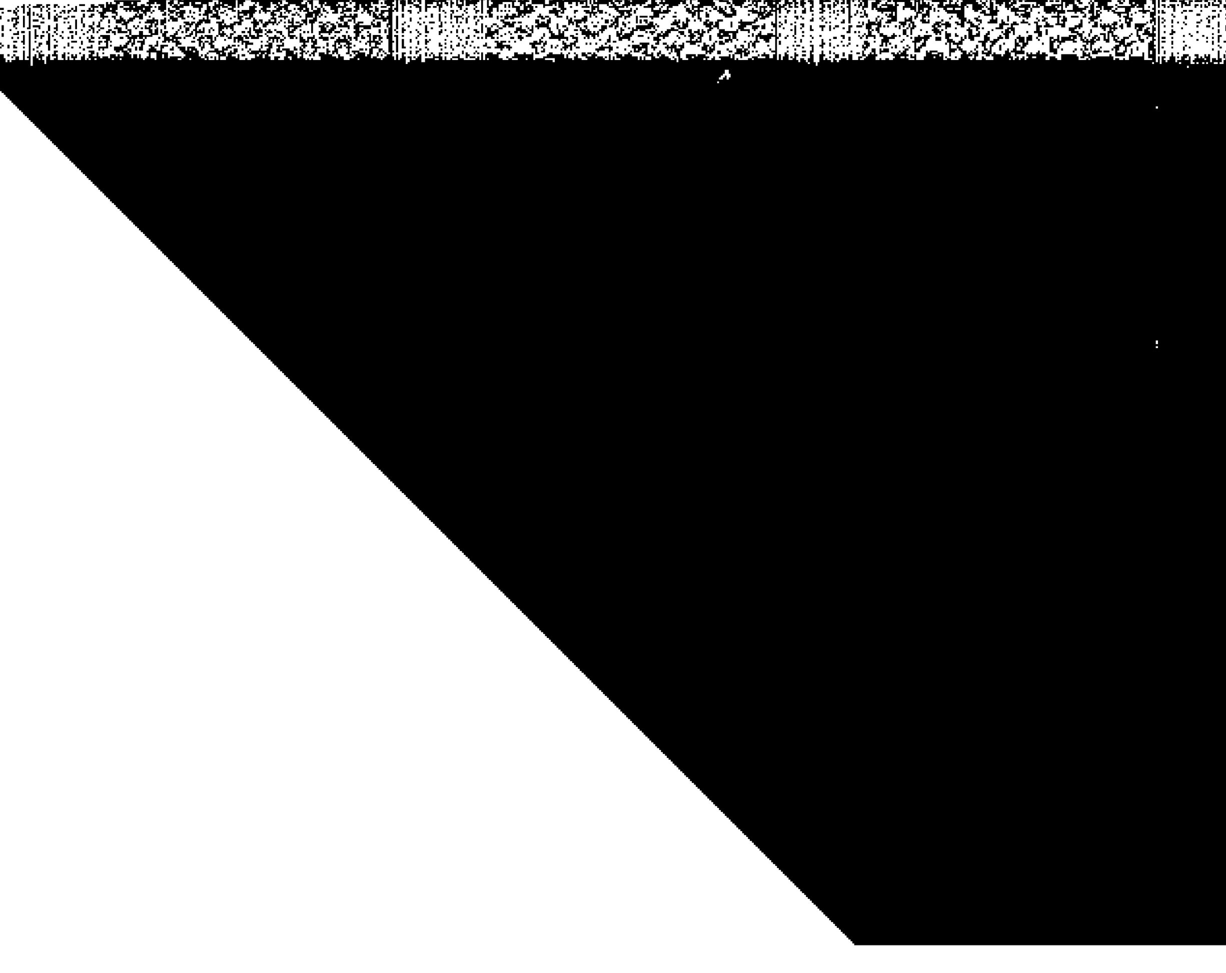
Ramond says: "Our prediction carries the proviso that gold stays above US$400." He expects the rand to firm as government's austerity programme continues. He sees SA's CPI remaining static for most of this year, dropping to 15% in the fourth quarter.

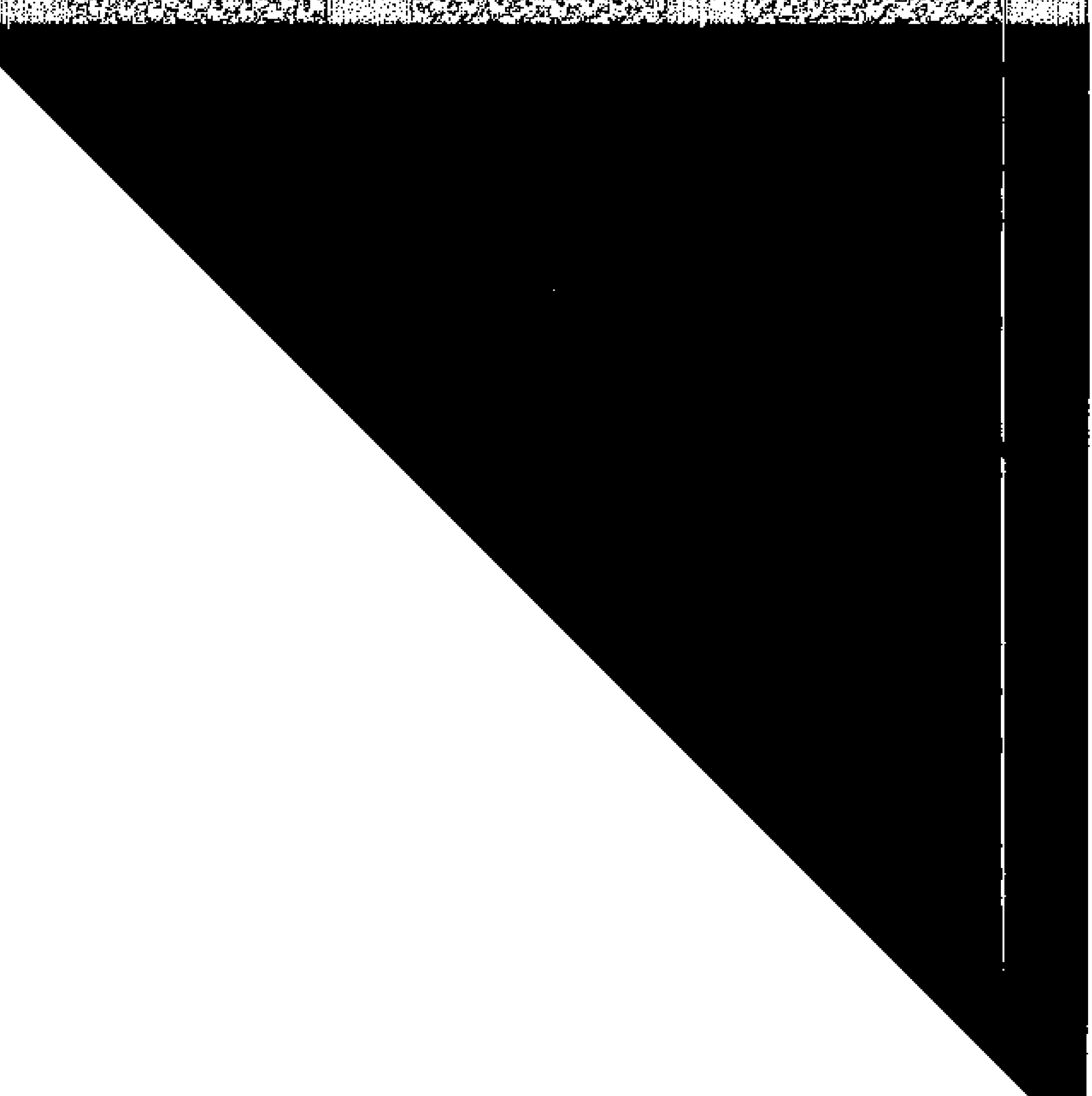
Ramond, president of Predex Corp in New York, is in SA for a few weeks to meet clients and hold a seminar for corporate currency managers and dealers.

The model Predex uses for currency predictions does not consider politics. Ramond admits: "We may be looking at SA through the wrong end of a telescope." He agrees that politics and economics can't be separated. "However, we trust clients can flavour predictions with their own knowledge of the political situation. Political expectations have stopped getting worse, which should help the rand."

Most analysts agree that capital flows have taken over from trade flows as the main determinant of exchange rates. But money supply also plays a big part.

"In the short term," Ramond says, "we look for SA short-term rates to rise faster than in the US, and long-term rates to decline." This suggests that longer-term capital might move from the dollar to the rand. However, he points out, "we have been overtaken by events; already foreign money has moved into the SA bond market." ■





BRIAN KANTOR

Surprise, we're growing

Brian Kantor is professor of economics at the University of Cape Town.

If money supply is anything to go by, the economic slowdown is over and the economy has entered another phase of accelerating growth.

December was a very big trading month. Money supply, as shown by notes issued by the Reserve Bank, grew strongly enough to reverse the declining trend in economic growth. If this continues, corporate earnings will begin growing even more rapidly because note issues consistently and reliably predicts corporate earnings (**see graph**).

This development has not gone unnoticed by Finance Minister Barend du Plessis and he is right to hold the Reserve Bank accountable. Earlier this month he said: "There is indeed a danger that the Bank will, through liberal assistance to the (money) market, facilitate further excessive increases in money supply; this will certainly not be in line with government's economic policy."

On the other hand, Du Plessis is unwise to admonish private bankers for doing what comes naturally to them — to lend more money when it's profitable. He is wrong to believe that excess demand for bank credit can be eliminated without higher interest rates. Neither moral suasion nor direct controls have anything to recommend themselves as options.

The fundamental problem for Du Plessis and the Bank is simply that government's economic strategy is being undermined by its political success. Political developments have clearly been boosts to confidence and, therefore, to spending. The strategy, however, is aimed at restricting domestic spending to generate greater trade surpluses, which are assumed to be necessary to pay foreign debt and rebuild foreign exchange reserves.

The trade balance has recovered well and inflation has moderated but an earlier-than-expected recovery for the economy, presaged by the spurt in money supply, might reverse these developments.

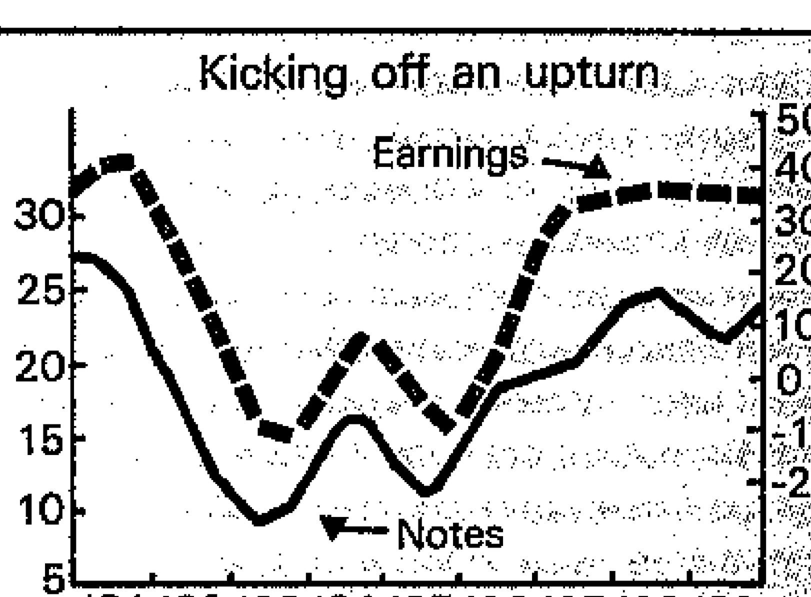
Foreigners have begun to share this confidence. Not only are they more willing to buy SA equities, they are also willing to hold more SA debt. This greater availability of foreign capital means that government policies were designed for an economy in a very different state than it is now.

What can be done to inhibit inflation? Higher interest rates may do little to dampen the greater enthusiasm of households and businesses to invest. And to offer foreigners higher returns, when they seem determined to drive down returns with their growing demand, also does not seem appropriate.

So it would be naive to hope for too much from money supply in these circumstances. But faster money-supply growth represents a longer-term, rather than an immediate, threat of higher inflation. More important to inflation in the short run is the price of imports, which is influenced by the exchange rate and import duties. The capital inflows, or a declining rate of outflow, resulting from more confidence in the economy, can be very good for the rand. A stronger rand helps to reduce inflation and is also consistent with higher interest rates.

Strong government revenues present another opportunity to cut inflation and defuse inflationary expectations, which is essential if inflation is to be reduced with minimum pain. Higher revenues can also mean immediate direct tax relief if government spending is restrained. Critical here will be public-sector pay increases. Holding these to no more than 10% this year opens a huge window of anti-inflationary opportunity by cuts in direct tax rates. So, if inflation is to be tamed, it's up to the authorities to act.

Notes and earnings



The trend in corporate earnings follows the trend in notes issued by the Reserve Bank, so the recent growth in notes issued may mean the economy has bottomed out and a new growth phase has begun.

Source: University of Cape Town, School of Economics

TRADE FM 26/1/90 (74)

Late-year boost

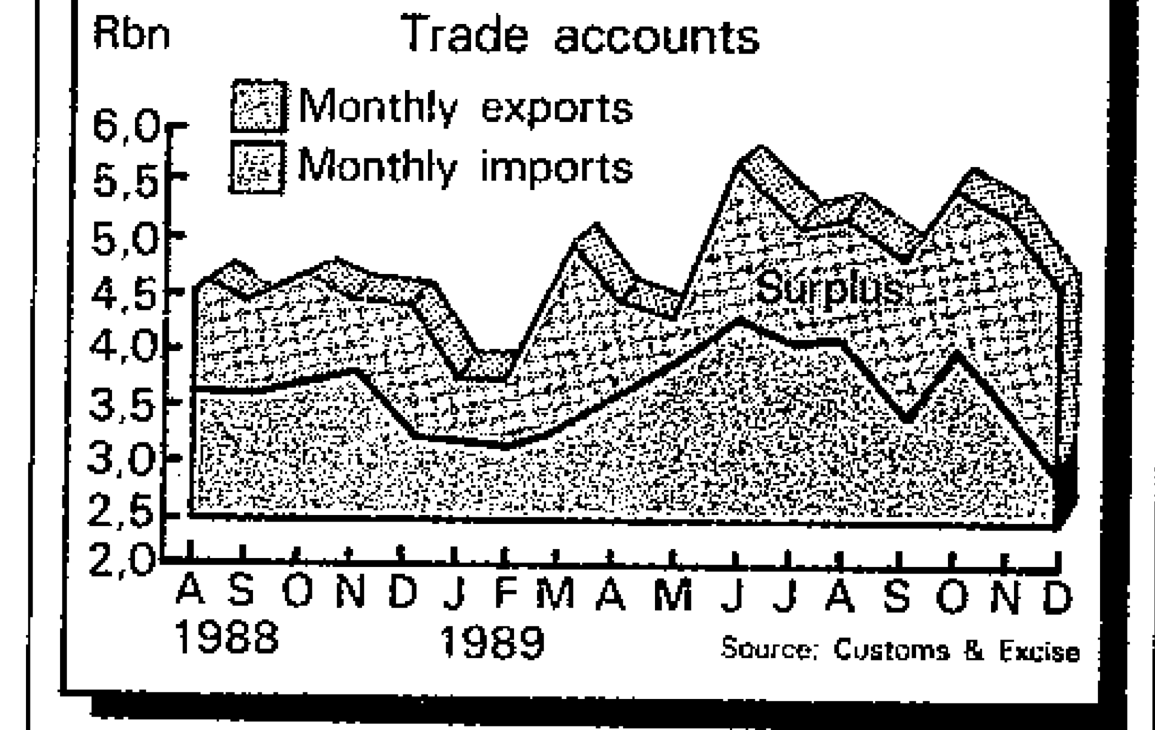
A wider December trade surplus pushed the year's surplus on the current account of the balance of payments to an estimated R4,5bn. Even adjusting for inflation, this is well above the R2,9bn recorded in 1988.

"With the steady climb of the past few months in the trade surplus, the current account reached break-even in terms of net reserves," says Southern Life economist Mike Daly. "More than R4bn was necessary to satisfy outflows on the capital account."

But only the past two months saved the current account from looking decidedly unhealthy last year; before November the trend of falling imports was not yet established. This latest trend of declining imports and a wider surplus bodes well for this year. Estimates put this year's surplus on the current account at around R7bn.

However, November and December figures are usually lower due to seasonal fluctuations. If these trends continue this month, then the import restrictions introduced over the last 18 months may finally be working, as the authorities have hoped.

Even better



Imports fell from R3,6bn in November to R3bn in December. Declining exports also followed the trend set in November. Seasonal factors as well as the stronger rand against the US dollar — which lessens the rand value of exports — could explain lower exports. Exports fell from R5,2bn to R4,6bn. A surplus of R1,6bn, compared with just under that figure in November, showed that exports fell slightly less than imports.

Total figures for 1989 show a trade surplus of R13bn (1988: R10,2bn).

Despite the good news, economists warn that many unpredictable factors could jeopardise a positive balance of payments.

"It will still be a long time before we can feel relaxed," says Trust Bank economist Nick Barnardt. "The performance of gold, the unpredictability of the agricultural sector and uncertainty about rolling over foreign debt make this year's balance of payments difficult to predict."

But Barnardt tentatively forecasts that the current account surplus will exceed R7bn and top R8bn next year. "Positive short-term capital flows in the fourth quarter due to a declining dollar and strengthening rand should continue," he says. "These will offset outflows and encourage a higher balance of payments surplus than most anticipate." ■

Brighter outlook for inflation rate

Star 26/1/90

By Sven Lünsche

The government's tight monetary and fiscal policy will continue over the next few months and interest rates are only likely to decline by between one and two percent towards the second half of this year.

However, a major positive result of the restrictive policy will be a lower rate of inflation — in the region of 13 percent by year-end — say two leading economists.

Tougher times

Southern Life's Mike Daly and Dr Hans Falkena of the UBS argue in their group's respective publications that the restrictive government policy of the last two years will not be eased appreciably over the next few months.

However, the adjustment process in the economy will be easier this time around and they expect some easing in policy towards the end of the year.

"The real economy has yet to feel any pain as we enter 1990," Mr Daly writes in Southern's latest *Economic Comment*. "However, the cumulative effect of tight monetary and fiscal policy over the past 18 months will result in tougher times as the year unfolds."

He forecasts a small decline in real gross domestic expenditure this year, while only a further improvement in exports will keep GDP growing at about one percent.

"The policy of high real short-term interest rates will be maintained until the second quarter, during which the first official cut in the Bank rate from its current level of 18 percent can be expected."

However, the tight monetary policy is sending signals about the authorities' determination to reduce inflation, which Mr Daly estimates could average 13,3 percent this year compared with 14,7 percent in 1989.

"Inflation may peak at the 15 percent level in the first quarter, but consumer price increases will drop to below the 13 percent level by the end of this year.

"It is also possible that the bottom of the inflation cycle, which will be within a year or two, will be below the previous bottom, reached at the 12,3 percent level in late 1988," Mr Daly comments.

Tax outlook

UBS economist Dr Hans Falkena largely echoes Southern's sentiments.

"Provided the lid is kept firmly on government expenditure, no additional tax increases seem necessary, and interest rates ought to start decreasing gently from the middle of the year. By the end of this year, the Bank rate should be back to the 17 percent level.

"Another positive influence of restrictive policy will be a lower rate of inflation, maybe around 13 percent at year-end, which will also serve to stabilise the exchange rate," Dr Falkena states.

He adds, however, that much more emphasis will be placed on the government's fiscal policy in order to achieve these goals.

Budget deficit

Providing a conservative estimate of the current fiscal year's budget deficit, Dr Falkena says that the significant revenue windfall received could result in a deficit of R7,7 billion for the 1989/90 year (3,2 percent of GDP), well below the budgeted R9,95 billion (4,1 percent of GDP).

"An improvement of such magnitude is unlikely to be achieved again in the 1990/91 fiscal year although the deficit will still fall as a percentage of GDP.

"With a 16 percent growth in revenue, and a 15 percent growth in expenditure, the budget deficit is likely to be in the region of R8 billion, or around 2,9 percent of GDP."

Ideally, Dr Falkena notes, the budget deficit should be much lower, preferably around 2 percent of GDP.

"Still, with monetary and fiscal policy stances simultaneously restrictive, the policy mix in South Africa will be in a far better shape than during 1988 and 1989."

How to cut high rates — economist

BDay 26/1/90

CAPE TOWN — Short-term interest rates and inflation would decline in the second half of the year, provided excessive growth in credit and the money supply was addressed, Southern Life economist Mike Daly said yesterday.

Daly, who projected in October last year that a lower dollar value would relieve the balance of payments (BoP), boost the value of the rand and reduce interest rates, confirmed the trend in his latest monthly Economic Comment.

Changes

He said that if the international value of the dollar remained low and the gold price maintained its current strength, the net gold and foreign reserves would begin to fill up again.

This and a number of other vital economic changes like a slower rate of growth in the money supply and a lower inflation rate would all place downward pressure on short-term interest rates.

If excessive growth in credit extended and the money supply were addressed during the first half of the year, it was possible that prime could shed two percentage points to 19% before the end of the year, he said.

LESLEY LAMBERT

Daly projected an average year-on-year consumer price inflation rate of 13,3% this year, down from around 14,7% last year.

Inflation rates recorded over the past few months had left earlier forecasts looking too pessimistic, he said. While inflation could still peak in this quarter, it would do so at 15% rather than the expected 16% to 17% range, as the recent strength of the rand exchange rate took effect.

However, he cautioned that the real economy would begin to feel the cumulative effect of a tough monetary and fiscal policy as the year unfolded.

"The fact that private expenditure on durable consumer goods declined during the course of 1989 at an accelerating pace, reaching a fall of 9,5% in the third quarter, indicates that pressure on the consumer is starting to be felt," Daly believed.

He said real gross domestic expenditure was likely to show a small negative growth in 1990, after a small positive growth last year.

Only a further strong improvement in net exports in 1990 would keep real gross domestic product growing by a possible 1%.

Economy could slow further

A/Day 29/1/90 (74)

SYLVIA DU PLESSIS

INDICATIONS are that the slowdown in general economic activity experienced over the past year will intensify in 1990, says Sanlam chief economist Johan Louw.

In his company's first economic survey for the year, Louw says it is unlikely government's restrictive policy will be eased appreciably over the next few months, because SA's foreign reserves remain far too low.

This is in spite of the higher gold price which has given the authorities "breathing space".

Louw says SA citizens will probably have to be satisfied this year with a salary and wage adjustment which will "barely keep pace" with the inflation rate, expected to average 14% against 1989's 14,7%.

"Moreover, there is little chance of significant tax relief. This is the price that will have to be paid to make essential adjustments to the SA economy and so lay the foundation for a better future for all.

Urbanisation

"As far as the balance of payments is concerned, the favourable trend in SA's net foreign trade position continues. It is particularly heartening that our exports are remaining fairly strong in spite of the marked firming in the external value of the rand in recent months," he says.

Addressing the economic implications of SA urbanisation, Louw says both whites and Asians are already about 90% urbanised, while the 1980 figure for black urbanisation — 33,4% — could rise to 79% by 2020. This urbanisation creates a strong demand for housing, he says.

"On the basis of research undertaken by the Institute for Future Research by the University of Stellenbosch, it is expected that some 137 000 housing units for blacks will be required annually during the period 1988 to 2000.

"This would not even reduce the backlog in housing. Between 1970 and 1980 the annual increase in black housing units was a mere 22 000."

According to Louw, there is "a growing realisation" that the provision of housing can make a significant contribution towards alleviating unemployment in the urban areas.

Long-term prospects 'promising'

NEIL YORKE SMITH

INFLATION was unlikely to fall significantly in the short term, but longer-term prospects were promising, economists said yesterday.

TrustBank's Nick Barnardt said positive factors would outweigh the negatives and result in significant inflation reductions by year-end.

"The positive exchange rate in recent months is a great plus and is always an important leading indicator of overall inflation," he said.

This would help offset strong food-price inflation which would result from a poor agricultural climate and reduced supply, he added.

Barnardt said interest rates were unlikely to rise further and would probably decline later in the year.

"Also, factors like expectations of import surcharge reductions in the next Budget, and lower wage cost increases, indicate an inflation slowdown," he added.

"We expect an annual inflation average of 13,8%, with 12,5% achieved at year-end and further declines next year."

Nedbank's Edward Osborne said a year-on-year inflation rate increase was unlikely in the short term but a downturn was expected in the second half of the year.

Stabilised

He said first-half increases would result from upward trends in food prices which were likely to increase in coming months.

However, the stabilised rand in the second half of 1989 would bear fruit in the second half of this year.

"The trend towards lower average salaries and wages, combined with an overall slowdown in the economy will improve the inflation outlook," Osborne said.

Econometrix economist Azar Jamine said people were overly optimistic in predicting dramatic inflation declines this year.

"Far too much money has been printed. This means inflation will not fall as much as anticipated," he said.

The positive currency situation should not be over-emphasised.

"The rand has touched new lows against the Deutschemark and other European currencies in recent weeks. This is hardly an anti-inflationary environment," Jamine said.

Producer price inflation usually leads consumer price inflation by three to four months. The rate of increase for the November Producer Price Index (PPI) was 14,6%; 0,7 percentage points lower than the corresponding rate for October (15,3%).

However, economists said the lower rate of increase should not be seen as a strong indication that the economy was cooling or that inflation was slowing.

Strong rand could be bad news (74)

Stals vows to keep up the heat on banks

B/Day 31/1/90

GRETA STEYN

TOO strong a rand would not be in SA's best interests as its exports would become too expensive, Reserve Bank Governor Chris Stals said yesterday.

In an interview on current developments in the markets, Stals indicated the Bank was paying urgent attention to the value of the rand after its climb in recent months. Since early September, the local unit has gained more than 8% against the dollar.

"There are many advantages to an appreciating rand — it helps fight inflation and alleviates problems in the forward cover market.

"Nevertheless, an appreciating rand cannot be justified in the longer term. I would prefer a stable rand."

● STALS

The Bank was looking at purchasing power parities for greater clarity on the "correct" value of the domestic currency.

Foreign exchange dealers said yesterday the Bank was hanging onto substantial dollar inflows coming into the country and had made no effort to underpin the local currency by putting dollars into the market.

Turning to monetary policy, Stals vowed to keep up the pressure on the banks, currently facing a liquidity crunch, in the hope this would compel them to restrain credit growth.

He said: "Banks are currently paying interest rates in excess of the prime overdraft rate on part of the cash they need from the Reserve Bank.

"That is what tight monetary policy is about. If it doesn't hurt, it won't work."

He described the huge shortage of cash in the money market — well in excess of R5bn — as unhealthy, and partly a reflection of continued high demand for credit. The Bank could therefore not react by providing the banks with cheap cash.

But he disagreed with the view that the cash shortage indicated the need for another increase in Bank rate and the prime overdraft rate.

"There is much the banks can do to curb the rate at which credit is extended without another increase in Bank rate."

He also noted the cash shortage was aggravated by the turn-around in the Bank's forward cover book that has seen three months of profits instead of losses. The losses had provided the banks with a steady inflow of liquidity and Stals was glad this had been curbed.

The Bank hoped to facilitate its withdrawal from the forward cover market through exchange rate and interest rate policy.

"One of the benefits of a stable currency would be a reduction in the Bank's losses on its forward book. At the same time, keeping interest rates high in real terms maintains the cost of cover at a relatively high level.

"The foward cover situation is yet another reason why we cannot begin to contemplate lower interest rates."

He acknowledged that long-term interest rates were too low relative to the short-term rates, but added this was the result of a market distorted by exchange control regulations.

Foreign purchases of SA gilts via the financial rand had distorted the price of

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Stals

B/Day 31/1/90 (74)

☐ From Page 1

long-term capital.

"There has been no inflow of liquidity into the local market as the finrand mechanism isolates SA from capital inflows or outflows of this nature. The low long-term rates should not have any spillover effect on the short end of the market."

SA still had a long way to go before a single exchange rate could even be considered. The finrand would have to move much closer to the commercial rand and stay there for a signficant period before one could contemplate abolishing the finrand.

STAR 1/2/90 (68) 76

The Star
Finance

Stals sets tough rules for economy

By Sven Lünsche

The approach to monetary policy by Reserve Bank Governor Dr Chris Stals differs markedly from that of his predecessor, the late Dr Gerhard de Kock.

Under Dr Stals monetary policy has remained tight despite marked improvements on the balance of payments in the wake of a firmer gold price.

The graph, compiled by TrustBank's economic division highlights the difference in this approach to that of Dr de Kock.

During Dr de Kock's reign at the Bank, interest rates, the key tool for monetary policy makers, were determined to a large extent by the movement of the gold price.

As the gold price rose, interest rates were allowed to fall, in view of the expected improvement on the balance of payments, while a declining gold price caused a tighter approach to interest rate policy.

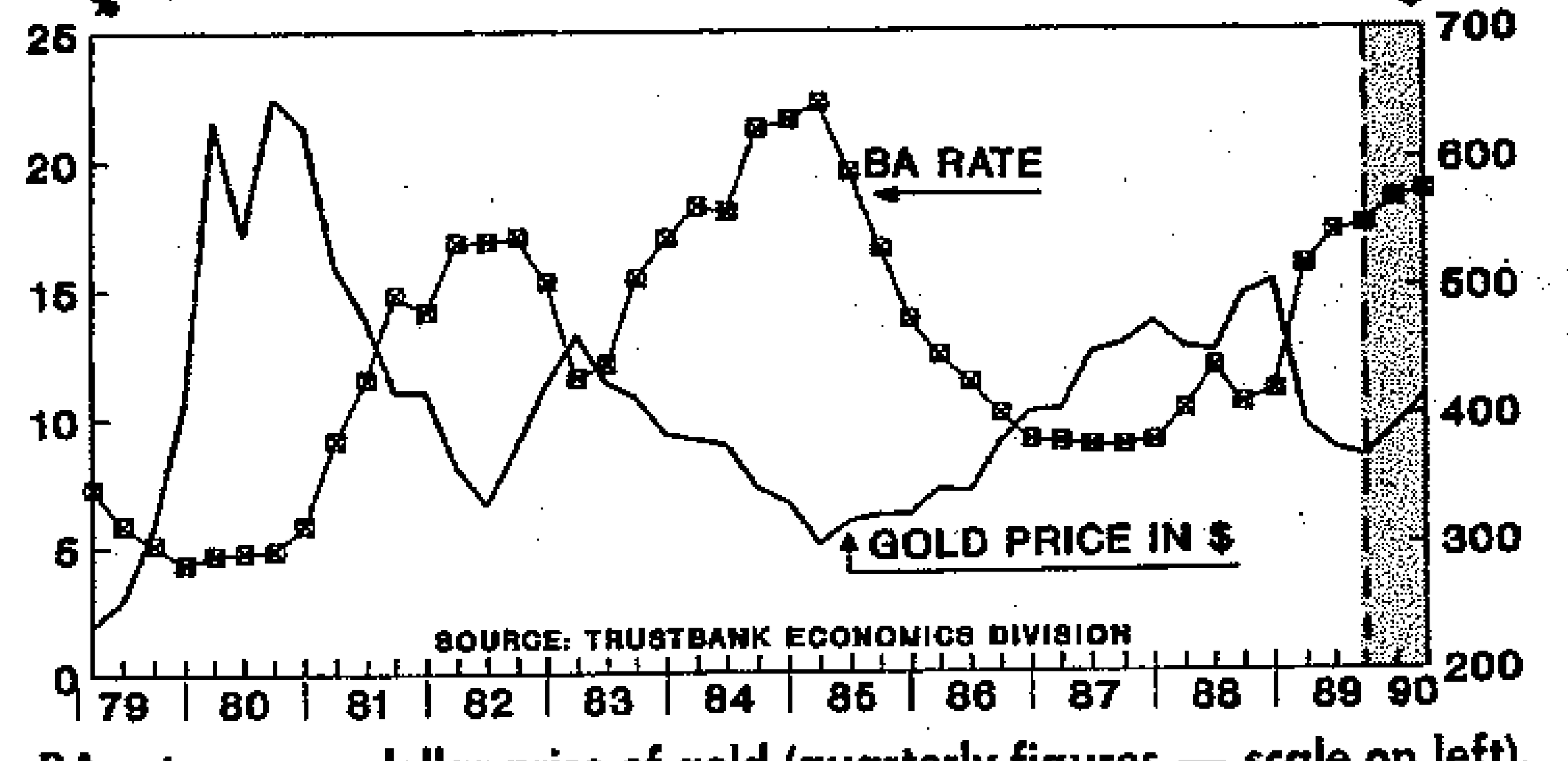
This situation has changed drastically since Dr Stals was appointed Governor in the third quarter last year.

Although the gold price has since then risen from a low of $355 to levels of just under $420 and the balance of payments has improved markedly, interest rates have maintained high levels.

This reflects Dr Stals determination to bring inflation under control and steer the economy towards a soft landing.

He has indicated that the Bank rate would remain at current levels until clear economic evidence suggests that this has been achieved, despite calls by some banks for interest rates to be raised.

"Our restrictive monetary policy does hurt, but we will have to remain patient until its full impact has been felt in the economy," he commented recently.



BA rate versus dollar price of gold (quarterly figures — scale on left).

On the money market Dr Stals has kept liquidity tight, urging the banks to restrain credit growth and the huge shortage of cash on the money market — estimated to be in the region of R5 billion — has resulted in the 90-day Bankers Acceptance rate maintaining a level of well above 15 percent.

Says TrustBank's senior economist Nick Barnardt: "Dr Stals' approach has been stringent and I think he will keep interest rates high and liquidity tight until bank credit and the money stock fall significantly."

W|Mail 2/2 – 8/2/90

Only half-awful, says the guv'nor

(74)

Chris Stals expects capital outflow to be half the 'worst-case' scenario which economists have predicted

RESERVE Bank governor Chris Stals hopes total capital outflows from South Africa will be only R2-billion to R3-billion this year — less than half of the "worst case" scenario of R7-billion which economists have been forecasting.

And Stals believes it may not be unrealistic to expect the lower figure. He is confident the outflow will be less than R7-billion, although he told *Weekly Mail* this week it was still too early to make a firm prediction.

Although South Africa is due to repay a substantial amount of foreign debt this year, foreign bankers may roll over maturing loans or reinvest the proceeds and there may be some new investments which cancel out capital outflows.

Stals confirmed international perceptions of South Africa as a credit risk had improved. Factors which influenced this were the political situation (especially hopes for negotiation), internal stability and the country's economic prospects and the fact that it had begun to apply necessary budgetary discipline. Last year's debt rescheduling also served to eliminate uncertainty about the country's foreign debt obligations to mid-1992 and its ability to meet them.

Stals said he was optimistic that South Africa's international economic relations were improving although he cautioned "we must be modest in our expectations". The improvement was not such that the financial authorities could start relaxing on policy.

But Stals said there were small amounts of new money coming into the country which would not have come in previously.

The financial rand — which has appreciated against the dollar from R4,30 late last year to R3,36 now — is the most sensitive barometer of this (although money which comes in via the financial rand pool does not have a positive impact on the balance of payments). Foreign investors for example bought R2-billion of gilts and semi-gilts (government and semi-government bonds) in the last few months of last year.

But Stals said the trend was evident in commercial rand transactions.

He said there has been an increase in short term trade and loan finance to South African banks.

"Here and there foreign investors have been making new loans, mostly short term and mostly linked to trade finance."

Although South Africa has had access to trade finance, for a long time foreign bankers did not want to increase their limits on such finance and were making no additional funds available.

"We have seen an easing since the middle of last year," Stals said.

South Africa's gold and foreign exchange reserves have been increasing since August/September last year after falling to record lows.

The surplus on the current (trading) account of the balance of payments has been increasing as a result of declining imports and rising exports. Stals expects a current account surplus of R6-billion to R7-billion for this year.

Stals believes the surplus on the current account will probably exceed capital outflows for the year, resulting in a net increase in gold and foreign exchange reserves. Even in the "worst case" capital outflow scenario, the level of reserves will not drop.

FM. 16/3/90

(74)

FINRAND SLIDES

A drop in the finrand from above US25c on Monday, to a close of 23,75c on Tuesday, is thought to result from large gilts or equity sell-offs in New York.

This means, since Mandela's release under five weeks ago, the discount between the finrand and commercial rand has shot from 19,8% to 38%. Stop-losses caused overseas finrand investors, who, when Mandela was released, had taken positions in the finrand, to sell.

Rise in exports . . .

CAPE TIMES 17/3/90

Trade surplus leaps to R1,7bn

14

By AUDREY D'ANGELO
Financial Editor

THE trade surplus for February has jumped to R1,7bn compared with R1,1bn in January and R1,5bn in December.

The rise is mainly because of higher exports, which rose to R5bn compared with R4,1bn in January. Imports dropped to R3,2bn from R3,8bn in January.

The figures, released by the Department of Customs and Excise yesterday, show the surplus of R2,8bn for the first two months of this year is 152% higher than in the same period a year ago, when the surplus for January and February totalled R1,1bn.

The biggest rise in exports was in precious and semi-precious stones, and items coated with precious metals. A total of R1,3bn worth were exported in the first two months of this year compared with R467m worth in January and February last year.

Exports of mineral products, excluding gold, jumped from R753m in January and Febuary 1989 to R1,2bn in the first two months of this year.

Economists expect this trend of a rising balance of payments (BoP) to continue, resulting in a soft landing for the SA economy — unless rising inflation overseas leads to higher interest rates and a fall in exports.

Glenn Moore of Personal Trust said yesterday that, unless developments overseas altered the trend, he expected a trade surplus of R15bn for the year.

"That would be sufficient to give us a current account surplus of the order we require to meet capital outflows and build up our reserves. It looks as if everything is falling into place to give us a soft landing for the SA economy."

However, he was worried by the fact that the producer price index (PPI) in the US had risen by 1,8% for the second month in succession.

"That is not conducive to keeping the US inflation rate down to 5%.

"One does not know how the authorities there will react, but short-term rates in the US have been rising in the last few weeks and long-term rates since the beginning of the year."

Moore pointed out that rises in overseas interest rates could force the SA authorities into raising them in this country, resulting in a harder landing for the economy.

If this did not happen, he expected the inflation rate to fall this month and in April, "and there should be downward pressure on our interest rates".

"The big question is what is going to happen to interest rates overseas. One sees that in the volatility of stock markets all over the world."

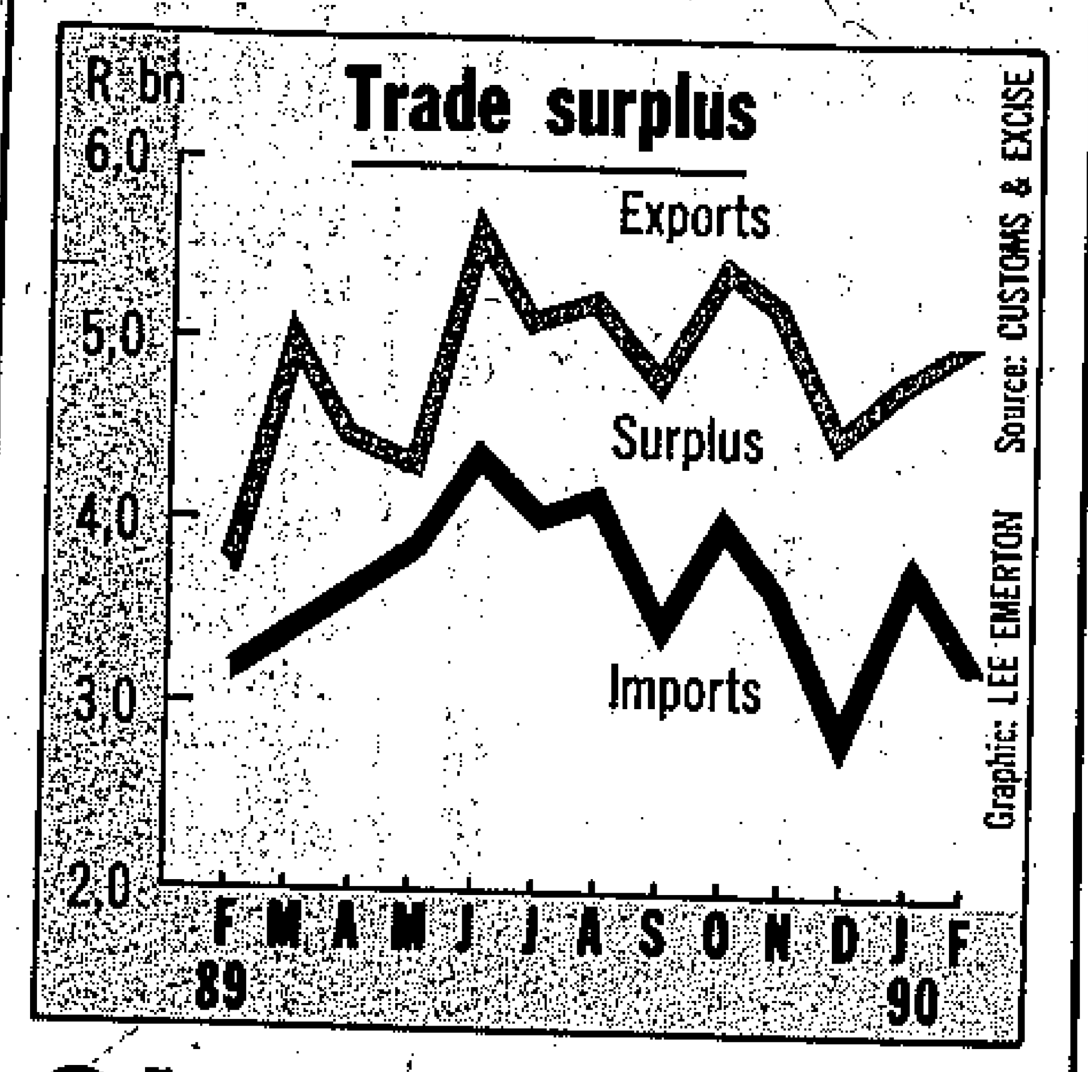
Louis Fourie of the Boland Bank said the rise in the surplus indicated that the government's monetary policy was working. He did not think the Budget would cause any upsurge in spending, resulting in more imports — "it is more restrictive than last year's Budget".

He expected the export performance to continue to be strong. "There is good growth in Europe, where our main markets lie."

But it was unfortunate that the dollar price of gold, which made up 30% of SA exports, had fallen.

Johann Els of the Trust Bank commented: "These are excellent figures. We expected them to rise but we are surprised at the extent of the jump.

"This is very encouraging and we expect the rise in the trade surplus to continue."



SA trade surplus rises dramatically

NEIL YORKE SMITH (74)

SA's trade surplus for the first two months of this year is dramatically higher than the comparative period last year.

The surplus for the first two months rose to R2,86bn compared with R1,14bn last year, Customs and Exise figures released on Friday revealed.

SA's trade surplus increased to R1,77bn in February from R1,1bn in January.

Economists said the increase was very encouraging. Bloem 19/3/90

"Reduced domestic demand is resulting in lower imports as well as increasing manufacturer's drive for exports. It is also good to see the relatively stronger rand has not detrimentally affected exports," TrustBank economist Nick Barnardt said.

Imports of R3,26bn for February were just over R500m (16,7%) lower than the January figure of R3,8bn.

At R5,02bn exports for the month were more than R800m (19,8%) higher than the previous month's R4,19bn.

Total imports for the first two months came to R7,056bn (R6,559bn last year) and exports R9,9198bn (R7,695bn)

Largest growth in exports was seen in pearls, precious and semi-precious stones and items clad with precious metals. These exports increased from R467m last year to R1,308bn.

Mineral product exports (excluding gold) increased to R1,293bn from R753m

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Trade surplus

Bloem 19/3/90 (74)

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for the first two months of last year.

Exports of unclassified items — consisting mainly of gold and arms — increased to R4,057bn (R3,7bn).

Significant import reductions were recorded for textiles and textile articles, which fell to R344,4m (R308,1m), and live animals and animal products which were R34,4m (R70,8m).

Econometrix economist Azar Jammine said the improved political situation could enable SA to roll over some of its foreign debt commitments this year.

"If this was the case the balance of payments (BoP) constraint would be eased and we could afford to reduce the BoP surplus this year," he added.

FINANCE

As euphoria fades the picture changes

Sowetan 19/3/90 (74)

IN THE MONEY MARKETS

Harold Fridjhon

AS THE first flush of post-Budget euphoria slowly faded last Thursday, dealers in money and bond markets awoke to the realisation that Budget give-aways did not extend to their spheres of activity. There's little hope of interest rates being reduced until the third quarter of this year.

And probably not in the early part of the third quarter.

Reading between the lines of Finance Minister Barend du Plessis's speech and, particularly, in the printed in-depth notes to the speech, dealers have now begun to realise that the Stals tight monetary policy will not be relaxed until all the significant economic indicators are pointing in the right direction.

The rate of growth in money supply must be stunted. The surplus in the current account of the BoP must be sustained by net reductions in imports and increased exports, at a time when world demand for commodities appears to be flagging. The gold and foreign exchange reserves must be large enough to sustain any squalls that might blow up ahead. And the inflationary pressures must be seen to be easing.

Reserve Bank Governor Chris Stals will sit fast in his tower-block eyrie ready to pounce on any stray liquidity which manifests itself.

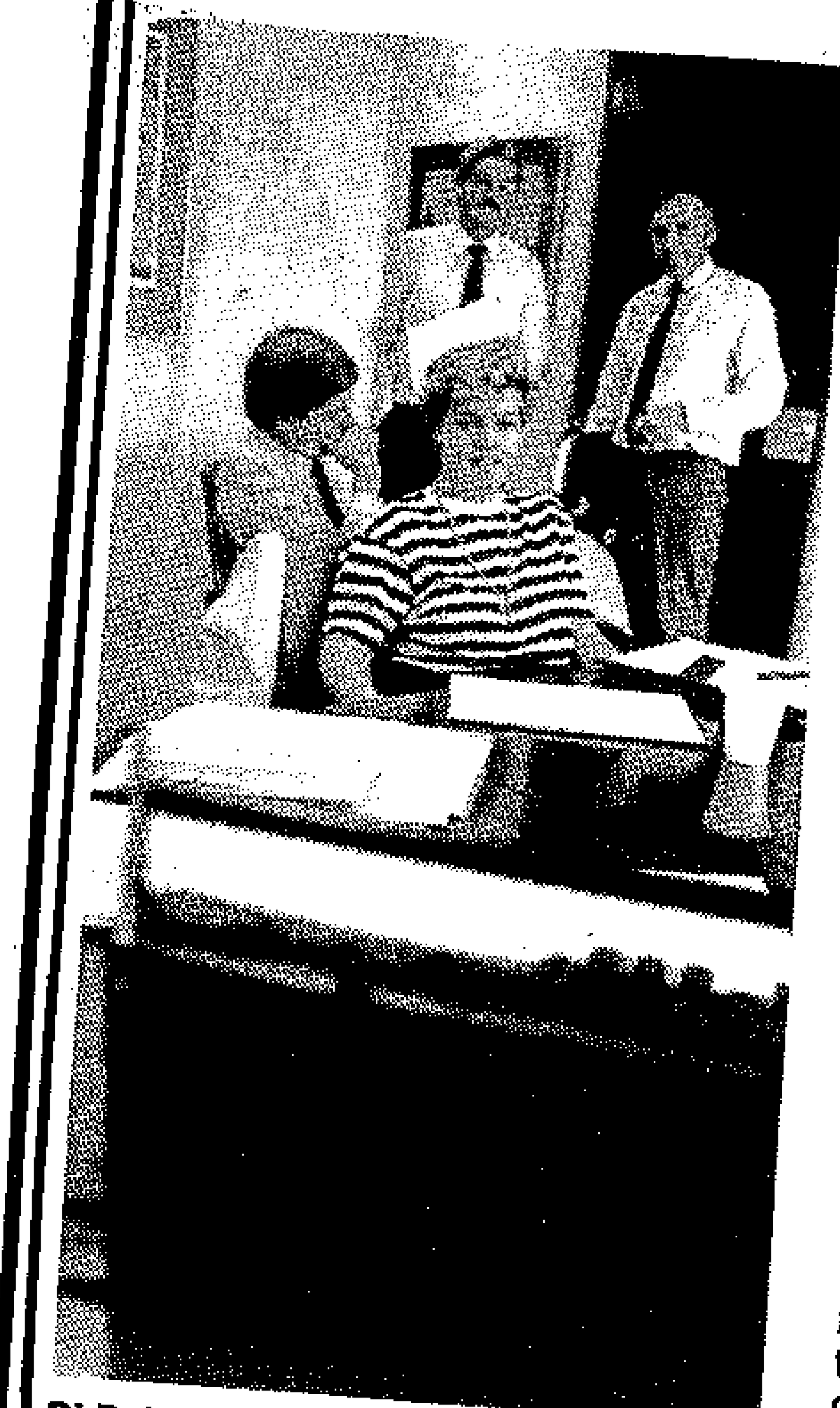
The previous week's softening in the rates for several money market assets were already showing signs of crispening on Friday and could kick up in the weeks ahead.

Friday's surprise drop in the Treasury bill (TB) rates to 17,94% from 18% should not be regarded as a hint of a near-future easing of rates. Private sector tendering was included in the R61m bid for the R20m bills on offer, but the bidders might have been looking for liquid assets to replace those which have gone or are about to go, such as the Land Bank bills. Viewing the TB rate as a barometer could be misleading.

Except for four-month paper, the market for negotiable certificates of deposits (CDs) was very quiet last week with the rate for 12-months CDs untested at 18,75%. Six-month CDs, too, attracted no demand and were unchanged at the previous week's 19,25%. Four-month CDs, taking the investment into the third quarter, were in demand but there was an uptick to 19,40% compared with the previous week's 19,30%.

The rate for 90-day liquid bankers acceptances (BAs), which eased to 18,35% on Tuesday from nearly three weeks at 18,45%, touched 18,30% but bounced back to the 18,35% notch.

These are all signs of a market brought back to reality after straying for a while in the world of Oz.



Di Dobson of Price-Waterhouse — one of the panel gathered to interpret the Budget speech — listens to Finance Minister Barend du Plessis.
Picture: ROBERT BOTHA

SA's capital outflow 'now the same as Third World'

Political Staff

CAPE TOWN — Trade sanctions had had a minimal direct impact on the economy but the effects of disinvestment were less easy to evaluate, Finance Minister Barend du Plessis said yesterday.

Delivering his Budget at a joint sitting, he said as far as the outflow of capital was concerned SA, despite its good record, was now in the same position as other developing countries.

All had at one time used international capital for development, just as SA had, and now had to make great sacrifices to repay their debts.

The Minister said the only difference financial sanctions had made for SA, as opposed to other developing countries was that, mainly as the result of political actions, it had been cut off from the normal international banking facilities such as the IMF.

This had complicated cash-flow management of the current account of the balance of payments and forced the country to maintain a continual surplus on that account.

Du Plessis said the result had been that the country's capacity for growth — which traditionally meant rising imports during an upswing — had been "tempered" for the time being.

However, he added, SA had been growing since 1987 despite sanctions, and the viewpoint was now growing that sanctions had compelled SA to push through certain structural adjustments more rapidly than would otherwise have happened.

Du Plessis said the sanctions lobby claimed credit for SA's low growth and alleged it was this which had forced government to change.

Government had known from the start that a period of unavoidable adjustment and economic restructuring involving sacrifice was likely.

Du Plessis said government's commitment to reform and its pursuit of a higher growth pattern despite sanctions underlined "both the folly of continuing foreign interference through sanctions and the futility of trying to put the lifting of these sanctions as a factor in the negotiation process".

The lifting of remaining apartheid measures and of sanctions were not "real negotiating counter" as neither had "any further claim to existence" in the light of government policy.

BDay 15/3/90

BDay 27/3/90 (74)

POLITICS

Report lists many worries

Political Staff

CAPE TOWN — Concern about the leakages of foreign exchange, the viability of the Mossgas project and the finances of the independent homelands was expressed yesterday by the parliamentary joint committee on Finance.

It also recommended that the Budget allocations for the four independent homelands — Transkei, Bophuthatswana, Venda and Ciskei — be removed from the Department of Foreign Affairs and transferred to the Department of Finance.

Its report said it was of the opinion that "staff reductions in the navy should be handled with compassion".

It was also "concerned" about:

- "The nature of films which are being subsidised and their benefit to the community";
- The impact on insurance companies of the extension of the exemptions from tax on dividends not applying to them;
- "The welfare of the aged, and the state of education and health care in SA";
- "The need to take care in respect of the privatisation process, regard being had to the state of pension funds, the impact on the consumer and taxpayers and competitive circumstances"; and
- The state of unrest in various parts of SA and the shortage of manpower and equipment in the police.

The committee called for a review of the method of providing for export incentives by promissory notes in the Budget and said surcharges should be removed on goods imported for production purposes.

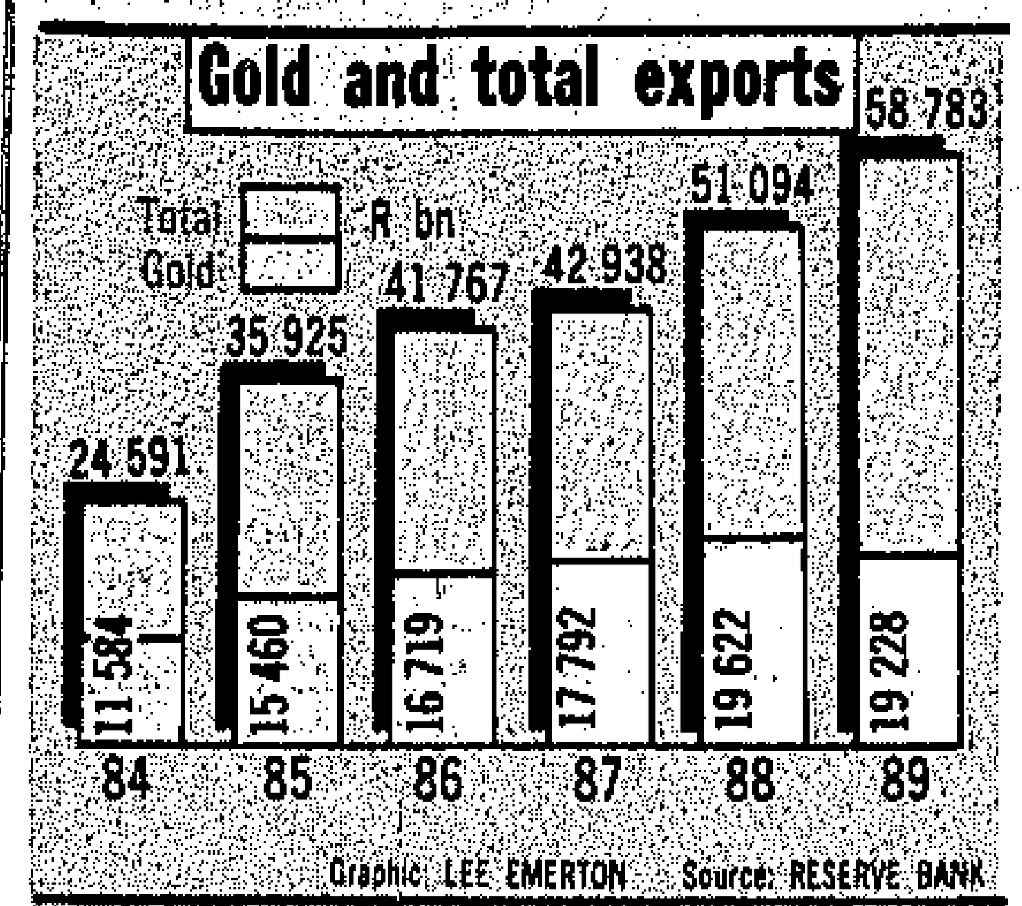
It also called for more funds to combat AIDS.

Referring to "the socio-economic spending" and the new structuring of the Budget, it said: "There is a perception that the Budget has greater credibility, that more discipline will be exercised and that cut-backs exist in real terms."

However, this had to be considered in the light of the surplus of the previous year and off-Budget financing.

"In these circumstances, great care needs to be taken in regard to the implementation of the Budget.

"The evidence indicates that greater reliance must unfortunately be placed on monetary policy, that high interest rates are likely to continue for a longer period than previously anticipated, and that the inflation rate may not decline as soon as was hoped for by the authorities."



SA facing forex loss of up to R1bn

GRETA STEYN

GOLD's plunge to below $370, if sustained throughout the year, will cause SA to lose about $1bn in foreign exchange — hampering efforts to build up reserves.

But buoyant non-gold exports should help the country over its foreign debt hump this year without the need for interest rate increases, economists said yesterday. Further support for the balance of payments (BoP) is expected from lower imports and favourable short-term capital flows.

Nedcor economist Edward Osborn's projection of a $2,44bn current account surplus for the year was based on an average gold price of $418. He said official projections of a R6bn surplus for the year were based on an average gold price of $410.

"Gold remains the single most important factor for SA's balance of payments. But a decline to current levels will have to be sustained for a while before we start modifying our current account projections," he said.

International demand for SA's non-gold exports should remain buoyant this year in spite of a slow-down in economic growth in the industrialised countries. Last year, a surge in merchandise exports neutralised a drop in gold exports.

According to the Economic Review, gold exports dropped from R19,6bn in 1988 to R19,2bn in 1989. Gold accounted for 32,7% of total exports — low when compared with past figures of about 40% and higher.

In February this year, total exports rose strongly from January in spite of a decline in gold exports.

Safto economist Bruce Donald expected growth in merchandise exports to moderate from its high levels of the past two years, but steady growth was still being expected for the year.

□ To Page 2

Forex loss

□ From Page 1

First National Bank's Cees Bruggemans said: "SA's export performance remains remarkably strong, with export prices and especially volumes bearing up well despite the slowing of the US and UK economies and the lower gold price. This seems to bear out that continental European and Far Eastern growth performances remain strong."

Apart from the encouraging trend on the current account, reduced pressure on the capital account would further ease the impact of a drop in the gold price, economists said. Bruggemans said leads and lags had moved in SA's favour and the impression existed that "a massive improvement in the country's net foreign reserves had taken place". However, this inflow could prove to be short-term in nature and the Reserve Bank was wise not to bank on it.

Rand set to fall slower, not to firm — review

BiDay 2/4/90

NEIL YORKE SMITH

A SIGNIFICANT strengthening of the rand is not yet on the cards but potential exists for the currency to "at least fall more slowly than over the past few years", according to Standard Bank's March review.

"A slowdown in domestic economic activity is under way and this is likely to result in a further fall-off in imports."

It was therefore likely the current account surplus would approximately equal capital outflows, the review said.

Also, improved political perceptions could result in capital outflows smaller than the R2,4bn initially estimated, it said.

This would imply less downward pressure on the rand than previously feared.

This would enable the authorites to resist calls for rand depreciation which aimed at boosting exports, it said.

"While the short-term benefits of the higher exports may be attractive, these are outweighed by the long term benefits to the economy of a lower inflation rate."

Appropriate policy for the rand should be one of neutrality: the decline of the rand should be limited to as much as prevailing capital flows allowed, the review said.

"In this way, increases in domestic productive efficiency will be encouraged and the exchange rate will become an important policy tool in fighting inflation."

Despite sanctions and policies to encourage self-sufficiency, SA's economy remained heavily reliant on foreign trade and foreign capital flows, the review said.

As a result, changes in the rand exchange rate had an enormous impact on SA's economic activity and prices, it said.

The dual exchange rate, implemented in 1985, had succeeded in protecting gold and foreign exchange reserves against massive capital outflows and protected the economy from the impact of an excessive decline in the rand's value, it said.

A move away from exchange controls was desirable, the review said. It would foster long-term economic efficiency and remove disincentives to new foreign investment.

However, the low value of the finrand and the knowledge that large capital outflows would result in its further depreciation, acted as disincentives to disinvestment, the review said.

Star 3/4/90

The Star Finance

(74)

Big rand depreciation unlikely

By Sven Lünsche

The Reserve Bank is unlikely to allow a major rand depreciation to boost export earnings by the mines in the wake of the gold price slump.

The rand has been sliding gradually over the past few weeks and faces a major downward correction after bullion's collapse to six months lows.

A lower currency would certainly be welcomed by the country's exporters, particularly the gold mines, whose only saving grace in the face of the declining dollar gold price is an improved rand gold price.

However, a lower rand also pushes up the cost of imported producer goods, thereby eventually boosting consumer prices, at a time when the Reserve Bank is intensifying its efforts to bring inflation under control.

The bank's senior deputy governor, Professor Jan Lombard, admits: "We are certainly walking the tightrope at the moment."

However, it seems that the bank will resist calls for a rand depreciation aimed at boosting exports.

Professor Lombard said: "We are still trying to gauge the course of the gold price and the impact on our balance of payments, but our exchange rate policy will have to tie up with the overall course of monetary policy.

'In this respect we certainly cannot let the rand slide too far if we want to succeed in our fight against inflation."

The rand was at present at satisfactory levels, but the bank would not buy dollars extensively if the underlying course of the rand would not support such an action, Professor Lombard said.

The gold price is certainly the key factor in the future course of the exchange rate. Its failure to breach the key $425 level this year and the subsequent slump over the past two weeks have pushed the currency to new lows.

It has hardly been noticed that the rand's rates of 0,637 D-mark, 2,142 French francs, 0,563 Swiss francs, 0,718 Dutch guilder and 465 Italian lira represent new lows against these currencies.

Against the US dollar it dropped by about 15c during February and stood at R2,67 yesterday. Only against the woefully weak Japanese yen has the rand strengthened.

Despite this decline the intervention of the Reserve Bank in the market is evident.

Senbank economist Andries van Niekerk comments in the bank's latest Currency Review: "The relatively small movement of the rand over the past two weeks indicates that the Reserve Bank is to a large extent succeeding in maintaining a stable rand."

Standard Bank supports the Reserve Bank's policy of maintaining a steady rand.

"While a significant strengthening of the rand is not yet on the cards, circumstances provide an opportunity for the rand at least to fall more slowly than previously," the bank's economists write in the latest Economic Review.

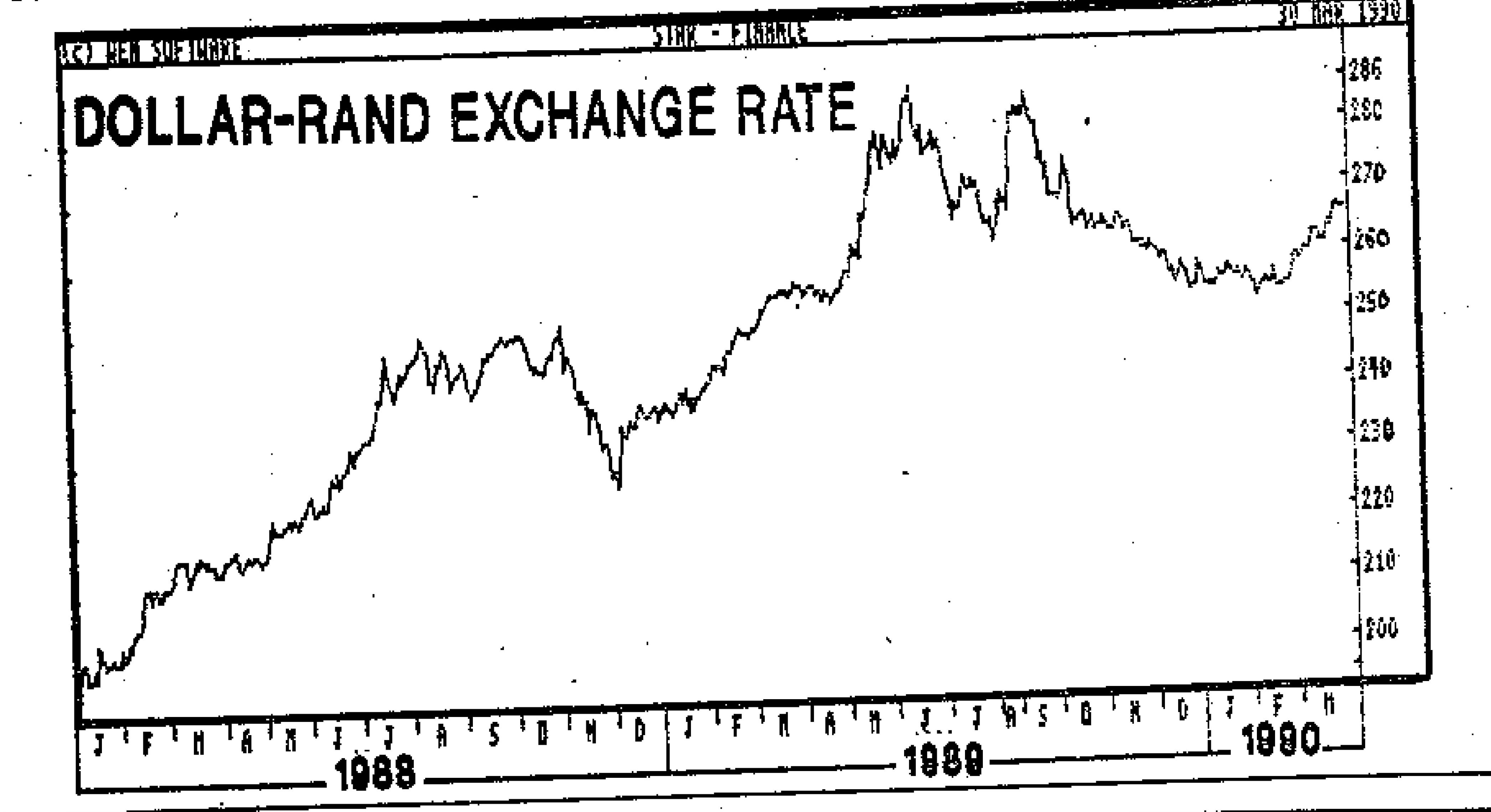
"Downward pressures on the rand may not be as serious as was previously feared as the downturn in the economy is expected to result in a further falloff in imports and subsequently boost the current account surplus to levels equal to anticipated capital outflows.

"Moreover, improved perceptions could result in actual capital outflows somewhat smaller than the $2,4 billion initially estimated.

"The authorities should resist calls for rand depreciation to boost exports as the short-term benefits of higher exports are outweighed by the benefits to the economy of a lower inflation rate.

"Thus the appropriate policy for the rand should be one of neutrality.

"In this way, productivity will be encouraged and the exchange rate will become an important policy tool in the fight against inflation."



Finrand is fighting back

BDay 10/4/90 (74)

GRETA STEYN

THE financial rand has clawed its way back a little from the lows reached on negative foreign investor sentiment a week ago, but is still a long way off the heights reached before ANC leader Nelson Mandela's release.

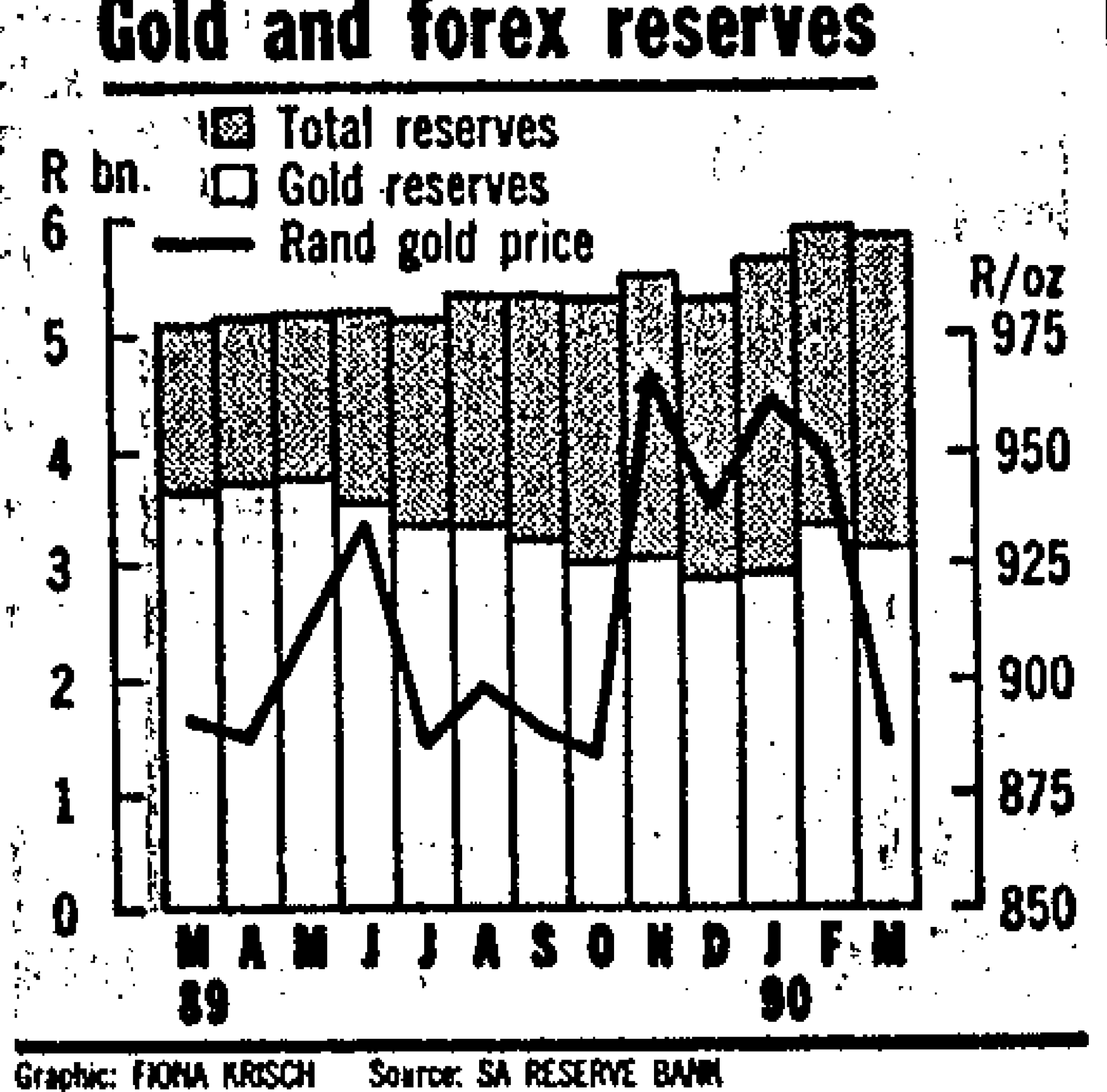
The investment currency has recovered by 6% to R3,97 to the dollar from the low of R4,23 reached last week after the ANC's withdrawal from talks scheduled for this month with the SA government.

Reports of action taken to stem the unrest in Natal, the revival of talks between the SA government and the ANC and yesterday's initial strengthening of the gold price have been cited as reasons for the stronger trend.

The currency's recent volatility is also the result of small trading volumes. A relatively small buy order yesterday pushed the unit higher in a thin market.

Its current discount to the commercial rand of about 33% reflects the improvement of foreign investor confidence from a discount of about 37% last week. The discount was about 20% amid political euphoria before Mandela's release.

Dealers said the finrand had scope to improve further from current levels.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Gold fall hits Bank foreign reserves

BDay 10/4/90

GRETA STEYN

GOLD's plunge at the end of last month shaved about $100m — or more than 4% — off the value of the Reserve Bank's holding of foreign reserves at the end of March.

The metal's fall from grace puts a dent into the kitty built up this year as SA reaped the benefits of a robust current account and an encouraging capital account of the BoP.

Reserve Bank figures released yesterday show the reserves' decline from March to February was not pronounced in rand terms (under 1%) from R5,95bn to R5,90bn.

The value of gold holdings dropped by 7%, largely because of a plunge in the rand valuation of gold (R886,65 versus R949,17).

Physical gold holdings were down slightly (3,54-million ounces from 3,55-million ounces). The Bank's holding of currency was up R182m to R2,76bn.

TrustBank economist Nick Barnardt said the reserves had weathered the storm of the lower gold price impressively.

"The figures are better than expected, indicating the underlying position on the BoP remains strong."

He said there was "statistical noise" in the figures because the Bank tended to hold a smaller percentage of SA's foreign reserves at the end of a quarter, while the banking sector's increased.

Nedcor economist Edward Osborn said: "The reserves will come under severe pressure in the second quarter of this year after a healthy first quarter. More than $2bn of foreign debt falls due in the current quarter. There can be no question of policy relaxation before we clear this hurdle."

Big turnaround in balance of payments

R3bn foreign inflow helps to clear debt

GRETA STEYN

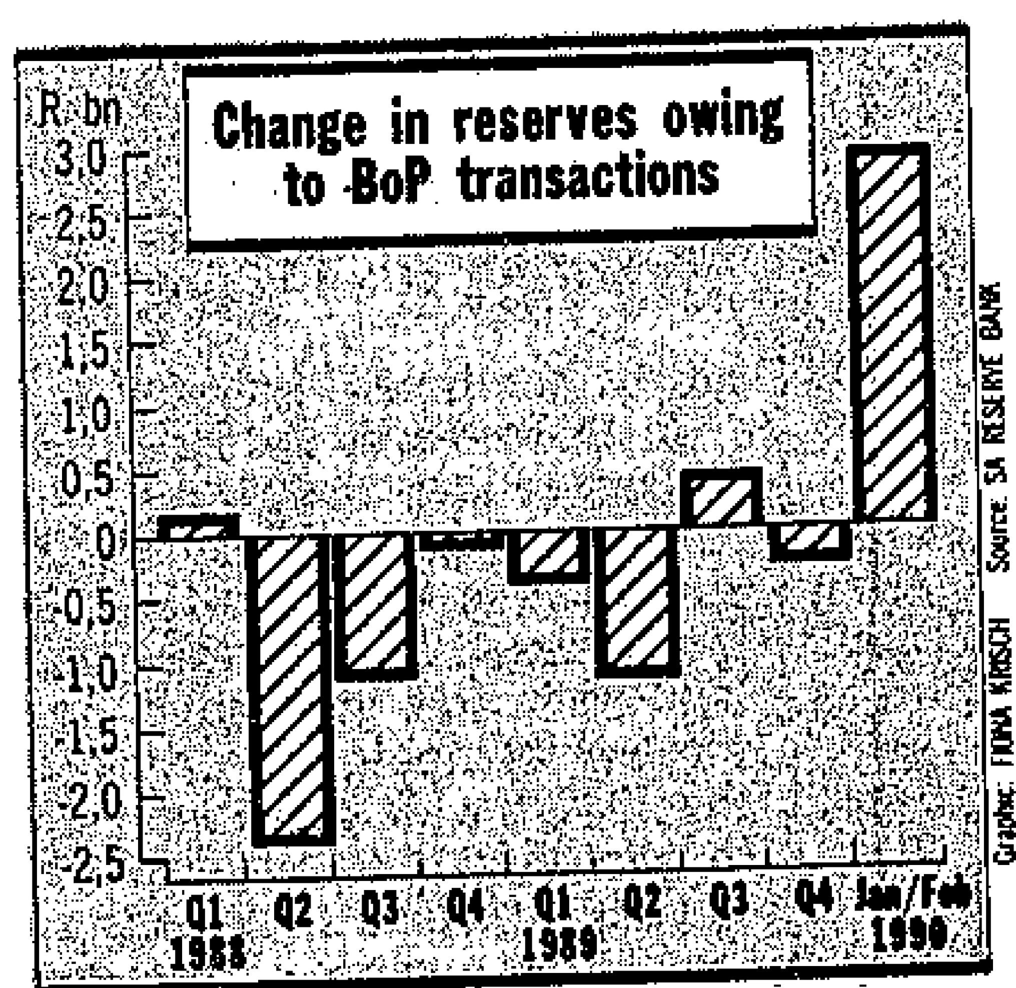
SA EXPERIENCED an astonishing turnaround in its balance of payments (BoP) in the first two months of this year when net inflows of foreign reserves reached almost R3bn.

According to the Reserve Bank's latest Quarterly Bulletin the surge was the result of a robust current account combined with an inflow of capital. The surprising strength of the capital account reflected foreigners' bullish sentiment towards SA and heightened availability of overseas trade credits.

The good start to the year should help SA clear its foreign debt hump without too much pain, in spite of the drop in the gold price. About $3bn in foreign debt is due this year. The Bank has used the bonanza to reduce the constant burden of short-term foreign liabilities similar to overdrafts.

In the last two years the Bank relied heavily on this foreign bridging finance to tide SA over difficult patches on the BoP. According to the Bulletin R2,9bn was drawn from foreign banks in 1989 to help SA survive a year which saw a capital outflow of R5,6bn.

Because the net inflows in the first two months of this year were used mainly to reduce short-term foreign liabilities, they translated into an increase of only R632m in gross gold and foreign reserves.



The Bank said: "In its consolidation phase, the economy has been moving in the right direction satisfactorily as regards the BoP/foreign reserves/exchange rate situation in particular."

Lending support to the overall BoP is the drop in import volumes. After reaching a peak in the second quarter of 1989, import volumes fell by 13,5% in the third quarter and a further 5% in the fourth quarter. On the exports side, negative fac-

□ To Page 2

□ From Page 1

R3bn inflow

tors are a weakening in commodity prices and the gold price.

However, overall SA's export volumes were 17% higher in 1989 — far exceeding growth in world trade of 7%.

The Bank cites the vigour of SA's exports of one of the reasons for the "remarkably soft landing" of the economy.

"Economic activity has been coasting — along an essentially sideways trajectory, although at diminishing rates of real economic growth — rather than adjusting downwards abruptly (as in 1984/85) in response to the authorities' more restrictive monetary and fiscal policies."

Factors explaining the reasonably painless downswing include the surge in agricultural production, a more positive business mood and consumer confidence and the rise in real wages. In addition, there was a perception that policy actions had arisen from the need to temper buoyancy in the economy rather than from a need to cope with an acute crisis.

While the economy has been moving in the right direction on the external front, the Bank was not pleased with certain domestic developments.

"Less satisfactory progress has been made in subduing inflation, moderating wage adjustments and slowing down the expansion of bank credit and the money supply."

Bank's forward market role plugs a capital outflow

BD 11/4/90

74

E J VAN DER MERWE

DEFICITS have generally been incurred by the SA Reserve Bank on its so-called forward book over at least the past 20 years. Only over relatively short periods has the Bank been able to show surpluses on its forward operations.

The size of these deficits has depended on the strength of the spot exchange rate of the rand; they increased substantially from 1985 with the sharp depreciation of the rand.

The Bank has been an active participant in the forward exchange market since the market's inception, mainly aimed at the development of the market. Despite various attempts to improve the forward exchange market in SA, it can still be described as highly administered, relatively underdeveloped, artificial and tightly restricted by exchange control rules and regulations.

The Bank has therefore maintained its role as "market-maker" even though attempts have been made to make the market less heavily administered. The ultimate objective nevertheless remains to bring about "a forward market outside the Bank in which both residents and non-residents are at liberty to deal forward freely with one another and in which as a result of arbitrage transactions, forward rates for the rand would tend to be the same in SA and overseas and to settle close to interest rate parity".

This would eliminate the two main deficiencies of the forward market: the imbalance in the Bank's forward book and the fact that forward transactions do not play their full part in determining spot and forward exchange rates.

The monetary authorities have sought to withdraw from the forward market gradually. However, the Bank was forced by international and domestic circumstances to extend its operations in the forward market to protect the foreign exchange reserves.

The main justification for the current system of forward exchange cover is that it encourages an inflow of foreign capital without making an increase in interest rates necessary to achieve the same result. The fact that authorised dealers can cover their positions prevents a substantial outflow of capital.

The losses on the forward book of the Bank do not affect the financial position of government immediately; they are not paid by government as they are incurred. At the end of each financial year losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account, where they are offset against profits or added to losses in respect of gold and liabilities and assets denominated in foreign currencies.

The calculated net loss can be carried forward until the Treasury and the Bank deem it desirable to settle the outstanding balance or part of it. Although these losses are not immediately recorded in the accounts of the Treasury, they represent government debt.

Three approaches can be followed by the authorities regarding the forward losses already incurred:

☐ Government can continue to repay these claims from current income. Such payments will have to be spread out over a period of time.

Raising additional taxes for redeeming the total outstanding losses would have a large deflationary effect on the economy. It would also severely disturb the money market and force the Bank to provide extensive assistance;

☐ Government can issue new securities against the claims arising from forward losses. These securities can be provided directly to the Bank or can be sold in the market. The net result would again be a substantial increase in the security holdings of the Bank in exchange for the Bank's claims against the Treasury;

☐ The third approach is to do nothing about the exchange losses, based on the argument that there is no urgent reason why these losses should be repaid: they have already had their effect on the economy.

It may also be argued, however, that for the sake of financial discipline government should be required to make good its financial commitments.

Various measures may avoid future losses on the forward book. However, most of these solutions — including keeping the rand artificially high, adjusting forward rates to take account of expected inflation rate differentials, increasing interest rates or withdrawing from the market immediately — can be ruled out because of possible adverse effects on the economy.

The immediate withdrawal of the Bank from the market under present circumstances could have serious macro-economic implications. It would probably lead to a substantial depreciation of the rand and to higher interest rates.

Higher inflation rates could, in turn, lead to expectations of a further depreciation of the rand, an outflow of capital, depletion of the gold and other foreign reserves and a further acceleration of inflation.

Probably the only truly satisfactory solution is to bring the inflation rate down to levels at least as low as those in trading partner countries.

The authorities may find it difficult to achieve this immediately. In the meantime, probably the best approach would be to maintain a combination of realistic interest rates and exchange rates. This should minimise losses while a more lasting solution is found.

At the same time the authorities should carry on with the development of a sophisticated private forward foreign exchange market and with the gradual withdrawal of the Bank from that market.

The sustained upward trend in losses on the forward book of the Bank during the past 20 years is mainly due to the fact that the central bank has remained heavily involved in the market.

As a "market-maker" the Bank normally has a net oversold forward position and this cover is provided to the market at "market-approximating" rates. Although these are basically set at levels reflecting differentials between domestic and foreign interest rates, they do not take expected changes in spot exchange rates into account.

The sharp depreciation in the exchange value of the rand during most of the 1980s has usually exceeded the discount of the forward rates against spot rates, resulting in considerable losses on the forward book.

The authorities continued to make these large capital transfers to residents in order to protect the gold and other foreign reserves of the country, and therefore also the exchange rate of the rand.

The best way to prevent further losses on the forward book would be a gradual withdrawal of the Bank from the forward market, preferably as soon as the level of the foreign reserves allows.

In the meantime, the authorities should continue to redeem losses already incurred from current income in accordance with broad policy objectives, and maintain realistic interest and exchange rates.

The losses on the Bank's forward book have had important macro-economic implications. They have probably included a higher volume of imports, lower domestic production, increased domestic expenditure and unstable conditions on the BoP.

At the same time the forward losses have had an expansionary effect on the money market not essentially different from those of the Bank's open-market operations or its accommodation of the banks at the discount window.

The rationale for carrying on with the Bank's heavy involvement in the forward market is that the Bank's withdrawal from the market could lead to substantial capital outflows.

☐ Dr van der Merwe is deputy head of the economics department at the Reserve Bank. This is an excerpt from an article in the Bank's current Quarterly Bulletin.

SA's net reserves boosted by R3 billion in 2 months

Star, 14/6/90

By Sven Lünsche

South Africa's net foreign exchange reserves soared by almost R3 billion in the first two months of this year, following on improved overseas perceptions of the country's political developments.

This dramatic improvement, reported by the Reserve Bank in its March Quarterly Bulletin, will go a long way in helping the country to meet its $3 billion foreign debt commitments this year.

Economists added, however, that the net reserves could have fallen back slightly in March as the ANC's commitment to nationalisation and the escalating violence in black townships halted foreign inflows.

Nevertheless, the R2,913 billion surge in the net foreign exchange reserves in January and February, which followed on a R632 million improvement in the gross reserves, is a welcome change on the substantial falls over the previous quarters.

The net reserves recorded a surplus of R430 million in the third quarter last year, after five successive quarterly declines, but shrank again by R307 million in the last three months of 1989.

Reserve Bank Governor Dr Chris Stals indicated previously that in the week alone following the State President's landmark opening of Parliament speech on February 2, the reserves were boosted by about R1,5 billion, with some further inflows following on the release of Nelson Mandela.

He said that the windfall was largely used to reduce the country's short-term foreign liabilies, which had been built up by R2,9 billion last year to provide bridging finance in the face of capital outflows of R5,6 billion.

Commenting on the R3 billion boost the Reserve Bank said: "Apart from reflecting the present large curent account surpluses, the recent strengthenings of the foreign exchange reserves would also appear to have incorporated the effect of foreigners' more favourable impressions of South Africa's socio-political situation and of increased availability and accessibility of overseas trade and trade-related credit facilities."

The improvement in the reserves followed on a further strengthening of the current account of the balance of payments to R5,9 billion last year, "after a pronounced slackening of aggregate real domestic expenditure".

However, the outflow of capital not related to reserves, increased substantially again in the fourth quarter to R1,4 billion as South African residents increased their holdings of foreign assets by some R800 million.

IN RESERVE

(74)

FM 13/4/90

Economists have been cautious in predicting an upward trend in foreign reserves, despite significant increases in the first two months of the year. Hesitation is justified by the R43m (US$16m) fall in total foreign reserves in March to just over R5,9bn ($2,2bn).

A large drop in gold valuation, to R886,65/oz ($334) from R949,17 ($358) in February, pushed down gold reserves to just over R3,1bn ($1,2bn) from almost R3,4bn ($1,3bn) the previous month. Ounces held remained steady at 3,54m.

Foreign exchange reserves rose R182m ($69m) to almost R2,8bn ($1bn) from just under R2,6bn ($973m).

FINANCIAL MAIL APRIL 13 1990

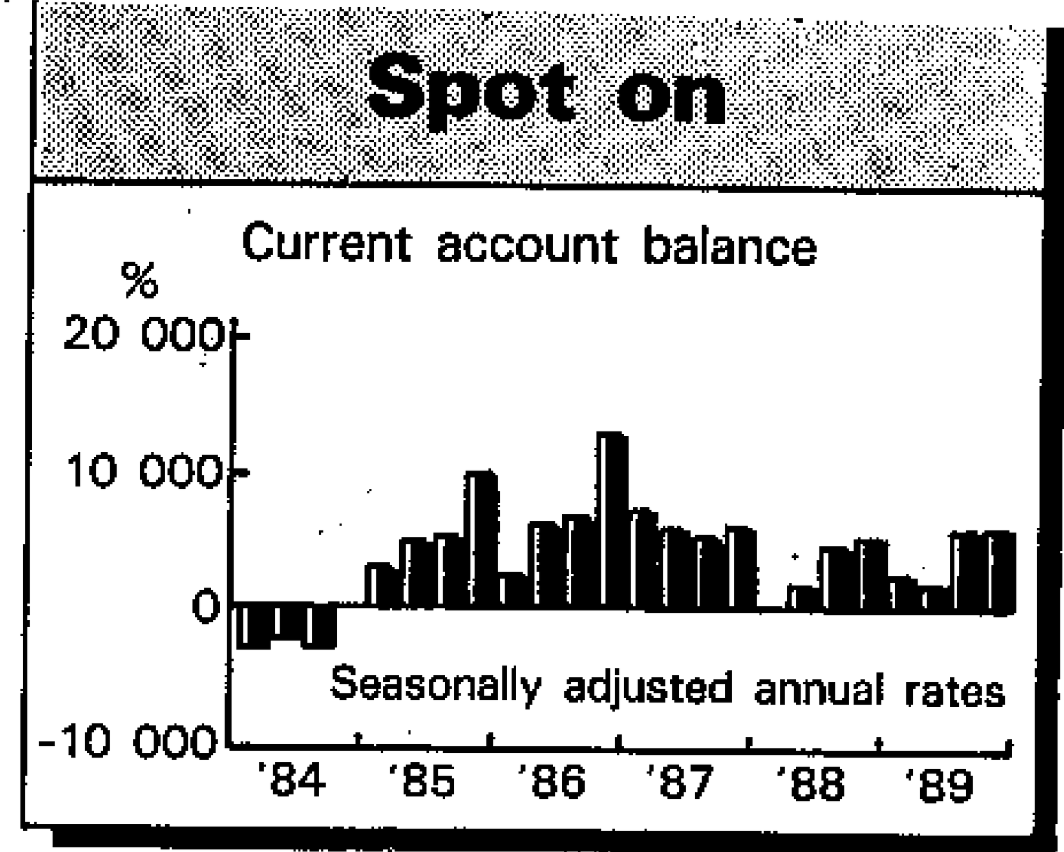
Softly softly

FM 13/4/90

Reserve Bank Governor Chris Stals is clearly heeding the advice of predecessor Gerhard de Kock. The economy may be headed for a soft landing but it will be foolish to open the door too soon. So, despite some encouraging numbers in the latest Bank *Quarterly Bulletin*, Stals has been keeping a tight rein on the market (see **p21**).

Positive signs reported by the *Bulletin* are an increase in exports and a build-up of the surplus on the current account of the balance of payments (BoP), a decline in GDE and, consequently, imports and the first quarterly decline in GDP since quarter one of 1986.

An increase of 17% in export volumes in 1989 made a major contribution to the R4,1bn surplus on the BoP current account. The annualised fourth-quarter surplus was R5,89bn, due to a marked further decline in value of merchandise imports. "With debt repayments in mind that figure is spot on," says Econometrix's Tony Twine. "But it leaves nothing to spare."



Detracting from fourth-quarter BoP performance was a substantial increase in outflows of capital not related to reserves. "Much arose from larger outflows of short-term capital; more than half of these ... appear to have consisted of increases in foreign asset holdings by residents."

Together with a reduction in short-term foreign liabilities, this caused a fall in gross gold and other foreign reserves in the first two months of 1990, reserves rose (falling again in March).

The increasing surplus reflects a gradual slowdown in the economy. GDP contracted in the fourth quarter by an annualised 1,5%, following annualised growth of 1%, 1,5% and 2% in quarters three, two and one. This compares favourably, says the *Bulletin*, with abrupt changes in quarterly annualised growth in the past:

- From expansion of 4,5% in the four quarters immediately preceding the cyclical upper turning point of August 1981, to contraction at 1,5% in the next four; and
- Expansion of 7,5% in the four quarters immediately preceding the upper turning point of the 1983-1984 mini-boom in June 1984, to contraction at more than 2,5% in the following four quarters.

Growth in 1989 was 2%, down on 1988's 3,5% but better than the 1,5% average for 1980-1989. Sectoral trends were reversed in the fourth quarter. A "substantial decline in real value added by agriculture" was due to poorer weather, which clipped the wheat crop 40% in volume terms from 1988. Real value added in agriculture also fell back in the quarter for statistical reasons — nearly 80% of the near-record maize crop was harvested in the previous three months.

Overall growth in the earlier quarters of 1989 was sustained only by agriculture. Other sectors performed poorly.

An encouraging sign of subsiding demand was a 7% annualised decline in GDE, after falling 7,5% in the preceding three months. For the calendar year the drop was 1%.

Bad news, though, is that 1989 average real government consumption expenditure was 4,5% higher than in 1988. Impetus for this came in January-March, when government consumption expenditure soared by an annualised 40%. Thereafter, it declined. In the fourth quarter, "reductions in spending on intermediate goods and services more than offset further increases in real remuneration of employees" brought about a decline of 5,5% annualised, following declines of 8% and 6,5% in the previous quarters.

Money supply, of course, remains a worry, after the re-acceleration in growth in October and again in January. Observed monetary expansion in late-1989 to early-1990 was fuelled by, among other things, higher deposit rates, reintermediation, "liquidity preference proper" and expectations of further interest rate increases. So the alarming growth in M3 is partly technical.

Gross domestic fixed investment fell by 3%, "mostly accountable for by reductions in outlays by the private sector" — inevitable when growth slows.

What happened in first-quarter 1990 is not yet clear. Reserve Bank economics head Jaap Meijer says reports are conflicting. "Some observers believe there was a sharp brake after recent political developments. But this is not yet seen in the indicators." ■

FINANCIAL MAIL APRIL 13 1990

'Strong rand needed to curb inflation'

Cape Times 17/4/90

AUDREY D'ANGELO
Financial Editor

A FALLING exchange rate results in higher inflation. The Reserve Bank should therefore allow the rand to strengthen, in spite of the need to promote exports and protect the balance of payments, Standard Bank economists advise.

They concede, in their Economic Review, that an under-valued rand encourages exports and penalises imports — resulting in bigger current account surpluses and improved gold and foreign exchange reserves — and stimulates growth through export promotion.

"However," they point out, "such a weak-rand policy inevitably raises the domestic cost of foreign debt servicing and repayment.

"It also increases domestic price pressures as the cost of importing goods rises when the exchange rate falls."

The 32,6% rise in the imported component of the producer price index (PPI) between January 1985 and January 1986, at a time when international prices rose only slightly, showed the effect of the weakening of the rand in this period.

Price escalation

But, the Standard warns, "a more insidious effect of a sustained fall in the exchange rate over time is that international competition ceases to act as a check on domestic costs and prices.

"Price escalation results from the undesirable practice of 'import parity pricing', where local manufacturers in an environment of limited domestic competition often set their prices, not in terms of cost, but according to the cost of importing similar products from overseas suppliers.

"Moreover, domestic producers will not resist rising costs resulting from higher wages or inefficient productive techniques if protection from international competition is automatically provided by a weakening exchange rate."

Even exporters, they continue, "have little incentive to enhance their global competititiveness by introducing cost saving techniques if increased competitiveness is gained anyway from exchange rate depreciations.

"Thus a weak and declining exchange rate impacts negatively on domestic productive efficiency and therefore on long-term inflationary pressures."

Urging the Reserve Bank to resist calls to stimulate exports by pushing the rand down further than is required by capital flows, the Standard points out that the "significant slowdown" is already reflected in falling imports.

Political climate

"A healthy trade surplus is already being achieved and it now seems likely that a current account surplus approximately equal to anticipated capital outflows will be recorded in 1990.

"Moreover, improved political perceptions of this country could result in actual net capital outflows being somewhat smaller than the R2,4bn originally estimated.

"Under such circumstances, downward pressures on the rand may not be as severe as was initially feared. This may act as a spur to greater domestic productive efficiency and, therefore, lower inflation."

Inflation is 'our biggest headache'

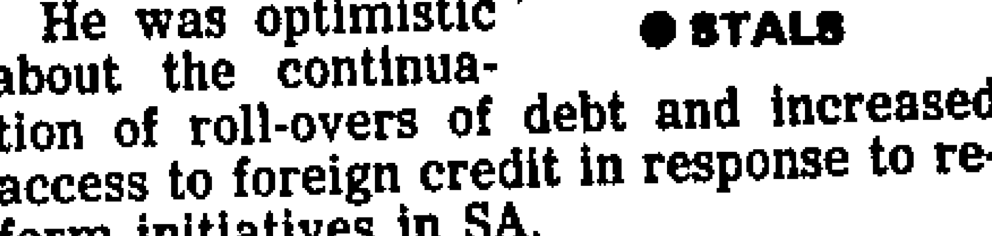
Debt hurdle easy to clear, says Stals

GRETA STEYN

THE balance of payments (BoP) is likely to continue defying expectations in the current quarter after a spectacular first three months, and SA is set to clear its foreign debt hurdle with unexpected ease.

Reserve Bank Governor Chris Stals said in an interview at the weekend it was unlikely SA would have to repay the full $2,2bn (R6bn) in foreign debt falling due this year. Most of the debt becomes payable in the second quarter.

"We are optimistic that many of the positive developments in the first quarter will continue into the second quarter. The BoP is not our major concern at the moment — inflation is," Stals said.



● STALS

He was optimistic about the continuation of roll-overs of debt and increased access to foreign credit in response to reform initiatives in SA.

In addition, he believed import volumes would drop considerably, as the economy appeared to be slowing down rapidly. Against a background of falling imports, the recent drop in the gold price was less worrying.

"Quite apart from politics, there are economic reasons why the turnaround in the BoP should continue. High interest rates and the squeeze on banks have made domestic credit increasingly scarce. At the same time, a stable exchange rate is helping the leads and lags situation."

Foreign creditors' perceptions of SA, because of political developments, were more positive now than a year ago, in spite of recent outbreaks of unrest.

"On balance, attitudes have improved since the release of ANC leader Nelson Mandela," said Stals.

It was this improvement in attitude that saw foreign banks increase the credit limits for SA trade-related finance, and arrange roll-overs of existing foreign debt including a portion of Eskom's. Almost all of Eskom's debt falling due in the first quarter had been rolled over.

"Early indications are that there was virtually no net capital outflow in the first quarter."

However, it was in the second quarter that SA would have to clear the hump. Stals remained emphatic policy could not be eased. The situation was volatile and the country had to be careful not to count its chickens before they hatched.

He added: "Even if the BoP is a success story, we have to bring inflation down.

☐ To Page 2

Debt hurdle

☐ From Page 1

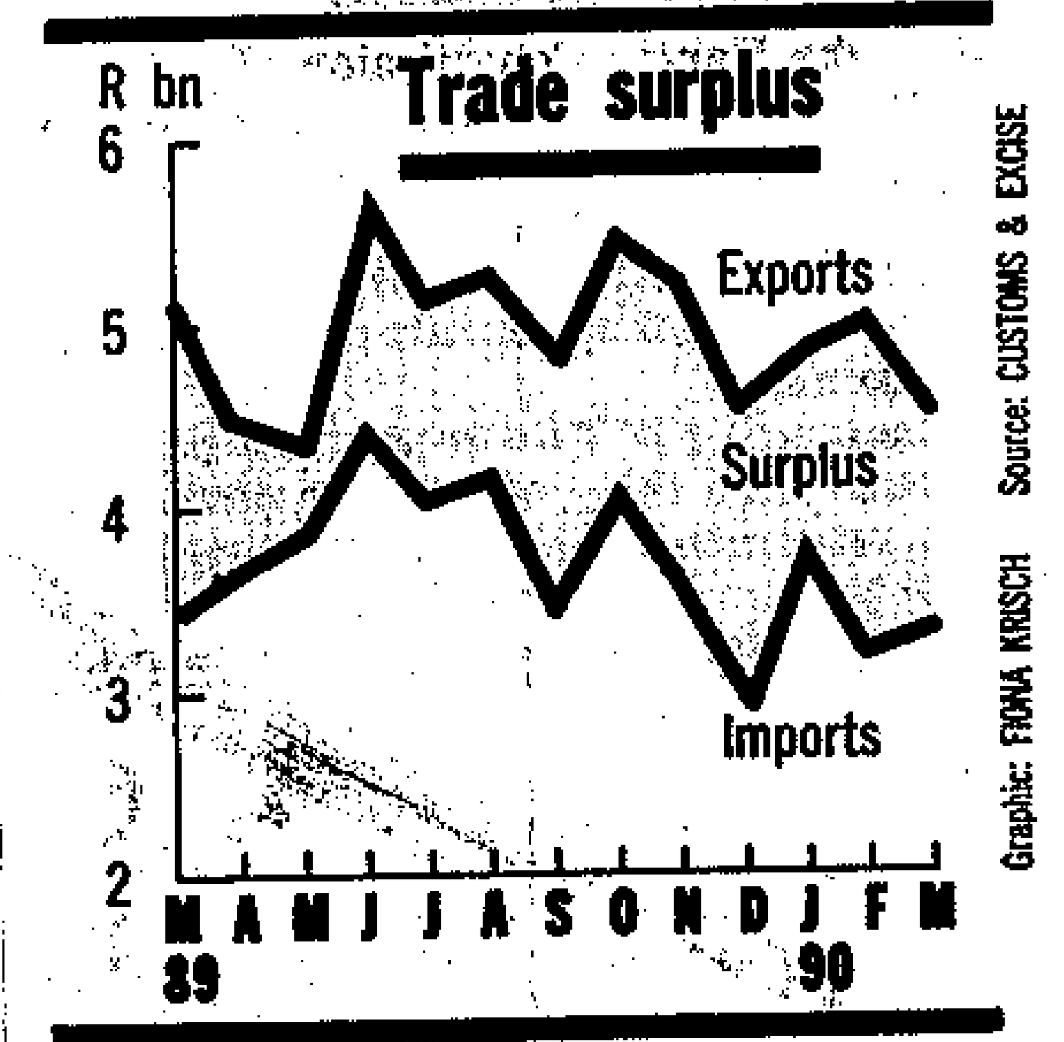
That is our biggest headache."

For the past two years, SA's current account surplus has not been enough to cover total capital outflows. Last year's current account balance of R4,1bn was extinguished by capital outflows of R5,6bn. By far the greatest portion (80%) of this was short-term outflows (R4,5bn) — largely a reflection of negative "leads and lags".

One of the reasons for the positive BoP in the first quarter was a decisive turnaround in the negative leads and lags situation of the past two years.

"A stable exchange rate and high interest rates in the first quarter should ensure these outflows are not a problem this year," Stals said.

A stable rand is a major weapon against negative leads and lags. Exporters "lag" when they believe the rand will depreciate by granting buyers extended payment periods. Those with foreign parent companies are able to keep proceeds in international bank accounts — especially popular when local interest rates are out of line with foreign rates. Importers "lead" payments, mainly when they believe the rand will depreciate.



SA trade surplus shrinks by a third

74

GRETA STEYN

SA's trade surplus shrank by about a third in March to R1,17bn from R1,77bn in February, but the monthly average for the first quarter is still on target to generate a healthy current account balance.

Customs and Excise figures released at the weekend showed exports fell by about 11% to R4,5bn and imports rose by about 2% to R3,33bn.

According to Safto economist Bruce Donald, the surplus in dollar terms was down to $400m from $700m, which he ascribed to the lower average gold price of $393,70/oz in March compared with February's $416,50. BDay 23/4/90

However, the average trade surplus for the first three months bodes well for the year as a whole. If that average continues for the full year, SA will achieve a trade surplus of more than R15bn and a current account surplus of about R7bn, depending on net service payments. Such a large current account balance will cover SA's foreign debt commitments for the year.

Non-gold exports and the weak growth in imports are underpinning the healthy trade performance. During the first three months, exports rose by about 12% and imports by about 4%. The unclassified category — mainly bullion — fell by 1% over the period. Donald said this reflected the poor performance of the gold and platinum group metals in recent months.

Excluding the unclassified category, exports rose by 23% with most of this growth coming from minerals (43%) and diamonds (55%). Base metals grew by only 3%.

Barend declares a 'soft landing'

B/Day 25/4/90.

Reserves at highest level in 30 months

MIKE ROBERTSON

CAPE TOWN — SA's gold and forex reserves stood at R8,3bn at the end of February this year, the highest level since October 1987, Finance Minister Barend du Plessis said yesterday.

Speaking in the debate on his budget vote in Parliament, Du Plessis said the downturn in the economy was being weathered far better than was the previous one in the mid-1980s.

"We are seeing the positive results of measures taken, in the form of what is popularly known as a soft landing," he said.

Du Plessis said R8,3bn constituted only about 1,5 months of export cover, and government was seeking to double this ratio. "There can thus still be no question of relaxing exchange control."

Although it was still too early to give figures for the first quarter, there were indications there had been a considerable improvement on the capital account which, together with a surplus on the current account, would result in a large increase in net foreign reserves. A R2,9bn increase in net foreign reserves was recorded in January and February.

But while it was clear the economy was heading for a soft landing, there were a number of disturbing tendencies which made it necessary to continue applying strict monetary and fiscal policies.

"The most disturbing factor was the continuing increase in labour costs, combined with declining productivity.

"The authorities have done their part — by monetary and fiscal discipline and wage restraint — to reduce inflation, but this stands to be negated by inordinate wage increases."

Fighting inflation continued to be a main priority, and the fact that the inflation rate was 14,9% in March (higher than last year's 14,7% average) was a reminder that much still had to be achieved.

However, the sharp decline in the rate of increase of the production price index from a high point of 15,8% in May last year to 12,9% in February this year was an indication that forces were at work exerting downward pressure on inflation.

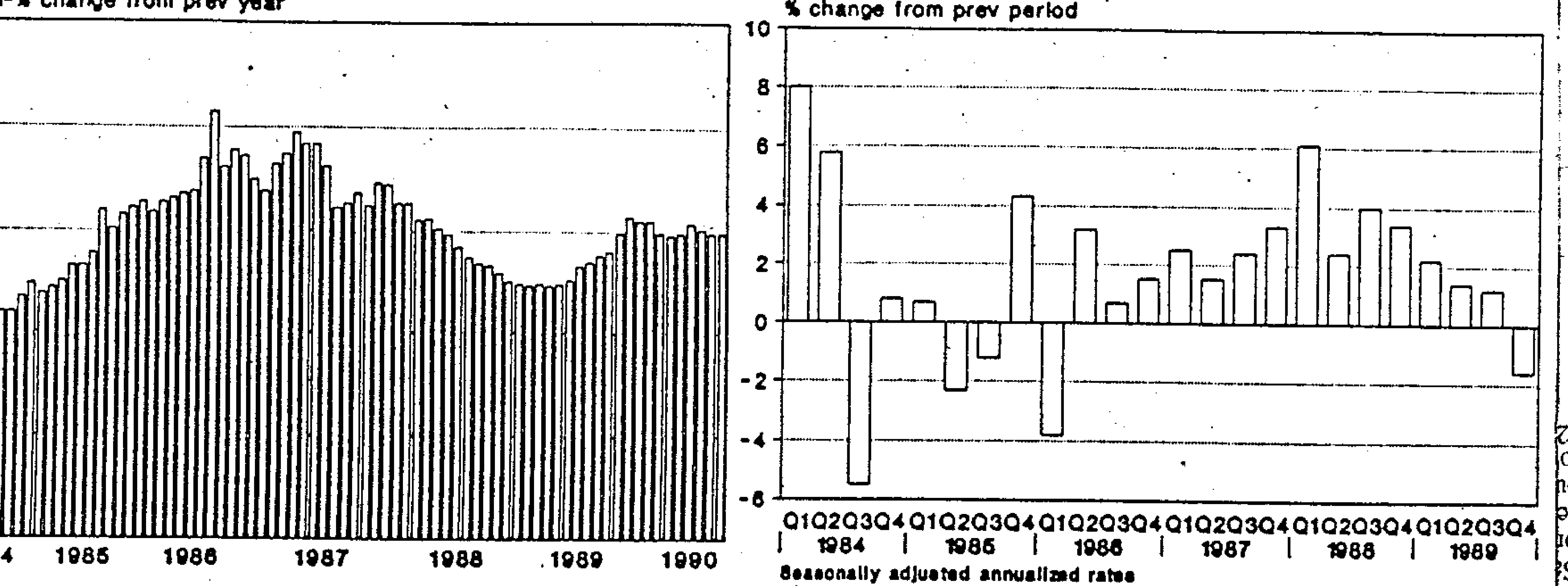
A further worrying factor was that the 21,4% growth in M-3 in February was far outside the target of between 11% and 15% for the period between the fourth quarter of 1989 and the fourth quarter this year.

Despite high interest rates and a more restrictive policy of accommodation by the Reserve Bank, the granting of credit by monetary institutions still remained at unacceptable levels.

But it was clear the present downturn was being weathered far more easily than was the previous one, Du Plessis said.

"The private sector is now much better geared to the required stabilisation measures, and the regrettable but unavoidable toll of the downswing has been much lighter. Indeed, one could say confidence has continued so high through 1989 and even into 1990 that the cooling-down measures have taken some time to bite."

● Comment: Page 10



The graphs indicate that consumer price inflation has eased (left) while real GDP (right) has slowed

w/Mail 4/5 - 10/5/90

Battle against inflation will keep interest rates high

Weekly Mail Reporter

BUSINESSES and individuals with high levels of credit should prepare to tighten their belts. Interest rates are likely to stay high for some time, concludes the Standard Bank in its latest *Review*.

This is a consequence of the switch in emphasis of economic policy from boosting the surplus on the current account of the balance of payments to combating inflation.

The main priorities in 1988 and last year were the short-term needs of slowing the real economy and boosting the current account surplus.

The government can change tack in the direction of economic policy, towards longer term objectives, because of an improvement in the current account surplus, to the point where gold and foreign exchange reserves rose in the first three months of this year, reversing the downward trend which began at the end of 1987.

The slowing of the economy in response to the progressive tightening of monetary conditions since the beginning of 1988 has reversed the growth of domestic demand and imports have fallen.

"Moreover," the *Review* continues, "more favourable political perceptions of South Africa abroad have resulted in improved access to foreign capital markets and it now seems probable that foreign debt repayments in 1990 will be met without undue difficulty."

Monetary policy is now directed at combating inflation and, to this end, reducing the high rates of growth in money supply and credit extension of recent years.

The emphasis of fiscal policy has also changed. "Thus, although the the 1990/91 Budget will attempt to maintain a pattern of government spending and income that is compatible with short-term economic stabilisation, new emphasis has been given towards attaining longer-term structural and socio-economic priorities.

"The shifts in policy will have important economic consequences. They will impact on both the level and direction of government spending, and interest rates will remain higher for longer than was previously anticipated because significant declines in inflation are unlikely in the short-term."

The good news is that the dampening effect on domestic demand of higher interest rates will continue to boost the current account surplus, the *Review* says. This is fortunate because the continuing weak gold price and weaker international commodity prices are likely to cut into export earnings this year. Also, big foreign debt repayments are due beyond 1990 and, despite recent increases, gold and foreign exchange reserves are still too low.

"Thus," the *Review* cautions, "while the prime policy objectives for the remainder of 1990 will be the reduction of inflation and the achievement of socio-economic goals, the authorities will be forced to steer a narrow line between reducing inflation and avoiding economic recession."

CPI-% change from prev year

% change from prev period

Seasonally adjusted annualized rates

The graphs indicate that consumer price inflation has eased (left) while real GDP (right) has slowed

W/Mail 4/5-10/5/90

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Economic growth rate expected to come to a halt this year

Star 7/5/90

South Africa's economic growth rate is expected to come to a halt this year, the United Building Society says in its latest Economic Monitor.

It says the strains on the country's reserves do not allow for an economic growth rate of more than one percent.

Moreover, the authorities' determined anti-inflation stance, including their opposition to fiscal stimulation, may depress gross domestic expenditure by about 1,5 percent.

Real expenditure on fixed investment may deteriorate even faster and may be accompanied by a substantial reduction in inventory levels.

These declines in aggregate demand are expected to reduce real imports by about three percent.

On the other hand, the lacklustre performance of gold and a weakening in the world economy will result in only a 2,5 percent increase in the country's real exports.

The outlook for inflation, however, is more encouraging than it was for 1989.

The effects of the monetary authorities' anti-inflationary policy is already evident in the tapering off of the money supply growth, which is likely to fall about 17 percent by year-end, or two percent above the upper M3 growth target.

Major inflationary pressures remain the real wage increases greater than any improvement in productivity and the expected fall in the dollar-rand exchange to around R2,95 at year-end.

Commenting on expected developments in the money market, the United says the downward adjustment of the M3-growth target from a 14-18 percent range to 11-15 percent for 1990 reflects the seriousness of the monetary authorities' current anti-inflationary policy.

The bank rate is expected to remain at its current level of 18 percent until well into the third quarter of 1990.

In the second half of the year, a moderate decline in interest rates my be expected, and a bank rate of about 17 percent, or a prime rate of 20 percent, the United says. — Sapa

Foreign debt payments eat into reserves

GRETA STEYN

THE first large foreign debt repayments this year — about $200m — ate into SA's gold and foreign exchange reserves in April and the heat is still on as further repayments will be made in May and June.

But the dramatic improvement in reserves in the first quarter has ensured SA can meet the payments with relative ease. Continued strength of the current account of the BoP should also lessen pressure.

Reserve Bank figures released yesterday showed the Bank's holding of gold and foreign assets fell R429m to R5,48bn.

While the value of gold holdings was up slightly (by R52m to R3,19bn), the currency component was down sharply (by R481m to R2,28bn). But Bank Governor Chris Stals said the fall was expected and was not a cause for concern.

"About $200m was repaid in debt that had been converted from inside the standstill net to outside in terms of the first agreement with our foreign creditors. Another payment will be made this month."

He said another reason for the weaker performance of the reserves in April was that gold swaps had been rolled over at a lower gold price, which meant an outflow of foreign exchange.

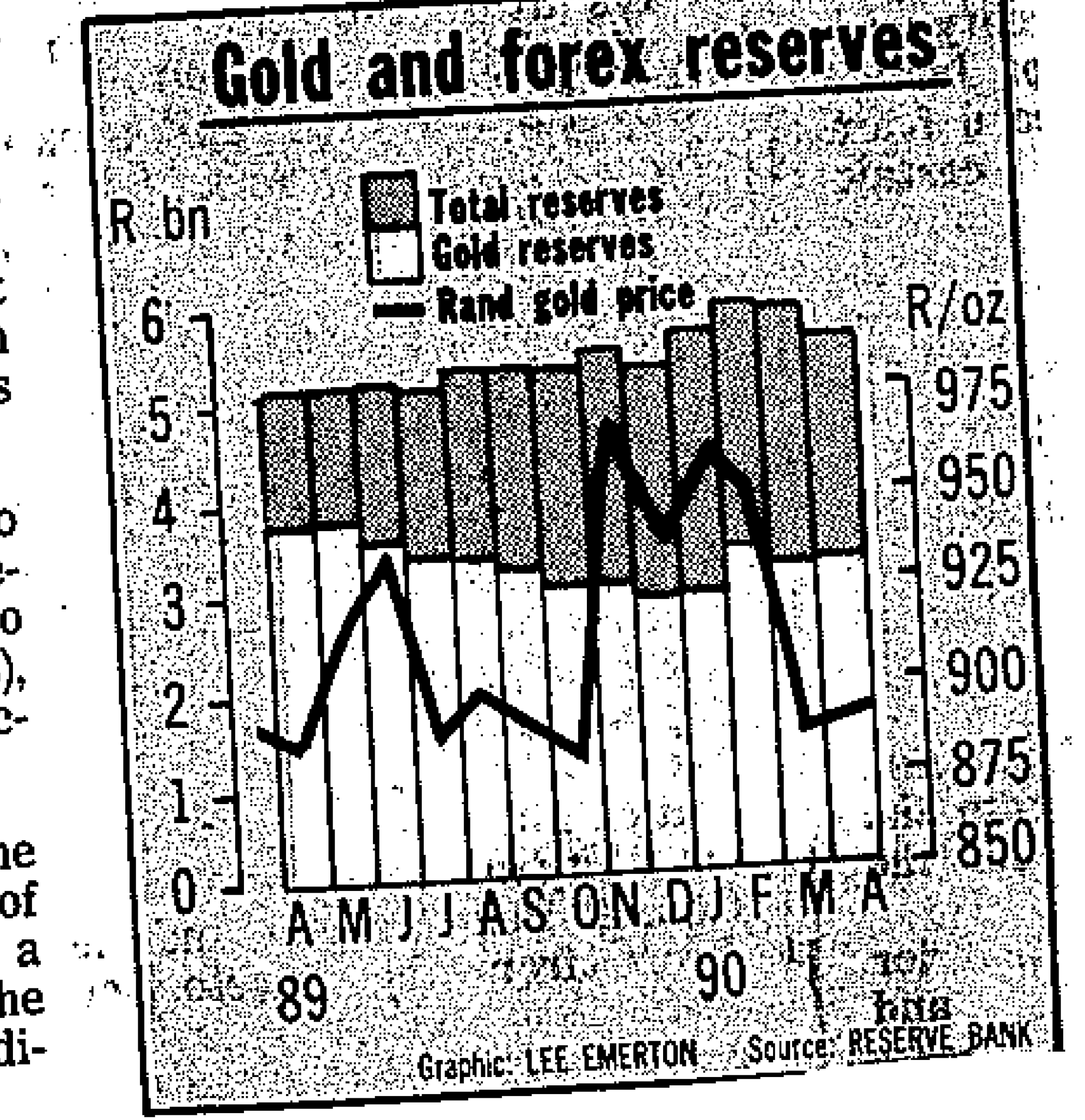
But the reserves had held up well — the decline was less than the foreign debt payments had been (more than R500m).

The Bank's "worst case" estimate of foreign debt payments for the year was $2,2bn (about R5,8bn) but Stals has indicated that "a portion" would be rolled over because of improved perceptions of SA.

Most of the debt falls due in the current quarter and the aim to build reserves can be resumed only after these big payments have been made.

Stals has stated his policy objective is to build up the country's reserves — the Reserve Bank's and the banking sector's — to at least R16bn (three months' imports), "before we can relax on our policy objective in this regard".

The country's reserves (including the banking sector) were R8bn at the end of February. Figures for the country as a whole are not released monthly, but the changes in the Bank's figures usually indicate the overall trend.



Gold, forex reserves fall as debt is repaid

STAR 9/5/90 Finance Staff (74)

South Africa's gold and foreign exchange reserve fell by by R429 million to R5,47 billion in April, as the country met a large foreign debt commitment of $200 million over the month.

Economists said yesterday that in view of the large repayments, which equal about R500 million, the reserves actually held up well as they declined less than the debt commitments.

Most of the country's foreign debt repayments are due in the current quarter, but the boost to the net reserves of about R3 billion during the first three months, should ensure that these commitments are easily met.

It is also likely that a substantial portion of the total $2,2 billion debt this year will be rolled over in view of recent political developments.

The value of gold holdings during March declined by R51,7 million to R3,19 billion, although the gold holdings rose by 39 777 ounces to 3,58 million ounces.

Gold was valued at April 30 at R891,23 against R886,65 on March 31.

The foreign exchange reserves fell from R2,76 billion to R2,28 billion.

Government deposits dropped by R474 million to R8,7 billion.

GOVERNMENT DEFICITS

Going down

In most industrial countries the central governments' deficits before borrowing have been steadily declining since the average for 22 countries peaked at 5,7% of GDP in 1983. The IMF's 1989 edition of *Government Finance Statistics Yearbook* records that,

by 1988, it was down to 3,5%.

"The US deficit, which was 6,2% of GDP in 1983, dropped sharply to an estimated 3,3% in 1988. In Japan the central government budget, which excludes social security and extra-budgetary operations, had a deficit of 4,8% of GDP in 1986 and 3,5% in 1987."

Industrial countries, which did not experience a decline in the deficit, were Italy, Norway and Portugal.

In developing countries deficits averaged 5,4% of GDP in 1987 and were only slightly down from 6% in 1986. This was "somewhat above the levels typical of the Seventies. In Asia, for example, the deficit averaged 5% of GDP in 1987, compared with 3,9% annually from 1978 to 1980. More strikingly, developing countries in the Western Hemisphere had an average deficit of 7,2% of GDP in 1987, compared with 1,8% a year from 1978 to 1980."

Most African countries have maintained their fiscal deficit roughly at a constant share of GDP. The Middle East has experienced fluctuations which make generalisation pointless — "Israel, for example, ran a deficit of more than 10% of GDP a year for the decade to 1984 yet in 1986 achieved a small surplus."

Most of the change has come in central government expenditure and net lending, with revenue changing little in most countries since 1981.

Dropping deficits

Central government deficits, % of GDP

%
7
6
5
4
3
2
'78 '79 '80 '81 '82 '83 '84 '85 '86 '87 '88

Developing countries
Industrial countries

Source: IMF

The *Yearbook* provides details of 124 countries on central government revenue, grants, expenditure, lending, financing, debt, social security funds and extra budgetary accounts. ■

Low interest rates a thing of the past

Finance Staff STAR 11/5/90

Low interest rates are a thing of the past — but this is healthy development for capital formation, says Johannesburg Stock Exchange president Mr Tony Norton.

Low and un-realistic interest rates had been a cancer in the economy, he told a meeting of the Burgerspark Business Club.

Mr Norton said interest rates below inflation encouraged people to misallocate capital and to invest in lower-return projects, while encouraging imports and boosting inflation.

Mr Norton said it was essential for good economies to have real interest rates to encourage savings, and to discourage the poor allocation of capital.

Government policy was to move towards making saving easier — such as tax treatment to encourage savings and through easier access to the sharemarket — "which was long overdue".

"There are enormous grounds for optimism with regard to the capital segment. Previously political considerations overrode the needs of the economy. Now that has changed," he said.

The four classic factors of capital production are land or resources, entrepreneurship, labour or skills, and capital.

With regard to capital, Mr Norton said South Africa was a capital-exporting country, which placed an enormous damper on the economy.

Growth rate

Keeping a surplus on the current account of the balance of payments had reduced South Africa's growth rate between four and five percent, to one or two percent, and the country needed to use capital better.

"The pattern and nature of saving in South Africa has swung in the last two decades from balance to total imbalance. The government has become a dissaver, and individual savings are pathetic," he said.

Turning to capital mobility, Mr Norton said if people could invest in the stock market and get out in quantity without disturbing the price, it resulted in premium marketability.

"If people are able to invest liquid capital in the stock market it lowers the cost of capital, and ultimately lowers the cost of products domestically and for export," he said.

He said the JSE had tried to pursue wider capital markets, but the volume of trade on the JSE represented only five percent of its capitalisation compared with a worldwide average of about 50 percent.

Mr Norton said there was no adequate capital mobility and the JSE did not have the resources to cope with increased volumes. At present the stock exchange was R60 million in debt.

SA clears the debt hurdles with ease

S/Times 13/5/90 (74)

FEARS of a foreign debt crunch have vanished as South Africa moves into peak repayments.

By Ian Smith

The heavy payments due to be made this month and in June will be met with ease, and hopes have strengthened that a large part of the total R6-billion due for repayment this year will be rolled over.

Some economists believe that as much as 30% could be re-funded.

Reserve Bank senior Deputy Governor Jan Lombard says the bank is successfully renewing facilties with European banks.

"In some cases we have been offered extensions for amounts of R100-million or more. I am confident that that will continue to happen.

"We are gradually returning to world capital markets with the re-funding of some maturing bearer bonds."

Dramatic

About R1-billion is due to meet maturing bearer bonds this year, but Dr Lombard says the Reserve Bank has had "indications" that a large part of this could be re-funded.

A considerable amount is also due on export credit finance and project finance agreements. But that is often balanced by new agreements, and there is no sign of a slackening.

The dramatic improvement in the debt position — viewed with considerable trepidation only a year ago — is largely due to the improvement in foreign views of SA's future.

But the continued improvement in the domestic economy as the Reserve Bank keeps stringent measures in place to shore up the balance of payments has played a part in inspiring confidence.

Dr Lombard says: "We are keeping the reins on the domestic economy tight to keep up the surplus on the current account of the balance of payments."

The first foreign debt repayments this year of $200-million have been made, and more is due soon as debts rolled over in the first agreement with foreign creditors three years ago become due again.

But facilities with foreign banks for R2,5-billion which were drawn in the second half of last year and early this year have been repaid, clearing the way for further assistance.

Dr Lombard says the negotiating climate abroad is much easier after political changes in SA. If President De Klerk completes his foreign tour with as much success as it started, the going could be even easier.

Even the leads and lags from short-term trade financing worked in SA's favour in the first quarter of the year. But the Reserve Bank will have to remain sensitive to European interest rates and be ready to act quickly to deal with any adverse movement.

Inflation

Most of the indications are that the balance of payments is continuing its strong improvement of the first quarter of the year.

Reserve Bank Governor Chris Stals supports this view, saying: "We are optimistic that many of the positive developments of the first quarter will continue into the second. The balance of payments is not our major concern — inflation is."

The increase in gold and foreign reserves in the first quarter reversed the downward trend which began at the end of 1987.

The Standard Bank Re-

● To Page 3

WILLEM VAN WYK . . . it's all very embarrassing

Iscor victim of the unforeseen

S/Times 13/5/90

By Don Robertson

MIGHTY Iscor, which came to the JSE six months ago in South Africa's biggest listing, has been knocked back more than a peg or two.

Recognition of the fact that Iscor will not meet its prospectus forecast in its first year has caused a huge rerating by analysts and stockbrokers. It also raises questions about the Government's privatisation plans, particularly because of black opposition to them.

Managing director Willem van Wyk acknowledges that questions will be asked about the change in Iscor's fortunes only six months after the issue of the listing raised more than R3-billion for the State.

"It is very embarrassing," he says.

Modest

Although earnings for the six months to December were in line with the forecast 20% increase, various factors forced the directors to predict a decline in the second half. Profits for the year will show only a modest improvement.

First-half profits were 20.2% higher at R426-million compared with R354-million in the first six months of the previous year. Earnings were 23c a share against 19,1c and an interim dividend of 5,4c was paid.

However, some brokers believe that the company's potential was overstated in the prospectus. The share

the Vanderbijlpark works hurt production. It took two months to repair. An international steel glut added to Iscor's troubles.

World traders sold excess stock and prices of low-value products fell by about 5%. Prices of high-value cold rolled steel shed as much as 20%. The sales mix also altered with a fall in demand for high-value consumer products, says Mr Van Wyk.

The oversupply could not have been foreseen. There were no indications at the International Iron and Steel Institute meeting last October that the market would change, but it became clear in November that conditions were deteriorating.

Mr Van Wyks says: "At that stage we thought we could easily make the forecast as we were conservative in the prospectus. We knew the SA economy would slow down, but we had made provision for it."

In spite of these hiccups, iron and steel sales are expected to be in line with forecasts and will be about the same as last year.

But all is not gloom. There are indications that steel prices have bottomed and the rand has declined from its January peak.

Mr Van Wyk says there are already indications that the market is improving and it should be much better by the end of the year. The freeing of economies in Eastern Europe is also expected to have a positive influence.

Outlook

Forecasts are now for an earnings growth of about 9% in the current year and 13% in 1991.

Acknowledging that the company has lost credibility, Mr Van Wyk says the directors have made every effort to tell brokers, customers and the media about the difficulties.

However, one broking firm says that although the outlook for the next 18 months is for modest growth, there is value in the share in the longer term. Factors which should support the price include the attractive yield, excellent tradeability and the large discount of the conservatively stated net asset value.

Waltons gets over the fall

S/Times 13/5/90

By David Carte

WALTONS Stationery has regained its footing

SA debt

● From Page 1

view says an important shift in the direction of economic policy has taken place as a result of the improvements.

"The focus of policy has moved away from the short-term needs of slowing the real economy and boosting the current account surplus, which were the main priorities in 1988 and 1989, towards addressing longer-term issues.

"More specifically, monetary policy is now directed at combating inflation and, to this end, reducing the very high rates of growth of money supply and credit extension which have occurred in recent years."

S/Times 13/5/90 (74)

Fears of recession as GDP declines for successive quarters

By Sven Lünsche

Further evidence emerged yesterday that the South African economy is heading for a prolonged slowdown, if not a temporary recession.

The Central Statistical Services reported in Pretoria yesterday that the seasonally adjusted total real gross domestic product (GDP) dropped for the second consecutive quarter.

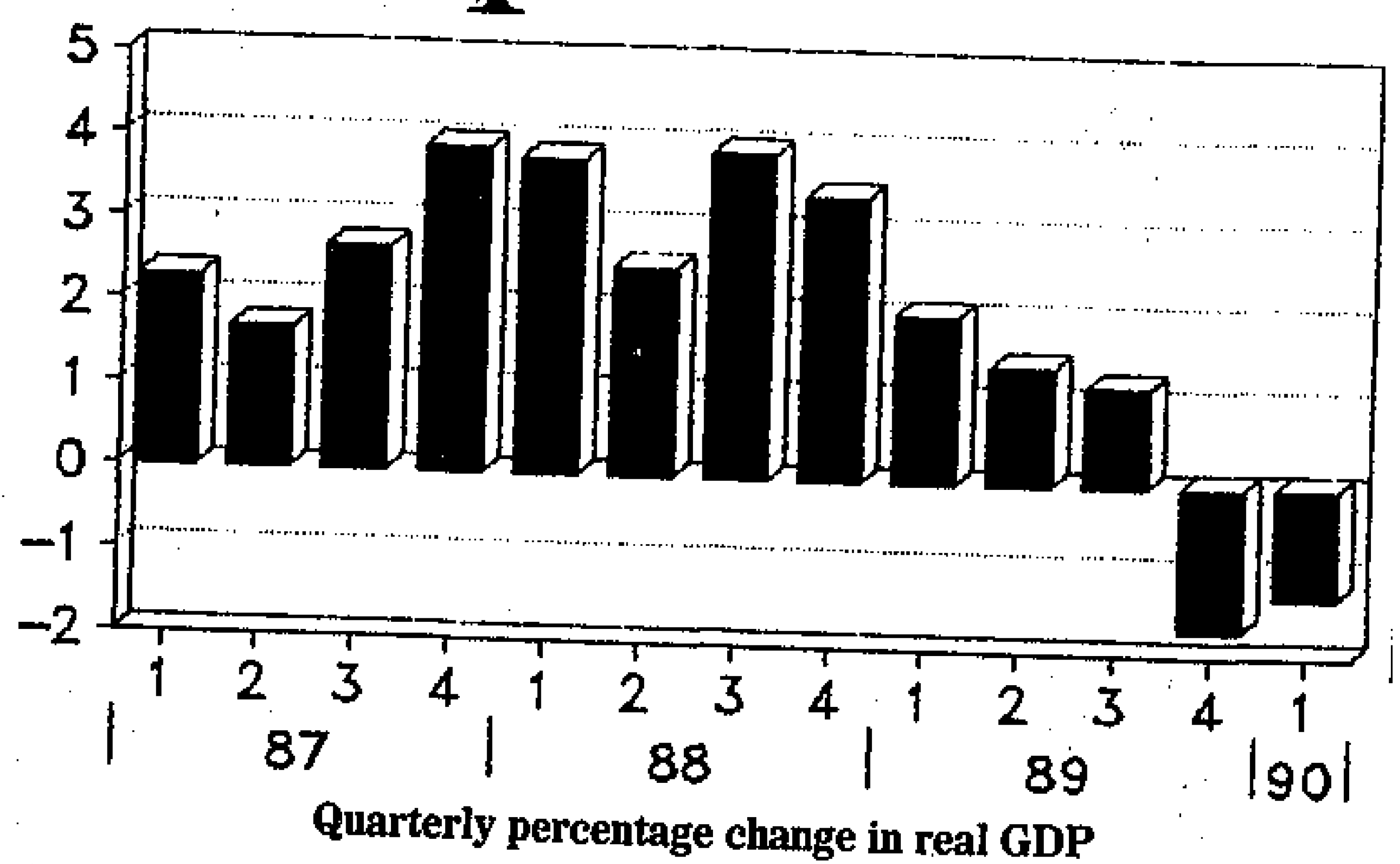
According to preliminary indicators, GDP dropped by 1,4 percent in the first quarter of 1990, against a decline of 1,7 percent in the fourth quarter of 1989 — at both seasonally adjusted rates and at market prices.

Growth in GDP has slowed since the third quarter of 1988 in response to the tighter fiscal and monetary policies applied by the authorities.

As economic growth for the whole of 1989 still managed a respectable 2,1 percent it seemed likely that the authorities had achieved their goal of guiding the economy to a soft landing before a more robust upswing could be initiated.

However, latest economic evidence suggests that hopes for the recovery later this year seem premature.

The squeeze has been felt mostly at grassroot level. Liquidations in the first quarter this year were up by a massive 40,5 percent on the same period last year, banks have been increasing their provisions for bad debt and car sales plunged by a year-on-year 20,2 percent in April.



Quarterly percentage change in real GDP

Most importantly, the results of major retailing groups are beginning to look extremely unhealthy.

OK Bazaars reported a sales decline in real terms of about two percent for the year to end-March.

While many economists continue to suggest that South Africa will prove to be in a technical recession defined as two successive quarters of negative growth, some are revising their initial estimates of GDP growth of about one percent this year.

The Bureau for Economic Research at Stellenbosch University for one is likely to readjust its growth prediction of 0,8 percent this year — it is based on a first quarter positive GDP growth estimate of 0,7 percent.

The CSS figures show that seasonally adjusted real GDP of the non-agricultural sector declined by 0,7 percent in the first quarter of 1990, compared with the fourth quarter of 1989.

The real production of the mining sector dropped sharply by about 12 percent in the first three months of the year, while agricultural production decreased by about 10 percent.

BDay 16/5/90

Du Plessis correct to repay govt debt to Reserve Bank

(74)

HAROLD FRIDJHON

WHETHER or not the Treasury should repay losses incurred by the Reserve Bank in giving forward foreign exchange cover is an issue being debated among economists.

The discussion has been stimulated by the argument that the bill for the forward cover service had already been met by an inflated money supply, so the suffering by the taxpayer had already happened.

According to this argument, the R3bn in the 1989/90 Budget's "surplus after borrowing" had to be frozen somewhere, and the fact that Finance Minister Barend du Plessis used it to reduce the Reserve Bank's foward cover losses is essentially meaningless.

The opposing view, however, claims this interpretation needs closer examination. While it is agreed the imperative essential is that the R3bn must be frozen somewhere, several technical aspects need further analysis.

Firstly the bill for the taxpayer's "suffering" was not met by the increase in the money supply. He suffered from the excessive taxes which he paid in the last fiscal year. These — and the Treasury's over-borrowing — produced the surplus which enabled Finance Minister Barend du Plessis to repay part of the Treasury's bill to the Reserve Bank.

And the same over-taxation more than helped to offset the increase in the money supply which was created when the Reserve Bank pumped cash into the system as forward cover transactions were rolled over.

Growth

Higher taxes take cash out of the private sector, transferring it to the Treasury. Cash in the hands of the Exchequer is not included in the computation of money supply which is the total cash and deposits — short, medium and long — in the banks, building societies and the post office.

There is, however, another aspect which must be considered, and that is the growth of "other assets" in the Reserve Bank's balance sheet. The government's debt to the Bank is by far the larger portion of the "other assets".

If the Reserve Bank continues to take a hefty annual knock on the forward cover contracts — incurred largely by the parastatals — the Treasury's debt to the Bank will continue to mount. "Other assets" have grown from R2bn in 1982 to R15,8bn at the end of 1989, when it was the largest item on the asset side of the balance sheet.

If that debt is not reduced it could become a significant never-never debt — like the Brazilian/Argentinian/et-al debts to the US banks. It will in fact be a non-performing asset earning no interest. If normal accounting procedures applied, and if that debt were to continue to grow, would not the auditors be required to qualify the Bank's annual accounts?

By reducing its debt to the Bank, the Treasury followed a better course than tucking away the R3bn in the so-called stabilisation account. It has not been unknown for finance ministers to withdraw funds from the stabilisation account when they were hard put. Money in that account is not "destroyed"; it is put in the deep freeze.

But if the Treasury repays the Bank, that money is totally destroyed, out of reach now and in the future when a minister-to-come might want to produce cash out of the rabbit's hat to set off on a course of financial profligacy. And that is something we don't need; our grandchildren have suffered enough from past excesses.

RESERVES

(74)

FM 18/5/90

We apologise for the error in our report last week on April foreign exchange reserves. The reserves did not rise but actually fell R429m (US$161m) that month to R5,5bn ($2,1bn). A R481m ($181m) drop in foreign exchange, to just under R2,3bn ($859m), was only slightly offset by a R52m ($20m) gain by gold holdings, to R3,2bn ($1,2bn).

Most of the drop was due to more than R500m (about $200m) in debt repayments in April. Econometrix chief economist Azar Jammine says a decline in export income also played a role, with declining volumes as the world economy weakens and a lower gold price. Commodity prices, despite recovering slightly, are also still well below those of last year.

The gold price edged up from March's R887 ($334) an ounce to R891 ($335). Gold holdings of 3,58m oz fell 40 000 oz.

SAVINGS F/M 18/5/90 (74)

Cause or effect?

A surplus or deficit on the current account of a country's BoP is not in itself a problem, says an occasional paper published by the IMF. It can be "benign" as long as it is the result of people making the most of saving and investment opportunities.

But an external imbalance may be a symptom of distortions in the economy. If it is, it's likely to prolong the distortions and, eventually, the delayed adjustment will be abrupt and costly. Moreover, the impact will be felt not only in the country concerned but in others linked by trade and investment.

The study, prompted by concern over the consequences of declining international saving rates, tracks the relationship between saving and external imbalances over the period 1965 to 1987 (**see graph**). "Shifts in saving patterns of major industrial countries since the early Eighties have been associated with the emergence of large and persistent external imbalances among these countries."

An analysis of combined saving in the US, Japan, West Germany, the UK and Canada, shows the decline in national saving rates during the Seventies and early Eighties is due mainly to a drop in government saving. "From 1973 to 1983, when gross national saving in these five countries fell by 5,5% of GNP, some 4,7 percentage points was attributable to the government sector and the rest to households. Business saving rose slightly."

There are wide discrepancies in savings rates.

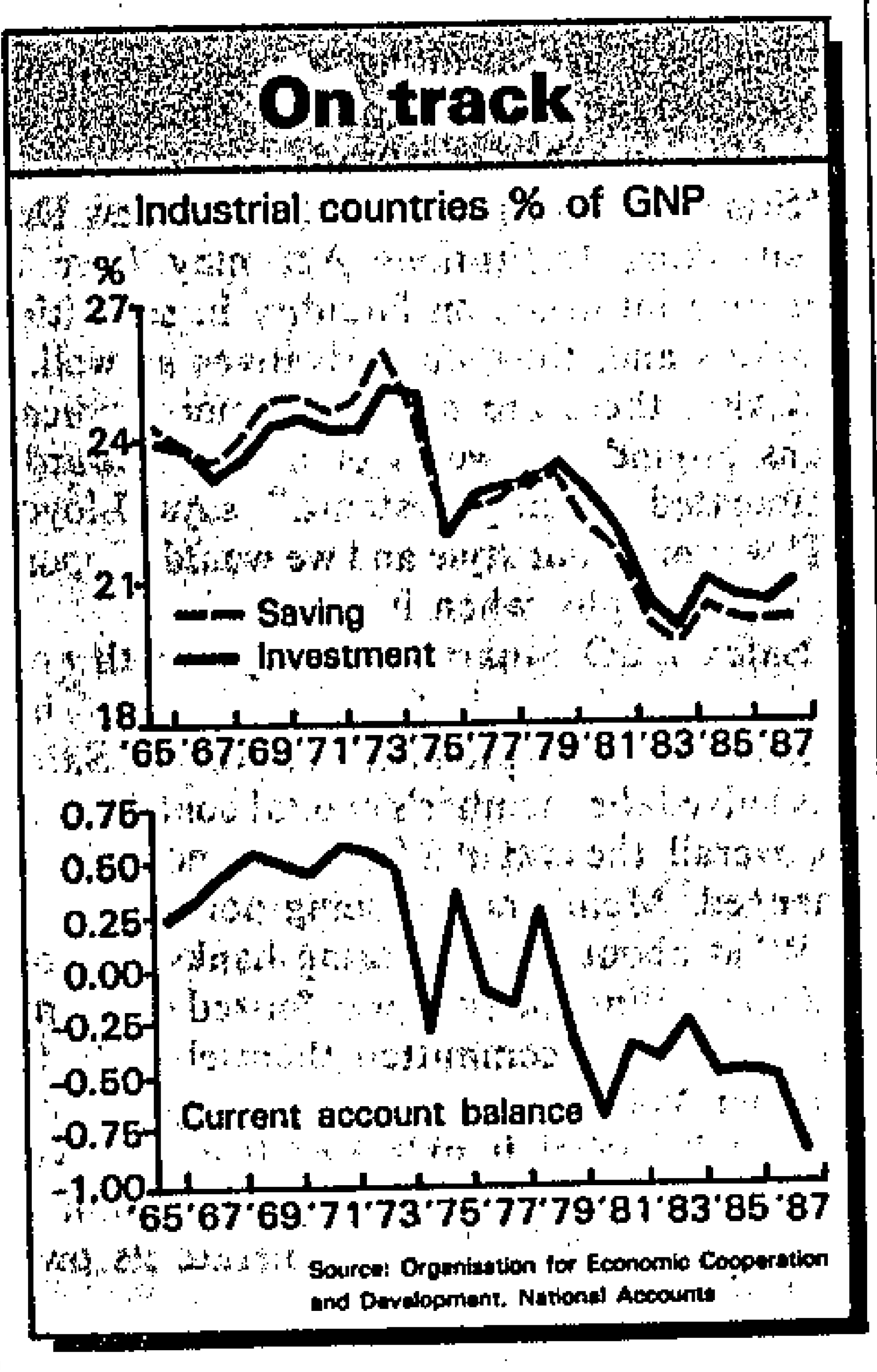
Between 1982 and 1987, gross saving as a percentage of gross national product was 42,67% in Luxembourg, 31,1% in Japan, 28,53% in Norway, and 27,7% in Switzerland. Lowest rate of saving in the period among industrialised countries was Denmark with 14,9%.

The shrinkage in savings in the developed world, together with a reluctance to lend to countries with bad debt records, has had consequences for developing countries.

They've had to rely on their own resources at a time when these have been shrinking — savings in developing countries declined from an average 27% of national income between 1976 and 1981, to 22,5% in 1982-1988.

"This aggregate result conceals a wide variety of experiences among country groups," with countries in the Middle East and Africa recording by far the sharpest decline after 1982. This was because the "growth rate of consumption declined by much less than that of national income in the Eighties." Asian and European countries "were able to prevent a fall in the saving ratio by holding the growth rate of consumption broadly in line with that of national income."

The downward trends in saving (and investment) have been accompanied by a slowdown of economic growth in developing countries, particularly those with debt servicing problems. The cause, however, is not clear and the cycle may have been triggered by saving, investment or growth declines, says the paper. The alternative hypotheses are not mutually exclusive and their relative roles have been different in different countries, it concludes. ■



Source: Organisation for Economic Cooperation and Development. National Accounts

Concern over trade surplus showing

CAPE TIMES 19/5/90

74

By ARI JACOBSON

SA'S TRADE surplus has continued to retreat, registering R969,9m in April from a R1,2bn low in March — a troubling development for a country attempting to accumulate funds to cover its hefty debt repayments.

Southern Life's economist Mike Daly said April's trade surplus figures were the lowest since September 1989 — a markedly poor performance when viewed alongside foreign debt commitments coming on stream in May and June, coupled with the country's preoccupation with foreign reserve build-ups.

"Imports at R3,63bn have risen over the last two months, but monthly figures are notoriously volatile and may be bulk orders all coming through in a single month."

Daly pointed out the need to maintain a steadily rising trade surplus to achieve the monetary authorities targeted surplus levels of about R6bn for the year.

The deteriorating trade position resulted from a R300m jump in imports which was marginally recouped with exports R100m higher for the month at R4,6bn (R4,5bn).

However a trade surplus that ducks under R1bn a month fails to cover service payments to foreigners by way of salaries, dividends and interest, which amounts to roughly the same amount.

A R1,5bn surplus is required to amass R500m on a monthly basis — which provides the accumulated trade surplus deemed necessary on an annualised basis.

Old Mutual's economist Dave Mohr said the poor showing on the trade account would force monetary policy to remain tight to curb the growth in the import bill.

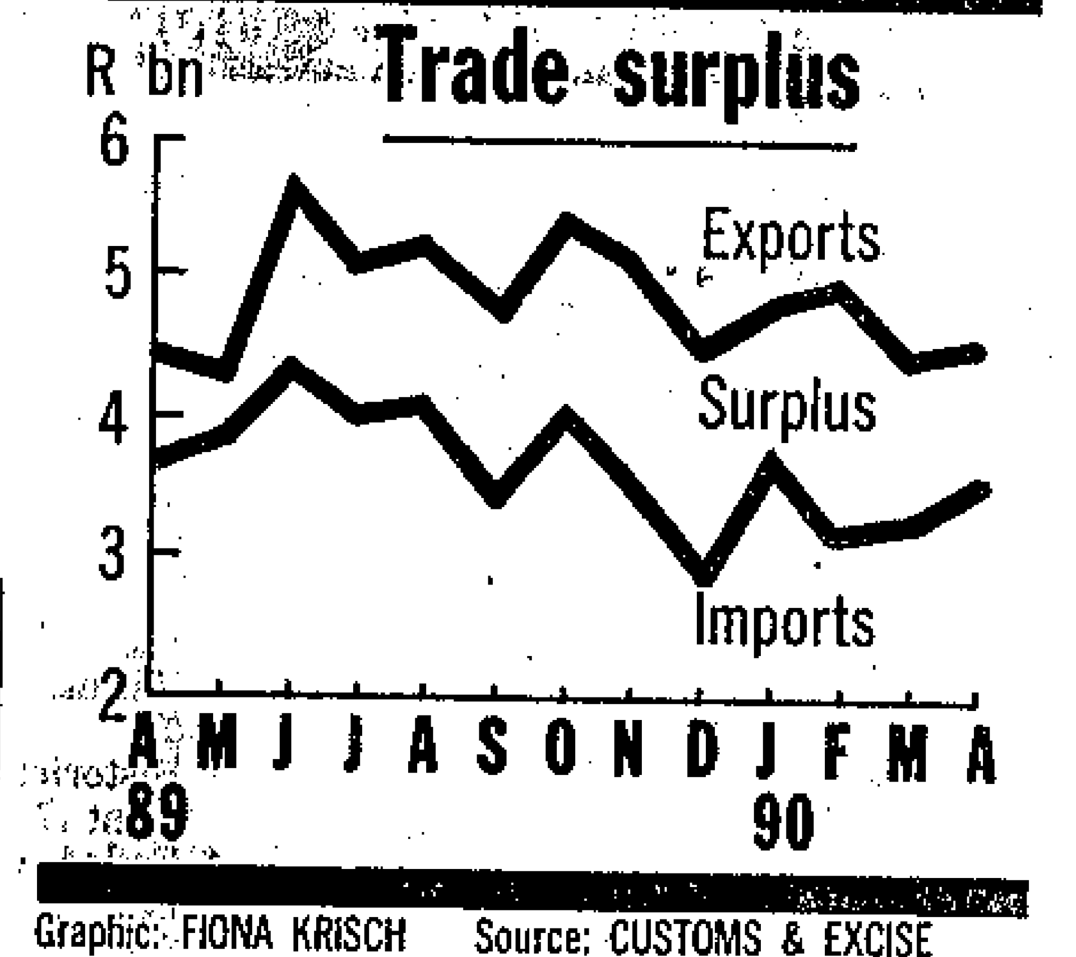
"However imports are coming off relatively low levels which made a rebound in this sector inevitable."

Mohr said further rises in rates were unnecessary, with the gross domestic product (GDP) having slipped to a 1,7% decline in the last quarter 1989 and perpetuating this trend in the first quarter of 1990 with a 1,4% drop.

"While continued caution is necessary, this economic pattern signals a clear-cut decline in economic growth," said Mohr.

SA on track for R6bn surplus

BiDay 22/5/90



GRETA STEYN

LATEST Customs and Excise trade figures indicate SA is on course for the R6bn current account surplus on the balance of payments (BoP) projected by the Reserve Bank earlier this year. (74) (...)

SA seems on track despite the second monthly decline in the surplus in April to R971m from March's R1,17bn and February's peak of R1,77bn. Economists note the monthly figures are notoriously erratic and a longer term view is important.

Imports rose by R310m in April to R3,64bn, reflecting a surge in the "unclassified" category — mainly oil. This category is especially erratic and experienced a

☐ To Page 2

Surplus

BiDay 22/5/90 (74)

☐ From Page 1

huge drop in March (R286,2m from April's R709m). Other major import categories continue to reflect the economic downturn. Exports rose by 2,2% in April.

Safto economist Bruce Donald said: "Foreign trade statistics support the view that the economy is in a steep contracting phase. Total imports, which are good indicators of the level of domestic economic activity, were 12,5% down in real terms (calculated by removing inflation) in the first four months of 1990 compared with the same period a year ago. They rose by under 3% in nominal terms." Exports had been performing "reasonably well" over the first four months of this year.

The figures show the cumulative trade surplus for the first four months of this year is R5bn — annualised, this would yield a comfortable R15bn trade balance for the year. After subtracting net foreign payments for investment income and services of R9bn in a year, the current account surplus should be about R6bn — enough to cover foreign debt payments even in the unlikely event of no roll-overs.

Trade surplus takes a tumble

Star 21/5/90 (74)

By Sven Lünsche

The trade surplus fell below the R1 billion mark in April for the first time in 11 months as a drop in international prices depressed SA's precious and base metal exports.

The Department of Customs and Excise reported on Friday that the trade surplus of R969 million in April was down from March's R1,18 billion and considerably lower than February's R1,76 billion.

Exports last month were up from R4,5 billion to R4,61 billion, while imports increased from R3,32 billion to R3,64 billion.

Despite the fall, the cumulative trade surplus for the first four months of R5 billion still looks healthy — it is about 32 percent up on the surplus in the same period last year.

Bruce Donald, Safto economist, says the four-month surplus, when annualised, translates into a $1,8 billion current account surplus for 1990.

"Such an amount would be sufficient to meet foreign debt commitments, even under a pessimistic scenario, provided gold does not fall further."

The foreign trade statistics support the recent downward trend.

While imports were up on a monthly basis, they declined 12,5 percent in real terms in the first four months of the year, compared with last year.

In nominal terms they rose by under three percent. Imports of machinery and transport equipment were down by 17,5 percent and 25 percent.

Exports grew in nominal terms by nine percent with major contributions coming from diamonds (up 34 percent), machinery (40 percent) and transport equipment (64 percent).

Mr Donald points out however, that both base metals and the unclassified category of exports (gold and platinum) showed marginal declines over the four months and that revenues from this source are flattening out.

ANCE

Little potential seen for firming of rand

NEIL YORKE SMITH

WITH gold trading around the $370 level, the potential for a significant firming of the value of the rand was small, said Senbank's May currency review.

The rand was expected to trade in a narrow band, although in the longer term a slight firming was possible as SA's balance of payments (BoP) continued to improve, it said. B10r.4 22/5/90

Reduced US economic growth, especially compared to the strong German economy, was likely to result in the dollar depreciating against the Deutsche Mark (DM), it added.

With inflation accelerating, a weaker performance by the dollar in the medium to longer term was envisaged — especially against the DM, it added.

However, stringent monetary policy being applied to curb US inflation and political and economic uncertainties in some other industrial countries could lend some support to the dollar in the short-term, it said. (7.4)

High UK interest rates were still supporting the British pound but uncertainties including rising inflation and the growing unpopularity of the Conservative Party would contribute to a weaker pound in the longer term, it added.

R350-m forex fraud: 3 top men arrested

Star 22/5/90

Staff Reporter

Three top Johannesburg and Cape Town businessmen, including former Repfin Finance managing director Adriaan Prakke (35), were arrested yesterday in connection with a R350-million foreign exchange fraud.

SAP Commercial Branch chief Major-General Nollie Hulme said the actual amount involved could be greater than R350 million and investigations were continuing. Further arrests were not expected.

The fraud, one of the biggest of its kind in South Africa, was uncovered after about five weeks of investigations by the Cape Town Commercial Branch, the Reserve Bank and the Cape Attorney-General's office.

Mr Prakke was arrested in his Braamfontein offices yesterday. Detectives detained Nicolaas Griesel (35), of Welgemoed, and British citizen Allan Latham (43), of Constantia, Cape Town, simultaneously.

Mr Prakke appeared in the Johannesburg Magistrate's Court yesterday and was released on bail of R500 000. He had to surrender his passport. Mr Griesel and Mr Latham also had to pay bail of R500 000 after appearing in the Cape Town Magistrate's Court.

All three men appeared in their personal capacities. Mr Griesel and Mr Latham are employed by Zenith Industrial Consultants.

Mr Prakke, who must report daily to the Fairland police station, was ordered not to contact the more than 170 witnesses in the case.

The three suspects will all appear in the Cape Town Magistrate's Court on November 26.

Mr Prakke resigned as Repfin managing director yesterday.

Repfin chairman Christoffel Erasmus said today that an internal investigation showed the company itself was not implicated in the alleged fraud but the board of directors had approved Mr Prakke's resignation.

"The investigations seem to be concentrated on complex conversions between commercial rands and financial rands by bank clients in the flow of funds to purchase industrial plant and equipment."

Transnet raises R5,1 billion in foreign loans

Finance Staff 23/5/90

Over half of Transnet's (formerly Sats) R9,55 billion debt in the financial 1989/90 year was in foreign loans, the Auditor General's report tabled in Parliament yesterday shows.

The report states that of the total loan debt 54,22 percent, or R5,17 billion, was foreign debt, while the remainder was raised on the local market and through the issue of Treasury loans.

Transnet has used forward exchange contracts to protect itself against foreign exchange losses on repayment of almost all of the debt.

The group's operating income totalled R147,39 million during the 1989/90 financial year, but the cumulative deficit of the group was still high at R3,47 billion.

Total expenditure against capital amounted to R905 million, however accumulated savings had to used to cover overexpenditure against budget in two divisions.

This reduced total savings to R35,91 million.

R350-m forex fraud: probe widens

Star 23/5/90

By Michael Chester and Craig Kotze

Police are investigating several financial schemes following the disclosure yesterday of an alleged R350 million foreign exchange fraud.

And a chain of new business ventures, financed by inflows of foreign investment cash, may also come under scrutiny by the Reserve Bank and CID detectives as more clues are unearthed about possible breaches of exchange control laws.

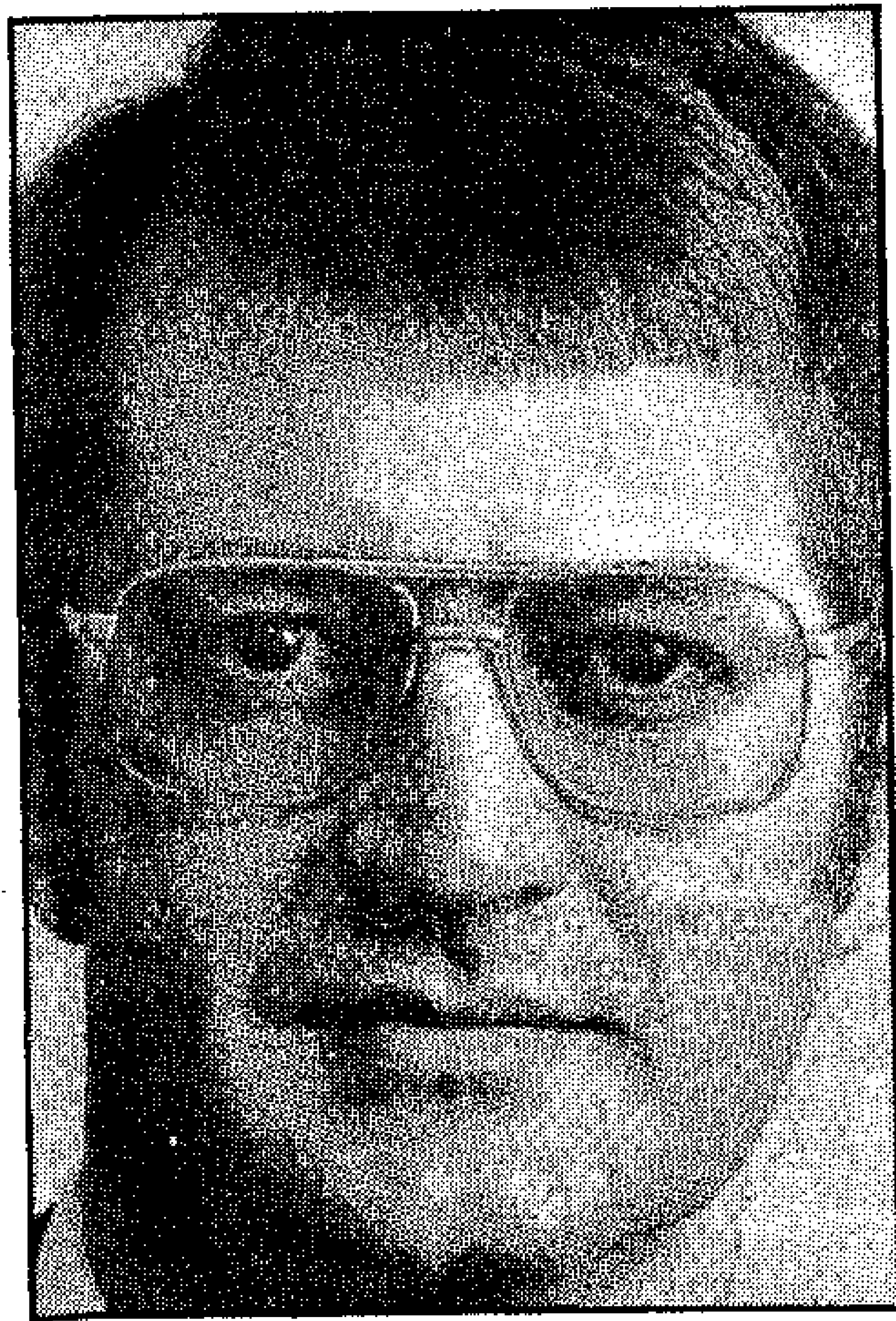
The Reserve Bank suspects that profits from infringements of forex rules may be running into tens of millions of rands in the swopping of financial rands into commercial rands in the flow of investment finance from overseas.

New funds

The profits may have been scooped from the big discounts offered overseas investors bringing in new funds in financial rands, in turn converted into commercial rands to buy plant and equipment.

Insiders believe complex financial packages behind a number of recent major industrial ventures and expansions — worked out in scams planned by specialist advisers — may have broken exchange control regulations.

Investigations widened after the arrests yesterday of the managing director of a Johannesburg banking operation and two employees of a Cape Town consultancy firm.



Adriaan Prakke . . . former MD of Repfin out on R500 000 bail.

They are Adriaan Prakke (35), who resigned yesterday as MD of Repfin Finance, and Nicolaas Griesel (35) and British citizen Allan Desmond Latham (43), both of Zenith Industrial Consultancy.

Further arrests were not expected, said SAP Commercial Branch chief Major-General Nollie Hulme.

The amount involved could be greater than R350 million and investigations were continuing, said General Hulme. The alleged fraud — one of the biggest of its kind in South Africa — was uncovered after about five weeks of investigations by the Cape Town Commercial Branch, the Reserve Bank and the Cape Attorney-General's Office.

Mr Prakke was arrested in his Braamfontein offices on Monday, and detectives detained Mr Griesel of Welgemoed and Mr Latham (43) of Constantia, Cape Town, simultaneously.

Alleged fraud

Mr Prakke appeared in the Johannesburg Magistrate's Court on Monday, was released on bail of R500 000 and had to surrender his passport. Mr Griesel and Mr Latham also had to pay bail of R500 000 after appearing in the Cape Town Magistrate's Court.

All three appeared in their personal capacities.

They will appear in the Cape Town Magistrate's Court on November 26.

Repfin chairman Christoffel Erasmus said today that an internal investigation showed that the company itself was not implicated in the alleged fraud. The board of directors had approved Mr Prakke's resignation as managing director.

"We have pulled out all the stops to give assistance to the Reserve Bank in its investigation," Mr Erasmus said.

In fact, all four provinces funded pre-primary education from available funds of such a Department with relation to the pupil/teacher ratio on the basis of stipulated regulations under the ordinances. The hon member is very much aware of the fact that money is not generated for pre-primary education within the formula. Each province, each education department, is able to use some money for pre-primary education within the available funds he receives, because it is a very important part of education.

The Natal Education Department used a stipulated amount for pre-primary education. He continued with the same amount for the funding of pre-primary education until the beginning of January this year. The other provinces started scaling down at previous occasions, as the Natal Education Department already did from 1986 with regard to other financial posts within the Department because the finances became less. The Natal Education Department felt however to continue until the beginning of January. What happened then?

At the beginning of January the Director of Education realised that he must run his Education Department in the best manner possible with his limited funds. He then thought it proper to take a little money away from pre-primary education which is not compulsory education. He then dropped 80 posts which were all temporary posts in which temporary teachers served.

There is in other words no question about the fact that he terminated the service of 80 people. The contracts of the 80 people who were in those temporary posts expired, and the contract was not renewed because there were no more posts. That is why I stress that. Nobody suffered any loss. I can assure the hon member if my memory is not playing tricks with me, that of those 80 people who were in these teaching posts, there are only 23 who are not filling teaching posts, that is in a school or in pre-primary education or wherever it may be.

Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament.

White old-age pensioners: means test

*4. Mr B B GOODALL asked the Minister of Health Services, Welfare and Housing:

Whether any steps are being taken by his Department to adjust the means test for White old-age pensioners; if not, why not; if so, what steps?

B1130E

The MINISTER OF HEALTH SERVICES, WELFARE AND HOUSING:

The income leg of the means test was extended as recently as 1 April 1990 when social pensions were increased.

The Mouton Commission is currently investigating the whole question of the payment of social pensions and in particular the further extension of the means test. The outcome and recommendation of their investigation are being awaited and until such time no further announcement in this regard will be forthcoming.

J G Strijdom Hospital: application for certain post

*5. Mr M J ELLIS asked the Minister of Health Services, Welfare and Housing:

(1) Whether a certain person, whose name has been furnished to the Minister's Department for the purpose of his reply, applied for a post as part-time consultant surgeon at the J G Strijdom Hospital in November 1989; if so, what is the name of this person;

(2) whether he was considered for this post; if not, why not; if so,

(3) whether he was appointed to this post; if not, (a) why not and (b) in what manner was he informed of this decision?

B1131E

The MINISTER OF HEALTH SERVICES, WELFARE AND HOUSING:

(1) The person referred to and whose name is known to the member, was interviewed by the Superintendent of the J G Strijdom Hospital during November 1989. At this interview he was requested to submit a Curriculum Vitae and a completed Z83 application form. This request was never acceded to and he was therefore not considered for this post.

(2) and (3) Fall away.

Teacher Education for the 21st Century

*6. Mr M J ELLIS asked the Minister of Education and Culture:

(1) Whether his Department received from the Natal Education Department a copy of a document entitled *Teacher Education for the 21st Century*; if so, (a) why, (b) what is the purpose of the document; (c) what is his response to its contents and (d) what are the future plans for the document;

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

B1132E

The MINISTER OF EDUCATION AND CULTURE:

(1) No, but the Department is aware of the document which has not been finalised;

(2) no.

Johannesburg College of Education lecturer: appeal

*7. Mr A GERBER asked the Minister of Education and Culture:

(1) Whether, with reference to his reply to Question No 3 on 14 March 1989, the appeal case of his Department against a court judgment in which a decision of his Department in respect of a lecturer at the Johannesburg College of Education was set aside, has been concluded; if not, when is it expected to be concluded; if so, what is the outcome thereof;

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

B1141E

The MINISTER OF EDUCATION AND CULTURE:

(1) No, the appeal will be heard on 13 June 1990;

(2) no.

For written reply:

General Affairs:

Development Bank of Southern Africa: decentralisation

371. Mr H H SCHWARZ ased the Minister of Finance:

What total amount did the Development Bank of Southern Africa, in 1989, (a) invest in, and/or (b) grant in loans to, each specified development region where decentralisation concessions or incentives are applicable?

B899E

The MINISTER OF FINANCE:

In the 1989/90 financial year, which ended on 31 March 1990, the Development Bank of Southern Africa had the following loan commitments for projects in the implementation and negotiating phases in the nine development regions.

Region	*Number of loans*	*Amount (R'000)*
A	3	1 625
B	11	269 148
C	13	90 295
D	94	384 878
E	52	374 721
F	15	50 905
G	120	332 095
H	34	196 754
J	21	219 270
Total	363	1 919 691

Notes:

(i) Each of the above development regions has two or more industrial development or deconcentration points, for which different concessions or incentives apply. The Development Bank loans per region are not necessarily for projects at such points.

(ii) Apart from the abovementioned development regions, the Bank in the past financial year also had commitments of almost R300 million for 18 loans for projects in neighbouring countries.

Government: amounts owed

410. Mr H H SCHWARZ asked the Minister of Finance:

What amounts were owing to private bodies and persons by the Government, other than on bank facilities and stock issues, as at (a) 31 December 1989 and (b) the latest specified date for which information is available?

B957E

The MINISTER OF FINANCE:

(a) 31 December 1989 — R1 649 580 314.96

(b) 30 April 1990 — R1 228 120 406.89

(Foreign loans, stock issues and Treasury bills excluded).

Stals optimistic on debt

(74)

NEIL YORKE SMITH

SA WOULD meet foreign debt repayment commitments of about $2bn (about R5,2bn) "reasonably comfortably" this year, Reserve Bank Governor Chris Stals said last week.

About $1,4bn of the total commitment is due in the first six months of 1990, with the heaviest repayments scheduled for June.

"The position was greatly improved by the excellent buildup in gold and foreign exchange reserves during the first quarter. We expect the situation to be far easier by the end of June, which is only four weeks away," Stals said.

Smaller commitments in the second half of the year would enable SA to substantially strengthen reserves during the period. "We would then be better positioned to meet this year's remaining payments as well as next year's commitments which should total about $1,6bn."

B Day 4/6/90

Stals said improved international political perceptions had made some debt rollovers possible, but these were likely to be on a small scale. "We can do a little here and there, but expectations for rollovers should be modest."

Economists confirmed SA's debt position was improving. They attributed this to consistently healthy balance of payments (BoP) current account figures and to reduced growth in domestic credit extension.

Recent Reserve Bank figures valued the banks holding of gold and foreign assets at R5,48bn - R2,28bn of which was held in currency.

Gold and forex reserves decline again in May

Star 8/6/90

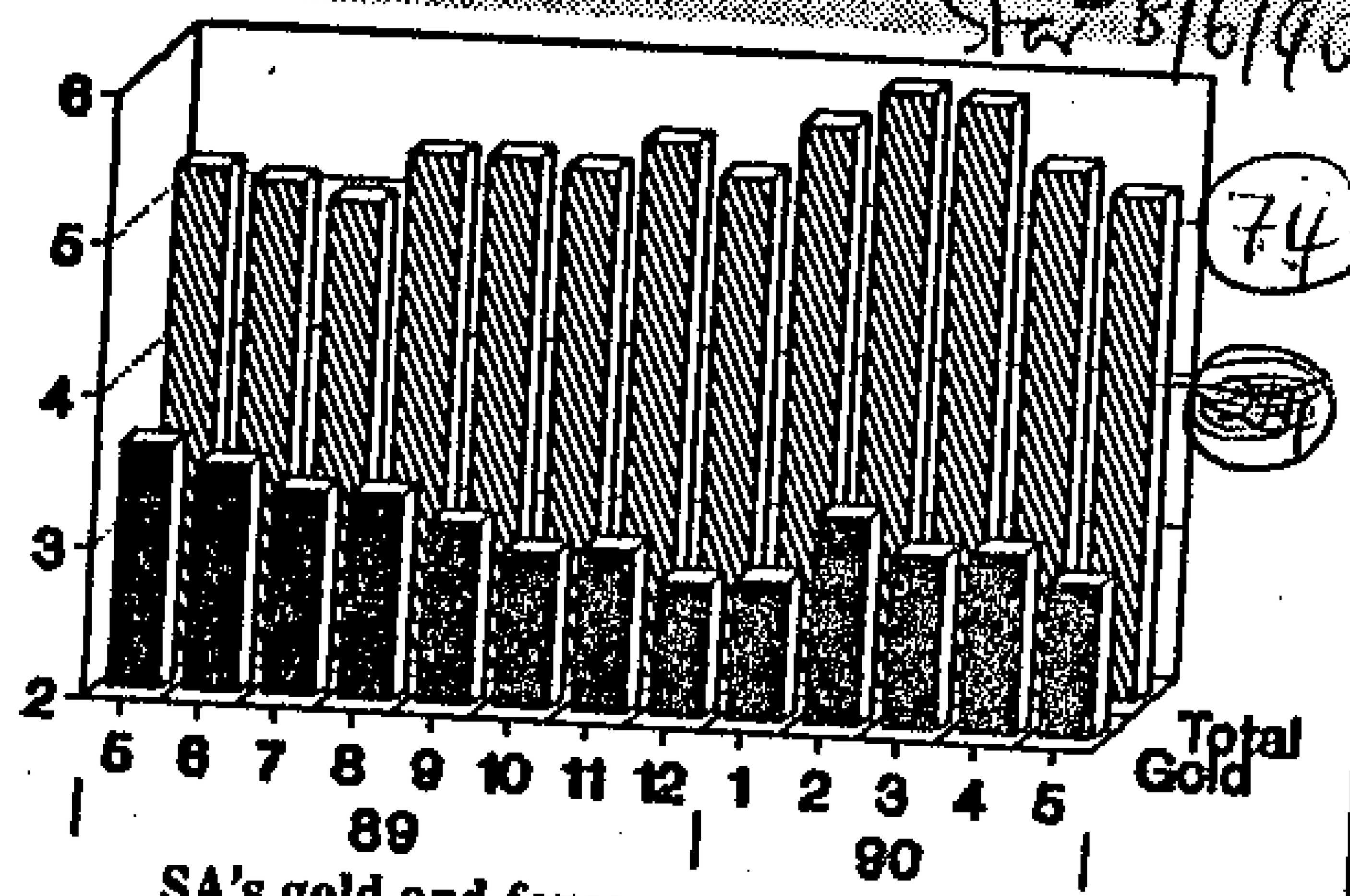
By Sven Lünsche

South Africa's gold and foreign exchange holdings continued to decline in May, dropping by 2,7 percent to R5,326 billion compared with R5,475 billion in April.

However, economists predict that the reserves will be strengthened in the second six months as the economic slowdown impacts negatively on the value of imports.

In addition, South Africa will have met the bulk of its foreign debt repayments, which are clustered in the first half of the year.

In April the reserves fell by R429 million largely as a result of $200 million worth of debt payments. Trust Bank's economist Nick Barnardt says that further payments, exceeding $100 million, were made in May.



SA's gold and forex reserves (R billion)

Mr Barnardt expects that the June reserves will show a substantial decline, particularly if the current downturn in the gold price continues.

Gold reserves fell by 5,7 percent in May to R3,01 billion (April: R3,19 billion), which was the result of gold swops and the decline in the gold price.

The average gold price received decreased from R891,23 an ounce in April to R875,09 in May, according to the figures released by the Department of Customs and Excise yesterday.

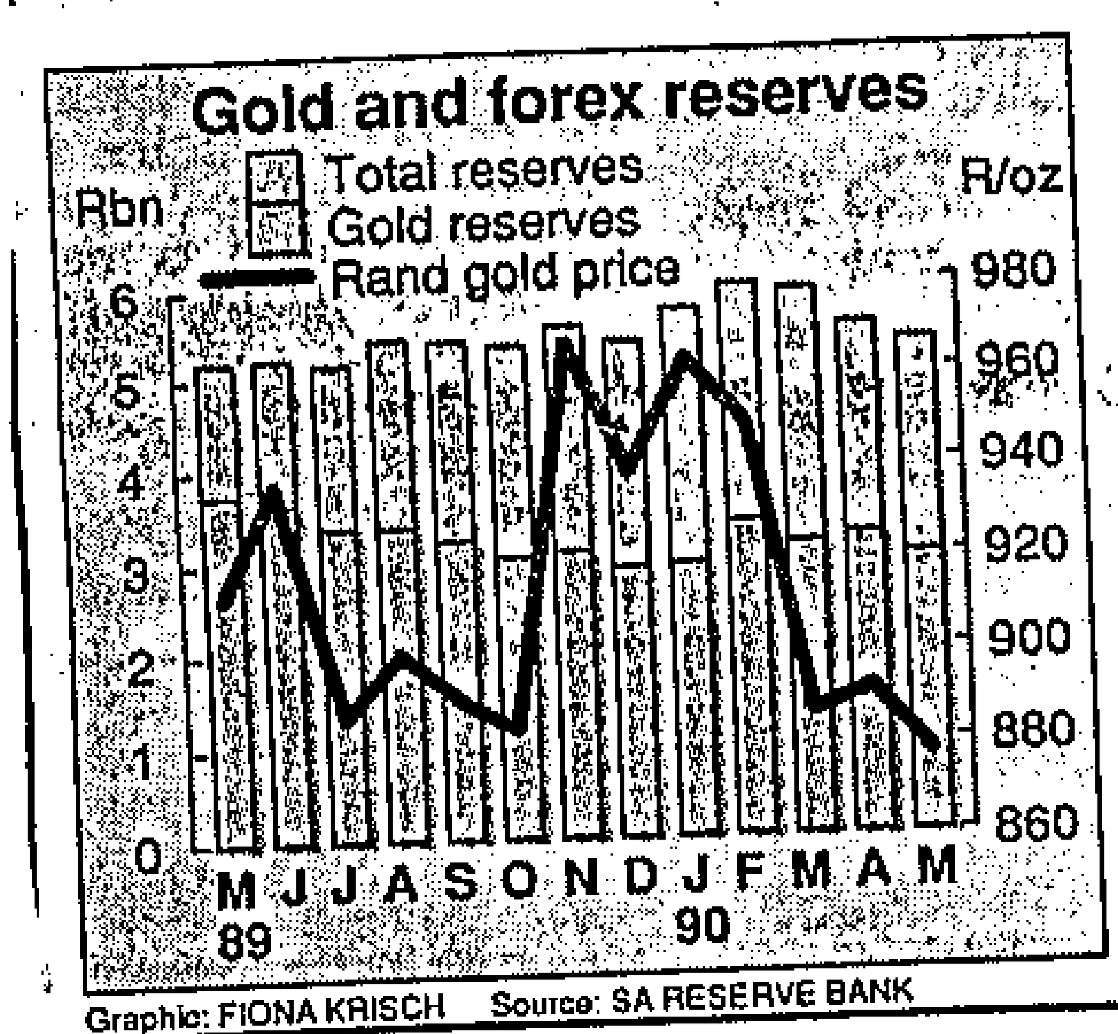
Total gold holdings fell by four percent to 3,436 million ounces from the previous month's 3,582 million ounces.

Foreign exchange reserves, however, rose by 1,6 percent to R2,32 billion from last month's R2,28 billion, refkecting the continued strong performance of merchandise exports.

74

SA reserves survive repayments

NEIL YORKE SMITH



Graphic: FIONA KRISCH Source: SA RESERVE BANK

SA's GOLD and foreign exchange (forex) reserves declined by only R149m in May, despite last month's heavy foreign debt repayments.

A Reserve Bank spokesman said the overall drop in reserves was not substantial considering last month's heavy capital outflows which included the repayment overseas of some maturing bearer bonds.

The Bank had apparently made provision for these outflows.

Reserve Bank figures released yesterday showed the total value of gold and forex reserves fell to R5,33bn from R5,48bn in April.

The value of the bank's gold bullion holdings declined by R185m to R3,01bn, resulting largely from the lower rand value of the metal (R875,09 versus R891,23 in April) as well as to a reduction in physical stock.

The value of foreign currencies held increased by R37m to R2,32bn.

The low gold price, heavy debt repayments and the seasonally low trade surplus made the decline almost inevitable, Trust Bank economist Nick Barnardt said.

SA Chamber of Business economist Keith Lockwood expected further gold sales this month as SA prepared to meet its heaviest foreign debt commitments.

B/Day 8/6/90

SA 'clinching rollovers and gold swaps'

NEIL YORKE SMITH

SA IS still battling to win new foreign loans, but is successfully negotiating major debt rollovers and gold swap arrangements, according to senior Reserve Bank sources. B10ay 11/6/90

"We are enjoying an improved overseas negotiating climate, but it will take time before any institution openly breaks ranks and provides new loan capital to SA," a bank spokesman said. He could not confirm that negotiations for a R2bn IMF loan were nearing completion.

SA was constantly trying to negotiate new loans, but it was unlikely anything would be achieved in the near future.

"We would obviously prefer new loans, but swaps and rollovers help as they respectively generate foreign capital or prevent extra capital outflows from SA.

"Also, gold swap activity and forward sales reflect our view of the gold price."

A gold swap is similar to a forward sale, and results in the generation of foreign capital without the actual sale of bullion.

SA swaps gold for foreign currency and, when the swap expires — usually after three to six months — repurchases gold or negotiates a rollover.

190

...e battle lines

ing relationship." De Villiers, who holds 0,76% of Allied's equity, opposed Shill's re-election to the board — "His own company results are not very good."

He says he put two "very positive alternatives to Sage" and believes they represent "possible solutions." Shill says he is "unaware of these alternatives."

Though he expected opposition at the meeting, he refrained from lobbying for proxies "because we would have been striking the first blow. We were philosophical about losing votes on Tuesday but remain confident we will be able to resolve the situation — within two months."

After De Villiers' defeat on Tuesday, the board's weighting shifted in favour of Shill. So De Villiers' job could be on the line.

Ethel Hazelhurst & Detmar Schwichtenberg

THE RAND FM 15/6/90

Keeping cool (74)

There are usually two reasons why the rand depreciates when the gold price falls. The first is because, as export revenues shrink, there are fewer dollars to be converted into rands — which tips the demand-supply situation. The second is because authorities have often helped the unit to fall to protect marginal gold mines.

By holding up the rand price of the metal a depreciating currency cushions the industry from falling dollar revenues.

If gold continues to fall, the rand will eventually have to follow. It will be a few months before this happens but, meanwhile, the Reserve Bank is not anticipating nor precipitating a depreciation in the rand.

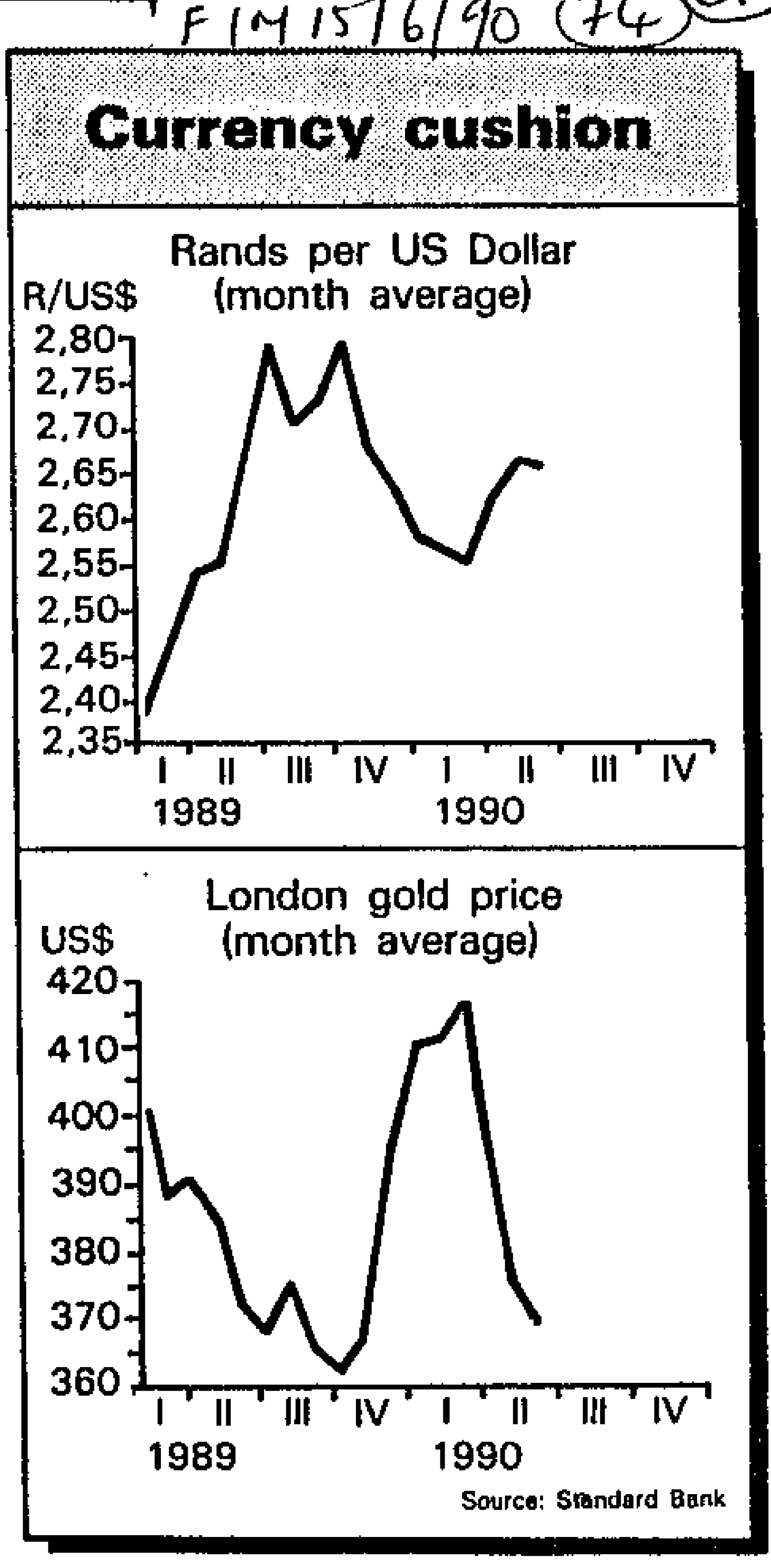
Since gold started its brief but heady climb from US$355,75 in September to $423 in February, before plunging to a low of $350 in London last week, the Bank has intervened "on both sides of the rate," says First National Bank's Rob Wade, to moderate its influence on the rand and eliminate short-term fluctuations.

So the rand/dollar exchange rate has deteriorated by only about 13c since the peak in the gold price. And, says Wade, it has even appreciated slightly against the D-mark.

This has kept down the contribution to inflation of imported prices (see "Monthly jump"). Though the comparatively higher exchange rate cannot and should not be maintained if fundamentals are against it, SA has at least not had to experience the adverse consequences prematurely.

Wade says: "The drop in export proceeds of the gold mines has not filtered through yet, though it will in the next few months." If the Bank had attempted to nudge the exchange rate down it would have had to sell rands, putting liquidity into the market and relieving interest rate pressures.

FM 15/6/90 (74)



That the authorities have not, is a testimony to Governor Chris Stals's determination to keep down inflationary pressures despite pressure from various quarters to let interest and exchange rates fall — as his predecessor Gerhard de Kock did after the debt standstill. But SA no longer needs to make a growth-orientated BoP adjustment, which dictated De Kock's policy.

Old Mutual economist Rian le Roux says: "The authorities now realise that 15 years of intermittently negative real rates of interest have made the business cycle more volatile. Stable but high real rates should help create more certainty for business."

To attract investment, despite the political upheaval, SA must show it has inflation under control. Higher interest rates rather than a lower exchange rate is an appropriate price in the circumstances. If the consequent recessionary impact on sections of the community needs relief, it should come in direct and identifiable subsidies, rather than distortions of interest and exchange rates. ■

(74)

F/M 15/6/90

RESERVES F/M 15/6/90

Out of sight

Monthly figures of gross gold and foreign assets held by the Reserve Bank show only part of the reserve picture. The Bank's foreign obligations are hidden in the statement of liabilities. No monthly breakdown into foreign and domestic liabilities is provided, so net figures are not known until publication of the Bank's *Quarterly Bulletin*.

Its statistics usually differ substantially from the monthly figures, partly because they include not only the Bank's net reserves but also those of the private monetary sector. However, according to a Bank spokesman, by far the bulk of the total relates to the Bank's own position.

Figures for first-quarter 1990 will be available later this month. Those for the second quarter will be published in September. So the significance of a sudden leap in the item *other deposits*, which includes working deposits of other central banks, from R81m in April to R355m in May, will not be known until then. Whatever its source, it was offset slightly by a R60m decline in *other liabilities* — which includes foreign loans to the Bank.

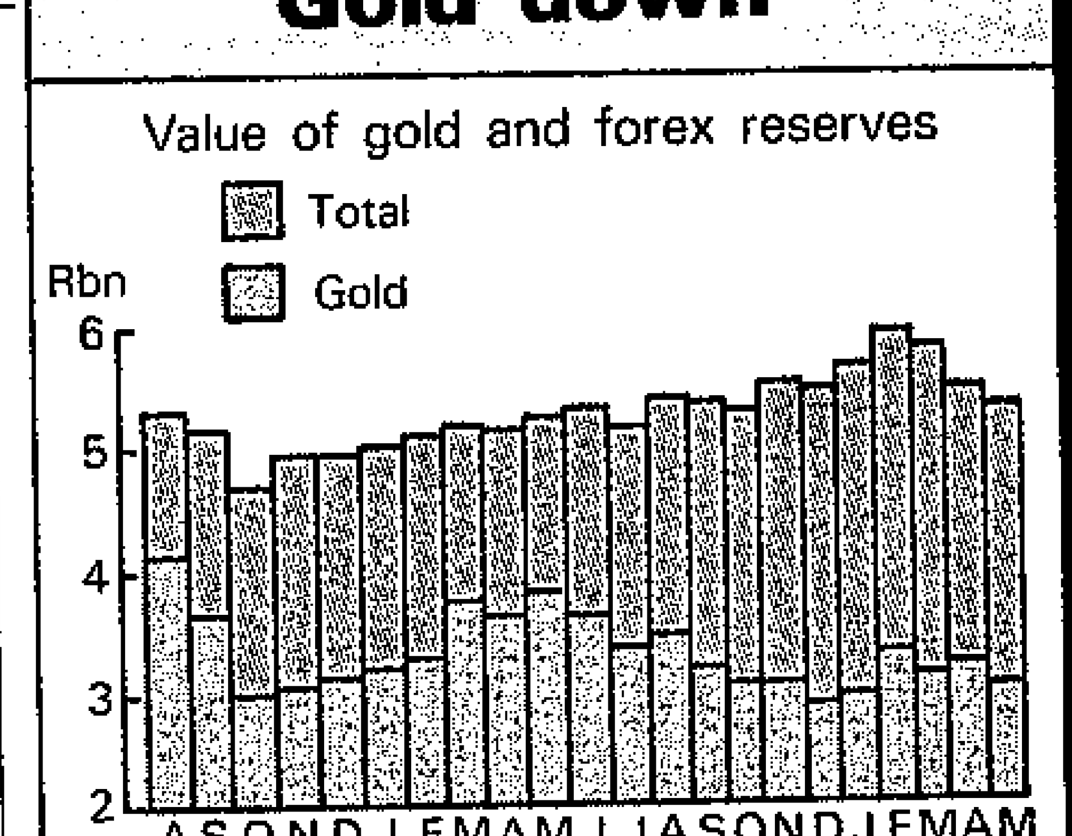
The composition of these categories fluctuates. The March *Bulletin* shows *other deposits* of:

- ☐ R56m foreign liabilities and R23m local at the end of 1989;
- ☐ R66m and R96m end-1988;
- ☐ R50m and R13m end-1987.

Other liabilities consist of a variety of items, including the Treasury's account for SDR transactions and the capital and reserve accounts. But no breakdown into foreign and domestic liabilities is published and the relative size is not disclosed.

So monthly figures in the Bank's statement of assets and liabilities are only an indication of the direction of flows. May's R148,3m drop in gross reserves may not reflect the full extent of the deterioration.

Gold down



F/M 15/6/90

- ☐ Total gold and foreign assets were R5,3bn (US$2bn) at end-May. Gold was valued at R3bn ($1,1bn) and assets stood at R2,3bn ($869m). Gold holdings fell R185,4m while foreign assets rose a slender R37m.

In dollars, gold fell $100m, forex rose $10m and total assets declined by $100m. The price at which gold was valued fell to R875,09 in May from R891,23 in April, and holdings fell from 3,58m oz to 3,44m. ■

Political climate a factor — Lombard

Fresh inflow of cash from abroad soon

B/Day 18/6/90

LIZ ROUSE

GIVEN a changed political climate, SA can look forward to a new inflow of development funds from abroad during the second half of the 1990s, Reserve Bank senior deputy governor Jan Lombard said on Friday.

He said in an interview rollover negotiations had been successful because of the changed political climate and SA's excellent reputation in the handling of repayments during the first two standstill arrangements.

Because of the healthy current account surplus SA was still on course in its debt repayment strategy, despite the lower gold price.

"What you loose on the swings, you gain on the roundabouts," he said.

Lombard said adverse political factors had distorted the debt situation. In fact, SA's debt as a percentage of export earnings was one of the lowest among developing countries.

● LOMBARD

Foreign debt figures bear out Lombard's view that SA's debt is modest by world standards.

Revised foreign debt figures for end-1989 show that the total dropped to $20,6bn from $21,2bn at the end of 1988. In rand terms SA's debt was up at R53bn from R50,4bn at the end of 1988.

The foreign debt of $20,6bn comprised $13,5bn, DM5,25bn, SF1,95bn, £490m, FF3,79bn and 75bn yen.

The ratio of foreign debt to total export earnings was up to about 91, still an acceptable ratio. However, the ratio fell dramatically to 82 at the end of 1988 from 170,7 in 1984.

As a ratio of gross domestic product, SA's foreign debt burden continues to ease from a peak of 41,2 in 1985 to 24,2 in 1988 and about 23 in 1989.

Lombard said rollovers would smooth debt repayments as amounts due diminished — $1,6bn in 1991, $700m in 1992, $600m in 1993 and $300m in 1994.

The end-of-June repayment is the last of the second standstill arrangement payments. The third standstill arrangement, negotiated in October last year, applies from December 1990 to December 1993.

SA faces debt repayments totalling $3,1bn this year, of which $2,343bn is due at the end of the current quarter, bankers say.

Nowhere near this amount would be repaid because of successful rollovers. However, Reserve Bank governor Chris Stals said recently that expectations for rollovers should be modest.

Payment due in the first quarter amounted to $185m.

The third quarter's is $356m and the fourth quarter's $254m. Fortunately, repayments are smaller for the rest of the year, as a continuing weak gold price must act as a negative factor.

Total repayment of debts at this stage is out of reach of the country's means, hence the negotiation of rollovers, say bankers.

SA trade surplus rises to R1,083bn

CMT Times 19/6/90 (74)

Business Editor

ALTHOUGH SA's trade surplus for May widened to R1,083bn from R333m a year ago and R969m in April, the figures for the last three months have been disappointing compared with those at the end of 1989 and the beginning of this year.

In spite of that — and signs of a downturn in the world economy which will not help exports — economists are confident that surpluses will continue to be big enough for SA to keep its head above water.

But they warned that interest rates would have to stay high until the end of the year, and that the rand might weaken if the gold price stayed low too long.

Figures released by the Commissioner for Customs and Excise yesterday show that exports for May totalled R4,686bn compared with R4,458bn a year earlier. Imports totalled R3,603bn compared with R4,125bn in May 1989.

Exports in the first five months of 1990 totalled R23,709bn compared with R21,928bn in the same period of last year.

Imports for the January-May period totalled R17,622bn compared with R17,801bn in the same period of 1989.

Trust Bank economist Charles Jonker said he expected trade surpluses to be maintained at about this level for the rest of the year, in spite of the low gold price.

Manufacturers were being offered good incentives to export, and the downturn and high interest rates meant imports would stay down.

Gold now accounted for only 35% of foreign exchange earnings. And the Trust Bank economics department did not expect the gold price to stay down for too long.

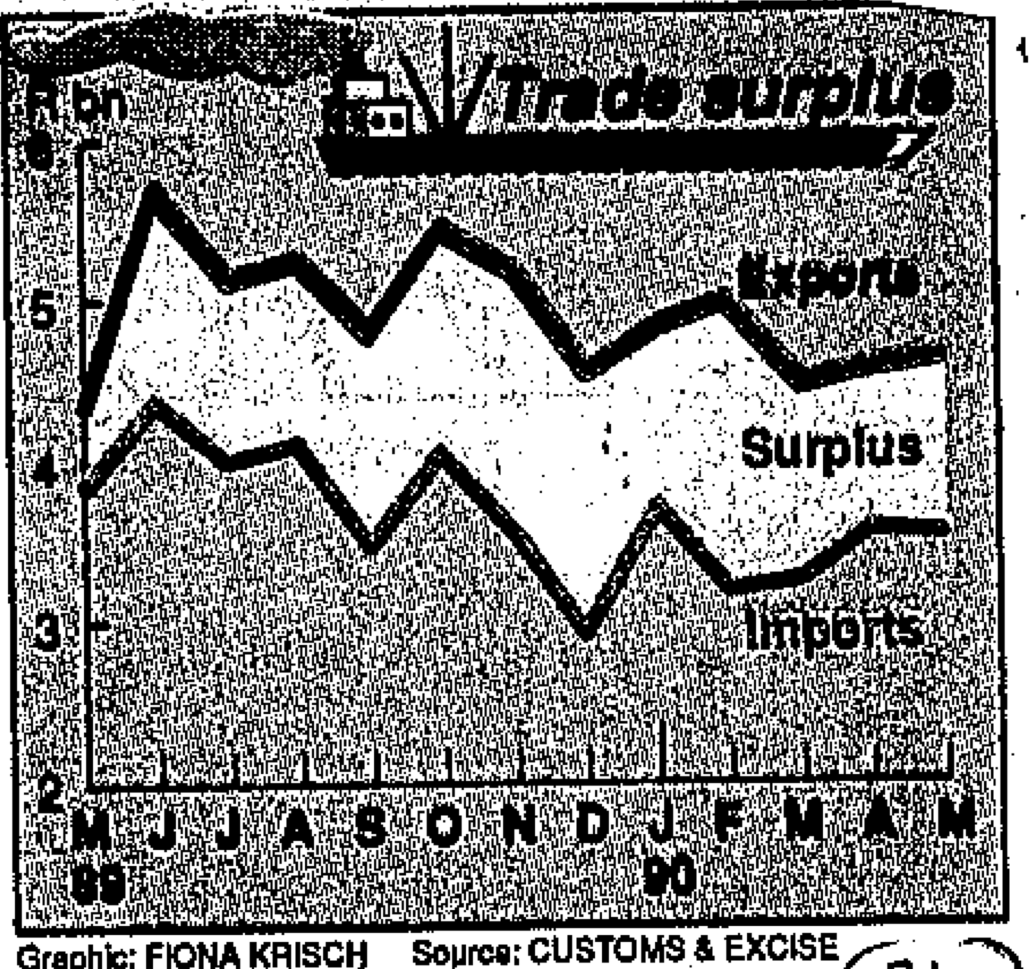
Old Mutual chief economist David Mohr and Southern Life economist Mike Daly both pointed out that exports were no longer improving at the rate they had done at the end of 1989 and the beginning of this year.

"Gold is not going to help our fortunes much and I think we shall see the rand weaken in the next two months,"said Daly.

He expected the rand to fall 5% against the dollar by the end of the year. "That is not going to help our fight against inflation."

Although another huge surge in exports was unlikely, the economic downswing and high interest rates would limit imports. And although the balance of payments in the past three months was lower than "the big figures" earlier there would continue to be a surplus.

Mohr said the lower gold price had already affected export figures in May. The trade surpluses could not be allowed to slip because of the need to repay foreign debt. This meant a continuing need for a tight monetary policy. "The screws will still be on."



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

B/Day 19/6/90 (74)

SA trade surplus could be eroded

ANDREW GILL

SA's trade surplus increased by 9,4% (R110m) in May to R1,08bn from April's R971m, latest Customs and Excise figures show, but economists have warned the weaker gold price may reduce the surplus.

Exports were up R80m at R4,68bn from R4,6bn in April while imports were down R30m at R3,6bn from R3,63bn in April.

The import bill would have been lower still but for an 18% surge in the "unclassified" imports category (mostly oil) during the first five months of the year compared with the same period last year.

The R6,09bn cumulative surplus for the first five months of the year was 48% up from R4,13bn for the corresponding period last year.

Nedbank's Edward Osborn said he was sceptical about the Reserve Bank's target-

□ To Page 2

Trade surplus

B/Day 19/6/90 (74)

□ From Page 1

ed R6bn surplus being met because the effects of the lower gold price and lower gold production would soon be felt, which would bring exports down.

Based on present figures, the trade balance would be an annualised R14,6m, from which about R9bn net deficit would be deducted thus leaving a current account surplus of about R5,6m.

Osborn said it was likely a R5bn surplus would be realised because of the lower gold price but said foreign debt repayments would not suffer because of debt rollovers secured by the Reserve Bank.

SA Foreign Trade Organisation (Safto) economist Bruce Donald said the lower gold price would lead to a downturn in unclassified exports (mostly gold), which rose 3% for the first five months compared to the same period last year.

He said debt repayments would be reduced in the second half of 1990 and as a result the pressure to produce healthy surpluses would be reduced.

The falling ratio of debt repayments to the trade surplus would lead to a growth in gross foreign reserves from July to December, he said.

Encouraging export growth was noticeable in non-metal minerals, especially coal, which increased 30% so far this year compared to the same period last year, but Donald said there was a loss of upward momentum in this trend.

Debt repayment problems easing up

Star 22/6/90 (74)

By Michael Chester

Compared with South Africa's recent huge foreign debt repayments in terms of the second interim debt agreement, meeting the third set of arrangements with world bankers will be a much easier task.

The third round starts on July 1 and will run to the end of 1993. The total amount of redemptions will be equal to $1,5 billion — due in eight instalments beginning next December.

On a count taken by the Reserve Bank about six months ago, the size of debts falling outside the standstill net — unaffected by the interim arrangements — stood at $12 billion.

Earlier this week Reserve Bank Governor Dr Chris Stals said South Africa had already met the June 30 deadline for repayments due under the second interim agreement.

No less than $1,2 billion had been settled in the past three months alone, he said, bringing down an original total of $14 billion blocked by the standstill to a more manageable $8 billion.

A large portion of the debt inside the standstill net has also been rolled over to longer-term repayments outside the net.

Observers see the promptness of repayments as highly valuable to the image of South Africa as it presses ahead with efforts to regain its full acceptance in international high finance.

Debt pressure

Dr Stals said substantial new inflows of foreign funds in recent months had alleviated much of the debt pressure.

South Africa had still had to dip into its reserves to meet the repayment schedule, but had also had the help of an improvement in the export of manufactured goods and substantial inflows of foreign funds in the first three months of the year.

Though there were large commitments still to be tackled under the third interim arrangement, the balance of international debt now promised to be much lower in the years ahead.

Observers believe the reversal of multi-billion-rand outflows that started in the mid-1980s may be due to the relaxation of overseas political pressure as President F W de Klerk forged ahead with political reform.

The national balance sheet has also been improved by a string of export successes.

However, economists sounded a warning at the weekend that the sharp drop in the gold price could have a significant impact on export earnings for June.

Dr Azar Jammine of Econometrix said South Africa still needed to maintain a substantial surplus on the current account of the balance of payments to repay foreign debt and particularly to restore the reserves of gold and foreign exchange. At the end of May reserves covered only 1,5 times monthly imports.

"If the authorities now target a current account surplus of about R5 billion, the trade surplus will have to about R17 billion, that is R1,4 billion a month," Dr Jammine said.

(The current account surplus equals the sum of the trade surplus and the services deficit, estimated by Dr Jammine at R12 billion).

"During the period January to May the monthly trade surplus averaged R1,2 billion, without an improving trend. This is lower, although not substantially lower than the comfort level.

"While import levels have declined 10 to 15 percent this year, the weak gold price in June and possibly of the next few months may affect the trade surplus adversely," Dr Jammine said.

FOREIGN TRADE FM 22/6/90

Not good enough (74)

May's trade surplus is up R112m from April, to just under R1,1bn. Imports are down a marginal R32m to R3,6bn while exports rose R80m to just under R4,7bn.

Nevertheless, Old Mutual economist André Roux calls the figures disappointing. The small surplus indicates monetary policy must remain tight, with high real interest rates well into the fourth quarter. "A lower gold price and a slower world economy will limit the scope for an increase in exports, so we have to influence the import side."

Despite the economic downturn, imports in 16 of Central Statistical Service's 21 categories rose, adding R414m to the bill. These were offset by a R436m drop in imports of unclassified goods (mainly oil), reversing a 150% jump to R709m in April.

SA Chamber of Business economist Keith Lockwood says static levels in the past two months do not mean imports have bottomed. "I expect imports to fall more sharply in the coming months, especially durable and luxury goods. But imports of investment goods could remain at present levels, with decreases in local investment partly offset by increases in foreign capital inflows, gearing up for a more buoyant economy in 1991."

Compared to the first five months of 1989, 1990 still looks good. The surplus to May 1989 was R4bn, against R6,1bn so far this

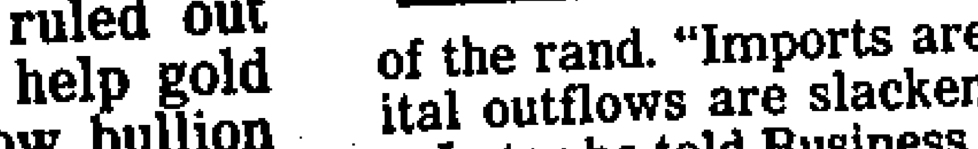
FM 22/6/90 (74)

year. A real 16% decline in the value of imports (as measured by CPI) more than offsets a 7% drop in the value exports. ■

'Bank more pro-active in gold market'

Stals rules out devaluation to assist mines

B|Day 26/6/90



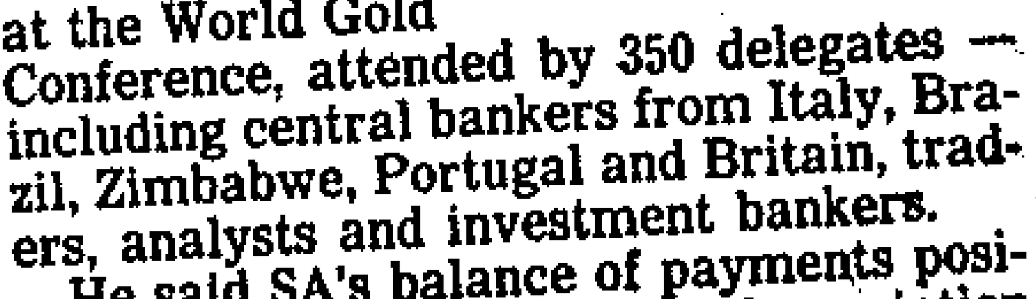
JOHN CAVILL

VENICE — SA Reserve Bank Governor Chris Stals yesterday ruled out devaluation of the rand to help gold mines threatened by the low bullion price.

"It is our duty to protect the value of the currency. It would be to the total disadvantage of the economy if we were to manipulate the exchange rate to protect one sector — even one as important as gold which produces 40% of our foreign exchange earnings," he said.

● STALS

Stals was answering questions at the World Gold Conference, attended by 350 delegates — including central bankers from Italy, Brazil, Zimbabwe, Portugal and Britain, traders, analysts and investment bankers.



He said SA's balance of payments position did not warrant further depreciation of the rand. "Imports are falling and capital outflows are slackening," he said.

Later he told Business Day: "Before this fall in the gold price we were running an annual balance of payments surplus of R6,5bn. Now, at the lower price, it is R5,5bn. We can live with that.

"So far this year the rand has fallen by 4% which is about equal to the differential between our rate of inflation and that of our main trading partners.

"We will only depreciate further if we have a balance of payments problem. We have to consider the macro-economy."

Stals also said the Reserve Bank was "perhaps more pro-active. nowadays" in response to changing conditions in the gold market. Asked if the Bank considered buying gold or holding back sales to assist the price, he said: "Overall we are a net seller. We can affect the market by changing supply but we need foreign exchange so there is not much scope.

"We certainly do change our policy on swaps, forward sales and options and we are perhaps more pro-active. There is also no reason why we should not be a buyer at

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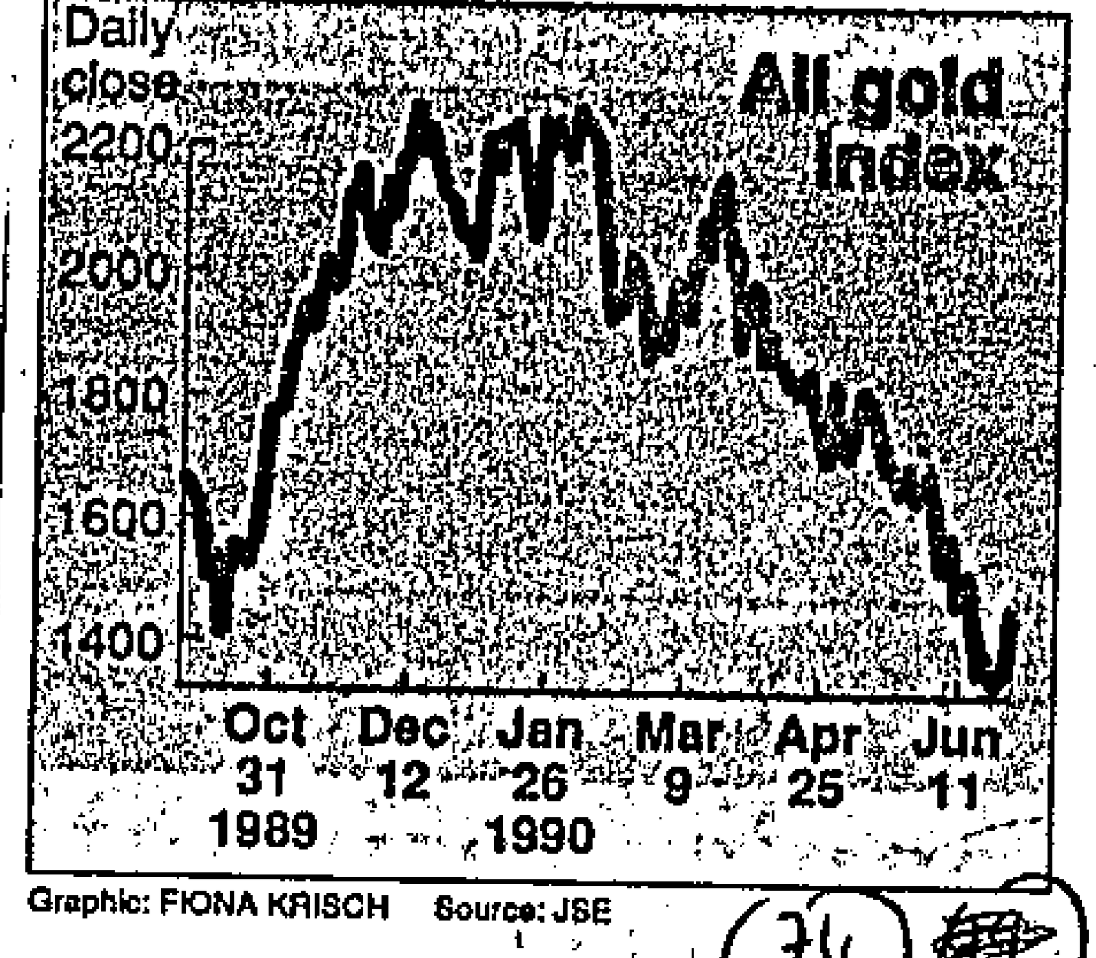

Graphic: FIONA KRISCH Source: JSE

(74)

Gold shares soar after Bank steps in

B/Day MERVYN HARRIS 26/6/90

GOLD shares soared on Diagonal Street yesterday as the metal rose nearly $5 to close in London at $353,60 in the wake of comments by Reserve Bank Governor Chris Stals that the Bank had intervened and would continue to intervene in the market to support gold.

Platinum gained $4,50 to close at $483. Analysts said SA, as the world's largest producer, could support platinum as well as gold. Silver, which usually rises in tandem with gold, was little changed at $4,83.

However, some dealers questioned how long SA would be able to support gold, as the country needed hard currency.

Piet van Schaik, a director of stockbrokers J D Anderson, said: "I would be surprised if SA can remain as buyers in the market if gold is in a long-term decline.

"If the Reserve Bank thinks there will be short-term volatility it could enter the market to smooth out prices. But this would not change a trend. The Reserve Bank has acted to smooth out price fluctuations in the local forex market and if there was a sufficient supply of dollars it could enter the gold market. But it would not throw dollars at a commodity to change a trend."

Gold was also underpinned by reports that West Germany favoured loans for Russia, which was interpreted as potentially bullish as it might reduce the Soviets' need to sell gold for hard currency.

The 6,8% rise in the JSE all gold index to 1 442 was also helped by a sharp weakening in the finrand investment unit to R4 to the dollar from R3,9050.

The unit's weakness was on the back of a US fund offloading De Beers shares in New York on Friday when more than 1-million shares changed hands. The selling seemed to have dried up yesterday and De Beers closed 125c up at R89,25, after opening lower at R87,25.

Stals

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☐ From Page 1

certain times."

Speaking on the future of gold held by central banks — at 34 215 tons, unchanged since bullion was "de-monetised" 23 years ago and equal to 40% of total official reserves — Stals said there was no need for any further mobilisation of the metal.

He said there was no need for an increase in international liquidity, which had risen vastly with the foreign funding of US deficits, intervention on foreign exchanges and operation of the European monetary system. The pending 50% increase in IMF quotas would add to this.

Stals said, however: "The quality of this liquidity is not indisputable."

Central banks might look for ways of generating income from gold holdings — through swaps and loans — but it was still a "war chest" for governments to hold as a buffer against unforseeable risks; political, military or economic.

He noted changes in bullion reserves had mainly reflected switches from "old world" economies — such as Europe — to the new, as in Taiwan and others.

Later, however, Stals did concede that if liquidity increased, European monetary union might change attitudes in the long term. "I get the uncomfortable feeling that people may believe less gold will be needed to support the system."

Lamberto Dini, director-general of the Bank of Italy, said, however, it was "much too early" to think of the role of gold in a single currency Europe.

Even though it might appear less necessary, a pan-European currency "will still be exposed to third-country currencies and the reasons for holding gold will continue", said Dini.

Rand's outlook reviewed

NEIL YORKE SMITH

(74)

LOWER inflation and high interest rates could lend some support to the rand exchange rate, but the gold price and strength of the US dollar would remain crucial in determining the value of the rand, Senbank's latest currency review said. B Day 27/6/90

The gold price was unlikely to strengthen in the short term, but "no dramatic weakening in the value of the rand is expected", it said.

"Notwithstanding clear signs of a sharp drop in economic growth and inflation, interest rates will remain high as a result of the low gold price and a relatively high level of imports."

The dollar, however, was likely to remain under pressure in the short term as American economic figures indicated slower economic growth and reduced inflation which removed upward pressure on interest rates, it added.

Continued firmness of the British pound would result from high interest rates, normalisation of the political situation and rumours that Britain would soon join the EMS, it added.

The Deutschmark (DM) was likely to maintain its recent strong performance, the review said. However, it cautioned that uncertainties surrounding a united Germany could still cause large fluctuations in the value of the DM in the short term.

Favourable Japanese economic factors continued to support the yen, the review said.

"Either a softening in US interest rates or a possible increase in Japanese interest rates could contribute to a further firming in the value of the yen in the longer term," it added.

FOREX FLOWS (74)

FM 6/7/90

While the fall in the gold price "has reduced the balance of payments surplus," says Reserve Bank Governor Chris Stals, "we are not experiencing a shortage of foreign exchange."

He adds, after returning from the *Financial Times* World Gold Conference in Venice, that shrinking imports are neutralising the impact of reduced gold revenue on the current account. There has also been a reduction in capital outflows.

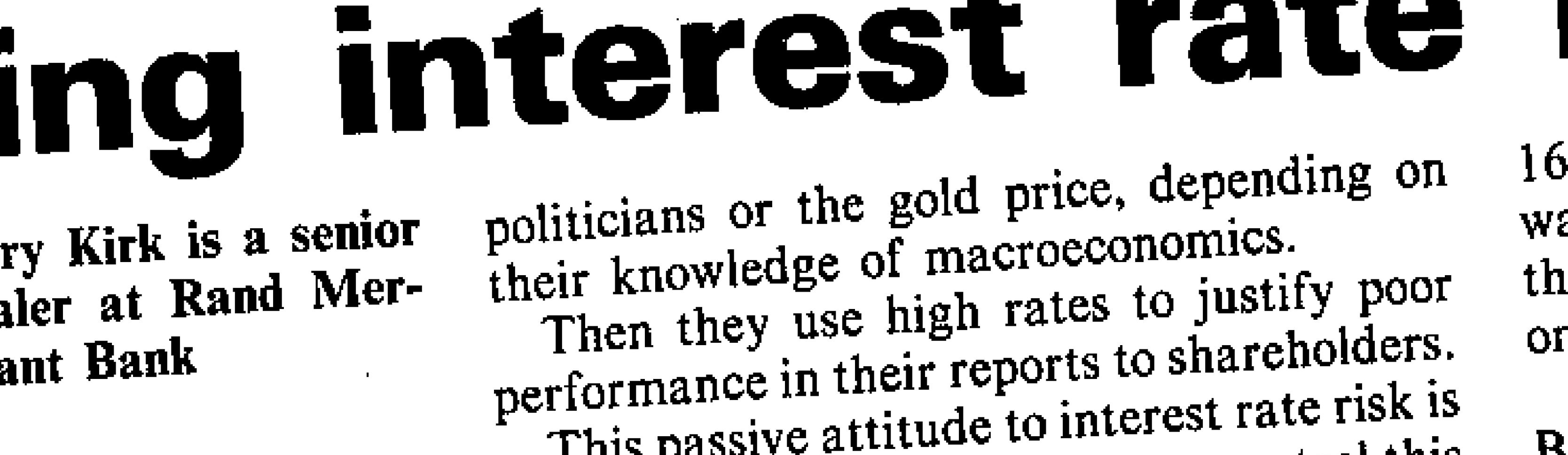
Stals adds that the attitude of foreign creditors has "eased somewhat but they are still reluctant to make long-term loans. They are watching developments carefully."

Despite the recent deceleration in money supply growth (*Economy* June 29), "it is premature to start relaxing monetary policy. At 13,9%, inflation is still very high and must come down further."

Covering interest rate risk

FM 6/7/90

(74)



Rory Kirk is a senior dealer at Rand Merchant Bank

It is that time of year when company results are foremost in the minds of many senior executives. Year-end and interim reports will certainly emphasise the effects of high interest rates and overgeared companies will probably have this as the single most important reason for poor performance.

In the mid-eighties the most common excuse given for missing the mark was a forex loss. Since then, management has taken a hard line on foreign exchange risk exposure. If such a loss is made management pounces and jobs are on the line. Most companies have clear instructions to hedge these foreign exchange risks as soon as they are taken. On the other hand, if there is an overrun on interest paid because rates are higher, they wring their hands and moan about banks, politicians or the gold price, depending on their knowledge of macroeconomics.

Then they use high rates to justify poor performance in their reports to shareholders.

This passive attitude to interest rate risk is on its way out. There are ways to control this risk, apart from reducing borrowings. Banks have developed a number of mechanisms for clients to hedge interest rate risks.

Futures on BAs are relatively easy to use. There are other smart tools, like interest rate swaps and forward interest rate agreements. Swaps are available for longer term hedging and forward rate agreements for tailor-made short- to medium-term cover. A bank sensitive to client needs could structure a hedging package that would save the client from having to enter the new and often confusing market by simply guaranteeing to roll over a borrowing at a specific future rate.

The main advantage of using hedging instruments is that a company knows ahead of time what its borrowing costs will be and, given a known level of borrowings, profits are then not subject to interest rate fluctuations. This time last year, for example, a corporate borrower would have been able to lock in a BA discount rate for mid-November 1989 at 16,80%. The actual rate on November 15 was 18,80%. That is a 200 point movement that could have been avoided and its effect on the bottom line negated.

At the time of writing, the three-month BA rate is 18,30% and it is possible to lock in a future BA rate of 17,10% for November. That could be higher or lower than the actual rate in November but that should not matter. The interest cost will have been fixed.

This market is new and the hedging of a loan book of R100m may be difficult to execute, but hedging even a part of it would reduce the impact of unexpected interest rate movements. As more organisations enter the interest rate risk management market the hedging of larger volumes will ensue.

I believe there is also room for the market to grow at the other end of the spectrum. The smallest amount one can now hedge with futures is R1m. Retail banks could soon start thinking of offering this cover to individual borrowers.

At last this country has a means of taking out forward cover on interest rates. As management becomes aware that interest rate costs are within their control, so will shareholders.

Businessmen less optimistic about real growth this year

The South African Chamber of Business (SACOB) says its business confidence index (BCI) declined marginally during June to 91,8 percent from May's 92.

Sacob says that the decline would have been harsher had it not been for "One-off" developments in the CPI figures and a bunching in motor car sales as a result of the launch of the Uno.

The three main factors affecting the BCI were:

- The weak gold price;
- The length and depth of the current economic downswing and
- The uncertainty arising from political developments internally and abroad that affect South Africa.

The main negative factors affecting the BCI, says Sacob, are:

- A small decline in imports which is seen as a slow-down in the economy;
- The fall in share prices on the JSE and
- The rise in the number of insolvencies and a sharp decline in the value of building plans passed.

Positive developments are:

- A slight improvement in the rand/dollar exchange rate;
- A decline in the rate of increase in the consumer price index;
- A slight decrease in the three month BA rate;
- A sharp increase in new car sales;
- The number of new companies registered continued to increase slightly and
- An improvement in the net immigration figure.

Star 6/7/90

Milder slowdown

Sacob comments that at the moment the economy is in a relatively modest recession but that business slowdown is milder than the two previous downswings in the last decade.

"Overall, it would seem that, although the current downswing is somewhat harsher than expected, it cannot yet be designated a deep recession."

The body went on to say:"There is less optimism now about the real growth rate for 1990 which is likely to be zero or slightly negative.

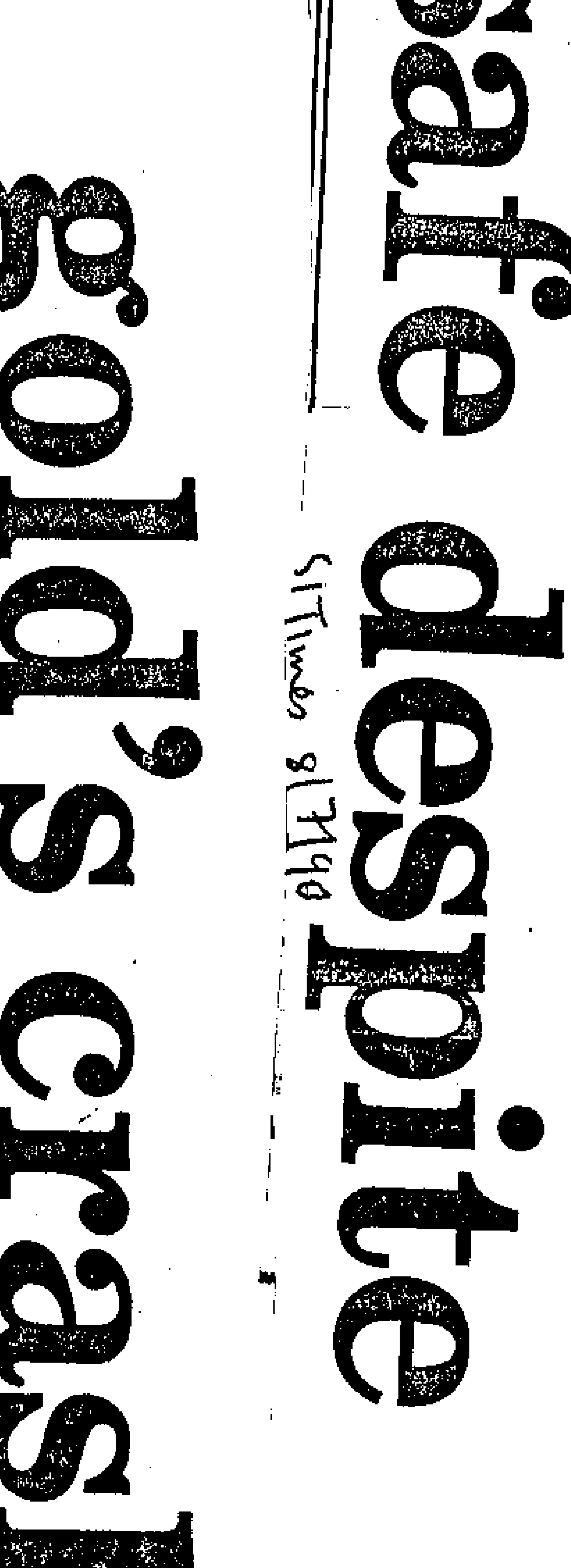
"Two big disappointments which have affected growth performance this year are the weak gold price and a less than satisfactory agricultural season."

Sacob goes on to emphaise the negative impact that the low gold price has had on confidence and says that prevailing supply and demand patterns indicate that there is little reason to expect a significant increase in the bullion price within the next 12 months or more.

Sacob concludes by saying: "1990 Must be seen basically as a year of adjustment and consolidation for the economy so that a sound basis is built for renewed growth next year. Business sentiment will adjust to the new economic and political realities as they evolve.— Sapa.

2 SUNDAY TIMES, Business Times, July 8, 1990

Reserves safe despite gold's crash



Enough in the kitty to meet foreign debt repayments

THE gold-price crash has pushed hopes of a major improvement in the surplus on the current account of the balance of payments this year into the background.

But it will not jeopardise South Africa's ability to meet its debt repayments, says the Standard Bank Economic Review.

Even if the price remains about $350, a reduced but substantial surplus on the current account will be earned.

Foreign-debt repayments this year are likely to fall because of rollovers which have been agreed to or are in the pipeline. The lower surplus should thus be sufficient to meet the remaining repayments without much pressure on foreign-currency reserves.

By IAN SMITH

Because of the volatility of precious metals "it would be foolish to make major adjustments to current domestic economic policies in response to what may, after all, be a temporary decline in the gold price", says the review.

"Current concerns about the price nonetheless highlight the dangers inherent for an economy which still relies too heavily on the fortunes of what is primarily a speculative commodity."

High

Last year total minerals and metals accounted for about 73% of export earnings. Gold alone made up 33% of all exports.

Foreign gold sales of R19,2bn were slightly less than three times the value of coal exports and almost 15 times the value of iron-ore shipments.

The price also has implications for SA's gold production. "Financial losses can only be sustained for so long," says the review.

Standard Bank has run simulations on its econometric model, first with an average gold price of $375 for the rest of 1990 and production of 595 tons, and then with an average price of $350 and production of 580 tons.

The higher price and production would give an overall gross domestic product growth rate of about 0,7% for 1990. The lower price and output would result in real growth of 0,4%.

The significant impact would be on the balance of payments, where the surplus on the current account would be reduced from R6,1bn to R5,4bn.

"The impact of a continued poor gold price throughout next year would have a far more noticeable impact on both growth and the balance of payments in 1991."

In a worse-case scenario, gold production of 550 tons in 1990 and a price of $320 for the rest of the year would result in a slight decline in gross domestic product and a current account surplus of R4bn.

Critical

"Such a pessimistic scenario clearly has to be considered, but is hopefully unrealistic at this stage.

"Viewed against the background of the speed with which domestic demand and activity have been coming off in recent months, additional policy measures to slow the economy in response to a sustained fall in the gold price to $350 an ounce are probably unnecessary.

"Existing policies have proved sufficient to change the economy's behaviour in all critical areas ...

"There are now even suggestions that maintaining the current policy stance for much longer may induce an overkill."

By Sven Lünsche

Despite foreign debt repayments exceeding R3 billion, South Africa's gold and foreign exchange reserves held up well in the second quarter of this year.

The Department of Customs and Excise reports that the reserves dropped to R5,16 billion in June from R5,24 billion in May.

This is the fourth successive month the reserves have declined and pushes the fall in the June quarter to R750 million.

But economists point out that in the same period South Africa's foreign debt repayments exceeded R3 billion, consisting largely of payments of debts that had been converted into three-year loans in 1986 and of other debts outside the standstill net.

The bank also used short-term foreign bridging finance to soften the blow of the repayments as reflected in the R1,2 billion increase in "Other liabilities" in June from R7,15 billion to R8,35 billion.

The Custons and Excise figures in June show that the foreign exchange part of the reserves was hardly changed at R2,29 billion from R2,32 billion in May.

The gold reserves, however, decreased markedly by R140 million from R3,01 billion in May to R2,87 billion, as both the rand gold price and the volume of gold holdings declined.

The rand gold price in June fell from R875,09 an ounce to R841,26, reflecting the lower dollar gold price and the virtually unchanged rand exchange rate.

Gold holdings dropped from 3,44 million to 3,41 million ounces.

'Overkill' fears build up but no rate cut planned

74 Star 10/7/90

By Magnus Heystek, Finance Editor

Hopes of an early decline in interest rates seem to be misplaced with most bankers predicting that the Reserve Bank will wait for more signs that inflation is under control before allowing them to reduce the prime overdraft rate.

However, Standard Bank warns that the maintenance of the current policy stance for much longer may induce an "overkill".

Rumours abounded last Friday and yesterday in the local bond and capital markets that an announcement concerning the Bank Rate — the rate the Reserve Bank charges for overnight accommodation — was imminent.

Rates in both markets moved down fairly sharply as a result.

Yesterday the liquid BA rate declined from 18,3 to 18,25 percent with most other money market rates following the softer trend. On the capital market rates were initially under downward pressure but came back late in the afternoon to close slightly higher after the gold price weakened suddenly.

The Eskom 168 stock closed at 16,02 percent after dropping below the magical 16 percent level for several trades.

According to bankers they would be "very surprised" to see the Reserve Bank drop the Bank rate at this stage, despite all the visible signs of a severe cooling down in the economy.

"The economy is behaving precisely the way the Bank wants it to," said one banking source yesterday.

Jimmy Mackenzie of First National Bank emphasised it was still the intention of the Reserve Bank to hold the high level of interest rates until inflation had been beaten, but he saw the possibility of the rate dropping around November.

"The money supply growth is down and inflation is coming under control, which is the main aim of the fiscus", he said.

However, he warned that the rate of earnings in the corporate sector was showing a heavy decline due to the squeeze on disposable income. "It's rougher out there than people think," he added.

"The Governor of the Bank has a difficult situation arising. Heavily geared companies, small and not so small, are feeling the pinch and if they go to the wall they will never come back. It could also mean the potential loss of thousands of jobs, which would not be a welcome result of the tough monetary curbs," he said.

While there is no doubt that the economy is fully entrenched in what the Reserve Bank Bulletin calls a "light recession", it is clear that all the preconditions for a drop in interest rates have not yet been met.

The Bulletin, released last week, points out that comparatively litle headway has been made in bringing down consumer prices, particularly when measured over a 12-month period.

The cooling-down of the economy is reflected increasingly in the slowdown of the rate of increase in credit extentend by banks and financial institutions to the private sector and to a lesser degree, in the M3 money supply.

However, the Bulletin says: "The slowing down of these growth rates from late 1988 through 1989 and early 1990 has, however, only recently brought most of these rates below the 20 percent level."

The tempo of monetary expansion has remained at significantly higher levels to date than of comparable stages in the previous downturn of 1984-87.

It is known Dr Chris Stals, Governor of the Reserve Bank, is determined to reduce the inflation figure further before considering a drop in interest rates.

While the official CPI figure dropped to below 14 percent last month, he would like to see it firmly entrenched below 14 percent, and even below 13 percent before relaxing his tough measures.

In its latest economic commentary Standard Bank warns that maintaining the current policy stance for much longer might prove to be a case of "overkill".

"Viewed against the background of the speed with which domestic demand and activity has been coming off in recent months, additional policy measures to slow the economy in response to a sustained drop in the gold price are probably unnecessary," the bank says.

4 to 5 pc growth seen for SA when trade returns to normal

Star 11/7/90

Anglo says 45 pc control claim 'gross exaggeration'

By Magnus Heystek

Anglo American has denied a suggestion that it "controls" 45 percent of the market capitalisation of the Johannesburg Stock Exchange calling it a "gross exaggeration" as a result of double-counting and other errors.

"In fact the proportion of JSE shares constituted by Anglo American and associates and the companies they 'control' is not more than 30 percent," chairman Julian Ogilvie Thompson says in his annual report. "Administration and control are not — as is so frequently assumed — synonymous."

McGregor's "Who own Whoms" publication recently estimated the level of Anglo's control at about 45 percent.

However, Mr Ogilvie Thompson says: "Our holdings are generally large, often majority, public shareholdings in companies we administer, particularly the gold-mining companies.

"Moreover, a director's fiduciary responsibility requires him to take decisions in the interest exclusively of the company on whose board he sits, not the interest of the company that may have nominated him to represent it.

"More illustrative of the real worth of Anglo American and its associates is that ventures that they have developed from grass roots now account for some 25 percent of the JSE's capitalisation."

Mr Ogilvie Thompson also examines what he calls the "true measure of the concentration of the national economy", by relating ownership of the nation's total fixed assets.

After adjusting the latest statistics for the recent privatisation of Iscor, about 54 percent is owned by the government and parastatal organisations, and four percent by agriculture.

Another 36 percent is owned by non-Anglo American companies listed on the JSE, by unlisted entities such as Sanlam and Old Mutual, the multi-nationals and private businesses.

Anglo American and its associates and the companies they "control" account for six percent, says Mr Ogilvie Thompson.

"Moreover, as experience in the two largest economies, the United States and Japan makes clear, the existence of big companies ... is conducive to the growth of small business, not the reverse."

- Mr Ogilvie Thompson discloses in his annual report that about 160 000 present and former employees now hold more than two million Anglo American shares under the employee share ownership scheme introduced three years ago.

The value of this combined shareholding is well over R200 million even at the lower price now prevailing.

He says a third free offer of shares is in progress.

By Magnus Heystek, Finance Editor

South Africa's annual growth rate could rebound to between four and five percent should trade and financial relations with the rest of the world be normalised, says Julian Ogilvie Thompson, chairman of Anglo American Corporation.

Commenting in his first chairman's report of AAC he says that trade and financial sanctions have compelled South Africa to restrict the growth rate to two percent a year — "perhaps to zero in 1990" — in order to finance international debt repayments amounting to some R21 billion over four years.

"Simply stopping the haemorrhage — a prospect which the EC summit meeting in Dublin has now brought closer — would enable us to raise the growth rate to about three percent per year.

"With a resumption of trade credits and capital inflows on the earlier scale we could raise it to between four and five percent, perhaps more. That would add another R5 billion to R10 billion a year to our total resources, and would be of tremendous assistance in correcting inequality, both directly and by creating new employment," Mr Ogilvie Thompson said.

"Five percent growth, a modest enough target in normal circumstances, could create around 200 000 new jobs a year in the formal sector and at the same time greatly benefit employment in the informal sector," he added.

Mr Ogilvie Thomson identified Government as the "biggest single impediment to growth in South Africa", because it frustrated its real function as facilitator by its preference for direct controls that largely ignored the concept of pricing by relative scarcity, and by introducing policies that, in the supposed interest of the white electorate, discriminated racially in both political and economic affairs.

One consequence was that State expenditure soared to a proportion of the national income that made inflation virtually unstoppable, consuming resources which, had they been left in the private sector, would have generated more wealth and money for social expenditure.

In this regard he referred to a country like Sweden where excessive rates of taxation to finance social expenditure has proved to be self-defeating because they cripple growth.

Diversification

Other points made by Mr Ogilvie Thompson:

- AAC's policy of balanced diversification enabled the Group to achieve record earnings, a fall in the contribution from gold more than offset by substantial increases in all other sectors.

Attributable earnings increased by 20 percent to R1 507 million, or 651c a share, in the year to end-March. Equity accounted earnings were 18 percent higher at R3 130 million, or 1 352c a share. The total dividend for the year was again raised by 20 percent to 325c a share, being twice covered by attributable earnings and 4,2 times by equity accounted earnings.

- Earnings from gold mining fell by R18 million to R373 million, equivalent to 12 percent of equity accounted earnings against 15 percent the previous financial year.
- AAC invested R1 123 million in equities and loans over the year. The group participated in a number of major rights issues by companies, including Gold Fields, Samancor, Gencor and the Premier Group. The group also provided funds for the North East Cape Forests venture, subscribed to the Iscor flotation and acquired a parcel of shares in Unisel, the gold mine in the Orange Free State.
- Investments made outside South Africa included further funding of Eastern Investments in respect of its Australian natural resource interests; advances to Soda Ash Botswana and a new investment in Deutsche Steinindustrie, an international dimension stone-cutting operation.

This shareholding, and that in the Medgenix Group, the diversified medical services company mentioned last year, have been transferred to a wholly-owned subsidiary formed to hold all AAC's European interests.

- At the end of the financial year the group's net asset value had risen by 32 percent to R37,8 billion, R163,39c a share.

LIQUIDITY FM 13/7/90

Swapping dollars (74)

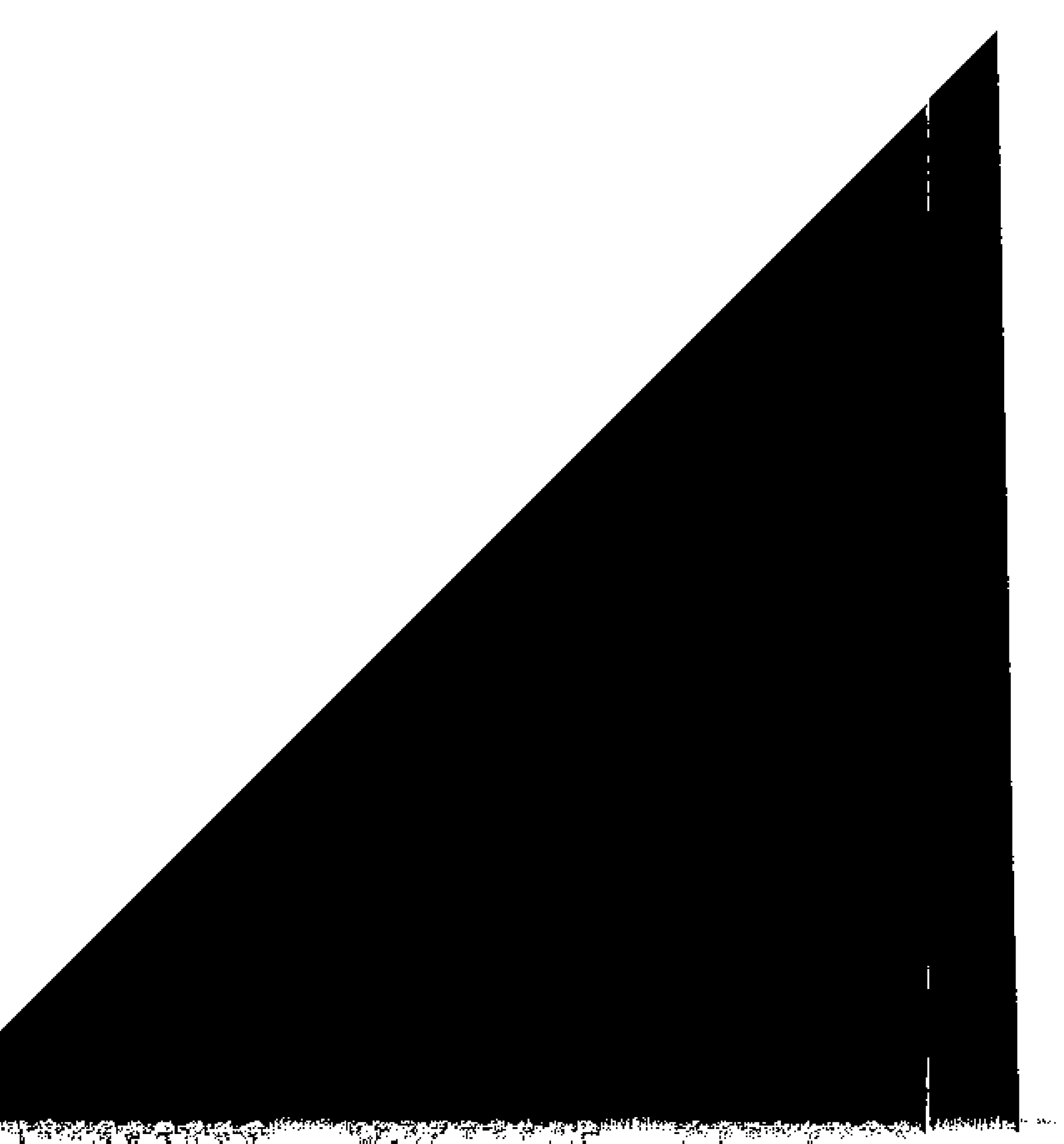
In the first quarter, when gold rose to a peak of US$423/oz, there was an adverse spin-off for monetary policy. Increases in the Reserve Bank's net gold and other foreign exchange holdings eased money market conditions just when the Bank least wanted it.

The latest *Quarterly Bulletin* says one mechanism by which this was offset was the introduction of dollar swaps on February 23.

The Bank sold spot dollars to banks authorised as foreign exchange dealers and immediately bought them back forward, with repurchase dates ranging from one to four weeks. The dollars were deposited at the Bank. Because the transaction was a simultaneous sale and purchase, there was no effect on the rand/dollar exchange rate.

Monetary policy was promoted because banks took rands out of circulation. By varying the forward repurchase period, the Bank achieved a fine degree of control over liquidity. For instance, some contracts expired as a large debt repayment fell due on June 15; a number expired at the end of June to offset an outflow as tax deadlines neared.

The Bank normally keeps the funds in SA and pays interest on them comparable to rates offered in the US. ■



FM 13/7/90 (74)

CAPITAL FLOWS

Double take

An inflow of short-term capital in the first quarter is both the good and the bad news about that period. It reflects two very different developments. One is the easing of credit sanctions in response to promises of political reform; the other the uncertainty of offshore investors about the consequences.

A R1,3bn-plus swing (from an R829m outflow to a R531m inflow) in the net movement of short-term capital — including unrecorded transactions — is due in part, says the June *Reserve Bank Quarterly Bulletin*, to an increase in trade credits. Unwinding unfavourable leads and lags while the rand was relatively stable no doubt helped.

Sales by non-residents of securities on the JSE added to the supply of financial rands and the technical consequences were reflected in the item *changes in short-term liabilities related to reserves*. The "inflow" in this account worked to reduce what would otherwise have been an even larger outflow, as the banking sector repaid outstanding reserve-related debts of R866m.

The net outflow of long-term capital rose from R300m in the fourth-quarter 1989 to R900m in quarter one — "the largest since the fourth quarter of 1986," says the *Bulletin*. It "was overwhelmingly accounted for by private-sector capital movements, more specifically increased net sales by non-residents of securities listed on the JSE."

Added to this were increased net repayments by public authorities on debt outside the standstill net. Countering it were net imports of foreign capital by public corporations — which actually exceeded their total net new foreign borrowings during 1989.

The result of all these flows not related to reserves was a loss of R406m. However, this is less than a R1,1bn-plus outflow in the previous quarter and the smallest quarterly outflow since the start of 1987.

The R1,9bn rise in *net gold and foreign reserves* in the first quarter of 1990 followed a fall of R1,2bn during 1989. It came despite debt redemption and the lowest net gold exports since the second quarter of 1987 — a seasonally adjusted annualised R17,8bn.

Reserves are insulated from changes in supply and demand for the finrand. Changes in the first quarter were purely the result of an improvement in the balance of both capital and current accounts.

This was followed by a decline in April of R429m — "mainly due to repayments on foreign loans rescheduled into longer-term loans in accordance with the First Interim Arrangements (of) 1986 and the renegotiation of gold swap agreements with overseas banks at lower gold prices."

Reserves also fell in May and June as debt repayment continued (see "Positive pain"). ■

Counter flows

Ruthless money policy pays

All set for a floating gamble

By CHARMAIN NAIDOO

A FLOATING casino operating out of Cape Town's Table Bay could present an interesting gamble for investors with strong stomachs.

After five years of slog, the directors of Delta Queen Sporting International confirm that building of the luxury Delta Queen casino of the high seas has begun.

In 1984, Philip Marcus, Henry Marcus, John Sayers and Ted Sayers decided to seek the right to operate a floating casino from Cape Town or Durban.

Philip Marcus says permission has now been obtained from various government departments enabling the "private club" project to go ahead.

A total of R18-million is needed to get the venture on the water and R8-million has been raised. The directors have guaranteed a large sum through Standard Bank.

The balance is being raised through the private placing of redeemable (16% interest) debentures. Mr Marcus expects the company to redeem them out of profits within two years.

Salary

He says all money received from the public will be placed in a trust account under the administration of auditors Kessel Feinstein.

"Thereafter payments will be made from this trust account only for the building and equipping of the Delta Queen. The directors have agreed not to draw a salary for two years."

The directors have guaranteed to put in or finance the balance of the money needed once 60% of the total has been raised.

"We are close to the R3-million or R4-million we need," says Mr Marcus.

The Delta Queen directors are not the first to consider a casino outside SA's territorial waters.

Sun International examined the concept, but decided against it because of the Cape's stormy seas and its winter, which would make business seasonal.

Mr Marcus says: "We are the first to overcome major obstacles, such as obtaining permission and finding a suitable vessel." He is confident that the Delta Queen, with 500m² of gambling space and another 500m² of restaurants, bars and entertainment areas, will be able to sail out twice a day.

The vessel to be used is designed to reduce the effects of waves.

The Delta Queen will be able to carry 250 people.

The casino and gaming business will operate as a private club restricted to members of the Delta Queen Sporting International Club and their guests.

Fare

Membership will be grant...

GETTING SHIP-SHAPE FOR A SEABORNE CASINO . . . Philip Marcus stacks the chips Picture: GARTH LUMLEY

ST Times 15/7/90

Credit demand drops, but brakes to stay on

INTEREST rates in the capital and money markets have softened, but forget about a cut in the prime overdraft rate.

That is the essence of what Reserve Bank Governor Chris Stals told Business Times this week. Through ruthless monetary policy, the inflation rate has been screwed down from 18% to 14%. Prime has been a firm 21%, putting its real rate on a recent record at 7%.

The Reserve Bank's tough stance is working and demand for credit is falling fast. Companies and individuals are battling to survive. In the four months to April, liquidations were up 45% on a year previously. Some economists are pleading for the Reserve Bank to relent on rates to prevent overkill.

By DIRK TIEMANN

In expectation of lower rates, RSA and Eskom rates have been marked down in the capital markets.

The Eskom 168, for instance, fell from 16,44% to 16% this week. In the money market, rates on six- to 12-month negotiable certificates of deposit are down from 19,75% to 18%, causing hopes to rise for a cut in prime.

But Dr Stals insists: "We are in the right direction. But the rate of increase in the money supply and credit extension is still too high."

TARGET

Dr Stals says: "The 17,5% increase in credit extension in the past 12 months is better than the 30% in August 1988, but we would like 15%.

"The money-supply growth target is 11% to 15% for 1990, but we are touching 19%."

So determined is the Reserve Bank to keep money supply down that it has allowed mining houses to slow the repatriation of export receipts.

Richard Jesse, banking analyst at stockbroker Martin & Co, says: "I would expect a cut in the bank rate in the next quarter — but it won't happen until money-supply growth is inside the target.

"The Reserve Bank has missed its targets in the past and is nursing its credibility. That's why Dr Stals cannot act until he gets inside the target range. That will be the signal for a cut in bank rate."

First National Bank managing director Barry Swart says Privatisation Minister Wim de Villiers has set a target for inflation of 10% by the end of next year.

"If 7% real rates are to be maintained, prime won't get below 17% in the next 17 months. If rates do come down, it will happen gradually."

Should we relax monetary policy now — it risks the inflationary climate of Argentina or Brazil — but critics say high rates suit his group.

Dr Falkena says: "To relax monetary policy now would be to repeat past mistakes. Prime rate in real terms is still lower than those of our trading partners."

Standard Bank chief economist Nico Czypionka believes rates will fall: "The economy is falling off sharply, in some areas more than is palatable. The balance of payments is no longer critical despite the drop in the gold price.

"The capital position has improved and the decline in reserves is levelling off. A 10% inflation rate is attainable by the end of next year."

Rand Merchant Bank group economist Rudolf Gouws says: "Stabilisation of the net gold and foreign reserves means the ground is prepared for a fall in interest rates. Commercial bank loans and the demand for credit are down and we should see a slight decline in interest rates in the next two to three months.

"The economic slowdown will, however, continue at least until September-October 1991. I think inflation will drop to about 10,5% by late next year".

CAUTION

Anglo American senior economic consultant Aubrey Dickman says the hard-won battle against inflation should not be abandoned too soon.

"I lean toward caution. However, 8% real prime, which we will have if the inflation rate falls to 13%, is more than we need. Interest rates should be flexible and move in accordance with exchange rates.

"I believe that interest rates have peaked and that they will come down some time this year."

CARTE BLANCHE

By DAVID CARTE

A PAGE FROM THE NEW DEAL

CHANNEL money saved on defence towards a voluntary civilian make-work and training scheme.

This was the call of Anglo American chairman Julian Ogilvie Thompson in his annual review this week. Mr Ogilvie Thompson advocates a "development force" to provide work, education and skills to the "lost generation" — unemployable victims of the liberation-before-education call.

Amplifying his remarks, Mr Ogilvie Thompson told me that what he had in mind was an organisation similar to the Civilian Conservation Corps, set up in 1932 as part of President Roosevelt's New Deal in the Great Depression.

More than 3-million young Americans had their first experience of work in the CCC. Its most spectacular project, undertaken with the similar 4-million-man Civil Works Administration, was the construction of 25 dams for the Tennessee Valley Authority.

Jobless youths received food, overalls and shelter, plus $30 a month while they worked and learned skills. All America benefited. The TVA, for instance, provided hydro-electric power and eliminated killer floods.

It's an appealing idea. Imagine an army of millions of youths, at present without jobs or skills, descending on townships, laying streets and pavements, upgrading plumbing and sewerage, building houses, schools and clinics, electrifying houses, and planting trees — learning as they work.

In rural areas, thousands of illiterate, poverty-stricken people could build dams, canals and irrigation ditches, fight soil erosion and improve farming methods for their own benefit.

Mr Ogilvie Thompson is enough of a realist to know that any such scheme in SA is a non-starter if black community leaders are not involved. He also insists that there must be nothing military about it.

Lest anyone should worry that such a scheme might compromise free enterprise, Mr Ogilvie Thompson says it need not be government-led, even if taxpayers' money is used. An independent trust, such as the one that Jan Steyn is running with R2-billion from the State, could organise the project.

Manpower Director-General Joel Fourie says the foundation for such a scheme exists.

"The only shortage is money. On a budget of only R100-million, my department, in co-operation with hundreds of employers, has trained more than a million young people."

Education and Development Aid Minister Stoffel van der Merwe welcomes Mr Ogilvie Thompson's suggestions.

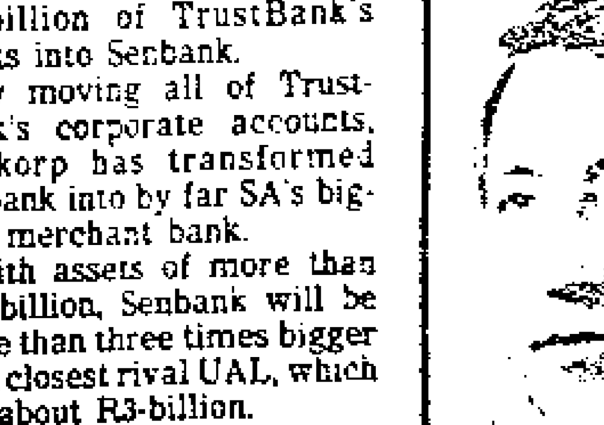
The idea is off to a receptive start. Now it's up to the Government, business, and, most importantly, the black community to get it rolling.

Senbank king of the merchant pile

By DAVID CARTE

ST Times 15/7/90

PIET LIEBENBERG's new administration at Bankorp has carried out a radical restructure by transferring R8-billion of TrustBank's assets into Senbank.



By moving all of TrustBank's corporate accounts, Bankorp has transformed Senbank into by far SA's biggest merchant bank.

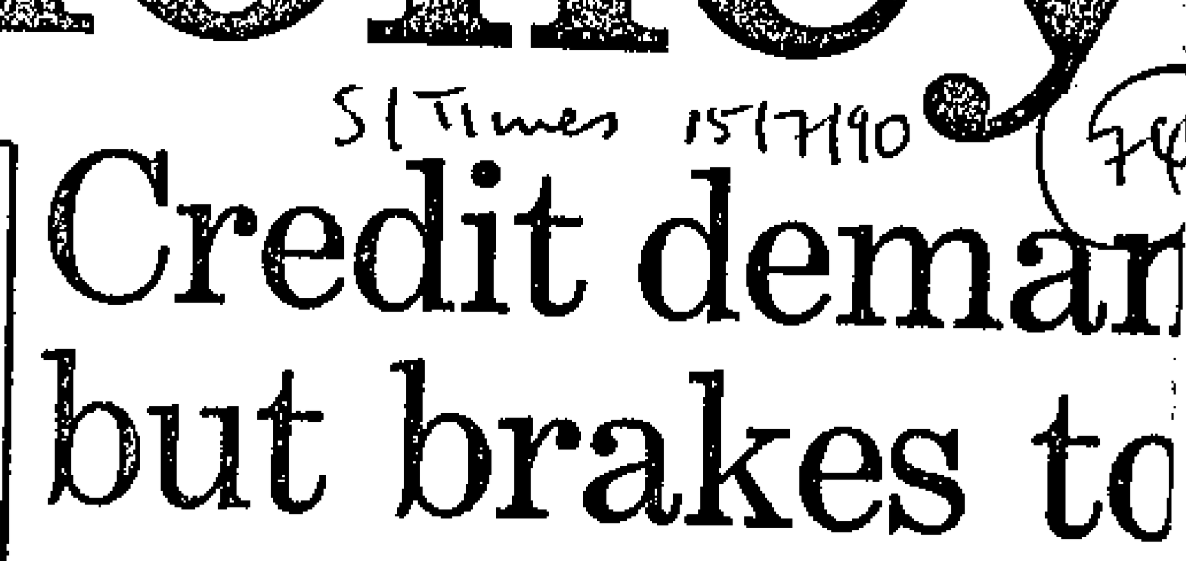
With assets of more than R11-billion, Senbank will be more than three times bigger than closest rival UAL, which has about R3-billion.

The entire staff of Trust...

with shareholders' funds of R10-million or more will be able to run cheque accounts at Senbank. Targets include JSE-listed companies, multinationals and their subsidiaries, parastatals and municipalities.

Mr Van der Merwe says 70 of the top 100 companies have at least one account at Senbank after its absorbtion of TrustBank's corporate clients.

Wits MM. Your first step towards managing the largest asset in business.



S|Times 15|7|90

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So determined is the Reserve Bank to keep money supply down that it has allowed mining houses to slow the repatriation of export receipts.

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First National Bank managing director Barry Swart says Privatisation Minister Wim de Villiers has set a target for inflation of 10% by the end of next year.

"If 7% real rates are to be maintained, prime won't get below 17% in the next 17 months. If rates do come down, it will happen gradually."

VARIED

Dr Stals says the Reserve Bank does not have a fixed real rate of interest in mind.

"We will maintain real interest rates in recessions and upswings, but depending on circumstances, they can be one, three or five percent.

"Real rates in most countries vary from 5% to 8%. Much depends on whether we can allow short-term capital outflows. Right now the reserves are very low and even though the balance of payments looks better, we should not relax yet."

United Group economist Hans Falkena says if SA relaxes monetary polic it risks the inflationar mate of Argentina or — but critics say high suit his group.

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SA bond debt 'refinanced in Swiss market'

B|Day|17|7|90 GRETA STEYN (74)

SA HAS managed to refinance about Sf200m (about R375m) of maturing foreign bond issues by raising capital in the Swiss bond market, the London Financial Times has reported.

Its report, quoting Swiss bankers, said a slightly easier environment existed for the refinancing of SA bond debt after talks between the SA government and the ANC. It said Transnet had been the latest to raise finance with a Sf50m (R94m) private placing arranged by the Swiss Bank Corporation. As is usual, the debt is guaranteed by the SA government. The new issue carried a 9,5% coupon interest rate and would mature in 1993. It would replace bonded debt raised in 1985 by Sats.

South Africans with foreign bond debt are tightlipped about the Swiss issues, with "no comments" coming from Transnet and the Finance Department. An Eskom spokesman said it had not refinanced any bonds since the DM100m placement in West Germany reported earlier this year.

Government sources indicated the report might be overstating the SA success in the Swiss markets, although there had been a softening in attitudes. SA banks, which are increasingly gaining access to foreign trade credit lines, confirmed this.

Reserve Bank figures show SA had $1,6bn (R3,2bn) of foreign debt falling due in the first half of this year, mainly in the June quarter. Bank Governor Chris Stals said in an interview at the weekend that part of that amount had been rolled over or refinanced. He could not yet judge the extent of capital outflows in the second quarter due to foreign debt payments.

But he acknowledged the Bank had drawn on its foreign short-term credit facilities during the second quarter to enable SA to meet heavy foreign debt commitments. A strong balance of payments in the first quarter had helped the Bank reduce the debt on these foreign credit lines that are similar to an overdraft and SA was in a comfortable situation.

The Bank's last statement of assets and liabilities showed the debt payments in the second quarter caused hardly a ripple. The small decline of R168m came as a surprise to economists, who had expected a bigger impact as a result of the foreign payments.

Trade surplus boosted by 43% to R1,5bn

Own Correspondent

JOHANNESBURG. — Shrugging off a weak gold price in June, SA's trade surplus jumped by about 43% from May to a healthy R1,54bn because of surging exports and weak imports.

The hefty June trade surplus, the second highest this year, helped alleviate pressure on the balance of payments during a month of heavy foreign debt payments. With the foreign debt problem cleared, the trend on the trade balance suggests SA will be able to build up foreign exchange reserves during the remainder of the year.

Safto economist Bruce Donald said: "Pressure on the current account to produce healthy surpluses will be reduced in the second half of 1990, as a result of smaller debt repayments during this period. The falling ratio between SA's debt commitments and its trade surplus is likely to mean a growth in foreign reserves during July to December 1990."

The current account balance is the trade balance less net payments for foreign services. A current account surplus of R4bn-R5bn is expected for the year as a whole.

The Customs and Excise figures released yesterday showed exports were up by 11,5% in June from May to R5,22bn — the highest level so far this year. The continued strong performance of non-gold exports is the result of a shift to foreign markets because of a weakening of the domestic economy, some easing of sanctions and good international demand for SA's non-metal minerals.

Over the past six months, mineral exports surged by 23% from the same period in 1989 to R3,6bn. Revenues from the unclassified category of exports — mainly gold — were up by less than 1%.

Imports rose slightly in June from the preceding month (R3,68bn from R3,6bn) but economists noted the trend was still firmly down.

The Standard's Nico Czypionka said: "The trend in imports is one of the most important indicators that restrictive economic policies are working. The balance of payments is performing well in the face of a weak gold price and pressure from foreign debt payments."

Over six months, imports were down by 4% compared with the same period last year. Donald noted that imports were probably down by 10% in volume terms.

"Imports of machinery dropped by 6% during the period, verifying our view that the investment cycle is in a downward phase after a strong recovery in 1988 and 1989. This trend should continue in the next 12 months as the economy cools further," he said.

Trade surplus rises

WM 20/7-22/7/90 (74)

■ RISING exports and weak imports boosted South Africa's trade surplus which increased by nearly 43 percent to R1,54 billion in June.

According to Customs and Excise figures released on Wednesday, exports rose 11,5 percent to R5,22-billion.

Imports in June were slightly higher at R3,68-billion compared with May's figure of R3,6-billion.

Reports from Sapa, Reuter

W/Mail 20/7-22/7/90

Govt debt has risen 32-fold since 1960

(74) (49)

OVER the past three decades the outstanding nominal value of central government debt has risen 32-fold to R81-billion.

Focusing on government debt in Old Mutual's latest Economic Monitor, analyst Ursula Maritz said central government spending grew rapidly from R847-million in 1960 to R65-billion in 1989 and was financed largely by a sharp rise in the tax burden as well as borrowing on the local capital market.

"Although the absolute level of debt increased, expressed as a percentage of GDP it actually declined from 47 percent in 1960 to 32,1 percent in 1989, confirming the fact that the taxpayer rather than excessive deficit financing had borne the brunt of financing this increase. It also demonstrates how the real value of the outstanding debt has been eroded over time by high inflation."

Maritz said it was clear from these figures that the present ratio of government debt to GDP was not excessive by local historical standards. — Sapa.

Debt reduction clears way for greater growth

Star 25/7/90

Finance Staff

South Africa is now technically underborrowed, as a result of the massive debt repayment programme says Nic Czypionka, chief economist of the Standard Bank.

Speaking at the Fedhasa annual congress yesterday he said South Africa's net foreign debt reduction of 20 percent "now looks extremely good when our ratios are compared with those of other developing countries."

Moreover by comparison, Australia, South Africa's "twin" had seen its foreign debt nearly treble since 1985 to some A$110 billion.

This had artificially and temporarily propped up the Australian growth for several years but a potentially explosive situation had now arisen.

By contrast, South Africa's rather modest growth had been hard earned "but at least it was solid," with GDP increasing by 2,1 percent in 1987, 3,7 percent the following year before easing to 2,1 percent last year.

The foreign debt crisis of 1985 had been a "Godsend" he said, forcing new disciplines on the economy and the planners.

The country's position at the beginning of the new decade was "significantly different."

There was now an almost unheard of degree of fiscal stringency, a drastically changed approach to monetary discipline, as well as a promise of consistency, over time, in the application of economic policies.

The private sector had taken heed and was beginning to adjust he said. Moreover, for the first time since the late 60's, the upward trend of inflation had been reversed, and an end of the slide of South Africa's long term economic growth performance was at last in prospect.

Further positive political developments were now needed for an improved growth scenario to become viable in the near term, because good economic management was difficult when its basic stance must be to defend against negative political forces.

"We could do without the uncertainty which continues to result from overblown rhetoric and jockeying for negotiating positions by various parties."

However neither Government nor business could ever hope to "buy off" black demands for real political power.

"Nevertheless the bulk of factors influencing economic performance has, I believe, fundamentally altered for the better."

The catch was that South Africa could not hope to secure a genuinely prospering economy without broad acceptance into the international community and thereby gain access to world capital markets and direct foreign investment.

The enormous need for social upliftment in education, training and housing would place strain on the commitment to contain government spending unless compensating reductions were made elsewhere.

These would come by sacrificing some ideological holy cows. "Thankfully we have many of these and the re-distribution of wealth may not prove as painful as some fear."

Relief on high interest rates likely by year-end

Sto- 27/7/90

The end of high interest rates is in sight, says Southern Life economist Mike Daly.

Writing in the group's latest Economic Comment he says relief on this front should be seen in the fourth quarter.

"Trading conditions have now become increasingly difficult with turnovers falling sharply in an environment where the high cost of borrowing is hitting both the corporate sector and the consumer buying on credit."

(74)

Mr Daly points out that with the intense fears and expectations that naturally accompany a historic political negotiation process as is currently under way, widespread job destruction cannot be afforded.

He points out, however, the decline of the gold price is a major cause for concern, given the outlook for slower overseas economic growth and probably static non-gold export performance.

The consequent drop in exports would mean that import volumes would have to fall more steeply than appeared necessary earlier in the year if the desired build-up in foreign exchange reserves is to be achieved.

Therefore a more rapid cooling of domestic demand conditions would be needed, involving a higher level of short-term interest rates than otherwise would have been the case.

However, he still believes that the first cut in the bank rate will take place in the fourth quarter and would be about one percentage point.

Syfrets Managed Assets (SMA) economist Elmien de Kock, cautions that the half-year trade figures, which reflect a 43,3 percent increase after the June surplus of R1,54 billion (R1,08 billion), are not an occasion to anticipate any immediate relaxation in the tough controls imposed on the economy.

She warns that it remains essential that substantial trade surpluses continue to be achieved in the months ahead in order to boost foreign exchange reserves to the levels necessary where some easing of restrictive monetary policy can be considered.

"This is not going to be easy. A slowdown in international economic activity is expected over the remainder of 1990 and this implies lower export volumes.

The gold price remains lacklustre and commodity prices in general are expected to continue weakening, so little material relief is likely from this quarter", she adds.

"At the same time the terms of trade have been deteriorating which means that more goods must be exported to pay for the same volume of imports. It will, therefore, require an even sharper fall in the level of imports to compensate for that continued deterioration."

The conditions do not necessarily imply, however, that nominal interest rates cannot come down — in line with falling inflation — in order to ensure that real interest rates will be maintained. — Sapa.

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Rand slips to 4,80 to pound

Star 31/7/90 Finance Staff (74) (18)

The rand is fast approaching the R5 mark against the British pound, after slipping to a record low of 4,80 to the pound yesterday.

However,the rand held steady against most other major currencies and reached a four-months high of 2,60 to the US dollar.

Dealers believe the R5 level against the pound could be breached before the end of the year as sterling continues to benefit from plans to make it part of the European Monetary System.

In New York yesterday sterling rose by one US cent to $1,8465, following a more than two cents rise on Friday.

Rand schizophrenia likely to continue

Star 2/8/90

By Sven Lünsche

The rand exchange rate is likely to continue its recent dual course for the remainder of the year, economists says.

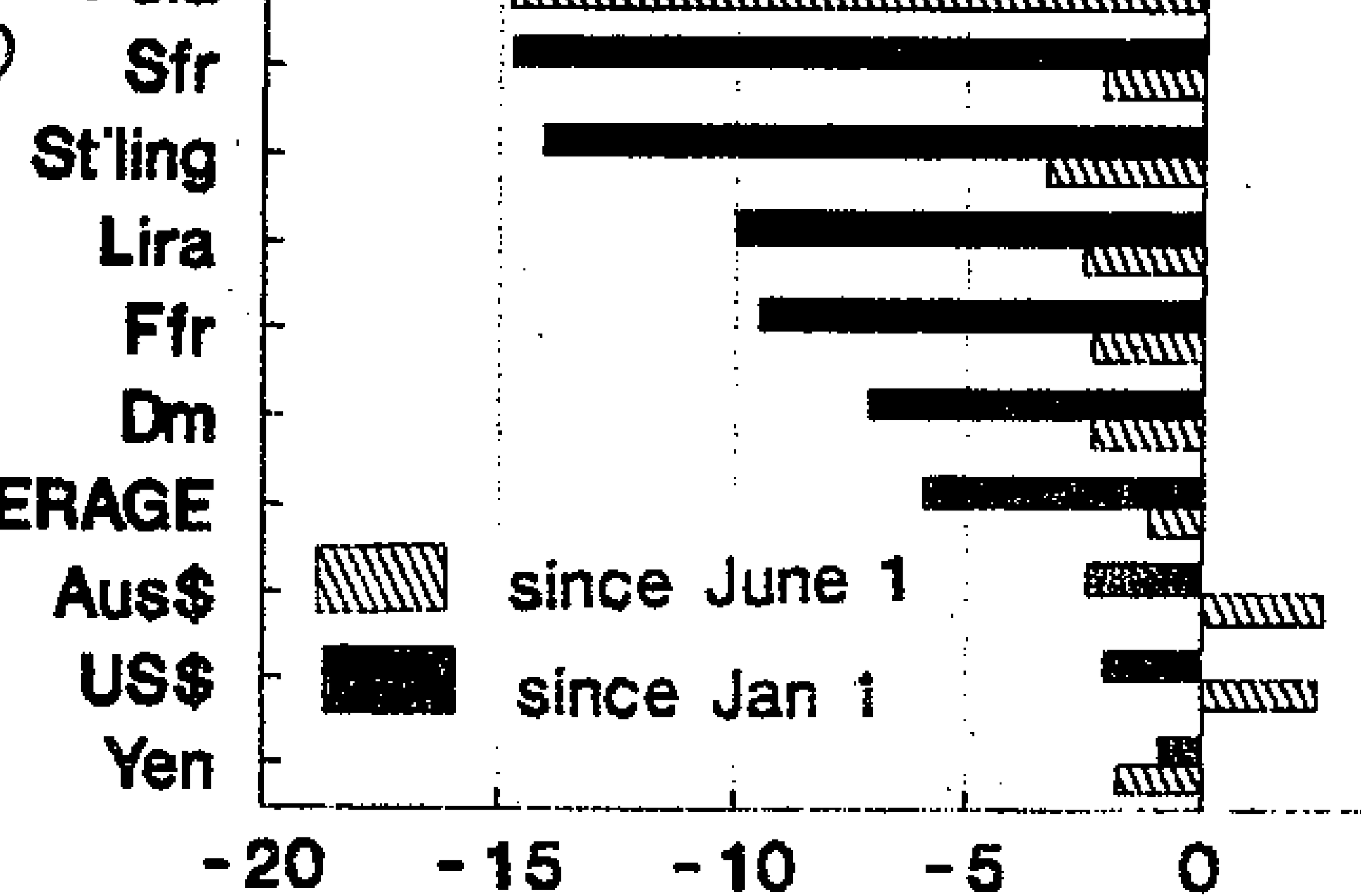
The currency rose this week to a four-month high against the dollar, but slumped to record lows against other major Western currencies, including sterling, the Deutschemark and the Swiss and French francs.

The strong performance of the rand against the dollar comes on the back of the weakness of the US currency on international markets.

Local dealers expect the dollar will continue its slide towards record lows against the Dmark in anticipation that US interest rates will have to come down to avoid a full-scale recession.

The dollar has struck several consecutive 2-1/2 year lows over the past week as it drifts towards Dm1,562, which, according to the First National Bank Treasury economist Simon Willson was its record low set in London on January 4 1988.

The expected fall is further reason for the rand to appreciate until the end of the year, says Mr Willson, but he doubts that the rand's rise will be proportionate to the fall of the dollar on international markets.



The rand this year against major currencies

He believes the Reserve Bank is uncomfortable at seeing the rand firm too strongly.

"There was little effort by the Bank to stop the rand from going through the R2,60 level to the dollar, but since then they have made efforts to break its strengthening trend," Mr Willson says.

He believes importers will buy the dollar at its weaker levels, which could further restrain the rand.

Frankel Kruger Vinderine economist Mike Brown says, however, that the Reserve Bank is unlikely to help soften the rand before the end of the year, despite some calls to aid the export industry through a weaker rand.

He predicts that the rand could settle at R2,65 to the dollar over the next few months.

"Dr Chris Stals has indicated that the tight monetary controls will stay in place until inflation is under control and unfortunately exporters, including the gold mines, will continue to struggle," he says.

However, the authorities are likely to give exports a boost once they deem it feasible to stimulate the economy sometime towards the end of the year, and we could see a weaker rand at that stage, Mr Brown says.

Against other major currencies, however, the recent decline is likely to continue.

So far this year the rand has declined by 5,9 percent against a basket of currencies, according to FNB calculations.

In July alone it fell 1,1 percent, buoyed by a 3,3 percent fall against sterling and a 2,28 percent fall against the Dmark and the French franc, and despite a 2,5 percent rise against the dollar.

Mr Willson expects falls for the year ranging between five to 10 percent, in line with the inflation differential between SA and its trading partners.

Setting the rate of exchange for the commercial rand

MIKE DALY

THE strength of the rand against the US dollar in the period since February, when the gold price has been under severe downward pressure, has damaged a belief among South Africans that a weakness in the dollar gold price will always be partially "offset" by a decline in the value of the rand.

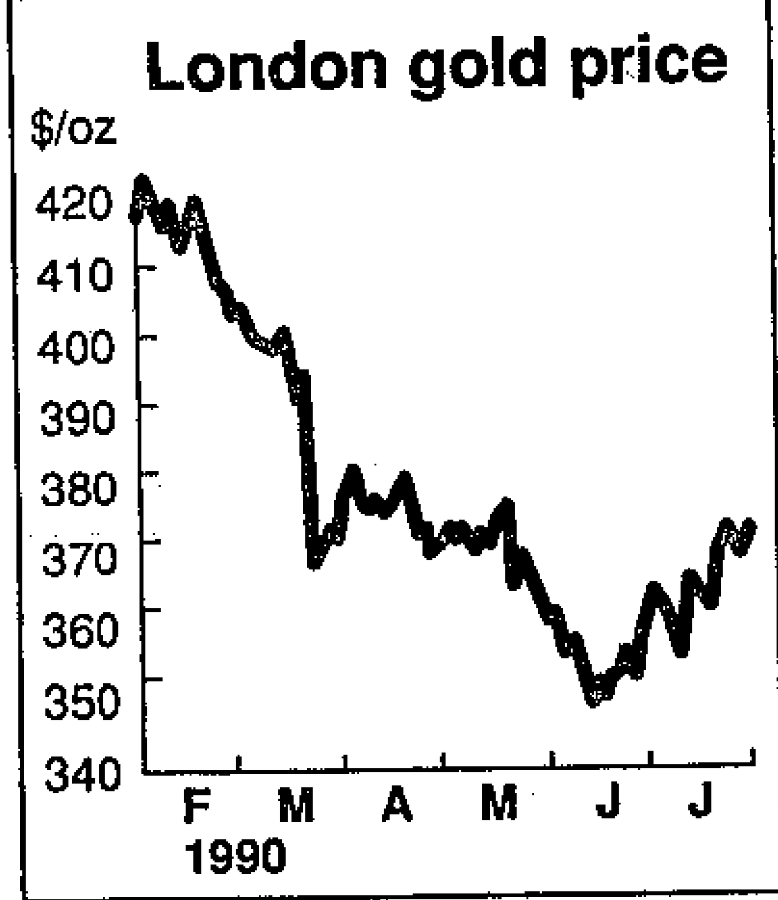
The reality has been that the 11% drop in the gold price to end-July has occurred with the rand depreciating by only 2% against the dollar (although on a trade-weighted basis by a more substantial 5%). The gold price in rand terms has therefore been largely unprotected, declining by some 9% over the period to the detriment of the gold mines and gold share investors.

There may therefore be renewed interest in the workings of the exchange rate system and the role of the Reserve Bank in the determination of the foreign exchange value of the rand.

The monetary authorities have progressively adopted more flexible exchange rate policies since the end of January 1979, before which SA had traditionally applied a fixed but adjustable exchange rate system with the currency linked closely with the pound or the dollar. The interim report of the De Kock Commission, published in January 1979, recommended the establishment of a floating exchange rate system for the rand in a competitive market, though managed by the Reserve Bank through intervention by means of buying and selling dollars in that market.

The key shift from the traditional system has been that the rand is no longer "pegged" to a desired level against the dollar which is then defended by the Bank. Defending the rand against market forces that would otherwise drive it lower involved the Bank, as custodian of the country's gold and foreign exchange reserves, selling as much foreign currency as demanded by the market at the desired rate.

This action would of necessity be limited by the amount of foreign exchange reserves the Bank was prepared to lose, and could therefore be only a short-term strategy — the premise being that prevailing adverse fundamental economic forces would reverse themselves within a reasonably short time.



Graphic: FIONA KRISCH Source: REUTERS

Since the publication of the interim report the Reserve Bank withdrew the exchange control rulings in terms of which fixed buying and selling rates were prescribed for authorised foreign exchange dealers, essentially the commercial and merchant banks, and the dealers were henceforth allowed to determine their own buying and selling rates in competition with each other. In addition, the requirement for any buyer or seller of foreign exchange to deal only through their own bank was withdrawn.

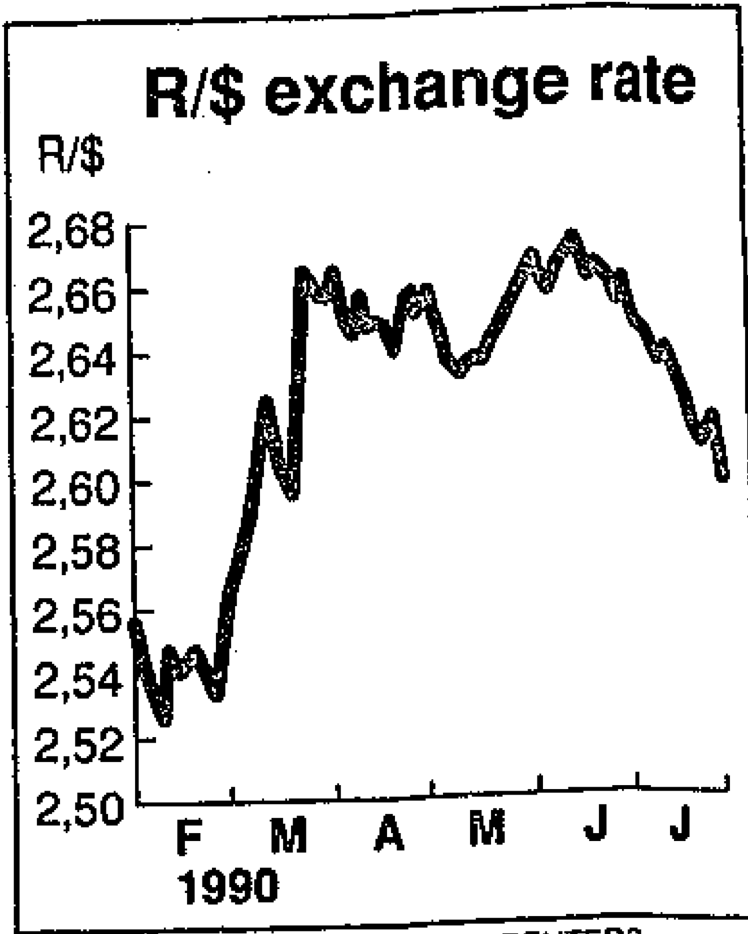
Buyers or sellers, essentially importers and exporters respectively, were enabled to obtain the best possible price in the market for their exchange transactions. At the same time the Bank supplied, via the Reuters monitor system, only "indicative rates" to authorised dealers which could change during the course of a day.

An important development in the establishment of a fully operational floating system for the rand occurred in September 1983. The Bank began to pay the gold mines directly in dollars instead of in rands for the gold that by law had to be delivered to it.

Like other exporters, the mines were required to sell all the dollars paid to them to a local foreign exchange dealer within seven days of receiving payment. In this way a major new, private, source of dollars to the market came into being, with the precise timing of these inflows being determined by the respective mines or mining houses.

For the next two years until the foreign debt crisis struck, the Reserve Bank's role in the market was minimal compared to the past. It did, however, "intervene" in the market in order to smooth out excessive fluctuations of a temporary or technical nature, which was entirely in line with the "managed float" system envisaged by the De Kock Commission.

Sales and purchases of dollars to and from authorised dealers, normally at the Bank's initiative, became part of the system in order to counteract exchange rate movements in the market that the Bank deemed undesirable.



Graphic: FIONA KRISCH Source: REUTERS

The accelerated withdrawal of foreign credit lines to SA in late 1985, coupled with the collapse in the value of the rand, led to the Reserve Bank paying the gold mines again only in rands, keeping the dollars for purposes of intervening in the foreign exchange market. However this institutional change did not materially raise the Bank's degree of control over the exchange rate — the overall supply of dollars from gold exports remained unaltered and the demand for dollars remained subject to the level of imports. As of December 1988 the gold mines once again received full payment in dollars from the Bank.

The Reserve Bank currently assumes a comparatively passive role in the day to day foreign exchange market, but maintains contact on a continuous basis, relying partly on the authorised dealers for indications of supply and demand.

It may nonetheless still intervene temporarily against rand weakness if for example the indications are that the fall in the gold price is being offset by an inflow of dollars from non-gold exports and inflows of foreign capital. It must be stressed, however, that were the latter conditions absent the Bank would not be able to resist the fundamental downward pressures on the rand even if it wished to do so.

While the South African foreign exchange market is highly competitive it is probably structurally deficient in that there are too few participants in the market and there are too many controls. A single large buyer or seller is able to move the exchange rate quite substantially during the period while it is dealing, which would indicate a lack of depth in our market.

For this reason a commercial bank may approach the Bank to help it put a very large order through, rather than deal directly through the market. If the Bank agrees that the market could be unnecessarily disrupted without its presence it will, for example, supply the excess dollars demanded at its preferred rate.

This reliance on the Bank exists despite the fact that banks are not content to simply carry out orders from customers, but buy and sell at the best possible rates for their own accounts. This largely arbitrage business contributes to the price discovery mechanism and adds some depth to what might otherwise be a very patchy and erratic market.

In addition, exchange controls still apply to residents, and controls on non-residents in the form of the financial rand were re-imposed in September 1985, thereby insulating the commercial rand from the potentially major effects of non-resident portfolio transactions on the JSE.

In this sense the value of the rand is not determined by the full range of market forces that would impinge on a "unified" currency, which was the ultimate intention of the De Kock Commission for the local exchange rate system.

☐ **Daly is chief economist with Southern Life.**

Rand's decline obscured by the dollar's weakness

BDay 6/8/90 (74)

ANDREW GILL

THE rand's recent strength against the dollar has obscured the fact that the local unit has depreciated to all-time lows against other major currencies.

Last week the rand slipped to all-time lows against sterling and the Deutsche mark as a result of the European currencies' underlying strength — and, dealers said, the rand's "stinted" appreciation against the dollar. Forex dealers said the rand had the potential to appreciate further against the dollar, but "official resistance" at about R2,60 held up its gains.

The rand had fallen behind other major currencies because of the cross-rate system used to determine the rand's value against other currencies making strong gains against the dollar.

The dollar had lost 4,5% against the pound and mark since early July, compared to a 2% loss against the rand, while the rand lost 3,3% against the pound.

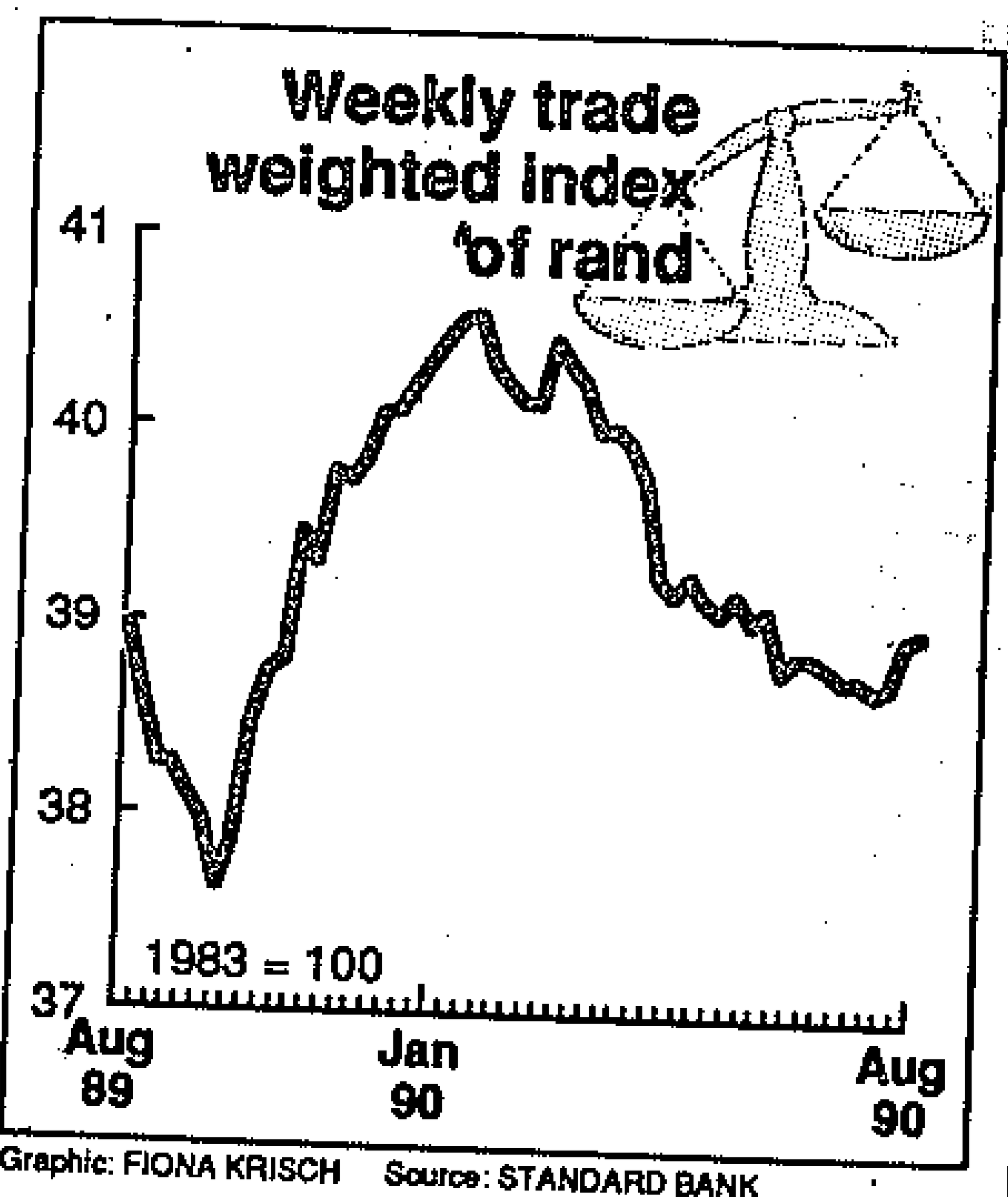
The rand closed at R4,8192 to the pound after touching R4,82 earlier on Friday. It closed at Dm0,6135.

The rand held relatively steady against the trade-weighted index of major trading partners in 1990, moving in a band between 37 points and 40 points. This compared with 50 points in early 1988 and 100 points in the index's base year of 1983.

Dealers said the rand's strength against the dollar balanced losses against other currencies with lower index weightings.

First National Bank treasury economist Simon Willson said a weak US economy, with unemployment at a two year-high and a 1,2% growth increase from April to June, made fundamentals for the dollar "horrific". Last week's Iraqi invasion had affected exchange rates, especially the dollar's, which came off its recent lows because of its safe haven reputation.

On Friday, however, the dollar slipped back on poor US unemployment data for July, closing at Dm1,5935 against its previous close at Dm1,6037.



Graphic: FIONA KRISCH Source: STANDARD BANK

Gold and forex reserves show marginal increase

By Sven Lünsche

After five months of successive declines South Africa's gold and foreign exchange in July showed a slight 5,33 percent rise to R5,434 billion from R5,159 billion in June.

The reserves reached a peak this year of R5,95 billion in February but have been declining after meeting foreign debt commitments totalling about R3,2 billion in the first half of the year.

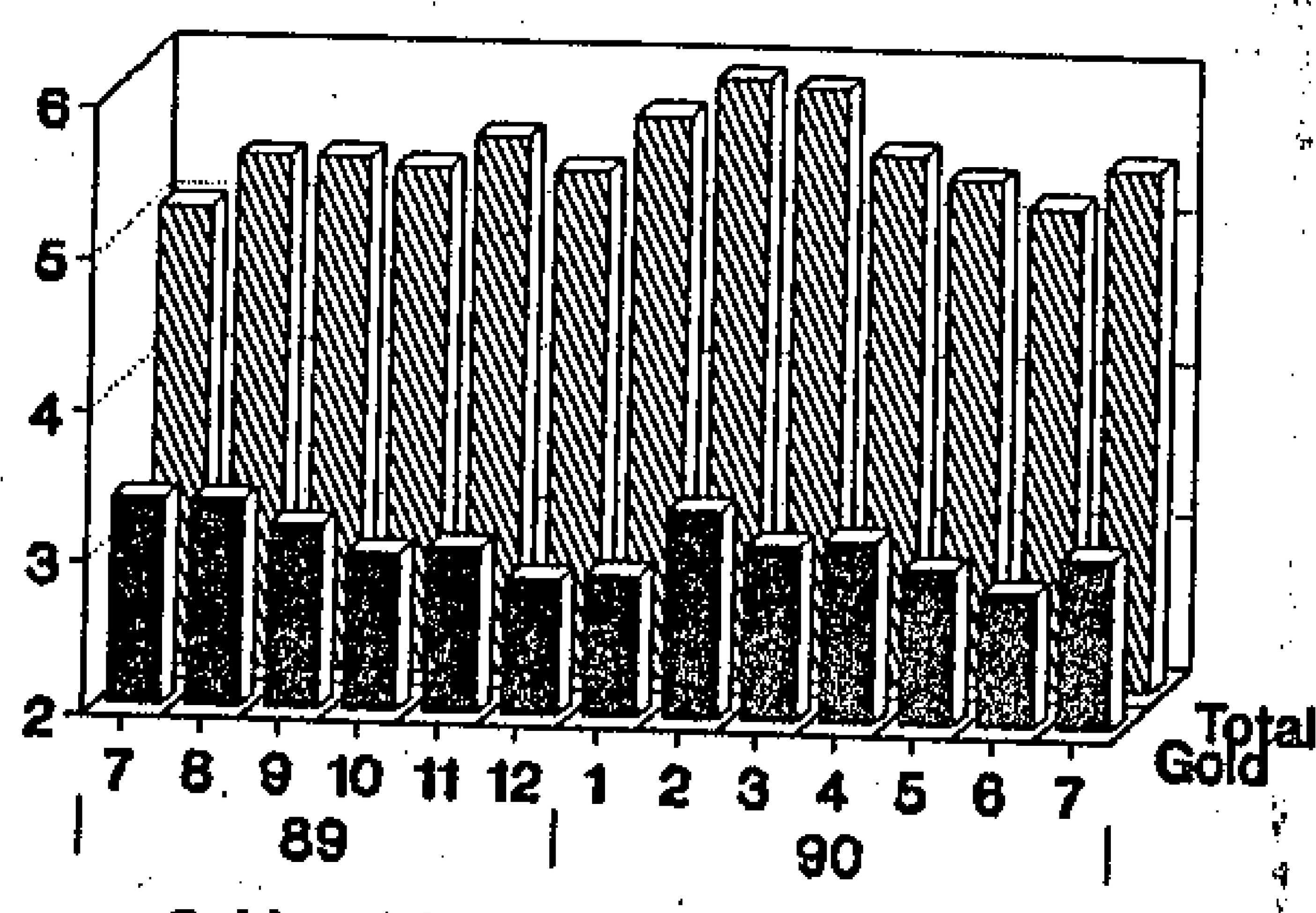
FURTHER RISE

Economists expect a further rise in the reserves in the month ahead as debt repayments are limited and imports are likely to decline in the wake of the slowdown in consumer and corporate demand.

The figures released by the Reserve Bank yesterday show that foreign exchange holdings in July increased marginally by 1,66 percent to R2,325 billion from R2,287 billion in the previous month.

Gold holdings, however, jumped by 8,15 percent from June's R2,871 billion to R3,108 billion.

The physical volume of gold holdings was boosted from 3,413 million fine ounces to 3,598 million ounces. Gold was valued at an average of R863,72 per ounce during the month, compared with R841,28 in June.



Gold and foreign exchange holdings

Strongest finrand close since March

ANDREW GILL (74)

THE financial rand closed at its strongest level against the dollar since early March as foreign investors scrambled for local gold shares on the back of gold's jump to $405 yesterday. BDay 14/8/90

It closed 2,5% higher at R3,70 from Friday's strong R3,795, reflecting a 6,8% gain since last Monday's R3,97 close.

Dealers said the gains were "purely equity driven" as gold stocks became more attractive in the face of rising tension and uncertainty over the Middle East crisis.

The commercial rand's appreciation against the dollar was comparatively slight as the rand closed at R2,5835/50 from Friday's R2,5980/95, after reaching a strong R2,5790 earlier.

The rand weakened markedly against sterling and the mark, but held steady against the yen.

Little foreign demand was noticeable in the capital market, where nervous traders waited for gold to consolidate before taking "too long a position in such an uncertain market". Dealers said the inflationary implications of higher oil prices also kept a lid on further gains.

The Eskom 168 ended at 15,74% from Friday's bullish 15,76%.

Star 21/8/90 (74)

Trade surplus building up to healthy levels

By Duma Gqubule

South Africa's cumulative surplus for the first seven months of this year stands at a healthy R8,1 billion and is 21 percent above that for the same period last year, despite a steep fall in the July surplus.

SAFTO economist Mr Bruce Donald points out that with the opening of several new credit lines this puts the country on course "to meet debt requirements".

Exports for January to August 1990, at R33,7 billion, were 2 percent up on the same period last year in nominal rand terms.

"Although there were outstanding export performances of machinery and transport equipment, most exports are feeling the effect of weakening international demand reflected in lower commodity prices, Mr Donald says.

The July trade surplus took a knock mainly because of a sharp increase in "unclassified imports," usually assumed to be oil. Also contributing to the fall in the monthly trade surplus was a rise in machinery imports, which were up by R231 million compared to June 1990.

Exports for July were R4,8 million compared with R5,2 million in June due to lower "unclassified exports" — which include gold and arms — and lower mineral and base metal exports. As a result July's trade surplus stood at R491 million — disappointing compared with the R1,5 billion achieved in June.

South African Foreign Trade Organisation (SAFTO) economist Mr Bruce Donald says: "Because the oil price rose only marginally from $17,80 to $18,00 a barrel over the period it suggests that there were increased purchases of crude oil to economise on generous credits from oil companies. It is worth remembering that before the recent middle east oil crisis international oil prices were quite low and it was a buyer's market."

The "unclassified imports" increased by nearly R420 million to R759 million in July. Imports for January to August 1990 fell by 3 percent in nominal rand terms compared with the same period a year ago, but Old Mutual economist Andre Roux says: "Since February imports have been rising. In February they were at R3,2 million and now they are at R4,3 million. This is cause for concern because since we are supposed to be in a recession one would at least expect imports to be levelling off.

"Also, taking into account that our foreign exchange reserves are still low at $2,1 billion monetary policy will probably be relaxed later rather than in the next few weeks."

There should be a further increase in the unclassified imports in August because various spot oil prices have jumped by between 30 and 70 percent, but Mr Roux says: "This should be more than offset by higher gold exports due to the current higher gold price."

EXCHEQUER ACCOUNT

Still in check

FM 24/8/90

State spending remains restrained. Latest Central Statistical Service figures in the *Government Gazette* show that, in the first four months of the fiscal year, expenditure rose only 6,5% — to R22,8bn — over the corresponding period in 1989-1990. This is a decline in real terms and less than a third of 1990-1991 budgeted expenditure of R72,9m.

April-July revenue rose 17,4% to R20,9bn. This growth rate reflects the impact of the previous year's tax tables, which were applied until the end of June. The new tables were introduced in July, when overpayments in previous months were refunded.

This contributed to July's comparatively low growth in revenue over 1989 — 13,8% to R6,6bn. Also responsible was a large Customs Union Agreement payment, which reduced inflows from Customs & Excise.

Under issues, the most important cut was in Defence: R2,9bn spent in the fiscal year to date is 6,5% less than in the first four months of last year. Interest on Government debt rose by nearly 5% to R2,7bn. (74)

Not reflected in these expenditure figures is a R2bn transfer — an allocation from the 1989-1990 surplus after borrowing announced in the Budget for "the removal of a variety of backlogs." The effects of the transfer will not be felt in the economy until it is spent by the responsible trustees.

The deficit for the year to July was R1,9bn, against R3,7bn last April-July.

☐ The Central Statistical Service figures include changes in the Paymaster General's Account and the R2bn allocation. The *FM* analysis excludes these for comparability. ■

headlines

FIM 24/8/90 (74)

merce's dumping in March, May and June.

Selling has been well absorbed so far. The only visible indicator of trading — the New York Commodity Exchange — is showing a strong rise in volume. At the end of July, when daily turnover averaged some 30 000 contracts (of 100 oz), the exchange open interest (uncovered positions) was just under 97 000.

By the beginning of this week the open interest was up to 134 000 contracts. Average daily trading volume for August is running close to 49 000. The US Mint also reports that sales of 1 oz gold Eagles in the first two weeks of August reached 44 000, double the normal level.

Gold will remain headline-driven — and thus volatile — but the outlook this week suggests the headlines could go on for a good while.

John Cavill

CURRENT ACCOUNT

Tracking the surplus

In the first quarter of 1990, the seasonally adjusted annualised current account surplus was R5,6bn. With the economy slowing, imports expected to decline and exports showing encouraging increases earlier in the year, a comfortable surplus on the current account of the BoP by year-end has been taken for granted for some time.

But an unexpected surge in a wide range of imports in July (see P41) has prompted a re-think. Says Bankorp chief economist Nick Barnardt: "The figures came as a surprise as July is not usually a bad trade month. If we get another month like that we will have to revise our forecast, made as recently as July, of a surplus of over R6bn "

FIM 24/8/90

Sad sag

Foreign trade balance*

Rm

1800, 1400, 1000, 600, 200, -200

'80 '82 '84 '86 '88 '90

*Based on the seasonally adjusted trend values
Shaded areas indicate downturns in the economy

Source: Commissioner of Customs and Excise

The figures follow what Sanlam's August *Economic Survey* describes as "a marked deterioration in the balance on the current account," indicated by preliminary figures for the second quarter.

On the trade component, Sanlam points out that, during the second quarter: "Imports levelled out at about R3,6bn a month in the past few months while exports in turn (are) showing a continued decline. (This) includes gold which performed fairly poorly until recently." So the trade gap narrowed appreciably (see **graph**).

The second quarter performance comes after a slight increase (less than 3%) in value of merchandise imports from the fourth quarter of 1989 to the first quarter of 1990. The *Reserve Bank Quarterly Bulletin* records this consisted of a 1% increase in volumes and a 2% gain in average prices.

The improving surplus came largely from exports — up 8% between fourth and first quarter, entirely thanks to higher volumes.

Now, however, Sanlam predicts "the more sluggish trend in commodity prices, which have shown virtually no increase over the past few months, chiefly as a result of the firm rand, will continue for a number of months and likewise export volumes will gradually weaken further as the international economy's growth decelerates."

The declining trade balance is compounded by net service payments. These always generate an outflow, which is likely to be higher in the second quarter than in the first.

"Net payment for foreign services and transfers is usually considerably higher in the last three quarters of a year than in the first," says Sanlam.

The outlook depends on various factors, including the vital trade-off between a higher gold price and higher oil price. But a prime policy consideration is for the propensity to import, which remains unexpectedly high, to confirm other signs of stabilisation.

Sanlam, despite the second-quarter resurgence, is confident imports will fall, allowing the trade balance to reach expected levels.

This confidence is not shared by Econometrix economist Tony Twine. He points out that 1990 debt repayments require a monthly trade surplus of R1,4bn. July fell R1bn short. "This follows six months which, on average, achieved the required level — with no room to manoeuvre. Even if July was a one-off, the average monthly surplus for the rest of the year will have to be at least R1,6bn. The slowdown already emerging in the developed countries will make this increasingly difficult." TO → XXX

FIM 24/8/90

Seasonally adjusted and annualised quarterly current account figures in the *Bulletin*, revised down to exclude Namibia, show:

- □ An average R1,4bn in the first two quarters of 1989 (from the unrevised R2,3bn);
- □ R5,2bn (R5,8bn) in quarter three; and
- □ R4,4bn (R5,9bn) in quarter four.

The year's surplus is revised to R3,1bn (R4,1bn). (74)

Without the Namibian contribution, targets will be more difficult to achieve. ■

XXX

FM 24/8/90 (74)

FINANCIAL RAND (74)

Small impact

FM 24/8/90

Curbs on investments through the financial rand, announced by Finance Minister Barend du Plessis as part of an effort to reduce fraud, are not expected to have much impact on the currency's value.

The new rules bar the use of finrand for working capital or current expenditure. Investment in (and upgrading of) farms and residential property is also not allowed.

Finrand may now be used for investment only in fixed assets such as land, buildings, machinery and equipment. The purchase of shares in an existing company will be limited to the value of fixed assets.

The restrictions do not apply to listed investments such as shares and gilts.

A merchant bank finrand dealer says minimal business will be affected by the curbs. "The Reserve Bank has already been reluctant to approve applications to use finrand for working capital. Even for a new company, the rule of thumb was at least 80% of finrand into fixed assets, with at most 20% for start-up costs."

Donations can also no longer be in finrand unless the money goes to fixed assets. In addition to schools and health facilities, this puts in doubt such arrangements as the foreign financial support of alternative publications like *The Daily Mail.*

Even buying fixed assets through the finrand will be controlled. Prepayment of goods will no longer be allowed. Instead, goods arriving in SA must be valued to the satisfaction of the Bank before payment is made.

This will prevent overvaluation and round-tripping and mainly affect subsidiaries of foreign companies.

Rand holds the dollar at bay

(74) Star 25/8/90

DEREK TOMMEY

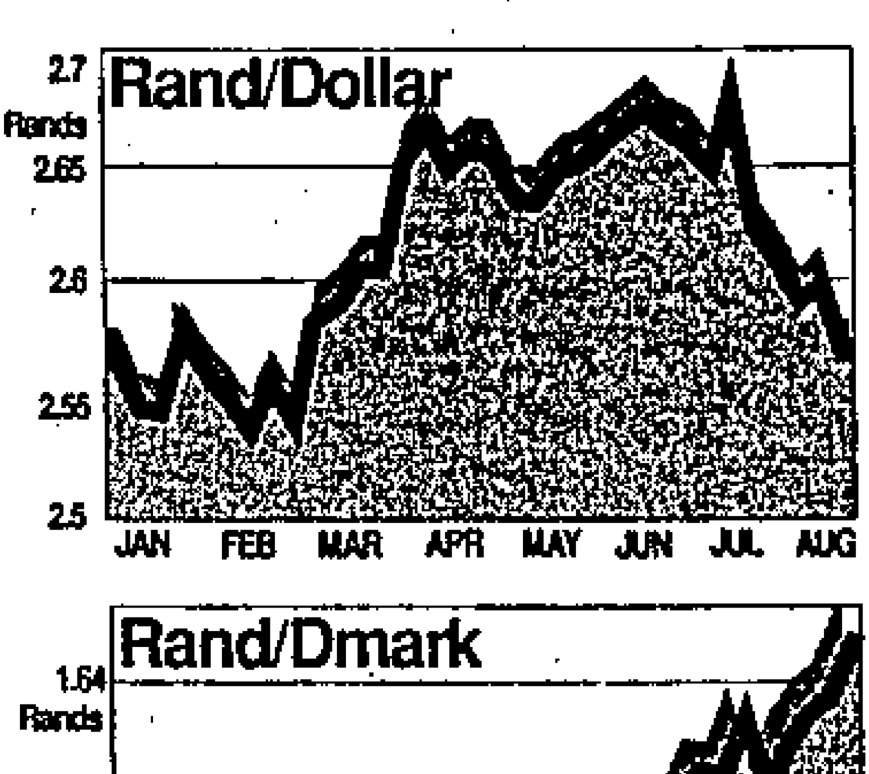
RESERVE BANK efforts to maintain the exchange rate of the rand against the dollar are proving extremely successful. As a result the exchange rate of the rand this year has fallen only about 0,5 percent when measured against a basket of currencies, according to Reserve Bank figures.

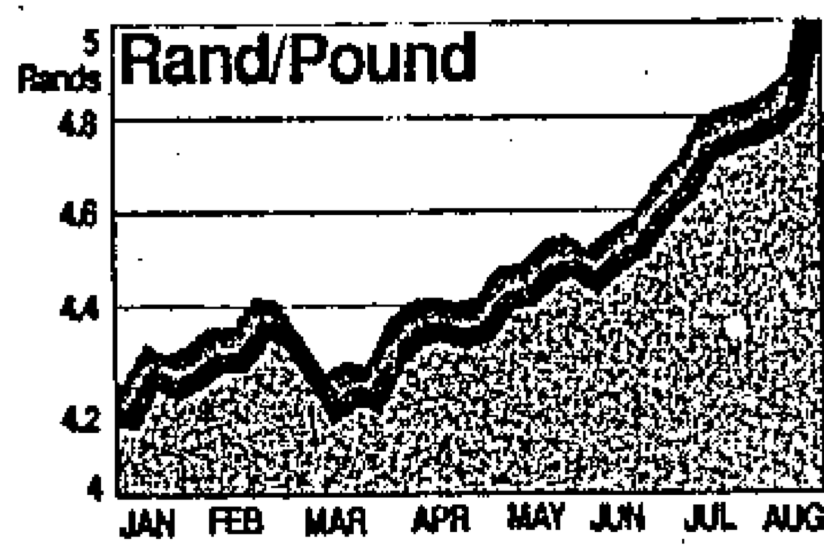
This is a most satisfactory outcome for the bank's policy, considering the exchange rate of the British pound and the German mark have increased significantly this year.

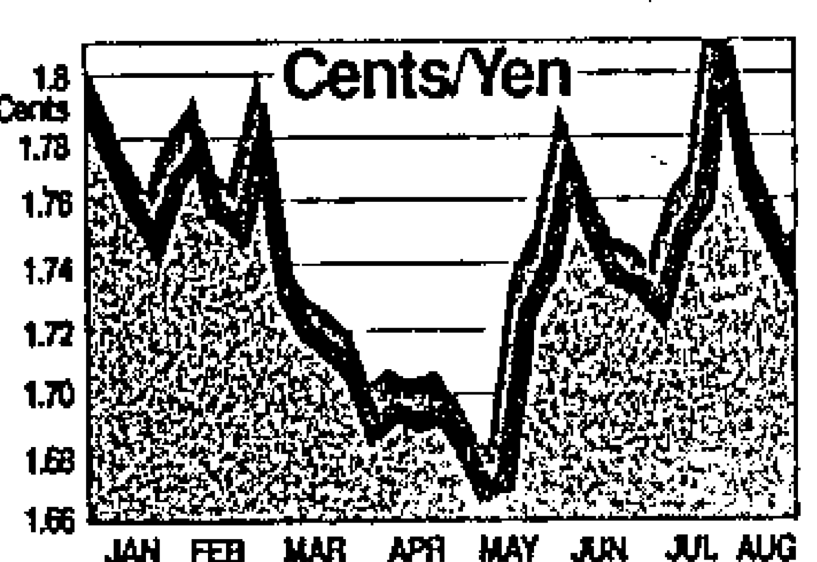
The importance of this development for the ordinary South African it that it should lead to reduced inflation as foreign imports should not show such big price increases in the future.

A reduction in the inflation rate should also lead to increased investment in factories and mines which will provide many more jobs.

Although the rand came under considerable pressure earlier this year from the low gold price, the heavy foreign debt repayments, and also the effects of political uncertainty, its dollar exchange rate this week was back to the levels at the start of the year.







Few would have believed two or three months ago that this would happen. The slump in the gold price to below $350 in March and April and the other factors mentioned resulted in currency buyers having to pay R2,87 for a dollar.

But in the past nine weeks the rand has shown its strength, and those buyers who have waited until now to buy dollars are only having to pay around R2,56 for one.

The recovery in the rand began before the Iraqi invasion of Kuwait — showing that the recovery is due entirely to this country's own efforts — and not to the Iraqi-Kuwait crisis. However, while the rand has been more than holding its own against the dollar, it has suffered a far different fate against the British pound and the German mark.

Since January the pound has appreciated by some 20 percent and the mark by more than 9 percent against the South African currency.

These exchange rate changes have had nothing to do with the rand, but are an indication of the great strength of the mark and the pound.

This is because interest rates remain high in Britain and Germany but are falling in the United States, say bankers.

These exchange rate changes will help South African exporters.

Eight percent of South Africa's exports are paid for in pounds and some 10 percent in German marks. The result is that South African firms exporting to these countries will receive a much bigger payout this year than they did last year.

Some 60 percent of this country's exporters get paid in dollar. And although the rand-dollar exchange rate has overall shown no change these people too could benefit, says Mr Wim Holtes, head of Safto which has played a major role in stimulating South African exports.

The reason is that many goods which are paid for in dollars are then sold to Germany and Britain. So the rise in the exchange rate of the mark and pound should help expand the market for South African goods. On the other hand, South Africa will have to pay more for imports from Britain and Germany and this could hurt.

Much of the country's engineering requirements come from Germany and these will obviously cost more.

Perhaps the most to suffer by the changes in the rand's exchange rate will be those people planning to visit Britain and Germany. At R5 to the pound, a trip to Britain will be very expensive.

Butholidays in the United States could be more attractive as recent estimates indicate that the dollar is undervalued by about a third against most other currencies.

SA's foreign capital position improves

GRETA STEYN

THE dramatic improvement in SA's foreign capital postion, triggered by political change, continued unabated until July this year.

Figures released in the Reserve Bank's Annual Economic Report today show the Bank's "net" gold and other foreign reserves rose R848m last month.

The inflow enabled the Bank to reduce its foreign liabilities and add R277m to its gross reserves.

"Gross" reserves, published monthly, include foreign liabilities, and therefore do not always disclose the strength or weakness of the balance of payments (BoP).

July's foreign exchange bonanza reflects a strong BoP capital account, as the current account was knocked by the weak July trade surplus.

In the three months preceding July, SA's massive foreign debt burden became lighter as new inflows offset outflows of capital to a significant extent.

According to the report, the net outflow of capital during the first half of the year was R2,3bn — substantially less than the R4bn ($1,6bn) debt that fell due in this period. The net outflows, expected to be massive because of the debt falling due, were lower than during the same period last year (R2,7bn), because of new inflows.

In listing positive developments in the economy, the Bank starts off with the relative ease in handling a foreign debt burden "which, potentially, could have been more troublesome in the second quarter of 1990 than in most earlier or subsequent quar-

☐ To Page 2

Foreign capital

☐ From Page 1

ters". The commitments were "disposed of with minimal disturbance to the money and foreign exchange markets".

The Bank notes SA's overall foreign debt dropped to $20,6bn at the end of 1989 from $21,2bn at the end of 1988, reflecting continued repayments. Valued in constant US dollars at the unit's exchange rate to other currencies at the time of the debt standstill in August 1985, total debt payments amounted to $5,5bn, or 23% of the total foreign debt.

"The improvement in SA's foreign debt situation was also reflected in the country's credit rating as computed by an international investors' journal." Before the debt standstill SA took 29th position in a world ranking of all borrowing countries; after the standstill it slipped to 57th position. Subsequently it recovered to 51st.

"The improvement in the country's credit rating in the six months to March 1990 was the sixth-largest such increase in the world during that period. SA's standing as an international borrower stands to be raised further when repayment of the full amount of $2,2bn due in 1990 has been completed by the end of the year."

While developments on the BoP capital account were better than expected, the current account sagged in the second quarter. The surplus, which equalled the trade balance less net payments for services, shrank to an annualised R3,6bn in the second quarter (first quarter: R5,58bn). The Bank noted "surprising" strength in merchandise imports during the downswing. Export volumes fell in the second quarter from the first, but prices rose about 3%.

Reserve Bank mission is protection of rand

By Derek Tommey

The Reserve Bank's prime objective is the protection of the domestic and external value of the rand, it says in its annual economic report.

It adds that SA has entered a "light" recesion.

The Bank says its clearly defined mission was formulated and adopted by the board of directors and management earlier this year.

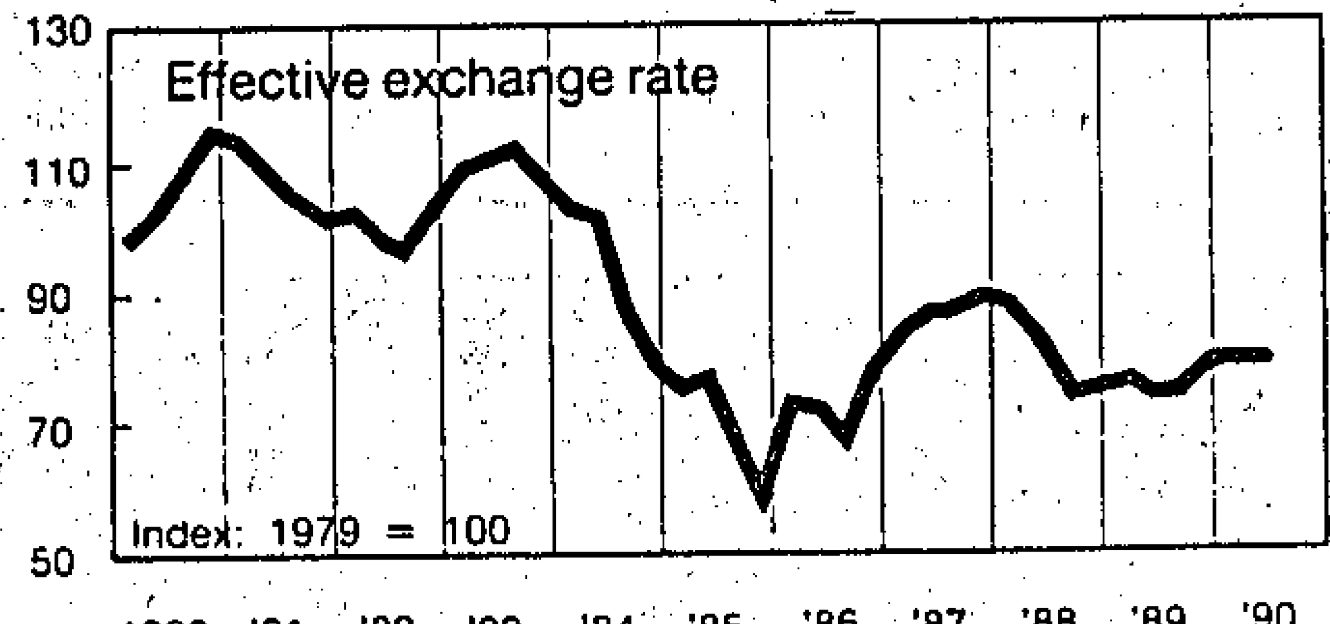
The Bank sees itself as striving for a lowering of the inflation rate to a level no higher than the average rate of SA's main trading partners.

Various moves towards normalisation have enabled it to pay more attention to structural deficiencies in the economy and to formulate medium- or long-term policies and strategies.

These policies seek to rectify structural distortions and establish, within the framework of a market-oriented policy, realistic values for certain key prices: the level of real interest rates, the real effective exchange rate, real wages and the real burden of tax as the price of government services.

The Bank says it is clearly justified in its view that an uncompromising anti-inflationary attitude will serve the authorities' structural and growth objectives as:

- International economic opinion increasingly accepts that the general price level, is the only variable effectively under the control of central banks in the long run.
- Relative price stability is conducive to stable economic growth.



Better times for the rand

"The establisment and preservation of relative price stability must therefore rank as the prime contribution central banks can make to fostering economic growth and development," it says.

The Bank says it has now been definitively established that a cyclical downturn of the economy began in March 1989.

However, positive growth was maintained in the consolidation phase in the second and third quarters of 1989.

This was followed by a mild contraction at annualised rates of 1,5 percent, 1,5 percent and one percent in the three quarters to mid-1990.

Total real gross domstic expenditure fell markedly in the third and fourth quarters of 1989. But it found new support in the first quarter of 1990 and staged a minor recovery in the second quarter.

Factors keeping the economy going include the relative firmness of real private consumption expenditure and the high average level of real government consumption expenditure in the past five quarters.

Another supportive factor has been the modest rate of decline in total real gross domestic fixed investment.

The soft landing in 1989 became a cyclical downturn that has been characterised by unusual mildness on both the output and expenditure sides of the economy.

Apart from the relative firmness of domestic demand, domestic production has been sustained by the continuing strength of merchandise exports and of the "net foreign balance" (excess of exports and non-factor services over imports of such goods and services).

The vigour of merchandise exports, a modest drop in the value of merchandise imports and an easier position on the services account caused the current account surplus to recover from an annualised R1,4 billion in the first half of 1989 to R4,8 billion in the second half and to R4,6 billion in the first half of this year, says the Bank.

A number of factors led to the quarter-to-quarter rate of increase in M3 (total money supply) to decline to a moderate 12,5 percent in the second quarter of 1990.

Significant improvements have been made in the area of inflation, with the rate of increase in the prices of imported goods falling back to levels last seen in 1987.

The rate of increase in the production price index fellen from nearly 18 percent in the second quarter of 1989 to 9,2 in the first quarter of this year.

However, the trend was reversed in the second quarter owing to more rapid domestic price increases.

The Bank is disappointed with the failure of the CPI to decline at the same rate as the PPI.

It says of its achievements that they are "cause for feeling encouraged rather than satisfied".

The inflation rate is still far above those of the SA's main trading partners and "an arduous road may still lie ahead in bringing it down to more acceptable levels", it says.

The increased freedom of investment action of institutional investors has greatly stimulated trading activity on the Johannesburg Stock Exchange, says the Reserve Bank in its latest economic report.

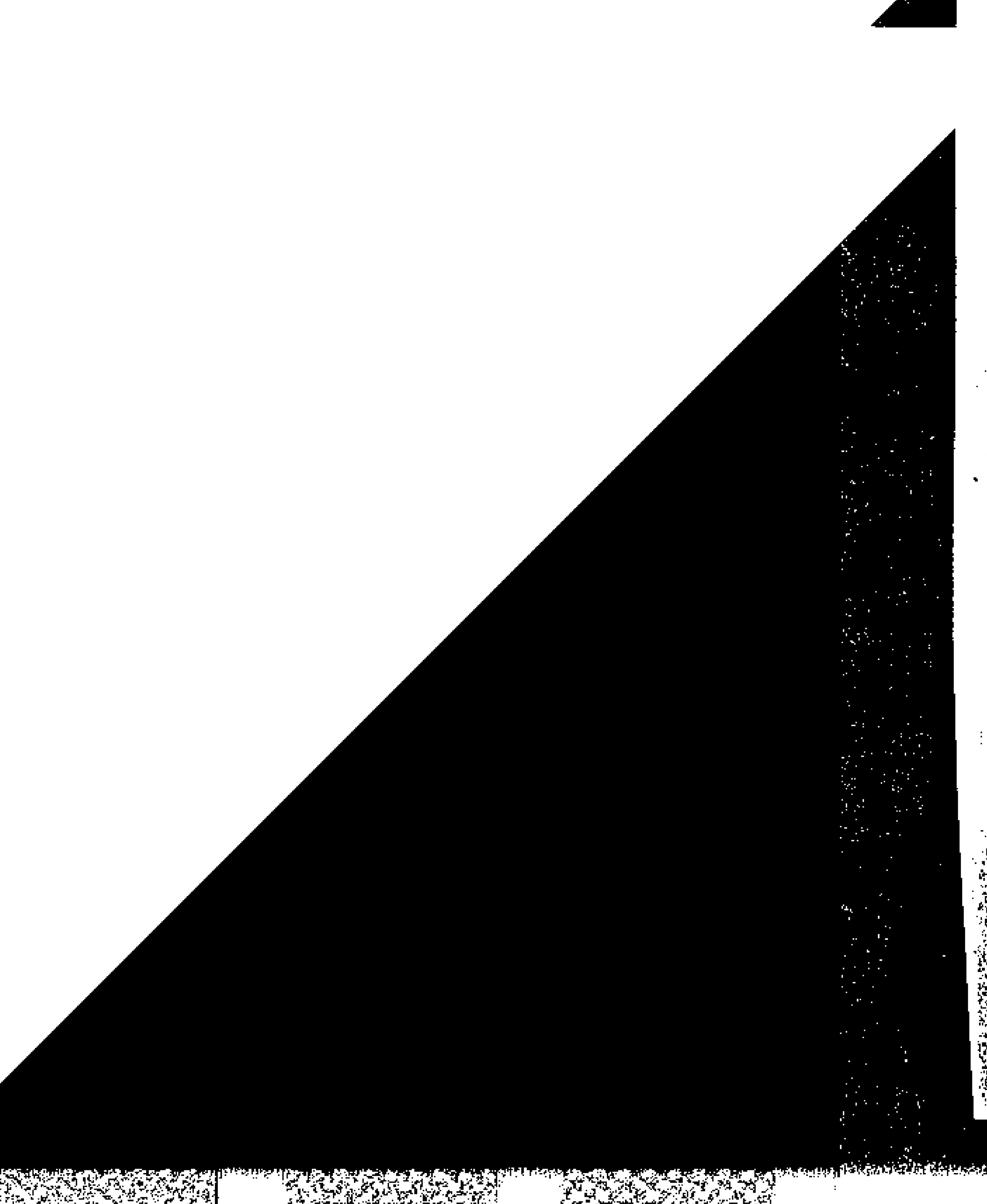
Turnover reached a record R8,6 billion in the first quarter of this year.

However, it dropped to R5,5 billion in the second quarter.

The financial institutions more than doubled their net purchases of listed shares from R3,4 billion in 1988 to R11,3 billion in 1989.

These purchases exceeded by R1 billion the aggregate amount of net new issues of listed shares, plus non-resident net sales in these two years.

Trading was also boosted by buying and selling operations of non-



Forex earnings hit by lower returns from wool, maize

B Day 31/8/90 (74)

GERALD REILLY

PRETORIA — Substantially reduced returns from wool and maize exports will help keep SA's foreign exchange earnings from agricultural exports to around R4bn this year, according to agricultural authorities.

This compares with the estimated R5,8m earned last year from the sale of surplus farm products abroad.

SA agricultural economist Koos du Toit told Business Day that although exports earned about R2,257bn in the first five months of the year — compared with R1,967bn in the same five months last year — earnings would slow significantly during the rest of the year.

To be taken into account, too, was the fact that instead of exporting surplus wheat this year the small crop had meant the importation of more than 200 000 tons to meet the local demand.

Authorities pointed out the impressive earnings in the first five months of the year could mainly be ascribed to the fact that much of the 4,5-million tons of surplus maize from the above-average 1988/89 crop would have been exported in those five months.

The estimated earnings from total maize exports from the 1988/89 crop was R1,5bn. The surplus from the 1989/90 crop is around 1,2-million tons, so foreign earnings will be sharply down. Earlier this month the Wool Board announced a 15% cut in producers' voorskot prices. This followed a 20% reduction in the floor price of the world's biggest producer — Australia.

There is currently great uncertainty about international wool demand trends and Australian producers have a massive stock pile of 4-million bales. Du Toit said even though earnings from deciduous fruit exports would reach and probably exceed R1bn this year, and wine exports would be buouyant, total foreign earnings would still fall far short of last year's total.

However, the potential for widening markets abroad was enormous and would continue to improve provided the reform programme remained on track. Indications were that trade attitudes, while still fragile, had taken a turn for the better.

Even in the Scandinavian countries, where sanctions had been virtually impenetrable, there was hope of a change — again on condition of reasonable progress towards a new constitution, he said.

R6,07bn kitty tops two-year level

BoP gives huge boost to Bank reserves

(74)

B/Day 10/9/90

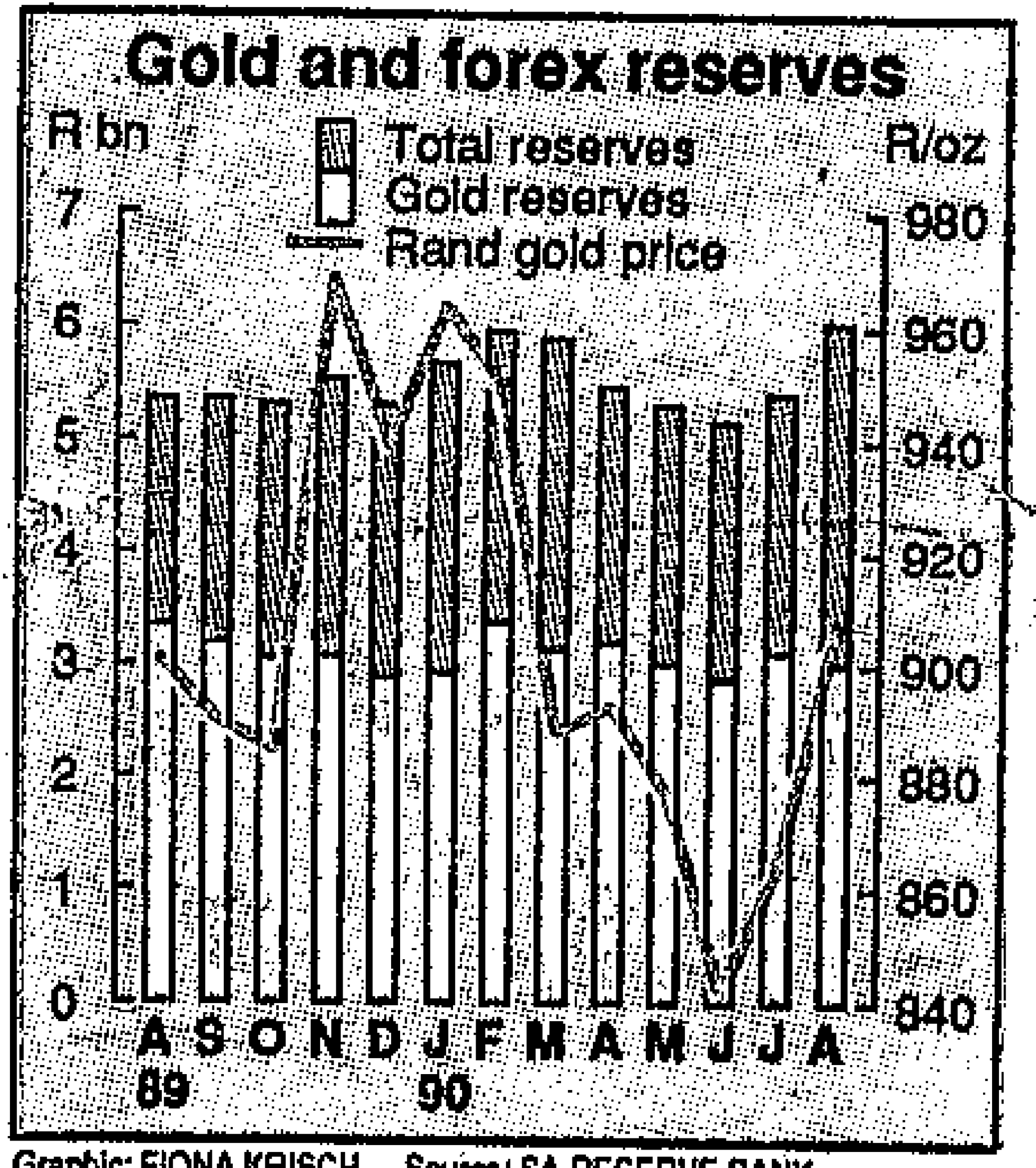
GRETA STEYN

A SPECTACULAR balance of payments (BoP) performance in August boosted the Reserve Bank's gold and foreign exchange reserves by a massive R640m to take the Bank's kitty of foreign money to its highest level in more than two years.

At R6,07bn, the foreign reserves are just lower than they were in May 1988 before a long period of decline set in.

Rebuilding SA's forex reserves is one of Bank Governor Chris Stals's main objectives. August was the second month of strong recovery after huge foreign debt payments in the June quarter.

Both the current and capital accounts of the BoP probably contributed to the impressive rise in forex holdings. The surge suggests a strong improvement in the trade surplus — boosted by the sharply higher gold price. But the size of the increase could also signal another month of net capital inflows.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

The higher gold price was an important factor in August with the rand gold price up from R863,72/oz to R905,52/oz (an increase of R41,80/oz). Since physical gold holdings were consequently valued at a higher price, a portion of the increase in reserves is owing purely to revaluation. But a rough calculation shows valuation factors accounted for only about R150m of the increase.

In spite of the high gold price, the Bank did not run down gold holdings. The amount of bullion held rose by almost 66 000 ounces to 3,66-million ounces — the second consecutive month of a build-up in gold holdings. Reflecting the rise in both the price and amount of gold held, the rand value of the metal in the Bank's vaults was up R210m to R3,32bn. The increase in currency holding was even more impressive — up R430m to R2,76bn.

The performance is all the more remarkable when compared with the previous sharp increase in the gold price last November. Gold holdings were run down and the total increase in reserves was just over R200m in spite of a huge trade surplus. The comparison to the previous burst in the gold price points to a healthy capital account. It suggests capital inflows could also have played a role in August, or, alternatively, that no net outflows occurred.

While economists are hesitant to speculate on the capital account, they believe

To Page 2

Reserves

B/Day 10/9/90

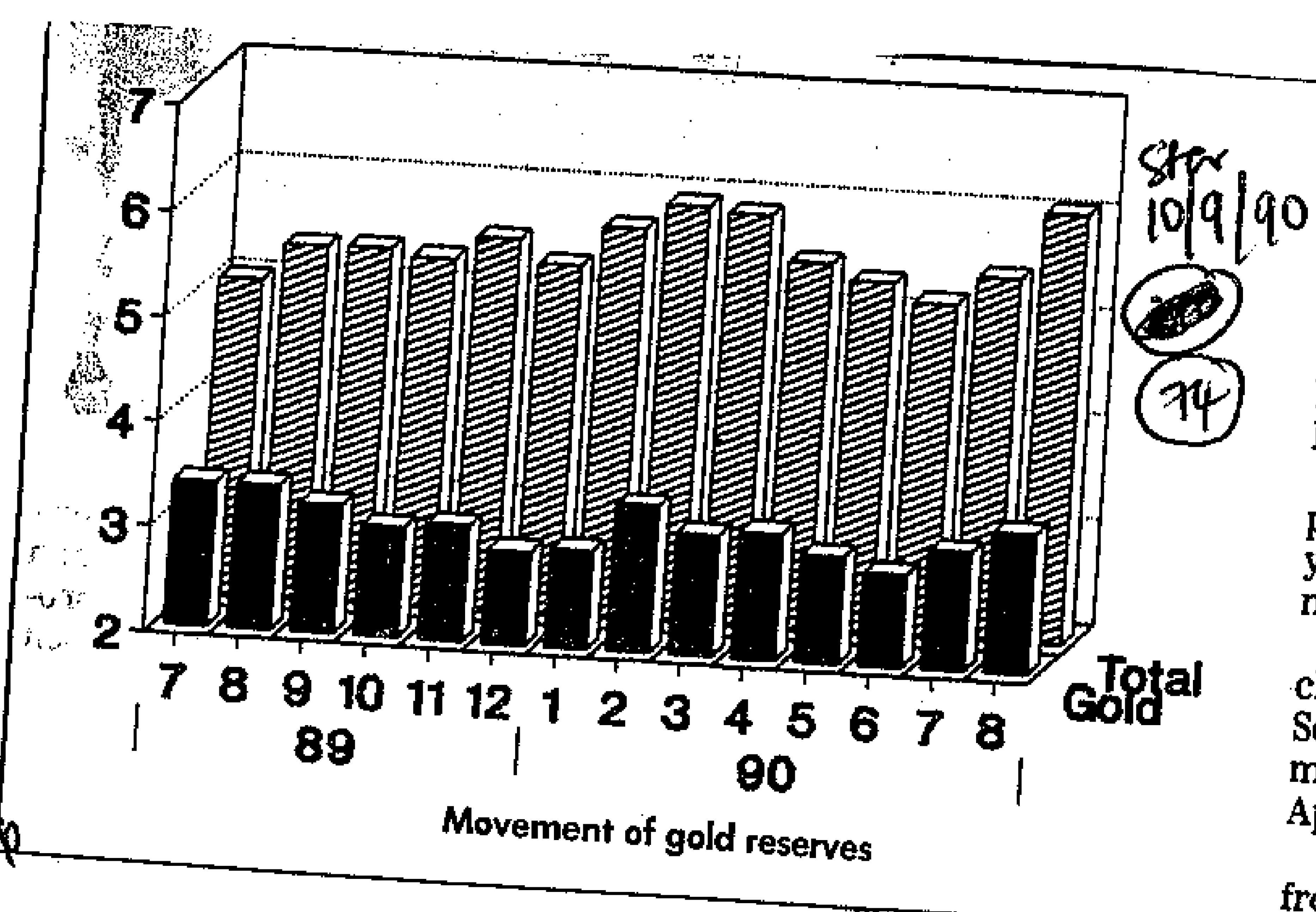
From Page 1

the current account played a major role in the improvement in the reserves. Simpson McKie economist Graham Boyd said a favourable movement in the trade surplus in August appeared likely.

"Oil stockpiling in July suggests the oil import bill could have dropped in August in spite of the price increase. Assuming the negative factor of the oil price had little impact while the gold price was much higher, the trade surplus probably bounced back from its July lows," he said.

Econometrix economist Michiel Bester said the remarkable recovery in forex reserves could strengthen arguments in favour of a cut in Bank rate.

"Apart from fighting inflation, the other major aim of the current monetary policy stance has been to rebuild reserves. The latest figures provide evidence that the policies are working," he said.



Movement of gold reserves

Star 10/9/90

SA reserves at 27-month high

Duma Gqubule

Gold and foreign exchange reserves in August rose 11,7 percent to R6,037 billion — the highest level for 27 months — from R5,433 billion in July.

Economists expect further improvements over the rest of the year as the bulk of debt repayments were made in the first half.

About $1,2 billion in loans, including a final instalment of the Second Interim Debt Arrangement, had to be repaid between April and June.

Over $300 million was paid from reserves.

The figures released by the Reserve Bank at the weekend show that gold holdings in August rose 6,72 perecent to R3,318 billion from R3,108 billion in July.

Foreign exchange holdings jumped 18,5 percent to R2,755 billion from R2,325 billion in July.

The physical volume of gold holdings rose to 3,664 million ounces in August from 3,598 million ounces in July.

Gold was valued at an average R905,52 an ounce in the month, compared with R863,72 in July.

Liquid cash clamp on immigrants

B'Day 12/9/90

ANDREW GILL

IN A further clampdown on financial rand abuses, Finance Minister Barend du Plessis has dropped the finrand ceiling available to immigrants as liquid cash from R200 000 to R20 000.

In a statement yesterday he said immigrant families would be entitled to R500 000 in finrands (if brought in during the first year of residence), compared to the previous R200 000.

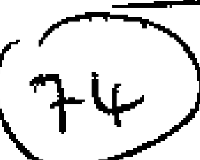
However only R20 000 could be used as "immediate expenses" and the balance (up to R480 000) could be used only to purchase residential property and a vehicle.

Last month Du Plessis prohibited non-residents from investing in and improving farms and residential property. He said the financial rand could be used only for fixed investment and not for the financing of working capital and current expenditure.

He said yesterday that on buying property, it would be necessary to produce the purchase contract and lodge the title deed with a bank. In the case of vehicles, the registration certificate would be retained by the bank for a year.

This is seen as a move to ensure the investments are not liquidated and thus open to possible abuse as a means of getting liquid cash into the country.

Immigrants will have to wait five years instead of three to have the rest of their foreign assets released. The release of funds for investments will be evaluated on the same basis as foreign investors.

FOREIGN RESERVES 

GOOD AND BAD NEWS

SA's foreign reserves marked one of their largest ever monthly increases in August, riding the back of a higher gold price, a weaker US dollar, no forward cover losses and a minimum of debt repayments. But the outlook is clouded while oil prices remain high, threatening to boost import costs.

The Reserve Bank's total gold and foreign holdings stood at R6,1bn (US$2,4bn) at end-August, up R640m ($250m) over July, a massive 12% month-on-month increase. Revaluation of gold holdings alone (calculated at 90% of market value), from R863 ($337) to R906 ($354), added R150m ($59m). Gold stocks grew by 66 000 oz, to 3,7m oz and are now worth R3,3bn ($1,3bn), up R210m ($82m) from July. Forex rose R430m ($168m) to R2,8bn ($1,1bn).

A Bank official attributes the increase to a timely combination of factors. While there was some surprise at the magnitude of the increase, the direction of the move was expected. FIM 14/9/90

Nedcor chief economist Edward Osborn points out the reserve rise for July and August was R915m ($357m), an 18% increase, and believes the trend will continue now that SA is over the debt hump in the first two quarters. "There are few debt obligations in the third quarter — none inside the net — and roll-overs should give us additional breathing space."

So one of the major objectives of the Bank's tight monetary policy, the rebuilding of foreign reserves, is being realised.

The outlook is, however, not altogether rosy, particularly if the delicately balanced trade surplus narrows on the back of higher oil import costs. While payments for exports are usually made within seven days (gold immediately), import payments can take up to three months and will be reflected in future reserve figures. A continued high oil price could worsen the situation.

In addition, the Bank has to repay short-

FIM 14/9/90

term funds borrowed from other central banks and used to ease the burden of mid-year debt repayments. (74) ■

Unclassified exports leap by R544m

Trade surplus rebounds after gold price rise

B/Day 18/9/90

GRETA STEYN

CASHING in on the gold price boom, SA's trade surplus bounced back in August to R1,26bn — more than double July's poor showing of R491m.

The dramatic recovery in the trade surplus goes a long way towards explaining the huge increase in the Reserve Bank's holding of foreign exchange reserves reported at the start of this month.

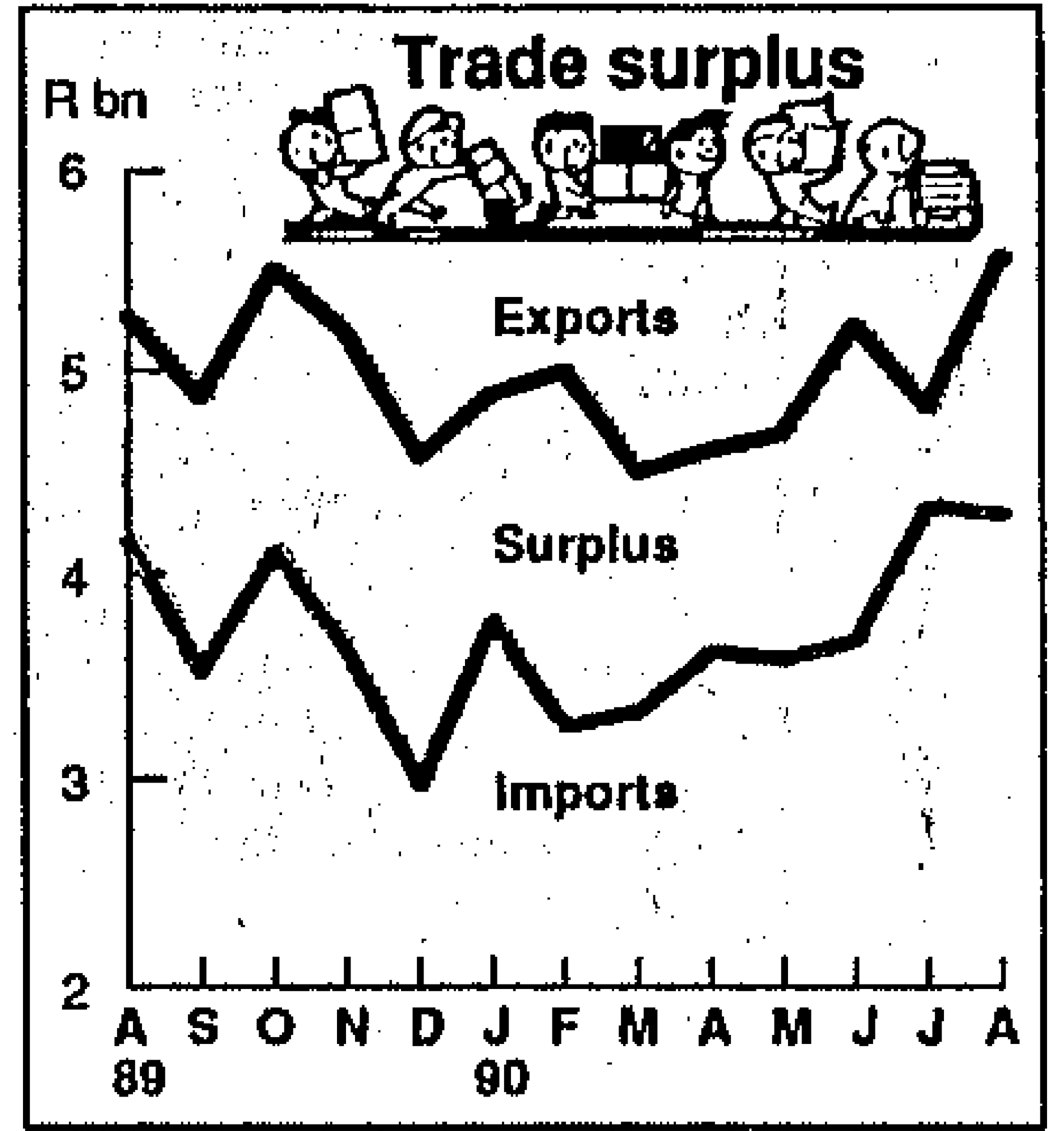
Customs and Excise figures released yesterday disclosed the unclassified category of exports, consisting mainly of gold, surged by R544m to R2,44bn for the month — an increase of 29%.

Gulf war tensions pushed the rand gold price to well over R1 000/oz to see SA achieve the highest monthly level of "unclassified" exports since July 1987. Non-gold exports also pulled their weight in August, rising by R208m from July.

Safto economist Bruce Donald noted that exports of machinery and transport equipment were boosting the contribution of manufactured goods to total exports. Prepared foods and non-metal minerals were also doing well.

But he added: "The invasion of Kuwait is dimming the prospects for SA's merchandise exports through its anticipated impact on the economic performance of our major markets. Economists worldwide are revising downward their expectations for world economic growth as the higher oil price takes its toll."

It was unlikely that the effect of these two factors would be offset by a higher gold price and rising demand for coal as an alternative energy source, he predicted.



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Recent developments on world markets confirm this view as oil prices surge to seven-year highs and gold fails to keep pace. JOHN CAVILL reports from London that the spot price of North Sea Brent Crude was $34 yesterday in spite of increased Opec production outside Iraq and Kuwait. Industry analysts say oil may reach $40 because of the lag between higher output and arrival at world markets.

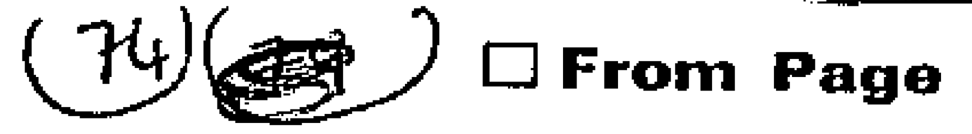
Gold jumped $4,75 to close at $389,50 in London yesterday. In New York the metal ended at $390, $4 up on Friday's close.

However, SA economists said the in-

☐ To Page 2

Trade surplus

B/Day 18/9/90



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creases would have to be far greater to offset the negative impact on the balance of payments of a high oil price. Frankel Kruger economist Mike Brown said gold should average around $420 in a year in which the oil bill averaged $25 per barrel.

The August surplus — the fourth best monthly trade balance this year — emerged relatively unscathed from soaring oil prices.

The "unclassified" category of imports — mainly oil — fell by almost R200m from July's four-year high of R759m. But Donald said it was still at a high level and upward momentum remained.

In spite of August's decline in the oil import bill, the overall monthly level of imports remained high in the light of the recession. At R4,31bn, imports in August were only marginally lower than July's R4,32bn. They were higher than a year ago, when the economy was still overheating and interest rates still in an upward phase.

Of note is the high import bill for machinery, which continued to climb in August after R230m surge in July. Machinery imports of R1,32bn in July were at their highest level since the peak reached in June last year.

However, economists warned against reading a trend into July and August's figures and Donald noted that the investment cycle was in a downward phase.

Trade surplus gets healthy August boost

18/9/90

By Duma Gqubule

South Africa's monthly trade surplus returned to a healthy level in August as exports showed a mild surge and imports fell.

According to preliminary figures released by the Commisioner for Customs and Excise yesterday, the figure for the period January to August this year was 18,6 percent up on that for the same period last year.

The surplus for the period was R9,38 billion compared with R7,9 billion recorded last year.

Exports for the month rose to R5,66 billion compared with July's R4,82 billion while imports fell slightly to R4,306 billion from July's peak of R4,32 billion.

As a result, August's trade surplus stood at just under R1,3 billion — a great improvement on the disappointing R491 million achieved in July.

Imports for the seven months came to R29,936 billion compared with R30,482 billion last year — a decline of two percent in nominal rand terms reflecting the continued downturn in domestic economic activity.

Exports totalled R39,314 billion for this year compared with the R38,371 billion notched up last year.

Unclassified exports which include gold, platinum and uranium jumped by 29 percent from July to August, reflecting the impact of the Middle East crisis on the gold price..

The upward momentum in the growth of unclassified imports continued in August, reflecting the impact of rising oil prices. This category increased by 14 percent in the first eight months of 1990 compared with the same period a year ago.

South African Foreign Trade Organisation (SAFTO) economist Bruce Donald says higher oil prices are dimming the prospects for South Africa's merchandise exports through their anticipated impact on the economic performance of our major markets.

"This trend combined with the the effect of higher oil imports will have an adverse impact on South Africa's terms of trade and thus its balance of payments. It is unlikely that the effect of these two factors will be offset by a higher gold price and rising demand for coal as an alternative energy source," he says.

Some of SA's oil reserves will be sold if embargo is lifted, says Barend

B/Day 21/9/90

PARIS — Some of SA's oil reserves would be sold internationally if the oil embargo were lifted, Finance Minister Barend du Plessis said in an interview with the French daily Le Figaro yesterday.

He said SA had built large crude oil reserves worth several billion rands before sanctions were implemented, Reuter reports.

National Energy Council (NEC) manager (energy administration) Pieter Jacobs said in response to the report that it was hoped the oil embargo would be lifted as early as next year.

NEIL YORKE SMITH reports Jacobs said SA was working with international parties towards ending the embargo.

A spokesman for a leading oil company said by selling oil reserves SA would effectively be raising foreign capital at no expense to foreigners.

"The concept represents a very innovative approach to breaking the logjam on sanctions. Because the price at which the reserves were acquired is lower than current oil prices, the sale of reserves would give a substantial boost to our capital account."

SA had been stockpiling oil reserves since 1960, Jacobs said.

"If some of these reserves were used to offset imports, the balance of payments will benefit substantially — especially considering recent oil price increases."

But Jacobs stressed SA would not deplete strategic oil reserves unless faced with a serious shortage.

Du Plessis said in his interview with Le Figaro that "when the oil boycott against us is lifted, we will begin to reduce these reserves down to a more normal level for a country like ours. That could immediately bring in foreign currency, so necessary for our economy."

He said the argument for sanctions was no longer valid because of recent moves to dismantle apartheid.

"What we have done as of now is irreversible and the sooner sanctions are lifted the quicker economic growth will increase," he said.

Sanctions and SA's need to service foreign debts to European banks and the IMF, had restrained growth and resulted in higher unemployment, Du Plessis said.

SA's external debt stood at about R18bn, Du Plessis said. This represented 76% of export income compared with the 178% experienced in 1985, he added.

SA's annual economic growth would be limited to 2,6% as long as the country was denied access to international funding, he said. The population was growing at about the same rate.

"Disinvestment has not had any impact as regards technology — it's always possible to acquire that." But the departure of foreign firms had led to a shortage of skilled personnel, both in high technology and management, he said.

● See Page 3

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FOREIGN TRADE F/M 21/9/90

GOLD FACTOR

Though SA's trade surplus was a healthy R1,2bn in August, more than double July's R491m, we are not yet out of the woods. There is concern the gap could again narrow in the coming months.

Most of the increased surplus came from a R543m jump in "other unclassified" exports (mainly gold), to R2,4bn, as the gold price rose from an average R951/oz (US$362) in July, to R1 016/oz ($395) in August. Total exports for the month were up R752m to R5,6bn.

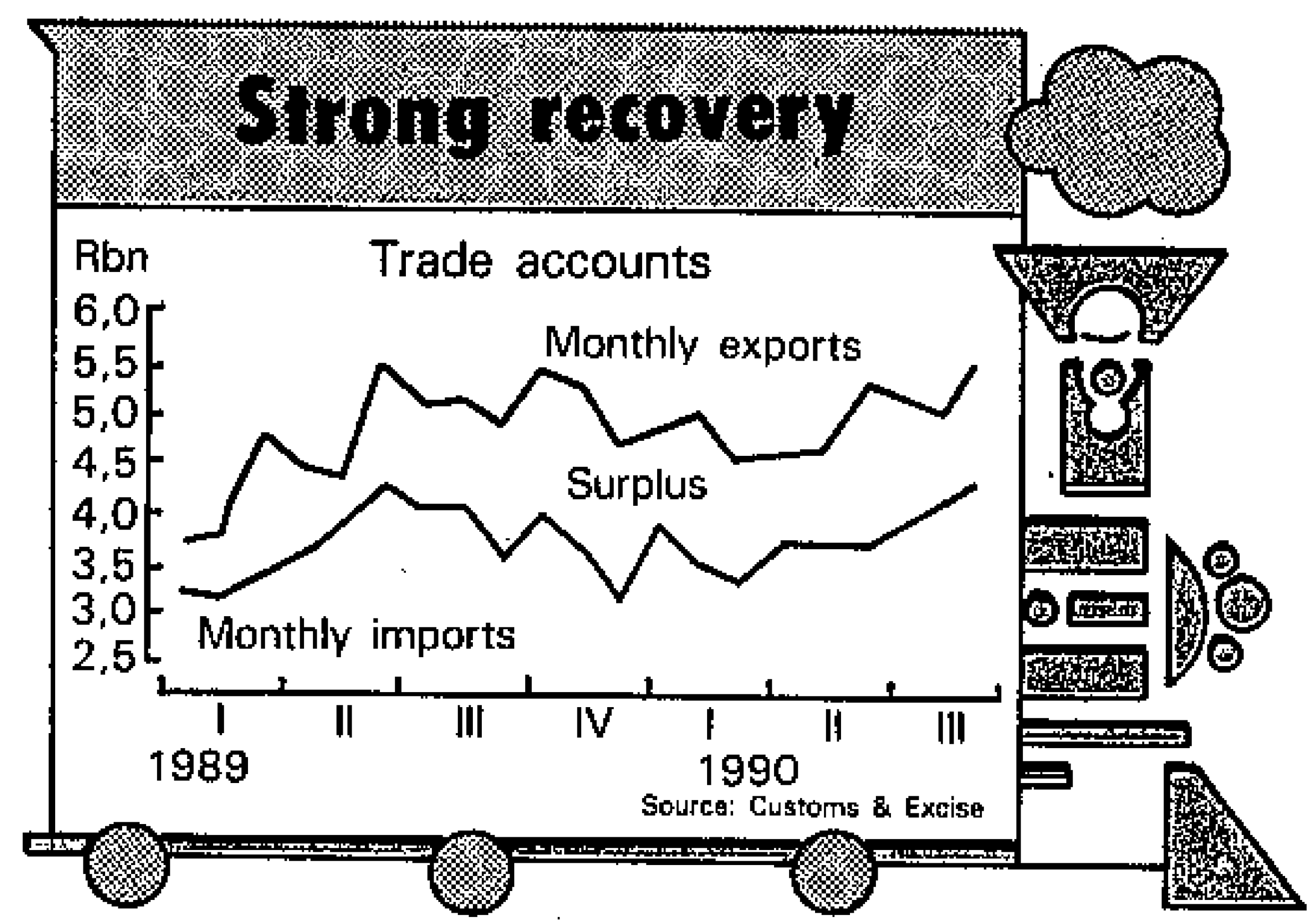
But it seems SA cannot count on a continued strong gold price and better commodity exports to sustain the trade surplus. The yellow metal averaged only R989/oz ($385)

 F/M 21/9/90 (74)

during the first 18 days of September. And when this is coupled with slackening demand for commoditiies by an oil-weakened world economy, the outlook for exports is not altogether bright.

Instead, relief is expected to come on the import side, as the Reserve Bank's tight monetary policy continues to slow the economy and reduces the value of goods being shipped into the country. But there are pessimistic signs here — overall imports remained more or less static in August, down only R17m to R4,3bn on the month.

Old Mutual economist Rian le Roux says August's trade figures indicate the stable rand has made imports relatively more attractive again. (In August, the rand averaged R2,57 to the US dollar, compared to R2,63 in July.) "Also, though the economy is slowing, it is by no means collapsing." This,



he points out, is reflected by continued strong imports of machinery, up R39m to R1,3bn in the month, following a R231m increase in July.

Also, of 21 categories listed by Customs & Excise, 14 rose in the month but were offset by a R198m drop in "other unclassified" goods (mainly oil). But figures for August do not yet reflect higher oil prices. These will be seen in the months ahead and could push total imports higher still.

The trend could exacerbate the economic slowdown. Despite a healthy increase last month, reserves remain low, and rising oil prices will increase the pressure. Says Le Roux: "From a monetary policy point of view, there are still risks out there. Policy will have to remain tight." ■

Forex transactions turnover rises by average 23,5% a year

6104 2/10/90

74

GRETA STEYN

TURNOVER in foreign exchange transactions in SA rose at an average rate of 23,5% a year from August 1987 to the same month this year — nearly six times the expansion of 4% in foreign trade transactions.

This was the finding of a Reserve Bank survey of activity in the SA foreign exchange market.

"This performance ... is quite remarkable, because it was achieved in a highly regulated environment, with hardly any significant increase in international banking business and with restrictions placed on capital flows to SA," the Bulletin said.

The surge in foreign exchange dealing in SA was in line with a worldwide trend which saw turnovers of industrialised countries rise by 30%. But the SA market is very small in a world context.

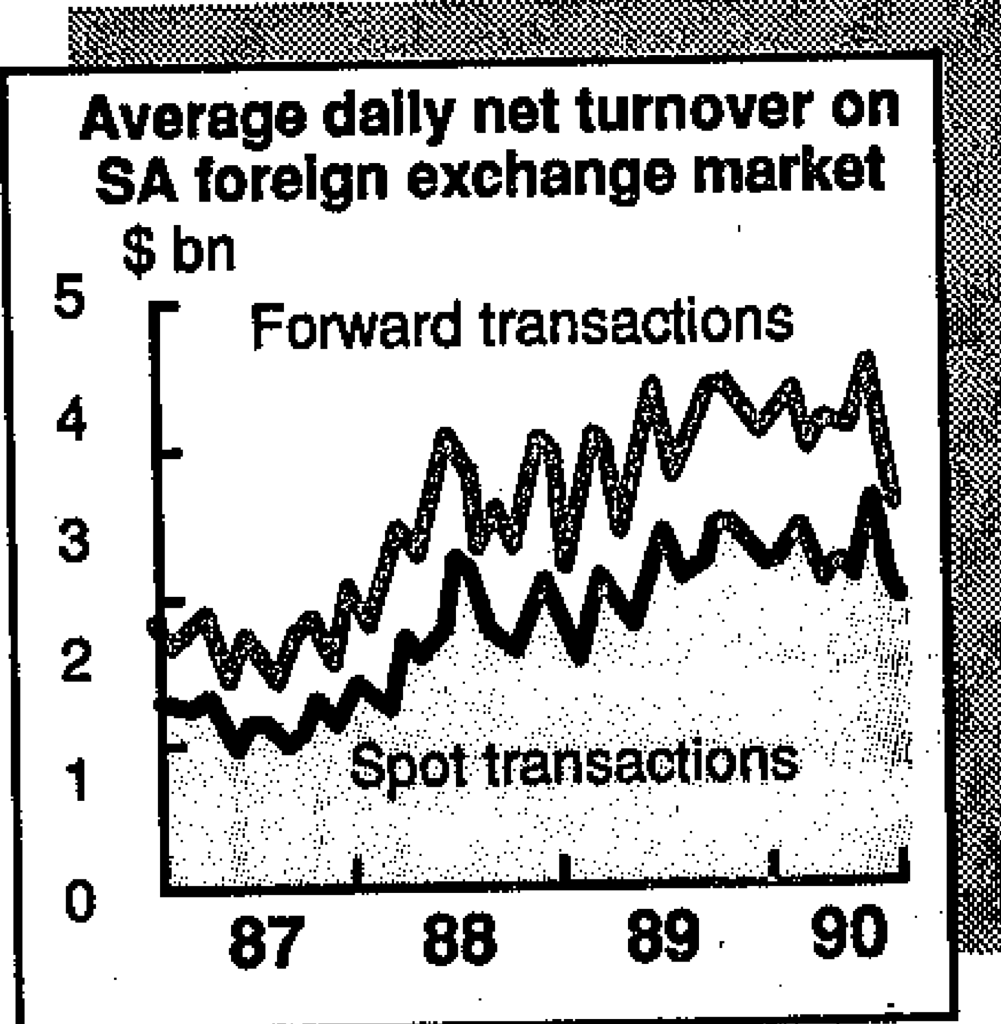
The Bank found that the average daily net turnover in transactions where the rand was involved was about $3,1bn — an estimated 0,5% of net global turnover.

The SA performance was well below that of the Australian market where net turnover rose at an average annual rate of 44% between 1986-1989.

The SA market was also highly concentrated in the sense that a few dealers were responsible for most of the transactions.

Of the gross turnover of 21 authorised dealers in SA, the turnover of eight dealers accounted for no less than 80% of the total value of transactions in 1989. The five most active foreign exchange dealers were responsible for 64% of total turnover.

Spot transactions accounted for 69% of turnover in SA, but this included the spot leg of forward transactions. The forward market therefore accounted for a larger share of the SA foreign exchange market than was the case elsewhere in the world.



Graphic: LEE EMERTON Source: RESERVE BANK

Bank figures show major refinancing

74

SA in R1bn foreign debt breakthrough

B/Day 2/10/90

GRETA STEYN

SA managed to roll over or refinance about R1bn of foreign debt in the second quarter of this year, figures in the latest Reserve Bank Quarterly Bulletin indicate.

The figure could be even higher, but the Bank is not providing any details.

It says only that: "When capital outflows from sales of securities by foreigners and from changes in SA's foreign asset holdings are excluded (from total capital outflows), it is clear that a large amount of the maturing debt must have been rolled over, or that new sources of foreign capital were tapped during the three months..."

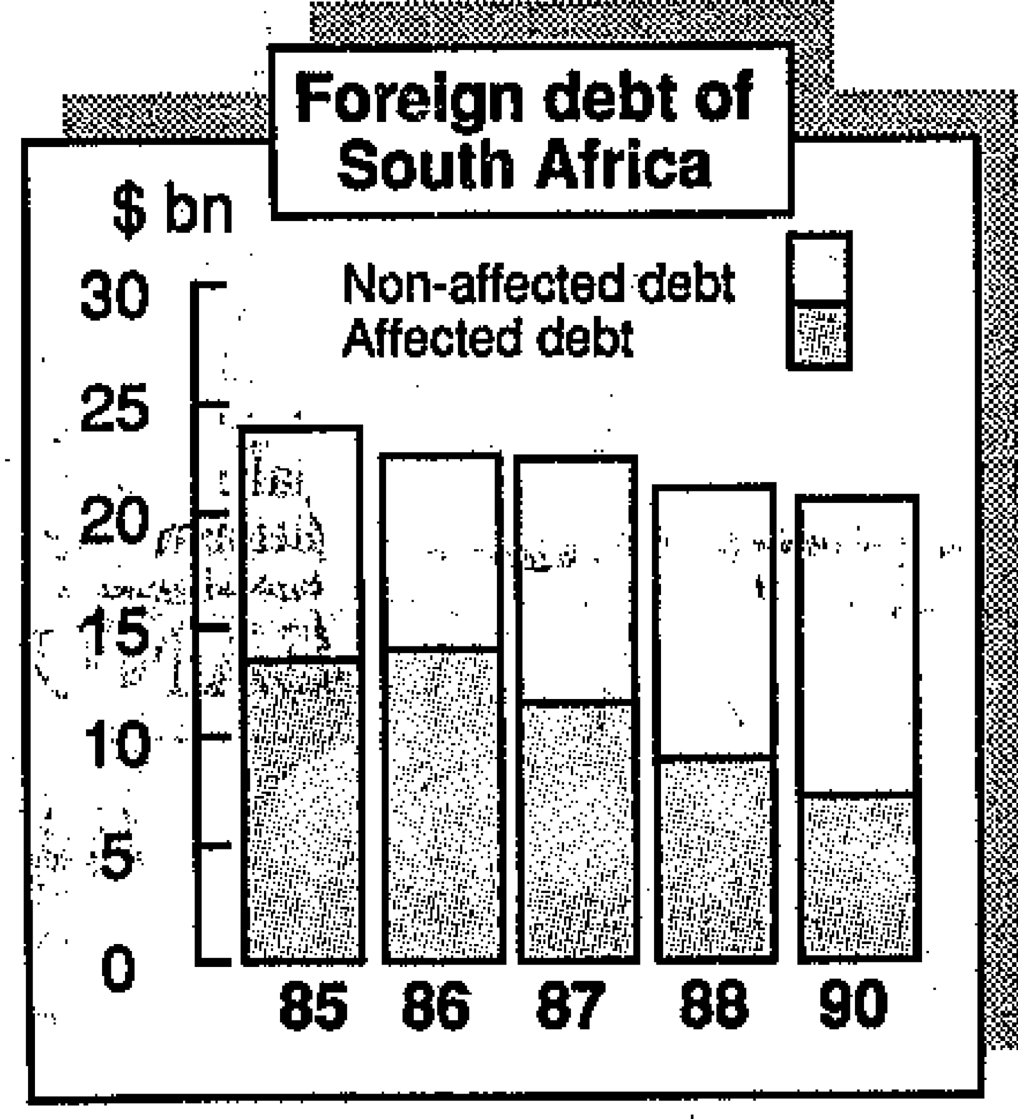
Total capital outflows during the second quarter were R2,19bn. This comprises not only foreign debt payments but also other capital outflows, including R1bn in short-term outflows.

When the overall figure of R2,19bn is compared with about R3bn of foreign debt (inside and outside the standstill net) that fell due in that quarter, it is clear that about R1bn of refinancing occurred.

The Bank's economists say it is impossible to give an exact breakdown of outflows.

SA is also slowly working its way out of the standstill problem, which affects its international credit ratings.

● See Page 3



Graphic: LEE EMERTON Source: RESERVE BANK

The portion of overall foreign debt caught in the standstill net has dropped from more than 57% at the time of the moratorium in 1985 to just over 35% at the end of 1989. Overall, SA's foreign debt declined from $22,6bn in 1987 to $20,6bn at the end of last year.

Economists last year predicted 1990 as the worst year for foreign debt payments with redemptions peaking in the second quarter.

The extent to which SA sailed through the foreign debt problem is obvious when the outflows in 1990 are compared to previous years. The total capital outflows in the second quarter were less than the R2,9bn outflow in the third quarter of 1988.

After weathering the foreign debt storm, the balance of payments (BoP) remained

☐ To Page 2

Foreign debt

B/Day 2/10/90

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healthy in the next two months. The bulletin notes that the Bank's net foreign reserves soared by R2,1bn in July and August this year.

Net reserves do not include foreign bridging finance and are a purer reflection of the BoP performance than the monthly figures released by the Bank.

The inflow allowed the Bank to repay more than R1bn of foreign bridging finance taken in the second quarter to tide SA over the heavy foreign debt payments. Hence the gross reserves — the figures published monthly by the Bank — rose by only R900m in spite of the healthy BoP situation.

Nedcor economist Edward Osborn said: "The increase in net reserves in July and August indicates a healthy capital account, possibly as a result of positive leads and lags. It could also reflect less pressure on the current account from services payments."

While cautioning against reading too much into the huge increase in net reserves in July and August — as they were only for the Reserve Bank and not for the banking sector as a whole — Osborn said they indicated the BoP was in good shape.

RESERVES

FM 5/10/90 (74)

ROLL-OVER SUCCESS

The Reserve Bank managed to roll over part of the foreign debt due in the second quarter, according to the *Reserve Bank Quarterly Bulletin* for September. Nedbank chief economist Edward Osborn puts this as high as two-thirds: "A remarkable achievement, done smoothly with hardly a ripple on the balance of payments or foreign finances."

The *Bulletin* reports that though total net reserves rose by R1,9bn in the first quarter, they fell R1,4bn in the second quarter. This reflects the narrowing of the current account surplus as well as that quarter's large debt repayment obligations — capital movements not related to reserves in the second quarter totalled -R2,2bn compared with -R406m in the first.

"Even with the large debt repayment due, the Bank limited the capital outflow to R2,2bn," says Osborn. He estimates the full amount due in the second quarter at US$2,5bn — R6,6bn. "If $2,5bn is approximately correct, the Reserve Bank managed effectively to roll over R4,5bn.

"It was expected we would get through the second quarter by roll-overs of debt and hefty increases in liabilities to other banks. In the event there was a mere R343m increase in liabilities to foreign banks, which shows that the exercise was achieved through roll-overs."

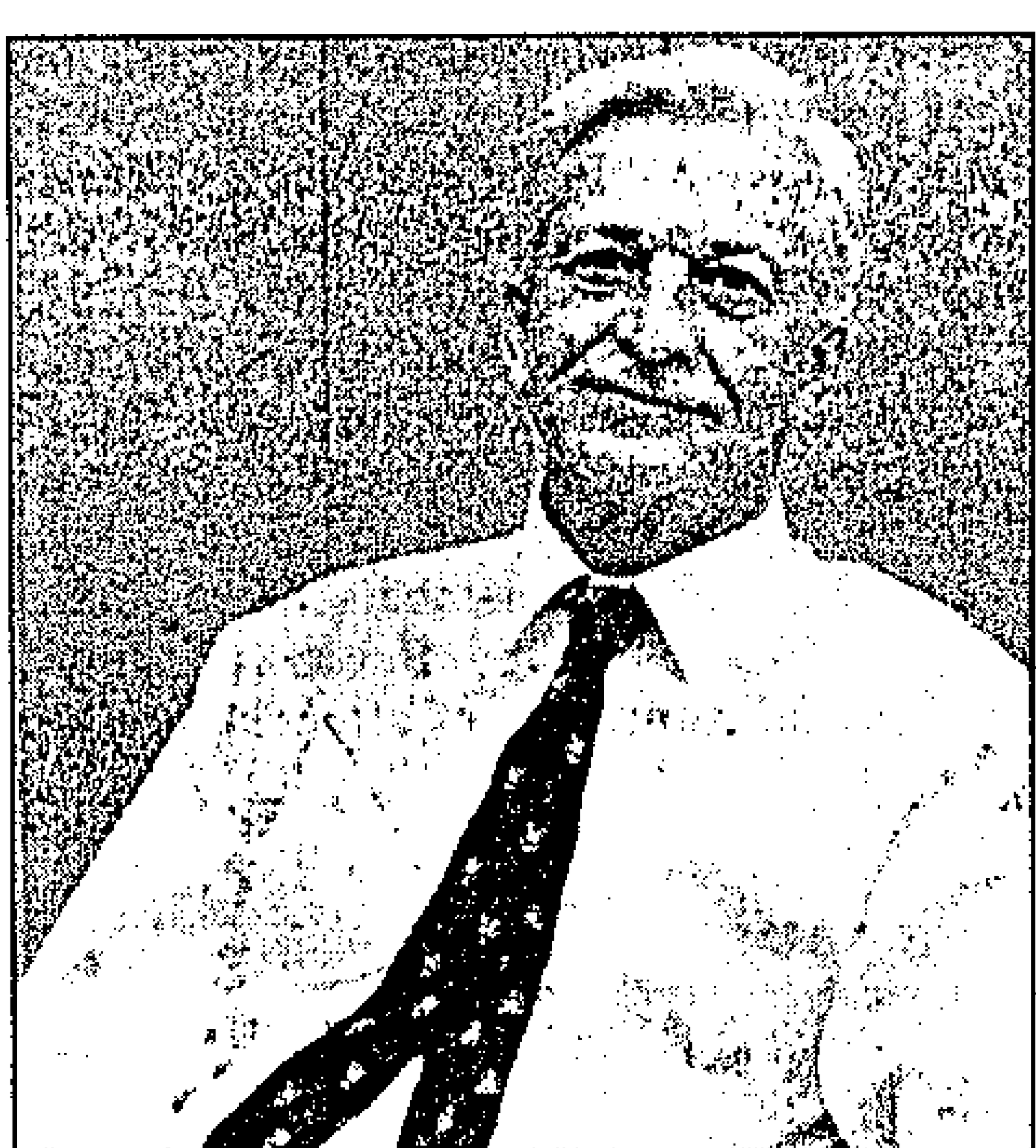
The current account surplus fell back to R800m in the second quarter from R2,3bn in the first. Gross gold and other foreign reserves accordingly fell on balance by R500m during the first half-year to R6,4bn.

Net reserves rose by R500m in the first six months of 1990, compared with a drop of R1,2bn during the 1989 year. Gold reserves rose from 3,1m oz at end-December to 3,7m oz at end-August.

During July-August net reserves improved by R2,1bn. "With the current account surplus in these two months down to about R300m, this suggests a net inflow on capital account of R1,8bn." However, Osborn does not believe there was such an inflow, though there could have been an increase in short-term liabilities arising from a net increase in foreign trade credits. That leaves an unexplained residue of R1,8bn, less any increase in trade credits.

Osborn says this could be explained by the fact that these figures refer to the Bank's net reserves whereas the appropriate figure for the balance of payments is net reserves of the banking system. "There might have been a shift of reserves from commercial banks to the Reserve Bank, which would explain this remarkable increase in reserves of the Bank," says Osborn.

The Bank has bought dollars actively since it introduced its dollar-swap arrangements in February, to sustain the rand and manage money market conditions. Dollar swaps were R1,2bn in mid-August, having peaked at R1,7bn in mid-May. Osborn says this could well be reflected in the steep increase in the Bank's net reserves.



Nedbank's Osborn ... *a remarkable achievement*

Jacquie Bullard

GULF CRISIS

JAW-JAW RALLY

Patriotic buying in Japan and President George Bush's statement that the US would prefer jaw-jaw to war-war with Iraq's President Saddam Hussein — after he peacefully leaves Kuwait — provided the right headlines for oversold equity markets this week.

Combined with the end of the US budget haggling marathon, with the promise of US$550bn deficit cuts over five years and, implicitly, lower dollar interest rates, plus weaker oil prices, rallies from last week's 1990 equity lows came pell-mell. After Europe and New York equities and bonds took the lead, Tokyo exploded on Tuesday.

After a 15% loss in five days to a new low of 20 221,9 on the Nikkei Dow, Japanese shares had their biggest rise yet of 13,2%. Buy orders for 100m shares were waiting when Tokyo opened following a forthright statement from Minister of Finance Ryutaro Hashimoto that both the Bank of Japan and he wanted to see the rot stopped after the Nikkei's 48% collapse this year — its worst since a 51% fall during the Korean War.

Ryutaro also announced looser credit rules for investors and said life assurers could raise the equity balance in their discretionary accounts from 5% to 7%. With bond prices firming to cut long-term yields down from 8,25% to 8,1%, equity turnover bounced from the recent average of 400m to 550m.

Recovery from 1990 lows elsewhere was less pyrotechnic: 6,4% in Frankfurt, 3,6% in New York and 3,4% in London. Bonds advanced in tandem, US 30-year indicator yield falling from 9,2% to 8,85% in the week.

The pivot of oil prices responded, North Sea Brent blend dropping back nearly $4 to $36,15/barrel. Industry claims that Opec output is back to 22,1m barrels a day helped the retreat, though accompanied by forecasts of $50-$65 crude should a single shot be fired across the Saudi-Kuwaiti border.

Inevitably gold's rally was a casualty, in spite of the dollar easing under DM1,56 and Y137. Down almost $20 in New York from last week's top of $406/oz, it benefited from short covering in London, where it was fixed at $389,25 on Tuesday morning. With it went platinum to $427/oz, blighted by Japanese selling on the motor industry downturn and palladium to $96,25; silver slumped to US464c/oz.

Few analysts suggest the bear market is over. But contrarian Elaine Garzarelli of Lehman Brothers, New York, made headlines by asserting that, with interest rates coming down and the US economy only two quarters away from its recession bottom, the equity market "beats cash and beats bonds ... it is the best place to be right now."

Her qualification for such attention: she is credited with forecasting the October 1987 Crash.

But such straws offer little succour while Saddam Hussein stays in Kuwait.

PINNACLE HOLDINGS

INVESTORS REVOLT

FM 5/10/90

Shareholders of Pinnacle Holdings, which owns 10% of troubled Alpha Bank, are preparing to sue the directors. Chairman Attie Botha has already resigned.

A shareholders' committee has written to all shareholders, stating that Pinnacle's prospectus "promised an incredible return on our investment." These promises persuaded investors to put in R5m.

Committee chairman Tony Lewis-Williams alleges the prospectus contained statements which may provide grounds for legal action. The letter also alleges Pinnacle has squandered its capital and its liabilities are far in excess of assets. "The shares are probably worthless."

The problem investors face is the cost of litigation, so the letter encourages the 800 shareholders to contribute to the cause. The committee estimates if 200 shareholders

R240m dip in September reserves

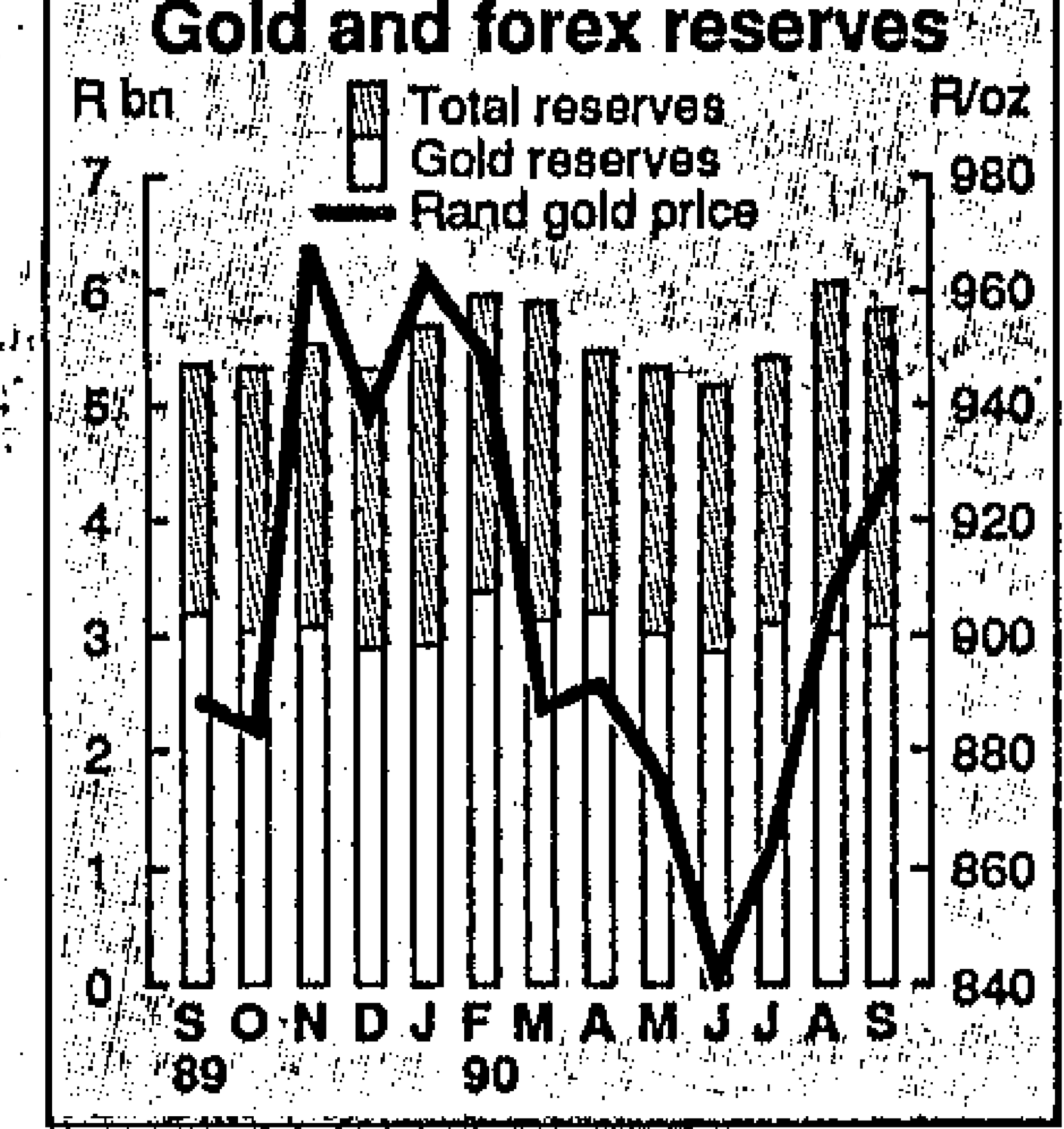
Bank rate set until 1991, say pointers

THE dip of R240m in the Reserve Bank's gold and foreign exchange reserves in September is the latest indicator that a cut in Bank rate is still some months away — possibly as late as February next year.

Changes in the reserves reflect the state of SA's balance of payments (BoP) — and are the result of all transactions, capital and current, with the rest of the world.

The fall came as economists speculated that the current account of the balance of payments could have swung into a deficit in the third quarter because of the oil crisis, a general rise in imports and a sluggish gold price.

Reserve Bank figures released on Friday show a R240m fall in the Bank's holding of gold and foreign exchange reserves.



Graphic: LEE EMERTON Source: SA RESERVE BANK

GRETA STEYN

There was a marked drop in currency holdings, and physical gold holdings were down by more than 72 000oz.

However, the fall in the volume of gold was disguised by a higher rand gold valuation of R927,81 a fine ounce (August R905,52). After adjustment for this factor, reserves declined by an effective R310m, with the Bank's kitty of foreign cash falling by more than R250m.

Economists cautioned against reading too much into the extent of the fall — a major part of it could be technical — but added that the balance of payments was clearly not strong enough to generate signficant new foreign exchange inflows.

"There could be a movement of foreign exchange from the Reserve Bank to the banking sector, leaving the actual situation for the country as a whole unchanged," said Nedcor economist Edward Osborn.

But he projected a possible deficit, or very small surplus, on the current account of the BoP in the third quarter. The current account is the trade balance less net payments for "invisible" foreign trade such as insurance, freight and dividends.

Other recent indicators against an early cut in Bank rate include the uptick in inflation to 13,6% and indications that the oil price rise could take the inflation rate close to 15% by year-end.

Reserve Bank Governor Chris Stals is said to have taken to heart the IMF's advice on fighting the oil crisis with tight monetary policies.

Economists say the Reserve Bank made much of the "mild" nature of the recession in its latest Quarterly Bulletin, noting a

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Bank rate

☐ From Page 1

small rise in unemployment, no evidence of a clear upward trend in insolvencies and liquidations, and the limited increase in "amounts overdue" by banks' clients.

Bankorp economist Nick Barnardt points to the small overall decline in "final demand" — private and government consumption and fixed investment — as proof of "a soft landing".

"This, with rising imports and relatively firm motor and retail sales in the third quarter, and inflationary fears on fuel price increases, could postpone a Bank rate cut until next year — despite a falling monetary growth rate."

☐ SA's strategic oil reserves should be viewed as capital — in the same light as the country's gold and foreign exchange reserves — and government would not consider using income from selling the reserves to subsidise current expenditure, Finance Minister Barend du Plessis said yesterday.

Such a move would be "irresponsible", he said in response to a question on speculation at the weekend that the strategic oil reserves would be used to finance lower energy costs.

Last month Du Plessis said some of SA's oil reserves — worth several billion rands — would be sold internationally if the oil embargo were lifted. He told the French newspaper Le Figaro: "When the oil boycott against us is lifted, we will begin to reduce these reserves to a more normal level for a country like ours. That could immediately bring in foreign currency, so necessary for our economy."

RESERVES

FLOWING OUT

September's slide in foreign reserves highlights a longer-term problem on the balance of payments' current account. The fall was due, says Reserve Bank GM James Cross, to R330m debt repayments outside the net: some the Bank's own debt, but mostly bearer bonds. (Pressure also came from interest payments of over R450m on foreign debt — these tend to fall due at quarter-ends.)

So the second quarter's large roll-overs in debt were not repeated in the third. The capital outflows were not, in themselves, serious; but what is of concern is that they were not countered by inflows on current account.

Econometrix's Azar Jammine points out that, while imports are declining, the rate of decline is decelerating. There are important structural reasons for this (see *Opportunities lost*), which will persist for a long time.

"At the same time, the rate at which exports are growing is decelerating — and that is in rand value. In volume terms there is zero to negative growth. With the downturn expected in OECD countries in 1991, this too is likely to persist — at least until economic activity in those countries revives, presumably in 1992 or later."

So the current account is a potential problem despite the recession.

This is discussed in Sanlam's latest *Economic Survey*, which refers to the "disappointing" performance of the trade account in the first two months of the third quarter. "What makes this . . . worrying," it says, "is that net foreign payments for services and transfers are usually considerably higher in the last nine months of a year than in the first quarter, and therefore have a greater negative effect on the current account of the balance of payments (then)."

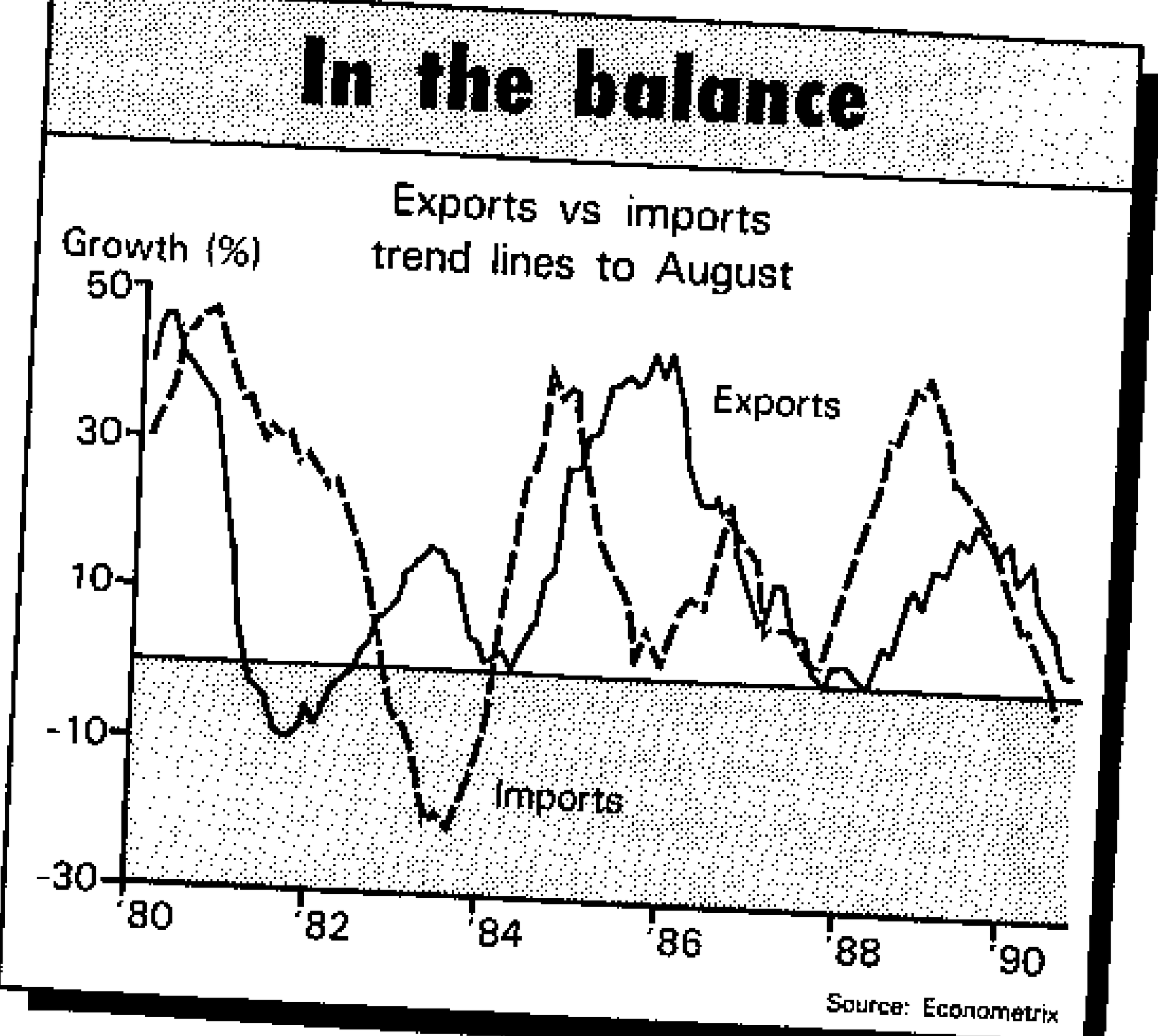
It points out that the surplus on current account fell from R2,2bn in the first quarter to R811m in the second. Chief economist Johan Louw believes the third quarter saw a small deficit.

Estimates of the annual surplus have been continuously revised down since the start of the year, when an optimistic forecast was R7bn. A fall in the gold price and the sharp rise in the oil price, followed by a muted rally by gold, reduced estimates.

Louw now puts the year's surplus at R4,8bn. Others believe it could be even less.

This has to be seen in the context of foreign debt of US$20,6bn in December 1989, of which R7bn is in the net. Under the unexpired portion of the Second Interim Debt Arrangement and the Third Interim Debt Arrangement concluded in 1989, debt repayments in the net are $218m in 1990 and $386m in 1991. With other capital flows, total payments are estimated at R2,3bn in 1990 and R1,5bn in 1991.

This R3,8bn in two years is well up on the



$2bn in the 30 months to end-1989.

So developments on the capital account are crucial. The only hope for future growth is that early political settlement will restore the capital flows enjoyed before credit sanctions were imposed by a hostile world.

□ End-September gold and foreign reserve holdings totalled R5,8bn ($2,3bn), compared with R6,1bn ($2,4bn) at end-August. The rand value of gold holdings was steady at R3,3bn ($1,3bn), while other foreign assets fell to R2,5bn ($970m) from R2,8bn ($1,1bn). However, with the gold value up from R905,52 to R927,81 an ounce, physical gold holdings were 72 000 oz lower.

Ethel Hazelhurst

Oil price throttling economy

Outlook is bleak as gold keeps sliding

B/Day 17/10/90

GRETA STEYN

GOLD crashed through the $365 barrier yesterday, raising the spectre of severe balance of payments problems, a prolonged recession and more inflation as the high price of oil throttles the economy.

Platinum's plunge added to the gloomy scenario.

The gold price fell $17 in London yesterday to hit a low of just below $360 before recovering to close at $362,25. In New York it closed at $362,50 — $13,25 down.

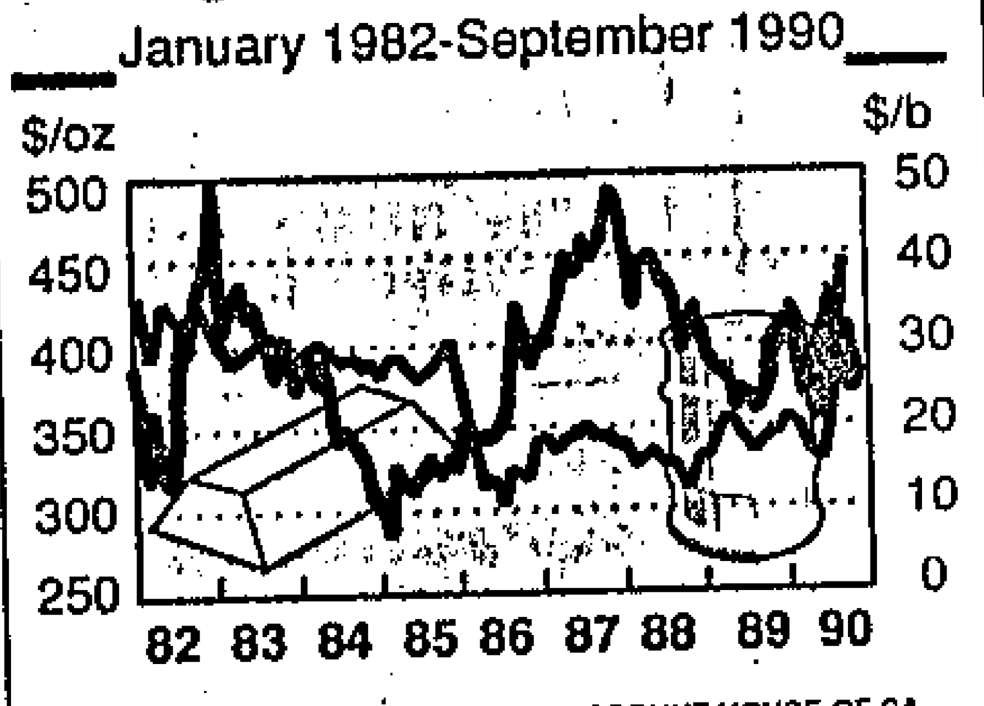
Reuter reports that gold sank to its lowest level since July, triggered mainly by a fresh collapse in the price of platinum, which was fixed yesterday morning at $389,75 an ounce, its lowest since February 1986. Platinum has fallen on worries about recession in major Western economies.

Econometrix economist Azaar Jammine said: "If present prices for gold and oil persist, SA faces the distinct possibility of a deficit on the current account of the balance of payments. Should the situation continue for a year, SA would have to fork out an extra R4,5bn to pay for its oil imports — enough to wipe out the entire current account surplus."

Severe balance of payments problems in the wake of the Gulf crisis would put renewed pressure on SA's already threadbare foreign exchange reserves.

The Reserve Bank might be forced to use foreign bridging finance to tide SA over foreign debt payments, put at $600m in the second half of this year.

Syfrets economist Elmien de Kock estimates the surge in the oil price from an



average of $15,80 a barrel over the past year to a projected $25 a barrel over the next year will require an average gold price of more than $415/oz in order to counter the outflow on the trade account.

Discount House of SA analyst Anel Bosman said SA should not have bargained on gold coming to the rescue of high oil prices, as the relationship between the two has historically been unstable.

A BoP squeeze could see interest rates remain high for much longer than anticipated and the possibility of restrictive measures to reduce the import bill cannot be ruled out.

The bulls are dwindling in the money and capital markets and long-term interest rates have risen by about 13 points on the slump in metal prices. In the money market the liquid BA rate edged up five points in sympathy.

Jammine expects inflation to remain at

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Gold

B/Day 17/10/90

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about 13,5% to 14,5% for the next year and has sliced 0,5 percentage points off his growth forecasts for 1990 and 1991. This year should see the economy shrink slightly in real terms, with only a marginal rebound next year.

Yesterday gold was also battered by Middle and Far Eastern selling.

The price of oil is still more than double the $18 a barrel seen before Iraq's invasion of Kuwait in early August. West Texas International for November delivery was quoted at $37,30 yesterday.

MERVYN HARRIS reports that share prices were again mauled on the JSE yesterday with the all gold index shedding 3,5% to 1 346 to bring its losses to almost 7% so far this week.

Weakness across the board swept the overall index down 1,7% to 2 576 with losses on the market outnumbering gains by more than five to one as investors scrambled to get out of the market.

Dealers said share prices would only start recovering when prices were at a level where investors perceived value.

Reserve Bank steps in as rand, dollar lose ground

B/Day 18/10/90

NEIL YORKE SMITH

THE rand rose slightly against the dollar yesterday but hit new lows against major European currencies.

The dollar also fell heavily against European currencies, hitting a post-war low against the Deutsche Mark.

Dealers said these developments had prompted Reserve Bank intervention in the forex market.

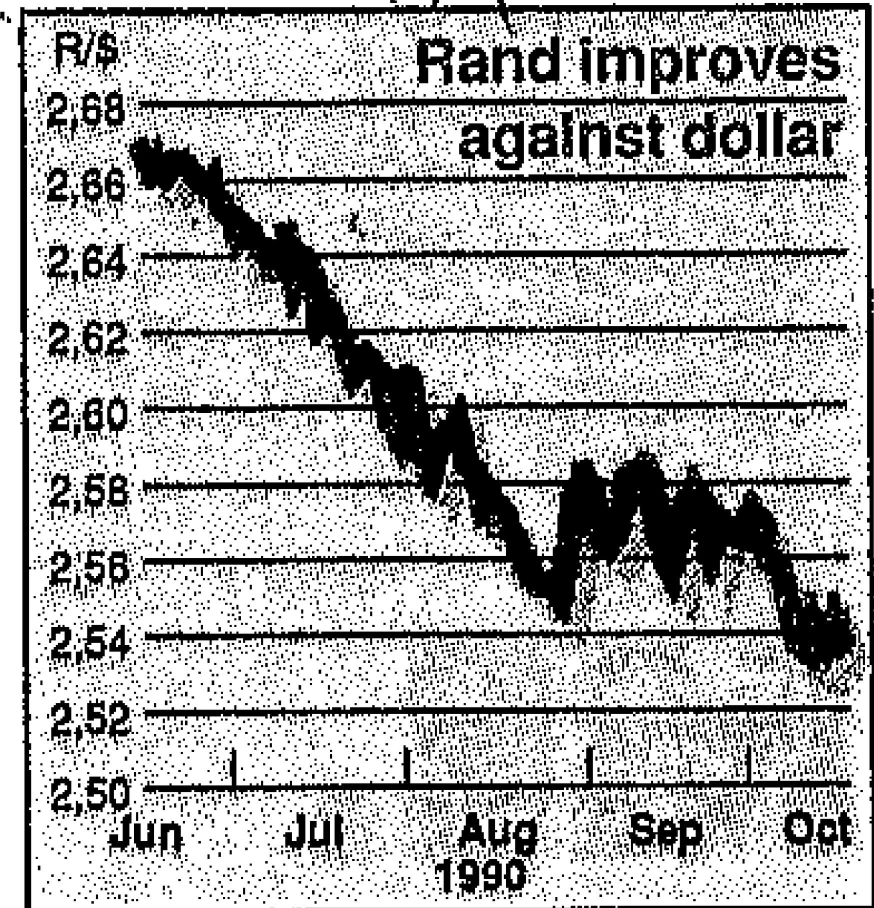
"The Bank was supporting the rand against the crosses, probably trying to look after the trade weighted value of the rand," one said.

Reserve Bank GM (gold and forex) James Cross said the Bank continued to intervene when necessary. But it only intervened to maintain the rand's stability.

"We are not trying to buck the trends but are simply smoothing out the bumps," he said.

The rand closed at R2,5318 to the dollar yesterday after touching R2,5260 at one stage. On Tuesday it ended at R2,548.

First National Bank treasury economist Simon Wilson said: "The rand's appreciation against the dollar was limited by import demand and a weak gold price."



Graphic: FIONA KRISCH Source: REUTER

Major corporations and parastatals were taking advantage of the firmer rand to exercise import orders — increasing the demand for dollars and the supply of rands.

"As a result, the rand is not fully reflecting the weaker dollar profile and, despite an overhang of import demand, could maintain its upward trend against a weakening dollar," he said.

Standard Bank Assistant GM (Forex) Willie Potgieter said major currencies recorded substantial gains against the dollar, which was hit by recession fears, a massive budget deficit, expected interest rate reductions and a shaky US banking and financial system.

"International investors have little reason to hold on to their dollar portfolios," he said.

European currencies made big gains against the dollar, weakening the rand on the cross rates. It fell to below DM0,60 against the rand to trade at DM0,5960 early yesterday. On Monday, it slipped to DM0,60 — below the previous record low of DM0,6040 set in August.

The rand was also nearing record lows against sterling and the Swiss franc. New lows against these currencies could occur on the back of lower gold prices and the dollar's continued slide. The rand ended at R4,9781/824 to the UK pound and at R0,5017/22 to the Swiss franc.

Star 24/10/90

Trade surplus remains at healthy level

By Duma Gqubule (74)

South Africa's monthly trade surplus remained at a healthy level in September and the cumulative surplus for the first nine months of 1990 is R10,6 billion — 15 percent higher than for the same period last year.

According to figures released by the Department of Customs and Excise, exports for September were R4,898 billion against R4,948 billion for the same month last year. Imports were down to R3,63 billion givinga surplus for the month of R1,268 billion compared with R1,353 billion a year ago.

Exports for the first nine months came to R44,213 billion, a 2 percent increase on the R43,320 billion achieved for the same period last year.

The top export performers this year have been transport equipment, up by 68 percent, and machinery exports which have risen 33 percent on the same period last year. The upward momentum in these categories continued in September.

However South African Foreign Trade (SAFTO) economist Bruce Donald says: "Most exports are suffering as a result of weakening international demand which has been reflected by lower commodity prices. Base metal exports fell by two per cent in nominal rand terms in the first nine months of 1990 compared with the same period a year ago and most categories of agricultural exports are also down on last year."

Total imports for the period January to September were down 1,46 percent to R33,567 billion from R34,063 billion in the same period last year, reflecting the continued downturn in domestic economic activity.

Mr Donald says the fall in imports over this period was tempered by a 17 percent increase in the unclassified category, reflecting the rise in the oil price.

Fuel hike 'major setback' in battle against inflation

THE recent increases in the price of fuel could add two percentage points to the inflation rate, with their full effect on the economy pushing it even higher, Sanlam chief economist Johan Louw said in the company's latest economic survey.

Louw said the increases constituted a major setback in the fight against inflation, although he believed the underlying downward trend would be resumed in the medium term.

"At this stage we forecast an annual increase in the consumer price index of about 14,5% by the end of 1990 — more or less the same as the average rate estimated for the whole year," he said.

Commenting on the current recession, Louw said although he believed the "cooling phase" would last more than 30 months — much longer than the previous two recessions — it would not have the same intensity.

GILLIAN HAYNE

B/Day 24/10/90

Retarding

In addition to the rise in international oil prices, the unrest, with its negative impact on production as well as on business and consumer confidence, had also helped to slow the economic growth rate.

Referring to the balance of payments, Louw said the Middle East crisis was having a negative effect on SA's export trade as it was retarding the economic growth of some of SA's leading trading partners.

On the import bill he said the current account of the balance of payments was under pressure and the previously expected surplus of R5bn was unlikely to be achieved.

The improvement in the capital account could not stop the falling ratio of reserves to imports.

SA's foreign reserves currently cover less than two months' imports, while an acceptable norm, by international standards, was three months or more.

"This means that we do not have the reserves to accommodate a significant recovery in the economy," Louw added.

The sharp decline in the gold price and the fuel price hikes would make a drop in the Bank rate and an accompanying reduction in the banks' overdraft rate unlikely in the near future, he said.

Trade account sails through Gulf crisis

(74)

B/Day 24/10/90

GRETA STEYN

SA's trade account emerged with flying colours from the Gulf crisis with higher oil imports and lower gold exports not even making a dent in the September trade surplus. Customs and Excise figures released yesterday show the trade surplus rose slightly to R2,67bn in September from August. The healthy surplus surprised economists who had speculated the current account could even swing into deficit as the price of gold failed to offset an oil price that had more than doubled since Iraq invaded Kuwait in August.

The main reason for the healthy surplus is the plunge in non-oil imports. The slump in demand for goods other than oil more than offset the 23% increase in oil imports. Overall, the total import bill fell 16% to R3,63bn. Excluding oil, imports were down by more than 21% as high interest rates and other restrictive measures knocked domestic demand.

Exports were also down but fell at a slower rate than imports — 12% to R4,9bn — with non-gold exports providing the necessary buoy. Gold exports reflected the sluggish bullion price and were down almost 18% to R2,01bn.

Although unclassified imports — mainly oil — were high at R690,2m, they were still down on July's massive R759m which came just before the crisis in the Gulf pushed oil to $40 from $18.

The overall balance of payments situation, although not as bad as originally feared, is still not as healthy as projected

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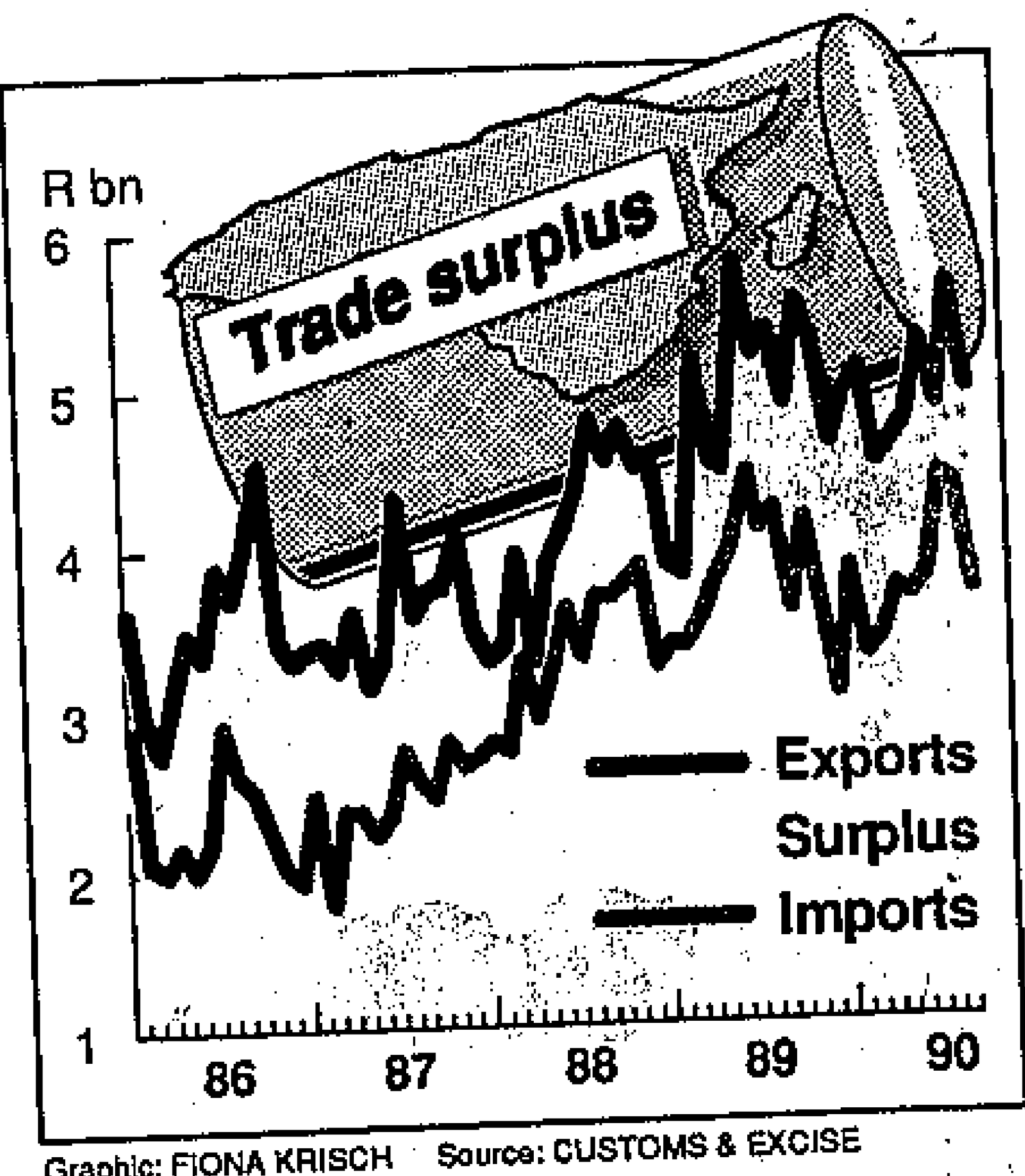


Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

Trade account

B/Day 24/10/90 (74)

☐ From Page 1

at the beginning of the year. At this rate, very little will be left after debt repayment to build up foreign reserves.

A rough calculation shows the current account surplus — the trade surplus less net payments for "invisible" trade such as tourism — for the third quarter was about R560m. The second quarter's surplus was down to R811m from R2,28bn in the first quarter.

At this rate, the surplus for the year will be just over R4bn, compared with projections of R6bn at the beginning of the year.

Rand Merchant Bank economist Rudolf Gouws said the trade figures were encouraging. "Import volumes have been slow to respond to restrictive policies but we are finally seeing the results.

"If oil prices continue at present levels, SA could escape the prolonged deep recession and balance of payments problems that loomed only a few days ago."

● See Page 3

FIM 26/10/90 (74)

ECONOMIC INDICATORS

FUEL SHOCK

Three crucial indicators were released this week. The bad news is higher inflation: consumer prices increased 14,3% in 12 months to September (after rising 13,6% in August). This reflects the first impact of rising oil prices — with a 10c/*l* increase in the price of petrol compounded by higher insurance premiums on vehicles. Together these brought about a 5,5% monthly increase in the consumer price index (CPI) transport (running costs) component.

Worse is to come, of course, when the latest 32c/*l* feeds through in November, probably adding 1,5% to the annual rate of price increases.

Relatively good news came on foreign trade. The September figures were better than many had expected, with a R668m fall in exports, to R4,9bn, offset by an equal decline in imports, to R3,6bn. That left a solid surplus of just under R1,3bn, roughly the same as in August.

Imports in September were down 3% in nominal terms from that month time last year. Exports fell a nominal 1% but against slower global economic growth still look robust. Senekal Mouton & Kitshoff economist Leon Steenkamp attributes this to a strong gold price but warns an underlying trend toward weaker prices for gold and other commodities such as platinum could weaken exports. "There is no room for complacency on the balance of payments."

Econometrix's Azar Jammine is more optimistic. "Too many people are panicking and calculating the effect on BoP if oil stays at $40 a barrel and gold at $360 for a year. That outlook already seems outdated."

So far, the increased oil price does not seem to have affected the trade figures. "Unclassified" imports (mainly oil) were R690m in September, higher than R561m in August but lower than R759m in July.

Jammine adds there is not enough value on positive political developments. "Financial sanctions have partly fallen away and short-term funds have become much more readily available, as seen in the Reserve Bank's ability to manipulate the rand."

Good news is that growth in the broad monetary aggregate, M3, continues to fall. According to provisional estimates it grew:

- 13,28% to R155,2bn in the 12 months to September; and
- An annualised 11,21% to a seasonally adjusted R153,9bn from the base of the current guideline year in mid-November 1989.

Revisions for August show 14,13% growth to R154,3bn or 12,72% to an annualised seasonally adjusted R154,2bn.

In the 12 months to August:

- M1A grew 10,35% to R26bn;
- M1 9,82% to R47,5bn; and
- M2 16,79% to R123,9bn.

These figures indicate that monetary policy is on course and countering the inflationary impact of the higher fuel price. ■

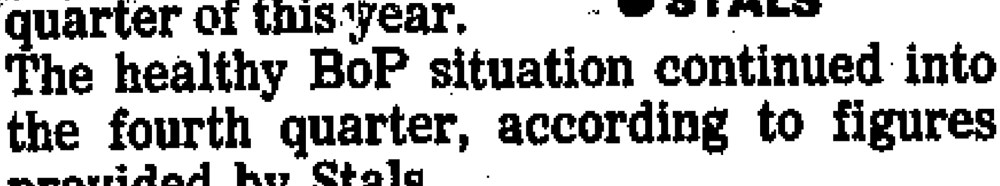
Foreign exchange reserves up R2,5bn

Capital flows make strong turnaround

GRETA STEYN

SA EXPERIENCED a small net inflow of capital for the first time in more than three years in the third quarter of this year, cushioning the blow of the Gulf crisis to the balance of payments (BoP).

Finance Minister Barend du Plessis and Reserve Bank Governor Chris Stals disclosed figures at the Financial Mail Investment conference in Johannesburg yesterday that are evidence of an impressive capital turnaround. The healthy foreign capital situation has offset pressure on SA's foreign exchange reserves generated by adverse movements in the prices of oil and gold.



● STALS

Du Plessis said provisional estimates showed "a small net inflow" of capital in the third quarter of this year.

The healthy BoP situation continued into the fourth quarter, according to figures provided by Stals.

Du Plessis said the capital inflow "probably reflected the extension of foreign trade credits in SA's favour, and therefore the absence of an early deterioration of exchange rate expectations". He added "other forms of capital" could be involved.

Du Plessis also disclosed a massive increase of R2,5bn in the net foreign exchange reserves since the beginning of this year. The net reserves differ from the gross figures released monthly as they do not include special short-term credits. From the low point at the end of the second quarter of 1989, the net reserves have risen by nearly R3bn.

The current account, knocked by the Gulf crisis, was less encouraging as the once-hoped-for surplus of R6bn would "almost certainly" not be reached and R4bn to R5bn was probable.

Stals rated the BoP as one of the economic successes of 1990. He said: "The BoP situation improved very significantly, and we succeeded in stabilising the exchange rate. Just recently, there have been some meaningful additions to the gold and foreign exchange reserves."

He disclosed that the Bank's gross reserves rose by a healthy R400m in October and noted that the improved foreign exchange situation had helped the Bank stabilise the rand exchange rate.

"Although prospects for the current account of the BoP are not very good, available reserves, supplemented by a possible easier capital account position, should enable the Reserve Bank to meet all the country's international commitments without any problems, and also to maintain a relatively stable average weighted value of the rand against a basket of currencies," Stals said.

In spite of the healthy foreign exchange

□ To Page 2

Capital flows

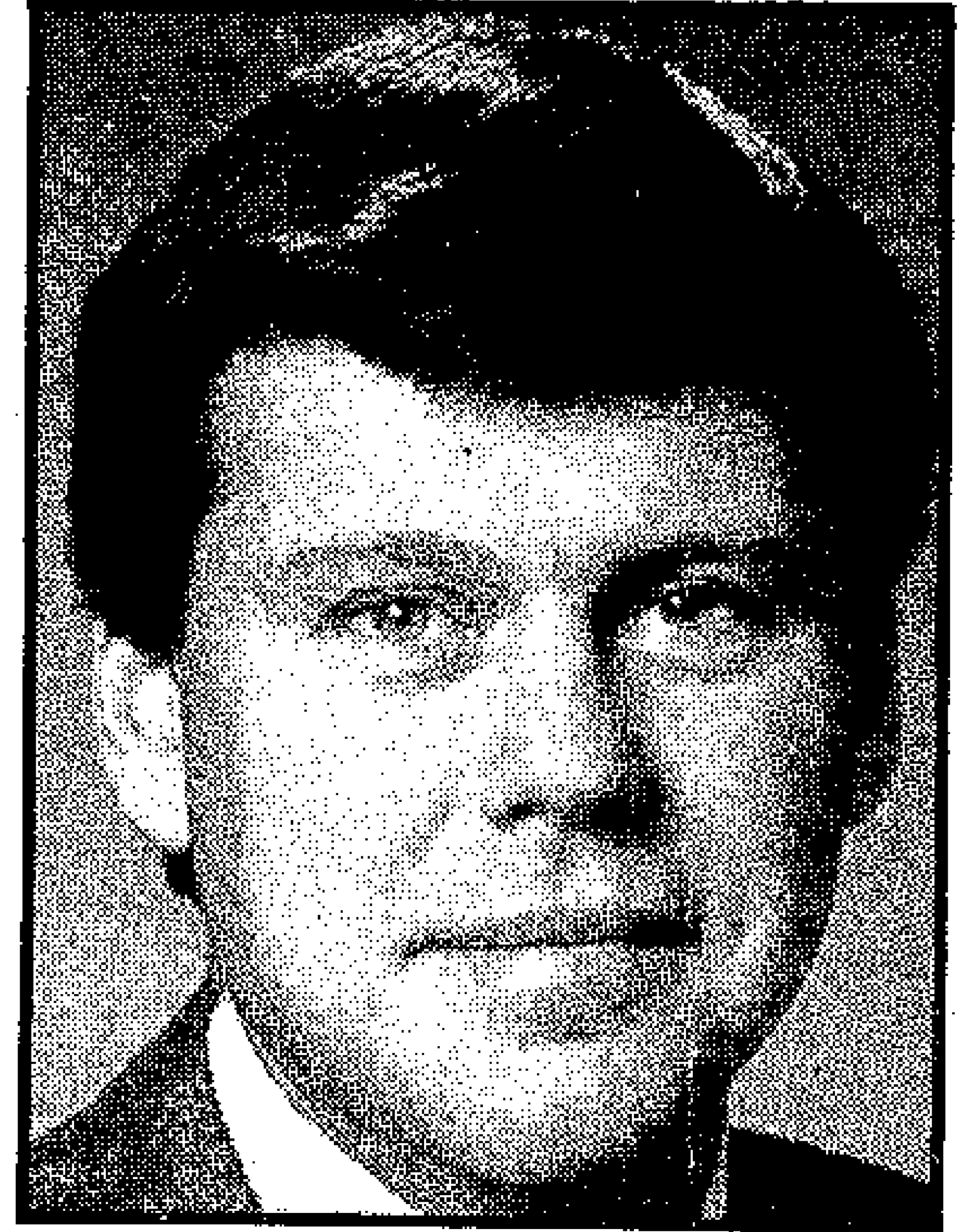
□ From Page 1

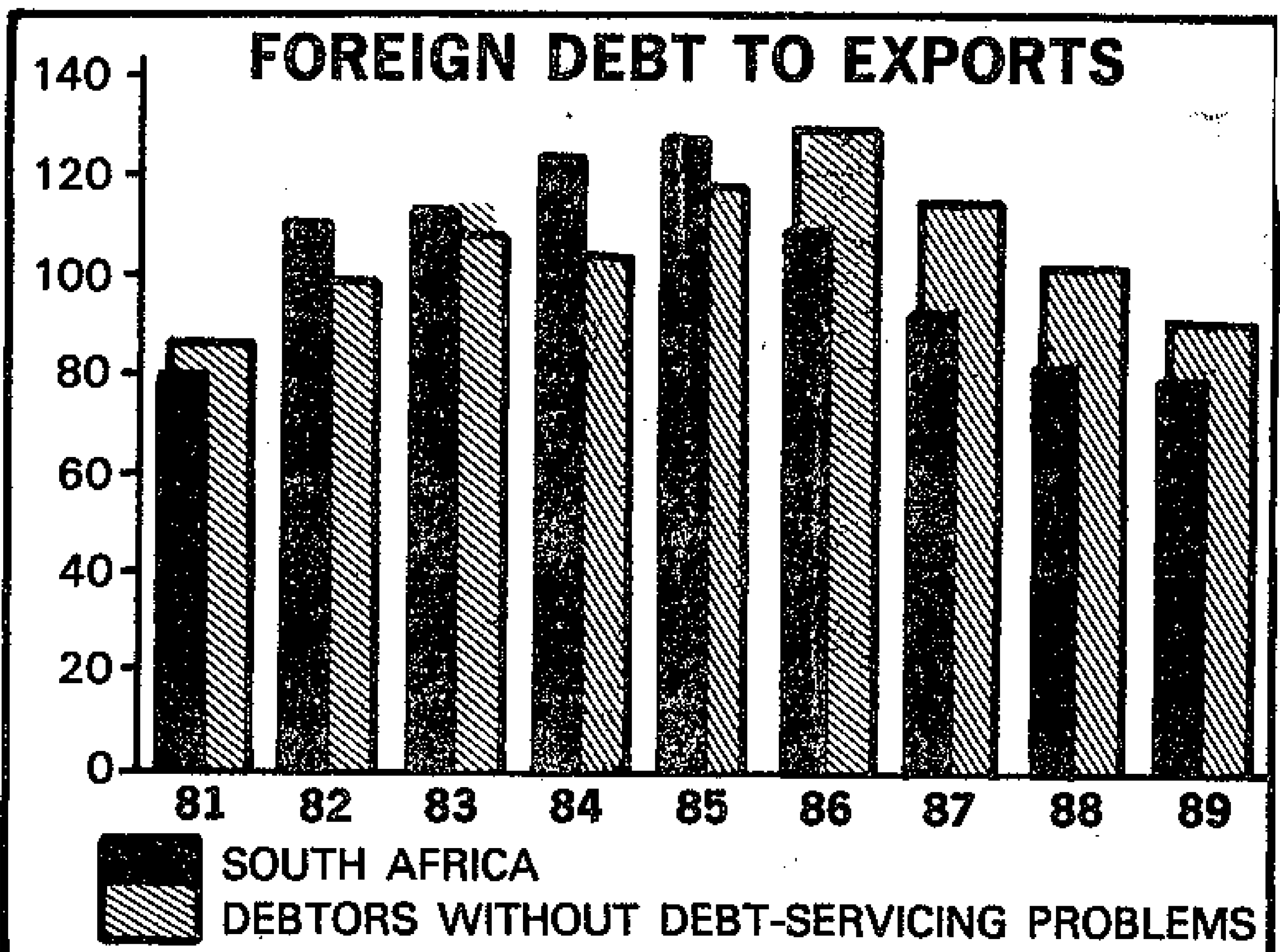
situation, Stals and Du Plessis sent a clear signal they were not contemplating an easing in monetary policy before next year. Stals signalled that next year would also not be easy by saying the Bank would lower the target ranges for growth in the money supply from the current 11% to 15% range.

"No more scope for growth in the outstanding amount of bank credit extended to the private sector than the present indicated 1% per month will be available," he said.

Reduced money supply growth was not, however, incompatible with "some decline in nominal interest rates during the course of 1991, although this will depend to an important extent on movements in the rate of inflation". Positive real rates of interest would be maintained, although there was scope for "some small decline".

● See Pages 8 and 9


DAVID MOHR: We've weathered the storm



SA over foreign-debt hurdle, but at a high price to growth

S Times 4/11/90 (74)

By IAN SMITH

SOUTH AFRICA has sailed through its foreign-debt crunch year, repaying or rolling over more than its total obligation.

SA was expected to repay about $3-billion to foreign creditors this year. But the total is closer to $3,4-billion, says Nedbank chief economist Edward Osborn.

Two years of lower repayments — about $1,5-billion next year and $1,2-billion in 1992 — give the economy a chance to catch its breath before the next big debt hurdle in 1993.

Turnaround

The remarkable debt performance is reinforced by figures given at the Financial Mail Investment Conference in Johannesburg this week, pointing to a strong capital turnaround. Finance Minister Barend du Plessis said net foreign exchange reserves had increased by R2,5-billion since the beginning of the year.

Reserve Bank Governor Chris Stals said the bank's gross reserves grew by R400-million in October.

A new study by Old Mutual's economic research unit says the second half of the last decade was marked by a "marked improvement" in foreign debt, particularly when compared with most other heavily borrowed countries.

Whatever meaasure is used, the debt reduction is impressive.

The ratio of foreign debt to gross domestic product fell from 42,9% in 1985 when the Government was forced to freeze the payment of some foreign liabilities to prevent a huge outflow of capital, to 23,2% in 1989.

The debt-to-exports ratio improved from 128% in 1985 to 79% last year and the ratio of foreign interest payments to exports fell from 10,8% in 1985 to 7,1% last year.

The study says the most comprehensive and convincing proof of progress lies in the fact that since 1985 SA's ratio of foreign debt to exports has fallen below that of nations which do not face arificial debt-servicing difficulties.

"From these comparisons it is evident that SA has made considerable progress in not only arresting, but in fact improving the unhealthy trend in foreign financial depedency that gathered momentum in the '70s and accelerated in the first half of the '80s."

When the standstill was imposed, outstanding debt totalled $23,7-billion. It fell to $21,2-billion at the end of 1988 and to $20,6-billion at the end of 1989.

The figures can be misleading becasue much of the debt is denominated in non-dollar currencies which have appreciated considerably against the dollar since 1985.

If the $3,1-billion decline in total foreign-debt exposure is measured in the exchange rates prevailing in 1985 it amounts to about $5,5-billion — or less than a quarter of total debt.

Savings

But the gains have not been won without cost.

The large transfer of resources from what is essentially a developing country has contributed to inadequate investment, says Old Mutual economist David Mohr. Between 1985 and 1989 44% of net domestic savings were required to finance capital outflows to the rest of the world.

The capital outflow has also led to a marked decline in the rand's international and domestic buying power. In the five years to 1989 the rand cost of a basket of the most important foreign currencies increased by 126%. The average cost of domestic consumer goods, measured by the consumer price index, jumped by 107%.

Old Mutal says: "At the present rate of repayment the debt burden will ultimately be minimal and, according to financial criteria, South Africa will have the capacity for large borrowings in the future."

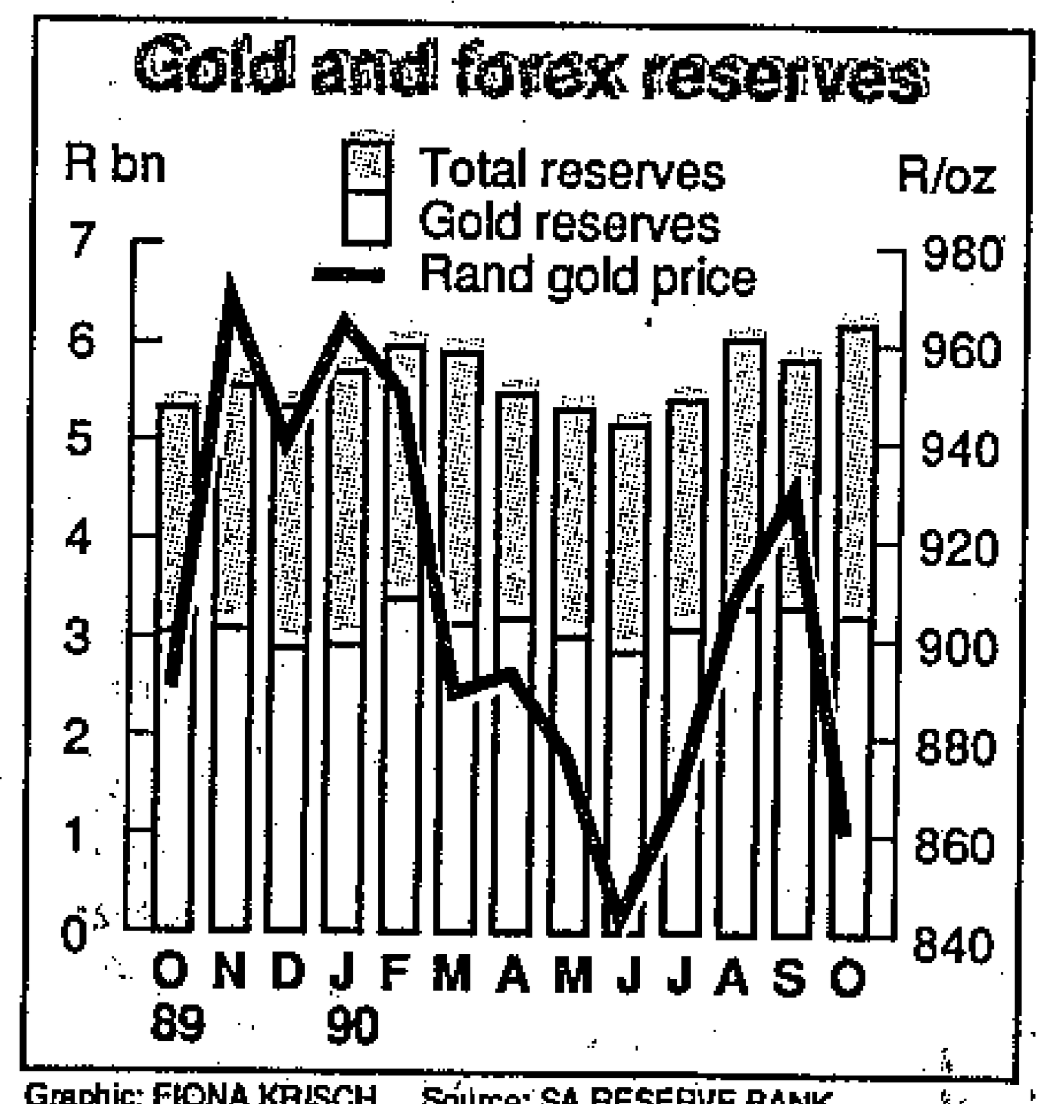
Foreign cash reserves surge

BDay 8/11/90

GRETA STEYN

THE Reserve Bank's kitty of foreign cash surged in October in spite of the Bank's reluctance to sell gold in a soft market.

The statement of assets and liabilities released yesterday showed a R476m rise in the holding of currency. In September, physical gold holdings rose by a hefty 183 417 ounces — about 10% of one month's production — reflecting the Bank's reluctance to sell gold at a weak price.



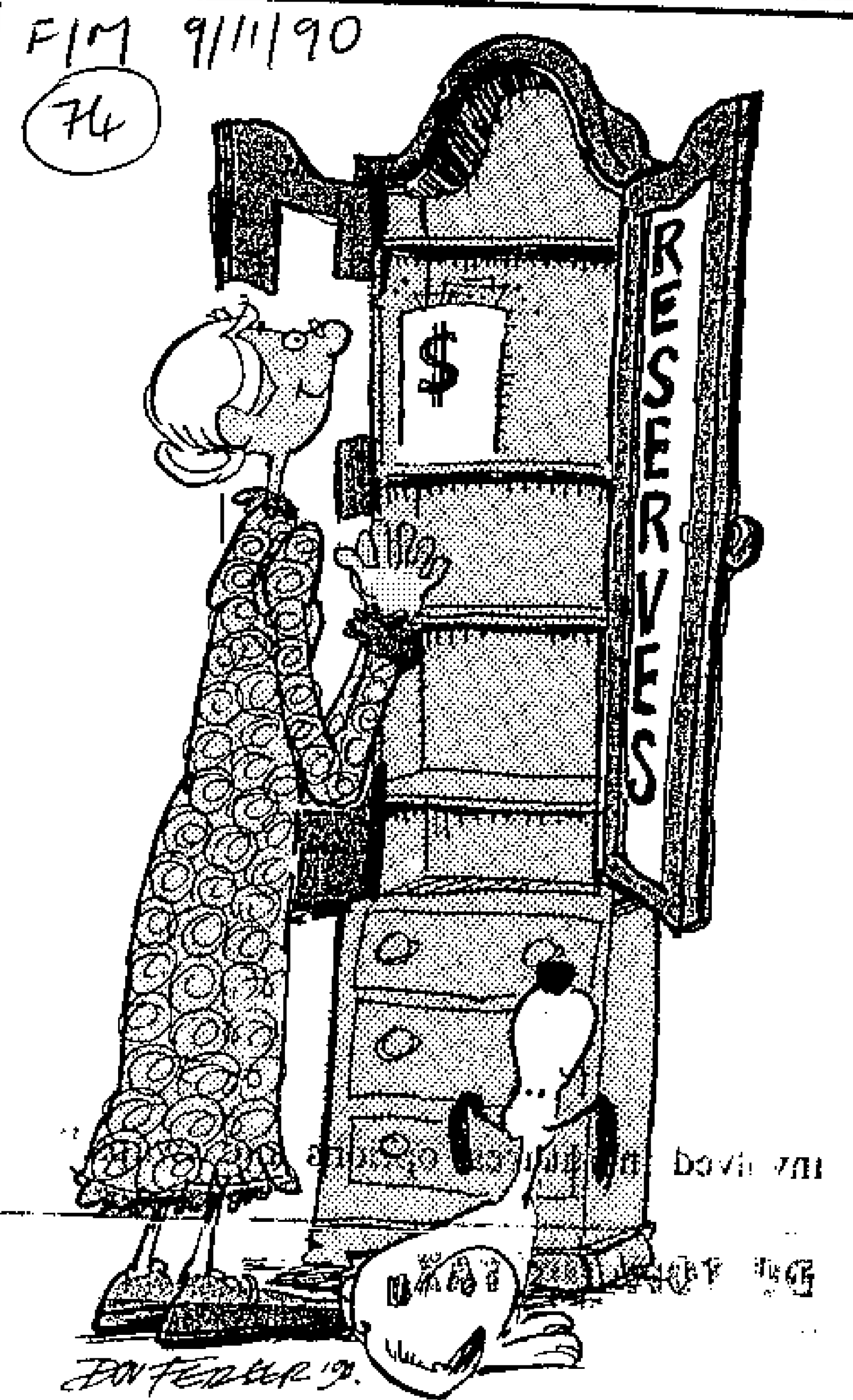
Graphic: FIONA KRISCH Source: SA RESERVE BANK

Gold held in the reserves was valued at only R858,65/oz (September: R927,81), resulting in a decline of R90m in the gold component. Total gold and foreign exchange reserves rose by R385m to R6,22bn — the highest level since January 1988. (Gold: R3,24bn and currency: R2,98bn.)

Economists said the impressive improvement in the reserves was evidence that the balance of payments was sailing through the Gulf crisis.

The Bank's balance sheet also shows it is no longer drawing on its emergency foreign credit lines to bolster reserves. The "other liabilities" category fell by R402m, which indicates the Bank may have reduced these debts even further. This category has shrunk by almost R2bn from the R8,35bn peak reached in June.

74



RESERVES FM 9/11/90

TOPPING UP

October brought a R400m improvement in gross gold and foreign exchange reserves, Reserve Bank Governor Chris Stals told last week's *FM* Investment Conference — despite a lower average gold price of US$381,04/oz against September's $389,44. The composition of the reserves is not yet known but the improvement is unlikely to reflect an increase in gold volumes.

Production in September, which would probably have reached the Reserve Bank via the refinery by October, was down on August. So positive input must have come from net inflows of foreign exchange.

An important contribution would have come through the capital account. It is generally believed that trade credits are far more readily available than in the past. This would have been supplemented by improved perceptions about the rand, particularly in relation to the US dollar, which reversed unfavourable leads and lags. Exporters no longer wait till the last moment before bringing earnings in while importers no longer make payments as soon as possible.

The improvement in reserves was not reflected in the rand's rate of exchange against the basket of currencies. It fell from 30,5 in September to 30,3 in October, an indication that some benefits of the windfall were mopped up by the Central Bank and stored for a rainy day. "The Bank's objective is apparently to keep the currency relatively stable but declining against the basket in line with inflation differentials between SA and major trading partners," says UAL economist Dennis Dykes.

However, the rand rose from US38,9c to US39,4c as a result of the dollar's depreciation against third currencies.

This created another spin-off for reserves, generated by roll-overs of the second leg of forward cover, arranged by borrowers of offshore funds or purchasers of foreign goods. When the initial contract expires, the third currency converts into more dollars than are needed to renew the contract. The surplus dollars are free to flow back into SA.

In this environment, the forward cover operation has been profitable for many months. Senior Deputy Governor Jan Lombard says: "This has substantially cut accumulated losses owed to the Bank by Treasury from the R14,1bn reported at end-March."■

'Easier' debt payments seen for next year

B Day 14/11/90 ANDREW GILL (74)

NEXT year's foreign debt repayments are expected to be a "relative cruise", says Reserve Bank Senior Deputy Governor Jan Lombard, who foresees a current account surplus large enough to cover net capital outflows in 1991.

As a result, the Bank's overseas borrowing facility of about R2bn was not likely to be used next year as it had been in the past, when insufficient current account balances had to be buoyed by this short-term, low-interest loan facility, he said in an interview yesterday.

This facility, provided by private banks, was used extensively in 1988 and 1989 when rollovers were less accessible and the current account surplus was under pressure and unable to cover the drained capital account of the balance of payments.

Also, debt repayments at the time were larger than next year's expected $1,5bn. This year the figure is expected to be about $2,2bn, the bulk of which was paid in the first half of the year.

Lombard noted that the Gulf crisis was a wild card and if it worsened, could have an effect on expected developments.

Figures released by the Finance Department in the Government Gazette last week suggest that the position may be less encouraging. They show public sector debt commitments (at Monday's exchange rates) amounting to $1,8bn in 1991, largely as a result of the plummeting dollar this year. At the beginning of this year it amounted to $1,65bn.

A large proportion of the debt is denominated in third currencies with the largest being the Deutsche Mark at DM995m. In January this year it was worth $581m but as the dollar has lost 13% against the mark, it is now worth $672m.

Despite the higher overall commitments, said Lombard, the current account balance should cover net capital outflows. Although larger, they were part of gross capital outflows and did not reflect the overall position.

He expected further rollovers to be secured next year, saying it was "quite likely" part of the debt would be rolled over.

Rand is expected to stay relatively stable

BDay 14/11/90

HAROLD FRIDJHON

THE rand is expected to remain relatively steady this week, not only against the US dollar but also against the cross-rates on the currencies of SA's major trading partners.

Yesterday's close of R2,550 to the dollar leaves the rand firmly in its bear trend established some weeks ago, according to the continuing technical analysis conducted by the First National Bank (FNB) Treasury. The key support at R2,520 is a level to be watched, warns FNB.

Against the Deutsche Mark, the rand's bear trend remains in place, showing little sign of improving, holding below the key resistance level of 0,5910. FNB expects the low of 0,5830 might be tested.

Against sterling the rand is "locked" in the R4,94 to 5,0135 band, performing in a similar fashion with the sterling-Deutsche Mark cross. This cross-rate should be watched.

The Swiss franc has not shown the strength against the rand that the other majors have. An expected sharp downward break in the dollar-Swiss franc trend could result in the rand going deeper in its intact bear line against the "Swissy".

Against the yen, a four-month bear trend has been broken at 50,63 but the new uptrend has to be confirmed. Any dip in the yen-rand cross should find support at 50,50. FNB adds: "A break above 51,50 would create a new high and new uptrend".

Surveying the currency scene from Zurich, the Union Bank of Switzerland says the dollar ran true to form, edging off during the week on poor fundamentals but gaining back some of its lost ground on short-covering because of war fears.

The Union Bank says the Germans and the Japanese opposed backing the dollar while its decline followed reasonable lines. This was a rebuff to French Finance Minister Bérégovoy, who has been urging a meeting of the G7 to discuss the dollar's trend. The German/Japanese accord alleviated the market's concern about central bank intervention.

Fading

(74)

Forex markets are waiting to see whether the Fed will cut its rates, which would set the market to test the readiness of others to intervene to support the dollar.

The Deutsche Mark wants high interest rates and a stong mark, especially against the dollar, to attract sufficient capital for the build-up of former East German banks.

Sterling, says the Union Bank, remains a political currency with fading support for the Conservatives and threats against MargaretThatcher's leadership over-shadowing a variety of economic data. And on Tokyo, Gulf war talk depressed forex dealers, depressing the currency, a move which has lead to raising money market rates.

Union Bank and FNB are not bullish on gold. FNB says rallies in the price are corrective movements in a broadly based bear trend. The Union Bank feels that gold is not protected from setbacks.

Drought may cost R500m in imports

B Day 15/11/90

GERALD REILLY

PRETORIA — The devastating drought in the Free State and Transvaal could cost SA more than R500m in foreign exchange, agricultural authorities said yesterday.

It was certain that wheat would have to be imported for the second successive year. Maize would probably also have to be shipped in.

The Free State Agricultural Union this week called an emergency meeting of farmers to discuss the situation. The meeting ends in Kroonstad tomorrow.

Further appeals for greater state aid are expected to be made.

Last week Agricultural Development Minister Kraai van Niekerk announced an extra R60m in aid for distressed farmers.

Crop damage

Agricultural authorities called this a "drop in the ocean" compared with the needs of of farmers.

Wheat Board officials meet in Pretoria tomorrow to assess crop damage against a background of agents' reports.

It is feared the crop will fall below 2-million tons, which means at least another 300 000 tons will have to be imported, at a cost in excess of R150m, to meet the local need.

In a normal year, the Wheat Board said, more than half the national crop was harvested in the Free State.

Nampo economist Kit le Clus said it was too early to cry "doom", but the threat of a drought-wasted maize crop was growing.

Originally Nampo expected the crop to be planted over 3,3-million hectares, but drought conditions had probably reduced this by at least 300 000 ha.

Time, he said, was running out for planting over a wide area of north-western Transvaal and the Free State.

Le Clus said it was already too late for optimum planting potential in the eastern Transvaal.

However, "good persistent rains within the next two weeks could change crop prospects drastically".

A worst case scenario, according to other authorities, was a crop of 6-million tons — a million tons less than needed.

To import a million tons of maize at current international prices would cost around R400m.

In Natal the dry winter has adversely affected the sugar-milling season in some parts, reports SABC radio news, but the new cane crop is looking good.

Sapa reports the radio said reduced tonnages led to the Noodsberg mill in the Midlands being closed about three weeks ago, while the Illovo mill would finish its work for the season within the next few days.

A similar situation exists in the sugar area of Umfolosi in Zululand, where dry conditions and flowering of the cane resulted in a 12% shortfall. The mill there will continue operating until just before Christmas, but with a reduced throughput.

Commenting on the current crop, Cane Growers' Association GM Rex Hudson said the situation was hopeful.

Exports boost trade surplus to record R2,33bn

Cit Trfs 17/11/90

74

By ARI JACOBSON

SOARING exports in October boosted SA's trade surplus to the highest nominal level ever at R2,33bn — an almost two-fold gain on September's R1,27bn contribution.

A dramatic R550m rise in the precious and semi-precious stones component of exports coupled with a R680m increase in the unclassified section (comprising gold, platinum and arms) provided the platform for this surge in the surplus.

Imports rose R290m (down 4% against the previous October) — insignificant alongside the R1,36bn addition to exports.

Old Mutual economist Andre Roux said that the current relationship between a falling gold price and rising oil prices as well as a slow-down in world economies would heighten future pressure on SA's current account of the balance of payments.

"Although a commodity based economy and vulnerable to the vagaries of international whims, SA has over the last few years managed to shake off its total reliance on gold revenue."

SA Foreign Trade Organisation (Safto) economist Bruce Donald said the jump in the unclassified category was a mystery considering gold's performance in October. He speculated that a BOP adjustment was recorded by the Department of Customs and Excise, which impacted on this category.

"The rise in diamond exports may reflect an internal transfer of stocks from De Beers to its Central Selling Organisation (CSO)."

Donald pointed out that over the ten months to October machinery exports had increased 29% on the previous period and transport equipment was up 70%.

"Chemical exports were also doing well on the back of SA's oil-from-coal endeavours which were making substantial gains from the higher oil price."

The weak links he said, were base metals — suffering from weakening international demand — and agriculture, struck by unfavourable weather conditions in the Transvaal and Orange Free State.

At just under R13bn, the cumulative surplus for the ten months to October was 21% higher than that of the previous year.

Drought a scourge for forex earnings

GERALD REILLY

THE drought gripping huge areas of SA could have a serious effect on the country's foreign earnings and balance of payments next year, agricultural economists say.

While there will be no forex earnings from grain exports next year, the cost of importing wheat — and probably maize — is expected to be about R500m.

The export surpluses from big maize and wheat crops in 1988/89 earned the country more than R1,5bn last year.

The Agriculture Department says farm exports this calendar year are expected to earn R5,1bn. B/Day 19/11/90

At the end of last week it was estimated that the wheat crop had fallen below 1,9-million tons and was likely to go lower. About 2,4-million tons were needed for local consumption.

The Wheat Board, which meets in Pretoria this week to plan an import programme, will have to get Cabinet authority to ship in more than 500 000 tons.

A board spokesman said wheat landed at Durban would cost about R450 a ton.

Economists estimate that Free State wheat farmers' losses will amount to more than R150m. If rains hold off for another two weeks, the maize crop could be heading for disaster, particularly if the limited plantings now possible are followed by dry conditions during January and February.

FOREIGN TRADE FM 23/11/90 (74)

RECURRING BLIP

With the economy in a clear downturn and the authorities still unable to rein in inflation, any good news is welcome. The good news in October was the trade surplus, which reached R2,3bn, up R1,1bn on the previous month and easily the highest in the past two years. Imports rose slightly, up R294m to R3,9bn, but were more than offset by a surge in exports, up R1,4bn to just under R6,3bn.

Econometrix economist Tony Twine warns against making too much of the monthly figures. "They should be viewed with circumspection," he says.

Most of the increase is the result of a R687m surge in "other unclassified" exports (mainly gold but including arms, platinum and uranium), to R2,7bn. Though speculation that arms sales, presumably to the Middle East, were responsible for the sharp increase cannot be discounted, the surge was probably a statistical blip.

In fact, the unclassified figure is not all that much higher than the R2,4bn in August or R2,3bn in January.

The surplus was also inflated by a jump in pearls, precious (mainly diamonds) and semi-precious stones, which totalled R788m, up from only R237m in September. That is not unusual, as this category is exceptionally volatile. Each time De Beers transfers a consignment of diamonds to the Central Selling Organisation, this category shows a large monthly increase. It could (and probably will) fall again in November, as earlier this year when the value rose from R408m in January to R828m in February, before dropping back to only R251m in March.

In addition to a probable decline in unclassified and diamond exports, the November surplus is likely to be dragged down by an increase in unclassified imports (mainly oil). Southern Life economist Mike Daly points out that in October, this category (R482m, against R690m in September) was only 70% of the average in the past three months, suggesting SA is reluctant to buy oil at high prices. Unless government dips into oil stockpiles, greater oil purchases will be needed.

Says Daly: "It all just came together in October. In November, we will probably see a surplus more in line with September's R1,3bn."

A similar situation occurred at the end of 1987, when the trade surplus jumped from R1bn in October to R2bn in November, before falling back to R768m in December.

Generally, the year to October has seen lower exports, with values in rand terms up only a nominal 3% (compared to inflation of about 14%) on the same period last year. The only categories showing real increases over the comparable 10 months of 1989 are vehicles, aircraft and other transport equipment, up a nominal 70% (to R901m), machinery, electrical and electronic equipment 29% (R1,1bn), optical, medical and other precision equipment 28% (R110m) and prepared foodstuffs 16% (R1,4bn).

There were sharp declines in exports of vegetable products, down a nominal 14% (to R1,9bn), fats and oils 11% (R107m), chemical products 9% (R1,5bn) and textiles 3% (R1,2bn). Base metal exports are also 3% down, at just under R7,6bn, reflecting continued low commodity prices.

FM 23/11/90 (74)

Fortunately imports have declined even more, down a nominal 1,7% in the 10 months. Signs of a slowing economy can be seen in a decline in investment goods such as vehicles, aircraft and other transport equipment, which fell 16% to R5bn, as well as machinery, electrical and electronic equipment, down 2,3% to just over R11bn.

The only significant import increases were in vegetable products, up a nominal 33% (to R795m), mineral products 18% (R499m), and articles of stone, plaster and ceramics 17% (R512m). ■

Star 23/11/90 (.74)

Overseas interest in Amgold rights issue behind recent finrand strength

By Jabulani Sikhakhane

Strong buying of the financial rand by French, German and Swiss investors taking up their rights, worth about R150 million, in Anglo American Gold Investment (Amgold) has been cited as the reason for the recent strength of the investment currency.

Amgold's rights offer closes at noon today.

Since last Monday, the financial rand has strengthened 5,8 percent to yesterday's close of R3,47 — the highest level in nine months.

The strength of the financial rand, which is regaded as an indicator of foreign investor interest in South Africa, has taken the steam out of rand hedges and gold shares on the Johannesburg Stock Exchange.

Purpose

A dealer said yesterday the investment currency had been very strong on news that French, Swiss and German investors were buying it to take up their rights in Amgold's R500 million rights issue.

The purpose of the offer is to raise cash for Amgold's share of the funding for exploration of the Moab area, the acquisition of an interest in South Deep Exploration and the injection of further capital into Eastern Investments to enable it to fund its recent investment in the Normandy Poseidon Group in Australia.

The cash raised will also be used for further acquisitions.

Stals's good news on capital inflows

B/Day 27/11/90 (74)

GRETA STEYN and LESLEY LAMBERT

IMPROVED foreign attitudes towards SA helped the country notch up a R1,5bn net inflow of capital in the third quarter this year — the first inflow in three years and the biggest since the last quarter of 1982.

Reserve Bank Governor Chris Stals released the figure in a speech at a conference organised by the British Euromoney Publications.

He said: "Not only the financial rand market, but also capital inflows through the commercial rand market reflected a favourable change in the international attitude towards SA."

He also noted the inflows consisted of both short-term and long-term capital.

Economists said the inflow of longer-term capital was especially encouraging, as it was evidence that foreign investors were willing to commit funds to SA.

They speculated, however, that the bulk of the net inflow was short-term loans consisting mainly of trade-related finance.

Bankers said political reform initiatives this year had dramatically increased the availability of trade finance.

"SA is more relaxed about its foreign debt position than it has been for years," Stals said.

He noted the inflow of capital in the third quarter had reduced the total net outflow for the year so far to only R1,1bn — well below estimates of a total net outflow of R5bn made at the beginning of the year.

The balance of payments (BoP) situation had become "comfortable".

He noted the surplus on the current account was R3,5bn in the first three quarters of the year — already higher than the total surplus (R3,1bn) attained in 1989.

The massive capital outflows of the past five years had forced SA into a depressed economy with real economic growth well below its potential.

"It is well known that the achievements on the foreign debt position were only made possible by substantial sacrifices in terms of the domestic economic performance."

But a positive spin-off was that it had forced SA into a long-term structural adjustment, so the country could eventually achieve more rapid economic growth with less dependence on foreign capital inflows.

"We can say, fortunately, that all the sacrifices made over the past five years were not made in vain.

"The economy today is poorer and leaner because of the inflictions, but it is also fitter and in excellent shape to meet the challenges of higher rates of economic growth," Stals said.

● See Page 5

Forex deals under Bank's spotlight

B/Day 28/11/90 ROBERT GENTLE (74)

THE Reserve Bank is in discussion with commercial banks and major corporates to ensure that all foreign exchange transactions carried out by dealing rooms complied with exchange control regulations.

The Bank's Foreign Exchange GM John Postmus said yesterday the contacts, which he described as "friendly and constructive", were in the context of streamlining the exchange control system. The Bank was also looking at the volumes of forex transactions.

Postmus was elaborating on remarks made during a speech at a Corporate Treasury seminar organised by Deloitte Pim Goldby and FNB. He said this streamlining was also aimed at more efficient data transfer between corporates and banks, and the Bank itself.

A source said the Bank was concerned about the possibility of certain sophisticated forex transactions falling outside the ambit of existing exchange control regulations.

Strong capital inflows set to continue

NEIL YORKE SMITH

THE current quarter could see another net inflow of foreign capital in the wake of the massive R1,5bn in the third quarter, says a senior Reserve Bank official.

Reserve Bank gold and forex GM James Cross said yesterday another inflow was "quite possible" in the fourth quarter.

The third-quarter inflow marked a turning point for SA, which has suffered a foreign currency drought since 1985.

"The inflow marks a change in trend and I certainly expect SA's foreign capital situation to improve further over time," Cross said.

A favourable turnaround in leads and lags could have played a significant role in the R1,5bn net capital inflow experienced in the third quarter of this year.

Cross said yesterday the weakening US

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B/Day 29/11/90 (74)

Capital inflows

☐ From Page 1

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dollar could have helped SA.

"Importers — expecting the dollar to fall — might have postponed purchases, while exporters might have increased sales."

It was difficult to say what percentage of the inflow represented trade-related transactions, and how much was real long-term investment.

Econometrix economist Azar Jammine said the authorities expected foreign debt repayments of $1,9bn next year.

"But improved political perceptions will probably result in many creditors allowing SA to roll over loans. In reality outflows due to foreign debt repayments could be much lower than expected," he said.

INTEREST RATES FM 30/11/90 (74)

MOVING THE GOALPOSTS?

Since he took office in August 1989, Reserve Bank Governor Chris Stals has set a series of targets for monetary policy. The official rediscount rate, he warned, will not fall until:

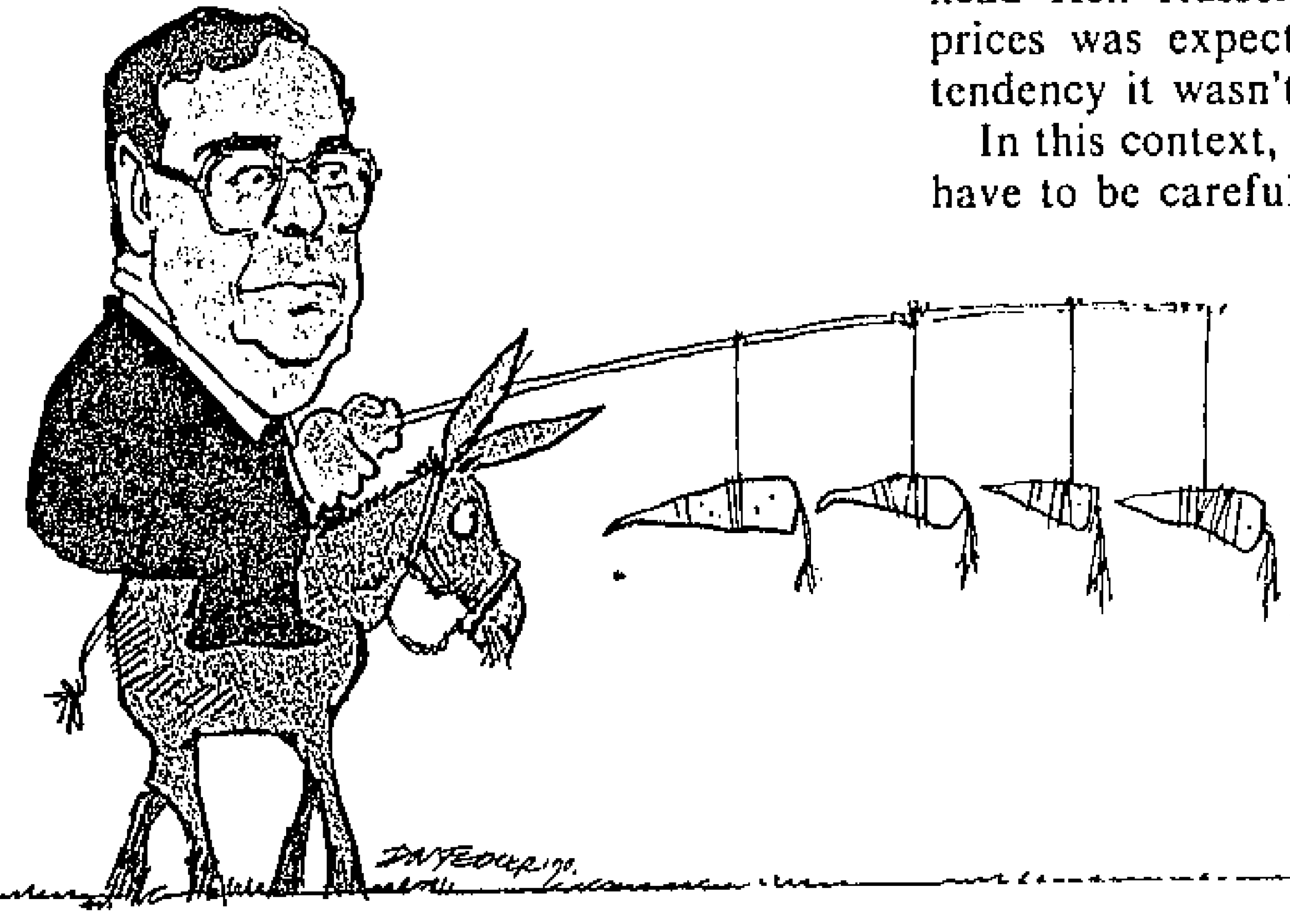
- ☐ Money supply growth is under control;
- ☐ The balance of payments improves; and
- ☐ The rate of inflation is falling.

Money supply growth is now falling sharply (see "Range free"); the third quarter saw a net capital inflow of R1,5bn and October a huge trade surplus *(Economy* November 23); the annual rise in CPI in October was down (see "Yen driven"); and bank credit creation growth in the six months between March 31 and September 30 was only 6,3% which is about an annualised 12,8%.

But despite these developments, Stals made no move to relax monetary policy. As each of the hurdles was overcome it was simply replaced by a new one.

Nevertheless, it would be simplistic to say he is simply moving the goalposts.

His actions are consistent with his underlying philosophy: inflationary expectations have to be reversed if inflation is to be contained. And, until it is clear they are, he will continue to delay the decision to soften monetary policy.



Not everyone is convinced this is the best policy. Says UAL economist Dennis Dykes: "Given the extensive time lag between changes in monetary policy and changes in economic activity, some relaxation in policy may well be appropriate already."

Bankers and businessmen have argued for months that high interests rates are inflicting unnecessary damage. Stals has countered with constant references to the mildness of the downturn compared to that of 1985-1986. Yet GDP this year is expected to decline by up to 1%, as it did in 1985.

What *is* different is the strength of private consumption expenditure. This factor is clearly influencing the authorities. Stals said at a banquet in Johannesburg last week: "If this trend continues, we shall have to face a rapidly rising demand for more consumer goods and services but we shall not have the capacity in our domestic economy to produce these goods and services."

Ironically, recent buoyancy flows from desirable socio-economic developments, which were outlined by Finance Minister Barend du Plessis at the *FM* Investment Conference: "Cyclically and structurally induced shifts in factor rewards from non-wage incomes to wage incomes and from higher-income recipients to lower-income recipients. Some of these redistribution effects may obviously have social merit. However the accompanying downward pressure on the savings ratio is not in the economy's long-term interest."

For months, it has been thought that this impetus to expenditure has been the mysterious factor which reversed the decelerating trend in inflation, even before increases in the oil price. Moreover, says FNB treasury head Ken Russell: "While the rise in oil prices was expected to slow the declining tendency it wasn't expected to send it up."

In this context, wage and salary increases have to be carefully examined. An Andrew Levy & Associates survey shows settlements, as a percentage of payroll, have averaged 17,4% this year — the same, despite falling inflation, as last year. But director Pat Stone perceives a change in approach by unions. "In October, the level fell below 17%. In recent negotiations, nearly every wage demand has been accompanied by a set of demands related to job security."

He points out the major employer, directly or indirectly, is government. "At a time when trade unions are beginning to flex their muscles in this sector and the Labour Relations Act is to be extended to cover State employees, government will come under increasing pressure to establish bargaining trends in its own right."

With uncertainty on this issue, Stals will want to be absolutely certain that other spurs to demand are not present.

His dilemma now is that "certain conflicts are emerging between domestic and external objectives of policy." He said this week that "the overall surplus on the balance of payments and the desire to keep the exchange rate as stable as possible require active intervention in the forex market by the Reserve Bank." This, however creates liquidity and further open market operations are needed to counter it (see "Liquidity leap").

With demand for credit falling as well, it could become increasingly difficult for the Bank to drain liquidity from the market.

Dykes says the conflict is more apparent than real. This argument is supported by others who say the market is signalling the time is right for a fall.

However, short-term strengths and long-term weaknesses are a recurring theme in recent speeches by both Stals and Du Plessis. They are likely to wait for further falls in the inflation rate before making any policy concessions. How long is anyone's guess. Central bankers are known for doing the unexpected.

INTEREST RATES FM 30/11/90 (74)

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Reserve Bank reins in rand

S/Times 2/12/90

Business Times Reporter

ONLY two weeks after intervening to support the rand, there were strong indications this week that the Reserve Bank had acted to hold it back in the foreign-exchange market.

The rapid switch in the Reserve Bank's strategy shows how closely managed the rand is, and how earnestly the authorities want to keep it stable in average terms against a basket of currencies.

A complete change in the rand's fortunes in the past fortnight is responsible for the quick pirouette in the bank's currency management.

In mid-November, as the dollar slumped almost daily to fresh, all-time lows against the mark, importers came to the market for cheap dollars. Their selling of rands held the SA currency back at a time when it should have been firming more strongly against the beleaguered dollar.

Slim dollar gains exposed the rand to losses against the European currencies as they themselves firmed against the weak US unit. By mid-month the rand had sunk to all-time lows of 0,5815 marks, 0,4915 Swiss francs and 1,9650 French francs, and had drifted below 30 on the way to 29,5 on its trade-weighted index (January 1979: 100).

(74)

Trigger

This appeared to trigger Reserve Bank support as the authorities put dollars into the foreign-exchange market to firm the rand.

This week was different. Export proceeds — reflecting record highs in the October trade figures — poured into the market and boosted the rand against the dollar. This was all the more remarkable because the dollar simultaneously developed a mini-rally of its own this week on rising expectations of a Persian Gulf war.

The stronger rand against an already firmer dollar quickly reversed its losses against European currencies and the trade-weighted rand broke back above 30 and headed for 30,5.

Dealers report that the Reserve Bank turned to buying dollars for rands to cap the SA currency.

Gold, forex reserves put on sudden spurt

Star 4/12/90 (74)

By Derek Tommey

Gold and foreign exchange holdings are showing their biggest increase for years.

The Governor of the Reserve Bank Dr Chris Stals told a group of financial writers in Pretoria yesterday preliminary figures indicated that reserves rose by R450 million last month.

While this was most encouraging, he said that SA had some heavy loans to repay in December.

But it would still finish the year with a substantial increase in foreign exchange holdings.

The increase of R450 million lifts total official reserves to R6,6 billion, which is only R500 million below the peak reached in 1987 after heavy foreign borrowings by public corporations.

This element has been missing this year.

It brings the increase in the reserves since last December to R1,3 billion. This is more than double the R597 million increase in the first 11 months of last year, and marks a swing-around of R2,8 billion from the first 11 months of 1988 when reserves fell by R1,5 billion.

Economists say that the figures probably under-estimate the improvement in the foreign exchange position.

Dr Stals said earlier this year that the Reserve Bank had been repaying foreign obligations. This would have restricted growth in foreign exchange reserves.

But the full size of the improvement will be known only when the Reserve Bank issues figures for net reserves.

The improvement is partly the result of record trade surpluses SA has been running this year.

But it also appears that there has been a slowdown in the outflow of domestic capital and an inflow of new investment.

This is in marked contrast to the position over most of the past five years when SA lost about R30 billion as a result of capital outflows.

The rise in reserves will make it easier for the Reserve Bank to maintain the rand exchange rate at the level it wants.

The rise also reflects an inflow of money, which should help stimulate business and could lead to firmer share prices.

Dr Stals said a reduction in interest rates was something the Reserve Bank would have to think about, and hinted that an announcement could be made in the first week of January.

But he emphasised that the public must not expect a cut in interest rates to lead to a new period of easy money.

A cut in prime rate from 21 percent to 20 percent was all that could happen at this stage. This would not be a sign of a new period of easy money, he said.

"We feel we must continue to apply financial discipline."

It would not be right to re-stimulate the economy by creating more money.

If this were a solution, there would be no poor countries in the world.

Dr Stals said the Reserve Bank had reason to feel satisfied about its achievements in 1990, especially in the areas of curbing money supply and bank credit.

However, one disappointment was the fight against inflation.

Prices were now being affected by the increase in the petrol price.

But the Bank believed it could work this effect out of the system.

Dr Chris Stals . . . no new period of easy money

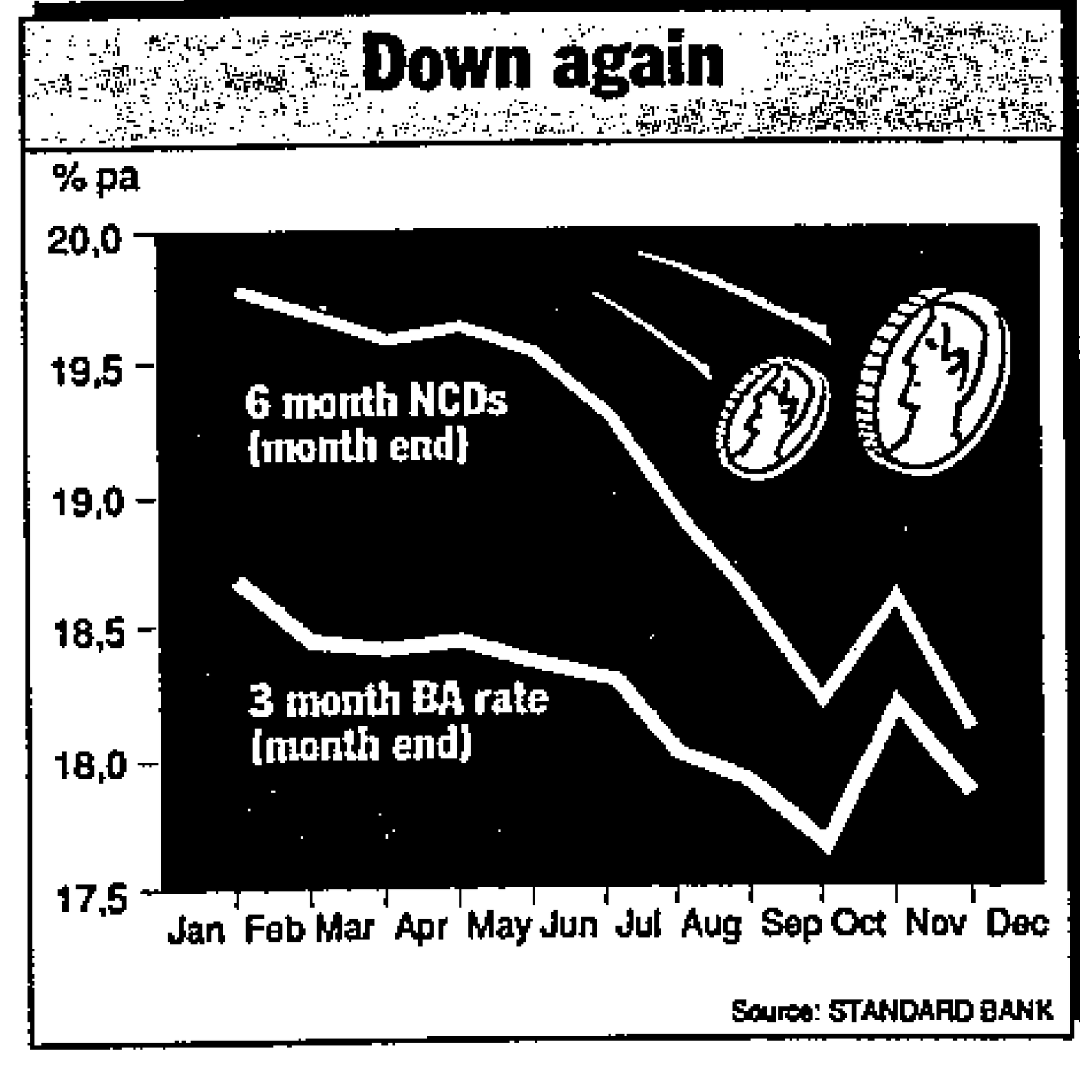
INTEREST RATES FM 7/12/90 (74)

THROWING THE BONES

For the first time since he took office last year, Reserve Bank Governor Chris Stals is making encouraging sounds about interest rates. At a meeting of the Afrikaanse Sakekamer at White River last week, he suggested that a downward adjustment in the official rediscount rate "need, hopefully, not be too long delayed."

He cautioned that this should not be seen as an easing of monetary policy: "It is simply a technical recognition of the underlying improvement in the balance of payments and domestic financial circumstances."

A combination of positive financial indicators (*Economy* November 30) and an increase in gold and foreign reserves, which



P.T.O.

Reserve Bank stashes away more gold

Star 8/12/90

DUMA GQUBULE

THE Reserve Bank increased its gold holdings by nearly 323 000 ounces in November, a decision which could have provided some support to sagging world bullion prices.

Figures released by the Reserve Bank yesterday show that South Africa's gold and foreign exchange reserves increased by R455 million, or 7,3 percent, to R6,674 billion during November from R6,218 billion in October.

The R455 million increase is the largest monthly increase since July 1987 and gold and foreign exchange reserves are now at their highest level since November 1987.

Economists yesterday said the encouraging increases in reserves over the last couple of months could reflect continued inflows of capital in the fourth quarter. In the third quarter, the estimated net capital inflow was R1,5 billion — the largest since the last quarter of 1982.

The capital account is now set to show an outflow of well below R2 billion for the year compared with an outflow of R5 billion that was expected at the beginning of the year.

The bank's statement of assets and liabilities shows that gold held by the Reserve Bank increased by 10,46 percent to R3,580 billion from Octobers's R3,241 billion, a rise of R339 million.

Foreign exchange holdings rose 3,93 percent to R3,093 billion from October's R2,976 billion.

Reserves at highest level in three years

B Day 10/12/90

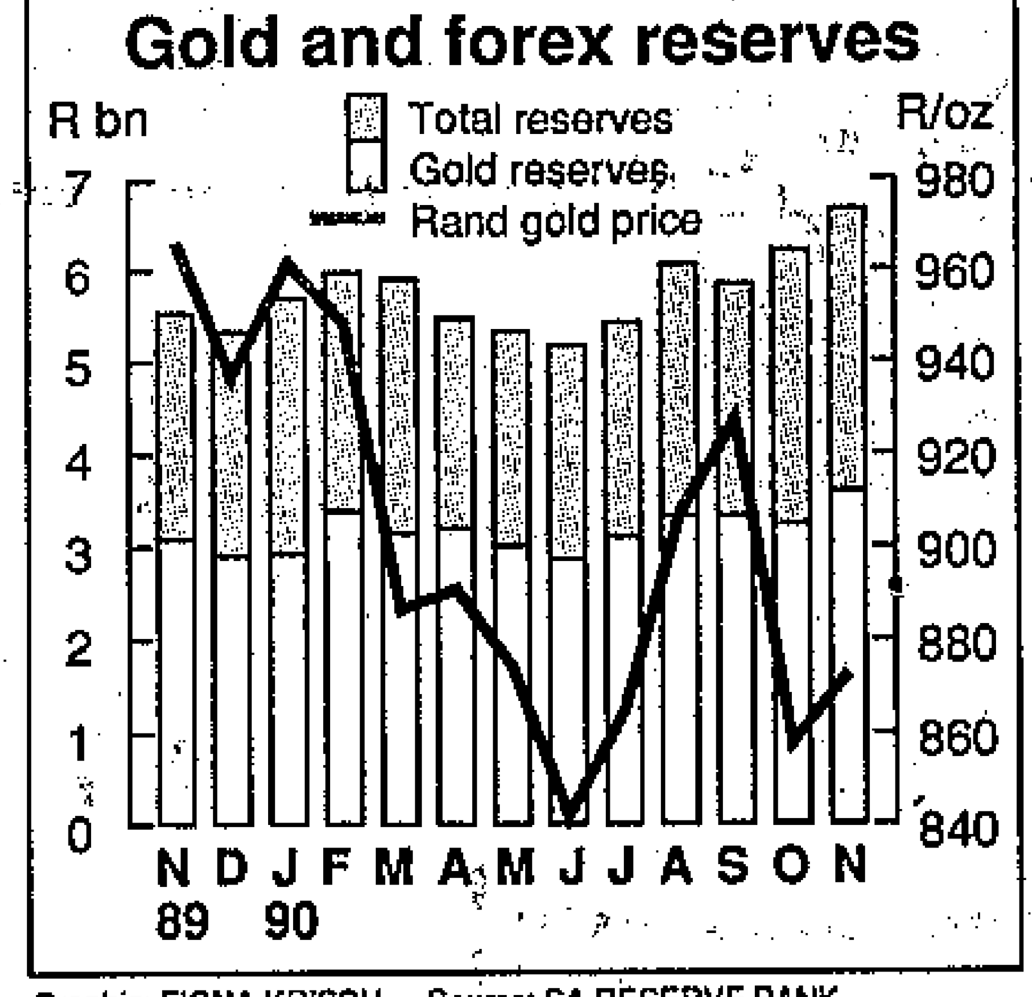
SA to shrug off December debt burden

GRETA STEYN

SA heads for December's heavy foreign debt, dividend and interest payments in a more comfortable position than it has been for years.

With the Reserve Bank's gold and foreign exchange reserves at a new three-year high, economists predicted the usually difficult foreign payments period for the country should pass without a ripple. The continued strength of the balance of payments (BoP) is reflected in the R455m rise in the Reserve Bank's holding of gold and foreign exchange to R6,67bn in November. This level of reserves was last seen in October 1987.

The bulk of $600m in foreign debt falling due in the second half of 1990 occurs in mid-December, with added pressure from seasonal dividend and interest payments.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

However, the situation is so comfortable that the Reserve Bank has taken the unusual step of not drawing on its foreign "overdraft" facilities to shore up reserves ahead of a period of pressure.

The Bank's monthly balance sheet shows that it probably reduced these short-term foreign liabilities further. Its "other liabilities" fell by R354m to R6bn — a decline of more than R2bn since June. Standard Bank economist Nico Czypionka said this decline showed there had been a genuine improvement in the reserves.

The Bank wants to build up physical gold holdings, which have been run down by about 8-million ounces from about 12-million ounces in 1980. Physical gold holdings were up 323 000 ounces in November to 4,1-million ounces, the biggest increase since February this year.

The rise in the volume of gold combined with an increase in its rand value resulted in a R339m rise in the gold component of the reserves to R3,58bn. Gold was valued at R873,79/oz in November, from October's R858,65/oz. The higher gold valuation means the increase in the reserves is "overstated" by roughly R60m — an insignificant amount. The currency component of the Bank's foreign assets was up R116m to R3,09bn.

Czypionka said the strong reserves situation was all the more remarkable as the improvement had occurred while pressure was expected from the adverse terms of trade effects of the Gulf crisis. The current

☐ To Page 2

Debt burden

B Day 10/12/90 (74)

☐ From Page 1

account of the BoP had benefited from "strange circumstances" when it was least expected.

"Imports of unclassified goods went down when the oil price was at its highest. Whether this was luck or prudence we cannot tell. Perhaps SA bought forward when the price was low or ran down stocks. Equally surprising are the increases in unclassified exports, achieved with an unimpressive gold price."

Another factor helping the reserves has been the turnaround in the capital account of the BoP. The third quarter saw the first capital inflow in three years, mainly reflecting easier access to foreign trade credits.

Czypionka said that while SA was no longer "living from hand to mouth", the reserves had still not reached the benchmark level of three months' import cover. But the position was stable enough to warrant an easing of policy, he said.

ANDREW GILL reports an indication of the continued inflow of money was evident in the foreign exchange market last week when the Reserve Bank had to step in various times to quell a flood of dollars.

Reserve Bank gold and foreign exchange GM James Cross said the Bank had been active last week as increasing net reserves and cancellation of forward cover arrangements brought more dollars than usual to the market.

The cancellation of forward cover arrangements had been a major factor behind the intervention said Cross, who believed it was indicative of confidence that the Bank would keep the rand/dollar rate at its present level for some time.

The Bank had to intervene depending on which way the market was moving.

● See Page 6

SA is not yet out of the debt repayment woods

B/Day 10/12/90 (74)

EDWARD OSBORN

DETAILS given by SA Reserve Bank Governor Chris Stals at the Euromoney Conference in Cape Town on November 26, together with data from various other sources, have at last made it possible to put together a foreign debt redemption schedule for SA with a reasonable degree of confidence.

As at the end of 1989 the foreign debt outstanding amounted to $20,6bn, of which there was an outstanding $7,3bn of affected debt (inside the net), $3,1bn of debt converted into longer-term loans, $7,2bn of debt outside the net in respect of guarantees, indemnities, or securities furnished by the state, and $3,4bn in short-term liabilities.

According to Stals, there have been $600m conversions into equity through the financial rand. These are not included in the total $20,6bn. The reduction in foreign debt to $20,6bn in the past four years has been, in part, negated by rapid growth of non-resident ownership of domestic gilts and semigilts.

Thus, according to Stals, conversions into long-term loans and into equity amounted to $3,7bn by the end of 1989. According to the exchequer accounts, nearly $450m has been channelled through to the Public Investment Commisioners (PIC).

Accordingly, I assume the PIC conversions to be included in the figures covered by the state schedule. (The average exchange rates of the respective years have been used for converting the exchequer accounts into dollars.)

When assessing the future years of the final redemption payments, it was arbitrarily assumed that the bulk — $2bn — of these other conversions were into long-term loans, which are redeemable in 10 equal instalments in five years after a five-year moratorium under the second interim arrangement. This occurred in 1988, leaving a residual $0,6bn converted in 1989.

Stals mentioned that a further $400m of conversions into long-term loans and equity occurred during 1990. The bulk of these are assumed to be long-term loans, still under the second arrangement. The third interim arrangement, running from mid-1990 to end-1993, provides for six redemption instalments in the final two-and-a-half years on converted long-term loans.

The state schedule of redemptions, as published in the Government Gazette of November 9 1990, provides details of the various currencies of denomination of payments due. These have been converted into US dollars using the exchange rates of December 31 1989. That schedule referred to the government guaranteed debt as of March 31 1990. Comparison with a smaller schedule published last year and referring to the debt position as of March 31 1989, throws up two points of interest, assuming they are comparable.

Firstly, there is a slight increase in the overall "state" debt position between March 1989 and March 1990. As conversions into long loans with the PIC were negligible in 1989, the explanation must lie in terms of nearly $800m in rollovers and/or fresh borrowings. Secondly, it is evident SA passed through the 1990 second quarter debt crunch because of some $1,9bn in rollovers. The effect of the rollover is a new bunching of debts due in 1993, when debt outside the net will amount to $2,2bn.

The new schedule also shows we are not out of the woods in 1991 after all, for $1,7bn is due outside the net for the year. As much as $1bn of this falls due in the second quarter.

The conversions, other than those held by the PIC, are assumed to start their redemption in 1994, although it is possible that the commencement date will be earlier, in that there were three-year conversion options available under the first interim arrangement. Any earlier payments exacerbate the position in the period to 1993. But, broadly speaking, the payments on converted long-term loans begin at a time when redemptions of debt outside the net have begun to fall away sharply.

In the case of affected debt, repayments have been estimated on the basis of the schedules of percentages payable in the second and third interim arrangements, which go through to the end of 1993. These have been applied to the affected debt outstanding at the end of 1989 plus the non-PIC conversions, as the latter continue to enjoy the benefits of the redemption schedules.

To complete the table through to 1999, it has been assumed that there will be a 3% per half-year redemption programme from the beginning of 1994 applicable to affected debt outstanding at that time, but excluding the non-PIC conversions.

On this basis, the payments to be made on affected debt in the 1990s will amount to as much as $3,6bn, finally leaving a balance of $3,4bn at the turn of the century. The actual outcome will depend on any further conversions into long-term debt.

No assumptions regarding redemption are made for the remaining $3,4bn debt. This could include $2,7bn of short-term banking sector foreign liabilities. A significant part of the recent improvement in net reserves of the Reserve Bank has been through the reduction in its foreign loan liabilities.

The final upshot of the calculations is that there will be, on average, a redemption of about $1,4bn a year throughout the 1990s. Only in 1999 will there be a payment significantly less than $1bn. The two crunch years will be 1991 and 1993, when the amounts falling due are estimated at $2,2bn and $2,9bn. The annual average for 1991 to 1994 is $1,8bn.

In practice, as we have seen for 1989 and 1990, it is possible to evade the full impact of the debt obligations through debt rollover and refinancing, but the ease of achieving this depends on favourable political perceptions of SA. In this sense, the debt obligation poses a firm sanction on political progress.

The country is nevertheless committed to a real reduction in indebtedness, which it can do only on the basis of current account surpluses on the balance of payments. This means continuing drive to expand exports and restraint on imports through tight monetary and fiscal policies.

On average, SA should be aiming for a current account surplus of about $2bn each year — R5bn-R6bn. This has its implications for feasible growth rates in the absence of foreign capital inflows.

Finally, Stals expressed a relaxed attitude towards the balance of payments position facing the country at this stage. This does not seem altogether appropriate given the extent of the debt commitments in 1991, the possible high cost of oil, and a sharp reduction in agricultural exports because of the drought.

☐ **Osborn is chief economist at Nedbank.**

ESTIMATED FOREIGN DEBT REDEMPTION SCHEDULE ($ million)

	Total (end 89)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Payments 1990s	Balance
Outside net State schedule	7 231	1 179	1 662	693	2 208	330	356	243	217	121	200	7 209	22
Conversions: $3.7bn													
PIC —R986m	(454)												
(Incl in State schedule)													
Other — 1988	2 000					400	400	400	400	400		2 000	0
— 1989	646						129	129	129	129	130	646	0
— 1990	(400)							80	80	80	80	320	80
Equity: $600m	—												
Inside net	7 326	310	549	565	659	286	270	254	238	224	211	3 566	3 360
Other, short term	3 394												
Total	20 597	1 489	2 211	1 258	2 867	1 016	1 155	1 106	1 064	954	621	13 741	6 856
Rand at 2.55	52 522	3 797	5 638	3 208	7 311	2 591	2 945	2 820	2 713	2 433	1 584	35 040	17 493

Rain and oil price bring needed relief

Star 10/12/90

By Des Parker

The rains and a renewed drop in oil prices promise some relief from what looked a bleak outlook for 1991.

While still reporting low planting figures, the Maize Board concedes that the situation has somewhat improved as a result of the rain.

Oil prices have stayed lower, encouraged by news that Opec is producing almost the same volume of oil as in July and that world stocks are at a 10-year high.

Hanging over SA's delicate balance of payments account less than 10 days ago was the prospect of having to import huge stocks of grain next year as drought delayed planting of summer food crops.

Oil prices looked likely to rise above $30 a barrel, carrying with it possible further increases in fuel prices and more strain on the trade balance.

Oil prices, which last Monday moved back above $30 a barrel, have since tumbled. On the New York Mercantile Exchange late last week, oil for January delivery was $26,40 after going as low as $25,25.

SA's petrol and diesel costs are based on a price of about $32.

Although a spokesman for the National Energy Council has said it would be premature to adjust pump prices, Volkskas senior economist Adam Jacobs says the Government would be eager to bring them down as soon as possible to help fight inflation.

It was reported last weekend that SA might have to import as much as two-thirds of its annual maize requirement of six million tons, with the cost of all agricultural imports possibly as high as R2,6 billion.

An oil price of $33 a barrel would add R3,5 billion a year to the national import bill.

However, good soaking rain over virtually the entire country in recent days has improved chances that granaries will at least hold enough after the next harvest to feed people and livestock through next winter.

Although less than one million hectares of maize has been planted in the high-output Western Transvaal — compared with 2,23 million ha for the whole of last season — there is still another three weeks for farmers to get their seeds in.

A farmer himself and consequently reluctant to make predictions about agriculture, Volkskas's Mr Jacobs says: "We are predicting a smaller harvest than last year (when maize exports earned R1,3 billion) because of the late planting and we only hope there will be no import requirement."

Droughts in the grain baskets of the US and Australia this year mean there is little to spare for importer countries.

In addition, most countries grow yellow maize for animal feed, almost to the exclusion of the white maize SA concentrates on for human consumption — hence the Government's undertaking to pay farmers a premium for deliveries of white mealies.

Mr Jacobs says several economic indicators look positive.

Apart from good prospects of cheaper fuel, the money supply growth rate is still falling, banks are extending less credit and it is on the cards that inflation could be 11 percent or less by the end of next year, he says.

"Added to that is the fact that we are in a downward phase of the business cycle, so imports are down, particularly of capital equipment.

"We also expect that the current account surplus for this year will be about the same as last year — around R4,5 billion — and foreign debt repayment should not be more than R1,5 billion," he says.

Rand bonds among the best performers abroad

By Neil Behrmann

Star 12/12/90

LONDON — Rand bonds have been among the best-performing investments in the international markets in the past year.

If an international investor had bought long-term Eskom bonds 12 months ago, the return against the dollar would have been 40 percent.

International investors can buy SA gilts and semi-gilts through the financial rand market and receive gross interest in commercial rands.

Since the financial rand trades at a wide discount to the commercial rand, the yield on gilts and semi-gilts for the international investor has been 22 percent to 28 percent.

Appreciated

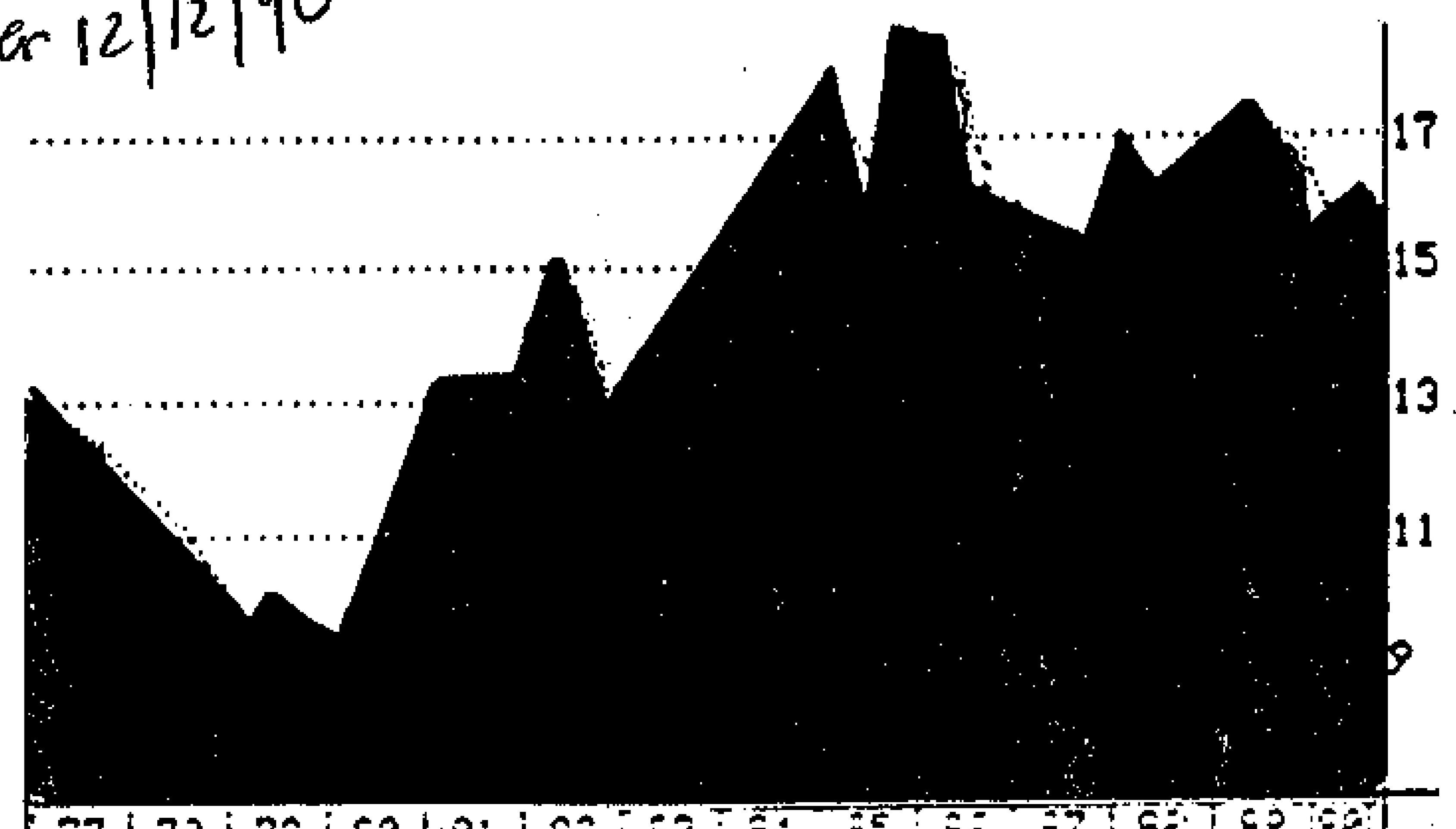
Since the finrand appreciated to 28,8 US cents from 25c 12 months ago, the total currency and interest return for an investor who switched from dollars, has been about 40 percent.

Even German and Swiss investors have gained.

The financial rand fell by 10 percent against the Deutschemark and sterling in the same period, but the high yield on the bonds offset the loss on the currency.

As a result, the net yield was 13 percent to 15 percent for hard-currency investors — a higher return than on sterling or mark bonds.

Encouraged by this performance and international investor inquiries, James Capel has produced a study recommending SA bonds.



International investors are getting between 22 percent and 28 percent on South African bonds but as this graph shows, the return on Eskom stock for local investors is around 16 percent.

James Leahy, author of the report, says: "Excluding any capital appreciation, the yield on semi-gilts is now 22 percent for the foreign investor."

He is impressed with the anti-inflation policy of the Reserve Bank and forecasts that the discount of 28 percent between the financial and commercial rand will narrow in coming years.

He predicts that an end to sanctions will attract a huge flow of foreign investment.

As a result, the financial rand, now 28,8 US cents, will rise to 30,1c in 1991 and to 32c in 1992.

Even higher

Assuming that the yield on long Eskom stock declines to 14,5 percent from 16 percent in the domestic market, the returns for foreign investors will be excellent.

The financial rand would have been even higher if foreign investors had not been selling SA equities.

With the exception of June this year, there has been a net inflow of foreign funds into the SA gilt and semi-gilt market in the past 22 months.

On the other hand, there have been foreign sales of SA equities in 15 out of the 22 months.

Financial rands are created by the sale of SA securuties held by foreign investors.

Since overseas investors have already been sellers of high-priced gold shares, the extra supply of finrands prevented the rate from surging.

Mr Leahy believes foreign sales of gold shares are drying up, so the finrand will continue to fluctuate in a higher trading band.

Dangerous

Financial rand dealers, however, caution that the currency is volatile and dangerous.

So it is indeed possible that an international investor could incur substantial losses on SA bonds if the financial rand fell suddenly.

The other danger for international investors, say currency dealers, is the illiquidity of the small financial rand and SA bond markets.

International investors encounter a 1,75 percent spread between buy and sell rates of the financial rand.

In practice, the actual yield for international investors who buy Eskom or RSA bonds is thus around 19 percent, compared with 22 percent.

The yield could be even lower if the investor tried to sell the bonds in a weak market.

Between November 1989 and February 1990, the financial rand surged to 31 US cents from 25c.

That rise reflected political optimism and a surge in the gold price. Foreign holders would have done very well indeed.

But if a foreign investor had bought SA bonds at or near the peak last February, he would have experienced a currency loss of 20 percent in a matter of weeks, regardless of the performance of the underlying bond.

The currency loss at today's rate would still be eight percent in dollars and much more in marks, sterling or Swiss francs.

There is thus a danger of buying the financial rand and hence bonds near the top of a trading range.

They have recently risen on speculation that the Reserve Bank will support the financial rand at some unspecified future date.

Thin market

SA bond-holders can thus thank international buyers for boosting the value of their bonds.

But if foreign investors take profits, the price of the bonds will fall and yields could easily rise towards the much higher money market levels.

Regardless of the South African political situation, say analysts, the high yield of SA bonds abroad reflects the risks of a thin and illiquid market by international standards.

Other risks include fluctuating bullion and gold share prices and, as a result, the volatile financial rand.

International investors are prepared to buy SA bonds at high yields only for good reason.

Trade exports to rescue of BoP

S Times 16/12/90 By IAN SMITH

MERCHANDISE exports, long considered the laggard in the drive for foreign earnings, have charged to the rescue of the balance of payments.

The surge in the current account surplus to a near-record R42,9-billion in the quarter to September caught economists by surprise and there has been intense speculation about the cause.

But the Reserve Bank's quarterly bulletin says the strengthening is explained essentially by increases in volumes and the prices received for exports.

Precious

The bulletin says the aggregate volume of merchandise exports increased by nearly 5% in the third quarter to the third-highest level ever recorded, mainly because of shipments of larger quantities of precious metals and transport equipment.

The higher value of exports, supported by a slight decrease in net service and transfer payments to non-residents, outweighed the combined effects of a 5,5% increase in the value of merchandise imports and a 2,5% decrease in the value of gold shipments.

Rising foreign sales are a good omen for the coming year in spite of high debt repayment due this month and the traditionally higher December payments for interest and dividends.

Gold and foreign exchange reserves hit a three-year high in November at R6,67-billion.

Export volumes in the last quarter were only marginally lower than the two record peaks — in the second quarter of 1989 and the first three months of this year.

As a result, average exports by volume in the first three quarters of this year were 5,5% higher than in the same time last year.

Average prices improved by 3,5% in the third quarter, but speculation that they stem from the removal of the "sanctions discount" with buyers prepared to deal more openly with SA suppliers is squashed by the Reserve Bank.

The "fairly significant" firming in prices came from a small recovery in international commodity prices, particularly rhodium, nickel and ferro-manganese, and a 1,2% decline in the rand's average effective exchange value.

The bank says that unlike the crises of 1973-74 and 1979-80, international prices of oil substitutes like coal and uranium failed to respond in the first two months of Iraq's invasion of Kuwait.

Nedcor chief economist Ted Osborn says the surge in merchandise exports is puzzling.

"What we have seen in recent months is is a very big increase in unclassified exports, which include gold, platinum, uranium and weapons."

But the Reserve Bank says earnings from gold exports fell from R18,5-billion in the second quarter of this year to R18-billion in the third quarter in spite of an increase in the quarterly average price from $365 an ounce to $382.

The big question is whether the export impetus can be maintained next year when world economies are expected to slow under the impact of higher oil prices. The quick fall in oil prices after renewed hopes that there will not be a shooting war in the Persian Gulf has fuelled hopes that the slowdown may not be as severe as originally feared.

Suffer

SA will, however, suffer from lost agricultural exports because of the drought. It could face a heavy bill for grain imports.

The bulletin says the R1,5-billion capital inflow in the third quarter was the first since the same time in 1987 and the biggest since the final quarter of 1982.

Capital outflows of R400 000 and R2,2-billion in the first two quarters of this year meant there was a cumulative net outflow in the first three quarters of R1,1-billion. This compares well with the R3,2-billion outflow in the same time last year and the R4,3-billion for the year.

Easing of EC sanctions expected to hasten the end of the finrand

BDay 17/12/90

EDYTH BULBRING

THE EC's decision to lift investment sanctions against SA would contribute to the process of abolishing the dual exchange rate system, Reserve Bank Deputy Governor Jan Lombard said yesterday.

And a leading economist predicted the decision would immediately benefit SA by facilitating the easier rollover of foreign debt and improving trade credit terms.

Lombard said it was difficult to estimate to what extent the EC's announcement would hasten the demise of the financial rand which, he said, would be done in stages.

He added an improvement in the capital account would have to be realised before the finrand was abolished.

The greater interest in SA assets by non-residents who no longer had legal constraints on investment in SA could provide greater support for the financial rand, Lombard said.

Nedbank chief economist Edward Osborn said the EC decision meant SA would be able to roll over its foreign debt with considerable ease, and it was likely that the country's trade credit terms would also be improved.

Osborn said this debt rollover was important because SA was facing a reduced balance of payments surplus next year and without the easier terms there would have been pressure on the rand and the likelihood of a renewed bout of inflation.

If the announcement led to increased foreign investment, it would also hasten the demise of the financial rand, he said.

● See Page 3
● Comment: Page 6

Standard Bank international division GM Rocco Rossouw said yesterday the EC's decision could remove pressures for the maintenance of a dual exchange rate.

He said this was another step in the normalisation process which could lead to the withdrawal of the financial rand system, which was introduced to protect SA's balance of payments.

The move was significant for SA's balance of payments and could provide the authorities with greater monetary freedom.

SA Chamber of Business deputy director-general Ron Haywood welcomed the pragmatic realism shown by the leaders of the EC in realising the need to promote economic growth in SA.

He said it would certainly offer encouragement to local multinational companies in SA to expand their local operations and would also focus SA companies on the possibility of forming joint ventures with overseas companies.

Sapa reports that Foreign Minister Pik Botha said SA had entered a new era with the EC's decision.

"It is clear that the government's viewpoint that the process of change is irreversible is beginning to enjoy wider recognition," he said.

"The decision of the 12 EC countries

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Finrand

BDay 17/12/90 (74)

☐ From Page 1

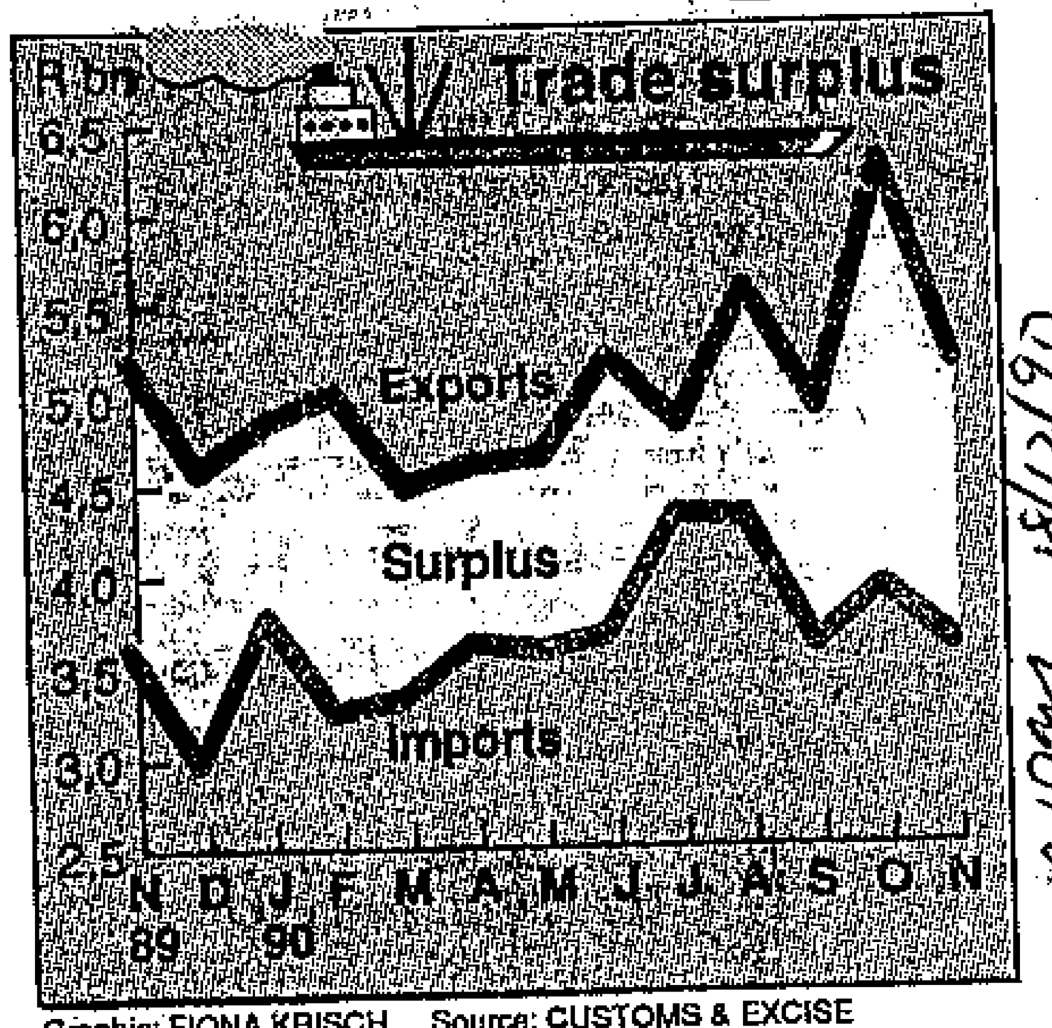
must also be seen as an encouragement to all South African leaders, who swear off violence to reach their political goals, to work together closely to get the negotiations on the road towards a new constitution," he said.

ANC publicity secretary Pallo Jordan said: "If and when outside countries reconsider the issue of sanctions, they should do that in conjunction with the democratic forces in this country.

"In other words, it should be on our initiative that sanctions are dropped. We will say when they are no longer necessary."

Inkatha Freedom Party president Mangosuthu Buthelezi said he was overjoyed. There was hope that new jobs could be created.

Trade surplus clipped back



Graphic: FIONA KRISCH Source: CUSTOMS & EXCISE

ANDREW GILL

SA's soaring trade surplus had its wings clipped in November, falling to R1,5bn from October's record R2,33bn, but figures for the first 11 months of the year show the cumulative surplus for 1990 is still a strong 17% ahead of the same period last year.

Exports fell R1,12bn to R5,137bn due partly to a R491m fall in unclassified exports to R2,2bn. This was, however, the fourth consecutive month that this sector held above R2bn.

Higher gold holdings by the Reserve Bank in November could be the reason for the lower unclassified exports. They increased by 8,5% to 4,1-million ounces from

☐ To Page 2

Surplus

☐ From Page 1

October, the highest level since February.

The continued growth in the surplus, said Nedbank chief economist Edward Osborn, could result in a current account surplus of about R5,5bn for the year. Namibia still had to be excluded from the figures though, and this could see it fall to about R5bn.

This was well above recent forecasts of about R4,5bn and pointed to a strong balance of payments position for the year.

The cumulative exports for the sector from January to November, consisting mainly of gold, arms, platinum and uranium, were 11% ahead of the same period last year at R23,2bn.

Imports were down R287m to R3,64bn due largely to a R195m fall in unclassified imports. The R288,8m recorded for this sector was the lowest since May. The average for the year so far was R485m against last year's R445,1m.

This was 38% down on November 1989 despite an average oil price of $18,69 a barrel that month and an average price of $31,70 this November, said Safto economist Bruce Donald.

Imports for the year so far were R656,7m below those of last year, a 1,6% fall. Non-oil imports showed a steeper fall at 2,8%, reflecting the generally depressed economic activity.

In real terms, Osborn said, imports were down a hefty 5,3% and this was probably worse when the higher oil imports were excluded. Real exports were up 1,1%.

One sector contributing to the drop in exports was vegetable products. It was up R74,9m in November compared with October's R162m rise. Donald said this was because of unfavourable weather conditions. Another factor here was the sector consisting mostly of diamonds, which increased by only R473m after October's large R783m increase.

SA trade surplus indicates healthy BoP

Cape Times 18/12/90

By AUDREY D'ANGELO
Business Editor

SA's trade surplus for November was R1,50bn. And although it was a steep drop from the R2,33bn reported for October, economists pointed out yesterday that it was still a better figure than might have been expected in view of the Gulf crisis.

They said SA was on track for a satisfactory balance of payments (BoP) for the year, and an interest rate cut in early 1991.

Figures released yesterday by the Customs and Excise show that the R1,50bn trade surplus in November is down from a surplus of R1,60bn in November 1989.

But the trade surplus for the 11 months from January to November this year exceeded the surplus for the same period last year by R2,1bn — on a cumulative basis up 17%.

Exports in November totalled R5,14bn compared with R6,26bn in October and R5,21bn in November last year.

Imports in November totalled R3,64bn compared with R3,92bn in October and R4,09bn in November last year.

Southern Life economist Mike Daly commented: "It is not surprising that the trade surplus is down from the exceptionally large figure in October. That was obviously not sustainable.

"Exports in October were exceptionally high. That was entirely due to a surge of "unclassified" exports that probably included gold, precious metals and — possibly — arms."

Daly said the trade surplus for the 11 months to the end of November was R14,5bn. It was reasonable to expect that that the total trade surplus for the year would be R16bn "which is better than most people expected at the beginning of the year."

This meant that the surplus on the current account at the end of the year would be R5bn. "This is a bigger number than expected, given the Gulf crisis and higher oil price. I brought my estimate down to R4bn in the immediate aftermath of the invasion of Kuwait."

Pointing out that it was not known whether SA was continuing to import oil at the present high prices, Daly said:"If we did, then other imports must have fallen quite sharply."

He said the trade surplus of R1,50bn was "a good figure given the much higher oil prices. That's why our markets are as buoyant as they are."

Old Mutual chief economist David Mohr said:"The underlying balance of payments position is getting increasing support from the weakening domestic economy. Exports did abnormally well in October. A surplus of R1,50bn this month is still quite big.

"It is encouraging when the terms of trade are against us, with oil at $28 a barrel and gold and other metals weak.

"This means that we can expect to see a drop in prime rate in the New Year — the first since 1986. It has been going up, or moving sideways, since then."

Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, said: "This trade surplus is not bad at all. Given the international economic circumstances I think our exports are doing very well."

Trade surplus is still looking good

74

Star 18/12/90

By Duma Gqubule

After reaching a record R2,3 billion in October, SA's trade surplus stabilised at nearly R1,5 billion in November, Customs and Excise figures released yesterday show.

Although November's trade surplus was nearly nine percent lower than last November's surplus of R1,647 billion, economists say the figures are encouraging.

Old Mutual chief economist, Dave Mohr says: "October's record R2,3 billion surplus was abnormally high and November's trade surplus, at R1,5 billion, is still at a very healthy level."

"The surplus is encouraging given that our terms of trade have deteriorated sharply in recent months due to weaker commodity prices and higher oil prices".

Exports for the month of November were three percent down on the same month last year but, at R5,1 billion, were still relatively robust.

Imports during November decreased slightly to R3,638 billion compared with R3,64 billion in the same month last year.

Cumulative

The cumulative trade surplus for the first 11 months of 1990 — at R14,478 billion — is 17 percent higher than the surplus of R12,349 billion achieved in the same period last year.

Mr Mohr says the trade surplus is clearly receiving some support from the weakening economy. Imports have been falling and this has offset a somewhat sluggish performance on the export side.

The figures were giving a positive signal for a reduction in the country's high interest rates soon, he observed.

Imports for the first 11 months of the year were R41,129 billion — R656 million lower than the R41,785 billion achieved in the same period last year.

Exports have increased by only three percent this year to R55,607 billion compared with an inflation rate of 14 percent, despite significant increases to near-record levels in the value of merchandise exports.

Base metal exports have been suffering from lower commodity prices and most categories of agricultural exports have not been doing well either.

Surprisingly, unclassified imports (mainly oil) fell again in November. At R290 million, they were 38 percent down on the same month last year.

FM 21/12/90 (74)

FOREIGN TRADE FM 21/12/90

STILL STRONG (74)

November's trade surplus was R1,5bn, down from October's exceptional R2,3bn, but economists are still happy.

Southern Life's Mike Daly says the surplus for 1990 should be about R16bn. He believes this will be offset by an R11bn deficit on services to leave a R5bn current account surplus. "We had been expecting a surplus of around R4bn, so this is extremely positive. Reduced pressure on reserves means the first interest rate cut should come in January."

Daly says a main reason for revised expectations is that the cost of oil imports has not risen as much as feared. With an average price of almost US$32 a barrel in November, unclassified imports (mainly oil) fell to R298m that month, from R482m in October and R690m in September.

So, despite government denials, economists believe it is drawing on huge oil stockpiles in the hope prices will fall further in the new year. If not, Daly warns, a major import bill may simply have been deferred.

A slowing economy saw imports down R287m from October to R3,6bn. Of Central Statistical Service's 21 categories 15 were lower, with big drops in mineral products (down 41% from October), vehicles, aircraft, vessels and other transport equipment (16%) and plastic and rubber products (6%). An exception was machinery and electrical equipment, up 4%.

For the first 11 months of the year imports are down 1,6% in nominal terms from the same period last year.

In November exports weakened considerably, falling R1,1bn from October's exceptional level to R5,1bn. But Senekal Mouton & Kitshoff economist Leon Steenkamp points out that is still robust and above the R5bn monthly average so far this year.

Exports for the first 11 months are up 2,7% in nominal terms on last year.

Much of the monthly fall came in unclassified exports (mainly gold, but including arms, platinum and uranium), down R491m to R2,2bn after jumping R687m in October. Similarly, the highly volatile pearls, precious and semi-precious stones category (mainly diamonds) fell R315m to R473m, after soaring R551m in October.

Vegetable product exports (including maize and wheat) were down by more than half — R87m to only R74m. This category was 16% down in the first 11 months. Steenkamp attributes this to poor weather in the Transvaal and OFS.

Other big monthly falls were live animals 42% (to R44m), prepared foodstuffs 15% (R171m), mineral products 13% (R528m), skins and leather goods 45% (R33m) and pulp and paper products 53% (R107m). ■

GROWTH — 2 FM 21/12/90

BLACK HOLES (74)

The third quarter saw a massive 35% rise in import volumes, according to the latest Reserve Bank *Quarterly Bulletin.* This is on a seasonally adjusted annualised basis — as are all the growth figures which follow.

Though it was the sixth quarter of a cyclical slowdown, the increase in import volumes exceeded growth in all but one quarter since the early Eighties — the second quarter of 1989. As volumes of exports rose only 8,1% there was a 46% volume decline in the trade and non-factor services surplus.

If one looks at value of trade, a different picture emerges. With lower import prices (the import deflator decreased 5,2%) and higher export prices (export deflator increased 6,4%), the surplus fell by only 27% at current prices. At the same time, there was a reduction in net service outflows, owing to a fall in net factor payments, probably due to lower interest payments following redemption of debt.

This countered the decline in the trade surplus and pushed the current account surplus on the balance of payments to a seasonally adjusted annualised R4,2bn from R3,6bn in the previous quarter. ■

Forex market turnover soaring

Long-term cash comes flowing in

B/Day 24/12/90

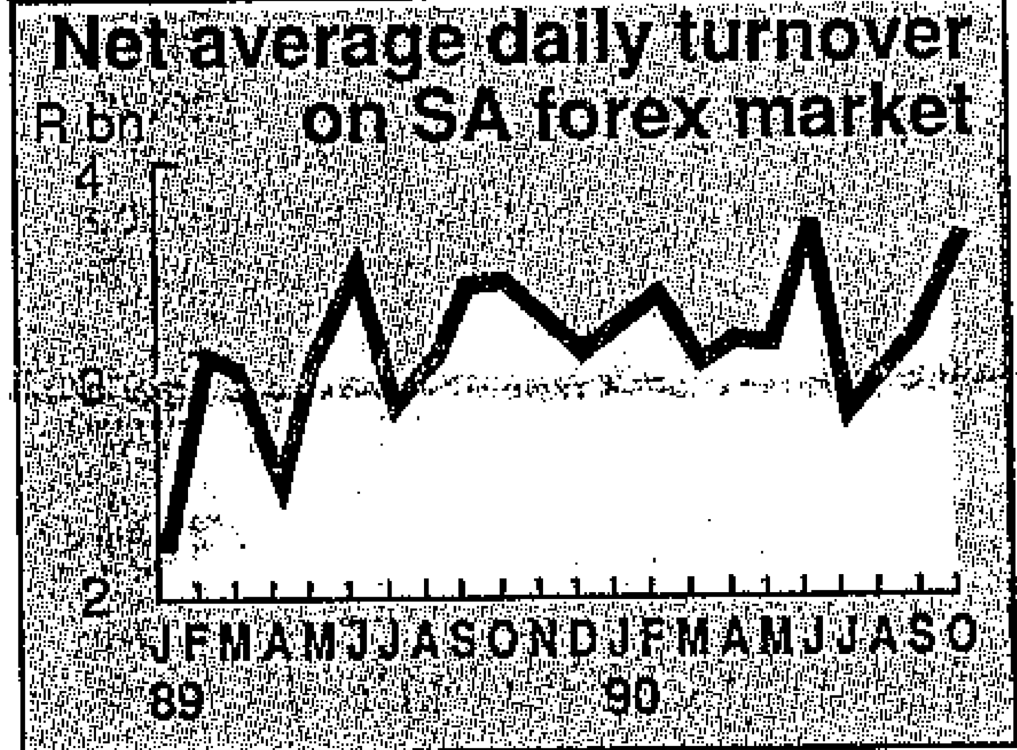
GRETA STEYN and ANDREW GILL

SA's foreign exchange market turnovers are soaring and long-term capital is flowing in — reflecting the dramatic recovery in the country's international financial relations.

Turnover on the local forex market has increased recently to levels not seen since the early 1980s, before the debt standstill and dual currency were imposed in 1985.

Foreign investors are again committing sizeable amounts of long-term funds to SA. The third quarter saw a net inflow of more than R820m in long-term capital, most of it project finance for the public and private sectors, says the Reserve Bank Quarterly Bulletin. A further R700m in short-term finance, mainly trade-related, also boosted the capital account of the balance of payments (BoP).

And forex market activity now dwarfs other market turnovers. Analysts say this partly reflects SA's increasing international acceptability, and declining volumes in other markets like the gilt market.



Reserve Bank figures show average net daily turnover for local customers in October was 22,6% higher at a record $1,91bn, compared with October 1989. Net turnover, which excludes interbank dealing, was running at $3,68bn a day in October, compared with $1,58bn in 1987.

First National Bank group treasurer Ken Rusell said: "After the implementation of the debt standstill in August 1985, turnovers dropped considerably and have slowly been building up again."

But SA's return to "the real world" would be complete only once exchange control was scrapped — an unlikely move in the foreseeable future. Despite the domestic market's mammoth size, it accounted for only 0,5% of global turnover, which in April 1989 stood at a net $640bn a day.

Improved international financial relations have seen SA rely less heavily on short-term foreign "bridging finance", which is much like overdraft facilities. The Reserve Bank and banks drew heavily on these facilities when SA had to pay foreign debt and there was no new capital forth-

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Foreign cash

B/Day 24/12/90

☐ From Page 1

coming. But the banking sector's short-term foreign liabilities have more than halved to R3,7bn from R8bn in mid-1989.

Gross daily turnover on the forex market in October of $5,3bn was at its second-highest average level since early 1985, beaten only by June's $5,4bn.

This translates into a daily turnover of R13,45bn at October's average rate of R2,5445 to the dollar.

Russell explained that the figures included some duplication because banks offset their positions with other banks. However, the figures represented only commercial rand transactions and not financial rand or third currency dealings.

Third currency dealings, such as $/DM transactions, apparently accounted for a large proportion of the market and are reflected in other countries' forex books.

Reserve Bank figures reflect higher combined imports and exports, arbitrage, hedging, forward cover and swaps.

Russell said the Reserve Bank, for example, periodically undertook dollar swaps that contributed to turnovers.

Other big players would include Eskom, Transnet, Gencor and Anglo American.

The forex market is set to grow further.

● See Page 3

SA over worst of its debt problems, says Lombard

(74)

B I Day 24/12/90

PRETORIA — Plunged into a debt crisis in 1985, SA is over the worst of its problems and foreign banks are taking fresh interest in the country, says Reserve Bank Senior Deputy Governor Jan Lombard.

"We don't have a debt crisis now. We've been out of the woods since about the middle of this year," Lombard said in an interview on Friday.

"When I think of it... what we went through, I'm still surprised today that we got through," he added.

SA was forced to set limits on repayments affecting $13,6bn of the $23,7bn it owed in 1985. It reduced its total debt to $20bn by the end of last year and this month cleared the final instalment on 1990 dues which, under a "worst-case scenario", could have reached $2,3bn.

The Bank envisages a significant drop in repayments next year to at most $1,6bn, then to less than $1bn annually for the rest of the 1990s.

Lombard described the EC's decision to drop its ban on new investment in SA as invaluable, saying the psychological importance could not be overemphasised.

"I expect financial institutions and others in Europe, Britain will now feel completely free to make a market in SA investments, and to investigate the various kinds of participation they could promote among their clients.

"That is already going on. We've been receiving dozens of bankers in the past eight months or so, who have foreseen this development and who have been coming to SA to look at the prospects."

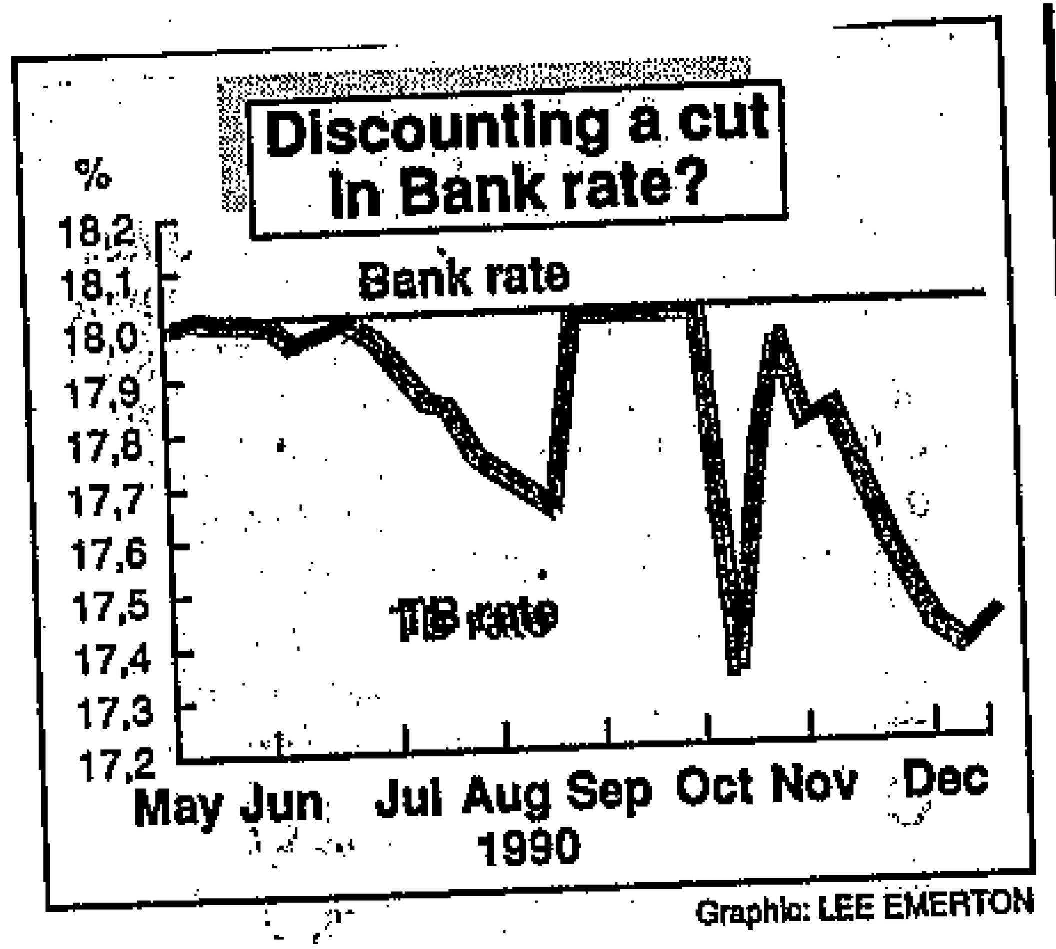
Lombard said he believed the repeal of sanctions legislation by the US would give a lead to Far Eastern countries such as Japan and Hong Kong interested in investing in SA.

Banks in the US itself might be influenced less by the lifting of sanctions legislation than perceptions of whether the public there accepted SA's reform process as irreversible, and that SA blacks supported the return of American investment, he said.

He said it was difficult to predict to what extent the resurgence of interest so far might translate into flows of capital.

Reserve Bank Governor Chris Stals said last month it was premature to ease restrictions on foreign debt repayments. But Lombard hoped the curbs could go by the end of 1993 when the current repayment schedule is due to expire, and by which time the sum affected by them should be less than $5bn.

"We're looking forward to a complete normalisation of our relationships by then", including normal rollovers, he said. — Reuter.



Graphic: LEE EMERTON

Liquidity points to interest rates cut

BDay 27/12/90

GRETA STEYN (74)

THE money market is more liquid than it has been for the past two years — another indicator that interest rates will be cut early in the new year.

Money market interest rates have already gone a long way towards discounting a cut in interest rates. The Treasury Bill (TB) rate has fallen about 0,6 percentage points in anticipation of a move by the Reserve Bank to cut official rates.

The fall in money market rates has been accompanied by unusually comfortable liquidity conditions. Banks usually struggle in December when the public's increased demand for cash drains the system. Further pressure emanates from the payment of foreign debt, interest and dividends. But even though the notes and coins in circulation hit a record R11bn just before Christmas, banks are finding the holiday period no sweat.

Standard Bank treasurer John Lloyd said yesterday: "This December has been much easier than the past two. The dramatic improvement in the balance of payments (BoP) and the slowdown in the economy have combined to improve liquidity levels."

He expected a cut in interest rates early in the new year, at the earliest after the release of December's money supply and inflation figures around January 20.

The Reserve Bank virtually ensures that the market is always short of cash. This forces banks to borrow from the Reserve Bank at interest rates that influence the overall level of rates in the economy. Improved liquidity implies a lower money market shortage, and not a disappearance

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Weaker rand forecast for 1991

CHARLOTTE MATHEWS

74

THE rand is set to weaken slightly this year with the Reserve Bank's policy to keep the currency stable moderating the descent, economists predict.

The rand started 1990 at R2,57 to the dollar and on Friday was trading at only marginally weaker levels — evidence that the Reserve Bank's policy to keep the currency stable has been successful.

It averaged R2,62 in 1989 and R2,59 to the dollar in 1990. B/Day 31/12/90

But the rand had its ups and downs, with

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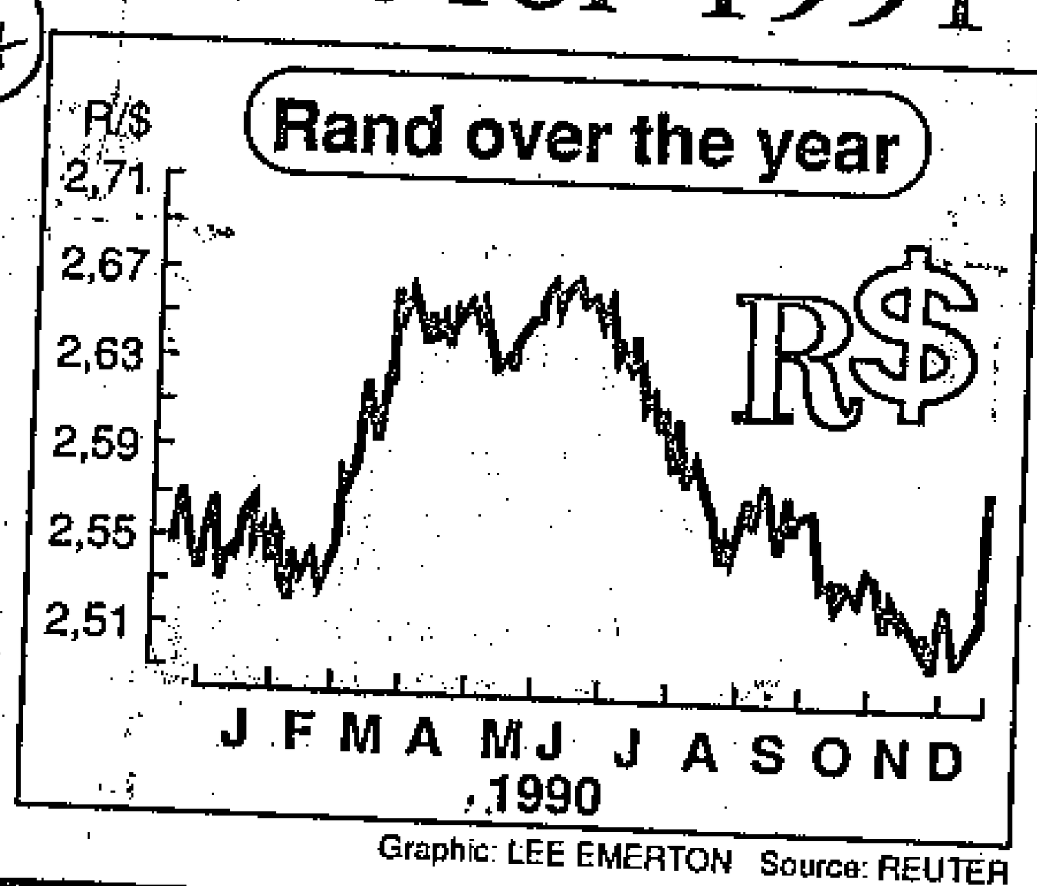


Graphic: LEE EMERTON Source: REUTER

Rand B/Day 31/12/90

74

From Page 1

the vagaries of the gold price sometimes putting immense pressure on the domestic currency. It hit a low of R2,67 to the US currency in June and averaged R2,6645 during that month.

In the second half of the year the domestic unit was buoyed by a healthy balance of payments and the dollar's weakness.

Bankorp chief economist Nick Barnardt said Reserve Bank policy had been successful in that the rand had not fluctuated greatly from day to day or week to week in 1990, and it had not depreciated significantly.

"The rand averaged R2,62/$ in 1989 and R2,59/$ in 1990," he said. "This partly reflects the dollar's weakness and partly a greater-than-expected net surplus on the balance of payments current account, estimated at about R3bn."

Barnardt said the rand could have appreciated to a greater extent against the dollar during the year but was restrained by the Reserve Bank to prevent undermining the climate for exporters.

According to the Reserve Bank Quarterly Bulletin, the rand shed 17% of its value against the pound between January and October 1990. A fall of about 11% against the Deutsche Mark was recorded over the same period.

But because "third" currencies have a very small weighting in a basket of trade currencies relative to the dollar, the trade weighted rand lost only 5,6% over the same period.

Economists are reluctant to stick their necks out on the rand, but they believe the inflation differential between SA and its trading partners will push the currency lower. A weakening of about 5% from current levels until the end of the new year is predicted.

Last January, Reserve Bank Governor Chris Stals said he would prefer a stable rand to an appreciating rand.

The deciding factor on the currency's stability would be the balance of payments.

Bankorp economists forecast a current account surplus of R4bn. They anticipate the rand/dollar exchange rate will strengthen in the first half of 1991 and weaken in the second half, and do not anticipate that the rand will weaken as greatly against cross-currencies in 1991 as in 1990.

Economists believe that a war in the Middle East will be bullish for the "safe haven" dollar, causing rand weakness.

But the fundamentals of the US currency would be a weaker dollar in response to a developing recession and lower interest rates in the first half of the year followed by a mini-boom in the second half.

FOREIGN TRADE - (A)

1991 - 1992

R100m divestment blow for finrand

BDay 30/7/91 (74)

ANDREW GILL

TWO major foreign sellers divested at least R100m in financial rands yesterday — sending the second-tier currency to sharply weaker levels.

Dealers said two sell orders worth at least R50m each, but possibly a combined R150m, put through local commercial banks, sent the finrand to its weakest level since January this year.

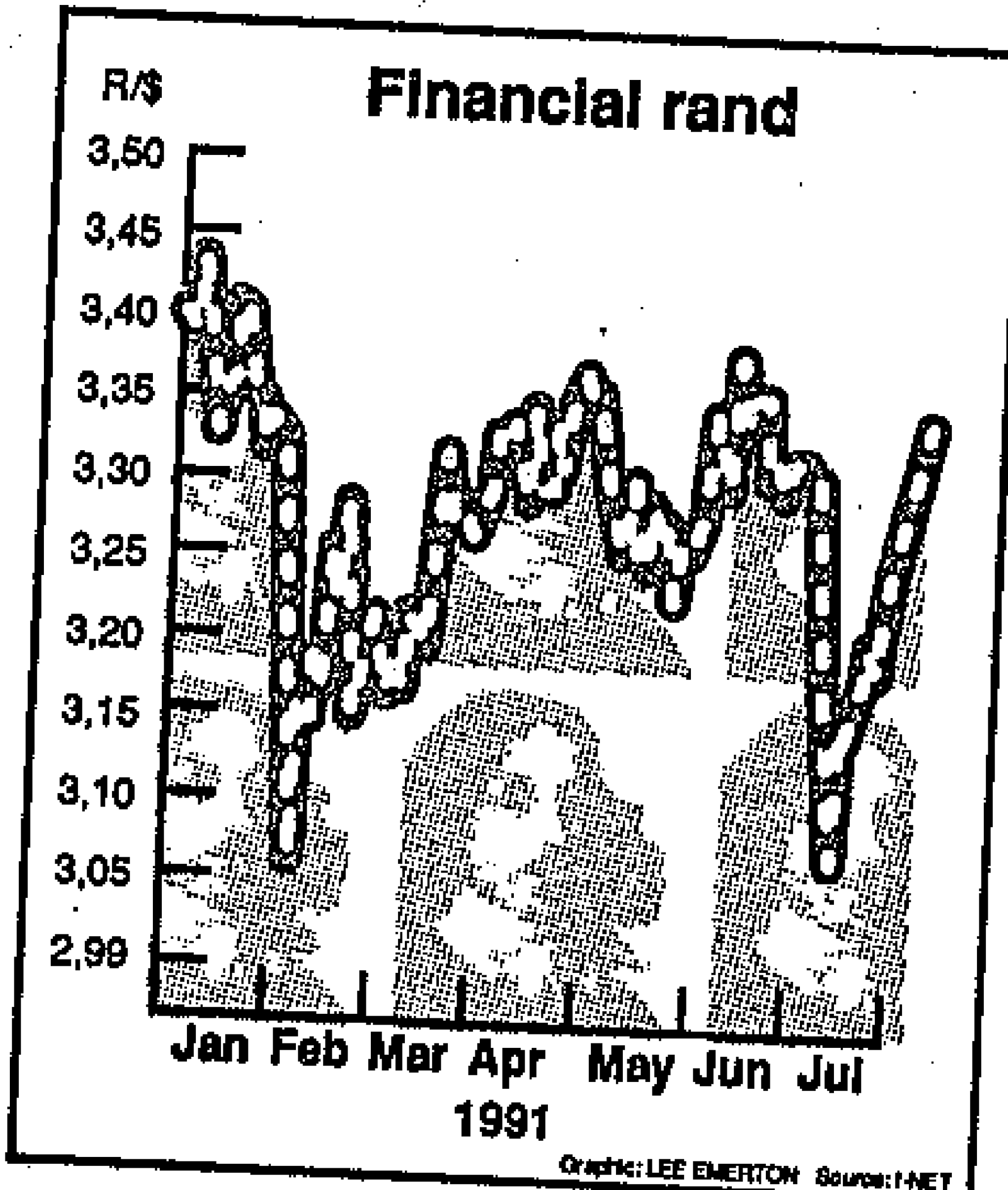
Much of the market was not sure on whose behalf the banks were acting, but some analysts believed the clients were European institutional investors.

Reasonably attractive buying opportunities surfaced later in the day as the discount between the financial and commercial rands widened to 16% from Friday's 12%.

It helped the unit recover to R3,35 to the dollar from the day's low of R3,47 and Friday's R3,25 close.

The discount at the end of the day was 14,6%.

Reasons for the sell-off and currency fall could have been the furore over the Inkatha funding scandal, general apprehension about President F W de Klerk's statement later today and crumbling foreign yields in recent weeks as the finrand-commercial rand discount narrowed to a record 6,3% on July 12 this year.



The fall bolstered share prices on the

□ To Page 2

Finrand

BDay 30/7/91 (74)

□ From Page 1

JSE for most of the day, but dealers reported market tension, as the implication of the unusually large finrand sales could only be seen as a thumbs-down for the economy.

The overall index gained 63 points (almost 2%) to 3 474, pushed up by a 3,4% higher all gold index at 1 353 and a 1,5% higher industrial index at 4 014.

JOHN CAVILL reports from London that worries about President F W de Klerk's statement today on the Inkatha funding affair and reaction to previous "over-excited" buying were the main factors in the financial rand's 3% dive to R3,47 yesterday, according to London investment analysts.

While no confirmation of reports of sales of R100m was available, John Bergtheil at brokers James Capel said: "It wouldn't surprise me.

"The average trading in SA bonds alone through the financial rand was £100m a week in May and there was growing interest in equities on top of that."

Finrand dives as foreigners offload holdings

By Sven Lünsche

Just two weeks after hitting a record high the financial rand plunged 4,4 percent yesterday on substantial selling by foreign investors.

It traded at a year's low of R3,44 to the US dollar before recovering slightly to close at R3,36, against R3,22 on Friday.

The discount between the finrand and the commercial rand consequently widened to 14,5 percent from 12 percent last week.

Market rumours were that a foreign bank had dumped more than R50 million of financial rands on the market. Another sell order of about R50 million was received during the day.

Analysts believe that foreign institutional investors feared that President F W de Klerk's reaction today to the "Inkathagate" scandal would not be firm enough to restore confidence in the South Africa market.

The demotion of two senior ministers, implicated in the recent scandals, came too late to affect the market.

However, the decline of the finrand in early trading offered foreigners a cheap entry into the local stock and capital markets and many offshore investors took that opportunity.

The effect was a slight recovery of the finrand and a substantial rise in gold share prices on the JSE.

Gold shares rose 3,4 percent in value yesterday, while the overall index firmed by nearly two percent.

However, gold shares are likely to come under pressure today after the gold price fell by $2,50 to a close of $363,40 in New York last night.

Inkatha scandal jeopardises loans

Star 26/7/91.

(74)

By Neil Behrmann

LONDON — The scandal surrounding government funding of Inkatha is creating uncertainty about the long-awaited first public South African loan issue since the 1985 debt moratorium.

A South African Deutschemark issue is due to be placed in the Northern Hemisphere in September or October, say bankers and an announcement is imminent.

There is no official confirmation at this stage, but the lead manager for the issue is believed to be Deutsche Bank and the rumoured amount of the issue is Dm100 million to Dm200 million (R250 million).

The Inkatha scandal, however, is a major setback for South Africa in international financial markets, say bankers.

Banks will be wary of underwriting any South African issue, unless President President FW de Klerk acts decisively to repair the damage.

They fear that they will be forced to delay the public issue.

Such is the damage to the Government's credibility that SA will need to move swiftly towards an interim government, says Jonathan Leape, head of the London School of Economics Centre for the Study of the South African Economy and International Finance.

South Africa has raised $342 million (R1 billion) so far this year, mainly through private placements.

While international borrowings are 37 percent higher in real terms than amounts raised in the whole of 1990, and impressive when compared with virtually zero borrowings in the years 1986 to 1989, there are no grounds for complacency, he says.

Borrowings amount to only 0,2 percent of gross domestic product. This is on a par with the inflows of 1977, the lowest amount raised in any year before the 1985 standstill.

In order to return to the levels of international borrowing achieved in the period 1972 to 1976 when the inflows averaged at 2,6 percent of gross domestic product annually, South Africa would need to borrow $2,8 billion a year, says Mr Leape.

This is almost ten times the amount achieved in the first half of 1991.

Even in the improved conditions this year, borrowers succeeded in rolling over less than half of the bond debt that matured.

Borrowing costs continue to be high, with the yield on issues between 2,4 percent to 2,8 percent above US government bonds.

Banks have sold South African issues mainly to retail investors.

"International institutions are yet to play a significant role,' says Mr Leape.

BCCI's CHAIN OF FRAUD

(74) FM 26/7/91.

With the closure of the US$20bn Bank of Credit & Commerce International, regulators worldwide are asking whether there needs to be a radical shake up in the way banks are operated and controlled.

The UK Serious Fraud office is asking who perpetrated alleged frauds within the bank. Accountants at Price Waterhouse, BCCI's auditor, are asking whether they should have been aware earlier of the extent of the problems.

Depositors are asking whether they will get their money back. US congressional hearings will investigate the fate of hundreds of millions of dollars deposited by Third-World central banks.

Why did it take the authorities so long to deal with an institution with well-known criminal connections and in a parlous financial condition.

For the past three years BCCI's sprawling worldwide operations were supervised by a *college* of supervisors from the countries in which it had its main businesses. These included the Cayman Islands, base of a $7bn subsidiary. Cayman Superintendent of Banks John Atkinson says the first time the college discussed possible fraud in BCCI was on July 2 when it received the results of an investigation by Price Waterhouse. It immediately decided to shut the bank.

The Cayman Islands are used by banks as a booking centre with bookkeeper bankers — the $340bn booked in the islands in 1989 is nothing more than a ledger entry.

Grand Cayman, the main island, markets itself as a tax haven and BCCI was able to exploit its strong bank secrecy laws to hide many of its most dubious transactions and bad loans.

Price Waterhouse wrote no fewer than 10 special reports on BCCI since it took over as auditor in 1988, but these dealt mainly with technical matters to do with control systems. "It was seen to be a bad bank but not a crooked bank," says an official.

Yet several former BCCI executives say the existence of unusual practices was well known within the bank. Some bank officials deceived auditors for many years by falsifying accounts, around September, before they came in and reversed the figures in December. This creative accounting allowed the bank to show more profitable commissions on its books during the last quarter.

Bank of England investigators now allege that BCCI was riddled with fraud. Several types are being investigated.

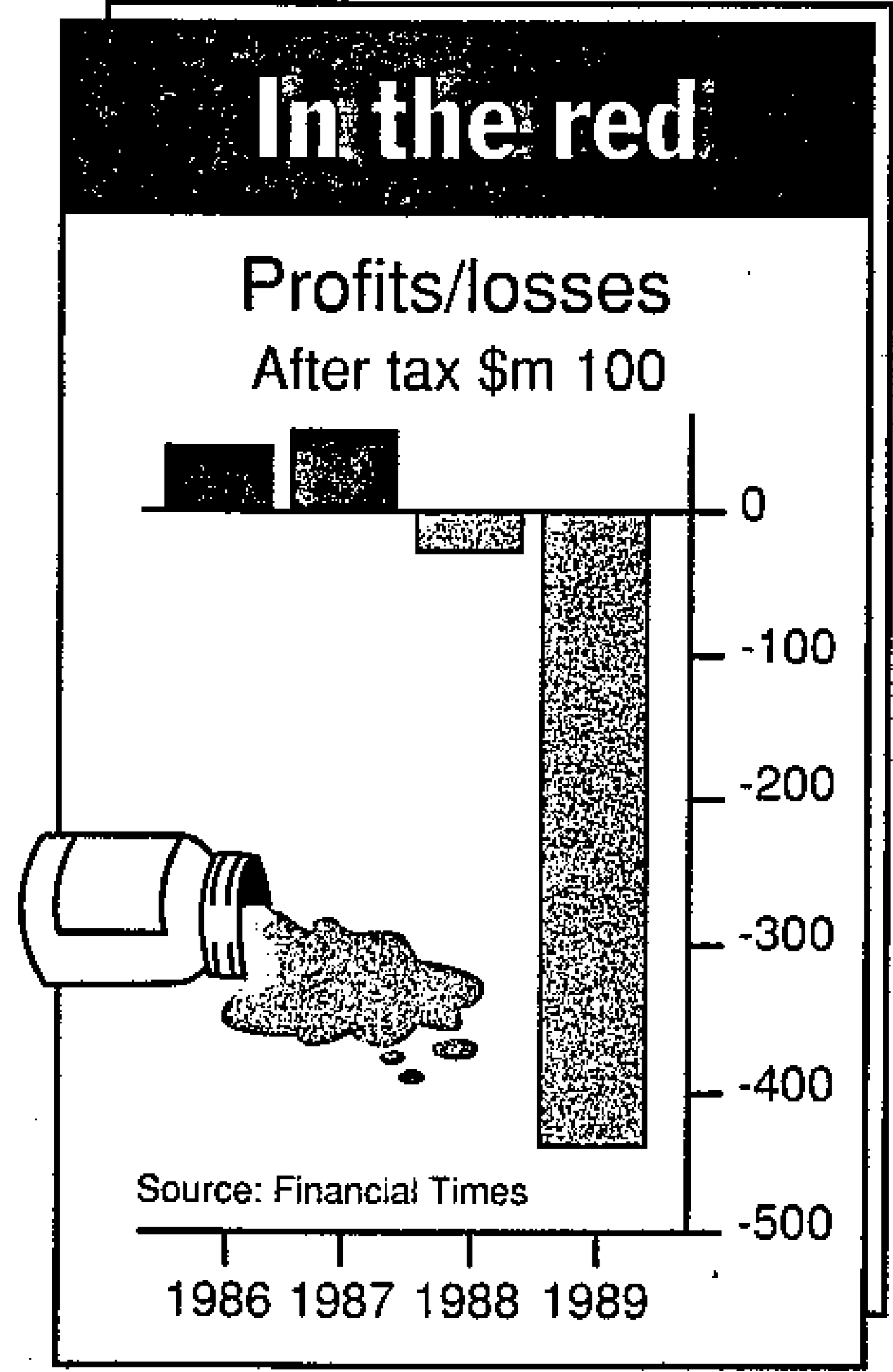
The most serious was an attempt by some senior management officials to disguise losses from bad loans and speculation in the money markets.

Deposits were allegedly taken in and not entered on the books, but used to plug losses. This meant the deposit became a loss, too, and further deposits had to be obtained to pay off the original depositor. This created a never-ending spiral of lost deposits.

Bad loans were said to have been paid when in reality they were transferred to a different part of the bank. BCCI would allegedly use its 69-country network to shuffle assets into subsidiaries, which were only lightly supervised, and transfer capital into countries that were closely supervised.

Investigators found evidence that some officers may have siphoned money out of the bank into their own pockets. Other kinds of fraud have also been uncovered.

The extent of the fraud, and even the closure, might have been averted if supervisors had acted sooner. Several former BCCI executives have asserted that reports detailing evidence of fraud were passed to the authorities last year, but not acted upon. However, Bank of England officials are adamant that they did not receive convincing indications of fraud until the beginning of this year when BCCI's new management alerted them.



Even so, a further question is why officials did not clamp down when BCCI was convicted in the US last year of laundering drug money — a case that occurred just after the Basle Committee, the top international banking watchdog, had issued new rules to combat money laundering.

Officials reply that the bank was being restructured and Abu Dhabi and its ruler were preparing to inject $1bn of new money. Observers suggest that the college was able to move only at the pace of its slowest member and some countries where BCCI is located vetoed a crackdown because they wanted to avoid a scandal.

What the total bill for the closure will be is far from clear. The liquidators won't put a figure on it yet. Bank of England Governor Robin Leigh-Pemberton says losses for the European arm could be several hundred million dollars.

When the Luxembourg subsidiary, which includes the UK branches, was ordered to be wound up it had resources of $368m and losses of $527m, implying a deficit of $159m. This subsidiary accounts for just over a third of the total BCCI group.

One outstanding matter is whether the unrecorded deposits will be rated as legal liabilities. If they are not it would be bad news for depositors, but would mean more was left in the company.

While European banks are examining the financial repercussions of the action to close BCCI, the US is concentrating on the political considerations.

Founder Agha Hasan Abedi had always played politics. For years he courted Third-World leaders. Son of one of Lucknow's most influential families, Abedi joined the Habib Bank in Bombay, which moved to the new state of Pakistan in 1947.

He befriended some of the 22 families who ran Pakistan's economy, including the Saigols, who drew on his expertise to set up United Bank, and also became friendly with some of the richest Middle Eastern Arabs.

To win Western confidence, Abedi needed the support of a well-known banking institution. This he obtained in 1972 when Bank of America agreed to take a large stake in BCCI. Bank of America's early connections with BCCI were much more critical than that of stakeholder.

It lent some big names to the board, who were to stay until last year's losses were announced. It also gave advice on the bank's corporate structure.

In late 1973, when Opec reduced oil output, leading to escalating oil prices, BCCI was in a position to expand on a breathtaking scale. Its Green Park branch in London was opened almost entirely for the benefit and deposits of a single Persian Gulf client.

Until this month there was a general perception that banks regulated by the Bank of England could not fail, though this view had been dented somewhat by the 1984 collapse of Johnson Matthey Bankers and the placing of British & Commonwealth Merchant Bank in the hands of receivers last year.

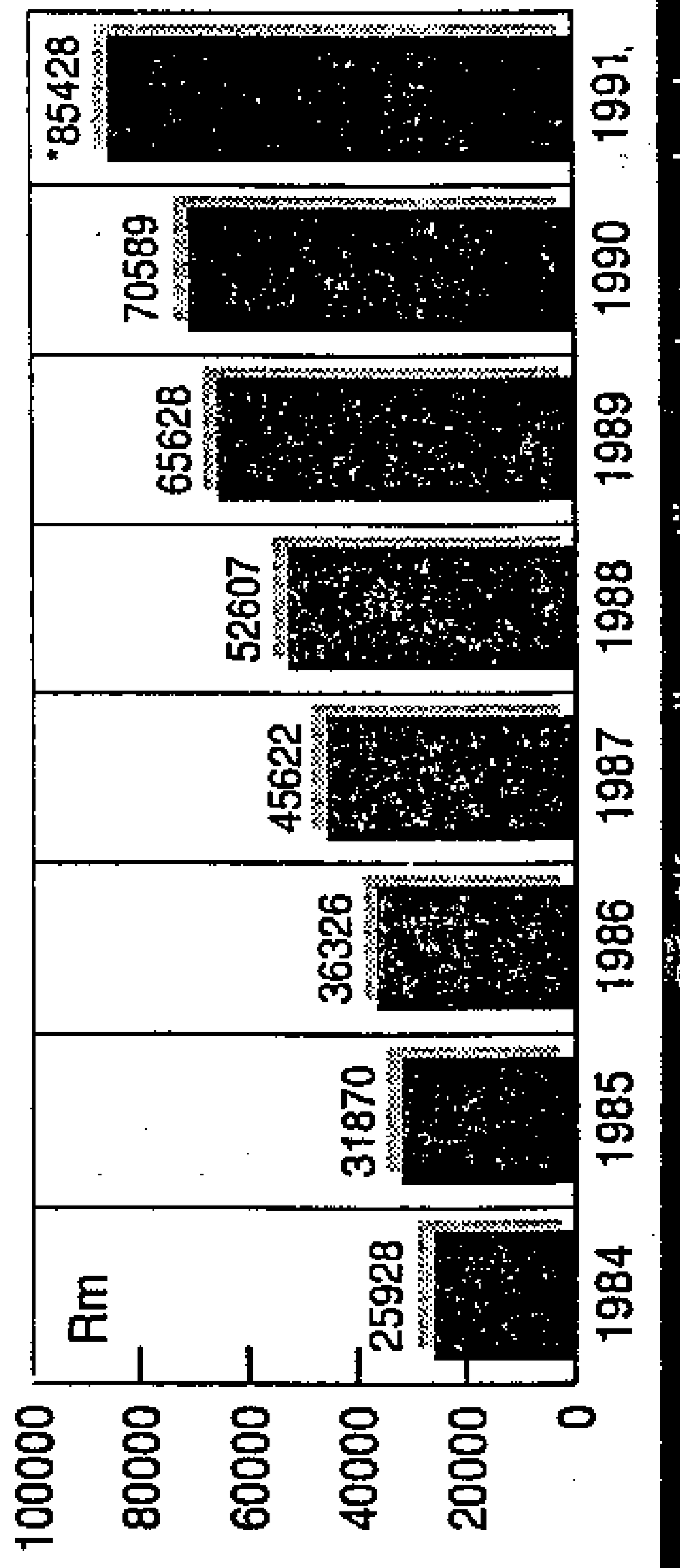
Neither of them underpinned the UK banking system. The same could be said of BCCI. But while it had little exposure to other banks, the knock-on effects of the collapse are still being felt in several Third-World central banks and by a number of UK local authorities and depositors worldwide.

The BCCI affair is far from over.

State spending at danger level

S/Times 21/7/91 (Business Times)

By CURT VON KEYSERLINGK



GOVERNMENT CONSUMPTION AND GOVERNMENT INVESTMENT AS % OF GDP

Source: Econometrix

EVIDENCE is mounting that the Government is losing its grip on the economy and that conditions associated with ANC rule could soon prevail unless drastic steps are taken.

Most alarming is the acceptance in some official circles that the deficit before borrowing — the amount the Government must borrow to cover the shortfall between revenue and expenditure — will soon be 5% of gross doimestic product.

This year it is likley to exceed the targeted figure of 3,4% — up from 2,7% last year.

An ANC policy document advocating a 5% deficit before borrowing to finance social upliftment drew scathing criticism from mainstream economists because of its ruinous boost for inflation and its debilitating effect on business confidence. It would also increase the State's share of economic activity.

The International Monetary Fund recommends not more than about 3% for long-term economic health.

Interest

Director-General, Finance, Gerhard Croeser admits the 5% possibility.

He says: "Ideally the deficit should not hit this level and it is too early to say if it will. But the Government would be able to raise the cash because the money market has nowhere to put its funds."

His assertion is not reassuring and appears to be based on the premise that the funds would be available because the outlook would be so grim that the private sector's demand for credit would be minimal.

Mr Croeser points out further difficulties of high deficit before borrowing. Greater State borrowing would lift interest rates and increase the cost of servicing the debt. At the same time, total State debt would increase.

He says debt-servicing costs amounted to about 11% of total State expenditure in the early 1980s. It has since risen to about 15%. Such a large amount devoted to paying interest is undesirable when there are so many many other demands on the Treasury.

Mr Croeser admits that State borrowing is already higher than it should be. The Government would prefer not to borrow money to pay for current expenditure — as is now happening.

"We are forced to do this by new spending priorities," he says. "For example, we cannot escape the pressures to achieve parity in State pensions for various races and are phasing this in.

"Out efforts to cut tax have also not gone as well as we originally hoped. Income tax has to be reduced, but there is a trade-off between doing this and the demands for increased spending.

"The Government has committed itself to reducing the top marginal income tax rate to 40% before the next election. But I cannot see how it can be done."

One reason for reducing personal tax is that the higher share of the total burden is carried by individuals. For example, in the early 180s gold mines contributed 10% of tax receipts. Now the figure is 1,5%.

"There are also sound reasons for increasing indirect taxes," says Mr Croeser. "But it is impossible because it is politically unpalatable."

He says that the latest figures on State spending — an increase of 21%in the June quarter on the corresponding three months last year — are not disturbing. Although actual spending exceeded budget by R400-million the variance amounted to only 0,4%.

He says that for technical reasons, spending was relatively high and revenue relatively low. The figures should look better later in the year.

Staff

Econometric director Azar Jammine is not so optimistic. He says: "Before we had to keep spending more to finance apartheid. Now we are spending more to pay for upliftment.

"The Government is setting a terrible example for the ANC because it is doing just what it wishes. it will soon increase its share of the economy from about 29% to the ANC's target of 35%.

"What frightens me is that staff members employed by central government rose by 4% to 560 505 over the last year.

"What is worse, total remuneration to governemnt employees rose by 28,4%. Even adjusting for the extra numbers, this means that the average wage of public servants rose by 25,7% — more than 11% above inflation.

Mr Croeser says many of the new staff members are teachers, nurses and policemen and their wages had to be increased.

"The increase was budgeted for. But we would have preferred a lower figure," he says.

SA owes the UN a whopping R171-m

(74)

NEW YORK. — South Africa owes the United Nations a whopping $61,2 million (about R171 million).

In addition, according to a new report on the status of contributions to the world body, South Africa is the only member state not to have contributed a share to the two-year working capital fund.

The Republic is the second biggest debtor after the United States, but its arrears pale by comparison. Washington owes $709,5 million (about R1 986 million).

Argus 20/7/91.

South Africa will certainly have to pay at least a proportion of its debt in order to reclaim representation in the General Assembly.

Among the Republic's debts are $84 000 (about R235 000) for the UN verification mission in Angola (following the agreement to withdraw Cuban troops) and $1,54 million (about R4,3 million) for the operation that brought Namibia to independence.

BUSINESS CONFIDENCE (74)

TREADING WATER

FM 19/7/91.

The strength of the dollar and disturbingly high May inflation rate helped to keep SA Chamber of Business's June Business Confidence Index unchanged from May's 88,6 (1990 average: 92,3). Sacob sees this as further evidence of depressed economic conditions with businessmen cautiously awaiting the next upswing.

Other negative influences were:

- Lower imports and exports;
- Lower physical volume of manufacturing production; and
- Higher unemployment and insolvencies.

Their impact was tempered by:

- A surge in the JSE overall index;
- Increased new car sales;
- Stronger real retail sales, seasonally adjusted;
- More new companies registered; and
- Rising net immigration.

The lifting of trade and commercial sanctions is unlikely to improve export performance until next year but gross domestic fixed investment is expected to show a relatively sharp increase in the fourth quarter — after the imposition of VAT. This could provide the initial impetus for an upswing.

Despite continued sales optimism, Sacob's survey of the manufacturing sector suggests stock levels will fall over the next 12 months because of continued tight monetary policy and uncertainty about the length of the recession. But, while employment may be cut to improve profitability, a small majority of manufacturers expects to increase investment in plant and equipment. ■

SA clients get access to dollar credit lines

B/Day 19/7/91 (74)

ROBERT GENTLE

SA STANDS to save large amounts of foreign exchange thanks to a joint venture between local firm Greenwich Futures & Options and Billiton-Ethoven Metals, a London Metal Exchange (LME) dealer.

Under the agreement, finalised yesterday, Greenwich gains access to dollar credit lines and expertise. Greenwich will also act as exclusive agent for the firm's LME business in SA. No figures were disclosed.

Billiton is the metals and minerals arm of the Royal Dutch Shell group. Active in over 25 countries, it employs 5 000 people in exploration, mining, processing marketing and trading of non-ferrous metals.

Billiton has had a long relationship with the SA mineral industry.

Greenwich, which is 50%-owned by merchant bank Finansbank, trades futures and options on the SA Futures Exchange and on futures exchanges in Europe and North America.

Its SA clients are bona fide hedgers like mines, manufacturers and corporates exposed to fluctuations in world commodity prices.

Greenwich MD Bryan Coyne said in an interview that the venture, which had been routed through sister company Greenwich Asset Management, would allow Greenwich clients access to dollar credit lines in amounts related to their financial soundness.

Previously, such clients had to borrow the money themselves and pay for the entire initial margin upfront, resulting in outflows of foreign exchange.

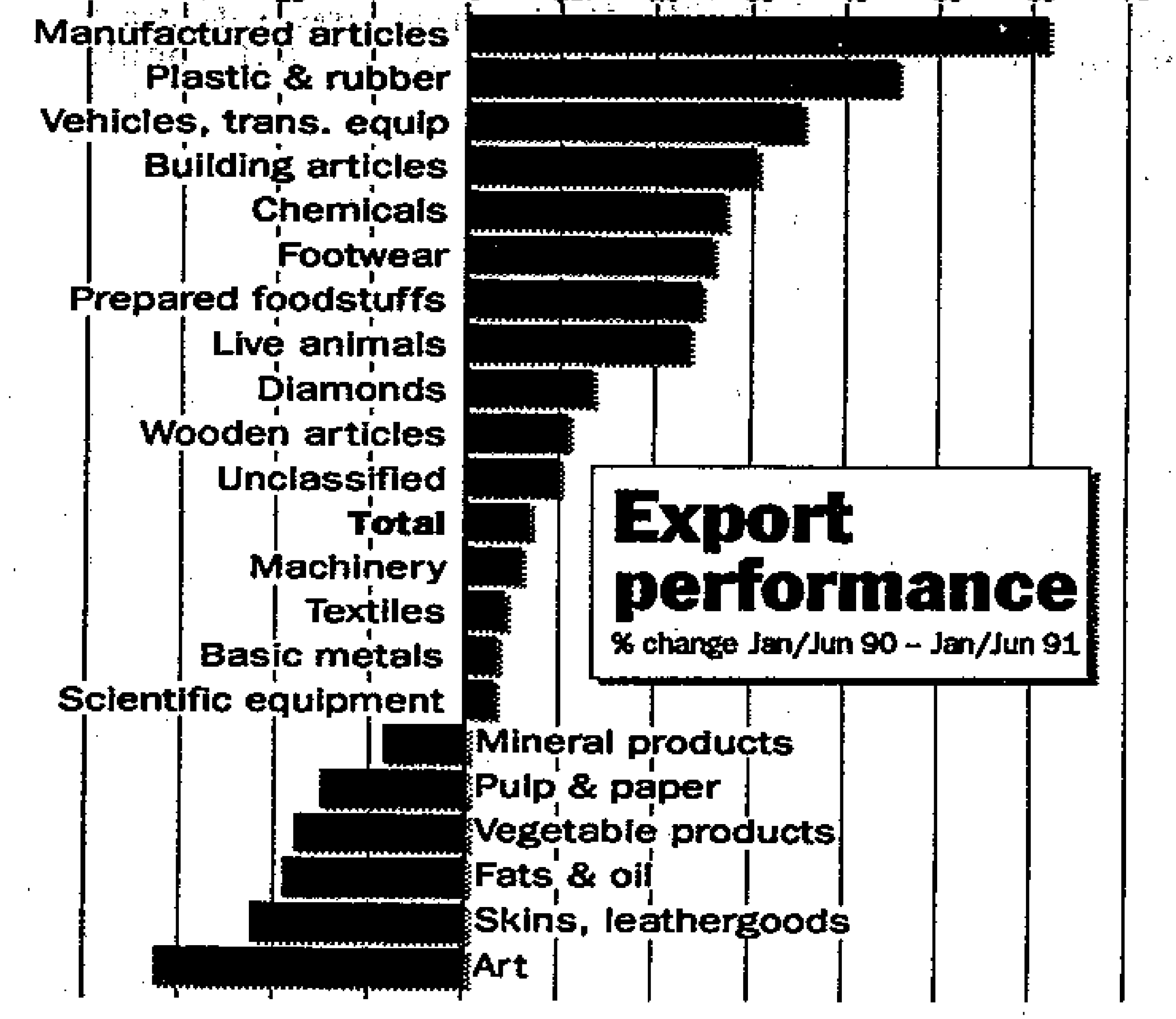
Clients would be billed only on the net profit or loss on their positions, substantially reducing their capital outlay, as well as their forex and currency risks.

Trade surplus drops sharply

Star 18/7/91

(74)

By Sven Lünsche



The graph shows the change in the value of various export sector from the first six months of this year over the first half of 1990.

South Africa's trade surplus fell sharply in June as tougher international markets slowed the momentum of export growth.

Exports in June were down to R5,09 billion from levels of around R5,8 billion in the two preceeding months.

With imports rising slightly from R3,96 billion in May to R3,98 billion last month the trade surplus declined to R1,1 billion from just over R1,8 billion in May.

For the first half of this year exports were up by six percent at R31,19 billion (January to June 1990: R29,33 billion), but growth has slowed over the past few months as a result of the decline in international mineral commodity prices.

Safto's economist Bruce Donald points out that gold was the exception to this trend, as the weaker rand lifted the rand gold price. Exports of unclassified goods (mainly gold) over the first six months improved from R11,96 billion to R13,14 billion.

However, over the same period exports of vegetable products fell by six percent, mineral products by eight percent and pulp and paper products by 15 percent.

Moving contrary to the downward trend, some important export categories have been gaining momentum in June, Mr Donald says. These include chemicals (27 percent growth), prepared foods (25 percent) and transport equipment (35 percent).

Over the first six months imports rose by 11 percent from R21,28 billion in 1990 to R23,55 billion this year, indicating that the domestic recession has had little impact on the demand for essential imported goods.

Imports of chemical goods during the first half rose from R2,32 billion to R2,63 billion and imports of machinery and electrical equipment firmed to R6,75 billion (R6,36 billion).

The cumulative trade surplus for the first half this year is five percent lower at R7,64 billion, and Mr Donald estimates that the current account surplus for the year will thus drop to R3,5 billion from R5,7 billion in 1990.

"However, it should be borne in mind that South Africa's debt commitment this year are not as severe as they were last year and that, as sanctions lift, the country's access to foreign credit lines is opening up," Mr Donald says.

SA trade surplus reflects decline

(74)

CT 18/7/91

Own Correspondent

JOHANNESBURG. — Slowing world economic growth depressed exports in June and clipped the merchandise trade surplus to R1,1bn from R1,8bn in May.

Exports slid by 12,1%, from R5,78bn in May to R5,09bn, in June as a result of falling exports of unclassified goods (mainly gold, uranium and platinum), base metals and mineral products, Customs and Excise figures released yesterday show.

Imports remained firm in June despite local recessionary conditions, rising by 0,6% month-on-month from R3,96bn in May to R3,98bn.

Rising unclassified imports (mainly oil and arms — up 7,8% month-on-month) and transport equipment imports (up 18,9%) buoyed total imports during the month.

Rand Merchant Bank economist Rudolf Gouws said the underlying weakness in non-gold exports, because of the overseas economic contraction, would continue for the rest of the year. Gouws expected imports to weaken for the rest of the year.

"This provides confirmation that the current account surplus will be substantially lower this year," he said.

Bankorp economist Jacques du Toit said: "Imports are still at high levels because of oil imports and the 747 aeroplane which landed in SA during June."

Du Toit did not forsee any dramatic change in the pattern of exports in the short-term, but the abolition of sanctions and export promotion would benefit exports in the longer-run.

"Tougher international markets are slowing the momentum of export growth," said Safto economist Bruce Donald. But exports were still up a healthy 6% in the first half of the year.

Exports of vegetable products, mineral products and pulp and paper put in a particularly disappointing performance during the first six months of the year, said Donald.

The 17% fall in vegetable product exports in the first half of the year was a result of poor harvests under recent drought conditions.

Imports grew by a relatively strong 11% from January to June, he said. "The buoyancy of imports in 1991 indicates that SA's recession is relatively mild, especially among established industries."

London summit urges access to foreign loans

Big 7 boost for economy

Star 17/7/91.

By Jean-Jacques Cornish and Sven Lünsche

South African leaders yesterday hailed a commitment by the world's seven major industrial nations to assist the country's economic recovery.

In particular they responded warmly to the call that South Africa should be granted access to foreign capital markets to achieve strong economic growth.

The call for urgent international measures to restore economic growth in South Africa came from the summit meeting in London of the world's seven richest nations.

Leaders of the so-called Group of Seven (G7) — Britain, Canada, France, Germany, Italy, Japan and the United States — cited in a declaration yesterday "an urgent need to restore growth to help reduce inequalities of wealth and opportunity" in South Africa.

Pledging to direct their aid to making up the shortfalls caused by apartheid, they expressed the fear that the social and economic imbalances were contributing to the violence and undermining the foundation for a new, nonracial South Africa.

"The need to restore growth is now, not later," said British Foreign Secretary Douglas Hurd while delivering the declaration.

"If South Africa after apartheid is to have a chance, it must be able to provide jobs, housing and schooling for those who have not yet benefited from the reform process."

Mr Hurd said South Africa needed to "pursue new economic, investment and other policies that permit normal access to all sources of foreign borrowing".

He added: "In addition to its own domestic efforts, South Africa also needs the help of the international community, especially in those areas where the majority have long suffered deprivation.

"We are not saying how they should gain access to funds. We know that there will be discussions between the United States and South Africa, so we did not go into detail."

Chris Stals

Douglas Hurd.

Reserve Bank Governor Dr Chris Stals said the call by the G7 could speed up the restoration of normal links with the International Monetary Fund and other offshore funding organisations.

Foreign Minister Pik Botha told Sapa that the G7 governments clearly recognised the urgent need for economic growth in South Africa as well as access to international financial resources.

Restricting South Africa's access to overseas financing was the most serious blow of the sanctions campaign because it had forced the authorities to put a lid on economic growth to protect foreign-exchange reserves.

Anglo American chairman Julian Ogilvie Thompson said yesterday that foreign banks would take their lead from the IMF.

"In the meantime the IMF's delay has the unfortunate effect of continuing to starve the country of new capital for desperately needed development," he said in his chairman's report.

But Dr Stals added that the recent scrapping of sanctions by many countries and the support by the G7 were significant moves in restoring South Africa's links to the financial world.

"There is now much more emphasis on South African business leaders and politicians to create a stable economic and political environment to attract foreign investment," he said.

According to normal practice at the annual economic summits of the G7, there were no details for proposed action.

But the fact that SA had been mentioned at all was greeted as a welcome sign by the SA Chamber of Business.

Its chief economist, Dr Ben van Rensburg, said it showed that South Africa was not taking a back seat to Eastern Europe in terms of international economic support.

"It is also positive to note that there are no strings attached to the aid by the G7," he added.

● More reports — Pages 4 and 15

Dealers retreat after bank intervention

BDay 17/7/91. (74)

SHARON WOOD

INTERNATIONAL forex market dealers — including dollar bulls — retreated into the wings this week as they tried to interpret what lay behind the hefty central bank intervention in forex markets on Friday.

The intervention left forex markets wondering whether the G-7 was keen to cap the dollar's rise or to reverse it, says the Union Bank of Switzerland. The answer to this is expected to emerge from this week's G-7 meeting.

Thus caution will be the name of the game in international forex markets this week, as dealers wait for new signs of the G-7 view on future dollar direction.

But hopes for a firm stand on the dollar may be dashed since it is well known that the Soviet Union, and not the dollar, will come under the spotlight at the meeting.

Speculation about the reasons for the long-awaited intervention was rife. Forex markets questioned the Fed's role in the exercise, seeing it as a dramatic turnaround from the US government's previous assertion that the dollar's rise had not been disorderly.

Some say it was the result of a deal struck between the Bundesbank and the Fed — Germany would not drop interest rates as expected if the Fed agreed to participate in the bout of central bank intervention.

At the end of the day it illustrated that activities in the forex markets are an expensive game, where the rules are occasionally bent by the powers-that-be.

But one thing is becoming clearer. The fundamental reasons for dollar strength are still intact and further evidence of a healthier US economy is expected in the weeks ahead.

US industrial production rose for the third consecutive month this week. But failed to buoy the dollar because of hesitancy in forex markets while G-7 talks are in progress.

Although retail sales and production price data last week were seen by forex markets as disappointing, the usually cautious Fed governor Alan Greenspan has added his voice to the many believing the US is set for a recovery, albeit mild.

As usual the rand profited from the dollar's weakness and gained ground during the week.

But most eyes were focused on the financial rand's performance in the wake of the lifting of sanctions.

The graph shows the finrand exploded through its previous resistance level at R3,22 (B) and came to rest briefly at a much higher technical resistance level of R3,08 (A).

Initial euphoria soon wore off and the currency retreated from its dramatic highs as a result of profit-taking and more realistic perceptions of SA's investment potential.

Political and economic uncertainty about SA's future remains high and the falling real yields on government and parastatal stock raise the risk of investing through the finrand.

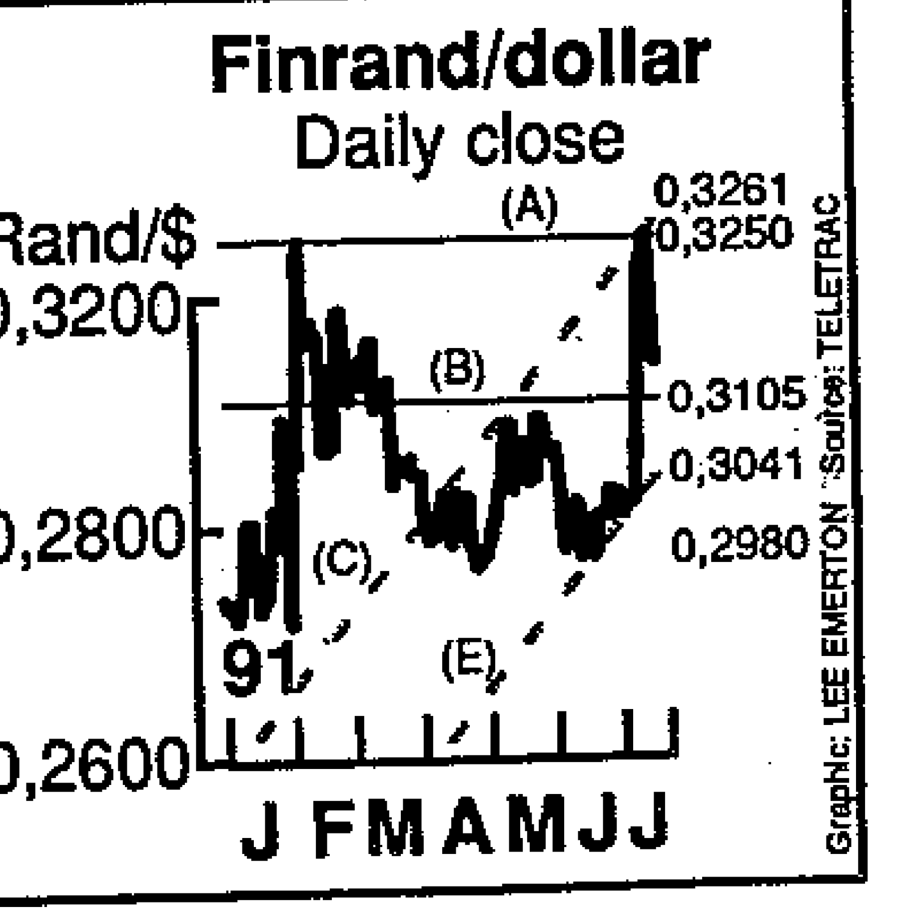
FNB technical analysts say the investment unit is now looking for support at R3,22 after its steep rise.

The financial rand discount to the commercial rand narrowed sharply during the week, finding brief support at 6,52%. But FNB says the 10% discount level will probably become a resistance point, because this is the psychological level at which questions arise about the need for the investment unit.

Gold failed to breach the important $372 resistance level this week.

Union Bank says gold slipped in line with declines in the price of silver and platinum. The platinum price dropped in response to a claim by a US oil company that it had developed the cleanest burning petrol yet available.

FNB says the gold price is still clinging to its mildly positive medium-term momentum. But the price will range until a decisive move is made to break the triangle range of $363,95 to $371,36.



REVIEW

Upswing 'higher, longer'

By AUDREY D'ANGELO
Business Editor

SA's next upswing will be higher and last longer than those in the past 15 years because it can expect help from the International Monetary Fund (IMF) if it runs into balance of payments difficulties, economists said yesterday.

They said this was implied by a draft communique from the Group of Seven (G7) countries that SA needs economic assistance — including access to foreign capital markets — to restore growth and create greater opportunities for the majority of its population.

First National Bank chief economist Cees Bruggemans said the declaration was "of crucial importance."

But he and other economists warned it was unlikely to mean substantial aid, loans and investment in the immediate future.

They said some aid might come for specific development projects. But, even though the attitudes of governments had changed towards SA, private firms would wait for more stable conditions and more certainty about the type of economy this country would have before investing here.

The communique implied, however, that SA could expect help from the International Monetary Fund (IMF) if it ran into balance of payments (Bop) problems during the next upswing, and from the World Bank.

The communique was issued in London yesterday by the leaders of the G7 countries — the US, Japan, Germany, France, Britain, Italy and Canada.

It said there was "an urgent need to restore growth to the economy to help reduce inequalities of wealth and opportunity."

SA needed "normal access to all sources of foreign borrowing" to pursue these aims.

SA Chamber of Business (Sacob) chief economist Ben van Rensburg said the communique gave a positive message. It implied that access to IMF funding was "only months away."

Normal access

Van Rensburg continued:"We don't need immediate funding and I don't think the IMF will step in to fund SA in a big way.

"Where we will need its support is when we have created a growth path — about 18 months down the line.

"We will need it to step in if we run into BoP problems, so that the Reserve Bank will not have to dampen the economy down again by using restrictive monetary policies."

Boland Bank chief economist Louis Fourie said the G7 communique was "a very promising gesture.

"But at the end of the day it will depend on SA's performance whether the investment we need is available. Government's can OK us but investment will come only on the back of increased confidence in SA.

"IT is investment from overseas that will really boost SA, rather than the availability of loans."

Fourie said he did not foresee any outflow of foreign capital and there might be an inflow.

But he did not think the two-tier foreign exchange system was likely to be abolished.

"It would be a stupid exercise that would not prove anything. We must keep the financial rand even if the discount (between it and the commercial rand) narrows to zero. Otherwise we are really playing with fire."

Sanlam chief economist Johan Louw said the G7 communique was "more of a gesture than anything else, but it is a good indication of the change in attitude to SA."

There might be small grants towards improving education and housing in SA. "But private companies will wait to see what kind of economic and political system we are going to get. I don't see much money coming into SA for the next year or two."

Bruggemans said the communique indicated that, now the situation in SA had changed, there was no sense in running the economy into the ground.

"It does not mean that the G7 countries are going to go out of their way to help us. But they are indicating that we should have no undue obstacles put in our way.

"That points straight at the IMF and the World Bank."

This meant that next year, when SA had built up its reserves and the economy was growing strongly, it would have access to IMF financial facilities. "That means that the next upswing will not be a one-day wonder and the Reserve Bank will not have to guillotine it prematurely.

"That will be crucial to the very substantial upswing which I am certain is on the way and can be sustained for a number of years."

Bruggemans said one of the functions of the IMf was to help countries in the process of restructuring their economies.

"Unlike the basket cases, we in SA are doing something to help ourselves.

"The G7 communique gives moral support for returning to normality — and it is very important indeed."

IMF on hand to help with BoP problems

CT 17/7/91

RESTORATION of SA's access to the International Monetary Fund (IMF) — still frustrated by the US Congress — would be as big a step forward as the termination of the US Comprehensive Anti-Apartheid Act, says Anglo American Corporation chairman Julian Ogilvie Thompson in the annual report.

He describes restored access as "a highly political matter", which could well be delayed until later in the year.

"In the meantime, as commercial banks usually take their lead from the IMF, the delay has the unfortunate effect of continuing to starve the country of new capital for desperately needed development."

Profit-taking pushes finrand down

ANDREW GILL

(74) B/Day 16/7/91

THE financial rand fell from its recent highs yesterday as profits were taken in a relatively steady bout of selling.

It fell 9c to R3,16 to the dollar from Friday's R3,07 as selling emerged early in the day, apparently from the Far East and Europe. Dealers said they had seen reasonable sell orders through the day but demand had begun to creep in as the unit fell to lower levels.

The fall saw the discount between the financial and commercial rand widen to 8,8% from 6,2% on Friday. Dealers said there was little fundamental incentive for foreigners to buy in at the lower discount because the returns were so low compared with other countries.

However, some had seen the opportunity for capital gains and had brought their

☐ To Page 2

Graphic: LEE EMERTON Source: I-NET

Finrand

B/Day 16/7/91 (74)

☐ From Page 1

money in for that reason.

An investor who had bought financial rands a month ago at R3,36 would have made a straight 8,6% profit if selling at R3,07, notwithstanding gains in the instruments they invested in.

Treasurers said they expected to see some selling in both the equity and capital markets in the short term. However, many investors were apparently satisfied with current investments and no major sell-off was expected.

No major buying was expected and this could see the finrand's discount to the commercial rand widening further. Selling was relatively light, but steady, and no major widening is expected in the weeks to come.

The commercial rand came under pressure yesterday as the US dollar recovered from heavy intervention on Friday. It closed at R2,8797 to the dollar from its R2,8723 open and Friday's R2,8773 close.

Caution was exercised as the annual Group of Seven (G-7) meeting got under way. There was uncertainty as to what its position would be on the dollar.

Based on fundmentals, the currency was due for further rises, a dealer said.

Parastatals return to bond markets

B/Day 15/7/91

SHARON WOOD

SA PARASTATALS are returning to international bond markets after years of financial isolation and the lifting of sanctions is expected to accelerate the trend.

Investors who have shunned SA for more than five years are being tempted back, with mainly Swiss and German interests involved.

The latest in a series of overseas loans is a $40m new bond placement secured by Eskom through Swiss banks in London.

Other public corporations have also broken into international bond markets this year. Transnet placed DM50m of four-year bonds in June and Posts and Telecommunications secured a DM150m four-year private placement in May.

Figures compiled by the London School of Economics' Centre for the Study on the SA Economy and International Finance show that in the first half of this year SA borrowers had 10 international bond issues valued at $600m falling due.

Although few details are available, most of the deals secured are with private individuals. But with the lifting of sanctions many expect foreign institutional involvement in the SA bond market to rise.

But market analysts warn that falling foreign yields on capital market stock, in line with the narrowing of the financial rand discount, and economic and political uncertainty may dampen foreign enthusiasm for local bonds.

Trade-linked financing is rising. The largest deal this year was a $600m loan to the Industrial Development Corporation by the Export-Import Bank of Taiwan.

FINANCIAL RAND FM 12/7/91

WHAT THE DISCOUNT IS SAYING

There used to be a theory that when the financial rand discount fell below 10%, the moment would arrive to abolish the dual currency system. Well, on Tuesday afternoon the discount was 8,8% (see *Economy*); but even if this is sustained, there seems no likelihood of an early end to this evil system. Much as the *FM* would like to see one, we don't believe the authorities have the nerve.

Nevertheless, if the narrowing of the discount means nothing else, it means that the world is much impressed by what F W de Klerk has achieved in the past 18 months.

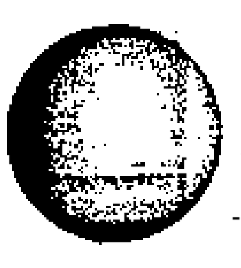
One can cynically ascribe European lifting of trade sanctions to a desire to restore as soon as decently possible historic links, which were also more mutually profitable than corresponding links with most of the Third World — rather than a belief that things are irreversibly changing in SA. Similarly, on the sports side, it's easy to believe that even a confirmed socialist like Bob Hawke has tired of watching Australian batsmen cowed into submission by a succession of deadly but boring Caribbean fast bowlers.

But the finrand is an unsentimental market. It is a cold-blooded assessment of relative risk. While Latin American and other Third-World debt is still trading at 30%, 40% or even higher discounts — as ours in effect was, not long after the 1985 standstill — ours has been substantially upgraded. (It still demands a high yield, but that's a reflection of inflation differentials rather than lack of confidence.)

Of course, the finrand is also a narrow market. While the general picture is encouraging, there are few signs yet of foreign money pouring in, in the vast quantities needed to finance direct investment on the scale required to help the economy grow fast enough to absorb the army of job seekers.

And things could still go very wrong. ANC hardliners stress that the "armed struggle" has only been suspended, not terminated. However committed De Klerk may be to continued reform (see below), it is not open to any one party to determine the process as "irreversible." There are circumstances in which the Conservative Party or Umkhonto we Sizwe could — in very different ways — frustrate that hope.

Still, a finrand discount below 10% suggests that the outside world dismisses both of these possibilities. If only local business confidence would also pick up, the end of recession could be much closer than anyone now projects. ■



RESERVES FM 12/7/91

SMOOTH PASSAGE (74)

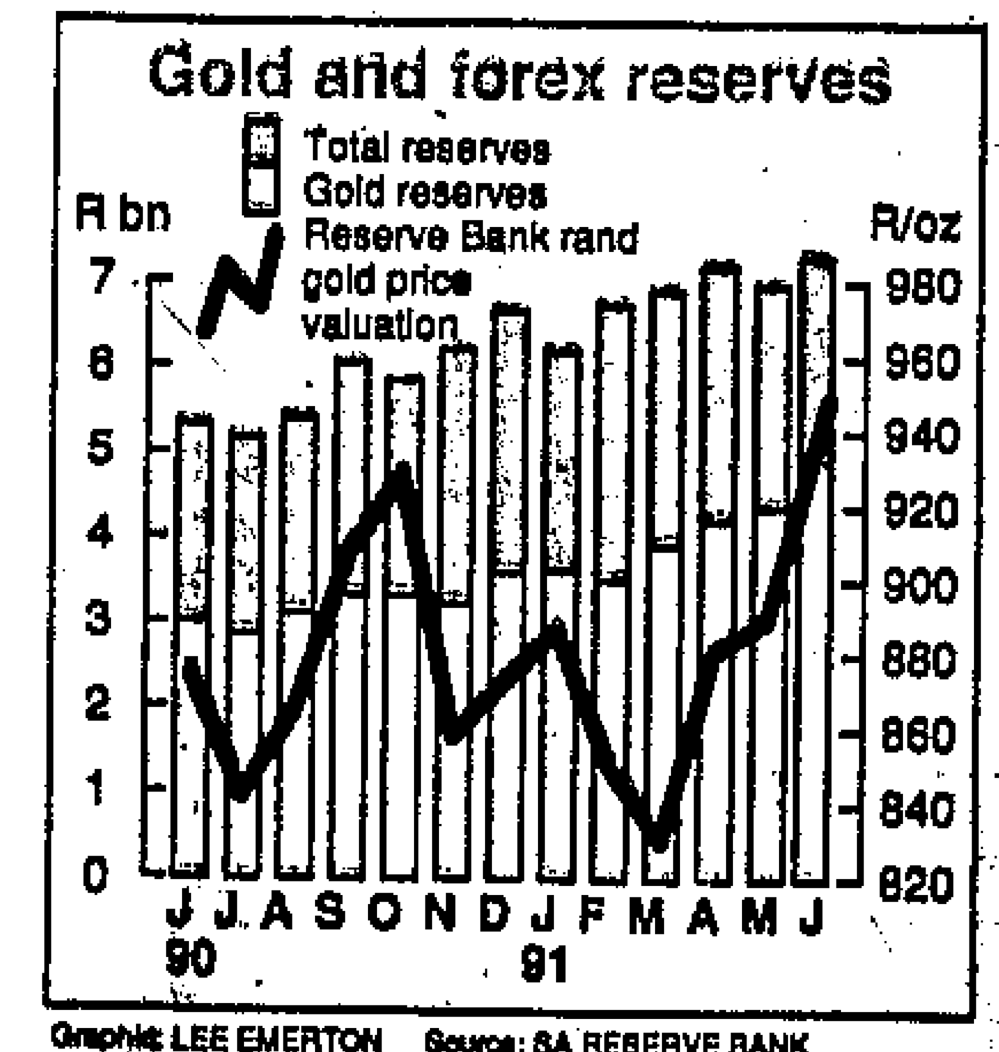
Despite a seasonal outflow of foreign funds, which happens every quarter-end, official reserves rose 3,6% in June to R7,4bn. Because of the appreciation of the US currency over the month, the increase in dollars was 1,1% to US$2,6bn.

Reserve Bank GM James Cross says the improvement in gold and foreign exchange holdings is in contrast to the net outflows in June 1989. These did not affect gross reserves as published, but net reserves weakened significantly at the time, says Cross.

Three major factors were at work.

International service payments take place at quarter-end. In June, this outflow was compounded by the roll-over of third-currency forward cover. When the dollar is appreciating, holders of cover are obliged to make good dollar cash-flow shortages at the time these contracts are extended.

☐ The value of gold holdings rose nearly 12% to just under R5bn ($1,7bn); foreign exchange fell more than 10% to R2,5bn ($950m). Gold holdings amounted to 5,2m oz, up from 4,9m oz in May. ■



Graphic: LEE EMERTON Source: SA RESERVE BANK

BiDay 8/7/91

Reserves boosted by weaker rand

ANDREW GILL

THE Reserve Bank's holding of gold and foreign exchange reserves climbed to its highest level in June thanks to a sharply higher rand gold price and a depreciating rand.

Reserves climbed by R255,7m to R7,44bn as the Bank's gold price valuation climbed by R45 an ounce to R950,06 and physical gold holdings climbed 322 950 ounces.

In dollar terms, however, reserves dipped by $6m, indicating the change was largely a function of the higher rand gold price. Disregarding the gold revaluation, reserves climbed by a minimal R32m in rand terms.

Foreign exchange holdings fell by R274,6m to R2,469bn, apparently as a result of foreign debt commitments. Gold holdings were up by R530,3m to R4,97bn.

Nedbank economist Edward Osborn said the reserves fell by only $103m over the second quarter despite over R1bn in foreign debt commitments over the period.

This was in addition to decreased foreign exchange holdings resulting from the Bank's dollar swap transactions which it undertook to squeeze money market liquidity in the past few months.

This indictated SA was able to face large foreign debt commitments with little impact on reserves. Osborn said it could indicate that a large proportion of the foreign debt commitments (owed mostly by the parastatals) had been rolled over during the quarter.

The Bank's balance sheet also showed a worsening position with regard to forward cover losses.

(74)

BUSINESS DAY, Tuesday, July 9 1991

Steady return to bond markets

Business Day Reporter

AFTER years of financial isolation, SA borrowers are making a steady but low-key return to the international bond markets.

A report in the Financial Times yesterday said activity had so far been restricted to the Swiss and German private bond markets.

Few details have been made public, although such private placements have never been formally banned under sanctions.

Indications are that the level of borrowing by SA companies and government bodies has increased since 1988, accelerating sharply this year. Many of the bond issues made in the early 1980s are being refinanced.

The Centre for the Study of the SA Economy and International Finance at the London School of Economics shows SA borrowers had 10 international bond issues amounting to $600m falling due for redemption in the first half 1991. The centre estimates about half of this has been refinanced.

The breakthrough came in May, when Eskom placed a $50m bond issue with a group of international investors. This was the first time "new money" had been raised by an SA borrower since existing loans were locked in under the debt standstill of 1985.

There is also evidence of small-scale bilateral lending by Swiss banks in the late 1980s. Swiss central bank data suggest lending of about $50m in this period. There is no way of knowing which banks lent to which SA borrowers.

Commercial banks are unlikely to resume lending until existing loans are freed and provisioning requirements are eased.

Foreign borrowings do not come cheap. Eskom's DM120m four-year private placement completed in March pays an interest rate of 10,75%. At the same time Mexico was borrowing in Deutschmarks over five years at 10,5%.

Finrand boosted by new optimism

B/Day 9/7/91

SHARON WOOD

THE ANC's three-phase proposal for lifting sanctions boosted the finrand yesterday, reducing the commercial rand discount to a new low.

Dealers said there had been strong demand for SA gilts from Europe throughout the day. Demand had outstripped supply.

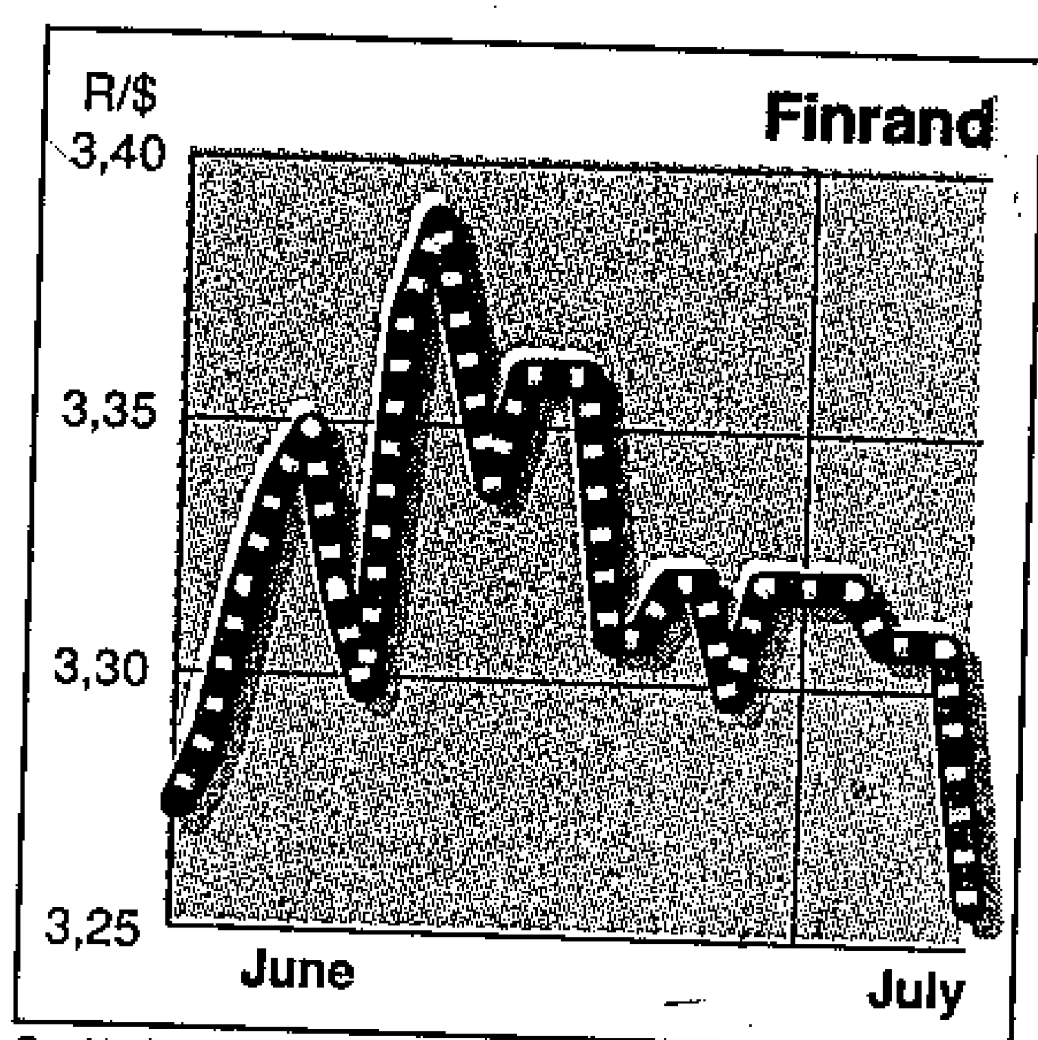
The finrand closed 5c higher yesterday at R3,26 from Friday's close of R3,31. The commercial rand discount narrowed to 11,27% from 12,38% on Friday.

The finrand's advance caused late selling of gold shares on the JSE and a 17-point rise in the all gold index at mid-afternoon turned into a three point loss at the end of trade with the index closing at 1 466.

Some traders expected the finrand to ease today in response to what could have been a "knee-jerk reaction", altough others said there was room for the finrand to strengthen further.

On the capital market rates softened in response to foreign interest. The Eskom E168 closed at 16,105% from Friday's 16,15%, while government's RSA 150 stock closed at 16,43% from Friday's 16,47%.

Simpson, McKie analyst Marilyn Visser said interest in government stock had been growing steadily over the last few weeks, with buying interest mainly from Germany and Switzerland.



Graphic: FIONA KRISCH Source: I-NET

"Demand during the day was not out of the ordinary but this could be due to delays between settlement dates," she said.

The settlement dates in the capital and

□ To Page 2

Finrand

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□ From Page 1

financial rand markets did not coincide and buyers might be processing finrand transactions first before gilt transactions, she said. This could result in a rush of gilt transactions in the next few days.

"Sentiment is better following the end of the ANC conference because people are satisfied with the outcome." Visser said this could lead to better demand for government stock because the gilt yields had become more attractive.

The commercial rand strengthened against the dollar yesterday, closing at R2,8923 from Friday's R2,9003 close.

The rand benefited from dollar profit-taking and the lack of further US economic data which had recently stimulated dollar buying interest.

□ The JSE overall index closed 19 points higher at a new record of 3 439.

Bullish sentiment stokes the markets

B/Day 10/7/91 (74)

GRETA STEYN

REPORTS that the US was about to lift sanctions fuelled bullish sentiment in the financial rand and gilts markets yesterday.

Dealers said the mood was fast approaching euphoria as expectations heightened that Americans were poised to enter SA markets.

Strong demand for financial rands pushed the discount between the investment unit and the commercial rand to another record low of 9,7%. This compares with an average of 24,3% during 1990 and a peak of 52,9% in 1986.

The finrand strengthened to a close of R3,18 yesterday from Monday's R3,26 to bring its gains since the beginning of the month to about 4%. It was last at these levels about four months ago.

As a measure of foreign investor confidence, the discount between the finrand and the commercial rand is of more significance than the investment unit's absolute level. A wide discount means foreigners are prepared to invest in SA only when they get huge returns.

The recent closing of the gap between the two currencies means foreigners no longer benefit so richly from investing via the financial rand and earning interest and dividends in commercial rands. But gilts dealers said the sharp drop in returns had not deterred European investors from piling into the SA market.

Long-term interest rates shed another seven points yesterday, bringing the fall in rates since last month's mini bear run ended to almost 20 points. The buying could signal expectations of a capital gain to be made when the financial rand is abolished. German and Swiss banks' efforts to market SA capital market stock had also contributed to European bullishness, dealers said.

With the discount between the two currencies at present levels, some foreign creditors with debt inside the standstill net entered the market yesterday to "leave the net" via the finrand. More creditors could opt to receive their capital in finrands.

The effect of this would be to widen the discount or at least slow the speed of its narrowing. This was one of the factors mentioned by Reserve Bank Governor Chris Stals as slowing down efforts to scrap the dual currency mechanism.

On the JSE industrial share prices continued to surge yesterday, rising 42 points to a new record high of 3 949 and within striking distance of the 4 000-point level.

Market observers attributed the buoyancy to underlying optimism about positive political developments and the impending scrapping of US sanctions.

Discount on finrand reaches historic low

By Sven Lünsche

The discount between the financial and the commercial rand fell to a record low of 8,7 percent yesterday, but the Reserve Bank gave no indication that a unitary rand would be created soon.

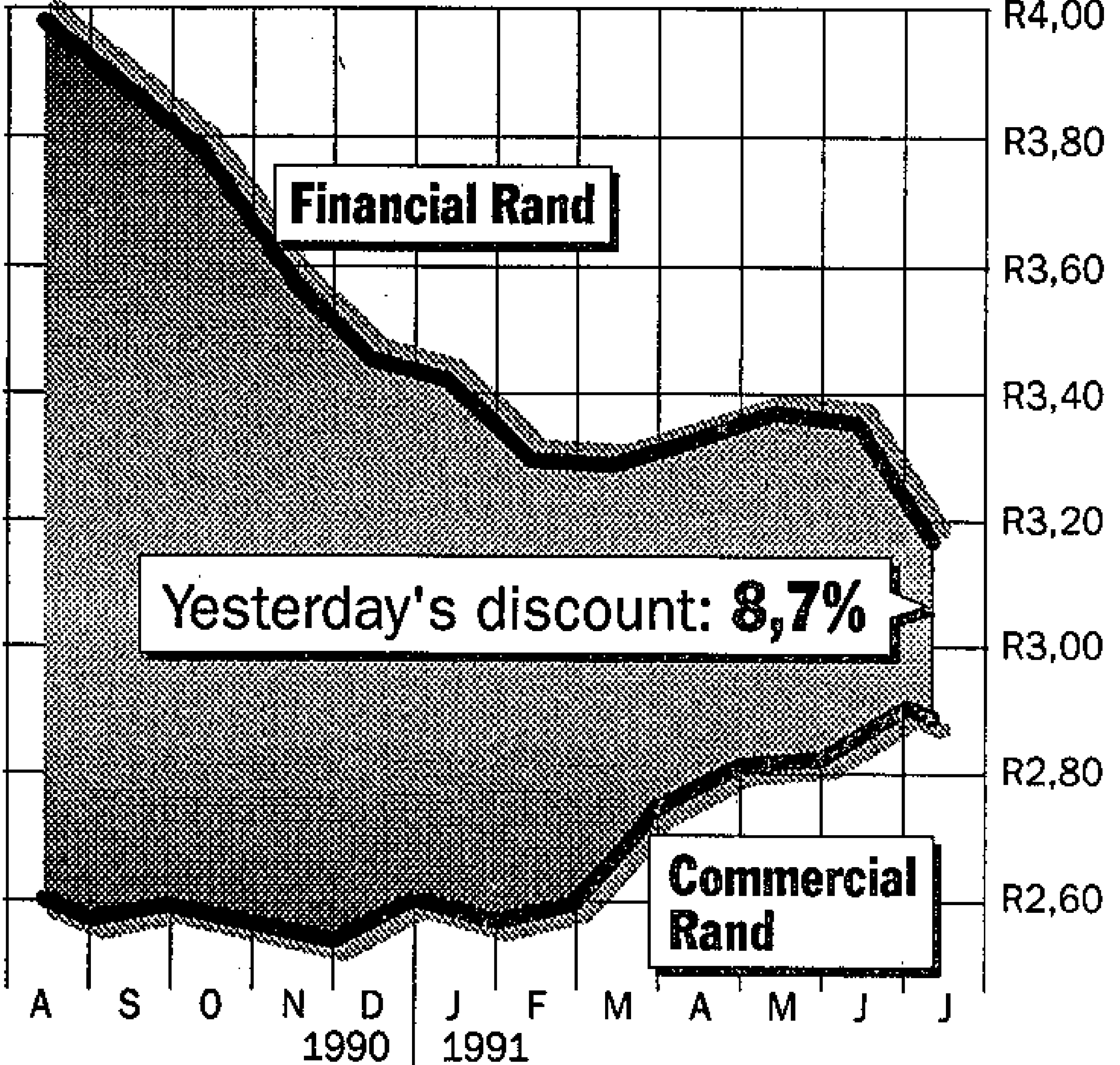
The financial rand has strengthened by over 20c over the last month and closed yesterday at a record level of R3,17 to the dollar, a gain of 10c on the day.

This narrowed the discount to the commercial rand to 8,7 percent, compared with a discount of 12 percent at the end of last week.

The financial rand has been bolstered by the prospect of a swift end to US sanctions, a less militant attitude by the ANC and continued demand for SA gilts from German and Swiss investors.

The Reserve Bank is on record as saying the finrand will not be abolished unless foreign banks and multilateral agencies, particularly the International Monetary Fund, again extended long-term loans to SA.

A unitary rand would inevitably tempt foreign investors, who by and large invested in SA stocks and gilts through the finrand, to sell their holdings, given the uncertain political future.



If these outflows cannot be offset by access to international loans, South Africa could face a substantial shortage of funding at a time when socio-economic demands on the budget are escalating.

Jan Postmus, the Reserve Bank's general manager (exchange control department) reiterated this position yesterday.

"The low discount by and large reflects foreign investor perceptions of SA and is a function of market forces only.

"It is also only one of the elements that will play a role when we decide to abolish the finrand," Mr Postmus said.

The monetary authorities will bear in mind that a unitary rand would probably settle at about 10 percent below the current value of the commercial rand, thereby boosting inflation by two to three percentage points.

In a recent analysis for stockbrokers Davis Borkum Hare, Potchefstroom University economists Professor Lou van Wyk and Dr Wilma Viviers argue that abolishing the finrand would be beneficial for SA.

The abolition of the finrand would boost the confidence of future foreign investors, reduce the cost of foreign exchange transactions, strengthen the relationship between SA and international institutions and increase foreign investments on the JSE.

The economists add, however, that the fundamental requirements for such a change have not yet materialised, because of a number of difficulties:

- The level of the foreign exchange reserves should be sufficient to cover imports for three months — roughly R15 billion.

The possibility of building up reserves from their current value of around R7,5 billion is limited, given the outlook for the economy.

- The political environment is still too volatile.
- Investments in SA by the international community must grow.
- The inflation rate is still unacceptably high.
- SA will require IMF funds to bridge the gap between the finrand and the commercial rand, which is not yet possible.

"The accomplishment of these considerations will be onerous," the economists say, "and therefore a unitary monetary unit is not readily expected."

SA borrowers come in fr

After years of financial isolation South Africa returns to the international bond markets

LONDON — South African borrowers have been making a steady but low-key return to the international bond markets.

So far, activity has been restricted to the private bond markets of Germany and Switzerland.

However, the country's gradual rehabilitation with international investors should soften the austerity enforced on its economy by more than five years in the financial wilderness.

Few details are made public by either the borrowers or the banks concerned, although such private placements have never been formally banned under sanctions.

Fragmentary evidence suggests that the level of borrowing by South African companies and government bodies has been increasing since 1988 and has accelerated sharply this year.

Many bond issues made in the early 1980s are being successfully refinanced.

Redemption

In the first half of this year, South African borrowers had 10 international bond issues falling due for redemption, totalling $600 million equivalent, according to figures compiled by the Centre for the Study of the South African Economy and International Finance at the London School of Economics.

The centre estimates that about half of this amount has been refinanced.

A breakthrough came in May, when Eskom, the state electricity utility, placed a $50 million bond issue with a group of international investors.

The proceeds of the issue were not used to refinance a maturing debt. It marked the first time that "new money" had been raised by a South African borrower since existing loans were locked in under the debt standstill of 1985.

Swiss banks

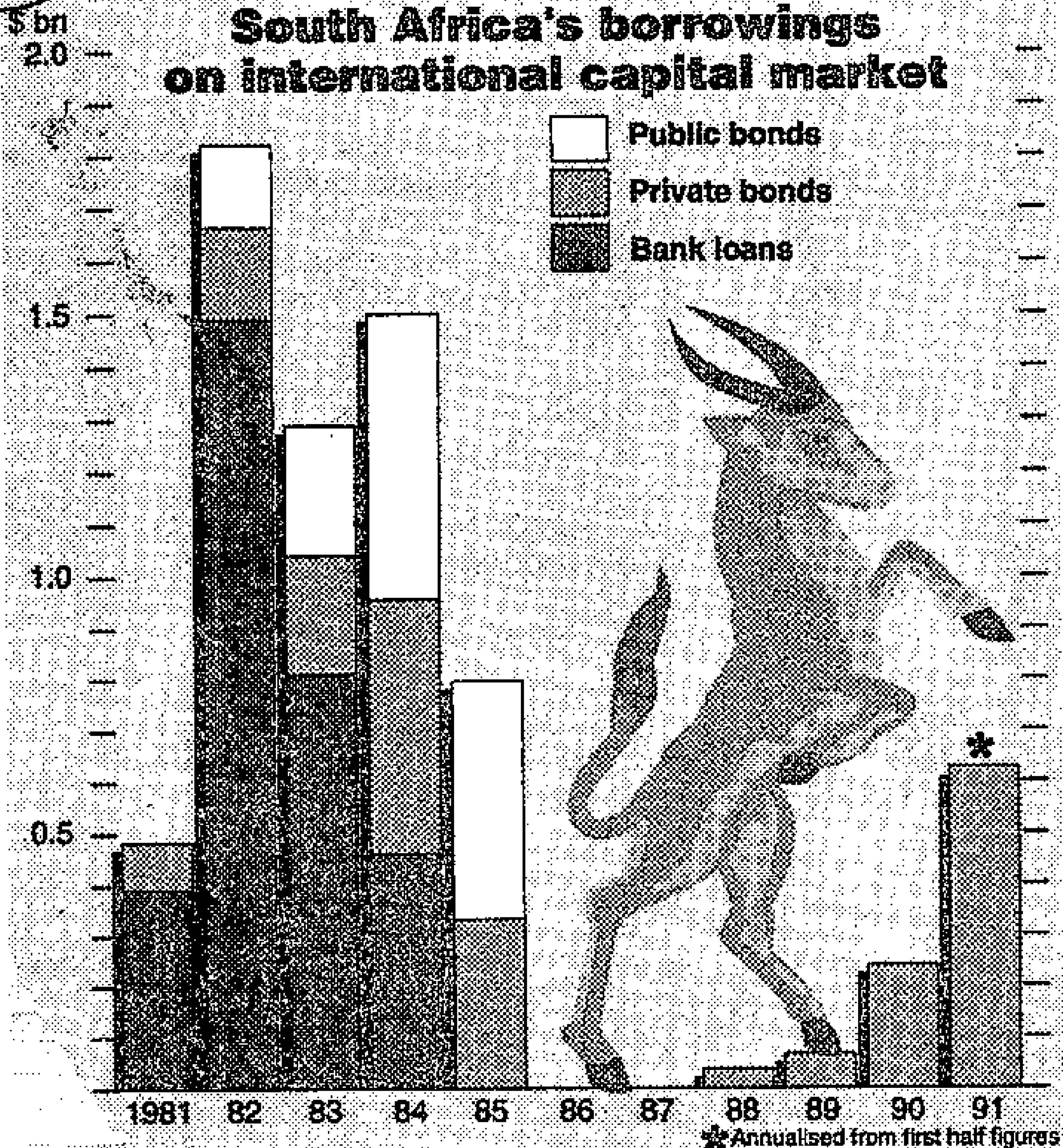
"South African is undergoing a gradual rehabilitation which began in late 1988, but it is still a long way from the levels of borrowing which characterised the early 1970s and the early 1980s," says Jonathan Leape, director of the centre.

In addition to privately-placed bond issues, there is also evidence of small-scale bilateral lending by Swiss banks in the late 1080s.

Swiss central bank data suggests lending in the region of $50 million in this period. However, there is no way of knowing which banks lent to which South African borrowers.

There have also been a small number of trade-linked financings. The largest identifiable such operation this year was a $60-million loan from the Export-Import Bank of Taiwan to the South African Industrial Development Corporation.

The facility was signed by the Taiwanese foreign minister during a visit to South Africa in January. But, though export credit cover is avaiable from several countries, the lead does not appear to have been followed by other governments.



Commercial banks are unlikely to resume lending until existing loans are freed and provisioning requirements are eased. For example, Bank of England guidelines suggest that UK banks make provisions of about 20 percent against loans to South Africa.

Hence, the international bond market offers South African borrowers the best chance of raising long-term international finance. The appetite of continental European retail investors, who were big buyers of South African paper in the 1970s and early 1980s is reviving.

In April Credit Suisse added a selection of rand-denominated South African government bonds to its "buy list".

According to South African stockbrokers, the level of buying of government bonds by overseas investors is closely linked to political stability. This is backed up by the data collected by the Centre for the Study of the South African Economy.

"The experiences of 1976 and 1985 suggest that a sharp escalation of township violence or

Too soon to scrap finrand — Stals

GRETA STEYN

THE attitude of SA's foreign creditors would be a crucial factor in any decision to scrap the financial rand, Reserve Bank Governor Chris Stals said yesterday.

His comments came as the narrowing gap between the finrand and the commercial rand spurred foreign creditors to take their money out of the SA through the finrand.

The debt deals put a brake on the rapid fall in the gap between the two currencies, wiping out the finrand's initial sharp gains yesterday.

In a volatile day's trade, the currency surged to R3,11 to the dollar at the opening from its R3,18 close on Tuesday but weakened to end virtually unchanged at R3,17.

Creditors with debt caught inside the standstill net have been reluctant until now to take their money out through the financial rand. Their reluctance stemmed from the high "price" of a wide discount to the commercial rand.

But as the gap slipped below 10% for the first time this week, the option became more attractive.

Stals said: "We cannot begin to discuss abolishing the finrand before we have a clear idea of our foreign creditors' reaction to the narrow discount. We have only seen tentative indications."

Large scale use of the finrand mechanism to leave the debt standstill net would

To Page 2

Finrand

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put downward pressure on the financial rand and could cancel the gains made in recent weeks.

Stals said it would take time before creditors' attitudes became clear.

Most of the "standstill dollars" inside SA had been on-lent on a three-month and six-month basis and many creditors could not respond immediately even if they had wanted to.

Their response would become clear only if these short-term loans matured while the discount was still narrow.

Some analysts said the sharp fall in the discount reflected commercial rand weakness rather than finrand strength. It was evidence of the battering the rand had taken at the hands of a rampant dollar.

But Stals said the finrand would have weakened in line with the commercial rand if that was the case.

"The narrowing of the gap between the two currencies is proof of consistent strong demand for the investment unit," he said.

Capital outflow cost SA R5-bn a year

Star 1/8/91

By Sven Lünsche (74A)

Even without any productivity increases an end to the outflow of capital should boost the sustainable growth rate to about 2,5 percent a year, says former senior deputy governor of the Reserve Bank Dr Jan Lombard.

Dr Lombard, who is now a professor at the University of Pretoria, says the drain on domestic savings as a result of the huge outflow of foreign capital after 1985 cost the country about R5 billion a year — or 50 percent of the annual flow of net savings.

He told the Midrand Chamber of Commerce yesterday: "When this drain comes to an end, which apparently might by soon, these real resources would double up the rate of new capital formation in the country."

If an end to the outflow was accompanied by fundamental micro-economic reform the improvement in the output productivity of investment should push the warranted growth up to four percent a year.

"Add to these factors, some improvement in our international terms of trade, and the country's warranted rate of sustained growth could rise to at least five percent."

Such a growth rate, coupled with regaining the employment content of growth, could see more than 60 percent of the manpower employed in the formal economy by the end of the decade, while only six percent, or about one million people, would by completely without a livelihood.

The termination of the huge deficits on the capital account of the balance of payments should also boost domestic expenditure.

Industrials' record run comes to a halt

Star 16/8/91

74A

By Jabulani Sikhakhane

A firmer financial rand and a negative view on the rise in German interest rates took the edge off the industrial market yesterday after five record breaking days.

The index fell by 56 points or 1,3 percent to 41 11, but rebounded to close the day at 4 128.

Analysts said that the industrial market had run too fast too far and needed a reason to correct, which was provided by the rise in German rates and the firmer finrand.

The Bundesbank, the German central bank, announced yesterday that its discount rate would increase from 6,5 percent to 7,5 percent.

Analysts said the recent sharp gains in the industrial market had been discounting an anticipated drop in local interest rates.

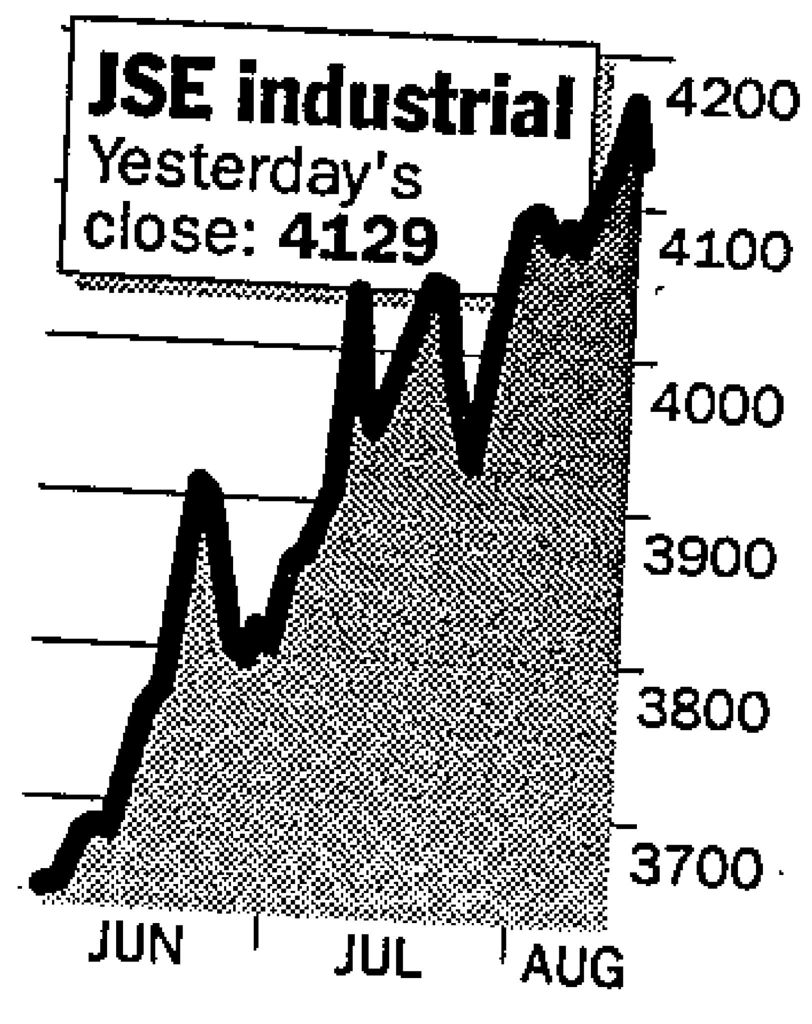
However the increase in German interest rates had dampened those expectations.

Tony Twine of the Econometrix think-tank said that most of SA's trade is with European countries whose currencies tended to follow movements in the Deutschemark which is expected to strengthen against the rand.

"The majority of our imports will become more expensive. Most of our exports are US dollar denominated and if the rand strengthens against the dollar, our export earnings will decrease in rand terms."

But the rand showed no reaction yesterday, closing unchanged at R2,87 to the US dollar.

Frankel Max Pollak Vinderine analyst Mike Haworth added that higher import costs and reduced export revenue would affect the country's balance of payments, inducing the Reserve Bank to mantain interest rates at current levels.



e depths

□ A communication made to GA by the broker acting on behalf of RTS, that he was suspicious of the claim RTS submitted;
□ The existence of two audited sets of accounts of RTS for the financial year to February 1989. One contains a book entry of R1m, which does not appear in the other;
□ The fact that RTS had been trading unprofitably before the fire; and
□ "The fact that Bernard Cutler, to your knowledge, appeared in Court on August 22, 1991, on charges of fraud allegedly perpetrated on Broderick Motors — we understand that he pleaded guilty and that the matter has been postponed in order that he might give evidence in mitigation."

"The fact that the ski-boat ... appears deliberately to have been scuttled: the person who salvaged the boat found it weighed down with steel railway sleepers, paving blocks and rocks, the sump of the boat having been removed," the letter said. The engine number of the recovered boat corresponded with that of Cutler's.

Deneys Reitz's response, on behalf of GA, also repudiates responsibility for any actions that may have been taken by the police during investigations into the ski-boat loss or alleged fraud. *Bryan Deans*

ECONOMIC OUTLOOK

Touchdown

In 1988, when economic activity expanded at the rate of 4,1% and the surplus on the current account of the balance of payments fell to a dangerously low R2,7bn, the monetary authorities had no alternative but to halt the upswing. As rising consumption sent imports soaring, they moved to contain demand and rebuild the surplus. The central concern then was how to do this without damaging the fabric of the economy.

Looking back over the period since the second quarter of 1989, when GDP first started to decline, it is clear that they achieved the required soft(ish) landing. The downturn has proved far more moderate than those experienced in 1984-1986 and 1981-1983 (see graph). Since the second quarter of 1989, GDP has fallen only 0,5%. Over the nine quarters, private consumption rose 1%, government consumption climbed 4% and gross fixed investment fell only 2%.

It was not until the second quarter of this year that the recession reduced private consumption spending — the latest edition of the *Reserve Bank's Annual Report* records an annualised decline of 0,5%.

Reasons for the fall are not hard to find. Since the start of the year, there has been:

□ A sharp drop in annual wage and salary increases. According to the report, rises in the remuneration of employees fell from an annualised 18% and 23% in the first two quarters of 1990 to annualised increases of 14,5% and 15% in the first half of 1991; and
□ A slowing in the rate at which credit is extended. HP and leasing finance rose by only R200m a month in the first half of 1991, compared with R400m a month in 1990.

In normal times, this would be a prelude to a relaxation in monetary policy — especially as there has been a dramatic improvement in gross gold and other foreign reserves. These rose by R400m in 1990 and a further R1,4bn in the first half of 1991, to reach to R8,7bn by the end of June.

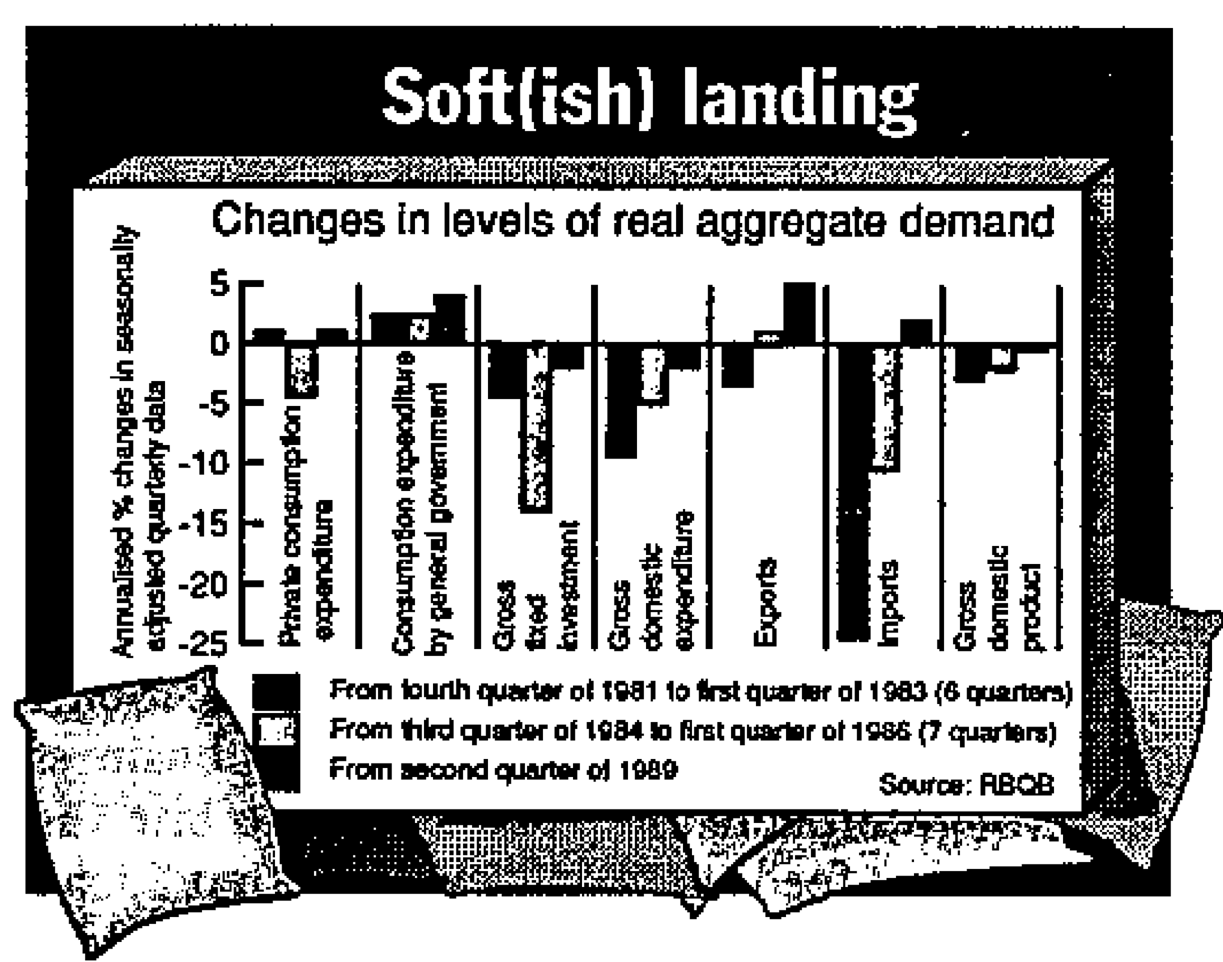
Though this covers only about seven weeks' imports of goods and services, the annual report points out that, "with a substantial amount of unused credit facilities available to the Bank, total potential reserves are now considerably better placed to accommodate an economic upswing."

But Governor Chris Stals is determined to act with caution. In his address to shareholders this week, he said monetary policy must remain restrictive.

He is battling an inflation psychosis. A number of events have conspired to create a picture of inflation that is defying attempts to contain it. This has fed straight back into the inflationary spiral giving further strength to the beast.

A major contribution came from Central Statistical Service, which has been overstating the producer price index (PPI) since March 1990, because of an error in agricultural food price increases (see page 32). By June, the error had added 2,9 percentage points to producer price inflation and 34,4 percentage points to the rate at which agricultural prices were rising.

The jolt the June figure gave the markets can be measured in the rise in the rate of the benchmark Eskom 11%, which closed the day (August 12) at 16,36% after closing the



FM 27/9/91

ONE SWALLOW

(M4A)

Econometrix's Tony Twine warns against interpreting August's improvement in the foreign trade surplus as a harbinger of things to come. He says the underlying trend in exports remains depressed, "reflecting the weak economic situation overseas."

Customs & Excise figures published this week show the surplus amounted to R1,9bn (R1bn in July). It is the largest monthly surplus since October.

However, exports worth R6,1bn represented an increase of only 3,4% over the value of exports in July. The jump in the surplus is due to a 13,7% decline in imports since July, to R4,2bn, and this fall is misleading because it is from a figure boosted by the registration of aircraft in July.

Accumulated exports in the eight months amounted to R43,2bn, accumulated imports to R32,6bn. The accumulated surplus in the period was R10,6bn — 12,7% higher than in the same period last year.

Safto's Bruce Donald calculates, however, that the annualised trade surplus in the eight months amounts to R15,8bn, which is lower than the R16,4bn trade balance achieved in 1990. He remains optimistic. "Considering the poor conditions prevailing in international commodity markets, SA's performance has been outstanding."

Recessions curb SA-UK trade

By Neil Behrmann

LONDON — The recessions in Britain and South Africa have dampened trade between the two countries, despite the end to sanctions.

The trade balance, however, is marginally in South Africa's favour.

UK Department of Trade statistics show that imports from South Africa slipped 11 percent to £600 million (R2,94 billion) in the first seven months of this year, from £675 million (R3,31 billion) in the same period in 1990. British exporters also suffered.

Compared with the same period the previous year, exports to South Africa tumbled 11 percent to £592 million (R2,9 billion).

On a 12-month running total, trade between the two has stagnated, with both imports and exports around £1 billion (R4,9 billion).

Trade performance will depend a lot on hopes of recovery in both countries. The trend of sterling will also be important.

The UK economy appears to be bottoming out, but economists are divided on whether the revival will be tardy.

Consumers are fearing for their jobs. Company liquidations soared by 72 percent to more than 11 000 in the first half of the year.

Accountants KPMG Peat Marwick forecast that the trends will continue in the next six to nine months.

Small businesses complain that they are heavily overborrowed and their overdraft rates are too high, real estate is in the doldrums and, despite wide discounts, car sales slumped 21 percent in the summer.

Profits fall

Although prime interest rates have fallen to 10,5 percent from a peak of 15 percent a year ago, the reduction has so far failed to spur the economy.

Reporting a further fall in profits, Lord Alexander, chairman of National Westminister Bank, said economic activity had suffered one of its worst declines since World War 2.

However, a stock market which is trading around all time peaks could be saying that the worst is over. This is certainly the view of the UK Treasury.

Lead indicators compiled by Goldman Sachs point to a trough and a recovery on the way later in the fourth quarter.

But the revival is likely to be weak in the initial stages because of corporate and consumer debt, banks' balance sheets, a slowdown in the German economy, high real interest and exchange rates.

Goldman Sachs predicts real growth of 1,5 percent in the next 18 months and inflation of under 4 percent next year.

Despite a deepening recession, falling interest rates and political uncertainty, sterling has remained remarkably stable in the European Exchange Rate Mechanism.

Almost a year has passed since entry and during this timespan the pound has mainly fluctuated within 3 percent of its central rate, equivalent to 2,95 German marks. Against the rand it has traded between R4,70 and R4,90 and is now at the upper end of the band.

So far, the pound has thus defied the sceptics, although it is down against the dollar this year in tandem with other currencies in the ERM.

With an election deadline within nine months, some London analysts and dealers have been forecasting a weaker rate. So far they have been wrong.

Foreign investors are prepared to hold high-yielding sterling deposits and bonds because the currency is linked to the D-mark.

The inflation outlook of below four percent is the best since the early 'eighties, says Barclays Bank, and will be better than that in Germany.

The trade deficit is forecast to decline to £9,8 billion this year from £19,8 billion in 1989.

German and Swiss bankers and portfolio managers favour sterling and in the past few weeks the rate has risen against the dollar and rand.

Deutsche Bank believes sterling will continue to hold firm. So much so, that the UK authorities will shortly reduce the pound's fluctuation limits within the ERM to 2,25 percent from its present 6 percent, it says.

The Bank of England will surprise the market and announce a narrowing of the band when inflation declines in the northern hemisphere autumn, according to this view.

The move will enable the authorities to slash interest rates further, without placing pressure on the pound.

Sterling's future path, however, will depend on the course of the UK economy.

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Forward cover spur is dropped

By DIRK TIEMANN

THE RESERVE Bank has dropped its short-term preferential forward cover rate because foreign financing for importers and exporters is freely available.

It used to offer discounts on forward cover to encourage banks and companies to borrow abroad — mainly in an effort to bolster the foreign-currency reserves.

In 1988 the preferential rate was about two percentage points lower than that for general forward cover. Last year the bank reduced the difference to about one percentage point.

Reserve Bank general manager James Cross says SA has overcome the liquidity crunch and will not subsidise foreign short-term trade finance any longer.

SA Times (Buss) Cash 29/7/91

He says it is still profitable to borrow abroad without the preferential margin.

The balance of payments has improved to such an extent that it will not place too much strain on the reserves if some short-term trade debt is repaid.

(74A)

But preferential forward cover rates are still available for long-term foreign financing on such things as capital goods. The SA borrower pays between 6% and 8% for forward cover in addition to the interest of about 8% charged by the foreign lender. This makes it cheaper to borrow abroad than here.

Nedbank international division manager Robert Stone says importers who had access to the preferential forward cover rate could afford to ask suppliers for extensions of payment instead of immediate cash.

SA debt issue wrapped up, say bankers in Europe

BIDAY 19/11/91 (74A)

KIN BENTLEY

LONDON — Senior European bankers said yesterday the launch of SA's first public debt issue since 1985 would be announced officially today.

One source said the deal had been "very satisfactorily wrapped up" and would exceed the DM200m issue needed to refinance an outstanding RSA bond issue due in mid-November. The issue would probably include a symbolically important additional DM50m, marking the beginning of the end of six year's of damaging financial isolation.

The deal is being managed by Germany's largest bank, the Frankfurt-based Deutsche Bank. Other banks playing a leading role in the deal include Swiss Bank Corporation, Paribas and Kleinwort Benson.

□ End Loans to SA, a London-based anti-apartheid group, announced yesterday it would picket the British offices of Deutsche Bank today "to express growing opposition to this ill-informed and dangerous action".

They said the ANC had condemned the bond issue.

Furthermore, they said, the Commonwealth Foreign Ministers' Committee on Southern Africa concluded in New Delhi at the weekend that financial sanctions were the most demonstrably effective of all and that they should (subject to any contrary recommendation that might be made by agreement at the Commonwealth summit) be lifted only when agreement was reached on the text of a new democratic constitution.

The UN Special Committee Against Apartheid had also condemned the public bond issue.

THE WEEK AHEAD by William Richards

Rise in reserves likely

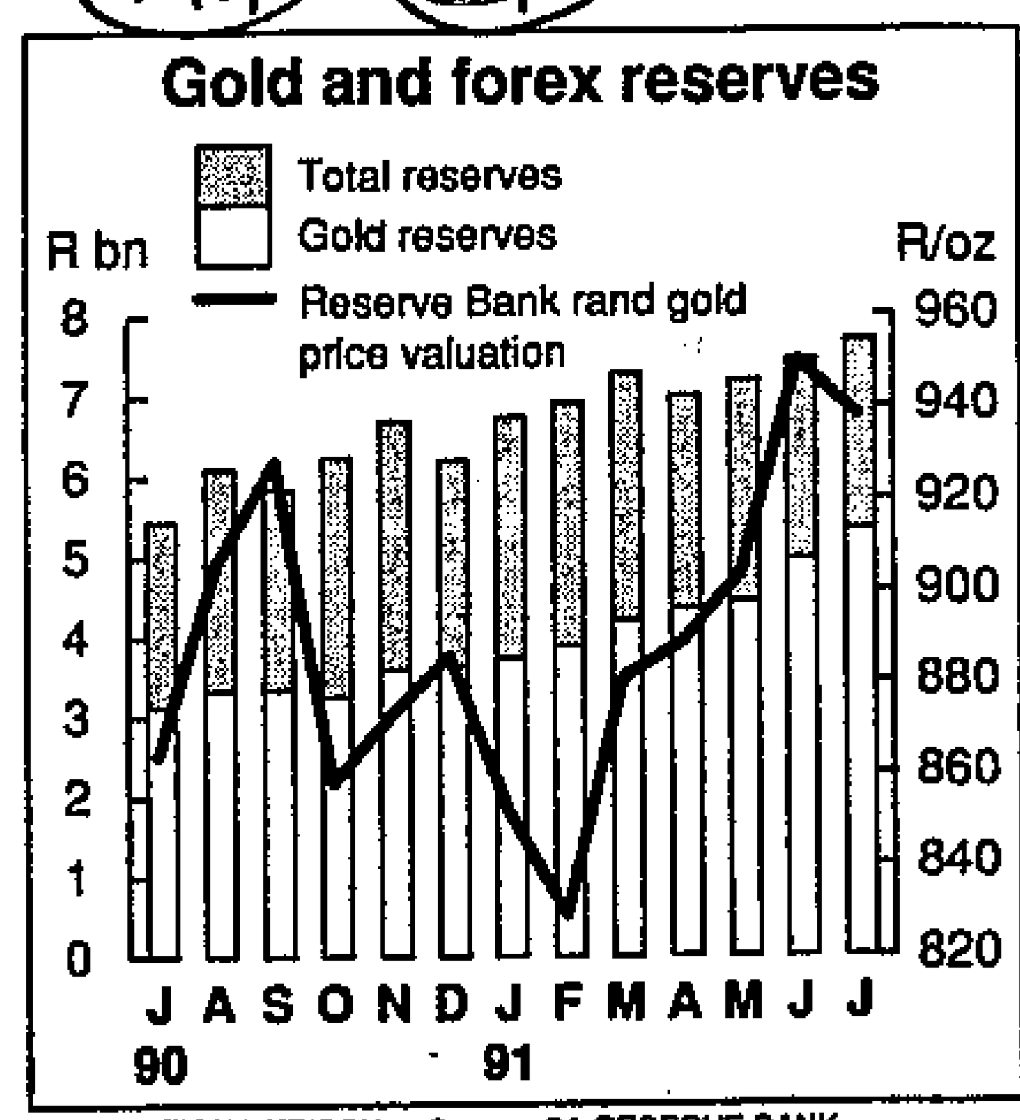
Bday 2/9/91 (74A)

SA's gold and forex reserves, due for release on Friday, comprise one of the few statistics which markets await without trepidation. The August figure is unlikely to show the impact of a scheduled repayment of foreign debt inside the standstill net.

Reserves over the past few months have risen steadily, and look more than capable of having absorbed the second of this year's two foreign debt repayments.

Expectations are that the July level of R7,7bn may edge up again — despite the debt repayment — to a nominal record high. But the total is still well short of the Reserve Bank's target of three months' import cover.

The next foreign debt repayment is due in calendar 1992, which means the reserves have several months in which to build further towards the Bank target.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

The finrand market will be apprehensively awaiting Wednesday's special NP federal congress when the adoption of a draft constitution will be proposed. Constitutional developments are assuming an increasingly high profile among international investors, especially in Europe, and the smooth adoption of this landmark measure would enhance foreign perceptions of the political situation.

The focus on international markets this week will be on tracking an incipient US recovery. The US economy is recovering, but the question is: how fast and how durable will this recovery be?

Last week's downward revision of the preliminary second quarter GNP from +0,4% to -0,1% rekindled doubts that the recovery was durable. This week the market will be looking for further signs.

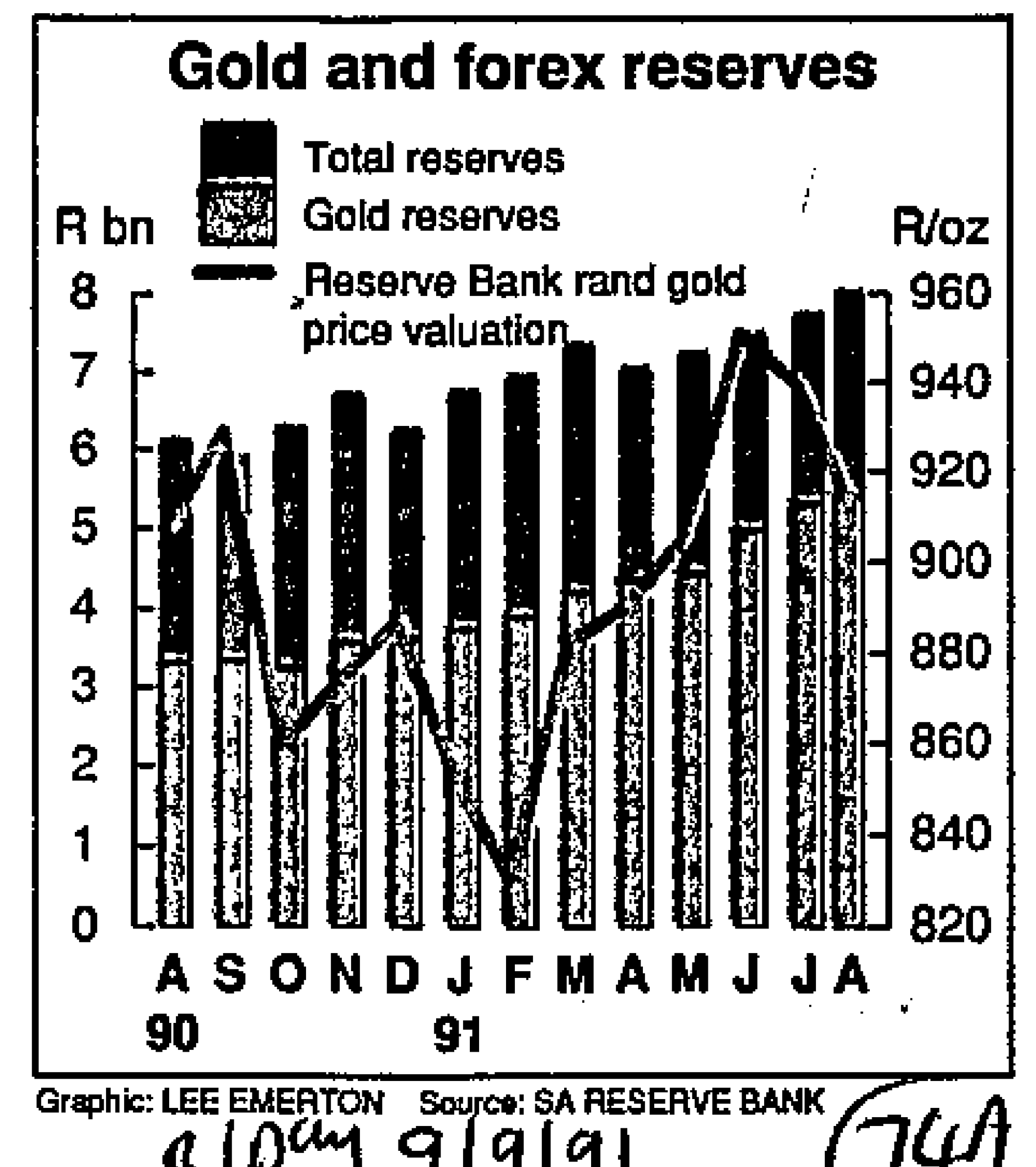
The most important of these could be Friday's release of August's unemployment rate. The rate is expected to rise to about 7%. However, markets will appreciate that recovery is still possible on a jobless rate of 7% or more. So this, on its own, should not be a damper on hopes for a steady upswing.

Another index of activity in the US manufacturing sector — the August survey of the National Association of Purchasing Managers — will be released on Tuesday. An index above 50 would indicate economic expansion and below 50 would mean contraction.

Overall, these figures should fall into the broad pattern of positive US fundamentals which have consolidated favourable dollar sentiment.

Monday is Labour Day in the US which will give markets a quiet start to the week.

The yen may be sensitive to Thursday's reconvening of the extraordinary session of the Japanese parliament.



Graphic: LEE EMERTON Source: SA RESERVE BANK

BDay 9/9/91 (74A)

Forex reserves reach a new high

SHARON WOOD

SA hurdled a large debt repayment in August, with total foreign exchange reserves rising by 3,6% despite $200m in foreign debt being repaid.

Reserve Bank figures made available on Friday showed foreign exchange reserves rose to a record high of R7,96bn from R7,69bn in July.

Economists said the rise in reserves was pleasing because more than $200m debt had been repaid in August in line with the third interim debt arrangement.

The gold and currency components rose in the month and the Reserve Bank continued replenishing gold reserves.

The gold component rose 1,7% to R5,4bn from R5,3bn in July, despite a R26,49 drop in the average gold price to R911,76 in August from R938,25.

The Bank's gold holdings rose 4,6% to 5,934-million ounces in a continuation of its efforts to increase gold's proportion of foreign reserves.

Reserve Bank foreign exchange GM James Cross said reserves rose because of a strong inflow on the current account.

Nedbank chief economist Edward Osborn said that in dollar terms foreign reserves increased by $155m and, if the repayment of debt was excluded, by $405m.

"This is so substantial that it is worrying because it is not justified by the performance of the balance of payments, and may indicate a further rise in short-term liabilities," he said.

Privatisation 'will help blacks'

SHARON WOOD

STELLENBOSCH — Privatisation would make an enormous contribution to helping empower blacks and reduce the size of the public sector, Economic Society president Peet Strydom said at the society's bi-annual conference yesterday. B/Day 3/10/91.

"Unless more blacks become involved in the production of GDP, the economic transition is unlikely to be a success," he said. (74A)

Big companies would have to provide the employment projects needed because the informal sector was too small and SA could not "dump people in the informal sector".

In addition to privatisation, business alliances should be established which would mutually benefit business and other players in the economy, and government would have an important role in stabilising markets, particularly in providing social security.

Strydom suggested various areas in the Budget which should be readjusted to release the resources needed to finance the new SA.

Police spending would have to be upgraded and funds should be re-allocated from defence and constitutional development to housing and health. SA's expenditure on education was relatively high by world standards.

He rejected the common statement that SA was under-borrowed, saying that foreign debt levels were still extremely high and government should privatise the cost of state debt.

Combatting inflation was an essential prerequisite for an efficient market-driven economy.

"SA has made great progress with monetary policy ... but is dragging its heels with fiscal policy, which is causing exessive inflationary pressures," Strydom said.

(74)A' ARM ...

Austrian bankers set to back new SA loan

JOHN SPIRA
Special Correspondent

VIENNA. — Creditanstalt, Austria's leading banking group, is involved in negotiations with the South African government with a view to raising a long-term loan on the Austrian capital market.

Christian Coreth, the bank's deputy general manager, says that because Creditanstalt has been instrumental in arranging billions of rands in trade credits for South African companies, its prospective role as a facilitator of long-term loans should not come as a surprise.

The credits have not been limited to trade between Austria and South Africa, but also between South Africa and many of its other global partners.

Creditinstalt, Mr Coreth says, has important contacts with several major South African companies, among them Anglo American.

"It is associations such as these that have given us a familiarity with the South African economy — links which have been strengthened by our proximity to Eastern Europe, where South African companies have expressed keen trading interest."

Mr Coreth says Creditanstalt has a trading subsidiary whose objective it is to facilitate trade between Western corporations and Eastern Europe.

"South African companies are beginning to make use of this facility for the very good reason that it remains extremely difficult to conclude trade deals with countries like Hungary, Poland and Czechoslovakia.

"More often than not, such deals have to be negotiated on a barter basis."

What is Creditanstalt's view of the outlook for South Africa?

"If South Africa is able to solve the violence problem and if a future government is able to achieve political stability, then South Africa is bound to have a very bright future.

"It's difficult to avoid drawing the parallel with the former Rhodesia, when the guarantees granted to the whites of that country weren't honoured.

"I accept that there are different circumstances and I certainly hope that the same piece of history won't repeat itself.

"An optimistic interpretation of the political future would certainly yield economic benefits.

"After all, South Africa has an excellent infrastructure, an almost inexhaustible source of raw materials and talented business leaders."

Against this background, Mr Coreth believes a South African government loan will be well received in Austria.

He has had several discussions with South Africa's Minister of Finance and the Director-General of Finance.

"The essence of these discussions was that South Africa intended moving slowly into the world's capital markets following the recent success of the D-mark loan, and that the funds so raised would be applied mainly to black upliftment.

"It is probable that South Africa's next loan flotation will be done on the Austrian capital market — perhaps within the next few months. At this stage I can't tell you the amount envisaged."

Would the granting of access to IMF finance enhance South Africa's ability to raise long-term loans?

"This is problematic in the light of the ANC's recent statement that it might not honour the country's foreign debt obligations if it came to power at the next government. This has done incalculable harm to the perceptions of prospective lenders.

"Quite clearly, a lot hinges on the content of South Africa's new constitution. If it is acceptable to the majority, it should work.

"If it isn't, it won't work. The ANC's economic policy is central to this issue."

SHARON WOOD

Sabre-rattling must stop, says Barend

SA's economic potential would not be realised if certain spokesmen continued to plan actions which, if executed, would scare off capital, Finance Minister Barend du Plessis said at an investment conference in Hong Kong on Friday.

"It is hoped, therefore, that those spokesmen who are fond of economic sabre-rattling will now accept the hard realities of the real world out there," he said.

Du Plessis reiterated President F W de Klerk's pledge last week that SA would continue to repay its foreign debt.

SA would have to solve its economic problems itself because sufficient development funds would be difficult to obtain in a world environment of low international savings and rising competition for foreign investment funds, he said.

They would be easier to tackle in a more friendly international environment and a more stable domestic one, he added.

Closer economic co-operation with other African countries was a growing possibility, said Du Plessis.

SA's relatively advanced production structure, sophisticated infrastructural facilities and scientific, technological, commercial and financial know-how could make a major contribution to the promotion of the sub-Saharan African region.

BUSINESS

Trade queries from UK up four-fold

74n
APCT 31/10/91

The Argus Foreign Service

LONDON. — The South African Embassy in London receives about 500 trade inquiries each week, compared with last year's 500 each month, the South African Ambassador, Mr Kent Durr, told a conference organised by accountants Ernst and Young and the United Kingdom South Africa Trade Organisation (UKSATA).

Mr Durr said: "South Africa is entering a new renaissance.

"Many people compare the events in Eastern Europe and South Africa, " he said "but if one subtracts communism in Eastern Europe, there is very little left."

"Subtract apartheid and there is much left on which to build. Their problem is one of construction; ours is essentially one of inclusion."

The Ernst and Young seminar of 140 delegates illustrated the growing foreign business interest in South Africa. Last month Business International and the Standard Bank South Africa held a conference in Frankfurt. It was attended by 110 delegates. The Confederation of British Industry and the Standard Bank will hold another conference at the end of next month.

Mr Max Tlakula, vice president of the National African Federated Chamber of Commerce, tolld the confernece foreign investors would do well if they backed the black business community. He forecast that in ten years' 30 percent of the directors of Johannesburg Stock Exchange companies would be blacks, coloureds and Asians, and 40 percent of these companies would be owned by black shareholders.

This was seen as a remarkable prediction, considering the wealth disparity between whites and blacks, but delegates agreed there was room for listings of smaller companies owned by blacks. So far there was only one.

Mr Tlakula, managing director of Elim City Shopping Centre, noted the African Bank's assets had expanded to R140 million from R23 million in the early eighties and there were now 23 branches.

Foreign businesses could approach that bank with business propositions, he said.

Mr Colin Hall, chief executive of Wooltru, delivered an almost evangelical speech about prospects for South Africa in the nineties. Provided black business leaders and management had the entrepreneural and leadership spirit they would do well, he said.

"It doesn't matter if some only have a Standard five education, " he said.

South African Businessmen and managers should not sit back and expect Mr De Klerk to carry out all the reforms, he said. They should do their utmost to make their own companies democratic. They should listen to opinions of employees, regardless of colour, and do their utmost to help blacks advance in management.

Mr Nick Mitchell, executive director of the UKSATA, said Britain's Department of Trade and Industry had designated South Africa as a "target market".

The Department of Trade was now able to provide a full range of export services for South Africa.

UK government funding was now available to support trade missions and trade fairs. Trade missions to South Africa rose to nine this year from two a year in 1989 and 1990. There were applications for 27 missions in 1992 and parties included about 20 members, compared with a dozen or fewer previously.

Mr Rudolf Gouws, an economist at Rand Merchant Bank, spoke on economic prospects, Mr Stewart Pennington, a director SPA Consultants, discussed labour relations and Ms Clare Herbst, a partner of Ernst and Young, mergers and acquisitions in South Africa.

SA bond issues in yen likely

The Argus Foreign Service (74A) ARG 7/11/91

LONDON. — Several South African international bonds may well be issued in yen during the coming year.

Daiwa Securities, Japan second largest securities house held a closed doors seminar on South Africa for Japanese institutions last week.

Executives of Daiwa were secretive about the conference, even though Japan has recently disbanded sanctions.

But players in the Eurobond market, the international capital market believe that Daiwa is testing the market for a South African bond issue denominated in yen.

The house was impressed with the performance of the DM400 million five-year bond issued by the Republic of South Africa, say dealers.

Provided the yield is pitched at much higher levels than ogther quality Euro-yen bonds (currently around 6,5 percent), a Republic or para-statal South African yen issue is likely to be successful. Especially since currency advisors believe that the yen will be the strongest currency in the coming year.

Nomura, Daiwa, Nikko and Yamaichi, Japan's leading securities houses, in that order, have impressive placing power, despite recent scandals on the Tokyo Stock Exchange.

According to International Financing Review, Nomura continues to head the Eurobond book running tables, whilst Daiwa is fifth, Yamaichi seventh and Nikko tenth. Between them, they raised $30 billion (R84 billion) on the Eurobond market this year, mainly for Japanese companies.

Yet following the scandal and a sharp drop in profits, the houses are keenly looking for business.

Super nationals such as the World Bank and European Investment Bank are steering clear of the Japanese Big Four until they are sure that the houses have fully cleared their names from corruption.

Recently Daiwa sent a team of executives to assess South Africa's political and economic situation.

The seminar covered the economy, business prospects, assessment of SA international bonds and the Johannesburg share market, according to Daiwa executives.

Japanese institutions could have a significant impact on the Johannesburg Stock Exchange, if they do decide to buy in quantity.

Meanwhile, journalists of Nihon Keizai Shimbum recently interviewed businessmen and officials in South Africa for a survey on the country.

Japanese companies are planning a significant increase in business with South Africa, according to Nihon Keizai.

IDT goes ahead with Eurobond issue

74A CT 8/11/91

Own Correspondent

JOHANNESBURG. — The Independent Development Trust (IDT) is to go ahead with its proposed $100m Eurobond issue, IDT chairman Jan Steyn said yesterday.

This is despite unresolved discussions between the IDT and the ANC over the proposed issue. The two had agreed not to comment on the discussions other than to say they were proceeding, he said.

He did not give details about proposed dates for the issue which is being lead-managed by J P Morgan bank, although uncertainty surrounds J P Morgan's role in the issue should the ANC not back it.

The issue has been plagued by contradictory statements about the ANC's stance on the issue.

Sources said the IDT had decided to go ahead with the issue with or without the ANC and would not delay its issue and allow other borrowers to make it to the market before them.

SA 'has an edge' in world capital markets

B Day 8/11/91

SIMON WILLSON

FAVOURABLE foreign debt ratios place SA in the most acceptable segment of the international risk spectrum, according to a new book aimed at global investors.

The book — South Africa: the New Beginning — is available today from the publishers of Euromoney, the monthly world capital and money market journal.

Edited by Wits University Economics Department head Merton Dagut, the book analyses SA's international creditworthiness and is aimed at giving foreign investors an updated view of SA's economic development.

(74A)

Comparative

It portrays an optimistic scenario for upcoming SA issues of Eurobonds, saying SA has an edge over other borrowers as it re-enters world capital markets.

"SA's main comparative advantage in the current climate (given that the (foreign debt) standstill remains in place for several years) is that its regular borrowers have been out of the market for so long.

"Lenders are keen to spread their risk and SA, with its credibility in the marketplace largely intact may, at the right rate for an agreeable period (say three to five years), be a sought-after borrower."

Noting SA's prevailing foreign debt ratios, the book asserts that the country is an acceptable risk in terms of sovereign risk criteria.

Debt servicing costs accounted for only 7,1% of export earnings last year, against the 20% level generally considered reasonable by the IMF.

Similarly, SA's debt-to-export earnings ratio of 70% last year compared favourably with the average for Western hemisphere developing countries of 323% in 1988.

SA's foreign debt, at 70% of GDP, also stood up well against the Western developing countries' average of 255%.

SA had borrowed very little abroad over the past six years and its re-entry into the Euromarkets was expected to be controlled and orderly.

The SA Treasury had sought to control the timing of international borrowing by public entities to ensure that they were not competing directly with one another in the Euromarkets and to ensure as reasonable a cost as circumstances permitted.

"Lenders and investors in the international capital markets ask two primary questions: does the would-be borrower demonstrate a willingness to meet international obligations; and does it have the ability to do so?"

There could be no doubt that SA's record showed its fiscal and monetary authorities met the willingness test, the book says.

FOREIGN DEBT
FM 8/11/91

Now you see it . . .

A second set of figures on government-backed foreign debt, has been published in the *Government Gazette*. The schedule, published on October 18 (amending figures published a week earlier), breaks down the various currencies in which the debt is denominated. A conversion into US dollars, by UAL economist Dennis Dykes, shows total capital commitments, according to the schedule, fell from $7,1bn on March 31 1990 to $4,6bn at the same date this year.

This debt, which is both in and outside the standstill net, consists of the liabilities of government and public-sector corporations, mainly Eskom, Transnet and the Post Office.

For more than two weeks the *FM* tried to get an explanation for the dramatic fall. Finally, Corrie Pretorius, Accountant-General in the Department of Finance, identified a mistake in Swiss-denominated debt. The schedule shows that the SwFr2,1bn owing in March 1990 fell to SwFr400m in March 1991 (US$1,4bn to $270,8m). A SwFr1,3bn error occurred in the previous year, says Pretorius, which inflated the 1990 figure. Actual paybacks during the year to March 1991 amounted to SwFr434m.

In addition, dollar debt figures were af-

FM 8/11/91

fected by a transfer to the Public Investment Commissioners. The schedule shows an amount of $3,1bn was outstanding at March 31 1990 while only $2,4bn was owing a year later, a difference of $700m. Pretorius says that, of this, $300m was paid to PIC.

This explains $1,2bn of the fall in the global amount as published in the schedule, leaving the amount repaid in the year at $1,3bn. "A plausible figure," says Dykes. "Reserve Bank figures show a fall in public-sector debt (valued at December 1990 dollars) of $1,2bn in calendar 1990."

Spokesmen for Eskom, Transnet and the Post Office confirm that they did not refinance all their maturing debt.

As published in the schedule, debt in other currencies fell from (UAL dollar values at constant exchange rates appear in brackets):

- DM2,6bn to DM2bn ($1,5bn to $1,2bn);
- FFr2,5bn to just on FFr2bn ($422,3m to $338,2m;
- £118,8m to £88m ($206,2m to $152,8m);
- Y42,2bn to Y33,8bn ($298,9m to $240,1m);
- BFr442,8m to BFr418,9m ($12,5m to $11,9m);
- Sch19,2m to zero; ($1,6m to zero) and
- ECU137,3m to ECU33,2m ($164,8m to $39,9m).

This has come at a time when there is increasing concern about the reliability of official statistics (*FM* November 1). Inflation statistics have recently been revised, big revisions have been made to historical national accounts and figures on manufacturing output have been challenged. ■

FM INVESTMENT CONFERENCE FM 8/11/91 (M4A)

Reaching for the right climate

The Reserve Bank Governor sees a green light for growth

FM 8/11/91

After the longest recession since World War 2, it may now be safe for animal spirits to come out to play.

Looking ahead to 1992, Reserve Bank Governor Chris Stals told the *FM* Investment Conference last week: "Prospects for a revival in the economy have improved significantly in recent months."

He said monetary policy in the year ahead would be "cautious but perhaps more relaxed." And, though he opposes "unrealistic extraneous injections, like the artificial creation of more money by the central bank" to initiate recovery, he is not averse to "stimulants of the right substance" to "reinforce normal market forces."

After this signal from the central banker, what business needs is reassurance from the ANC that investment per se is worthwhile in the longer term. And a measure of this came, too, at the conference, from ANC Secretary-General Cyril Ramaphosa.

Obviously, any statement on economic policy by the ANC is treated with caution by the business community. That policy is still in its formative stages and subject to ebbs and flows of a variety of viewpoints within the organisation — as well as to strategic manoeuvring ahead of negotiations. But, for what it was worth, Ramaphosa spoke more of investment than of redistribution.

The ANC, he said, was "acutely conscious of the need to successfully reintegrate our economy into the world economy. What is under consideration in our think-tanks . . . is a simple but powerful inducement package based on assurances rather than financial or industrial relations incentives and allowances. There are successful international precedents for this. More details on this approach will emerge relatively soon."

The tone of the speakers at the *FM*'s 21st annual Investment Conference ranged from cautious to upbeat.

Governor Chris Stals . . .
things are looking up

Apart from political considerations, Stals had one serious reservation about the future: the strength of inflation. In reply to a question from the floor, he said a central bank's objective is always to get inflation lower, so the target for inflation is zero.

On the other hand, he suggested, progress had been made; a development which would be more fully reflected as the new weighting of the CPI basket was phased in over the next year — a process which began in August.

He is, at least, satisfied that "the rate of growth in the money supply and domestic credit extension and the level of interest rates are now more in line with the requirement of an environment conducive to growth with stability."

The green light for some policy relaxation has come from the balance of payments.

At a time when the current account is likely to show a surplus of R3bn-R4bn — a conservative estimate — the capital account is improving. The net outflow in 1991 may be even smaller than the R2,9bn last year — "easily less than R2,5bn."

***FM*'s Nigel Bruce and ANC's Cyril Ramaphosa**

For 1992, the prospects are "comforting." Commitments to repay foreign loans with formally fixed maturities add up to less than US$1bn.

Against this background, it will be possible to maintain a relatively stable exchange rate against a weighted basket of currencies.

"We now have greater scope to accommodate a sustainable upturn in the economy — particularly if foreign finance is used to finance imports of capital goods."

Foreign funds and, in particular, real capital investment, might be more readily available than seemed likely a year ago, when a huge capital drain to eastern Europe was expected. Morgan Guaranty Trust MD Rimmer de Vries told the conference this is not imminent. He argued that these countries have to prepare themselves to absorb foreign capital.

There are other factors:

- ☐ The present Latin American current account deficit of about $12bn is not likely to rise much;
- ☐ The needs of the Gulf countries "are likely to be a two-year phenomenon, freeing $25bn a year by 1993-1994";
- ☐ Japan is expected to run a much larger annual current account surplus — probably about $50bn more in two to three years' time than the 1990 surplus; and
- ☐ The US current account deficit can reasonably be expected to be significantly smaller than 1990's $100bn, freeing funds for other borrowers.

So the capital requirements of eastern Europe will be met relatively easily by world markets.

De Vries, however, balanced this optimism with some sobering long-term projections: if there is no change in present government policies and business attitudes in the US, Europe and Japan, the steady drift towards forming protectionist blocs will reduce growth everywhere over the next two decades.

In the near future, he foresees only a modest recovery in the US. The significance of this for SA is that the benefit which a boom confers on commodity prices will be that much less. Gold is now included in the commodity category of exports.

Its changing role was described by another speaker, Alfred Schneider of the Zurich Swiss Bank Corporation, who concluded that gold prices "will increasingly reflect the fundamental relationship between supply and demand, as is the case with base metals." Fortunately, demand for gold fabrication is likely to grow and will "sustain a solid basis for demand for gold."

Some encouraging factors are emerging on the supply side, according to Gengold MD Gary Maude, who spoke on SA's gold mining prospects. In the Eighties, new opportunities were created by the development of comparatively inexpensive leaching technology which added substantially to the supply.

SA rates poorly in global creditworthiness test

BDay 8/11/91 (74A)

ROBERT GENTLE

SOUTH Africans could be forgiven for thinking that government's recent successful DM400m Eurobond issues means foreign money will come pouring into the country and that foreign lenders will be falling over themselves to finance the post-apartheid SA.

We should think again.

When subjected to international creditworthiness tests, SA comes out looking pretty awful. Of course we steal the show on the African continent; the September 1991 Euromoney rating puts SA at 54%, followed by Botswana (50,8%), Zimbabwe (44%), Mauritius (40,2%) and Swaziland (38,2%).

But on a global scale, SA is way down at position 36 — admittedly better than last year's 51 — but still nowhere near the top. SA is often held up as an economic superpower compared to Eastern European countries, yet it occupies a slightly lower rating than Czechoslovakia, whose "smooth transition into democracy, stable and competitive economy and low foreign debt all contribute to its high rating".

Mexico, the rising star of central America, is also better rated than SA at 55,8%. "Mexico has taken the lead this year; as formal fast-track negotiations for free trade with the US continue, inflation is falling and production increasing," according to Euromoney.

The magazine bases its ratings on the following factors: 40% analytical indicators (political risk, economic risk, economic indicators); 20% credit indicators (payment record, ease of rescheduling arrangements), and 40% market indicators (access to bond markets, availability of short-term finance).

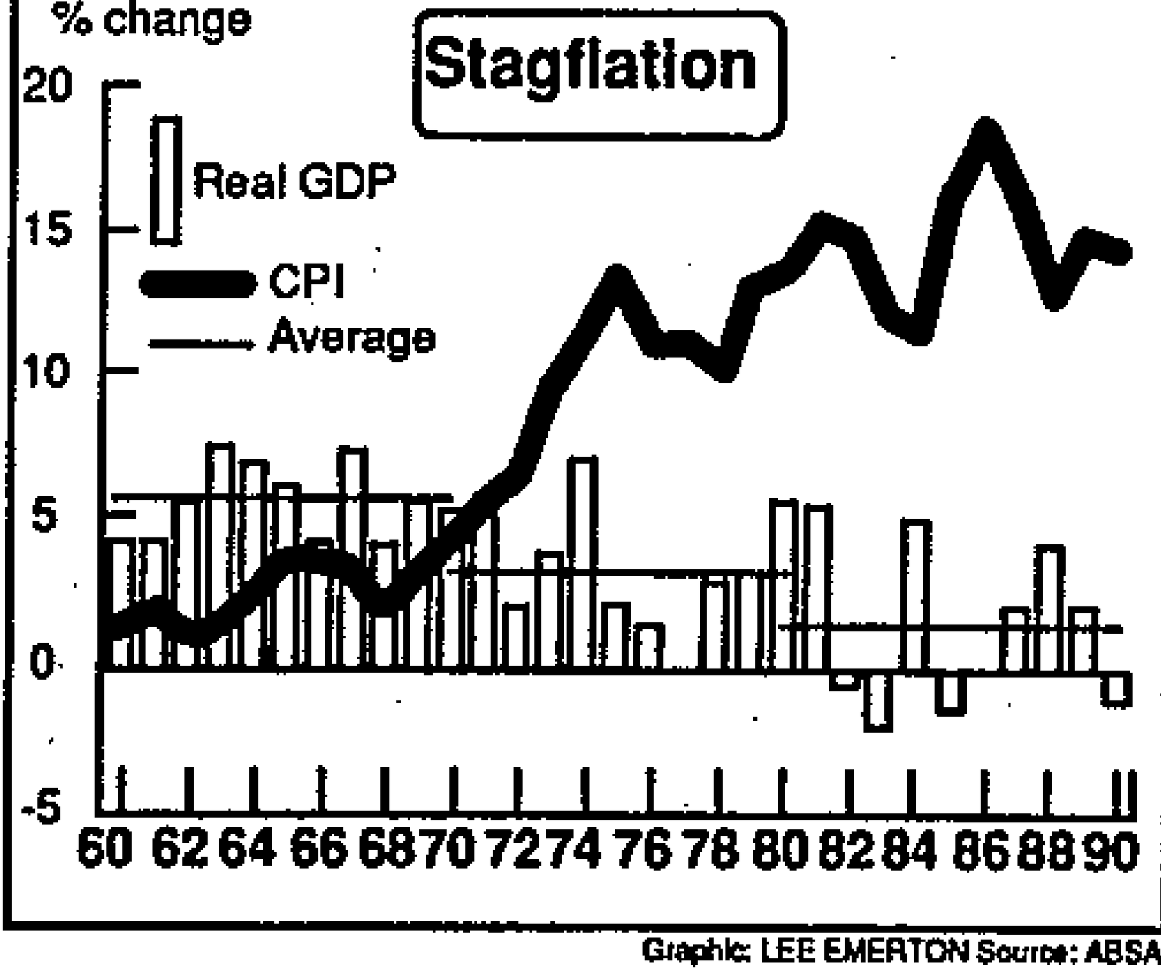
Swiss Bank Corporation goes for a more exhaustive approach, details of which are published in a special supplement which should be required reading for economic planners of a post-apartheid SA.

The report acknowledges the special difficulty of country risk analysis: unlike evaluating say, mortgage loans, it assesses future events under conditions of uncertainty, that is, a state of the world where the probability distribution of default is hardly known.

"The ultimate purpose of country risk analysis is the assessment of a country's ... future economic and political capacity to generate net foreign exchange and relinquish it for debt service. Two sorts of uncertainty must be assessed: whether the borrowing country will be able to come up with the necessary foreign exchange to meet its external obligations (economic risk) and whether the borrowing country will be willing to service its obligations (political risk)."

Swiss Bank Corporation then looks at these uncertainties by way of several key performances, economic and political indicators and relates them to the external environment.

For example, a high investment ratio (gross investment to GDP), especially when related to investment efficiency is a "precondition for high economic growth over the long run". High and stable growth rates of net exports mean rising foreign exchange revenues and an improving debt-servicing capacity.



Graphic: LEE EMERTON Source: ABSA

High inflation, on the other hand, generally distorts the allocation of resources, undermines international competitiveness, overvalues currency, causes capital flight and deters domestic and foreign investors.

"The quality of a country's fiscal policy is extremely important for medium term debt-servicing capacity," says the report.

Stubborn discrepancies between fiscal revenues and expenditures trigger serious side effects. They increase debt servicing costs and cause government debt to spiral. Structural budget deficits decrease the propensity to save. Higher deficits also imply a high real interest level which has negative effects on capital accumulation and therefore curtails economic growth. Growing deficits are accompanied by the danger of those deficits being financed by the printing of money, which fuels more inflation.

Political risk, notably the willingness to pay, can be evaluated "based on indicators that identify the country's vested interest in meeting its external payments". Examples: degree of political and economic integration with other (Western) nations, ideological orientation and form of government. Recorded unemployment related to per capita growth rate can also be a key indicator of political risk.

The Swiss Bank Corporation analysis can be developed further, but the point is already well made: SA is by no means a model student and falls down on many of the key points. Inflation is stubbornly high, money supply is the highest of 15 industrialised countries, labour productivity is low, the ratio of gross investment to GDP is estimated at under 20% (compared to about 25% in leading industrial countries).

Absa economist Adam Jacobs, commenting on the report, says the country has become the victim of stagflation — defined as a combination of stagnation and inflation: "My own analysis is that we are not creditworthy. We have a long way to go before we can sell ourselves as a blue chip country."

He says labour productivity has to increase and government spending (now at around 30% of GDP compared to 20% in the early '70s) must be brought under control, inflation brought down, the dissuasive tax regime sorted out and capital investment increased.

LETTERS

Business Report

Capital inflows 'crucial'

74A

CT 13/11/91

By ARI JACOBSON

SA's economic survival hinges on capital inflows from overseas said governor of the SA Reserve bank Chris Stals.

In an interview with the CT yesterday Stals said these flows would also be essential for supporting social upliftment programmes.

He was commenting on his speech earlier in the week at the Bureau of Economic Research's (BER) conference where he said "if monetary policy in the '90s is forced to support social upliftment programmes — such handouts will lead to inflation and further social problems".

Back to the present, Stals added "SA has to be realistic about what it can afford" refering to the desperate need for economic growth to stimulate the economy — but no obvious way of achieving this.

The essential ingredients for growth he said were foreign capital flowing back into the country and business confidence being restored.

Stals re-emphasised that the government would not use monetary policy — through money creation or the lowering of interest rates — to directly stimulate the economy. "This just creates more poverty in the long term and does not even work in the short term."

As for borrowing to stimulate growth, Stals recognised the government was already treading a fine line with some 16% of current government expenditure being used to finance such debt.

He did not rule out direct fiscal aide like the capital investment schemes currently underway, to encourage fixed investment, or the role being played by among others the Development Bank and Industrial Development Trust to ensure funds were channelled to the areas of social need.

Stals also mentioned the reorganised priorities of the fiscus with the budget shifting its focus to bolster socially oriented programmes.

'2% rates cut will lift SA economy'

74A

CT 14/11/91

By AUDREY D'ANGELO
Business Editor

A CUT of 2% in interest rates would be enough "to take the economy immediately off the bottom", Brian Kantor, professor of economics at the University of Cape Town, said yesterday.

He told a National Clothing Federation seminar that the general strength of the trading account of the balance of payments was an encouraging sign that economic recovery was imminent.

Kantor thought it was the cost and availability of credit and slow money supply growth, not a lack of confidence, that was holding the economy back.

In normal circumstances the improvement in the balance of payments and SA's improved standing in international capital markets would already have led to lower interest rates.

But the governor of the Reserve Bank was "exercising a most unusual degree of determination and an unusual degree of freedom from political interference to try and wring inflation out of our system".

The new SA stood to benefit greatly in the long term from an independent central bank determined to stick to the task of maintaining the value of the currency.

"It is possible to get the economy going strongly again, not only temporarily but in a way that will sustain permanently higher levels of growth with significantly lower rates of inflation.

A greater supply of dollars from World Bank loans, standby credits from the International Monetary Fund and the sale of strategic oil reserves would not only pay for increased imports but maintain the value of the rand.

Upswing likely to be sustainable — economist

B/Day 14/11/91 (74A)

ANDREW GILL

THE economic upswing expected in 1992 is likely to be more sustainable than the recoveries of the past decade, Old Mutual chief economist Dave Mohr says in the assurer's latest economic monitor.

However, the short-term prospects for consumers as the recovery gets under way are bleak, with little scope for meaningful tax relief or significantly lower interest rates.

Mohr says several factors should contribute to a more sustained growth path once the economy starts to recover. Possibly the most important is a less constrained balance of payments (BoP) position. The gradual lifting of sanctions, expected world economic recovery and recent policy measures promoting exports all provide scope for export growth.

Mohr says evidence of renewed weakness in the economy in the third quarter and indications that monetary policy is unlikely to be relaxed until 1992 raised speculation that the recovery could be further delayed. High inflation and expansionary fiscal policy are behind the view that monetary policy will remain tight.

Prospects for for an accelerated and sustained expansion of SA's production capacity through new fixed investment have improved.

The likelihood of SA regaining its place in world trade, a less constrained BoP position and a possible greater degree of interest- and exchange-rate stability should boost investment decisions.

Apart from increased spending to expand the economy's goods-producing capital stock, increased capital outlay on housing, education, health services and electrification will raise overall investment.

The social component should also contribute to raising labour productivity in the longer term.

Govt's dearth of income results in huge deficit

BDay 19/11/91 M4A

EDWARD OSBORN

SA's BUDGET deficit for the first six months of the financial year, which coincides exactly with the introduction of VAT, should have been about R4,45bn. The actual outcome has been much worse at R7,2bn — R2,8bn out. This is almost entirely because of sharply reduced revenues (see table), and not because of expenditures running badly beyond authorised budgetary approvals.

Two items of revenue account for the drop in income — income tax and sales tax — both of which can be attributed to the depth and duration of the recession, presumably beyond the expectations of those in the Finance Ministry responsible for the estimates of revenue. On a straight half-yearly basis, income tax revenue should have amounted to R22,4bn, but only brought in R20,6bn. Similarly, sales tax revenue was R9bn as against a budgeted R9,7bn.

Total expenditures exceeded the budgetary allocations — excluding the contingency provision of R1,2bn — by only R262m or 0,6%. A number of departments have drawn significantly more than half of their votes, but this is balanced out by underspending in others, mainly defence, regional development, and education and training.

However, what is not clear is the degree to which overspending has been caused by higher salary costs which are provided for in a separate vote in the budgetary make-up as "improvement of conditions of service". This provides an internal source of funding of the salary increments and makes it difficult to assess the likelihood of the departments meeting their budgets by the end of the year. On the face of it, it seems likely, and possibly well within the contingency backstop. The director-general of Finance has given public assurance of this.

In addition to the actual deficit to date, there has been a major stock redemption outgoing of R2bn in August and miscellaneous small redemption payments, bringing the total financing needs of the State Revenue Account to R9,6bn. This has been more than adequately covered by borrowing of R10,7bn, including a small borrowing abroad of R139m and was almost sufficient to counterbalance the payments on loans abroad in the period.

Overall, there has been the equivalent of a financial surplus of R1 078m, from which a number of disbursements have been made leaving an addition to balances of R500m.

STATE REVENUE ACCOUNT: 1991/92 (Rm)

	Budget	Expected Apr-Sep	Actual Apr-Sep	Difference
Revenue (Budget)	74 866	37 433	34 917	−2 516
Net VAT adjust	−510			
Sale of oil stocks	1 950			
2½% luxury excise	300			
Expenditure:				
Votes	83 784	41 892	42 154	262
Contingency	1 200			
Exp from oil sale	1 000			
Deficit	−9 678	−4 459	−7 237	−2 778
Redemptions	−5 416	−2 224	−2 355	−131
Total finance needs	15 094	6 683	9 592	2 909
Financing:				
Loans	14 150	7 075	10 529	3 454
Other	265	148	141	−7
Total finance	14 415	7 223	10 670	3 447
Finance surplus	−679	590	1 078	488
Export reinsurance fund			−450	
Other below line transactions			−120	
Change in balances			508	
Exchequer balance: April 1		2 708		
Sep 30			3 216	

Treasury bills have, in net terms, been run down by R368m in the half year, and the expected payment of R450m made to the Export Reinsurance Fund out of the proceeds of last year's financial surplus.

Further massive "below-the-line" disbursements have yet to be made. These are a R1bn payment to the Government Pension Fund and R350m in partial reduction of Maize and Sorghum Board debt. The exchequer balance, however, is adequate to meet these and, in any case, these are likely to be recycled back into the State Revenue Account.

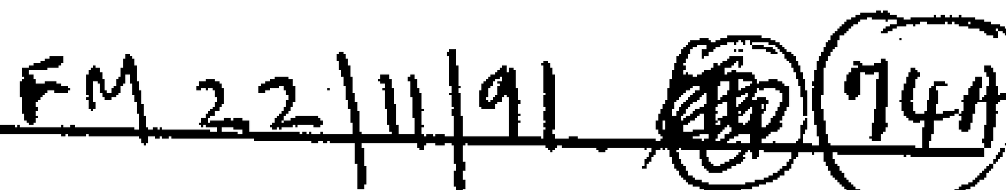
Further major redemptions of stock are expected — of R1,6bn in November and R3,2bn in February. Inasmuch as the Public Investment Commissioners hold R2,2bn, the net amount to be disbursed outside the public sector is likely to be only R2,3bn in total.

Additional new borrowing will be required to meet this (or even less by the amount of the financial surplus of the first half) together with whatever deficit before borrowing arises in the second half. But that seems eminently feasible given the continued flow of pension contribution monies into the state pension funds administered by the PIC, the relatively low borrowing demands of the parastatals, and the highly liquid state of the money markets. The worrying aspect, however, is the rise in the public debt, which stood at 36% of GDP in June.

The size of the deviation of the deficit in the second half is clearly more dependent on revenue than expenditure. Expenditure is on track, but revenue is most uncertain given the tardiness of the economic recovery and the transition into VAT.

☐ **Osborn is chief economist at Nedbank.**

LETTERS



FOREIGN DEBT FM 22/11/91 (74A)

Over the hump

The year of the hump in foreign debt repayments is almost over and the experience has been relatively painless.

A comparison of figures provided nearly a year ago by Reserve Bank Governor Chris Stals at a Euromoney conference in Cape Town, and the prospectus for the recent RSA DM bond issue with a schedule of outstanding redemption commitments, shows Stals was expecting new funds of at least US$600m in 1991. In the event a modestly better circumstance unfolded.

Stals told the conference that at worst SA would have to repay $2,3bn in 1990, $1,6bn in 1991 and under $1bn a year for the rest of the century. (Presumably these are net figures, allowing for new money raised abroad.)

According to the prospectus, redemptions of $1,743bn for public-sector and $2,764bn for private-sector debt were due in 1991 — so-called unaffected debt outside the net. To these must be added $346m due inside the net under the Third Interim Agreement.

So, on the face of it, repayments total a formidable $4,9bn. However, a footnote to the table explains that the private-sector amount includes inter-company trade credit and short-term trade credit through the banking sector. It seems reasonable to assume that the bulk of private-sector debt was trade-related and will be rolled over through normal trade mechanisms.

On this basis, it's reasonable to eliminate the vast bulk of the private-sector item of about $2,7bn and assume that a nominal $100m of it will be repaid this year. So total gross repayments could approximate $2,2bn (private-sector $100m, public-sector $1,75bn, and $350m in the net). To reconcile this with Stals's worst case, $600m new foreign money will have to be raised.

In fact, $700m appears to have been raised so far this year. According to a research paper by Jonathan Garner and Jonathan Leape, of the Centre for the Study of the SA Economy & International Finance at the London School of Economics (*FM* September 20), $450m had been raised by August.

To this must be added the German public issue, which brought in DM400m, or about $250m (according to the Finance Department). This leaves a total long-term capital outflow of $1,5bn.

Unfortunately, it is difficult to square this with other statistics put out by the Finance Department, which cover only government-guaranteed debt. The Bank works with total foreign debt.

Nedbank chief economist Edward Osborn points out another possible discrepancy.

He says a $1,5bn capital outflow is not easy to reconcile with net reserve figures and argues that there is an expected surplus on the current account for the year of some R5,4bn, or $1,9bn — "which, if anything, is likely to be an overstatement because of systematic errors and omissions."

He adds: "If there had been net capital redemption of $1,5bn, the substantial increase in foreign reserves — for the Reserve Bank alone some $500m in net reserves in the first half, and a further $400m in gross reserves in the fourth quarter — would not have been possible."

Osborn believes there is an error in the $1,734bn estimate for public-sector redemptions and that the net capital outflow is more likely to be about $600m. The Finance Department schedule of government-backed foreign debt payments, in the October 18 *Government Gazette*, suggests $850m, about $900m less than the prospectus figure.

Whatever the true position, a greater ability to borrow abroad suggests an easy passage through to 1993, when the Third Interim Arrangement expires.

Gross repayments of $1,437bn inside and outside the net are due next year. To reconcile this with Stals's prediction that worst-case repayments should not exceed $1bn a year for any year after 1991 will need at least $500m fresh money to be borrowed abroad.

As for 1993, we must assume that the balance of debt in the net (down to $5,475bn after a further repayment of $437m that year) will again be rolled over through another interim agreement.

Gross repayments would then total $1,86bn ($1,423bn outside the net). To meet Stals's target, SA would have to raise no less than $900m fresh foreign funds. While ambitious by the standards of recent times, this year's performance makes this attainable.

There is yet another caveat. In analysing foreign debt one must bear in mind that the Reserve Bank can borrow short-term from foreign banks. But this can distort the picture only for comparatively short periods.

Also, it is reasonable to assume a further attrition of debt inside the net through debt-equity conversions, via the finrand, and conversion to long-term debt outside the net.

A wild guess is that $300m will leave the net in 1991. Stals said last November that $3,7bn had already been removed since debt-for-equity swaps were introduced in 1988 — mainly by conversion to long-term debt but also by debt-equity swaps.

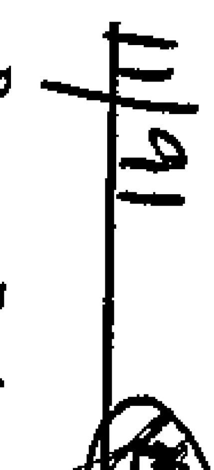
This means debt inside the net may well be down from $6,623bn at end-1990 (as mentioned in the prospectus) to, say, $6bn by end-1991. Non-affected debt was $12,76bn at end-1990. On a $1,6bn total net repayment in 1991 (only $350m inside the net), this could now be down to about $11,4bn.

Of course, depending on economic growth, Eskom will some time in the second half of the Nineties need a new capital programme to finance an expansion of generating capacity in the early 21st Century. If most of this has to be raised locally, the strain will be considerable, so much depends on the possibilities of foreign borrowings at that stage.

A final note of caution: the political future is by no means settled or secure. Any deterioration in the present uneasy equilibrium could cut short the improvement in our foreign creditworthiness.

Robin Friedland

11/91



IDT delays Eurobond loan bid

(74A)

ARG 30/11/91

Weekend Argus Political Staff

EYEBROWS have been raised in international banking circles over the Independent Development Trust's surprise postponement of its Eurobond issue to help fund a national school and clinic building programme.

And questions are now being asked in these circles about the African National Congress's "reliability".

The IDT this week announced it was calling off until next year a bid for a R100-million loan because the ANC had withdrawn its support at the last minute.

Weekend Argus understands the IDT decision comes after 10 months of consultation and preparation.

The IDT, headed by former judge Mr Jan Steyn, said "explicit support" for the venture had been received from key political leaders, including President De Klerk, Inkatha Freedom Party leader Chief Mangosuthu Buthelezi and ANC president Nelson Mandela, before the loan bid was made.

The IDT said shortly before it was to make its first presentation in London in mid-October, the ANC suddenly issued a statement "claiming its support was confined to grant-funding, not to the raising of loan finance".

It is understood the ANC decided the IDT proposal, if successful, would constitute a breach of its policy of financial sanctions.

Mr Mandela is believed to have said his initial support was due to a misunderstanding of the implications of the ANC's sanctions policy.

The IDT said the ANC's October statement was "insupportable". It had gone ahead with its presentation on the basis that whatever "misunderstandings" had arisen would be resolved after its delegation's return from London.

"Following further discussions, it appears that despite the support originally given to the venture, the ANC now regards the inflow of loan funds for a national school-building programme as being in conflict with its policy on financial sanctions," said the trust.

It said delays created by the ANC's "contradictory statements" had impacted on its capacity "to access the markets".

In addition, fears have been expressed about the possible damage done to the ANC's credibility among international bankers.

The image of "unreliability" and "unpredictability" could hurt the organisation in future, according to one source, and could cast doubt over agreements it entered into during constitutional negotiations.

The IDT had decided to make R300-million of its own resources available to a national school building trust. It would seek private-sector and community involvement in the programme "to limit the damage caused by the delay".

ANC spokesman Mr Carl Niehaus said last week he had nothing to add to a statement issued recently by ANC deputy president Mr Walter Sisulu.

Dramatic drop in capital outflow

BDay 6/12/91 14A

ANDREW GILL

A CAPITAL outflow of more than R2bn in the second quarter was slashed to R97m in the third quarter, despite a R500m foreign debt repayment and decreased inflows from project financing.

The Reserve Bank's December Quarterly Bulletin said long-term capital continued flowing from the country from July to September, but short-term capital movements showed a R3bn turnaround from the second quarter.

Not included in the figures is about R700m raised in September on the German capital market. The physical inflow did not occur until early October and will be reflected in fourth-quarter statistics.

The Bank said a R500m debt repayment, decreased project financing because of the winding down of Mossgas financing, and the end of inflows for SA Airways for the financing of its new fleet, which had buoyed the two previous quarters' figures, had seen long-term capital flows worsen.

A long-term outflow of R1,36bn was recorded in the July to September period, compared with the previous three months' R326m outflow. This was balanced partly by a R1,24bn inflow (R1,75bn outflow) of short-term capital.

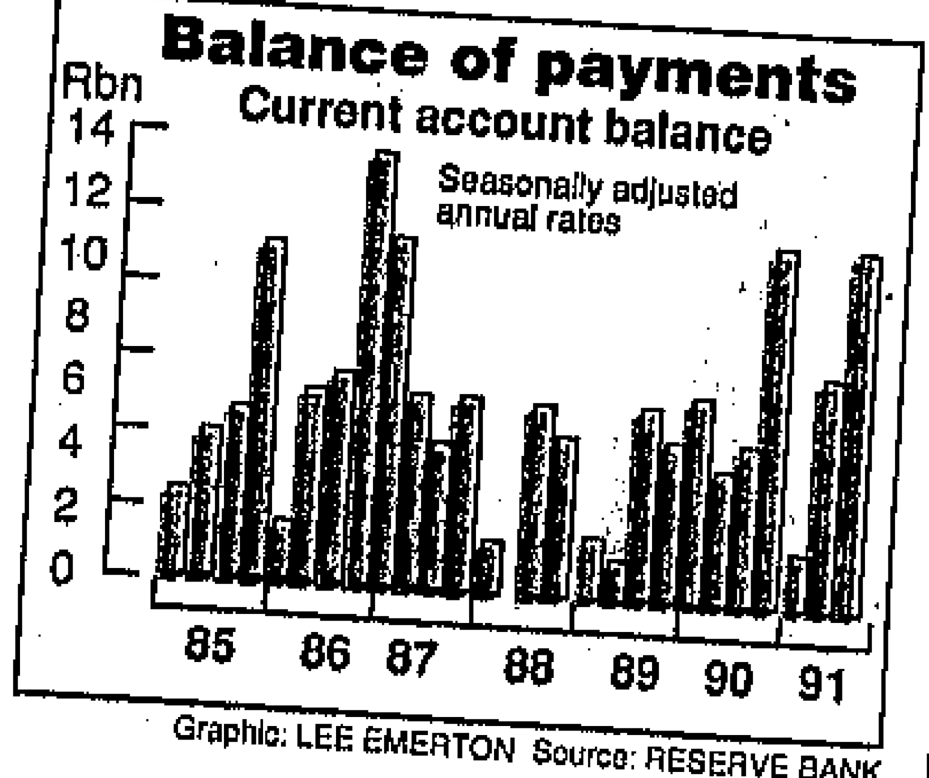
The Bank said the volatility of the short-term movements clearly reflected a more normal behaviour of such movements, which were affected by economic factors such as changes in foreign trade, expected foreign exchange movements and the cost of forward exchange cover.

The current account continued to show a steady improvement in the third quarter, registering its seasonally adjusted 27th consecutive quarterly surplus. The total surplus on the current account for the first nine months was R4,3bn compared with R3,5bn at the same time last year.

The Bank forecasts a total surplus above R6bn for the year — double its expectations earlier in the year.

It was the result of a general improvement in the trade account as merchandise exports rose substantially, imports dropped marginally and net gold exports increased marginally.

Central Statistical Service figures diclosed the total value of exports for the first eight months was up 9,1% over the same period in 1990.



Graphic: LEE EMERTON Source: RESERVE BANK

Cash piles driving interest rates down

S Times (Buss) 8/12/91

By DIRK TIEMANN

MONEY markets awash with cash are putting increasing downward pressure on interest rates.

Liquidity will increase when the Government stops its bond flotations, normally in December or January, says Nedbank chief economist Edward Osborn.

The Reserve Bank can mop up liquidity in the money market while the Government is absorbing cash through bond issues to finance its requirements.

But the Government's new spending next year will add to the problem caused by the healthy balance of payments (BOP) surplus.

The good news for the economy is that the Reserve Bank difficulty in absorbing the excess could induce it to follow the market.

The bank's December bulletin shows the current account surplus forecast for the year has been revised upwards to R6-billion. Merchandise exports in the third quarter were up 5% and imports dipped.

The value and volume of merchandise exports hit records in the third quarter. The value rose 6% to R48,6-billion. Sales of Krugerrands to the Reserve Bank added to liquidity in the money markets.

The difficulty that the bank has had in mopping up this liquidity is reflected in the rise of the value of foreign-currency swops, which rose to a record R4,8-billion in November. In January they totalled R900-million.

Another indicator is the amount of Treasury bills offered on weekly tender. They rose from R100-million a week in January to R200-million on November 1.

This market liquidity resulted in three-month liquid BAs reaching 16,50% by mid-November, two percentage points below the peak of late 1989.

The bulletin says there are heightened expectations of a downward movement in the bank rate.

Dr Osborn is sceptical about a fall in inflation.

He warns that Reserve Bank Governor Chris Stals could come under political pressure to give in earlier on interest rates.

Encouraged

The Reserve Bank is encouraged by slower growth in money supply. If distortions from the Deposit-Taking Institutions Act are stripped out, money supply rose by only 7,9% from February to October 1991.

Growth in credit demand is also trending downward, rising only 14,1% from February to September.

In spite of these promising indicators for a cut in the bank rate, the bulletin says real interest rates are still low compared with other countries. Spain and Australia are running real rates of up to 12%.

Sanlam's Economic Survey forecasts a moderate bank rate cut in February or March next year in spite of predictions of relatively high inflation throughout 1992, settling about 12% in December.

R1bn boost seen for SA surplus

B.Day 6/1/92

SHARON WOOD

LARGER sales of strategic oil stockpiles and growing exports could push SA's current account surplus up to R7bn this year from an expected R6bn last year, Standard Bank chief economist Nico Czypionka said at the weekend. (74A) (4G) (DEG)

"The running down of oil stockpiles started late last year, if at all, and sales are likely to be bigger this year," he added.

This would dampen the stimulatory effect of a pick-up in the economy on imports in the second half of the year.

Czypionka expected exports to rise during the year because of a continuation in the momentum built up last year and the positive effect of the lifting of sanctions. There would probably be no increase in the gold price, he said.

"The increase in exports will not be because of higher commodity prices."

In contrast, Bankorp economist Jacques du Toit predicted a sharply lower current account surplus for the year. The current account surplus would probably fall to R5,5bn in 1992 from an expected R7bn surplus last year, he said.

Imports would surge by about 37% during the year because of a growing economy, compared with an estimated 4% rise in imports in 1991, he said.

SA seeking final debt deal — Stals

(74A) CT 15/1/92

From SHARON WOOD

JOHANNESBURG. — The Reserve Bank would push for a final debt arrangement to deal with the outstanding $5bn when the third interim debt arrangement ended in 1993, Reserve Bank Governor Chris Stals said yesterday.

In an interview, Stals said there would have to be another arrangement to deal with outstanding debt because SA could not afford to repay the whole amount in 1993. The $5bn owed was not big by world standards and SA always acted in accordance with the arrangements.

"I hope the political process will make enough progress this year, making it easier to come to a more permanent arrangement next year with SA's creditors.

"This will be extremely difficult if we do not have normal relations with the IMF and the World Bank, but I do not think it will be too difficult to get co-operation."

If SA managed to secure the agreement with international creditors, it would no longer be a country with an outstanding debt problem. SA's foreign debt has been subject to three interim debt arrangements since the debt standstill in 1985.

The $1bn debt due this year was relatively small and the foreign reserves position was fairly comfortable, he said. This year would be an easy year for the balance of payments, when the current account surplus would again exceed capital outflows.

Stals warned the balance of payments would be a big problem in the future, when imports soared on the back of renewed private and public sector fixed investment. But this would not occur in 1992 because the economy was too depressed.

On the inflation front, Stals said he was confident that inflation would fall this year but not to single digits. "Single-digit inflation is still achievable and the Reserve Bank will have to go on fighting inflation until it reaches that stage, which will certainly not be this year."

Monetary policy had been successful in a number of areas, particulary in reducing money supply growth and bank credit extensions, but it would remain restrictive this year. Money supply had grown at 9,5% seasonally adjusted and annualised since February last year, which was acceptable, but there would be a shift in monetary policy stance only if the rate of growth dropped to between 2% and 3%.

A rough estimate showed that money supply growth would not be inflationary if it grew at three times the rate of real growth, he added.

Stals said the reason inflation had not fallen despite more than two years of restrictive monetary policy was because of built-in structural factors and not as a result of government spending.

Correcting these would take priority in the fight against inflation in the future, he said. Monetary policy had gone as far as it could and would now be used to contain inflation rather than reduce it.

Stals believed a social accord between business, government, trade unions and the Reserve Bank, was necessary to address the structural component of inflation.

ANC warning on new bond

CT 22/1/92

Own Correspondent

JOHANNESBURG. — The ANC yesterday severely criticised government's raising of an ECU bond worth R890 million, and warned that a democratic government would "assess its obligation" to service and repay debts contracted by the present government.

The ANC said: "... we are bound to declare, once again, that a democratic government will carefully assess its obligations to service and take responsibility for debts contracted by the South African government and its various agencies."

The ANC statement said it was particularly critical because the issue took place just before the formation of an interim government.

'Buying votes'

One ANC source said, however, that the ANC's anger was more a "shot across the bow", although ANC members insist the threat had to be taken seriously.

The ANC's concern derived from its impression that government was cynically attempting to buy votes in a future election by presenting itself as the champion of the poor, the source said.

Finance director-general Gerhard Croeser justified the bond by saying the money raised would contribute to the financing of the national budget "the thrust of which is increasingly the upliftment of the less advantaged part of the community".

● ECU issue: 'Generous rewards' — p13

'Tentative' upswing likely

SHARON WOOD

SA's long-term growth prospects are encouraging but the international climate suggests that the upswing this year will be tentative at best, Investec says in its latest Economic Focus, released yesterday.

Despite the credible performance of non-gold exports and the improved access to foreign markets, recovery in the US will not be strong enough to support vigorous domestic growth, it says.

However, the strong performance of the current account of the balance of payments and the build-up of gold and foreign exchange reserves point to an increased capacity for growth in the longer term.

Investec is confident that commodity prices will improve from their current all-time lows before the mid-1990s, at least supporting the later phases of the domestic upswing.

The low level of real fixed investment is a critical problem, it says. "It seems unlikely that world economic conditions will be buoyant enough to inspire a major investment drive during 1992."

A genuine recovery in investment is dependent on a resurgence of confidence in the economic future of SA.

"Although the violence and the uncharted political waters into which Codesa is leading the country naturally give rise to fear and trepidation, there are a variety of forces at work within the SA political economy which provide grounds for guarded optimism," Investec says. These include the easing of sanctions, the potential involvement of the IMF and the World Bank in SA and the regional "peace dividend".

In addition, a new realism has started to emerge on the labour front which has promoted frank debate on the crucial socio-economic problems confronting SA.

THE WEEK AHEAD

by Simon Willson

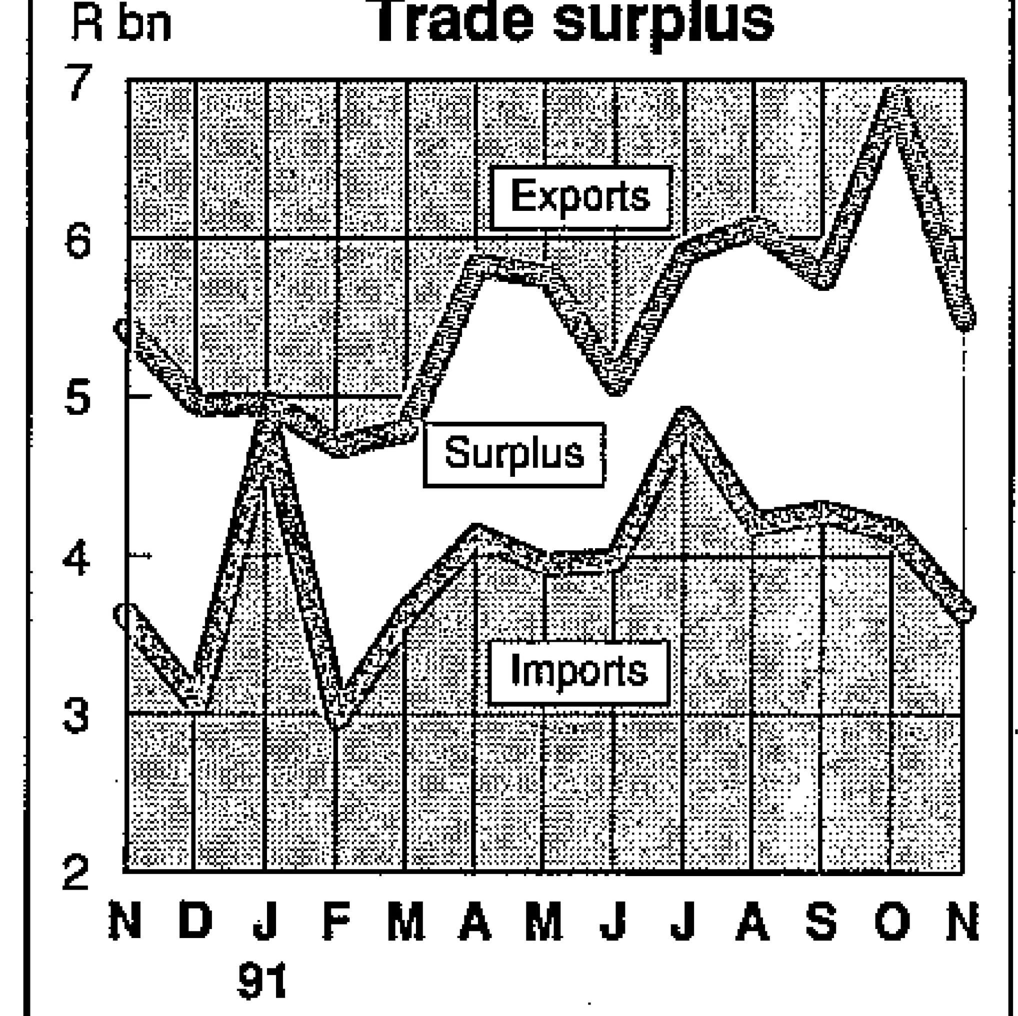
Good prospects for delayed trade figures

BDay 27/1/92 (74A)

PUBLICATION of the December trade surplus, expected last week, has been delayed to early this week and will, unusually, be the last of the month's vital statistics to emerge. Irrespective of timing, prospects remain almost exclusively favourable for SA's external accounts and November's surplus of R1,84bn looks likely to be matched or bettered.

Since the publication of the November surplus, the already bullish market view of the trade and current accounts for 1991 has improved still further. Exports are being boosted by domestic incentives and by manufacturers diverting production away from the stagnant local market. The sluggish local market is also helping to widen the trade surplus by restraining import demand. Indeed, it is a challenge to discern an adverse influence in the trade account.

The most volatile component of the account over recent months has been the mysterious "unclassified" section, which covers exports of gold and armaments and imports of crude oil. Overall exports have been so strong of late that the effect on the trade balance of the moderate swings in unclassified exports has been muted.



Graphic: LEE EMERTON Source: CUSTOMS & EXCISE

In an imports total that is relatively low and which has, for the last two months, been falling, sudden variations in unclassified imports have been more noticeable. Unclassified imports levels have been especially noteworthy as they reflect the extent of drawdowns on strategic stockpiles.

Lower unclassified imports — signalling a tapping of crude oil reserves to save on imports — contributed to the 12% fall in overall imports in November. Given the strength of exports, the extent of the drawdown on stockpiles remains the most influential swing factor in the trade balance.

Internationally, the markets are likely to be completely rapt by US President George Bush's state of the union address to Congress tomorrow. Bush has, for weeks, publicly previewed the contents of his speech. Running for re-election in in November, it is his last chance to restart the recovery process before polling day.

Bush has given numerous overt hints that he will announce a package of fiscal measures to stimulate the economy. There is now little room for any further easing in monetary policy, since the US discount rate is at a 27-year low of 3,5%. This is likely to support the dollar, as a recovering US economy and an uptick in interest rates will make holding the dollar more attractive from a yield point of view.

Conversely, a failure by Bush to deliver the expected fiscal stimulus — which would, after all, raise the record budget deficit still higher — would sap the confidence of dollar-holders and probably lead to a sell-off.

The state of the union address is likely to overshadow the week's routine releases of US economic statistics, the most important of which appear to be January consumer confidence, out tomorrow and preliminary fourth-quarter GDP due on Wednesday. Consumer confidence might even bump up after six consecutive monthly falls, since the rate of decline in this indicator has flattened out from its steep angle at the beginning of the fourth quarter of last year.

Hard evidence of the famed double dip recession is a prospect on Wednesday when the GDP is expected to decline again after the brief second- and third-quarter recovery. Bush will probably have been briefed on this figure when he stands up in front of Congress tomorrow.

Pik defers challenge to ban on IMF loans

LINDA ENSOR

CAPE TOWN — The time was not right to risk a congressional debate in Washington on the Gramm Amendment, which blocked SA's access to IMF loans, Foreign Minister Pik Botha told a news briefing yesterday.

"I would be hesitant to risk a debate now as I am not yet convinced that the majority in the House of Representatives would vote in favour. But there might be other means to achieve the same purpose," Botha said.

He said that in order to compile a Budget that would stimulate economic growth in SA it was necessary for government to have the reassurance that SA would be able to draw on IMF facilities if it ran into balance of payments problems in 18 to 24 months' time.

Botha said that SA had complied with all the political conditions of the Gramm Amendment but did not presently have balance of payments problems for it to qualify for an IMF loan.

Our political staff reports Botha yesterday acknowledged that he was thinking of retirement.

The second-longest serving foreign minister in the world after Germany's Hans-Dietrich Genscher, Botha will have held his post for 15 years on April 1.

Questioned at a news conference yesterday about whether he hoped to serve in a soon-to-be established interim government, Botha smilingly allowed that he was "getting on in years".

Talking about the time when he would finally step down, he said: "I can feel it in my bones — it's approaching."

But he added that whether he served in an interim government had little to do with his personal preference.

Foreign Affairs insiders said last night dismissed speculation that the 59-year-old Botha might soon call it a day.

Warning on govt deficit

(14A) (69) (25)

SHERIDAN CONNOLLY

EXCESSIVE government expenditure and an under-recovery of income could result in a record R13,7bn budget deficit for the 1991/92 fiscal year, Absa warned in its latest quarterly economic monitor.

The group's economics department said a budget deficit amounting to 4,5% of gross domestic product for the year would be one of the largest deficits of the past decade. Such a deficit would make great demands on the country's savings fund and would result in further crowding out of the private sector.

It said central government was not "living within its means" and this had several negative influences on the economy. Sharp increases in current government expenditure had effectively reduced capital expenditure and had led to higher levels of direct and indirect taxation.

Moreover, a possible R8bn dissaving by central government would limit the likelihood of any significant tax relief in the coming Budget. BDay 30/1/92

The article said there were indications the inflation rate could decline in the coming year.

Bank fears money printing route

LINDA ENSOR

CAPE TOWN — The Reserve Bank's biggest fear of a new government was that it would resort to printing money to satisfy the aspirations of the people, Reserve Bank Deputy Governor Jaap Meijer said at a media briefing yesterday.

"Unfortunately the world is full of unhappy examples of societies in turmoil which are unable to collect the right amount of taxes but which have to go on spending and resort to the printing process. We are fully aware of the risk and hope to do our best by maintaining as far as we can a truly independent stature for the central bank."

Meijer said SA's foreign debt of about $6bn represented about 70% of exports and about 18-19% of GDP with the interest to service the debt representing about 7% of exports. The debt should drop to about $5bn in 1993 when negotiations with SA's creditor banks in terms of the debt standstill were due.

He said an optimistic scenario would see the negotiations taking on a different character. One option mooted was that SA would pay back the full $5bn only to take it back from creditor banks on a voluntary basis which would mean the reserve requirements fell away. Alternatively, a package deal could be negotiated in which some of the debt was repaid immediately, some in five years and the rest in 10 years.

While the Reserve Bank would "dearly like" to do away with the two-tier currency, this was not possible as it formed part of the debt standstill.

Meijer said Reserve Bank governor Chris Stals had mooted the possibility of buying up finrands to work down the excessive levels of dollars which were sometimes held. This would ease the task of controlling the money market shortage. Further discussions, however, were necessary with creditor banks who might object to this use of dollars instead of them being used to accelerate repayment of the money owed them.

He said the impact of violence on foreign investment in SA was considerable.

ANC assurance on foreign debt

FW, Mandela unite to sell SA at Davos

BDay 3/2/92

74A

BILLY PADDOCK

DAVOS — President F W de Klerk and ANC president Nelson Mandela this weekend worked according to a joint strategy to sell SA to some of the world's most influential businessmen and political leaders at the World Economic Forum.

Both men gave optimistic views of SA's prospects, and Mandela gave new assurances on foreign debt repayments and nationalisation under a prospective ANC government.

Present at the Forum were 35 heads of state and the chairmen, MDs or other senior personnel of many of the world's major corporations.

Speaking yesterday at a media briefing at this luxury ski resort in Switzerland's Alps, Mandela said he had met Foreign Minister Pik Botha on Friday, and they discussed a co-ordinated stategy.

Senior government sources confirmed this and said the arrangement would be of great benefit to SA.

Mandela said any statement from ANC spokesmen that a future ANC government might renege on loans transacted under the present NP government represented only their personal views and not those of the ANC, whose executive had not discussed the issue.

"We are obliged to honour these loans or else we will be in a great deal of trouble, and we are still dealing with this issue."

In his address to the Forum, Mandela called on businessmen to investigate business opportunities in SA now.

On nationalisation, he said the ANC envisaged a mixed economy in SA in which the private sector would play a central and critical role.

For the new SA to succeed in creating wealth and jobs for its people, future economic policy would have to address such questions as security of investments, the right to repatriate earnings, realistic exchange rates and the rate of inflation.

De Klerk told the Forum the industrialised world was deluding itself if it believed whole continents could be written out of the international scenario. "Ignore the plight of Africa at your peril," he said.

Referring to Codesa, he said he was convinced "that from this will emanate an accord on which we shall build a stable and greater SA".

Despite their differences, De Klerk said, he, Mandela and Inkatha president Mangosuthu Buthelezi, who was also present, had a message for the world: "We are overcoming the antagonisms of the past ... together we will build a new SA."

SA could play a constructive role in its region and, in so doing, make a positive contribution to global advancement.

The reason for this was that SA was faced within its borders by the same problems that confronted the international community on a global scale.

These problems included:

- The need to develop all-embracing strategies to reduce backlogs for less priviliged communities;
- Finding resources to provide better housing, education and health services for all its

To Page 2

Davos

BDay 3/2/92

From Page 1

people;

- Stimulating rapid and sustained economic growth; and
- Ensuring that differences were resolved by negotiation.

The country had achieved and would achieve success in providing solutions to providing low-cost housing, electricity to rural communities and agricultural assistance to smallscale farmers.

De Klerk argued that emphasis on Africa's economic decline tended to obscure the continent's enormous potential.

Mandela said he held a long talk with AHI president Attie du Plessis at the conference, and they had arranged a further formal meeting to deal with the issue of nationalisation in greater depth.

In the private discussions they were having with businessmen and leaders, both government delegates and the ANC were "concentrating on putting forward views and presenting a picture of those things that are uniting us rather than our differences", Mandela said.

"We expect an interim government in six months time and then all sanctions except for the oil and arms embargoes will be lifted," he said.

It took time to plan investment, and companies should not wait until sanctions were lifted before investigating the possibilities. He told delegates that in consultations with SA businessmen they were required to come up with alternatives to nationalisation as a means of redistributing wealth, and these discussions were continuing in depth.

"It is quite clear this matter has not been properly addressed and many SA businessmen have agreed here that this is so."

The ANC had no ideological attachment to nationalisation but there were problems it seemed could be addressed only through some form of nationalisation.

A democratic government which did not try to win the support of the business sector as well as the masses stood no chance of surviving, Mandela said.

ANC conflict over foreign loans

BDay 7/2/92

ALAN FINE

ANC sources said yesterday a sensitive situation had been created by the conflicting statements from ANC president Nelson Mandela and the ANC's information and publicity department on the repayment of foreign loans granted to government.

"It is difficult to explain. It is one of those things," said one. Both said the issue probably would be discussed by the national executive committee (NEC) on Mandela's return to SA at the weekend.

Mandela told the World Economic Forum at Davos on Sunday that an ANC government would be obliged to honour the loans. On Wednesday the department said the organisation would weigh its obligations to service and take responsibility for foreign debt incurred by government.

One of the sources, an NEC member, insisted that the department's statement reflected official ANC policy. The issue had been dealt with when secretary-general Cyril Ramaphosa and official Stanley Mabizela expressed divergent views on the issue last year. Ramaphosa's view, as again reflected in the latest departmental statement, had prevailed.

The source said this did not mean that foreign debts would not be serviced. "We are not being reckless. In practice we would be bound to meet our obligations. But it is necessary to make the point that loans should not be granted to a government representing 5% of the population."

The second source said there were obviously different views on debt repayments and on matters like nationalisation, and these would have to be debated.

Mandela "is saying he has been abroad and has experienced certain things. We will have to consider them".

'Sanctions-busting' loans anger ANC

WMail 7/2-13/2/92. 74A

Economists say the ANC dare not renege on foreign loans, *reports* **REG RUMNEY**

THE African National Congress dare not renege on foreign debt entered into by the present government — even if the loans are expensive and politically motivated.

That is the opionion of economists canvassed by *The Weekly Mail.*

At the same time the government was criticised by a bank economist for raising expensive foreign loans instead of raising the money domestically.

The ANC threatened this week to reconsider foreign loans. It believes the government is systematically borrowing abroad as a sanctions-busting exercise.

It also believes the borrowings are designed to impose a costly burden of international indebtedness on a future democratic government. This in turn would limit economic policy options for overcoming the effects of apartheid and hamper policies required to advance living standards.

The cause of the ANC's anger is a proposed new Development Bank of Southern Africa Deutschemark loan. The DM100-million issue, with a tenure of six to seven years, is lead-managed by the German Bayersiche Landerbank on the Euro-capital market, the ANC says.

It adds that this bond issue follows two earlier issues — a DM400-million issue in September 1991 and a 250-m European Currency Unit (US $315-million) five-year bond issue last month.

Reneging on foreign loans would mean South Africa would probably be blacklisted by foreign institutions and would never be able to borrow abroad again.

Nedcor economist Edward Osborn points out that independent Zimbabwe, for instance, repaid all loans but one. This was a tax levy to pay for the bush war.

"Modern convention is that you accept the liabilities of the past."

It would be especially difficult not to repay public bond issues, such as the ECU bond issue. These were excluded from the South African debt standstill.

An ANC source says that while an ANC government might be forced to repay loans the ANC is probably considering other punitive action against banks lending money or underwriting loans.

That a future government may have to service and repay all foreign loans does not exonerate the government. Firstly, the loans are arguably expensive, and secondly the money could have been raised in South Africa.

That foreign loans to South Africa carry a poltical premium for lenders is not in doubt. They are a few percentage points higher than other issues. This could happen even to a new ANC government.

In an article in Nedcor's latest economic review Osborn also looks in detail at the desirability of all foreign capital inflows and expectations of what these will do for the country.

In passing, he questions the economic value of direct borrowing by the state, pointing out that domestic inflation makes foreign loans more expensive than they appear. He says that if the local market can accommodate the loan the money should not be borrowed abroad.

"Foreign borrowing by the state in a situation of chronic currency decline is thus an unnecessary burden on the finances of the state and should be approached most circumspectly and not as a triumphant test of financial vigour and creditworthiness."

Success depends on fiscal restraint — Zach

LINDA ENSOR

CAPE TOWN — The success of the new SA would depend on fiscal restraint and strict control of money supply, DP leader Zach de Beer said at a Seeff Breakfast Club function yesterday.

"The greatest danger by far to the success of the new SA is that a future government, motivated no doubt by a praiseworthy desire to uplift the poor, is going to spend money that it has not got, thereby introducing massive budget deficits, pumping up the money supply and causing galloping inflation, currency collapse and, in the end, economic ruin."

De Beer said a black government would want to manage the economy in the interests of its own people, a desire that could bring in its wake a growth in the bureaucracy, public sector expenditure and interference with private sector management.

If this happened, the result would be poverty for all, most especially for the very people it would be intended to help.

BID Day 12/2/92 (74A)

Population

De Beer said only a high rate of economic growth would make a redistribution of wealth possible but that this would be undermined by the country's population growth of about 2,5% a year.

This meant that with a 2% growth in the economy, per capita income would actually fall by 0,5%.

"We need to knock down that terrifying population growth rate by every available means."

De Beer said the economic prerequisites for the new SA were a high rate of economic growth, small government, a lower inflation rate and a healthy surplus on the current account of the balance of payments.

He foresaw a deterioration in the balance of payments as the level of imports increased with the end of the recession.

"From this point of view, it will be very important for us to gain readmission to the IMF. The repeal of the Gramm Amendment would certainly be a major help," De Beer said.

Urbanites gloomy about SA's future

BDay 12/2/92

LINDA ENSOR

CAPE TOWN — Most urban South Africans believe the prospects for political violence and anarchy are increasing and that violence is threatening the establishment of democracy, a survey has found.

The survey, undertaken by MarkData for the Human Sciences Research Council's Information Update found a high level of insecurity, with almost half (46%) of respondents feeling unsafe or very unsafe. This insecurity was particularly marked among blacks. Only 47% of the respondents thought that there was enough mutual goodwill to make a peaceful and happy future possible, compared with 27% who did not believe this was possible.

Pessimism was also apparent in expectations of an improved life in a new SA with only 46% responding positively and 29% believing conditions would worsen.

The national survey was carried out in October and November last year and was based on 2 000 personal interviews of adults over 18 living in urban areas.

Excluded from the sample were rural areas and squatter settlements.

ANC president Nelson Mandela was the most popular leader among all population groups with 42% support, followed by President F W De Klerk with 27%. But De Klerk commanded a high level of credibility among all population groups — 62% of the total sample and 52% of black respondents thought he was credible.

Among whites, 51% chose De Klerk as their leader, while 65% of blacks chose Mandela and 9% De Klerk.

KwaZulu Chief Minister Mangosutu Buthelezi came in with 3% of the total leader's vote while CP leader Andries Treurnicht garnered 13% of the white urban vote, an increase from 9% in a survey conducted in August last year.

The poll showed that while the ANC would take 37% of the total urban vote in an election and the NP 28%, the ANC lagged significantly behind the NP in Indian and coloured support.

It found that the NP would get 54% of the coloured, 52% of the Indian, 49% of the white and 6% of the black votes in any election. The ANC on the other hand would obtain 67% of the black, 8% of the Indian, 7% of the coloured and 3% of the white votes. The PAC and Inkatha would get 3%.

The CP would win 20% of the white vote, although about 40% of Afrikaans-speaking whites felt close or very close to the CP, the survey concluded.

HSRC GM Prof Laurence Schlemmer told a news briefing on the survey's findings that there was a high uncertainty factor which could be explained in terms of the realignment of allegiances common in periods of transition. He said there was a genuine state of confusion in the country.

Schlemmer said the survey had limitations in excluding the rural areas. For instance the 20% of whites who said they would vote for the CP could be an underestimation by a few percentage points. Also, by including rural areas Inkatha could come up with about 15% of the vote.

Success depends on fiscal restraint — Zach

LINDA ENSOR

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BD 12/2/92

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(74A)

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Stals warns on BoP problems

CT 13/2/92 744

Own Correspondent

JOHANNESBURG. — The balance of payments would continue to constrain SA's economic development potential, Reserve Bank Governor Chris Stals said yesterday.

Stals told a seminar in Johannesburg that any substantial increase in domestic expenditure in future would again be accompanied by a sharp rise in imports.

"It therefore remains essential that we be cautious about balance of payments policies and that the country's foreign reserves be increased as much as possible."

Stals stressed the need to bring the rate of inflation down, and to work towards the gradual elimination of exchange controls, especially those applicable to non-residents. He said restrictions such as the financial rand and the interim debt arrangement represented "but another burdensome hassle to foreign investors".

Stals said total merchandise imports into SA now added up to about R50bn a year. "An increase of only 10% in total imports could therefore wipe out the total surplus on the current account within one year, that is if such an increase is not matched by a similar increase in exports."

Stals made an urgent appeal for the repeal of the Gramm Amendment, which obliges the US to block SA drawdowns from the IMF. He said the amendment placed an immediate restriction on SA's expansionary monetary and fiscal policies and acted as a deterrent to potential foreign investors in the country.

Restrictions on SA's ability to make normal use of IMF and World Bank facilities placed a major constraint on its ability to proceed with preparations for a period of more rapid economic growth in a new political environment, Stals added.

Stals reiterated the Bank's policy of maintaining a stable trade-weighted rand to protect the position of SA manufacturers.

Stals urges caution over BoP

B/Day 13/2/92 (74A)

SHERIDAN CONNOLLY

THE balance of payments would continue to constrain SA's economic development potential, Reserve Bank Governor Chris Stals said yesterday.

Stals told a seminar in Johannesburg that any substantial increase in domestic expenditure in future would again be accompanied by a sharp rise in imports.

"It therefore remains essential that we be cautious about the balance of payments policies we follow and that the country's foreign reserves be increased as much as possible in the present period of relatively depressed domestic economic conditions."

It was still essential for SA to protect the surpluses on the current account of the BoP and to remain cautious about any premature expansionary economic policies in the domestic economy. SA's marginal propensity to import was still very high.

Stals said total merchandise imports into SA added up to about R50bn a year.

"An increase of only 10% in total imports could therefore wipe out the total surplus on the current account within one year, that is if such an increase is not matched by a similar increase in exports." Commenting on the capital account of the BoP, Stals said although SA would again be able to raise substantial amounts of new capital for development purposes in the future, South Africans had to be reminded that the debt crisis of the developing world had limited the willingness and ability of

□ To Page 2

Stals

B/Day 13/2/92

□ From Page 1

financial institutions in industrial countries to make loans.

SA's enforced debt rescheduling had influenced its credit rating in the world money and capital markets.

The country therefore had to be modest in its expectations about future foreign borrowings and possible inflows of capital for investment purposes.

Stals made an urgent appeal for the repeal of the Gramm Amendment, which obliges the US to block SA drawdowns from the IMF. He said the amendment placed an immediate restriction on SA's expansionary monetary and fiscal policies and acted as a deterrent to potential foreign investors in the country.

Restrictions on SA's ability to make normal use of IMF and World Bank facilities placed a major constraint on its ability to proceed with preparations for a period of more rapid economic growth in a new political environment, Stals added.

He said until the law was repealed, SA had to be made more attractive to foreign investors by presenting a stable financial environment. This would require guarded financial discipline.

Stals stressed the need to bring the inflation rate down and to work towards gradual elimination of exchange controls, especially those applicable to non-residents.

He said restrictions such as the financial rand and the interim debt arrangement represented "but another burdensome hassle to foreign investors".

Stals reiterated the Bank's policy of maintaining a stable trade-weighted rand to protect the position of SA manufacturers against foreign counterparts.

● See Page 3

FOREIGN LOANS

Forked tongue

FM 14/2/92 74A

The ANC's commitment to honour the repayment of foreign loans, should it form the next government, does not automatically apply to loans raised since the imposition of international financial sanctions against SA in the mid-Eighties.

The status of those loans will have to be reviewed, says ANC spokesperson and national executive committee member Gill Marcus. She says this is in line with the organisation's existing policy and does not conflict with statements made in Europe recently by ANC president Nelson Mandela.

Such a review could affect the repayment of loans raised successfully in Europe recently by government and the Development Bank of Southern Africa.

It's clear that the ANC is becoming increasingly concerned about the crumbling of financial sanctions and what it sees as the "unilateral" raising of foreign capital and economic restructuring while constitutional negotiations are under way.

In a statement to the London *Financial Times* at the weekend, Mandela said while there was no question that an ANC government would honour loans taken out by the current government "before financial sanctions were imposed by the international community," it was "totally unacceptable" to the organisation that government was working with "certain foreign financial institutions" to "bust" sanctions.

The effect on foreign investors of the ANC's threats is difficult to gauge. Just after his return to SA this week, President F W de Klerk said it had a negative influence on important sectors of the foreign investing

Continue →

FM 14/2/92 74A

community, which was adopting a "wait and see" attitude.

But he pointed out that "hundreds of millions" in foreign capital was coming into SA to increase production capacity in existing undertakings. However, De Klerk conceded that the "large stream" of foreign investors would only start flowing when they felt a sense of security.

On the other hand, the Development Bank's bond issue in Germany last week, when the loan repayment controversy was raging, was so successful that it was increased from an initial DM150m to DM200m.

It is understood that the two investor information meetings in Frankfurt and Zurich were well attended and that possible problems with future repayments did not feature.

There can be little doubt, however, that conflicting signals from the ANC on economic issues are confusing potential foreign investors and could point to a widening division between the organisation's pragmatists and ideologues.

At the World Economic Forum at Davos in Switzerland last week, Mandela reassured international business leaders that the ANC wanted an amicable working relationship with businessmen and was willing to rethink its nationalisation policy.

Later, in Copenhagen, he said that though nationalisation was the ANC's policy, it would have to be reconsidered because it was so unpopular with potential investors whose perceptions could not be ignored.

But it is not the line followed by other senior officials, who continue to emphasise the supreme importance in future economic policy of "growth through redistribution" — seen by many as a euphemism for nationalisation — rather than through new investment.

Clarity from the ANC is now essential, particularly in the light of recently reported findings by London stockbroker James Capel that SA's future economic policies now override future political policies as the most important criterion for potential foreign investors. ■

ANC debt proposal will not hurt SA's future credit rating

BDay 14/2/92

NEVA SEIDMAN MAKGETLA

74A

IMAGINE that, on coming to power, a democratic government discovers plans to invest the equivalent of the annual national product in an electricity plant. Suppose the project's high interest and construction costs would ultimately double the price of electricity; that it would aggravate a regional oversupply of electricity, causing a reduction in trade; and that it would endanger the environment.

In short, imagine that this enormous project would serve, not to raise living standards on a broad scale, but essentially to enrich a coal supplier — one of the conglomerates that already owns much of the economy.

Finally, suppose the new government declared it would realise the project nonetheless, above all because of contractual obligations to foreign lenders that the previous regime had entered in its final days.

Does this scenario sound far-fetched? Does it underline the absurdity of the ANC's fears about the state's current quest for foreign loans? Alas, no. It merely describes the position of the Zimbabwe government, which inherited the debt for the Wankie power plant from the previous state at a disastrous cost to the economy and hoped-for social improvements.

The ANC's anxiety over foreign debt was learned in a hard school. For the past 15 years, ANC economists have watched the appalling deterioration of social and economic infrastructure throughout the Third World, and especially in southern Africa, as a result of the struggle to repay international loans. It is chilling, then, to watch the current government get unnecessary foreign credits at exorbitant effective interest rates — estimated by Nedbank's economists at more than 26% if devaluation keeps pace with inflation.

The ANC's position on foreign debt is hardly radical. It never said it would repudiate all SA's loans. Rather, it has warned lenders not to take advantage of state agencies that want a fling on international capital markets before a democratic government takes over. This warning is coupled with the reassurance that the ANC will respect all debts incurred before 1985, and renegotiate only specific loans made thereafter.

For any economist who has studied international credit markets, the ANC position is prudent and responsible. It means foreign creditors can easily assess their risks. If they will wait a few months or years, they can invest safely in the myriad development projects a democratic government will certainly pursue. If they find the high interest rates on loans to state agencies today offset the risks of renegotiation in future, that is their prerogative. They may not like the choice, of course, but it will not deter future lending.

Research shows low international creditworthiness typically results from inconsistency and poor export performance. Even if couched in radical rhetoric, stable policies in a relatively prosperous country rarely scare off lenders. Through the mid-'80s, Angola's avowedly Marxist regime enjoyed a higher credit rating with many international financial institutions than Malawi's true-blue capitalist semi-dictatorship.

From this perspective, the nature of reporting on ANC proposals may prove a greater threat to future creditworthiness than the proposals themselves. All too many reporters and leader writers sensationalise open-minded discussion, even mere differences in phrasing, as inconsistencies in policies. Democratic debate, in their eyes, becomes a conflict that could even derail Codesa. These commentators seem oddly intent on pushing the democratic movement into the adoption of policies ahead of research and discussion — hardly the way to establish effective or durable programmes.

All too often, the tenor of replies to virtually any ANC proposal to change the status quo is oddly uncivil, more the reproof of a Victorian pater familias to unruly children than an input into a conversation between equals. The intolerance of SA's leader writers may sell newspapers, but it accords ill with civilised discourse. The need to learn the language of democracy obviously extends far beyond the people fighting in Soweto streets.

In this case, the ANC is damned whatever it does. If it proposes policies to improve services to blacks, it is criticised for potential fiscal imprudence; if it condemns government borrowing at recklessly high interest, it is blamed for scaring off investors.

Analysis of the agencies seeking foreign loans — the Independent Development Trust and the Development Bank of Southern Africa — underlines the dangers of allowing the current state to pile up debts. These institutions hive off welfare and development functions normally assumed by the central government. If, thanks to foreign funds, they remain semi-autonomous in future, crucial aspects of national policy will fall outside democratic control.

Experience already shows that neither agency can respond adequately to community needs. They spend extraordinary amounts of time and money on bureaucrats, consultants and local politicians. (The Development Bank alone employs more than 600 people.) Flying a liberal flag abroad while failing to deliver the goods at home scarcely justifies an increase in foreign debt. It would make more sense to wait until a democratic government can establish agencies to transmit resources to communities in a responsive and efficient manner.

Let us not forget, either, that money is fungible. If government agencies raise funds abroad they free up resources for the state. Yet that state has repeatedly demonstrated its unwillingness to spend as much on blacks as on whites — witness the failure to bring about an integrated educational system, substantially improve infrastructure in black areas, or even equalise pensions.

Moreover, the present state has already come under pressure to provide golden handshakes for constituents and employees. The generous retirement pay granted to white teachers unwilling to teach black pupils provides an early warning. Under these circumstances, this government must be tempted to raise foreign loans at any price — after all, it will not have to repay them.

If we are truly concerned about international creditworthiness, we should ask why SA has had such a poor rating in recent years. The answer, of course, lies in the system that disempowered and impoverished the majority to the point where, until recently, they saw open revolt as their only option.

Insiders at Chase Manhattan Bank say the bank withdrew its loans in 1985, causing a disastrous credit crunch, not because of political pressure or some abstract belief in democracy, and certainly not on expert advice. Rather, according to a senior Chase official, the vice-president responsible saw a television news report on unrest, decided it looked like pictures from Iran just before the Shah fell — and ordered an immediate end to loans to SA.

If the lack of democracy and prosperity for the majority causes a poor credit rating, no ANC statement can make SA attractive to foreign lenders. Only a rapid transition to a democratic state committed to a growth path that will benefit all South Africans can provide a solution.

☐ **Makgetla lectures in economics at Wits University and is a member of the ANC's economic policy department.**

STAR 21/2/92

(74A)

January trade surplus falls sharply

By Sven Lünsche

The monthly trade surplus fell sharply in January as exports continued to drop in the wake of the poor economic conditions among SA's major trading partners.

Figures released by Customs and Excise yesterday show that the surplus fell to R700 million from R1,27 billion last December.

The surplus has declined steadily since it hit a peak of R2,75 billion last October.

January's surplus is less than half of last year's monthly average of nearly R1,5 billion.

While imports over the past four months have held steady at around R4 billion — they totalled R4,12 billion in January — exports have been falling.

From October's peak of R6,9 billion, exports dropped to R5,5 billion in November, R4,83 billion in December and R4,82 billion last month.

The decline was led by a fall in exports of precious and base metals.

Compared with January 1991, exports of unclassified goods (mainly gold) slumped by 17 percent to R2,52 billion.

Given that the rand gold price was only marginally lower in January 1992 (R985,08 per ounce) than in January 1991 (R986,35), Safto economist Bruce Donald speculates that there was a significant drop in gold export volumes over the period.

The other contributors to poor export performance in January were some of the major commodity categories — minerals (-3 percent) and base metals (-17 percent) — reflecting the current poor conditions prevailing in international markets and the associated downward trend in commodity prices.

Ferroalloy producers, some of whom have cut back production to a fraction of capacity, are currently facing oversupply conditions related to declining world steel and stainless steel output, Mr Donald says.

Manufacturing exports, however, continued their recent strong performance, led by an annual growth of 54 percent for plastic goods and 26 percent for chemicals.

Exports of jewellery and precious stones (mainly diamonds) rose by 95 percent and vegetable products by 163 percent over the year, but this trend is unlikely to continue over the next few months.

Particularly hard hit will be agricultural products in the wake of the drought, which will force SA to import food products, particularly maize.

On the diamond market, analysts are expecting a sharp slowdown in sales, judging from the poor sales at De Beers site in January.

Imports declined sharply by R700 million in January, compared with January last year, but the figures are distorted by the fact that SA imported about R1 billion worth of oil in January 1991 ahead of the Gulf war.

Imports of unclassified goods, which comprise oil and arms, were thus 71 percent lower in January at R370 million.

Some of the other remaining major categories of imports showed strong increases over the year, led by machinery (16 percent), prepared foods (49 percent) and textiles (39 percent).

BALANCE OF PAYMENTS (74A)

Invisible hand

FM 21/2/92

The importance of international trade in invisibles is rising relatively and absolutely. This point was made at a seminar, "London: South Africa's International Gateway", arranged in Sandton last week by British Invisibles, an organisation representing banking, insurance and other financial services in the UK to encourage invisible earnings at home and abroad.

Alison Wright, director-general of British Invisibles, said: "In 1977, the share of invisibles in world trade was 23%. Ten years later, this share had risen to 28%."

In SA, the invisible side of the current account has traditionally been an underperformer. Inflows, reflecting receipts and payments for services such as shipping, tourism, insurance and financial services as well as dividends from investments and interest on loans abroad, have never been high enough to counter outflows — interest and dividends and payments to foreign workers.

So this invisible balance of trade has always been in deficit. In this respect, SA differs from developed countries such as the UK which are able to offset a trade (visible) deficit with a healthy surplus on the invisible side of the current account.

In the UK, invisible earnings represent 14% of world invisible trade and one-fifth of the UK's GNP.

Seminar chairman Hugh Bidwell said:

- ☐ 18% of the world banking market is in London;
- ☐ Its turnover of forex transactions worth $187bn in 1989 was 50% greater than that of New York or Tokyo;
- ☐ 75% of all Eurobond trade takes place in London; and
- ☐ 70%-80% of all cross-border equity trading takes place in London.

He added: "The attractions of a London listing have not been lost on SA companies: nearly 100 are listed, second only to the US and representing 18% of overseas companies listed in London."

Wright pointed out that "services represent an increasing proportion of economic activity as countries and regions become more prosperous." SA is a long way from this enviable state.

Fortunately, the services deficit in SA has in the last five years been countered by a surplus on the visible side of the current account — the export of goods net of imports. Unfortunately, the next upturn in the economy is expected to send imports surging, as ageing capital stock is replaced and a deficit on the trade account could well emerge.

The potential deficit on the current account of the balance of payments could create problems despite the improved outlook for the capital account. Since 1985, the capital account has been in deficit. And, despite the changing circumstances, there is still a need for caution.

In the keynote address at the seminar, Reserve Bank Governor Chris Stals warned that impediments to securing loans and foreign investment remain.

Yet service receipts have increased at a faster rate than service payments every year from 1987 to 1990 (the latest available figure). This can be attributed to higher receipts from abroad as well as lower interest and dividend payments abroad, a direct result of sanctions and disinvestment.

Nevertheless, the size of the invisible deficit is worrying. The question is: can it be significantly reduced to ease the pressure on the visible side, at least while the capital account deficit remains?

Standard Bank group economist Nico Czypionka believes any improvements in the services deficit will have to be on the export side.

He cites tourism as an area with potential but says significant improvements will have to be made if tourism is to become a major source of income.

He warns that measures to boost services exports will have to be introduced soon if they are to have any effect in coming years.

UAL Merchant Bank's Dennis Dykes agrees receipts for services will have to improve: "Dividends and interest payments accounted for over a third of SA's services payments in 1990 and there is little chance of altering this significantly. Any improvements will have to be in categories such as travel where receipts have increased in the last few years and can improve even more."

Dykes says improvements in tourism receipts depend as much on structural changes as on improvements in SA's image as a politically stable and safe destination. ■

FM 21/2/92 (74A)

Discretion to mark foreign borrowing

BDay 26/2/92 (74A)

SA WOULD remain prudent in its foreign borrowing in spite of keen interest to lend to the country since it re-entered world capital markets last September after a six-year absence, a top finance official said.

Finance Department director-general Gerhard Croeser said: "We are going to remain discreet."

He noted the Finance Department co-ordinated local activity in international capital markets via a formal queuing system. "International underwriting banks and investors can thus expect a well co-ordinated approach by SA institutions."

Croeser was responding to reports abroad that the latest triumph, the recent DM200m issue by the Development Bank of Southern Africa might trigger a flood of new issues in 1992.

The six-year issue, with a 10% coupon and 101,25% issue price, was raised from an original DM150m as a result of strong demand.

It followed a 250-million ecu bond issue in January by government which last September launched a DM400m bond — raised from an original DM300m.

In spite of such interest, along with widely held views that SA had become relatively underborrowed since foreign banks cut off new credit in 1985, and its reputation for reliable repayments, Croeser said 1992 funding would focus largely on rollovers, plus some new money.

Interim

New money would include government's ecu issue, the Development Bank issue and perhaps one issue each by Telkom and a private sector corporate.

The Independent Development Trust hoped last year to launch a $100m loan for welfare needs.

It shelved the deal following conflicting views expressed on support for the issue by the ANC.

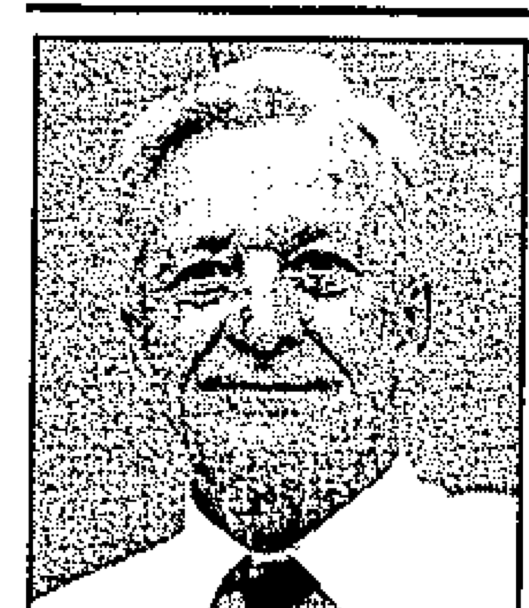
Croeser said his department had a continuing "non-political administrative task" to fund the exchequer from both domestic and foreign sources and could therefore not be hamstrung by political interference.

He noted that recent loans had not only strengthened reserves but also exchequer finances which increasingly were going towards upliftment of the disadvantaged. He also rejected attempts to question recent borrowings on economic grounds, including cost and burden, and needs.

Not only did the foreign borrowing reduce pressure on the domestic market and hence rates, but the Finance Department itself had to use the natural opening in the SA borrowing queue in the international capital markets. — Reuter.

Another go at E&Os

FM 28/2/92 (74A)



Edward Osborn is Nedbank's chief economist

Because they're produced and published by the Reserve Bank, with its full authority and prestige, the balance of payments estimates are regarded as just as precise as a public company's published balance sheet. Profound economic and financial statements, monetary policy decisions and economic deductions are made on the strength of these estimates, too often without appreciating their intrinsic weakness.

Naturally, attention is focused on the current account balance because lots of deductions can be made from it about capital flows and dissipation of domestic savings.

But the first thing to note is that a surplus or deficit is the difference between two very large aggregates of credits and debits and can be wildly off. This is because of many errors of estimation, coverage and so forth, that need not be consistent from year to year.

For example, exports of goods and services now total about R70bn, with imports of goods and services totalling some R65bn — producing a current account surplus of R5bn. A mere 2% error in the aggregates can represent an error in the surplus of 2%-54%, depending on whether the errors cancel each other out or reinforce each other. So the true surplus could lie between R2,3bn and R7,7bn.

In the five-year period to 1990, the balance of payments surpluses in current nominal rand terms amounted to R23,7bn, according to Bank estimates. This figure has been given much publicity as the measure of the net capital outflow in the form of debt payments, net capital investment abroad and other items, as well as the net increase in foreign reserves (*Economy* February 7). Though this figure is only 10,5% of gross domestic savings, it is easy to convince ourselves that this was a large dissipation of savings abroad and, therefore, the reason for poor domestic investment.

But it may be legitimately questioned whether this R23,7bn was correct. An alternative is to look at the capital transactions of the capital account. Since the debt standstill of 1985 and the reimposition of the financial rand, the only capital transactions involving the commercial rand were debt payments, forward-cover dollar adjustments on rolled-over third currency transactions, changes in short-term trade financing and reserves.

All other capital transactions were within the closed financial rand system and, though these are included in the published balance of payments figures as involving changes in asset and liability structures, they cancel out.

The two major components of actual commercial-rand capital transactions were debt repayments and increases in reserves. Over the period, debt redemption amounted to US$4,3bn, probably around R10bn in current rands, and this might have included some $700m in redemptions through equity conversions via the financial rand. The R10bn is, therefore, an overstatement. Furthermore, there was a net build-up of foreign reserves of R2,4bn in the five years.

We are thus looking at capital transactions of the order of R13bn and not R23bn.

The arithmetic is badly out by some R10bn. This is not accounted for by SA investment abroad because the official statistics indicate a net reduction of assets, if anything; nor can it be simply accounted for by illicit capital leakages, given the severity of exchange controls.

Balance of payments accounting is notoriously imprecise the world over and SA is no exception. Indeed, there are good reasons for supposing that the accounting problems are even greater here because of the complexities of the SA Customs Union and the Common Monetary Area.

Errors and omissions abound throughout the current and capital accounts. In practice — and this is international convention — the net errors and omissions figure required to balance to zero all recorded and estimated transactions, is embodied in the capital account — in the SA case under so-called "short-term capital movements."

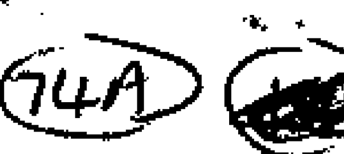
That is not explicit, though an explicit figure can be found in the *International Monetary Fund Balance of Payments Statistics Yearbook*. The significant thing is that it is large and generally negative. Furthermore, there is evidence that the principal origin of errors and omissions lies with the merchandise transactions in the current account, in terms of timing, valuation and coverage.

On this score, a far more realistic presentation of the SA balance of payments would be to show the errors and omissions in the current account. This would automatically reduce the current account surpluses to more modest levels. If we were to take the errors and omissions figures from the IMF statistics for 1985-1989 (1990 figures are not yet available), the total is a negative R7bn.

This is not an absolutely correct figure, but it does give some idea of the magnitude involved. For example, errors and omissions for 1988 and 1989 were 80% and 50% of the balance of payments surpluses.

There would be important consequences to the national accounts of including errors and omissions in the current account. As they appear to be consistent negatives, they would increase the estimates of gross domestic expenditure, reducing the size of the residual item in the GDP expenditure table and reducing the size of gross domestic savings, in addition to reducing the balance of payments surpluses. However, one has to bow to the strength of convention.

But at least one should be aware of the limitations of the figures and also realise how close to the wind we are really sailing if we were to launch a recovery from a current account base.



BUSINESS BAROMETER

One step nearer the world (74A)

SO NEAR, yet so far. That's what the world economic community looked like from South Africa this week.

So near, in the "good" news on sanctions — for those who believe sanctions should fade away. The US administration indicated South Africa probably qualified, in terms of the US sanction the Gramm Amendment, for access to International Monetary Fund finance. W|Mail 28/2 - 5/3/92

It isn't clear whether South Africa's current account of the balance of payments (BoP), our account with the rest of the world, would have to be in the red or not.

So far so good. Unless access to emergency IMF funding is cleared up we won't be looked upon as a good risk by the rest of the world. Also, no one in authority is going to take their foot off the economy's brake until we know we can turn to the IMF if the economy starts to run away with us. Booms in the past meant higher imports and red ink on the BoP.

The IMF has a history of attaching to its loans conditions which some interpret as undue interference in local economies. For this reason many on the left would want South Africa to use a long spoon in supping with that august body.

The bad news: suddenly the Conservative Party reminded us of how far from the world we had drifted. The shadow cast over the stock exchange last week by the coming referendum had passed by mid-week. But confident as many are of CP defeat, the referendum will delay potential investment. Confederation of British Industry director general Sir John Banham warned that such political uncertainty, together with violence, was a big deterrent to investment.

Not surprisingly, big business announced a media ad campaign to push for a yes vote.

THE WEEK AHEAD by Simon Willson

Foreign debt takes its toll

FOREIGN debt obligations are likely to have restricted another improvement in the reserves last month. When the February reserves are published, probably on Friday, a rise direct to the much-heralded R10bn level from January's R9,4bn looks a tall order.

If last month was a normal one for the external accounts, the R600m increase needed to hit R10bn would not seem so daunting. The reserves occasionally put on R600m in a single month last year, and rose a formidable R1,2bn in January.

This increase was magnified by an abnormally low December reserves total of R8,2bn caused mainly by seasonal, one-off transfers carried out at the end of the calendar year.

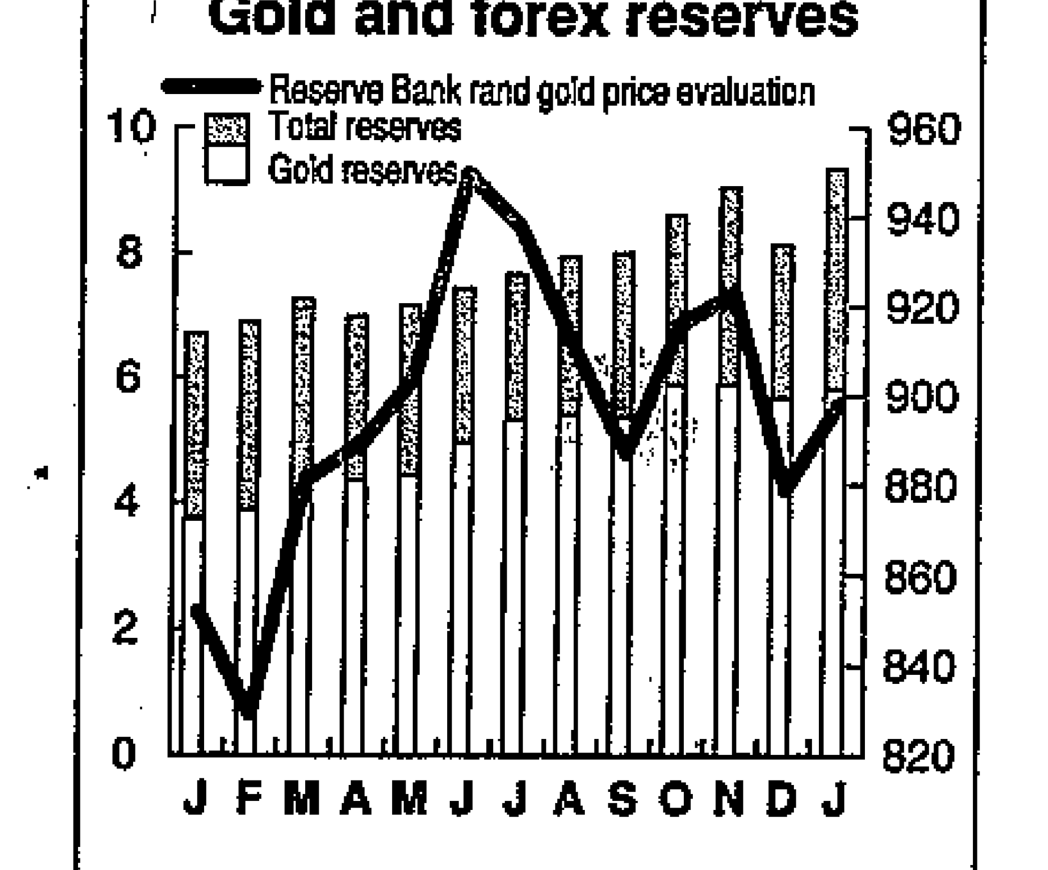
February was also, however, an abnormal month for foreign transfers. This year's total foreign debt commitments total a relatively light $1bn — a sharp reduction on the annual obligations of around $2,5bn in each of the past few years.

But there remain two concentrations of standstill debt repayment for 1992, and the first fell due in the middle of last month.

At about $180m, it was the larger of this year's two tranches. While this obligation is unlikely to have caused a fall in the reserves — the equivalent commitment last year certainly did not — it looks big enough to have held back any improvement.

Underlying forces determining the level of reserves remain favourable: a steady gold price, rising slightly in rand terms; higher physical gold holdings; a buoyant trade surplus and a firm foreign assets tally.

Internationally, this is a big week for US economic statistics. The markets have, over the past two weeks, decided that the dollar is worth buying again on the prospects of economic recovery in



Graphic: LEE EMERTON Source: SA RESERVE BANK

the US as the election season gets into gear. Traders are also going for dollars again on perceptions that economic prospects have suddenly taken a dive in Europe and Japan.

While the markets have embarked on a re-rating of the dollar mainly on economic expectations they are, starting this week, going to be looking for hard figures to back their mid-February decision to hold dollars again.

First up is the National Association of Purchasing Management's survey for February, out today. The January index was unchanged at the December level of 47,4 and could, therefore, be bottoming out ahead of a return to the levels around 55 reached last September as the US economy rose out of its first dip into recession.

January construction spending, also out today, follows back-to-back falls in both November and December which meant construction spending fell in 1991 by the biggest annual margin — 9,3% — since 1944.

The markets are looking for an uptick in January, since the weather improved during the month.

January's index of US leading indicators — an influential statistic because it measures likely economic trends in six to nine months' time — is released tomorrow and has been negative in three of the last four months. The 0,3% overall fall in the index in December had some bright spots, though, among them a longer average working week and greater housing activity. This should lead to a positive outturn for this variable, if not this month then next.

The February US employment report is published on Friday and, unlike the figures earlier in the week, lags the economic cycle. Overall unemployment was unchanged at 7,1% in January, while there was an unexpectedly sharp contraction of 91 000 in non-agricultural employment. Because the jobs report lags the other indicators, another rise in unemployment would not be out of step with more favourable figures earlier in the week.

BDay 2/3/92 74A

SA to seek lasting credit arrangement

Own Correspondent

CAPE TOWN — An attempt would be made to secure final and more permanent arrangements with SA's creditors before the present debt arrangements lapsed, Finance Minister Barend du Plessis said.

He said it was estimated the total debt still within the net at the end of last year amounted to about $5,5bn compared with the total affected debt of $13,6bn at the end of August 1985. B/Day 19/3/92

At the end of the Third Interim Debt Agreement on December 31 1993 the total affected debt at current exchange rates should be between $4,5bn and $5bn.

A moderate international revival with a slight increase in international commodity prices should impact favourably on the real quantum of SA merchandise exports. These exports had performed reasonably well in 1991 despite a decline in international economic growth and poor commodity prices and would be further strengthened by the gradual lifting of trade and financial sanctions.

However, these positive trends would be partly neutralised by the unfavourable prospects for domestic agriculture.

SA's commitments regarding the repayment of foreign loans with a fixed period, and obligations to redeem capital under the Third Interim Debt Arrangements Agreement, amount to less than R3bn.

BUDGET

Govt 'will easily finance deficit'

74A

B Day 20/3/92

LINDA ENSOR

CAPE TOWN — Government would not have any difficulty financing the 3,8% deficit before borrowing, Finance director-general Gerhard Croeser said yesterday.

The deficit of R13,2bn excluded prefinancing of the total deficit which brought the deficit to 4,5% of GDP.

Speaking at the Old Mutual/Nedbank forum on the Budget, Croeser said R8bn would derive from the Public Investment Commissioner; R2bn from money allocated to civil pension funds and loaned back to government and R2bn from the already presold paper for delivery in the new year.

The remaining R1,2bn which would be raised on foreign markets and from the launch of new products such as zero coupon bonds.

Croeser said the good news was that financing the deficit would not exert any pressure on long-term interest rates.

The deficit was higher than desirable but this was a function of the lower revenues. A 3% deficit was the goal, he added.

Economists and business leaders at the forum expressed concern about the effect of fiscal drag on consumer spending would seriously undermine prospects for a consumer-led economic recovery.

They pointed to the fact that due to fiscal drag, the tax on individuals would go up about 22% in a situation of no growth.

Sacob director-general Raymond Parsons said fiscal drag now represented about 4% of GDP.

Nedbank MD Richard Laubscher said the possibility of a consumer-led recovery did not look good and there was not much to suggest that a major upturn in business conditions was likely and that business should start building up inventories.

However, he was positive on the export front and said business should start to look for opportunities.

Croeser said to completely eliminate fiscal drag, government would have needed R3bn but had only R1,45bn available and structured its tax proposals in such a way as to take care of fiscal drag at the lower levels which were most affected.

If VAT had been left at 12% government would have had an extra R4bn which would probably have been used to reduce direct taxation, Croeser said.

BUSINESS DAY, Friday, March 27 1992 3

Fiscal strategy 'disturbing'

B/Day 27/3/92 (M4A)

LINDA ENSOR

CAPE TOWN — The longer-term implications of government's current fiscal strategy were disturbing, as the high deficit would probably push up interest rates when the economy recovered strongly in 1993 and private sector demands for capital rose markedly.

This would also cause upward pressure on inflation if the deficit was financed by money creation, Board of Executors senior portfolio manager Rob Lee said in the latest Investment Outlook.

While the deficit was justifiable in the short term as a stimulatory measure, in the long term it was a cause for concern as it seemed doubtful that an interim government would have the will to impose discipline on government spending to bring down the deficit.

The high increase in government spending and in the deficit, and the recently announced M3 money supply target range would not give much room for further interest cuts.

"A higher priority given to stimulating the supply side of the economy, and specifically to promoting investment, would have been preferable from the point of view of achieving sustained high economic growth," Lee said.

He felt that if long-term rates moved significantly below 16%, this would probably represent a good selling opportunity.

Lee was confident that the end of the recession was very close and that the upswing would probably start in the second quarter.

"The very positive referendum result, plus an expansionary Budget and a Bank rate cut, make us feel confident that the long awaited economic upswing is now around the corner. This upswing, however, will be gradual initially, but relatively high economic growth is likely in 1993."

The stock market had failed to react meaningfully to recent positive news and given the current high rating levels it would probably require convincing evidence of a turnaround in the economy and in company earnings before it moved higher.

Lee said the recent strengthening of the financial rand and a weaker gold price to below $340 had also played a role in the lack of a market response.

"The market was also disappointed that the Budget did not contain more tax cutting measures or increased investment incentives, while the subsequent announcement of a 1% cut in Bank rate had already been discounted. If anything there was disappointment that speculation of a 2% reduction proved unfounded."

Regarding the international economy, Lee said a generalised world economic upswing towards the year end was probable, provided the present sharp slowdown in the Japanese economy turned around in the second half of the year and Germany cut its interest rates by year-end. He said there were clear signs of an upswing in the US.

Foreign fund inflow could also pose problems

(E1) (74A) ARG 11/4/92

SA debt danger

Finance Staff

SOUTH Africa runs the risk of building up excessive foreign debt exposure now that the door to overseas capital markets is poised to be flung open.

It's a spectre emanating from great hopes of a substantial inflow of foreign capital into the country.

Yet such an injection of capital will not transform the economic landscape and sweep away all the economic woes.

What isn't generally appreciated is that not all types of foreign capital are equally attractive — in particular, foreign bond finance raised by the government is open to question.

Assuming South Africa is successful in restoring relations with the international financial community and thereby regains access to the International Monetary Fund — enabling it to scrap the financial rand system — foreign capital inflows would fall into six categories:

- Direct loans from abroad, together with bond issues on foreign markets.
- Participation in the local capital market for fixed interest stocks.
- Purchases of local quoted and unquoted shares.
- Purchases of property.
- Direct investment in South African enterprises.
- Trade finance facilities.

Some of these sources of foreign capital are crucially important.

IMF facilities, for instance, are used for short term stabilisation of the balance of payments. Foreign direct investments by multinationals brings benefits such as technical know-how, skilled labour and fresh competition for domestic producers.

On the other hand, one of the main sources of foreign capital in future years is likely to be foreign bond finance raised by central government and public corporations.

Such borrowing may not always be of economic benefit to the country.

New bond issues on international markets have recently been raised by Eskom, the Development Bank of Southern Africa and the government.

The latter plans to raise R500 million in bond issues to help finance the R14 billion budget in 1992/93 — perhaps the tip of an iceberg of future foreign bond finance by the government.

Some of these borrowings by the public sector will clearly be beneficial, since they can be used to finance the importation of large equipment by parastatals such as Eskom, as well as finance new capital projects which should be self-servicing. They may even generate foreign currency earnings to help repay such borrowings.

What is of questionable merit is direct borrowings by the government in the foreign bond markets.

These cannot be justified simply on the grounds that the country is under-borrowed in comparison to other countries in the developing world if they do not yield a sufficient investment return.

They boost the foreign reserves and give a misleading impression of the external financial position, since they don't constitute "owned" but borrowed reserves.

Further, they can encourage the government to step up its own expenditures — undesirable, since the share of government spending in the economy is steadily growing.

Government spending as a percentage of gross domestic product increased steadily from 22,5 percent in 1981/82 to 28,6 percent in 1991/92.

The African National Congress has criticised the spate of public sector borrowings and has raised doubts as to whether it would honour such debts in the future.

While it is an irresponsible threat, since it could destroy the access of any future government to foreign capital, foreign bond issues can impose a costly and heavy burden of international indebtedness.

Foreign bond issues can be very expensive in terms of rands, given the long standing trend for the rand to weaken in value against other major currencies.

If the rand depreciates against the dollar by, on average, only 6 percent a year and the coupon rate is 10 percent, the rand cost will average 18 percent a year over five years on any dollar denominated loan.

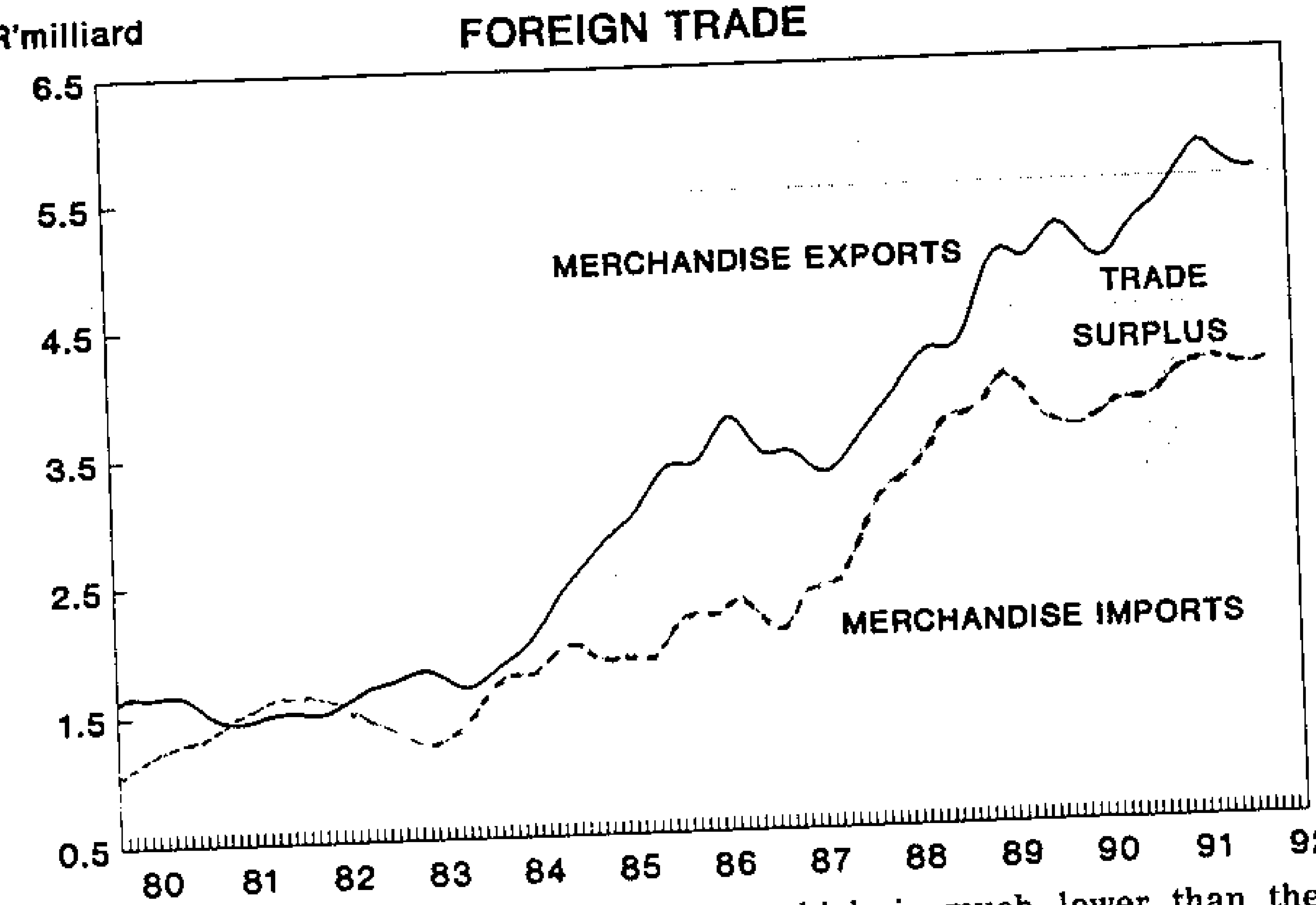
If one assumes higher rates of rand depreciation, the annual cost burden only multiplies.

Foreign borrowing by the government against this background is an expensive source of finance and a burden on the exchequer. Planned foreign borrowings of the government in the coming fiscal year should be viewed in this light.

BoP deficit could dim export surge

(74A) CT 20/4/92

By ARI JACOBSON



ALTHOUGH the lifting of sanctions is creating new export opportunities, it seems as if the surpluses on SA's current account of the balance of payments will drop considerably — and a deficit cannot be excluded.

Writing in Sanlam's latest economic report chief economist Johan Louw puts this negative impact on SA's exports in the current year to the deepening recession overseas, the continued poor performance of gold bullion and the reversal of SA's position as a net exporter of food (due to the drought).

He said the country can be expected to import maize and maize products which would result in a foreign exchange loss of R3bn in 1992.

Louw adds that the import bill will rise rapidly once the economy begins growing more strongly.

On exports he says "after the sharp decline in January this year, SA's net trade position with the rest of the world recovered well in February."

"This can be ascribed to the export of metal and mineral products and the slowdown in the imports of machinery, chemicals and plastic products."

But against a background of a mild upswing in the economies of the most important trading partners only late this year "we do not foresee a significant improvement in the value of merchandise exports before late 1992".

He points out that merchandise imports have held in a range of between R3,5bn and R4bn a month since 1989 and this is anticipated to continue through the large part of 1992.

He forecasts a surplus of R4bn on the current account of the balance of payments for 1992 — which is much lower than the R7,4bn reported in 1991.

"We nevertheless believe that a more favourable capital account will more than compensate for the smaller surpluses on the trade account."

On inflation Louw reckons that the rate will drop to a 12% to 13% increase by the end of 1992.

This he puts down to a more moderate increase in salaries and wages, lower interest rates for businesses, slower rises in consumer prices, continued monetary discipline and a slowdown in production costs.

'Caution' as trade surplus slides

CT 24/4/92 (74A)

By AUDREY D'ANGELO
Business Editor

SA's trade surplus slipped in March to R1,77bn after rising to R1,90bn in February, Customs and Excise figures show.

Exports were higher at R5,97bn compared with R5,59bn in February and R4,8bn in March last year.

But imports also rose, to R4,20bn, from R3,69bn in February and R3,66bn in March last year.

The trade surplus for the first three months of this year totalled R4,37bn compared with less than R3bn for the same period last year. Economists welcomed this figure — but some warned that the surplus would drop in coming months.

Nedbank chief economist Edward Osborne forecast "a tough year ahead" for SA.

But Old Mutual chief economist David Mohr said there were signs that the world economy was improving, which would be good for SA manufactured exports.

Sanlam chief economist Johan Louw commented: "These figures are quite good in our opinion."

Agreeing with Osborne that there would be a deterioration later in the year, Louw said: "The second quarter may not be too bad but there will be a weakening later."

There would still be an increase in SA's net reserves for the year, but surpluses on the current account would become smaller in later months.

Osborne said that "on the face of it" the export figures looked good. But they included exports of diamonds from Botswana, which was in the SA customs union.

Rising exports of vehicles and components were a result of the structural adjustment programme. They also reflected the weak domestic market for cars, which meant that manufacturers had to export to keep production going.

There had been a significant reduction in unclassified exports. This sector included gold and platinum and reflected the lower price for these metals "which has hit us very hard."

Effectively, exports had risen by 4% in real terms over the first quarter of 1991.

Osborne said the drop in imports in recent months was probably due to SA reducing its strategic stocks of oil. It now looked as though "oil imports have returned to normal."

Imports of electrical equipment had gone up. This sector included household appliances and videos as well as capital equipment. It was impossible to say at this stage whether the increase was due to a restocking of durable household equipment or the beginning of an upturn in capital investment.

However, Osborne warned, import figures would soon reflect "vast imports of maize as a result of the drought, which will snuff out our surplus.

"I see our surplus being very much reduced compared with last year. There will be flat exports and huge payments for maize.

"We are looking at a tough year. Our figures look good now but there are difficulties ahead."

Louw said that although the figures were encouraging at present "we shouldn't get too optimistic".

Mohr said that precious stones accounted for less than 10% of total exports and, even if this category included diamonds from Botswana "it is not as if they dominate exports."

He expected exports to continue to do reasonably well.

In spite of the maize imports made necessary by the drought the overall balance of payments would be "comfortable".

SA debt still trading at attractive levels

STAR 16/6/92. 74A

By Neil Behrmann

LONDON — South African foreign debt frozen under the 1985 debt moratorium, continues to trade at a wide premium over Latin American and other developing countries' restructured loans.

Despite the latest political uncertainty, top quality SA Public Investment Commission (PIC) debt, which is part of the $14 billion frozen under the standstill agreement, is trading around 88 US cents on the dollar.

This compares with Mexico at 66c, Venezuela 61c, Argentina 49,5c and Brazil 39,5c.

Nigerian debt is trading at 40,5c on the dollar and Ivory Coast, a key coffee and cocoa producer at only 8c.

Meanwhile, Polish debt is quoted at 26,5c on international markets, Yugoslavia 22c and Bulgaria 15c. The market in huge amounts of Commonwealth of Independent States debt, is virtually non-existent. The price quote is 30c to 60c, say traders.

Despite the premium over developing country debt, Eskom dollar bank loans that were caught in the moratorium and have been restructured to a redemption period of five to seven years are on yields of 13 percent to 15 percent for investors.

Compared with Latin American dollar debt the Eskom paper is very attractive, says Phillipe Batault, an associate director of Ceres Capital.

Ceres, an active trader in SA moratorium debt, recently bought PIC debt for Hambros to finance investment in Conservation Corporation.

Martin Currie, a leading Edinburgh investment trust company and a group of trusts associated with the American Getty family have joined Hambros in investing £5 million out of £12 million in Conservation, a company involved in tourist development in South Africa.

Disappointing

While SA debt trades at a handsome premium over other developing countries' paper, its performance this year has been disappointing.

At the beginning of December 1991 quality SA PIC foreign debt traded at 94 SA cents to the rand, falling to 86,5c just before the referendum. Since then it has appreciated to only 88c because of the widening rift between the Government and ANC.

Mr Batault blames the poor performance on the financial rand which is languishing at 80,5 US cents to the dollar, a discount of nearly 20 percent to the commercial rand.

Since SA debt is sold to international corporations that take a long term view and finance projects in South Africa, it trades at a premium to the financial rand, say traders.

Top European companies purchase the debt in esoteric financial schemes to finance South African operations and new investments. About $3,5 billion of the moratorium debt has been used for this purpose, estimate traders.

The financial rand, on the other hand, is mainly affected by sentiment relating to short-term flows of funds and purchases and sales of securities.

Nevertheless it affects sentiment in the debt market. SA foreign debt is trading at nearly an eight point premium to the financial rand, whereas previously the gap was much narrower.

Unless the financial rand rate rises, potential corporate investors will be reluctant to chase prices of SA debt.

The financial rand initially surged by two percent to 29,15 US cents following finance minister Derek Keys' announcement that all interest on foreign investment would be exempt from taxes.

But the market then chose to ignore Mr Keys' positive steps to remove foreign tax uncertainties.

Instead, international investors are focusing attention on the threat of mass strike action.

SA seeks funds in European markets

74A CT 23/6/92

By AUDREY D'ANGELO
Business Editor

SA's foreign debt borrowing policy was spelled out yesterday by Gerhard Croeser, director-general of the Department of Finance, at a high-level international bankers' conference in London.

SA's participation in the Euromoney Global Borrowers and Issuers forum is "part of a strategy to broaden the demand for SA paper and to tap other sectors of the international capital markets," he explained.

He said his department was co-ordinating and managing the 1992 programme of the SA capital market borrowers.

"We seek to refinance the six maturing DM issues (of DM 670m) with new and larger issues plus a few additional issues."

The three-day conference, which was opened yesterday by the governor of the Bank of England, Robin Leigh-Pemberton, is being attended by representatives of many of the world's major financial institutions.

Croeser told delegates that "no one should be surprised that there has recently been a hiccup in the process taking place in Codesa given the deep-seated differences between the players and their historical background".

But he was confident the negotiations would remain on track. "There is simply no alternative."

The final outcome would be determined largely by the economy. "The insistent demand for socio-economic advancement has led to a growing convergence of opinion among the government, labour and business on the fundamental policies that must be pursued."

Croeser said signs of an economic recovery were "slowly emerging as we continue to move away from the former siege economy and as our extensive restructuring measures begin to bear fruit".

SA was in a novel position in relation to its debt and borrowing ability. "We are simultaneously active on the international capital markets while being halfway through the third interim debt arrangement following the debt standstill seclared in September 1985 when credit lines to SA dried up.

"We were not an over-borrowed country in 1985 when the ratio of debt to export earnings stood at 127,7%. We are even less so now that the ratio is 64,9%.

"As a ratio to gross domestic product (GDP) SA's debt at 16,9% is low indeed and only half that of thr group termed western hemisphere countries."

Croeser said that since the debt standstill SA had "gradually and systematically moved back into the international markets.

He said "SA's capital market borrowing policy was aimed at:

- Protecting the capital account of the balance of payments.
- Increasing SA's creditworthiness te reduce the risk premium.
- Promoting the normalisation of SA's foreign financial relations in order to expedite a final debt settlement.
- Promoting foreign participation in socio-economic development in SA by way of the bonds of institutions".

Trade surplus shrinks as exports slow up

STAR 24/6/92

By Sven Lünsche

South Africa could face unexpected pressures on the current account of the balance of payments this year as precious metals exports continue to slide.

The Department of Customs and Excise reported yesterday that exports for the first five months of the year at R27,26 billion were three percent below the R28 billion exported in the January to May period last year.

With imports over the same period rising by three percent to R20,14 billion (January to May 1991: R19,54 billion), the cumulative trade surplus for the first five months of the year is 16 percent lower at R7,1 billion.

The fall in the trade surplus could leave the current account of the balance of payments below the level of about R4 billion targeted by the Reserve Bank this year.

Allowing for net service payments it is estimated that the current account yielded only a small surplus in April and May this year, bringing the surplus for the first five months to about R2 billion.

The recent sharp rise in the foreign exchange reserves to levels equivalent to over two-and-a-half months worth of imports, could also slow down unless the trade surplus improves sharply.

This will to a large extent depend on the performance of South Africa's major trading partners, whose economies have shown poor growth rates over the past few months.

The Bureau for Economic Research recently forecast that SA's merchandise exports could grow by 6,7 percent during 1992, while merchandise imports are expected to surge by 10,4 percent in the wake of an anticipated upturn in the local economy towards the end of the year.

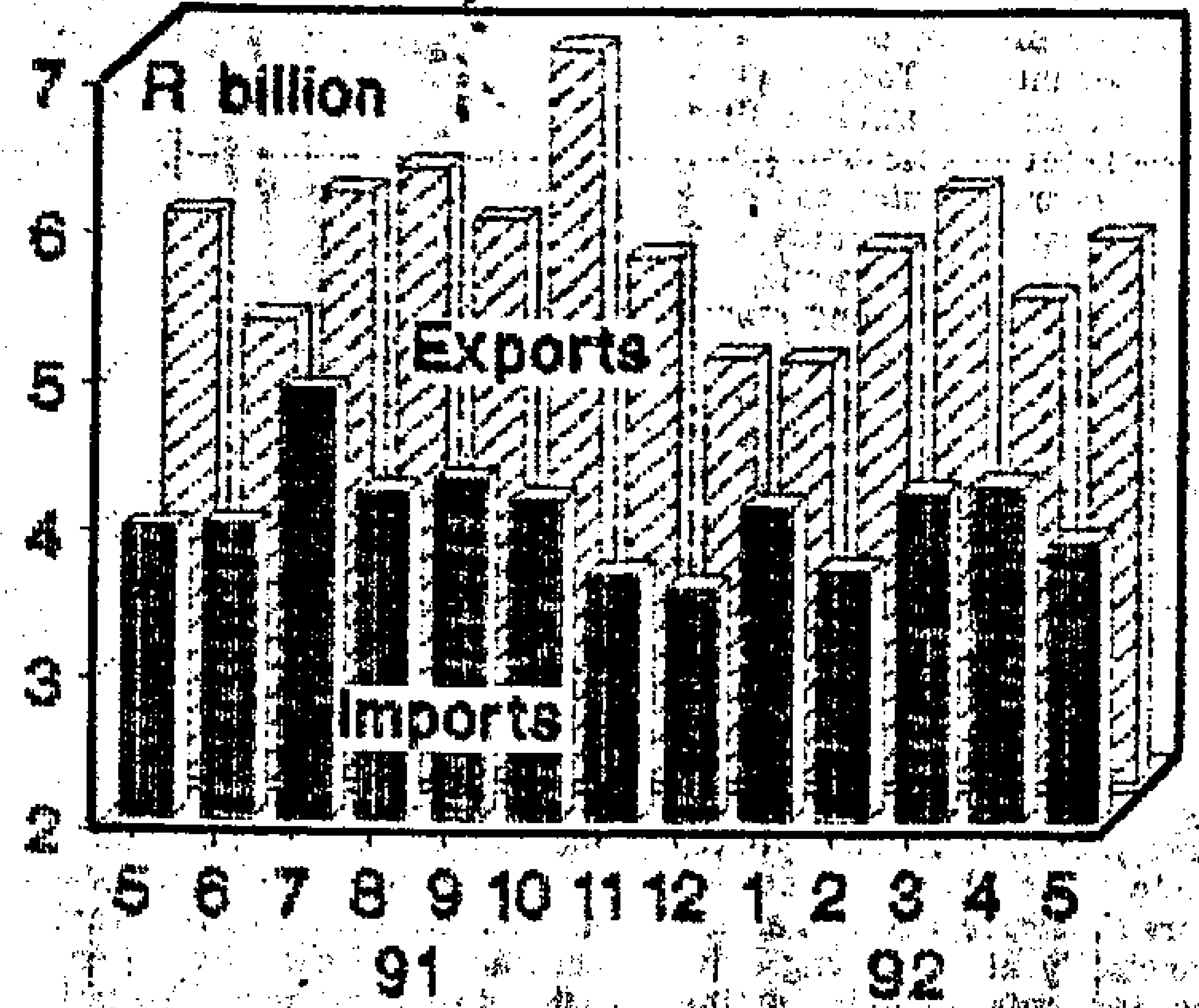
Whether SA can produce a sufficiently large trade surplus will therefore depend on the performance of precious metals exports (gold, platinum and uranium).

So far this year the value of these exports, which fall under the category "unclassified goods and balance of payments adjustments", has dropped by 24 percent to R9,7 billion (R12,8 billion).

The poor performance of international metal markets coupled with a steady rand exchange rate has left the prices of precious metals markedly lower — the rand gold price over the past year has dropped by about R100 per ounce.

However, Safto economist Bruce Donald says that the extent of the decline suggests that some balance of payments adjustments have taken place.

In contrast to the poor overall performance of exports, most manufactured and agricultural exports did extremely well during the first five months of the year.



Import, export figures for the past 17 months.

Top performers

According to Mr Donald top performers were transport equipment (a 53 percent annual rise in value), plastics and chemicals (48 percent each) and machinery (26 percent).

Despite the drought agricultural exports also fared well due to a good Western Cape season and better prices for SA products. Exports of vegetable products were up by 26 percent and those of fats and oils by 39 percent.

On a monthly basis total exports held up well and May's figure of R5,64 billion is in line with the average of the previous four months of the year.

The recession continues to curtail imports which fell from R4,26 billion in April to R3,88 billion last month.

Imports of industrial products were hardest hit. So far this year imports of chemicals have fall by one percent, while plastics and base metals have shown modest growth of one and five percent respectively.

Mr Donald says machinery imports grew by eight percent, perhaps indicating current replacement as opposed to expansion of existing capacity in local industry.

FOREIGN DEBT

Bond dilemma

(74A)

The Development Bank of SA is reluctant to discuss a reported application for a credit line from Japan's Export-Import bank, worth about US$300m-$400m (R800m-R1,1bn). The DBSA says it hosted a delegation from Exim Bank early in June but that it was "too early to speculate about any involvement which may be forthcoming."

If the credit line materialises, it will contribute to the large amounts already raised by SA borrowers on overseas markets. Since September, when SA first floated a bond issue in Europe, the public sector has raised a total of R2,6bn on foreign capital markets in foreign currency. The original issue of RSA stock brought in DM400m, followed by Ecu250m in January. Subsequent issues

FM 26/6/92 (74A)

were made by parastatals:

- DM200m in February for the Development Bank;
- DM300m in March for Eskom; and
- DM120m in May for Telkom.

Not that SA needs the money right away. UAL economist Dennis Dykes says the problem in the SA economy is a lack of investment opportunities. "Because of political and economic uncertainty, investors tend to put their money in blue-chip shares rather than new long-term development projects." But funding may be needed further down the line, says Dykes, so establishing contact with large foreign investors may be relevant. "The ability to borrow large amounts is important for any developing economy, provided these are used on productive expenditure and not on current expenditure," he says.

There is a view, says Dykes, that such issues are important in establishing SA's debt-worthiness abroad. "Large foreign lenders tend to lend to countries that already have a presence in capital markets, so it may be important to gain familiarity with lenders for future requirements."

According to a research paper brought out by Jonathan Garner and Jonathan Leape of the LSE Centre for the Study of the South African Economy and International Finance, virtually all foreign debt issues placed by SA issuers from the time of the debt standstill until August 1991 (the date of the research paper) were with small, specialised investors, notably wealthy individuals and trusts. Little headway was made among mainstream financial institutions. So there may be good reason for wooing these investors.

Bond issues may also be important in building up foreign exchange reserves.

Nedcor chief economist Edward Osborn says there are two fundamental difficulties with securing borrowings abroad: "Firstly there is the public debt problem — foreign funding is not required to finance budgetary expenditure, but contributes to future fiscal burdens. Secondly these borrowings expose SA to the risk of currency depreciation, making borrowing more expensive."

Osborn draws attention to the "imminent dangers of a public debt trap arising from government taking on functions beyond the straightforward one of financing the State budget. One of these is raising money abroad for balance of payments requirements and developing capital market relationships abroad: important, no doubt, but a heavy price to be watched."

Osborn says the problem is compounded by bodies such as the DBSA and the Independent Development Trust (IDT) also seeking finance abroad, when funding can be raised locally without the currency risk. "There seems to be a mistaken view that foreign money is intrinsically better than local money."

Osborn says the notion that SA is "underborrowed" doesn't hold much water: "It is a meaningless, self-justifying word. Current overseas borrowings may not be anywhere near the levels of the early Seventies or early Eighties, but those periods saw to an enormous run-up of long-term borrowings and an acute exposure to short-term liabilities." ■

SA's debt 34% down since '85

B Day 26/6/92

HILARY GUSH

SA's current account surplus narrowed sharply in the first quarter of the year, but capital outflows also declined to a "negligible" level in the March quarter, the Reserve Bank's latest quarterly bulletin says.

SA's foreign debt declined from $19,4bn at the end of 1990 to $18,1bn at the end of last year, completing a 34% reduction in outstanding foreign debt from 1985 levels.

In the three months to March the current account surplus fell to an annualised R4,5bn from R12,3bn in the fourth quarter of last year. The fall stemmed from an increase in goods imports and in service and transfer payments to nonresidents.

Net gold exports fell although there was a slim improvement in goods exports.

Capital outflows totalling R4,7bn in the fourth quarter of last year declined to R21m in the first quarter of this year.

Successful first-quarter bond issues in European capital markets produced a net long-term capital inflow of R1bn for the public sector.

However, the inflow was offset by repayment of $200m in debt inside the standstill net in February this year. A net inflow of short-term capital in the March quarter consisted mainly of trade finance associated with the higher value of imports.

At August 1985 exchange rates SA's foreign debt totalled R15,6bn at the end of last year, compared with the R23,7bn foreign debt total at the beginning of the debt standstill on August 31 1985.

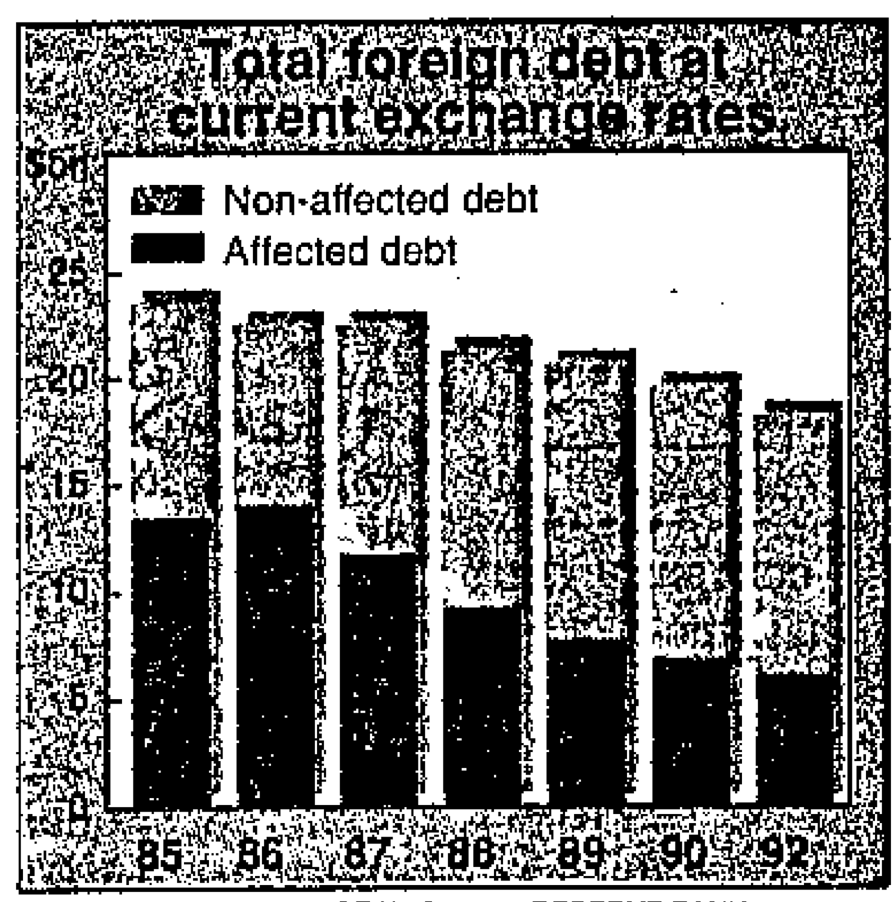
This implied that, valued at August 1985 exchange rates, the outstanding debt was reduced by $8,1bn, or 34%.

No less than $3,2bn had been repaid on affected debt — inside the standstill net — and a further reduction, attributed to conversions into longer-term loans outside the net and debt-equity swaps, had occurred.

The Bank believed the foreign debt repayments should help to further improve SA's credit rating.

As a percentage of goods and services exports, the debt total had decreased to 65% in 1991 from 128% in 1985; the corresponding ratio in Western developing countries was 250%.

SA's debt expressed as a ratio of GDP fell to 17% at the end of last year from 43% in 1985.



Graphics: RUBY-GAY MARTIN Source: RESERVE BANK

Debt crisis looms — Stals

MADDEN COLE

TO ACHIEVE a 4% growth rate SA would require an inflow of foreign capital of such proportions that by the year 2000 the country would face an unmanageable debt crisis, SA Reserve Bank Governor Chris Stals said yesterday.

Stals told the Johannesburg junior and senior Afrikaanse Sakekamers that in such an eventuality, foreign debt would grow to $100bn by 2000 — five times the present foreign debt.

The growth rate was necessary to absorb the annual increase in the labour force.

He added that foreign and local economic and political factors had combined to push the growth rate to such a low level that SA ran the risk of being trapped in a permanent stagflation situation.

Economists believed, given the present economic structure, that an upswing in the business cycle would not provide a solution in the long term.

"We will experience further increases in unemployment until the end of this century and average living standards will decline."

He noted that in recent years the capital/labour relationship had been changing with greater use being made of capital intensive production processes at the expense of labour, resulting in more unemployment. Labour costs were also high and productivity low.

Moreover, in the past three decades economic growth had declined from 6% to 1% and, failing urgent measures, there was now the possibility of negative growth.

Stals warned that an economic development programme aimed directly at creating a better balance of payments position or to reduce the inflation rate, would be difficult to implement. Nor would it be easy to obtain the support of the broader

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Stals

☐ From Page 1

community.

"However, it will not be possible to carry out the necessary changes in the SA economic structure without causing pain."

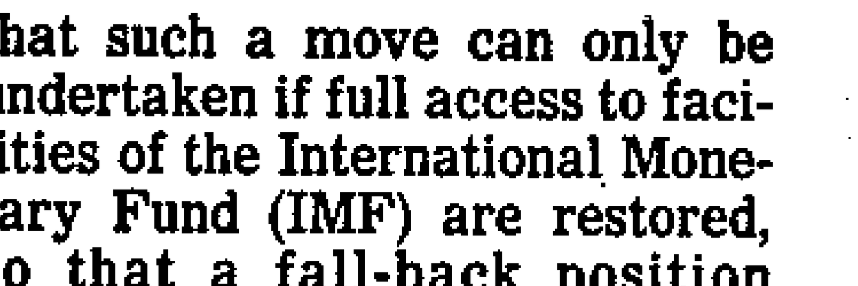
The Reserve Bank believed that macro-economic policy guidelines should be introduced. Co-ordinating this would be the first demand for a restructured reform programme which should be supplemented by a clear socio-economic programme.

He said he would like to see political and economic policymakers, the business community, the labour force and the general public co-operate in the macro-economic approach.

It was necessary at this stage to conduct an open debate on SA's economic problems.

Radical overhaul of debt accord urged

By Sven Lünsche



Standard Bank has urged the Government to terminate the Third Interim Debt Agreement with foreign creditors and replace it with an IMF-backed Structural Adjustment Programme (SAP).

In its latest Economic Review the bank says a SAP is essential to restore confidence in the economy, which it predicts will decline this year by more than it did last year.

"Given the current weakness of the economy, a process of restructuring along the lines of an SAP, must start as soon as possible," Standard Bank says, adding that the process should be started before the expiry of the foreign debt agreement in August next year.

South Africa would benefit tremendously if it could terminate the agreement and bring about a normalisation of its relationship with foreign financial markets, Standard says.

"This could be done through a tacit agreement not to call up debt, or, for example, the conversion of remaining debt into one- and three-year paper, saleable on the secondary-debt market."

The bank warns, however, that such a move can only be undertaken if full access to facilities of the International Monetary Fund (IMF) are restored, so that a fall-back position exists.

This requires the acceptance of a suitable economic strategy by the IMF which, in turn, would have to be satisfied that such a strategy had broad local backing.

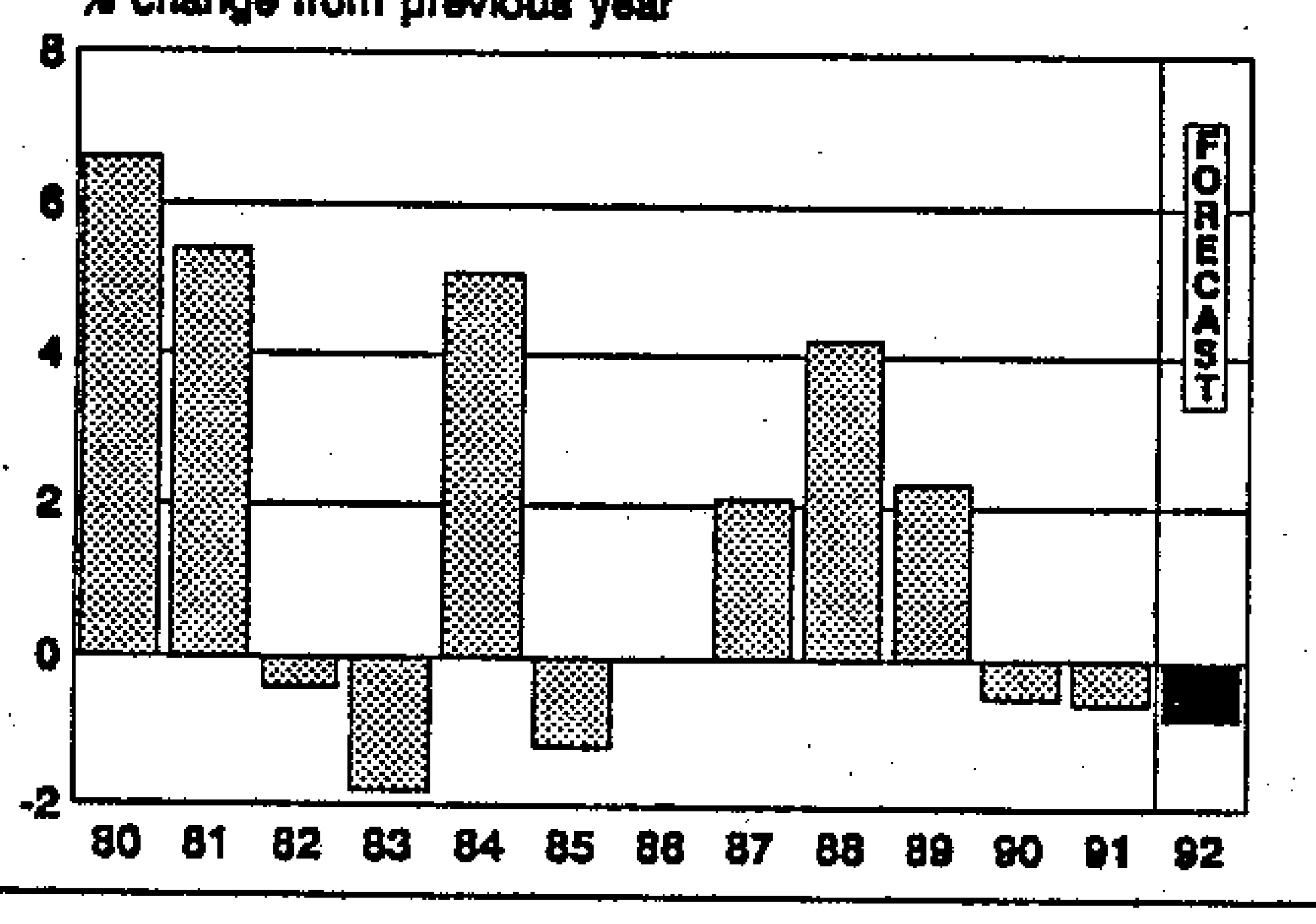
"No such blueprint exists at present: it must be created and must find reasonably wide endorsement."

Standard Bank says the business sector has a key role to play as it is well placed to encourage an economic strategy that could gain support across much of the political spectrum.

The strategy should aim for rapid, sustainable growth, with an emphasis on both efficiency and equity.

"Conventional wisdom points to deregulation and tax reforms as the relevant policy framework for a competitive economy."

The bank says such a strategy is urgently required because the economy is probably in the deepest recession South Africa has experienced in the post-war period.



"The signs point clearly to a third consecutive year of economic decline expected to be around 0,8 percent, and there is no real upturn in prospect before the second quarter of 1993." (see graph)

The bank, however, is slightly more optimistic on the outlook for personal consumption expenditure (PCE).

While the low level of personal savings, reduction in consumer access to credit, slower growth in disposable income and rising retrenchments will continue to take their toll on PCE in the second quarter of the year, Standard predicts a slight upturn in spending during the second half.

The most serious manifestation of the recession was the decline in fixed investment to a low of 13,5 percent of gross domestic product (GDP) in the first quarter of the year.

"The recent trend in investment undermines the economy's future ability to generate growth and absorb work-seekers," Standard says.

Underlining its call for a thorough restructuring of the economy, the bank concludes that quick-fix measures, which might hasten a short-lived cyclical upturn, simply will not restore the kind of growth that is necessary.

No pain, no gain for SA

W/Mail 7/8-13/8/92 (155) 74A

South Africa faces some deep-rooted problems as it rejoins the world economy. **REG RUMNEY** *spoke to Bradlow Fellow Jesmond Blumenfeld who has been looking at these issues*

JESMOND BLUMENFELD'S conversation about the future policy choices on the South African economy is scattered with mention of painful and "cruel choices" and warnings of no quick and easy way out. It is clear he is not entirely sanguine about the prospects for immediate prosperity.

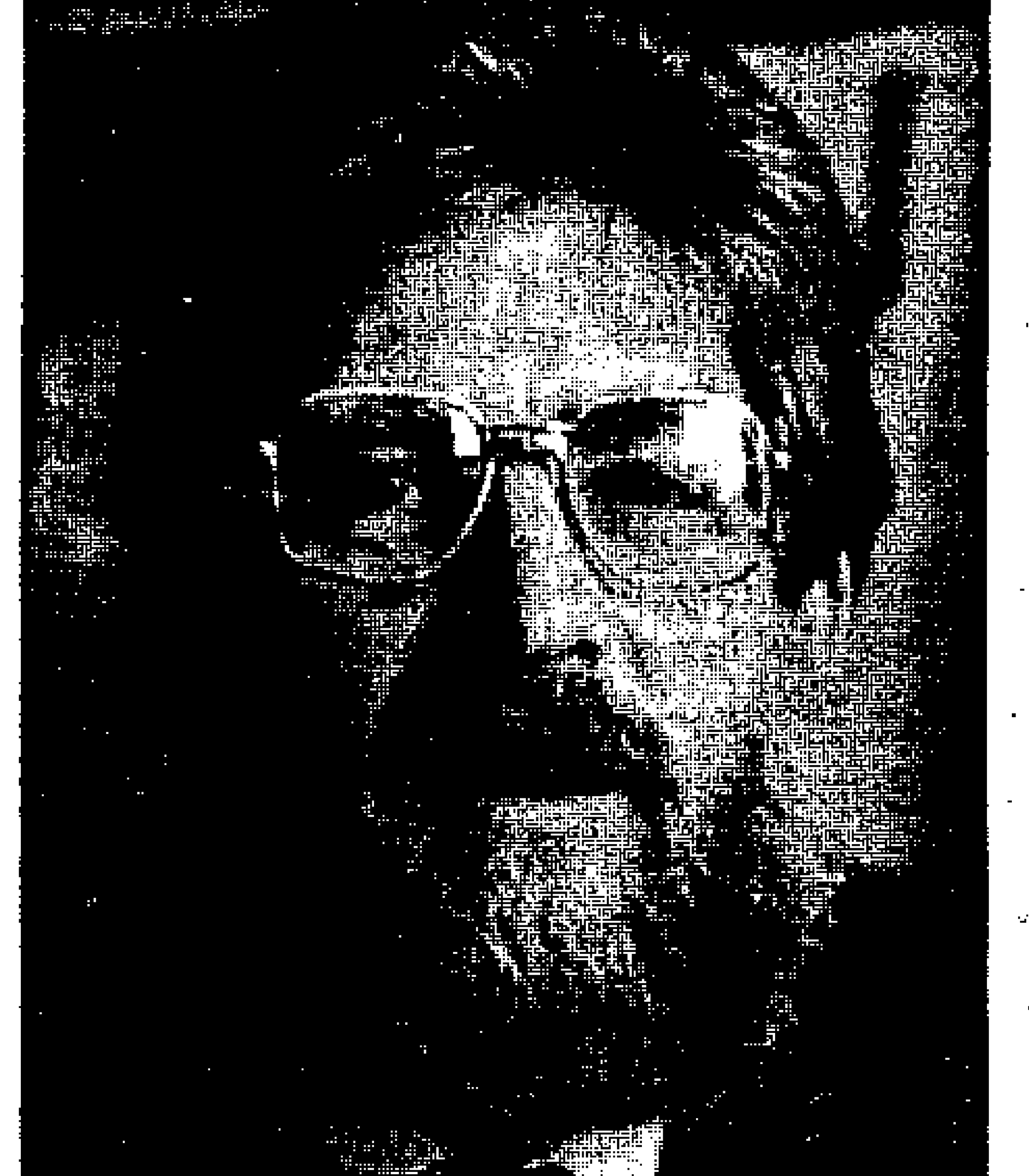
The sixth South African Institute of International Affairs Bradlow Fellow, Blumenfeld has been weighing the opportunities and the threats South Africa faces as it is reintegrated into the world economy.

Based at Brunel University in West London, Blumenfeld is preparing a paper on, among other things, the policy implications for South Africa of the lifting of sanctions and the ending of apartheid.

Clearly, there has been optimism with trade sanctions going, says Blumenfeld. Some traditional markets had been restricted and others had been severely limited by sanctions. But, he says, apart from financial sanctions, there has also been more fundamentally a decline in attraction for foreign capital investing in the real sector of the South African economy.

"Certainly since 1976 and even before a combination of factors has led to declining attraction of foreign capital. This was masked by resorting to borrowing abroad."

Equally important, is the much more structural imbalance in South Africa's relationship with the international economy. Blumenfeld points out the history of industrialisation in South Africa is characterised by subordination to political goals. So when industrialisation did take place in the early years of the Union it was to create jobs for whites.



Jesmond Blumenfeld: Tell the marines the new South Africa will not manipulate industrial policy

The seeds of present problems were planted way back then, is the implication. The way industrialisation happened meant it was parasitic, relying on export earnings of other sectors.

So exporting minerals financed imports of machinery to produce goods for replacement of imports. "Industrialisation has always been employed by politicians for ends other than industrialisation."

In the apartheid years industrialisation was used to entrench political structures, not for the sake of the economy. Now industrial development is expected to cater for exports and to create jobs. "It's not clear that these are compatible."

Because of the balance of payments (BoP) constraint South Africa needs more foreign exchange earnings. The only sure route in the long term is manufacturing for export. Politically the need is to create jobs. But exports are capital intensive rather than labour intensive.

Another problem is that manufacturing industry needs lower exchange rates to be competitive: mineral exports, on which we still rely, tend to push up the exchange rate, according to Blumenfeld.

The problem of South African manufacturing is the high cost of labour relative to capital. He reckons you have to push down the cost of labour relative to capital, or make capital more expensive. Its hard to pursue both strands — foreign exchange earnings and job creation — at the same time. It's a cruel choice to have to make. "You could go the employment creation route but you will run into a BoP constraint." The export promotion route could be undermined by joblessness.

Access to IMF loans will not in itself relieve the constraint. IMF loans will have to be repaid five or 10 years down the line, and they don't come cheap. "I would be worried about placing too much reliance on the IMF.

"It would be most unfortunate if South Africa were to find itself in the position of Zambia and Tanzania, chopping and changing policy to get the IMF off its back," Blumenfeld reckons.

It can be argued, he says, that South Africa is overborrowed. "But it wouldn't take a lot of borrowing to make it overborrowed," he says.

The question remains: how do you make foreign loans earn foreign exchange so that they can be repaid?

The bind is that South Africa won't get direct foreign investment until there is stability and economic growth is needed to attain that stability. There is no easy way out of this.

"There is an important role for the political leadership in creating acceptance of what can be achieved in the foreseeable future."

Growth through redistribution, sometimes advocated by thinkers on the left, has the potential to work in the short term but runs the risk of running into the BoP constraint, says Blumenfeld. "The fundamental structural problem is that industrial development in South Africa is predominantly import intensive, and this will take many years to change."

Brazil, for instance, followed an industrial policy which resulted in much lower import intensity than South Africa. Following the example of the Korean tigers would be possible if South Africa was at a stage of industrialisation reached 20 or 30 years ago.

The idea that the goods consumed by poor people have a lower imported content is foolish, he maintains. Whether big or small, most machinery, intermediate inputs etc which industries use have to be imported.

"It can be changed but it's a very slow and painful process. Policies must be implemented which mean some firms go under to make space for others which are more competitive internationally.

"This is what structural adjustment is all about. It's better for a country to do it itself. But if the IMF forces it on a country, the government can say it's not their fault. That ploy has been used by governments all over Africa and Latin America." There are problems in aping other countries.

South Africa starts with a mineral rich economy which dictates domestic structure and exchange rate. The country doesn't start off with well-developed government structure, and doesn't have the option of following the repressive employment practices countries like Taiwan and Korea did.

The fiscal burden of putting export incentives on a par with those for import substitution would be enormous, Blumenfeld reckons. Reducing import substitution incentives is open to special pleading.

While what needs to be done is clear, it is by no means certain a future government will pursue an economically correct industrialisation strategy.

"It seems inconceivable a future government, having observed the way industrialisation has been manpulated in the past, will eschew this as policy lever." He adds scornfully: "Tell that to the marines."

Balance of payments 'best since 1984'

74A

CT 10/8/92

From HILARY GUSH

JOHANNESBURG. — Gold and forex reserve figures released by the Reserve Bank at the weekend were "remarkable" considering the poor performance of the world economy, AHI economist Nick Barnardt said yesterday.

He said it appeared the capital account had not suffered a net outflow this year and the balance of payments was in its best condition since 1984, reflecting positive political developments and the normalisation of SA's international trading relations.

A lower import bill, and benefits flowing from the relaxation of sanctions, saw gold and foreign exchange reserves rise by more than R1bn in July to a record R11,3bn from June's R10,2bn.

Total reserves rose on the back of a R960m increase in foreign assets to R5,3bn.

Gold holdings were slightly down at 6,7-million ounces from 6,8-million in June, but a higher gold valuation, of R892 an ounce from June's R856, lifted the value of gold holdings to R5,98bn from R5,84bn.

The effect of special export incentives and the recession forcing manufacturers to explore foreign markets aggressively had helped boost reserves.

Barnardt said interest payments on foreign debt, and the average interest rate, were falling and a very weak domestic economy tended to depress demand for imports.

He said the timing of payments for maize imports would be critical.

Nedcor Bank chief economist Edward Osborn said the accumulation of foreign income was due to the relatively low import bill reflecting the recession's depth.

Stals happy with debt obligations

S/Times (Buss) 16/8/92

74A

By CIARAN RYAN

THERE is no need to negotiate an early end to the debt standstill, says Reserve Bank Governor Chris Stals.

"The country can comfortably meet its foreign debt obligations because our gold and foreign currency reserves are healthy.

"The affected amount in terms of the third interim arrangement forms a relatively small part of our total foreign debt."

Discretion

Nedbank senior economist, Edward Osborn estimates that SA must repay a total of $1,2-billion to foreign creditors this year, of which $365-million — 30% — falls under the standstill. This is well covered by gold and foreign-currency reserves of more than R10-billion.

A large part of the debt not affected by the standstill will be rolled over by foreign creditors as it matures. By renegotiation, foreign creditors will have the discretion to roll over the standstill debt too, thereby easing pressure on SA's balance of payments. It would also allow foreign creditors to sell the debt on the secondary market.

After the Government's referendum victory in March approaches were made to foreign creditors to renegotiate the third interim arrangement under which SA must repay 3% of the R6-billion every six months.

Dr Stals says: "Our foreign creditors agreed that we should wait until 1993 when the third interim arrangement expires."

Standard Bank says in its economic review that preconditions for normalising SA financial relations with the rest of the world include a return to political negotiations and the presentation of a structural adjustment programme (SAP) which has broad support.

"South Africa would benefit tremendously if it could terminate this agreement and thus end the debt standstill through a normalisation of its relationship with foreign financial markets," says Standard Bank.

The SAP is necessary for the restoration of full International Monetary Fund (IMF) facilities, which would be essential for ending the debt standstill.

Dr Stals says renegotiating the debt standstill may be easier with the SAP in place, but is not essential.

"It depends on the conditions imposed by the IMF. In SA's case, the IMF might not impose the comprehensive conditions they demand of countries with serious balance of payments problems."

SA's total foreign debt is $18-billion, of which $12-billion is not affected by the standstill. The standstill was imposed in 1985 after former President Botha's Rubicon speech.

Pool

Mr Osborn says foreign creditors are happy to roll over non-affected debt because SA borrowers pay a premium for loans from abroad.

"We have been successful in rolling over our non-affected debt in the past and I imagine this will continue to be the case."

Dr Stals says that the phased removal of the financial rand is preferable to abolishing it overnight. SA can only contemplate removing the finrand when political stability is restored and the discount to the commercial rand is maintained at a low level for a reasonable time.

The finrand could be phased out by restricting it to, say, JSE-listed equities. Non-residents could then start using commercial rands for all other types of investment.

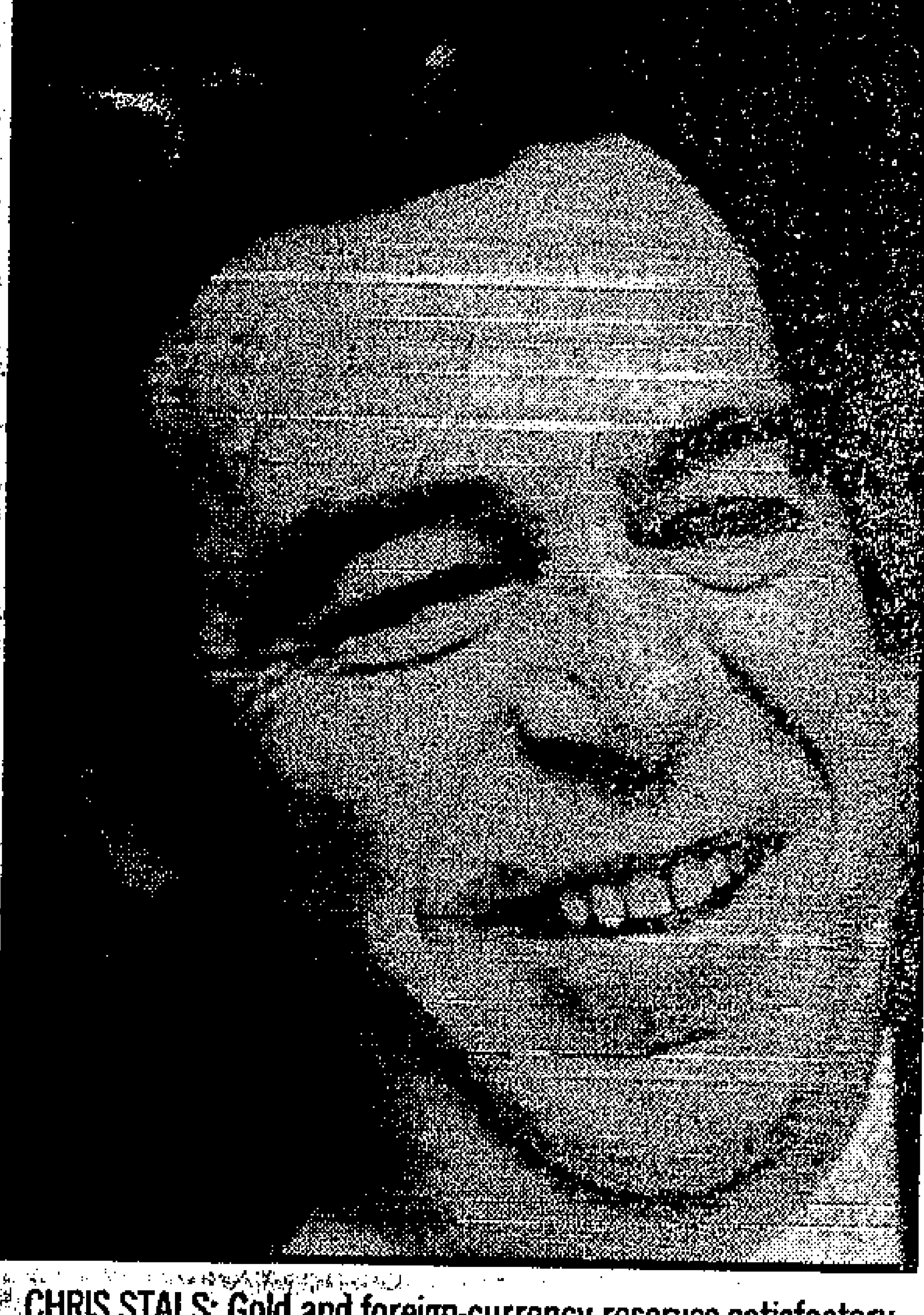
Dr Stals says the Reserve Bank could also intervene in the finrand market to reduce the size of the pool.

"We could use a combination of these two methods. But by phasing it out rather than abolishing it, we can retain some form of protection in case things go wrong and capital starts to leave in a big way."

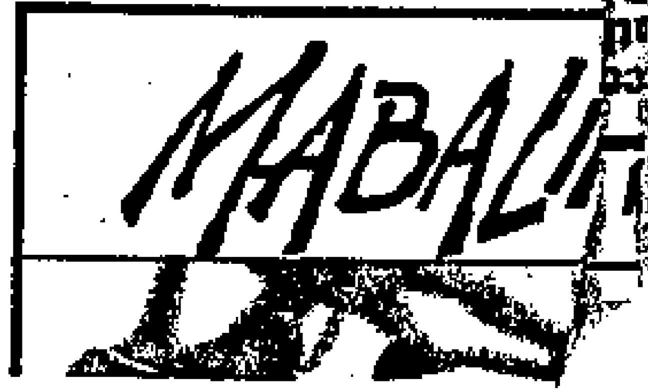
Dr Stals says the 9,05% growth in M3 money supply in June compared with the fourth quarter of 1991 — although within the 7% to 10% target range — is still too high for a contracting economy.

"But we can live with this rate of growth in money supply. It is not inflationary. Although the nominal inflation rate is over 15%, the underlying one is below it."

A recovery in the economy next year will not exert inflationary pressure on the economy because it will be slow and there is much spare capacity in industry.



CHRIS STALS: Gold and foreign-currency reserves satisfactory



Drought set to slash BoP surplus

CT 20/8/92

74A

By MAGGIE ROWLEY
Deputy Business Editor

DUE to the drought the surplus on the current account of the balance of payments is expected to drop to about R5bn against R7,4bn last year, Sanlam forecasts in its August Economic Survey.

Sanlam's chief economist Johan Louw estimates a surplus of about R3,5bn for the first six months of this year against R2,2bn during the same period last year.

Although the effect of the drought has not yet been clearly reflected in foreign trade figures, he believes it will lead to significantly smaller surpluses or even deficits on the current account in the latter part of 1992 and in 1993.

Louw says that contrary to expectations of a recovery this year, the economic downturn was continuing and he warns that unless stability on the political front and peace and order were effected quickly, a significant recovery in general economic activity could be delayed still further.

An economic growth rate of 2% to 3% for 1993, which is being generally predicted, might not be attainable, he says.

"For a lasting expansion phase, an increase in fixed investment is a prerequisite. This in turn is dependent on the stability that is attainable only through acceptable political and socio-economic reform — a fact that politicians should not neglect."

Contributing to the delay in economic recovery is the severe drought which could reduce the real economic growth rate by about 1% this year.

In the short term there were few indications of a recovery in the economy and recessionary conditions were expected to continue, he said.

"However if political stability and peace can be restored, Sanlam expects a marked improvement in growth prospects for 1993."

Anticipated developments which could form a basis for faster economic growth include significantly faster growth in the economies of SA's major trading partners; the continued crumbling of sanctions including financial sanctions; a healthier agricultural year; a firmer gold price; the low inventory levels which leave room for the build up of inventories; accelerated government spending on social projects in particular; lower inflation and further reductions in interest rates.

Louw said weaker demand for credit is expected to continue in coming months. This together with a further deceleration in the inflation rate, should pave the way for at least one more reduction in the Bank rate later this year and the downward adjustment in the prime overdraft rate of banks from 18,25% to 17,25%.

Politics could shape course of economic revival

(74A) HILARY GUSH (BD)

A BALANCE of payments-led recovery could be expected in 1993, but political developments would play an overriding role in an economic upswing, Rand Merchant Bank chief economist Rudolf Gouws said yesterday. 8/DAY

Addressing members of the SA Foundation, Gouws listed international economic revival, the abolition of trade sanctions and continued improvement in the capital account as the fundamental reasons for an expected cyclical upswing next year. 28/8/92.

The chance of a local economic recovery was enhanced by a more stable financial environment, which included higher foreign exchange reserves, declining interest rates, slower growth in the broad money supply and a stable exchange rate.

Other factors contributing to improved economic performance were a fall in the cost of capital, continuing mild fiscal stimulus and "normal" summer rainfall.

But he cautioned that weakening export volumes, the multiplier effects of the drought, "tightish" monetary policy and the impact of mass action on business, consumer and international confidence would prevent an upswing before the year-end.

International cyclical developments were the most important reasons for continued recession in the short term. The terms of trade, which had been declining since mid-1988 should, however, improve next year as world economic recession bottomed out.

"We will see an increase in SA's export volumes once — with a lag — US industrial production volumes start rising," he said.

Single-digit consumer inflation could be expected by mid-1993, while there would probably be three more cuts in official interest rates during the current fiscal year, he said.

New SA 'allows for a deficit'

(749)

CT 28/8/92

By ARI JACOBSON

THE new SA will allow the monetary authorities more leeway with the balance of payments (BoP) and even allow for a deficit on the current account, SA Reserve Bank governor Chris Stals said yesterday.

"We (the Reserve Bank) feel a lot easier these days about running a deficit (imports higher than exports)," said Stals in an interview.

But he said "what is crucial is how the finance is obtained to build the economy".

He explained that previously a surplus on the current account had provided the finance for investment locally. But he said with the new wave of goodwill "the country can now access short term overseas capital."

Capital inflows for investment purposes would rejuventate the economy, especially the manufacturing sector, and would in turn be a catalyst for employment.

"This would provide a deficit for the right reasons as imports of among others capital goods flow into the country to lift industry."

But he warned that the present situation of a shrinking surplus on the BoP "was for the wrong reasons — with the drought expected to take a R2bn chunk out of the surplus in 1992".

Stals warned that to attract investor funds "an economic policy for the new SA is necessary that is not based on a controlled economy and rather adopted free market principles".

● SA, its economy mired in recession and its political reforms deadlocked, does not expect to return to the world debt markets for some time, a SA Finance ministry official speaking on condition that he was not identified told Reuters in Frankfurt yesterday.

SA's edge on prices confirmed by Swiss

(74A) ARG 1/9/92

DEREK TOMMEY

JOHNANNESBURG. — South Africa has been able to maintain its price advantage over most of the rest of the world, in spite of high inflation.

This is shown by an analysis of the current buying power parities of the world's major currencies after providing for changes in exchange rates and South Africa's 15 percent inflation.

The Union Bank of Switzerland (UBS), in its triennial survey of purchasing power parities a year ago, found that the general level of prices in all major industrial countries was substantially higher than in South Africa.

A table shows that the general price level in Norway was 126 percent higher than in South Africa, while in Japan it was 115 percent higher and in Sweden 111 percent higher.

It shows that British prices were about 65 percent higher than in South Africa and US prices 63 percent higher.

Of particular interest is that prices in Germany were only 46 percent higher than in South Africa — and well below most of the world's other major trading countries.

This is obviously one of the reasons for the current strength of the German mark.

It also helps to account for the speculation that the mark could be revalued in the near future.

Another table shows the difference in price levels in various countries in August this year, after adjusting the UBS figures for exchange rate alterations in the past 12 months.

It can be seen that the exchange rate changes had the effect of greatly widening price differences between South Africa and all other countries with the exception of the US, Australia and Canada.

However, in the past 12 months, South Africa's inflation rate has been at around 15 percent, which has raised the local level of prices.

But even after adjusting the price differences between South Africa and other countries by the 15 percent rate, it shows that South Africa has maintained a significant price advantage over other countries.

The big difference in price levels between South Africa and the rest of the world should lead to a major upsurge in the local economy in the coming months and years, provided inflation is not allowed to erode the price advantages South Africa has.

As the benefits of the ending of trade sanctions begin flowing through, exports should boom.

It is beginning to look increasingly as though the Reserve Bank's major problem in the year ahead could be holding down the rand exchange rate.

Already the Reserve Bank has had to buy R6 billion to keep down the rate.

Given a major improvement in South Africa's trading position, the Bank might not be able to hold the rate down.

This is bad news for the marginal gold mines and for those investors in gold shares who have been calling for a devaluation to help them.

It is becoming increasingly apparent that SA cannot afford another bout of inflation merely to help gold mines, whose costs, in any event, will rise as they are forced to mine deeper and more expensive ore.

Foreign debt negotiations 'in jeopardy'

SIMON WILLSON (74A)

LONDON — The Bisho massacre may have helped spoil SA's chances of negotiating a final foreign debt repayment arrangement to succeed the interim arrangement, creditor bank sources in London indicated yesterday.

The existing foreign debt repayment structure, the third interim arrangement, expires at the end of next year. The SA authorities had hoped it could be followed by a final arrangement which would amortise all the remaining foreign debt still caught up in the 1985 standstill.

Successive interim arrangements have amortised only chunks of the $13,6bn in foreign debt originally caught in the net. At the end of last year about $5,5bn remained in the standstill net. BIDAY 9/9/92

Since scheduled repayments this year are expected to reduce total standstill debt to less than $5bn, the chances were at one time thought quite good that the whole of the remaining debt in the net could have been honoured within the next repayment arrangement, thus making the successor to the current third interim arrangement the fourth and last in the series. Such an arrangement would also effectively have ended SA's foreign debt problem.

The Finance Department's economic review published with the 1992/93 Budget said, "before the present debt arrangements lapse, an attempt will be made to secure final and more permanent arrangements" with SA's creditors.

But opinion among some of the creditor banks in London was that, after the events at Bisho, a final arrangement to succeed the third interim arrangement at the end of next year was now a tall order. As initial reports indicated the Bisho incident had significantly set back constitutional negotiations, the feeling was that a fourth interim arrangement was now more likely.

Implementation of a final arrangement, with its accelerated repayment schedule, presupposed the restoration of links with the IMF and World Bank, and normalised access to international capital markets. These contacts largely depended on the installation of an interim government.

☐ To Page 2

Foreign debt

BIDAY 9/9/92 (74A)

☐ From Page 1

The bank sources said the Bisho violence had almost certainly ruled out a "dream scenario" on SA debt, which envisaged the establishment of an interim government ahead of negotiations on a successor to the third interim arrangement, and restored links with the IMF and World Bank.

Under the scenario, the SA authorities would then announce that there would be no fourth or final debt repayment arrangement, and that creditors were free to call in matured loans from end-December 1993. But, because of SA's improved status and the creditors' own needs for diversified portfolios, the facilities would be rolled over and not called in. With barely a year of the third interim arrangement to run, and formal talks on a successor structure likely to begin early next year, creditors now accept the dream scenario as likely fantasy.

The Bisho incident is seen as making a final debt arrangement almost as unlikely, leaving SA unfavourably compared to some of the most indebted South American nations.

In the wake of Bisho a fourth interim arrangement, effective from January 1994, is now odds-on favourite to succeed the present debt arrangement. But, as one analyst remarked, after four successive instalments an arrangement ceases to be interim and becomes almost fixed.

COMPANIES

Reserves rise unexpectedly

HILARY GUSH

FOREIGN debt repayments of between $200m and $250m had been paid in August, Reserve Bank gold and foreign exchange GM James Cross said yesterday.

However, this had not had a marked effect on the reserves which rose by R591m to R5,3bn. BDAY 10/9/92

Although it was difficult to establish the precise reason for the unexpected rise in reserves in August, the increase could be a result of a weaker dollar which led to forex inflows as forward cover on long-term positions was rolled over, said Cross.

"The technicalities of the foreign exchange market are such that third currency forward cover contracts tend to generate positive cashflows with a weakening dollar. As the dollar strengthens the situation is reversed."

The higher figure was current-account related but as trade data for August had not yet been released, it was difficult to pinpoint the cause of the larger reserves.

When asked about the effect of payments for agricultural imports on forex reserves, Cross said there had been a steady payment for maize imports over the last few months as opposed to a build-up of debt.

Nedcor chief economist Edward Osborn said, however, the bulk of maize imports to date had been "in-and-out for the benefit of the neighbouring territories". 74A

"It is likely that the whole system of maize importation has been entirely devoted to the movement of maize for Zimbabwe and Mozambique."

Osborn said it could be a couple of months before a large payment for maize imports for SA's own account was made.

Govt's local borrowing a hot potato for ANC

BDAY 10/9/92

TIM MARSLAND

THE ANC has caused periodic storms through its pronouncements on foreign loans raised by the SA government and parastatal institutions. But it has maintained a discreet silence on what attitude it would take, as a future government, towards loans raised locally which have also arguably served to buttress the "undemocratic regime".

This discretion has extended to declining to comment at all on the matter when approached recently by Business Day.

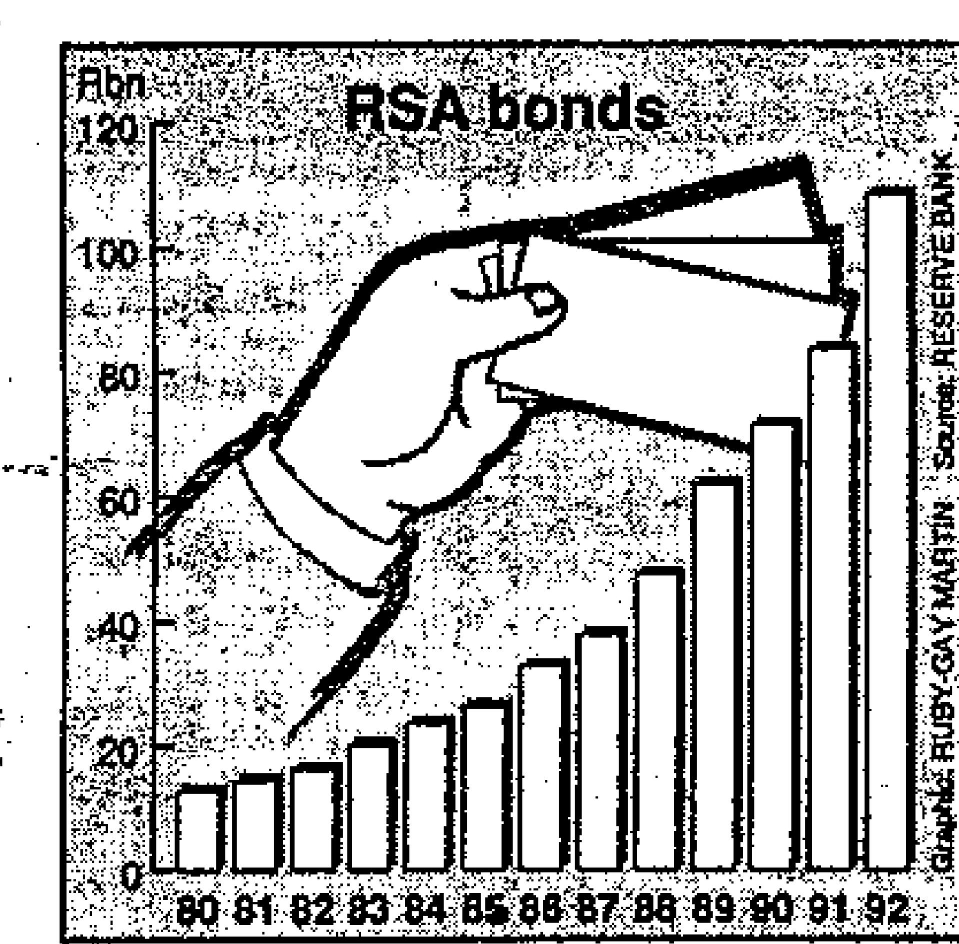
The ANC obviously sees the issue as a political hot potato. Senior government officials, too, have been at pains to ignore the matter in the hope that it will go away.

Government currently owes R108,6bn raised on the capital market through RSA loan stocks with maturity dates up until 2015. A payment of R18bn — the R144 stock — falls due in 1996. Reserve Bank figures for the first quarter of the 1992/93 financial year show government raised R12bn in RSA stock. Government budgeted R16,3bn for interest payments on the loans.

The ANC has been outspoken on foreign loans. It has written to foreign bankers asking them not to grant new loans to SA.

Initial statements that an ANC government would not repay foreign loans granted before an interim government was in place have been watered down somewhat to a suggestion that the organisation would seek to renegotiate the terms of such loans. Either way, the ANC's stance is seen more as a political gesture than as one based on economic considerations.

The organisation's policy on the local RSA loan stocks is less clear.



Either it has no policy or it fears the political and/or economic consequences of stating it.

The number two man in the ANC's economic planning department, Tito Mboweni, twice refused to comment.

However, an ANC source says there is debate as to whether a future government should be honour-bound to repay apartheid's debts. "It is a moral dilemma for the ANC."

That dilemma explains the department's silence. Publicly to commit the ANC to repaying debts arguably used to implement apartheid could raise an uproar among supporters. But taking the opposite stand would cause serious dislocations in the capital market and also harm the organisation's efforts to develop a more moderate and widely accepted economic policy.

Like Mboweni, Finance director-general Gerhard Croeser also refused to comment on the loans. However, government apparently has faith the loans will be repaid.

A well-placed source says government has no plans to repay the loans early. "It will repay them on maturity date, probably by re-issuing stock." He points out that it is getting harder for government to borrow money, even on the local capital market.

The State Pension Fund is the largest holder of government bonds. A senior government source says the Public Investment Commissioner, which manages the government service pension fund, has 75% of its funds invested in government bonds, which amounts to about 50% of the total RSA stock debt.

Should the ANC renege on the loans, state pensions would have to be paid directly by government through the exchequer. State pensioners have a legal right to the money as they in effect funded government borrowing through monthly pension payments, he says.

The ANC regards pensions as untouchable. "You cannot tamper with peoples' pensions," the ANC source says.

No government has reneged on the debt of its predecessor, says a government banking expert. Besides, a future government will need money as soon as it comes to power, particularly if it wants to spend more to correct historical imbalances. "Who would lend to a government that revokes on debt?" he asks.

Analysts warn that should the ANC say it plans to refuse to repay the loans, it would be catastrophic for government.

A senior parastatal source says any government that refuses to honour a previous government's debt would run into serious difficulties. The cost of raising funds would increase dramatically because of the heightened risk factor, affecting the current government.

He does not believe an ANC government would be able to survive if the loans were not repaid, saying the ANC realises that the country did not develop as far as it has without state assistance. Also, it is very difficult to determine which part of which rand was spent on which project.

A senior capital market dealer says nobody believes the loans will not be repaid.

Such an announcement could knock 20%-25% of their market value. "Who would want them? Investors will want to get rid of them."

LETTERS

FM 18/9/92 (74A)

FOREIGN DEBT (74A)

Marked up

FM 18/9/92

Since SA formally re-entered world capital markets last September, the composition of outstanding foreign debt has changed. This is reflected in a schedule of government-backed foreign debt, published each year, which shows the share of debt denominated in US$ and D-marks rose in the 12 months to March 1992, while debt in most other currencies fell.

Figures on the liabilities of government and public-sector corporations, gazetted this month, show US$2,6bn denominated in the US unit at end-March, up from $2,4bn a year earlier. This boosted the dollar content of outstanding government-backed debt from 51% to 52,6%.

There has been no public issue of dollar bonds, so the money was either raised privately or is short-term or bridging finance.

Debt in the German currency rose from DM2bn (US$1,2bn) to DM2,5bn ($1,5bn). The conversions were made by Nedcor Bank's economic unit, using exchange rates of $/DM1,6638 for March 1991 and $/DM1,6491 for March 1992. This pushed the DM component from 26% to 31%.

Repayments in the year have been countered by new loans, including:

- A DM400m RSA stock issue in September;
- DM200m by the Development Bank in February; and
- DM300m by Eskom in March.

Debt in ECU was static at ECU33,2m, though the dollar value rose from just under $40m to $41,3m as the exchange rate of the US currency fell from ECU0,83 to ECU0,80. An ECU250m issue was placed in January. "But the cash was placed on temporary deposit abroad and only appeared in the Exchequer Account in April," says Nedcor Bank chief economist Edward Osborn.

Though government-backed debt in other currencies fell, the total rose from $4,7bn to nearly $5bn. But total interest payments due by the time repayments are completed in 2002 are down to $1,3bn (from last year's $1,6bn). This can be partly, but not entirely, explained by a downward trend in interest rates.

The Department of Finance which compiles the figures provided no further explanation. "Our function, in this respect, is simply to provide an aggregate picture on the basis of information received from various semi-State organisations," says a spokesman.

The lower interest payments mean total commitments at $6,3bn are fractionally down from last year.

Using these figures to update an analysis of total outstanding debt of $18,1bn, as at end-1991, Osborn calculates that public-sector debt was nearly $4,9bn, all outside the debt standstill net. (Comparable figures for December 1990 were $19,4bn and $4,8bn.)

Other debt not affected by the standstill imposed in 1985 is made up of:

- $39m by the banking sector ($461m December 1990);
- $2,4bn by the non-bank private sector ($2,8bn); and
- $4,8bn previously within the net converted to longer-term loans ($4,8bn).

Debt within the net, he says, totalled nearly $6bn ($6,6bn).

Osborn says the comparison "shows affected debt has been processed in the normal way while non-affected debt has been rolled over or replaced by new borrowings." This follows a pattern in previous years, which, he says "moves the hump of debt repayments further into the future each time. At present, the hump is in 1994-1995. Repayments on converted debt begin to play an increasingly important part from next year and continue to maintain debt high payment right through to 1988." ■

(74A)

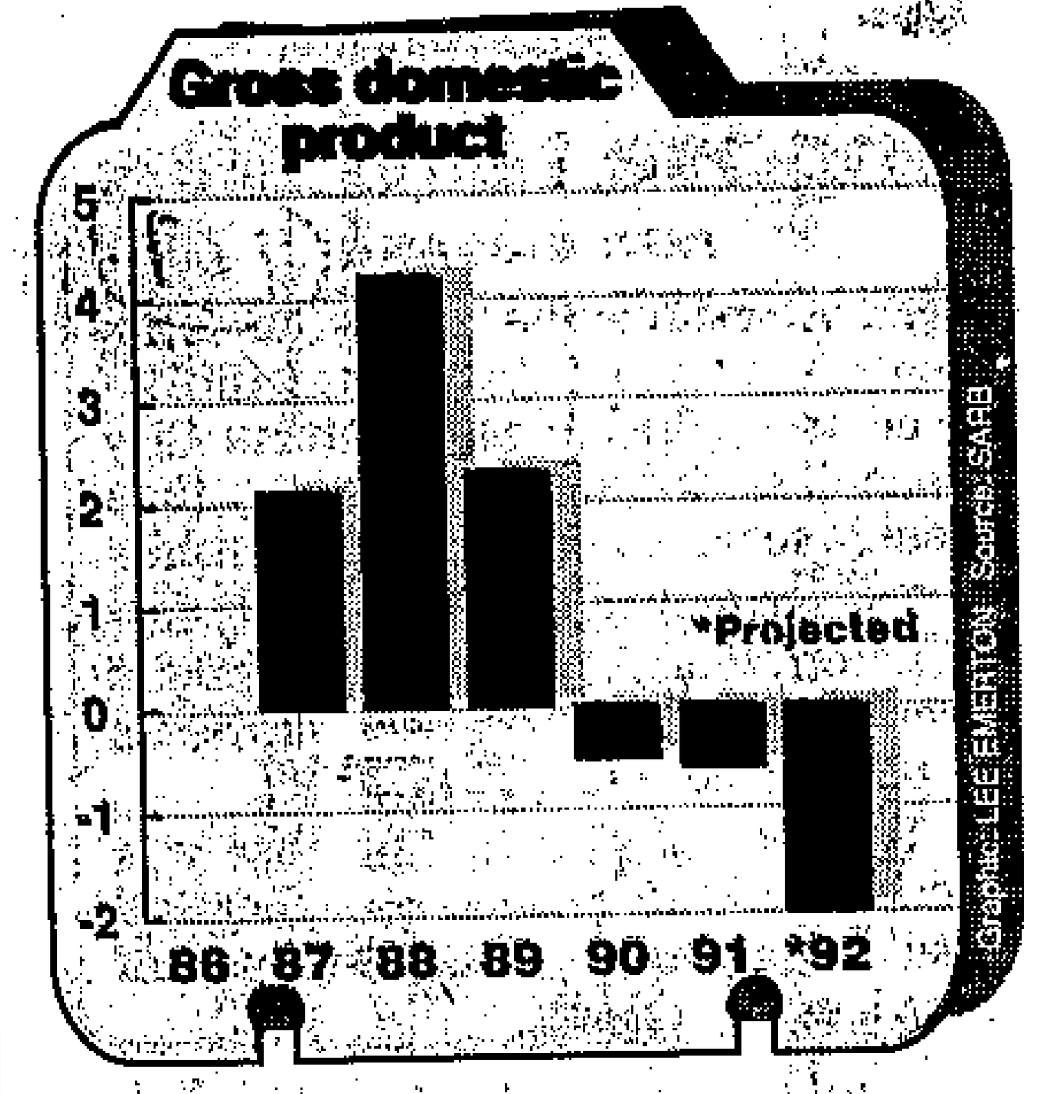
R5bn surplus

SANLAM forecasts a surplus on the balance of payments of R5-billion this year, falling to R3-billion or less in 1993. It says the capital account could do better as the domestic political situation improves.

The current level of total foreign reserves covers 2,3 months' of goods and services compared with a Reserve Bank target of three months. This implies reserves of R17-billion compared with the current R14-billion.

S Times / BUSS 7

26/9/92



Drought's effect underestimated

74A

GRETA STEYN

THE Reserve Bank expects the drought to have a worse effect on balance of payments than its initial projection of R1,2bn.

The Bank's economics department could not confirm yesterday that it had placed a figure of R2bn on direct and indirect effects of the drought on foreign exchange earnings. But a spokesman said the bad wheat crop, not in its original forecast assumptions, could have a big impact.

The Wheat Board has announced SA will begin importing wheat from next month which will continue to affect the BoP next year, along with maize imports which are expected to continue until April next year.

The maize crop has turned out better than expected and will to some extent offset wheat's negative contribution.

SA's GDP will also continue to be dampened by agriculture next year.

The collapse in agriculture affects economic activity through a multiplier effect on other sectors. The Bank estimates the direct negative effect on GDP for the current year at -1% and the indirect spillover into other sectors at -0,8%. BID AY

Economists also warned against expecting too much progress on the inflation front when rains eventually arrived. After-effects of the drought are expected to put upward pressure on meat prices as farmers will reduce the supply of meat when they can feed their animals. 25/9/92

SA could apply for drought-related IMF aid, even though its current account is in surplus, as long as it can prove that the drought will affect its BoP.

Drought shock for BoP

CT 25/9/92 (74A)

JOHANNESBURG. — The Reserve Bank expects the drought to have a worse effect on the balance of payments than its initial projection of R1,2bn.

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Agricultural imports cause fall in SA forex reserves

HILARY GUSH

SA's foreign exchange reserves are set to fall further in the months ahead as payments for maize imports continue to drain the country's forex holdings.

Reserve Bank figures released last week showed a R1bn drop in September forex reserves, which economists attributed largely to payment for agricultural imports — a result of the prolonged drought.

Maize Board deputy GM Hans Swart said yesterday that of the 3,6-million tons imported — by tender on behalf on the government — so far this year, only 2,4-million tons had been paid for, amounting to about R900m.

BDay 13/10/92.

Payment for the outstanding balance of 1,2-million tons would probably exert further pressure on SA's forex holdings.

He said domestic requirements and the present stock position indicated a further 800 000 tons of maize imports could be expected before next season's April harvest. The total effect on reserves would depend on the ruling price of maize at the time of purchase, he said.

Anglo American economic consultant Jim Buys said further maize imports would result in a narrowing of the current account of the balance of payments and would dampen prospects of a build-up in forex reserves. "In addition to payments for the importation of maize, capital outflows in recent months have had an adverse effect on reserves," he said.

In its latest quarterly bulletin, the Reserve Bank said short-term capital changed from a R0,3bn net inflow in the first quarter to a R1,8bn net outflow in the second quarter.

The bulletin attributed the outflow of short-term funds towards the end of the second quarter to "renewed political uncertainty and social unrest".

The Bank blamed high import volume in the second quarter on agricultural products arising from the drought. "The seasonally adjusted and annualised value of agricultural products (mainly maize) more than doubled from R1,1bn in 1991 to R2,4bn in the second quarter of 1992."

Foreign debt puts pressure on reserves

BIDAY 15/12/92

GRETA STEYN

SA FACED a foreign debt hurdle of almost R5bn next year with virtually no chance of rollovers, sources said yesterday.

Economists said the huge foreign debt bill would put pressure on SA's foreign exchange reserves and could see Reserve Bank Governor Chris Stals hold back on interest rate reductions even if inflation fell significantly.

Nedbank chief economist Edward Osborn calculated that about $1,6bn in foreign debt would fall due next year. About $440m was debt inside the standstill net and would have to be repaid without rollovers in terms of the debt standstill agreement.

A further $400m would fall due in debt that was converted from the standstill net into longer-term loans. This was also an obligation that could not be rolled over again. Outside the net, $700m-$770m would fall due, and was unlikely to be rolled over, Osborn predicted.

Debt outside the net is mainly parastatal, with Eskom owing the lion's share.

Osborn said next year would be more difficult than 1992 because it was the start of substantial repayments of standstill debt that had been converted into longer-term loans.

Eskom executive director Mick Davis said rollovers were "always possible — but at a price". He said it was not worthwhile to roll over debt at the excessive interest rates SA would have to pay.

An Eskom spokesman said the utility would have to repay the following tranches of foreign debt next year: Sf20m, DM390m, $382m, Ff468m and £772 000. These amount to almost all the debt outside the standstill net.

Economists' predictions are that the current account surplus will cover the foreign debt payments, but little will be left to build up reserves. The current account is the trade balance less net payments for "invisible" trade in services.

Exports are expected to rise in volume terms as the international economy picks up. Safto economist Bruce Donald said the organisation expected 2% real growth in exports, but while significant growth for manufactured exports was forecast, Safto was less optimistic about gold and mineral exports. Imports were generally forecast

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Foreign debt

BIDAY 15/12/92 (74A)

to rise moderately as demand would start picking up next year.

Sanlam is predicting a comfortable current account surplus of just more than R6bn — based on an average gold price of $360 and a rand/dollar exchange rate of R3,13.

But whether that would be enough to cover foreign debt payments and add slightly to reserves depended on volatile short-term capital flows, economists said. Short-term capital outflows — mainly trade related, but also speculative — were influenced by factors such as interest rate differentials and political perceptions. The Reserve Bank noted in its last Quarterly Bulletin that short-term flows had been negative for the past two quarters. One of the reasons had been the reductions in domestic interest rates.

Pressure on the foreign exchange reserves in the third quarter saw the Bank draw on overseas credit lines. Stals recently said the level of gold and foreign exchange reserves was still inadequate for the country's normal cyclical needs.

Trade surplus sinks to 8-year low

CT 19/12/92 (74A)

By ARI JACOBSON

SA's trade surplus fell in November to its lowest level since 1984.

Customs and Excise figures released yesterday show the November trade surplus at R113m as imports escalated to R5,4bn and exports languished at R5,5bn.

The figures show up poorly against those reported in October, with exports falling about 2% from R5,6bn and imports gaining 11,9% from R4,8bn.

The trade surplus for November is a stark contrast to the R1,8bn recorded in August and the R784m reported in October.

"This is disappointing," said Old Mutual economist Ursula Maritz yesterday.

She went on to point out that the monetary authorities would need to take a closer look at supporting the country's trade accounts, which could mean foregoing a bank rate cut — even if inflationary pressures subside next year.

Higher interest rates act as a deterrent to importers and Maritz mentioned that SA had a strong tendency to raise import levels once interest rates dropped.

Exports totalled R61,9bn for the first eleven months of this year and with imports at R49,1bn — this left a trade surplus of R12,9bn, which was 15,8% lower than for the same period last year, at R14,9bn.

Overall import growth for the year to end-November was 9,7% higher than at the same period last year — underlining the massive increases in the import of agricultural products due to the drought.

Maritz said that a further two million tons of maize were due to be imported before July 1993, which would add R540m to the cost of imports.

Vegetable products doubled from R1,1bn last year to R2,2bn this year, while fats and oils imports gained 84% to R440m and live animal and animal products rose by 60% to R390m.

Overall export growth was up only about 4% from last year, as the value of base metals exports dropped R320m from November 1991 and most other export categories only maintained or slightly increased its value.

Transport and associated equipment exports continued to perform well, increasing by 57% from R1,4bn last year to R2,1bn this year.

Other unclassified goods and balance of payments adjustments (mainly gold and platinum group metals, as well as arms and oil) imports at R5,7bn were largely unchanged. The exports for this category were almost R1bn lower at R22,4bn in 1992.

IN MONEY ON SUNDAY

Part 3 of our survey on banking. Focus on home loan rates.

Read about SA cricket's cash crisis

Trade surplus plummets

74A ARG 19/12/92

JOHANNESBURG. — South Africa's monthly trade surplus narrowed sharply in November as imports continued to escalate and export growth to languish, preliminary trade statistics released by Customs and Excise yesterday show.

The trade surplus for the month was a dismal R112,5-million plummeting from R783,5-million in October and R1,8-billion in August this year.

Total imports for November were R5,365-billion while exports were R5,477-billion.

Exports totalled R61,9-billion for the first eleven months of this year, and imports R49,1-billion leaving a trade surplus of R12,9-billion which was 15,8 percent lower than the same period last year of R14,9-billion.

Overall import growth in the year to the end of November was 9,7 percent higher compared to the equivalent period last year, underlining the massive increases in the import of agricultural products due to the drought.

The importation of vegetable products escalated 105,7 percent from R1,1-billion last year to R2,21-billion this year, while fats and oils imports gained 83,8 percent to R440,7-million, and live animal and animal products rose by 59,8 percent to R391,5-million.

Capital market turns bullish

Hopes rise for a further cut in Bank rate

BDAY 31/12/92

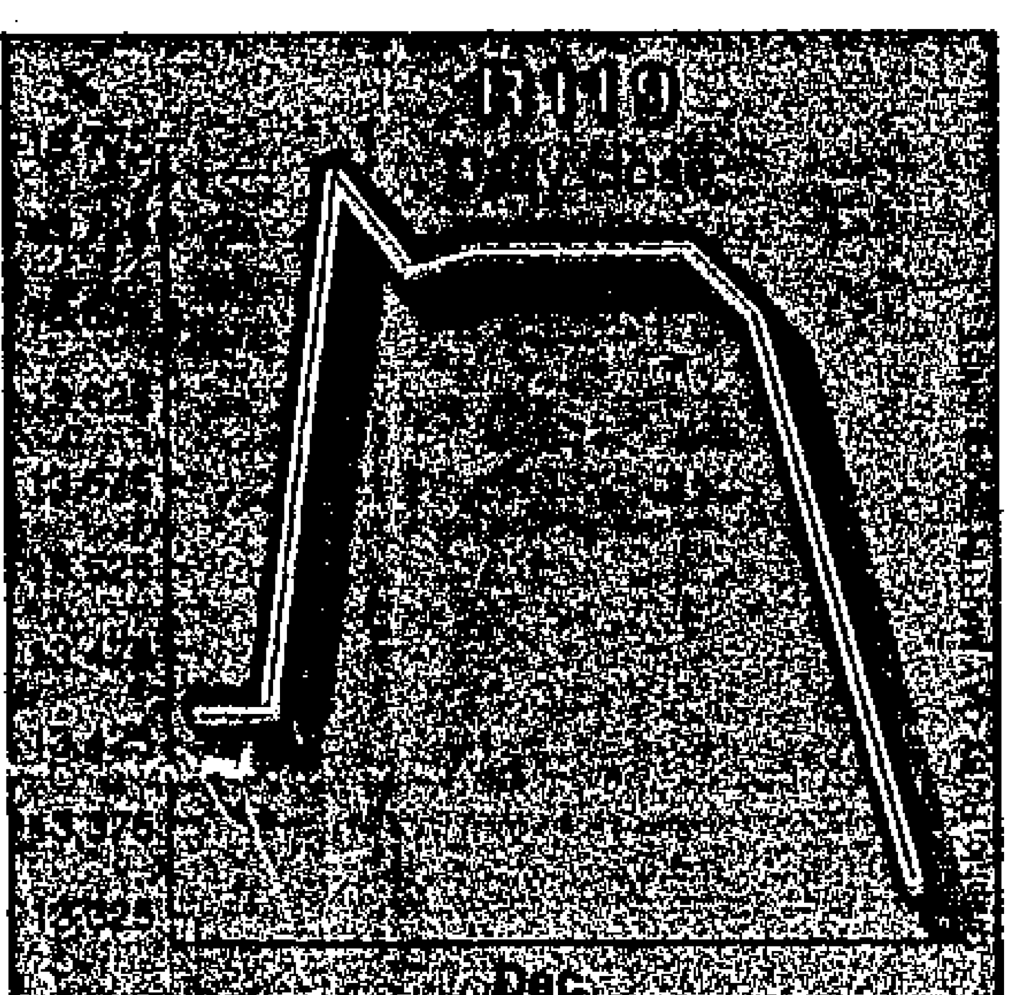
(74A)

GRETA STEYN

BULLISH sentiment gained momentum in the capital market yesterday in a continued response to positive inflation figures as players anticipated a one percentage point cut in Bank rate in the new year.

Sharp falls in interest rates on medium-dated gilts were sparked by the anticipation of lower short-term interest rates, dealers said. Rates on government's R119 plummeted 33 points while other similar-dated stocks declined by a substantial 15 to 20 points.

The movements on the longer-term stocks, the R150 and Eskom's E168, were more muted. However, dealers pointed out these two key rates fell below the benchmark 15% level as rates adjusted to the positive inflation figures.



They said optimism over Bank rate was more likely to be reflected in the medium-dated area rather than the 20-year stocks.

The medium-dated R119 traded at 13,34%, more than 30 points down, while the R150 was last quoted at 14,945% from an overnight 15,085%. The E168 was quoted at 14,95% from a close of 15,085%.

Some dealers said there had been evidence of institutional buying, and they speculated that this would speed up in the new year as players returned to the market. The movements in rates were on small volumes, with one analyst estimating volumes below R100m.

Positive factors for a cut in Bank rate were the fall in inflation to 11% and the moderate growth in the money supply. M3 was this week reported to be comfortably within the Reserve Bank's 7%-10% guideline range.

However, an economist said the balance of payments (BoP) was cause for concern and could counteract positive factors for a Bank rate cut. Recent weakness in the trade surplus and large foreign debt payments were putting pressure on the foreign

☐ To Page 2

Bank rate

BDAY 31/12/92

(74A)

☐ From Page 1

exchange reserves, and could see Bank Governor Chris Stals hold off until the situation improved.

The BoP problem would be further aggravated by local companies switching to domestic finance from foreign finance as SA interest rates dropped. This trend was already evident in the third quarter with the Bank reporting in its Quarterly Bulletin that "considerable switching from foreign to domestic trade financing took place in the third quarter of 1992, probably because of the relatively favourable costs of domestic credit". This could be a factor preventing Stals from cutting interest rates if the trade balance did not recover, an economist said.

But economists regard the key factor for interest rates as the Budget, which will be released only in March.

Fears of a huge deficit were the main reason for the reversal of the major bull run in the gilts market, with long-term rates climbing back from their low of 13,7% reached in October to recent levels around 15,15%. Analysts are divided over whether the present turnaround signals a correction in a bear trend, or whether it is the start of a new bull run.

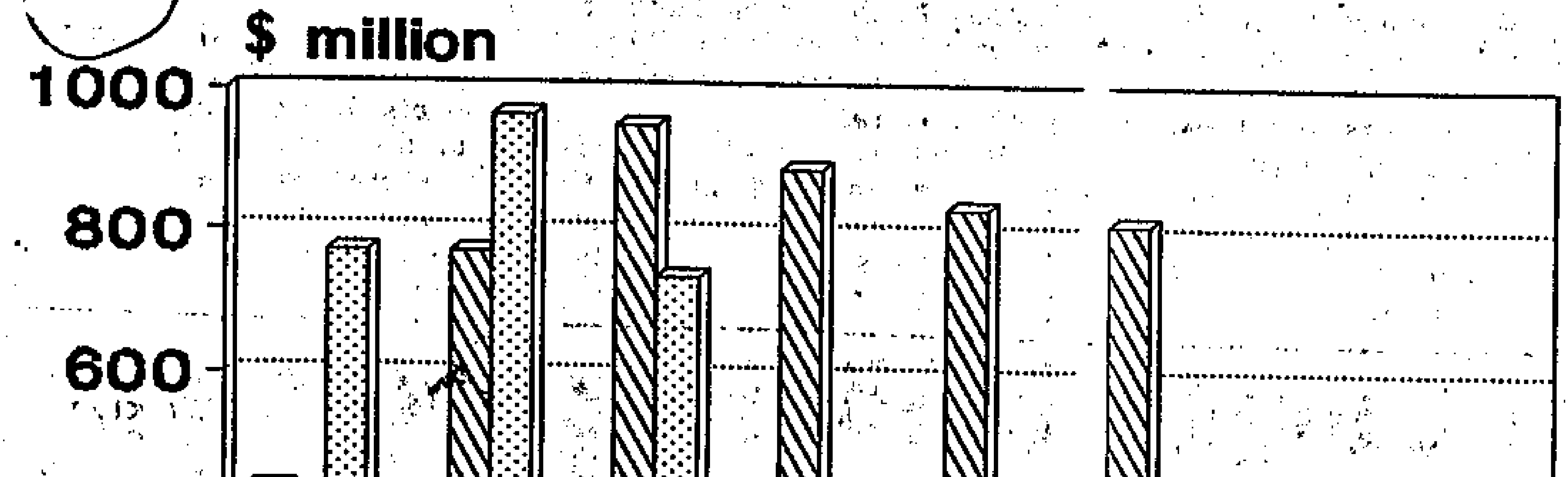
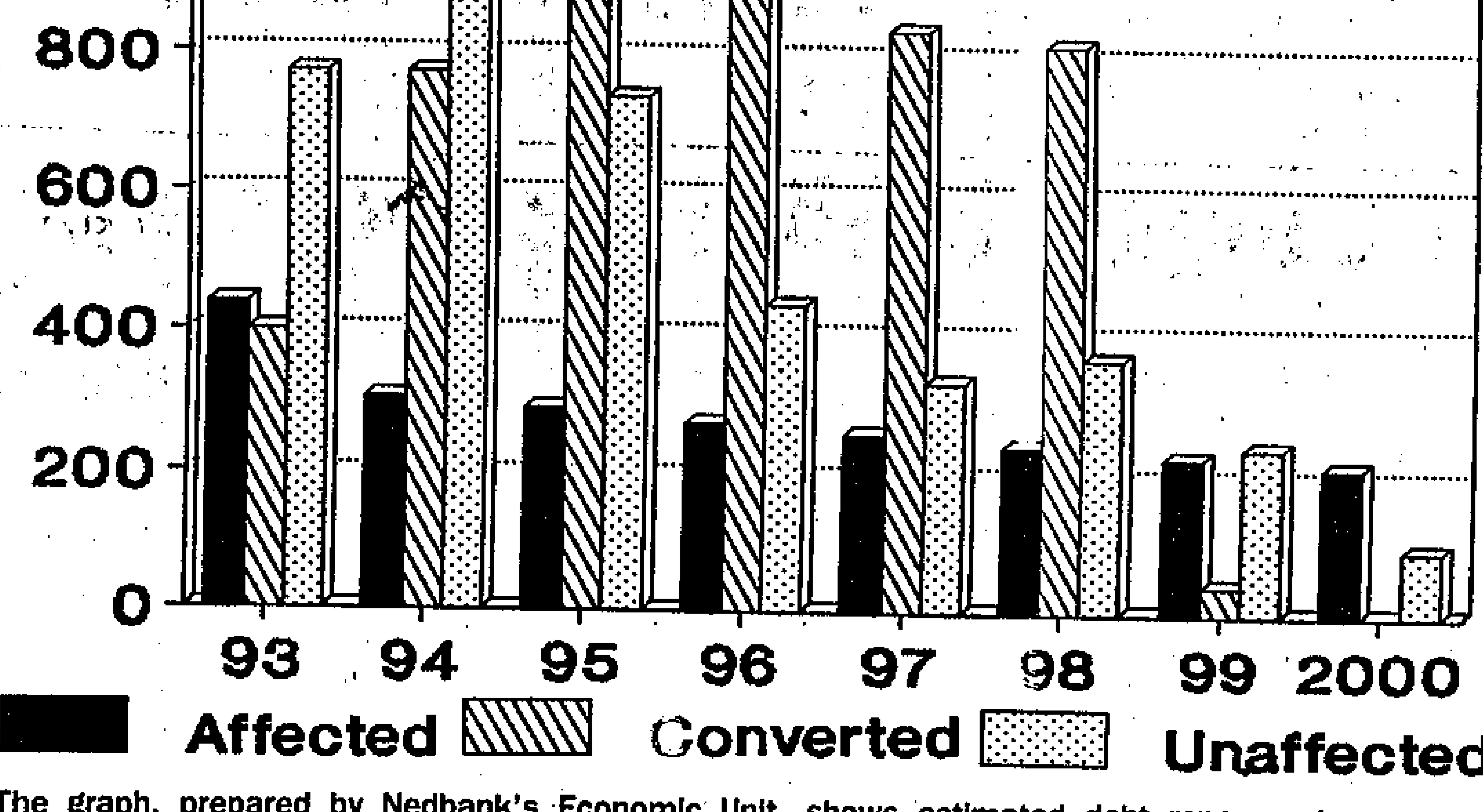
1993

74 A

Jan – Dec

Sagging reserves could force fourth debt deal

By Sven Lünsche

The graph, prepared by Nedbank's Economic Unit, shows estimated debt repayments until the end of the decade. Affected debt refers to debt inside the standstill net, unaffected debt to debt outside the net and converted debt comprises debt previously rolled over into longer-term loans. The estimates do not take into account debt converted in 1992 and assume three percent capital growth on the remaining balance every half-year.

SA's declining gold and foreign exchange reserves and mounting converted debt could force the authorities into a fourth interim debt arrangement with foreign creditors.

The current (third) interim debt agreement expires at the end of this year and it was hoped that a last debt accord could be reached by negotiating final repayments of existing loans over a certain time period.

However, recent economic developments have effectively ruled out this option.

Nedbank economist Edward Osborn says the key variable, which will place enormous pressure on the balance of payments — and thus the ability to meet debt payments — is the expected surge in converted debt over the next few years.

Converted debt comprises debt previously trapped within the standstill net and converted into longer-term debt.

This year over $400 million of converted debt falls due, but this will rise to average of $770 million to $950 million over the next five years.

Altogether, says the head of the Reserve Bank's foreign exchange division, James Cross, $5 billion of debt inside the net has so far been converted to long-term loans repayable over ten years.

Furthermore, debt repayments outside the standstill net — estimated by Osborn to reach $770 million this year — are likely to rise over the next two years.

The only positive development on the debt front is an expected gradual decline in debt repayments inside the net from $440 million this year to just over $200 million by 2000.

"Unless substantial amounts of these debts are once again converted into longer-term debt repayments, we could face severe pressure on the balance of payments," Osborn says.

The falling level of reserves, hard hit by higher agricultural imports and slow export growth, is another reason for concern, he adds.

Since last August gold and foreign exchange reserves have plunged from R11,55 billion to R9,01 billion in December, their lowest level in nine months.

This is not even sufficient to cover the equivalent of two months of imports and is well below the three months' import target set by the Reserve Bank.

Cross says the authorities are preparing for the negotiations, but that no date has been set.

Altogether, he says, the repayment of $5,1 billion of foreign debt will have to be negotiated.

While refusing to divulge details, he says factors such as access to IMF finance and the level of the reserves will determine SA's approach. He adds that whether reserves are at R8 billion or R12 billion "is not that significant".

Other economists say Pretoria might conclude that another interim debt accord, in which further limited payments are made over a specific period, would be more advisable, given the volatility of foreign investor sentiment towards SA.

Assuming that a final debt agreement is reached, involving a combination of immediate and staggered loan repayments — believed to be the option favoured by many creditors — access to foreign credit facilities could dry up if perceptions of political developments turn negative.

Revision lifts trade surplus by R700m

BiDay 20/1/93

(74A)

SHARON WOOD

THE outlook for the balance of payments improved considerably yesterday when Customs and Excise said the dismal R113m November trade surplus would be revised upwards to at least R700m.

Prospects for a short-term interest rate cut had been dampened recently by concern about the balance of payments, cited by some as the most serious economic problem facing SA this year.

However, economists said the revised picture showed that, barring a repeat of last year's drought, the current account surplus would not be a constraint on growth this year and could increase the chances of another Bank rate cut.

A Customs and Excise official confirmed yesterday that the trade surplus for November 1992 would be revised upwards from the previously stated R113m. Machinery imports had been inflated by about R564m in November, resulting in a surge to R1,915bn from R1,3bn in October.

The preliminary December and revised November trade statistics were due for release yesterday but were held up by computer problems — the reason for the original mistake — and were expected to be released this week, the official said.

One economist, who declined to be named, said the revision would be higher (around R900m), boosting the trade surplus to above R1bn. The economist said the revision showed the current account surplus was in a better position than previously thought and that this provided further grounds for a Bank rate cut.

Reserve Bank economist Ernie van der Merwe said the revision made a significant difference, but probably would not affect the Bank's policy. He said the balance of payments was still healthy and if it rained the agricultural side would improve.

Nedbank chief economist Edward Osborn said the balance of payments would remain tight this year, in spite of the revision. He said SA was facing huge foreign debt repayments.

But Van der Merwe said SA would have no problem meeting its foreign debt commitments this year. The size of capital outflows would depend on factors such as political developments, but SA could always get compensatory short-term finance to meet immediate problems.

The capital account had been deteriorating since the middle of last year but the foreign reserves position was still fairly safe, he said, because it still covered two months of imported goods and services and the Reserve Bank had no outstanding foreign loan commitments.

Rosier outlook on balance of payments

(744) CT 20/1/93

From SHARON WOOD

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Prospects for a short-term interest rate cut had been dampened recently by concern about the balance of payments, cited by some as the most serious economic problem facing SA this year.

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Political flux 'hampers agreement'

Stals seeks deal to extend foreign debt

(74A) (4?)

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.

Stals seeking debt rescheduling

STAR 26/1/93

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.

Stals said relations between SA and the multilateral financial institutions were gradually being normalised.

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.

Trade surplus in December better

(74A) ARGT 26/1/93

JOHANNESBURG. — South Africa's balance of payments' position returned to a healthier state as the monthly trade surplus in December last year improved substantially, Customs and Excise figures released today show.

The trade surplus in December, 1992, of R1,76 billion was much improved from the previous month's revised R1 035 billion, and from October's R783,5 billion.

Last year's overall trade surplus of R15,5 billion was 4,3 percent lower, in nominal rand terms, than 1991's total of R16,2 billion.

Although exports for January to December, 1992, at R67,5 billion were 4,6 percent higher than the previous year, imports of R51,9 billion last year showed an increase of 7,2 percent over 1991.

South Africa's trade bill was severely hit last year by the increased import of food as agricultural production reeled under the effects of the drought.

Imports of live animals and animal products shot up by 61 percent over 1991, while fats and oils were 58 percent higher and vegetable products climbed 45 percent.

However, import growth in these categories slowed significantly in December from November. Imports for December of R2,9 billion were sharply lower than November's revised R4,4 billion.

Machinery imports in 1992 of R15 billion were 7 percent higher than the previous year and it was the single biggest category of imports by value.

South Africa's export growth remained sluggish and exports of R5,5 billion in December were largely unchanged from November, reflecting the subdued recovery in world economies.

Exports of jewellery and precious stones increased by 12 percent over 1991 to total R7,6 billion last year as exports of base metals decreased by 1,5 percent to R9,4 billion.

Machinery exports grew by 27,1 percent over 1991 to R2,1 billion, while the export of fashion accesories climbed 61 percent to R52,9 million. — Sapa.

Relief as trade surplus widens

CT 26/1/93 (74A)

By AUDREY D'ANGELO
Business Editor

SA's trade surplus for December widened to an encouraging R1,76bn, as vehicle and minerals exports helped offset high agricultural imports.

This is well up on the October figure of R783,5m and on the revised figure of R1,04bn for November, Customs and Excise figures released yesterday show. A figure of R113m released earlier for November, which suggested the trade surplus had sunk to an eight-year low, was discovered to be due to a computer glitch.

The revised figures mean that the trade surplus for 1992 was R15,54bn compared with R17,89 bn for 1991.

The fall was due mainly to high imports of maize and other food.

Exports were slightly higher at R67,46bn (R66,23bn). But imports soared to R51,92bn (R48,34bn) in spite of the fall in demand for consumer goods.

Exports in December were worth R5,54bn compared with R5,48bn in November and R4,84bn in December 1991. Imports fell to R3,78bn (R4,44bn, R3,57bn).

Nedbank chief economist Edward Osborne, describing the figures as "very satisfactory", warned that "they will not carry on at this level.

"The balance of payments position is going to be very tight this year. An upturn in commodity prices will not occur with any vigour, because of the tendency of Russia to dump commodities.

"This is depressing the prices of base metals such as ferrochrome and aluminium. Our other commodities are not looking too good.

"If we adjust for currency depreciation on a trade-weighted basis, exports in 1992 increased by only 0,9% in real terms and imports by 2,1%. We may well have the same pattern this year.

"That will be bad news in terms of pressures on the capital account. This year is going to be pretty tight and pretty grim."

Old Mutual chief economist David Mohr said the trade surplus was "pretty big" with the fall in demand for imports — apart from food for drought relief — reflecting the weakness of the economy.

"There is no need to worry about the current account position. We should see a current account surplus of R4bn this year."

Absa economist Dominick Sutton said the figures were "at the sort of level one expects."

In view of the revised trade surplus for November, it was puzzling that reserves of gold and foreign currency had dropped from R11,1bn in November to R9,1bn in December.

"We seem to have lost R2bn in reserves. But there is usually an outflow at this time of year when banks square their books and dividends are paid."

He thought the drop could be due to foreign investors withdrawing their funds temporarily over the holiday period.

Star 2/2/93

Money supply figures on target

(14A)

Money supply continued its disciplined growth in December, staying well within the Reserve Bank's 7 to 10 percent guidelines.

According to preliminary figures released yesterday, money supply as broadly defined by M3 grew by 8,58 percent in December.

Money supply increases were limited to 8,44 to 8,73 percent in the last five months of 1992, reflecting the resolve of Reserve Bank Governor Chris Stals to keep monetary policy tight.

The disciplined money supply figures came after last week's encouraging drop in inflation to single figures for the first time in a decade.

Economists said yesterday Stals now had even more latitude to reduce interest rates, but expected him to be keeping a wary eye on balance of payments pressure.

Money supply dropped from R198,782 billion last November to R197,837 billion in December.

Seasonally adjusted M3 growth eased from a previous 9,68 percent to 8,47 percent in the last month of 1992.

Total domestic credit extension growth experienced a slight uptick to 8,65 percent from a previous eight percent. — Sapa.

Star 3/2/93

Foreign financing vital — Sanlam

74A

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.

Capital drain squeezes BoP

Loan burden results in R6bn outflow

B/Day 4/2/93. (74A)

GRETA STEYN

CAPE TOWN — SA's inability to roll over huge foreign loans in the last three months of 1992 brought the total capital outflow for the year to R6bn, Reserve Bank Governor Chris Stals said yesterday.

He said at a media briefing the capital outflow in the last quarter of 1992 had come to R3bn, reflecting negative foreign sentiment after the collapse of Codesa and the Boipatong and Bisho incidents.

SA would have been able to roll over the loans only at punitively high interest rates, which would damage the country's credit rating in future. In the first half of the year, SA had paid 1,5 percentage points above LIBOR (London Interbank Offered Rate) but this had increased to three percentage points in the second half.

It was SA's eighth consecutive year of capital outflow and brought the total amount that had left the country since 1985 to more than R40bn. The outflow was the same as in 1991 and equal to the annual average since 1985, when SA's international economic crisis was at its deepest.

The pressure on the capital account added to an already fragile balance of payments situation. Stals said the current account declined further in the fourth quarter, bringing the total surplus for the year to R4,5bn (from R7,5bn in 1991).

The main reason for the shrinking current account balance was the drought. The BoP problems translated into a R2bn shrinkage in the net foreign exchange reserves over a three-month period.

The economy suffered a double blow towards the end of last year, as the recession deepened while the BoP position worsened. Economists said a worsening BoP was usually a feature of upswings in the economy and SA's fragile BoP would cause difficulties in managing the upswing.

Stals said the rate of decline in real GDP had "gained momentum" in the last quarter of the year, bringing the total decline for the second half of the year to 5%. For the year as a whole, a real fall in GDP of about 2% was expected.

All components of expenditure had fallen during the year, even government consumption expenditure. There had been a 2%-3% decline in overall real fixed investment, a trend Stals described as particularly worrying. Savings had also declined to a historical low of 17% of GDP, from levels of about 25% when the economy was more robust.

"The decline in savings means SA has about R25bn less available to finance development. This is a major structural deficiency in the economy and the lack of

☐ To Page 2

Stals

B/Day 4/2/93.

☐ From Page 1

domestic savings might cause SA in future to become too dependent on foreign finance."

He said employment in the non-agricultural sector of the economy had declined by 3% in the first half of 1992 (the latest figures available). Against this background, he said, it did not make sense that wages had continued to rise rapidly in real terms. The real remuneration per worker in the non-agricultural sector rose by more than 2% in the first half of 1992 after increasing by 1,4% in 1991 and 1,6% in 1990.

"This continued increase in labour costs of the business sector in the relatively depressed economic conditions probably contributed to the dismissal of a large number of workers in the private sector."

There was still pessimism in business on the prospects for the SA economy this year. There were, however, a number of important developments that could have a positive effect — signs that the industrialised countries' economies were picking up, the possibility of a stronger local agricultural year, large investment projects such as Columbus and Alusaf, the likelihood of an improved political situation and greater interest in the economic debate in general.

This year would not bring a major upswing in SA, but it could "easily become a decisive year in which the foundations will be laid for future economic development in this country".

SA squeezed on foreign loans

BACT 4/2/93

From GRETA STEYN

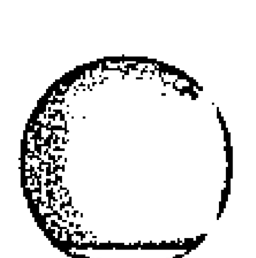
SA's inability to roll over huge foreign loans in the last three months of 1992 brought the total capital outflow for the year to R6bn, Reserve Bank Governor Chris Stals said yesterday.

He said at a media briefing the capital outflow in the last quarter of 1992 had come to R3bn, reflecting negative foreign sentiment after the collapse of Codesa and the Boipatong and Bisho incidents.

SA would have been able to roll over the loans only at punitively high interest rates, which would damage the country's credit rating in future. In the first half of the year, SA had paid 1,5 percentage points above LIBOR (London Interbank Offered Rate) but this had increased to three percentage points in the second half.

It was SA's eighth consecutive year of capital outflow and brought the total amount that had left the country since 1985 to more than R40bn. The outflow was the same as in 1991 and equal to the annual average since 1985, when SA's international economic crisis was at its deepest.

The pressure on the capital account added to an already fragile balance of payments situation. Stals said the current account declined further in the fourth quarter, bringing the total surplus for the year to R4,5bn (from R7,5bn in 1991).



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"This continued increase in labour costs of the business sector in the relatively depressed economic conditions probably contributed to the dismissal of a large number of workers in the private sector."

There was still pessimism in business on the prospects for the SA economy this year.

Banks poised to cut rates

BANKS are poised to cut interest rates after Reserve Bank Governor Chris Stals gave a strong signal yesterday that he was about to reduce Bank rate.

He told a media briefing: "Some scope for a slight relaxation in monetary policy has now been created." However, all goals had not yet been reached, and the balance of payments situation "still leaves the country very vulnerable to unpredictable external shocks". Financial discipline would still have to be maintained this year.

Important monetary policy objectives had been achieved in the past three years. Policy had set out to create a more stable financial environment, and there was evidence this had been achieved. The rate of increase in bank credit had fallen from almost 30% in 1988 to below 10%, while money supply was expanding at a rate of 8,5% from 27,5% in the second half of 1988.

Inflationhad fallen below 10%. The soundness of the banking system had also been improved with the introduction of the Deposit-Taking Institutions Act.

The net foreign exchange reserves had improved from only a few hundred million rands in mid-1989 to more than R10bn. The exchange rate of the rand had been stabilised, with the currency depreciating over the past two years.

UAE urges SA input in industrial sector

(74A)
CT 8/2/93

ABU DHABI. — The United Arab Emirates (UAE), keen to lessen its reliance on oil, has urged its new economic partner South Africa to provide technology by investing in its burgeoning industrial sector.

A UAE delegation made the call at an economic conference it held during a five-day visit to Johannesburg.

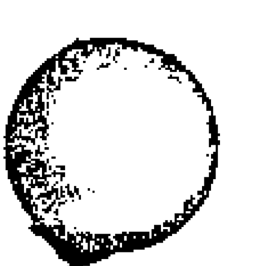
The delegation was headed by a member of the ruling family, Sheikh Ahmad ibn Saif al-Nahayan of Abu Dhabi civil aviation, and included more than 50 other officials and businessmen.

"Our country has made large strides in industries," deputy chairman of the Abu Dhabi chamber of commerce and industry, Mohammad al-Fahim, told the conference, attended by more than 1 000 South African business people.

"But we still feel we need more investment in the industrial sector. There are great opportunities for SA companies in this field."

An average $1bn a year have been pumped by the UAE into the industrial sector over the past decade. Industries include aluminium, cement, chemicals, paper, garments, food and other light products. — Sapa-AFP

More finance on page 12



SA can forget about quick fixes from sugar daddy donors

BIDay 9/2/93.

74A

SIMON BARBER in Washington

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.

John Chettle, former director to the SA Foundation's Washington office, has predicted lending to the order of $1bn 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 SA.

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.

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 SA 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 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 cofinanced 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.

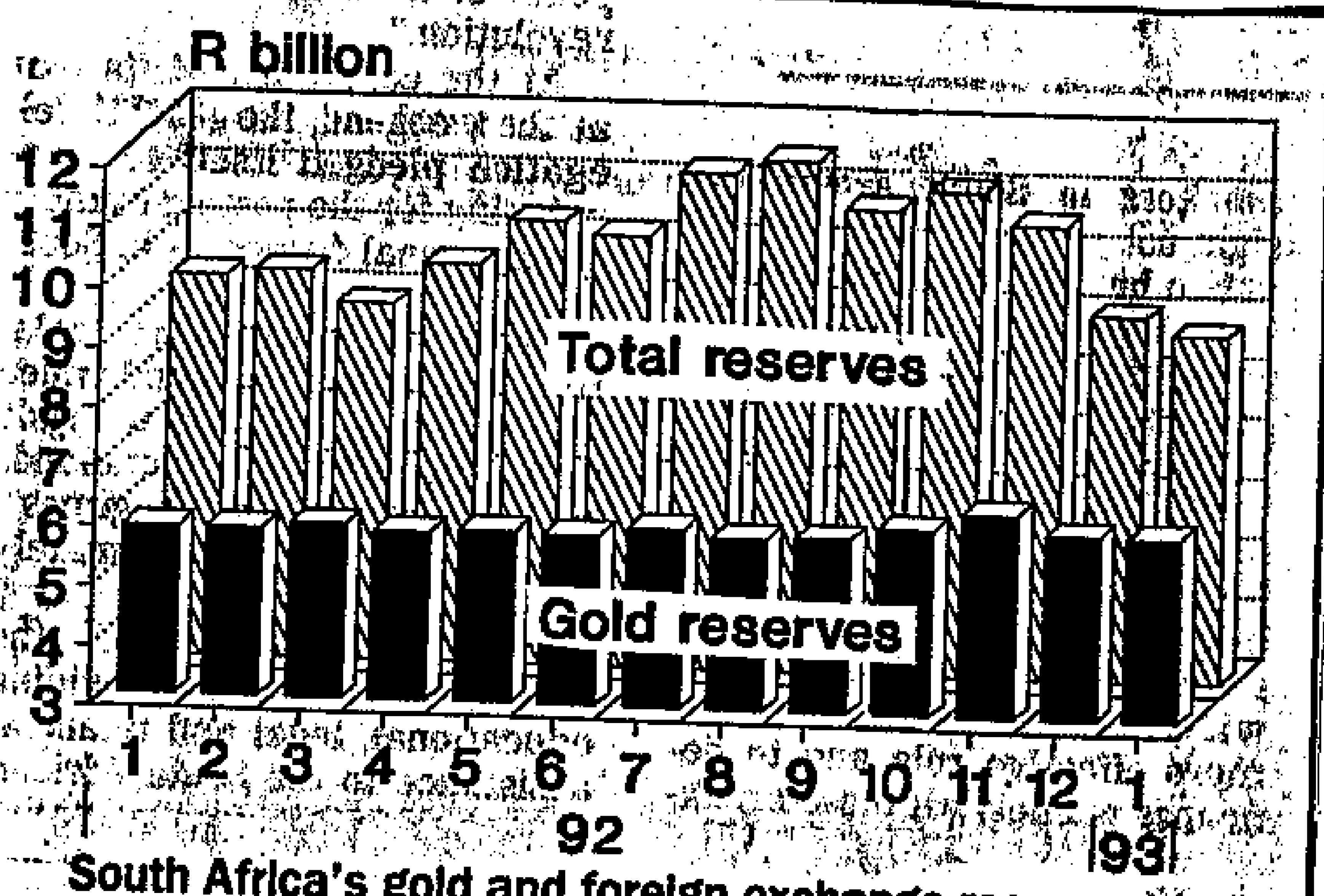
Currently, it would be wise to err on the longer side. A recent review of the bank's project portfolio, the Wapenhans report, has shown that the share of projects with "major problems" has been rising steadily, to 20% in 1991, the majority in Africa. Of projects in their fourth or fifth year of implementation, 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.



South Africa's gold and foreign exchange reserves.

Tight monetary policy to continue

By Sven Lünsche

STAR 9/2/93

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.

Star 10/2/93

SA could face credit crunch without speedy settlement

(74A)

By Neil Behrmann

LONDON — Speedy negotiations towards an interim government are not coming a moment too soon for South Africa.

Without a political settlement, the country runs the risk of being at the mercy of international bankers who have become increasingly cautious about sovereign lending.

Reserve Bank governor Chris Stals has disclosed that South Africa was unable to roll over R3 billion of foreign debt in the final quarter of last year.

This capital outflow raised the amount for the full year to R6 billion.

Dr Stals' disclosure confirms the comments which The Star has received from foreign bankers in the past few months. They said South Africa was encountering problems with international creditors who were worried about the political situation.

Some other countries are experiencing similar difficulties, but they are invariably nations with an uncertain political and economic outlook. Even Norway encountered problems when international bankers cut credit lines to Norwegian banks that were in distress.

Sovereign competition for international funding is becoming intense in a world economy that is stagnating.

Short-term

According to the Bank For International Settlements (BIS), international bank's sovereign credit relations are characterised by restrictive lending policies. They include decisions not to renew maturing long term loans.

Banks now prefer to lend money for short rather than medium and long periods.

Trade related credit, in particular, is the most popular form of finance.

As a result short term debt (of up to a year) accounted for a record 48 percent of total foreign debt owed to banks last year, according to the BIS.

Of the $13,2 billion owed to international banks by South Africa in June 1992, 39 percent was due to be repaid within a year, and a further 19percent within two years.

Australia owed a huge $46 billion in June last year and 54 percent had to be repaid within a year. Little wonder that the Australian dollar has been under pressure and has been outperformed by a com mercial rand that is far from strong.

Total SA foreign debt, including short term bank credits at $18 billion (R56 billon) is only 17 percent of gross domestic product and the debt ratios are far more impressive than for Australia, another major commodity producer.

Such favourable statistics, however, don't count much if creditors are reluctant to roll over borrowings.

It is hardly surprising that international bankers are so cautious. They have incurred huge losses on loan portfolios over the past few years and are now demanding political and economic stability from sovereign borrowers.

If this is not forthcoming, they either call in their loans or demand a high risk premium. Indeed the margin over the London interbank offered rate was as high as 1,5 percent for South Africa, said Dr Stals.

According to SA bond prospectuses last year, SA has agreed to repay $1,86 billion this year. A further $5,47 billion owed to bank creditors under the debt moratorium must be renegotiated by the year-end.

Risks

Once an interim government is in place, SA will be in a position to negotiate a final settlement on more favourable terms, bankers say. Without an interim government, SA runs the risk of a major credit crunch since a total of $7,34 billion falls due for repayment this year.

Foreign debt repayments (excluding obligations under the debt moratorium) totalled around $5,8 billion between 1994 and 1998.

Sacob calls for debate on exchange rate policy

BIDAY 12/2/93. (74A)

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 abnormal 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.

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. ■

Diverging paths
The rand vs the pound and dollar

Portugese govt owes SA R90m

CT 13/2/93

THE Portuguese government still owes SA R90,8m but the loan will be extended until the the Cahora Bassa dam company has settled its debt. (744)

STILL IN THE 'STANDSTILL NET'

THE mutual interaction between the financial rand system and the debt moratorium precludes either from being abolished at present because of South Africa's balance of payment constraints.

The debt moratorium, declared in 1985, froze the repayment of the $14-billion in South African foreign debt held in the "standstill net". The financial rand system was introduced as part of the debt standstill arrangements.

Deloitte & Touche Financial Institutions Team partner Tim Store says the combination of the moratorium and dual exchange rate system has discouraged disinvestment and protected SA's scarce foreign reserves.

He says the authorities would only consider abolishing the finrand system if SA's foreign reserves were at sufficiently high levels to withstand a sudden and large short-term capital outflow.

The Reserve Bank believes that gold and foreign reserves should always be able to cover at least three months of imports, but Store says SA's reserves are inadequate by this measure.

Outflows

He notes that the function of the finrand would become obsolete if the discount between the finrand and commercial rand narrowed sufficiently close to zero for any period of time. The discount, a measure of international confidence in SA, has swung as low as 6% and jumped to more than 40%.

Store says a strong narrowing would permit the abolition of the finrand without the risk of large capital outflows. It would, however, also increase the propensity for foreign creditors to withdraw their funds, as the costs incurred on conversion at the finrand rate is reduced. He says developments, such as incoming foreign investment, are needed to lower the discount for a sufficient period before the monetary authorities could remove exchange control restrictions without fear of large scale capital outflows.

"An attractive investment climate, such as low inflation and political stability, may be a prerequisite for capital inflows and would further reduce the risk of capital fleeing the country once exchange controls or the debt moratorium are abolished," he says.

He views short-term capital flows and export performances as being the key determinants towards covering foreign debt payments, but higher imports during an economic upturn may cause further problems.

"South Africa's debt problem is not significant by world standards, but if a country defaults on its debt once it is very difficult to convince the international community that it will not be repeated," he says.

"South Africa has built up its credit rating by meeting all its foreign debt obligations according to the interim arrangements."

Pressed

There is a possibility of future access to International Monetary Fund and World Bank facilities if the balance of payments prove inadequate to meet SA's remaining debt payments and if the Reserve Bank is unable draw on its foreign credit lines.

Store says: "South Africa can ill afford to lift the debt moratorium under the present balance of payment constraints. But if it choses to default on its debts once again, then the country will be hard pressed to assume even the status it currently enjoys."

Stals will seek to extend our deal on debt

74A

S/Times (Buss) 14/2/93.

A Business Times SURVEY

SOUTH AFRICA's international credit standing will come under the spotlight again this year as the debt moratorium will most likely be extended.

At a recent City of London central banking conference, Reserve Bank governor Dr Chris Stals indicated that SA would seek to extend the debt standstill and negotiate a further rescheduling of its debt.

He said the Reserve Bank would hope to negotiate not merely a further interim arrangement but a final arrangement.

Stals had previously indicated he would not wish to extend the standstill further since, as one American banker has recently remarked, the "interim arrangements" between SA and its international bankers are becoming disturbingly permanent.

Deneys Reitz partner Kevin Cron says Stals is no doubt disappointed at the prospect of further extending the standstill.

A lifting of the standstill would have represented a vote of confidence in SA's creditworthiness and would have enhanced SA's status in the international financial world.

Setback

SA would have ceased to have been classified as a defaulting country and lending banks would not have to make greater provisions against their loans to the country.

Cron says the proposed extension of the standstill past 1993 is an undoubted setback and indicates a continued vulnerability in SA's foreign exchange position.

Recent reports on the difficulty which Eskom is experiencing in rolling-over its foreign borrowings do not auger well for the immediate future and indicate a fundamental lack of confidence in SA by foreign lenders, he says.

The decision to renew the standstill is not only a reflection of SA's continuing plight but is also a negative signal to the international financial community that SA remains in a state of foreign exchange crisis, he adds.

SA's debt crisis began in 1985 with then state president PW Botha's "Rubicon" speech and the imposition of the state of emergency.

A US bank demanded a repayment of all South African loans and this triggered a sudden "run" on SA by foreign banks, placing an impossible burden on the country's foreign reserves.

SA then stopped all payments to foreign creditors except for certain exemptions and started negotiating with the foreign banking community to reschedule its debt.

Extended

The Interim Arrangements, concluded in 1986 between SA and its major foreign banking creditors, were later extended to cover all debt owed to foreign banks.

They have been renegotiated and renewed from time to time and the situation is currently governed by the so-called "Third Interim Arrangements," which expires on December 31.

Cron says a prime consideration in deciding whether or not to renew the standstill was no doubt the Bank's assessment of the amount of funds which would be withdrawn at the end of the year once the debt trapped in the standstill net became freely transferable.

A proportion of the original standstill debt has been converted into long-term loans and would, accordingly, not become repayable immediately even if the standstill is lifted.

A smaller proportion of the standstill debt has been converted into financial rand and used for investment purposes.

However, a considerable sum remains outstanding under the standstill and would be eligible for repayment on the lifting of the standstill.

Cron says the decision to renew the standstill is a barometer of SA's economic and political position.

In the future, the perception of foreign lenders of SA's political and economic risk will be crucial in determining whether the standstill remains or goes.

This perception will, in turn, depend on what progress SA has made towards a political settlement and creating an interim government. The level of violence will also be a factor.

Imports surge cuts surplus

(74A)

TIM MARSLAND

THE trade surplus narrowed to R876m in January from R1,76bn in December because maize and wheat imports were resumed, economists said yesterday.

Customs and Excise figures released yesterday showed January imports rose to R4,26bn from December's R3,78bn, while exports dipped to R5,1bn from R5,54bn.

Nedbank chief economist Edward Osborn said imports showed a nominal rise of 3,7% but declined 2,9% on a currency adjusted basis due to the depreciating rand.

Vegetable imports rose to R178m in January from R74,4m in January 1992, which Osborn said was due to continued maize imports. Unclassified imports (mainly oil) rose to R542m from R370m in January 1992. He said this was because government had been selling oil from its strategic stockpile in January 1992 but oil imports had resumed their normal pattern this year. Machinery and electrical imports dropped to R1,23bn from R1,35bn, but he said this did not imply a drop in capital expenditure by companies as consumer goods were included in the category.

On the export side, mineral exports — mainly coal — increased to R658m from R491m. Unclassified exports rose to R2,44bn from R2,098bn, which Osborn said could be attributed to a number of items such as gold, platinum and weapons. There had been a drop in exports of vegetable products reflecting the one-off exports of SA maize to Zimbabwe in January 1992. Chemical exports fell R145m from R261m.

Safto economist Bruce Donald said exports to Africa had declined. Their contribution to total exports fell to 11% from 15%. Exports to Europe rose to 49% from 45%, while exports to Asia increased to 28% from 27%. On the whole the figures were disappointing because exports were still shrinking in real terms, he said.

Police probe rebel 'army'

BIDAY 16/2/93

PRETORIA — A police investigation to establish whether the so-called SA Republican Army (Sara) existed was continuing, SAP spokesman Capt Nina Barkhuizen said yesterday.

She was reacting to claims by Sara — purportedly made up of returned exiles opposed to the ANC — that it was holding an Apla operative who was involved in attacks around the country.

Sara spokesman Douglas Ndlovo reportedly said his organisation's "high command" would decide on February 27 if the Apla operative, codenamed Painter, should be handed over to government. This was, however, subject to demands, including that the ANC surrender all its arms caches to government.

Police last week cautiously noted Sara claims of responsibility for assassinations of ANC supporters, including that of ANC Natal Midlands deputy chairman Reggie Hadebe.

Law and Order Ministry spokesman Capt Craig Kotze said that until Sara's existence was confirmed, it had to be borne in mind that some organisations claimed responsibility for massacres for propaganda purposes.

He warned against propaganda ploys, citing Apla claims of responsibility for incidents in which it had not been involved. — Sapa.

Timeshare prices down nearly R2 000 a week

BIDAY 16/2/93

Own Correspondent

DURBAN — The prices of timeshare weeks dropped from an average of more than R10 000 in 1991 to R8 250 last year, RCI Southern Africa MD Steve Griessel told the 1993 Timeshare Institute of SA convention at the Wild Coast yesterday.

But the sale of new weeks was down by a mere 1,1% at 23 000.

"Although 21 400 new owners bought timeshare in 1992 (23 000 new weeks), the average price showed a decline of 17,5% on 1991, which resulted in a 19% drop in the rand turnover for the year (total sales R190m)," Griessel said.

He forecast that timeshare prices could show another drop this year, but believed that, given the right political, economic and international circumstances, there could be a boom in two years' time.

He stressed that the southern African market had not reached saturation point. There was room for expansion in Cape Town, where sales had improved, and inland.

The industry had shown great growth in the second half of last year, partly because of the price discounting and because of the Timeshare 2000 launch in October. This had seen the start of a cooling off period, where buyers were given time to change their minds on a purchase.

Griessel also pointed out that in spite of the fact that 30 organisations had gone into liquidation over the years, only about 1 000 people had lost their rights.

In the past three years the number of sales staff involved in timeshare had dropped from 1 400 in 1990, to 800 in 1991 and 400 in 1992.

Southern Sun Group MD Ron Stringfellow told the convention that SA's hotel industry was in for another two tough years and the slogan now was "Stay alive till '95".

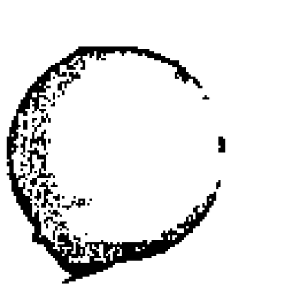
He blamed local and international recessions, political uncertainty and violence for much of the problem.

Internationally, the airline and hotel industries had been hit by the recession. The public believed that travel was non-essential — business could be done by fax and phone; and hotels were capital intensive — it cost R750 000 a room to build a five-star hotel.

On tourism, Stringfellow said SA had only 200 000 genuine tourist visitors a year, if one discounted business travellers and those visiting friends and relatives. This represented 0,07% of the world tourist market.

Satour had a limited budget — Australia's allocation to tourism was 15 times SA's.

Nonetheless, Stringfellow believed that SA's tourism industry had the potential to outstrip gold and become the driving force in turning the country's economy around.



SA, Japan platinum deal

JOHANNESBURG. — Lonrho's Western Platinum is set to receive a R75 million loan from the Mitsubishi Corporation in exchange for the long-term supply of platinum by the South African mine to the Japanese firm.

Lonrho's platinum division commercial director Kevin Wilkinson said today the loan would be used to increase productive capacity at the Karee mine.

He said the new capacity to be installed at the mine would push up the division's total production in line with its earlier plans to increase production to between 700 000 and 800 000 tons of mined ore.

The two corporations have concluded agreements on the loan and Western Platinum's supply to Mitsubishi.

Mr Wilkinson said Western Platinum would increase and extend the period of supply of platinum group metals to Mitsubishi to 10 years from January this year.

He said this was in recognition of the increasing demand for PGM metals in the manufacture of autocatalysts which are essential additions to cars in the United States, the European Community and Japan to comply with environmental legislation.

Western Platinum first began supplying the Mitsubishi Corporation with PGM metals in 1973 and Lonrho believes there will be further co-operation between the two groups in the future.

■ A 13 percent drop in the platinum price and a 40 percent drop in the rhodium price knocked the profits of **Impala Platinum**, the world's second-largest producer of platinum group metals, in the six months to December. ARG 16/2/93

But a 16 percent expansion in platinum production to 514 000 ounces — which led to the cost of an ounce of platinum falling from R1 997 to R1 548 — and a 25 percent rise in rhodium production to 48 000 ounces helped cushion the effects of lower prices.

Earnings a share dropped by 25 percent from 200c to 150c. The interim dividend has been reduced 18 percent from 55c to 45c.

Turnover dropped from R1,08 billion to R1,032 billion, while cost of sales, reflecting the higher output, rose from R820,2 million to R868,0 million. — Business Staff and Sapa.

Dubai lifts trade ban

DUBAI. — The emirate of Dubai has notified its banks they may do business with South Africa, lifting a ban imposed on the republic in protest at apartheid.

The Dubai branch of the Israel boycott office, which also handled South African sanctions, told banks last week of the decision, an office official said yesterday.

He said the director of the boycott office, Mr Hikmat Saeed Jarbor, told banks the lifting of the ban followed a January 18 decision by the United Arab Emirates cabinet. (74A)

The UAE government decision was not reported at the time. "The banks may now inform importers and exporters they may do business with South Africa," the official said. CT 17/2/93

South Africa is exhibiting weapons at a defence exhibition here in Abu Dhabi. — Sapa-Reuter

SA's debt position improves

CT 22/2/93

(74A)

By ARI JACOBSON

SA HAS reduced its foreign debt burden to the extent that its now comparatively underborrowed, says the Standard bank in its latest economic survey.

The bank says that the country's position improved with the continued servicing of foreign debt, without new offshore loans.

SA in turn now ranks with South Korea in foreign indebtedness and alongside Australia in terms of servicing debt.

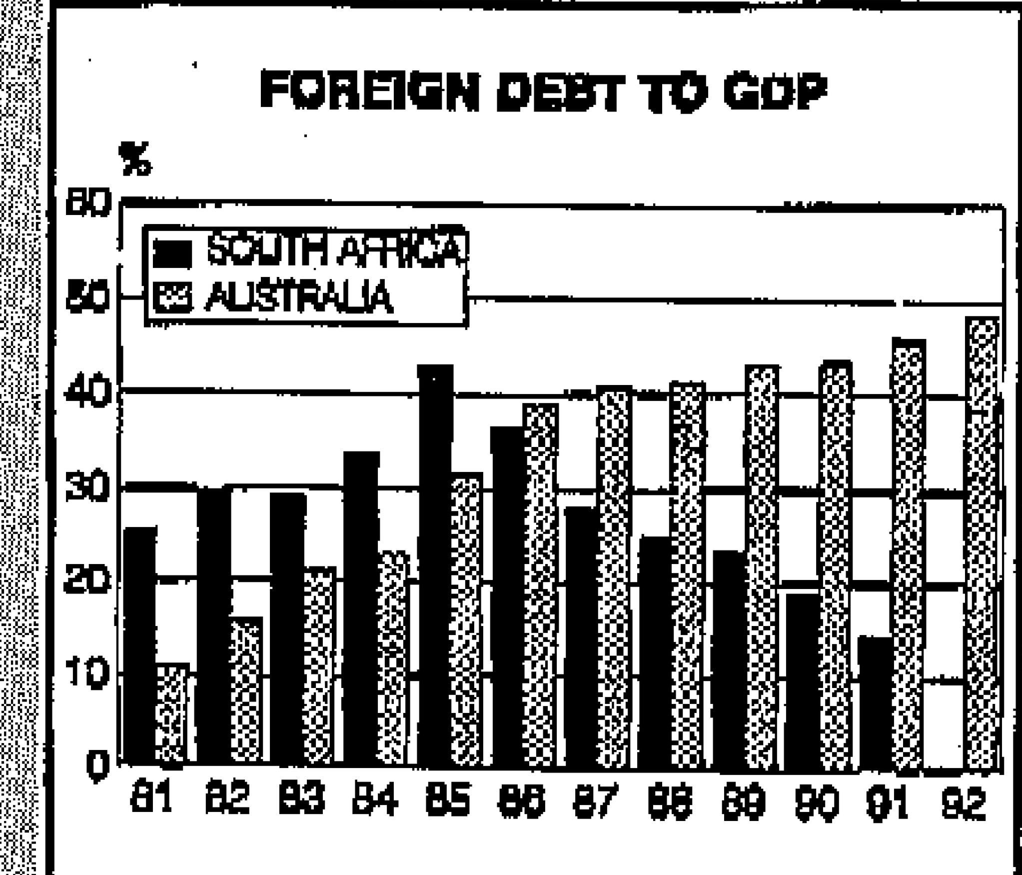
"However the existence of a partial debt standstill, when coupled with SA's political transition, will make foreign lenders sceptical about long-term loans to the country."

The bank points out that R5,5bn of foreign debt is scheduled to be repaid and adds that "without some rollovers the payback of this outstanding debt will be difficult".

In addition the Standard bank are forecasting that import growth will be greater than export growth and so the expected current account surplus will be less than the scheduled foreign debt repayments this year.

"This means that any accumulation of forex reserves will depend on either positive short-term capital movements or renewed access to the International Monetary Fund."

It says that in the event of a current account deficit in 1993 and the inability to meet maturing debt obligations "SA could draw down 50% of its current IMF quota of about $2bn — either as a stand-by arrangement or under the IMF's commodity support facility".



Trade surplus falls steeply

74A CT 23/2/93

By AUDREY D'ANGELO
Business Editor

SA's trade surplus fell steeply in January to R835,8m from an unexpectedly high R1,76bn in December. But economists, pointing out that it was a seasonal drop, said there was no reason for concern.

In fact it is the highest January trade surplus since 1990. The trade surplus in January 1992 was R700m.

According to preliminary figures released by the Customs and Excise yesterday, exports in January were R5,10bn compared with R5,54bn in December — a drop of 8%. But they were 6% higher than the R4,82bn achieved in January last year.

Imports totalled R4,26bn in January. This was 12% higher than the R3,78bn in December. Imports in January last year were R4,12bn.

Nedbank chief economist Edward Osborne said very little could be read into one month's figures, particularly as a great deal depended on the arrival date of ships.

But there were positive increases in some export sectors, including transport and machinery, and minerals.

Both Osborne and SA Foreign Trade Organisation (Safto) economist Bruce Donald pointed out that although both exports and imports had risen in nominal (rand) terms in January compared with the same month a year ago, they had fallen in real terms.

Donald said it was disappointing "insofar as it implies that, in real terms, exports are still shrinking. In 1992 they grew by only 5% in nominal rand terms."

The biggest contributor to nominal export growth in January was the unclassified category, mainly gold, which climbed by 16%.

"This may be partly explained by a rise in the rand price of gold from R985 an ounce to R1 010, resulting from the fall of the rand against the dollar. The dollar price of gold fell from $354,40 to $329,18 over the same period.

"The drought is clearly still impacting on the trade figures. Vegetable product exports were 50% down while imports of vegetable products were 139% up. Exports of prepared food were 11% down and imports 65% up.

"The strong performance of mineral product exports, which were 34% higher in January, is surprising given the continued weakness in international commodity markets. But it should be noted that this growth comes off a low base."

Donald said exports of transport equipment had risen by 74% and of machinery by 16%, continuing their good performance in 1992. But some manufactured exports which had done well in the past year declined in January.

These included chemicals, down by 44%, plastics, down by 24% and footwear and accessories, down by 59%.

Zim, SA meet over exports

AT A "breakthrough" meeting yesterday, Zimbabwean Industry and Commerce Minister Chris Ushewokunze and Finance Minister Derek Keys agreed that an "early interim solution" to the problems of Zimbabwean textile exporters would be sought.

The meeting was the first ministerial level contact between industry ministers since Zimbabwe's independence.

Debt payments strain reserves

W/Mail 26/2 - 4/3/93 (74A)

Weekly Mail Reporter

PAYING its foreign debts may force South Africa to run down its foreign reserves or turn to the International Monetary Fund (IMF) for assistance this year.

In its latest *Economic Perspectives*, Standard Bank says about $1,8-billion (R5,5-billion) of foreign debt is due to be repaid this year and the bank's economists estimate the surplus on the current account of the balance of payments will fall short of this figure, because import growth will be greater than export growth in 1993. Unless some of the debt is rolled over, making the repayments will be difficult.

The repayments due this year include $430-million in terms of the Third Interim Arrangement between South Africa and its foreign creditors (so-called "affected" or "standstill" debt), $730-million due by Eskom and $640-million by government and other parastatals. According to Standard, Eskom has decided not to roll over its debt because the cost is too high.

If there is a current account deficit and debt obligations cannot be met, South Africa is now in a position, in principle, to apply for IMF funds and could draw down 50 percent of its current IMF quota of about $2-billion, says the bank.

But there's still the problem of the $5-billion of "affected" debt falling due at the end of this year, when the Third Interim Arrangement expires, as well as the debt repayments of between $1,3-billion and $1,65-billion due annually in the period 1994 to 1997.

The Reserve Bank is currently negotiating with foreign creditors regarding the end of the standstill arrangement, which it does not want to renew. Other ways of repaying the debt are being investigated.

South Africa's renewed access to the IMF should encourage foreign creditors to view its outstanding loans more favourably, making it possible to negotiate new repayment agreements at lower interest rates.

However, says Standard, renewed access to the IMF does not in itself mean easier access to foreign funds, since international lending institutions are now far more careful in their country risk analysis than before.

Making the most of the stock exchange

SOUTH 27/2-3/3/93 (74A)

Tuesday February 23 quotations for unit trusts:

General Equity Funds:

Fund			
ABSA	142,28	133,12	5,55
BOE Growth	153,76	143,65	3,53
Community Growth Fund	111,76	105,54	n/a
Fedgro	124,98	116,69	4,92
CU Growth	116,93	109,16	4,35
Guardbank Growth	2471,72	2301,53	4,87
IGI	128,60	120,39	3,56
Momentum	244,61	229,25	4,34
Metfund	192,77	179,87	4,25
Metlife	119,62	111,79	7,07
NBS Hallmark	943,25	880,90	5,19
Norwich	350,20	327,02	4,10
Old Mutual Investors	2562,48	2389,27	3,74
Sage	2370,58	2212,77	4,09
Sanlam	1638,21	1534,18	3,38
Sanlam Index	1216,40	1140,22	3,97
Sanlam Dividend	457,92	429,27	4,68
Southern Equity	200,96	187,96	4,04
Standard	1170,19	1099,52	7,07
Syfrets Growth	297,00	278,28	4,41
Syfrets Trustee	118,33	110,90	4,48
UAL	2049,15	1924,35	5,25

Specialist equity Funds:

Fund			
ABSA Industrial	130,63	122,21	4,32
Guardbank Resources	133,73	124,58	6,29
Guardbank Industrial	127,05	119,17	5,74
Sage Resources	99,49	93,09	6,12
Sanlam Industrial	1050,15	982,90	3,27
Sanlam Mining	242,66	227,27	5,32
Southern Mining	119,06	111,69	4,56
Southern Pure	123,49	115,58	n/a
Standard Gold	146,49	137,10	7,16
Standard Industrial	108,74	102,51	5,15
Standard International	100,45	93,90	3,38
UAL Managed	1061,95	1003,35	n/a
UAL Mining and Resources	325,30	304,84	4,70
UAL Selected Opportunities	1977,25	1850,30	3,68
Old Mutual Mining	223,61	208,18	4,53
Old Mutual Industrial	367,45	342,30	4,00
Old Mutual Gold Fund	94,45	88,01	5,77
Old Mutual Top Companies	247,77	230,97	4,50

What is the Balance of Payments?

The balance of payments is often spoken about on television and written about in newspapers and magazines.

But what is the balance of payments? And what effect does it have on our lives if the country is in deficit or surplus?

The balance of payments reflects the systematic presentation of all transactions between South Africa and the rest of the world, over a set period.

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The purchasing and selling of assets (shares, stocks, property and other financial transactions) are summarised in the capital account.

Balance of payments statistics are published quarterly (one quarter in arrears) in the South African Reserve Bank Quarterly Bulletin. These statistics provide essential information for analysts and policy makers, especially in a small, open economy like South Africa's. Trends in the balance of payments are often crucial determinants of the course of economic activity and the direction of economic policy.

There is no consistent and universal measure of a country's balance of payments performance. For example, a deficit on the current account of the balance of payments is not intrinsically undesirable, provided it can be financed by a net of foreign capital (particularly long-term capital). On the other hand, the net outflow from South Africa since the middle of seventies and the debt standstill in 1985 resulted in a surplus on the current account becoming the appropriate policy objective in South Africa by the middle of the eighties.

It is common knowledge that the South African economy was retrained during the years 1984 to 1991, by a unique combination of economic and political developments.

One of these developments was a marked decrease in the price of gold (South Africa's main export commodity). But most devastating of all was the effect of the capital inflow of +- R25 billion during the four years from 1985 to 1988. This outflow, of which about half constituted identifiable debt repayments, was equivalents to roughly 4 percent of gross domestic product. The main reason for the huge capital outflow was a marked deterioration in overseas perceptions of socio-political developments in South Africa. This caused the confidence crisis and a capital flight.

Certain American banks in July 1985 announced their decision to withdraw credits previously extended to South African banks and other private enterprises. In addition, the country was further denied access to bridging finance in the form of credits from the International Monetary Fund, World Bank, and other comparable institutions. This left the country with no option but to transform the traditional deficit on its balance of payments on the current account into a large and sustained surplus in order to finance the debt repayments and other capital outflow.

South Africa's debt position, as measured by various debt ratios, improved dramatically between 1985 and 1988. Judged by technical criteria, it is clear that the South African economy was never "over-borrowed" to begin with, and is by now clearly "under-borrowed". These large debt repayments naturally placed considerable strain on South Africa's gold and foreign exchange reserves and on the exchange rate of the rand.

This process of balance of payments adjustment and debt repayment was not painless. A price has to be paid. Real gross domestic product declined and unemployment increased. Furthermore, as a result of tight monetary and fiscal policies, inflation sky-rocketed to close on 30 percent per annum. The inflation rate has started to decline over past two years and reached a single digit figure of 9 percent in December 1992 (after seven years of tight government control).

This decrease in inflation can partly be ascribed to a relaxation in monetary policy, i.e. a reduction in interest rates.

Helping to make the most of your life — every step of the way

SA DEBT OUTLOOK IMPROVING

S/Times (Buss) 28/2/93. (74A)

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

Bank calls a halt to Elfi bonanza

Bdory 3/3/93 (74A)

GRETA STEYN

TRANSNET will announce today that the Reserve Bank has banned foreign investment in its Equity-Linked Fixed Investment (Elfi) stock in a move to protect the balance of payments (BoP).

Transnet spokesman Johan van Schoor declined to comment on market talk of the move, saying an announcement on the issue would be made today.

However, Reserve Bank exchange control GM John Postmus confirmed the Bank had decided to stop foreign investment in Elfi as it was proving too costly for the country. Postmus said foreigners, who invested through the financial rand, were earning excessive returns on the stock through the commercial rand. They were attracted by the abnormally high yield on the "bear tranche" of the stock which, Postmus said, was unacceptable given the country's BoP position.

He declined to quantify the cost to SA of the above-market returns offered by Transnet, saying it was up to the transport utility to disclose the information. But he added an investigation into the BoP implications of the Elfi market had begun shortly after the last Elfi issue just more than a year ago and there had been in-depth discussions with Transnet representatives.

Elfi is the major source of funding for Transnet and the Bank's action comes as Transnet prepares to launch its fifth issue of the stock.

Transnet is expected to say today whether it will go ahead with the issue on the domestic market, or whether it will shelve Elfi and replace it with an instrument that meets Reserve Bank approval. Market talk is that the withdrawal of foreigners could spell the death knell for the Elfi market, estimated at about R2bn.

The move could put the finrand under pressure, as maturing Elfi stock in foreign hands could not be rolled over by reissuing the same instrument. The pressure would be alleviated, however, if Transnet replaced Elfi with a stock that complied with exchange control regulations. The finrand was slightly weaker yesterday, closing at R4,5625 from R4,5450 on Monday.

Elfi provides investors with a gilts and equity market investment, as it is a fixed-interest instrument whose price is linked to stock exchange movements. It is similar to a futures contract and much of the demand for the stock came from arbitrageurs and operators who wanted to hedge futures market positions.

What is the Balance of Payments?

South 6/3 - 10/3/93 (74A)

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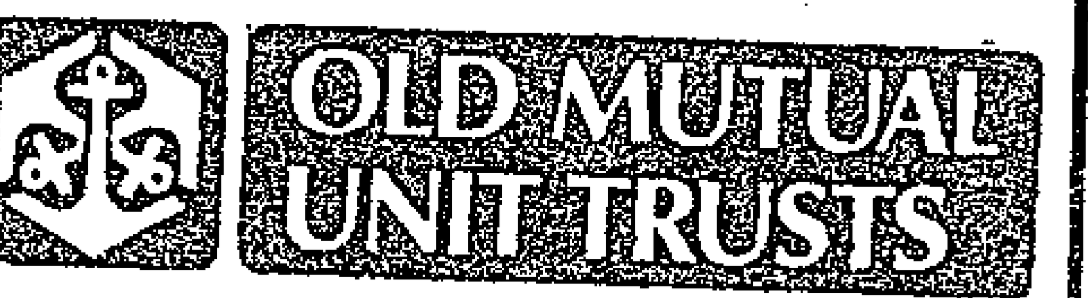
This process of balance of payments adjustment and debt repayment was not painless. A price had to be paid. Real gross domestic product declined and unemployment increased. Furthermore, as a result of tight monetary and fiscal policies, inflation sky-rocketed to close on 30 percent per annum. The inflation rate has only started to decline over the past two years and reached a single digit figure of 9 percent in December 1992 (after seven years of tight government control).

This decrease in inflation can partly be ascribed to a relaxation in monetary policy, i.e. a reduction in interest rates.



Helping you make the most of the stock exchange

Wednesday March 3 quotations for unit trusts:

General Equity Funds:

Fund			
ABSA	140,04	131,02	5,64
BOE Growth	153,85	143,74	3,53
Community Growth Fund	110,97	104,82	n/a
Fedgro	123,27	115,10	4,99
CU Growth	115,71	108,03	4,40
Guardbank Growth	2454,60	2285,67	4,90
IGI	125,83	117,76	3,64
Momentum	242,82	227,43	4,37
Metfund	192,33	179,46	4,26
Metlife	114,90	107,33	6,52
NBS Hallmark	936,41	874,54	5,22
Norwich	342,68	320,01	4,19
Old Mutual Investors	2541,98	2370,18	3,77
Sage	2323,56	2168,79	4,17
Sanlam	1606,35	1504,50	3,44
Sanlam Index	1193,00	1118,30	4,05
Sanlam Dividend	452,01	423,80	4,74
Southern Equity	199,48	186,67	4,07
Standard	1158,31	1088,45	7,14
Syfrets Growth	292,51	274,16	4,48
Syfrets Trustee	116,90	109,58	4,54
UAL	2031,28	1907,71	5,29

Specialist equity Funds:

Fund			
ABSA Industrial	128,24	119,98	4,40
Guardbank Resources	131,89	122,89	6,38
Guardbank Industrial	126,88	119,05	5,74
Sage Resources	97,43	91,14	6,25
Sanlam Industrial	1035,20	969,09	3,31
Sanlam Mining	237,02	222,02	5,45
Southern Mining	117,01	109,77	4,64
Southern Pure	124,13	116,21	n/a
Standard Gold	141,41	132,35	7,42
Standard Industrial	108,51	102,31	5,16
Standard International	98,11	91,70	3,46
UAL Managed	1065,99	1000,93	n/a
UAL Mining and Resources	310,54	298,54	4,80
UAL Selected Opportunities	1957,57	1831,95	3,72
Old Mutual Mining	220,50	205,45	4,59
Old Mutual Industrial	363,29	338,45	4,04
Old Mutual Gold Fund	91,44	85,21	5,96
Old Mutual Top Companies	244,94	228,35	4,55

Dealers urge hedging against weakening rand

Star 8/3/93 (74A)

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.

SA blocks trade with Yugoslavia

CT 17/3/93 (74A)

By BARRY STREEK
Political Staff

SA may lose R128m

SOUTH AFRICA has imposed sanctions on Serbia and Montenegro and at least R128 million (US-$40 million) of trade will be lost as a result.

A notice published in the Government Gazette yesterday forbids imports and exports from and to the Federal Republic of Yugoslavia, which comprises Serbia and Montenegro.

The cabinet decided on the sanctions move on June 24 last year, following a decision by the United Nations to impose mandatory sanctions, but the legal situation had to be clarified first, director-general of Trade and Industry Dr Stef Naude said yesterday.

Deputy Minister of Trade and Industry Mr David de Villiers Graaff said South Africa would discontinue all trade with the two states because of Serb aggression toward Muslim communities in Bosnia-Herzegovina.

Before its break-up, Yugoslavia imported large quantities of steel from South Africa.

Dr Naude said the trade between Yugoslavia and South Africa was not significant but the known trade amounted to about $US40 million or R128 million.

The Security Council decided to impose sanctions on May 30 last year in terms of the Chapter 7 of the UN Charter.

Although the cabinet backed the decision on June 24, South Africa did not have any legislation enabling it to impose sanctions.

However, restrictions could be imposed in terms of the Import and Export Act of 1963 and this was the only instrument available to the government.

Dr Naude said all trade, finance, air and sea communication, diplomatic representation, sport, arms, scientific and cultural matters with Serbia and Montenegro are now prohibited.

The cabinet would take a decision to lift sanctions in terms of the law once the UN had decided to suspend them, he added.

R1,4bn loan tops up forex reserves

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

□ To Page 2

Forex

□ 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.

Bridging finance admission from Stals

CT 25/3/93

From GRETA STEYN

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DEBT-IN-THE-NET FM 26/3/93

Coming back from the brink

Talks with creditor banks on a critical, and possibly final, foreign debt repayment plan are under way. The Third Interim Debt Arrangement is due to expire at the end of the year and negotiations centre on either the extension of the repayment period of the remaining US$5,5bn, trapped in the net, or the ending of the debt standstill.

Success on either score will lift a huge constraint on growth that has been in place since September 1985, when government declared a moratorium on capital repayments of over half of its outstanding foreign debt, largely bank loans.

A crisis was averted by a series of interim arrangements, negotiated in 1986, 1987 and 1989, on repayments of debt caught in the standstill net. But the country was cut off from further sources of medium- and long-term capital, with most of the remaining inflows coming in the form of short-term trade credits.

Research by Jonathan Leape and Jonathan Garner, of the Centre for the Study of SA Economy & International Finance at the London School of Economics, published in 1991, recorded that the moratorium, despite its exemption of large proportions of foreign debt, "had a devastating impact on the willingness of investors and bankers to lend to the country."

The need to meet the scheduled repayments and the dearth of new long-term capital required a constant surplus on the current account of the balance of payments. This precluded sustained economic growth because rising demand immediately boosted imports. Pretoria University economists Geert de Wet and Jaco van der Walt estimate that, once the economy grows at a rate of more than 3,5%-4%, the current account will move into deficit.

The seriousness of the situation was evident in June 1989 when, as recently reported in a Bank of Lisbon International *Economic Focus*, total net foreign reserves of the monetary banking sector fell into deficit — by R3,2bn.

SA remained isolated from international markets until late 1988 when private placements were made with Swiss banks. Following reforms introduced by the De Klerk government, SA regained access to the Eurobond market in September 1991, which restored a measure of stability to the country's finances. However, following the breakdown of Codesa in mid-1992, there have been no new international bond issues.

The latest edition of the Reserve Bank *Quarterly Bulletin* records a net outflow of R900m in the last quarter of 1992, following average quarterly outflows of R200m in the first nine months.

"This reflected mainly the repayment of debt outside the standstill net (notably the repayment of a loan of DM250m, or about R500m) by the Treasury, because of the high refinancing costs that were charged by foreign financial institutions."

This arose, says the *Bulletin,* "from the perceived greater risks, because of the breakdown of multiparty constitutional negotiations in 1992."

The transitionary nature of the present political dispensation has introduced a new dimension into debt negotiations. The reluctance of the extraparliamentary opposition to the NP government making decisions on a matter that will commit a future government has been seen as a stumbling block. But this threat seems to have receded. An expectation that an effective interim government will be in place by July, with the appointment of executive councils, may create a favourable environment for foreign debt negotiations.

In a new report, Leape and Garner, who are visiting Johannesburg say: "Informal reports now indicate that creditor banks may be prepared to accept a medium-to-long-term programme for resolving the standstill." Presumably five to 10-years.

They note: "It may be no exaggeration to say that a successful transition to democracy in SA — which is likely ultimately to depend on economic growth and the social investment programmes made possible by growth — requires a long-term final arrangement for the debt standstill . . .

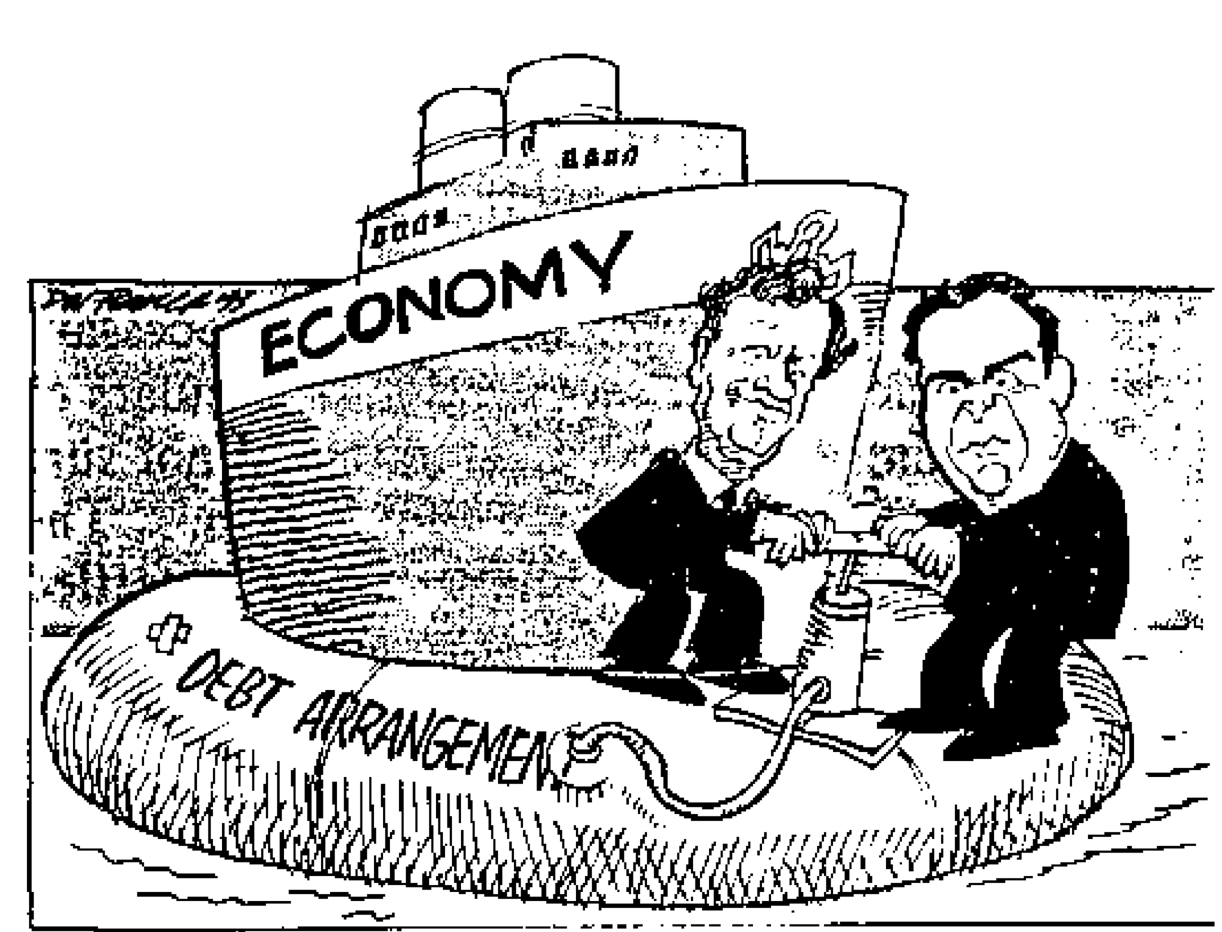
"All creditor banks will be aware that an onerous repayment schedule might prevent economic recovery in SA. The political and economic costs of this could in turn lead to a new debt crisis."

Therefore the creditor banks "will, in general be seeking the earliest feasible resolution of the debt moratorium (which) would lead to an eventual release of funds currently caught within the standstill as well as trigger the lifting of special provisioning requirements imposed on the banks by their local central banking authorities as a result of the standstill."

However, debt-in-the net is not the only obligation facing SA.

Nedcor Bank chief economist Edward Osborn points to "commitments with regard to affected debt that has been converted into medium-term loans. These have reached US$400m in 1993 and remain at about $800m-$900m a year through to 1998, inclusive.

"To date SA has been able to get by because of the ability of parastatals to roll over debt and because of the surpluses on the current account that have broadly arisen from depressed internal capital formation activity. Given the unwillingness or inability of parastatals to roll over debt it would be in SA's best interests to extend the period of final redemption of affected debt to 10 years."



Leape and Garner say: "A final arrangement as short as five years would require a threefold increase in average annual repayments relative to 1991 and 1992. Even a 10-year final arrangement would imply a 50% increase in average annual repayments, which may be a reasonable upper limit on what the economy can bear. As debt-in-the-net repayments in 1991 and 1992 amounted to under $400m a year, this suggests a five-year arrangement would mean payments of about $1,2bn a year."

To this must be added obligations on other debt and, from that total, new capital inflows must be subtracted.

The implications for SA's growth prospects are thus difficult to quantify. An indication comes from De Wet and Van der Walt who calculate that growth would have to be restricted to 0,9%-2,7% a year to produce a current account surplus of $2bn.

As the country desperately needs growth far in excess of this, a solution is required. Says Osborn: "It is imperative to have stand-by arrangements with the IMF should SA get into balance of payments difficulties during this lengthy capital redemption programme ahead." ■

FIRST NATIONAL BANK FM 26/3/93

How serious?

Management of First National Bank is being required, under oath, to reveal whether information pertinent to creditors of liquidated KPL Etsa was available to FNB but not to creditors in general. Two senior general managers and one other official of FNB have been subpoenaed to give evidence to the Office for Serious Economic Offences (Oseo), arising from the liquidation of KPL.

Continued

Trade surplus figures 'cause for concern'

(74A) CT 26/3/93

By AUDREY D'ANGELO
Business Editor

RISING exports and falling imports lifted SA's trade surplus to R1,33bn in February from R838,5m in January. Exports totalled R5,37m in February compared with R5,10m in January. Imports eased to R4,04m compared with R4,26m in January.

But this compares with a surplus of R1,90bn in February last year, when exports were higher at R5,59m and imports lower at R3,69m.

Expressing concern at this year's lower figures, SA Foreign Trade Organisation (Safto) economist Bruce Donald says there was "a marked decline in our exports to Africa, down by 12% and Europe, down by 14%" in February.

However, he continues: "Exports to America rose by 12%, to Asia by 12% and to Oceania by 106%. Imports from Europe fell by 4%."

Donald points out that: "The shrinking trade surplus could be a concerning factor to the authorities, especially in the light of the recent fall in SA's foreign reserves."

"It is particularly disappointing that certain manufactured categories that have experienced consistently strong growth over the past few years have registered declines for the period under review.

"Chemicals and plastics, which have grown by an annual average of 21% and 23% respectively over the past few years, fell by 17% and 19%."

Donald says the drought has been one of the main reasons for the shrinking surplus. "On the one hand vegetable product exports fell by 46% and prepared food exports by 21% for the first two months of the year, compared with the same period a year ago.

"Vegetable product imports, on the other hand, rose by 148%."

Exports of pulp and paper were down by 19%, textiles down by 10% and jewellery and precious stones including diamonds down by 30%.

But exports of unclassified goods, mainly gold, were up by 7%, of mineral products by 22%, of base metals by 5%, of machinery by 31% and of transport equipment by 56%.

"Imports were buoyed largely by a dramatic rise of 36% in the 'other unclassified goods and balance of payments adjustments' category.

"There was also an increase in imports of certain industrial materials. However, imports of machinery and transport equipment declined significantly by 7% and 5% respectively, reflecting the depressed state of the investment cycle in SA."

Old Mutual economist Rian Le Roux, Sanlam chief economist Johan Louw and Boland Bank chief economist Louis Fourie pointed out that import figures for most of the past year had been distorted by drought relief which would soon come to an end.

"The figures are not that bad," said Louw. "We know that the imports of maize for drought relief will be completed next month."

Louw said high surpluses on the current account would be needed to protect the balance of payments in view of high capital outflows.

Because of this, "we can't look for another decrease in the bank rate in the next few months."

'ANC govt will scrap exchange controls'

74A

CT 29/3/93

CT 29/3/93

HERMANUS. — An African National Congress government would scrap exchange control and the financial rand investment instrument, ANC economic planning chief Trevor Manuel said in a wide-ranging interview yesterday.

Manuel said tight exchange control regulations and the discounted financial rand had failed to stem capital flight or encourage useful foreign investment.

"Exchange control is essentially just an articulation of government insecurity. It has not worked for us, it is seen as a punitive measure.

"You will only see foreign investment starting to come into the country when domestic investors are willing to put their money into this economy.

"The confidence trigger has to come from domestic investment," he said.

Manuel declined to set a deadline for the dismantling of exchange control and the financial rand, but said their phased elimination would be a priority of an ANC-led democratic government.

"We have a definite commitment to phasing out exchange control and the financial rand mechanism, but not overnight."

He said the change would have to be linked to greater political security and a scaling down of the violence that is undermining confidence in South Africa's future.

The ANC would maintain fiscal discipline and continue to budget within the same broad parametres as the present government, Manuel said.

He said that the ANC, after forming a new government, would budget to bring the deficit before borrowing down from the projected level of 6,8% of gross domestic product (GDP) in fiscal 1993/4.

But he said the ANC did not see any scope for significant increases in revenue or expenditure beyond improved tax collection mechanisms and greater efficiency in the civil service.

"We are not talking about increasing the level of government spending beyond the current level of around 31% of GDP," he said.

Manuel said spending on health and education as a percentage of total government expenditure was among the highest in the world and would have to be made more efficient without being increased.

He said the current level of spending on welfare-related services could not be increased, but would have to be rearranged to provide a better safety net for the poor and unemployed.

Manuel praised Finance Minister Derek Keys for his Budget proposal to set up a special office for tax collections.

"You don't have to tax more, you have to be more efficient about collecting it," he said.

Manuel said the ANC was committed to ending government dissaving as soon as possible.

"We have expressed our commitment to macro-economic balance and fiscal discipline and part of that must certainly be not to borrow a cent to finance current expenditure," he said.

Abu Dhabi potential for SA companies good, Ovcon says

7WP

AMG 31/3/93

TRADING could well outstrip construction business in Abu Dhabi, says Mr Derek Mace, one of the two Ovcon directors who have establishment a new Gulf company there.

Eight months ago when Ovcon started its investigations which led to the formation of the new Abu Dhabi branch, it quickly discovered there was a great interest in and a respect for South African technology and products.

There was too, said Mr Mace, a general acceptance in the United Arab Emirates that South African businessmen tended to be efficient and reliable partners.

These factors led to Ovcon's agreeing to represent a few products in the area.

Since then, inquiries from potential South African exporters had escalated. To ensure the trade side of its Abu Dhabi enterprise was handled properly, Ovcon will form a joint venture with Cape Town-based Forum Exporters International.

Mr Mace said the combination of Forum's trading expertise and Ovcon's "perception of opportunities as a result of their exposure in the United Arab Emirates" had resulted in competitively priced products being offered and sold rapidly and smoothly into the region.

"As in all new ventures, there is a certain euphoria at present, but we must be careful to avoid giving South African manufacturers the impression that the United Arab Emirates is an exporter's Eldorado.

"They must realise they are competing against the world's best products. Certain of them have been protected in South Africa will discover they are not competitive in the international trading arena."

Abu Dhabi and Dubai were experiencing economic booms — Abu Dhabi was pumping 2,3 million barrels of oil a day and Dubai 40 000.

Mr Mace said South African exporters must appreciate that the lower end of the Middle East market had largely been captured by low-priced products from the Far East, while at the upper end of the market the Europeans and Americans had carved various niches.

Nevertheless, Mr Mace said he believed South AFrica could compete with the more expensive high-tech products.

"In certain fields our quality is equal to if not better than the other competitors.

"With the assistance of the low value of our rand and current government incentive schemes, we can be highly competitive."

Asked what type of products Ovcon/Forum are interested in marketing, Mr Mace said any consumer-related products would seriously considered.

Because Ovcon was in the construction field and the construction industry was vast, building products would also be given priority.

Ovcon had given an undertaking to the Foreign Exchange Branch of the Reserve Bank to promote South African products.

Mr Mace said the United Arab Emirates has become the recognised trading gateway to the entire Middle East.

Ovcon's team at Abu Dhabi also intended to help South African entrepreneurs to set up in the territory.

"For those wishing to establish factories, the UAE offers exceptionally good incentives.

"Their philosophy here is based on the realisation that oil-based economies inevitably at some stage must become industrially based.

"The opportunities for entrepreneurs with reputable projects are therefore good", said Mr Mace.

NEWS IN BRIEF

B/DAY 1/4/93

Miners resume work

NORMAL underground work has resumed at Genmin's Beatrix Gold Mine. All workers, except for 400 Zulu speakers whom management moved to the St Helena Hostel after they clashed with Pondos, reported for duty on Tuesday.

Gengold spokesman Albert de Beer said a peacekeeping committee of workers and management would monitor the hostels and mine main entrance..

Film subsidies returned

B/DAY 1/4/93

THE Home Affairs Department said in Pretoria yesterday film companies which misappropriated government subsidies had paid back more than R1m. Some companies, however, still faced criminal charges.

'Last post' sounds

B/DAY 1/4/93

THE SA Defence Force's first retrenchment parade took place at Cape Town Castle yesterday when about 400 Western Province Command members were bid farewell to the strains of Auld Lang Syne.

Nearly 6 000 SADF personnel have been retrenched recently. The SADF budget has been slashed by more than a third in the past five years.

'Call up jobless only'

B/DAY 1/4/93

THE unemployed should be called up for national service to combat crime and violence and unionists who instigated labour unrest should be held criminally responsible, SA Iron and Steel Union manager Nic Celliers said yesterday. The suggestions are part of a security and commerce plan the AWB and the union want to discuss with President F W de Klerk.

Employment Act

B/DAY 1/4/93

WE REPORTED incorrectly yesterday that: "As legislation now stands, the Basic Conditions of Employment Act will grant to farmworkers the right to strike." The Act does not deal with strikes. Business Day regrets the error.

REPORTS: Business Day Reporters, Own Correspondent, Sapa.

AHI wants ceiling on wages, prices

B/DAY 1/4/93

TIM MARSLAND

THE Afrikaanse Handelsinstituut (AHI) has asked its members to hold wage and price increases to 5% or lower for the next two years in line with the declining trend in money supply growth and inflation.

AHI chief economist Nick Barnardt said yesterday his organisation had taken the decision in line with its support of Reserve Bank policies to combat inflation.

The decision was also aimed at trying to prevent further declines in business volumes.

"The AHI general management accepted a motion at its six-monthly meeting to encourage members to hold price and wage increases to below 5%. The message of discipline should be communicated to members and the broader business sector," he said.

Inflation would peak close to 11% as a result of the VAT, fuel price and other increases included in the Budget, Barnardt said.

However, he saw it falling sharply after that, possibly to 5% in 1994.

He said any temptation to raise interest rates to protect the balance of payments should be resisted in light of the decline in inflation and money supply growth as well as the deepening recession.

The pressure on the balance of payments should rather be managed by mainly continuing the fluid exchange rate policy and the "overall laudable monetary policy flexibility" of the past six months.

In the current recession, a moderate real depreciation of the rand would have a minimal negative effect on inflation, but would actively encourage exports.

He said the AHI continued to support the Reserve Bank's focus on disciplined monetary expansion, which implied that interest and exchange rates were largely determined by the markets.

Once the balance of payments stabilised, he expected a further cut in interest rates in response to low credit demand.

This would partially offset negative effects the hike in VAT and other taxes would have on the business cycle and could help prevent a deepening of the recession, he said.

Talk of VW layoffs 'premature'

B/DAY 1/4/93

ERICA JANKOWITZ and EDWARD WEST

VW SA said yesterday it was too early to say it would be retrenching more than 2 000 workers this year.

But up to 1 000 workers were in danger of being laid off in the near future. VW human resources director Brian Smith said 500-1 000 jobs at the Uitenhage plant were "currently under review" because of a sharp drop in exports and a declining local market.

Numsa national organiser Gavin Hartford said on Tuesday the car manufacturer had proposed rationalising 2 270 of its workforce this year.

VW said talks of staff reduction was "premature" and dependent "on the impact of the recent Budget on the local market, the outcome of various export orders currently under discussion and the success of the new Golf and Jetta range".

Smith stressed the company would try to "achieve reductions through voluntary packages offered to all employees, early retirements, outsourcing and natural attrition".

He said VW SA was renegotiating a contract to supply Jettas to China. The future of workers involved with exports to China would depend on the outcome of the negotiations and on local market conditions.

Putco, Sabta pledge not to raise fares

B/DAY 1/4/93

THEO RAWANA

PUTCO and the SA Black Taxi Association (Sabta) fares will not increase when fuel prices go up tomorrow.

Putco MD Jack Visser said yesterday the bus company would absorb the increase of 16c/*l* on diesel for three months. Sabta also said it would not increase its fares and was negotiating with the Mineral and Energy Affairs Department for a "special consideration" for taxis.

Visser refused to say how much it would cost Putco to absorb the increase. "We are so close to our annual increase on July 1 that we did not feel it necessary to raise fares now."

Sabta public affairs manager Cyprian Lebese said the organisation had given Mineral and Energy Affairs "a few options". The taxi organisation expected a reply today.

Postal tariffs and suburban train fares went up at midnight last night and petrol will cost 15c/*l* more at the coast, and 16c/*l* more in the interior.

Postal tariffs will cost an average of 30% more. A stamp for a standard letter will cost 45c from today.

Suburban train fares will cost an average of 9,75% more, but the SA Rail Commuter Corporation has assured its customers that there will be no further fare increases this year.

Sapa reports that cheaper dialling times for overseas telephone calls will be introduced today.

Telkom said the standard rate to more than 100 countries would drop by about 7% and the new off-peak rate would be up to 20% cheaper than the standard rate. But VAT on calls would increase to 14% on April 7.

Reserves strained by loan repayments

BIDAY 7/4/93 (74A) (260)

TIM MARSLAND

ESKOM had repaid R600m in foreign loans in the past few weeks, prompting the Reserve Bank to draw on foreign credit lines to shore up its reserves, economists said on Monday.

Eskom finance manager Theuns Kotze confirmed two foreign loans of DM100m and DM200m had been repaid — together worth about R600m.

The repayments were included in Eskom's financing plans for the 1993/94 year, he said.

Eskom budgeted to repay R2bn in foreign loans in the current year.

Kotze said Eskom had not raised additional foreign finance to roll over the loans.

Nedcor Bank chief economist Edward Osborn said the repayments were an important factor preventing a cut in Bank rate. The repayments were putting pressure on the capital account, which Bank Governor Chris Stals had highlighted as a key factor preventing such a cut.

"It seems the Reserve Bank drew on foreign credit lines in February to prepare the ground for Eskom repaying its loans," he said.

The repayment would put further pressure on the Bank's foreign exchange reserves. This would in turn put pressure on short-term interest rates on the money market.

Monday's money market shortage — which reflects banks' overnight borrowings from the central bank — rose to R4,638bn. High shortages reflect a lack of liquidity in the money market, which in turn puts pressure on interest rates.

A Bank spokesman warned that the shortage would increase over the next few weeks to about R5bn because of the outflows on the capital account.

There had also been an interest payment in March on foreign debt caught in the net. The Bank also sold government debt which had contributed to the shortage, he said.

The shortage would stabilise in the middle of June when government spending flowed into the market and RSA stock worth about R2bn matured, he said.

Eskom pays off R600m in loans

74A
7/4/93

By TIM MARSLAND

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The repayments were pressuring the capital account which Reserve Bank governor Chris Stals had highlighted as a key factor preventing such a cut.

"It seems the Reserve Bank's drew on foreign credit lines in February to prepare the ground for Eskom repaying its loans," he said.

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Government debt

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The shortage would stabilise in the middle of June when government spending flowed into the market and RSA stock worth about R2bn matured, he said.

Relief for SA on costs of foreign borrowing

(749) CT 8/4/93

From GRETA STEYN

JOHANNESBURG. — A first sign that SA's problems in raising foreign capital are about to ease has emerged in Frankfurt with a fall in the interest rate premium on SA issues in the Eurobond market.

The easing in the rate SA parastatal borrowers would have to pay has brought some relief after a sharp rise in foreign borrowing costs sparked by the collapse in negotiations and the Boipatong and Bisho incidents.

A top financier who has just returned from Europe predicted the easing would continue, raising the possibility of parastatal borrowers entering the market against expectations earlier this year.

Government and other borrowers said at the beginning of the year punitively high interest rates would rule out rollovers and new loans for 1993, putting pressure on SA's foreign exchange reserves. But market sources said the present level of foreign interest rates still seemed too high.

When SA fell from favour, the premium it paid on borrowing in Frankfurt rose to 300 points above the interest rate on German government bonds. This compared with 150 points in March last year, when faith in the country was at its peak. In the past few weeks, the premium has eased to 230-240 points.

The improved climate is reflected in the heightened demand for SA's outstanding bonds in the secondary market. Bonds that had been trading at a discount to face value were now trading at a premium. An Eskom bond was trading at 104 from 98.

The financier said a factor in SA's favour was that the Eurobond issues so far this year had failed to satisfy the demand of private investors for high yielding investments. SA bonds have traditionally been popular with individuals rather than institutions. If present trends continued, bond issues would become feasible this year. "Cautious optimism" was warranted.

A Reserve Bank source said margins on short-term borrowings had remained more or less static with little sign of the negative sentiment feeding through on that end. The rate on the Bank's own borrowings was in line with the market.

An analyst said improved foreign sentiment was further reflected in the narrowing of the discount between the financial and commercial rands.

Route to foreign borrowings easier

BDay. 8/4/93

GRETA STEYN

A FIRST sign that SA's problems in raising foreign capital are about to ease has emerged in Frankfurt with a fall in the interest rate premium on SA issues in the Eurobond market.

The easing in the rate SA parastatal borrowers would have to pay has brought some relief after a sharp rise in foreign borrowing costs sparked by the collapse in negotiations and the Boipatong and Bisho incidents.

A top financier who has just returned from Europe predicted the easing would continue, raising the possibility of parastatal borrowers entering the market against expectations earlier this year.

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FOREIGN DEBT

FM 9/4/93. (74A)

Credit crunch vs debt rally

SA may be facing a balance of payments squeeze and, nothwithstanding the resumed multiparty talks, the overseas capital markets remain effectively closed to medium-term borrowers. But, paradoxically, foreign-denominated SA debt is enjoying a rally on international markets — though from depressed levels.

This week the RSA 250m Ecu 1997 Eurobond, issued in January 1992 (before the flush of SA's return to respectability was flattened by the Boipatong massacre) was quoted at 95,875% to yield 11,75%. That still represented a yield premium of 380 basis points to the 7,9% average of 13 Ecu issues (quoted in the Wall Street Journal) and ranked SA somewhere between Mexico and Venezuela.

It was, however, a sight better than the price earlier this year of 91% and yield of closer to 12,5%.

In addition, traders in SA debt are reporting a recovery in Public Investment Commission paper. Six months ago it could be bought at 80% of par. Now it is nearly 87%.

A snap poll of the London market revealed a number of factors. "There is a general rally in debt problem countries," says one dealer, "though whether it is investors chasing yields as interest rates come down or a genuine reassessment of risk is hard to say at this stage. My feeling is that there could be some big holders out there waiting to sell.

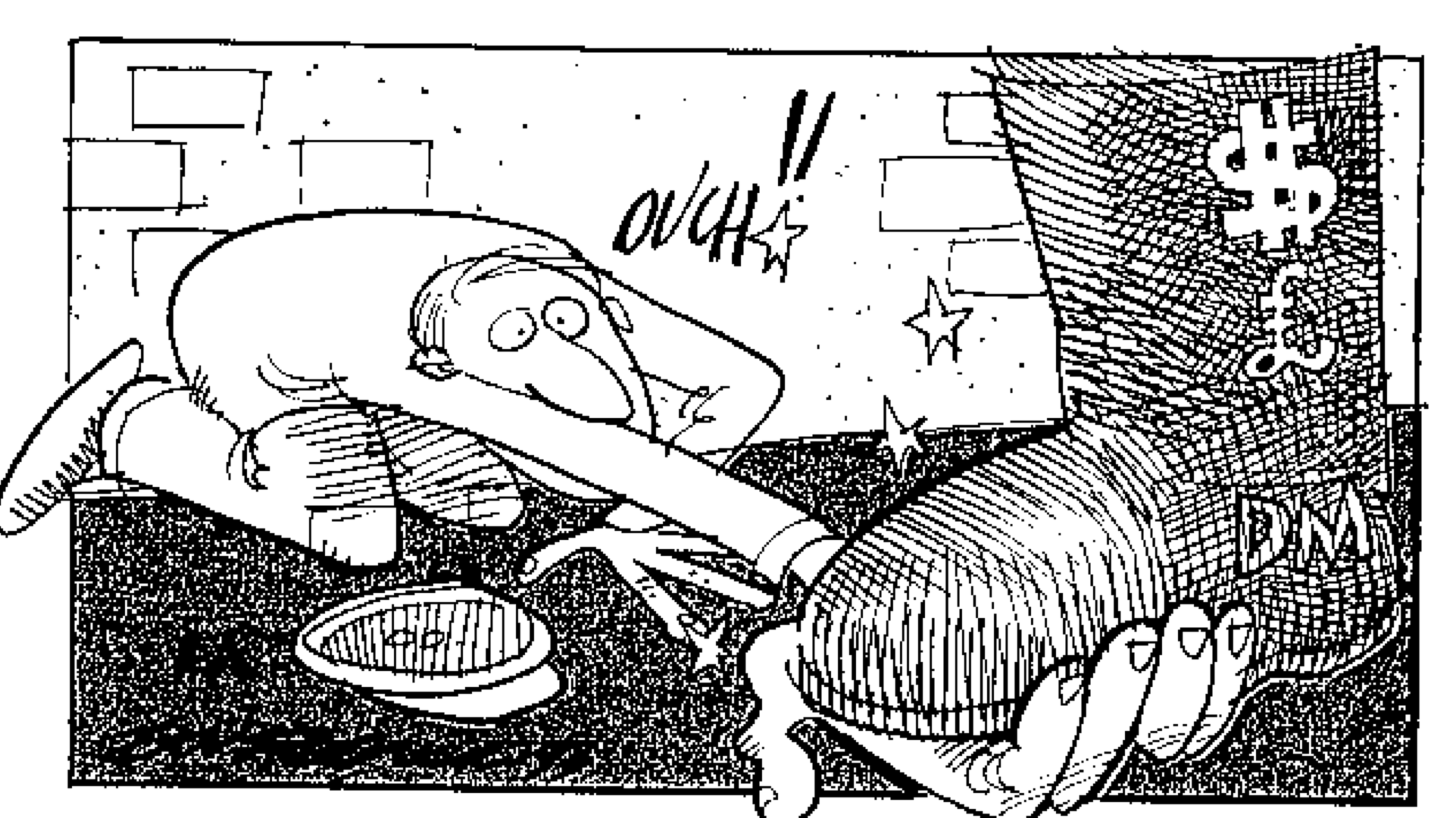
"For the moment, however, we've seen a tightening in the availability of commission funds and other SA debt — which is at least being traded now after the hiatus of last year. People are not prepared to lend new money but neither are they running for the door," he adds.

Technical reasons are also cited. Foreign investors are still finding it worthwhile in terms of cost to fund their SA operations by picking up discounted external debt instead of borrowing locally.

The surge in the gold price from this year's low of $326/oz may be influencing decisions but it is not being mentioned — yet. "It's obviously encouraging to see an extra $250m annualised added to foreign exchange earnings but we would want to see the trend — if it is one — more firmly established," says one London international banker.

"For the time being, however, nobody wants to move until the debt standstill is renegotiated and the political debate is resolved. Lenders are likely to sit on the sidelines until the identity and policies of the borrower are clearly visible."

There is also underlying concern that the state of SA's forex reserves points to a short-term crunch in the balance of payments while the current stand-off continues. Jonathan Leape, of the London School of Economics Centre for the Study of the SA Economy, says: "The sort of yield premiums demanded for SA issues is costly in terms of money and reputation, which is why Eskom is refusing to come back into the market.



"It would be damaging to be seen to be acknowledging the sort of market perceptions of SA which are implied by premiums of 300 basis points or more to German *bund* yields."

The Reserve Bank has been borrowing against reserves (see box) when these debts had been reduced to zero 12 months earlier. "It's a bit worrying if actual reserves are down to less than R7bn and would explain why the Reserve Bank is encouraging anyone with offshore facilities to take them up," says Leape.

John Cavill

Shaky rand 'living on borrowed time'

74A

From GRETA STEYN

JOHANNESBURG. — The rand has depreciated by almost 4% against a trade-weighted basket of currencies since October last year when the currency first came under pressure.

The Standard Bank's index of the rand exchange rate to the currencies of SA's major trading partners shows accelerated depreciation in April. The index was 36,8095 on Thursday, from 37,1848 at the end of last month and 38,2429 on average in October.

The rand shed 1,8% in the first week of April on a trade-weighted basis as it failed to benefit fully from dollar weakness.

Economists said depreciation against the basket of currencies was evidence of rand weakness — a reflection of SA economic fundamentals rather than the result of international currency market trends.

Standard Bank foreign exchange dealer Dave Collett said the rand had been "living on borrowed time. The chickens are coming home to roost and the rand did not benefit much from the recent dollar weakness. There is a perception that the foreign exchange reserves situation is worsening and that the Bank does not have the currency to protect the rand".

CT 13/4/93

Simpson McKie economist Graham Boyd said falling foreign exchange reserves were indicative of pressure on the rand. Capital outflows and the drought's effects on the current account balance had so depleted reserves that the Bank was experiencing difficulties in supporting the currency. However, he believed the effect of the weak rand on inflation would be muted as the Bank's tight clamp on money supply would make it difficult for importers to pass on price increases.

The weak rand would also provide a boost to exports, which would lead to an improvement in the reserves situation and ultimately to a strengthening of the rand.

Since mid-February, the rand has weakened considerably against the Japanese yen and the British pound, while the losses against the dollar have been less severe.

INTEREST RATES FM 16/4/93.

Upward pressure: the price of violence

The bullet which ended Chris Hani's life last Saturday and the turbulent days which followed, could see a premature reversal in the interest rate cycle.

The depletion of foreign reserves, which helped create a record money market shortage last week (see box) is a measure of the damage already inflicted by political events. After the massacre at Boipatong in June last year and the breakdown of Codesa, the premium which SA borrowers pay on foreign funds rose from about 1,5 percentage points to three percentage points. Not even the resumption of negotiations and the more realistic approach of the participants had eroded this margin of safety required by foreign lenders (*Economy* April 9).

Unable to afford the prohibitive cost of servicing foreign debt, domestic borrowers reduced their foreign liabilities over the past eight months, creating net outflows of foreign reserves.

The Reserve Bank's official gross gold and foreign exchange reserves fell by R818,5m to R7,5bn (US$2,4bn) in March — the fifth successive monthly decline, considerably down from the peak of R11,5bn (US$4,2bn) in August. This was despite the R2,1bn, in short-term finance, raised by the Bank abroad. The end-March level covers only one month's worth of imports, compared with the three months the Bank sees as desirable.

Expectations are that the surplus on the current account of the balance of payments will improve later this year when drought-related imports are no longer reflected in the bill. A projected current account surplus of R5bn-R5,5bn should offset the capital outflows. But, even if this improvement materialises, SA cannot continue to finance capital outflows and achieve meaningful growth. In such circumstances, it is doubtful whether the shrinkage which has been taking place in the economy in the past three years can be halted.

Unless confidence is restored and net outflows reversed, the import bill will have to be slashed. And borrowers will have to be persuaded to seek funds abroad at domestic rates, which are higher than the combined cost of offshore interest charges and forward cover. Which means a rise in interest rates.

This tightening of monetary policy will further suppress demand for credit and, therefore, for goods and services — after four consecutive years of declining gross domestic expenditure.

Ironically, the latest threat to interest rates comes when:

☐ The official inflation rate has been in single digits for three months;

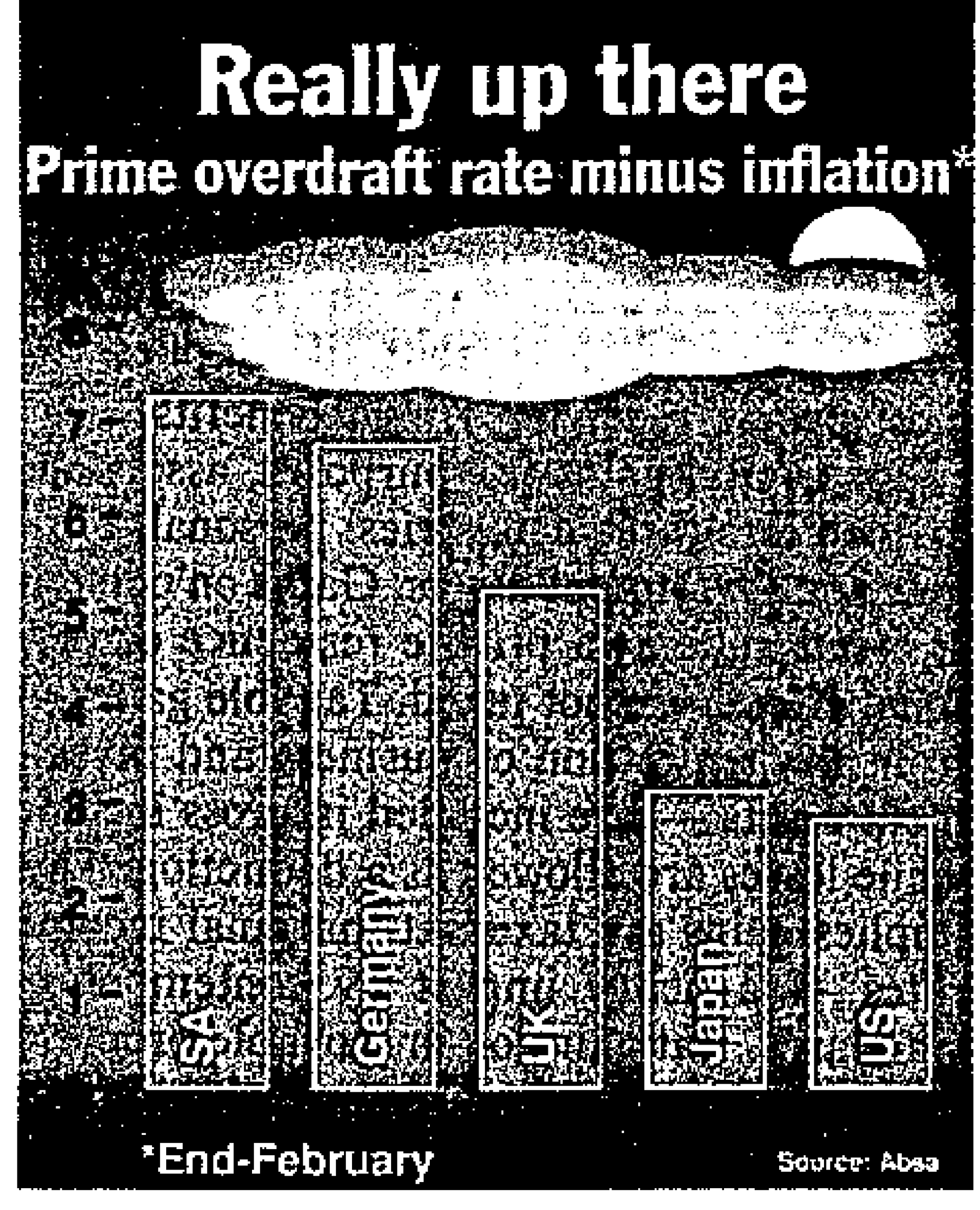
☐ Twelve-month growth in the broad money aggregate M3 fell to 5,4% in February, following 5,3% in January — below the Bank's target range for growth for the current guideline year of 6%-9%; and

☐ Credit extension remains weak, with 12-month growth in claims on the domestic private sector below 9% in January.

And it comes when the gap between the prime lending rate and the inflation rate is seven percentage points. This makes real rates in SA higher even than rates in Germany (see graph), whose central bank is renowned for monetary discipline and who has been holding out against pressure from its EC partners to reduce what they see as unreasonably high interest rates.

Fortunately, there should be a hiatus in repayments of foreign debt by government and semi-State organisations as well as payments under the debt standstill until August.

Clearly, the events of this week — and foreign perceptions of the way in which the key players respond to these events — will be critical. ■



REGULATION

FM 16/4/93

The most controversial of recommendations submitted by Judge David Melamet to Deputy Finance Minister Theo Alant last week is the merging of the Companies Act with other legislation relating to financial services.

This is an attempt to regulate the issue of debentures by companies, following the collapse of Masterbond whose unscrupulous fund-raising schemes fell outside the ambit of legislation.

However, while the banking and insurance sectors fit comfortably within one comprehensive piece of legislation, the inclusion of companies in the same framework raises the question of whether it is desirable to attempt to supervise the operations of companies. Fund-raising forms only a fraction of their activities.

Copies of the report are available from the Financial Services Board. Comment is invited.

TAXATION FM 16/4/93

New order

Lesotho tax rates will be reduced, the base widened and new concepts including a tax on capital gains (at income tax rates) and fringe benefits introduced. The Income Tax Order 1993, prepared with IMF help, took effect on April 1.

The changes will affect expatriates working in Lesotho — for example on the Lesotho Highlands Water Project — but the approach to a capital gains tax is too radical to offer guidance to SA policymakers. Lesotho Commissioner of Income Tax adviser Kieran Holmes says the Order is the culmination of several years' work in reform, started in 1990 with a tax on parastatals and a reduction in the number of exemptions. All personal rebates, apart from a single abatement for

cont

MONEY MARKET

The average daily level of accommodation at the discount window rose from a low of R1bn in April last year to R4,1bn in October. On Wednesday last week it soared over R5,5bn, on Thursday it hit R5,8bn and on Saturday dropped marginally to R5,7bn. These figures were the highest since the R5,5bn shortage in January 1990.

But both figures are lower, in real terms, than the R2,8bn shortage recorded in July 1984 (a year when gross domestic expenditure rose more than 7%). According to the Reserve Bank, this would have equalled a shortage of over R6bn at January 1990 levels.

Last week, liquidity was drained by government funding at the start of the fiscal year, as it was by drawings of notes and coins during the Easter holidays, coming on top of continuing capital outflows.

Durban port expansion masterplan

(74A) ARG 17/4/93

IAN SHIFFMAN
Shipping Correspondent

PORTNET has released a masterplan for the expansion and huge improvements for the Port of Durban. The major plan will allow ships of up to 85 000 tons deadweight to be handled.

This will involve the widening and deepening of the entrance channel from the present depth of 12,3 metres to 14,5 metres. The north pier will be removed and a new pier constructed slightly north, providing a wider entrance channel.

The plan addresses the physical constraints of the port, rapid technological and economic changes in the maritime trade and the needs of cargo and shipowners.

The overall plan which will provide the port with its needs into the 21st century will involve the construction of a further container pier and berths, which will be so designed to facilitate container handling in the area.

The berths at Point, Maydon Wharf and Island view are to be deepened as well as the breakbulk berths upgraded, with a warehouse and distribtion park being planned.

A capacity study has revealed that the breakbulk berths are reaching saturation point and that additional capacity must be created.

The Point berths with their shallow depths and narrow quay aprons will be transformed into multi-purpose combi berths. This concept will allow for a one-stop service to be offered to the shipping industry. A further combi-terminal at Q & R berths is also envisaged.

The developments of the port will incorporate trends in ship's sizes and future container sizes. Provision will also be made for the establishment of warehouses and distribution centres and export processing zones.

A ship repair complex is planned for Bayhead Park which will incorporate a new drydock and expanded facilities for the shipbuilding industry. Provision is also made for lay-bye berths for ships undergoing repairs.

Other developments include the development of tank farms for the storage of bulk liquids and the upgrading and remodeling of outmoded general cargo facilities. Provision for increased mechanisation, specialisation and terminalisation is also included in the improvement plans.

Development of the Point area, including a new passenger terminal at B berth and the Victoria Embankment and Waterfront development, are also seen as major projects in the new-look Durban harbour.

The port is geographically placed to become a hub-port for the East African seaboard and the masterplan provides port development to ensure that Durban retains its position as a dominant port on the African continent.

Soaring imports depress SA trade surplus

By AUDREY D'ANGELO
Business Editor

SOARING imports pushed SA's trade surplus down to R776,9m in March from R1,2bn in February, making it unlikely that there will be any further cut in the bank rate in the next few months.

Exports also rose, to R6bn compared with R5,3bn in February.

But the rise in imports was bigger, to R5,2bn compared with R4,1bn in February. This included R1,4bn worth of machinery and electrical equipment.

The March figures mean that total imports for the first three months of this year have risen by 13% to R13,5bn compared with R11,9bn in the first quarter of last year.

This is due mainly to drought relief, which should come to an end this month. Imports of vegetable products rose by 192% to R644,7m compared with the first quarter of last year.

Total exports rose by only 0,4% in the same period, to R16,5bn compared with R16,4bn, which means that the cumulative surplus for the three months is down by 34% compared with the first quarter of last year, to R2,9bn.

Describing these figures as "shocking", Old Mutual economist Rian Le Roux pointed out: "It is clear that the fall in our reserves of gold and foreign exchange is not due to capital outflows alone.

"The balance of payments (BoP) does not look healthy and it is going to call for a great deal of caution from the monetary authorities — they will not be able to think of another cut in the bank rate until there is an improvement."

Southern Life chief economist Mike Daly said SA was running a deficit on services. The March trade figures confirmed fears that the current account of the BoP had gone into deficit.

Export figures reflected the international demand situation and it seemd that only lower imports could improve the situation. Although exports of manufactured goods had improved, they accounted for less than 15% of total exports.

However, Daly pointed out, "vegetable imports for drought relief should be switched off this month."

SA Foreign Trade Organisation (Safto) economist Bruce Donald commented: "If overall export performance this year is disappointing, it is even more disappointing that certain manufactured categories that have experienced consistently strong growth over the past few years have registered declines for the period under review.

"Exports of chemicals and plastics, which have grown by an annual average of 21% and 23% respectively over the past four years, fell by 16% and 8%."

Donald said the impact of the drought continued to be a major reason for the shrinking surplus. In addition to higher vegetable imports, there had been a 29% rise in imports of live animals and animal products.

"Fortunately yields from the agricultural sector during the current season are expected to be far healthier."

Exports of jewellery and precious stones had fallen by 29%, of pulp and paper by 18%, of textiles by 6% and of base metals by 2%.

"Offsetting declines in these categories were increases in exports of unclassified goods,(10%), mineral products (26%), machinery 22%) and transport machinery (49%)."

Donald said exports to Africa fell by 3% and to Europe by 16%. But exports to America rose by 16%, to Asia by 8% and to Oceania by 56%.

Imports from Africa rose by 26%, from Europe by 5%, from America by 25%, from Asia by 19% and from Oceania by 38%.

"Declining exports to Europe, collectively SA's most important market, clearly reflect current recessionary conditions there — particularly in the UK.

"Weak demand from this area is presently identified by exporters as one of the major obstacles to export growth.

"This contrasts with improved conditions in the US, reflected in increased trade with America."

Donald said that falling exports to Africa "perhaps reflect the impact of political disruption and payment problems in some important markets.

"However, the figures already show some improvement. During the first two months of the year exports to Africa were 12% lower than in the same period a year ago.

"Growth of our exports to Africa should resume this year, giving the warming political relations with a number of African states. This will, hopefully, serve as a stimulus to manufactured exports."

744 CT 27/4/93

Accord subject to political support

New deal on foreign debt is 'imminent'

JOHN CAVILL

LONDON — SA was on the brink of concluding a deal with its foreign creditor banks to repay the $5,5bn foreign debt caught in the standstill net over the next seven years, banking sources in London said yesterday.

Finance officials in SA confirmed that a team representing SA, headed by Deputy Reserve Bank Governor Chris de Swardt, was holding three days of talks with 27 creditor banks in London.

They emphasised that any deal reached during the discussions would only be in principle, as it would have to enjoy broader political support.

The creditors' steering committee met in London this week and it is expected they will accept the terms offered by SA for a final arrangement to follow the Third Interim Debt Arrangement, which runs out at the end of this year.

According to well-informed sources the new deal will have two phases:

- Over the first four years — 1994-97 — debt repayments will be at about the same rate as the Third Interim Arrangement (just under $400m); and
- From 1997-2000 they will be as much as three times that level, implying that by then SA will again have access to the IMF and a resumption of capital inflows.

SA is also seeking a lower rate of interest on the affected debt (below the margin of 0,875% over the London Interbank Offered Rate of 3,31%), and is believed to have offered creditors a way of converting some of their loans to bonds. These could then be sold to international investors via the Public Investment Commissioners.

Observers said the final arrangement would be a significant boost to investment confidence in SA, especially when combined with the rapid moves towards a transitional executive government.

At the London School of Economics Centre for the Study of the SA Economy and International Finance, economists Jonathan Leape and Jonathan Garner said several advantages would flow.

It would help restore normal relations with international banks and "should allow the provision requirements imposed by lending country central banks to be eased".

In addition, a final arrangement might "remove a key constraint which prevented the abolition of the financial rand; namely the option in the Third Interim Arrangement for banks to convert their loans into financial rands".

They said the terms of the deal meant limited strain on SA's foreign exchange reserves from standstill debt for the next three years.

But for the final three years, when annual payments would jump to an estimated $1,3bn, this would become a substantial burden on foreign exchange and growth,

□ To Page 2

Debt deal

□ From Page 1

"in the absence of renewed inward flows".

In a previous report, published in February, Leape and Garner warned that even a 10-year final arrangement "would imply a 50% increase in average annual repayment, which may be a reasonable upper limit on what the economy can bear".

They also said that while the prospect of SA clearing the debt held in the net imposed in 1985 by the end of 2000 would have "beneficial effects on bankers' and investors' perceptions of SA's creditworthiness, we do not believe that in itself will lead to renewed flows of international finance.

"Other factors, such as the state of political negotiations, macroeconomic stability and the level of violence are much more important in determining investors' willingness to lend to SA."

That had been shown by the effective closing of the Eurobond market to SA borrowers after Boipatong and the breakdown of Codesa.

SA bid for new deal on foreign debt

(Handwritten: 14A ARGT 29/4/93)

Business Staff

TALKS to renegotiate South Africa's international debt are under way in London, the Reserve Bank said.

Financial sources in London report that a committee representing more than a dozen banks is being asked to agree to new terms for South Africa's $5 billion in foreign loans.

The talks, hosted by Standard Chartered, follow meetings between the government and creditor banks in the US and Europe last month.

The South African delegation includes officials from the Department of Finance and the Reserve Bank, including deputy Governor Dr Nick de Swardt and James Cross, head of the foreign exchange department.

Repayments of debts were frozen by South Africa in 1985.

Several renegotiation arrangements followed, the latest of which expires at the end of this year.

Some sources in London suggest South Africa is seeking to maintain principal repayments at their current rates (R2 billion a year) for the next four years.

After that, the annual rate would increase to R6,5 billion until the year 2000.

The talks have gained added urgency following the recent sharp fall in South Africa's gold and foreign exchange reserves, which has serious implications for monetary policy and economic growth.

■ South Africans should not expect a windfall in loan aid or greatly favourable lending conditions from the World Bank, according to the Bank's southern African department senior economist Peter Fallon.

Speaking at the Idasa conference near Warmbaths yesterday, he said World Bank lending to the country would only resume once there was broad-based consensus domestically and internationally for it.

However, "Bank finance will be only mildly concessional, future governments should be sure that projects are worthwhile".

He said, in a paper to the conference, South Africa would definitely be treated as a country eligible only for loans from one of the Bank's agencies, the International Bank for Reconstruction and Development.

This was due to the country's higher per capita income of around US$2 500 dollars per year, compared to loans from the International Development Agency for countries with per capita income figures of $765 dollars or less.

IRBD loans were on "harder terms" than IDA loans which were interest free and paid back over a longer period of time with a period of grace.

Country on brink of foreign debt deal

From JOHN CAVILL

LONDON. — South Africa was on the brink of concluding a deal with its foreign creditor banks to repay the $5,5bn (about R16,5bn) foreign debt caught in the standstill net over the next seven years, banking sources here said yesterday.

Finance officials in South Africa confirmed that a team headed by deputy Reserve Bank governor Mr Chris de Swardt was holding talks with 27 creditor banks.

They emphasised that any deal reached during the discussions would only be in principle, as it would have to enjoy broader political support.

The creditors' steering committee met in London this week and it is expected they will accept the terms offered by SA for a final arrangement to follow the Third Interim Debt Arrangement, which runs out at the end of this year.

According to informed sources the new deal will have two phases:

- Over the first four years — 1994-97 — debt repayments will be about the same rate as the Third Interim Arrangement, just under $400m (about R1 200m); and
- From 1997-2000 they will be as much as three times that level, implying that by then SA will again have access to the IMF and a resumption of capital inflows.

Observers said the final arrangement would be a significant boost to investor confidence, especially if combined with a rapid move towards a transitional government.

At the London School of Economics economists Mr Jonathan Leape and Mr Jonathan Garner said it would help restore normal relations with international banks and "should allow the provision requirements imposed by lending country central banks to be eased".

- World Bank President Mr Lewis Preston yesterday endorsed a speedy resumption of lending to SA, but indicated immediate inflows of capital could not be expected as his view was not shared by all the bank's shareholders.

CT 29/4/93 (74A)

SA renegotiating international debt

Star 29/4/93

By Garner Thomson and Sven Lünsche

Talks to renegotiate South Africa's international debt are under way in London, the Reserve Bank says.

Financial sources in London report that a committee representing more than 25 banks is being asked to agree to new terms for South Africa's $5 billion in foreign loans.

The talks, hosted by Standard Chartered, follow meetings between SA and creditor banks in the US and Europe last month.

The SA delegation includes officials from the Department of Finance and the Reserve Bank, headed by deputy governor Dr Chris de Swardt and James Cross, head of the foreign exchange department.

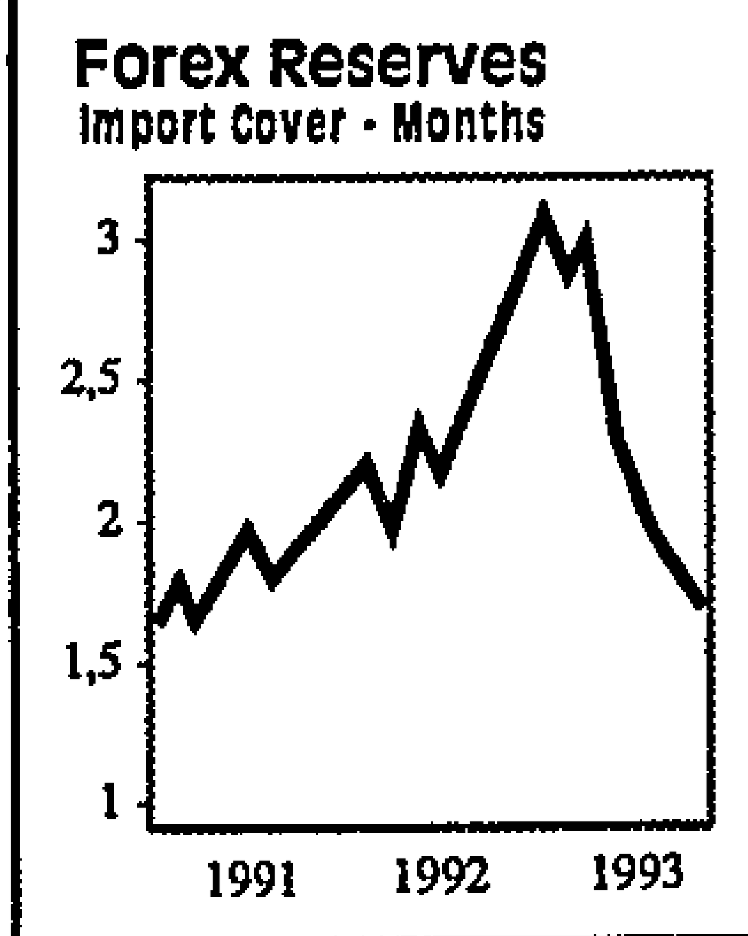
Repayments

Repayments of debts were frozen by SA in 1985.

Several renegotiation arrangements followed, the latest of which expires at the end of this year.

Some sources in London suggest SA is seeking to maintain principal repayments at their current rates of $400 million (R2 billion) a year for the next four years.

After that, the annual rate would increase to R6,5 billion until the year 2000. SA is also believed to be pressing for lower interest rates on the debt.



The talks have gained added urgency after the recent plunge in SA's gold and foreign exchange reserves, which has serious implications for monetary policy and growth.

Last August reserves totalled R11,5 billion, equal to 2,8 months of imports. Only seven months later, in March this year, reserves had dwindled to R7,5 billion, or 1,7 months of import cover (see graph).

Nedbank economist Magan Mistry warns in the bank's quarterly Guide to the Economy warns that the year ahead does not bode well for the balance of payments.

He expects imports to be 11,5 percent higher this year at R51,9 billion and exports to grow by a mere 11,2 percent to R58 billion, resulting in a trade surplus of R16,5 billion (1992: R15,1 billion).

The figures assume a rise in the dollar to an average R3,23 this year from R2,854 last year.

Mistry thus expects the surplus on the current account of the balance of payments to rise to R5,5 billion this year, compared with R4,3 billion in 1992.

But, given foreign debt obligations of $1,6 billion (R5 billion) this year and $2 billion in 1994, this does not allow for a more relaxed monetary policy which would boost growth and raise import volumes.

Full access

It is thus vital for SA to restructure foreign debt until the economy shows a substantial improvement or SA is granted full access to foreign funding facilities, particularly from the International Mometary Fund.

However, the meetings in London have already attracted animosity from the End Loans to SA (Eltsa) pressure group.

It has condemned negotiations as premature.

Spokesman David Crane has called on banks to wait until a date has been set for multi-racial elections and a transitional executive council is in office.

World's aid a trap, economist warns

BIDITY 30/4/93 (741)

A SENIOR Zimbabwean economist warned South Africans against falling into a foreign aid trap and advised them instead to rely on investment.

"Many countries in southern Africa still appear to have a national conviction that foreign investment is inherently bad because it limits national sovereignty and leads to outflows of foreign excahnge," John Robertson, chief economist at First Merchant Bank, Zimbabwe, said.

"Thinking of this kind is so basically flawed that it has been difficult to argue effectively with those who hold such views."

The trend to rely on aid by most countries in southern Africa upon independence weakened their competitive edge and damaged economic prospects, he said. But by attracting foreign investors, they could build a reliable tax base.

He said the problem with lenders was that they often handed out money with greater concern about repayments than of how it was spent.

Soft loans were often damaging because they encouraged spending. Credit did not automatically translate into development and foreign aid could make a local currency firmer than it should be, while making foreign currencies and imports cheaper.

He advised as policy objectives in SA abolishing taxes on dividends and capital gains, simplifying investment procedures and using import duties to direct investment into local industrial capacity. — Reuter.

'Clarity needed on exchange rate target'

WARMBATHS. — The Reserve Bank needs to make clear if it is targetting the real or nominal rand exchange rate, University of Cape Town economics associate professor Brian Kahn said yesterday.

Speaking an an Idasa conference near Warmbaths, he said the difference between SA's inflation rate and that of its trading partners, made it crucial for the central bank to distinguish between stabilising the real or nominal exchange rate.

Due to the inflation difference between SA and its trading partners, the goals of maintaining international competitiveness and reducing inflation would conflict with each other.

"Until it is clear whether his (Reserve Bank Governor Chris Stals) target is the real exchange rate to help provide some certainty to manufacturing exporters, or the nominal exchange rate to help reduce inflation, uncertainty will continue and credibility will not be built up," Prof Kahn said.

● Foreign investment is not a substitute for domestic capital formation nor for the building of domestic industrial capacity as a country pursues economic development.

This is the view of Malaysia's former finance minister Daim Zainuddin who spoke at the conference yesterday.

"Political stability remains the prime concern of foreign investors," he said.

CT 30/4/93

(74A)

Talks logjam hits credit

74A ARG 1/5/93

BRUCE CAMERON
Business Staff

SOUTH Africa's failure to reach political agreement on a new constitution has effectively prevented South Africa from escaping the debt standstill which has bedevilled the economy for eight years.

Instead the country has had to reach yet another arrangement with creditor international banks to repay over seven years the R16,3 billion which will still be outstanding at the end of the year.

This in turn places pressure on the overall balance of payments which has to be kept in surplus to enable the country to meet debt commitments.

This, at the moment, can be done only by restraining imports and keeping a lid on the economy.

South Africa is in the strange position of being technically a debt defaulter while at the same time having one of the world's better debt profiles to the extent that the country is often described as under-borrowed.

An indication of this are South Africa's current debt ratios.

Bankers tend to do a comparison with export earnings, which are a better indication of a country's ability to pay.

South Africa's foreign debt is equal to 64,9 percent of export earnings in 1991 against the 248,9 percent for the basket of developing countries.

An example that really drives home the position is that Nigeria's debt service (the amount paid in interest) is about 70 percent of annual export earnings — this against the 64,9 percent of total export earnings for South Africa.

When South Africa declared the standstill on debt in 1985 the country was left standing exposed with 70 percent of foreign debt due within 12 months. The country had no reserves to meet the demands and in the Butchers' Guild Hall in London later that year Reserve Bank Governor Dr Chris Stals negotiated the terms of the first of the four debt standstill arrangements with representatives of almost 400 banks.

Bankers are full of praise for the economic factors but are staying away because of the failure of South Africans politicians to reach agreement and the ongoing violence.

Even the International Monetary Fund has now signalled South African politicians to forget about making any applications even for assistance in paying for the grain imports required for drought relief until there is agreement on a new constitution.

South Africa re-entered the Eurobond market in August 1991 when political prospects looked quite good but still had to pay a premium (basically for political risk) of just over 1,5 percent over other benchmark issues.

However after Boipatong and the breakdown of negotiations South African paper on the secondary market was providing a yield of almost 3 percent over German stock yields.

In brief, what South Africa needs instead of debt standstill arrangements is access to the IMF to provide security if faced with a deficit on the balance of payments, opening the way to borrowing at favourable rates and for longer periods on the capital markets.

Only then will the country be free of the economically undermining debt standstill arrangements. And this will come only when there is political agreement.

FOREIGN DEBT TO EXPORT EARNINGS

SA reputation close to being restored

IT MAY be at least a month before a final arrangement on South Africa's $5,5-billion debt covered by the standstill is concluded with its foreign creditor banks, JOHN CAVILL reports from London.

After two days of what were termed "preparatory discussions of a technical nature", Reserve Bank officials flew back to Pretoria to brief Finance Minister Derek Keys on the reaction of creditors to their proposals.

Banking sources in London believe an agreement in principle has been reached on the terms under which SA will clear the outstanding "debt-in-the-net" by the year 2 000.

The final deal to follow the Third Interim Arrangement, which expires at the end of this year, will restore SA's good name as a borrower on the international markets — especially if it is backed by the multi-racial transitional government and a lessening of violence.

But, say bankers in London, the South Africans are treading "with sensitivity" before formally reaching an agreement.

One says: "They don't want to present a fait accompli before the government in power is more broadly representative of all constituencies in South Africa."

Surprise jump in inflation to 9,7%

S/Times[Buss] 2/5/93.

By ZILLA EFRAT

INFLATION rose to a surprising 9,7% in March — up from February's 9%. Many economists had forecast an increase of 8,7%.

The increase took the wind out of some good economic news.

Finance Minister Derek Keys announced earlier that gold and foreign-currency reserves had turned around in April after plummeting to a two-year low of R7,5-billion in March.

The worst could be over for South Africa's reserves, especially because the drought has been broken.

Rebuilt

But Nedbank chief economist Edward Osborn expects the balance of payments to remain under pressure for the year as a whole.

A major reason is SA's foreign debt repayments which could be as high as $1,5-billion in 1993 and largely fall outside the standstill net. The higher interest premium paid on SA's debt points to a general repayment of loans more than a rolling over of debt.

Southern Life chief economist Mike Daly says net reserves will have to be rebuilt from their present one month's import cover to at least two months before interest rates can fall. This might happen only by the yearend at best.

Disastrous

Positive factors, however, are the strengthening rand price of gold and falling German interest rates where many of SA's loans are sourced, as well as possible International Monetary Fund assistance if a political settlement is reached.

Economists say the mixed news highlights how little room Reserve Bank Governor Chris Stals has to manoeuvre.

He may wish to lift interest rates to protect the reserves and rand exchange rate, but that could be disastrous for the real economy.

Some economists say Dr Stals' limited scope for action could cause the rand to depreciate in real terms against a basket of currencies for the first time since 1989.

The exchange rate has shown a 4% nominal weighted drop in the first four months this year — 1% in real terms.

March money supply growth, which will be announced in the coming week, is expected to remain below the Reserve Bank's 6% to 9% guideline.

Bankers silent on SA debt rescheduling

Star 3/5/93

LONDON — Talks to reschedule $5 billion of SA debt to commercial banks have ended, but participants closed ranks on Friday and refused to comment on the politically sensitive issue.

Banking sources said there would be no statement from either side in the negotiations.

"I can't tell you anything about what happened," said a banker involved in the talks. "In fact, I can't even confirm that a meeting took place."

Several British banks, including Barclays, National Westminster and Standard Chartered, have large exposure to South Africa and were represented at the meeting.

74A

Freeze

SA's debt has been the subject of three rescheduling arrangements since international banks imposed a freeze on new credits to the country in 1985.

Of SA's total $18 billion debt, $5,5 billion now is left in the standstill net and, after payments due later this year, this will be reduced to $5 billion by the end of the year — the sum which was the subject of last week's discussions.

In theory, if no new rescheduling agreement were reached, the whole amount would become due at the end of the year.

The two sides are thought to have discussed a seven-year payment schedule whereby SA would pay $350 million for the first four years and, subject to an agreement being reached with the International Monetary Fund, payments would rise sharply to $1,2 billion per year for the remainder.

The interest rate on the deal also formed part of the discussions, banking sources said, with SA pressing for a reduction in the current margin of seven-eighths of a percentage point over the London interbank offered rate (Libor).

Some bankers have expressed surprise that the deal seems so close when the two sides have until the end of the year to reach an agreement.

Deal

But banking sources said this could be explained by the need to sell the deal inside South Africa.

They expect the Reserve Bank, which was represented in London by deputy governor Chris de Swart, to report back to the Government on the deal and for the Government to begin a consultation process.

"This remains a politically sensitive issue," said one banker, "and it has to be treated accordingly. There are certain hurdles that have to be passed before the deal can go ahead."

Banking sources said South Africa's creditors were being offered a good deal, which they expected to be honoured by any future government. "This is basically an offer the banks can't refuse — a debtor that pays its bills and a very juicy margin," said one banker. — Sapa-Reuter.

Debt plan may lift govt interest bill

BDAY 4/5/93

GRETA STEYN

GOVERNMENT is to issue interest-bearing paper to replace its non interest-bearing debt to the Reserve Bank on the country's forward cover losses — a move which could raise government's huge interest bill.

Reserve Bank money and capital markets GM Andre Kok confirmed that the forward cover debt — estimated by economists at about R10bn — would be replaced by interest-bearing debt as part of the overhaul of the monetary control system announced last week by Finance Minister Derek Keys.

Keys announced that government's deposits would be kept within the private banking system rather than at the Reserve Bank. The change would reduce the Bank's balance sheet and constrain its ability to influence money market liquidity and hence interest rates through open market operations.

To enable the Bank to be active in the money market, government would gradually issue stock to cover some or all of the debt incurred on forward cover losses.

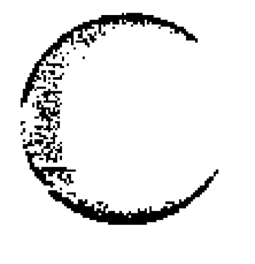
Kok said at present it was difficult to distinguish whether the Bank's activities in the market were to raise funds for government or to influence the money market liquidity. The new system would make a clear distinction between policy operations and funding activities.

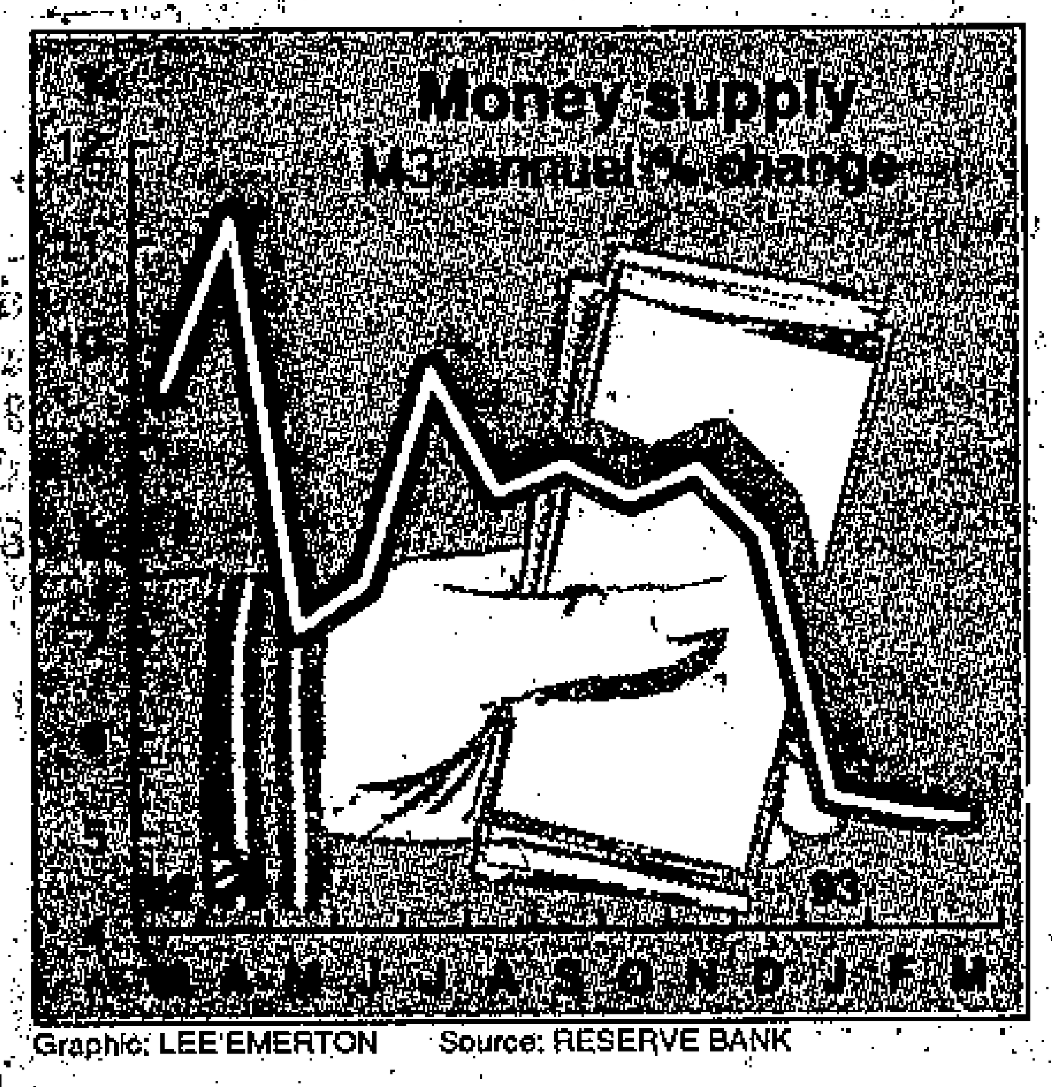
Asked whether the move to replace non interest-bearing debt with interest-bearing debt would not raise government's interest bill, he said the effect of the new system of monetary control on government's interest bill depended on a number of factors.

Government would earn interest on its cash balances in the banking system, which would have to be offset against the interest paid on the new stock issued. He added the new stock would be used for "repurchase agreements" — the Bank would buy the stock back once it had achieved its liquidity objectives. The increase in the supply of stock would not put upward pressure on interest rates.

In addition, the Bank's profits were handed to government and should also be offset against any increased interest payments. A group charged with looking into implementing the new system of monetary control would weigh all these aspects.

Bankers said the interest earned on government deposits placed with private banks was likely to be less than the interest on stock issued to cover the forward cover debt.





Graphic: LEE EMERTON Source: RESERVE BANK

March decrease in money supply

By GRETA STEYN

MONEY supply figures for March provided evidence of an economy in the grips of recession and balance of payments pressure as the annual growth in the stock of money fell for the fourth month in succession to 5,15% from 5,18% in February.

Economists said slack credit demand and an outflow of foreign exchange had combined to dampen expansion in the money supply. Reserve Bank figures showed the stock of money in the economy declined between February and March to R195,2bn from R196,9bn.

As a result the percentage change at an annual rate from the base of the current guideline year was negative (1,79%), from a positive 0,68%.

These growth figures compare with the target range for growth in the money supply for the year of 6%-9%, showing that the stock of money is expanding at a much slower rate than the Bank's projections.

Bulls in the money and capital markets are expected to seize on the figures as a sign that the monetary policy reins might be slackened because of the recession, despite the sudden increase in inflation.

But economists said an examination of factors driving the money supply indicated the need for caution. Changes in the money

To Page 2

Money supply

From Page 1

supply reflect not only domestic credit extension, but also foreign exchange flows. The fall in the March foreign exchange reserves suggested BoP problems were a major factor behind the decrease in the money supply between February and March.

The Bank's figures showed credit extended to the domestic private sector increased sharply by R3bn between January and February, the latest available numbers. The annual rate of increase in credit extended to the private sector had risen for three months, but economists said it was too soon to tell whether this was a sign of the recession easing. Credit expansion had not been enough to offset the effects on the money supply of the capital drain.

The annual rate of growth in credit extended to the private sector has risen from below 7% in November to 8,82% in February. However, money supply growth has fallen from 8,66% in November to 5,18% in February and 5,15% in March.

Boom in SA's exports to Africa

(744) CT 5/5/93

Political Staff

SOUTH Africa's exports to most other African countries increased by more than 20% last year and were worth R6,1bn — almost the same value level as the country's exports to the United States.

This was revealed yesterday in the Department of Trade Inudstry's (DTI) annual report, which was tabled in Parliament.

South Africa's exports to the US was worth R6,2bn in 1992.

The latest figures exclude SA's exports to Botswana, Lesotho, Namibia and Swaziland.

The report said SA's exports to Africa consisted largely of ready-manufactured products and their value increased from R5bn in 1991.

"Besides an increase in exports to our traditional export markets such as Zambia and Zimbabwe, South Africa made considerable progress with the development of new markets such as Tanzania, Cameroon, Togo and Rwanda.

"A good example is the increase of South Africa's exports to Kenya by approximately R100m — up 300% — compared with 1991.

"Africa's interest in trade with South Africa is clearly reflected by the hundreds of trade and trade-related enquiries that South African trade representatives stationed in African countries manage each month."

The report also said particularly good trade relations were maintained with South Africa's Customs Union partners who took an overwhelmingly high proportion of SA's exports to Africa.

Star 6/5/93

Broad consensus reached on rescheduling of foreign debt

(14A)

Reserve Bank governor Dr Chris Stals says broad consensus has been struck with creditors on a package to reschedule $5 billion of foreign debt.

But he appeared to confirm speculation that the government would wish to consult other political players such as the African National Congress (ANC) on any agreement.

"We will finalise it in the near future — but it's a political decision now," he said in an interview.

"It's not the Debt Standstill Committee that enters agreement with the banks, but South Africa.

"You must get all the political groups on board before you finalise it."

He said talks with foreign banks had been held since last September. — Sapa-Reuter.

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Reserve Bank warns govt of 'debt trap'

Star 7/5/93

(74A)

By Sven Lünsche

The Reserve Bank has added more weight to its call for a restructuring of government finances "to ensure that the country does not fall into a debt trap".

In an analysis of spending patterns, the head of the bank's economic division, Dr Ernie van der Merwe, urges the government to "revert to the classical doctrine of a balanced-budget approach".

"Deficits on the government's accounts should only be allowed to rise to finance capital or extraordinary expenditure," he says.

This echoes a major tenet of Finance Minister Derek Keys's Normative Economic Model, yet comes at a time when state spending and debt are rising.

Van der Merwe says there is still no "explosion" in the growth of government debt.

"It also appears unlikely that government revenue and expenditure have reached critical values where it may not be possible to increase tax any further or where the government may be unable to reduce its spending."

However, he says the current rate of growth in government debt is unsustainable — as a percentage of GDP, government debt rose from 47,8 percent in fiscal 1990-91 to 53,3 percent in 1992-93 and is likely to increase in the current year.

Monetisation

If this growth is not halted, it poses the danger of monetisation of the public debt, crowding out private-sector borrowing and balance of payments constraints when the economy picks up.

A major reason for the steep rise in debt is the level of government spending, which in 1992-93 surged to 26,3 percent of GDP after maintaining a steady 23,5 percent in previous years.

Of particular concern is the ever-increasing amount of spending committed to meeting interest payments on debt.

In 1987-88 the ratio of interest payments to total spending was 12,9 percent. It rose to 16,2 percent last year and is projected to rise to 17,4 percent this year.

"What makes the increase in the interest burden even more troublesome is the fact that it does not include the discount incurred on issuing government securities, which was as high as R4,3 billion in 1991-92."

The overall level of state spending must be regarded as exceptionally high, owing mainly to various forms of interference by the government in the functioning of the market mechanism and to the duplication of services in the civil service at different government levels.

"Despite the pressures on the government for social uplift-ment programmes and the alleviation of poverty, scope probably exists for a lowering of state spending," Van der Merwe says.

Bank calls for SA debt streamlining

(4A) BDay 7/5/93

GRETA STEYN

THE Reserve Bank has called for an urgent restructuring of government finances to avoid falling into a debt trap.

In an occasional paper written by Bank chief economist Ernie van der Merwe, the Bank said the current rate of growth in government debt was unsustainable.

The ratio of debt to GDP had recently increased sharply, from 47,8% in 1990/91, to 53,3% in 1992/93, and was expected to increase further in the present fiscal year.

Van der Merwe said a "debt trap" would occur when interest payments were increasingly financed by an increase in the public debt or at the cost of other essential government services, or by higher taxes. The possibilities for cutting non-interest expenditure or raising taxes were, however, limited.

"This may mean a self-perpetuating and possibly accelerating rise in government debt, which could lead again to the monetisation of the debt, crowding out of private sector investments and a balance of payments constraint."

SA was not yet in the debt trap, but government was in an unsustainable financial position. A return to a sustainable position would mean a declining or stagnant trend in the debt-to-GDP ratio.

Van der Merwe argued government's real interest rate was too high relative to the economic growth rate, which meant interest payments had to be financed by borrowings rather than revenue.

"The familiar effect of compounded interest is to increase the debt by ever-increasing amounts." The gap between the real interest rate on long-term government stock and the economic growth rate had widened to almost seven percentage points from 1,7 in 1990.

"This could indicate that current debt ratios may be difficult to sustain in the future, particularly taking into account the high level of the deficit before borrowing, the level of government debt, the low growth in the domestic economy, and the high ratio of interest payments to total government expenditure."

Warning on SA debt trap scenario

74A

CT 7/5/93

SOUTH AFRICA needed a restructuring of government finance to ensure the country did not fall into a debt trap, the head of the Reserve Bank's economic division, Dr Ernie van der Merwe, said in an occasional paper released yesterday.

Dr van der Merwe said although the ratio of government debt to gross domestic product (GDP) had increased relatively sharply, there was still no "explosion" in the growth of government debt.

"It also appears unlikely that government revenue and government expenditure have reached 'critical' values where it may not be possible to increase taxation any further or where the government may be unable to reduce its expenditure."

However, Dr van der Merwe said, results of the study he had done showed "that South Africa is in dire need of a restructuring of government finance to ensure that the country does not fall into a debt trap in the future."

Dr van der Merwe said the study indicated that the current rate of growth in South Africa's government debt was unsustainable. "The gap between real interest rates on government stock and the growth in real GDP has widened to nearly 7%."

He said this was because the ratio of the deficit before borrowing and debt repayment to the GDP was substantially higher than the potential growth rate of the economy.

Another reason was that "interest payments as a percentage of government expenditure have increased to levels where these payments impede expenditure on essential social and other services."

Declining trend

Dr van der Merwe said the recent, somewhat abnormal, declining trend in the ratio of taxation to total GDP was also disconcerting and was probably not only related to the length and severity of the economic downturn.

"This trend may be indicative of structural problems in the tax system which could preclude further sharp increases in government expenditure, including interest payments, or again underline the importance of increasing the tax base of the country".

He said the ratio of government debt to GDP might not be high by international standards, but it was important that the rising trend in this ratio be stopped as it increased the danger of the monetisation of public debt, the crowding-out of private sector borrowing and a balance of payments constraint when the growth rate of the economy accelerated somewhat.

"Moreover, the large negative net asset value of the government (using the narrow definition of government's capital stock less its financial liabilities) indicates that the borrowing of funds by the government did not lead to a corresponding increase in its capital stock. For sound economic management it is important that the government reverts to the classical doctrine of a balanced-budget approach, where deficits on the government's accounts are only allowed to arise in order to finance capital or extraordinary expenditure." — Sapa

Foreign debt deal 'of prime importance'

(74A)

BDay 12/5/93.

TIM MARSLAND

THE conclusion of a deal on SA's foreign debt standstill and a settlement on the political front had become of prime importance, Nedbank said in its latest Economic Profile released yesterday.

It added that a further relaxation of monetary policy was unlikely this year, despite the economic desirability of lower interest rates. The single most crucial obstacle to a further relaxation of monetary policy remained the low level of reserves.

"No significant improvement in foreign reserves is in prospect while debt commitments remain at about the level of current account surpluses that can be generated in light of international commodity prices."

Foreign exchange reserves fell sharply between September 1992 and March this year. Although the level of foreign reserves improved in April, "this was still far below the level of three months' import cover considered comfortable internationally".

For the first quarter of this year, the trade balance was R2,9bn from R3,6bn in the last three months of 1992 and R4,5bn in the first quarter of that year. Exports were up just 0,4% in the first quarter of this year while imports were up 13,4% from the same period last year.

If this pattern continued for the rest of the year, with about R9m of net service payments and a capital account debt repayment outflow of about R3bn still in prospect, there would be further pressure on the already weak reserves position.

Meanwhile, the report's authors revised their forecast for economic growth downwards to 0,6% from 0,75%. Stayaways, demonstrations and continuing violence had hurt business confidence and production.

Exchange controls not the remedy, says Stals

Star 13/5/93 (74A)

By Sven Lünsche

Reserve Bank Governor Dr Chris Stals has urged a fundamental restructuring of the economy, rather than a change in exchange control measures, to address the present constraints on the balance of payments.

Addressing a Sunday Star and Fringecor function earlier this week, Stals said SA had for many years relied too heavily on exchange controls to constrain capital outflows and protective measures to influence imports and exports.

"However, now that SA is moving towards a new political dispensation we can review our balance of payments policies as part of a major restructuring of the total economy," he said.

Stals said that balance of payments equilibrium would be established "only in a situation where market forces will be allowed to establish realistic prices for local and imported goods".

A balance of payments programme as part of the gradual improvement of the overall economic structure could then be implemented.

Such a programme would include the removal of import surcharges, a reduction in import tariffs, phasing out of exchange controls, relatively free exchange rates and access to IMF facilities.

At a meeting of the Enterprise Investment Forum last night, Stals confirmed that the Reserve Bank would maintain financial discipline, even in the current period of recession.

Robbing the poor to pay the rich

City Press 16/5/93.

UK banks profit from third world loans

BRITISH banks are offsetting huge losses on bad loans to British property companies by promising to squeeze an extra $350-million (about R1,1-billion) from third world countries.

When the big four London-based ranks announced their annual results in February and March, they reported bad debts of $9 000-million (about R28,5-billion) for 1992 alone.

This was because the banks had foolishly lent money to property speculators who built unneeded office blocks in London, and to fraudulent tycoons such as the late publisher Robert Maxwell.

Canary Wharf in London is Europe's tallest office building, but the $1 000-million (about R3,1-billion) development is almost empty. The banks will never get back the money they lent on that and dozens of other empty buildings.

Thus, poor countries are being forced to give extra money to British banks because they wasted so much foolishly.

In the late 1980s, the big banks "wrote off" many of their loans to developing countries. But pressure from the International Monetary Fund and World Bank means that poor countries are now being forced to pay these debts.

So the banks are "writing back" some loans; that is, they promise to collect money from the third world which they previously wrote off. This ensures that the banks (other than Barclays) remain in profit.

This is the second year in which the big banks have tightened the screws on the world's poor. Last year, the big four banks announced bad British debts of nearly $800-million (about R2,5-billion) for 1991, and they promised to collect an extra $635-million (about R2-billion) from poor countries.

National Westminster Banks' entire profit for 1991 came from developing countries. Barclays Bank promised to collect $175-million (about R554-million) from the future government in SA – cash it had said it would not take from the white apartheid government.

The London-based pressure group World Development Movement reported in March that new figures show that in 1991 British banks took $1 200-million (about R3,8-billion) more from the third world than they lent. In effect, one-third of British official aid for the year simply went to repay British banks. Donations by British charities like Oxfam that year amounted to only $375-million (about R1,1-billion).

The results reported by the banks in February and March cover 1992, and the picture is similar: another $9 000-million (About R28,5-billion) in British bad debts, and a promise to force poor countries to pay a further $350-million (about R1,1-billion). All the banks still paid dividends, including Barclays, which made a loss.

Nearly all of Lloyds Bank's dividend was paid from profits from third world lending. Lloyds reported that its "stronger operating profit (for. 1992) resulted from higher interest payments, 'including partial recovery of overdue interest" from poor countries.

To meet their interest payments many countries are forced to spend less on health and education. The UK charity Christian Aid says that one child dies almost every minute because of the economic hardship caused by debt repayments.

– Panos

THE WEEK AHEAD by Simon Willson

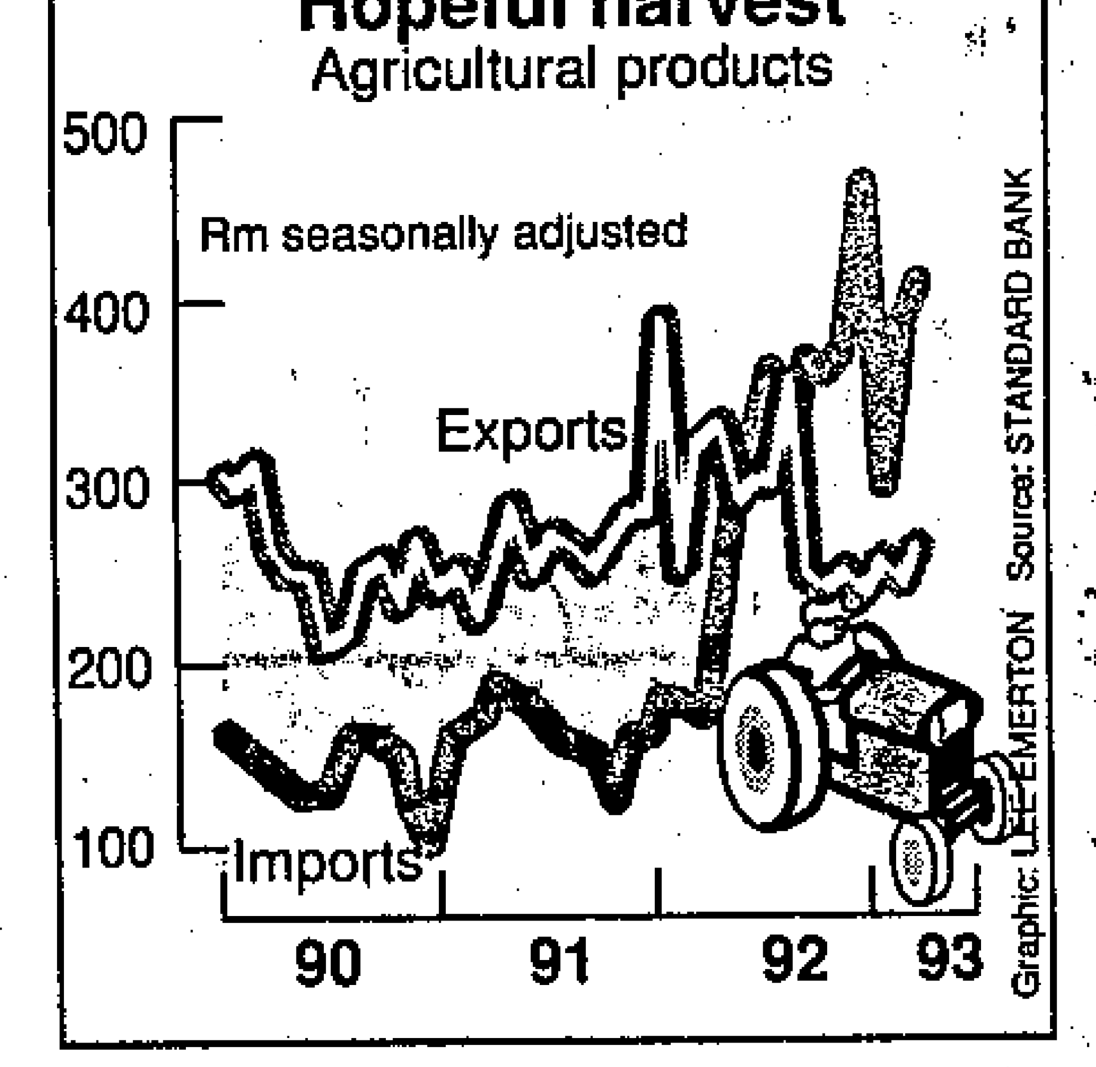
Improved trade balance on the cards

BDAY 17/5/93. 74A

FOLLOWING the turnaround in the reserves, which rose in April after five consecutive monthly falls, it may no longer be too fanciful to expect a parallel improvement in the trade figures.

The **April trade balance** is due for release later this week and should show an improvement on March's R777m — the lowest surplus since the R458m recorded in July last year. Five of the past nine monthly trade figures have shown surpluses of less than R1bn.

The chart shows the main reason for the weakening of the merchandise trade account since the beginning of last year. The usual surplus on the agricultural account has, after seasonal adjustment, been in deficit for 11 of the 12 months to March this year.



The agricultural account deficit is due to the effects of the 1991-92 drought, believed to have been the worst this century over vital inland farming areas. The drought attacked both sides of the agricultural account, on the one hand triggering R1,6bn in maize imports in 1992-93 to compensate for lost domestic production and, on the other, eradicating the domestic surplus usually diverted into agricultural exports.

This two-pronged assault on the agricultural balance has resulted in a sustained deficit on the farm account that has eaten into the overall trade surplus and frequently dragged it below the R1bn mark in the past year. Smaller trade surpluses have, in turn, eroded the foreign reserves, causing successive monthly falls in gross reserves in the five months to March.

The earliest sign that the drought effect might be falling away from the agricultural account and out of the overall trade balance has been anecdotal: it rained over the interior last summer. As the chart shows, the farm deficit narrowed sharply in February as imports plunged and exports edged up. This improvement contributed to a 46% jump in February's overall trade surplus. The Maize Board announced early in March that only a further R24m had to be paid out for maize imports, and it seemed the drought had done its worst.

But, although agricultural exports were up again in March, that month's drought-related farm imports soared again. Since the release of the dismal March figures, however, evidence of the end of the drought effect has been statistical rather than anecdotal. The authorities officially attributed the rise in April's foreign reserves in part to the end of payments for imported maize, thus knocking away the main component of the soaring agricultural imports in the chart.

In addition, the turnaround in quarterly GDP from a fall of 4,3% in the three months ~~to December~~ last year ~~to~~ a rise ~~of~~ 0,8% in the March quarter was mostly due to a thumping 53,9% rise in agricultural output. Now that both the reserves and the GDP components are flagging better times in the farm sector, it is about time the trade figures followed suit.

Internationally, the **UK April inflation** rate is published on Friday and will amount to a rehearsal of SA's inflation figure for April, due out at the end of the month. The UK's 1993-94 budget, presented two months ago the day before SA's, will also have had inflationary consequences which are likely to show up in this week's April consumer price data. UK monthly inflation was 0,4% in March, for an annual rate of 1,9%.

Since sterling exerted heavy downward pressure on UK inflation by entering the European exchange rate mechanism in October 1990, monthly inflation in Britain has only twice topped 1%. That was in April 1991 and April 1992, as the higher duties and tax increases of the previous months' budgets poked the consumer price index. Since the latest UK budget hiked petrol duty by 10%, tobacco duty by 6,5% and drink duties by 5%, the monthly change in the British CPI is due to make this year's annual sortie to 1% or more before falling back again for the rest of the year.

Final UK money supply data for April are also due out on Friday. Preliminary annual growth in the M0 narrow money measure in April was 4,8% — the first growth slowdown in the aggregate in three months. But other UK figures released since preliminary M0 have signalled a speeding up in the recovery, and final April M0 could therefore be revised up.

The German Bundesbank's policymaking council meets this week, which lends added significance to upcoming German data. The **German April money supply** figures could be released early this week, and are set to break out of their recent low range. After starting the year with two annualised monthly falls, broad-money M3 edged ahead by 3,2% in March. Last week the Bundesbank announced, unusually, that rapid credit expansion had boosted the April M3 figure, which was likely to be near the top of its 4,5%-6,5% target range for 1993. If annualised M3 growth exceeds the 6,5% ceiling, the chances of another interest rate cut this week must diminish.

The **Japanese trade balance** for April should be published early this week, and will follow March's record surplus of $13,8bn. The strong yen is unlikely yet to have trimmed exports and thus moderated the surplus; indeed, it has probably widened it initially by reducing import values. Meanwhile the **US March trade balance** is released on Wednesday and, in view of the adverse bilateral balance with Japan and slow growth in Europe, is unlikely to be greatly changed from February's deficit of $7,2bn.

Bankers warn on tough FW stance

(74-A)

The Argus Foreign Service

LONDON. — The hardline stance of President De Klerk may backfire abroad.

Foreign bankers are puzzled about the timing of a Financial Times interview of Mr De Klerk which indicated there was still a wide chasm between government and African National Congress thinking.

If talks on a political settlement were to falter, negotiations for a favourable new foreign debt repayment agreement would fail. Foreign investment and new loans would not be forthcoming.

American and some European banks are not prepared to renegotiate a new debt accord unless it has the blessing of the ANC.

Without a more relaxed debt accord, South Africa would be in the invidious position of being forced under strict credit arrangements to repay large amounts of international borrowings during an economic recession.

In the interview, Mr De Klerk in effect rejects majority rule in perpetuity. The bottom line is that he will only share power — not abandon it altogether.

Although Mr De Klerk does not use the word "veto", the interview indicates that the government insists on "consensus" or an effective veto on a broad range of issues.

Unrest, BoP mean longer recession

747

Business Editor

THE damage violence and mass action have done to investor confidence and the effect of the balance of payments (BoP) have lengthened the recession, both Southern Life chief economist Mike Daly and Board of Executors senior portfolio manager Rob Lee point out in their economic forecasts.

And both fear that the Normative Economic Model aimed at restructuring the economy to achieve higher growth may become less effective as a result of changes made to it during political negotiations.

However, Lee says in his current Investment Outlook that "it is possible we are at the beginning of a long-term bull market in gold shares".

And he thinks a further cut in interest rates possible by year-end.

Daly forecasts in his quarterly Economic Comment that real personal disposable income will fall by about 2% this year "and real private consumption expenditure will decline by around 1,7% after the 2,6% fall last year".

He explains that the need to reduce the government's deficit before borrowing made it necessary to increase the tax burden, in the March budget, at a time when the economy was least able to bear it.

"As a result, positive economic growth in 1993 will probably not be achieved.

"On personal direct taxation no relief could be given from fiscal drag, implying an increase of 15,5% in the personal tax take.

"As a result the direct tax burden on individuals, as a percentage of their current personal income, is set to rise yet again to some 14,5% this year."

This, combined with higher indirect taxation, a rise in real interest rates because of the fall in inflation, and little chance of higher exports, could mean a fall of up to 0,5% in real gross domestic product (GDP) this year.

CT port tonnage up 22%

TONNAGES handled by the Port of Cape Town rose 22% in March as the last regional food imports for drought relief arrived, Portnet said yesterday.

Releasing operating statistics, Portnet said imports had risen to 222 763 tons in March, 22% up on February and 110,2% up on March last year.

Exports totalled 332 363 tons, which was 15% up on February but 1,6% down on March last year.

Import growth was mainly due to the last 77 000-ton shipment of drought relief maize to arrive and higher chemical and vegetable product imports. — Reuter

Dramatic growth in SA's trade surplus

ar 25/5/93 (74A)

By MAGGIE ROWLEY
Deputy Business Editor

A DRAMATIC fall in vegetable imports and improved exports helped boost South Africa's trade surplus by a healthy R1,41bn to R2,19bn in April after falling R553,5m in March to R776,9m, figures released by Customs and Excise Department show.

Exports in April rose 13% to R6,8bn from R6bn in March while imports were 12% lower at R4,67bn.

For the first four months of this year, exports were 7,5% higher at R23,4bn against the same period last year while imports rose by 13% to R18,3bn. As such the cumulative surplus stood at R5,9bn, down 8% down on the corresponding period last year.

While imports were still considerably above last year's levels the increase in imports of drought-related categories, such as live animals, vegetable products, fats and oils slowed to 88% (193%).

Further normalisation of the agricultural sector is indicated by the exports of live animals, and fats and oils which are both near last year's levels. Vegetable product exports fell by 37% (-41% in the first quarter) and prepared food exports by 24% (-28%).

Safto economist Bruce Donald said the improved growth of the unclassified category no doubt reflected gold price gains in April, a trend which has continued this month.

The fillip to exports in April came from the improved performance of a number of major export categories, particularly unclassified exports which registered a 12% increase for the first four months of 1993 compared with the same period a year ago and mineral products, which were up 29%. Base metals showed a 3% improvement.

After dropping 29% for the first quarter of this year against the same period last year, exports of jewellery and precious stones stones showed a dramatic turnaround, registering a cumulative growth for the year of 2%.

Some manufactured categories continued their exceptional long-term growth trend, for example, transport equipment (up 41%) and machinery (up 25%) while others such as chemicals and plastics, which have grown by an annual average of 21% and 23% respectively over the past four years fell by 6% and 10%.

Imports remained buoyant not only in agricultural products but also in a number of industrial categories — plastics were up 15%, chemicals 12%, base metals 10% and cement, mica and glass by 9%.

The turnaround in imports of machinery which were up 7% and transport equipment, up 25%, in March gathered further momentum in April.

Donald said this possibly indicated an improvement in the country's investment cycle.

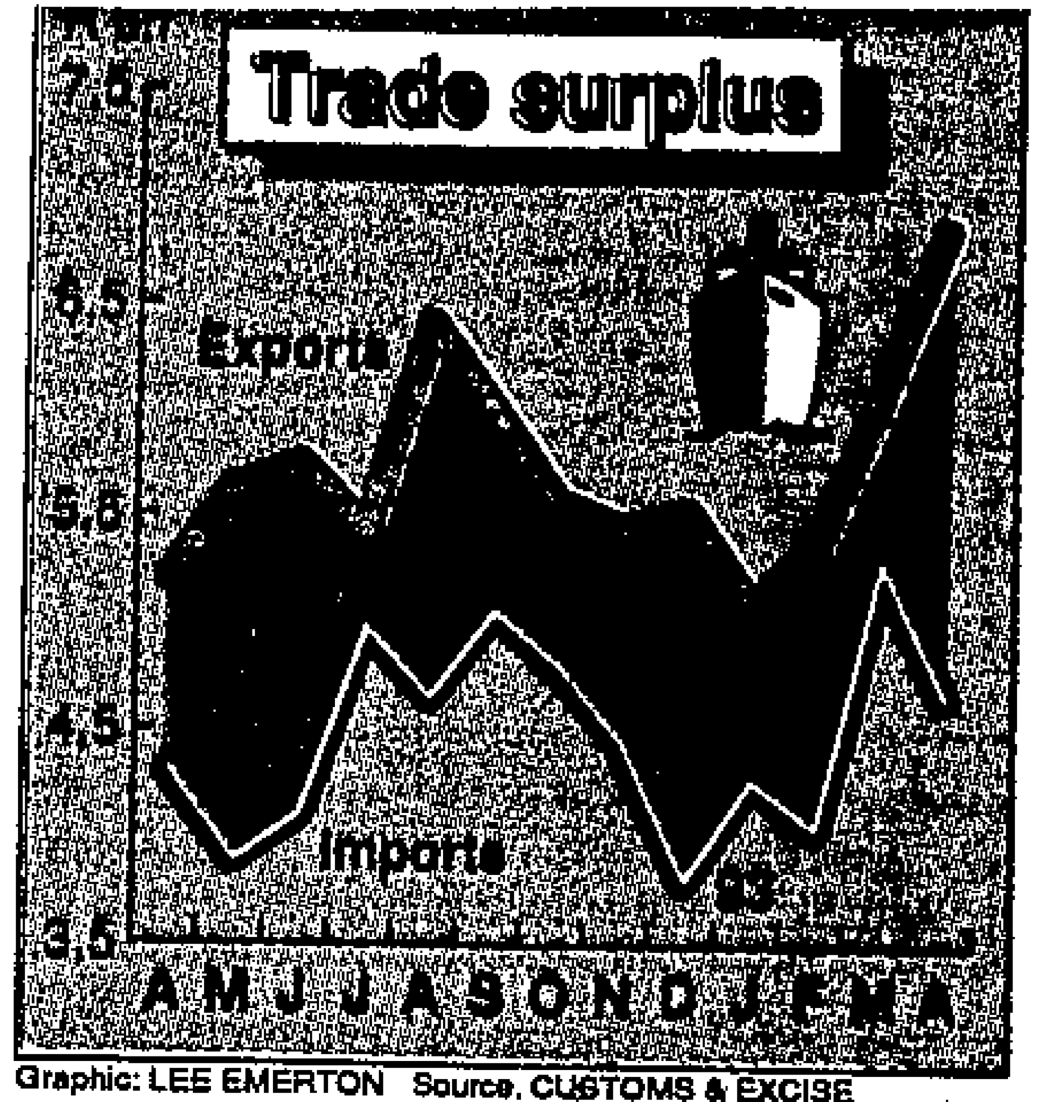
"This trend, combined with the strength of industrial materials categories, possibly point to a bottoming out of the country's recessionary cycle."

Southern Life's chief economist Mike Daly said the improved figures, thanks largely to a drop in maize exports, were very encouraging.

It now appeared that the drought related phenomena had worked through and it was likely that the current account would be better this year.

Daly said imports of machinery and transport equipment had remained surprisingly strong in recent months belying the state of the economy.

However, he pointed out, this represented not only investment but also consumption components.



Graphic: LEE EMERTON Source: CUSTOMS & EXCISE

Sharp turnaround of trade surplus

BDay 25/5/93 GRETA STEYN 74A

SA's trade surplus more than doubled in April from March, to R2,19bn, boosting hopes that a solid trade performance will provide a shot in the arm for the country's ailing foreign exchange reserves.

Exports rose and imports fell in a sharp turnaround after disappointing figures for the year to date. Exports were up more than 13% from the previous month to R6,87bn while imports were down by almost 12% to R4,68bn.

Economists said the improved trade surplus was only partly the result of an increase in the gold price and suggested the current account of the balance of payments (BoP) was on track for an adequate performance even if gold failed to hold at recent levels. Difficult economic conditions would restrain import demand from rising too rapidly while key export categories, including minerals and base and precious metals, were pulling their weight.

The capital market greeted the figures with a cautiously positive response, reflecting the importance of the overall BoP in the Reserve Bank's policymaking decisions. The Bank would take its cue from movements in the foreign exchange reserves which indicated the effects of capital outflows, an analyst said.

☐ To Page 2

Trade surplus

BDay 25/5/93 74A

☐ From Page 1

Standard Bank economist Nico Czypionka said the figures indicated the drought's pressure on foreign exchange reserves had started to lift. A further factor affecting comparisons of the import bill between March and April was the fall of more than R200m in April's unclassified imports, probably reflecting a huge oil import bill in March. SA's major export categories were growing at a significant rate in the face of weak world economies.

Old Mutual economist David Mohr said the average trade surplus for the year so far suggested SA was on track for a current account surplus of about R4bn — in line with official projections — even if the gold price did not hold at present levels.

Safto economist Bruce Donald noted unclassified exports were up 12% for the first four months of 1993 compared with the same period a year ago — reflecting the gold price gains in April. Mineral products (up 29%) fared well in the first four months; base metal exports were up 3% while some manufactured categories recorded strong growth. Donald noted that trade with the US rose considerably, reflecting improved relations.

April exports highest for 18 months

Star 25/5/93

By Sven Lünsche

The balance of payments crisis has been temporarily relieved by April exports, which surged to their highest level in 18 months.

Customs and Excise figures show that April's trade surplus powered to R2,19 billion from R777 million in March.

The surplus was achieved on the back of a 12 percent fall in imports to R4,68 billion (March: R5,29 billion) and a R800 million recovery in exports to R6,87 billion.

The April performance has improved the overall trade picture.

Export growth in the first three months was virtually static. But, including April, exports at R23,41 billion were eight percent up on last year.

However, with imports 13 percent above 1992 levels, the cumulative trade surplus for the first four months at R5,9 billion was eight percent down on last year.

The April fillip came from improved performances of metal and mineral exports.

Exports of mineral products for the first four months were 29 percent up at R2,86 billion, jewellery and precious stones two percent at R2,53 billion and base metals three percent at R3,05 billion.

Unclassified

Safto economist Bruce Donald says the 12 percent growth of the unclassified category reflects gold price gains in April.

Some manufactured categories continued their exceptional long-term growth trend, including transport equipment, up 41 percent to R823 million, and machinery, up 25 percent to R717 million.

However, exports of chemicals dropped six percent and plastics 10 percent after average annual growth of more than 20 percent in the previous four years.

The monthly drop in imports was most noticeable in agricultural categories. While still high at 88 percent in April, imports of vegetable products showed193 percent growth in the first quarter.

Donald warns, however, that imports are likely to remain buoyant.

Strong growth occurred in a number of industrial and manufacturing categories — plastics 15 percent up at R834 million, chemicals 12 percent higher at R2,01 billion, machinery seven percent up at R5,23 billion and transport 25 percent higher at R2,44 billion.

Heavy capital outflow obliterates gains in foreign trade performance

BDAY 26/5/93.

GRETA STEYN

SA experienced a heavy capital outflow in the first four months of this year, obliterating the gains of a steady foreign trade performance and forcing the Reserve Bank into a cautious stance on monetary policy.

Economists estimated the outflow on the capital account of the balance of payments (BoP) at R2,5bn-R5bn in the period January to April.

There was no let-up in the pressure since outflows started picking up in the last quarter of last year, when a R3,7bn outflow took the total outflow for the year to R6,5bn.

AHI economist Nick Barnardt noted that the steady trade performance for the year suggested that the decline in the country's foreign exchange reserves was the result of a drain on the capital account of the BoP, rather than a weak current account performance.

The current account — the trade surplus less net payments for invisible trade — was about R2bn in the first four months of the year (based on a trade surplus of about R6bn). In spite of the current account surplus, the country's gross gold and foreign exchange reserves had fallen by an estimated R1bn.

While other factors such as valuation and short-term central bank credit to shore up gross reserves could not be estimated with certainty, it was evident the capital outflow in the first four months of the year ran into a few billion rands and could even be as high as R5bn.

Nedbank chief economist Edward Osborn said: "The capital account is the crux of our difficulties this year. Without a surge in the gold price, the BoP requires a delicate balancing act that leaves the authorities with little room to manoeuvre."

He said the Bank could not gamble on the gold price. It would be some months before it would be evident that the gold bull run had provided enough of a cushion of foreign exchange reserves to allow a slackening of policy in the face of a continued capital drain.

According to Osborn's figures, about $535m in foreign debt fell due in the first quarter of this year, followed by a further $410m in the present quarter. As the political situation had made rollovers unlikely, this probably accounted for a large portion of the capital outflow.

However, other economists noted outflows of short-term capital had also placed huge pressure on the reserves and could exceed the debt repayments.

Factors influencing these outflows included the switching of trade finance to domestic sources from foreign sources because of a narrowing in the interest rate differential between SA and its major trading partners, as well as adverse leads and lags relating to currency fluctuations.

Southern Africa burdened by debt — FW

TIM COHEN

CAPE TOWN — President F W de Klerk yesterday told the World Economic Forum that the southern African economic train was at a standstill and highlighted the region's foreign debt burden.

During the '80s, only two of the 12 countries in the region, Botswana and Swaziland, had achieved positive economic growth. The major factors behind this poor performance included internal conflicts, misguided economic doctrines, cyclical droughts, the collapse of commodity prices and rising interest rates on foreign debt.

Foreign debt had, in particular, presented an increasingly heavy burden. In all but two of the 12 — Botswana and Lesotho — foreign debt represented more that 100% of annual exports. In the cases of Mozambique and Zambia it was 2 241% and 541% respectively.

If the region was to move toward economic growth it would have to abandon outmoded ideologies, as SA had done, and end conflicts.

Africa could not be "marginalised" because if the problems of some were left to fester, they would become the problems of all.

Speaking of the need for all countries to work together in preserving the earth's delicate ecological balance, De Klerk said: "In our shared global ecology, an injury to one is an injury to all."

AP-DJ reports that De Klerk called for the EC to enhance SA's ability to help boost the region's economic growth by urging the lifting of all economic sanctions and encouraging international financing for SA. "I don't want any handouts from the EC and I don't have any specific requests. I want the EC to continue to recognise the role we play in southern Africa. I don't think Europe can escape from the problems of Africa and if it's marginalised, it will cost the First World more later."

ANC 'backs Bank's debt policy'

BDAY 28/5/93

(74A) TIM COHEN (4)

CAPE TOWN — ANC international affairs director Thabo Mbeki, who recently returned from Switzerland, says he is entirely in agreeement with the Reserve Bank's approach to debt rescheduling.

He told a news conference at the World Economic Forum that he and an ANC delegation had discussed mainly debt rescheduling with Swiss bankers.

He said the ANC was worried that decisions on the question taken now would tie the hands of a future government. The ANC was in favour of small amounts of debt being repaid in the early stages and then gradually increasing repayments, he said.

This would enable the country to grow and be in a better position to repay money in the debt net.

"We are completely in agreement with the approach of the Reserve Bank on this issue."

Mbeki said his recent trip abroad included visits to China, Russia and Singapore. In all three countries talks had included speculation about possible future economic relations.

He said there were differences between the kind of relations a future SA might have with China and Russia because "China is in a position to pay whereas Russia is not".

ST Times (Buss) 30/5/93

World Bank positive on SA loan

By JEREMY WOODS

THE World Bank has an "open-ended lending policy towards SA" governed only by the creditworthiness of the country, says World Bank vice-president Edward Jaycox.

Asked how creditworthy SA was, he replied: "It is difficult to say. It depends on how much money SA has borrowed from other countries."

But the country was changing fast and moving in the right direction.

"That's why we are here. We want to have a good look at what's happening and see how we can help."

He says the World Bank has been preparing to invest in projects in SA for two years and the value of these investments total $1-billion.

"People always get carried away with the amount of the big figures. Aid is a very poor springboard for development and people's expectations get too high when it comes to loans.

"No amount of aid supplements the flow of savings and cash flows that are generated in a properly structured economy."

Mr Jaycox says the important aspect of his trip was that the World Bank was making commitments in SA and "encouraging others to do the same".

His trip, the second to SA, was primarily to take part in the World Economic Forum, held at the Mount Nelson hotel and attended by heads of state and ministers from across Southern Africa.

Further optimism for SA's acceptance on the international loan markets was given by Mr Adewale Sangowawa, vice-president of the African Development Bank.

"Our lending to SA is dependent on it becoming a member of the African Development Bank. This could happen once a transitional government is in place and I believe SA could join our other member countries by the yearend."

Asked if he thought SA would be the engine that drives Africa, Mr Sangowawa said: "We see the SA economy being part of a regional economy.

"We don't see it in a dominant role. The needs of SA are enormous and we think it will be some time before the country comes to terms with this."

He said SA's "needs" included political stability, peace and equality, as well as a more competitive industry.

"Tariffs and import duties protect inefficient industries and these will have to be phased out, so that the country can be competitive in the international business arena."

THE JSE WEEK

By JULIE WALKER

GOLD moved up and down like a yo-yo and kept dealers on their toes all week. From $378 an ounce on Monday it fell below $375 on Wednesday, then was fixed at $381 on Friday morning, only to retreat to $377,45 at the close.

On aggregate, golds followed the trend, but caution crept in on the underlying knowledge that prices had been pushed too far ahead of the gold price and that the market was grossly overbought. The All-Gold index moved up to above 1 900, but retreated to close at 1 846 points on Friday.

The notion of value for money returned; dividend yields have thinned in past weeks. Mining exploration shares also retreated.

Platinums were mixed after the metal's price caught up with the precious share rush. In New York, July platinum futures contracts reached $403/oz — the highest in ages — on

week ago and looks destined to be sold out of the food-dominated Del Monte Royal group. Six years ago the group listed as Lovasz Chemicals. Chemserv is a possible buyer; it too warned of negotiations on the same day.

Suncrush put on 500c to 40 500c ahead of announcing board approval for a 50-for-one share split.

The property trust sector started to attract the interest of institutions such as Board of Executors, whose June newsletter recommends accumulation of quality companies in the sector.

Higate and Histone both lifted earnings this week but unit prices were unchanged on the JSE.

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It ordered the main respondent, "Photocircuit, to

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THE CAPE TRADE CENTRE

R1,5bn reserves boost if gold price stays high

S Times (Buss) 30/5/93

By CIARAN RYAN

THE balance of payments is in for a R1,5-billion boost if the gold price remains at current levels, possibly allowing another cut in interest rates.

Reserve Bank Governor Chris Stals says there was a net outflow of R6-billion in the past six months as loan repayments fell due on the capital account, exporters delayed invoice receipts to benefit from a stronger dollar and importers settled bills quickly to avoid further weakening of the rand.

Trade finance is being switched to domestic sources as a result of lower SA interest rates, adding to the outflow and giving rise to fears that a balance of payments squeeze could result in dearer borrowing.

Zero

"There is no immediate concern about the balance of payments," says Dr Stals, dismissing suggestions that capital flight is rising as political confidence wanes.

Initial forecasts were for a payments surplus of more than R4-billion.

"If the gold price stays at these levels we should have a balance of payments surplus of between R6-billion and R7-billion for the year, compared to our initial forecasts of over R4-billion."

Dr Stals says: "After a zero balance on the current account in the first quarter, April figures show a surplus which should continue in May."

Gold and foreign-currency reserves have fallen to R8-billion from R11,5-billion in August last year, knocking import cover to 1,7 months. The Reserve Bank's target is three months.

Dr Stals says the finrand mechanism and exchange control prevent large-sale capital flight.

Nedcor Bank chief economist Edward Osborn says the capital-flight issue has been blown out of proportion.

"It has been thought that you could measure this by analysing the errors and ommisions on the balance of payments. But this is totally incorrect. There is no effective means of measuring capital flight.

"This is not to say that it does not occur. We know it does because some cases are brought before the courts.

"Of greater concern this year is the extent of debt repayment. For the year it could be $1,6-billion (R5-billion), depending on the extent to which there are roll-overs of parastatal debt falling due."

Mr Osborn says the high cost is a disincentive to rolling over parastatal debt.

Pressure remains strong on both the commercial and financial rands because of the capital outflow and a large surplus of liquid finrand deposits.

Non-residents have pumped more than R2-billion into SA shares in the past four months compared with net sales of R472-million in 1992.

Reserve Bank foreign-exchange head James Cross says this reduced the R6-billion in finrand deposits held with banks at the beginning of the year. A further R250-million was invested in gilts by non-residents in the same time compared with R780-million for 1992.

The finrand remains under pressure because of the uncertain political environment and foreign-currency deals overhanging the market, says Mr Cross.

Dr Stals says that while the discount remains at these levels, there is little prospect of scrapping the finrand.

Turnover in finrands is R500-million a day, or 2,5% of the commercial unit market. About R11-billion, or 48%, of the Eskom 168 loan stock is foreign owned, in addition to several billions in equities.

This poses a threat to the foreign-currency markets if the finrand is abolished, says Mr Cross.

Hope for cheaper money

S Times (Buss) 30/5/93

CONSUMERS stopped shopping after the Chris Hani assassination, leading to plummeting demand for credit and a year-on-year money-supply growth rate of only 3,35% in April.

This is way below the Reserve Bank's money-supply target range of 6% to 9% and down on March's 5,66%.

Econometrix economist Azar Jammine says: "This puts a downward influence on inflation and could imply pressure on Reserve Bank Governor Chris Stals to drop interest rates."

Dr Jammine warns that the fall in money-supply growth may end soon. "The higher gold price has lifted the reserves and the effects of this have not filtered through into money-supply figures."

Falling reserves since the beginning of the year contributed to the money-supply growth fall, says Dr Jammine.

Nedcor economist Edward Osborn says money-supply figures were kept artificially low by R8,5-billion being taken out of the system through the issue of government stock.

This brought the money-market shortage to an extraordinarily high level.

Russians lift diamond demands

RUSSIAN diamond mines are again claiming the right to sell fewer of their gems through the Central Selling Organisation (CSO). Head of the Committee on Precious Stones and Metals says restrictions on prices and output imposed by the diamond cartel "no longer suit" miners. They want to sell up to 20% of output to Israel, India, Belgium and America.

World Bank upbeat on post-apartheid outlook

Star 31/5/93

CAPE TOWN — South Africa, mired in its longest recession on record, could enjoy rapid growth in the early years of a post-apartheid government, although benefits must be shared fairly to sustain this, says the World Bank.

The bank, in a report released at the weekend by its Southern Africa department, says most of the country's economic, as well as political, problems are rooted in apartheid.

No economic programme, however well designed, can succeed without increased social stability, says the report, presented to a two-day meeting of the World Economic Forum in Cape Town.

"If gains from growth are not perceived as being distributed equitably by the community at large, social unrest will reemerge, and political and economic stability will be undermined," it says.

The bank says the report was distilled from informal discussion papers prepared by its staff and a wide range of South Africans, and is not an official bank document.

The report says South Africa's income per capita of $2 500 a year puts it among upper, middle-income developing countries.

Disparities

But per capita income for whites is almost 10 times higher than for blacks, and 4,5 times higher than for coloureds, it notes.

Wide disparities range from access to services, including water, sanitation, electricity, education and health to social welfare in areas such as infant mortality and life expectancy at birth.

The extremes, it says, "tend to confirm that there are really two South Africas — a First World society for whites and a Third World society for blacks".

Key problems which have to be addressed range from high unemployment — one-quarter of the black labour force is without work — to declines in investment and productivity, while the trade regime is biased towards production for the home market rather than internationally competitive exports.

Also, private sector confidence has been badly shaken by growing political uncertainty and rising violence.

"To stimulate growth, the single most important ingredient is investor confidence," it says, adding that this will only emerge if, unlike in the past, policy-making is transparent, with no chopping and changing.

It is difficult for the authorities to stimulate the economy now in the face of a number of constraints, including the balance of payments, the fiscal deficit, and a need to keep inflation under control.

Advantages include spare capacity and excellent infrastructure.

Investment

Little new investment will be needed in coming years in much of the transport and communication systems, and electricity generation.

Foreign debt, estimated at $18 billion, is low, with the ratio of debt to gross domestic product unusually low.

"South Africa is not in the foreign-debt trap faced, for example, by some countries in Latin America and Eastern Europe." — Sapa-Reuter.

Exchange control 'rejig' boost for property

CT 31/5/93

Property Editor

A MAJOR revision in exchange controls would boost foreign investor interest in SA and held promise for the local residential property market.

This is the view of Ronald Ennik, national sales and marketing director of Pam Golding Properties.

He was responding to the announcement this week by Reserve Bank governor Chris Stals that exchange controls could come under major revision with the next year.

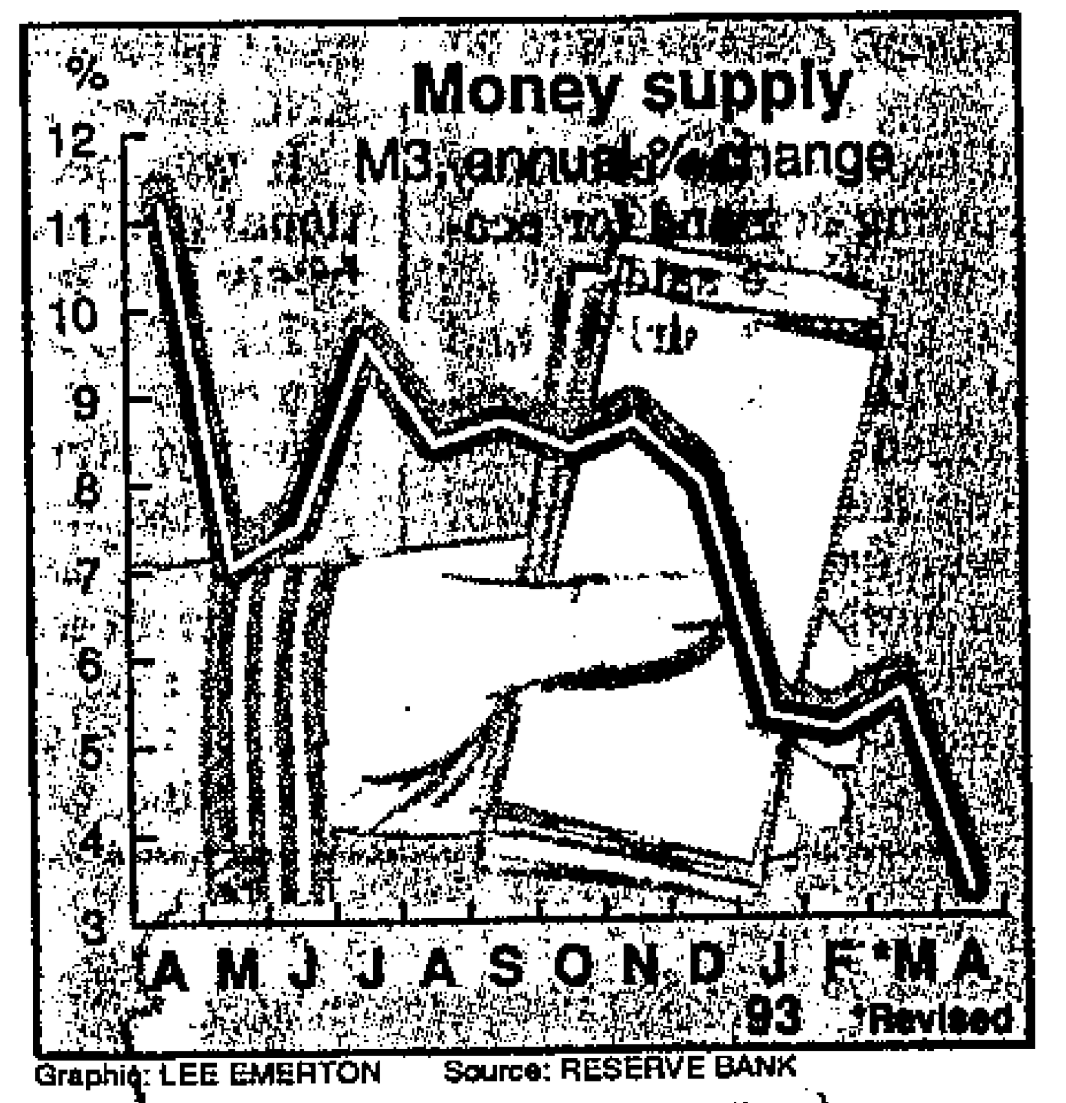
Ennik said that the lifting of exchange controls would be another step in the right direction for investor confidence, both local and foreign in SA.

Catalyst

"This, added to recent rumours of the lifting of sanctions by Commonwealth countries could be the catalyst to economic growth in SA.

"This confidence boost would have a direct effect on commercial properties in the country and a consequent spin-off on the local residential property market.

"However, in line with Dr Stals' view tht there could be an outflow of foreign investor money, the lifting of exchange controls would also indicate to the world that a freer trading environment would be created, encouraging fresh investment in the country."



Graphic: LEE EMERTON Source: RESERVE BANK

Govt stock sale slows M3 growth

Buss Day 1/6/93

TIM MARSLAND

GROWTH in money supply slowed further for the year to April because of the large-scale sale of government stock in that month, economists said at the weekend.

Reserve Bank figures show growth in the broad M3 measure for the 12 months slowed to 3,35% from a revised 5,66% for the year to March. The Bank's target for growth is 6%-9%.

From the base of the current guideline year (the fourth quarter of 1992) growth was 1% — unchanged from March's figure.

Nedbank chief economist Edward Osborn said the slow growth was the result of the "excessive" sale of about R8bn in government debt during April, which offset the natural growth of credit.

Government budgeted for a R31,5bn deficit for the current fiscal year, which implied that by the end of April it had already raised almost a third of its requirement for the whole year.

Osborn said credit demand was also affected by the buying spree to beat the April 7 implementation of the 14% VAT rate. The drop in demand after April 7 added to the squeeze. He said the slowing in the growth of money supply in the first three months of 1993 resulted from the decline in the balance of payments, which had come to an end in April.

(74A)

Russia opens consulate doors in city

(74A)

Staff Reporter

RUSSIA has opened consulate doors in Cape Town to promote cultural, trade and tourism links between the two countries.

Consul-General Mr Youri Chernyi and six diplomats face a daunting task, he believes. "We'll do our best to establish contacts between people in Russia and South Africa, but both countries are experiencing common problems in democratising."

The main task of the consulate, in the Southern Life Centre in Riebeek Street, is to establish contacts between entrepreneurs, Mr Chernyi said. Consular relations were broken off by South Africa in 1956 but restored in 1991.

CT 2/6/93

SETTLING IN . . . Russian consul-general Mr Youri Chernyi settles into the new Russian consulate which has opened in the city. Consular relations were broken off by South Africa in 1956 but opened again in 1991.

Picture: BENNY GOOL

Star 7/6/93

Govt warned to curb spending

74A

Business Staff

There is a real danger of plunging into a "debt trap" unless the Government contains its spending.

The warning is issued by Absa in its Economic Spotlight, which notes that the deficit before borrowing looks set to soar to R30 billion in fiscal 1993/4 — equivalent to eight percent of GDP — from a budgeted R25,3 billion.

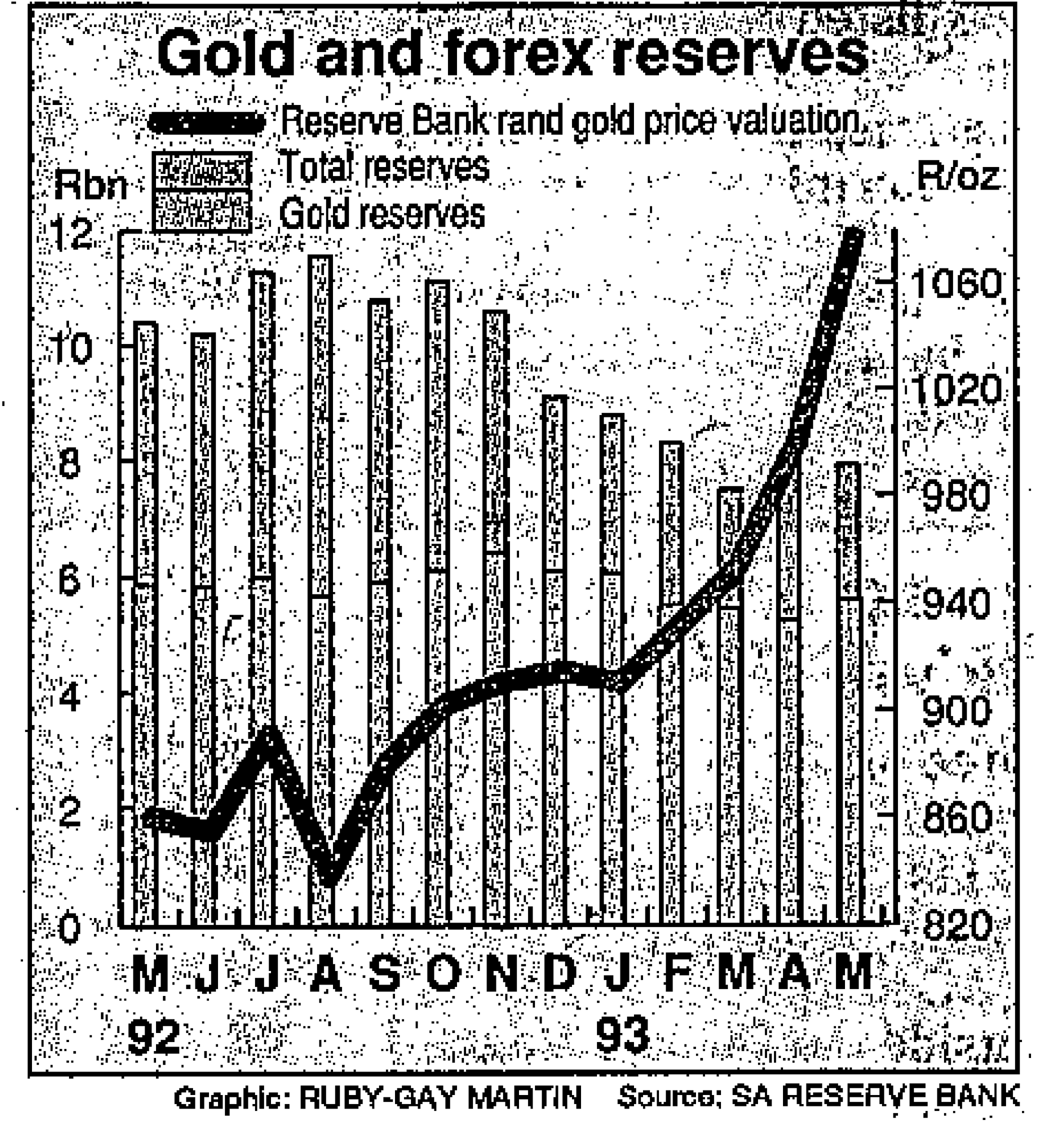
"With a potential real economic growth rate of about two percent per annum for the rest of this decade, a budget deficit of this order is simply not sustainable," Absa says.

The chief culprit remains government spending. Absa estimates that as a percentage of GDP it will rise to more than 32 percent in 1993/4 from 31,7 percent last year.

"This is well ahead of the 28 percent considered to be prudent.

"Of further concern is that fact that only 6,5 percent of budgeted government spending for 1993/4 is earmarked for vital capital expenditure, while an amount closer to 12 percent would have been more appropriate," it says.

Coupled with lower-than-expected tax income, the R22 billion level of government dissaving (where current spending exceeds current revenue), gives cause for concern, Absa says.



Graphic: RUBY-GAY MARTIN Source: SA RESERVE BANK

BoP problems dash hopes of rates cut

Buss. Day

GRETA STEYN

BALANCE of payments problems continued in May, pushing the Reserve Bank's holding of gold and foreign exchange reserves down by R128,6m to R7,9bn.

The figures came as a disappointment to bulls in the money and capital markets who have been stamping their feet for a cut in Bank rate after the money supply and inflation figures. 8/6/93

However, in spite of the surge in the gold price in May, the most important indicator at present for policy — the gold and foreign exchange reserves — performed poorly. (14A)

Gold was valued at R1 077,47 per fine ounce, compared with a R999,53 valuation in April.

The higher gold valuation raised the gold component of the reserves to R5,59bn (April: R5,24bn).

However, physical gold holdings were down by more than 52 000 ounces as the Bank sold gold at the high prices. The currency component fell by more than R480m to R2,3bn, with the fall cushioned in rand terms by the currency's weakening against the dollar.

Old Mutual economist Rian le Roux said if the balance of payments had been zero in May (the current account surplus covered the capital outflows with nothing left to spare), the higher gold price valuation alone would still have yielded an increase of about R400m in the reserves.

He surmised that capital outflows had been an important source of the foreign exchange drain.

☐ To Page 2

BoP problems

Buss. Day

☐ From Page 1

"The Reserve Bank is caught between a rock and a hard place. 8/6/93

"Even though the real economy is weak and money supply growth has ground to a halt, a cut in Bank rate now would aggravate a weak balance of payments situation," Le Roux said. (14A)

However, the picture might be less bleak if the Bank repaid some of its short-term foreign credits during May. This is suggested by the fall of R395m in the Bank's "other liabilities".

Nedbank chief economist Edward Osborn said if that was the case, the underlying situation in the net reserves was static. In the light of the higher gold price, a static situation was still not too encouraging.

Cheering news on foreign-debt front

Star 11/6/93

By Neil Behrmann

LONDON — Good news for South Africa is that its total foreign debt is down to $17 billion (R54 billion) from $23,8 billion in 1985 — when the country was forced to freeze debt repayments.

By the end of this year further repayments should reduce the debt to $16,5 billion.

These figures were given in an interview in London by Reserve Bank Governor Chris Stals.

He said, however, that first-quarter capital outflows from SA totalled R3 billion — a drain on foreign exchange reserves after net capital outflows of R6,5 billion in 1992 and R6,1 billion in 1991.

Huge capital outflows were largely the result of debt repayments, which have been a heavy constraint on the economy.

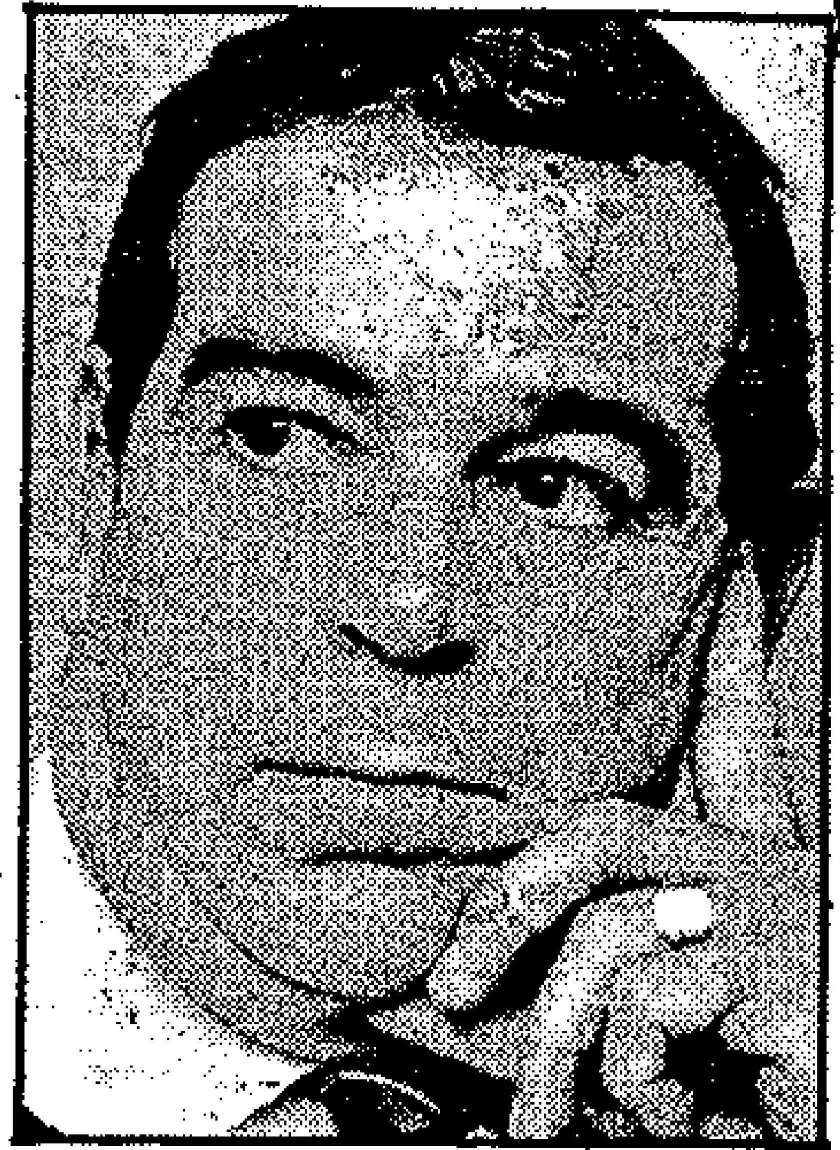
Stals said that by the end of the year SA would have re-negotiated an agreement to reschedule repayments on R16 billion of foreign debt.

In 1985, overseas banks demanded early repayment of debt because of the political and economic consequences of apartheid.

Then, some 300 international banks were owed money. That number has been whittled down to 200, with Swiss, German, UK and US banks the major creditors.

Stals said foreign debt now accounted for only 15,5 percent of gross domestic product.

This compared with 43 percent of the goods and services produced in SA in 1985.



Dr Chris Stals . . . determined to grind down inflation

Foreign borrowings were so low that they were equivalent to only 60 percent of annual exports. Interest on this debt was a mere 4 percent of exports.

In comparison, developing countries' debt accounted on average for 270 percent of export earnings, while interest payments accounted for 28 percent of their exports.

Stals would not comment on negotiations with the creditor committee of 15 foreign banks. He is not involved in the negotiations.

He said the IMF and World Bank would decide on amounts to lend to SA in the coming 12 months.

SA could ask for a "compensatory financing facility" from the IMF because of the hardship caused by drought.

Future capital inflows, either investment or loans, would depend on the resolution of SA's political situation and its economic performance under a new government.

Capital outflows were the main reason for the 6 percent slide in the rand's weighted average in the past six months.

It was difficult to roll over a proportion of foreign debt because overseas bankers, were worried about political violence. But money also flowed out of SA because of fears that the rand would slide.

Companies involved in foreign trade borrowed locally instead of abroad.

Fearing depreciation of the rand, exporters delayed repatriation of foreign receipts, while importers swiftly paid foreign bills.

Forward transactions on foreign currencies also drained foreign exchange reserves.

Provided there was no major political violence ahead of elections, gold and foreign exchange reserves should rise.

After economic contraction of two percent last year, real growth was one percent in the first quarter.

The improvement came about mainly because of the revival in agriculture.

Stals said he was determined to grind down inflation gradually with slower monetary growth. Monetary targets were below the inflation rate.

Financial stability and much lower inflation placed the economy in a better position to grow and attract foreign investment.

'Challenge to govt' in stimulating growth

BIDay 15/6/93

GERALD REILLY

PRETORIA — Government's challenge was to stimulate growth without firing inflation, increasing imports and jeopardising the balance of payments, Absa senior economist Adam Jacobs said yesterday.

He said the economy was in a state of paralysis and to manipulate it upwards carried with it risks which could prolong any hope of a significant recovery.

Jacobs was supporting Sanlam economist Johan Louw's claim that unless government took immediate steps to halt the economic decline, the prospects for recovery would be hobbled. Government's economic planners, he said, had to choose between two evils.

The one was to continue along the present route and watch the economy sink deeper into recession. The other was to stimulate selectively to halt the drift into possible long-term negative growth.

"The time is fast approaching when a decision will have to be made. Both routes are scattered with dangers, but to delay can only lead to further problems," Jacobs said.

The DP's finance spokesman Brian Goodall said action had to be taken or the economy would "slip further into the bog".

Escalation of unemployment had to be curbed, consumers had to be placed in a position where product demand increased, and interest rates should be allowed to sag as a basic stimulant.

"Whichever way government goes, there are dangers, but we cannot stand still. Some move has to be made towards growth."

Goodall said it was vital that the economy be lifted off the bottom next year to support any advance made in the unfolding of the expected political settlement.

Unrest would not come to an abrupt halt when a new government was in place; if there was no improvement in the economy and job availability, it would continue and become worse, Goodall said.

Foreign banks seek political consensus on debt repayment

Star 18/6/93

(74A)

CAPE TOWN — Foreign banks are for the first time demanding the endorsement by South Africa's major political players of a renegotiated debt repayment programme, says Finance Minister Derek Keys.

"This is in contrast to their attitude in previous renegotiations, where they wanted to have it handled as an entirely technical matter without any reference to any politicians whatsoever," he said at a news conference yesterday.

Reserve Bank Governor Chris Stals said last month officials had worked out a broad outline for a final repayment programme with creditor banks to clear $5 billion of debt left over from the 1985 anti-apartheid credit freeze.

Three previous rescheduling arrangements will have cut the original $13,7 billion of debt affected by the freeze to $5 billion when the current scheme expires at the end of the year.

Keys said the deal now depended on the approval of a wide spectrum of political players in South Africa.

Derek Keys . . . predictable and sensible change of approach on the part of the bankers

"In view of the stage this country finds itself in, where it will be changing governments within the next 12 months, it is a predictable and sensible change of approach on the part of the bankers.

"In the middle of all this transition, I have to find a sufficient endorsement that will satisfy the bankers," he said.

"Everything affects everything else," he said in reference to the negotiations between the Government and Nelson Mandela's African National Congress, its chief rival for power.

ANC foreign affairs chief Thabo Mbeki said after talks in Geneva earlier this month that the ANC and the Government were in agreement on the sort of package that would be needed.

Keys said at the news conference yesterday he was eager to normalise South Africa's relations with major foreign lenders, the International Monetary Fund and the World Bank.

"I am not particularly keen to have to use the standby facilities of the IMF . . . but to have free accessibility to such standby facilities does have an effect on the amount of credit that other banks and commerical suppliers are prepared to advance to us.

"We would certainly like to be able to build up those normal sources of capital," he said. — Sapa-Reuter.

Keys scoffs at R30bn deficit estimate

CT 18/6/93

By TIM COHEN (74A)

FINANCE Minister Derek Keys yesterday derided projections that the deficit could amount to R30bn this fiscal year and expressed confidence that growth could still be achieved this year.

Keys said at a media briefing that the deficit figure extrapolated from the April and May statistics "had no credibility". He was commenting on economists' projections based on the 2,8% decline in income from Inland Revenue in the first two months of the fiscal year from last year. Government has budgeted for a deficit of 6,8% of GDP, which Keys said remained within reach.

Keys's comments checked bearish sentiment in the capital market, with rates ending the day little changed from Wednesday.

Keys said there were indications that the downward trend in world commodity prices had bottomed out, there had been an improvement in the gold price and SA was experiencing a better agricultural season, he said.

"My friends in business are giving me various hopeful signs, which they haven't done for quite a few years", he said.

However, Keys' bullish message was tempered by an announcement that, contrary to market expectations, a deal on SA's debt caught in the standstill net had not yet been clinched. Various banks involved in the debt standstill agreement had changed their approach, requesting political endorsement for arrangements made.

"This is in contrast to their attitude in previous negotiations where they wanted to have it handled as an entirely technical matter, without reference to any politicians whatsoever."

In view of SA's position, this was a predictable and sensible change.

Keys justified his confidence that the deficit would not stray outside budget predictions by pointing out that the change in the corporate taxation system meant that the lower 40% corporate rate was effective before the 15% tax on dividends was payable.

Delay on SA R5bn debt standstill

BRUCE CAMERON
Business Staff ARG 19/6/93

AGREEMENT on how South Africa will repay an outstanding $5-billion (R16,3-bn), trapped in the country since a debt standstill was declared under political pressure in 1985, is being delayed by a requirement to get approval of extension terms from other political players.

Finance Minister Mr Derek Keys said this week that a fourth arrangement covering the remaining $5 billion still remaining in the debt standstill was being delayed by the need to get "political endorsement over a fairly wide spectrum" on the draft arrangment negotiated with the international banks last month.

He said the banks had previously insisted on keeping the agreements as a technical matter. He agreed with their change to getting political consensus because of the changes in South Africa.

Mr Keys said he did not want to talk "too much" about the negotiations with the other political groupings, saying: "I am managing it."

Both the banks and the government had a "Plan B" if consensus could not be reached. He declined to say what the alternative was.

He confirmed the government was hopeful that the full benefits of membership of the International Monetary Fund and the World Bank could be achieved this year.

But he said the government was not looking to take up IMF stand-by facilities. The important issue was that normalisation would make access to the international capital markets easier.

THE WEEK AHEAD by Kelvin Brown

May trade figures a pointer

BiDay 21/6/93 (14A)

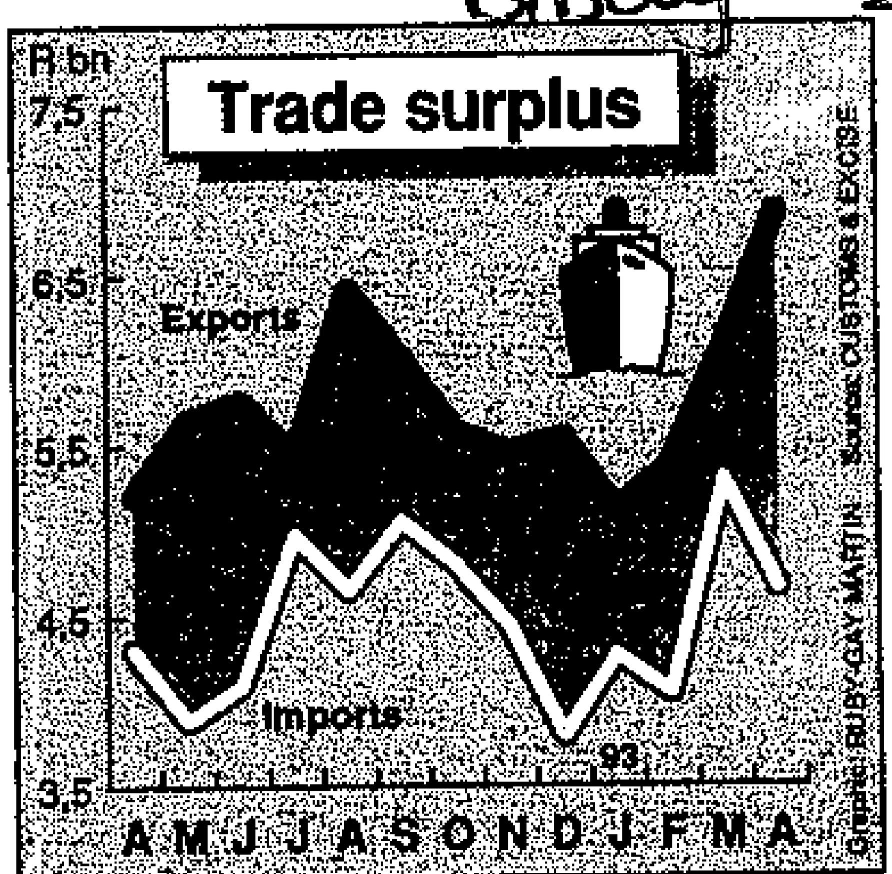
AN important pointer to balance of payment prospects for the rest of the year is due later this week with the release of the May trade figures.

With inflation and money supply responding favourably to the Reserve Bank's restrictive monetary policy, one of the only factors preventing Bank interest rates cuts is the balance of payments situation.

Last month's trade figure will indicate to what extent capital outflows were responsible for the poor reserve figures in May. Gold and foreign exchange reserves fell by R128,6m last month to R7,9bn despite a rise in the gold price, which increased the value of gold to R1077,47 per fine ounce from R999,53 in April. The gold component of the reserves rose to R5,59bn from R5,24bn the month before, while the currency component fell by more than R480m to R2,3bn.

Old Mutual economist Rian le Roux said if the surplus on the current account covered capital outflows then the higher gold price should have increased reserves by R400m. As this did not occur, the only conclusion he could draw was that captial outflows were "significant".

With the trend of large capital outflows expected to continue for the rest of the year, a large and sustained surplus on the current account is



needed to offset these outlfows. If the significant increase in the surplus recorded in April is sustained, the chances are higher that the current account could offset outflows from the capital account.

Nedbank economist Edward Osborn has warned that reserves would be under "considerable pressure" for the rest of the year due to large capital outflows from debt repayments.

SA's trade surplus nearly trebled in April to R2,19bn from R776m in March, as exports increased by 13% to R6,87bn and imports fell by 12% to R4,68bn. The effect of the recession on demand, the improvement in the gold price, the fall-off in drought-related imports and a lower oil import bill were cited as the main reasons for the continued fall in imports.

Osborn said the May surplus could be sustained above R2bn for several reasons: over the past several years imports had slumped slightly between April and May while exports increased; and a more important factor is last month's gold price.

Osborn said although monthly gold production fell by two tons in May, this was more than offset by the higher gold price. In April the average gold price per ounce was R1 086 increasing to R1 167 in May while production fell from 50 573kg to 50 2642kg. This resulted in an increase in the value of gold production to R1,898bn in May from R1,84bn in April, adding about R50m to total exports. "With the increase in platinum we could see unclassified exports increasing by R100m in May".

On the international front, German money supply figures for May are due out later today. In April broad money supply (M3) grew by an annualised 7,0% relative to the target range of 4,5% to 6,5%. The chances of lower money supply growth in May do not look encouraging.

US May durable goods orders are scheduled for release on Wednesday. The orders remained flat in April after a disastrous 3,7% monthly decline in March.

SA trade surplus slides, but 'still on healthy track'

CT, 22/6/93 (74A) CT 22/6/93

By MAGGIE ROWLEY
Deputy Business Editor

WHILE down R314,1m from April's high, rising export growth saw SA's trade surplus for May remain healthy at R1,87bn, figures released by Customs and Excise show.

Export growth, largely attributable to a 14% increase in unclassified exports and a 21% jump in jewellery and precious stones, saw exports rise 9% in nominal rand terms for the first five months of the year compared with the corresponding period last year.

However an increase in the momentum of import growth — due mostly to increases in imports of machinery and transport equipment — saw the monthly surplus drop from April's R2,2bn. However May's surplus was healthy enough to significantly raise 1993's monthly average, says Safto economist Bruce Donald.

Total exports for the first five months amounted to R29,9bn while imports rose by 14% to R22,9bn. The cumulative surplus stood at R7bn, down 4% on the previous year.

Donald said trends in certain categories possibly pointed to a bottoming out of the recessionary cycle.

The improved growth of the unclassified category reflected recent positive trends in the gold price. Mineral product exports also did well in the first five months, rising about 18%, although the momentum of this category was down in May.

Reflecting the poor conditions in the international steel market, base metals put in a disappointing performance, declining by 1%.

Certain manufacturing categories, particularly transport equipment and machinery continued their long term growth trend notching increases of 35% and 25% respectively.

However chemicals dropped 14% and plastics exports were down 8%.

Agricultural trade categories dropped further, with vegetable product exports falling by 12% in the first five months of the year and prepared food exports by 16%.

At the same time, imports of vegetable products continued to normalise with their growth rate falling.

Donald said that the slightly stronger growth of imports was mainly due to increases in the growth rates of the two biggest categories, namely machinery which was up 9% and transport equipment which was up 30%.

This, he said, possibly indicated a turnaround in the country's investment cycle.

Growth was also firm in a number of industrial materials categories notably plastics and chemicals, which were both up 13%, base metals (9%), and cement, mica and glass (10%).

Old Mutual economist Ursula Maritz said they had not expected the R2,19bn surplus in April to be sustained: "We expected it to come off to this level which is still a positive figure. We are forecasting a R5,5bn surplus for the year and the latest figures, while down on April, still place us on track for that".

Disagreeing with Donald, she said while positive, the figures in no way indicated that a turning point in the economy had been reached.

A regional breakdown of trade figures show that exports to Africa fell by 2% due to political instability and forex problems in some markets. Growth in imports from Africa fell to 12% reflecting the normalisation of trends in the agricultural categories.

Growth of exports to Europe were up 5% in the first five months against the same period last year while exports to the US grew by 9% and imports from there by 25%.

Exports to Asia rose 7% while imports were up 20%.

Capital account still depleting

Star 25/6/93

74A

By Claire Gebhardt

SA is continuing to haemorrhage from the capital account of its balance of payments (BoP).

The June quarterly report of the Reserve Bank shows that total net capital outflow not related to reserves increased from an already high level of R3,5 billion in the fourth quarter of 1992 to R3,7 billion in the first quarter of 1993.

This was its highest level since the fourth quarter of 1991, and roughly twice as large as the quarterly average outflow of R1,6 billion recorded in 1992.

The large net ouflow of capital and the small surplus on the current account of the BoP caused total net gold and other foreign reserves to decline by R3,3 billion in the first quarter — slightly more than the decrease of R3,1 billion recorded in the fourth quarter of 1992.

Liabilities

But taking into account a R1,1 billion increase in reserve-related liabilities and positive valuation adjustments of R0,5 billion, the total gross gold and other foreign reserves declined by R1,7 billion in the first quarter.

Over the period August 1992 to March 1993, total gross gold and other foreign reserves declined from R13,2 billion to R9,5 billion, or from 1,9 months to 1,5 months of imports of goods and services.

However, in April and May this year the gross and net gold and other foreign reserves increased by R422 million and R657 million respectively.

The weaker overall BoP, together with the strong dollar, saw the rand decline by 3,8 percent in the first quarter of 1993 and by a further 2,2 percent at the end of May 1993.

Trend inhibits easing of policy

Uncertainty spurs outflow of capital

B/Day 25/6/93

(74-A)

GRETA STEYN

SA experienced a massive R3,7bn capital outflow in the first quarter of this year — the highest level since the fourth quarter of 1991, the Reserve Bank said in its latest Quarterly Bulletin.

It noted political and social uncertainty joined forces with economic factors to increase the drain on the capital account of the balance of payments (BoP) to roughly more than twice the quarterly average outflow of R1,6bn recorded during 1992. The total net outflow in the six months to March this year exceeded R7bn.

Economists said the figures confirmed the capital account remained the Achilles heel of the SA economy, standing in the way of an easing of monetary policy in spite of favourable inflation trends. BoP problems meant SA could not afford an economic stimulus even though 300 000 new job seekers entered the labour market every year and 1,5-million people had been unable to find employment since the beginning of the recession.

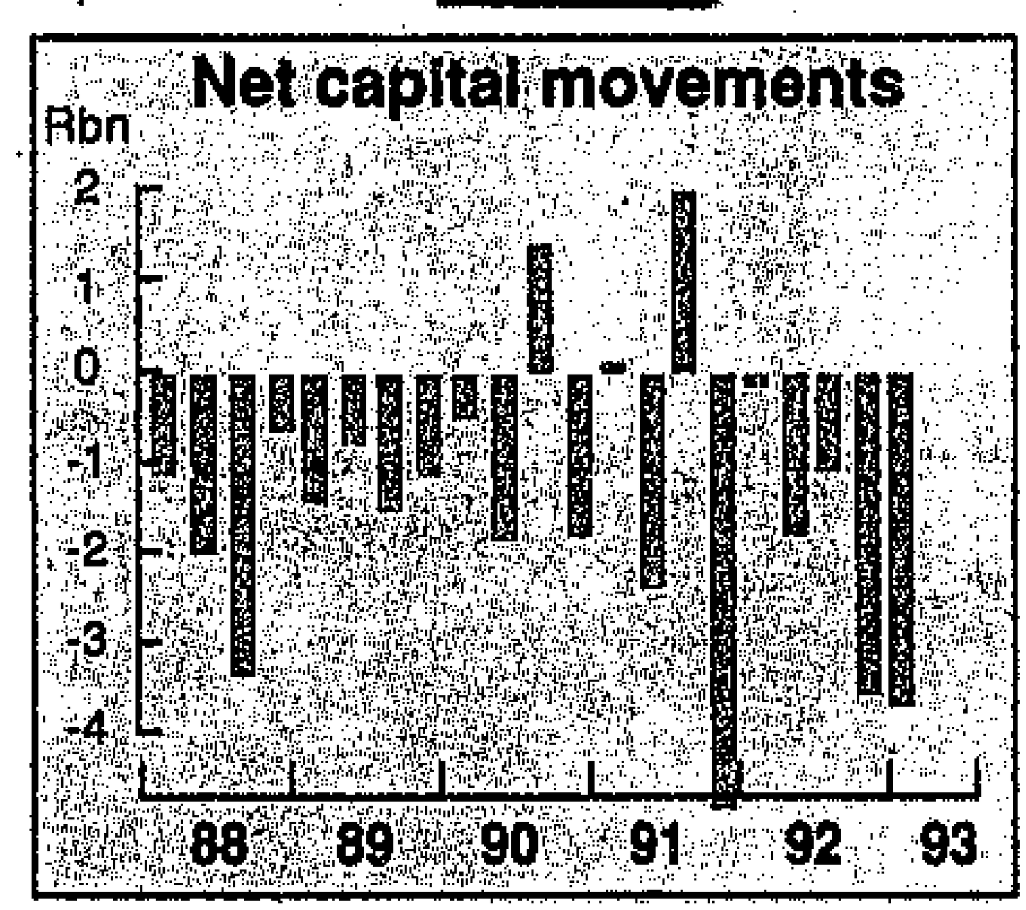
The Bank noted that virtually the entire outflow was in the form of short-term capital. Bankers said this reflected the fact that most of the foreign capital committed to SA was short term because it could easily be withdrawn.

The Bank said unfavourable "leads and lags" in foreign payments and receipts — when importers rush payment and exporters delay receipts — had fuelled the outflow of short-term funds. Other factors were the switch to domestic finance from foreign sources because of the relatively low cost of borrowing and local banks' readiness to lend, as well as "ongoing political and social uncertainty".

Included in the short-term outflows are unrecorded transactions, a figure widely regarded as indicating the trend of capital flight, or illegal exporting of capital out of the country. Although recent breakdowns are not yet available, SA's consistently high unrecorded transactions in the past have led to speculation that substantial capital flight is taking place.

The capital drain was the main reason for a R3,3bn fall in the country's net foreign exchange reserves in the first quarter. However, a weak current account surplus added to the BoP woes as only R406m was left from the trade balance after net payments for services. The paltry current account would have been even worse had it not been for lower expenditure by South Africans travelling abroad

☐ To Page 2



Graphic: LEE EMERTON Source: RESERVE BANK

Capital outflow

B/Day 25/6/93

☐ From Page 1

(74-A)

and higher dividend income from foreign investments.

The Bank noted the weak current account surplus was partly attributable to "exceptional circumstances" related to a decline in international oil prices, which encouraged a substantial increase in oil imports. However, the surplus was also affected by a sharp decrease in merchandise exports (gold exports rose).

There was little BoP pressure from long-term capital outflows, in spite of the repayment of R550m in standstill debt and R600m in bearer bonds and notes. Valued at the exchange rate prevailing on August 31 1985, SA's foreign debt has been reduced from $23,7bn at the beginning of the standstill arrangements to $15,8bn at the end of last year.

● See Page 3
● Comment: Page 4

Debt deal for SA on the cards

74A

CT 28/6/93

From GRETA STEYN

JOHANNESBURG. — SA's repayment period for the $5,5bn of foreign debt caught in the standstill net would be longer than the seven years initially put forward in negotiations with the country's creditors, a monetary official said at the weekend.

It is understood that negotiations have taken a different course to the deal initially leaked to the Press at the end of April. Although it could not be confirmed, it is rumoured that an eight- or nine-year deal at a higher interest rate than SA had hoped for is on the cards.

It was reported at the end of April that SA wanted to pay less than 0,875 percentage points above the London Interbank Offered Rate (Libor). However, leaks from the debt negotiations have suggested 1,5 percentage points above Libor.

It is understood government has discussed the debt deal with the ANC and the PAC. SA's foreign creditors wanted political support before the deal could be finalised. Reserve Bank deputy Governor Chris de Swardt, who is heading SA's negotiating team, declined to confirm or deny rumours about the standstill negotiations.

Bankers said a final arrangement to repay the standstill debt would come as a relief as it would make it easier to secure new foreign finance.

Due relief

Foreign finance for trade was becoming scarcer as a surge in demand from SA companies was pushing the country close to the limits set by foreign banks, they said.

They estimated that hundreds of millions of rands in short-term foreign credit facilities were used in the past few months as companies rushed to take advantage of the Reserve Bank's favourable pricing of forward cover. The Bank, in an effort to alleviate pressure on the country's foreign exchange reserves, cut the cost of forward cover to encourage offshore borrowing.

Absa head of international relations Smittie Smit said the cheaper forward cover had spurred a surge in demand for foreign credit. The availability of foreign finance was declining as foreign banks were starting to hit the limits set on lending to SA.

FNB foreign finance manager Dave Pilley confirmed there was pressure on foreign banks with regard to their limits. A Standard Bank spokesman said the local market was "extremely price sensitive" and that foreign banks could charge a higher interest rate to dampen demand. "We are nearing the limits at the current price. Once a final debt deal is arranged, SA will fall out of the category of debt defaulters and new finance will be unlocked."

Debt repayment 'will take longer'

B/Day 28/6/93 (74A)

GRETA STEYN

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BOP crunch curbs chances of further interest rate cut

(74A)

ARG 29/6/93

☐ SA facing long haul of debt repayments in the next five years

BRUCE CAMERON
Business Staff

SOUTH Africa is caught in a balance of payments crunch that will prevent a further drop in interest rates this year.

So said Nedbank chief economist Mr Edward Osborn following the release of the latest money supply growth figures, which continued below the the Reserve Bank target figures.

The figures showed the growth in M3 — the broad money supply — was growing at 3,72 percent in May after 3,42 percent in April. The release also showed a substantial reduction in the growth of credit in the private sector, down to 5,94 percent from 8,77 percent in March.

Mr Osborn said the drop in credit could be attributed to, among other things, the introduction of the new secondary tax on companies.

Mr Osborn said that, although it would be difficult to substantiate, he felt companies were probably retaining a higher percentage of earnings to repay debt.

Other factors included lower consumer spending on credit because of increased VAT.

Generally the money supply figures continued to indicate a very poor ereconomic climate.

Interest rates were unlikely to move this year, "not because of money suypply figures, but because of pressure on the balance of payments".

He said: "We are in a balance of payments crunch. We are going into a long period of very heavy debt repayments for the next five years."

Mr Osborn said there was a large amount of parastatal debt falling due, while debt converted out of the debt standstill arrangements into medium-term debt was now also beginning to fall due.

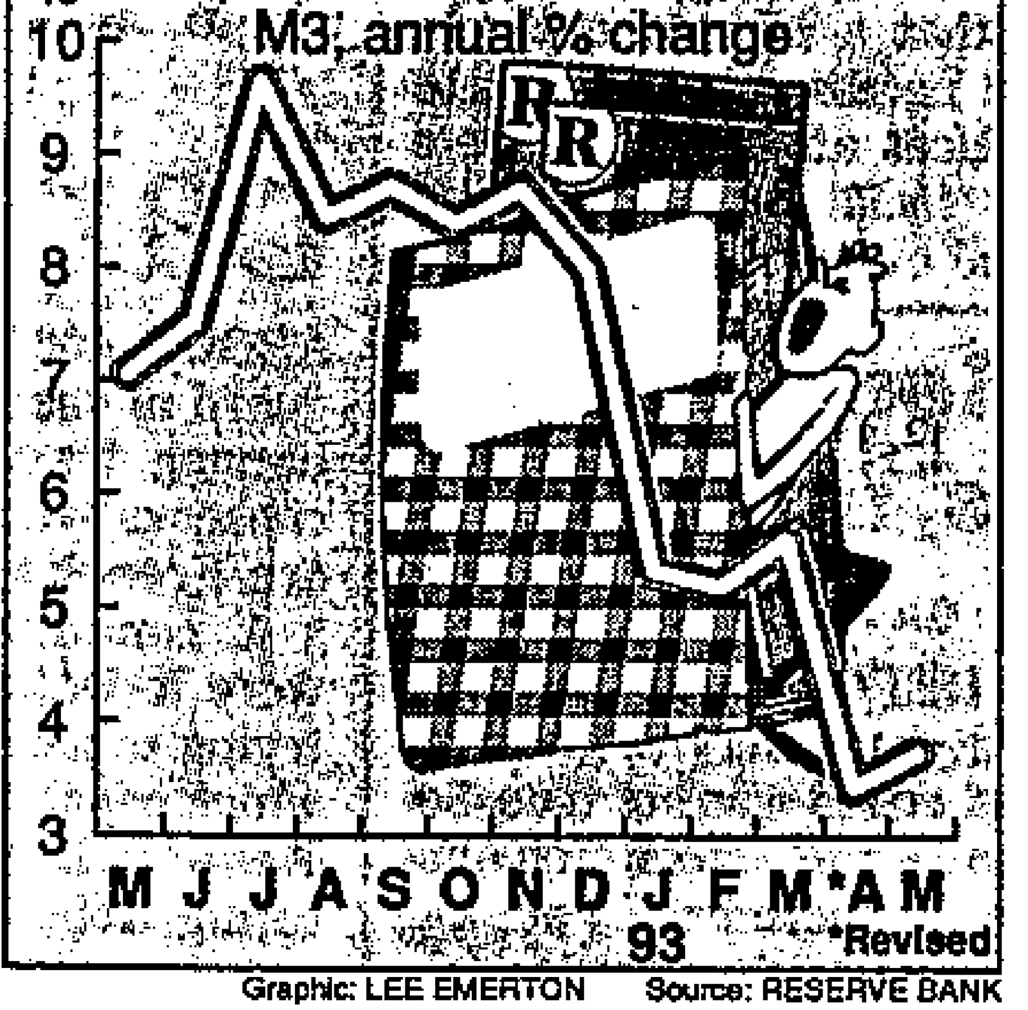
Decisions would have to be made on whether to repay debt or roll over. The parastatals, which accounted for a large proportion of the debt, would be unlikely to roll over the debt at the higher premiums now being demanded by the lending institutions.

"This affects decisions on interest rates."

Mr Osborn said it was also "bogus thinking" to say there were high real rates of interest.

If the mortgage inflation was taken out the underlying inflation showed low real rates of interest.

With the low real rate of interest rates and the balance of payments crunch, he could not see further drops in interest rates this year.



Graphic: LEE EMERTON Source: RESERVE BANK

Slow growth in money supply

BDay 29/6/93

GRETA STEYN

MONEY supply growth continues to languish well below the Reserve Bank's targets, reflecting a sharp slowdown in credit demand and balance of payments problems as the economy struggles to move out of recession.

Bank figures released yesterday showed the annual rate of growth in M3 — the broad measure of money — was 3,72% in May after 3,42% in April. In the first three months of the year, M3 was still growing at an annual rate of more than 5%.

Economists said the figures confirmed that domestic factors were in place for a cut in the Bank rate, but pressure on foreign exchange reserves meant the reduction would have to be put off until at least the final quarter of this year.

The release showed a massive R3,8bn contraction in credit extended to the private sector in April from March, pushing the annual growth rate in credit to the private sector down to 5,94% from 8,77% in March. Absa economist Adam Jacobs said the sharp fall could reflect a trend towards settling of debt in a climate of uncertainty, and a cutback in credit spending after the April increase in VAT. Bankers said the unusually high decline could also reflect a move off balance sheet by banks.

□ To Page 2

Money supply

BDay 29/6/93

□ From Page 1

The Bank has set a target for growth in M3 for the year of 6%-9% , but if the present trends continue until the end of the year, there will be no growth in the stock of money. The Bank's release showed that the annualised change from the base of the current target year was -1,56%.

Jacobs said the sluggish money supply growth also reflected the effect of capital outflows on the stock of money. The indicator did not point unambiguously towards an immediate cut in Bank rate. The BoP problems would have to abate and the earliest opportunity for a cut would probably be October. "But I would not be surprised if it did not happen at all this year, as the Bank has to remain cautious."

Rush to buy dollars

Weak rand, debt servicing pinch reserves

B|Day 30/6/93

GRETA STEYN and TIM MARSLAND

SA's foreign exchange reserves are under pressure as negative sentiment on the rand and huge foreign debt payments combine to trigger a rush to buy dollars in the local foreign exchange market.

Dealers said negative sentiment had spurred "leads and lags" — importers rushing to purchase foreign exchange before the rand weakened further and exporters delaying selling dollars in anticipation of the rand losing further ground. The net effect was a shortage of foreign exchange.

In addition, parastatals are in the process of repaying R700m in foreign debt, putting further pressure on the precarious reserves. Transnet repaid R300m earlier this month and Telkom will be repaying R400m within the next few weeks.

Fears that the rand was set to weaken further underpinned demand for dollars and saw the currency fail to follow the usual trend of tracking the US currency's movements on international markets yesterday. As the dollar slipped from its recent highs, the rand weakened across the board instead of following the normal pattern of strengthening against the dollar and weakening against third currencies.

The dollar slipped below DM1,70, held down by a fall in US leading economic indicators and concern that the Bundesbank would not ease monetary policy substantially this week. Despite the dollar's pause for breath, the rand failed to recover, hitting a low of R3,3350 before closing at R3,3328 from a previous close of R3,3273.

The rand weakened against the British pound, which has been going from strength to strength against most currencies, opening at R4,98 to the pound and closing just a whisker below the R5,00 level. The rand has lost more than 10c against the British currency in little more than a week.

Against the mark, the rand also continued its recent weakness, closing at DM0,5085 from DM0,5105. (14A)

The Reserve Bank noted leads and lags triggered by dollar strength as a major factor behind recent pressure on SA's foreign exchange reserves. However, debt payments were adding to the pressure.

Reserve Bank GM: foreign exchange James Cross said debt repayments amounted to an effective capital outflow.

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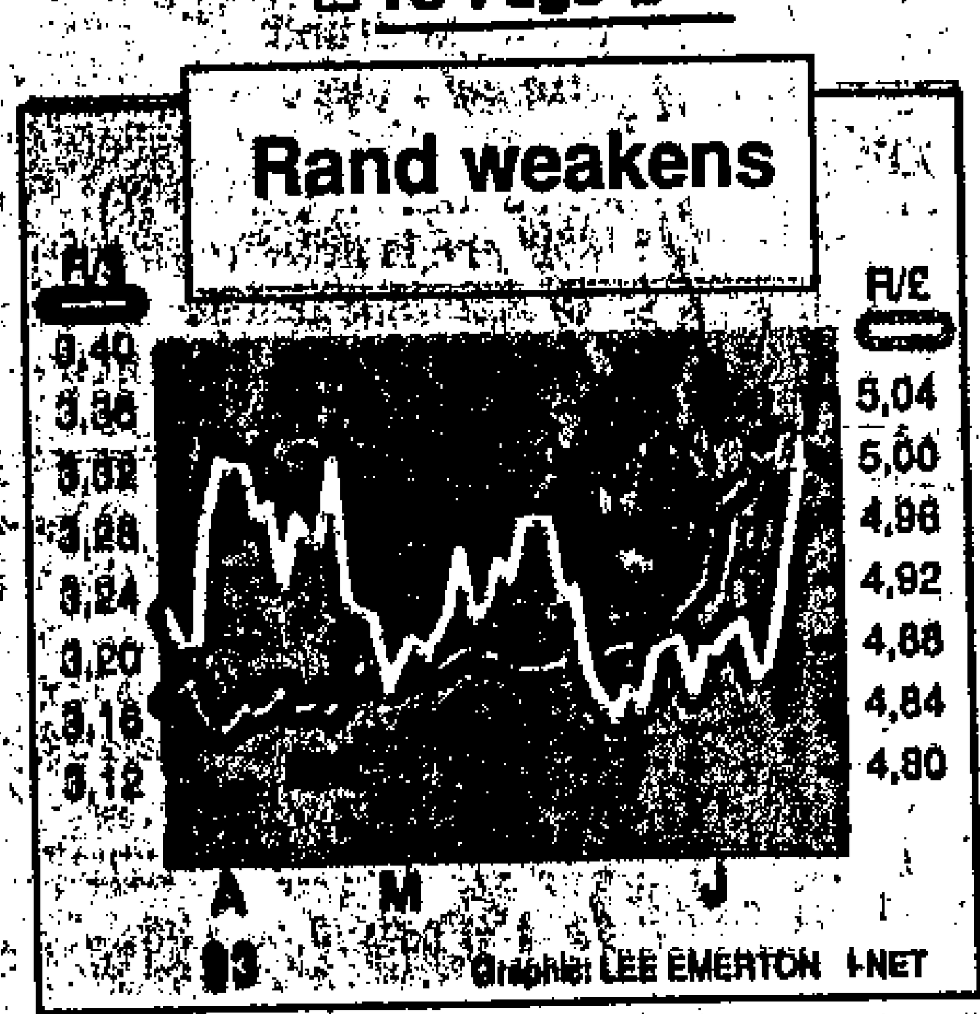

Reserves

B|Day 30/6/93

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He said the Bank regarded the repayments as part of normal daily business. It was hard to say what the total effect on the reserves would be, because other flows had to be taken into account.

Telkom has two DM100m loans to repay in July. Telkom treasury manager Willie Landman said Telkom decided to repay the loans as its cash flows were better than expected and it would probably be a net repayer of loans in the current year.

Telkom had been expected to roll over its loans to maintain its presence on international markets. (14A)

Transnet's DM150m loan was repaid on June 15 because of pricing considerations.

An Eskom spokesman said Eskom had $390m loans left to repay this year, including payments made in June, after having repaid a DM200m loan earlier this year.

Reserve Bank Governor Chris Stals this week described the country's gold and foreign exchange reserves at this juncture as "too low for comfort", noting that the present level of $3bn of gross reserves was not sufficient to cover even two months' imports.

Nedcor Bank chief economist Edward Osborn said 1993 would be the crunch year in terms of balance of payments, predicting that the Bank would not be able to cut Bank rate as a result.

See Page 8

THE WEEK AHEAD by Kelvin Brown

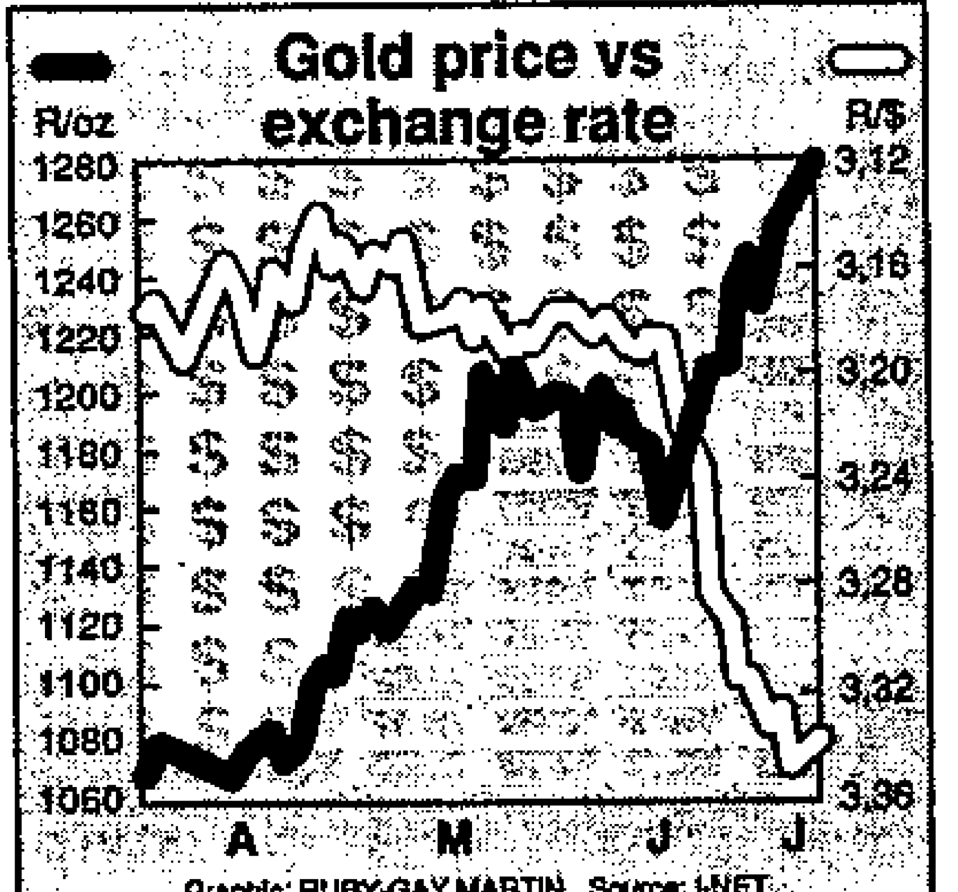
Debt payments expected to hit June reserves

A SURGE in foreign loan repayments and "leads and lags" from import and export settlements are expected to exert negative pressure on the June reserves, due out later this week.

The trend of declining reserves — witnessed in the first three months of this year — continued in May when net gold and foreign exchange reserves fell by R128,6m to R7,9bn. In the first quarter of 1993 total gold and foreign reserves declined by R3,3bn.

The decision by some parastatals to pay off foreign loans in June rather than roll them over would cause a significant outflow of capital, says Nedbank economist Edward Osborn. In June, Transnet repaid R300m for a DM150m loan while Telkom paid back R400m for two DM100m loans which fell due in July. Eskom also made some loan payments in June.

The parastatals opted to repay loans because of better than expected cash balances. Indications are this will also occur with other loans due later this year. Telkom has said its good cash positions would enable it to be a net repayer of foreign loans this year.



The significant devaluation of the rand against the dollar from about R3,18 at the beginning of June to R3,33 at the end of the month (see graph) has also held back precious foreign exchange from the authorities. Dealers say the fall in the value of the rand is encouraging importers to buy foreign exchange before the rand depreciates further. Exporters are also holding on to their dollars in the hope that the rand will fall further. The Reserve Bank says these "leads and lags" are also one of the causes of the deterioration in the reserves position in the first quarter of this year.

"I would not be surprised if the reserves fell in June because of the outflow of capital," says Osborn. But he adds this could be offset by the gold price revaluation. The dollar gold price hovered between $377 and $378 in June while the rand gold price shot up from R1 198 to R1 259 as the rand fell (see graph).

Osborn warns that any improvement in the June figures is unlikely to be repeated too often in the coming months. "This is going to be a hard year for the balance of payments due to continuous pressure on the reserves. This will have severe implications for monetary policy."

He does not expect interest rates to be cut this year. Despite low inflation and favourable money supply figures, the balance of payments situation will prevent the Reserve Bank from easing monetary policy.

"There will be considerable pressure on reserves in the second half of the year when SA has large amounts of long-term foreign debt to repay," says Osborn. Matters could be made worse if parastatals continue to repay loans rather than roll them over.

Hopes that reserves will be boosted by a higher trade surplus do not look good either, says Osborn. In the first quarter of this year the surplus on the current account of the BoP deteriorated significantly to R700m from R3,9bn in the last quarter of 1992. The Reserve Bank attributes the smaller surplus to "an increase in non-agricultural merchandise imports and a decrease in non-agricultural exports which more than neutralised the higher value of net gold exports and the decrease in net service and transfer payments abroad".

So far the trend is not looking good. On a currency adjusted basis exports increased by 0,1% in the first five months of the year compared with the same period last year while exports rose 4,8%. "This points to a significant squeezing of the current account balance."

The Sacob June business confidence index is also due out later in the week. It fell by 1,1 percentage points to 94 in May after putting in a fairly good performance over the past few months. The maintenance of the high gold price and weakening of the rand should have a positive effect, but adverse reactions to political events, despite recent progress in negotiations, could hold down the index.

International indicators scheduled for release include UK preliminary June money supply and French May money supply.

Annual M0 growth in the UK has been falling since it peaked at 4,9% in March. In April it fell to an annual 3,3%, well within the 0%-4% target range for 1993. The decline in narrow money supply should not threaten the recovery as long as broader money supply continues to increase. To sustain the recovery, UK consumers need to buy big ticket, credit-based items which require more confidence than the smaller, cash-based buying reflected in M0.

French money supply has continued to fall despite eight official interest rate cuts in as many weeks. In April M3 grew an annual 4,6% — not far from the bottom end of the 4%-6,5% target range for 1993. Last week's cut in German interest rates will be welcomed by the French authorities, whose efforts to stimulate their economy have been hampered by events across the border.

June's debt repayments cut into SA's foreign reserves

□ Stals tries to ease pressure on interest rates

(74A)
ARG 8/7/93

BRUCE CAMERON
Business Staff

HEAVY debt repayments in June have again reduced gold and foreign reserves, putting pressure on interest rates.

The reserves dropped by R389 million to R7,5 billion in June, in spite of the improvement in the gold price.

The gold reserves fell from 5,19 million to 4,94 million ounces, confirming the Reserve Bank was selling gold to take advantage of the recent steep climb in its value.

The pressure on reserves was to some extent relieved by an upward revaluation of the gold reserves by R47,94 an ounce between May and June.

The foreign debt repayment position was made tougher by the recent falls in the value of the rand against most other currencies.

Although the heaviest payments for the year are now over, South Africa faces three years in which the Reserve Bank will have to defend reserves with a fairly arduous debt repayment schedule.

The fall in reserves and the increased government borrowing because of delays in revenue collection have reduced liquidity and again put pressure on the money market.

Interest rates are in a push and pull situation. With the greater money supply (M3) well below Reserve Bank target level, consumer credit demand has dried up. The inflation rate, against predictions, has shown a short and medium term downward trend.

Real interest rates have climbed as a result. Normally this would have led to a drop in nominal interest rates.

Reserve Bank governor Dr Chris Stals has however given an assurance he will try to relieve the pressure on the money market to prevent interest rates climbing.

Capital outflows swipe reserves

CT 8/7/93 (14A)

By AUDREY D'ANGELO
Business Editor

SA's gold and foreign reserves fell again in June, to R7,5bn, after falling by R128,6m in May to R7,9bn.

The drop — expected by the market in spite of the higher gold price — underlines the threat to SA's balance of payments (BoP) and makes a further cut in interest rates unlikely until later in the year.

The drop was mainly due to a 15,5% fall in foreign assets to R1,9bn from R2,3bn.

The Reserve Bank's physical gold holdings fell from 5 187 306 ounces to 4 937 945 ounces, indicating that it took advantage of the higher price to sell.

Economists said the drop in foreign reserves was probably due mainly to repayment of debt, and to dividend payments to foreign investors. SA is committed to repaying about R5bn in foreign debt before year's end.

Although the gold price has risen sharply since the beginning of this year, and touched $397,25 an ounce in London this morning before falling back to a close of $394 on profit-taking, economists said yesterday that its benefit to the SA man in the street was mainly psychological.

Chamber of Mines economist William Houtman said the gold price would have to remain at higher levels for about six months before having any real effect on the economy.

But, Houtman said, the fundamentals showed there would be "a solid increase in the gold price" even if it fell back in the short term on profit taking.

Demand for gold exceeded supply and so far there had been no sign of the "well publicised sales by central banks" that had taken place last year.

SA Chamber of Business (Sacob) economist Keith Lockwood and Old Mutual chief economist David Mohr pointed out that the weakening of the rand in addition to the strengthening of the dollar gave a double benefit to the gold mines.

The higher gold price might have saved SA from an increase in interest rates when the balance of payments weakened earlier this year.

Lockwood said Reserve Bank governor Chris Stals had hoped the BoP would be strengthened by an increase in agricultural exports. Although this had not happened the higher gold price had come to the rescue instead.

Mohr said that the gold mines had become a far less important source of income to the government than they had been in the past.

The main benefit of the higher gold price was that it was good for confidence. As long as the outflow of capital continued he did not expect it to have much effect on the reserves.

"It might have saved us from a rise in interest rates. In spite of the weakness of the economy Stals might have raised them if the gold price had not gone up. He can usually be relied on to act tough."

Lockwood said he did not expect any rise in interest rates if the gold price fell now. Apart from the weakness of the economy the international trend was for interest rates to move downwards. This meant that SA now had high real interest rates in comparison with its trading partners.

'R3,8bn forward loss'

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

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

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

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

Reserve Bank gold reservoir drained

CT 9/7/93 (58) (74A)

By ANDY DUFFY

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

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

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

Reserve Bank Governor Chris Stals has consistently stated that the Bank must build up bullion reserves — but stocks have suffered a month-on-month decline from a high of more than 7-million oz last November.

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

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

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

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

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

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

Biting the bullet

LONDON. — SA may face an "acute" foreign exchange problem in 1994 if the new arrangement for the $5,2bn standstill debt includes a large "bullet" payment in the first year, says the latest quarterly report from the London School of Economics Centre for the Study of the SA Economy.

The report says that while precise details of the latest proposals are not public, "the outlines are now evident" and envisage stretching out repayments of all outstanding debt owing since 1985 — the $5,2bn in the standstill net and the $12bn outside it, in bonds and exit loans taken up in the 1980s — to 2001, a year later than previously expected.

According to the Centre the deal "reportedly" includes a possible increase in the interest rate and a "large bullet payment in the first year".

The size of the "bullet" is not given in the report but according to other banking sources in London it could be as much as $600m.

Damper on IMF loan euphoria

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

By REG RUMNEY

THE euphoria over State President FW de Klerk's announcement that South Africa might get access to an International Monetary Fund (IMF) facility is overdone.

True, an IMF stamp of approval is a signal to foreign investors that the country is okay for investment.

It will not, says Nedcor chief economist Edward Osborn, automatically mean Reserve Bank governor Chris Stals will turn his monetary policy around and cut interest rates again this year.

The $850-million facility enables the Reserve Bank to borrow up to this amount in times of crisis on the balance of payments (BoP).

If Stals precipitates a BoP crisis by cutting interest rates, the IMF could accuse him of engineering a situation where the loan comes into effect.

Descriptions of the facility as being for drought relief are also misleading.

If South Africa has need of the facility, it will be reflected in the accounts of the Reserve Bank as a claim on balances in New York. It will not be loaned or paid to farmers.

So it will immediately be on the books of the Reserve Bank, strengthening the foreign reserves. But it is not a developmental loan.

The importance of having such a facility, says Osborn, is that it gives foreign investors a sense that there is the safety net in South Africa of access to IMF money.

It is not clear the loan will be drawn down in September. "It may be necesary to draw it down, depending on how badly the balance of payments is affected."

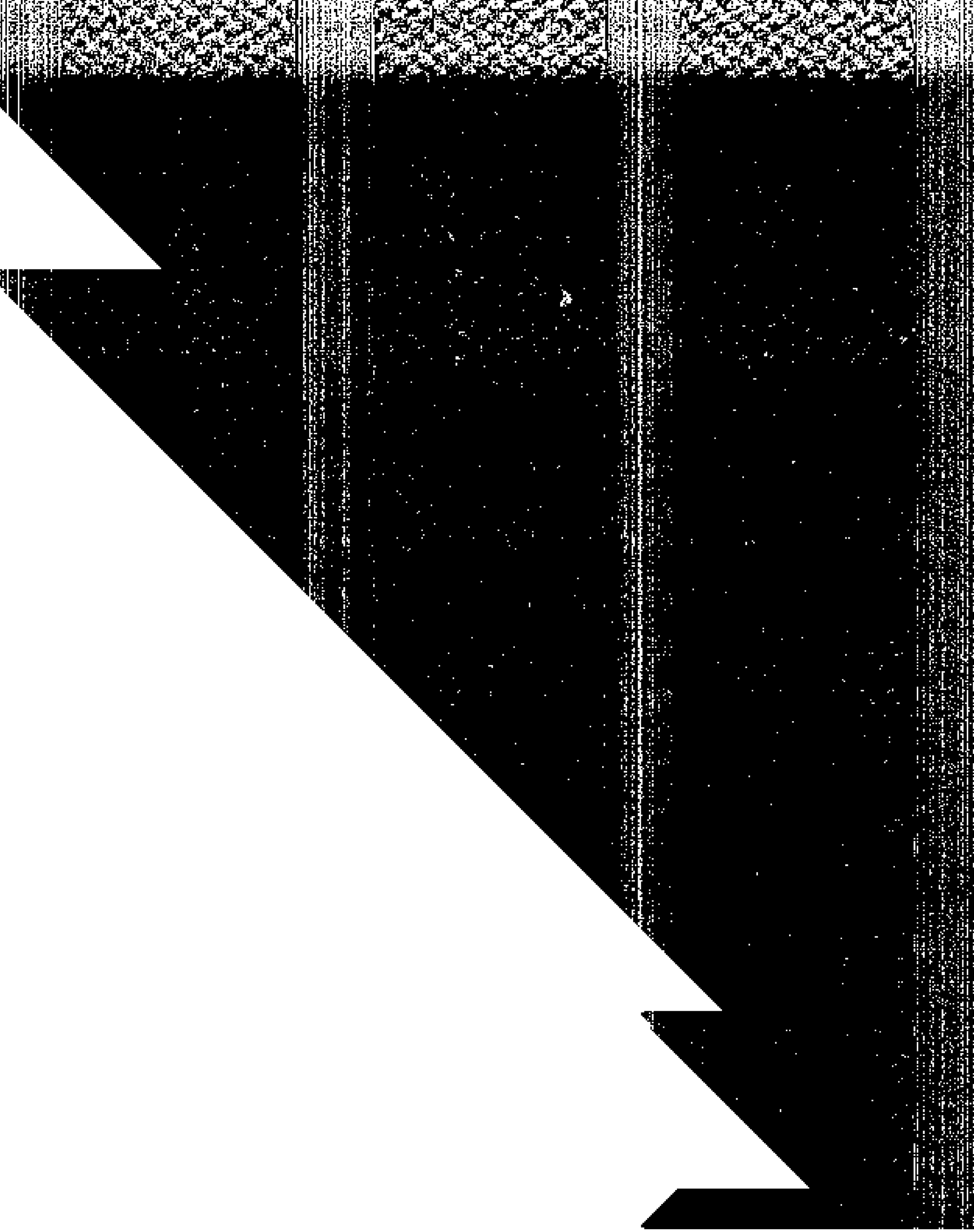
It would be better to announce the facility but not actually to use it, Osborn considers. If it is granted and South Africa does have to avail itself of the money, it must be remembered that the loan has to be paid back from the exchequer account in rands.

Depending on further devaluations of the rand against the dollar and the interest rate attached to such a loan, perhaps eight percent, this could mean, say, R250-million a year coming from the exchequer account for some years to come.

SA to face foreign debt squeeze in 1994

74A

CT 12/7/93



Own Correspondent

JOHANNESBURG. — South Africa faces a foreign debt squeeze next year which could become worse if the country fails to secure a favourable deal with its creditors on debt inside the standstill net.

SA's creditors reportedly want the country to make a substantial "upfront" payment next year of about 10% of the $5,2bn debt caught in the standstill net. This could bring the total amount of foreign debt to be repaid next year, including amounts outside the net, to $2,5bn, or more than R8bn at present exchange rates.

Even if SA escapes the "bullet" payment, next year's obligations will exceed this year's. Economists said the level of debt meant SA would have to borrow to repay its debt before it began financing new projects with foreign funding.

Nedcor economist Edward Osborn calculated that $770m of debt converted in terms of earlier standstill arrangements falls due next year, while $965m of parastatal debt outside the net has to be paid. "It will be an appalling year," he said.

SA may face an "acute" foreign exchange problem in 1994 if the new arrangement for the $5,2bn standstill debt includes a large "bullet" payment in the first year, says the latest quarterly report from the London School of Economics Centre for the Study of the SA Economy.

The report says that while precise details of the latest proposals are not public, "the outlines are now evident" and envisage stretching out repayments of the $5,2bn in the standstill net to 2001 — a year later than previously expected.

According to the centre, the deal "reportedly" includes a possible increase in the interest rate from 0,875 points above the London Interbank Offered Rate — although unlikely to be more than 0,25 to 0,375 points — and a "large bullet payment in the first year".

The size of the "bullet" is not given but according to other banking sources in London it could be as much as $600m.

But in addition, the centre says, "attempts are reportedly being made to accommodate differences among (creditor) banks by offering several conversion schemes involving securitisation and debt-equity swaps."

Securitisation could mean the issue of tradeable bonds but it is not clear what possible form equity swaps could take.

"The new arrangement under consideration is final, in that when it expires South Africa will have fully repaid all the amounts owing since 1985," says the centre.

And the proposal will postpone the bulk of repayments to the period 1998-2001 when other obligations "are negligible."

But it warns that in a worst case scenario, in which no new funds are available or if banks refuse to roll over debt, the expected scheme "implies that South Africa may face total repayments — including repayments on non-rescheduled debt — of about $2bn (2% of gross domestic product) in each of the first four years of a new government.

"Some banks", it claims, "have reportedly asked for assurances that the financial rand will not be abolished in the lifetime of the final arrangement, on the grounds that any significant strengthening of the capital account should first be used to repay standstill debt that is still outstanding."

The Reserve Bank declined to comment.

Foreign borrowing costs go sky high

BDay 12/7/93

GRETA STEYN

SA is paying the penalty for political instability as the cost of foreign borrowing increases and creditors become increasingly reluctant to extend trade finance beyond the immediate short-term.

The punitively high cost of foreign funding has prevented SA debtors from seeking rollovers or new finance, putting pressure on the country's foreign exchange reserves.

Bankers and parastatal borrowers said at the weekend that the situation was not yet improving.

FNB spokesman Jimmy Evans said there were two schools of thought among foreign creditors providing short-term trade finance. The one view was to keep the credit as short as possible, and the other to make it more expensive.

In the past few months, the rate on trade finance has hardened by 0,125 to 0,187 percentage points.

"Political risk and strong demand from SA have combined to cause creditors to review their margins on funds lent to SA."

Another banker said it was becoming increasingly difficult to extend trade finance beyond six to nine months.

According to the Quarterly Bulletin, SA banks extended R1,25bn in foreign currency loans and advances between December last year and March 1993.

(74A)

An Eskom spokesman said the market interest rate on its stock trading in Frankfurt was 2,35 percentage points above the rate on German government stocks, or the Bund rate, compared with the 1,5 margin at which it was issued. Finance GM Mick Davis said although there had been a softening from the worst margin of 3 percentage points, the rate was still not cheap enough to consider raising new finance.

"The quoted interest rate is not a true reflection of the rate at which we could place new paper. It would probably not even be possible to place paper at 2,35 percentage points above the Bund, while we would be uncomfortable with anything above 2 percentage points."

According to the Quarterly Bulletin, SA paid R5,2[illegible]bn in foreign interest in 1992, down from the previous two years.

'Appalling year' predicted

Foreign debt squeeze on cards for SA

BiDay 12/7/93

(14A)

JOHN CAVILL and GRETA STEYN

SA FACES a foreign debt squeeze next year which could become worse if the country fails to secure a favourable deal with its creditors on debt inside the standstill net.

SA's creditors reportedly want the country to make a substantial "upfront" payment next year of about 10% of the $5,2bn debt caught in the standstill net. This could bring the total amount of foreign debt to be repaid next year, including amounts outside the net, to $2,5bn, or more than R8bn at present exchange rates.

Even if SA escapes the "bullet" payment on affected debt, next year's obligations will exceed this year's.

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But in addition, the centre says, "attempts are reportedly being made to accommodate differences among (creditor) banks by offering several conversion schemes involving securitisation and debt-equity swaps".

Securitisation could mean the issue of tradeable bonds, but it is not clear what possible form equity swaps could take.

"The new arrangement under consideration is final, in that when it expires SA will have fully repaid all the amounts owing since 1985," the centre said.

"More importantly, once it has been agreed, SA will no longer be technically in default on any part of its external debt."

This should improve access to international funding.

The proposal will also postpone the bulk of repayments to the period 1998-2001, when other obligations "are negligible".

But it warns that in a worst case scenario, in which no new funds are available or banks refuse to roll over debt, the expected scheme "implies that SA may face total repayments — including repayments on non-rescheduled debt — of about $2bn (2% of GDP) in each of the first four years of a

☐ To Page 2

Debt

BiDay 12/7/93

☐ From Page 1

new government.

"The problem may be acute in 1994 if the arrangement includes a bullet payment, as has been suggested."

(14A)

The centre added that debt-equity swaps could also extend the life of the financial rand.

"Some banks have reportedly asked for assurances that the financial rand will not be abolished in the lifetime of the final arrangement, on the grounds that any significant strengthening of the capital account should first be used to repay standstill debt that is still outstanding."

The Reserve Bank declined to comment.

Stals optimistic over SA's inflation, BoP

(74A) CT 13/7/93

Own Correspondent

JOHANNESBURG. — Reserve Bank Governor Chris Stals presented a generally optimistic view yesterday of SA's inflation and balance of payments (BoP) prospects for the rest of this year and, barring unforeseen political circumstances, into 1994.

He said in an interview SA was heading for single digit inflation again. A further encouraging factor was that major foreign debt payments for the year had been completed on July 7. He also expressed "faith and confidence" that SA would have access to new foreign capital to meet its heavy debt commitments next year.

Pessimism over the effects of the VAT increase on inflation had been unjustified and inflation, at 10,6%, was lower than expected. A single digit rate was possible before the end of this year and once the VAT increase fell out of the figures in April next year, SA could "easily" have an inflation rate of below 10%.

SA could "feel good" about the performance of the inflation rate, but inflation had not been the key issue policymakers faced. In a reference to monetary policy, he said: "The main problem was pressure on our gold and foreign exchange reserves."

But the remaining big foreign debt payment for the year had been completed last week, taking away a major source of pressure on the reserves. "Our reserves have started increasing," he noted, but added it was too soon to discern a trend.

Only two small payments, in August and December, of debt inside the standstill net remained to be made. In addition, the current account balance was also expected to put in a satisfactory performance.

He did not wish to be drawn about reaching a final agreement on the standstill debt, but confirmed SA's creditors had requested a substantial "upfront" payment on about $5bn which is being renegotiated. Foreign banks were handling the negotiation of a final agreement with the same approach as granting a new loan, when a substantial upfront payment would be needed. For a new loan, the payment would not form part of the capital but in this case it would be seen as redemption of the principal amount.

The foreign debt deal will not be finalised until broader political consensus has been attained.

Asked whether the expected huge debt commitments next year would force SA to apply austerity policies to generate a big surplus on the current account, he said: "One has to have faith and confidence that SA will be able to secure enough rollovers to get through. The second half of next year could see the situation improve, as IMF and World Bank funds should become available. We are assuming that there will be enough new inflows to cover our obligations, otherwise economic activity will be depressed."

He believed that once elections were over and a new government's Budget and economic policies had won international approval, access to foreign finance would be easier. While growth of 1% this year was possible, depending on agricultural output, the rate could rise substantially next year — assuming political stability.

Asked about market talk of heavy intervention in the foreign exchange market last week, Stals said completion of the debt payment had influenced the market. The Bank had made its presence felt to smooth out the distortions. He believed the market would be more comfortable now that the debt payments had ended.

Debt talks are going quite well, says Stals

Star 13/7/93

By Claire Gebhardt

The Governor of the Reserve Bank Dr Chris Stals has discounted suggestions that the country faces an appalling year in 1994 as creditors apply the squeeze over the debt inside the standstill net.

Dr Stals says a worst case scenario in which no new funds are available or banks refuse to roll over debt is "unrealistic".

Stals says no details of the proposals on the Debt Standstill are available at this stage but nego tiations have gone quite well.

"Most of the technical details and controversial issues have been sorted out and we are confident that the matter can be finalised.

"We have presented the proposals to the other political players and we are now waiting for them to reach concensus on what is acceptable to them."

Stals says the worst case scenario reported yesterday implied that South Africa would be forced to repay all its foreign debt from now until the year 2000 and that no new loans would be coming in.

"And then we'd have to assume the economy no longer existed, says Stals. (74A)

"In any reasonable process at least some of your maturing loans will be replaced by new loans, some will be rolled over and as trade occurs trade financing will increase.

"But what will be replaced by new loans will depend on political and economic develoments and confidence in South Africa as a place for investment.

"In some years there could be a net inflow of capital.

"Our best-case scenario is R5 billion to R6 billion per annum capital inflow."

Optimism on access to foreign funds

Stals forsees single digit inflation in '94

B/Day 13/7/93 (74A) (153)

GRETA STEYN

RESERVE Bank Governor Chris Stals presented a generally optimistic view yesterday of SA's inflation and balance of payments prospects for the rest of this year and, barring unforeseen political circumstances, into 1994.

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● STALS

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☐ To Page 2

Stals

(74A) B/Day 13/7/93 (153)

☐ From Page 1

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ANC fears FW move may hurt debt talks

BDay 14/7/93 TIM COHEN

THE "premature" announcement by President F W de Klerk that the IMF was prepared to grant SA a special loan of $850m has sparked concern in ANC ranks that debt rescheduling negotiations might now be more difficult. (74A)

A senior ANC member also indicated yesterday that the up-front "bullet" payment being demanded by creditor banks for debt still in the rescheduling net was even bigger than previously thought. (166)

Creditor banks are apparently demanding that 13% of the $5,2bn still in the net should be paid off during 1994, which is higher than the 10% previously speculated.

During recent discussions with creditor banks, the ANC suggested that rather than a large up-front payment, the greater portion of the outstanding debt should be paid later so that a new government would not be unduly burdened early in its existence.

The ANC criticised De Klerk's announcement, made during his US visit, that the IMF was prepared to grant SA special facilities — to deal with the effects of the recent drought crisis on the balance of payments — on the basis that it was unilaterally done, even though the ANC was involved in the discussions.

A senior ANC source indicated that the organisation was also concerned that the loan might end up being totally absorbed in debt repayments, rather than being used for economic and social upliftment.

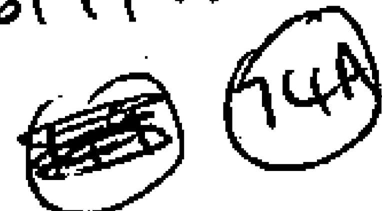
It is understood the ANC and government are currently involved in intense joint discussions to renegotiate the debt rescheduling arrangements.

Finance Minister Derek Keys has indicated creditor banks are requiring "political endorsement" of the deal, which will probably not be struck until the transitional executive subcouncils are established.

● Comment: Page 6

RESERVES FM 16/7/93

Trickle back


(74A)

With major debt repayments for the year completed on July 7 — according to Reserve Bank Governor Chris Stals — capital outflows should start slowing. These repayments, Stals says, include all government and public corporation debt; "and there are no major private sector loan repayments due this year that we know of."

Though payments of debt in the standstill net have still to be made on schedule in August and December, these are comparatively small at a total of R250m.

The cost of securing rollovers of existing off-shore debt has become critical to the state of gross reserves. Prospects, says Southern Life economist Mike Daly, depend on the attitude of foreign creditors. "Overseas bankers are effectively forcing the repayment of debt outside the net by virtue of the high premium they are charging. This is in spite of talk of IMF funds becoming available later this year."

Factors which are bound to play a part in the months ahead include:

☐ Currency moves. Since August, the rand has declined 18% against the US dollar. Further depreciation will make foreign debt repayments more onerous, in terms of forward cover. In dollar terms, the decline in reserves has been sharp: 9% in June to US$2,3bn from $2,5bn in May (down from an August peak of $4,2bn). In rand terms, the decline was 5% between May and June to R7,5bn (from R11,5bn in August);

☐ The gold price. The bull run since March has allowed the Bank to dispose of gold holdings (principally through swaps) while protecting foreign exchange reserves. Gold holdings were reduced by about 250 000 oz, with little impact on the value of gold reserves, which fell only R32m in June. A gold price above $400/oz for the rest of the year would allow the Bank to dispose of even more of its obligations this way. In addition, it will attract more foreign exchange earnings;

☐ The expected improvement in the current account of the balance of payments, due largely to improved agricultural conditions and possibly the rising price of gold; and

☐ Short-term finance of about R2,1bn raised earlier this year by the Bank, some of which may still be outstanding.

Even taking these issues into account, the outlook for the year is mildly encouraging. Says Daly: "The level of merchandise imports covered by reserves should reach two months' cover, from the present 1,8. But this is still short of the two-and-a-half seen in August, so Stals may not be prepared to move on rates until we see that level again." ■

FOREIGN DEBT REPAYMENTS FM 16/7/93

Too many radicals, one bullet payment

An interim government could inherit a painful constraint on growth. Of the US$23,7bn of foreign debt outstanding in 1985, about $17bn has still to be repaid. Unless repayments of about $5bn debt in the standstill net can be renegotiated and debt outside the net rolled over on reasonable terms, SA will face ongoing capital outflows.

The only way to shed the constraint will be to face the truth about the debt crisis — it was caused politically and can only be cured the same way. The new government will have to adopt policies and postures which reassure local and overseas investors alike that we will follow the free enterprise path and that private property will be secure in the new SA. The price for dodging this sensitive issue for long will be high.

Meanwhile, views differ strikingly on the level of foreign payments which will have to be made in 1994. Reserve Bank governor Chris Stals rejects, as "an unrealistic worst case scenario," a situation in which no new funds are available next year or overseas banks refuse to roll over debt.

This scenario proposed that SA will be forced to repay all its foreign debt from now until the year 2000, without any new loans to offset the outflows. Not only, argues Stals, can we reasonably assume some loans will be rolled over, but some new money will be available and there will be further benefits from increased trade finance. His best case is a capital inflow of R5bn-R6bn a year. But this will hinge on political as well as economic aspects.

Nedcor economist Edward Osborn, in contrast, provides a view of unrelieved pessimism for this year and next. He sees a combination of weak foreign reserves and a projected balance of payments quite inadequate to meet the likely schedule of debt repayments, let alone provide for growth (see table).

Until recently, Osborn estimated the current account surplus at about R5bn, but the way imports are now rising, he considers SA will do no better than R3,8bn. More optimistic estimates from other sources, however, put the surplus at R4bn-R5bn.

The position for 1994, argues Osborn, is likely to be worse. Against the full $2,3bn or $2,5bn debt repayments (without any roll-over), SA will achieve a current account surplus of $700m if the gold price averages $385/oz, or $1bn if it averages $400. An average gold price of $500 would make an enormous difference, as it would generate a current account surplus of $3bn. But it should also be remembered, says Osborn, that the economy is likely to recover next year, which will push up imports.

According to a recent analysis by the London School of Economics' Centre for the Study of the SA Economy & International Finance, an agreement for repayment of the remaining debt in the net has been achieved. But this is subject to "broad political endorsement." Stals has now confirmed that SA's foreign creditors had asked for a substantial upfront bullet payment on the $5bn of affected debt being negotiated — as claimed by the LSE Centre. In this respect, the foreign bankers were simply treating the new agreement as if it applied to a new loan.

Osborn concludes there is likely to be a shortfall of about $400m this year, between the current account surplus and the capital account outflow — in the absence of new finance. This is on the assumption that gold will average $360 for the year. But this pessimism seems unfounded as Stals says the last big foreign debt payment for the year was made last week (see P33).

For 1994, Osborn predicts, the shortfall would be $1,5bn (if the higher figure of $2,477bn is taken for repayments and gold averages $400).

However, if debt negotiations are on track (which assumes SA is capable of meeting the payments) Osborn is being far too pessimistic about capital inflows. Alternatively, there could have been strong assurances that SA will receive a big block of IMF money soon.

If a bullet payment is really being requested by foreign bankers, it is a strong signal to the interim government that it needs to watch its relationships with them at least as much as those with its own radicals. Perhaps the question of a bullet payment is a side-issue.

Regardless of the details of the debt deal, we need to look more closely at overseas political risk perceptions — which lie at the heart of the whole foreign debt problem.

The imminent installation of an interim government will put an end to the "apartheid factor". But this does not necessarily dispose of the political risk factor.

There are two aspects to political risk. The first is whether the present state of incipient anarchy in some areas can be ended and stable political authority and law and order reinstated countrywide.

But more politically sensitive and divisive is the question of the ANC's economic policies, as they are currently being propagated, and how they will influence the actions of an interim government.

Senior ANC leadership has not taken a stand against alarmingly socialist or, at any rate, populist and redistributionist policies being propagated within its own ranks.

Sacob director-general Raymond Parsons says business will need to be reassured that property rights will be entrenched in any new constitutional dispensation — a vital issue which it appears the incomplete agreement on the interim constitution has not yet addressed.

After the election next April, the whole issue of capital flight — of which debt repayment is only the part above the waterline — will have to be faced.

Says Parsons: "It is not enough that any future government should merely be market-tolerant; it must also be seen to be market-friendly in order to secure high levels of investment. This requires that the rules of the game under which business and investors will operate be reasonably certain and predictable."

If the right frame of mind among investors can be cultivated, there would be a variety of financial benefits. Thus, the illegal and invisible outflow of domestic capital, notably through over-invoicing and transfer pricing, will reverse itself. We could hope for a sub- cont

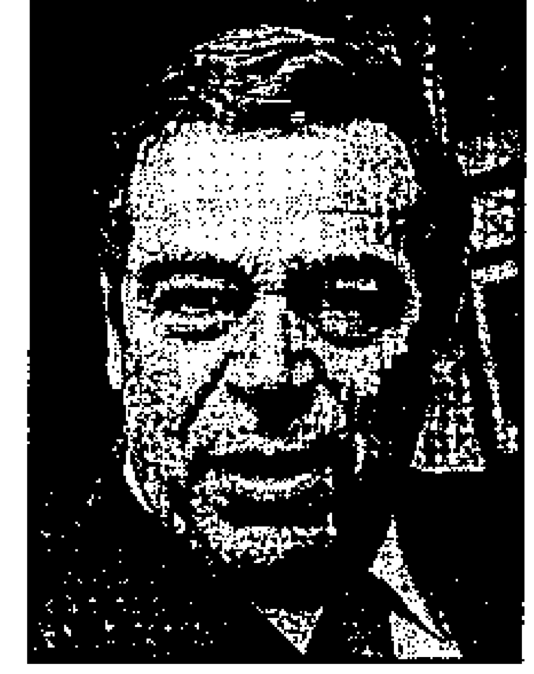
The tough years
Five years of foreign debt repayments

$bn		1993	1994	1995	1996	1997	1998
Public sector		771	965	737	440	332	367
Converted debt		403	769	949	892	836	813
Affected debt	(a)	437	520	276	260	245	230
	(b)	437	743	743	743	743	743
Total payments	(a)	1 611	2 254	1 962	1 592	1 413	1 410
	(b)	1 611	2 477	2 429	2 075	1 911	1 923

Assumption (a) is a bullet payment on affected debt of 10% up front and thereafter 3% per half year on residual balance
Assumption (b) is even disposal of affected debt over 7 years
Source: Nedcor

FM 16/7/93 (74A)

Osborn


Stals

stantial reflux, though some informed observers believe the extent of illegal outflows (and, therefore, of possible inflows) has been grossly over-estimated.

The penal rates of interest at which the SA government or Reserve Bank have to borrow abroad would also come down. It is even possible that the final agreement on the repayment of affected debt could become a dead letter.

All this, however, hinges on the ANC's ability, as the major component of the future interim government, to generate confidence. If it loses some support among the radicals, this is a price which its senior leadership must show itself willing to pay. Otherwise the present dangerous financial haemorrhage will continue. ■

Trade surplus bounces back

CT 20/7/93 (74A)

. . . but pressure on BoP unrelieved

By AUDREY D'ANGELO
Business Editor

SA's trade surplus bounced up to R2,36bn in June — the highest for 20 months — after a steep fall of R314,1m in May to R1,87bn.

Exports rose to R7,09bn compared with R6,49bn in May and R5,75bn in June last year.

Imports also rose, to R4,72bn compared with R6,49bn in May and R4,09bn in June last year.

These improved figures mean that the trade surplus for the first six months of this year is R9,37bn compared with R8,78bn in the same period last year.

Exports for the first six months of this year totalled R36,98bn compared with R33,01bn in the same period last year. Imports for the first six months of this year totalled R27,61bn compared with R24,23bn in the same period last year.

Some economists thought the bigger trade surplus, following favourable inflation figures, pointed to another cut in interest rates by September.

But Old Mutual chief economist Dave Mohr and Nedbank chief economist Edward Osborn warned that pressure on the balance of payments (BoP) was still too strong to allow this.

Mohr said the figures were "very encouraging indeed." But the substantial improvement in the trade surplus this year compared with last highlighted the fact that the fall in gold and foreign exchange reserves was due to capital outflows.

"This confirms the vulnerability of the capital account. This is the real situation which prevents a cut in interest rates."

Pointing out that Reserve Bank Governor Chris Stals had shown himself to be very conservative, Mohr said that by September he would only have had two more reports on the reserves and even if these showed improvement it would be too little to decide on.

Osborn said it was "very gratifying" to see this improvement in the June figures. It was particularly encouraging that, after exports in the first quarter had gone up by only 0,4% over the same period the previous year, exports in the second quarter had risen by "a sizeable 22,6%."

However, he pointed out, the improvement was largely due to the depreciation of the rand. If this were stripped out exports would have risen by only 1,6% and imports by 4,6% "so there is definitely pressure on the BoP."

Osborn pointed out that the increase in exports was mainly in mining products. The gold price had risen by 3,3% "which was a welcome change and an improvement for the gold mining indusatry."

SA Foreign Trade Organisation (Safto) economist Carlos Texeira said confidence among exporters was increasing. He expected growth of 4% in exports excluding gold over the next six months. "We are very positive."

The rise in imports included machinery and transport equipment, which could indicate fixed investment in preparation for the next upturn.

Manufactured exports had continued to show growth although this was not as strong as the 40% surge in the export of precious and semi-precious stones and metals.

Texeira said exports to Africa had declined marginally but imports had increased, indicating improved relations.

The biggest rise in exports was to Oceania. They had grown by 30% in the first six months of this year, although from a small base. Imports from this area, which included Australia and New Zealand, had grown by 48% which could be "an indication of warmer feelings."

Boland Bank economist Francois Jansen said the improvement in the trade surplus "will definitely help our foreign exchange position."

Star 20/7/93

Squabbling squashes rate cut hopes

By Claire Gebhardt

Political events have exacerbated short-term capital outflows and are preventing a lowering of interest rates, says Syfrets in its latest Economic Quarterly Review.

Economist Elmien de Kock says the public squabbling between ANC leader Nelson Mandela and President FW de Klerk in the US, and the government's handling of the AWB's storming of the World Trade Centre has had a negative impact on market sentiment.

"Second quarter statistics will probably show further declines in net foreign exchange reserves."

Outflows of R3,25 billion in the first quarter are already 41 percent up on the R2,3 billion registered for the whole of 1992, she notes.

"On the positive side, the outflow on the capital account should diminish with the advent of a Transitional Executive Council.

"Elections on April 27 next year seem certain and this, combined with progress on a Transitional Executive Council, bodes well for the future and for financial markets."

Syfrets sees a sideways movement in economic activity this year with a mild recovery in 1994.

"Exports will probably lead the upswing on the back of a weakening rand and an improved world economic outlook."

"Fixed investment spending, though coming off a low base, should also show better growth as various projects in the pipeline, get under way."

But consumer spending will lag the recovery given reduced wage increases and a heightened tax burden, she says.

On the equity front, de Kock says the unexpected run in the gold price has propelled share prices to levels not justified by the unimpressive earnings forecasts for the next 12 months.

"We therefore maintain our recommendation for a cautious stance towards equities.

(74A)

BoP difficulties acknowledged

GATT eases terms for SA trade reform

BI Day 20/7/93

(14A)

GRETA STEYN

GATT has given SA a breather on trade reform by allowing a delay in the scrapping of import surcharges after being told SA faced serious balance of payments (BoP) problems.

Finance director-general Gerhard Croeser said in an interview yesterday that he had put SA's case at a meeting of the GATT BoP committee in Geneva this month. The committee had placed no obligation on SA to phase out the surcharges for the time being and had given SA until mid-1994 to report back on the feasibility of abolition.

It is understood that the IMF helped sway the GATT committee by throwing its weight behind SA's request for lenience. The fund, which usually takes a hard line on trade interventions such as surcharges, is understood to have noted that SA faced a problem in generating enough foreign exchange to repay huge foreign debts without depressing economic activity too much.

The IMF agreed with SA's argument that managing the foreign exchange reserves would require a delicate balance of all available policy instruments — including import surcharges.

Croeser told the GATT committee that the BoP problems, which led in 1988 to the imposition of surcharges on goods bound under GATT rules, were not yet over. SA's foreign exchange reserves had recently been depleted by factors ranging from the drought to the adverse effect of political uncertainty on capital movements.

SA faced a possible net capital outflow of R5bn this year and another difficult year in 1994. Repayment of debt in the absence of any significant capital inflow would continue to represent "a particularly harsh BoP constraint". Of the debt in the standstill net falling due, about R2bn would have to be repaid in 1994 alone.

"The process of political transition and constitutional negotiations entails a regrettable degree of instability which, together with the occurrence of violence and very high unemployment, creates uncertainty that enhances the risk of capital outflows and delays the normalisation of the country's international financial relations, which is a prerequisite for new foreign loans," he said.

He added that an economic upswing that led to an early rise in imports would add to the vulnerability of the BoP.

Croeser, while acknowledging the need for economic restructuring, noted it was of "crucial importance" that it was done on a consensus basis.

The general provisions of GATT allow exemptions for countries in the grips of BoP crises.

Three factors relating to SA's surcharge concerned GATT: it is levied on some items bound under GATT rules; it has lasted longer than originally envisaged; and is charged at differential rates. But Croeser argued for the retention of the status quo for the time being in all three respects. He noted, however, that SA had often committed itself to the eventual abolition of the surcharges that range from 5% (on intermediary goods) to 40% (on luxury goods).

Revenue raised from the surcharges amounted to R1,5bn in the 1992/93 fiscal year and the income from goods bound under GATT was R435m.

Capital exodus dominates outlook

B/Day 23/7/93

Business Day Reporter

OFFICIAL estimates put the amount of capital that has left SA at R20bn for the past four years — but the unofficial figure could be twice as much, Absa said in its latest Economic Spotlight.

The foreign capital constraint would continue to dominate the economic picture this year and in 1994. Against a background of a debt standstill, financial sanctions and political uncertainty, the capital account remained the key to the overall health of the balance of payments (BoP).

SA was being forced to repay its foreign debt at a fairly rapid rate because foreign creditors remained unhappy about their risk. This had also caused the cost of short-term trade finance to rise. SA banks paid 0,75 percentage points above the London Interbank Offered Rate for loans, compared with New Zealand or Australia, which paid at 0,375.

Absa expected total debt repayments next year to rise to about R7bn from R5bn. Renewed long-term lending to SA was unlikely to begin before a new government was in place and issues such as violence and economic uncertainty had been addressed.

The Spotlight said while it was government's intention to scrap exchange controls in terms of the normative economic model, it had accepted that any immediate step in this direction would be too dramatic for the economy to absorb.

(74A)

A freeing up of capital movements would result in domestic interest rates being set by international financial markets. This would likely result in a prime overdraft rate of more than 20% and a long bond rate of 19%. While the outlook for the BoP capital account was weak, Absa was positive about the current account. Improving terms of trade, with export prices rising faster than import prices (16,3% versus 14,6%), would contribute to an expected R17bn trade surplus for the year.

Money supply growth slows

74A CT 29/7/93

Own Correspondent

JOHANNESBURG. — Growth in broad money supply continued to slow in the year to June, as subdued activity in the domestic economy kept a lid on private sector demand for credit, official figures show.

According to Reserve Bank figures released yesterday the annual growth in M3 — the broad measure of money that covers cash in circulation and all deposits at banks — eased to 3,95% in June from a revised 4,63% for the year to May.

Economists said the figures indicated the cost of credit was too high in the current depressed economic situation, and a cut in Bank rate was needed soon if the economy was to show any real growth this year.

But they also said that fragile reserves remained an obstacle to further cuts in official short-term interest rates.

Bank figures showed credit claims on the private sector remained fairly static in May at R408,47bn from R408,04bn in April, as credit extension growth shrank to 5,7% in the year to May from 5,9% in April.

Rand Merchant Bank economist Rudolf Gouws said falling demand for credit in real terms indicated just how severe the recession was.

"There is not even a 6% growth in total bank lending to the private sector for the year to May while inflation remains around 10%," he said.

From the base of the current guideline year — the fourth quarter of 1992 — growth was 0,13%, which was well below the 6% to 9% target growth range set by the Reserve Bank for 1993. At this rate there was unlikely to be any growth in money supply this year, he said.

Official interest rates needed to be lowered when reserve figures improved to offset the low growth in money supply.

He expected a cut in the official bank rate in the near future.

"We are not out of the woods yet as far as the reserves are concerned but we are pretty fast approaching that point where interest rates could be lowered".

He said this sentiment was also apparent in the financial markets which had been anticipating a cut in Bank rate over the past few weeks.

Chance of lower rates improves

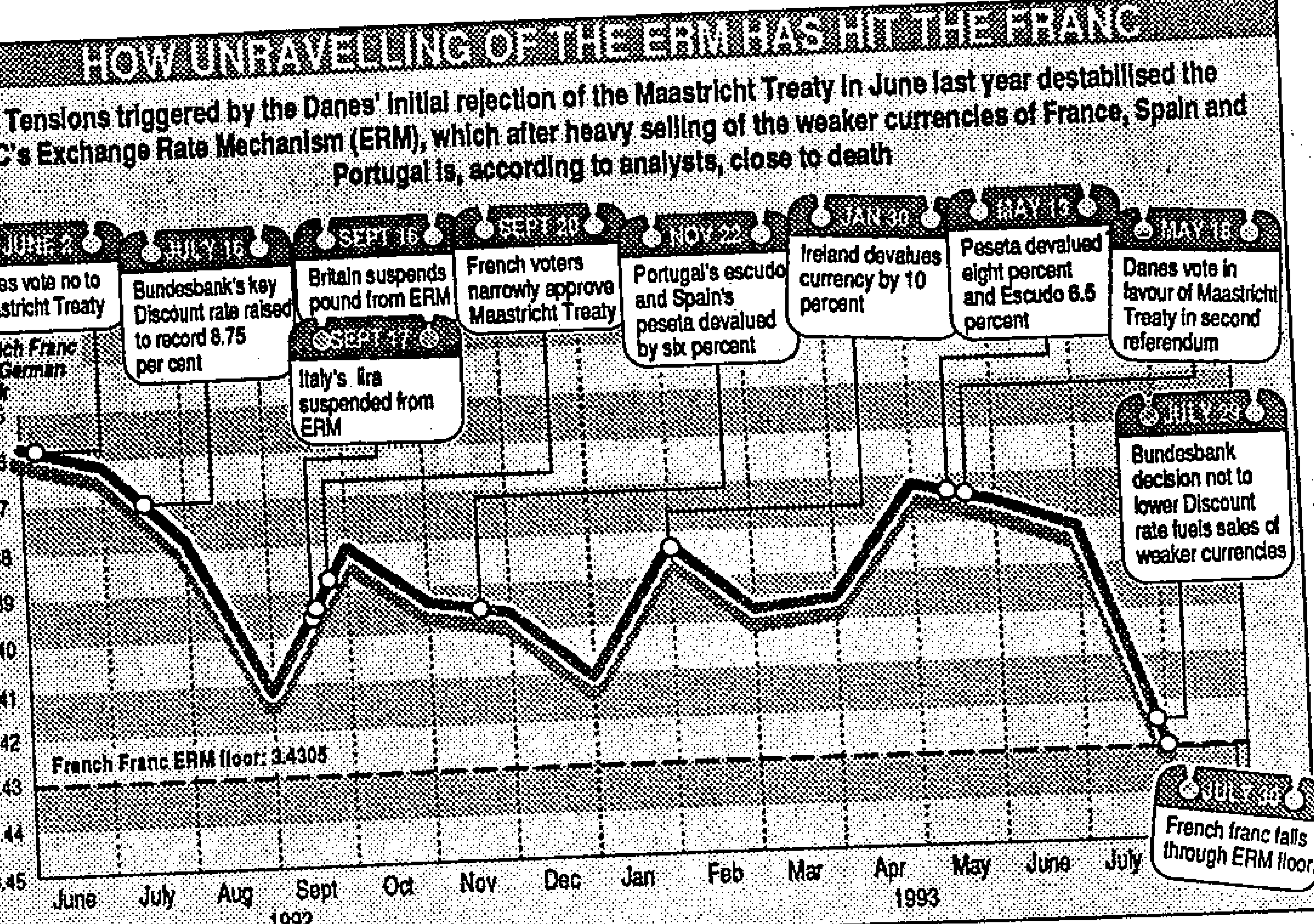
Star 3/8/93

By Claire Gebhardt

Governor of the Reserve Bank Dr Chris Stals says if European interest rates fall in the wake of the currency turmoil South African interest rates could follow suit.

In an interview yesterday he said capital outflows remained a problem, but lower rates overseas provided less incentive for money to flow out of South Africa.

The European Exchange Rate Mechanism (ERM) crisis was making it difficult to keep the rand exchange rate relatively stable against other currencies.



Positive

"We would prefer less currency uncertainty, but the ERM shake-up has caused investors to turn to gold, and that is very positive for us."

Economists yesterday predicted that gold would continue to advance following the crisis decision by European Community finance ministers to allow a de facto flotation of currencies within the ERM.

Yesterday gold was catapulted to $409,25 in Hong Kong, its highest level since August 1990, before declining marginally on profit-taking.

Platinum hit $418,50 — a 30-month high.

With the French franc, Spanish peseta, Danish krone and Belgian franc expected to continue to depreciate against other currencies, analysts expect money to flow out of European currencies and into the safe haven of gold.

Analysts said yesterday the decision to widen the fluctuation bands for currencies in the ERM to 15 percent from between 2,25 and six percent was likely to heighten fears that investment in Europe was risky.

"Many Japanese investors who put money into high-yield European bonds because the ERM system acted as a safeguard are said to be looking now for a chance to liquidate their European assets," said one.

Also positive for gold is the fact that the virtual collapse of the ERM marks the end of the deflationary era in Europe.

Economists said the essential characteristics of the ERM had been destroyed by allowing currencies to fluctuate in a much wider band, with the exception of the German mark and the Dutch guilder.

The EC agreement was also expected to lead to the dollar strengthening as other currencies weakened.

Analysts said the net effect on the rand's exchange rate was difficult to predict because the rand was likely to fall against the mark and the guilder, but to rise against the pound and lira.

Speculation

The crisis decision in Brussels on Friday came after massive speculation against the French franc in the wake of the German Bundesbank's refusal a day earlier to cut its key interest rates.

German obduracy stems from inflationary fears prompted by reunification in 1990.

Recently, German consumer inflation rose to 4,3 percent, twice its 1993 target, and broad money supply growth rose to 7,1 percent — way outside the Bundesbank's target range of 4,5 to 6,5 percent.

The Bundesbank's policy of high interest rates has prevented other EC members from lowering their rates to stimulate their economies and reduce unemployment.

74A

Outlook for trade surplus improving

Star 5/8/93

(14A)

By Stephen Cranston

South Africa's balance of payments will continue to be dominated by the need to repay foreign loans frozen in the 1985 debt standstill and the need to fund ongoing capital outflows during the year, according to the latest Absa economic spotlight.

The increasing gold price and food prices on world markets are expected to push the country's export price index up by about 16,3 percent, while a decline in the international oil price is expected to help keep the import price index to around 14,6 percent.

Although the gold price has appreciated rapidly its average price is expected to remain below the 1990 average of $383 until 1994. It is not expected easily to break the $450 barrier. Other commodity prices are expected to stay fairly stable during the year.

This will contribute to an expected R17 billion trade account surplus for the year and there will be short-term and long-term capital outflows of R4,4 billion and R1,4 billion for the period.

Spending curb

Absa says that domestic spending will have to be curbed to reduce imports, given the poor outlook for economic growth and trade and a moderate 1,5 percent improvement in South Africa's terms of trade.

The Spotlight notes that the political situation, the recent drought and the poor state of the local economy have had a deleterious impact on the cost of short-term trade finance.

Local banks are now required to pay 0,75 percent above the London Interbank Offered Rate (Libor) for loans, compared with Australia and New Zealand who pay only 0,35 percent above Libor.

In the past four years, some R20 billion in capital has officially left the country, while the unofficial figure could be at least as much.

The Spotlight says that while it is the government's intention to scrap exchange controls in terms of its Normative Economic Model, it accepts that any immediate step in this direction would be too dramatic for the economy to absorb.

Deal to reschedule debt within reach

SA HOPED to conclude a deal by the end of next month on rescheduling about $5bn in foreign debt, a top central bank official said.

Reserve Bank Deputy Governor Chris de Swardt, responding to a report that terms of a rescheduling agreement had been reached recently, said: "We really have not finalised the issue." BDay

De Swardt said SA was still "testing a few options" on a new deal. "We hope to have it all ready by the end of September," he said. 12/8/93

The Financial Times' newsletter Southern Africa Business Intelligence said SA had reached agreement on terms for repayment of the $5bn. (14 A)

SA was forced in 1985 to impose repayment restrictions on $13,7bn, or more than half of its total foreign dues, when foreign banks cut off new credit amid black uprisings and an economic squeeze. — Reuter.

Keys warns of growth in SA debt

(74A)

CT 16/8/93

Own Correspondent

AMANZIMTOTI. — Finance Minister Derek Keys celebrated the "magnificent" SA economy which he said had turned the corner, but he warned that the country's national debt was likely to increase.

In a review of SA's economy during the (President F W) "De Klerk era" at the NP congress, Keys said SA problem's were now the same as those faced by other Western countries — job creation, increasing investment and fiscal difficulties.

Government spending had more or less been maintained but the government's income had fallen by more than 13% over the past three years.

As a result, there had been an increase in the country's deficit and this had resulted in an increase in the national debt.

But SA's national debt as a percentage of GDP was about 45%, and compared well to that of the OECD "economic stars" whose average debt was 68% of GDP.

"The things that we will have to do through this transition period will mean that this percentage will have to move up, but we have got some scope, we are not teetering on the brink," he said.

Commodities

Keys said the economy had performed magnificently and would perform magnificently, especially if one took into account what the economy had had to contend with since De Klerk came to power.

He said since then, the growth that was the hallmark of the Reagan era ended, resulting in a dramatic drop in commodity prices.

SA had also scrupulously adhered to its loan repayments, paying out about $1bn per year which had restricted growth to a certain extent.

Although businessmen whole-heartedly supported De Klerk's reforms, they had led to a huge increase in uncertainty which had affected investment, he said.

And in addition to severe drought, the government had had to complete some of the investments initiated in the pre-De Klerk era.

Against that background, it was remarkable that SA's economy shrunk by only 4%.

During the De Klerk era, social spending had increased and the liquidity of civil servants' pension funds had been increased, inflation had been brought down and VAT had been introduced.

What still remained was to increase investment and provide employment opportunities.

Keys said the problem would also have to be addressed structurally, and this was being dealt with by the National Economic Forum, adding ruefully: "It is important that we should fail together."

Nevertheless, SA could be proud of its economy which was capable of much greater things.

Trade surplus dips

ET 19/8/93 (74A)

By AUDREY D'ANGELO
Business Editor

EXPORTS rose substantially in July. But imports rose too, resulting in a fall in the trade surplus to R2,06bn compared with R2,36bn in June.

However, the trade surplus of R11,48bn for the first seven months of this year is still well ahead of the R9,24bn achieved in the same period last year.

Exports in July totalled R7,25bn compared with R7,09bn in June and R5,43bn in July last year.

Imports rose steeply to R5,19bn compared with R4,47bn in June and R4,97bn last July.

The biggest rise in imports was in the unclassified sector. Economists said this was probably due to buying supplies of oil while world prices were low.

They expect the trade surplus at the end of this year to be higher than last. But they pointed out that continuing outflows on the capital account mean that reserves of foreign currency are still too weak to allow a cut in interest rates at this stage.

Sanlam chief economist Johan Louw said he did not think this could happen without an International Monetary Fund (IMF) loan. But he thought that this would come and that interest rates would be cut by year end.

Southern Life chief economist Mike Daly said he believed imports in July had reached record heights. The previous record was in March this year when they totalled R5,3bn.

Textile imports

The biggest rise was in the unclassified sector which had soared by 80% month on month. Imports of textiles and chemicals had also risen strongly.

Daly said the trade surplus was "at an adequate level to get us a healthy current account surplus at the end of the year. We are still on target for a surplus of R5bn."

Old Mutual economist Ursula Maritz said the figures were in line with expectations.

"The trade surplus normally contracts in July because of a seasonal jump in imports. But the surplus for the last three months shows an improvement. I think we are set for a R6bn current account surplus."

SA Foreign Trade Organisation (Safto) economist Carlos Teixeira commented: "July marks the fourth month in succession that export growth has gained momentum, reaching 14,4% in nominal rand terms for the first seven months of this year compared with the same period a year ago."

Import growth over the first seven months of this year had declined to 12,7%.

Teixeira said export growth had increased for all regions. "Export growth to America increased from 4,5% for the first six months to 7% for seven months. This was due largely to the depreciation of the rand although volume effects will become apparent as the year progresses."

Exports to Africa grew from -1% for the first six months of the year to 0,6% for the first seven.

BoP vulnerable in spite of current account surge

B/Day 23/8/93

(14A)

GRETA STEYN

THE Reserve Bank annual economic report paints a picture of a balance of payments (BoP) that remains vulnerable despite a surge in the current account and a substantial slowdown in the capital drain.

On an annualised basis, the current account balance surged to R10,1bn in the second quarter of this year, from less than R1bn in the first quarter. The current account is the trade surplus less net payments for services and transfers to the rest of the world. The healthy trade performance, with export volumes rising, offset a rise in net services payments.

The surplus offset the strain on the reserves due to continued net capital outflows. The Bank said R5,4bn in capital left SA in the first half of this year, implying an outflow of about R1,7bn in the second quarter. This is substantially down from the R3,7bn net outflow in the first quarter.

By far the largest portion of the capital outflow was short-term finance. At first the capital outflow since 1992 mainly reflected the renewed political uncertainty and social unrest. From the fourth quarter of 1992, however, the strength of the US dollar in international markets led to an outflow of capital. The outflow occurred because forward cover contracts of third currencies were written in dollars and required dollar outflows to "top up" when contracts were rolled over.

SA's net foreign exchange reserves rose by R1,2bn in the second quarter, reflecting the current account's strength. However, the rise did not show up in the gross reserve figures released every month. The gross reserves declined as the Reserve Bank and banks reduced their foreign debt on short-term credit facilities taken to tide the reserves over a temporary crisis. Reserve-related liabilities were reduced by a substantial R1,6bn in the second quarter. However, a similar amount still had to be repaid at the end of the quarter.

Stals warns on foreign reserves

JOHANNESBURG. — A strong post-recession surge in imports could wipe out South Africa's foreign reserves in six months, Reserve Bank Governor Chris Stals has warned. (14A) ARG 26/8/93

Addressing a business breakfast in Johannesburg, Dr Stals expressed concern at the low level of gross gold and other foreign reserves covering imports.

Gross foreign reserves of R7,4-billion at the end of July 1993 were equivalent to only 1,5 months of imports compared to nearly 2,5 months at the end of the previous 1984-86 recession.

He said the mid-1980s economic downswing had typically resulted in a deficit on the current account which would then be transformed into a surplus that lasted well into the subsequent recovery.

However, the current account surplus had deteriorated over the last year and in the first three months of 1993 before recovering to an extent in the second quarter.

The situation had been exacerbated from June last year with a large outflow of capital reflecting the ongoing political turbulence and violence.

Dr Stals estimated that if imports were to expand by similar percentages to the import growth experienced after the past two recessions, South Africa's surplus on the current account would turn into a substantial deficit.

"It is therefore vital we have renewed access as quickly as possible to international financing," he said, referring to International Monetary Fund aid as well as access to global markets.

However, Dr Stals did not believe the economy was on the brink of major growth after four-and-a-half years of recession, despite a healthy rise in gross domestic product in the first two quarters.

"The economy has changed direction and is perhaps at the bottom of the (downward) cycle, moving on a horizontal plane. Not only from the production side (of the economy) but also the expenditure side we don't see any major recovery, but we do see some levelling out." — Sapa.

Fm 27/8/93

FOREIGN DEBT

The crunch year

SA faces US$1,1bn (R3,8bn at this week's exchange rates) of foreign, government guaranteed capital debt repayments in the last three quarters of this year, according to the latest *Government Gazette*. In 1994 the figure will be $563m (R1,9bn), and in 1995 $1,1bn (R3,7bn). The balance is theoretically to be run off by 2003. (74A)

UAL economist Dennis Dykes points out that 1993 was particularly onerous because of the bearer bonds due. "However, though this falls off considerably in 1994, at least $700m conversions are due next year, which probably isn't reflected in the number," he says. "On the other hand, payments due in coming years could be rolled over."

This seemed to be confirmed by Reserve Bank Governor Chris Stals's comments at the Bank's annual meeting this week. He says debt rescheduling negotiations are being finalised, and there is also a good chance of a "normalisation of SA's relationship with the IMF and World Bank."

Falling ratio

The Bank's annual economic report also points to an improvement in foreign debt in recent years. It says the ratio of foreign debt to GDP fell from 43% in August 1985 (the time of the standstill) to 15% at the end of 1992; while the ratio to total export earnings fell from 126% to 61% in the same period.

Affected debt (not necessarily government guaranteed, and so not necessarily included in the above) still outstanding to foreign creditors was reduced from $13,6bn at the time of the debt standstill to $6bn at the end of 1991 and $5,5bn at the end of 1992. This is expected to fall further to $5bn at the end of this year, when the Third Interim Debt Arrangements come to an end.

Most of the reduction was achieved by converting the debt to longer-term loans outside the net. In spite of this conversion, says the Bank, outstanding non-affected debt rose only moderately, from $10,1bn in 1985 to $11,8bn in 1992. However the problem is that repayments now falling due on converted debt will not be rolled over. (74A)

Says Dykes: "This accentuates the need for political settlement. With that we can attract new finance and won't have to run up a high current account surplus by constraining growth, to pay off our debt." ■

BALANCE OF PAYMENTS

FM 27/8/93

Pot of gold

The full benefit of the huge second-quarter gain in the current account of the balance of payments has still to work its way into GDP. Real growth in GDP is measured in volume terms and constant 1985 rands.

So the impact of higher export revenues is seen only when they flow into corporate coffers, boosting demand for goods and services. Real value added as activity increases is then captured in the national accounts.

According to the Reserve Bank *Annual Economic Report*, the second-quarter surplus on current account was R10,1bn, up from R700m in the first quarter. This is seasonally adjusted and annualised, as are all other quarterly figures below. (74A)

Net gold exports rose to R22,2bn in the second quarter from R21,1bn in the first and R18,4bn in fourth quarter of 1992.

Though output rose in the first quarter and was constant in the second, the "considerable improvement in net gold exports in the first half was mainly due to a sharp rise in price — from US$330/oz in March to $372 and $392 in June and July," says the report. As the rand eased against the dollar, the average monthly rand price of gold rose,

FM 27/8/93

from a low of R949 in August 1992 to R1 049 in March and R1 313 in July.

At the same time merchandise exports rose. A sharp drop in the first quarter — from R49,4bn in fourth quarter 1992 to R47,2bn — was followed by a sharp recovery to R56,2bn in the second.

Merchandise imports were atypically high in the recession but, in the second quarter, volumes fell 3%, on lower offshore agricultural and mineral product purchases. Prices were held down by low inflation in trading partners and low oil prices. This was offset by the depreciation of the rand and import values fell only marginally to R56,1bn.

A trade surplus of over R22bn was almost double the first quarter's R11,9bn. But net service & transfer payments, the other component of the current account, at R12,2bn, were R1bn up on the first quarter, as service payments rose faster than service receipts.

One reason is that more people are travelling abroad. The report attributes this to cuts in air fares, which arose from competition between the larger number of foreign airlines now operating in SA, and the increased number of foreign destinations. (74A)

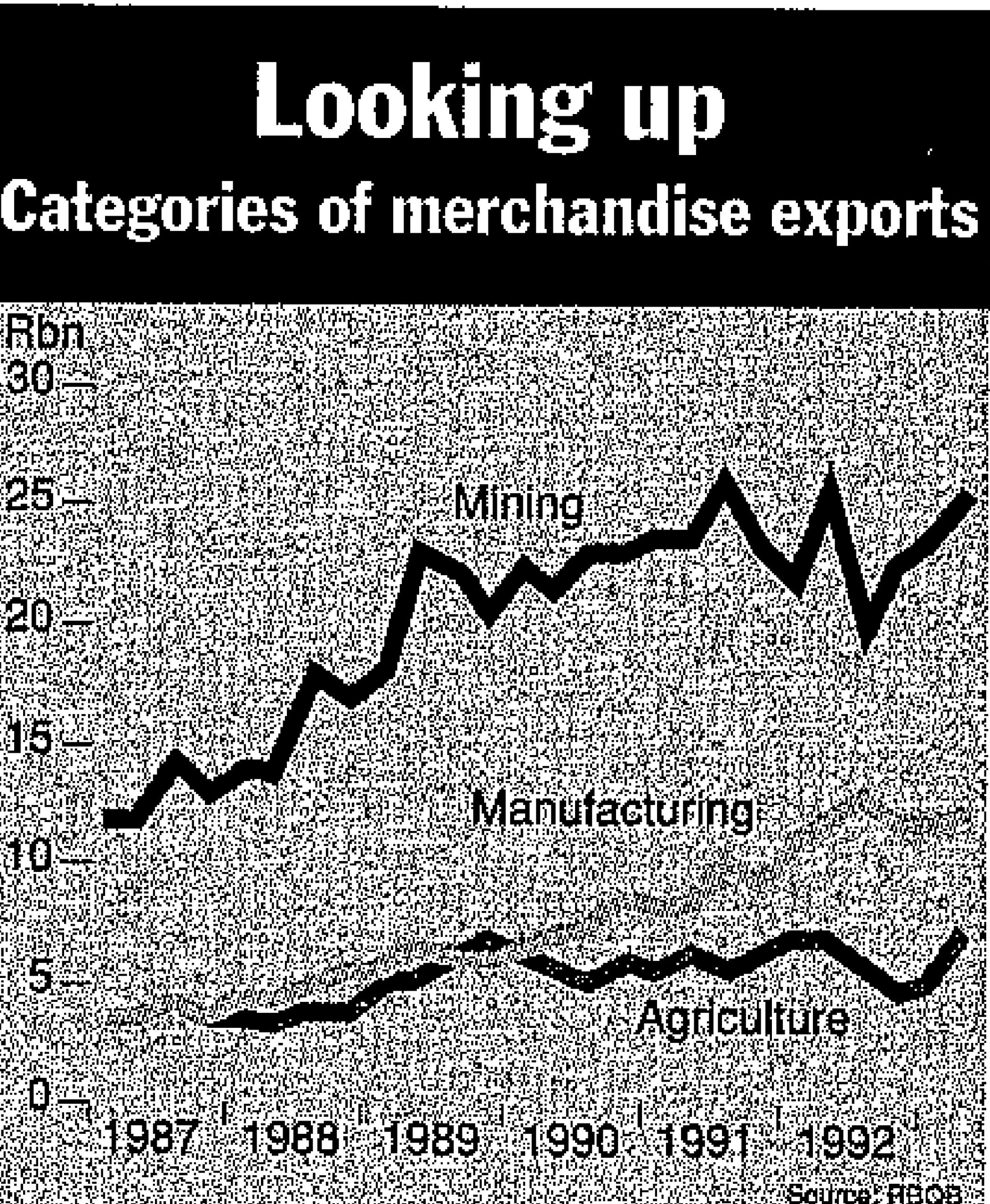
Interest payments on foreign loans fell, however, as foreign debt was reduced.

Favourable net changes in the current account helped offset developments on capital account. Net short-term outflows remained substantial, rising from R1,4bn in the first half of 1992 to R3,3bn in the second and R5,2bn in first-half 1993, owing to:

- ☐ Renewed political uncertainty;
- ☐ The strength of the dollar internationally, which led to a capital outflow via forward cover transactions in third currencies;
- ☐ Leads and lags in payments and receipts;
- ☐ Ready availability of domestic funds; and
- ☐ Repayments of foreign debt.

The net effect of current and capital account changes is a dip in gross gold and foreign reserves to R10,2bn at end-June, from R13,2bn in August 1992.

This erosion has kept liquidity tight and interest rates relatively high. Only when the surplus on the current account exceeds outflows on the capital account can we talk of an export-led boom. ■



Looking up

Categories of merchandise exports

Cliff-hanger for SA forex reserves

CT 27/8/93 (74A)

From GRETA STEYN

JOHANNESBURG. — SA was unlikely to receive any funds from the IMF before next year, Reserve Bank deputy Governor Jaap Meijer said yesterday.

He said the formalities of applying for the special drought-related facility, which was mooted earlier this year during State President F W de Klerk's visit to the USA, had not yet progressed far. Once the formalities had been completed, there would be a lag before the finance, about R2,8bn, was received.

Market expectations of IMF finance before the end of the year had fuelled bullish sentiment on interest rates. However, Reserve Bamk Governor Chris Stals this week provided no hope for a boost to SA's foreign exchange reserves. He reiterated his concern with the country's vulnerable external position in a speech yesterday morning.

Sapa reports Stals said: "It is ... vital we have renewed access as quickly as possible to international financing." A strong post-recession surge in imports could wipe out SA's foreign reserves in six months.

Addressing a business breakfast in Johannesburg, Stals said gross foreign reserves of R7,4bn at the end of July 1993 were equivalent to only 1,5 months of imports compared to almost 2,5 months at the end of the previous 1984-86 recession.

He said the mid-1980's economic downswing had typically resulted in a deficit on the current account which would then be transformed into a surplus that lasted well into the subsequent recovery.

Deterioration

However, the current account surplus had deteriorated over the last year and in the first three months of 1993 before recovering to an extent in the second quarter.

The situation had been exacerbated from June last year with a large outflow of capital reflecting the on-going political turbulence and violence.

Stals estimated if imports were to expand by similar percentages to the import growth experienced after the past two recessions, South Africa's surplus on the current account would turn into a substantial deficit.

However, Dr Stals did not believe the economy was on the brink of major growth after four-and-a-half years of recession, despite a healthy rise in gross domestic product in the first two quarters of this year.

"The economy has changed direction and is perhaps at the bottom of the (downward) cycle, moving on a horizontal plane ... Not only from the production side (of the economy) but also the expenditure side we don't see any major recovery, but we do see some levelling out."

Economic growth should be encouraged by creating confidence and giving markets the opportunity to work effectively, he proposed.

"To solve the very serious problems in the economy, we come back to a basic confidence in the private sector and leave it to them to do the development."

Dr Stals re-iterated his commitment to creating a stable financial climate by protecting the value of the rand and encouraging lower inflation. This would help to create the confidence neccessary for sustained economic development.

"The legacy we can give to a new South Africa is to keep financial stability," he said, noting inflation was tending downwards.

Rand plunges to all-time low

TOM HOOD, Business Editor

THE rand plunged to a record low in the wake of the gold price dropping $9 in a day to $350 an ounce in New York last night.

It now costs R3,40 to buy one American dollar. The rand will buy only 30 Japanese yen and R5,21 is needed to get £1.

Gold's fall was triggered by speculators whose computer screens flashed alarm signals about the worsening American economy.

Boost for fundraising drive

SA set to sign deal on foreign debt

B/Day 9/9/93

(74A)

GRETA STEYN

SA's drive to raise foreign finance will get a major boost this month when final agreement is signed on $5bn of foreign debt caught inside the standstill net.

The Reserve Bank yesterday indicated it was possible to produce a deal even before top government, ANC and business representatives left for the US later this month to market SA to the international financial community. SA's chief debt negotiator, Bank Deputy Governor Chris de Swardt, said the standstill co-ordinating committee's target date of September 30 was well within reach. "But it might even be possible to finish a bit earlier."

A source close to the negotiating team said consensus had been reached between the major political players. This followed months of delay while SA's creditors waited for approval from the ANC and other key political organisations.

It is understood that the ANC expressed concern over the heavy upfront payment of about 10% of $5bn, but SA's creditors had refused to budge and the draft agreement would go through with no major changes. Only formalities remained to be completed, and an announcement was expected in the next two weeks.

Bankers said the conclusion of a deal effectively ending the debt standstill would play a major part in unblocking new foreign finance. Creditors implemented strict rules in dealing with standstill countries, and SA had come dangerously close to the limits foreign banks set on lending. A final agreement on debt would spur creditors to raise the limits, unlocking new private finance at a time when SA's foreign reserves were dwindling.

The flow of funds would be boosted by the ANC's call for the lifting of sanctions. This should give SA access to IMF and World Bank funds, which would add to the foreign exchange reserves directly, and indirectly by reassuring private creditors.

The drive to market SA begins on September 25 when President F W de Klerk wraps up a Washington conference on "building the integrated global economy".

The road show will gain momentum on September 27 in New York with a conference on US Investment in the New SA, cosponsored by brokers Frankel, Pollak Vinderine. The IMF/World Bank AGMs will take place at the same time in Washington.

The SA delegation to the IMF, which will represent all the main political players for the first time, is expected to begin formalising the application for a special drought-related facility of $85?m. This week's agreement on a transitional executive

To Page 2

Foreign debt

B/Day 9/9/93

From Page 1

council was expected to boost SA's chances of getting the nod before the year-end, and receiving the funds in time to cover next year's large upfront debt payment.

(74A)

The draft debt agreement, leaked in London, provides for stretching instalments until 2001 after an initial "bullet" payment next year. The bulk of the repayments will be postponed to 1998-2001, when other obligations are negligible.

Reuter reported that economists saw no quick windfall from foreign investors, as political and economic uncertainties during and even beyond the transition to democratic rule could keep them sidelined.

"I don't think you'll see meaningful foreign investment flowing until there's greater clarity," said Old Mutual economist Rian le Roux.

See Page 3

DIGEST

US trade deficit narrows

WASHINGTON. — The US trade deficit in July shrank 14% to $10,3bn, narrowing because consumers in the US reduced their purchases of overseas goods, the Commerce Department said yesterday. In other government reports, industrial production climbed a third straight month by 0,2% in August, while the number of US jobless filing new weekly claims for unemployment insurance rose slightly by 2 000 to a seasonally adjusted 324 000.

Tokyo's stimulus plan

TOKYO. — Japan yesterday announced an economic stimulus package worth 6,15 trillion yen in an attempt to revive Japan's listless economy by boosting consumption and end the fleecing of consumers by ensuring that windfall exchange profits are passed along. A key part of the package tackles the problem of regulations that hamper business expansion and prevent Japan's consumers from enjoying benefits the stronger yen has given to their global buying power.

Foreign loan clinched

HARARE. — Zimbabwe's tobacco farmers have secured a foreign exchange loan facility worth Z$288m to import vital inputs for the 1993/94 farming season, a senior industry official said yesterday.

Govt revenue nears budgeted target

CT 17/9/93

From GRETA STEYN

JOHANNESBURG. — The government's revenue situation improved significantly last month, as fiscal drag and tax payments on public sector salary increases swelled state coffers.

The Finance Department said revenue in the first five months of the fiscal year had risen 16,2% from last year, bringing government within striking distance of the budgeted 17,3% increase for the full year.

This is a far cry from the situation in the first month of the fiscal year, when revenue was slightly lower than in April 1992.

The government has steadfastly maintained revenue would pick up to acceptable levels, while economists projected a substantial shortfall for fiscal 1993/94.

The department said spending rose 10,6% in the first five months compared with the previous year — not too far away from the budgeted rise of 8,8% for the full year.

But economists said the eventual rise in spending would be above budget because of substantial extra allocations for job creation, drought relief and an increase in teachers' salaries.

However, despite the extra spending, the government still maintained that the deficit was not likely to exceed the budgeted R25,3bn. Economists said the view depended on a changed definition of the deficit, which was out of line with the Reserve Bank and international practice.

The extra spending will be financed from the sale of state assets, instead of from long-term loans — hence the government's view that it does not add to the deficit. But economists, including the Reserve Bank, regard the sale of assets as a one-off source of finance — a "below the line" item alongside loan finance.

A breakdown of the revenue position to July (the latest available) showed the increase in the VAT rate was paying dividends, while the fall in the company tax rate was holding back receipts.

VAT receipts were up almost 55% from the previous year, while income tax receipts were only 1,3% higher. "The effects of salary increases in the public and other sectors and of fiscal drag will be reflected in the August figures, which are not yet available," Finance said.

SA nets R10m at trade fair

By AUDREY D'ANGELO
Business Editor

ABOUT R10m worth of business was done at the SA trade fair in Singapore at the beginning of this month — and it will probably lead to orders worth at least R100m in the longer term, according to Mario Angelucci, the SA Foreign Trade Organisation's manager of trade fairs and exhibitions.

CT 17/9/93

Meanwhile, international freight forwarder Renfreight reports that interest is already being shown in the SA Chinese Exhibition (SACEX), to be held in Beijing in March.

It is being organised by Times Media Exhibitions. First National Bank is one of the sponsors and the bank's manager of financial institutions, Richard Mooruth, says two-way trade between SA and China is expected to reach R500m this year compared with $232m last year.

Mooruth says this does not take into account the substantial indirect trade through Hong Kong.

Derek Holmes, national export strategist at Renfreight — who are freight managers for SACEX — said the organisers had indicated that between 80 and 100 firms were already showing interest.

China was a very big market, with a population of 1,4bn. But it was important for exporters to research the market before going there, and make sure that rival products were not available for half the price.

Holmes said it was also important for everyone taking part in the exhibition to work together to promote SA industry as a whole, even though they competed in the domestic market.

Lack of finance hits low-cost housing

CT 17/9/93

JOHANNESBURG. — The lack of end-user finance is strangling the development of low-cost housing projects and exacerbating SA's estimated housing backlog of 1,4-million units.

Representatives from the private sector, local authorities and civic associations agreed at a National Association of Home Builders meeting yesterday that end-user financing was the key issue in the future of housing in SA.

In addition, the replacement of the national housing commission by a national housing board, already agreed upon in principle, was seen as essential for the formation of a comprehensive housing policy which would release funds through a formalised subsidy mechanism.

Lower gold price drags down SA trade surplus

744 (78)

BT 18/9/93

Business Editor

SOUTH Africa's trade surplus continued its downward trend in August as the gold price eased. It slipped to R1,84bn from R2,06bn in July and a record R2,3bn in June, as exports dipped and imports rose.

But it is still above the surplus of R1,76bn in August last year.

Exports were R7,14bn compared with R7,25bn in July and R6,41bn in August last year.

Imports were R5,31bn compared with R5,19bn in July and R4,65bn in August last year.

The surplus in the first eight months of this year totalled R13,27bn compared with R11bn in the same period last year.

Exports totalled R51,38bn compared with R44,85bn. Imports totalled R38,11bn compared with R33,85bn.

SA Foreign Trade Organisation (Safto) economist Carlos Teixeira said that although the drop in exports was disappointing, the surplus was still healthy. Exports had grown steadily for the previous four months but had "lost pace" in August.

However, Safto's latest survey of exporters, based on forecasts for the next 12 months, had shown that confidence was at its highest level since the fourth quarter of 1991.

Teixeira pointed out that the average gold price in August was 3,2% lower than in July. In spite of this, exports in the unclassified category, which included gold, were still 22% higher in the first eight months of this year than in the same period last year.

But growth in the precious stones category was down to 32% for the first eight months compared with 46% for the first seven months.

The mineral products category continued to be affected by the poor state of the international mineral commodities market. "After reaching growth of 18,9% in the seven months to July it has dropped to 8,6% in August," he said.

"Base metals showed a positive growth of 2% for the seven months to July and the slight uptick in the demand for semi-finished steel products is reflected in a slight increase to 2,7% for the first eight months of the year.

"However, the markets for the metals used in steel, such as ferrochrome, remain poor due to oversupply.

"Export growth in the machinery and transport equipment sectors remains high at 27% and 21% respectively, for the first eight months.

"Imports in the unclassified category, which includes oil, were five per cent lower than in the first eight months of last year. In July they were 13% lower than in the first seven months of last year."

Nedbank chief economist Edward Osborn and Sanlam chief economist Johan Louw said they had expected a drop in exports in August because of the lower gold price.

Trade surplus narrows slightly

JOHANNESBURG. — South Africa's monthly trade surplus narrowed slightly in August but exports and imports showed encouraging growth, according to figures released by the Department of Customs and Excise.

The monthly trade surplus eased 11 percent to R1,8 billion in August from R2 billion in July this year, as exports and imports rose considerably over August last year.

Exports last month at R7,1 billion trailed the previous month's R7,3 billion while imports increased from R5,2 billion to R5,3 billion in the same period.

Cumulative exports for 1993 at R51,4 billion were significantly higher than January to August last year of R45,2 billion, as imports also climbed to R38,1 billion from R33,7 billion a year earlier.

Imports of agricultural products due to last year's drought has all but abated and the categories' import levels have levelled off. (74A)

The export of mineral products, and precious and semi-precious stones continued to grow strongly this year, and total exports were bolstered by a healthy increase in the export of wood and wood products. ARG 18/9/93

Imports of precious and semi-precious stones, mainly jewellery items, increased considerably.

Trade analysts expect imports to continue to grow as the country's four-and-a-half year recession has bottomed out. However, import growth should not be startling as there are few signs of an imminent upsurge in economic activity.

They say exports should continue to grow, as the country increasingly throws off the shackles of international trade isolation.

Business Report

'Exchange rate to weaken 6%-10%'

74A CT 20/9/93

Business Editor

THE rand is likely to fall to R3,50 to the US dollar by the end of this year and about $3,72 by mid-1994, Amalgamated Banks of SA (Absa) economists say in their Econo-Weekly review.

"The effective exchange rate should weaken by about 6% to 10% in the next 12 months," they say. "If the problem of domestic violence is not solved the depreciation could be much more.

"The rand is expected to depreciate across the board, but by less against the third currencies."

The financial rand will also be under pressure. They expect it to fall to R5 to the dollar before and during the election period.

They expect more petrol price increases in coming months, due to a combination of a weakening rand and rising crude oil prices.

Sanlam chief economist Johan Louw says in his September Economic Survey:

"The US dollar should firm against both the European currencies and the Japanese yen in the next year.

"We also expect the British pound to appreciate moderately against the German mark.

"In the light of this we foresee the rand weakening significantly against the US dollar, and to a lesser extent against the European currencies and the Japanese yen."

DECLINE . . . The effective rate of the rand, as calculated by both the International Monetary Fund (IMF) and the Reserve Bank, has declined.

But 1994 promises another back-breaking climb

One debt mountain scaled

Star 21/9/93

WITH foreign creditors leaning on SA, it's unlikely that pressure on foreign exchange reserves will ease in the near future

■ BY JOHN SPIRA

SA has scaled a huge mountain; it has repaid most foreign debt due this year, both inside and outside the standstill net.

However, the threat remains that 1994 will see a new spate of foreign debt repayments, with the result that it is unlikely to be before the second half of next year that the country will be able to ease pressure on reserves.

This is the warning signalled by Johannesburg-based economic research unit, Econometrix, which says sanctions have harmed the economy more this year than ever before, principally because of "the dilly-dallying surrounding the ANC's calling off of sanctions".

The good news is that Econometrix expects the ANC to call for the lifting of remaining sanctions when Nelson Mandela addresses the UN within the next few days.

The ANC is now reported to have supported the grant of the $850 million IMF loan for drought relief — a loan negotiated by President FW de Klerk with the IMF earlier this year.

Econometrix notes: "There is, however, justifiably much apprehension regarding the new debt standstill agreement currently being negotiated and as part of which South Africa is rumoured to be required to make an initial bullet repayment of $1 billion to foreign creditors in 1994."

The implication is that the entire IMF drought relief loan will go to meeting the bullet payment. The loan would, therefore, provide no relief for the tight foreign reserves situation later this year.

As a result, and contrary to the majority view, Econometrix expects no further interest-rate reductions will be forthcoming.

It believes the bullet payment demand stems from a hardening of foreign attitudes to SA because of:

- Ongoing violence.
- Lack of progress on the political front.
- ANC statements that a future government would not be bound to repay loans raised under apartheid.

Accordingly: "Creditor banks are now trying to reduce their exposure to SA as much as possible."

Exacerbating the problem is that although debt within the net has declined markedly, foreign debt outside the net has increased — from $10 billion to $13 billion. Of this, $2 billion matured in 1993 and another $2 billion will mature in 1994.

Econometrix says: "The hope had been that many of these maturing loans would merely be rolled over and so the actual debt repayments would not be nearly so large.

"However, for the same reasons as the suspect creditworthiness of a future SA government is driving creditors to demand a large initial bullet payment inside the standstill net, so too have creditors outside the standstill net been reluctant to roll over their debts.

"South Africa has therefore been faced this year with a worst-case scenario of having to repay virtually all debts outside the standstill net falling due.

"This capital outflow has been the principal cause of the sharp rundown of foreign exchange reserves over the past year."

Econometrix concludes that because financial sanctions have been called off so late, it is unlikely to be before the second half of 1994 that SA will be able to receive "meaningfully big" IMF or World Bank loans to ease pressure on reserves.

Origin of the standstill net

In 1985 SA had foreign debt of $24 billion, of which $14 billion was of relatively short maturity. When Chase Manhattan Bank refused to roll over its share of this debt, other banks demanded immediate repayment of the country's short-term debt.

The Reserve Bank had little alternative but to freeze repayments (the debt standstill), promising instead to keep servicing the debts.

Terms were negotiated whereby the Bank would repay a certain proportion of the debts year by year, with repayments at about $500 million a year.

Successive repayments, combined with the conversion of some of the debt inside the standstill net to loans of longer-term maturity, have reduced the amount owed inside the net from $14 billion to $5 billion. Conditions relating to the repayment of the latter amount are being negotiated.

(744)

Cut in Bank rate thought unlikely

KELVIN BROWN B/Day

CONTINUED pressure on the balance of payments made it unlikely that the Bank rate would be cut this year, despite the likelihood of SA obtaining access to IMF funding, the Nedbank Economic Unit said in its latest economic profile. 22/9/93

There was little prospect of an improvement in the reserve position towards year-end, the unit said. August's gross gold and forex reserves represented less than one-and-a-half months' import cover while net reserves were probably lower.

This made obtaining IMF funding critical, together with the lifting of remaining financial sanctions and a final foreign debt standstill. (74A)

However, the country's substantial foreign debt commitment in 1994 would be met only partly by the use of the IMF standby facility of $850m expected by the end of the year.

Debt repayment coup for SA, says Keys

(74A) ARG 28/9/93

□ New government committed to paying back R17-b

CLAIRE GEBHARDT
The Argus Correspondent

NEW YORK. — After almost eight years of debt standstill agreements, South Africa has negotiated its final payment — an arrangement that Finance Minister Derek Keys believes is a coup for the country.

For the first time, the terms were approved by all political parties in South Africa before the proposal was presented. This was a condition imposed by the creditor banks.

It means that, whatever the political future, a new government will be committed to honouring the debt — a $5-billion (about R17-billion) millstone which involves more than 70 banks.

This debt can be repaid over eight years, effectively turning it into a longer-term obligation and providing the country with a much-needed breathing space.

It is hoped that new facilities will be arranged with other banks in the years ahead so that repayments will not be too onerous.

Under the agreement South Africa will have removed the remaining R17-billion debt millstone from its neck within the next eight years.

Finance Minister Derek Keys told a conference on US investment in the New South Africa in New York yesterday that the final arrangement would extend for about eight years, starting on January 1 next year, and end on August 15 2001.

An initial repayment of 10 percent in February 1994 — the "bullet" repayment most economists speculated on — will be followed by 15 half-yearly repayments starting on August 15, 1994.

Taking the existing fixed repayment obligations into account, approximately 40 percent of the outstanding debt within the debt standstill net will be repaid during the first five years and the remaining 60 percent during the last three years.

Mr Keys said there would be an option to creditors holding debt in the form of deposits with the Public Investment Commissioners (PIC) to securitise these deposits.

The securities — notes denominated in US dollars which will have a tenor of nine years — will take the form of bearer instruments with one repayment at maturity.

He said the existing option to creditors of converting debt into longer-term loans with a tenor of eight-and-a-half years would remain. The loans would be repayable in not less than 10 equal consecutive half-yearly instalments.

"The first of these will be payable not earlier than four years from the date of conversion."

Mr Keys did not anticipate problems in winning an $850 million IMF drought-relief loan or convincing the IMF that housekeeping would be good enough to ensure repayment.

Keys unveils terms of new SA debt deal

BDay 28/9/93

SIMON BARBER

NEW YORK — Finance Minister Derek Keys yesterday unveiled the terms of an ANC-approved "final arrangement" in terms of which SA will repay over the next eight years the last of the foreign debt caught in the 1985 standstill.

The affected debt, which will be about $5bn when the arrangement goes into effect on January 1, is to be completely amortised by August 15 2001, Keys told an investment conference organised by the US National Foreign Trade Council.

"Being able to enter into this agreement required forming a view of the course of our economy over the eight-year period involved and recognising in every respect the sanctity of all existing obligations.

"No bank has suffered any loss of capital or interest as a result of this procedure," Keys said, referring to the successive rescheduling.

The move has the full blessing of the ANC, whose economics chief Trevor Manuel sits on an informal multiparty committee established by Keys last May to give this and other significant economic decisions legitimacy.

The committee has been instrumental in formulating SA's final offer on tariff reform to the GATT. "This will cover a similar period to the standstill agreement and is again endorsed by the main political parties and groups and, equally important, the National Economic Forum," Keys said.

It is understood that the committee has signed a letter of intent setting out the policies the present and next government will pursue in order to reassure the IMF that SA will be able to meet its obligations.

Under the new debt schedule, printed copies of which were sent to creditors last week, the first payment, 10% of the total owed or about $500m, is due in February. Without IMF support it could put a serious strain of SA's foreign reserves.

The remainder will be paid off in 15 half-yearly instalments whose size, Keys said, "will take into account the existing fixed repayment obligations in respect of SA's other foreign debt". (74A)

Over the past eight years, SA has negotiated three successive interim arrangements with the 170 banks whose loans were caught in the standstill.

Keys said he had decided to go for a final repayment scheme when the third arrangement expired on December 31 in the hope of achieving higher growth.

The theory is that by agreeing to settle accounts, post-sanctions SA will have easier and cheaper access to bank credit, and will be able to arrange new facilities to help shrink the repayments called for in the agreement.

An improved balance of payments position will make it easier to lower interest rates and reduce trade barriers.

Because of the standstill, SA is under-borrowed by international standards. At the end of last year its total foreign debt was $17,1bn, a decline of $6,4bn since 1985.

The 1992 figure was equivalent to "only 15,1%" of GDP and 61,1% of total export earnings, Keys said.

Under the final arrangement, affected creditors will continue to have the option of converting debt in longer-term loans. These would be for eight-and-a-half years,

☐ To Page 2

Debt deal

B/Day 28/9/93 ☐ From Page 1

repayable in at least 10 instalments starting at least four years after conversion.

The debt-for-equity swap option is also retained, enabling creditors to convert debt into SA investments via the financial rand. However, the Finance Minister would have discretion to amend the swap rules "in the event of the financial rand being abolished". (74A)

Creditors holding debt in the form of deposits with the Public Investment Commissioner could turn the deposits into dollar denominated, nine-year zero coupon bonds.

● See Pages 4, 14 and 15

BRIEFLY

Loans 'on agenda'

NEW YORK. — [illegible] of the African National Congress economics department, Trevor Manuel, said the ANC had not ruled out borrowing from the World Bank.

But he said the ANC could only consider whether to apply for loans once it had better information about development needs.

Mr Manuel said there was no prospect of abolishing the financial rand as things stand.

Keys wraps up $5bn debt plan

74A
CT 28/9/93

From SIMON BARBER

NEW YORK. — Finance Minister Mr Derek Keys yesterday announced the terms of an ANC-approved "final arrangement" under which SA will repay the last of the foreign debt caught in the 1985 standstill over the next eight years.

The move could improve the country's balance of payments position making it easier to lower interest rates and reduce trade barriers.

The affected debt, which will total around $5 billion when the arrangement goes into effect on January 1, is to be completely amortised by August 15, 2001, Mr

MANY

How much does South Africa owe?

(74A) ARG 2/10/93

JOHN SPIRA

SOUTH AFRICA'S indebtedness has been subject to intense scrutiny in recent weeks, sparking a host of queries from John Citizen as to the extent of the country's debt and its implications. John Spira elucidates.

□ How does foreign debt differ from domestic debt?

Domestic debt is money the government has borrowed from domestic lenders — principally financial institutions such as banks, insurance companies and pension funds.

Foreign debt comprises money borrowed from foreign lenders by the government, quasi-government organisations and business entities.

Such borrowers tend to be lumped together when reference is made to foreign debt, because interest and capital payments on those loans must be made in foreign currency.

The burden of making those payments thus falls on the country as a whole, since sufficient foreign exchange has to be available for this purpose.

It is one of the responsibilities of the Reserve Bank to ensure that the country maintains a level of foreign exchange reserves capable of meeting all payments to foreigners, be they exporters or lenders to South Africa.

Foreign exchange reserves are created via South African exports to foreign countries and through foreign capital inflows.

□ How do interest payments on foreign loans differ from interest payments on domestic loans?

In past years, South African interest rates have been higher than interest rates in the advanced industrialised economies. It has therefore been cheaper to borrow abroad than locally.

However, although initially cheap, those loans have become hugely expensive over the years, since the rand has weakened, with the result that interest payments and capital repayments — which have to be made in foreign currency — have required increasing numbers of rands.

□ What is the extent of South Africa's foreign debt?

The latest available figure has South Africa owing $17,1 billion (about R58 billion) to foreigners — $6,4 billion less than the figure it owed in 1985, when the so-called debt standstill came into being.

The debt standstill arose because, as the sanctions screws tightened, banks which had lent money to South Africa began demanding immediate repayment.

The country had insufficient foreign exchange to meet these demands and hence froze the debt, effectively refusing to repay the loans immediately, while undertaking to repay them in due course and, in the interim, to make interest payments.

Not all SA's foreign debt was affected by this arrangement, which applied only to short-term debt. Loans subject to the freeze were said to be "inside the net", while those not subject to it were "outside the net".

Forex reserves knocked yet again

(74A) CT 8/10

From KELVIN BROWN

BALANCE of payments problems continued last month as a fall in the gold price pushed down the value of the Reserve Bank's holdings of gold and foreign exchange by R258m to R6,8bn.

According to the Reserve Bank statement of assets and liabilities, foreign exchange reserves improved R25m to R1,8bn in September, while the value of gold holdings fell R283m to R5bn. Gold was valued at R1 098,01 an ounce last month from R1 127,67/oz the previous month.

Economists said the latest figures would do little to bolster the case of those calling for a cut in the Bank rate.

Rand Merchant Bank chief economist Rudolf Gouws said there appeared to be pressure on reserves when gold sales, which raised R144m, were taken into account and offset a R26m improvement in foreign assets. It suggested short-term capital outflows continued in September.

The figures were even more disappointing considering there were no large foreign loan repayments last month.

Nedbank chief economist Edward Osborn said sales of gold in excess of domestic production in a weak market suggested that the Bank needed money to provide for its foreign reserve commitments.

The large increase in the Reserve Bank's other assets and liabilities last month also suggested that the Bank was drawing more heavily on its overdraft facilities with foreign banks.

The other liabilities item increased R1,1bn to R6,8bn, while other assets rose R961m to R12,3bn.

The cost of equal spending

ARG 9/10/93 (74A)

ALIDE DASNOIS
Business Staff

ELIMINATING race discrimination in social spending would not hit white households as hard as is sometimes feared, Stellenbosch University economist Servaas van den Berg said this week.

He was speaking at the 21st annual conference of the Centre for International Research on Economic Tendency Surveys (CIRET), hosted by the Stellenbosch Bureau for Economic Research.

Equalising all social spending would only reduce the ability to consume of whites by 6 percent, estimated Mr van den Berg, while it would increase that of blacks by about 11 percent.

But, he said, this might not be enough to satisfy black expectations.

An ANC-dominated government would probably concentrate social reform on programmes with immediate and visible results such as housing and urban infrastructure.

"Such a government would also be tempted to concentrate its resources on urban dwellers, who are more organised and more vociferous and could therefore muster more opposition if their expectations are frustrated."

This would accentuate urban bias, Mr van den Berg said.

He said the balance of payments constraint on economic growth would persist unless South Africa could export more, or its propensity to import dropped, or foreign direct investment rose substantially.

A foreign capital inflow of $10 billion (R34 billion) a year would be necessary to sustain an economic growth rate of 5 percent. This was not realistic in the medium term.

In another paper delivered to the conference, the Stellenbosch bureau's Ockie Stuart argued that surveys rather than econometric forecasting should be used to predict trends during the transitional period.

Surveys should be used in conjunction with other techniques to gauge private spending, savings, fixed investment, employment, fiscal and monetary policy.

Concern over capital outflows

CT 13/10/93

Own Correspondent

JOHANNESBURG. — Offshore firms could be cutting exposure to SA because of political uncertainty, leading to short-term capital outflows which were draining liquidity from the money market, sources said yesterday.

The money market shortage, which reflects banks' overnight debt to the Reserve Bank, jumped to R3,345bn on Monday from R2,966bn. The rise surprised money market players because the shortage normally eased towards the middle of the month.

Some sources said Monday's move could have been a "temporary hiccup" as inflows from government spending and other sources were expected to bring the shortage down in days.

Rate of increase in deficit slows in second quarter

CT 15/10/93 (74A)

JOHANNESBURG. — The rate of increase in the deficit slowed in the second quarter of the 1993/94 financial year with higher exchequer receipts and in spite of an increase in issues, figures released today by the Department of Finance show.

In the quarter July to September, the difference between issues and receipts amounted to R5,6bn compared to R9,7bn in the period April to June this year.

The total difference between issues and receipts for the first half of the current financial year amounted to R15,3bn compared to a budgeted deficit of R25,3bn for the whole year.

The department said the growth rate in cumulative issues for the second quarter had accelerated as a result of transfer payments to the Transkei, Venda and Ciskei as well as the higher interest on public debt.

The payments to the homelands were accelerated in order to minimise the interest on bridging finance and would not increase the budgeted amount for the year.

The higher interest on public debt arose as a result of more stock with a September interest date being sold in the first half of the current financial year as against a year ago.

Total issues in the period to September of R56,9bn amounted to 50% of the budgeted amount, but the department said the issues from the exchequer account did not necessarily represent actual expenditure.

Total receipts in the first six months of R41,5bn made up 47% of the budgeted amount — R18bn was received in the first quarter and R23,5bn in the second.

The department said the higher receipts were largely a result of better income tax receipts, higher VAT receipts and an higher-than-expected customs and excise receipt with lower-than-expected payments under the Southern African Customs Union.

The total financing requirement for the first half of the financial year amounted to R18,5bn which included R3,2bn in loan redemptions.

The department said R26,9bn of the total gross financing requirement for the full financial year of R32bn had already been realised.

It said 94% of the budgeted net financing programme for the 1993/94 financial year had already been completed and therefore its outstanding borrowing requirements would be met without upward pressure on capital market rates. — Sapa

New capital inflows boost rand strength

CT 18/10/93

From TIM MARSLAND

JOHANNESBURG. — A substantial increase in SA's reserves last week allowed the Reserve Bank to intervene heavily in support of the rand.

Bank foreign exchange GM James Cross confirmed there had been a net increase in the reserves, but he would not provide details on the extent of the rise.

But he said the rise had allowed the Bank to express its policy on the rand more clearly than had been the case in recent months when reserves were in a decline.

The sources said the reserves had increased despite the Bank's repayment of loans during the month.

The intervention, which currency dealers said totalled several hundred million rands, left the money market awash with cash on Friday. This forced the Bank to step in and mop up excess liquidity after the banks' daily debt to the central Bank fell to its lowest level in 15 months at R1,1bn, compared with the previous day's R2,25bn. The daily debt has averaged R3,3bn over the past 12 months.

The Bank soaked up the liquidity by borrowing R580m back from the banks through a three-day reverse repurchase deal.

Bank money and capital markets GM Andre Kock said the R580m was drained from the market to offset government spending, which was also expected to flow into the market at the weekend.

Kock said the Bank had been forced to act to ward off the possibility of the shortage falling to uncomfortably low levels.

This shortage helped wholesale interest rates fall on Friday with call rates falling to about 11,75% from 12%.

Bank Governor Chris Stals has said the money market shortage should give an indication of a possible easing of monetary policy. He has also said the level of net reserves will influence the decision.

The rand gained more than 10c against the dollar last week to end at R3,3413 after concerted support from the central Bank.

UAL economist Dennis Dykes said he was encouraged by the Bank's comments. He said there had been substantial short-term outflows of capital over the past few months from leads and lags in the currency market. This was a function of people expecting further declines in the rand.

Leads and lags occur when importers, who sell rands to buy dollars, complete their transactions as soon as possible because of a weakening rand while exporters, who sell dollars for rands, follow the same strategy to get as many rands for their dollars as possible.

Dykes said the Bank appeared to be trying to break the psychology of market players betting on the rand continually weakening. The pattern had reversed, which itself boosted the reserves.

First National Bank senior GM Viv Bartlett said the bank wanted to see a pattern of low shortages before it would consider reducing prime and home loan rates.

He said the Bank's activities in the currency market were not inconsistent with its policy as it was trying to bring a two-way market back, rather than have the rand depreciate continually as it had over the past few months.

Sharp fall in SA trade surplus

74A

ST 19/10/93

By AUDREY D'ANGELO
Business Editor

FALLING exports and rising imports reduced the trade surplus in September to R1,38bn — the lowest since March and 24% below the August figure.

Exports slipped to R6,9bn from R7,1bn in August — reflecting the fall in the gold price, which has since risen again. It averaged $355,591 an ounce in September, 6,26% below the average for August.

Imports rose by 3,6% in rand terms to R5,5bn from R5,3bn in September. This was due mainly to increased imports of machinery and electrical appliances which, some economists suggested, might be due to recovering business confidence and preparation for the upturn.

But it also reflected the weakening rand, which depreciated by 1,3% in September.

The trade surplus for the first nine months of this year was R14,7bn — still ahead of the R12,9bn in the first nine months of last year.

SA Foreign Trade Organisation (Safto) economist Carlos Teixeira said he expected the trade surplus for the year to be well over R5bn.

He expected imports of intermediate and capital goods to continue to strengthen, in line with improved business confidence and the bottoming out of the recession.

Exports would grow "as SA begins its sale of agricultural products such as maize.

"While the world economy remains depressed there are signs of some improvement in certain important markets.

"This, together with new markets given the falling away of sanctions, will support exports from the manufacturing sector."

Teixeira said exports for the third quarter, totalling R21,277bn, were 4% higher than the R20,45bn achieved in the second quarter.

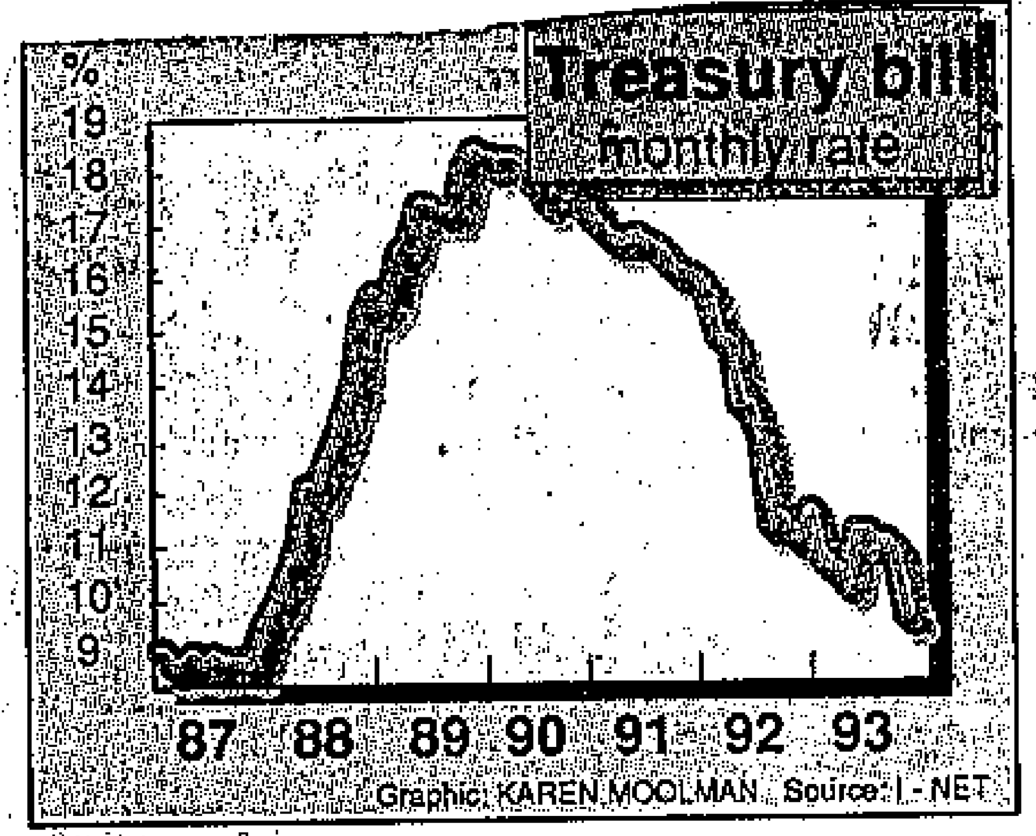
"The improved agricultural conditions are now being reflected in the export figures."

Sanlam chief economist Johan Louw, and Nedbank chief economist Edward Osborn said the lower September surplus was no cause for concern.

"I don't think we can pay too much attention to one month's figures," said Louw.

Osborn said: "One gets fluctuations from month to month. This is not really disturbing. There was a smallish rise, of R200m, in imports and a smallish fall, of R250m, in exports."

Imports normally rose in the third quarter "so this is to be expected".



Yield on govt debt at six-year low

BDay 1/11/93

TIM MARSLAND

THE yield on short-term government debt fell to the lowest level in six years on Friday following the reduction in Bank rate earlier in the week.

The yields on three-month Treasury bills — the "best quality" government debt — fell to 10,40% at the Reserve Bank's weekly tender compared with the previous Friday's 11,2%. Money market rates also dropped sharply, with overnight call — the rate banks pay on bigger clients' deposits — falling to as low as 9,5%. (74A)

Market sources said it seemed the banks had the upper hand over their clients at the moment, and were squeezing them into accepting lower returns on their money.

At the same time, banks were lending the money at much higher rates, for example prime at 15,25%, which in effect caused their margins to widen.

Banks were undeterred by the current money market shortage, reflecting the level of their overnight loans from the central bank, which had risen to an "uncomfortably high" R4bn, the sources said.

The Bank prefers Treasury bills as collateral against the overnight loans it makes to the banks.

Despite the lower call rates, yields on paper assets were unchanged with 90-day bankers acceptances changing hands at about 10,50%. A dealer said yields on those assets would probably drop this week once the shortage fell.

Reserve Bank money and capital markets GM Andre Kock said the higher shortage was due to normal month-end pressures, such as banks buying more notes from the central bank to cover demand from the public. More notes are needed at month end because most workers are paid then.

Fillip for SA's gold, forex reserves

A FAVOURABLE trade balance combined with a month free from heavy foreign debt repayments resulted in a 4,2% rise in SA's total gold and foreign exchange reserves in October.

Figures released by the Reserve Bank last night showed that they rose to R7,1bn in October from R6,8bn in September, reversing a downward trend for which capital flight and debt repayment had been blamed..

Physical gold holdings were almost unchanged at 4,6m fine ounces although the value increased by R19,24 an ounce to R1 117,25 an ounce. Their total value rose to R5,1bn from R5bn in September.

But foreign assets rose by 10,6% to R2bn from R1,8bn.

Nedbank chief economist Edward Osborn pointed out that in fact foreign currency reserves must have risen more in the month than these figures indicated, because the Reserve Bank had intervened aggressively to support the value of the rand.

"Altogether the October figure is a favourable one, in line with the way the trade figures have been moving."

Osborn said import figures did not suggest there had been over-invoicing as a way of moving capital out of the country.

But he thought the main thing that could be read into the improved figures was that there had been no substantial debt repayment in October.

"There was no debt repayment scheduled for October as far as I know. The next debt repayment inside the net is scheduled for December and that is not a very substantial amount.

"But there could be a substantial amount for public debt that could fall due in December." — Business Editor and Sapa

'Current account surplus to hit R6bn'

74A CT 11/11/93

JOHANNESBURG. — South Africa should achieve a current account surplus in excess of R6bn this year, Nedbank's economic unit forecast in its November monthly economic profile.

It expects the current account surplus in the last quarter to amount to R1,4bn as a result of the strong improvement in the foreign trade balance.

But the economic unit warns any further improvement in the levels of foreign exchange reserves is likely to be small if a possible drawdown on the International Monetary Fund loan is not taken into account.

Remaining foreign debt obligations due this year — including debt commitments both inside and outside the standstill net as well as other short-term capital outflows — were also likely to pressure foreign reserves.

"Debt pressures are going to be even more onerous in 1994 for which the IMF drawing and other loan arrangements will be needed," it says, forecasting the current account surplus to shrink markedly to R3,4bn next year.

Nedbank notes the foreign trade balance on average nearly doubled during April to September compared with January to March, and the unit expects a foreign trade balance of R19,7bn this year.

The monetary authorities are expected to maintain a wary eye on the level of foreign exchange reserves and will continue to face a dilemma in holding sufficient reserves and providing relief, through interest rate cuts, for the recession battered economy.

Nedbank expects another Reserve Bank rate cut to come in April 1994 as the inflation rate should fall sharply with the anniversary of the introduction of the increased VAT rate.

SA looking to sterling market for loan issue

ARG 15/11/93.

BRUCE CAMERON
Business Staff

SOUTH Africa's foreign credit ratings are on the rise with approaches now being made to the government to do a pounds sterling foreign loan issue.

The approaches were confirmed today by Director General of Finance Dr Estian Calitz.

Dr Calitz said in an interview that from the fiscal point of view the government did not need to borrow money at this stage on the international markets.

However, foreign funds would ease the pressure on the gold and foreign reserves and the way would be open for:

■ A further cut in interest rates and with it a stimulant for the economy; and

■ An easing of the tough foreign exchange regulations, including the eventual scrapping of the financial rand.

International banking sources said today preliminary talks were under way for South Africa to do a sterling issue which would tap new market sources both in Britain and the US.

Confirmation of the preliminary negotiations comes with another assurance from the ANC that it intends to scrap the financial rand system as soon as possible after the political situation stabilises.

The easing of pressure on reserves would make the ANC commitment easier to meet.

Dr Calitz said there was no immediate financing need but each offer would be considered.

"We will assess each offer on its merits and then decide what is the best time to enter the market. We have to consider all the factors including the cost of the loans."

South Africa has been unable to access the international bond markets since the collapse of Codesa early last year and the increasing violence.

After being out of the international bond markets since 1983 South Africa re-entered with an issue of DM400 million in September 1991 followed by an ECU250 million in February 1992.

The parastatals also started entering the market with an Eskom Deutschmark issue being the last before the market folded in the wake of Codesa.

The government was on the verge of doing a Swiss Franc issue at the time. The launch was postponed indefinitely.

Immediately after the collapse of Codesa South African debt was trading on the secondary market at almost 350 basis points (3,5 percent) above the benchmark Geman Bund and the London interbank offer rate (Libor).

International banking sources said today that the sterling market had virtually been closed to South Africa since the early Eighties while British financial institutions had also been loath to come into the 1991-92 issues as underwriters or puchases of South African paper.

The bankers said it would be likely that the major Edinburgh fund managers as well as a number of American banks could be expected now to take up South African paper with the lifting of sanctions. Major American and British Banks could also be expected to underwrite a sterling issue.

Tricky balancing act to continue with BoP

74A

CT 16/11/93

Business Editor

THE need to maintain the balance of payments (BoP) in spite of continuing capital outflows is expected to "continue making life difficult for South Africans during the remainder of this century," Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, said yesterday.

He pointed out, at the BER annual economic conference, that the country would be repaying foreign debt until the year 2 000.

This meant that monetary policy would have to remain tight. However, the BER expected a further 1% cut in interest rates late in 1994.

In the longterm the bank rate was forecast to remain high "and certainly above the inflation rate, which is likely to fluctuate between 10% and 14%."

The consumer price index (CPI) was expected to peak in 1997 at around 13%. "Taxes are, however, forecast to increase faster than remuneration and this implies considerable downward pressure on after-tax income.

"Employment opportunities are forecast to remain scarce and aggregate personal income will therefore increase rather slowly.

"As a result of continued fiscal drag and still relatively high inflation the real disposable income of consumers is likely to remain under pressure during the remainder of the '90's."

Stuart said population growth was likely to result in an increase in the unskilled, illiterate section. "The percentage of highly skilled people is increasing very slowly while the large numbers of unskilled are increasing rapidly.

"As a result the average income of consumers tends to decrease and the income distribution may become even more skewed."

In SA at present less than 3% of the total labour force was highly skilled while close to 49% had no skills at all.

"It is projected that by the turn of the century only 2% will be highly skilled while the percentage of the unskilled is likely to remain stable at slightly below 50%."

Violence

Stuart said he envisaged a high level of violence and intimidation up to the election date. After that violence would probably be curbed by the new government "which will at least have the blessing of other governments to do so.

"It would be unwise, however, to assume that violence could be brought under control before the turn of the century."

This climate would not be encouraging for fixed investment "and a continuous net outflow of capital from the country seems likely."

Full weight of homeland burden due

Govt debt on course for the danger zone

B/Day 29/11/93

(74A)

GRETA STEYN

GOVERNMENT's debt will be pushed closer to the danger level of 60% of GDP next year when homeland debts are taken onto the books and pension funds are topped up by issuing stock.

In terms of the interim constitution, all debts and liabilities other than those linked to property "shall vest in the national government." This means the state debt will rise by billions at a stroke — with the last estimate of homelands' (including TBVC states) debt put at R14bn. Deputy Finance Minister Theo Alant disclosed the figure during multiparty negotiations, but did not say how much was linked to property.

Adding to the debt mountain will be stock issued to address pension fund deficits. It is understood that almost R7bn in stock will be issued to state pension funds to bring funding to a more acceptable level. Sources said government had placed a limit of R8bn for its guarantees on the homeland overdrafts, and speculation was that the level was fast being approached.

Economists said the move to bring self-governing and TBVC debt onto the books would give a more complete picture of the real debt situation than was the case at present. SA's debt-to-GDP ratio of almost 50% was understated, and gave the wrong signals about government's capacity to borrow. In Europe, a debt burden of 60% of GDP was regarded as the upper limit.

However, other than providing greater transparency, the adding on of homeland debt to overall debt totals would not have any practical impact on the fiscus.

Government could save on interest payments by converting more expensive overdrafts — which make up about half the debt — into lower interest government stock. The plan to top up pension funds by issuing interest-bearing stock would raise the interest burden further, Nedcor economist Edward Osborne said. A rising interest bill constrained government's ability to spend, as it was forced to borrow simply to service its debt. If the situation continued to deteriorate, the country could fall into a "debt trap".

Government's interest bill, at R22bn for the present fiscal year, amounted to more than 26% of the Budget from about 15% in 1992/93. By contrast, total capital expenditure was less than 8% of the budget.

According to the constitution, re-allocation of homeland debts and liabilities linked to property would be decided by the Financial and Fiscal Commission. Property would be transferred to government free of charge, and disputes about ownership would be settled after advice from the commission on provincial government.

A further move to clarify the state debt situation will be the issuing of stock to cover the debt to the Reserve Bank incurred as a result of subsidising forward cover to the market. However, these stock issues will initially not carry any interest rate and effectively amount to a book entry. The debt, about R9bn, is already included in the Quarterly Bulletin's debt-to-GDP figures. According to the bulletin, government has provided guarantees for R26,6bn of debt. While more than half of that was TBVC and self-governing states, the rest includes other tiers of government such as the black local authorities.

3rd quarter capital outflows top R5bn

Own Correspondent

JOHANNESBURG. — The steady stream of capital flowing from SA turned into a flood in the third quarter when R5,3bn left the country after R1,7bn in the second quarter, says the latest Reserve Bank Quarterly Bulletin.

The Bank named the rampant dollar in the September quarter as the main culprit for the outflow, but other factors were the "ongoing internal unrest, political and social uncertainty", and the use of domestic trade finance to replace foreign credits.

Short-term capital accounted for most of the outflow (R4,2bn), reflecting leads and lags in foreign payments and receipts spurred by dollar strength. The US currency's ascent fuelled bearish expectations on the rand, causing importers to rush purchases of foreign exchange and exporters to delay receipts.

The outflow of long-term capital (R1,1bn) reflected repayments of debts inside and outside the standstill net, as well as R460m in debt which had been converted into longer term loans in terms of earlier agreements on debt caught inside the standstill net.

The capital drain more than offset the surplus earned on the current account of the balance of payments. An adequate surplus of R1,7bn was wiped out and capital outflows ate into reserves. The Bulletin reported net reserves had fallen by R3,6bn in the third quarter.

Bankers said difficulties in securing foreign trade finance earlier this year had encouraged the switching from international to local sources of finance. As foreign credits were settled, short-term capital left the country. However, the conclusion of the final agreement on standstill net should have freed up additional sources of foreign capital, and smaller short-term outflows could be expected. The rand had also regained ground against the dollar and leads and lags had abated.

The Bulletin noted in the first nine months of 1993, the total net outflow of capital was R10,7bn, compared with an outflow of R6,2bn for 1992 as a whole.

(74A) CT 6/12/93

RB borrowed R2,6bn off-shore

(74A) CT 7/12/93

Own Correspondent

JOHANNESBURG. — The Reserve Bank has had to draw heavily on overseas credit lines to shore up ailing foreign exchange reserves, and by September owed R2,6bn, figures in the latest Reserve Bank Quarterly Bulletin show.

The use of foreign exchange "overdrafts" is at its highest level since 1985, when SA experienced a foreign debt crisis.

But Bank gold and foreign exchange GM James Cross said the situation had improved since September as the Bank's net reserves had risen. He could not comment on how much the Bank now owed.

The Bank's use of foreign loans in 1991 was negligible, and last year it did not need to borrow at all until December. But the relentless pressure on foreign exchange reserves this year meant the Bank's debt averaged about R1,4bn a month.

Cross said the jump to R2,6bn in September reflected the pressure on reserves at the end of the quarter, when debt payments fell due, and similar pressure would emerge in December. However, the Bank had ample capacity to draw further on its overseas credit lines. The problem would disappear if the $850m IMF loan came through before the end of the year.

Improvements in the reserves will have to be used to reduce the Bank's debt, and the monthly reserves figures will show only muted increases.

Bank borrows billions to prop up reserves

GRETA STEYN

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But Bank gold and foreign exchange GM James Cross said the situation had improved since September as the Bank's net reserves had risen. He could not comment on how much the Bank now owed. B/Day

The Bank's use of foreign loans in 1991 was negligible, and last year it did not need to borrow at all until December. But the relentless pressure on foreign exchange reserves this year meant the Bank's debt averaged about R1,4bn a month. 7/12/93

Cross said the jump to R2,6bn in September reflected the pressure on reserves at the end of the quarter, when debt payments fell due, and similar pressure would emerge in December. However, the Bank had ample capacity to draw further on its overseas credit lines to alleviate the pressure. The problem would disappear if the $850m IMF loan came through before the end of the year. (74A)

Figures show that in September alone, liabilities relating to reserves rose R1,6bn.

Improvements in the reserves will have to be used to reduce the Bank's debt, and the monthly reserves figures will show only muted increases. A small rise in reserves in November from October's R7,1bn is expected to be announced today.

The Bulletin also provided figures for the average turnover in the foreign exchange market — daily activity reached a high for the year of R4,5bn in October. Absa economists said the massive turnover meant the Bank could not counteract fundamental forces in the foreign exchange market with its limited reserves.

Capital flight surge as foreign debt shrinks

ARG 8/12/93 (74A)

The Argus Foreign Service

LONDON. — South Africa's foreign debt has fallen to $15 billion (about R50 billion) from $17 billion at the beginning of this year and $24 billion in 1985, Reserve Bank governor Chris Stals said here.

Illustrating that the debt repayments have been accompanied by considerable pain, capital outflows in the first nine months totalled R10,5 billion, said Dr Stals, speaking to the Press during a conference on central banking.

The gold and foreign exchange reserves of R7 billion only cover six weeks' imports.

Capital outflows partly reflect repayment on maturing loans both in and outside the debt standstill.

Dr Stals, however, was also concerned about capital flight on the part of South Africans who were evading exchange controls.

Since pressure continued, South Africa's exchange control and two tiered exchange rate system would remain in force for at least two years, said Dr Stals.

Political stability, plus large capital inflows, however, could help bring about a change to the present unsatisfactory system, he said.

First around four to five billion of financial rand deposits must be absorbed; second the financial rand discount to the commercial rand should narrow and finally, the gold and foreign exchange reserves should be at least three times larger than present levels.

"It will take at least one year for (a new government) to work through a budget cycle ... unless they are very bold and brave and abandon the system," said Dr Stals.

He said that international bankers remained cautious ahead of the elections next April.

South Africa can only borrow at huge premiums of 2,5 percent to 3 percent above the London interbank offered rate of 3,5 percent, he said. Top sovereign borrowers pay premiums of less than an eighth of a percent.

Dr Stals's comments were made soon after the Transitional Executive Council agreed to a $850 million (R2,9 billion) loan from the International Monetary Fund (IMF).

The IMF loan should help improve confidence of bankers, said Dr Stals. So hopefully there would be less pressure to repay more loans and capital outflows would shrink.

The ANC, if elected, would dearly love to borrow on international markets, said Dr Stals. Yet rates of interest that South Africa would pay were too expensive.

Once South Africa's credit rating improved, the nation would borrow on the Euromarkets, in the "Japanese Samurai" market and in the domestic US and UK capital markets.

Dr Stals said that he did not expect the Reserve Bank to lose its autonomy after the elections.

So far, he hasn't been approached to renew his contract which expires next July. Yet he would be prepared to remain as governor if a new government so wishes.

Continuation of office would help sustain economic stability and international investment confidence, he said.

It was all the more important that the central bank retained its autonomy when government spending inevitably increases next year, he said.

Monetary policy would then help subdue inflation which should fall to 7 percent next year from present levels of 9 percent and 14 percent in 1992. The best that could be attained on the South African inflation front is 5 percent, still way above European, Japanese and US levels.

Nevertheless, Dr Stals agreed that creation of jobs was definitely on the agenda. The government could spend in a non inflationary manner, he said.

Yet 30 percent of goods and services were imported. So an inflationary boom would precipitate balance of trade difficulties, higher interest rates and economic decline again.

Dr Stals would not comment on interest rates. Yet most economists believe that if inflation fell to those levels, interest rates would decline further.

Monetary growth is only 4 percent, illustrating that anti-inflation policies are still continuing. Real, inflation adjusted interest rates are still high.

Although a study suggested that the central bank should be placed under government control, he did not expect this to be the policy of an ANC government.

"I can't answer on behalf of the ANC," said Dr Stals.

Yet negotiators who drafted the new constitution inserted a clause confirming the bank's independence, he said.

Dr Stals made his comments after speaking about central bank independence and relations with government. In the speech, Dr Stals made it clear that central banks should work closely with governments, be transparent and open and retain their accountability to the people.

Govt help for debts on forward cover

CT 8/12/93 (74A)

Own Correspondent

JOHANNESBURG. — The government would pay interest on some of the debt incurred as a result of subsidies on forward cover provided by the Reserve Bank, Finance director-general Estian Calitz said yesterday.

This would add to the overall interest bill, which already absorbed almost 20% of the Budget.

Money market

Speaking at an Islamic Bank function here, he said stock would be issued to the Bank to cover the forward cover losses.

The Bank would use the stock in "open market operations" — selling securities to influence the level of liquidity in the money market.

The government would not pay interest on the stock when it was in the Bank's hands, but would pay interest once the stock was sold into the market.

The Exchequer Act was changed to bring the forward cover debt onto the government's books, but it was not made clear whether the stock would incur interest.

The Bank's latest Quarterly Bulletin puts the debt at nearly R9bn.

The cost of servicing debt would rise as a result of issuing stock to top up government pension funds.

But the transfer of the TBVC and self-governing territories' debt onto central government's books would not add to overall government spending.

The spending would no longer be reflected as transfers to these states, but as part of the overall interest bill.

Calitz said establishing a system in which regional governments had more powers would be complicated. "It could take up to three years in certain areas before a well established and smoothly functioning regional government is in place."

One of the spin-offs of devolving the 30%-50% of spending currently done by central government to lower tiers would be that fiscal policy at a macroeconomic level would no longer be the exclusive domain of central government.

The Fiscal and Financial Commission envisaged in the interim constitution would play a key role in this respect.

It would have to liaise with all the decision makers on fiscal and financial policy, and decide the critiria for allocating fiscal resources to regions.

Regions faced limitations on their ability to raise revenue, and their main focus of their collections would be levies, licensing and user charges.

Regional funding

Their borrowing was constrained in terms of the interim constitution.

Regions would be allowed to raise finance on the capital market only to finance capital expenditure, although they would have access to bridging finance.

Borrowing would also be scrutinised by the commission.

Go-ahead for IMF loan bid

(74A)

CT 8/12/93

Political Staff

THE Transitional Executive Council (TEC) has given its support to an application for a R2,9-million loan from the International Monetary Fund to cover "balance of payment outflows caused by the drought".

The TEC authorised co-chairmen Dr Dawie de Villiers and Mr Pravin Ghordan to co-sign the letter to the IMF with Finance Minister Mr Derek Keys.

It is to be forwarded to the IMF with the required Statement of Policies.

In a statement last night, Mr Keys said the TEC's approval meant South Africa had fulfilled the IMF's condition for its considering the loan — the formal confirmation of multi-party consensus on the basis of the loan application.

He said the IMF's board of directors would consider the application on December 22.

The loan was being sought in terms of the IMF's Compensatory Contingency Financing Facility to "cover the balance of payments outflows caused by the drought", Mr Keys said.

By relieving the pressure on the balance of payments, the funds would contribute to the country's economic well-being and prospects for growth.

The loan would be repayable in five years and would have an interest rate of seven percent.

R10,5-bn outflow in first nine months, says Stals

Debt repayment a painful experience

Star 8/12/93

■ BY NEIL BEHRMANN

London — South Africa's foreign debt has fallen to $15 billion (R50 billion) from $17 billion at the end of last year and from $24 billion in 1985, says Chris Stals, Governor of the Reserve Bank.

Illustrating that debt repayments had been accompanied by considerable pain, capital outflows in the first nine months totalled R10,5 billion, he said in London last night.

Gold and foreign exchange reserves of R7 billion only covered six weeks of imports, he said.

Capital outflows partly reflected repayment on maturing loans, both in and outside the debt standstill net.

Stals, who was speaking to the press during a conference on central bank policy, said that international bankers remained cautious ahead of next April's election.

But the IMF loan of $850 million (R2,86 billion) should help improve confidence.

Chris Stals ... prepared to stay on.

So, hopefully, there would be less pressure to repay more loans.

Illustrating continual concern about credit rating before the advent of the first black government, he said SA could borrow only at huge premiums of 2,5 to 3 percent above the London interbank offered rate of 3,5 percent.

Top sovereign borrowers paid premiums of less than an eighth of a percent.

The ANC would dearly love to borrow on international markets, but Stals said the rates were too expensive.

Once SA's credit rating improved, the nation would borrow on the Euromarket, from the Japanese and from the internal US and UK markets, he said.

Stals contended that underlying inflation was 7 percent, compared with the published rate of around 9 percent.

Published inflation included VAT and next year was likely to fall to 7 percent. He would not comment on interest rates.

But it is generally believed that if inflation falls to these levels, interest rates will decline further. Much will depend on the balance of payments.

Stals said he did not expect the Reserve Bank to lose its autonomy after the elections.

He made it clear he had not been approached to renew his contract when it expired next July.

He would be prepared to remain at his post if invited to do so by a new government.

Stals believed that continuity in office was essential for economic stability and international investment confidence.

Although a study suggested that the central bank should be placed under government control, he did not expect this to be ANC policy.

"I can't answer on behalf of the ANC," he said. But negotiators who drafted the new constitution had inserted a clause confirming the Bank's independence.

Stals added that it was all the more important that the central bank retain its autonomy when spending pressures rose next year.

Monetary policy would then help subdue inflation.

Govt to pay interest on debt

GRETA STEYN

GOVERNMENT would pay interest on some of the debt incurred as a result of subsidies on forward cover provided by the Reserve Bank, Finance director-general Estian Calitz said yesterday. BiDay

This would add to the overall interest bill, which already absorbed almost 20% of the Budget. 8|12|93

Speaking at an Islamic Bank function in Johannesburg, he said stock would be issued to the Bank to cover the forward cover losses. The Bank would use the stock in "open market operations" — selling securities to influence the level of liquidity in the money market. (74A)

Government would not pay interest on the stock when it was in the Bank's hands, but would pay interest once the stock was sold into the market.

The Exchequer Act was changed to bring the forward cover debt onto government's books, but it was not made clear whether the stock would incur interest. The Bank's latest Quarterly Bulletin puts the debt at nearly R9bn.

The cost of servicing debt would rise as a result of issuing stock to top up government pension funds. But the transfer of the TBVC and self-governing territories' debt onto central government's books would not add to overall government spending, Calitz said. The spending would no longer be reflected as transfers to these states, but as part of the overall interest bill.

Establishing a system in which regional governments had more powers would be complicated. "It could take up to three years in certain areas before a well established and smoothly functioning regional government is in place."

One spin-off of devolving the 30%-50% of

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Interest

BiDay 8|12|93

From Page 1

spending currently done by central government to lower tiers would be that fiscal policy at a macroeconomic level would no longer be the exclusive domain of central government. The Fiscal and Financial Commission envisaged in the interim constitution would play a key role in this respect. (74A)

It would have to liaise with all decision makers on fiscal and financial policy and decide the criteria for allocating fiscal resources to regions.

Regions faced limitations on their ability to raise revenue. The main focus of their collections would be levies, licensing and user charges.

Their borrowing was constrained in terms of the interim constitution. Regions would be allowed to raise finance only on the capital market to finance capital expenditure, although they would have access to bridging finance.

BALANCE OF PAYMENTS

FM 10/12/93

Casualty quarter

The third quarter of 1993 saw a fall in the current account surplus to R5,9bn from R10,1bn in the second. The figure, published in the Reserve Bank *Quarterly Bulletin,* is seasonally adjusted and annualised. Some of the factors responsible for this shift have either been eliminated or have moderated.

In the third quarter, though oil prices fell marginally and prices of other imported goods increased only slightly, the 4,4% depreciation of the rand, against a trade-weighted basket of currencies, caused import prices to rise sharply. So, while volumes of imports rose 2,1%, their value increased 6,5%. These figures are based on seasonally adjusted data. (74A)

The *Bulletin* points out that, "owing to substantial intervention by the Reserve Bank during the second week of October and an improvement in the level of gross foreign reserves," the downward trend was reversed and the rand rose 4,6% between October 6 and November 18.

Another positive factor is that oil prices resumed their sharp fall, in the fourth quarter, with the benchmark North Sea Brent crude falling from well over US$17 a barrel on September 30 to $13,75 at the start of this week.

As to exports, the outlook for gold is uncertain. In the third quarter, volumes of gold exports rose 8% and a higher gold price boosted the value of gold exports by 10,5%. But, between October 1 and the start of this week, the average price was only $369,65/oz, compared to an average of $375 in the third quarter. However the impetus seems to be favourable. The *Bulletin* also points out that mines have started mining higher-grade ore which increases volumes.

In the third quarter, merchandise export volumes, which comprise more than 70% of total exports, fell 6,5%. A slight improvement in prices countered the fall, so the value of merchandise exports fell only 2,5%.

Net service and transfer payments to nonresidents increased 12% between the second and third quarters, seasonally adjusted. This was partly because of higher payments for freight and merchandise insurance, as the volume of imports rose, "and an increase in interest payments owing to the continued strengthening of nonresidents' interest in SA securities." There were also significantly lower receipts from foreign tourists in the quarter. (74A)

The cumulative current account surplus, for the first nine months, was R5,1bn, "significantly more than the R3,9bn in the whole of 1992. As a ratio of GDP, the surplus increased from little more than 1% in 1992 to 1,5% in the first nine months of 1993."

The trade figures published in the *Bulletin* differ from those published by Customs & Excise as they have "been adjusted for seasonal and balance of payments purposes," says a Reserve Bank spokesman.

The capital account bled throughout the nine months, with a net outflow of R10,7bn (compared with R6,2bn in 1992 as a whole) — about half of it in the third quarter. The stability of the rand in recent weeks and relatively stable gold and foreign exchange reserves in October and November (see p25) suggests an overall improvement in the balance of payments. This, in turn, indicates net outflows are slowing. ■

BoP remains cause for concern, says Sanlam

Star 10/12/93

(74A)

BY THABO LESHILO

Although the outlook is brighter after five years of decline, the balance of payments (BoP) continues to be a cause for concern, says Sanlam.

Chief economist Johan Louw says in a survey that the general economic climate should be better next year if the political situation continues to improve.

A real growth rate of one percent is possible this year, rising to about two percent next year.

"The significant drop in the inflation rate in recent years, on both production and consumer levels, is another factor that could contribute to the expansionary phase which the economy has now entered, being stronger and more lasting than previous upswings during the last decade," says Louw.

Sanlam expects the inflation rate, as measured by the year-on-year increase in the consumer price index (CPI), to rise this quarter. But it says the downward trend should, for technical reasons, recur in early 1994.

"As a matter of fact, we expect the inflation rate to drop sharply — to below 7 percent — next April when the effect of the increased VAT will disappear from the CPI."

Single-figure inflation should continue into 1995 if fiscal and monetary discipline are maintained and the weather remains favourable for the farming sector.

On the other hand, the net capital outflow of R50 billion from 1983 to date because of balance of payments transactions, puts a damper on growth potential.

This, however, shows that SA's trade account performed remarkably well through the sanctions era.

Satisfactory export figures were achieved, while imports remained high, despite the recession.

Unfortunately, says Louw, the large surpluses recorded on the current account of the balance of payments had to be applied in full to finance the massive net outflow of capital.

He says gold and foreign exchange reserves have come under strong pressure, with figures showing that current reserves can barely cover imports for one month.

"Sanlam expects the surplus on the current account to decline (and even go into deficit) as the upswing gathers momentum and imports increase," says Louw.

He says in view of the uncertainty surrounding the April election, financial markets could be unstable over coming months. He foresees no further cuts in Bank rate before the second quarter.

Offshore respite for diminishing foreign reserves

ST Times (Buss) 2/12/93

By CIARAN RYAN

THE lifting of financial sanctions will enable SA to replenish its rapidly diminishing reserves next year as new sources of offshore lending become available.

Reserves will receive a boost later this month with the receipt of an $850-million IMF loan.

Of the $2,26-billion debt repayments due next year, the $500-million so-called "bullet payment", due in terms of the recently concluded debt rescheduling talks, is likely to be refinanced, says Frankel Pollak Vinderine economist Mike Brown.

Mr Brown says Eskom, Transnet, Telkom and the Government are likely to "test the water" in overseas capital markets by moving some of their borrowing requirements offshore.

He estimates $500-million will be raised in overseas capital markets by parastatals and the Government. The apartheid premium of 2% to 3% above the London Interbank Offered Rate (Libor) paid by SA borrowers in the past should be pared to about 1,5%.

SA should be able to raise $1,85-billion from abroad next year to largely offset the $2,26-billion debt repayments, says Mr Brown. The balance of payments should be further bolstered by economic recovery and a mild acceleration in exports.

World Bank funds are unlikely to arrive until late 1994 or 1995.

Reserve Bank deputy governor Pierre Groenewald says barring a sharp uptick in imports next year, no balance of payments squeeze is expected.

The World Bank says the 1985 foreign debt crunch forced SA borrowers to transfer their borrowing requirements to the domestic market, contributing to sharply higher interest rates which deepened the recession. (14A)

This year's current account surplus of some R6-billion will be exceeded by projected capital outflows of between R9-billion and R10-billion, resulting in a net drain of between R3-billion and R4-billion.

The latest Reserve Bank Quarterly Bulletin says the net capital outflow in the first nine months of 1993 amounted to R10,7-billion, most of it short-term outflows resulting from unfavourable leads and lags in foreign payments and receipts.

Substantial debt repayments also contributed to the outflow. The capital outflow exceeded the surplus on the current account, forcing the Reserve Bank to draw down on reserves.

Bank repays R340m in foreign debt

TIM MARSLAND

SA repaid R340m in foreign debt on Wednesday, putting pressure on money market liquidity levels already burdened by record amounts of cash in circulation and, reportedly, net sales of government stock.

Reserve Bank foreign exchange GM James Cross said this was the last payment to be made under the third interim arrangement and was equal to 1,5% of the outstanding amount. B/DAY

A further $90m in long-term loans relating to previous standstill agreements was also due for repayment this month, bringing the total outflow to about R700m.

December has traditionally seen the heaviest outflows because the bulk of debt falls due at the year-end. However, Cross said this December had been one of easiest for years. Money market dealers said liquidity had held up well. 17/12/93

Latest Reserve Bank figures show banks' overnight loans from the central bank total about R3bn. Notes in circulation rose to a record R14,3bn on Wednesday and dealers said this was expected to reach R14,6bn before Christmas. (74A)

Liquidity hit by SA's R340m debt

CT 17/12/93 Own Correspondent (74A)

JOHANNESBURG. — SA repaid R340m in foreign debt on Wednesday, pressuring money market liquidity levels already burdened by record amounts of cash in circulation and, reportedly, net sales of government stock.

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